SMALL & MEDIUM PRACTICES Newsletter

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IN THIS ISSUE

IN EVERY ISSUE

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The concept of **mentoring** is usually applied to **individuals**, but **we believe** this can also **effectively** be applied to **accredited** training offices.

MENTORING FOR TRAINING OFFICES

By **Natercia Faustino**, Project Director: Training, Pre-Qualification Professional Development

SAICA has received valuable feedback over the course of 2018 from training offices (TOs) in relation to challenges that they are experiencing. These concerns have been considered and some initial plans presented to the National Small and Medium Practice (NSMP) Committee during 2018. These plans are a first step towards ensuring a more positive engagement with all SAICA's TOs, a key stakeholder group for us.

One of the concerns that TOs have raised relates to the difficulties experienced during the re-accreditation visits. As a result, SAICA have agreed, from 2019, to offer one free mentoring session to a TO that receives a rating of a "3" or a "4, with the objective of providing support to the TO office to enable it to put actions in place to move to a "1" or "2" rating.

This initiative will start with a focus on small and medium TOs, as this comprises the largest proportion of SAICA-accredited TOs. It is of benefit to both SAICA and the TO itself to have an improved rating.

Mentoring is defined as a process where the informal transmission of knowledge from an individual with greater relevant knowledge is passed to an individual with less knowledge in a particular (specialised) area. The concept of mentoring is usually applied to individuals, but we believe this can also effectively be applied to accredited training offices.

The aim of the free mentoring session is to assist the TOs to develop a more holistic approach to how they function effectively. This includes looking at the assessment processes, as well as the processes that support assessment—which is where most TOs face challenges.

It is important, therefore, to keep in mind that this is not an instructive process. This means that, during the mentoring process, SAICA is not there to tell the TOs what to do. SAICA is there to assist an office, by providing *informed suggestions and guidance based on the TO's specific circumstances.* This service is offered by a subject matter expert in both *training office requirements and mentoring*.

How the **TO** chooses to act on the guidance provided, is the responsibility of the TO and any outcomes or improvements will only be effective if the TO takes the necessary responsibility for making any changes.

The Process

SAICA has identified one mentor who will be used across all TOs for this initiative. The person identified by SAICA is Paolo Giuricich, who is not a SAICA Reviewer, but who will work closely with those responsible for the re-accreditation process to ensure that there is a measure of consistency in the advice and guidance offered, as well as in the feedback provided to the SAICA Reviewers and *vice versa*. Paolo is a CA(SA) and has vast experience with respect to the mentoring and coaching of individuals and businesses. He has worked both in practice and in commerce, and he has also been the training officer of a successful SAICA- accredited training programme. The session will comprise a total of six (6) hours, which can be structured in any way that is convenient and practical for the TO. The free mentoring session will be offered to TOs that have attained a 3 or 4 rating at their last re-accreditation visit. The initial focus will be on offices with a 4 rating and then offices with a 3 rating.

This free session is not obligatory or compulsory, and should be seen as a service that SAICA is offering to TOs to assist them in improving their training programmes. It is up to the TOs to decide whether to take advantage of this service or not: TOs will not be penalised should they not wish to make use of this opportunity. They will, however, as is the norm, be expected to have shown improvement at their next re-accreditation visit.

TOs identified for participation will be contacted directly by SAICA.

THE OUTCOME

SAICA would like to see the following outcomes from these sessions:

01	TOs with improved ratings;
02	TOs who understand and can put in place effective training programmes that are relevant both to the profession and the South African economy. The latter becomes more critical as we face the fourth industrial revolution;
03	TOs who are more engaged with SAICA;
04	A better understanding and appreciation by SAICA of the challenges faced by small and medium practices.

We look forward to engaging with you through these positive mentoring engagements!

SIGNIFICANT SELF-REVIEW THREAT ARISING FROM AUDITS OF PUBLIC SCHOOLS

By **Julius Mojapelo**, Senior Executive: Public Sector

Given that many public schools do not have the capacity to prepare their own financial statements, members have to take measures to address the significant self-review threat that comes with the expectation at public schools that they should be involved with the preparation of the school's financial statements and also provide assurance on those financial statements.

Members are reminded of the following requirements in the Code of Professional Conduct:

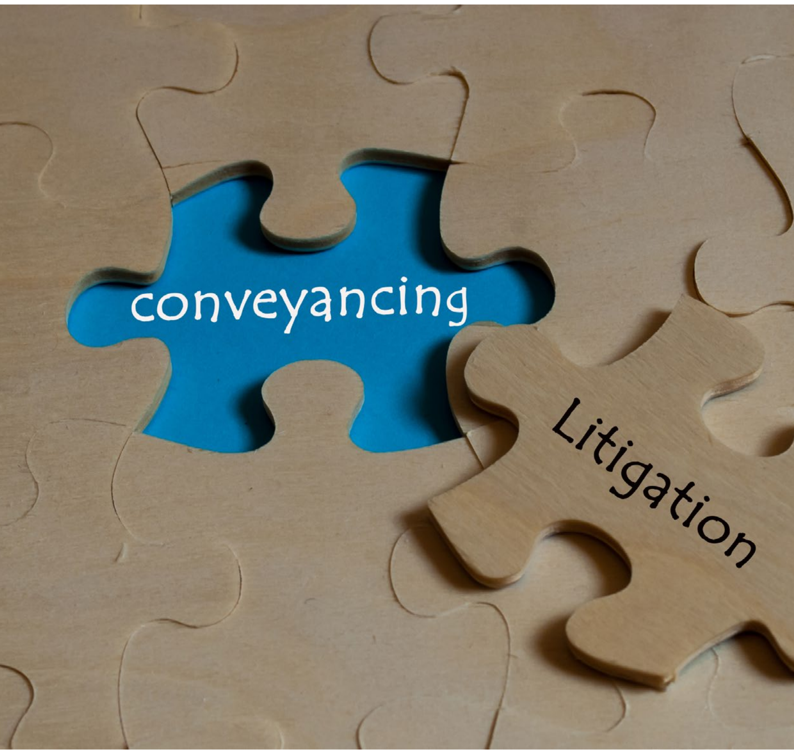
- Paragraph 290.165: providing an audit client with accounting and bookkeeping services, such as preparing accounting records or financial statements, creates a self-review threat when the firm subsequently audits the financial statements. This requirement is further elaborated on in paragraphs 290.166–168, including the evaluation of the self-review threat and the application of safeguards to reduce it to an acceptable level.
- Paragraph 291.146: a self-review threat may be created if the firm is involved in the preparation of subject matter information which is subsequently the subject matter information of an assurance engagement. For example, a self-review threat would be created if the firm developed and prepared prospective financial information, and subsequently provided assurance on this information. Consequently, the firm shall evaluate the significance of any self-review threat created by the provision of such services, and apply safeguards when necessary to eliminate the threat, or reduce it to an acceptable level.

Members are therefore advised to ensure that, when accepting assurance engagements where they are also required to provide accounting and bookkeeping services, they apply the necessary safeguards to eliminate the self-review threat or reduce it to an acceptable level.

Elimination of the threat can be achieved by referring the accounting and bookkeeping work to another practitioner or firm, or assisting the school with finding a volunteer accounting professional who can prepare their financial statements for free. The practitioner can also choose to conduct only a compilation engagement, and advise the school regarding the process for appointing an assurance provider.

Reducing the threat to an acceptable level will involve mainly ensuring a clear separation between the teams involved in the accounting and bookkeeping services and the team involved in the assurance engagement. However, this approach may be very difficult for sole practitioners and small and medium-sized firms to implement, and should be taken with significant caution.

MANY **PUBLIC SCHOOLS** DO NOT HAVE THE **CAPACITY** TO PREPARE THEIR **OWN FINANCIAL** STATEMENTS



CONVEYANCING IS A SPECIALIST **FIELD OF LAW** THAT DEALS WITH THE **TRANSFER** OF IMMOVABLE **PROPERTY.**

CONVEYANCING PRACTICE

By **Franci Leppan,** Director at Leppan Attorneys

The auditing of conveyancing practices has always been a high-risk area.

Conveyancing is a specialist field of law that deals with the transfer of immovable property. The registration of mortgage bonds in favour of banks, and the cancellation of existing bonds are often linked to such transfers.

Conveyancing is an abstract, esoteric discipline which focuses primarily on real rights. As conveyancing primarily regulates land and the rights thereto, a wide body of legislation, including the Constitution, applies. Most utilised are the Deeds Registries Act, Sectional Titles Act and various Deeds Office circulars. Tariffs as regulated by law, are applied for various transactions.

Attorneys who are admitted as conveyancing practitioners have to sit a six hour-long examination, and the requirements in respect of this qualification are onerous. In practice, most firms who deal with high volumes of conveying transactions have three main departments, namely agency conveyancing, local conveyancing and bonds. The activities taking place in these departments are described under the headings below:

Agency Conveyancing Department

In the agency conveyancing department, the firm acts as a lodgement agent on behalf of another firm. The documents are prepared by the instructing firm, which is often in another city or town. The instructing firm will, in these circumstances, usually be responsible for all the financial aspects relating to the transfer. The agency firm usually works on an agreed fee, and a final account would typically include such an agreed fee and a list of disbursements incurred.

Local Conveyancing Department

Local conveyancing departments usually have a close working relationship with estate agents and property developers. The primary document in these matters is the offer to purchase or deed of sale. This agreement is the basis of the conveyancing team's instruction and also the critical tool in the auditing process. The rights and obligations of the transacting parties are set out in this agreement and any amendments thereto have to be recorded in writing.

Bonds Department

In the bonds department, practitioners and paralegals liaise with mortgage originators and financial institutions. The financial products offered by the various banks are tailor made to every transaction and then form part of the process of registration. The cancellation of existing bonds are also dealt with by this department. The tariff, as referred to above, applies. Firms are often members of the bank panels and receive their instructions electronically and on a rotational basis to promote transparency as well as the equal distribution of work.

Practical considerations

During the auditing process, the final accounts in conveyancing matters invariably deal with large amounts of money and numerous payments. As a result, it is imperative to use the sale agreement as a guideline in verifying the purpose and correctness of a particular payment. The elements of the sale agreement are described as follows:

Purchase price

- The purchase price would usually be payable on registration by the financial institution in favour of whom a new bond is to be registered over the property. Deposits, as stipulated by the sale agreement, are usually invested in an interest-bearing account in favour of the purchaser.
- A bank guarantee in favour of the firm would be the verification source of this payment. The purchase price is payable to the seller and verification of its details will be found, not only in the sale agreement, but also in the form of written authorisation, as well as FICA documentation.

Estate agents

Payments in favour of estate agents and their agencies for sales commission would be referred to, not only in the sale agreement, but also in an invoice raised and presented by the agency.

Other disbursements

- Disbursements paid on behalf of the various parties should be checked against invoices. Telephonic confirmation by a third party of details remains a very useful tool to ensure that beneficiaries exist and that their details are correct.
- Municipal rates are apportioned on date of transfer, having regard to the municipal assessment as a source document. In some instances, occupation of a property might occur prior to registration and the municipal utilities and occupational rental are calculated on date of registration.
- Transfer duty is regulated by legislation, and the South African Revenue Services (SARS) website generates a transfer duty receipt.

CONCLUSION

Historically, it has been proven that the high volume of similar transactions in busy conveyancing practices unfortunately creates scope for possible fraudulent activity.

The prevalence of small amounts being siphoned off have proven, in many instances, to add up to multi-million rand misappropriations. Resulting from this practice being exposed, a number of firms now require more than one director's signature upon conclusion of a matter, to prevent shortfalls from being covered up. It is imperative that practitioners do not rely on staff members' reassurances, source documents without verification, and in particular final calculations, without the benefit of a full disclosure of the entire trust account position.

BUDGET 2019 – A NEW DAWN?

By **Pieter Faber**, SAICA Senior Executive: Tax and **Somaya Khaki**, SAICA Project Director: Tax

'It is time for us to sow the seed of renewal and growth'

These were the words spoken by Minister Tito Mboweni in the opening paragraphs of his Budget speech on 20 February 2019. This theme was followed throughout his speech, where the Minister referred to setting South Africa 'on a track to renewal' with interventions to put our country on a 'bold new path' and sow the seeds for renewal and growth. The question is, will the planned interventions result in the 'new dawn' that we so desperately need to achieve a better South Africa for all?

Again, the speech was good, the quotations appropriate and the concerns spot on, but the devil is in the detail.

Narrowing the budget deficit and stabilising debt

The current situation indeed looks bleak, with the GDP growth revised downwards from the medium-term Budget policy statement (MTBPS) to 1.5% and the debt-to-GDP level has also deteriorated slightly as compared to the medium-term budget estimates. Therefore, the focus remains on narrowing the Budget deficit and stabilising the debt-to-GDP ratio. In addition to this, addressing the electricity crisis (and growing Eskom debt), the state of our state-owned entities and stimulating the economy remain at the heart of the budget.

The public sector wage bill continues to grow at nearly twice the CPI. Much concern is appropriate, given the Minister's proposals of normal attrition and early retirement as the only containment measures. These are usually the most skilled staff and having only young PAs and no old engineers is a recipe for disaster, like what happened at Eskom and municipalities who have followed similar practices before. Moving bonuses to a per-person performance management structure is a step in the right direction; it just needs to be expanded to all staff remuneration.

However, the numbers don't lie and kicking the can down the road has been retained as policy, with the Budget deficit again adjusted upwards and 2020 expenditure revised upward by R14 billion from 2018. This does not bode well for the country, as we are either going to start making the necessary hard decisions ourselves, or have them imposed when we start borrowing from the IMF and suffer junk status downgrades. The country needs a new plan— and fast—as we are at a crossroad that will require hard choices to avoid the most dire consequences.

Poor revenue collection

Revenue collection in relation to estimates continues to decline. As per the 2018/19 MTBPS, the initial revenue shortfall for 2018/19 was estimated at R27.4 billion as compared to the 2018 Budget estimate.
The revenue collections shortfall has now increased to R42.8 billion compared to the 2018 Budget estimate—which represents an increase of R15.4 billion in the expected shortfall between October and now.

National Treasury has attributed the shortfall to the economic weakness, thereby resulting in lower than estimated corporate and personal income tax collections and poor tax administration.

Interesting to note is that approximately half of the additional R15.4 billion shortfall has been attributed to the higher than expected VAT refunds. Taxpayers and tax practitioners will no doubt feel vindicated about the complaints that they have consistently raised in this regard over the last few years. They will hopefully be encouraged by the fact that this matter is at least being addressed, with the South African Revenue Service (SARS) focusing on getting these refunds paid with refund payments accelerating since October last year. The Minister of Finance notes the positive side of this being the fact that the refunds paid out puts more money back into the economy. However, the promised R20 billion reduction in the VAT debt book (i.e. delayed refunds) in MTBPS 2018 did not occur and only half of that happened—which means there is some explaining to do.

The ongoing revenue shortfalls as well as additional expenditure, like the free higher education plan, resulted in significant tax increases over the last few years. We have seen increases in personal income tax rates, increases in the VAT rate as well as increases in dividends tax, capital gains tax (CGT), donations tax and estate duty (over certain limits).

Despite these measures raising an additional R99 billion in collective revenue over the last four years, tax revenue as a proportion of GDP has continued to decline. In order to limit the negative impact on economic growth, a decision was taken not to increase tax rates in any category. Instead, collections will be increased by not adjusting for inflation. It is felt that improved efficiency of tax administration will go a long way to improving collections overall. In this regard it is estimated that revenue growth will increase from 6.6% this year to 8.4%, which is quite optimistic, given the minimal increased projected growth in GDP.

This budget essentially requires a 'Hail Mary' pass for whoever is the new SARS Commissioner, which may continue incentivising the wrong behaviour for SARS officials in relation to compliant taxpayers.

2019/2020 tax proposals and beyond

The 2019/20 tax proposals are designed to address at least part of the revenue collections shortfall and are expected to result in an overall increase in collections, which will raise an additional R15 billion in revenue. This is attributable mainly to R13.8bn gained from not giving inflationary relief on salary increases (i.e. bracket creep) and medical credits. There is also a new carbon fuel tax, which is estimated to raise R1.8bn, and this will continue to place a growing burden on transport costs, where we have a rising fuel price and a depreciating rand. In total, fuel will be increased by 29c for petrol and by 30c for diesel.

Saving drowning SOEs

The costs relating to State-owned enterprises (SOEs) continue to plague the Budget—with Eskom getting some relief, but not nearly as much as it asked for. The Minister's conclusion that this is Eskom's debt problem, is oversimplifying the challenge. There is also an expectation that other SOEs and municipalities will need help, with the contingency reserve being expanded to R13 billion to cover claims for assistance. This is in addition to the Road Accident Fund (RAF) which now sits with a R215 billion liability. Farmers especially will be concerned that the contingency reserve has been turned into an SOE rescue fund, as it means not much will be allocated for drought relief or other natural disasters. The Minister did, however, infer a backup plan to fund critical SOEs with the sale of others.

New taxes for future years

There are also new taxes waiting in the wings. These include the carbon emissions tax, the gambling tax and expanding the fuel levy to other fossil fuels like paraffin, LPS and biofuels. In respect of the latter, it is unclear how the poor, who use these fuels for cooking and heating, will be protected. Proposals will also be made for a host of new environmental taxes, water taxes and waste taxes. A possible tax as disincentive for exporting scrap metal would be positive, but banning exports would probably bring a much more immediate end to the butchering of South Africa's infrastructure for cheap scrap exports and incentivise local industry.

CONCLUSION

This was not the most dramatic Budget, like the last few editions. However, that is exactly the problem. When the policy recipe is to slowly cook the fiscal security frog, a dramatic intervention is needed, not slowly turning up the heat.

DON'T APPOINT AN AUDITOR BEFORE READING THIS: ADVICE FOR SCHOOL GOVERNING BODIES

By **Julius Mojapelo**, Senior Executive: Public Sector

There is some confusion around who can audit financial statements of public schools and what kind of engagement are required of them.

On the matter of who, the South African Schools Act (SASA) of 1996 (Act No. 84 of 1996) requires that the governing body of a public school (SGB) must appoint a person registered as an auditor in terms of the Auditing Profession Act, 2005 (Act No. 26 of 2005), to audit the records and financial statements of the school.

Where this is not reasonably practicable, SASA provides that the governing body of a public school must appoint a person to examine and report on the records and financial statements, who is qualified to perform the duties of an accounting officer in terms of section 60 of the Close Corporations Act, 1984 (Act No. 69 of 1984), or who is approved by the Member of the Executive Council (MEC) for this purpose. Circular M1 of 2017 issued by the National Department of Education states that SGBs can only appoint such an accounting officer if approval has been obtained from the MEC based on the justification provided for not being able to appoint an auditor.

All auditors must be registered with the Independent Regulatory Board for Auditors (IRBA). Their registration can be confirmed on the IRBA website at **www.irba.co.za.**

School governing bodies should insist on letters from accounting bodies to confirm the registration of the auditors and accounting officers, as the use of unqualified individuals and firms result in shady work being performed and the issuance of reports that are not in line with required standards. Such reports are misleading to parents, donors and the departments of education and deny such parties the information required to hold the governing body accountable for the management of school funds.

With regards to the type of engagement that can be performed, the confusion mainly comes with the interpretation of the work 'examination'. An 'examination' is not defined in SASA.

Practitioners who are engaged to examine financial statements of public schools have the option of conducting a review engagement or an agreed-upon procedures engagement.

It is important to note, however, that an agreed-upon procedures engagement brings with it some challenges, as the provincial departments of basic education require in most instances that an opinion or a conclusion expressed is based on the engagement performed on the financial statements of a public school. This is not possible with an agreed-upon procedures engagement, as the auditor or examiner is engaged to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed, and according to which they report their factual findings.

An engagement to compile financial statements will not meet the criteria to be classified as an examination of financial statements, as it is an engagement in which a practitioner applies accounting and financial expertise to assist management in the preparation and presentation of financial information of an entity in accordance with the applicable financial reporting framework. Thus a compilation engagement is conducted to assist the school to comply with the requirements for keeping records of funds received and spent and of its assets, liabilities, and financial transactions and drawing up of financial statements as required by section 42 of SASA.

ALL ACCOUNTING OFFICERS MUST BE REGISTERED WITH AT LEAST ONE OF THE FOLLOWING ACCOUNTANCY BODIES (TO VIEW CLICK THE LOGO):

VALUE-PRICING AND TIMESHEETS: ARE THEY COMPATIBLE?

By **Mike Francis,** Practice Engine

Introduction

In recent years, there has been a solid movement in the professions—accounting, legal and others— to move away from the classic time-based billing of customers to a value pricing model.

This makes perfect sense, and the arguments for it, which is not the subject of this article, are many, varied and also compelling. There is, however, a movement among the proponents of value pricing that this method cannot work in an environment of time recording or timesheets. The hypothesis is that value pricing and timesheets are mutually exclusive. The objective of this article is to test this, and to offer a way forward that uses the best of both.

Timesheets and time-based invoicing

This method of running a professional firm is still by far the most widely used. It continues in use by the major accounting firms, most law firms and many others. A key issue with it, particularly in the accounting profession, is that the data being used is largely inaccurate. In simple off-the-cuff surveys among professional accounting groups, the level of accuracy of the time recorded is claimed between 50% and 90%, with a good average being 70% (the accuracy of what has been recorded compared to what has actually occurred).

Reasons

The reasons are many and varied and the list below is not exhaustive:

1	Time not charged to avoid exceeding a budget
2	Time charged arbitrarily to an entity to meet chargeable percentage requirements
3	Time not charged because it seemed to trivial or 'not worth it'
4	Time not charged because the action was forgotten – usually with late entry timesheets.

Outcomes

The approach leads to completely inaccurate time being recorded, and as a result of the rate multiplier, erroneous charges being created. This is compounded by the fact that charge rates are fairly arbitrary too. Charge rates can be calculated using a simple 'times three of salary divided by the annual available hours', to very complex calculations, that—to be perfectly honest—are no more accurate!

Just because a partner or team member has a charge rate, this mere fact does not necessarily make them worth that amount. It may be a target or an expectation, but does not determine value.

The inaccuracy of the charge rate (and this is clearly measurable by the write-offs so prevalent in the accounting profession) combined with the inaccuracy of the time measured, makes for an interesting use of this method. Basically, many firms are just wasting enormous amounts of valuable time when invoicing by chasing rainbows, with essential and often expensive team members poring over inaccurate data!

The real charge rate is the amount the customer will bear (the value), divided by the number of hours worked to achieve the result.

Value pricing

In some strange way, this is what accountants have been doing for years. The work is performed using the largely-discredited hourly billing of charged time. This is suitably adjusted, and usually down from the standard or scale to a price that the customer will bear: the value.

As much of the work in an accounting firm has historically been repetitive, usually year on year, the 'value' deemed is often last year's fee plus an inflationary percentage. As this is all usually done historically, there is often little the practitioner can do to improve or change this situation.

Up front

What is required is for the firm to consider what the work being performed consists of, what this adds to the customers' business (if anything), and—using a degree of subjectivity—offer a price for the performance of the engagement. The agreed price with the customer forms part of the engagement, and includes dates, invoice and payment plans, and lists of who will be doing what and when.

The actual physical work still needs to be performed. Value pricing does not abrogate the firm from doing the work. The objective of the engagement is not now charging as many hours to it as the price can bear, it is about getting the work done according to and on the dates of the agreed plan.

This is a key and fundamental change.

Profitability

It is a given that business will only make profits when the outputs exceed the inputs. Simply, if the inputs on a job are greater than the output, that job will run at a loss. No amount of recording or not recording the time will change the result.

An extreme example will illustrate the point. Assume your team member A is paid R 20 000 per month. If they work on a job for the whole month, that only brings in R18 000, and you have run at a loss.

The conundrum

The question is: 'Can value pricing and the keeping of time records coexist?' The author believes not only can they coexist, the benefits derived from keeping these records exceed the effort to do so.

Even in firms or departments of firms that have 'ditched timesheets', there is more than conjectural evidence that records of activity—let's call them timesheets— are being kept.

At a recent meeting on this topic with the managing partner of a top 100 firm, it was indicated that a certain new department had dispensed with keeping timesheets. The author postulated that even in this scenario, team members will keep details (timesheets) of what they are doing. Two weeks after the meeting, the group was found to be doing just that: keeping time details.

What is not happening in these firms and department is they are not using these time records for invoicing or billing purposes. This is a win.

Best of both worlds

The best way forward is surely an inspired compromise. Firms will be well placed to move towards value pricing whilst keeping appropriate records of activity. It is far more important to know what has or has not been done on any project than to know the minutiae of recorded time. The value of time bears no relation to the completeness or not of the assignment, and merely supplies what has been charged. This needs to change.

Value pricing works best on discreet and finite work, as encapsulated in a job, matter, assignment or project—the title is irrelevant. What is important, is that the scope of what is to be done can be defined with a high degree of accuracy.

The customer is presented with a value priced fixed or agreed quote for a specific set of work to be performed, and most importantly for a result to be delivered.

The completion of the steps in the process are recorded and possibly timed. The effort is toward the completion of the project and not the accumulation of 'billable hours'. All of the hours will be billable, and their rate will be determined by the fixed price.

CONCLUSION

The 'old way' has not worked – it has existed. Changing to a new paradigm whilst keeping a revision from the past in activity recording rather than time keeping, will free a firm from the shackles of the billable hour, yet retain a degree of control and oversight on the profitable completion of the relevant jobs.

OBJECTIVE OF THE JSE'S PROCESS OF REVIEWING **ANNUAL FINANCIAL** STATEMENTS AND **INTERIM** RESULTS

JSE REVEALS RESULTS FROM ITS 2018 PROACTIVE MONITORING OF FINANCIAL STATEMENTS

By **Bongeka Nodada**, Project Director: Financial Reporting

The JSE commenced its pro-active monitoring process during 2011 and this resulted in the publication of the first-ever report from this process in February 2012. Since then, the JSE has consistently published this report on an annual basis with the latest publication being issued during February 2019. The objective of the JSE's process of reviewing annual financial statements and interim results is to ensure the integrity of financial information and to contribute towards the production of quality financial reporting by JSE-listed companies.

This report sets out the statistics from the JSE review process. Most notably less than 80% of the cases reviewed by the JSE during 2018 were closed with no questions asked regarding the disclosures required by paragraph 30 of IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors on the new IFRSs including IFRS 9 - Financial Instruments, IFRS 15 ¬– Revenue from Contracts with Customers, and IFRS 16 - Leases.* IFRS 9 and IFRS 15 were effective from 2018, while IFRS 16 is effective from 2019.

The nature and extent of the impact of these IFRSs on companies varies from company to company, and as part of its 2018 reviews, the focus of the JSE related to the disclosures on the potential impact of the new IFRSs.

The report also notes that, of the 28% of the cases which were queried by the JSE on the lack of adequate disclosures relating to the IFRSs, approximately 2% had indicated that they had early adopted when they had not, and the rest of the queries were due to deficiencies in the disclosures on the qualitative and/or quantitative information. In addition to the application of the new IFRSs, the JSE's focus areas for the 2018 reviews included the disclosure of judgements and estimates as per IAS 1 – *Presentation of Financial Statements.*

The JSE will continue to challenge the application of the new IFRSs— and in particular, the application of IFRS 16 in its 2019 review process, and focus on the disclosure requirements of IAS 1 applicable to judgements (paragraphs122-124) and estimates (paragraph 125-133). Moreover, in December 2018, the JSE issued a letter advising issuers of its intention to embark upon a thematic review for the adoption of IFRS 9 and IFRS 15.

THE REPORT ALSO **HIGHLIGHTS** MATTERS WHERE **ACTION** WAS TAKEN **AGAINST COMPANIES**, AS WELL AS THE **ACTIVITIES** OF THE FINANCIAL REPORTING INVESTIGATION **PANEL DURING 2018.**

THE **JSE** REQUESTS **AUDIT COMMITTEES** OF ALL ISSUERS TO **CONSIDER THE FINDINGS** FROM THE **2018** AND **PREVIOUS REPORTS**, WHERE APPLICABLE, AND TO **PROVIDE CONFIRMATION** OF SUCH CONSIDERATION.

ALSO SEE **THE JSE REPORT** FOR MORE DETAILS

BUSINESS OPPORTUNITIES POSED BY THE IMPLEMENTATION OF THE XBRL STANDARD

By **Jodi Joseph**, Divisional Executive, CaseWare Africa, a division of Adapt IT

As South Africa's journey towards the widespread implementation of the XBRL standard is well under way, it is critical that companies take time to look beyond compliance and rather understand how the adoption of XBRL can benefit them.

Earlier this year, 121 JSE-listed organisations were invited by the Companies and Intellectual Property Commission (CIPC) to participate in the pilot phase of the XBRL rollout. The results revealed that 114 successful filings of financial accounts were received during this pilot phase. Moreover, 60 companies from this invited list successfully submitted multiple sets of accounts.

The purpose of the pilot phase was to test the functionality of the CIPC's upload portal as well as the client-side software used by the invited pilot companies. This initial phase was also used to identify technical development issues and possible taxonomy issues, as well as the understanding of XBRL requirements by the pilot companies.

The plan was to finalise the standard by July in order that companies could meet the minimum criteria – as mandated by the CIPC – and produce their annual financial statements using XBRL, commencing with the latest set of signed-off financial accounts. The targeted 1 July 2018 go-live date was achieved by the CIPC and thousands of submissions have been successfully submitted since that date. The CIPC anticipates 100 000 submissions in the first year of implementation.

The motive behind the implementation of XBRL

Ostensibly the CIPC's reason for mandating XBRL was (and is) to build efficiencies in organisations in order to speed up the process of reviewing financials, improve on accuracy, and build capacity for people to focus on tasks that require insights and analytical review. Receiving data in this format will enable the CIPC to fulfil its mandate in a far more efficient way. In addition, the standardisation of the submission format will also enable the sharing of financial information across regulators.

A successful move to this standard will also ensure that South Africa remains aligned with global reporting trends. However, it is important to note that it would be a mistake to see XBRL simply as an additional regulatory burden. On the contrary, it has gained worldwide traction because it offers many benefits to numerous stakeholders across the entire financial spectrum.

What is XBRL?

XBRL, or eXtensible Business Reporting Language, is a global standard for exchanging business information, based on XML (eXtensible Markup Language) that is used to encode financial documents. iXBRL (Inline XBRL) is a development of XBRL that both people and computers are able to read and analyse. Globally, many countries are mandating for the XBRL standard with the numbers of implementations growing rapidly.

Prior to XBRL, most companies transmitted their financial information in one or other digital format – for example PDF – that facilitates easy distribution and storage. However, anyone wishing to analyse data, or to aggregate it with financial, or non-financial data from their own or other companies, would have to transfer the data manually into their own, or third-party systems. This process is laborious, technically challenging, and introduces the possibility of human error.

The beauty of XBRL is that tags can be read by any XBRL-enabled software and the tagged information (financial and non-financial) is extracted automatically. This means that the data can be passed between computer systems with human intervention only being needed in the case of exceptions. This process reduces the cost of communicating and maintaining data and improves the usability, integrity and compliance of the data. Additionally, if XBRL is used as the standard, data can be retransmitted without having to transform it into other formats or languages – which may be required by further recipients.

Where does Big Data fit into the picture?

The benefits of XBRL can best be summed up under one heading – Big Data. XBRL for an organisation's financial data can be compared to an older retail technology – specifically barcodes. There is so much more to be learned from viewing a barcode than just price – companies are able to discern consumers' buying habits, identify products that sell well together, and much more. XBRL tagging will create a standardised financial view of companies' financial data. Investors, regulators, revenue services and companies themselves will be able to pick up on revenue trends, plus identify gaps and strategies to exploit in the future.

As data volumes multiply, the ability to create high quality, accurate analysis requires that the data input is standardised. XBRL tagging provides a format that can be easily used in analytical programmes. XBRL enables standardised line items to be tagged, facilitating the comparison of company data quickly regardless of industry, country or even the language of the company report.

How can a company use this data?

First, it can be used to identify financial trends in its own accounts over the years; it can also compare its own figures with those of peers, locally and internationally. This could be of huge value in pinpointing risks and opportunities.

In the European Union, the first wave of XBRL was implemented 15 years ago. Currently they are using XBRL to develop an array of cross-border applications including the creation of the European Financial Transparency Gateway (EFTG). Using Blockchain technology, the EFTG will provide a way to publicly share standardised financial information for companies across the EU. Another application of XBRL by the Single Resolution Board in Europe is to use XBRL data to identify banks at risk of defaulting in advance.

Big Data will enable companies to reflect a standardised view of their data that serves to put a spotlight on financials that are out of sync with those of peers. This kind of information can assist boards of directors, investors and regulators with early identification of potential problems.

Is the right data being used?

The move to XBRL will also have benefits in the social media age. Activists of various persuasions are starting to use social media to comment on the financial performance of organisations. While there is little businesses can do to control this, at least if companies apply a common data standard in the format they publish and share data externally, it will create a level of transparency, ensuring that comparisons being made are using the right data with less scope for data interpretation.

The significance of implementing XBRL in South Africa in 2018 is that we could begin to lead fellow members of the Southern African Development Community towards the same path of digitising financial data. This will empower African countries with the ability to apply learnings from other XBRL regions and adopt best practices relating to taxonomies and application benefits of big data. All of this will serve to drive better policies, build stronger companies and encourage global investment in the region.

The bottom line is that when it comes to XBRL, it is crucial to look beyond mere compliance. A deeper assessment reveals the value in the future analytical power that can be derived from standardising financial reports across industries and within your own financial reporting systems.

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CREDIBLE EXTERNAL REPORTING: THE 'BUCK STOPS WITH THE BOARD'

By **Yvette Lange** CA (SA), CIA, an Associate Director at PwC Waterfall

While the debate rages on around the 'who, what, why and when' for assurance over external reporting, there is no doubt that the buck stops with the board. There is a demand for action by boards that supports credibility and trust over information communicated to stakeholders, and companies stand to benefit in many ways if this is achieved.

External reporting is arguably one of the most critical activities that companies engage in and, when done well, one that improves corporate reputation and share price.

External reporting is defined as any report produced by the organisation that is submitted for consumption by external parties such as the general public, government, shareholders and so forth. It can be done on a voluntary or mandatory basis, and distribution can take many forms, for example printed material, websites etc. Effective and transparent external reporting allows organisations to present a cohesive explanation of their business. It is crucial to enable stakeholders to assess organisational performance and make informed decisions about an organisation's capacity to create and preserve value.

Many organisations are increasingly complex, with ever larger economic, environmental and social footprints. As a result, external reporting is continually evolving to meet the emerging needs of a variety of stakeholders for wider information about the entity. Without the right information reaching the right people at the right time, organisations won't be able to build and foster trusting long-term relationships with their customers, investors and other stakeholders. Both short- and long-term financial performance is predicated on robust performance information. Having confidence in that information is essential, as it forms the basis on which management, the board and external stakeholders make key decisions.

The type of information that analysts and investors seek and increasingly demand also extends beyond traditional financial measures. They need to understand a company's performance in many different ways to make sound investment decisions. The assurance that performance is being achieved therefore plays a key role. It offers a source of powerful differentiation – and a solid platform for competitive outperformance and value creation.

Proceeding from the context above, there is a demand for actions that support credibility and trust about information contained in the external reports of companies.In our own South African backyard, this has been reinforced by the requirements set out in King IV (Report on Corporate Governance for South Africa 2016) pertaining to assurance over external reporting.

External reporting assurance: What does King IV require, and how does this differ from King III?

In King IV, the governing body is given responsibility for ensuring the integrity of external reports. In King III, this was delegated to the audit committee. While it may be appropriate still to delegate this task to the audit committee, King IV has emphasised the responsibility at governing body (board) level, given its wider application than just external financial reporting. While King III referred to considering assurance over the financial and sustainability reporting elements, King IV explicitly broadens the responsibility to ensure the integrity of all external reporting issued by the organisation, including:

- corporate governance disclosures required in terms of this code;
- integrated reports; and
- financial statements and other external reports.

With regard to reporting, King IV recommends that the governing body should consider allocating oversight of, and reporting on, organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relationships to a dedicated committee, or adding it to the responsibilities of another committee as is appropriate for the organisation. However, in the case of companies where a social and ethics committee is a statutory requirement, that committee is allocated this responsibility. King III recommended that the audit committee should have oversight of the sustainability reporting process. However, King IV acknowledges that there may be other, more appropriate, committees to which to delegate this duty, for example, the social and ethics committee.

Not a specific requirement in King III, King IV requires that the governing body set the direction for how assurance – be it internal or external assurance, or a combination thereof – about the broader set of external reports should be approached and addressed. King IV requires the following considerations in this regard:

- Whether assurance should be applied to the underlying data used to prepare a report, or to the process for preparing and presenting a report, or both;
- Whether the nature, scope and extent of assurance is suited to the intended audience of a report (King IV does not make any reference to possible assurance standards or reporting frameworks, as King III did); and
- The specification of applicable criteria for the measurement or evaluation of the underlying subject matter of the report.

King IV introduces specific disclosure requirements relating to assurance over external reports, including disclosing:

- a brief description of the nature, scope and extent of the assurance functions, services and processes underlying the preparation and presentation of the report; and
- a statement by the governing body on the integrity of the report and the basis for this statement, with reference to the assurance applied.

Key questions the board and management should be asking about external reporting and the credibility thereof

- What are the critical areas/activities that we and our stakeholders really need to know about?
- For internal reporting: on what subjects are we reporting?
- How are we getting assurance that the information is correct?
- For external reporting: what are we reporting and to whom, and how do we assure that the information is accurate and reliable, and covers the measures that matter?
- Relating to the current external reports we publish, the following:
- Is it on the agenda of one of our board committees to provide oversight of the content included in these reports? Do the respective committees have an appropriate blend of skills to oversee the reports relating to their area?
- Who in the company (management) is the custodian of the content and assurance of the particular external reports?
- Have we, as the board collectively, considered the content (subject matter) to be included in the various external reports?
- Have we, as the board collectively, considered the criteria applied to the subject matter contained in the various external reports and satisfied ourselves that these criteria are suitable?
- Have we, as the board collectively, assumed responsibility for the assurance approach to be applied to the various external reports, including what aspects of the reports should be assured and by whom?
- Have we, as the board collectively, prepared a statement for inclusion in the various external reports stating that we are comfortable with the integrity of the report, and explaining the basis for this comfort and the assurance approach taken?

External reporting assurance: board responsibility

In response to the board's role in determining the best approach for the organisation's assurance strategy, boards are reminded that assurance can take many forms when it comes to building trust about the information reported internally and externally. King IV advocates a combined assurance model. This incorporates and optimises all assurance services and functions so that, taken as a whole, these enable an effective control environment, support the integrity of information used for decision making by management, the governing body and its committees, and support the integrity of the organisation's external reports.

While the debate rages on the best assurance format and approach to assurance over external reporting, what scope to cover when providing such assurance, and what frameworks should be used by assurance practitioners to do so, it remains clear that the board should be in the driving seat regarding the quality of the information being put out both internally and externally, and the combination of assurance mechanisms they employ to provide them comfort in this regard. Credible and relevant information put out into the market place as well as what is used for decision making, will provide companies with a competitive advantage and will also serve to assist boards in managing their own professional and legal liability risks.

PERSUASION SCIENCE FOR ACCOUNTANTS

By Ian Rheeder: Chartered Marketer & MSc in Persuasion Sciences

Brain science (or neuroscience) has made the topic of persuasion easier to understand and implement. Ian Rheeder shares information on breakthrough discoveries from neuroscience, and their relevance to accountants who want to know how to negotiate with and influence others.

We know that people have an unconscious dislike to being persuaded – in other words, nobody likes being 'sold to'. Fortunately, neuroscience has also exposed the fact that people are strongly motivated by the emotional engagement of trustworthy relationships. So, how do we persuade and get cooperation without forcing someone to comply? Let's look at how we can use some golden nuggets spawned by neuroscience to persuade in a high-trust way.

Persuading with the brain in mind:

Ask questions: If you want to be engaging, don't show up and immediately begin presenting your service. Rather ask questions, as this gets people to think and feel deeply about what they really want. From a neurological perspective, peoples' brains are 100% engaged in producing protein memory when answering a question. Massive recent studies (Wood Brooks & John, 2018) prove that asking questions builds rapport, trust, and confidence. The key is to get the sequence right and use a casual tone of voice. Dale Carnegie's 1936 advice to 'ask questions the other person will enjoy answering,' still holds true today. Great questions include: 'What are your challenges?' and 'What's important to you when it comes to our services?'

Social: Multiple studies show that, in sales, customers single out the calibre of the salesperson as being 200% to 400% more important than the products they sell. What we have learnt from this is that relevant small talk (and asking questions) is critical at the start of negotiations. People are most likely to listen to you if they are similar to you; so find similarities (i.e. shared values) and give genuine praise

Trust: One of the best ways to make a sale is to build trust by showing empathy. Trust produces oxytocin, which is the platform for starting new relationships and maintaining existing ones. One of the fastest ways to build trust is to be the first to do a small favour (i.e. a free analysis). Smile warmly, do a single eyebrow-flash during the handshake and show genuine sincerity when greeting (for example, by asking relevant questions). It's difficult to fake sincerity, because we pick up on the unconscious micro-signals that warn us.

Feelings vs. thoughts: Feelings are much more important to customers than thoughts. Your customer's emotional triggers would be reducing their risk: things like saving them money, making them money and improving cash flow. Feelings will make them support you; thoughts (i.e. technical jargon) merely guide them. In a tough economic environment, focus on emotional drivers.

Only one new task at a time: In comparison to our 'feeling' brain (limbic system) our 'thinking' prefrontal cortex is not that well developed. The novice persuader bombards the receiver with too many technical messages, thinking they can absorb and remember them all. The expert communicator will not deliver more than two benefits for a service, as the drop-off in recollection is drastic.

The brain consumes 25% of our energy: Our brain is only 2% of our body weight, but requires 25% of our rest-time energy. Compared to other primates at only 8% energy consumption, our brain has a downside: we battle to make decisions when we are tired, which is known as decision-making fatigue. This has massive implications for the time of the day when we should have meetings. Firstly, when people are tired (i.e. before tea, lunch and home time), they battle to make tough decisions. The job of the persuader is to be crystal clear with the prescription. Secondly, we need to be much more prescriptive in our approach (i.e. don't offer too many options).

Body language is key: Body language influences up to 80% of your persuasiveness. Within 4 seconds, customers naturally read body language and create a gut feeling about you. Our brain contains mirror neurons that literally copy the expressions of others. If you look happy and confident, then your customer feels happy and confident. Inside our temporal lobe is a smile-recognition spot called the fusiform, which lights up when we see a smile. That's why watches are always advertised with the face showing '10 past 10'—because our brain's fusiform sees it as a smiley face.

Tell a story about people: Because we are so social and have a magnificent imagination, our brains love listening to stories (i.e. case studies about ROI) that have a named person in them. In order for the story to produce serotonin and dopamine (naturally-occurring chemicals in the brain that help your mind stay calm and energised), it must progress from 'sad' to 'glad'.

Happy people: Because of our mirror neurons, our customers' moods are automatically lifted when they see us smile. Some studies show that a happy salesperson's sales increase by between 37% and 400%. Why? Because the happiness it transferred to the customer and makes them more inclined to purchase.

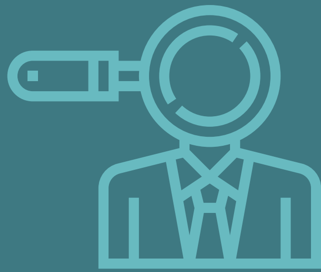
Bad is much bigger than good: While positive energy is contagious, it is also true that negative energy can spread through our mirror neurons three times faster. This is because our survival brain is designed to latch 300% harder on to negativity than positivity. Therefore, to gain attention, it's important to find your clients' challenges, as they are 300% more interested in 'bad'. Thereafter, through you offering, focus heavily on what potential customers will gain (which produces dopamine) and only gently remind them about the pain (which produces norepinephrine) if they did not use you. It's the combination of dopamine and norepinephrine which really energises people to act.

Fortunately neuroscience has simplified the topic of persuasion, allowing accountants to focus on a much tighter range of proven persuasion-levers. This is especially important because people are repelled when they detect that manipulative tricks are being used on them. All the levers suggested above are high-trust ideas. However, to be most effective in a face-to-face delivery, we need genuinely to want to help others—put the customer first, show warmth (trust) and be confident (prescriptive) in our approach. Get ready to improve everyone around you, and at the same time to improve your professional life.

nobody likes being 'sold to'

NEED TO KNOW - TECHNICAL UPDATES

TECH TALK - TECHNOLOGY



PRACTICE MANAGEMENT