



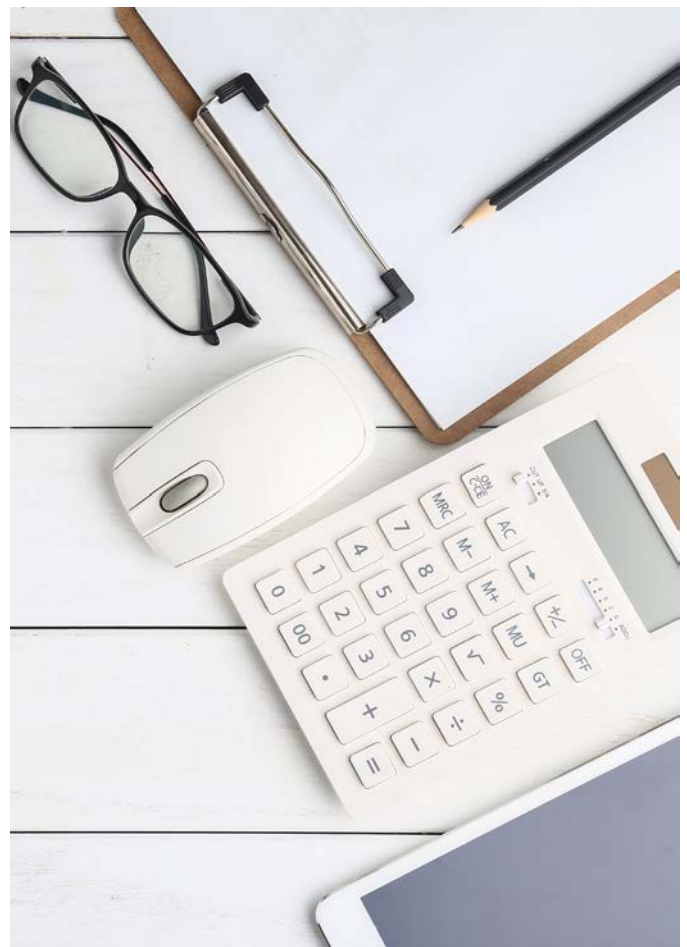
SMALL & MEDIUM PRACTICES

Newsletter

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CEASING TO BE RESIDENT AND TAX

By **PJ Nel** CA(SA), SAICA Project Director Taxation

This article deals with the obligations of the taxpayer with respect to informing SARS when they cease being a tax resident of the RSA and the submission and declaration of income.

Many South African individuals, due to them having either having formally emigrated or because of the application of a double tax agreement, ceased being tax residents of the RSA. This article deals with the individual's obligations from a tax point of view. We start by asking what is commonly asked, must I inform SARS of this change?

Informing SARS

Other than the requirement to obtain a confirmation of tax compliance during the formal emigration process (which was phased out with effect from 1 March 2021), the taxpayer is only required to inform SARS that the

individual ceased being a resident, when the relevant return of income, the ITR12, is submitted. The individual will have to mark, with an "X" on the ITR12 when he or she ceased to be a resident of the RSA during this the year of assessment, and is then required to state the date on which the individual ceased to be a resident. Of course, some persons, typically where they ceased being residents by emigration before 1 March 2021, would have submitted an ITR12 and would then already have answered the question and provided the date. The important point is that this fact, and date, must be declared when a return is submitted in respect of the period from 1 March of the relevant year to the date residency ceased.

The second question then is, how does the change of residence impact the period to be assessed?

Period, or year of assessment

Section 66(13)(a)(ii) of the Income Tax Act requires that a return for normal tax, the ITR12, in the case of a person who is a person who ceased to be a resident, must be made for the period commencing on the first day of the year of assessment and ending on the day preceding the date that the person ceases to be a resident.

Section 9H(2)(b) and 9H(2)(c) defines the year (or period) of assessment of the person (who was a resident, but during the year of assessment ceased to be a resident) as follows:

- that year of assessment must be deemed to have ended on the date immediately before the day on which that person so ceases to be a resident; and
- the next succeeding year of assessment of that person must be deemed to have commenced on the day on which that person so ceases to be a resident.

Simply put, the individual's year (really period) of assessment started on 1 March of the relevant year of assessment, and it ends the day prior to the day the person ceased being a resident. For example, if a person ceased being a resident on 1 January 2021, the 'year of assessment' will have started on 1 March 2020 and ended on 31 December 2020.

It is clear that there are two periods of assessment and the question then arises if another ITR12 is due for the period 1 January 2021 to 28 February 2021 (the succeeding, or second period).

Returns required by a person not resident in the RSA

The RSA can only include in 'gross income, of a person not resident in the RSA, an amount derived from a source in the RSA. The right of the RSA to tax the 'income', where the individual is resident in a treaty country, depends on the terms of the relevant treaty.

To determine if an ITR12 must be submitted by a person, in respect of the period starting on the date the person ceased to be a resident of the RSA, one must refer to the annual notice to submit returns. At the time of writing, only the notice for the 2021 year was available and paragraph 2 of this 2020 notice, stated that the following persons must submit an income tax return:

- Every natural person who is not a resident
 - o and carried on any trade (other than solely in his or her capacity as an employee) in the RSA;

- o and had capital gains or capital losses from the disposal of an asset to which the Eighth Schedule to the Income Tax Act applies; and
- Every non-resident whose gross income included interest from a source in the Republic to which the provisions of section 10(1)(h) of the Income Tax Act do not apply.

So, if the person did not, or will not, derive income from a trade, or dispose of an asset, no return is required. An example of where a return must then be submitted would be where the person, no longer a resident in the RSA, derived rental income from immovable property in the RSA. The return of income would then be required, and the rental for the second period or a subsequent year of assessment must be declared, even where the taxable income is less than the tax threshold.

With respect to RSA sourced interest, the return would only be required if the individual was not physically present in the RSA for a period exceeding 183 days in aggregate during the twelve month period preceding the date on which the interest is paid. This could potentially apply in the period that started on the date on which that person ceased to be a resident of the RSA (the second period). As far as royalties are concerned, because the withholding tax on royalties is a final tax, the position is must the same as for interest. Dividends, declared and paid by RSA companies after the day the person ceased being a resident will be exempt from normal tax. It is important that the person who ceased being a resident must inform RSA residents paying dividends, interest and royalties of this fact and submit a declaration where a lower rate of tax or an exemption applies to them.



VOLUNTARY PAYMENTS MUST BE MADE WITHIN 6 MONTHS AFTER THE DATE THE FINAL PROVISIONAL TAX RETURN WAS DUE.

And of course, if the individual disposed of immovable property situated in the RSA, or a section 8A to 8C 'asset' (or an equity instrument) that was held by that person, the capital gain, or gain respectively, must be declared in the return in respect of a period of assessment that commenced on the date the individual ceased being a resident. In other words, in the second period of

CEASING TO BE A RESIDENT AND TAX CONT

assessment in respect of the year of assessment where the individual ceased being a resident of the RSA or a subsequent year of assessment.

The taxable capital gain that results from the deemed disposal, under section 9H of the Income Tax Act, (not being an asset of that person that constitutes immovable property situated in the RSA, a section 8A to 8C asset, that is held by that person) is declared in the return that covers the period from 1 March to the date the person ceased being a resident. The deemed capital gains will be added to other capital gains from disposals during the period ending on the day before the person ceased being a resident of the RSA.

The next question relates to provisional tax returns.

Provisional tax

A provisional taxpayer is required to submit an estimate, by way of the IRP6 return, within the period ending on the last day of that provisional taxpayer's year of assessment. As was indicated, the provisional taxpayer's year of assessment is deemed to have ended on the date immediately before the day on which that person ceased to be a resident and the IRP6 was then due on that date. If it was not submitted and if a payment was required, a penalty for late payment will be imposed. It must be remembered that the 'deemed' taxable capital gain must be included in the provisional taxpayer's estimate. An underestimation penalty will be imposed by SARS if this was not done.

If the provisional taxpayer wants to make a voluntary payment, in order to avoid the section 89quat interest, it must be done within 6 months after the date the final provisional tax return was due.

Impact on rebates

With respect to the primary, secondary and tertiary rebates, and where the period assessed is less than 12 months, section 6(4) prescribes that they must be apportioned (on a monthly basis).

Retirement interest

With respect to benefits from retirement funds, the tax event is the date the person elects to take the lump sum. Remember that, where the individual is resident in a treaty country, the RSA may not have right to tax the

lump sum, pension or annuity. Remember the new rule that the lump sum can only be taken after person was not a resident for an uninterrupted period of three years or longer on or after 1 March 2021.

Conclusion

Individuals who ceased being tax residents of the RSA must submit a return of income and provisional tax return in respect of the period that started on 1 March and ended on the date before the person ceased being a resident before the end of February the next year. They must declare the income and deemed capital gain that accrued to them in this return and notify SARS that they ceased being residents of the RSA.

National Tax Committee Vacancies

The NTC currently has two vacancies in the following categories:

- **One (1) member Members in Business (MiB)**
- **One (1) member Small Medium Practice (SMP)**

Please [click here](#) to visit the vacancies webpage for more information to apply



“The new VAT functionality is amazing by Xero”

Graham Shapiro

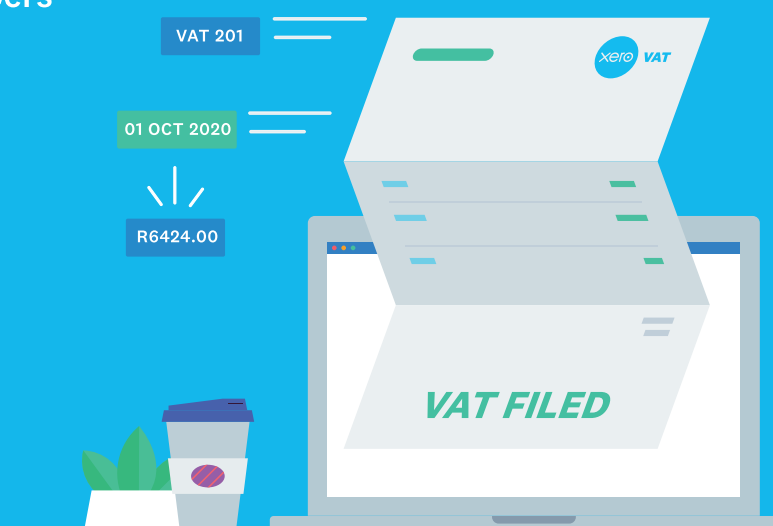
Founder & CEO, Myccountant

We're changing the game with the introduction of our new, industry first VAT201 feature. Finally, businesses and accountants can file and submit their VAT reports directly to SARS - without fuss, without stress. No wonder our customers are falling in love with it.

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TRAINING OFFICE – VIRTUAL SAICA REVIEW

By **Tzippy Subotzky**, Partner at Howard Joel and Company



During the 2020 level 1 lockdown, my firm had its scheduled annual training office review. Although we had received ample notice (towards the end of 2019) and this was not our first office review, the experience of having to go through it in a virtual environment was quite a challenge.

Our training office is well established and we have always performed well in our reviews, however this virtual and unique experience caught us off guard and I found it difficult to say the least. Not only did I find the experience a difficult one, but my trainees also did.

If it had been scheduled in any other year before 2020 – in a time where most of our time was spent with easy access to our paper documents, our filing room, each other – the experience would have been much the same as before with similar stresses and quickly forgotten thereafter. However, since we have no indication that life will ever return to pre-COVID19 times, and most offices will likely be reviewed virtually during this year, I have devised a few tips, thoughts and best practice ideas to share with

other training offices.

As you can see from my above paragraph, a lot of my admin in my office was quite manual and was not stored digitally. The biggest change we made in our firm during 2020 was to initiate and implement a cloud-based system throughout. As I write this, we are still ironing out a few of our issues and dealing with change management challenges, but I want to address this issue in the context of training office administration.

It is my understanding that many training offices receive negative ratings during the SAICA review due to administrative matters like documentation of competencies and other evidence on how assessment criteria was met and not due to the actual performance of the trainees, competency exposure or other practical matters within the firm. I therefore provide some input on digitizing of a firm.

Time record keeping

There is a move in accounting firms towards fixed price services as opposed to billing on an hourly basis. This is a

good idea – but it does not mean that you need to stop keeping timesheets. The training office regulations require that trainees spend a minimum time of their training on core / total activities and without accurate time keeping applications this is very difficult to monitor. (In our firm, we have also recognised that time keeping is our point of cost of goods sold and is a good monitoring tool to have in the firm as well.)

At the end of 2019, we moved away from a server-based time application to a cloud-based application. (A very fortuitous move considering the events of 2020)

There are many advantages to using a cloud-based system:

- Easy to use with internet access
- Updates are done behind the scenes
- Backups are automated



**.....DIARISE EACH YEAR
WHEN THE AMENDED
TRAINING REGULATIONS
ARE RELEASED TO ATTEND
TRAINING THEREON**

Document storage

It is recommended that all documents are stored in the cloud as opposed to storing them on the server, on the computer or in hard copy (like in a lever arch file) These documents include trainees -

- Employment contracts
- Attendance registers for in-house training
- Certificates of attendance for outsourced training
- Minutes of meetings or notes where informal training occurs
- Etc.

This allows for easy recall when requested by the assessor of the training office review.

Assessment tools

It is advisable to research the assessment tools available on which your trainees will perform their regularly competency assessments as per SAICA's training regulations. My understanding is that a manual system is still allowed

however it highly recommended to use one of the programs specifically created for the assessments. Before you commit, however, ask around from other firms about the user-friendliness of the program you wish to use. Another important point is the reporting functionality and the ability to manage the assessments both as trainee as well as reviewer, evaluator and assessor. The wrong match for your firm can very well bring you down in your review. The right match of program to firm will allow the training



officer to keep track of competencies still needed to be achieved in a timely and efficient manner.

Keeping up to date with training regulations

Another important factor to keep in mind is that the regulations are amended each year. The training officer, anyone involved in the training, evaluating and mentoring of trainees should diarise each year when the amended training regulations are released to attend training thereon. This will become more important as CA2025 is rolled out over the next year. It is impossible to provide the best training environment for your trainees if you are not up to date yourself with all that is going on in the training environment.

Training Office Mentor

On a final note, there are many service providers, and even many training officers, available to mentor other training officers who need guidance and assistance to keep their training office running in tip-top shape. I would recommend connecting to a mentor to ensure not only compliance but also a well-rounded training experience for our up-and-coming future chartered accountants.



PRACTICE GOVERNANCE: GUARDING AGAINST FAMILIARITY AND MISPLACED TRUST

By **Thandokuhle Myoli**, SAICA Project Director: Audit and Assurance

As South Africa continues to fight its way through the economic challenges posed by COVID-19, it is important that the financial market system is seen to be stable and trustworthy in order to attract investments. Providers of capital need to have confidence in the quality and reliability of the financial information produced by entities. The auditing function is crucial in ensuring that trust in the financial markets and confidence in the quality and reliability of the financial information so produced.

The recent corporate failures at Steinhoff, EOH, VBS and Tongaat Hulett among others have eroded trust and confidence in South Africa's financial reporting system. While these failures may not have been caused by the auditors, the question often asked is, "where were the auditors?" This question is a reflection of the public's perception about the importance of the auditing profession.

The Auditing Profession

A profession may be described as an occupation whose practitioners must master a specialised body of knowledge, satisfy formal admission requirements, adhere to a code of ethics, and serve the public. The element of public interest is what distinguishes a profession from a business and once professionals accept this public duty, society grants professionals the right to perform certain exclusive services. For example, only licensed medical practitioners may prescribe medication provided that they accept the public expectation to heal the sick; only registered legal practitioners may practice law provided that they accept the public expectation to promote justice and; only registered auditors may sign auditor's reports provided that they accept the public expectation to enhance the credibility of financial information.

In this regard, criticism of the auditing profession by the public should not be seen as an unjust attack. Rather, it is an ongoing dialogue between the public and the profession on how their needs and expectations from auditors are evolving with time. The impact of advancements in technology, complex business environment and expanding stakeholder groups that use the auditor's report add fuel to the fire.



SAICA, as part of the audit reform project, consulted with various stakeholders to understand some of the causes of the reputational crisis in the auditing profession. Various stakeholders cited the issues of the auditor's over-familiarity with the entity and misplaced trust in those responsible for the management of the audited entity as possible causes. This is deeply concerning given that independence is the cornerstone of the profession. US Supreme Court Justice, Warren Burger once stated, "Public faith in the reliability of a corporation's financial statements depends upon the public perception of the outside auditor as an independent professional. If investors were to view the auditor as an advocate for the corporate client, the value of the audit function itself might well be lost."

Independence, however, is an unobservable state of mind and mental attitude that is impossible to measure and regulate. Independence requires that the auditor must, at all times remain objective, impartial, without bias and should not be affected by self-interest. The following are some of the issues that could possibly cloud an auditor's independence:

a. Providing non-assurance services to audit clients

Provision of non-audit related services to audit clients

may impair the independence of the auditor. Firstly, the revenue from the non-assurance services may potentially create a conflict of interest. Secondly, assurance and advisory services require different mindsets. Assurance services require that the auditor applies professional scepticism and act in the best interests of the public while advisory services requires that the advisor becomes an ally of management and act in a way that promotes the interests of the entity. Whether both these mindsets can co-exist is a matter of contention. Some proponents argue that such advisory services improve audit quality by giving the auditors a better understanding of the client's operations. Others argue that the provision of advisory service could erode the auditor's independence in appearance which is defined in the SAICA Code of Professional Conduct (Revised November 2020) as, "the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or an audit or assurance team member's, integrity, objectivity or professional scepticism has been compromised."

In this regard, it is interesting to note that on 15 February 2021, KPMG announced their decision to cease performing non-audit related services to its JSE listed audit clients with effect from 31 March 2021. One of the reasons given was to seek to improve the perception of auditor independence and protecting the interests of the public.

b. Audit clients appointing and paying their own auditors

In South Africa, with the exception of public sector audits, auditors are appointed and paid by the same entities whose financial statements they audit. Significant audit fees from audit clients may result in situations where these entities wield significant economic power over their auditors. Firms may have safeguards for ensuring that no single audit client represents a significant portion of the firm's total revenue, however, the importance of a single client to an individual partner may be too significant. This will have even greater impact for audit firms that incentivize partners based on client profiles. This may create strong incentives for the partners to maintain good relationships with large and financially rewarding clients.

In addition, the current model could potentially lead to pricing inconsistencies in the audit market as auditors may use pricing to outbid competitors. This could have a detrimental effect to audit quality. It is evident that there is a need to conduct research on the current fee model in order to establish whether it is conducive to create the required level of independence for the auditor.

c. Audit staff accepting jobs from audit clients

The luring of former auditors to occupy key financial positions, including audit committee positions in audited entities has been raised as one of the causes of familiarity and misplaced trust by the auditors. This could affect the independence of the auditors as audit staff would be more preoccupied with impressing potential employers rather than applying professional scepticism. Furthermore, where a former auditor now occupies a key financial position at a client, the auditor may not apply the necessary professional scepticism due to familiarity with a former colleague. The impact of alumni relations may impair the independence of the auditor and should be monitored closely by the firms.

In Concluding

The risks of familiarity highlighted above increase the need for strong oversight functions at both overall firm level as well as at audit engagement level. Guidance may be drawn from the principles of King IV Code on Corporate Governance which has as one of its principles that, "the governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively."

In addition, the new Quality Management standards that have been approved for adoption in South Africa by the Independent Regulatory Board for Auditors (IRBA) will compel firms to review their current processes and procedures that relate to how audit quality is managed at both firm and engagement level, including the important role of engagement quality reviewers.

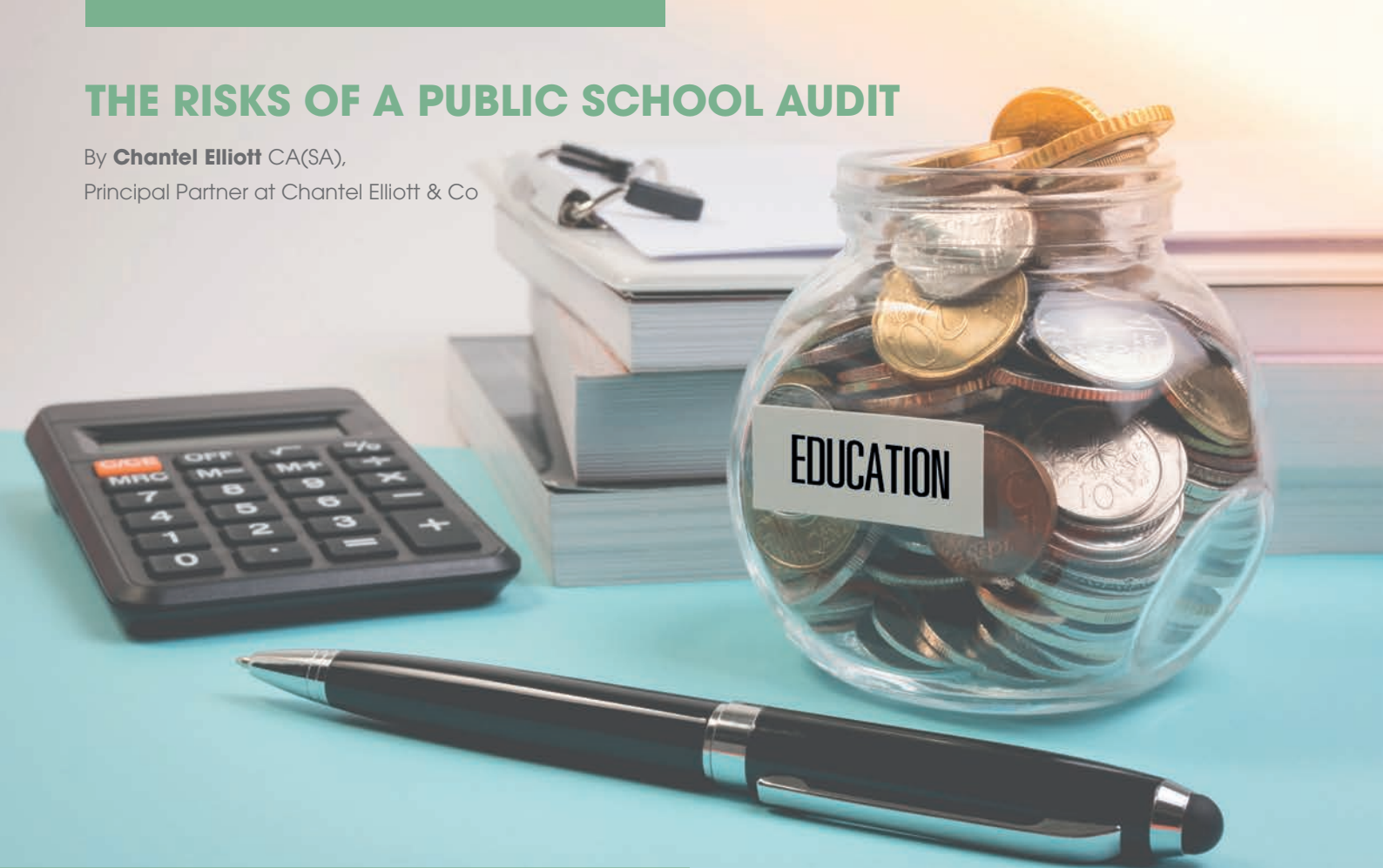
In considering the need to make changes required to enhance independence, auditors should have in the forefront, the primary reason for the existence of the profession; serving the public.



INDEPENDENCE IS AN UNOBSERVABLE STATE OF MIND AND MENTAL ATTITUDE THAT IS IMPOSSIBLE TO MEASURE AND REGULATE.

THE RISKS OF A PUBLIC SCHOOL AUDIT

By **Chantel Elliott** CA(SA),
Principal Partner at Chantel Elliott & Co



Public schools are governed by the South African Schools Act (Act 84 of 1996) (SASA). SASA prescribes how public schools should manage their funds. It most importantly provides guidelines for the school governing body (SGB) and the principal on their roles and responsibilities in managing the finances of the school.

There are many principals and SGB members who lack the required financial knowledge and skills and are placed under tremendous pressure because they are unable to establish practical and compliant solutions to practical problems and remain unaware of how to interpret and implement the legislation resulting in significant audit risk.

In many instances, it has been reported that principals and SGB's have been subjected to forensic audits by the Department of Basic Education due to mismanagement of funds through misappropriation, fraud, shortfalls of cash, theft and in general improper control of the financial accounting records.

Section 37 of SASA indicates that the accounting officer of the public school is not the principal but the SGB. The SGB is financially accountable to the school's stakeholders. Section 43 (5) & (6) of SASA codifies this. Most SGB's are not aware of the fiduciary responsibilities and accountability their position necessitates.

The legal framework within which the school operates depends on the quintile of the school. Herein the allocation of the different budgets to the various schools depends on the quintile they fall under. It is important for auditors to remain current with legislative compliance required. To highlight a few:

- Section 42(b) of SASA states that the annual financial statements should be drawn up no later than three months after the end of each financial year end.
- Section 43(5) of SASA states that the SGB submit to the Department of Basic Education, within 6 months after the end of each financial year, copy of the annual financial statements, audited, or examined in terms of this section.
- Section 43(2) of SASA provides that if an audit is not reasonably practical for a particular school, such a school may appoint a person to examine the books instead. The appointed person must be qualified to perform the duties of an accounting officer or is approved by the MEC for this purpose.

An audit may only be performed by a Registered Auditor and must be conducted in terms of the Auditing Profession Act 26 of 2005. The only other form of assurance a professional can give is an independent review. This aspect is not congruent with the terms and conditions of Section 43 of SASA. In many instances a school does not

have the resources to prepare their own annual financial statements nor appoint a separate service provider to do so. An Auditor cannot perform the services of a compilation regardless of the safeguards put in place.



SCHOOLS DEAL WITH PUBLIC AND GOVERNMENT FUNDS WHICH MAKES THE ENGAGEMENT INHERENTLY HIGH RISK

The independent reviewer is required to ensure that precautionary steps are taken to address the threat of independence when a school expects that the reviewer prepare as well as review the annual financial statements. This expectation gap must be addressed at the date of appointment to the school, and the independent reviewer must declare that the same person cannot credibly perform the same functions.

This is codified in terms of ISRE 2400, the review of the school's financial statements must not be carried out by the same accounting professional who was involved in the preparation of the annual financial statements.

A difficult and divisive topic currently is the inconsistent application of Section 38A of SASA payments. An SGB may not pay or give to a state employee in terms of the Employment of Educators Act 1998, or the Public Service Act 1994, any unauthorised:

- **Remuneration**
- **Other financial benefit: or**
- **Benefit in kind**

The SGB must apply to the employer (The Department of Basic Education) for approval to pay a state employee any payment contemplated above. The problem the schools face is that many of more affluent schools' budget for a said amount to be paid to the Educators in a lump sum format and term this payment 'ex-gratia'. The application is made to the Department of Basic Education within four months prior to the finalisation of the forthcoming years' budget on behalf of each individual employee. The practical issue that schools face is that they do not always know exactly who will be receiving this ex-gratia payment in eighteen months' time. It has been a practice for some schools to make application for individuals, however when payment is made it is to a different individual, which is something which an independent reviewer or Auditor must be very careful in confirming. Consideration must be taken regards to Reportable Irregularities (RI) and Non-Compliance with Laws and Regulations (NOCLAR) in respect of any anom-

alies found. Appropriate disclosure should be made in the auditor's report where applicable.

Section 38A(5) of SASA states that the SGB may compensate travel and subsistence expenses relating to official duties but such expenses may not be greater than those that would be payable to a public servant in similar circumstances. The high risk of abuse of this subsection is an area the Auditor / Independent Reviewer must take cognisance of.

On receipt of the application the employer (Department of Basic Education) will consider in term of Section 38A(7) of SASA which states: In considering the application, the employer must consider:

- 1. The implications for the employer in terms of the employment contract and labour law**
- 2. Whether the service concerned in the application will interfere with the normal service delivery of the employee**
- 3. Whether the service concerned in the application has already been paid for by the employer, and**
- 4. Whether the additional remuneration, other benefits in kind support the core activities and functions of the school.**

Section 38A(9) of SASA states:

If the SGB pays remuneration or gives any financial benefit without prior approval of the employer, the employer must follow the process including making application in good time to the Department, the amount of money paid or benefit given to the employee must be recovered by the employer on behalf of the school.

This may not result in a good outcome, and therefore the application must be made in good time to the Department. The budgetary provision by the SGB prior to release of the payment to the correct employee must be explained carefully to the Principal and the chair of the SGB by that person entrusted with the preparation of the school's books and financial statements, properly in writing, and timeously.

Schools deal with public and government funds which makes the engagement inherently high risk and as the auditor or independent reviewer you are holding a position of trust within your community and therefore you need to maintain your independence, integrity, objectivity, and exercise a high level of professional competence and due care at all times.

DON'T NEGLECT THE 'OLD-FASHIONED' WAY TO MARKET YOUR ACCOUNTANCY BUSINESS

By **Mark Lloydbottom**, IGNITE Practice Management

SAICA is launching a four-part Practice Management Discussion Series with Mark Lloydbottom - [click to register](#). Each session will be structured around the IGNITE Practice Management programme developed by Mark Lloydbottom. Members can sign up for the IGNITE programme and claim a 30% discount using the code: **SAICA30**. [Click to sign up.](#)

The digital marketing revolution has opened up powerful cost-effective and previously undreamt-of ways to promote your brand. But in this six-minute read, Mark Lloydbottom highlights 17 'non-digital' marketing ideas that also work.

1 Have a personal marketing plan: Who are your referrals? Who are your prospects? Identify a list of the clients you would die to act for. Make sure this includes the client's name – not just the company. If you do not have a name – you don't have a prospect. What are your targets? What are your cross-serving goals?

2 Identify what you can be 'famous for' in your marketplace: What are your strengths? What expertise can you acquire? Make stand above the crowd and you will win more business and be able to charge a higher rate for your services. Can you gain speaking engagements? Author articles? Write for a local newspaper? Be interviewed on radio or TV?

3 Prioritise collecting over handing out business cards: When you give your card out, you have no idea if the recipient will ever make contact. However, if you ask a prospect for their card, that confirms your interest in them, and it puts you in control.

4 Keep marketing to existing clients: In my opinion, we should spend at least as much time marketing to existing clients as to prospects. Ask clients: "How else can we help you?" or use a survey to uncover unidentified needs. In reception, include a tip board with ideas for tax saving, profit improvement, firm events and so on.

5 Ask great questions: What are the 'killer' questions that will penetrate your client/prospects mind? For example, "Do you know how much money you will need to live on in retirement? Do you know what your com-

petitors are doing? If you could change one thing about your business what would it be?"

6 Take a risk and recommend your partners: It is surprising how many firm owners do not recommend partners who have specialisms. If that is true in your firm, why not gather round the table with your client lists and openly discuss where you could introduce another owner to one of the firm's clients?

7 Ask for referrals: Why not ask your clients if they know anyone else who needs a good (or great – depending on your client relationship and your confidence!) accountant? Remember, it's not unprofessional to ask; it's just good business practice. Most clients are happy to pass on a recommendation but are rarely asked.

8 Woo back lost clients: If there are lost clients you'd like to win back, retain them on your marketing database. After they have experienced their new accountant's service, they may well be interested in returning as a client. Their new accountant may not be giving them the advice or service promised.

9 Keep growing your database: My rule of thumb (and it is mine – not one that is borne out by extensive research) is that you should have 50 prospects for the firm and 50 for every owner. So, if you have a three-owner firm, then you should seek a quality and relevant database of 200 prospects. Properly managed, that database should yield one new client per owner every year. When collecting personal data for marketing or any other purpose, however, be sure to be mindful of The General Data Protection Regulations (GDPR).

10 Invest in relevant mailshots: After years of ever-increasing email, some clients may like to receive a good quality newsletter or tax planning brochure that

can be read at leisure. No one believes they send junk mail; but, somehow, we all receive it. Make sure your mailings are personal and relevant by sending a letter that is personally signed. You could also include a handwritten P.S.; write a margin note or highlight a section that you consider relevant to the recipient.

11 Give away a meeting: Review your time management to see if you could allow 50 hours a year for free meetings with clients. This meeting will allow you to relax, get to know your client and ask questions. In my opinion, it is impossible to spend an hour with a client and not identify areas where they need help. You can then use this (free) meeting to set up another (fee-paying) meeting.

12 Remember a problem handled well can lead to new business: Sometimes something happens that shouldn't. However, I have found that if you handle these situations well, it can lead to a strengthened relationship and additional business. The key is to make sure you don't become defensive. Here are the big three rules: say 1) We're sorry (empathy), 2) We're responsible (even if not at fault), and 3) We'll fix it (action).

13 Include staff in the marketing effort: Lead them – by example. Explain why marketing is important to the firm's future and what help you are looking for. Encourage/require them to attend marketing seminars. Fill them in on the details of the next quarter's marketing activities. Include them in new client meetings. Make sure they all have a business card – everyone knows someone who would make a good client – and give them the financial resources to take people out to lunch.

14 Hold monthly staff marketing meetings: Let staff know how important this is by holding this in firm time, or at least if you decide to hold meetings during the lunch hour, ensure lunch is provided by the firm.

15 Reward staff: People will do what they are rewarded for. Make sure your schemes are written, clarifying the time-period, who can qualify and at what level. Tell staff how they can meet their goals and how they will be measured. One favourite incentive is the 10 per cent of fee award. Another increasingly popular option is the marketing miles award scheme. Keep it simple and achievable and be aware that praise and personal gestures can sometimes be more effective than monetary rewards.

16 Extension services: What extension services do you have that staff are best placed to identify? Maybe payroll, VAT, computerised accounting? Have your staff complete a review at the end of every job noting down those services from which the client might benefit.



...A PROBLEM HANDLED WELL CAN LEAD TO NEW BUSINESS.



17 LinkedIn. Finally, I am sneaking in an important digital strategy. Make sure that you are an All-Star – many firms are finding this a great source of new business

18 Finally, be prepared to invest: If are looking to grow your firm, stay ahead of inflation and replace clients lost through attrition, you will need to have a new client fee target of up to and possibly more than 10 per cent of your existing fees. That will need some resourcing – financial and human. Our benchmark for year-on-year growth is three per cent of gross fees and 200 hours for each owner.

ACTION POINT

- **Audit how strong the marketing culture is in your firm.**
You know you have a marketing culture when:
- Your partners want to spend more money on marketing
- Marketing meetings are attended by everyone who was scheduled to attend
- Partners ask for help with their marketing
- Partners ask, "how can I be more effective?"
- Partners ask clients for referrals
- Marketing takes place all year round
- You invest in someone dedicated to marketing the firm



CATCH-22 OR CATCH-17? CORPORATES, DON'T BE CAUGHT OUT BY IFRS 17

By **Dewald van den Berg**, CA(SA) is a Partner:
IFRS 17 Technical Lead at PwC and Member of SAICA Insurance Project Group

IFRS 17: Insurance Contracts only applies to insurance companies right?

Wrong! There is a common misconception that this accounting standard applies exclusively to insurers. This standard, however, provides guidance for insurance contracts and not for insurance companies. It is therefore possible for an entity, which is not in the insurance business, to issue contracts with characteristics of an insurance contract as defined by IFRS 17. It is thus imperative to understand what IFRS 17 defines as an insurance contract to avoid an accounting crisis.

Common insurance contract pitfalls

An insurance contract is defined as a “contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely

affects the policyholder” (IFRS 17 App A). One critical element in the definition of an insurance contract is the transfer of significant insurance risk.

Most corporate entities have insurance contracts where they are the policyholders and pay premiums. These premium payments will continue to be accounted for as expenses in profit or loss as incurred and are not in the scope of IFRS 17.

Sometimes, corporates also issue insurance contracts. These are the contracts that are sometimes overlooked and are explored in more detail here.

Insurance risk is any risk other than financial risk. Significant refers to the amount of additional benefits that would be payable, in any scenario with commercial substance, that exceed those that would be payable if no insured event occurred. There is no numerical threshold pre-

scribed in the standard and judgement is required. Some examples of insurance contracts that are missed by corporate entities are:

- Performance guarantees/surety bonds, which are guarantees that are dependent on an entity’s ability to perform a service. These arrangements usually involve an entity guaranteeing to pay out in the event that a contractor defaults in its performance. These guarantees are commonly seen in the construction and mining industry.
- Hotel management services companies guaranteeing to pay out a minimum return to hotel owners/investors.
- Retail or transport companies committing to compensate the customer in the event of loss/damage of goods during transportation.
- Health capitation providers (for example, a physician, hospital or ambulance service) guaranteeing certain medical services to a pool of patients in return for a fixed fee.
- A bank guaranteeing its customer a full reimbursement in the case where the customer’s account is misappropriated.

Some tricky IFRS 17: Insurance Contracts scope exclusions

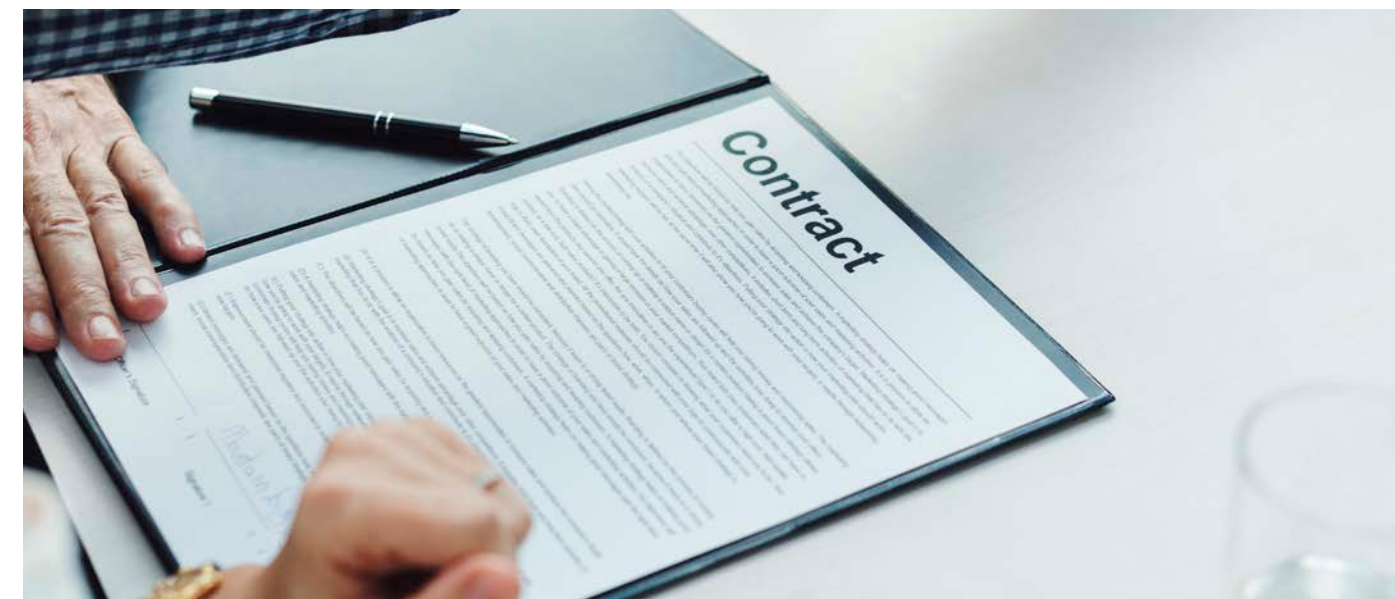
The standard scopes out several contracts that meet the definition of an insurance contract. Warranties and fixed fee service contracts are two scope exemptions that we would like to highlight, as these would be most applicable to corporates.

Warranties could be provided by the manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer. Such warranties might provide

a customer with assurance that the related product will function as the parties intended. These are within the scope of IFRS 15 and IAS 37. However, when a warranty is provided separately or as an extension, it will fall within the scope of IFRS 17.

A contract might meet the definition of an insurance contract, but its primary purpose is the provision of services to a customer for a fixed fee. Under these fixed fee service contracts, the customer pays a fixed fee to receive certain services over a fixed period when needed. Examples of fixed fee service contracts are maintenance contracts under which the service provider is obliged to repair specified equipment after a malfunction, or car breakdown services in which the provider is obliged to provide roadside assistance or tow the car to a nearby garage. Since the level of service and the obligation of the service provider depend on an uncertain future event, these kinds of contracts might meet the definition of an insurance contract.

An entity can make an irrevocable choice to apply IFRS 15 instead of IFRS 17 to these contracts if it meets the requirements prescribed in the standard. The conditions consist of the following: the risk associated with individual customer is not reflected in setting the price of the contract with that customer; the customer receives services as compensation, rather than cash payments; and the insurance risk transferred by the contract arises primarily from the customer’s use of services rather than from uncertainty over the cost of providing the services to the customer (IFRS 17 paragraph 8). It is important to note that this assessment would have to be performed on a contract per contract basis and that the decision for each contract is irrevocable.



CATCH-22 OR CATCH-17?
CORPORATES, DON'T BE CAUGHT OUT BY IFRS 17 CONT

Difference between IFRS 17 and IFRS 15 revenue recognition:

IFRS 17

Revenue recognised using insurance model. Either premium allocation approach (PAA) or general model (GM) used.

Geography of the revenue will be different compared to IFRS 15 as insurance revenue and insurance service expenses need to be presented separately.



IFRS 15

Revenue recognised using the five step model framework.

Only one line item for revenue needs to be presented.



Cell captive arrangements

There are fronting structures available where corporate entities without insurance licenses can use their client base to sell insurance policies. These arrangements are referred to as third-party cell captives. This is a mechanism where a corporate entity, without an insurance license, can issue insurance products (which are underwritten by the registered insurer) to its customers and then share in the profits and risks from these insurance contracts. These are typically sold at the same time and complementary to the products that the entity sells.

A typical example of a corporate entity entering into a third-party cell arrangement, is a mobile phone company offering handset or funeral insurance policies to its cell phone contract customers. The entity doesn't have a licence to offer insurance policies and therefore makes use of a cell captive insurer. These arrangements can, however, be structured in different ways and this would impact the accounting treatment. Simply put, if the corporate shares in both the profit and the loss of such arrangements, then this would result in an insurance contract as there is a transfer of insurance risk.

With arrangements like this it can become very complex to assess whether there has been a transfer of significant insurance risk, and careful consideration needs to be given to the appropriate accounting treatment.

Key takeaways

Currently, IFRS 4 is the accounting standard applicable to insurance contracts and it does not provide for specific measurement requirements. This allows corporates to continue with their existing accounting policies as long as they comply with minimum requirements. IFRS 4, however, will be replaced by IFRS 17 from 1 January 2023 with a retrospective application. The new standard is complex, and very prescriptive on how to account for insurance contracts.

Corporates may have contracts that fall within the scope of IFRS 17 and the measurement of insurance contracts and/or structures will be different. Identifying these changes is the first step on the journey of implementation of IFRS 17. There is, however, still time for corporates to catch up with this complex standard before its effective date, so don't be caught out!



THE MEASUREMENT OF
INSURANCE CONTRACTS
AND/OR STRUCTURES WILL
BE DIFFERENT.

CHANGES TO LABOUR LEGISLATION

By **Juanita Steenekamp** CA(SA),
SAICA Project Director: Legislation and Governance

Employers and employees need to be aware of the numerous proposed and gazetted changes to labour legislation that took place during 2020/ 2021. These changes have an impact on the duties of an employer as well as the employer/employee relationship.

This article provides an overview of the changes relating to;

- The National Minimum Wage Act, 9 of 2018;
- The Compensation of Occupational Injuries and Diseases Act, 130 of 1993
- The Basic Conditions of Employment Act, 75 of 1997
- The Employment Equity Amendment Bill, 14 of 2020; and
- The Unemployment Insurance Contributions Act, 4 of 2002

National minimum wage

The national minimum wage, as set out in the National Minimum Wage Act, 9 of 2018 was increased with effect from 1 March 2021 from R20,76 per hour to R21,69 per hour, which equates to an increase of 4,48%. Table 1 below illustrates the effect of the increases per month¹.

Table 1 - National minimum wage increase

	Previous	Per month (168 working hours)	New	Per month (168 working hours)	Change
Minimum wage	R20,76	R3 487,68	R21,69	R3 643,92	R0,93 (4,48%)
Farm workers	R18,68	R3 138,24	R21,69	R3 643,92	R3,01 (16,11%)
Domestic workers	R15,57	R2 615,76	R19,09	R3 207,12	R3,52 (22,6%)
Expanded public works	R11,42	R1 918,56	R11,93	R2 004,24	R0,51 (4,46%)

It is important to note that Schedule 1 of the National Minimum Wage Regulations define a farm worker and a domestic worker, as follows:

Extract out of National Minimum Wage Regulations:

¹3. For the purposes of item 2:

Farm worker

A worker who is employed mainly or wholly in connection with farming or forestry activities, and includes a domestic worker employed in a home on a farm or forestry environment and a security guard on a farm or other agricultural premises, excluding a security guard employed in the private security industry in terms of the [Private Security Industry Regulation Act, 2001](#) (Act 56 of 2001).

Domestic worker

A worker who performs domestic work in a private household and who receives, or is entitled to receive, a wage and includes:

- (a) a gardener;
- (b) a person employed by a household as a driver of a motor vehicle;
- (c) a person who takes care of children, the aged, the sick, the frail or the disabled; and
- (d) domestic workers employed or supplied by employment services."

The Department of Employment and Labour is planning to bring the domestic worker minimum wage in line with the national minimum wage in 2022 and employers can therefore expect a sizable increase in 2022.

As illustrated in Table 2 below, learnership allowances were also increased.

Table 2 - Learnership allowances

NQF level	Credits already earned by learner	Minimum allowance per week
Level 1 to 2	0 -120	R326,51
	121 - 240	R652,99
Level 3	0 – 120	R326,51
	121 – 240	R614,95
	241 – 360	R1 006,73
Level 4	0 -120	R326,51
	121 - 240	R653,05
	241 - 360	R1 006,73
	361 - 480	R1 469,25
Level 5 to 8	0 -120	R326,51
	121 - 240	R707,39
	241 - 360	R1 058,41
	361 - 480	R1 491,06
	481 - 600	R1 904,58





...A CHANGE TO THE EMPLOYMENT EQUITY AMENDMENT BILL INCLUDES A CHANGE IN THE DEFINITION OF A DESIGNATED EMPLOYER.

Compensation of Occupational Injuries and Diseases Act (COID Act), 130 of 1993

There have been numerous changes proposed to the COID Act, with the effective date still to be promulgated.

These changes include the removal of the current exclusion of domestic employees to the Compensation Fund benefits, the proposal that records must be retained for five years instead of the current four years as well as amendments to penalties.

Due to a Constitutional Court Order dated 19 November 2020, which stated that domestic workers need to be able to access the same benefits as other employees under the COID Act, the Compensation Fund has commenced with the inclusion of domestic workers even before this change has been gazetted. This includes the registration of domestic employers as well as allowing domestic employees to claim benefits under the COID Act.

Benefits that employees are entitled to:

Compensation paid to qualifying employees

1. Temporary total disablement
2. Permanent disablement lump sum
3. Permanent disablement pension

Compensation payable to dependents of employees who died as a result of injury on duty or occupational disease

1. Funeral expense payable to dependents of a deceased employee with a date of death before 1 April 2019
2. Funeral benefits payable to deceased employees with the date of death of 1 April 2019 and after
3. Widow's lumps sum award
4. Widow's pension award
5. Child pension award
6. Partial dependency award
7. Wholly dependency award

Orthotics and rehabilitation

1. Bursaries for youth
2. Return to work programmes
3. Assistive devices
4. Rehabilitation and re-integration

Medical benefits

1. Medical claims
2. Re-opening of claims
3. Chronic medication

The Compensation Fund is currently encouraging domestic employers to register via a manual process.

The financial impact on employers of this amendment is illustrated as follows:

Employee is paid R21,69 per hour for 8 hours per day for 21 working days per month.

Wage per month: R3 643,92

Wage per year: R43 727,04 + 13th cheque R3 643,92

= R47 370,96

COID payment as per table = R47 370,96 x 1,04/100

= R492,66

BUT it is important to note that the COID has a minimum assessment that needs to be paid of R391 per annum. Therefore, if the assessment calculated is less than R391, the employer has to pay the minimum for a specific period.

The Director-General of Employment and Labour published a minimum assessment of R1 284 on 7 April 2021 (Government Gazette No 44422, Notice 189 of 2021). On 15 June 2021 (Government Gazette 44702, Notice 360 of 2021) the Director-General published a minimum assessment of R381 specific to the Domestic sector in terms of S83(1).

The Compensation Fund has set out the following steps to register a domestic worker (which seemingly includes gardeners employed by non-commercial employers)

1. Completed CF-1E Form (Application for the registration of the domestic worker employer)
2. A copy of the Identification/Passport/Work Permit (Employer)
3. Proof of the Employer's Residential Address
4. A copy of the Identification/Passport/Work Permit (Employee/s)
5. A copy of the employment contract

Applications to be sent to RegistrationCF@labour.gov.za or CFCallcentre@labour.gov.za.

Once employers have registered they need to submit the Return of Earnings form for 2020 (actual earnings for 1 March 2020 to 28 February 2021) and the provisional earnings for the period 1 March 2021 to 28 February 2022. The Compensation Fund will then assess the submissions and a statement will be sent with the amounts to be paid. Payment of the assessment must be done within

30 days. It is important to note that if there is an error, the employer has to inform the Compensation Fund within 30 days otherwise they will not re-open the assessment.

Employers and employees that want to submit a claim for an injury on duty prior to March 2021 would be required to submit the ROEs for the period prior to March 2021 up to the date that the employee would like to claim for as well as paying the assessments for the periods.

Basic Conditions of Employment Act (BCEA), 75 of 1997

In terms of changes to the BCEA, the earnings threshold

was increased from R205 433,30 to R211 596,30. The implications of the increase is that employees earning more than the threshold are excluded from applying certain provisions in the BCEA.

Employees earning above the threshold do not have a legal right to demand anything in respect of sections 9, 10, 11, 12, 14, 15, 16, 17(2) and 18(3) of the BCEA, although application of these sections can be negotiated between the employer and the employee.

The sections include requirements for ordinary hours of work, overtime payment, compressed working week, averaging hours of work, applicable meal intervals, pay for work on Sundays and public holidays, night work and rest periods applicable.

Employment Equity Amendment Bill, 14 of 2020

Proposed changes to the Employment Equity Amendment

Bill includes a change in the definition of a designated employer, which removes the requirement that a person who employs fewer than 50 employees but has a total annual turnover that is equal to or above the applicable turnover of a small business in terms of Schedule 4 of the Employment Equity Act, 55 of 1998. This will reduce the regulatory burden on business with few employees with regards to the implementation of Chapter III of the Employment Equity Act, 55 of 1998 which includes the duties of designated employers, affirmative action measures and the sectoral numerical targets as well as other requirements.

Unemployment Insurance Contributions Act, 4 of 2002

The Minister of Finance has published a notice (Government Gazette No. 44641, Notice No.475, dated 28 May 2021) increasing the determination of the limit on the amount of remuneration for unemployment insurance contributions. The notice increased the amount on which UIF is payable from R14 872 to R17 712 with effect from 1 June 2021.

In conclusion

Compliance with labour legislation is imperative in building better relationship with employees and ensuring that employers are not found wanting. The Department of Employment and Labour are working on several compliance and enforcement strategies and has appointed labour inspectors to inspect compliance. For more detailed information, relating to the numerous proposed and gazetted changes to labour legislation that took place during 2020/2021, please refer to the specific law, bill or regulations.

DEVELOPMENTS ON THE CHANGES TO THE IFRS FOR SME'S STANDARD

By **Mulala Sadiki** CA(SA),
SAICA Project Manager: Reporting,
Corporate Reporting



During February 2021, the SME Implementation Group (SMEIG) met to discuss the feedback received on the Request for Information (RFI) on the Second Comprehensive Review of the IFRS for SMEs Standard published in January 2020. The SMEIG is a Group appointed by the Trustees of the IFRS Foundation to consider, amongst others, the questions on the implementation and application of the IFRS for SMEs Standard and the need to amend the IFRS for SMEs Standard and make recommendations to the International Accounting Standards Board (Board)

The objective of the RFI was to seek views on whether and how the IFRS for SMEs Standard should be amended to take account of IFRS Standards, amendments to IFRS Standards and IFRIC Interpretations in the scope of this review.

In the RFI, the key proposals made relating to the alignment with the IFRS 9 – Financial Instruments, IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements, IFRS 13 – Fair Value Measurement, IFRS 15 – Revenue from Contracts with Customers and 2018 Conceptual Framework for Financial Reporting (Conceptual Framework). A majority of the SMEIG members were in support of the proposals included in the RFI whilst also making some suggestions enhance some of those proposals. A minority expressed some reservations with the proposed changes to the IFRS for SMEs Standard. Below is an outline of the some of the key proposals together the SMEIG's views:

- Alignment approach and principles

A majority of the SMEIG members support the view that the IFRS for SMEs Standard should continue to be aligned with full IFRS Standards. Their view is that the alignment should consider the costs and benefits of aligning the IFRS for SMEs Standard with a new IFRS Standard, amendment to an IFRS Standard and IFRIC Interpretation. In addition, the alignment should be tested against all the three principles; relevance to SMEs, simplicity and faithful representation.

- Alignment with IFRS 9

Classification and measurement of financial assets

The SMEIG members supported supplementing the list of examples in Section 11 with a principle for classifying financial assets based on their contractual cash flow characteristics as this would be useful to the preparers and users of financial statements. A recommendation was made by some members of the SMEIG that the Board should wait until the post-implementation review of IFRS 9 is completed before considering alignment of Section 11 with IFRS 9.

Impairment of financial assets

The SMEIG members supported the view that the Board should undertake additional work to understand the practical challenges entities face in implementing the simplified expected credit loss approach in IFRS 9 before deciding whether to align Section 11 of the IFRS for SMEs Standard with the IFRS 9 expected credit loss approach. A minority proposed that the incurred loss model in the



..IMPORTANT TO
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PENSATION FUND
WITHIN 30 DAYS...



DEVELOPMENTS ON THE CHANGES TO THE IFRS FOR SME'S STANDARD CONT

IFRS for SMEs Standard be retained because the simplified expected credit loss approach would be difficult for SMEs to apply.

'Fall back' to IAS 39 – Financial Instruments: Recognition and Measurement
The SMEIG members support proposal to update the fall back to IAS 39 in Section 11 of the IFRS for SMEs Standard to IFRS 9.

- Alignment with IFRS 10
The SMEIG members were in agreement with aligning the definition of control in Section 9 – Consolidated and Separate Financial Statements with IFRS 10 and that paragraph 9.5 of the IFRS for SMEs Standard should be retained and updated. There were, however, mixed views regarding not introducing the requirement that investment entities measure investments in subsidiaries at fair value through profit or loss.

- Alignment with IFRS 11
The SMEIG members supported the alignment of the definition of joint control in Section 15 – Investments in Joint Ventures with IFRS 11. They were of the view that the accounting requirements of Section 15 including the accounting policy election for jointly controlled entities should be retained.

- Alignment with IFRS 13
A majority of the SMEIG members supported the view that the definition of fair value in IFRS 13 should be aligned with the IFRS for SMEs Standard and the guidance on fair value measurement and examples on how to apply the fair value hierarchy from IFR 13 should be included in IFRS for SMEs Standard. Some SMEIG members suggested that it might not be appropriate to include the guidance and disclosure requirements relating to fair value with the concepts and principles in Section 2 of the IFRS for SMEs Standard. These members proposed that the requirements should be moved to a subsection of Section 2, or to another section.

- Alignment with IFRS 15
A majority of the SMEIG members supported the view that Section 23 – Revenue of the IFRS for SMEs Standard should be rewritten to be aligned with IFRS 15 as this would address areas requiring additional guidance such as considerations about principals and agents as well as

inconsistencies and weaknesses in the previous revenue Standards.

- Alignment with IFRS 16
A majority of the SMEIG members supported the view that the Board should undertake additional work to understand the practical challenges entities faced or are facing in implementing or applying IFRS 16 before deciding whether to align Section 20 – Leases of the IFRS for SMEs Standard with IFRS 16. A minority of the members recommended that if Section 20 of the IFRS for SMEs Standard is aligned with IFRS 16, SMEs should be required or permitted a later effective date.

- Alignment with the Conceptual Framework
The SMEIG members supported the view that Section 2 – Concepts and Pervasive Principles of the IFRS for SMEs Standard should be aligned with the Conceptual Framework as well as retaining the concept of undue cost or effort. However, some SMEIG members expressed concerns on the alignment of Section 2 with the Conceptual Framework and recommended that the Board should defer this alignment of to the next comprehensive review.

Some of these proposals on alignment will have a significant business impact on SMEs as we have seen based on the experiences of those entities that have applied the IFRSs outlined above. There will be opportunity for members to express their views on the draft amendments to the IFRS for SMEs Standard prior to finalisation. The next phase in this project is likely to be in the form of an exposure draft, following a process by the Board to consider all comments received globally on the RFI. SAICA will be keeping members informed in this regard.

The detailed report from the SME Implementation Group meeting can be downloaded from here <https://www.ifrs.org/content/dam/ifrs/meetings/2021/february/sme-implementation-group/smeig-report-february-2021.pdf>.



...MIXED VIEWS REGARDING NOT INTRODUCING THE REQUIREMENTS THAT...

QUALITY MANAGEMENT: TO INVEST OR NOT

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

The International Auditing and Assurance Standards Board (IAAS) has approved the new and revised suite of quality management standards. This requires that systems of quality management in compliance with International Standard on Quality Management (ISQM) 1² be designed and implemented by 15 December 2022 and the evaluation of the system of quality management required to be performed within one year following by 15 December 2022.

The revisions are so significant that they are set to even impact on the organizational structure of the firms. The change in approach from the passive implementation of quality control where firms were able to either develop or purchase a generic quality control manual, with actions that are largely reactive; to an active management of quality that is embedded in the day to day operations of the firm translates into firms having to invest time and resources in ensuring that they are compliant in time for the effective date. Like any investment decision made, the question on the minds of many is how their practice will benefit from the investment that needs to be made in designing, implement and operate a system of quality management.

In answering this question, it is first important to understand the reasons that gave rise to the need for the change.

Need for Change

As stated in the SAICA Code of Professional Conduct, a distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. This public interest role impacts the relevancy of accountancy as a profession, and the absence thereof threatens the sustainability of the profession. In the Covering Explanatory Memorandum³ that accompanied the issue of the suite of quality management exposure drafts, the IAASB indicated that the proposed revisions were made with the public interest at front of mind, with the proposed revisions addressing the most relevant public interest issues related to quality control, including:

- Fostering an appropriately independent and challenging skeptical mindset of the auditor.

Encouraging proactive quality management at the firm and engagement level.

- Exploring transparency and its role in audit quality.
- Focusing more on firms' (including networks') structures and communication processes and their internal and external monitoring and remediation activities.
- Reinforcing the need for robust communication and interactions during the audit engagement.

Overview of the new and revised requirements

ISQM 1 outlines the new risk based approach to quality management, which consists of three steps, namely:

- Establish quality objectives
- Identify and assess quality risks
- Design and implement responses

ISQM 1 contains minimum prescribed quality objectives that firms are required to achieve; unless one of these quality objectives is not relevant. With respect to quality risks, the IAASB recognised that all firms are different and therefore did not prescribe any quality risks. Each firm is required to identify and assess the quality risks based on the nature and circumstances of the firm and the engagements entered into.

ISQM 1 also contains certain minimum responses that firms are required to implement. Firms are required to design and implement other responses that appropriately address the quality risks. The responses are determined by the firm's assessment of the quality risk, in terms of the likelihood of the risk occurring as well as the magnitude of the likely impact that the quality risk will have.

These responses contained in ISQM 1 maybe done at firm level, engagement level or both at firm and engagement level.

What does this mean for a SMPs?

The IAASB's new risk based approach to quality management will compel firms to be proactive, responsive and thoughtful about the nature and circumstances of the firm and the engagements that it performs in designing, imple-

²ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements
³Available at: <https://www.ifac.org/system/files/publications/files/IAASB-Covering-Explanatory-Memorandum.pdf>

References

IAASB video: <https://www.iaasb.org/publications/iaasb-quality-management-standards-and-small-and-medium-sized-practices-0>

menting and operating its system of quality management. This new approach is also scalable in that it is customised to suit the nature and circumstances of the firm and its engagements. Such circumstances include the size of the firm and the types of engagements performed, as well as the types of clients that they service.

At a SMP, the responses to the identified quality risks may be somewhat informal, for example verbal or email communication relating to engagement teams about their responsibilities to implement policies or procedures. It is also possible that many of the responses will operate at engagement level, for example on-the-job training rather than the formal training that is facilitated by the firm.

ISA 220 (Revised)⁴ builds on ISQM 1 in requiring the engagement team to implement relevant firm level policies or procedures at the engagement level. The manner in which the engagement partner implements the requirements of ISA 220 (Revised) will also depend on the nature and circumstances of the engagement, including the industry in which the client operates as well as the size and complexity of the entity. There may also be some requirements contained in ISA 220 (Revised) that are not relevant to the engagement.



..TO IDENTIFY AND ASSESS THE QUALITY RISKS BASED ON THE NATURE AND CIRCUMSTANCES OF THE FIRM AND THE ENGAGEMENTS ENTERED INTO.

In terms of engagements subject to an engagement quality review, SMPs may find themselves in an instance whether they have no engagements that require such a review. Furthermore, where there is such a requirement, either stemming from ISQM 1 or through the firm's policies or procedures, firms are permitted to outsource these reviews if there is no internal person with sufficient time or does not have the required knowledge, skills or experience to perform such reviews.

Available Guidance

As part of the comment process, the IAASB issued a document titled Draft Examples: How the Nature and Circumstances of the Firm and the Engagements It Performs affect the Implementation of Proposed ISQM 1⁵. This publication was intended to illustrate how ED_ISQM 1

can be applied in a scalable manner by firms with varying circumstances. Although this document was prepared as part of the public comment process, it does contain useful information in illustrating different scenarios that may exist relating to circumstances of the firm and the nature of its engagements, including quality risks that may be identified and responses that may be required to be implemented by the firm in responding to the specific quality risks. At the time of issuing this publication, the IAASB did indicate that they will reconsider this publication when ISQM 1 is finally approved by the IAASB. The revised implementation plan⁶ published by the IAASB in April 2021 indicates the intention of the IAASB to develop a first time implementation guide, which is set to cover how scalability is addressed in ISQM 1 so that the system of quality management is tailored to the nature and circumstances of the firm and engagements it performs.

In conclusion

The new and revised requirements will see firms reassessing the current policies or procedures relating to quality management. Firms should see this as an opportunity to invest time and resources in streamlining their operations and design and implement responses that only make a positive impact on addressing the quality risks specific to the circumstances of the firms and the nature of the engagements that they perform. This investment will see dividends in the form of a more robust system of quality management that is tailored to suit the firm's circumstances and ultimately contributes to improved audit quality. This will, in turn positively contribute to reaffirming the auditor's role in protecting the public interest through enhancing the creditability to the financial reporting process and ultimately restoring trust to the accounting profession. With these consequential benefits, the investment decision is an easy one to make.



⁴ISA 220 (Revised), Quality Management for an Audit of Financial Statements

⁵Available at: <https://www.ifac.org/system/files/publications/files/IAASB-Practical-Example-Proposed-ISQM-1.pdf>

⁶Available at: <https://www.ifac.org/system/files/publications/files/IAASB-Quality-Management-Standards-Implementation-Support-Plan.pdf>



CA2025 – PRACTICAL IMPLICATIONS FOR THE SMP ENVIRONMENT

By **Tonia Jackson**, Project Director: Training, Professional Development

As the implementation date of the CA2025 training programme gets closer (1 January 2022), a number of questions relating to the practicalities of transitioning to the new programme are top of mind for many training officers.

During the launch of CA2025 on 10 March 2021, training offices were reminded of the work that had gone into the overall competency framework and components such as the academic and training programmes since 2016. However, the **success of CA2025 hinges on how this will play out in practice and how all of the elements come together over the next few years.**

There are a few actions that we believe will help smooth the transition, in particular for Small and Medium Practices (SMPs):

1. Start with the significant elements of training already in place:

- **You know what it takes to grow professional competence**

In the SMP environment Training Officers tend to be more hands-on relative to other training environments.

We often hear phrases such as “I work with my trainees on a daily basis,” “I know how they are doing,” “I understand the strengths and development needs of each trainee” from Training Officers when we visit SMPs; and this appropriately reflects this unique training environment.

The role of mentor is entrenched in the structure of the training programmes in these offices.

Training Officers are intimately aware of which **behaviours and abilities** set apart those trainees that make it, from those trainees that struggle.

This makes SMPs well placed to transition with greater ease to the CA2025 training programme.

- **Consider the range and depth of experience you offer trainees**

On 31 March 2021 we communicated a document which mapped the CA2025 competencies to the 2016 competencies.

Under the CA2025 training programme, training offices will need to pay attention to how the **range of exposure** spans the value creation process as defined in the competency framework.

For the **depth of exposure**, attention will need to be given to how exposure allows trainees the opportunity to apply the depth of their knowledge and understanding to the work that they are doing and will require that trainees have to display integrated thinking, bringing together information from multiple sources (e.g. tax, auditing, accounting, their client’s industry, the economy etc.) and applying sound judgement and decision-making in concluding on their work and proposing solutions to problems encountered.

In the SMP environment, trainees are often exposed to a whole client much earlier in their training contracts than in larger offices. They have the benefit of seeing the full picture – the whole value creation chain. In this way, SMPs are already doing much of what CA2025 requires.

2. Now consider the shift in attention under the new framework:

- **The mind shift is not about what work you do, but where you place your attention in assessing trainees’ competence**

Under the CA2025 training programme, your trainees are likely to keep doing much of what they have done previously, but what will shift is what you will be measuring.

Instead of measuring what they do technically, e.g. plan an audit, develop an audit plan, conduct fieldwork, review a set of financial statements, prepare a management letter etc., you will be measuring the abilities and

the ability to think critically, to solve problems, to exercise professional scepticism, to communicate, to lead, to behave ethically, to learn and adapt etc.

3. Finally, consider any gaps in your programme The shift to this new framework and way of thinking about trainees allows an opportunity to step back and evaluate what is working well and what needs to shift

By removing the need to tick the boxes of a long list of technical competencies (often by way of simulation) just for the sake of compliance with SAICA regulations, the new programme allows you to focus on the core work of your training office while developing the abilities and behaviours you expect of the future professionals you are training.



...THE SUCCESS OF CA2025 HINGES ON HOW THIS WILL PLAY OUT IN PRACTICE AND HOW ALL OF THE ELEMENTS COME TOGETHER OVER THE NEXT FEW YEARS.

Professional Values and Attitudes (behaviours) and the Enabling Competencies/ Acumens (abilities) are where any shifts to the programme in your office should be focussed.

Perhaps you need to consider more deeply how Digital Acumen can be developed or how you can provide opportunities to your trainees to demonstrate Citizenship?

Whatever the shift is for you, keep the development of your trainees’ abilities and behaviours in mind – what do you need more or less of for your trainees to achieve the required level of professional competence?

In summary, the biggest practical shift from the 2016 framework towards CA2025 is in ensuring that trainees have the opportunity to develop and display all of the behaviours and abilities required of the future professionals they are becoming.

SMPs are well placed to move towards the CA2025 programme, using the existing work available in their offices coupled with an intentional shift in focus from a technical tick box exercise towards the intentional development of professional competence.



SMP'S ETHICS REFLECTION EXERCISES

By **Mandie Wentzel**, SAICA Project Manager: Ethics and Practice



Continuing Professional Development (CPD) is an essential part of maintaining your professional status as a professional accountant registered with SAICA. Competent professionals can provide high quality services and thereby strengthen public trust in the accountancy profession. As part of SAICA's CPD requirements, all SAICA members and associates must reflect on the competency area 'ethical values and attitudes' and record this on their annual reflective plan.

This ethics reflection should include reflection on personal ethics, business ethics and professional ethics. The distinction between the three types are as follows:

- **Personal Ethics:** The ethical principles and values applied by an individual to decision-making, conduct and interaction between oneself and others.
- **Business Ethics:** The ethical principles and values applied by the organisation to decision-making, conduct and the relationship between the organisation, its stakeholders and society.
- **Professional Ethics:** The fundamental ethical principles and values applied by a professional Chartered Accountant (CA(SA)) to decision-making, conduct and the relationship between the professional, its stakeholders and society.

In the next three newsletters, we will provide some guidance for reflection on each of the three types.

This article focusses on providing some practical examples of how SMP's can reflect on Personal Ethics for CPD purposes and also assist their staff members in this process.

Personal ethics reflection exercise for staff members

Watch this video together as a group of trainees, and then reflect on the questions provided. <https://www.youtube.com/watch?v=hMloyp6NI4E>

1. Start the discussion by allowing each person to share their three key take-aways from the video.
2. Compare them to one another and discuss briefly what it means to each person.
3. How does this video resonate with your personal values?
4. Is it ok to cheat on an assignment when you are under pressure and you are actually able to perform the task but you just don't have time right now to do it because you are extremely busy with client work?
5. A statement is made in the video that "human behavior is mostly a matter of habits". Do you agree with this statement? How does this fact impact your decision making in future?
6. Did this video raise a need for further exploration of this topic?

Personal ethics reflection exercise for managers

Exercise 1: Watch this video explaining different ethical decision making methods. <https://www.youtube.com/watch?v=6UrBO-cl27Q>

1. Write down three key take-aways from the video which you have found useful.
2. With which method do you most associate with?
3. Which of these methods are applied in your organization?

SMP’S ETHICS REFLECTION EXERCISES CONT

- 4. Write down the five ethical dilemma questions relating to the video.
- 5. Use these five questions to unpack a situation which you faced recently.
- 6. Write down how your decisions would have been impacted if you had used this method on the situation.
- 7. Did this video raise a need for further exploration of this topic?

Exercise 2: Watch this video that discuss personal ethical decision making processes and reflect on the questions below. <https://www.youtube.com/watch?v=n0uwTBrgqxl>

- 1. Write down three key take-aways from the video which you have found useful.
- 2. What is your preferred way of making decisions?
- 3. A statement was made in the video: “If we can’t admit our potential to make bad decisions, we’ll struggle to make good ones”.
 - a. What does this mean to you personally?
 - b. How does this impact on my managerial style and way that I engage with my staff. How could this possibly impact my staff’s behavior?
- 3. What is meant by “Making the choices actively yours”?
- 4. Did this video raise a need for further exploration of this topic?

Personal ethics reflection for leaders

Ann Skeet, director of Leadership Ethics at the Markkula Center for Applied Ethics, describes specific things leaders can do to show ethical leadership including creating community, including good conduct, "playing your position," clarifying culture, and ethical systems design.

<https://www.youtube.com/watch?v=rI0IFKegANo>

- 1. Reflect on the elements highlighted by the speaker.
- 2. How can you incorporate these elements in your approach to your staff?

Responsible leadership - https://www.youtube.com/watch?v=Lww8l1_nNoA

- 1. Write down three key take-away’s from the video which you have found useful.

- 2. The speaker talks about leadership with a small ‘L’. What does this mean to you?
- 3. Every leader takes the lives of other people in their own hands” – what does this mean to you?
- 4. Reflect on the impact that your leadership style has on your staff member’s ethical decision making abilities.
- 5. The speaker defines leadership as a moral act. What does this mean to you in the context of your current role/ your position as a registered member of SAICA?
- 6. What do you regard as your main responsibility as a “responsible leader”?
- 7. Did this video raise a need for further exploration of this topic?

Personal ethics reflection for all members in practice

Watch this video that discuss the significance of ethics and ethics education in daily life. https://www.youtube.com/watch?v= 8juebyo_Z4

- 1. Write down three key take-aways from the video which you have found useful.
- 2. The speaker raises some important questions. Write down some of the questions and discuss them as a group in your office if possible.
- 3. Did the speaker say anything that challenged your current views regarding ethics education?
- 4. Did this video raise a need for further exploration of this topic?

The above exercises are meant to stimulate discussion and stimulate more questions for exploration. It is not a tick-box exercise. If you stumble upon a topic which you enjoy and want to explore more, this indicates an opportunity for growth in your ethics competence. Ethics competence, as a metaphorical toolkit, consists of ethics knowledge, skills and behaviours one requires to make appropriate ethical choices. Your annual reflection plan is an opportunity to explore more topics and grow as a professional accountant.

In conclusion:

Ethics competence can be viewed as a muscle, and by continuously exercising this muscle, we ensure that we are fighting fit, and prepared for any ethical challenge that might come our way.



ETHICS

SAICA Ethics website



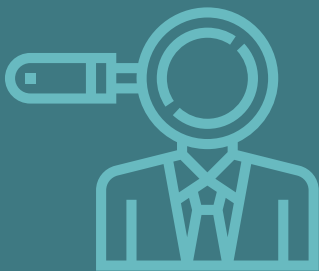
SAICA governance website



Ethics communications released on IRBA website



International Ethics Standards Board (IESBA) website



PRACTICE MANAGEMENT



Saica Practice webpage





NEED TO KNOW - TECHNICAL UPDATES

COVID-19 RESOURCE PAGES

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IAASB resources	
IFAC resources	
IESBA resources	
IFRS resources	
IRBA resources	

AUDIT AND ASSURANCE

SAICA Audit and Assurance webpage	
IRBA assurance publications webpage	
Internal Auditing and Assurance Standards Board (IAASB) webpage	
IFAC Knowledge Gate webpage	

FINANCIAL REPORTING

Financial Reporting	
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