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Newsletter

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SAICA
THE SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS

ASSETS TRANSFERRED TO TRUST

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

Assets transferred to a family trust by a person who is a connected person in relation to that trust, are often not done at an arm's length value. Such transfers have tax consequences for the parties to the transfer.

It is common, as part of an estate plan, to establish a trust and then to transfer assets to the trust, typically ones that are expected to increase in value over time. This is normally in a family context and these trusts are colloquially referred to as family trusts. The initial donation to the trust would be negligible and the trust would typically not be able obtain funding from a financial institution and would fund the acquisition of assets by way of a loan account.

This article explores the tax consequences of a transfer of an asset, by a person who is a connected person in relation to the trust, at a value below an arm's length one. To give some context, the facts in tax case, where SARS challenged the values used by the parties when assets were transferred to family trusts, will be used.

The facts were as follows:

- Two brothers were the only shareholders in a trading company (each brother held 500 shares in the company).
- Acting on advice, each brother established a family trust and in terms of oral agreements each one transferred his shareholding in the company to his family trust.
- The consideration payable in each case was fixed in the sum of R190 000 and the transfer of the shares was effected shortly thereafter. (In other words, the valuation of all the shares in the company was R380 000.)
- The shares were disposed of on loan account without any specific conditions attaching thereto.
- SARS requested details of the valuations of the shares, for the purposes of the dispositions, and the taxpayer responded as follows:
  - "The value of R190 000 for the sale of the 500 shares of Messrs ABC and XYZ was based on the net asset value of the company as reflected in the most recent audited financial statements at that date, because neither Trust was purchasing a controlling interest in the company and no dividend pattern had been established by the company as at that date."
- SARS however, advised that "a valuation by reference to the net asset value of the company was not acceptable and that the valuation should have been determined by utilising the earning method".
- According to SARS the valuation of the company should have been R3,2 million and SARS issued assessments for donations tax and stamp duty.

These transactions took place in 1996, therefore before South Africa introduced a tax on capital gains. If they happened today, the tax consequences would have been as follows:

Donations tax

Section 58 of the Income Tax Act (the Act) is relevant and applies where any property has been disposed of for a consideration, which in the opinion of SARS is not an adequate consideration. It then deems the property to have been disposed of under a donation.

In terms of section 62(1)(d), the value of the property, for purposes of donations tax, is the fair market value of the property as at the date upon which the donation takes effect. The "fair market value" means the price which could be obtained upon a sale of the property between a willing buyer and a willing seller dealing at arm's length in an open market.

The amount of any consideration actually given, if any, will reduce this value when the donations tax is determined. So, in the court case, the amount subject to donations tax was R1, 41 million (R1 600 000 less R190 000).

In addition to the donations tax, there will also be normal tax consequences of the disposal.

Normal tax consequences

In the typical family trust scenario, the beneficiaries will be relatives of the person who disposed of the asset to the trust. In terms of the definition of "connected person" in section 1(1) of the Act, any connected person in relation to a beneficiary of a trust (which the person who disposed of the asset to the trust is), will be a "connected person" in relation to the trust.

Where the person who disposed of the asset is a person who is a connected person in relation to the trust and if the value agreed on is below the market value thereof, one of two specific provisions in the Act will apply. And for both of them, the consideration for the disposal agreed on by the parties to the transaction is irrelevant.

- If the asset is one in respect of which a deduction or an allowance has been granted to the person, then under section 8(4)(k) of the Act, that person is deemed to have disposed of the asset for an amount equal to the market value thereof.
- Under paragraph 38(1)(a) of the Eighth Schedule to the Act, if the agreed on consideration does not reflect an arm's length price, the person is treated as having disposed of that asset for an amount received or accrued equal to the market value of that asset.

> **IN ADDTION TO THE DONATIONS TAX, THERE WILL ALSO BE NORMAL TAX CONSEQUENCES...**

Note, in both instances the market value is at the value at the date of the disposal.

In any event, if the asset is a 'depreciable asset', section 8(4)(k) would apply and there could be a recoupment of the allowances. On the other hand, if the asset was a capital asset, it could result a capital gain. If there is a capital loss, the loss would have to be disregarded by the person who disposed of the asset – it is ring-fenced because of the disposal to a connected person.

The same principles will apply if the asset was donated and there was no, or an inadequate, consideration (or quid quo pro). If there was a donation, or deemed donation, then in terms of paragraph 20(1)(c)(vii) of the Eighth Schedule to the Act, a portion of the donations tax payable by the donor, determined in accordance with a prescribed formula, can be added to the base cost of the asset.

Impact on the trust

In our example the transfer of the assets was done with the view to limiting the eventual liability of their estates

ASSETS TRANSFERRED TO TRUST CONT

for estate duty. Today, where the asset is disposed of to the trust, it is not possible to defer, as it would be where the transaction is an asset-for share transaction, the capital gain and to have it taxed in the trust when the asset is finally disposed of by the trust.
The question that arises is what the base cost to the trust would be of such an asset that was acquired at an amount below the arm's length price. The base cost to the trust is also, under paragraph 38 of the Eighth Schedule, deemed to be the market value at the transaction date. So the same value is used to determine the proceeds of the asset for the person who disposed of the asset to the trust and for the base cost to the trust of the asset when the trustees dispose of the asset.

The parties to the transaction must remember that the capital gain arising when the trust disposed of the asset may be attributed to the person who disposed of the assets to the trust.

There are also certain taxes levied on the transfer of assets, for instance transfer duty. In this instance, the securities transfer tax will apply.

Securities transfer tax

For purposes of the Securities Transfer Tax Act, 2007, a share in a company is a "security", and "transfer" includes the transfer, sale, assignment or cession, or disposal in any other manner, of a security. In other words, any event that results in a change in beneficial ownership in the security, and this would include a donation.

The tax is levied on the 'taxable amount', and in respect of an unlisted security, the taxable amount is the amount or market value of the consideration given. Where no consideration is given or where the consideration given is less than the market value of the security, the taxable value is the market value of the security. In other words, if the transfer is not done at market value, the consideration is also adjusted to the market value of the security.

It is clear that the term 'market value' is central to determine the consequences.

Market value

Section 58 refers to a consideration which is not an adequate consideration and paragraph 38 to a consideration which does not reflect an arm's length price. And both section 8(4)(m) and paragraph 38 deems such a disposal to be at market value. But there is no general definition of market value in the Act.

In terms of paragraph 31(1)(g) of the Eighth Schedule to the Act, which gives a general rule, the market value of the asset is the price which could be obtained upon a sale of the asset between a willing buyer and a willing seller dealing at arm's length in an open market.

Paragraph 31 requires the market value to be determined without regard to be had to any provision restricting the transferability of the shares. In other words, the valuation must assume that the shares are freely transferable. The same principles apply when market value is to be determined for estate duty purposes. If there is a provision, in a shareholder's agreement for instance, whereby or where under the shares must be determined, that provision must also be ignored when the valuation is done.

The 'in an open market'

In the court case, after considering the argument of the taxpayers that they have actually used a market value, Judge Kroon said that their value "flies in the face of the overwhelming evidence that there was no comparison between that figure and the fair market value." This, in the view of the author, is an important point because the requirement is to determine "the price which could have been obtained upon a sale of the asset between a willing buyer and a willing seller dealing at arm's length in an open market". Judge Kroon tested the value used by the brothers in a simple way. He merely asked the two brothers if they would have entertained an offer for R400 000 for the shares and of course both of them, after some pressure, admitted that they would not have done so.

Conclusion

If assets are transferred to a family trust at a value which doesn't represent and arm's length one, the person who disposed of the assets is deemed, for tax purposes to actually have contracted at an arm's length value and will have to account for the capital gain. The tax consequences will also follow from this value. The parties to the transaction should take care that a valuation method, that would provide an acceptable market value, should be used for purposes of the transfer of the asset.

STARTING A NEW PRACTICE IN THE MIDST OF A PANDEMIC

By **Letitia du Toit,**
Partner at Bentich

During the last quarter of 2020 my husband and I asked ourselves: "Why not give it a go to start working for ourselves?". We both left our steady paying jobs at reputable audit firms and started BENTICH. Since then we have embarked on a roller-coaster ride!

Our journey taught us some valuable lessons so far:

Lesson #1: Think out of the box

Starting a firm with limited to no client portfolio was quite daunting and our first challenge was getting a few clients that we could have on retainer to just cover the monthly costs, and then devise a strategy to expand our portfolio.

We had no experience with growing a client base as we both did our articles at established audit firms and stayed at the firms after our articles as senior staff. Networking skills were not a priority whilst working for an established firm as we were not responsible to grow our portfolios. Now all off a sudden you are the partner that needs to sell your products and services and manage client expectations.

Networking during a pandemic is however quite challenging, as face-to-face interaction is limited and people were very weary to engage with strangers. Building trust with new clients traditionally requires face-to-face interactions as people tend to trust you more if they can look you in the eye and judge your intentions.

STARTING A NEW PRACTICE IN THE MIDST OF A PANDEMIC CONT

We had to approach the market with a different angle. We tried numerous methods to attract clients and some of the most effective methods are shared below:

- Offer to do your friends and relatives income tax returns free of charge while still employed. This is a good word of mouth to have, and it builds experience which ultimately leads to self-confidence.
- Join a community where you interact on a frequent basis with people that own their own businesses and assist them when they struggle or give them tips and tricks when the opportunity presents itself. My community was our CrossFit box (gym) where a couple of us would discuss what we would like to achieve one day.
- Identify which services are complimentary to the accounting industry and vice versa and build relationships with them. Financial advisory services involve giving people and trusts advice in which investments to invest in. These people usually require someone to do your tax returns. You can ask these people to refer you to their clients while you refer your clients to them. Law firms with accounting firms also helps a lot.
- Physical advertising. We had magnets made that we put on our motor vehicle. Clients engaged through this method included parents from our daughter's kinder garden and people that live close to us who saw our car pulling in.
- Social media. Facebook, Instagram, Google AdWords etc.

Lesson #2: Consistent small improvements

When a person decides to become an athlete you have to ease into a new exercise regime, and pace yourself to avoid injuries due to overexertion. A new athlete does not typically start with a 6 hour exercise routine on day 1. A well planned routine gradually builds to ensure endurance and stamina.

Building a company is similarly a slow process and requires balance, patience, and motivation. An approach that works very well for most entrepreneurs is to start building your company while working for someone else. It is advisable to ensure that you inform your employer of your intentions and you can set up an agreement to determine the rules regarding your right to retain clients (which you have recruited during your employment) after you leave the company.

Lesson #3: Client relationships are KEY!!!

One of the partners that I previously worked with told me one thing that I'll never forget. He said he was never the best CA(SA), but he knows how to keep his clients happy (within laws and regulations of course). I remember on numerous occasions I would scrutinize a company to see where it can be improved (this was a hobby of mine) and there would be numerous ways to do so but nothing was done about this. This happened at all the firms I worked with under all the partners. I always thought that when I start my own company, I would use this method to gain new clients and sell new services. At the end of the day this did not work and here are the reasons why:

- Smaller companies did not like change even though the change would be beneficial to the entity
- Some of the cost saving changes might result in more administrative tasks that had to be performed by the client that they opted to rather not change anything.
- Most believed the entity has been a success without any improvements, or the improvements might not seem material that would drastically improve the bottom line.

But in saying the above clients do appreciate any way that you can lighten the workload for them. Answering the phone call during the weekend or replying on a mail late at night is the added satisfaction that you provide your clients in keeping the relationship steadfast.

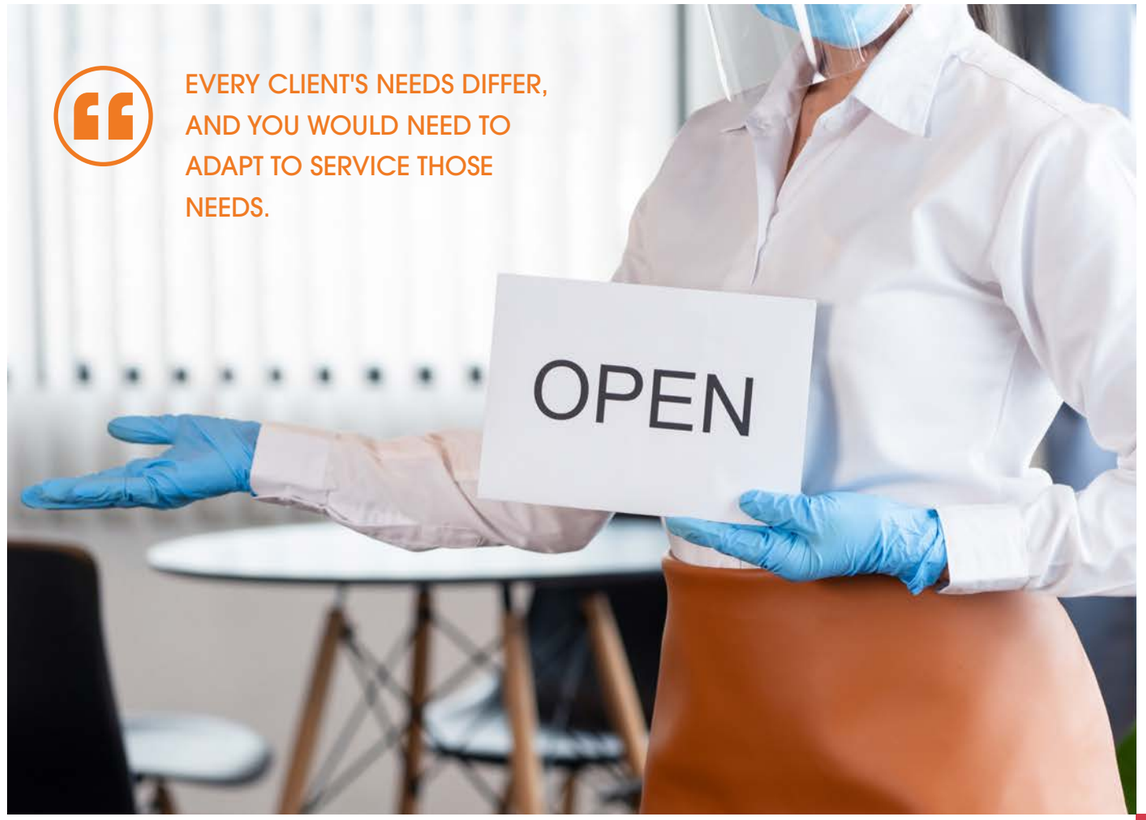
Every client's needs differ, and you would need to adapt to service those needs. No two clients are the same.

Lesson #4: Sharing is caring

Some areas where we did not have the resources to service a client, we would outsource such services. This would buy us time to either obtain the resources or get training on providing the service to the clients. This taught us that you shouldn't hesitate to ask for help, most of the time the simple task of helping will result in your practice growing in either a new service, skillset, or new business.

Fellow SAICA members and associates, wanting to start their own business, might find the following start-up checklist very helpful:

	Admin:
☐	Obtain computer equipment (incl external drive)
☐	Reliable and fast internet solution – especially if you have a home office
☐	Decide on a back-up solution (eg. External drive/ cloud etc)
☐	Decide on Microsoft office package
☐	Generator (because we live in South Africa)
☐	Register a company with CIPC
☐	Decide on an auditing software eg. Caseware , Draftworx, Teammate
☐	Select an Accounting Software that you will use for both your own finances as well as clients eg. Pastel/ Sage, Xero, Quickbooks
☐	If you wish for your firm to act as the accounting officer, register your firm with SAICA and obtain a practice number for use with CIPC
☐	Website where you provide a detailed outline of services available for prospective clients to view (Helps to corroborate legitimacy of company)
☐	Print business cards
☐	Register as a tax practitioner
☐	Register your company for tax
	Budget considerations:
☐	Marketing expenses eg. Website setup costs, marketing company that manages your social media, branding
☐	Reserves for unplanned expenditure eg. Initially you carry your debtors as clients don't pay on invoice date



NEW PROPOSED AUDITING STANDARD FOR LESS COMPLEX ENTITIES: THE 5 W'S ANSWERED

By **Michelle Vermeulen,** SAICA Project Manager: Audit and Assurance

> IF THIS STANDARD IS USED FOR AUDIT ENGAGEMENTS OTHER THAN THOSE CONTEMPLATED IN PART A ON THE AUTHORITY, THE AUDITOR IS NOT PERMITTED TO REPRESENT COMPLIANCE WITH THE ISA FOR LCE IN THE AUDITOR'S REPORT.

Why is it important?

It is recognised that less complex entities (LCEs) make important contributions to the world economy and account for the great majority of entities globally. At the same time, increasingly complex structures and transactions need to be addressed in the International Standards on Auditing (ISAs). The International Auditing and Assurance Standards Board (IAASB) has realised that this complexity in the ISAs can pose challenges for the audits of less complex entities. The IAASB has therefore developed a draft standard that is proportionate to the typical nature and circumstance of an audit of a less complex entity.[1]

Who should be paying attention?

The standard is relevant to a multitude of stakeholders including users of financial statements, owners, management and those charged with governance of entities, preparers of financial statements, legislative or regulatory authorities, relevant local bodies with standard-setting authority, professional accountancy organizations, academics, regulators and audit oversight bodies, and auditors and audit firms, among others.[2]

When should feedback be given?

The draft standard was issued on 23 July 2021.
The IAASB encourages all interested stakeholders to provide their feedback by 31 January 2022 using the "Submit Comment" button on its website.

What should be noted?

Herewith a high-level summary of important facts to consider when reviewing the draft standard:

Explanatory memorandum
The **focus is on the complexity** of an entity, rather than on its size.
The IAASB developed the Exposure Draft: Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ED-ISA for LCE) as a **standalone "self-contained" standard.** This means that if there is a circumstance that has not been contemplated in the design of ED-ISA for LCE as addressed in the Authority of the proposed standard (see below), **relevant ISA requirements cannot be used to "top-up"** ED-ISA for LCE in order to address the circumstance.[3]
The IAASB has used the **requirements in the ISAs as the basis** for the requirements within ED-ISA for LCE. This was accomplished by replicating and adapting requirements from the ISAs that are considered core to an audit, for the nature and circumstances of less complex entities as contemplated by the proposed standard. Audit procedures that are not relevant to an LCE, as contemplated by the proposed standard, are not included within ED-ISA for LCE.[4]
The content of ED-ISA for LCE have been grouped into nine "Parts" that **follow the flow of an audit engagement** (rather than by subject matter or topic like the ISAs). The Parts are preceded by a Preface to the standard, and the Authority.[5]
It is **not envisioned** that ED-ISA for LCE will **necessarily reduce the core procedures** the auditor is required to perform to support the overall quality of the audit. There has been a strong message from the IAASB's stakeholders that the separate standard should be based on the ISAs and retain the robustness of an audit using the ISAs. Accordingly, the separate standard would present the requirements for an audit of an LCE based on the core requirements of the ISAs but **drafted and presented in a more understandable and straightforward way.**[6]
Although ED-ISA for LCE is based on the core requirements from the ISAs, it d**oes not contain requirements relating to prohibited entities,** or where there are matters or circumstances that would have been **deemed more complex** as described in the Authority of the proposed standard (see below) for example segment information, key audit matters and relying on the work of internal auditors.[7]

[1]https://www.iaasb.org/focus-areas/new-standard-less-complex-entities
[2]https://www.iaasb.org/publications/exposure-draft-proposed-international-standard-auditing-financial- statements-less-complex-entities
[3]Explanatory memorandum para 26
[4]Explanatory memorandum para 75
[5]Explanatory memorandum para 92
[6]Explanatory memorandum para 101
[7]Explanatory memorandum para 102

Preface

The standard:

- Has been designed to achieve **reasonable assurance** about whether the financial statements (of an LCE) as a whole are free from material misstatement.
- Applies to LCEs in the **private and public sectors.**
- Will result in the consistent performance of a **quality audit** engagement.[8]

Descriptions of the type of entities for which an audit in accordance with this standard is permitted **rest with legislative and regulatory authorities or relevant local bodies.** Such descriptions may or may not align with the limitations for use as set out in Part A of the standard.[9]

If this standard is used for audit engagements other than those contemplated in Part A on the Authority, the auditor is not permitted to represent compliance with the ISA for LCE in the auditor's report.[10]

The Applicable Financial Reporting Framework

Not prescriptive.

Authority

Specific Prohibitions

The ISA for LCE shall not be used if:

- **Law or regulation explicitly prohibits** the use of the ISA for LCE (i.e., the standard is not authorized for use in a particular jurisdiction); or **specifies** the use of auditing standards, **other** than the ISA for LCE, for an audit of financial statements in that jurisdiction.
- The entity is a **listed** entity.
- The entity is one of whose main functions is to take **deposits** from the public or to provide **insurance** to the public or whose function is to provide **post-employment benefits** or whose function is to act as **a collective investment vehicle** and that issues redeemable financial instruments to the public.
- For a class of entities where use of the ISA for LCE is **prohibited** for that specific class of entity by a legislative or regulatory authority or relevant local body with standard-setting authority in the jurisdiction.
- The audit is an audit of **group financial statements.**[11]

Qualitative Characteristics

If an audit engagement is not prohibited from use of the ISA for LCE, it would be inappropriate for an audit of the financial statements of the entity to be undertaken using the ISA for LCE if the entity exhibits the following:

- **Complex matters or circumstances** relating to the nature and extent of the entity's business activities, operations and related transactions and events relevant to the preparation of the financial statements.
- Topics, themes and matters that **increase, or indicate the presence of, complexity**, such as those relating to ownership, corporate governance arrangements, policies, procedures or processes established by the entity.
- These are indicators of, or proxies for, matters or circumstances for which the ISA for LCE has not been designed to address.[12]

If there is uncertainty about whether an audit is an audit of the financial statements of an LCE, the use of the ISA for LCE is not appropriate.[13]

Firms and Auditors

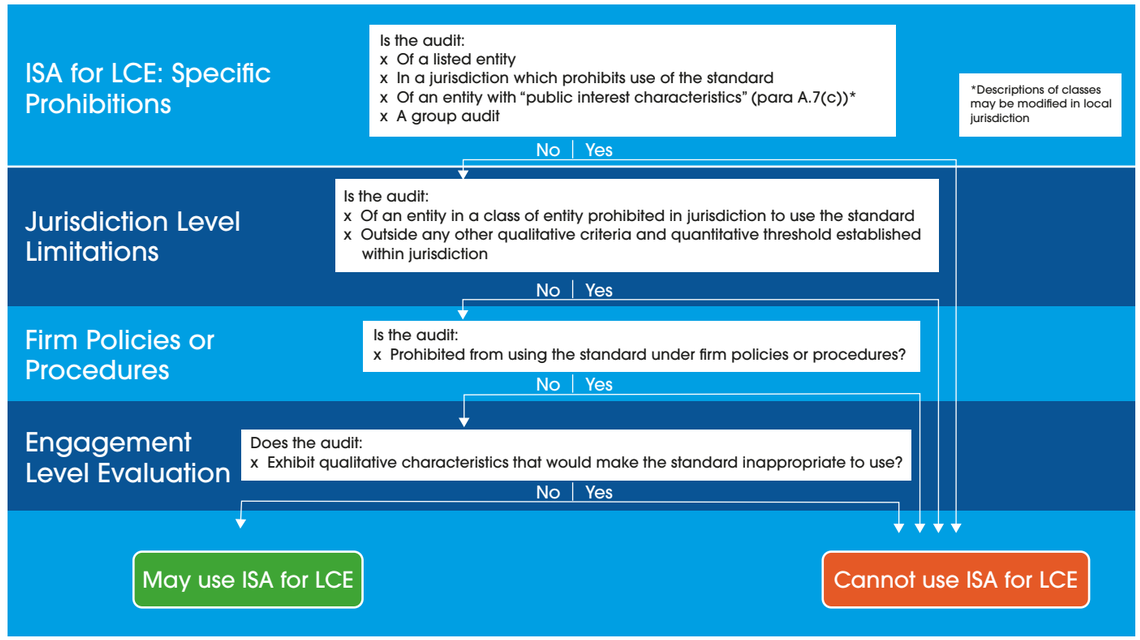
Firms are responsible for **establishing policies or procedures** in relation to the permitted use of the ISA for LCE by the firm's engagement teams. In doing so, the firm takes into account the specific prohibitions for use of the standard, including any further modifications or limitations for the applicable jurisdiction, as well as the qualitative characteristics. The firm may also further limit the classes of entities for which the firm's engagement teams can use the ISA for LCE.[14]

For individual audit engagements, as part of the firm's acceptance or continuance procedures and the **engagement partner's responsibilities** related thereto, the engagement partner is required to determine that the audit engagement is in fact an audit of an LCE to use the ISA for LCE.[15]

[8]ED-ISA for LCE para P1
[9]ED-ISA for LCE para P3
[10]ED-ISA for LCE para P7
[11]ED-ISA for LCE para A7
[12]ED-ISA for LCE para A8
[13]ED-ISA for LCE para A9
[14]ED-ISA for LCE para A12
[15]ED-ISA for LCE para A13

Diagram

The IAASB provided the following nifty diagram to illustrate the **limitations** for an individual engagement as set out above[16]:



Where to find more information?

Visit the IAASB's website at:
https://www.iaasb.org/focus-areas/new-standard-less-complex-entities

[16]Explanatory memorandum para 50

SAICA URGES SMMES TO ESCALATE LATE PAYMENT BY GOVERNMENT

By **Natashia Soopal,** CA(SA), Senior Executive: Public Sector and Enabling Competencies

The Covid-19 pandemic has caused havoc in the economy and has negatively impacted businesses, particularly SMMEs, with many struggling to remain afloat with cashflow problems being a major challenge. Adding to this, is the late or non-payment of invoices by government due to the poor implementation of internal controls to ensure that suppliers are paid within the prescribed time.

Departments, trading entities and constitutional institutions are required to settle all payments due to creditors within 30 days from receipt of invoice or, in the case of civil claims, the date of settlement or court judgement as per Treasury Regulations 8.2.3. In 2011 National Treasury issued Instruction Note Number 34 to enhance compliance with regards to all invoices being settled within 30 days from receipt. However, years later and payment within the prescribed timeframes by national and provincial departments remains a challenge.

Officials responsible for the late or non-payment of invoices and claims commit financial misconduct or ordinary misconduct. It is therefore necessary for accounting officers to hold officials accountable for late or non-payment of invoices to improve the current status quo of payments.

Late or non-payments by government negatively impacts the country and suppliers in many ways, as identified by National Treasury including amongst other:

"(a) the socio-economic challenges that the country faces such as high unemployment rate, inequality, poverty and other related challenges;

(b) the financial health of suppliers who are forced to borrow keep financially afloat; and

(c) the ability of suppliers to pay salaries and meet their contractual obligations."

To address this, several interventions have been implemented to tackle the late payments by government. National Treasury released its 2020/21 annual report on non-compliance with payments of suppliers' invoice within 30 days on 12 August. The purpose of the report is to monitor and inform relevant stakeholders on the payment of suppliers within the prescribed period.

The report identifies that there has been an overall improvement in payment timeframes however it remains a challenge at many departments. Some of the national departments that recorded the highest number of invoices paid after 30 days included:

- **Defence – 54 172 invoices (70%)**
- **Public Works (including PMTE) – 9 512 invoices (12%)**
- **Water and Sanitation (including trading account) – 4 745 (6%)**
- **Police – 3 308 (4%)**
- **Correctional Services – 2 522 (3%)**

Some of the common reasons cited for late and/or non-payment of invoices include:

- **Misfiled, misplaced or unrecorded invoices;**
- **Inadequate budget and/or cash flow;**
- **Inadequate internal capacity;**
- **IT system issues;**
- **Standard Chart of Account (SCoA) related system problems;**
- **Unresolved invoice discrepancies; and**
- **Incomplete supporting document.**

This emphasizes the lack of preventative controls, skills, and resources within some parts of government to properly manage public finance.

National Treasury established a call centre to address late payments and SAICA urges SMMES who do business with government to escalate their challenges with late payment to the call centre. The call centre can be accessed at 30daysqueries@treasury.gov.za.

WHEN IT'S TIME TO SAY GOODBYE

By **Mark Lloydbottom,** IGNITE Practice Management

In this six-minute read, Mark Lloydbottom muses on the case for 'moving on' clients who are not paying their way or are generally making life difficult – and the mature way to react to a client moving on from your business.

Successful firms recognise that they probably have clients who are no longer a 'good fit' with the firm. Perhaps they are too small, or do not cooperate, or treat the staff with respect. Maybe they are clients who spend a lot of time complaining and never seem to be satisfied. Or perhaps they are always late paying their bills.

Good client, bad client?

Let's look at what some call client pruning, others eliminating marginal clients while others, perhaps a little inappropriately, call sacking clients. Others like to dump some of the clients in Box 101!

Many firms habitually take on new clients just so long as the new client can fog a mirror or pay the bill. The problem with this approach is that it results in having some clients who the firm has little enthusiasm for serving, and, if activity-based costing (ABC) principles were applied, the truth is that some of these clients are not contributing to the bottom line, and perhaps they never did.

Goodbye to slow players?

Most accountants have clients who treat the firm as though they are bankers; you raise an invoice, and 90 days later that invoice remains on the books except it has now moved over to the 90 day and over column, and that's where it will stay for a few more weeks or, who knows, months. We can, of course, rationalise the situation with such propositions as "well the client is having a difficult time," but the fact is they are paying their monthly mobile phone bills and utility bills, so why should you accept late payment when others don't?

When this happened in my firm, the file was marked with the letters NFW (no further work), which meant that no one was permitted to do any more work until the client paid. You are running a business not a charity!

Then there are the clients who never give you the records when you want them, the clients who mistreat your staff. Let's go back to Ritz Carlton. When they have guests, who do not treat their staff properly, they suggest the guest finds alternative accommodation and even help them find another hotel. We'll come back to this principle shortly.

Moving clients on

Maybe you have clients whose businesses have grown, and maybe you are no longer acting within your capability or those clients who you feel are dishonest or even doing something illegal. Maybe you can think of other specific circumstances. The key question is "what are you going to do about them?" Pruning makes plants and trees grow stronger; my experience is mirrored by the many practitioners I have spoken to. It was not easy to move clients on, but the action was very much the better for all concerned. What approach could you adopt to move clients on?

I believe it is important to do this, but with sensitivity. After all, they are likely to have been recommended to you by someone and that person may not take too kindly to you dumping their referral – maybe they would be less enthusiastic when it comes to recommending you in the future.

My approach was to find an unqualified accountant and introduce them to my 'clients to lose' list. This worked well, as over the years he was happy to take on these clients as well as passing over some of those clients he felt had outgrown his service capability. This is a win-win for clients and also for both businesses.

Lost clients

While we are looking at terminating clients, allow me to ask what action you take when a client leaves your firm? When I lost my first client, I felt mortally wounded. However, I lost others during the ensuing 15 years I was in practice and came to accept that, for whatever reason, you can't keep everyone happy.

My administration manager contacted all our lost clients and asked a series of questions for those who were willing to talk with her about their reason for leaving, as follows:

- Would you mind sharing your primary reason for ending our relationship with us as your accountants?
- Were there any other areas of our relationship which did not meet your expectations?
- What did you find most beneficial about our service?
- What did you find least helpful about our service?
- How did we handle any concerns that you raised?
- Would you be happy to share what you think we should do differently?
- Would you reconsider a business relationship in the future?

> WHEN THEY HAVE GUESTS, WHO DO NOT TREAT THEIR STAFF PROPERLY, THEY SUGGEST THE GUEST FINDS ALTERNATIVE ACCOMODATION AND EVEN HELP THEM FIND ANOTHER...

Send a brief letter to express your disappointment about the decision to terminate and don't forget to thank departed clients for their past business. Sometimes clients return to the firm if they discover the new business relationship proves less helpful than the one that was terminated with your firm.

PUBLIC SCHOOLS FINANCIAL STATEMENTS: PREPARATION AND AUDIT

By **Kgoboko Makhafola,** CA(SA): SAICA Project Manager: Public Sector

Some of the challenges faced by public schools in South Africa include the mismanagement of funds and a lack of skills. The South African Schools Act, 1996 (Act no. 84 of 1996) (SASA) places the responsibility for management of school funds and the reporting thereon on the School Governing Bodies (SGB). However, in some cases the SGB does not have the necessary skills or knowledge to ensure that the school finances are properly managed and reported which results in misappropriation, fraud, theft and improper control of financial records.

There is also a confusion around the preparation and audit or examination of financial statements which makes it difficult for the SGB to discharge their duties as required by the SASA. In terms of section 42(b) of the SASA, the SGB must as soon as practicable, but not later than three months after the end of each financial year, draw up annual financial statements in accordance with the guidelines determined by the Member of the Executive Council (for education in the province) (MEC).

In some cases, the SGB is not aware of the MEC approved financial reporting guidelines that they should use to prepare the financial statements, resulting in different financial reporting frameworks being used in one province. This may have a negative effect on the comparability and consistency of school financial statements in the province.

The preparation of financial statements

The SGB can appoint a professional either on a permanent or contract basis to prepare the financial statements of the school. To comply with section 42(b), the Provincial Education Department (PED) must communicate the approved guidelines to the schools in their province. For the professional that has been appointed to prepare the financial statements, the first step would be to establish whether there are any approved guidelines to apply when preparing the financial statements by inquiry of the SGB or the relevant PED, to ensure that section 42(b) is complied with.

The following provincial education departments have approved financial reporting guidelines available on their websites:

- **KwaZulu Natal**
- **Western Cape**
- **Northern Cape**

For those provinces where the approved financial reporting guidelines are not available at the school or PED's website, the professional or the SGB should consult the district officials to determine which guidelines they should use to prepare the financial statements.

Who can audit or examine the financial statements of a public school?

In terms of section 43(1) of the SASA, the SGB must appoint a person registered as an auditor in terms of the Auditing Profession Act, 2005 (Act no. 26 of 2005) to audit the records and financial statements of the school. Section 43(2) of the SASA states that if the audit is not reasonably practicable, the SGB must appoint a person who:

- is qualified to perform the duties of an accounting officer in terms of section 60 of the Close Corporation Act, 1984 (Act no. 69 of 1984) (CC Act) to examine and report on the financial statements; or
- is approved by the MEC for this purpose.

The first compulsory option for the SGB is to appoint a registered auditor in terms of section 43(1). This is further highlighted in Circular M3 of 2017 (Circular M3) that was issued by the Department of Basic Education.

> NOW THE NEXT QUESTION IS: WHO IS QUALIFIED TO PERFORM THE DUTIES OF AN ACCOUNTING OFFICER IN TERMS OF THE CC ACT?

It is only when it is not reasonably practicable for the school to appoint a registered auditor that examination can be done. The words "not reasonably practicable" are not defined in the SASA, which causes confusion to the SGBs.

Circular M3 interprets the words as the SGB having proper measures in place to determine whether an appointment of a registered auditor is not feasible in which case, section 43(2) would be the next required alternative.

Circular M3 requires the school to provide the following documents to justify the appointment of an accounting officer instead of a registered auditor:

- Three quotations obtained from three different audit firms for comparison;
- A motivation letter signed by the SGB indicating that control measures were in place and a feasibility study was performed to appoint an accounting officer instead of a registered auditor; and
- Signed minutes of the SGB meeting regarding the appointment of the accounting officer.

Now the next question is: who is qualified to perform the duties of an accounting officer in terms of the CC Act? Any person registered with any of the accounting bodies below which are recognized by the CIPC for purposes of appointment as accounting officers in terms of the CC Act would qualify as an accounting officer:

- **The South African Institute of Chartered Accountants (SAICA)**
- **Auditors registered in terms of the provisions of the Auditing Profession Act (2005)**
- **The Southern African Institute of Chartered Secretaries and Administrators (ICSA)**
- **The Chartered Institute of Management Accountants (CIMA)**
- **The South African Institute of Professional Accountants (SAIPA)**
- **The IAC who have obtained a Diploma in Accountancy (IAC)**
- **The Association of Chartered Certified Accountants (ACCA)**
- **The Chartered Institute of Business Management (MBCIBM)**
- **The South African Institute of Business Accountants (SAIBA)**
- **The South African Institute of Government Auditors (SAIGA)**

Financial Management in schools affects the quality of education delivered to the learners which is a constitutional right. It is therefore imperative that the SGB is well equipped to perform their duties regarding financial management and reporting as per the SASA. Financial reporting guidelines which are clear, easy to understand and appropriate for a school environment must be available for the SGB to prepare financial statements. It is recommended that uniform financial reporting guidelines should be adopted to ensure comparability and consistency of public schools' financial statements across the country.

THE SCALABILITY OF ISA 315 (REVISED 2019)

By **Michelle Vermeulen,**
CA(SA), SAICA Project Manager: Audit and Assurance

ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement, has been amended by the International Auditing and Assurance Standards Board (IAASB) to include a more robust and consistent risk identification and assessment.[17] The revised standard is effective for audits of financial statements for periods beginning on or after 15 December 2021 already.[18]

ISA 200, Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing, states that some International Standards on Auditing (ISAs) include scalability considerations which illustrate the application of the requirements to all entities regardless of whether their nature and circumstances are less complex or more complex.[19] ISA 315 (Revised 2019) is one of these ISAs.

It is intended for audits of all entities, regardless of size or complexity and the application material therefore incorporates considerations specific to both less and more complex entities, where appropriate. Important to note is that while the size of an entity may be an indicator of its complexity, some smaller entities may be complex, and some larger entities may be less complex.[20]

Summary

The purpose of this summary is to showcase the scalability of ISA 315 (Revised 2019), with reference to its application material.

The application material in ISA 315 (Revised 2019) provides scalability considerations relating to:

Topic	Requirements	Application material
Risk Assessment Procedures and Related Activities		
1. Sources of Audit Evidence	Para. 13	Para. A16-A18
2. Observation and Inspection	Para. 14(c)	Para. A33
3. Engagement Team Discussion	Para. 17–18	Para. A44-A45
Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control		
4. Understanding the Entity and Its Environment, and the Applicable Financial Reporting Framework	Para. 19-20	Para. A52-A55
5. Measures used by management	Para. 19(a)(iii)	Para. A78
6. Obtaining an Understanding of the Entity's System of Internal Control	Para. 21-27	Para. A92
7. Obtaining an understanding of the control environment	Para. 21	Para. A99-A100
8. Evaluating whether the entity's risk assessment process is appropriate	Para. 22(b)	Para. A113
9. Obtaining an understanding of the entity's process to monitor the entity's system of internal control	Para. 24	Para. A114-A115
10. Obtaining an understanding of the information system and communication	Para. 25	Para. A131
11. Obtaining an understanding of the entity's communication	Para. 25(b)	Para. A144-A145
12. Types of controls in the control activities component	Para. 26	Para. A156-A157
13. Identifying Information Technology (IT) applications that are subject to risks arising from the use of IT	Para.26(b)	Para. A170-A171
14. Considerations for Understanding Information Technology (IT)	Appendix 5	Appendix 5 Para. 6-7, 15
Documentation		
15. Documentation	Para. 38	Para. A239-A241

[17]https://www.iaasb.org/publications/isa-315-revised-2019-identifying-and-assessing-risks-material- misstatement
[18]ISA 315 Para. 10
[19]ISA 200 Para. A65a
[20]ISA 315 (Revised 2019) Para. 9

THE SCALABILITY OF ISA 315 (REVISED 2019) CONT

Example

Let's have a look at an example on the **Engagement Team Discussion:**

The revised standard requires the following as per paragraphs 17-18 (with further guidance provided in para. A42-A46 of the application material):

"The engagement partner and other key engagement team members shall discuss the application of the applicable financial reporting framework and the susceptibility of the entity's financial statements to material misstatement. When there are engagement team members not involved in the engagement team discussion, the engagement partner shall determine which matters are to be communicated to those members."

So, what if the engagement is carried out by a single individual, such as a sole practitioner, and an engagement team discussion is therefore not possible?

Paragraph A44 of the application material says that consideration of the matters referred to in paragraphs A42 and A46 nonetheless may assist the auditor in identifying where there may be risks of material misstatement.

And if an engagement is carried out by a large engagement team, such as for an audit of group financial statements, where it is not always practical for the discussion to include all members in a single discussion (for example, in a multi-location audit)?

Paragraph A45 of the application material says that the engagement partner may discuss matters with key members of the engagement team including, if considered appropriate, those with specific skills or knowledge, and those responsible for the audits of components, while delegating discussion with others, taking into account the extent of communication considered necessary throughout the engagement team. A communications plan, agreed by the engagement partner, may be useful.

Conclusion

The ISA 315 (Revised 2019) application material includes scalability considerations which illustrate the application of its requirements to all entities regardless of whether their nature and circumstances are less complex or more complex. This article summarizes all the relevant application material, for ease of reference.

For more information on ISA 315 (Revised 2019), please refer to our website: https://www.saica.org.za

SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY: DISCLOSURES

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

SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY: DISCLOSURES CONT

During July 2021, the International Accounting Standards Board (IASB/Board) published a new draft IFRS Standard that would permit eligible subsidiaries to apply IFRS Standards with a reduced set of disclosure requirements. The draft standard was published in response to the feedback received on the Request for Information: 2015 Agenda Consultation. Stakeholders requested the Board to permit a subsidiary that reports to a parent applying IFRS Standards in its consolidated financial statements to apply IFRS Standards with reduced disclosure requirements.

Feedback received from the stakeholders was that many subsidiaries are not publicly accountable however these subsidiaries provide in their financial statements the same disclosures as those designed for publicly accountable entities. In addition, the IFRS for SMEs Standard may be unattractive to some subsidiaries because they report to their parent company using IFRS Standards and they would be required to maintain additional accounting records if it applies the IFRS for SMEs Standard in its own financial statements.

In response to the above, the Board developed the draft IFRS Standard using the disclosure requirements from the IFRS for SMEs Standard, with minor tailoring, where the recognition and measurement requirements in IFRS Standards and the IFRS for SMEs Standard were the same. Where the recognition and measurement requirements differed between IFRS Standards and the IFRS for SMEs Standard, the Board added disclosure requirements for topics or accounting policy options that are addressed in IFRS Standards but omitted from the IFRS for SMEs Standard and also deleted disclosure requirements relating to accounting policies available in the IFRS for SMEs Standard but not in IFRS Standards.

The draft Standard also sets out the proposed disclosure requirements for each related IFRS Standard. An entity would apply the proposed disclosure requirements instead of the disclosure requirements in other IFRS Standards listed in Appendix A of the draft Standard. A disclosure requirement in other IFRS Standards that are not listed in Appendix A of the draft Standard remains applicable.

The draft Standard has no specific transition provisions and depending on how the preceding period's financial statements were prepared, the subsidiary might need to apply IFRS 1 – **First-time Adoption of International Financial Reporting Standards.**

A subsidiary would be required to state that it has applied the draft Standard. This statement would be located with the subsidiary's statement of compliance with IFRS Standards required by IAS 1 – **Presentation of Financial Statements.**

The proposed draft standard was developed with the aim to reduce the subsidiaries time and money by:

- eliminating the need to maintain an additional set of accounting records for reporting purposes (if the subsidiary currently does not apply IFRS Standards in its own financial statements); and
- reducing the disclosures required to comply with IFRS Standards.

If the Board's proposals in the Exposure Draft proceed to a final IFRS Standard, the Board will consider updating the new IFRS Standard Subsidiaries without Public Accountability: Disclosures for any new or amended disclosure requirements arising from new IFRS Standards or amendments to IFRS Standards.

The Board has also decided that it would propose amendments to the draft Standard at the same time the Board publishes an Exposure Draft of a new or amended IFRS Standard. By doing so, it would facilitate discussions and enable the Board and stakeholders to consider these proposals at the same time.

This IFRS Standard would be optional. An eligible subsidiary may voluntarily elect to apply this Standard while still applying the recognition, measurement and presentation requirements in IFRS Standards.Subsidiaries that are eligible to use the draft Standard are those that at the end of the reporting period do not have public accountability and have an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Standards.

The Exposure Draft on Subsidiaries without Public Accountability: Disclosures can be downloaded from here https://www.ifrs.org/content/dam/ifrs/project/subsidiaries-smes/ed2021-7-swpa-d.pdf.

The deadline to submit comments on this Exposure Draft is **31 January 2022.**

A LOSS RECOVERABLE UNDER A CONTRACT OF INSURANCE

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

This article explores the tax consequences of an indemnification under a policy of insurance where damage to property of the insured is repaired by the insurer or lost property is replaced.

Introduction

Violence and looting engulfed the provinces of Gauteng and KwaZulu-Natal during July 2021 and many businesses suffered losses due to damage to property or loss of assets. It is not uncommon for business owners to take have taken cover against these losses under a policy of insurance.

The focus of the article is on the losses suffered by a business owner due to damage to property and loss of assets and the rather complex tax consequences of an indemnification under a policy of insurance.

It is necessary to explain the principles of indemnification in terms of an insurance policy before the normal tax consequences thereof is explained.

Principles of indemnity

In order to give some context, an extract of a clause in a contract of insurance (see African Products (Pty) Ltd v AIG South Africa Ltd (659/07) (2009) ZASCA 27), will be used. It reads as follows:

- In terms of the contract of insurance the insurer agreed to indemnify or compensate the insured 'by payment or, at (the insurer's) option, by replacement, reinstatement or repair, in respect of the insured events occurring during the period of insurance …"

- The "insured event" is an "interruption of or interference with the business in consequence of damage occurring during the period of insurance in respect of which payment has been made or liability admitted …"

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

due to "unforeseen and sudden physical damage to the machinery described in the schedule from any cause … whilst it is at work or at rest …"

Judge Griesel, in Walker v Santam (410/2008) (2009) ZASCA 56, with respect to claims based on contract said that in "terms of basic principles of indemnity insurance the insured is entitled to recover the actual commercial value of what he has lost through the happening of the event insured against." The principle of indemnity entails that an insured is under the policy of insurance put in a position as if the insured event didn't happen. Where the insurable interest is lost or destroyed, the insured is in most instances entitled to, but can never recover more than the market value of the actual loss or damage suffered.

This is best explained by an example

A truck that is used by the business owner is an asset described in the schedule referred to in the extract above and the insured paid the premiums due under the policy.

- The truck was damaged during the unrest in July and the owner of the truck submitted a claim to the insurer.
- The insurer agreed that the loss arose from an insured event and that the business was covered under the policy of insurance. An insurance loss-adjuster was employed by the insurer to inspect the truck and the agreed value of the repairs was determined at R186 000.
- During August, as was agreed with the insurer, the business owner (the insured) took the truck to a garage, approved by the insurer, to repair the truck.
- Note: The amounts in this example are reflected net of the output tax, relating to the indemnification, and the input tax relating to the repair of the vehicle.
- The garage then effected, and completed by early September, the repairs required to restore the truck to its market value.
- The business owner collected the repaired truck from the garage early in October, and paid the excess payment fixed at R25 000 to the garage.
- The insurer paid an amount of R161 000 directly to the garage, being the agreed value of the loss less the excess payable by the insured under the policy.

of the truck

Whilst the business owner is entitled, in terms of the insurance contract, to recover the expense of repairing the truck from the insurer, it is important to note that in this example the expense to repair the truck was not first incurred by the business owner and then subsequently recouped from the insurer.

From an income tax point of view there is an accrual to the business owner of the amount recoverable from the insurer in terms of the contract. Such an amount would constitute gross income, as defined in section 1(1) of the Income Tax Act, unless it is of a capital nature.

The meaning of the phrase "capital in nature" was often considered by our courts. Judge van Der Merwe, in CSARS v Capstone 556 (Pty) Ltd (20844/2014) (2016) ZASCA 2, confirmed that "… our courts have … consistently applied the test that a gain made by an operation of a business in carrying out a scheme of profit-making, is income and vice versa." (With 'income' the judge of course referred to 'income' for purposes of the Income Tax Act as a whole and not as defined in the Act.)

The Judge continued, by saying that there "must be "an operation of business in carrying out a scheme for profit-making" for a receipt to be income. That expression refers to the use of the taxpayer's resources and skills to generate profits, usually, but not always, of an on-going nature."

Judge Smallberger, for the majority, in Commissioner for Inland Revenue v Pick 'n Pay Employee Share Purchase Trust (1992) ZASCA 84, with respect to the capital nature of a receipt, said that the "… receipts … will be … non-revenue if they do not derive from "an operation of business in carrying out a scheme for profit-making".

In this instance the amount recoverable arose from the contract of insurance and not from the business operations of the business owner and as such the business owner would be taking a reasonable tax position that the accrual is of a capital in nature.

With respect to the expense incurred by the insured (after the accrual took place), section 23(c) of the Income tax Act is relevant. It prohibits the deduction of any loss or expense, the deduction of which would otherwise be allowable, to the extent to which it is recoverable under any contract of insurance.

> …THE INSURED IS IN MOST INSTANCES ENTITLED TO, BUT CAN NEVER RECOVER MORE THAN THE MARKET VALUE OF THE ACTUAL LOSS OR DAMAGED SUFFERED.

The business owner, in a return of income in respect of this year of assessment, with respect to the amount of the indemnity, must declare it as an amount not subject tax (capital in nature). With respect to the deduction, under section 11(d) of the Act, of the expenditure in respect of the repair of the truck, only an amount of R25 000 can be claimed (in terms of section 23(c)).

Let us now deal with the loss of the truck

If, for purposes of the example, we change the facts and accept that the looters put the truck on fire which resulted in it being completely destroyed. In terms of the policy, as quoted above, the insured is entitled to the replacement of the truck. If the insurer, in order to replace the truck, paid the market value of the truck to the insured, the tax position would as follows.

There is a disposal by the business owner (see paragraph 11(c) of the Eighth Schedule to the Income Tax Act). The business owner received an amount in respect of this disposal (relevant for purposes of paragraph 35 (1) of the Eighth Schedule). In terms of paragraph 35(3), this amount must then be reduced by any the amount thereof that must be included in the gross income of the person.

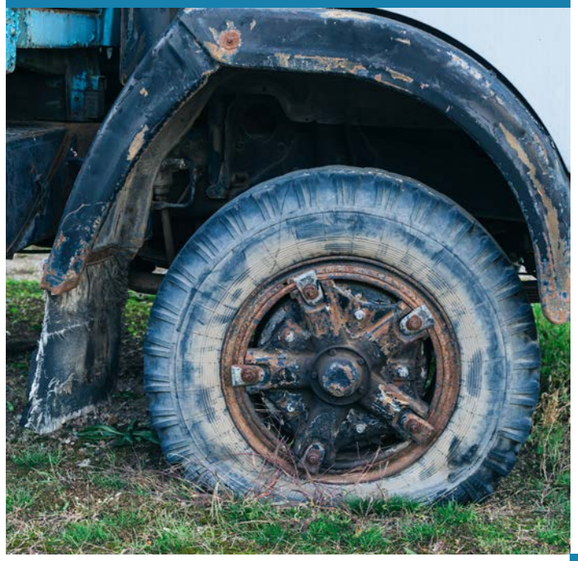
In terms of section 8(4)(a) of the Income Tax Act, an amount recovered or recouped during a year of assessment must be included in the gross income (paragraph (n) of that definition) of the taxpayer, if the amount recovered was allowed to be deducted by the person. In this instance the taxpayer was entitled to a wear and tear allowance under section 11(e) of the Act and there would be a recoupment equal to the part of the cost price of acquiring the asset that was deducted in prior years of assessment, or will be deducted in the current year.

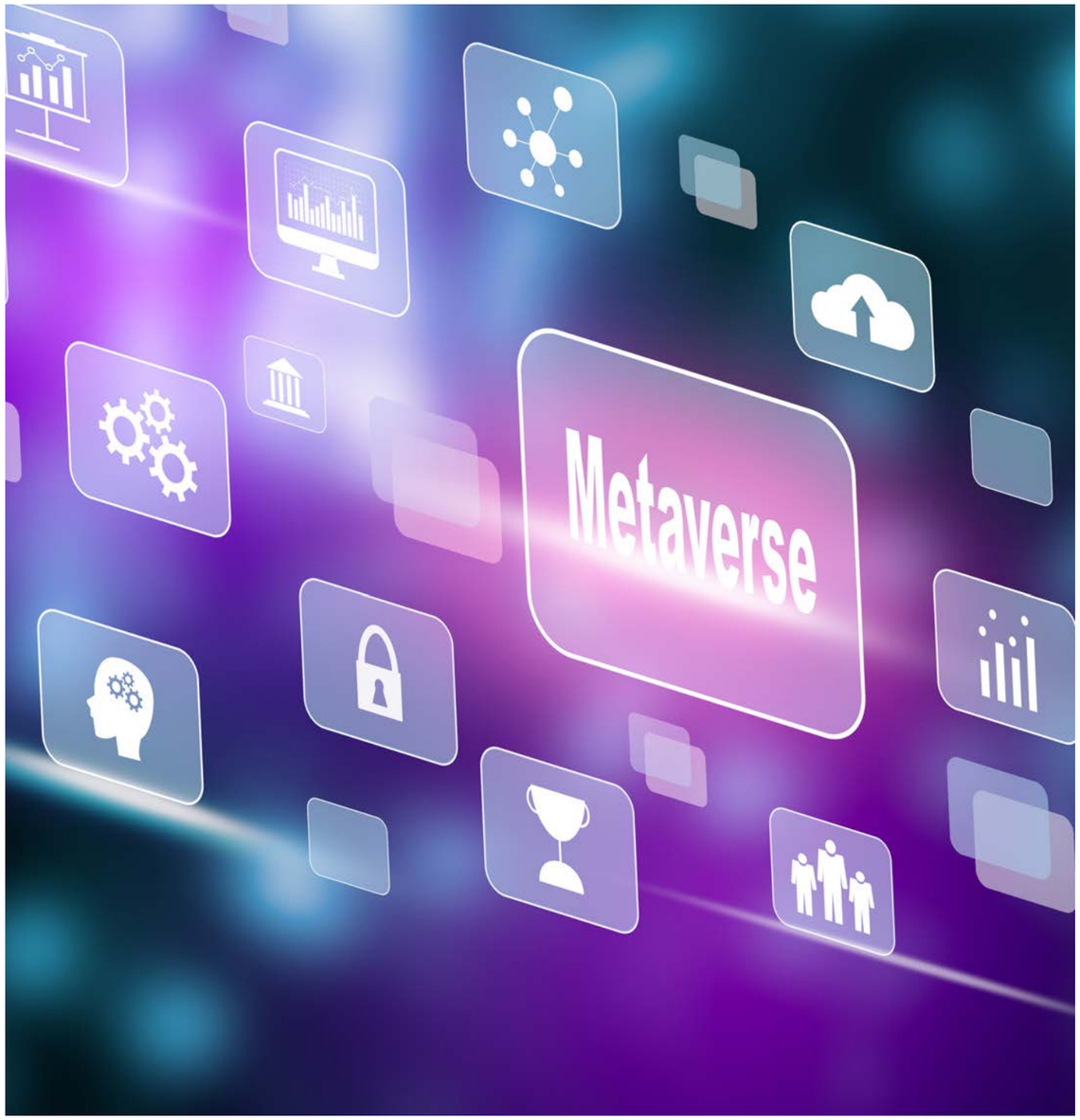
This is an involuntary disposal (as envisaged by paragraph 65(1)(a) of the Eighth Schedule) as the asset was disposed of by way of destruction. The person will then be entitled, if the proceeds are equal to or exceeds base cost (which is likely), to elect that paragraph 65 applies. This election can only be made if the person will expend the full amount received from the insurer to acquire a replacement asset or assets. Once the election is made, and of course the asset is actually subsequently replaced as required, it is then deemed, for purposes of the Eighth Schedule, that the destroyed asset is deemed not to have been disposed of, but was reacquired by the person.

The above election, with respect to the recoupment, results in no amount to be included in the gross income of the person in respect of the disposal (under section 8(4)(e), if the requirements in section 8(4)(eA) to (eE) were met). The tax result then is that the amount of the recoupment is deferred and a portion thereof, determined with reference to the wear and tear allowance of the replacement asset deducted in the subsequent years, is included in gross income.

Conclusion

It is clear that the tax consequences of an indemnification under a policy of insurance is rather complex. Where damage to property of the insured is repaired, the amount of the indemnity does not result in an inclusion in gross income, but reduces the expenditure incurred to repair the property. With respect to lost property replaced, there is no capital gain and the recoupment of allowances is deferred and accounted for when the allowances in respect of the replacement asset is deducted.





AUDITING THE METAVERSE

By **Pieter Roos,** Portfolio Head - Technology and Change Assurance at Absa Group

The recent Facebook name change has sparked a great deal of discussion about the concept of the metaverse, which is a virtual space, in which our digital instances will transition from the two-dimensional, on-screen world we became used to during the pandemic, to something more three-dimensional, in which we relate to one another in a much more natural fashion.

Considering the current levels of fraud, fake news and murkiness already associated with aspects of the digital world, auditors require a new mind set and heightened vigilance to make sense of what is real and what not. At the same time, we have never had a wider range of instruments at our disposal, to make sense of auditees' organisations.

Consider a few of these options:

- Sending drones to perform stock counts and asset verification, sometimes covering substantial distances, performing their tasks at speed and providing a digital account of the work that requires little further manual input.
- Utilising robotic process automation (RPA) to support the audit process, in some instances automating considerable components of the audit process in large environments with strong processes and work cultures. Having effective RPA then enables the use of artificial intelligence, based on rich data provided by the robotics.
- Applying optical character recognition to digitise records for analysis, in order to be able to apply a range of analytical and automated audit procedures.
- Using a variety of visualisation tools to identify anomalies and enhance an understanding of data sets to be interrogated.
- Investing in analytical skills, to make sense of the ever-increasing glut of data that engulfs us. Start by developing advanced Excel skills, the most fundamental and underestimated tool available to the auditor.
- These options are no longer ground-breaking, but considered business-as-usual by many audit teams.

> THE METAVERSE WILL BECOME A REALITY TO US SOONER THAN WE THINK AND WILL TRANSFORM EVERY ASPECT OF OUR PERSONAL AND PROFESSIONAL LIVES.

Fast-forward a little and consider the following potential meeting between an audit team and their auditee. A project audit team "attend" several system go-live events across the globe, to "observe" what difficulties Country teams are experiencing. Through their virtual presence in each location, they are able to observe staff impact, the support teams assisting them and clients' reactions at auditee premises, as they experience service enabled by the new system. If this sounds like the Princess Leia holograms from a 1970s Star Wars movie, you are drawing a relevant analogy, just not as grainy. Expect a real life-like experience, with you being able to look the people on the other side in the eye, smelling their coffee and feeling the chill in the air. This is much less far-fetched than you might imagine, as large technology firms are making considerable investments in bringing this to life. The metaverse will become a reality to us sooner than we think and will transform every aspect of our personal and professional lives.

Where to from here? What do you have to do to prepare for a sustainable auditing career? For a start, understand, be trained in and consider using the five options highlighted earlier, to modernise your thinking and auditing practices. Then, make sure you understand the meaning of cloud computing, block-chain, the Internet of Things, the metaverse, and the true impact of the global focus on environmental, social and governance (ESG), as these will all become part of the reality confronting you in the not-too-distant future. At the same time, decide on the remote working practices you will adopt for the long-term, as these are here to stay in some form or another.

For the tax and other compliance practitioners among us, the future holds some exciting prospects, as governments continually pursue revenue streams from large technology firms, the locations where revenues are generated and activities practiced become more difficult to pin-point and assets may be moved around with much less restriction before. Accountants will have to understand highly complex virtual assets, with further embedded assets, that are much more fluid and abstract than what we previously had to deal with in a physical world.

Finally, think about the kind of people you select to attract into your practice. Consider a mix of analytical, automation and strong interpersonal skills. The workforce of tomorrow needs a diverse skill set. Be strategic though, in the way you continue training and developing your workforce, as the skills demand continues to reshape itself.

Let me conclude with a quote from Warren Bennis, which highlights humanity's new quest to define and embrace it relevance in a bold new world, where my son's excellent Minecraft skills might be more relevant than most things I knew as a Grade One.

"The factory of the future will have only two employees, a man and a dog. The man will be there to feed the dog. The dog will be there to keep the man from touching the equipment.

PROTECTION AND RETENTION OF AUDIT CLIENT DATA

By Assurance Guidance Committee's COVID-19 Assurance Guidance Task Group

The Protection and Retention of Client Data Task Group of the Independent Regulatory Board for Auditors (IRBA) has prepared a staff audit practice alert which provides guidance and considerations to auditors with respect to the protection and retention of client data.

IRBA Staff Audit Practice Alert 6 Protection and Retention of Audit Client Data indicates that, according to a report by a consultancy firm, South Africa had the third-highest number of cybercrime incidents in the world in 2019, despite ranking 25th in population size. It also indicates that the wave of digitisation being experienced by the auditing industry and the remote working environment which has been demanded by the COVID-19 pandemic are creating more threats of data security breaches. In the SMP environment, the protection and retention of audit client data is of particular concern for reasons including the following:

- **Basic cloud-based software is used (very simple software, like Dropbox etc.). Tools for data encryption, data storage and backups are often not considered and / or discussed.**
- **Limited security software usage and lack of controls and authentication on sign-in to servers and storage facilities.**
- **Overreliance on security measures of off-the-shelf software.**
- **Usage of employees' private computers/ laptops rather than SMP owned equipment, the risk being that the same level of security that might be applied to SMP owned equipment might not be present, for example lack of anti-virus and firewall software installed on private computers/ laptops.**
- **Lack of proper training and implementation of new software.**
- **Limited training on cybersecurity risks for SMP employees.**

SMP practitioners are therefore advised to refer to the guidance provided in the IRBA Staff Audit Practice Alert.

Did you know?

IRBA Staff Audit Practice Alert 6 Protection and Retention of Audit Client Data was issued in September 2021. The publication:

- **Indicates that data security breaches may result in losses to a firm which could manifest in a number of ways;**
- **Discusses possible threats to the protection and retention of client data (including outdated software and data breaches caused by employees);**
- **Explains examples of types of malware (including bugs, worms, bots);**
- **Addresses the control environment which may mitigate the threats relating to the protection and retention of data by discussing the elements (strategic, documentation and operational) which may be taken into consideration in developing policies and procedures relating to data protection and retention; and**
- **Contains a list of key questions for a firm's leadership to consider when processing client data.**
- **Does not constitute an authoritative pronouncement from the IRBA and does not amend or override the International Standards on Auditing, South African Standards on Auditing, South African Auditing Practice Statements or South African Guides.**

Click here for the IRBA staff publication.

IN THE SMP ENVIRONMENT, THE PROTECTION AND RETENTION OF AUDIT CLIENT DATA IS OF PARTICULAR CONCERN...

NEW PERSPECTIVES ON CURRENT SMP CHALLENGES IN TURBULENT TIMES

By **Rory Earle,** CA(SA), VP Group accounting and Compliance at EPI-USE Labs

There is a lot of negativity and uncertainty in the air at the moment, with Covid and unemployment to name a few. No business wants hard times, no leader enjoys hard times. However, it's not all bad news, I believe there is more opportunity now than there was five or ten years ago. Often times, the only thing required to find new opportunities, is a new perspective on current realities. Let's look at three potentially counter intuitive perspectives that could be very helpful and value additive to your life and your business as you face the next wave of challenges.

First perspective: Discover your internal resources

Sometimes when faced with challenges our first reaction is to look outward for help and answers. It is also a natural reaction to blame others, our environment, government or anyone else nearby for these troubles. It is also quite natural to seek help and expect others to bail us out and make things right again. To be clear it's not a bad idea to seek help and guidance externally, but not at the cost of ignoring internal resources. What do I mean by internal resources? Well the first and most obvious internal resource is you, so why not start there? As they say on the airlines - put your own oxygen mask on first before helping others. If you as a leader are not at your best, then your chances of success are less than optimal. So let's ask the question, what internal resources are available for help? I think the obvious one, and the most overlooked one are the people. The many employees that make a business what it is, are not only available to do their 9 to 5 job, but can also be used as a critical sounding board and a powerful source of creativity and problem solving. There is also likely some trustworthy and competent individual that can give honest feedback, as to how you as a leader are coping with the onslaught of challenges.

As a CA(SA), the process of completing my masters dissertation in Executive Coaching opened my eyes to the importance of an understanding of psychology and human behaviour for all leaders. One important principle of executive coaching that I still find relevant today, is that it's important to get honest feedback. I also think that its hugely valuable to challenge your paradigms from time to time and always be on the lookout for new or differing perspectives.

So my suggestion is try it - you have nothing to lose and only upside to gain by engaging your employees beyond their job descriptions.

Second perspective: Asking the right questions

Going straight into problem solving narrows your perspective and can lead to solutions that leave the root cause unaddressed. For example, let's consider the recent shift to work from home model.

When we were first faced with the implications of dealing with a global pandemic, companies raced to source laptops and computers to fulfil the booming need to ensure continuity of employee service.

This reaction is logical and rational, but in my opinion incomplete. Surely the first step would be to ask the question, what do my employees want and need to deliver their work? How can my organisation be more innovative? – on this point some companies were already allowing work from home pre-covid pandemic. These companies had a relatively seamless transition, because they were more innovative in terms of looking after their employees. But my point is by asking the right questions we can better understand the implications and longer term results of a potential solution. Is it correct to go back to normal work from office - post Covid? Without taking the time to ask the right questions we can easily miss some opportunities.

Third perspective: growth mindset

Which brings me to my final point. New opportunities are best identified when your outlook on life is informed by a growth mindset – instead of a fixed mindset. A growth mindset believes that there are endless possibilities in life – and constantly seeks ways to improve yourself in order to be ready when new opportunities arise. A fixed mindset however relies on old habits and old patterns for success. Being agile, flexible and innovative is always an advantage when facing change. Having a growth mindset will give you a head start compared to more reactionary competitors. All you need is to be in the right frame of mind and have an open perspective to pick the best of the emerging opportunities to ensure continued growth in turbulent times.

To conclude, the next time you confront challenges:

- **Remember to examine internal existing resources as a source of support.**
- **Before you look for answers, ask the right questions.**
- **Whenever there are disruptions, turbulence and change, look for the opportunities.**

And lastly – never give up! Success is always waiting for those willing to persevere when others give up.

> WITHOUT TAKING THE TIME TO ASK THE RIGHT QUESTIONS WE CAN EASILY MISS SOME OPPORTUNITIES.