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IN THIS ISSUE

IN EVERY ISSUE

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BIG SIX CHANGES TO QUALITY MANAGEMENT

By **Hayley Barker Hoogwerf**, Project Director: Assurance

The outcome of the quality management project of the International Auditing and Assurance Standards Board (IAASB) will change how firms manage quality. The question on every practitioner's mind is 'What has changed, and how will this impact me?' This article provides an overview of the key changes that we can expect to see when implementing the new and revised requirements.

1. A new risk-based approach to firm's systems of quality management in ED-ISQM 1

The IAASB was tasked with drafting a standard that improves the robustness of firms' system of quality management, but at the same time addresses the concerns around extant ISQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance And Related Services Engagements (ISQC 1) not being scalable to fit the needs of all firms, regardless of their size, complexities and circumstances.

The IAASB concluded that the introduction of a new quality management approach that incorporates a risk assessment process focused on proactive identification and response to identified risks to quality, would best improve and enhance the robustness of a firm's system of quality management, while improving the scalability of the standard. The new quality management approach requires a firm to design and implement a system of quality management that is customised and suited to the nature and circumstances of the firm and the engagements that are performed. In terms of the risk assessment process that forms part of the system of quality management, firms are required to establish quality objectives, identify and assess quality risks and design and implement responses thereto.

In essence, the system of quality management requires a change from a mindless, tick-box exercise of establishing policies and procedures that address standalone elements of quality control, to an integrated, proactive approach that reflects upon an entire system and requires continuous monitoring and remediation.

2. Modernising the standards

The environment in which audit, assurance and other related service engagements are performed is continuously changing and the resources used in performing such engagements are evolving. Firms are increasingly making use of technological resources, including software that may be developed internally by the firm or sourced externally. The use of shared service centres and other external service providers is also on the increase.

As part of the quality management project, the IAASB were tasked with modernising the standards to address the needs of the evolving and increasingly complex environment. To this end, ED-ISQM 1 includes new requirements[1] addressing the use of technology, both in the performance of the engagement and within the system of quality management. Furthermore, the requirements relating to networks have been revised and enhanced[2] and new requirements relating to service providers added3. In keeping the standards fit for purpose as the environment continues to evolve, the new and revised requirements are principles-based.

3. Improving firm governance, including increasing firm leadership responsibility and accountability

In determining the key components of a system of quality management, the IAASB agreed that retaining the current elements of extant ISQC 1 was appropriate, as they reflect topics relevant to a firm's system of quality management and provide the necessary link between quality management at firm and engagement level. To this end, the element Leadership Responsibilities for quality within the firm included in extant ISQC 1 has been adapted to Governance and leadership and included in ED-ISQM 1.

Governance and leadership and the related responsibilities and accountability are pivotal to enhancing the robustness of a firm's system of quality management. In revising the standards, the IAASB recognised the significant role that leadership plays in the performance of quality engagements, in that they serve as the foundation to the firm's culture and ethics and provides the framework for firm decisions and how these are made. As such, governance and leadership have been placed at the forefront of ED-ISQM 1.

The requirements specific to governance and leadership have been significantly enhanced. Extant ISQC 1 includes two paragraphs under leadership responsibilities that require the firm to establish policies and procedures designed to promote an internal culture – recognising that quality is essential to performing engagements[4] and that any person assigned operational responsibility for the firm's system of quality management has sufficient and appropriate experience and ability, and the necessary authority to assume this responsibility[5]. In comparison, ED-ISQM 1 includes six prescribed objectives6 and three prescribed responses that are more onerous for leadership[7]. The public interest is best served by the consistent performance of quality engagements[8]. It is clear that leadership is expected to proactively manage engagement quality to ensure that consistent quality is achieved.

The new and revised requirements are aimed at addressing the expectation of firm leadership to set the tone at the top. This includes demonstrating appropriate behaviour in carrying out the firm's strategic actions and considering the related impact of engagement quality, which contributes to the firm's role in protecting the public interest.

> THE **NEW QUALITY** MANAGEMENT APPROACH **REQUIRES** A FIRM TO **DESIGN A SYSTEM** THAT IS **CUSTOMISED** AND SUITED TO **THE NATURE** OF THE FIRM AND THE **ENGAGEMENTS** THAT ARE **PERFORMED.**

4. More rigorous monitoring of quality management systems and remediation of deficiencies

The IAASB recognised that continuous improvement is a key aspect of the quality management approach. This is achieved through timely monitoring of the system of quality management as a whole and the implementation of effective remediation to address issues identified. The monitoring and remediation process has to be designed appropriately and operate effectively, because without this, the firm would not be able to identify and remediate deficiencies. To this end, there is an increased emphasis in ED-ISQM 1 on monitoring the quality management system in ED-ISQM 1 to promote ongoing improvement and enhancements, and to in ensuring that the system remains effective in managing quality.

The IAASB were cognisant of the fact that the nature, timing and extent of monitoring activities vary from firm to firm. As such, the new and revised requirements highlight factors that the firm would consider in designing the monitoring activities as opposed to prescribing the activities that need to be performed. The auditing profession has seen a move towards understanding the underlying causal factors of inspection findings, with the view of thereby improving and enhancing audit quality. ED-ISQM 1 has followed suit by including a new requirement for firms to investigate the root cause of identified deficiencies[9].

In relation to ED-220, the monitoring and remediation requirements have also been enhanced, with the revised requirements being aligned to those proposed in ED-ISQM 1. The requirements of ED-ISQM 1 and ED-220 complement each other, in that the engagement partner is responsible for dealing with relevant aspects of the firm's monitoring and remediation process, including the results of monitoring and remediation process at firm level.

5. Enhanced responsibility of the engagement partner for audit engagement leadership and audit quality

In line with the expectation for the auditor to serve the public interest, the role and responsibilities of the engagement partner in managing and achieving quality were a topic of discussion at the IAASB. Sufficient and appropriate involvement of the engagement partner throughout the engagement is seen as fundamental to achieving the desired level of quality. Extant ISA 220 requires the engagement partner to take responsibility for the overall quality of each audit engagement and this has not changed. Rather, the role and responsibilities of the engagement partner have been clarified and the engagement partner's responsibility for leadership and project management are now more explicit.

The requirements for the engagement partner to take overall responsibility for managing and achieving engagement quality have been expanded to include a stand-back provision. This provision requires the engagement partner to determine that his/her involvement has been sufficient and appropriate throughout the engagement and that the nature and circumstances of the engagement have sufficiently and appropriately been taken into account in complying with the ISA[10].

The ultimate question is whether the practical application of the new and revised requirements and related application material of ED-220 will result in improved and enhanced quality.

6. More robust engagement quality reviews, including engagement selection, documentation, and performance

The changes relating to engagement quality reviews is the most visible in that this has resulted in the drafting of a separate standard, namely ED-ISQM 2.

In relation to the interaction between the three proposed quality management standards, ED-ISQM 1 still includes the requirements relating to engagements subject to an engagement quality review. ED-ISQM 2 addresses the requirements relating to the appointment and eligibility of the engagement quality reviewer, as well as the engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review. ED-220 no longer contains any requirements regarding the performance of engagement quality reviews but addresses the engagement partner's responsibilities relating to the engagement quality review.

Questions about whether engagement quality reviews should be housed in a separate standard and whether the interaction between the three proposed quality management standards is appropriate, are still being asked.

The proposed changes to quality management at both firm and engagement level are expected to significantly impact firms, with the new and revised requirements set to improve and enhance engagement quality. The standards are here to stay. I urge you not to wait and to start familiarising yourself with the requirements now, so that when the standards do become effective, we are able to effectively and efficiently implement the new and revised requirements.

Sources:

http://www.iaasb.org/quality- management

- The IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews: Overall Explanatory Memorandum
- Proposed International Standard on Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (previously ISQC 1)
- Proposed International Standard on Quality Management 2, Engagement Quality Reviews
- Proposed International Standard on Auditing 220 (Revised), Quality Management for an Audit of Financial Statements

[1] Refer to ED-ISQM 1.38(e) for the new requirements.
[2] Refer to ED-ISQM 1.58
[3] Refer to ED-ISQM 1.64-65
[4] ISQC 1.18
[5] ISQC 1.19
[6] ED-ISQM 1.26
[7] ED-ISQM 1.27
[8] ED-ISQM 1.7
[9] ED-ISQM 1.48(a)
[10] ED-ISA 220.37

MANDATORY AUDIT FIRM ROTATION AND SMPS

By **Christine Du Toit** CA (SA), RA, partner at CAP Chartered Accountants

It has been two years since the Independent Regulatory Board of Auditors (IRBA) on 5 June 2017 gazetted their rule on mandatory audit firm rotation (MAFR).

The rule requires that audit firms (including network firms) shall not serve as the appointed auditor of a public interest entity for more than ten consecutive financial years for financial years commencing on or after 1 April 2023.

There is a retrospective application to this rule. This means that if the firm has served as the appointed auditor of a public interest entity for ten or more consecutive financial years before the financial year commencing on or after 1 April 2023, then the audit firm shall not accept re-appointment and will be required to rotate.

With less than 4 years from this due date, the question is if the entities being audited have been proactive in applying this rule? As reported on 1 April 2019 in the Business Day, IRBA confirmed that in the last two years 64 JSE listed entities rotated auditors after the rule of MAFR was gazetted. This rotation is almost double the normal rotations that happened before MAFR. If this trend and the pace of MAFR continue, we will see an estimated 120 companies on the JSE that would have rotated their auditors by the end of 2019. This represents about a third of the main board of the JSE.

Based on the above rotation numbers, IRBA forecast that by 2021 all companies on the JSE would have rotated their auditors. It is important to note that MAFR prevents the reappointment of the same audit firm after rotation for a period of at least five years after the rotation.

It is important to note that MAFR doesn't only apply to listed companies, as the rule also refers to public interest entities (PIEs). The IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018) defines PIEs as: (a) all listed entities; (b)(i) any entity defined by regulation or legislation as a public interest entity; or (b)(ii) any entity for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities; or (c) any other entities as set out in sections R400.8a SA and R400.8b SA.

A company with a high Public Interest Score (PI Score) may be a PIE – not simply because its PI score exceeds a certain threshold, but rather because it falls within the factors included in sections R400.8a SA and R400.8b SA of the Code.

Section R400.8a SA of the Code requires the audit firm to determine whether to treat entities (or certain categories of entities, in addition to entities defined) as PIEs because they have a large number and wide range of stakeholders. The factors to consider in this regard include: the nature of the business; the number of equity or debt holders in the entity; the size of the entity; the number of employees in the entity. Section R400.8b SA lists entities that will generally satisfy the conditions in paragraph R400.8a SA as having a large number and wide range of stakeholders, and thus are likely to be considered as PIEs.

Implication for SMPs

It is important that SMPs will review and assess their client basis based on the Code if there are any entities that meet the definition of a PIE. If clients of an SMP do meet the definition, it is important that the SMP proactively plans for the rotation and maintains clear communication lines with the PIE in terms of when audit firm rotation will happen. The planning will involve the rightsizing of the firm in terms of audit trainees and profitability to ensure that MAFR does not leave the firm with a shortage of work.

MAFR also creates the opportunity for SMPs to market services other than audit to PIEs, and even to listed entities where the SMP is not the auditor. These services can include, among others, drafting of annual financial statements, tax compliance services and corporate secretarial services. Even other assurance engagement such as internal audit, agreed upon procedures and other assurance reports may now be a new line of business to market actively, as the skills will probably be available in the SMP.

The next step

The next step for SMPs will be to ensure that their ISQC1 manuals clearly define what is a PIE, to evaluate and identify PIEs in their client base according to this definition, and then to have frank discussions with clients to plan for MAFR.

IN CONCLUSION

SMPs may think that MAFR is not applicable to them and would not affect their business. This would be incorrect, as there are real risks relating to MAFR, also for SMPs – and there are also opportunities available to SMPs. The SMP will need to evaluate the skill set currently available in the firm for non-assurance services to entities subject to MAFR. There may also be new services that the SMP would like to offer and appropriate training and skills development will have to be sourced.

IRBA CONFIRMED THAT IN THE LAST TWO YEARS **64 JSE LISTED ENTITIES ROTATED AUDITORS** AFTER THE RULE OF **MAFR WAS GAZETTED**

IF PEOPLE **LIKE** YOU, THEY'LL **LISTEN TO YOU**, BUT IF THEY **TRUST** YOU, THEY'LL DO **BUSINESS WITH YOU** - ZIG ZIGLAR

MAKING BUSINESS FROM YOUR BUSINESS

By **Neale Roberts**, Founder and Head Coach of SA Business Coaches

A recent study conducted by the Varkey Foundation sought to determine the world's most respected professions. Covering 35 countries, accountants sit solidly at position 7 of the most respected professionals in the world[11]. That's a very nice piece of information, and perhaps for most accounting professionals the benefit is purely a societal status or an ego stroke – both of which are valid and necessary at certain times in our careers.

However, from a business perspective, the credibility of this study has far-reaching implications. Respect is the mindset of holding someone in a position of esteem, and once that exists, the respected individual is able to build trust. When you trust someone, you have confidence in them. In a business environment, when you are both trusted and respected, your career can skyrocket. Benjamin Franklin wrote in a letter in 1789 that 'in this world, nothing can be said to be certain, except for death and taxes.' This is an unfortunate reality for most of us, except accountants, who are therefore assured of always making a living. Having business is a wonderful blessing, and it is even more of a blessing if it is the business that we want to have.

There are several sides to this story when we talk about business as an accountant. The first would be the very well publicised changes to the labour market, global trends, technology growth, and shifts that are happening within the accounting profession. Second comes the influx of qualified and unemployed people who are upskilling and differentiating themselves in various ways. Finally comes the dream of following your passion and enjoying the work that you do. Each one of these three elements has far-reaching implications for the accounting professional.

Many CAs(SA) qualify with the intention of working in accounting their whole careers. However, BusinessTech[12] states that of the 66.2% of employed South Africans, the median job tenure in 2015 was 44 months, which is under four years. With that sort of constant change, there is a need to consider how to optimise your own career, taking into consideration the changes happening around you. The changes are not just shorter spurts at a company or in a position; rather there is a significant shift away from a technically-dominated work path towards a far more integrated approach to business.

David Deming from Harvard insists that the jobs of the future would draw on both technical and social skills[13]. With this as a foundation, Deloitte's research shows that organisations who define themselves as learning centres achieve 23% better financial returns they out-innovate their competitors, and survive business cycles much better than their peer[14]. So, capacity building, performance enhancement and caring for employees' sense of self-actualisation can breed financial rewards.

Numerous CAs(SA) find themselves in a very advantageous position in that they have developed a client base over time. They have been exposed to the workings of business, and most importantly, they've gained the trust of their clients. What a happy basis on which to launch a new direction for your career!
The biggest question is what to do to expand your existing competencies and secure your financial future, without taking you completely out of your known environment and proficiencies.

It is for this reason that business coaching is so attractive to accountants. Business coaches work within the business environment and interact with people to make their businesses better, whatever the specific requirements may be. Business coaching is a unique profession in that it relies on several competencies in order to ensure the coaching is successful. The first is business knowledge (beyond finance), the second is human psychology, and the third is an understanding of business. All three of these can be learnt to a greater or lesser extent. What cannot be taught is the ability to talk to people about their businesses, and to engage with them on very personal and sensitive topics that they may not feel comfortable talking about. And therein lies the advantage of the CA(SA). Among the top 10 most respected professionals in the world, with the ability to discuss business, the CA(SA) is in a unique position to change the direction of the career into a far more expansive scope. Business coaching is dynamic and rewarding. The business coach tends to have three major challenges:

- Finding clients
- Continually adding value to those clients
- Playing devil's advocate.

An accountant who has been working in their field establishes a client base. That takes care of part of the first challenge. However, it's one thing to have accounting clients, it's quite another to convert them to business coaching clients. Business coaching equips the accountant with a greater range of skills and value that they can add when working with their client base.

The second challenge is far more daunting. When you work in a technical field, the value that you add is often black and white. Although you may have clearly defined outcomes and milestones, when you work in the business coaching arena you are working with a human being as the main tool to achieve the outcomes. This is not the business coach's process, but their clients' process. You are adding a new dimension to an accountant who has been brought up to be accountable for the results that they produce. Business coaches are not accountable for the outcomes – their clients are. The last challenge is probably the most dissonant for a professional accountant. Accountants work to keep everything under control and right. Business coaches seek to create a certain amount of uncertainty – and that can be very disconcerting. In business coaching you often ask questions that can lead anywhere and that you do not know the answer to. Venturing into unknown territory is not everyone's cup of tea.

It is for this reason that business coach training becomes so critical to the business coach's success. Warren Buffet said: 'It takes twenty years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.' Warren Buffet gives us a great insight into how carefully the business coach needs to work with his or her client. Ethics and integrity are the foundation of most professions; accounting and business coaching are no exceptions. Integrity is not only about conducting yourself honestly, it's also about knowing what you can and cannot do and understanding the danger of entering a new profession without going through the appropriate professional training. Business coaching differs from other forms of coaching in that you need to have a substantial understanding of both business and business coaching before you can engage with clients. The accountant who becomes a business coach is not only able to coach the business to a greater level of performance, they can understand certain intricacies that the benefit of their professional background allows them to do. When you have spent your career building a reputation of trust, making the move from adding value financially to adding value to a business holistically requires maintaining your mindset of customer service, being competent in the value that you add, and working with your clients' best interests at heart.

ETHICS AND INTEGRITY ARE THE **FOUNDATION** OF MOST **PROFESSIONS**; ACCOUNTING AND BUSINESS COACHING **ARE NO EXCEPTIONS.**

[11]Varkey Foundation: Global Teacher Status Index 2018
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[12]How long the average South African stays in one job for (11 October 2016) Retrieved 28 April 2019
https://businesstech.co.za/news/business/139675/how-long-the-average-south-african-stays-in-one-job-for/
[13]David J. Deming, 2017. 'The Growing Importance of Social Skills in the Labor Market*,' The Quarterly Journal of Economics, vol 132(4), pages 1593-1640.
[14] Josh Bersin, 2017 "Catch the wave: The 21st-century career". Deloitte Review, issue 21

THE TAX PRACTITIONER'S LIEN FOR OUTSTANDING DEBT?

By **Madelein Grobler**, SAICA Project Director: Tax

As the 2019 tax year comes to an end on 28 February 2019, taxpayers may be scouting for a new tax practitioner to handle their tax affairs in future. However, the cost of being tax compliant, especially if there are unforeseen costs for the tax practitioner, like queuing for four hours or resubmitting volumes of documents, may result in fee disputes. Furthermore, the current economic downturn has resulted in late and non-payment substantially rising. Late payments to SMEs are at an all-time high[15] and debt defaults apply to 45% of the 25 million active credit consumers[16].

Tax practitioners are not exempt from this challenge and how they address it is not always easy.

Withholding of taxpayer profiles for debt

With the advent of SARS eFiling with its taxpayer and tax practitioner profiles, one of the practices used by some tax practitioners to ensure payment for their services, was to withhold filing of online returns and the actual taxpayer profile until payment was made. Taxpayers are after all a lot warier of SARS Debt Enforcement than of normal debt collectors.

This practice was quickly frowned upon by SARS, who subsequently introduced functionality for taxpayers to remove tax practitioners[17]. SARS also issued clarification in the 2015 Tax Practitioner Connect[18], confirming that this practice is not allowed and may also constitute a criminal offence.

SAICA has taken a similar view that such actions constitute a minimum unprofessional conduct, as it obstructs the taxpayer from complying with the law. SAICA has in fact issued sanction against a member for such unprofessional conduct.

So, does that mean that tax practitioners have no rights to collect what is legally due, especially when it comes to electronic documents and services such as eFiling?

Tax Practitioner's Rights

The collection of debt is a legal issue and the tax practitioner would need to follow the remedies available to him/her, such as for example debtors/creditors lien (right of retention) or debt collection. The tax practitioner's letter of engagement and terms and conditions to which the client agrees will set the legal basis and remedies available to the tax practitioner upon the client's default to pay an outstanding account.

So, the tax practitioner may not withhold the eFiling profile, but what other information, client's documents, working papers and/or working product may he/she withhold until due payment is made? In this regard we refer to a contractual lien. A contractual lien secures the creditor's contractual claim against a debtor through the retention of documents in the position of the creditor, until such time as payment is received. Botha NO v EM Mchunu & Co[19] the High Court held in relation to similar professional legal services that:

'The test as I see it should simply be that if the attorney is entitled to charge his client a fee in respect of a document in his possession then he should be entitled to exercise a lien over it because then it is recognised that he expended work and labour on it. On that basis documents in his possession which were irrelevant to his mandate even though he claims to have expended time and labour on them cannot be retained.'

Given the above principle, a tax practitioner's contractual lien would attach to the working papers formulated in support of the tax practitioner opinion or conclusion, as well as to the working product. It also seems that the tax practitioner's contractual lien extends to the client's original documents, as long as the tax practitioner reviewed such client documents for the purposes of carrying out his/her mandate and provided that such client documentation is important to execute the mandate.

The IRBA Revised Guide for Registered Auditors: Access to Working Papers[20] refers to an auditor's report on the financial statements as the working product. For tax purposes, a working product will then entail for example a completed tax return, tax opinion, letter of objection, etc. The IRBA Revised Guide also provides a definition as to what would constitute working papers for audit purposes. Tax practitioners may apply similar principles to determine what constitutes tax working papers while applying their professional judgement.

Even though a tax practitioner may have a contractual lien over more than those documents that the tax practitioner actually prepared, the Court still has a discretion to order delivery thereof to the taxpayer upon the provision of adequate security. In The Law Society of Cape of Good Hope v A Dippenaar[21] the Court noted that one of the factors to be considered to override a lien would be where a professional is guilty of grave professional misconduct.

Where a tax practitioner wishes to exercise his/her contractual lien, such specific remedy needs to be incorporated into the letter of engagement and terms and conditions as a remedy.

CONCLUSION

Tax practitioners cannot refuse to transfer a client's tax profile (i.e. eFiling). Despite the difficult economic times and measures to collect outstanding debt as such, action will not only have ethical consequences, but also legal consequences. Tax practitioners are required by law to provide their clients with access to their own individual eFiling profiles.

However, tax practitioners can collect the outstanding debt through the legal system or exercise their contractual lien as provided for in the letter of engagement over all work products and even taxpayer documents. The legality of such enforceable rights may therefore not be in question. Whether it is professional and ethical may, however, be disputed by others.

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[16] https://businesstech.co.za/news/business/267201/this-graph-shows-a-concerning-rise-in-debt-default-in-south-africa-as-people-buckle-under-tough-economy/
[17] See process for removal as explained by TaxTim, https://www.taxtim.com/za/tax-guides/how-to-get-back-control-of-your-sars-efiling-profile
[18] http://www.sars.gov.za/ClientSegments/Businesses/Pages/Tax-Practitioners-Connect-Issue-2.aspx
[19] Botha NO v EM Mchunu & Co 1992 (4) SA 740 (N) held (and sited with approval in Free State Agriculture & Eco Tourism Development v Mthembu and Mohamed 2002 (5) SA 343(O))
[20] https://www.irba.co.za/upload/Revised%20Guide%20for%20RAs-Access%20to%20Working%20Papers%20final%20for%20issue.pdf
[21] The Law Society of Cape of Good Hope v A Dippenaar (2006) JOL 18551 (C)

HOW 'INTEGRATED REPORTING' IS HELPING FIND THE ANSWERS TO BUSINESS CHALLENGES IN THE NEW ERA – AND HOW THE INTERNATIONAL INTEGRATED REPORTING COUNCIL IS HERE TO HELP

By **Richard Howitt,** Chief Executive Officer: International Integrated Reporting Council

As the International Integrated Reporting Council publishes answers to the most frequently asked questions on integrated reporting, its CEO, Richard Howitt, discusses why the time is right to adopt integrated reporting.

Would it worry you to know that you might only be looking at 20% of the likely value of your organization?

Yet it is the reality that up to 80% of the value of the company is not on the balance sheet.

Over the past thirty years, relationships in the market and in society, the skills of the company's own workforce and the knowledge and ideas contained within the company may be 'intangible assets', but they are now the true value drivers of a successful company in the 21st century.

These concepts are at the heart of why the concept of integrated reporting is winning fast-growing acceptance among companies around the world. The new era of 'multi-capitals' in which the business can prosper - or fail – is one in which social and relationship, human, natural and intellectual capital are just as important to the company.

It is also why the role of the accountant is changing?

The International Federation of Accountants has spoken for the global profession with their position paper, saying 'integrated reporting is the future of reporting'.

Those at the forefront of the profession recognise the need to understand and advise on more than just the health of an organisation's finances – understanding and articulating how all of the resources and relationships the organisation uses and effects are being harnessed create long term value.

Advances in globalisation, technology, the rise of social media and the ever-increasing risks surrounding climate change are just some of the emerging drivers that have led to this new recognition that the health of a company is synonymous with interconnected financial, manufactured, social and relationship, intellectual, human and natural capitals.

Accountants are helping to embed this concept of multi-capitalism through the adoption of integrated reporting. In over 70 countries, accountants are supporting their organisations to pursue this new way of thinking, acting and communicating.

To support them, they are turning to the International Integrated Reporting Framework first published in 2013 and developed by the International Integrated Reporting Council (IIRC) with the help of businesses and investors around the world.

A worldwide consultation - our 'Framework Feedback Exercise' - held in 2017, reviewed the effectiveness of the <IR> Framework, and found strong evidence demonstrating that it is a robust and successful tool for supporting this new approach to reporting.

It helped form the basis for the launch of a new global strategic phase for the IIRC - the 'Momentum Phase' - as the world moves rapidly towards integrated financial and non-financial reporting becoming the global norm.

But whether you are an accountant new to integrated reporting or a practitioner helping companies to implement it and already well-informed about these developments, we recognise there are still many questions about how to approach the principles of integrated reporting.

Indeed that 2017 consultation helped us to highlight some of the key questions which are being asked by integrated reporting practitioners around the world. That is why the IIRC has today (28 March 2019) published a set of answers to some of the most 'frequently asked questions' about integrated thinking and reporting – available through this link to the IIRC's website.

When using the IIRC's frequently asked questions webpage, you can directly feed back to the IIRC about which answers were helpful – and which were not. And the IIRC will use this feedback to evolve and add to the webpage over time. This is part of a two-year programme of technical guidance about integrated reporting following our consultation, which we are developing and publishing through to the end of this year, 2019.

Over the following months, we will also be producing a 'Getting Started' guide, as well as practice notes on the capitals and on the concept of value creation.

Please use these free resources, share them with your colleagues and your clients.

Integrated reporting has been forged and is gaining momentum, led by global businesses and investors who recognise that it is key to future success.

However, the global accountancy profession is playing a key role in our coalition in delivering our mission, and individual accountants have a great opportunity to forge this in your work.

I encourage you to reflect on how much your organisation truly understands the interconnected risks and opportunities within your business model.

I hope our new 'frequently asked questions' will help you find the answers.

ACCOUNTANTS ARE HELPING **TO EMBED** THIS CONCEPT OF **MULTI-CAPITALISM** THROUGH THE **ADOPTION** OF **INTEGRATED REPORTING.**

DEVELOPMENTS ON THE INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR SMALL AND MEDIUM ENTITIES

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

Second comprehensive review of the IFRS for SMEs Standard

The International Accounting Standards Board (IASB) is set to commence its second comprehensive review of the International Financial Reporting Standards (IFRS) for Small and Medium Entities (SMEs) during the current year. The IASB will begin by publishing a Request for Information (RFI). With the RFI, the IASB is seeking to request constituents' input on a number of questions, including whether IFRS for SMEs should be revised for any IFRSs which have not yet been incorporated in IFRS for SMEs. These include IFRS 9 (Financial Instruments), IFRS 10 (Consolidated Financial Statements), IFRS 11 (Joint Arrangements), IFRS 12 (Disclosures of Interests in Other Entities), IFRS 15 (Revenue from Contracts with Customers) and IFRS 16 (Leases). If considered in the final amendments to the IFRS for SMEs Standard, these IFRSs could have a significant impact on SMEs. SMEs are encouraged to provide input to the RFI when published, to shape the final amendments to the IFRS for SMEs.

IFRS for SMEs support material

The IFRS Foundation has completed the updates to the 35 IFRS for SMEs education modules. These modules were updated for the amendments to the IFRS for SMEs published during 2015 and they are intended to provide additional support to those preparing and reading IFRS for SMEs financial statements. The modules include practical examples that illustrate and explain the requirements in a simple manner, as well as outline the differences between the IFRS for SMEs and IFRS. You can also test your knowledge of the requirements by answering multiple-choice questions and analysing case studies incorporated in the modules.

Download the IFRS for SMEs education modules from the IASB website

Frequently Asked Question (FAQ) on the Zimbabwe functional currency

SAICA has published an FAQ on the Zimbabwe functional currency which addresses various accounting questions relating to the consolidated financial statements of reporting entities with interests in Zimbabwean reporting entities. The Q&A provides clarity on the announcements made by the Reserve Bank of Zimbabwe (RBZ) on the new monetary policies on:

- 1 October 2018 - instructing the separation and official opening of the Foreign Currency Account Real Time Gross Settlement (RTGS) account (FCA RTGS for local electronic money transfers) and the FCA Nostro for actual foreign currency deposits or export proceeds; and
- 20 February 2019 - establishing an inter-bank foreign exchange market.
- The FAQ addresses the following questions:
- The announcement on 20 February 2019 makes the RTGS an official currency. However, did the RTGS system meet the definition of an additional currency in Zimbabwe before 20 February 2019?
- Based on the conclusion that RTGS meets the definition of currency in Zimbabwe, is there a need to reassess the functional currency of Zimbabwean entities?
- If it is concluded that there is a change in functional currency, from which date is the change in functional currency effective?
- What factors should be considered in determining the translation rate for consolidation purposes for entities with RTGS functional currencies?
- From what point should RTGS be assessed for hyperinflation?
- What are the disclosure considerations?

Download the FAQ from the SAICA website

Update on the Business Combinations under Common Control project

Business combinations under common control (BCUCC) are excluded from the scope of IFRS 3 (Business Combinations). Therefore, entities must apply IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) and develop an accounting policy that results in useful information. However, there have been concerns raised about the diversity in practice by various interested parties in accounting for BCUCC. In practice, entities account for BCUCC using:

- The acquisition method as set out in IFRS 3; or
- The predecessor method.

In response to this, the International Accounting Standards Board (IASB) performed a range of research and outreach activities with different types of interested parties from various jurisdictions, including users of financial statements, regulators, standard-setters, preparers and accounting firms. Those activities focussed on the following questions:

- Are BCUCC common in your jurisdiction?
- Do they typically involve existing non-controlling interest (NCI) bodies, or are they undertaken in preparation for an IPO?
- Are there any common features of BCUCC in your jurisdiction?
- Which accounting method, or methods, are typically applied in your jurisdiction by an acquirer in a BCUCC?
- Is the acquisition method or the predecessor method most appropriate for financial statements of the acquirer?

As a result, the IASB decided to commence discussions on the scope and the appropriate measurement method(s) for the BCUCC transactions.

The scope of the project will focus on the financial statements of the receiving entity. It will not consider accounting by the controlling party, the transferor or the transferee, as those parties are already covered by the existing IFRS Standards. It will address accounting for:

- Transactions under common control in which the reporting entity obtains control over one or more businesses, regardless of whether IFRS 3 would identify the reporting entity as the acquirer, if IFRS 3 were applied.
- Transactions involving transfers of one or more businesses where all of the combining parties are ultimately controlled by the same controlling party or parties, and the transactions are:
  - preceded by an external acquisition and/or followed by an external sale of one or more of the combining parties; or
  - conditional on a future sale such as in an initial public offering (IPO).
- Transactions under common control in which a reporting entity obtains control of one or more businesses, regardless of whether:
  - the reporting entity can be identified as the acquirer, if IFRS 3 were applied to the transaction;
  - the transaction is conditional on a future sale of the combining parties, such as in an IPO;
  - the transaction is either preceded by an external acquisition of one or more combining parties, or followed by an external sale of the combining parties, or both.

In exploring the measurement approaches, the IASB is developing measurement approaches that would meet the information needs of the primary users of the receiving entity's financial statements i.e. the existing NCI, the controlling party, lenders and other creditors, and prospective equity investors. Those approaches are:

- A current value approach based on the acquisition method. The receiving entity will reflect acquired assets and liabilities at their acquisition date fair values.
- A predecessor approach. The receiving entity will reflect acquired assets and liabilities at their predecessor carrying amounts.

The measurement approaches will also consider:

- whether and how transactions within the scope of the project can be different from business combinations that are not under common control;
- what information would be useful to various primary users of the receiving entity's financial statements;
- whether the benefits of providing particular information would justify the costs of providing that information; and
- the complexity and structuring opportunities that could arise under various approaches.

The IASB has finalised its discussion of the scope of the project but is still exploring how companies should account for combinations of businesses under common control. The IASB plans to publish a Discussion Paper during 2020.

THE NEW RATIONAL PURPOSE REQUIREMENT

By **Pieter Conradie** CA (SA) MPhil (Responsible Leadership), Programme Director: Integrated Reporting

The purpose of this article is to inform sustainability assurance practitioners (SAPs) of the impact that the new rational purpose requirement could have on assurance practices in South Africa. It also explains the process that SAICA will follow to assist SAPs to prepare them for this impact.

Many researchers believe that sustainability reporting could have the potential to transform the role of business in society if it succeeds in making organisations more accountable for negative social and environmental impacts. The unfortunate reality is that a lot of these reports tell a very one-sided story about the impacts of organisations. It is contended that this information could mislead stakeholders and that it could ultimately be counterproductive to sustainability development. Researchers have also considered the role and impact of the practice of assuring information in sustainability reports. The general role of assurance (or audit) is to add credibility to reported information. The reality of sustainability assurance practices is that the scope of assurance engagements is determined by management. Many academics lament the fact that, in their perception, assurance providers become complicit in the counterproductive momentum of the sustainability reporting practice as they add credibility to these reports that, in many cases, can be seen as being very 'one-sided'.

Assurance providers

Assurance providers making use of ISAE 3000 were of course completely within their rights to accept assurance engagements where the scope was determined by management, as long as the scope was explicitly delineated in the assurance report. Even though assurance providers were acting within their rights when accepting these types of engagements, many assurance practitioners were uncomfortable doing so as they believed they were not acting in the public interest in accepting these engagements. Academic research has however indicated that assurance providers are very sensitive to encourage clients to broaden the assurance scope to a more representative scope of the phenomenon under investigation. The main reason for these concerns was of course the fact that clients may take their business to practitioners who are less scrupulous about accepting non-representative scopes of assurance.

It could be argued that the introduction of ISAE 3000 (revised) should have put an end to these practices. The revised standard has many new requirements, and one of these requirements is that during the pre-engagement phase of the engagement the practitioner should determine whether an engagement has a rational purpose. The rational purpose itself has a number of requirements, but the most important requirement for the purpose of this article is the following: 'whether aspects of the subject matter information are expected to be excluded from the assurance engagement, and the reason for their exclusion.'

In short, this means that the assurance provider cannot accept an assurance engagement if they suspect that relevant information is excluded from the assurance scope. Given the fact that this standard became effective in December 2015, one would have expected that practitioners around the world would have altered their practices to incorporate these requirements, but this has not been the case. The IAASB, in their recent discussion paper that considered Emerging Forms of External Reporting, does mention a rational purpose. It speaks about the fact that assurance providers may find it difficult to ascertain whether lesser scope assurance engagements have a rational purpose, but it does not elaborate any further.

IRBA recognised the need to assist practitioners

The IRBA recognised the fact that practitioners might need assistance to operationalise the requirements of ISAE 3000 (revised) and hence embarked on the process of developing the South African Assurance Engagement Practice Statement 1, Sustainability Assurance Engagements: Rational Purpose, Appropriateness of Underlying Subject Matter and Suitability of Criteria (SAAEPS 1). The SAAEPS addresses a number of important issues that are raised in ISAE 3000 (revised), among others the rational purpose requirement. The IRBA also recognised that the requirements of the SAAEPS 1 may have a material impact on the assurance practices of South African assurance practitioners, and hence it provided a two-year period to allow practitioners to prepare themselves for a 31 December 2020 effective date.

The SAICA was approached to develop training interventions

The SAICA was then approached to develop training interventions to assist practitioners to ready themselves for the impact of SAAEPS 1. SAICA then proceeded to assemble a project team to this effect. The team identified technical as well as conceptual areas that the training should focus on. It was thus decided to tackle the conceptual challenges first, as an understanding of the conceptual thinking underlying SAAEPS 1 would facilitate an easier understanding of the technical issues.

Among others, a challenging aspect of implementing SAAEPS 1 will be that the consideration of the rational purpose requirement is a pre-engagement activity. The fact that the practitioner will most likely be able to commit only limited time and resources to this issue is a concern that will receive a lot of attention at the workshops. However, a potentially more challenging concern will lie with the fact that an assurance practitioner will be required to apply considerable professional judgement in an area where they may have no prior experience.

For the purposes of this article, I will reflect on some of the potential concerns that the assurance practitioner may experience during the consideration of the rational purpose requirement, and more specifically on whether the reported information (and by implication the assurance scope) meets the information needs of the intended users. ISAE 3000 (revised) specifically states that the intended users may be a broader group than those stakeholders to whom the assurance report is addressed.

Implications

The implication is that the assurance practitioner will

1. have to identify all the potential users and then
2. view the reported information (and assurance scope) from the perspective of these groups to determine whether it meets their information needs. At this point, it becomes relevant to consider the notion of rationality.

According to the 'reason', or rationality of a specific user group, certain pieces of subject matter information (and a certain assurance scope) may appear reasonable. However, the reason (or rationality) of the assurance practitioner may be different to that of the user group and hence to come to the conclusion that the reported information (and assurance scope) meets a user group's information needs may become very challenging.

What further complicates this challenge for the assurance provider is the concept of bounded rationality. A Wikipedia search of the concept reveals the following: 'Bounded rationality is the idea that when individuals make decisions, their rationality is limited by the tractability of the decision problem, the cognitive limitations of their minds, and the time available to make the decision.'

In simpler terms, this means that what an individual thinks is rational depends on (or is limited by):

- The complexity of the thing they are thinking about
- Their intellectual capability
- The time they have to think about it.

I will not dwell on the intellectual capability of specific user groups nor the time that they have to think about a specific problem. What concerns me most is the complexity of the thing that they are thinking about.

Even though many organisations have been practising sustainability reporting for many years, it is of concern to academic researchers that there is no consensus around the meaning of the concept of sustainability nor about what the underlying phenomenon is that sustainability reporting is supposed to represent. Hence, for an assurance provider to be able to use their professional judgement on whether a sustainability report (and an assurance scope) fulfils the information needs of the intended users, the assurance provider would first have to understand how the user groups understand the concept of sustainability, how this concept should be represented in a sustainability report, and what they wish to know about it.

The SAICA training programme will thus firstly aim to provide assurance providers with an understanding around the way that the different user groups view sustainability, and the way that this should be represented in the sustainability report. This will be the primary focus of the first workshop in June and will be of fundamental importance for any assurance provider who wishes to apply their professional judgement effectively in an ISAE 3000 (revised) assurance engagement.

The second workshop will be specifically for assurance practitioners and will focus on the technical intricacies of applying the SAAEPS 1. This workshop will be repeated to enable practitioners who may have missed the first workshop to attend. Iteration 1 of the workshop will be in August and iteration 2 in October. SAICA will document the outcomes of the different workshops in a report that will be in the public domain. The dates and venues will be communicated to relevant stakeholders in due course

> ALTHOUGH **MANY ORGANISATIONS** HAVE BEEN **PRACTISING SUSTAINABILITY** REPORTING, THERE IS **NO CONSENSUS** AROUND **THE MEANING OF THE CONCEPT** OF SUSTAINABILITY NOR WHAT IT IS **SUPPOSED TO REPRESENT.**

TIME TO BID FAREWELL TO HOURLY RATES WITH VALUE PRICING

By **Lauren du Plooy,** Managing Partner of accounting software specialist firm, Rae & Associates

Selling hours for rands is the inverse of a good business model. If you're billing by the hour, you can only bill for eight hours a day, so your income is capped, yet it's a pricing model so many of us default to – from accountants and doctors, to designers, dog groomers and gym instructors. Instead, we should be striving for a value pricing model, where fees are based on value to the client rather than the number of hours worked.

Harnessing tech advances such as online accounting tools make financial planning, monitoring and reporting more reliable and time efficient. This has, in turn, opened the door for other exciting changes like the move from hourly billing, to value pricing - an empowering new concept for accountants and small businesses alike.

By more quickly and efficiently managing our clients' data and our firm's tasks, we save a lot of time that we can spend adding value to our clients. It is this kind of innovation which is distancing accountants and bookkeepers from their traditional role of number crunching – instead giving us the opportunity to take an advisory role and empower our clients to grow and make better business decisions.

One such informed business decision, is to base fees on knowledge, experience and value rather than the outdated method of billing by the hour. Over the past 20 years, hourly billing has been the standard method used by many small businesses and accounting firms. However, the model has presented numerous challenges for firms looking to grow.

This includes the income limitations of being restricted to an eight-hour work day, the tedious associated administrative requirements of tracking hours and filling in time sheets, as well as not being able to bill for the time spent travelling to and from client offices.

Now that online accounting software takes care of timely administrative functions, fewer hours are naturally billed. However, the hours which are billed are spent adding far greater value and can therefore not be priced at the same rate as tasks like manual data capturing have been in the past.

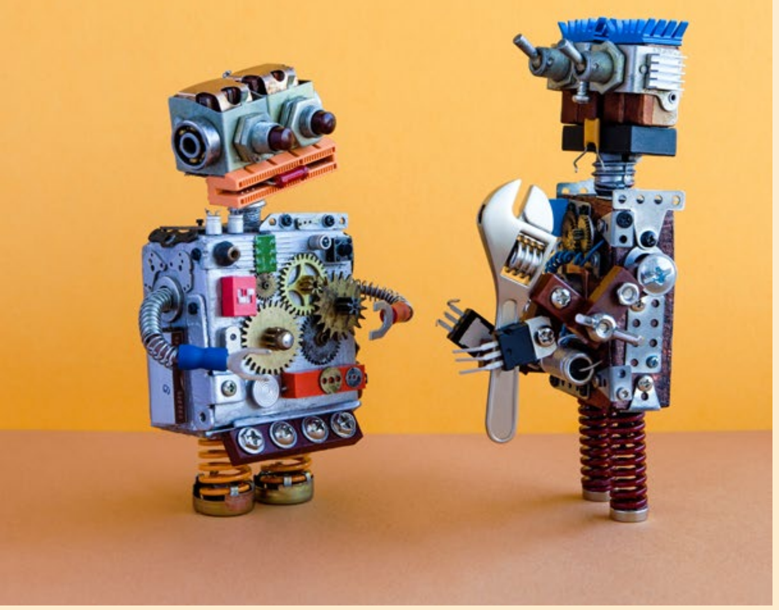
With this in mind, the alternative model of value pricing simply makes more sense. Value pricing means billing clients based on what you have to offer, not how long you work. We are not just selling our time, but our knowledge, experience, innovation and customer service - these are the factors our pricing models should reflect.

We implemented value pricing more than four years ago and have experienced notable growth since. Our existing clients are now on retainer and set their own budgets based on the services they require from us on a monthly basis. This means that both parties have clear and defined expectations from the start. Other advantages of adopting value pricing include steady cash flow, easier budgeting and increased staff productivity as timesheets are no longer required.

With the accessibility of online accounting tools, we need to keep in mind that our roles as accounting professionals will continue to evolve and so will the processes we use to conduct business and, of course, how we charge for our services. The fall of hourly billing is testament to this.

THE LIGHTNING SPEED OF TRUST

By **Ian Rheeder**, Chartered Marketer & MSc in Persuasion Sciences



Breakthrough discoveries in psychology have exposed neurobiological keys to persuasion.

A great future career is a return of the 'human skills'—leading, negotiating, selling, and presenting. These are skills where artificial intelligence currently can't compete. Leading, negotiating, selling and presenting skills are intimately interconnected and should be discussed together. For example, leading and selling are heavily intertwined. We first need to know the basics of selling before every presentation, negotiation and/or leadership interaction.

Can we motivate someone else?

Most psychologists suggest we cannot motivate someone else to take action. However, we definitely can influence and inspire audiences by giving them a reason to change their behaviour. Whether conscious of it or not, we're swayed by extrinsic and intrinsic desires (i.e. attitudes, personal values and cultural beliefs). Examples of extrinsic 'outside' rewards are: money, fame and power. Napoleon realised men would die for medals. It is important to note that everyone is not motivated the same way; some really do love money.

The key to 'motivating' others is to ask questions to get the right feelings flowing—an inside-out approach. If you want to be engaging, don't show up and immediately begin presenting, leading or negotiating; rather ask questions as this has a desired neurobiological effect, getting people to think and feel deeply about what they really want (intrinsic motivation).

A: Trust

Trust is the central social lubricant – the basic need of our 'mammalian' brain in maintaining strong relationships. Trust is the platform – the binding force – between you and your audience. Trust is sacrosanct if you want people to risk taking your advice.

Trust vs. Disgust

Trust has a massive 77% correlation with whether someone enjoys your presence. This might not sound important, however leaders that are socially and results-oriented have a massive chance of being rated great leaders vs. results-only orientated leaders. This is because we are the most social species on earth; in fact, our social needs are treated by the brain in the same way as food and water.

It gets worse; there is no emotion between trust and disgust. We either trust someone or we do not. At best, the emotion between trust and disgust is indifference.

Multi-cultural Challenges of Trust

Trust produces oxytocin, prompting generosity and cooperation. Yet trust is like a squeeze tube – once it's squeezed out, it's difficult to push back in. And what's worse, with minimal cues, our brain's amygdala makes its mind up in 50 milliseconds whether you are for me or against me. So, train yourself up in key cultural differences and understand the norms and unwritten-ground-rules of your diverse audiences; things like handshakes and 'meet & greet' norms.

One of the fastest ways to build trust is to be the first to do a small favour that triggers reciprocal altruism. 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. Once warmth is established, you should sound competent when you start presenting, because competence now fuels trust further.

Love vs. Indifference

The opposite emotion of love is not hate, but indifference. We see others as indifferent until proven loving; especially when they don't look like us. So armed with this self-awareness, how do we combat this potential split-second biasing in business? How do we swiftly come across as a kind person? How do we prevent a disturbing 'Us vs. Them' situation from developing? The answer comes from neuroscience: we treat people like relatives when they feel like relatives. Would you be more inclined to risk donating one kidney to a relative or a stranger? Well, it depends on how they make you feel.

Fairness is a basic need: by eavesdropping on the brain, neuroscience illuminates why, when we are attempting to persuade, we need to make the other party feel like they are liked and being treated fairly. Mention 'win-win', do a favour or concede on something small. By studying hunter-gatherers, one of the biggest causes for murdering someone is refusal to share meat fairly. Thus, one of the best investments in the future is to put food in other people's stomachs now.

Status is a basic need:

Hurting a person's status makes them angry. Force passengers to walk through first class when boarding an aeroplane and there's an 800% higher chance of 'air rage' in the economy class section.

In South Africa we have a high Power Distance Index (PDI) between races and genders. When there is a PDI between two people (e.g. a male doctor's high status vs. a female nurse), the fearful one loses blood in their prefrontal cortex. This 'PDI stress' in the cockpit of Korean Air caused 1700% more accidents than American Airlines. Why? The crew were too scared to offer their higher-ranking pilot advice! The solution? By just getting them on to first-name terms dropped the PDI and got them working as a team.

B: Engagement

Once trust is established, engagement is welcomed.

Presenting Tips: When presenting, establishing credibility is crucial. There should be four distinct parts when presenting:

1. A credible Intro,
2. The Problem,
3. The Solution, and
4. The Next Steps (i.e. ask for commitment).

Leadership Tips: Leaders have a much longer opportunity to engage with their followers than a fleeting 30-minutes presentation. Once the leader has established trust through displaying shared values, accountability, integrity, authenticity and transparency, the follower will be open to their engagement. Leaders need now to engage by:

1. having an inspirational shared vision
2. being approachable (sociable), and
3. being compassionate.

Selling and Negotiating Tips: Negotiations is 'selling on steroids'. We start by building trust. However, selling becomes a negotiation when parties object to a proposal. Trust is initially established through great preparation, positive body language, questioning, small talk, uncovering needs, developing solutions and a great, engaging proposal. However, receiving and objection to a proposal requires flawless objection handling.

SUMMARY

This article has touched on two breakthrough persuasion levers; the lightning speed of trust vs. disgust, and the knife edge of love vs. indifference.

We need to genuinely want to help others by putting them first and show warmth (trust) before displaying competence. Only then will they want to know what you have to offer.

HOW TO READ THE SAICA CODE OF PROFESSIONAL CONDUCT

By **Viola Sigauke**, Project Manager Legislation

SAICA has updated the Code of Professional Conduct (Revised 2018) which will become effective from / after 15 June 2019. The Revised Code will affect you as a SAICA member or associate, whether you are a practitioner or employed in business.

The Revised Code has been completely rewritten under a new structure and drafting convention that makes the Revised Code easier to navigate, use and enforce. The two diagrams below show the comparison of the structures of the 'old' version and Revised Code:

An overview of the extant version of the Code

Definitions
(All Professional Accountants)

Part A (All Professional Accountants)
Fundamental Principles and Sections 100 to 150

Part B Professional Accountants in Public Practice
Section 200 to 280 Section 290 Independence for Audits and Reviews; and Section 291 Independence for Other Assurance Engagements

Part C
Professional Accountants in Business
Section 300 to 350

An overview of the extant version of the Code

Definitions, including list of abbreviations and standards
(all Professional Accountants)

Part A (All Professional Accountants)
Complying with the Code, Fundamental Principles and Conceptual Framework Sections 100 to 199

Part 2 Professional Accountants in Business
Sections 200 to 299

Part 3 Professional Accountants in Public Practice
Section 300 to 399

International Independence Standards Part 4 Independence Standards (Parts 4A & 4B)
Part 4A - Independence for Audits & Reviews Sections 400 to 899 Part 4B - Independence for Other Assurance Engagement Sections 900 to 999

Guide to the Code

The Code includes a Guide which provides an overview of the Code. It sets out the structure of the Code, and how the requirements and application material is structured. It assists someone who has never read the Code in understanding the set-up.

The Fundamental Principles, Independence and Conceptual Framework

The Code requires professional accountants to comply with the fundamental principles of ethics. The Code also requires them to apply the conceptual framework to identify, evaluate and address threats to comply with the fundamental principles. The Code requires professional accountants to be independent when performing audit, review and other assurance engagements.

Requirements and Application Material

Requirements and application material are to be read and applied with the objective of complying with the fundamental principles, applying the conceptual framework and, when performing audit, review and other assurance engagements, being independent.

Requirements

Requirements are designated with the letter 'R' and, in most cases, include the word 'shall' that imposes an obligation on a professional accountant or firm to comply with the specific provision in which 'shall' has been used.

In some situations, the Code provides a specific exception to a requirement. In such a situation, the provision is designated with the letter 'R' but uses 'may' or conditional wording.

Application Material

Application material is designated with the letter 'A' that provides context relevant to a proper understanding of the Code. Application material does not of itself impose a requirement; consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework.

South African Amendments

There are specific South African amendments and these adaptations to the IESBA Code are underlined and in italics. South African amendments, which are more substantive than adaptions, and require a change to the numbering system will include a reference to 'SA', e.g. R115.3 SA or 350.8 A1 SA.

May versus Might

'May' is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement. 'Might' is used in the Code to denote the possibility of a matter arising, an event occurring or a course of action being taken.

General

When referring to 'audit' in the Code it means 'audit or review'. The SAICA Code of Professional Conduct applies to all members and associates as well as trainee accountants and in general the Code refers to 'professional accountants'.

THE **REVISED CODE** HAS BEEN COMPLETELY **REWRITTEN** UNDER A **NEW STRUCTURE** AND **DRAFTING CONVENTION** THAT MAKES THE REVISED CODE EASIER **TO NAVIGATE**, USE AND **ENFORCE**.

HOW AN ESTABLISHED FIRM CAN TRANSFORM, REMAIN COMPETITIVE AND THRIVE IN THE FUTURE

By **Rudi Jansen,** Accountants Coach, Practice Owner, Author and Speaker

We all know that the accounting profession is changing...

The technology we use day to day, the way that we price and position our services, the expectations of our clients – they are all changing.

But with change comes a fantastic opportunity.

An opportunity to transform your established accounting firm into one that remains competitive and thrives in the future. But in order to successfully transform your established accounting firm, there is one thing that absolutely needs to change first…**YOU**. That's right, the number one thing that needs to change first in order to successfully transform your established accounting firm is you.

You need to stop thinking and acting like an accountant and start thinking and acting more like a business owner.

Let me share a story with you of how this works...

Just over eight months ago, I started working with Mike and Welma. They own and manage an established accountancy practice (founded in 1965!) based in Witbank, with 19 team members.

Joining the practice back in the 1980s, Mike has been in this game for 'a long time'. And because of that, he had some deeply ingrained beliefs about how the practice should be run. 'If I wasn't doing 8+ hours a day of billable work, I felt like the day hadn't been a success.' In his own words: 'I WAS the practice.'

But all this changed when Mike had his 'aha' moment. From the work we are doing together, he realised that he didn't need to turn up every single day spending 8+ hours on billable work, and that if he truly wanted to transform his accountancy practice, then he needed to start by making some changes to himself.

Since this realisation and making the right transformations, Mike now works a maximum of 2 hours per day IN his practice (doing client work etc.) and spends the rest of his time working ON his practice, driving the transformation along with his partner Welma. Some of the successes they've achieved in such a short space of time include:

- Moving on poor-performing team members and replacing them with new, high-quality ones
- Introducing practice management software to help speed up workflow and pricing software to help them charge what they're worth
- Achieving revenue for the month Feb 2019 that was triple their revenue for Feb 2018 (without any focus on marketing or winning new clients).

...and all of this was possible because Mike made one big change upfront...

He stopped thinking and acting like an accountant and started thinking and acting like a business owner.
A great quote I found by an American author, Richard Rohr, summarises this personal transformation nicely: 'Transformation is often more about unlearning, than learning.'

First we must unlearn what we think we know, and then we must learn what we need to know.

This is only the beginning...

But this change is just the start of the transformation journey. Once you have transformed yourself, there are three further mini-transformations you must make if you want to truly transform your established accounting firm and thrive in the future.
To discover what these are, and to learn the exact process Mike and many of my other clients all over the world are using to transform their established accounting firms, join me at the SAICA Cloud in Practice conference this September on the 12th (Johannesburg) where you will learn:

The #1 thing you must transform first (you!) and more importantly, how to do it;

How to get your team to work with you (not against you) towards a shared goal and vision;

Why embracing technology and going fully digital is the only option to stay competitive;

The exact process for branding, positioning and marketing your firm to your ideal clients;

... and much more!
There is a fantastic opportunity for all accounting firm owners to transform their firms, remain competitive and thrive in the future years…

Are you ready to seize yours?

NEED TO KNOW - TECHNICAL UPDATES

Notice 30 of 2019
Migrating of manual registration for primary co-operative limited (Form CR1, CR5, CR4/CR8)

Notice 31 of 2019:
Reservation of name for co-ops as per amended co-ops act, (No 6 of 2013)

Notice 32 of 2019:
Application for the registration of the secondary and tertiary co-ops

An External Auditor's Guide to Improving Audit Quality Using Root Cause Analysis (RCA)
The guide defines root cause analysis and explains how audit practitioners can use it to identify and address the root causes of review and inspection findings. RCA is an effective and efficient way to improve audit quality.

An External Auditor's Guide to Improving Audit Quality Using an Individual Recognition and Accountability Framework
This guide is not designed to create new `rules' or a one-size-fits-all framework for firms to follow. It aims to cross-pollinate ideas and learning by outlining the ways firms can approach recognition and accountability frameworks.

Practice Continuation Agreement
This guide serves to provide members with a basic reference tool when considering and compiling a practice continuation agreement.

ISA 540 (revised) implementation support: flow charts and diagram
The International Standard on Auditing (ISA) 540 (revised) implementation working group has developed two flowcharts and a diagram to support the understanding and effective implementation of the standard.compiling a practice continuation agreement.

IAASB quality management webcast series: firms' risk assessment process
Watch the IAASB first webcast in a multi-part series on its recently proposed quality management standards.

Evidence on the value of audit for SMEs in Europe
Audit enhances the reliability of published financial statements information and in so doing helps to instil confidence and trust in the SME sector of the economy.

Proposed quality management standard
The IAASB recently released a suite of proposed international standards on quality management. The proposals change the way professional accountancy firms are expected to manage quality for audits, reviews, and other assurance and related services engagements.

Circular 1/2019 – AGSA and Fees
Guideline on fees for audits and audit related services performed by auditors in private practice on behalf of the Auditor General of South Africa (AGSA).

Paying Professional Ethics More than Lip Service
Regardless of their job roles, professional accountants have a primary accountability to the public.

Dealing with Ethical Dilemmas with Confidence
Being a professional accountant requires much more than professional competence in technical matters.

Key principles of risk oversight
The fundamental nature of business involves committing money to a venture and hopefully reaping the reward later.

Guide to internal control over financial reporting
Management's ability to fulfil its financial reporting responsibilities depends in part on the design and operating effectiveness of the controls and safeguards it has put in place over accounting and financial reporting.

Integrated Reporting for SMEs: Implementation Guidance
Integrated reporting is not only an advanced instrument of reporting but also a management tool that provides entrepreneurs and managers a complete and comprehensive view.

TECH TALK - TECHNOLOGY

Taking control of cyber risk

Cybercrime is an escalating problem that demands constant attention to mitigate against financial and reputational risk.

Managing cyber risk with human intelligence

For all the reasons technology is a positive – interconnectedness, access, increased speed and efficiency – it is also a negative.

Prepare Now for Next-Generation Cyber Threats

Public scrutiny of business leaders is at an all-time high, in part due to massive hacks and data breaches.

How digital technology is transforming cost management

This podcast looks at how companies can leverage digital technologies for cost management in a proactive way.

How are big data and AI transforming accounting and finance?

The potent combination of big data and artificial intelligence is set to transform the way we work.

The rise of artificial intelligence: a critical inflection point for the accounting profession

The age of artificial intelligence (AI) is upon us. What does this mean for the accounting profession?

Cybercrime threatens trust in business - How accountants can help

Accountants need to be part of the solution when it comes to cyber security, whether they are advising their clients, working in a finance and accounting team or taking on a broader strategic or operational role.

Evolution in auditing

What will be the impact of artificial intelligence and other technology developments on audit?

How technology and data are transforming accounting and audit

Robotic process automation, artificial intelligence and machine learning are harnessing the power of data to transform accounting and audit.

3 technologies transforming accounting, finance and tax

The data is clear: when considering technology within an organisation, the question is no longer whether to invest, it's how.

From Algorithms to Deep Learning, What You Need to Know About AI

AI is the science of teaching programs and machines to complete tasks that normally require human intelligence.

The power of digital

Digital is arguably the biggest factor shaping the future of the accounting profession.

Digital Transformation Provides New Business Opportunities

The role of professional accountants as trusted advisors combined with digital companies opens new opportunities and business areas if accountants grasp the opportunities technology offers.

Building Data Science and Analytics Capabilities in Finance and Accounting

A strong finance and accounting background is no longer sufficient to become a value-add business partner over the long term.

Accounts production and accounting software guide for practitioners

This is SAICA's inaugural accounts production and accounting software guide for practitioners.

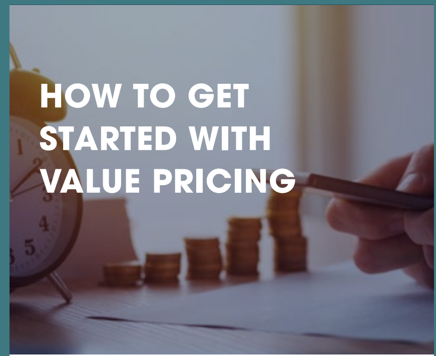
PRACTICE MANAGEMENT

FINANCIAL RATIO TOOLKIT

This financial toolkit aims to assist practitioners and business owners in calculating some general financial ratios pertaining to a company.

THE FUTURE FOR SMALL FIRMS

The future for small firms lies in the services they provide.



HOW TO GET STARTED WITH VALUE PRICING

Value pricing isn't just a method for pricing your services, it entails a whole new business model.

THE 5 TRAITS OF A GREAT MANAGER

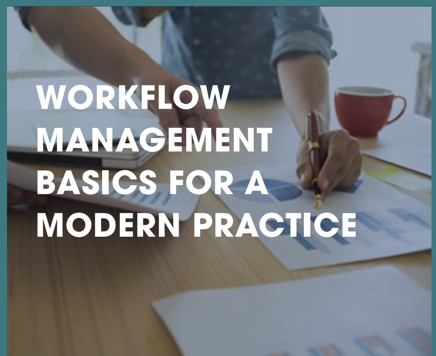
Managers are key to an organisation's success.

8 TECH TOOLS TO BOOST YOUR PRODUCTIVITY

Try these clever office tech tools designed to help you create a productive work environment.

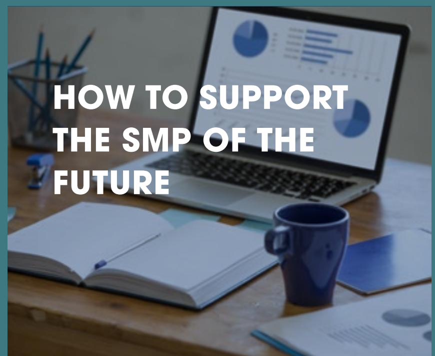
RISK AND PERFORMANCE: EMBEDDING RISK MANAGEMENT

Ensuring effective risk management in any organisation is essential and fundamental to the organisation's success.



WORKFLOW MANAGEMENT BASICS FOR A MODERN PRACTICE

A technology-based workflow will help your practice deliver more services efficiently.



HOW TO SUPPORT THE SMP OF THE FUTURE

Small and medium sized practices (SMPs) face many challenges in today's fast-changing world.

HOW TO GROW YOUR PRACTICE WITH AUTOMATION

Automated solutions are increasingly accessible to practices of all sizes, helping many to drive significant productivity gains.

6 LEADERSHIP LESSONS FOR UNCERTAIN TIMES

Organisations must be able to adapt, implement new technologies, and evolve quickly, even while the long-term impact of these technologies is uncertain.

SIMPLE STEPS TOWARD DIVERSITY THAT DELIVER REAL BENEFITS

Firms that reflect the world around them will make a difference in their communities and reap the many benefits of a more diverse workplace.

HOW TO BUILD THE TEAM THAT WILL REPLACE YOU

It's important to start with what kind of team you must create, and learn how best to retain those players that may ultimately replace you.

ACCOUNTANTS ENABLING EFFECTIVE ENTERPRISE RISK MANAGEMENT

The recent IFAC report relating to the accountant's role in effective enterprise risk management (ERM) highlighted the importance of risk management being a core competency for accountants.

ADD 'DATA ENGINEERING' TO YOUR ACCOUNTING FIRM'S TOOLKIT

Small and medium-sized accounting firms are dipping their toes into data engineering, the plumbing behind data-driven advisory.

REPORT EXAMINES THE BENEFITS AND PITFALLS OF TRUST

The move away from face-to-face contact is damaging trust in the delivery of professional services, not technology.

THE MUST-HAVES TO WIN WITH FLEX

Tips on how organisations can incorporate flex into their culture.