KIM HULETT
FROM CA(SA) TO BIOSCIENCES REVOLUTIONARY
THE BUCK STOPS WITH THE BOARD
THE COMPLEX QUESTION OF CRYPTOCURRENCIES
MISS WORLD SA AN ASPIRING CA(SA)
Crafting customised fiduciary and tax solutions

We believe that true craftsmanship is an art that requires skill, expertise and meticulous attention to detail. At Sanlam Private Wealth our fiduciary and tax experts apply these same principles when providing fiduciary and tax solutions for your local and offshore requirements.

We specialise in the structuring, establishment and management of trusts, local and international estate planning, exchange controls, as well as related tax matters across jurisdictions, allowing us to craft unique private client solutions - now and for generations to come.

To find out more, call (011) 778 6600 or email info@privatewealth.sanlam.co.za

South Africa | Mauritius | United Kingdom | Australia
CONTENTS

SEPTEMBER 2018

THIS MONTH’S FOCUS:

30 HUMANITY’S IMPACT ON EARTH
32 DO HEALTHY OFFICE BUILDINGS EQUAL HEALTHY EMPLOYEES?
34 TOWARDS A MORE ENERGY-EFFICIENT HOME
36 CREDIBLE EXTERNAL REPORTING: THE BUCK STOPS WITH THE BOARD

UPFRONT

6 UPDATES
Environmental, local, economic and political news updates

FEATURES

18 WHEN YOU DON’T HAVE AN ALTERNATIVE IN A NEGOTIATION, IMAGINE ONE
20 THE COMPLEX QUESTION OF CRYPTOCURRENCIES
24 PROFILE
Miss World SA: An aspiring CA(SA)
26 PROFILE
Directing business from Singapore

ADVICE

40 VIEWPOINT

44 GEAR UP TO BE A VISIONARY ENTREPRENEUR
46 STRENGTHEN YOURSELF
47 CORPORATE GOVERNANCE: WHAT MORE NEEDS TO BE DONE
50 TO FIX DYSFUNCTIONAL MUNICIPALITIES START FROM THE GROUND UP

RECOMMEND

52 NEW CIPC REPORTING MANDATE TO BENEFIT THE DIGITAL ECONOMY
54 CPD: ISA 540 (REVISED): Key concepts and changes
57 CPD: BACK TO BASICS: External confirmations from financial institutions

INTEGRITAX

62 TAX CREDIT AMENDMENTS PROPOSED TO MEDICAL SCHEME FEES TAX CREDIT
65 CHANGES PROPOSED TO TAX ON INCOME FROM OFFSHORE TRUSTS
66 DRAFT LEGISLATION LIGHTEN THE REPORTING BURDEN FOR EXEMPT DIVIDENDS
67 PROVISIONAL TAX RULES IN FOR A SHAKE-UP

INDULGE

68 INDULGE: Motoring

ON THE COVER
The future of healthcare is evolving. Rapid change and extraordinary opportunity are now the hallmarks of the biomedical industry, and entrepreneur and CA(SA) Kim Hulett is one of those leading the charge in this golden era of innovation. Page 14
In this issue, we did an in-depth article about the state of the CA(SA) profession in South Africa and interviewed various stakeholders to get an accurate view. While only some individuals and firms have been implicated, the repercussions have been extensive. You can read the article on page ….

This once again brought up the issue of integrity. John Maxwell wrote that ‘The true measure of leadership is influence – nothing more, nothing less.’ So, a leader’s ability to influence others starts with integrity.

In an article in Forbes magazine, Amy Rees Anderson offers a compelling truth: success is temporary, but integrity is forever. She writes that if she could teach one value to live by, it would be this. Integrity is doing the right thing – at all times and in all circumstances – even when nobody is watching. And it takes courage to do this no matter the consequences. Anderson writes that building a reputation of integrity takes years but can be lost in seconds. And in this crisis that the profession is facing it has never resonated more – as a leader and a CA(SA) nothing is more important than being known as a person of unwavering integrity. Things come and go, but character not.

Don’t allow yourself ever to do something that would damage not only your reputation but – more importantly – also your integrity.

When engaging with members on the issues around the state of the CA(SA) profession, there are mixed feelings – some positive, more are negative. Sometimes one cannot help to feel despondent. We had the judging of the Top 35-under-35 competition the past week, and all the judges and everyone involved were greatly impressed by how proud these youngsters are of their profession … by how positive they are and how ready they are to stand up for what is right. They epitomise what it means to be a CA(SA): they use their skills to drive change in their organisations, they use their influence it to impact lives – to lead others, to change perceptions and to motivate.

One can only be impressed and have renewed hope knowing that these are the future leaders: leaders who stand up for what they know is right, stand up against injustice and are not afraid to speak up when they don’t agree.
# What’s Happening on Our Website This Month?

## Telkom Appoints Tsholofelo Molefe CA(SA) as New CFO

[Link](https://bit.ly/2IynZk0)

## Andile Khumalo CA(SA) Joins House of Brave as Non-Executive Chairperson

[Link](https://bit.ly/2udVOlr)

## Media 24 Appoints New CFO

Media24 appoints Mobasheer Patel CA(SA) as new CFO

[Link](https://bit.ly/2MXJ6iA)

## SAICA’s Governance Review

Professor Mervyn King to lead SAICA's governance review

[Link](https://bit.ly/2nv9bdQ)

## SAICA Values

What are the values SAICA expects of its members?

[Link](https://bit.ly/2MDPJGV)

---

## Find Your Favourite Experts Online

### Leadership and Success Strategist
- Usha Maharaj CA(SA)
  - [Link](http://bit.ly/UM_09_18)

### Blockchain Specialist
- Monica Singer CA(SA)
  - [Link](http://bit.ly/MS_09_18)

### Leadership Advisor
- Brett Tromp CA(SA)
  - [Link](http://bit.ly/BT_09_18)

### Tax Specialist
- Muneer Hassan CA(SA)
  - [Link](http://bit.ly/MH_09_18)
ARE YOU A TRUE LEADER?

According to an article in Forbes, ‘Three indisputable traits of a true leader’, honesty and trust is first and foremost crucial. There are no grey areas. That means if you say you’re going to do something, you do it. If not, you inform your team with a valid reason. Second, you’re accountable and take responsibility. You don’t shift blame but learn from your mistakes. Third, ‘The best leaders are learners, not knowers’, meaning you are smart enough to know that questions are more powerful than answers.

SIGNS OF CORPORATE BURNOUT

A five-year study in the UK found that the mental health of 20% of the top-performing leaders of UK businesses is affected by corporate burnout. Employers should promote good mental health practices and provide support for employees struggling with mental health problems such as anxiety and depression. Corporate burnout is a unique condition that results in a complete inability to function and the research found that 20% of high-performing middle and senior leaders are affected by it. But a change in corporate cultures to better understand the importance of employee health and wellbeing will reduce it. Burnout is a complete inability to function, to get out of bed, or undertake work in any capacity. It involves an addictive overwhelming exhaustion resulting in disillusionment and a dysfunctional attitude towards work, colleagues and family.

Source: Personnel Today

MENTAL SELF-CARE TIP: HELP OTHERS!

Did you know when you reach out and help others you boost your own healing by a factor of around 60%? So next time you are feeling down, help someone.
COMMISSION OF INQUIRY TO PROBE PIC

According to the *Mail and Guardian*, President Cyril Ramaphosa has agreed to appoint a commission of inquiry into alleged impropriety at the Public Investment Corporation (PIC). The PIC is responsible for investing R2 trillion worth of public pension money, as well as the assets of various social welfare funds such as the Unemployment Insurance Fund (UIF).

2018’S HIGHEST-PAID ACTRESS

Scarlett Johansson is the world’s highest-paid actress of 2018, earning $40,5 million thanks to *Avengers: Infinity War*.

VIENNA MOST LIVEABLE CITY

Vienna has ended Melbourne’s seven-year reign as the world’s most liveable city, according to the Economist Intelligence Unit. The Austrian capital scored a near perfect score of 99,1 out of 100 in the index, whose criteria include stability, healthcare and the environment.

BELOW-AVERAGE FEMALE RENUMERATION STATS

Despite the increased focus from institutional investors and boards, female representation at senior management and executive levels in South Africa is still on average only at 20%, as reported in PwC’s REMchannel® July 2018 publication. The survey consists of remuneration data for more than 550 participating organisations and just over 4 000 senior managers and executives. The data also indicates that 61% of the females are remunerated below the median of the sample in comparison to 39% of males. In contrast, 63% of males are remunerated above the median in comparison to 37% of females in the sample.

BRIDGES MAY BE AT RISK OF COLLAPSE IN FRANCE DUE TO NEGLECTED MAINTENANCE
SAICA proudly announces the 2018 Top 35-under-35 finalists. These 35 phenomenal youngsters stand out from the crowd. They all boast exceptional achievements, and they are busy changing their communities for the better. The next exciting stage of the competition is the judging process …

Click on their profile and read more about their story to success or visit: https://www.accountancysa.org.za/top-35-under-35-profile-page/
Click on their profile and read more about their story to success or visit: https://www.accountancysa.org.za/top-35-under-35-profile-page/
NATHANIEL JAPHTA
FAM Consulting at Cipla,
Founder: Pro226 Africa, Co-
owner: Easylife Kitchens

LIENTJIE MARAIS
Financial Manager and
Acting IDP Manager at
Sol Plaatje Municipality

RICHARD LOYSON
Director of
Loyson Consulting

SHERYLEE MOONSAMY
Chief Financial Officer
of Johannesburg
Development Agency

ZAMANGWANE KHANYILE
Fund Manager at National
Empowerment Fund and
President of African Women
Chartered Accountants

TEBOGO MOVUNDELA
Chief Executive Officer of
Aurora Wind Power

CHRISTOPHER COMMIN
Group Financial Manager
of National Renal Care (Pty)
Ltd

NEAL REYNOLDS
Group Financial Controller,
Pan African Resources PLC

SPONSORED BY

pps
sage
RENAULT
Investec
MPOLAI LIAU
Senior Audit Manager – Internal Audit at Standard Bank

LOUISE CHUNNETT
ALICE Founding Member at Bidvest Advisory Services (Pty) Ltd

JANINE JACOBS
Client Accounting (Senior Financial Manager) at Glacier Financial Solutions

EXCEPTIONAL. WITHOUT EXCEPTION

Click on their profile and read more about their story to success or visit: https://www.accountancysa.org.za/top-35-under-35-profile-page/
DEFINING THE FUTURE

SPONSORED BY

[Logos of various sponsors]
The future of healthcare is evolving. Rapid change and extraordinary opportunity are now the hallmarks of the biomedical industry, and entrepreneur and CA(SA) Kim Hulett is one of those leading the charge in this golden era of innovation.

Words Monique Verduyn – Photos André van der Merwe
Entrepreneurs tend to be focused, goal-oriented, driven and passionate about what they do. Kim Hulett CA(SA) is no exception. The founder and CEO of Next Biosciences, a company that combines medicine, science and technology to empower people to invest in their future health, has every reason to be excited. Biosciences represents one of the most exciting spaces in the world today. There are new discoveries emerging every day in this rapidly changing, fascinating field.

AN ENTREPRENEUR AT HEART

Ask Kim Hulett how she went from being a CA(SA) to running a company in the revolutionary world of biotech and she’ll tell you that she always wanted to be involved in health and science.

‘Even as a little girl I knew that I would one day start my own business,’ she says. ‘I’ve always loved maths, and been fascinated with where we come from, and about life on other planets. I wanted to be the first woman scientist in space, so I registered for a science degree at Rhodes University after high school – but then I found out the first woman scientist had already been to space and that there weren’t many jobs available for us in science, so I converted my degree and majored in computer science and accounting. I had no plans to become a CA(SA), but luckily, I did well in my exams and PwC offered me a bursary. That’s how it all began.’

A MASTERS OF MANY TRADES

After completing her articles, Kim set off to see the world. But when she got to the UK, she was offered a position in corporate finance at one of the top merchant banks, putting paid to her travel plans. She returned to South Africa in 2005 as part of the team that was setting up the bank’s new local office in Johannesburg. This was followed by a stint with the outspoken Mark Barnes at Capital Alliance (before the Brait era) as head of group product development.

‘I was fortunate to be exposed to all aspects of finance, from structured finance to derivatives, stockbroking, and investments, making this period a valuable learning curve for me.’

Through it all, Kim was itching to start her own business. With no idea what she wanted to do, she nevertheless believed she had to get something off the ground. ‘I was confident that if it didn’t work, I could always fall back on my degree and get a job,’ she adds.

On 1 April 1999, she launched her own consultancy firm, Limitless Corporate Finance. As a young female, it was tough to break into the corporate world, so she quickly became involved with start-ups.

‘It took me three months to earn my first fee. It was a cheque for R250 for tax advice,’ she recalls, smiling. But she got lucky and managed to advise on the structuring of funding for the eTV licence application, where she met labour movement stalwart and successful entrepreneur Johnny Copelyn. It was an experience that opened up many opportunities for Kim.

‘I helped Hennie le Roux set up the SA Rugby Players Association, I consulted to James McWilliams at Coronation’s R1 billion Corohedge fund and was involved in the listing of E-Trade, South Africa’s first online stockbroker, on the JSE.’

She also spent some time setting up more of her own businesses, including digital media company Three Blind Mice, biometrics company Limtech Security, and music recording studio Wired Sound Studios.

Kim has had a longstanding partnership with Dali Tambo and his company Koketso Growth, which itself has had an interesting journey – from mining, to construction, to heritage sites. ‘We were responsible for the delivery of the nine-metre statue of Nelson Mandela outside the Union Buildings in Pretoria, of which I am very proud,’ she says.

Kim is involved with Singularity University and is a member of Peter Diamandis’ A360. She was recently invited to become part of their South African faculty.

‘It’s been a fabulous adventure. I have been fortunate to be exposed to a rich and diverse range of experiences. I am grateful that I was able to gain insight into so many different types of industries and areas of specialisation. It’s only by converging ideas from different disciplines that you can create truly innovative solutions to bring about meaningful change.’

FINDING PURPOSE

Next Biosciences came into being after Kim’s husband Sean asked her to help a friend take up an opportunity to start a stem cell business that would collect umbilical cord blood for parents giving birth in South Africa for storage in the UK.

‘Through doing some research, I became completely hooked on the possibilities of this branch of science when it comes to the future of health and medicine. It turned out that I was more interested than the friend, so I took the opportunity to travel to the UK and visited the lab. That’s when I thought, “why can’t we do this in South Africa?”’

The problem was that Kim had no credibility in the medical field, so she presented her idea to Netcare, South Africa’s largest hospital group, and they took a 75% share of what became Netcells. Together, they funded the business proportionately and when an opportunity arose in 2008 for Kim to buy back her shares, she did. Next Biosciences was born.

In that early phase, she had on board Dr Ryan Noach and Dr Yvonne Holt. Ryan amicably departed from Netcells and is currently the Deputy CEO of Discovery Health. Yvonne continues to serve as the company’s longstanding medical director, following her keen interest in obstetrics and gynaecology, paediatrics, and stem cell technology.

‘Yvonne is a medical doctor and an incredible business partner who provided invaluable clinical input from the start. Together, we have an open-minded approach to advancing innovative healthcare solutions.’

As a further recent bolster to the team, a businessman and friend from university days, Andre Crawford-Brunt, took an interest in the business and subsequently invested. His knowledge...
gleaned on the Advisory Board of Oxford Sciences Innovation in the UK has added significant value to Next Biosciences from an advisory perspective, over and above his clear commercial insights.

TAKING MATTERS INTO YOUR OWN HANDS

Next Biosciences is involved in stem cell technologies and genetic testing, primarily in reproductive healthcare. The most exciting products are Preimplantation Genetic Diagnosis and Screening (PGD and PGS). The company tests early embryos of just a few cells, sent by embryology laboratories, to identify genetic abnormalities and to guide on which are optimally healthy for implantation. This new enhancement to the embryological process minimises the risk of failed implantation, miscarriage and genetic defects at birth. The enhancement to the safety of the fertility treatment process is enormously meaningful to both fertility specialists and their patients.

‘The fact that our testing has such a direct and tangible impact to patients undergoing fertility treatment, and dramatically enhances safety, is a source of incredible pride and motivation for us to do even more and to push the boundaries of innovation at NextBio.’

NextBio offers another test, called NIPT (Non-Invasive Prenatal Testing), that uses maternal blood to test for genetic problems like Down Syndrome in the baby. This has enhanced the simplicity and sensitivity of this important genetic test in the pre-natal period.

In addition, the company manufactures biological products. Placenta tissue is refactored for use in wound care, and umbilical cord blood is utilised to manufacture eye drops for the treatment of severe dry eyes. The NextBio laboratory carries both AABB (American Association of Blood Banks) and ISO accreditation, representing rigorous governance, policy and operating standards.

‘We are moving to a world where people are taking greater ownership of their own health. I am passionate about technologies that enable people to invest in their future health and not only achieve a longer lifespan, but also a greater ‘healthspan,’ Kim says.

‘I’m particularly interested in the nascent field of cellular regenerative medicine, in which cells are engineered to repair, replace and re-program diseased cells. This could be the start of cellular anti-ageing therapies. Also, the evolving field of immunoncology poses a huge opportunity for life-changing medicine. It involves an area of cancer research that coaxes the body’s own immune system to fight the disease, unlike traditional approaches such as radiation therapy and chemotherapy, which whilst effective at killing the cancer cells, unfortunately also kill healthy cells. Immunotherapies have produced some remarkable results, melting some previously refractory tumours away, though these therapies remain largely experimental, with a burden of evidence of safety and efficacy yet to be fully established.’

The microbiome – the bacteria and other organisms that live in our gut and on our skin – is another exciting area of science that has great potential to improve human health.

Large-scale changes driven by technology innovations are only as valuable as their impact on individual people’s lives, Kim believes.

She says South Africa has incredible genetic diversity, well-trained scientists and world-class clinical facilities that could bring these new technologies to the market and into hospitals and clinics here and overseas.

5 TIPS FOR STAYING AHEAD OF THE GAME

1 Investment in yourself. It’s the best investment you can make and no-one can ever take it away from you. Be insanely curious and fast-track your learning from other people’s experiences.

2 You can achieve anything. If you think you can or you think you can’t, you are right.

3 Disrupt yourself or be disrupted. The world is changing exponentially and the jobs of today may not exist in the future. Invest in lifelong learning.

4 It’s not about what you want to be anymore, but about having a purpose and the impact you want to make on the world. Everyone has something to contribute. One of my favourite stories is that of President John F Kennedy visiting NASA Headquarters for the first time, in 1961. While touring the facility, he introduced himself to a janitor who was mopping the floor and asked him what he did at NASA. His response? ‘Mr President, I’m helping put a man on the moon!’

5 Happiness is a choice. Gratitude is what separates entitlement from privilege.
A HEALTHCARE SECTOR IN NEED OF ATTENTION

MOVING FROM THE WORLD OF FINANCE INTO THE MEDICAL SECTOR PROVED EXTREMELY CHALLENGING FOR KIM FOR A NUMBER OF REASONS. ‘REGULATION IN FINANCE IS ONE THING, BUT IN THE MEDICAL FIELD IT HAS ENTIRELY DIFFERENT IMPLICATIONS, CONSIDERING THAT LIVES ARE INVOLVED,’ SHE SAYS.

THE ETHICS INVOLVED IN CORPORATES HAVING STAKES IN HEALTHCARE AND THE NATURAL TENSION THAT EXISTS BETWEEN PROFIT VERSUS THE BEST OF CARE/PATIENT SAFETY PROVIDES MAJOR CONCRETE RISKS AND PITFALLS.

‘IN EMERGING MARKETS LIKE SOUTH AFRICA, IT IS A CHALLENGE TO REGULATE AND FUND “BLEEDING EDGE” SCIENCE WHERE THE DISEASE BURDEN IS EXTENSIVE, AND THE PRIORITIES ARE (RIGHTLY SO) ON PRIMARY AND PREVENTIVE HEALTH CARE. AS SUCH, WE LIVE WITH REGULATIONS THAT ARE OUTDATED. WHAT’S MORE, IN SOME AREAS LEGISLATION IS NON-EXISTENT, WHICH HAMPERS INVESTMENT AND PROGRESS.’

FURTHERMORE, IT IS A DIFFICULT PROCESS TO REGISTER AS A SCIENTIST IN SOUTH AFRICA WHICH, SHE STRESSES, IS MAKING IT REALLY DIFFICULT FOR WORLD-CLASS SCIENTISTS TO FIND WORK AND FOR NEXT BIOSCIENCES TO CULTIVATE TALENT.

SHE RECOGNISES THAT A ROBUST REGULATORY FRAMEWORK IS ESSENTIAL, BUT MUST BE BALANCED TO PROMOTE INNOVATION, ADVANCEMENT AND JOB OPPORTUNITIES WHILST MITIGATING RISK.

View a personal interview with Kim by clicking on the video link icon
WHEN YOU DON’T HAVE AN ALTERNATIVE IN A NEGOTIATION, IMAGINE ONE

In a recent paper in the *Journal of Personality and Social Psychology*, we found that negotiators can reap some of the benefits that alternatives typically offer by simply imagining having an attractive alternative.

To assess whether the effects of imaginary alternatives carry over into more profitable final agreements, we conducted a study with 300 laboratory participants. They were grouped similarly: some had an actual alternative, some had no alternative, and others were told to simulate an alternative. We gave them an incentive to negotiate as ambitiously as they could.

We found that participants in the imaginary alternative group demanded more in negotiating and sold their product for significantly more compared to negotiators in the control group. We also found that they performed almost as well as those with a strong alternative.

These studies show that mentally simulating having attractive alternatives may help boost your aspirations and outcomes in negotiations. This could mean thinking about what an attractive but realistic alternative offer looks like, for example for a product you’re selling, or an alternative job offer before you head to the negotiation table.

We also want to note some important caveats. Our other studies demonstrated various situations where imagining an alternative offer did not yield a better outcome or potentially even backfired. The type of alternative simulated matters. When we asked negotiators to imagine an unattractive alternative rather than an attractive alternative, they performed much worse because doing so lowered their aspirations.

Although strong alternatives are important for a successful negotiation, we often need to negotiate without the luxury of having them. Our findings suggest that you can partially compensate for this lack of power by mentally simulating a realistic but ambitious alternative.

AUTHORS | Michael Schaerer is a doctoral candidate in organisational behaviour at INSEAD, Martin Schweinsberg is an assistant professor at ESMT Berlin, and Roderick Swaab is an associate professor at INSEAD
As an Investec Private Bank Account client, you know something about personal, tailored products and services. So, why would you go back to square one with your life insurance?

Through Investec Life, you can simply apply online for comprehensive and fully customisable life insurance, including life, disability, mortgage and illness cover. Count on Investec Life to protect your life, lifestyle, family and wealth – in One Place™.

Interested? Get in touch with your Private Banker, our specialist Investec Life advisers on +27 11 291 3934 or visit www.investec.com/life

B__NK SPA__ES IN YOUR LIFE INSURANCE?
Investec Life will help you crunch the numbers.

Investec Life Limited, a member of the Investec Group, is a registered Long-term Insurance Company (Reg.No.1944/017130/06) and an authorised Financial Services Provider (FSP number 47702).
There has been much talk in the media over the last year on cryptocurrencies such as bitcoin and Ethereum and the related tax and exchange control consequences. People have made enormous profits recently thanks to the boom that lasted until December 2017, and this has naturally attracted the attention of the South African Revenue Service (SARS).

Because of these significant gains, revenue authorities are now starting to ask questions about how cryptocurrency profits should be disclosed and how they should be taxed.

‘Early on, SARS muddied the waters because it stated that the revenue authorities are treating cryptocurrency gains made by people as capital gains,’ says Van Eeden. ‘Then it undertook to issue a more detailed document, potentially by way of an interpretation note, which tax practitioners eagerly awaited. ‘That turned out to be an underwhelming media release on 6 April, in which SARS stated that the type of taxation applied would depend on the nature of the transaction, which is the technically correct approach it should have stated initially. If it’s for profit you’re going to be taxed on it at your marginal rate; if it’s for the long term, there will be capital gains tax at a maximum effective rate of 18%. The media release also stated that cryptocurrency is not regarded as legal tender for South African purposes, which leads to further discrepancies. We believe that a more formal interpretation could have given taxpayers much more clarity.’

DISCLOSING GAINS AND LOSSES

The current scenario is one that leaves investors in a tricky position because taxpayers will have to disclose their gains and losses, and they are going to potentially end up in a dispute with SARS if the Revenue Service believes they should have been taxed on income account rather than capital account, for example.

The other difficulty is that certain taxpayers may choose not to voluntarily disclose the profits they’ve made on cryptocurrencies because there is a perception that SARS’ ability to trace cryptocurrency trades is going to be inherently difficult as a result of the type of asset they are dealing with.

‘Many tax practitioners have clients who have made gains over the last couple of years with the inevitable question being raised as to what tax rate to apply to their particular circumstances,’ says Van Eeden. ‘This involves a detailed analysis of the surrounding facts and circumstances, applying relevant tax principles and researching case law before providing a view to the taxpayer that supports the relevant tax position taken, which is not always a straightforward exercise.’

A third issue is that SARS does not regard cryptocurrency as currency. From a tax perspective, that creates an area of dispute because cryptocurrency, if regarded as legal tender, has a fundamentally different
The popularity of cryptocurrencies has resulted in questions about their tax treatment. Depending on the facts and circumstances, capital gains tax or normal income tax may apply. Geneva Management Group tax expert Ruaan Van Eeden believes that, in the interests of the taxpayer, SARS must act quickly to clear the confusion.

Words Monique Verduyn
SARS come into possession of information and finds a discrepancy when matched to what you’ve declared on your tax return, you could suffer criminal prosecution and penalties of up to 200% in a worst-case scenario, including interest. It’s far wiser to voluntarily disclose your cryptocurrency trades and then take a position as to whether or not it should be capital gains or income tax and defend that stance accordingly.

The basic principle is to ask, ‘What is the intention of the taxpayer when they acquired the asset, when they held the asset, and when they disposed of the asset?’ Having regard to the surrounding facts, it then becomes an application of the principles of general capital versus revenue case law; if it was in the form of profit-making scheme you are rightly going to pay income tax at whatever your marginal rate may be, alternatively in the absence of a profit making scheme the result is that you’re going to pay capital gains tax rates,’ Van Eeden explains.

In practice this becomes tricky; buying and selling cryptocurrency is one thing, but bitcoin mining is another, because you are essentially receiving a non-cash reward for performing a service in which you have utilised and applied your skills and wits, with the likely result that you should be taxed on income account.

AN INHERENTLY VOLATILE INVESTMENT

The value of cryptocurrency is not specifically backed by a particular asset; it’s simply based on what a willing buyer and seller will trade in an open market. This makes it inherently volatile, and a very risky asset.

‘I suppose that’s part of the appeal, because you have the ability to make quite a bit of money, but you also run the risk of losing a lot,’ says Van Eeden. ‘Some countries have taken a firmer stance in the way they deal with cryptocurrencies. But from a regulation perspective it’s a difficult position for any country to be in – you’re dealing with a technology that’s very adaptable and is not yet fully understood.’

Here’s a conundrum. Taxpayers who disclose cryptocurrency gains upfront and have been open with SARS could find themselves being audited in order to set a precedent for other taxpayers, and they could be penalised, while those who have been in the shadows and only disclose cryptocurrency trades in the future may have the opportunity to disclose previous income through a voluntary disclosure programme and they could potentially mitigate themselves from penalties and interest. It’s an extremely complex puzzle at the moment, which is why we need clarity and certainty on cryptocurrency and how it will be treated.

Ultimately, SARS’ latest pronouncements on cryptocurrency have no legal authority whatsoever, leaving many aspects open for interpretation.

‘It would be good news for everyone if the South African Reserve Bank were to take a firm stance on cryptocurrency, as that would potentially enable the tax provisions to become much clearer,’ says Van Eeden. ‘The uncertainty has the potential to lead to big disputes and lengthy court cases, which is something that should be avoided.’

A last word: If you’ve made cryptocurrency gains or losses, disclose this in your tax return, and ensure you are able to defend your position; do not leave it up to chance for SARS to find that information, as the penalties could be catastrophic.

THE LOWDOWN ON CRYPTOCURRENCY

• CRYPTOCURRENCY, ASSOCIATED WITH THE INTERNET, IS A FORM OF DIGITAL MONEY THAT IS DESIGNED TO BE SECURE AND, IN MANY CASES, ANONYMOUS.

• THE CURRENCY USES CRYPTOGRAPHY, THE PROCESS OF CONVERTING LEGIBLE INFORMATION INTO AN ALMOST UNCRACKABLE CODE, TO TRACK PURCHASES AND TRANSFERS.

• THE FIRST CRYPTOCURRENCY WAS BITCOIN, CREATED IN 2009 AND STILL THE BEST KNOWN. THERE HAS BEEN A PROLIFERATION OF CRYPTOCURRENCIES IN THE PAST DECADE, INCLUDING LITECOIN, ETHEREUM, ZCASH, DASH, RIPPLE AND MONERO.

• CRYPTOCURRENCY WENT MAINSTREAM IN 2017 AS THE PRICE OF BITCOIN, THE MOST POPULAR CRYPTOCURRENCY, SOARED OVER 13-FOLD DURING THE YEAR.

• THE ONUS IS ON TAXPAYERS TO DECLARE ALL CRYPTOCURRENCY-RELATED TAXABLE INCOME IN THE APPLICABLE TAX YEAR. INTEREST AND PENALTIES WILL APPLY TO INDIVIDUALS WHO FAIL TO DO SO – SARS.

• GIVEN THE UNCERTAINTY AND POTENTIALLY SIGNIFICANT TAX AND EXCHANGE CONTROL IMPLICATIONS THAT MAY ARISE WHEN TRADING IN AND USING VIRTUAL CURRENCIES, IT’S IMPORTANT FOR ANYONE WHO PARTICIPATES IN A TRANSACTION THAT INVOLVES CRYPTOCURRENCY TO OBTAIN ADVICE FROM THEIR TAX PRACTITIONER.
“Essential to life ”
~ Melokuhle Mkhize, Group Managing Director

REAL REPORTING SOFTWARE FOR REAL PEOPLE

The most comprehensive, flexible and self-maintainable consolidation, reporting and planning software available.

Proudly brought to you by www.infinitusreporting.com

finnivo™
consolidation suite

www.finnivo.com
THULISA KEYI PROVES BEAUTY AND BRAINS ARE NOT MUTUALLY EXCLUSIVE

Accountants are generally lauded for their brains over their beauty. There are, of course, always exceptions. Thulisa Keyi is one of them. Recently crowned Miss World South Africa, Keyi completed her BCom accounting degree and a Postgraduate Diploma in Accounting (PGDA) at the University of Cape Town and is now completing her articles, with her just six months away from qualifying as a chartered accountant (CA(SA)). Keyi is living proof of the claim that beauty and brains are not mutually exclusive. She hopes to use her position as Miss World South Africa to further the cause of the economic empowerment of women.

When she grew up, it seemed unlikely that Keyi would one day find herself at the Miss South Africa competition. She hails from Mdantsane, a small township outside East London in the Eastern Cape – not the first place one would immediately associate with an aspiring CA(SA) or, on second thought, a Miss World South Africa title holder.

Nevertheless, this township formed the backdrop to Keyi’s formative years. Her surroundings were not dissimilar to those of countless young women growing up in one of South Africa’s many townships. To an outsider looking in, young Keyi’s prospects may have seemed limited by her surroundings.

She explains, ‘Just like any other township in South Africa we experienced similar socio-economic challenges: high crime rate, high levels of unemployment, and high levels of teenage pregnancy.’

Growing up, Keyi was not discouraged by her humble surroundings, however. She comments, ‘It felt totally normal because I did not know anything else.’

TBF: A GUIDING LIGHT ON THE CA(SA) CAREER PATH

Her first exposure to the idea of accounting as a career came when her father graduated with a BCom in accounting. At the time, Keyi was around 10 years old.

She recalls going to work with her father saying, ‘It was then that I began to understand the corporate ‘feel’.’

Keyi attended a commercial school where she excelled at maths and accounting. Her teacher encouraged her to pursue a career in accounting and told her about the Thuthuka Bursary Fund (TBF) – a SAICA initiative which provides funding and support for youth from previously disadvantaged communities with the aim of helping them to become CAs(SA). This is part of SAICA’s commitment to addressing the underrepresentation of black African and coloured members in the accounting profession.

Keyi recalls how she attended the SAICA Development Camp and later applied for the TBF, which she was subsequently awarded at the end of her matric year.

She fondly recollects the positive changes the bursary has made to her life. Apart from the financial support offered, the programme is designed to provide a social support structure for students adjusting to university life (often in a city far away from their hometown).

For Keyi, moving to Cape Town and attending university was something of a culture shock. She confides that being a small-town girl, had it not been for the support of TBF, the process could have been overwhelming.

She elaborates: ‘There are social challenges that are unique to people from disadvantaged backgrounds, TBF made me feel like an individual – not just a number.’

In the second year of her studies, Keyi fell ill with pneumonia. This setback came at a most inopportune time as it was shortly before the end of year exams. ‘I really had to push through that, remembering why I started helped get me through,’ she recalls.

‘When facing challenges, I have always tried to go back to the drawing board and say, why am I here, what am I trying to achieve and why is this important to me. This gives me the resilience to push through the challenges,’ she adds.
TURNING TRAGEDY TO TRIUMPH

Keyi attributes her success to the support of her family and TBF, and to a powerful and enduring motivation. It is a clear vision that she deems necessary for achievement. It is only by determining your ‘final destination’ that you can plot a route to your ‘promised land’. Apart from taking a pragmatic approach to defining what you need to do, having a vision also keeps you focused in spite of reversals of fortune.

‘My dreams excite me. When I look at everything I have set out to achieve it gives me excitement and that feeling makes me want to work even harder because I know I can achieve them,’ says Keyi.

Sadly, Keyi’s life has not lacked tragedy. When she was 17, her father died. She confides that she has made a conscious decision to do her best to transform her suffering into something of meaning.

She says, ‘My late father has inspired every step I take, even in his absence. It was a terribly painful experience and something I still have difficulty talking about. But through it I found the strength to really be the woman that I have become, one who goes for her dreams and is an inspiration to the nation.’

Keyi clearly values her family, saying, ‘My family has not only supported me, but they have made a lot of sacrifices. After my father died, my mother really stepped up and made us feel supported – she was determined to minimise the effect of losing our father would have on our progress.’

The demands of her education, her modelling career and now her duties as Miss World South Africa mean that for Keyi, time is in particularly short supply.

This is evidenced while trying to mute three different cell phones for our interview. She says, ‘Balance is very difficult to achieve but it is directly linked to what is important to you. You need to prioritise what you value, I value family, so I always make time for them.’

MAKING IT AT MISS SOUTH AFRICA

To say that Keyi has led a busy life over the past few years would be a gross understatement. As many CAs(SA) will recall, working towards your qualification is a time-consuming task. Despite the obvious demands of her education, she has managed to find the time to pursue a career in modelling for the past five years. (Surprisingly, however, although an experienced model, the recent Miss South Africa competition was Keyi’s first foray into the world of beauty pageants.)

She decided to enter the competition with the clear intention of using the experience as a means of being a more effective advocate for the importance of education.

‘I entered the competition because I wanted to encourage the economic participation of women and youth, and to use the platform to empower them through education,’ she says.

Now that she has won the Miss World South Africa title, she is determined to use her position to further the cause of the economic empowerment of women, and improving the accessibility and quality of education, she believes, is a first step towards this end.

She explains the benefit of having gained the Miss World South Africa title: ‘It has given me a voice in society, a platform where I can really follow my passion and have a greater social impact.’

Keyi highlights the nature of the social issues facing young women, which she hopes to address. ‘Young girls have been overlooked, so many of them don’t have confidence in themselves to push through and take that lead; empowering girls with education, should allow them to realise the potential that is within.’

BEAUTY WITH A PURPOSE

In December, Keyi will fulfil her remit as Miss World South Africa when she represents the country on the global stage at the 68th Miss World competition to be held in Sanya, China.

Over the years the competition has evolved from the bikini contest it started as in 1951 at the Festival of Britain. It now requires far more from contestants than was required by the inaugural event. Interestingly, the swimsuit segment of the contest with which the competition began is no longer included. It is the first and only major international beauty pageant to exclude this salacious segment.

Nowadays, competitors are judged on a wider range of attributes – one which extends beyond physical beauty alone. In fact, an entire segment of the competition is based on altruistic initiatives of the young women. The segment is named ‘Beauty with a Purpose’.

‘It requires the competitors to demonstrate how they have affected social change in their country,’ explains Keyi.

This requirement will see Keyi engaging with the Miss South Africa organisers to devise plans to improve the availability and quality of education in the Eastern Cape.

When asked what advice she would give to young girls from a similar background to hers, Keyi says: ‘I’ve realised that life is not fair, but whatever cards life hands you, you have to be willing to thrive – regardless. Make excellence a priority no matter what challenges you face along the way.’

A FUTURE WITH FOCUS

Keyi hopes to qualify as a CA(SA) within the next six months. This, however, will not be an end, but merely a milestone on her envisioned journey. Her ambition is to qualify as a certified financial analyst (CFA).

She describes her ideal career trajectory: ‘I am interested in getting into investment banking and then one day opening my own investment company.’

By achieving these aspirations Keyi will no doubt further the cause of the economic empowerment of women. She will serve as an inspiration to young girls, living testimony to the idea that economic empowerment is not beyond their reach.

Keyi’s life philosophy is simple and can be captured in just three words, ‘never give up’.
Singapore may be a small island in Asia, but despite its size, the country has developed into a global commerce, education, finance, tourism and transport hub over the last 50 years. This is a testimony of what effective leadership can do, and Chris von Elling says it is truly inspirational. (South Africa, take note!)

Chris enjoys how a diversity of cultures live together in seamless harmony. ‘I love the energy this creates. You feel as if you are part of a global community. I love the safety, cleanliness and energy of the city,’ he says.

What is your current role and the company you work for? Chief Financial Officer for International SOS Medical Services.

What do you enjoy most about your job? The fact that it allows me to travel and do business on a global scale. In my direct team there are more than 12 different nationalities, which makes it very interesting. It also brings creativity and the best in class into the working environment.

My role is very business focused, which allows me as a CFO to be a real value-adding business partner. I also learn new things every day and have the privilege to work with some of the best business leaders in the world.

How long have you been living there? Five years.

Tell us more about Singapore? Singapore is an easy country to live in as everything is well organised and works extremely well. The sport and leisure facilities are some of the best in the world. The country prides itself on being green and there are trees and gardens all over the city and the island.

Singaporeans are real food lovers and you can find a wide variety of affordable food with various cultural influences from all over the world. This makes food-tasting quite an exciting experience.

Singapore has got something for everyone, whether you are into nature, sports, culture, food, the beach or just enjoying the bright lights of the city.

How has your CA(SA) qualification benefitted your career? Being a CA(SA) has been instrumental in growing and developing my career — not only the designation, which is extremely well regarded globally, but also the academic and practical training behind it. This has given me the tools to grow my career.

How has international experience enriched your life and career? I have grown as a person and realised that with hard work, the sky is the limit. Career-wise it has taught me to manage and develop people from various cultures and backgrounds.

Describe yourself as a person? I’m a passionate person who believes that if something is worth doing it’s worth doing well. I’m driven and people focused.

The most interesting lesson you have learned while living abroad? That the world is smaller than what I thought it was.

Some of the challenges you have encountered? Personally, it is being away from family and friends. Professionally, adapting to the huge amount of travel and structuring my life around this.

Is there a community of South Africans in Singapore? Yes, there is a South African community with various events, and we even get our own biltong here.

What do people do to relax and enjoy their free time? Singapore is called the Garden City, so people spend a lot of time either outdoors or enjoying the interesting food with friends. Sport also plays a big part and is actively promoted by the government — there is 120 km of cycling and running lanes across the island.

What is the quality of living like? Fantastic! It is one of the cleanest, safest and most advanced cities in the world.
What do you miss most about South Africa? The South African people and hospitality.

Any interesting story you’d like to share? Being a keen cyclist, one of the first things I did when I moved to Singapore was to get on a bicycle. However, I did not do proper research on how the roads work and ended up in the middle of a four-lane highway for a couple of hours. I got terrible sunburn and arrived on my first day at work rather red in the face!

What does a South African CA earn and how does the income tax system work? It depends on the level. Entry-level salaries for CAs are around $100,000–120,000 (R1.4–1.7 million), while for senior positions up to $600,000 (R8.5 million) annually is not uncommon. Personal tax is quite low at around 10%, but the consumption tax on things like cars and alcohol is very high (up to 300%).

What is the cost of living like? Essentials like food, electricity, and public transport are affordable and in line with South African prices. Cars are regarded as a luxury (they have a great public transport system) and an entry-level car will cost $100,000 (R1.4 million). Land is scarce, so most people live in condos or apartments. These are expensive – monthly rental starts at $2,000 (R28,000) for a two-bedroom apartment and can go up to $15,000 (R215,000). Apartments and houses are expensive and can cost between $1 million and $80 million (R14 million and R1.1 billion). Most public attractions and various shows are free, so entertainment is affordable – depending on what you like.

Based on these two factors, can a South African go to Singapore to save money, or is it difficult because of the cost of living? As most of the tax is consumption based, you can save quite a bit of money if you manage your lifestyle.
Why should I attend?

Top inspection finding - 2017 IRBA Public Inspections Report
IRBA Inspections Department to increase focus on audit of estimates and judgements

4 HOURS CPD

Updated topics and examples

Topics

IRBA Public Inspections Report and IFIAR Survey
ISA 540 – A refresher of the requirements
ISA 540(R) - Awareness of important changes
Auditing impairments under IFRS 9 and IFRS for SMEs

16 Oct
JHB & Webcast

Property, plant and equipment
Impairment of trade receivables
Investment property

Practical Examples

Register Here

2018 AUDIT OF ACCOUNTING ESTIMATES UPDATED EDITION

Sponsored by i9 Partners.com, the IFRS 9 company
SUSTAINABLE SOLUTIONS

The necessary solutions for ensuring that our children enjoy healthy and abundant natural habitats are not simple. But one thing is certain. For humanity to head in the right direction, we must take a closer look at what is around us. And we cannot count on the blind leading the blind.

- World Economic Forum
HUMANITY’S IMPACT ON EARTH

In terms of biomass, humans account for only 0.01% of life on earth – but our impact has been immense.

Words Professor Ron Milo

Most of us, including scientists, are blind to the full scope of the living world. This was illustrated by an informal survey which asked biologists and ecologists from elite universities two questions. In terms of mass, is the living world mostly composed of animals, plants or bacteria? And is there more global biomass on land or in the oceans? The majority of them answered both questions incorrectly.

In an age of unparalleled access to information, this is a glaring gap in our knowledge. We are now equipped to close it. I joined colleagues from the Weizmann Institute in Israel and the California Institute of Technology to estimate the biomass of all kingdoms of life on earth. The results were published in the journal of the American National Academy of Sciences and were widely (and more digestibly) covered by the popular press.

It required years of work, collecting and integrating information from hundreds of previous studies. We documented every step in full detail and deposited it as open-source information for anyone to examine and explore. Here are some highlights from what we found.

Our results exemplify the phenomenon known as plant blindness. Even though plants constitute the majority of global biomass – 80–90% by our calculations – many people consistently underestimate them. When asked, most biologists guess that there is more bacterial or fungal biomass. In fact, these are runners-up by a long way. The entire animal kingdom is only about 0.5%.

Furthermore, while stunning documentaries such as the BBC’s Blue Planet help us appreciate the enormous ecosystems of the oceans, we found that there is about 80 times more living mass on land than in all the oceans combined.
Finally, our results now put us in a position to reveal the global ecological role played by humanity. In terms of mass, we are a tiny minority. Humans account for only about 0.01% of the planet’s biomass. This is a fraction that would in other contexts be discounted as a rounding error. But the role of this minority cannot be ignored; our impact is immense. Since the appearance of humanity several thousand years ago, the living mass of the world has been halved, largely as a consequence of deforestation to make space for agriculture and pasturage.

These numbers give us a new appreciation of not only how humanity has historically depleted living biomass in the past, but of how we have recently transformed that which remains. During the last few centuries, the mass of domesticated mammals has declined several-fold. Today, the mass of domesticated mammals is twenty-fold higher than that of all wild mammals. The jigsaw puzzle that I put together with my daughter shows a giraffe next to an elephant and a rhino, an exotic image of the wild biomass on earth. If I were to reluctantly revisit this image in light of current biomass abundances, there should be a cow next to a cow next to another cow and then a pig, a rather less exciting picture.

The exact proportions vary by region. For instance, Southeast Asia has more pigs, while South America has more cows. But with the exception of Antarctica, domesticated mammals vastly outweigh wild mammals on every continent – even Africa with its half a million elephants. The biomass of birds has also been vastly reshaped. The mass of domesticated birds, mostly chickens, is now twice that of all wild birds combined.

The massive transformation enacted by humanity is also why our geological era, which is akin to the operating system on which the living world depends, recently had its name updated to the ‘Anthropocene’ – the age of humanity. So what is the path forward? The necessary solutions for ensuring that our children enjoy healthy and abundant natural habitats are not simple. Many require changing what we eat and how we produce it, since agricultural land use is the dominant driver of deforestation and the diminishing populations in the animal kingdom.

But one thing is certain. For humanity to head in the right direction, we must take a closer look at what is around us. We cannot count on the blind leading the blind. We must pay attention and follow the light provided by the careful study of numbers.

**THE MASS OF LIVING THINGS ON EARTH**

The mass of living things on Earth

500 gigatons of carbon

Humans account for only about 0.01% of the planet’s biomass. That’s less than mollusks, viruses, and segmented worms, among others.
A famous chiropractor, BJ Palmer, stated that the healing of the world is an inside job. This may also be true for individuals, teams and organisations in corporate South Africa today. Developing green buildings and optimal workspace areas for ‘wellness’ are commendable practices, but to what extent do they perhaps deflect the issue of ‘unwell’ organisational cultures and interpersonal dynamics?

We cannot reflect on healing without also reflecting on illness, as these are two sides of the same coin. Which brings us to the next question: what is the ‘poor health’ below the surface, hidden within sustainable green architectural workspace designs? We cannot assume a ‘healthy office building’ equals ‘healthy employees’.

In finding answers, a systems view of individuals, teams and organisations may be useful. Healthy or well-functioning organisations are dense networks of interdependent relationships where nobody works in isolation. A systems view recognises that employees need to be connected to the fundamental identity of the organisation to be corporately well. Employees need to be connected to each other, to new information and be able to agree on questions such as who they are,
who they want to become and how they work together in the best ways.

Organisational expert and academic Margaret Wheatley wrote that employees need to be able to reach past traditional boundaries and develop relationships with people anywhere in the organisation. Wellness in this sense emerges from the domains of identity, information and relationships, thereby becoming more self-aware as individuals, as teams and also as an organisation.

While an organisation becomes more connected to the truth of who it is, it also becomes more connected to its environment within; that is, employees and their relationships with each other. And this eventually extends beyond the internal to the external environment, that is, to the organisation’s clients or customers; understanding their needs and expectations and how to fulfil these. In this rich and interconnected environment where unified energy resides, innovative ideas and ways of thinking become more prevalent.

Stronger connections within an organisation enhance its capacity to adopt new strategies. Once the link between professional purpose and the value of each employee in the value chain has been established, change becomes a less frightening thought and easier to implement and sustain.

In an ever-changing competitive landscape, flexibility to retain and grow market-share is a sign of a healthy organisation, despite buildings that may not be so ‘green’ and workspaces that may look a little less than ‘optimal’. Undoubtedly, the first prize would be to have both – healthy, optimal workspaces in which healthy employees can thrive, connect and respond positively to their work requirements.

Academics at the Unisa Graduate School of Business Leadership (SBL) initiated a recent community project with youth in the Cape Flats. The developmental interventions aimed to strengthen the personal leadership skills of the teenagers. The research that was conducted afterwards to evaluate the effectiveness of the programme yielded interesting findings. The participants reported how they experienced a renewed and unified sense of patriotism, a sense of ‘belonging’ and empowerment.

All the findings reflected relational characteristics of healthy living systems; in other words, a strong and expanded network or web of relationships. The youth described the value of embracing diversity where crossing those boundaries of differences among us are evident.

Whether as corporate leaders, employees or young community members, as individuals, each one of us has an inside job to do and should understand that we lose capacity and ‘wellness’ when we resist integration with others, when we insist on a personal ‘no change’ policy, fuelled by a command and control leadership style.

In South Africa, in these politically and economically turbulent times, we need to consider what we are learning about leadership. This hopefully includes a growing potential to trust each other and rely on colleagues as ‘bundles of potential’ to act creatively, take risks, inspire, console and produce together to reconstruct the inner chambers first and then optimise the outer chambers of our working environments.

In sum, the healing of organisations may well be an inside job, as Palmer stated. To ensure and restore employee wellness, organisations should commit to a goal of ‘Just connect’.

AUTHOR | Sanchen Henning DPhil (Consulting Psychology). Her fields of specialisation include system psychodynamic theory, organisational wellness and positive psychology
TOWARDS A MORE ENERGY-EFFICIENT HOME

Here are five of the many small changes we can make in our everyday life that will go a long way towards saving energy.

Most if not all of us have done all that we can to save water and reduce our usage of this valuable resource. How about taking this a step further now? Let’s reduce our overall energy consumption and be cleaner and greener inhabitants of this planet. Not sure how? Here are some tips on what to buy and what to do to make your house more energy efficient.

SWAP YOUR LIGHT BULBS

Many houses still make use of incandescent bulbs. These bulbs use a lot of energy. Consider swapping all or some of the bulbs in your house to fluorescent ones, which produce less heat and are more efficient. These may cost slightly more, but they last a lot longer and will end up saving you money over time.

UNPLUG YOUR CHARGERS

Do you leave your chargers plugged in and the wall plug switched on? You will be surprised at how much energy this uses. Unplug these when not in use, and over time you will end up using less energy.

INVEST IN LOW-ENERGY APPLIANCES

There are appliances that we use heavily that we could easily swap for more energy-efficient versions. For example, instead of using an electric heater, consider switching to one that uses gas. Replacing your entire geyser may be a bit drastic, but a great way to keep the warmth of the geyser without using as much energy is to buy a geyser blanket or install a geyser timer that switches it on and off at certain times of the day.

MAKE USE OF SOLAR POWER

We understand that not everyone is able to install a solar panel or two to power their home, but there are some smaller solar-powered devices that you can use to reduce your energy use. Solar lights are great for outdoor areas, while solar lamps can be used on bedside tables. Use solar chargers and power banks to power your phone or cool down with a solar fan.
Run Your ERP, Your Way, on Your Terms

When it comes to Enterprise Resource Planning, whether you’re answering a strategic IT imperative, searching for an affordable managed services partner or requiring manageability across dispersed locations, SYSPRO ERP gives you the flexibility to choose the deployment that best suits your needs – whether on-premise, in the cloud or both – with the same user experience across all platforms.

Which means you can choose how you engage, wherever you are, 24/7, on whatever device that best suits the task at hand, without needing to learn a different operating system.

If you’re ready to adopt an ERP solution designed to simplify your success, contact us on 011 461 1000 or info@za.syspro.com and we’ll show you how to run your ERP, your way, on your terms.
CREDIBLE EXTERNAL REPORTING
THE BUCK STOPS WITH THE BOARD

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

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

External reporting is defined as any report produced by the organisation which is submitted for consumption by external parties such as the general public, government, shareholders and so forth. It can be done on a voluntary or mandatory basis and can take many forms, for example printed and website publication.

Effective and transparent external reporting allows organisations to present a cohesive explanation of their business and is crucial for stakeholders to assess organisational performance and make informed decisions with respect to an organisation’s capacity to create and preserve value.

Many organisations are increasingly complex with ever larger economic, environmental and social footprints. As a result, external reporting is continually evolving to meet the emerging needs of a variety of stakeholders for wider information about the entity.

Without the right information reaching the right people at the right time, organisations won’t be able to build and foster trusting long-term relationships with their customers, investors and other stakeholders. Both short- and long-term financial performance is predicated on robust performance information. Having confidence in that information is essential, as it forms the basis on which management, the board and external stakeholders make key decisions. The type of information that analysts and investors seek and increasingly demand also extends beyond traditional financial measures. They need to understand a company’s performance in many different ways to make sound investment decisions.

Assurance that performance is being achieved therefore plays a key role. It offers a source of powerful differentiation – and a solid platform for competitive outperformance and value creation.

Proceeding from the context provided above, there is demand for actions that support credibility and trust with regard to information contained in external reporting produced by companies.

In our own South African backyard, this has been reinforced by the requirements set out in King IV (Report on Corporate Governance for South Africa 2016) pertaining to assurance over external reporting.

KING III AND IV

What does King IV require, and how does this differ from King III?

In King IV, the governing body is
given responsibility for ensuring the integrity of external reports. In King III, this was delegated to the audit committee. While it may be appropriate to still delegate this task to the audit committee, King IV has emphasised the responsibility at governing body (board) level, given its wider application than just external financial reporting.

While King III referred to considering assurance over the financial and sustainability reporting elements, King IV explicitly broadens the responsibility to ensure the integrity of all external reporting issued by the organisation, including:

- Corporate governance disclosures required in terms of this code
- Integrated reports, and
- Financial statements and other external reports.

With regard to reporting, King IV recommends that the governing body should consider allocating oversight of, and reporting on, organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relationships to a dedicated committee or adding it to the responsibilities of another committee, as is appropriate for the organisation. In the case of companies where a social and ethics committee is a statutory requirement, however, that committee is allocated this responsibility.

King III recommended that the audit committee should have oversight of the sustainability reporting process. However, King IV acknowledges that there may be other more appropriate committees to delegate this to, for example, the social and ethics committee.

Not a specific requirement in King III, King IV requires the governing body to set the direction for how assurance – be it internal or external assurance, IT REMAINS CLEAR THAT THE BOARD SHOULD BE IN THE DRIVING SEAT REGARDING THE QUALITY OF THE INFORMATION THEY PUT OUT BOTH INTERNALLY AND EXTERNALLY AND THE COMBINATION OF ASSURANCE MECHANISMS THEY EMPLOY TO PROVIDE THEM COMFORT IN THIS REGARD.

CREDIBLE AND RELEVANT INFORMATION PUT OUT INTO THE MARKET PLACE AS WELL AS WHAT IS USED FOR DECISION-MAKING WILL PROVIDE COMPANIES WITH A COMPETITIVE ADVANTAGE AND WILL ALSO SERVE TO ASSIST BOARDS IN MANAGING THEIR OWN PROFESSIONAL AND LEGAL LIABILITY RISKS.

EXTERNAL REPORTING IS ARGUABLY ONE OF THE MOST CRITICAL ACTIVITIES COMPANIES ENGAGE IN AND, WHEN DONE WELL, ONE THAT IMPROVES CORPORATE REPUTATION AND SHARE PRICE.
or a combination thereof – with regard to the broader set of external reports should be approached and addressed. King IV requires the following considerations in this regard:

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

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

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

KEY QUESTIONS

The board and management should be asking some key questions around external reporting and the credibility thereof:

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

THE BUCK STOPS WITH THE BOARD

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

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

Xero Practice Manager gives you the tools you need to run a more productive, more profitable practice – anytime, anywhere.

So you can focus on how you do business, not where you do business.

Find out more at xero.com/partners
KNOW WHO YOU ARE

Living your life on your terms means knowing who you truly are. Peel away the layers to find your true self with these three steps:

- **Lead with your strengths – Personality profiling** can help you to know yourself and to live in the flow through your natural strengths. Try the Contribution Compass by Sirdar or find one that suits you.
- **Live by your highest values** – Identify your values using the Demartini Value Determination Process available online.
- **Run toward your goals** – List all your dreams and wishes, group them into categories, rank them, and set your top three goals.

---

THE BIRDS AND THE BEASTS

Success is living your own life on your own terms, true to your own nature, and emotional intelligence (EQ) is knowing who you truly are. While this is tough for most humans, it comes naturally to the birds and the beasts.

The Kruger National Park is home to hundreds of species of birds and beasts and on a recent trip to the reserve, we spotted buffaloes and zebras grazing, monkeys picking lice off their babies, waterbuck at the watering hole, wildebeest lazing around in a circle in the sand, giraffe nibbling the leaves off the tops of trees and impala springing across the roads.

We know that the lion is the king of the jungle. Captivating, courageous, confident and magnificent in every respect. A leader with status and significance who must surely be the envy of all the birds and all the beasts in the park. In fact, if we applied human logic to the animal kingdom, all creatures would aspire to be the lion, would mimic the behaviours of the king of the jungle, and when they find it impossible to become a lion, they would live unhappily ever after.

Thankfully animals are much wiser than this. The zebra stays true to its stripes and the leopard to its spots and the balance of nature is preserved. As a species of human beings, however, we look to others to define who we should be, what we should achieve, what should bring meaning and purpose into our lives. We are attracted to the lions’ outer achievements and successes and then mirror their lives in the hope of achieving similar successes in ours. And after years spent mirroring the lives of other lions, we eventually forget what it means to be ourselves.

If you are plagued with questions of ‘who am I’ and ‘what is my purpose?’ or have achieved and surpassed the success of the lions but still feel a sense of emptiness, like something is missing in your life, or feel generally stressed and unhappy, then maybe the world you have created on the outside is not aligned to your true self on the inside.

Take a lesson from the birds and the beasts and stay true to yourself. The difficulty is finding yourself under all of the layers you’ve crafted over a lifetime. Peel away society’s expectations, rid yourself of the lions’ dreams, and be true to your nature. Success is inevitable when you know who you are and when you live your life your way.
BLOCKCHAIN WILL CHANGE EVERYTHING

Centralised systems and double-entry booking have created friction and constraints in the way people and businesses interact with each other. Blockchain technology and triple-entry accounting will ultimately result in exponential economic growth which can serve the planet, as blockchain is global and decentralised.

Digital currency transactions on a blockchain are cryptographically secure and ledgers are computationally infeasible to compromise or modify without network consensus. Blockchains have built-in redundancy and support automated recovery of the shared transaction ledger from other participating nodes.

Currently, capital markets’ infrastructure relies heavily on central counterparties (CCPs) such as clearing houses. While CCPs currently provide a single point of supervision for prudential regulators, they have also become single points of failure in financial markets.

ConsenSys is currently exploring automated, real-time clearing and margining solutions with a CCP which will permit the credit exposure of the CCP and clearing members to be managed at far lower levels, improving capital efficiency in the process.

Another point of centralisation in modern markets are Central Securities Depositories (CSDs). The failure of a major CSD, by hacking or technical failure, can seriously disrupt market operations. Most centralised intermediaries such as CSDs still use messaging and database technology that are outdated.

The asset management value chain also suffers from extensive intermediation by registrars, transfer agents, brokers and fund managers whose incentives may not necessarily align with the consumer.

Public or private blockchains, if used as secure registries of asset ownership, tokenised securities and assets, can facilitate transactions without intermediaries, eliminating such cost- and time-inefficient processes.

The reality is that the role of custodians will fundamentally change. If the record of ownership is held by the investor and not the broker or the custodian bank or CSD, they will have to redefine themselves in the future.

The South African Reserve Bank, ConsenSys and seven commercial banks (ABSA, Standard Bank, Nedbank, FirstRand, Investec, Capitec and Discovery Bank) have shown leadership in doing a proof of concept (PoC) by using a private permissioned Ethereum blockchain (Quorum) to create the tokenisation of the South African rand (ZAR) and to demonstrate that it can be transferred between commercial banks on a blockchain. This project was called Project Khokha.

Time is waiting for no one. The future is now – it is just not evenly distributed.

Ethereum is one of the most powerful tools for decentralising and disintermediating organisational relationships since the emergence of the Internet. Via its ability to create self-executing agreements, tokenised micro-economies, and global, accountable transparent governance systems, Ethereum creates the possibility of developing radically new alternatives to current power relationships in all industries and particularly in the accountability of transactions and indeed in voting transparency. The trust is built in the system.
Grazier Thomas Austin lived in Melbourne in 1856. He asked his brother to send him 24 rabbits (12 male-female pairs) from England, for hunting. By 1866, over 14,000 rabbits had been shot on his property. The invasive European wild rabbit population grew so large that the creatures stripped the land bare, rendering it useless for farming. Others like Austin also introduced European rabbits, compounding their impact. Today the areas of Western Australia affected by feral rabbits are estimated to span 3.9 million km² and authorities have employed biological control agents to reduce the scourge and devastation on the agricultural industry. Generations down the line, the flippant decision by a handful of people to bring in rabbits has caused serious damage with no end in sight.

The choices made by those in positions of power or influence always have an exponential impact. Austin showed total disregard for the devastating consequences of disturbing the local ecosystem, for sport. We can’t afford his indifference. What is the future fall-out of our choices, three or four generations down the line — when the decision-maker is long gone? Real leadership means considering the impact on people, planet and profits through long-term scrutiny of all that we do.

Harvard Business School’s Professor Michael Porter shared seminal work through his 2014 paper ‘Creating shared value: the new competitive advantage’. He says sustainability means to:

• Start with no preconceived constraints about product attributes, channel configuration, or the economic model of the business
• Rethink the business around unsolved customer and societal problems or needs, not traditional product definitions
• Identify customer groups that have been poorly served or overlooked by the industry
• Think in terms of improving lives, not just meeting customer ‘needs’.

Sustainable business has come a long way, but there is still much work to be done. We must overcome fears of facing the long-term impact of our decisions. We must ensure Porter and his collaborators’ radical new ways of thinking push us all into new frontiers.

Leaders who consider their long-term legacy will ensure organisation-wide thinking that sees every person thinking long term. Like the rabbits, our collective impact can be utterly profound – this time, for the good of all.

NOTES
2 https://www.hbs.edu/faculty/Publication%20Files/20140402-BSP%20Mauritius%20CSV%20presentation-FINAL%20for%20Posting_25d6c8f1-e0b7-4666-b6a4-a397f28cd2ce.pdf.
A finance lease is a lease where the lessor is the owner of the asset for the duration of the lease and the lessee has right of use (operating control) of the asset for the duration of the lease. There are specific VAT rules for finance leases.

A finance lease would generally meet the requirements of an ‘instalment credit agreement’, which is a defined term in the VAT Act. It is therefore essential to test if all requirements set out in the definition are met for the finance lease to be treated as an instalment credit agreement in terms of the VAT Act. There are five requirements contained in the definition of an instalment credit agreement that the finance lease must satisfy. All these requirements must be satisfied. The requirements are:

- The rental payments over the lease term are clearly determined or stated in the lease agreement.
- The rental payments include interest which is clearly stipulated in the lease agreement.
- The repayments plus any residual value exceeds the cost (including VAT) to the lessor.
- The term of the agreement must be at least 12 months.
- The lessee takes all risks and obligations i.e. pays for insurance, maintenance and repairs; or the lessor takes all risks and obligations in respect of insurance whilst the lessee takes full risk of maintenance and repairs and reimburses the lessor for the insurance.

If a finance lease meets all the requirements of an instalment credit agreement as defined in the VAT Act, a specific time and value rule applies.

**TIME OF SUPPLY**

The supply of goods under is deemed to take place at the earlier of the time the goods are delivered or any payment of the consideration is received by the supplier in respect of the supply.

**VALUE OF SUPPLY**

The consideration in money is deemed to be the cash value of the supply. The cash value excludes any interest and related admin fees but includes the sales amount for which the goods were sold and VAT.

**APPLICATION**

Suppliers (the lessor) of taxable goods under an instalment credit agreement must account for the full amount of output tax in the tax period in which the goods are delivered or any payment of the consideration is received, whichever is the earlier, irrespective of which basis they are registered on (payment or invoice). Similarly, the recipient (the lessee) will be able to deduct the full input tax if the goods were acquired for making taxable supplies unless specifically denied.

**FIXED PROPERTY**

It should be noted that not all finance leases meet the requirements of an instalment credit agreement as defined in the VAT Act. The terms of each finance lease must therefore be carefully tested against all the requirements of an instalment credit agreement before concluding that the finance agreement is an instalment credit agreement as defined in the VAT Act.

The goods supplied in terms of an instalment credit agreement as defined in the VAT Act relate to corporeal movable goods and plant and machinery. The supply of fixed property under a finance lease will therefore not fall under an instalment credit agreement.
To say chartered accountants (CAs(SA)) have a lot to focus on is an understatement. Those running their own practices are more keenly aware than most of the finite supply and seemingly infinite value of time. For some, focusing on the day-to-day priorities of dealing with the urgent demands on their time has blinded them to the entrepreneurial nature of their existence and the necessity for change.

The idea is for accountants and especially SMPs to offer greater value to clients by giving expert business advice which grows the bottom line – rather than relying upon the ‘bread and butter’ compliance work that has long been the average SMPs staple.

The transformation required is a result of the ever-increasing speed of technological advancement. Technology (specifically cloud accounting software) is shifting clients’ expectations and small and medium practitioners’ (SMPs’) capabilities.

This change has prompted some forward-thinking SMPs to question their business models and to embrace a more entrepreneurial approach to running their accounting practices.

One such person is Coen Stokes, director of Beraca Accountants and Auditors Inc. At the recent Cloud in Practice Conference hosted by SAICA, he expounded the benefits of using technology as a lever – a lever which gives SMPs the ability to take a more entrepreneurial approach to business, one which increases productivity and profit.

‘I embraced technology last year around May, and just a year later we are now fully cloud-based and I have increased my client base by double digits,’ says Stokes.

Technophobes in the profession will no doubt shun the call for embracing technology. This attitude is likely based on the all too common fear of the unknown and the perceived discomfort which change brings.
This mindset is understandable but not necessarily rational. Stokes explains how the benefits of embracing technology far outweigh any ‘perceived’ disadvantages.

He says: ‘Technology allows SMP’s to give far more attention to entrepreneurial activity. After all, SMPS are by definition entrepreneurs – they have started their own business and are responsible for its success or failure.

The importance of a renewed focus on entrepreneurship is a sentiment echoed by Jeanne Viljoen, Project Director for Practice at SAICA.

She adds: ‘The “entrepreneurial aspect” of being an SMP is now more relevant than ever. In order to stay relevant in the face of ever-improving technology; accountants and SMPS in particular must shift their focus.’

The idea is for accountants and especially SMPS to offer greater value to clients by giving expert business advice which grows the bottom line – rather than relying upon the ‘bread and butter’ compliance work that has long been the average SMPS staple. The reality is such that much of the ‘grunt work’ of accounting is already very effectively being completed by software.

The upshot of this is that informed clients already know that it is taking less and less time to complete the same accounting tasks. The net result is decreased perceived value. This has also resulted in clients and SMPS beginning to question the ‘pay for time’ business model.

The good news is it seems that technology (specifically cloud accounting software) is both the cause of and solution to this problem. By using the technology available and by adjusting the SMP ‘paradigm’ in which it is applied to a more entrepreneurial model, SMPS can do the following:

1 REDUCE OVERHEADS

They can do this by significantly reducing the number of staff needed to do ‘compliance work’ – much of which can be automated. Allowing staff to work from home (and only come into the office when it is absolutely necessary) will make a large physical office increasingly unnecessary.

It has the added benefit of greater staff satisfaction. If given the option of working from home most staff would prefer to do so. Given the ubiquity of productivity software, it will be easy to see if employees are not performing as required.

Stokes demonstrates how he has reduced overheads and grown his business since he has embraced technology. He explains: ‘In my previous structure I used to go through 35 000 prints of paper a month, today I’m down to 4 200. I’ve got more staff, more clients and fewer overheads.’

2 REDUCE RISK

Technology can keep track of exactly where a staff member is with his or her work. This means that all work and records of client communication are accessible to the practice owner at all times and it also mitigates the inherent risk of employee resignations.

‘When your best employee gives notice, you are immediately concerned about what’s on their plate, how far they are, what they still need to do. With software, you take this risk away,’ explains Stokes.

3 DECENTRALISE OPERATIONS

Cloud technology has the added advantage of allowing the SMP to service a greater range of geographic areas. With improved communication technology and cloud accounting software it is no longer necessary to confine your practice to the area in which it was originally based.

Stokes says: ‘I work in Secunda – my focus is in the tax area and the market in Johannesburg is large. Having a cloud-based business means that I can easily travel to Johannesburg two days a week and still react to client demands from Secunda.’

Technology will continue to develop at an exponentially increasing rate. This essentially leaves us as individuals and entrepreneurs at a fork in the road. It is at this point that we must either face and embrace technology; leveraging it for business and personal advantage; or confront the inevitable loss of competitive advantage. Clearly, the latter is no option at all.

This Hobson’s choice then dictates that the only pertinent question entrepreneurial SMPS should be asking is: ‘How best can I use technology (especially cloud accounting) in my business?’

It is only by beginning with themselves that SMPS can promote the benefits of technology to their clients.
Professionals who keep their strengths in mind and see change as an opportunity will be able to direct impact of the prophesied vicissitudes and will be the greatest benefactors in the long run.

Words Neale Roberts

In February 2017, Dr Muhammad Islam published a paper highlighting three dominant changes in the accounting industry that he predicts will shift the profession over the next three decades. These are:

• Evolving smart and digital technology
• Continued globalisation of reporting/disclosure standards, and
• New forms of regulation.

With this as a foundation, as South Africa witnesses an increased amount of decentralised accounting software, increased cloud usage, and workflow automation dominating most industries, professional accountants find themselves facing an interesting decision point in their careers: how to use their strengths to take advantage of industry movements, as opposed to feeling overwhelmed or helpless in the face of change.

There is a common misperception that we must develop our growth areas and not focus on our strengths. That practice would result in reaching a level of mediocrity and never optimising our gifts. The logic is fluid, however, the process of uncovering one’s own strengths may be less obvious to some of us.

The common thread between what we do well and what we enjoy is often a useful measure for fortes. When considering strengthening oneself, South African business coaches would recommend asking yourself the following five questions:

• What work do you tend to complete quickly?
• Where do you make the fewest mistakes?
• When does the time pass most quickly?
• In which area of work do you usually receive the most praise?
• If you could choose your own work schedule. How would that look?

By answering these questions, an impression is made about who you are in the working world, and what you should be spending your time doing. Considering Dr Islam’s predictions, you can do the following:

• Those who excel in technology usage can enhance their current working styles and capacity with this expertise as a foundation.
• Globalisation opens a world of expanded and previously unattainable opportunities for any professional, while the free flow of money facilitates the use of professional skills across oceans that merges cultures and even opens tax systems and financial processes.
• Finally, regulation within the accounting arena strives to eliminate money laundering and tax avoidance.

Strategically thinking accountants who understand their own strengths can benefit from these matters by working within the system and understanding the principles that uphold the system.

AUTHOR | Neale Roberts MBA (Entrepreneurship), PGDMM, ILPA (Life) is an accredited business coach and business coach trainer

NOTE
Instead of tightening regulations, we need to tighten our principles around the corporate cultures and behaviours we tolerate, incentivise, or turn a blind eye to. This might just help us avoid another accounting scandal, writes Zimkita Mabindla.

Early in 2000, as a young professional starting my SAICA articles, I had an interesting conversation with an auditing partner. He told me that when conducting an audit for a client, as auditors we should not only focus on the tangible aspects of the business, namely the figures, but also on the intangible aspects of the business. This means ascertaining the kind of corporate culture that produces the results. This also means paying attention to the type of environment the finance function operates under. The audit partner cautioned against blindly following the audit programme from previous years. He said: ‘Be vigilant and pay attention, then you will be able to apply the right level of professional scepticism.’ This remains one of the most memorable conversations I have had in my career.

I was reminded of his advice, especially in light of the recent controversies surrounding South African corporates.

Words Zimkita Mabindla
As the stories unfolded, I found myself asking the following questions about these corporates: Are there domineering personalities in powerful leadership positions? Is the corporate environment conducive to dissenting opinions and accountability? Is the environment dominated by fear? What are the key drivers of the people within the finance function? What behaviours are being incentivised?

The audit partner said that corporates who encourage domineering personalities in leadership positions run the risk of management overriding internal controls. With regard to fear, he said employees in these corporates generally act like children and hide rather than account for their mistakes. This increased the risk of hiding errors, and these errors are sometimes reflected in the numbers being audited. This kind of environment also compromises the quality of explanations and audit evidence presented to support the numbers. This environment makes life difficult for the auditors.

With this in mind and the ethical dilemmas facing accounting and the accounting profession, I will address two questions. First, what more can be done to tighten corporate governance regulations and structures? Second, do we need stronger laws for corporates?

What more can be done to tighten corporate governance regulations and structures?

When it comes to corporate governance, the principles of the King Report on Governance are well respected. For example, in February 2010 the report’s 2009 version, the King III Code, was incorporated into the Johannesburg Securities Exchange (JSE) listing requirements. Then, in May 2017 the JSE updated its listing requirements and made the King IV Code mandatory. I believe that, as listed entities, the organisations and individuals implicated in the recent accounting scandals and ethical dilemmas would have already been complying with the corporate governance principles. But what are some of the principles that inform corporate governance for listed South African entities? How are these principles viewed locally and internationally?

First, there is consensus locally and internationally that the King IV and previous King codes, when understood and applied correctly, should result in good corporate governance. Many professionals agree that when applied appropriately and with good intentions, King IV should promote greater accountability, transparency and should therefore enforce corporate governance. To achieve this, however, there should be ethical leadership, one that promotes ethical mind-sets and behaviours. In essence, effective corporate governance is significantly anchored in effective ethical leadership and ethical governance. This results in a good ethical culture.

The current code and its previous versions have been explicit about ethical governance, ethical leadership and ethical culture. King III, for instance, emphasised the fundamental principle of a ‘sound ethical culture’. The message could not be clearer; the ethical culture of any organisation should be driven by the ‘tone from the top’. This means the board is responsible for ensuring that the tone of an ethical corporate culture permeates throughout organisations they oversee and govern. Remember, for corporate governance principles to thrive and be effective, ‘an ethical culture’ must exist.

In addition to an effective ethical culture, the King Code, even under King III, also discussed the principle of a ‘combined assurance model’. This concept incorporates and optimises all assurance services and functions. When taken as a whole, these services
enable an effective control environment; support the integrity of information used for decision-making by management, the governing body and its committees; and support the integrity of the organisation’s external reports.

If any of the affected organisations and individuals had applied the above-mentioned model, an effective control environment would have been enabled. The integrity of information used for decision-making by management, the governing body and its committees, and the integrity of these organisations’ external reports would be supported by effective processes. For an effective control environment to thrive, there must be an ‘ethical culture’. An effective control environment cannot thrive in environments where management overrides internal controls. An effective control environment cannot thrive where dissenting opinions are silenced and where there is fear. This would also not apply in a corporate environment where achieving profits at all cost is incentivised.

The King Code is not the only tool listed companies have to adhere to. They are required to comply with the International Financial Reporting Standards (IFRS). Also, another set of standards used by auditors to inform their auditing procedures and methodologies is the International Standards of Auditing. The aforementioned accountancy and auditing professions codes conform to those released by the International Ethics Standards Board (IESBA). Additionally, the organisations have to comply with the Companies Act of South Africa. The King Code, in turn, also recognises integrated reporting as a key principle of corporate governance. Most listed entities compile their integrated reporting using internationally recognised frameworks.

I have argued that there are sufficient regulations to produce ethical organisations that produce effective corporate governance. I believe that applied correctly and with good intentions, these regulations would have yielded credible results. This would have been true in the organisations involved in recent controversies. It is also safe to assume that most South African organisations do apply these regulations appropriately and with good intentions. If they did not, our financial markets would be in total chaos.

So, in light of the recent scandals, it is appropriate to ask: should we add to existing laws and tighten corporate laws?

DO WE NEED STRONGER LAWS FOR CORPORATES?

I would argue that we do not need more corporate laws. It seems to be a pattern in the wake of accounting scandals that we tighten regulations. For example, after the collapse of Enron in 2000, we increased regulations, material updates and interpretations to financial reporting. This, however, did not stop the 2008 financial crisis from happening. To respond to the crisis, significant changes, updates and replacement of accounting standards were introduced. These did not prevent the recent accounting scandals here in South Africa.

Before we tighten regulations again, I would argue that we need to ask critical questions about the corporate cultures and environments that underlie and inform these reported accounting scandals. Is there a trend we can infer? Were cultures in these companies conducive for regulation to thrive and to be applied appropriately and with good intentions? What type of behaviour was incentivised? What values and ethics drove the individuals and organisations involved? Was the underlying corporate culture ethical? Were the governance structures aware of the cultures that informed the numbers reported to them? Did these governance structures ask the right questions? Asking these questions could point us to the elephant in the room – ethical corporate behaviour.

It has been 18 years since I had the above-mentioned conversation with the auditing partner, but his advice still resonates with me. He was right. An ethical culture is vital to effective corporate governance. But we might not need more regulations; we need to create corporate environments that reward good ethical behaviour.

AUTHOR | Zimkita Mabindla CA(SA)
Auditor-General Kimi Makwetu has recently lamented that the recommendations his office made to improve accountability and internal controls during the 2016/17 financial year were largely ignored by municipalities. Yet, Nadine Kater, General Manager of Accounting Technicians South Africa AT(SA), believes Makwetu’s advice could prove to be ‘a reactive approach that may only solve the problem retrospectively’

Words Karin Jacobsen

The Auditor-General’s recent municipal audit outcomes for the 2016/17 financial year were worrying. They showed that:

- Municipal irregular expenditure had increased by 75% to R28.4 billion (the highest since the AG started tracking the values).
- Out of the country’s 257 municipalities, only 33 (13%) managed to receive a clean audit.
- The AG’s recommendations to improve accountability and internal controls had gone ignored by most municipalities.

But how effective will improved accountability and internal controls be if municipal financial employees don’t have the skill needed to perform these controls? Kater believes a more proactive solution is to build the relevant skills base within the municipalities and address the issues through skills development programmes such as the ATISA’s local government accounting qualifications.
this qualification to 1 400 municipal officials, financial constraints of the Local Government Sector Education and Training Authority (LGSETA) meant that the programme could not afford to continue.

However, as an associate of SAICA, AT(SA) uses the National Development Plan: Vision 2030 (NDP) as a key driver of its strategic objectives. In heeding the NDP’s call to ‘make the public service and local government careers of choice’, AT(SA) once again sought funding from the LGSETA to roll out a specific qualification for those working in the financial offices at municipalities and in 2017, AT(SA) was able to reintroduce the local government accounting qualifications back into the market.

Says Kater: ‘Currently there are 700 new students and employees in municipalities studying the local government accounting qualifications nationally. However, as the AG’s latest report shows, this is not enough. To solve the dysfunction in our municipalities, South Africa needs to focus on building a skilled and professional public service from both the top and the bottom. At the top, recruitment and management should be based on experience and expertise, while at junior levels, the state needs to focus on producing the skills and expertise that will be necessary for future public service cohorts.’

WHAT ARE LOCAL GOVERNMENT ACCOUNTING QUALIFICATIONS?

Between 2006 and 2013 AT(SA), an associate of SAICA, worked closely with Government to help realise the objective of creating a skilled and professional public service. By creating the first local government accounting qualification in the country, the hope was that it would help to address the skills shortage of entry-level financial skills at a municipal level. Unfortunately, after rolling out

THE AG’S REPORT OUTLINES HOW VITAL STRONG INTERNAL CONTROLS ARE TO ENSURE THAT MUNICIPALITIES DELIVER ON THEIR PRIORITIES IN AN EFFECTIVE, EFFICIENT AND ECONOMICAL MANNER

Municipal Finance Act and the Technical Competency Dictionary, and the training methodology is not an academic approach. Students are trained to DO the work – to be competent in their work functions – so that municipalities are able immediately to reap the benefits of their employees newly acquired skills in their own environment,’ explains Kater.

AT(SA): READY TO CHAMPION QUALIFICATIONS IN ALL MUNICIPALITIES

As a direct measure to increase the skills base in finance departments in the local government environment, the AT(SA) local government accounting qualifications are being offered by accredited SAICA AT(SA) training providers in 30 municipalities nationally.

‘Our hope is that municipalities will make the local government accounting qualifications an entry-level qualification requirement for municipal officials working in financial positions. Should this become the norm, citizens can look forward to improved local government performance, quality service delivery, clean audits and, ultimately, a local government sector that is on a positive path to achieving the visions of the NDP through sound financial and administrative management of taxpayers’ money,’ concludes Kater.

AUTHOR | Karin Jacobsen is Project Manager: Marketing and Communications at SAICA
South Africa will soon join the league of around 70 countries who have implemented the XBRL reporting standard. In fact, almost all the major economies of the world have in one way or the other adopted the XBRL standard in multiple areas of regulatory supervision.

It would be a good idea to look at the information standard XBRL a little more closely and understand why this is a significant development in the context of digitisation and enhancing the ‘ease of business’.

**WHAT IS XBRL?**

XBRL is essentially an electronic information standard that facilitates the transfer of business and financial information across disparate computer systems. This standard way of defining data concepts and their interrelationships is particularly useful in instantly validating the accuracy of submitted data and enabling downstream analytics. In short, it is a quantum leap from paper-based regulatory submissions or its barely improved alternative, namely submission of documents using the PDF format. The regulatory process becomes markedly efficient and the availability of standardised digital information leads to a platform ripe for innovations in the digital economy.

Across the world, XBRL adoption has gathered significant pace, especially after mandates by the US Security Exchange Commission for listed company filings and by the European Central Bank for bank regulatory reporting. A range of regulators across central banks, business registries, capital market regulators and tax authorities have now embraced the XBRL standard for regulatory submissions. The International Accounting Standards Board (IASB), which builds and maintains the IFRS,
also offers a corresponding electronic reporting standard through the IFRS XBRL taxonomy (data dictionary). The CIPC taxonomy is in fact based on the IFRS XBRL taxonomy.

The CIPC mandate is also distinct in the way that it uses a variant of XBRL called Inline XBRL where the electronically tagged data points reside within the document of record which is in HTML. This approach is especially suited for company financial statements and ensures a single source of truth.

**BENEFITS**

Let’s now explore how the CIPC’s pioneering move helps the stakeholders in the ecosystem. There are multiple streams of potential benefits and it might make sense to look at a few of these.

First, regulators stand to gain immensely with actionable and accurate information coming in that can be repurposed with almost no additional effort. The CIPC, for example, cannot only ensure that the data coming in through the XBRL-based financial statements are accurate and consistent, but also equip itself to undertake additional analysis to check for possible frauds and accounting irregularities. It is much easier and quicker to work with XBRL data to carry out analytics such as monitoring key parameters across group companies, comparing industry benchmarks and building early warning indicators.

The enterprises in the economy that comply stand to gain, too. As multiple regulators in the country start using the same digital reporting framework and standard, companies can reduce compliance burden by reusing the same reporting elements for multiple reporting mandates. This is called the standard business reporting (SBR) framework, which has been implemented in countries such as the Netherlands and Australia with material savings in compliance costs. Moreover, by bringing in accounting software or ERPs into the ecosystem, enterprises can seamlessly push the data as per the reporting mandates. A company that adopts XBRL for its external reporting requirements is also well positioned to explore larger frameworks such as the Integrated Reporting Framework and Global Reporting Initiative (GRI).

The other advantage that would accrue to the economy is in the context of the lending ecosystem. Easy availability of information contained in financial statements and footnotes in a standard digital way leads to big efficiencies in both credit appraisal and credit monitoring activities. The emergence of such an ecosystem can be a big boon to smaller enterprises that can potentially enjoy lower borrowing costs. The Netherlands and Germany are two examples where the banking system has started using XBRL-based company filings in an effective manner.

Finally, the success of the CIPC mandate can be the harbinger of deeper adoption of the XBRL standard in government spending itself. The idea here is to create a tool for better oversight and decision-making, digitally across the myriad silos of information within each government department. For instance, in the US at the federal level, expenditure information from more than 160 agencies has moved into a common format, propelled by the requirements of the Digital Accountability and Transparency Act (DATA Act). The information standard behind this initiative is XBRL.

To sum it up, through the CIPC mandate South Africa is well positioned to lead the continent in the adoption of digital reporting standards and in building an eco-system that makes the best use of the large amount of actionable data that is sure to follow.

**AUTHOR** I K Balachandran, Co-founder of IRIS Business Services Limited, whose iFile product has been deployed by CIPC to receive iXBRL filings
The International Standard on Auditing (ISA) 540 (Revised) was approved by the International Audit and Assurance Standards Board (IAASB) during their June 2018 meeting and is effective for audits of financial statements beginning on or after 15 December 2019.

The objective of the standard has been simplified to only refer to ‘accounting estimates’, not accounting estimates in other accounting estimates or areas of the entity’s business activities and whether the accounting estimate takes into account appropriate information as required by the applicable financial reporting framework (FRF).

The definition of an accounting estimate has been simplified and applies to all accounting estimates, namely a monetary amount for which the measurement, in accordance with the requirements of the FRF, is subject to estimation uncertainty. Estimation uncertainty is then further defined as the susceptibility to an inherent lack of precision in measurement.

Scalability was a significant topic for discussion during the development of the ISA. The final ISA had to be...
applicable to audits of accounting estimates in the private sector, public sector and different types and sizes of entities. Scalability has been incorporated in the standard through the following means:

• Including conditional requirements, that is, requirements that start with the words ‘if’ or ‘when’ and using wording to indicate proportionality, for example: an understanding of the entity and its environment including internal control has to be obtained to the extent necessary to form an appropriate basis for the identification and assessment of risks of material misstatement (RoMM).

• Recognising a spectrum of inherent risk as described in the ‘Specific changes in requirements’ section below.

• Including specific requirements for responding to assessed risks in that the auditor’s further audit procedures have to:
  o Be responsive to the assessed RoMM at the assertion level, considering the reasons for the assessment given to those risks
  o Take into account that the higher the RoMM, the more persuasive the audit evidence needs to be.

• Providing application material that describes how different circumstances that may exist during the audit of an entity affect: the nature, timing and extent of obtaining an understanding of the entity; determining whether specialised skills or knowledge are required; the assessment of inherent risk; and the nature, timing and extent of further audit procedures. The application material also includes examples to illustrate the circumstances.2

How the importance of professional scepticism could be enhanced in the ISA was another significant topic discussed by the IAASB. The ‘key concepts’ section of the ISA includes a paragraph that states that professional scepticism is affected by inherent risk factors and the importance of professional scepticism increases when an accounting estimate is subject to a greater degree to the inherent risk factors. Similarly, professional scepticism is important when there is a greater susceptibility to misstatement due to management bias or fraud. Professional scepticism has also been incorporated in specific requirements within the ISA, for example:

• The risk assessment requirements provide a better basis for identifying and assessing the RoMM at assertion level. Refer to the separate assessment of inherent risk and control risk described in the ‘Specific changes in requirements’ section below.

• The auditor has to obtain an understanding of the nature of the accounting estimates and related disclosures that the auditor expects to be included in the entity’s financial statements, based on the auditor’s understanding of the entity obtained. This requirement ensures that the auditor uses a questioning mind to think about which accounting estimates and related disclosures might be omitted.

• The auditor is required to design and perform further audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. Both corroborative and contradictory evidence have to be evaluated when the auditor determines whether SAAE has been obtained.

• The auditor is required to ‘stand back’ and evaluate the audit evidence obtained. Refer to the ‘Specific changes in requirements’ section below.

**SPECIFIC CHANGES IN REQUIREMENTS**

The separate assessment of inherent risk and control risk during the identification and assessment of RoMM is now a requirement in respect of accounting estimates. The IAASB also plans to include this requirement in respect of other classes of transactions, account balances and disclosures in the revision of ISA 315 (Revised).3

ISA 315 (Revised) currently contains requirements and guidance relating to the identification and assessment of RoMM but does not prescribe that inherent risk and control risk have to be assessed separately. ISA 2004 defines RoMM and states that, at assertion level, it consists of inherent risk and control risk and that the ISAs do not refer to inherent risk and control risk separately, but rather to a combined assessment of RoMM. The auditor may however decide to make a separate or combined assessment. The separate assessment requirement in ISA 540 (Revised) is a positive change, as this may result in a more detailed and focused assessment of risks and provide a better basis for designing and performing further audit procedures.

The auditor has to take the degree of estimation uncertainty and other inherent risk factors into account when identifying and assessing RoMM. Determining the degree of estimation uncertainty is an existing requirement, but considering the degree of inherent risk factors, for example complexity, subjectivity and susceptibility to misstatement due to management bias or fraud is a new requirement. Qualitative inherent risk factors and their inter-relationship are explained in an appendix to the ISA.

Another new concept that has been incorporated into the standard is the spectrum of inherent risk. The spectrum of inherent risk can be described as follows: Inherent risk factors increase inherent risk to varying degrees. Inherent risk may be higher for some assertions than for others and the degree to which inherent risk varies is referred to as the spectrum of inherent risk.

The relative degrees of the likelihood and magnitude of a possible misstatement determine where on the spectrum the risk of misstatement is assessed. The higher the combination of likelihood and magnitude, the higher
the inherent risk and vice versa. A higher inherent risk assessment may also arise from different combinations of likelihood and magnitude, for example a higher risk assessment could result from a lower likelihood but a very high magnitude.

RoMM may be designated within relative categories along the spectrum of inherent risk, which may be described in different ways as long as the assessment of inherent risk results in the design and implementation of further audit procedures that are responsive to the assessed risk at the assertion level, considering the reasons for that assessment.

There is now an explicit requirement in ISA 540 (Revised) to determine whether any of the RoMM identified are significant. The ISA no longer specifically requires the auditor to determine whether accounting estimates with a high estimation uncertainty should be considered a significant risk, as this determination is not necessarily only affected by the degree of estimation uncertainty, but also by other inherent risk factors and/or the inter-relationship between various inherent risk factors.

The use of experts has been made more prominent with requirements to consider using experts during risk assessment procedures and a reminder to comply with the requirements in ISA 500, Audit Evidence, when the work of a management’s expert is used as audit evidence. It should be noted that conforming amendments have also been made to ISA 500.

The auditor’s approaches to obtain sufficient appropriate audit evidence have been retained, but further detailed requirements have been included under each of the following approaches:

- Obtaining audit evidence from events occurring up to the date of the auditor’s report
- Testing how management made the accounting estimate, or
- Developing an auditor’s point estimate or range.

Testing the operating effectiveness of controls is not shown as a separate approach but rather as a separate requirement that may be used as part of obtaining evidence within one or more of the above-mentioned approaches. The ISA requires the auditor to test the operating effectiveness of relevant controls in accordance with ISA 330, which requires testing the operating effectiveness of controls:

- When substantive procedures alone cannot provide SAAE at the assertion level, and
- If the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures.

The requirement to obtain SAAE about whether disclosures related to an accounting estimate are in accordance with the FRF has been reworded to require the auditor to design and perform further audit procedures to obtain SAAE regarding the assessed RoMM at the assertion level, which includes presentation.

When the auditor calculates an auditor’s range, the auditor is no longer required to narrow the range based on audit evidence available until all outcomes within the range are considered reasonable. The auditor now has to determine that the range includes only amounts that are supported by SAAE and have been evaluated by the auditor to be reasonable in the context of the measurement objectives and other requirements of the FRF. This does not mean that the auditor is expected to obtain audit evidence to support each possible outcome in the range individually, but rather for the points at both ends of the range, thereby supporting that amounts falling between those two points will also be reasonable.

As part of the overall evaluation of the results of procedures performed, there is now a ‘stand back’ provision where the auditor has to evaluate whether SAAE has been obtained by taking all relevant audit evidence obtained, whether corroborative or contradictory, into account.

A section on communication with those charged with governance, management or other relevant parties have been included which creates a link to ISA 260 and ISA 265 where the auditor is required to communicate significant qualitative aspects of the entity’s accounting practices and significant deficiencies in internal control, respectively.

Documentation requirements have been expanded to clarify the aspects of the audit of accounting estimates that must be included in the audit file.

**IN CLOSING**

At face value, the changes in the requirements of the ISA do not seem significant, but the implementation thereof and training required should not be underestimated. There is also detailed application and other explanatory material as well as appendices that should be considered in achieving the requirements.

SAICA plans to develop a seminar in 2019 on the new ISA 540 (Revised), but because the current ISA is still applicable, an updated edition of the 2018 Auditing of Accounting Estimates Seminar will be held in October. Click here to view the SAICA brochure and register.

**AUTHOR** Thinus Peyper CA(SA), Project Director: Assurance at SAICA

**NOTES**

1 ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures
2 Refer to paragraphs A20–A22, A63, A67, and A84.
3 ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment.
4 ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.
Often, first-year trainee accountants are asked by their seniors or managers to obtain an external confirmation (commonly referred to as a bank confirmation), as the ‘bank and cash’ section is usually their responsibility. But are the basics in relation to obtaining an external confirmation explained to them? In this article, we go back to the basics on obtaining external confirmations from financial institutions in response to assessed risks contained in ISA 505 and SAAPS 6, specifically why it is important to obtain an external confirmation from a financial institution rather than using information from other sources; which assertions are covered by an external confirmation; whether obtaining an external confirmation from a financial institution addresses completeness; what the auditor’s responsibilities are in relation to a non-response to an external confirmation from a financial institution.

International Standard on Auditing (ISA) 505¹ deals with the auditor’s use of external confirmation procedures to obtain audit evidence in accordance with the requirements of ISA 330² and ISA 500.³ ISA 505 defines an external confirmation as ‘audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium’.⁴ The Independent Regulatory Board for Auditors (IRBA) issued South African Auditing Practice Statement (SAAPS) 6, *External Confirmations from Financial Institutions*, in order to provide guidance to registered auditors on implementing the requirements of ISA 505 when obtaining external confirmations from financial institutions.

This article provides an overview of the requirements and guidance contained in ISA 505 and SAAPS 6, specifically why it is important to obtain an external confirmation from a financial institution rather than using information from other sources; which assertions are covered by an external confirmation; whether obtaining an external confirmation from a financial institution addresses completeness; what the auditor’s responsibilities are in relation to a non-response to an external confirmation from a financial institution.

---

**Words** Sanele Sikhakhane
WHY IS IT IMPORTANT TO OBTAIN AN EXTERNAL CONFIRMATION FROM A FINANCIAL INSTITUTION?

In terms of ISA 315 (Revised)\(^6\) the auditor is required to identify and assess the risks of material misstatement in order to provide a basis for designing and implementing responses to the assessed risks of material misstatement.\(^7\) ISA 330,\(^8\) the standard dealing with the auditor’s response to the assessed risk indicates that the auditor’s objective is to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement through designing and implementing appropriate responses to those risks.\(^9\)

ISA 500 indicates that the reliability of audit evidence is influenced by its source and its nature and is dependent on the individual circumstances under which it is obtained. ISA 500 also includes the following generalisations that are applicable to audit evidence:

- Audit evidence is more reliable when it is obtained from independent sources outside the entity.
- Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.
- Audit evidence is more reliable when it exists in documentary form, whether paper, electronic or other medium.\(^10\)

ISA 505 recognises the generalisations applicable to audit evidence as contained in ISA 500 and indicates that depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence gathered internally by the entity.\(^11\)

Obtaining an external confirmation from a financial institution may therefore be the most appropriate response in obtaining sufficient appropriate audit evidence regarding the assessed risk of material misstatement within bank and cash.

WHICH ASSERTIONS ARE ADDRESSED BY OBTAINING AN EXTERNAL CONFIRMATION?

The following assertions are addressed by obtaining an external confirmation:

- Existence – to ensure that the cash and cash equivalents exist at year-end.
- Rights and obligations – to ensure that the entity holds or controls the rights to cash and cash equivalents, and liabilities relating to cash and cash equivalents are the obligations of the entity.
- Accuracy, valuation and allocation – to ensure that the cash and cash equivalents have been included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments have been appropriately recorded, and related disclosures have been appropriately measured and described.
- Classification – to ensure that cash and cash equivalents have been recorded in the proper accounts.
- Presentation – to ensure that cash and cash equivalents are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.\(^12\)

The completeness assertion used by the auditor is aimed at ensuring that all cash and cash equivalents that
should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.\textsuperscript{13}

In instances where the financial institution only furnishes the auditor with the information requested on accounts specifically identified by the auditor, the completeness assertion is affected. To address the completeness assertion, the auditor may, depending on the circumstances and the related risk assessment, consider performing further procedures such as those outlined in Appendix A of SAAPS 6. In determining the procedures necessary to obtain sufficient appropriate audit evidence to support the completeness of bank and cash, the auditor does exercise professional judgement.

WHAT ARE THE AUDITOR’S RESPONSIBILITIES IN RELATION TO A NON-RESPONSE TO AN EXTERNAL CONFIRMATION FROM A FINANCIAL INSTITUTION?

When the auditor does not get any response from the financial institution, the auditor performs alternative audit procedures to obtain relevant and reliable audit evidence.\textsuperscript{14}

WHAT SHOULD THE AUDITOR DOCUMENT AFTER OBTAINING AN EXTERNAL CONFIRMATION FROM A FINANCIAL INSTITUTION?

After obtaining a response or completed confirmation from the financial institution, trainee accountants are usually asked to document the information contained in the external confirmation. Again, there is usually no explanation of what to document as audit evidence, and the format thereof. As part of audit evidence, auditors are required to document:

\begin{itemize}
  \item The nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements
  \item What the results of the external confirmation are, the audit procedures performed, and the audit evidence obtained as a result of obtaining an external confirmation, and
  \item Significant matters, if any that arose after obtaining the external confirmation, the conclusions reached thereon and any significant professional judgements made in reaching those conclusions.\textsuperscript{15}
\end{itemize}

In addition to what is stated above, paragraphs 9–11 of ISA 230\textsuperscript{16} contain additional documentation requirements for the registered auditor to adhere to in compiling the audit file.

WHAT ARE THE RESPONSIBILITIES OF THE AUDITOR IN EXAMINING THE CLIENT’S DISCLOSURE?

The importance of obtaining external confirmations is not only to confirm the client’s financial institution balances and interest received/paid for the period under review, but also for all the ‘other information’ that is requested in the external confirmation and required to be disclosed in the financial statements. The ‘other information’ contained in the external confirmation is used by an auditor as audit evidence to support the specific disclosures that entities are required to include in its financial statements.\textsuperscript{17}

Examples of the ‘other information’ contained in external confirmations include:

\begin{itemize}
  \item Details of the pledged or ceded balances and collateral provided for liabilities
  \item Details of any agreement between the financial institution and the client, limiting the client’s total borrowings, and
  \item Details of other direct or contingent liabilities, including guarantees, acceptances undertaken and derivative positions.
\end{itemize}

CONCLUSION

It is the auditor’s responsibility to comply with the requirements in obtaining external confirmations from financial institutions. This will ensure that sufficient appropriate audit evidence regarding the assessed risks of material misstatement is obtained and that the related documentation requirements are complied with.

AUTHOR

I Sanele Sikhakhane,
Technical Assistant: Standards at the IRBA

NOTES

1 ISA 505, External Confirmations.
2 ISA 230, The Auditor’s Responses to Assessed Risks.
3 ISA 500, Audit Evidence.
4 ISA 505, paragraph 2.
5 ISA 505, paragraph 6(a).
6 ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment.
7 ISA 315, paragraph 3.
8 ISA 330, The Auditor’s Responses to Assessed Risks.
9 ISA 330, paragraph 3.
10 ISA 500, paragraph A31.
11 ISA 505, paragraph 2.
12 ISA 315, paragraph A129.
13 ISA 315, paragraph A129.
14 ISA 505, paragraph 12.
15 ISA 230, paragraph 8.
16 ISA 230, Audit Documentation.
17 SAAPS 6, paragraph 10.
Three designations. One solid professional organisation.

Advancing Accountancy and Business Leadership at Three Levels

SAICA is at the forefront of professional excellence in accountancy and business leadership. As one of the leading Institutes in the world and the pre-eminent accountancy body in South Africa, we are the vanguard of developing, influencing and leading the highest standards of education and training within the accountancy space and the broader business environment. Today, we offer three different accountancy and business designations that are the standard of choice for accounting professionals and employers alike: CA(SA), AGA(SA) and AT(SA)

SAICA members are bound by an ethical code of professional conduct. All three designations are regulated and underpinned by SAICA’s solid ethical foundation to ensure public trust in the quality and the credibility of a SAICA designation at any level.

The rigorous education, training and continuous professional development that SAICA members undergo, keeps them abreast with new skills relevant for an uncertain future enabling members to rise to the challenges of business today.

For more information visit www.saica.co.za
AMENDMENTS PROPOSED TO MEDICAL SCHEME FEES TAX CREDIT

CHANGES PROPOSED TO TAX ON INCOME FROM OFFSHORE TRUSTS

DRAFT LEGISLATION LIGHTEN THE REPORTING BURDEN FOR EXEMPT DIVIDENDS

PROVISIONAL TAX RULES IN FOR A SHAKE-UP
MEDICAL SCHEME FEES TAX CREDIT
AMENDMENTS PROPOSED TO MEDICAL SCHEME FEES TAX CREDIT

The Draft Taxation Laws Amendment Bill 2018 proposes legislation that will result in a reduced credit for most taxpayers who contribute on a proportional basis to a medical scheme on behalf of a dependant.

With effect from 2011, taxpayers claim a medical scheme fees tax credit in respect of the medical scheme contributions they make for themselves, their spouse and dependants. For the 2018/2019 tax year, section 6A(2)(b) of the Income Tax Act 58 of 1962 provides that if you are a taxpayer younger than 65 and not disabled and have no disabled dependants, you may claim a medical scheme credit as follows:

- R310 if the contributions to the medical scheme are for you as the taxpayer only
- R620 if the contributions are in respect of you as the taxpayer and one dependant
- R209 in the case of each additional dependant.

If you as a taxpayer made a contribution for yourself to a medical scheme and shared the medical scheme contributions for your mother on a proportional basis with your sister, for example, you would be entitled to claim a medical scheme fees tax credit in the amount of R620 per month.

On the other hand, your sister would also be in a position to claim an amount of R310 in respect of her proportionate contribution toward her contribution to her mother’s medical scheme. This results in a medical scheme fees tax credit of an amount of R620 being claimed by both you and your sister in respect of the contributions you make toward your mother’s medical scheme. This results in tax leakage.

To address the tax leakage, which was addressed as a concern for government in the Budget Speech delivered earlier this year, the Draft Taxation Laws Amendment Bill 2018 issued on 16 July 2018 proposes an amendment to section 6A(2)(b) by introducing the proposed amendments discussed below.

PROPOSED AMENDMENTS

In terms of section 6A(2)(b) the amount of the medical scheme fees tax credit must be

- R310, in respect of benefits to the taxpayer, or if the taxpayer is not a member of a medical scheme in respect of benefits to a dependant of the taxpayer who is a member of a medical scheme.
The proposed wording of the legislation extends the ambit of the application of the claim for a medical fees tax credit to situations where the taxpayer may not be a member of a medical scheme but may contribute on behalf of his dependant(s). In this regard, it is proposed that the definition of ‘dependant’ in section 6A be aligned with the definition in section 6B, which will provide for situations where the person who makes the contributions to the medical scheme and the person on behalf of whom the contributions are made are not on the same medical scheme as envisaged in terms of the Medical Schemes Act. Accordingly, reference to dependant as defined in the Medical Schemes Act will be removed and referenced to the definition of dependant as detailed for the purpose of section 6B of the Income Tax Act.

To address the apportionment of the medical scheme fees tax credits between or among the various taxpayers who are contributors to the medical scheme, it is proposed that section (3A) be included. This section provides:

‘Where more than one person pays any fees in respect of benefits to a person or dependant, the amount allowed to be deducted in respect of the medical scheme fees tax credit under subsection (2)(b) must be an amount that bears to the total amount allowable in respect of that person or dependant under that subsection the same ratio as the amount of the fees paid by that person bears to the total amount of fees payable.’

PRACTICAL APPLICATION

The proposed legislation will result in a reduced credit for most taxpayers who contribute on a proportional basis to a medical scheme on behalf of a dependant. An example is used to illustrate the position should the proposed legislation become effective from 1 March 2018.

Scenario

- Taxpayer A and Taxpayer B jointly contribute equally to their mother’s medical scheme contributions.
- They each contribute an amount of R1 500 per month.
- The total monthly contribution is therefore R3 000.
- Taxpayer A is a member of a medical scheme and has three dependants, namely a spouse and two children.
- Taxpayer B is a member of a medical scheme and does not have any dependants other than the contributions made in respect of her mother’s contribution to a medical scheme.
Applying the proposed legislation to the set of facts will result in the following implications per taxpayer:

Taxpayer A will only be allowed a claim of R104,50 per month in respect of the tax year ending 28 February 2019 instead of the full R209 per month.

Taxpayer B, on the other hand, will only be allowed a credit of R155 per month as opposed to the full R310 per month.

This results in a reduced loss to the fiscus of 50% (that is, R259,50) of what should have been claimed absent the proposed amendment. Assuming the contributions to the medical scheme were made for a full period of 12 months, the estimated reduced loss to the fiscus is an amount of R3 114.

**PRACTICAL ASPECTS FOR CONSIDERATION**

If the legislation is promulgated with effect from 1 March 2018, the personal income tax return form for the tax year ending 28 February 2019 will require additional information to be furnished to determine the quantum of the claim. Taxpayers should therefore ensure that they have the relevant information on hand with regard to the calculation of their share of the contributions they carry. This may also include obtaining relevant supporting documentation where the proportionate share of the contribution is paid to a third party such as a sibling who then on-pays the full contribution to the medical scheme as opposed to paying the contribution directly to the medical scheme.
In the 2017 legislative cycle, various amendments were made targeting interests held in foreign companies by South African resident companies through offshore trusts. Also in the 2017 legislative cycle, it was proposed that South African resident individuals who are beneficiaries of offshore trusts or foundations would be subject to income tax at marginal rates on distributions received from the offshore trusts or foundations if the latter held controlling interests in a foreign company. This proposal was withdrawn for further consideration in the current (2018) legislative cycle – the 2018 proposals therefore embody the revised thinking of National Treasury on this issue. It should be noted that the proposals are highly technical and the summary below does not deal with all possible scenarios that may arise.

In brief, the proposals aim to prevent using foreign trusts to defer tax or to re-characterise the nature of income or capital gains derived from shares in foreign companies held by these trusts.

The proposals relating to income deal with scenarios in which a foreign trust (or connected persons in relation to such trust) holds more than 50% of the participation rights or voting rights in a foreign company. In such cases, foreign dividend income accruing to the foreign trust is the target of the amendments.

First, if a resident made a low-interest loan or donation to the foreign trust in relation to which the resident or connected persons in relation to the resident (for example the resident’s relatives) are beneficiaries that resulted in the foreign dividend accruing to the foreign trust, such foreign dividend will be taxable in the hands of the resident (to the extent of the gratuitousness involved). Currently, a (perceived) loophole exists as it may be argued that the deeming provision does not apply and that the foreign dividend is not subject to tax in the hands of the resident. Second, if a foreign dividend accrues to and is retained by the foreign trust over its financial year-end and is vested in resident beneficiaries in a subsequent financial year of the foreign trust, the proposals will result in the foreign dividend, to the extent that it is vested, being taxed in the hands of such resident beneficiaries. The (perceived) loophole is based on the argument that such amount is not subject to income tax.

The proposals relating to capital gains mainly target scenarios in which a foreign trust disposes of equity shares in a foreign company in which the foreign trust held at least 10% of the equity shares and voting rights for at least 18 months prior to the disposal if the disposal of the shares is to a non-resident. The first part of the proposal will result in the capital gain being taxable (as a capital gain) in the hands of a resident if the resident made a low-interest loan or donation to the foreign trust that resulted in the capital gain accruing to the foreign trust (to the extent of the gratuitousness involved). The other main part of the proposal is that the capital gain will be taxable (as a capital gain) in the hands of a resident trust beneficiary in whom the capital gain is vested, regardless of whether the trust vests the capital gain in the same financial year in which realised or in a later year. Where the trust vests the capital gain in a subsequent year to that in which it was realised, the capital gain will only be subject to tax in the hands of the beneficiary to the extent that it was not previously subject to tax in South Africa (for example in the hands of the donor). Various (perceived) loopholes exist in relation to the aforementioned, arguing that the capital gains are not taxable.

Comparing the 2017 proposals to the current proposals, some of the more notable differences are that the 2017 proposals would have taxed only amounts received or accrued from foreign trusts in a foreign trust / foreign company structure. In contrast, the current proposals also impact amounts that may be deemed to be income or capital gains of a resident in the case of a donation or low-interest loan without such amounts necessarily having been vested by the foreign trust in a trust beneficiary. On the other hand, in terms of the 2017 proposals all amounts, including capital gains, that were received by or that accrued to a resident beneficiary from a foreign trust would have been taxed as income in the hands of the resident.

The effective date of these proposals is 1 March 2019.
First, dividend resolutions are not always received in time for the exempt beneficial owner to comply with SARS’ reporting (the one-month rule). Dividend resolutions play a vital role in the process in terms of providing accurate information necessary to complete the return, that is, the date the dividend was paid, the date the dividend was declared, number of shares, dividend per share, etc. Furthermore, a dividend resolution is a requirement in terms of the Companies Act 71 of 2008, which acts as confirmation for the beneficial owner that the amount received is in fact a dividend.

Second, dividends received reporting is an exact duplicate of the dividends paid reporting, which makes the reporting to SARS irrelevant. A company declaring and paying a dividend is required to report to SARS detailed information concerning the person who paid the dividend (that is, themselves), as well as the exempt beneficial owner who received the dividend (assume no regulated intermediaries are involved in this instance). Similarly, for dividends received reporting, the exempt beneficial owner receiving the dividend is required to report detailed information concerning the person who paid the dividend, as well as the exempt beneficial owner who received the dividend to SARS. If SARS knows who the exempt beneficial owner of the dividend is, why must the exempt beneficial owner again report information already in the possession of SARS?

The good news is that the 2018 Draft Tax Administration Laws Amendment Bill issued by National Treasury on 16 July 2018 has proposed that the requirement for exempt beneficial owners to report on dividends received be removed in totality. This change, once officially enacted, will provide much-needed relief for every South African company receiving dividends, although most companies were completely unaware of this reporting requirement in the first place!

Were companies non-compliant since 2014? Yes. However, the fact that SARS never followed up on these missing returns may be an indicator that they already realised that it was impossible for companies to comply and it was not relevant in any event.
Members of unit trusts only really know the true quantum of their capital gains when they receive their tax certificates at the end of the year. If your particular unit trust has had significant churn in a current year, you could inadvertently become liable to have registered as a provisional taxpayer.

If the sale only happens later in the year, how do you register without incurring administrative penalties for non-submission of the first return?

There will be a significant education gap with the greater taxpaying public in this regard. How much leeway will taxpayers be given in this respect?

The second consequence of this change is that any taxpayer whose non-remuneration activities become loss-making during a year of assessment is now no longer required to be a provisional taxpayer as they are no longer earning ‘taxable income’. Conversely, if a taxpayer doesn’t register as they are making losses and some expenditure is disallowed, the taxpayer now incurs all the provisional tax penalties as well. It’s also notable that taxpayers will not know if they are going to make profits or losses until close to the end of the year. What happens if they get it wrong?

A final area of concern is that as a consequence of these changes, taxpayers will have frequent changes to their status with respect to provisional taxes. There is currently no formal process to deregister as a provisional taxpayer. In fact, there is no formal process to register either, you just tick the box on eFiling. The lack of deregistration clarity is a real concern for individuals who may need tax clearance certificates in the future. How do you ensure that if you, correctly and legally, are not required to submit a return you still get your clearance certificate? This is particularly relevant where you have had multiple changes in your registration requirements, for example a taxpayer who buys a rental property:

<table>
<thead>
<tr>
<th>Year</th>
<th>Activity</th>
<th>Taxable income earned</th>
<th>Provisional tax registration?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Purchase of rental property</td>
<td>Yes</td>
<td>Yes, if rental is over R30 000</td>
</tr>
<tr>
<td>2</td>
<td>Rental operations</td>
<td>No (loss made)</td>
<td>No</td>
</tr>
<tr>
<td>3</td>
<td>Sale of rental property (capital gain made)</td>
<td>No (loss made)</td>
<td>Yes, as there was a capital gain</td>
</tr>
</tbody>
</table>

In this context, taxpayers really need to keep a close eye on their financial affairs – provisional tax penalties are onerous. Don’t get caught unawares!
Now, a few years later, BMW has done a facelift, which is difficult on a vehicle that was seen as a perfect coupé. Too much of a change and many would be upset, especially current owners, as this is meant to be just a facelift; too little, and what’s the point of launching a facelift.

Let’s look at what changes have been made, both visible and the ones under the skin. The headlights have been refreshed and now have the more angular LED that makes up the BMW light circle. Even though the circle seems to be only partly there, the BMW heritage is clearly visible. Talking of heritage: the infamous BMW kidney has also been slightly reshaped with a wider look. The bumper now has larger air intakes giving the car a sportier stance, especially on the M-Sport versions.

The rest of the front has remained fairly similar to the pre-facelift version. At the rear, the light cluster has also been changed and now features a sleeker look. Inside, there has been a change to the instrument cluster and an upgrade to the...
iDrive system. This new system is much more user friendly. BMW have changed the centre screen to a touchscreen, which makes the system similar to a smartphone – something I believe many drivers will appreciate. The car now also has Wi-Fi allowing you to connect up to 10 devices to the car’s network.

The 220i motor has had a small pep and now produces 135 kW and 270 N.m. This is a lot, and when put into a small car like the 220i Coupé, it transforms the car into a little pocket rocket. The impressive part was not just the power but the fuel consumption when driven normally. This vehicle will easily manage mid-single-digit fuel consumption when used daily and driven well, but put the car into sport mode and it will eat the tar at an impressive pace. The motor matched to the Steptronic box is pure pleasure to drive and enjoy, even in traffic.

On the whole, the facelift of the 2-Series has given the car a more grown-up look while keeping the sporty lines. On the road the car is easy to drive and in M-Sport spec, the chunky steering wheel makes you feel like you’re driving a sports car. On the downside, BMW could have added more sound from the tail pipes as the vehicle is rather muted, even at full throttle. In the compact coupé market, however, this is still one that sets the benchmark.

**ENGINE**

<table>
<thead>
<tr>
<th>2,0L TWINPOWER TURBO</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>POWER</strong></td>
</tr>
<tr>
<td><strong>TORQUE</strong></td>
</tr>
<tr>
<td><strong>0–100 KM/H</strong></td>
</tr>
<tr>
<td><strong>PRICE</strong></td>
</tr>
</tbody>
</table>

**AUTHOR** | Torque Talk is a member of SAGMJ
Every organisation needs professionals who are trained to prepare accounts, manage tax and VAT compliance and other monthly and yearly accounts with confidence. AT(SAs) play a pivotal role in organisations as they provide the much needed support across all aspects of accounting, finance and business practice. For strong accountancy skills, financial discipline, and professional integrity, choose AT(SA), SAICA’s practical, entry to mid-level accountancy designation and professional membership. AT(SA) is a mark of professional competence. It indicates soundness in the quality and practice of accountancy, finance, and business knowledge.

You can join AT(SA) in two ways: register for one of the accounting qualifications or become a professional member of AT(SA). You don’t have to have an AT(SA) qualification to be a member. Your prior learning and experience enables you to access the accountancy profession at the right level. Get the professional confidence you need, join AT(SA) today.

Visit: [www.accountingtechniciansouthafrica.co.za](http://www.accountingtechniciansouthafrica.co.za) or email info@accountingtechniciansouthafrica.co.za

@acctechSA  accountingtechniciansa  accountingtechniciansa

Handle numbers with more CONFIDENCE
A new life in different soil?

Smith Garb
Accounting and Financial Recruitment Specialists

Need to fill a financial position within your organisation?

We source and place the best candidates after thorough screening and verification, matching your unique needs.

Need to take your career to the next level?

We assist in finding that perfect match to your specific needs.

Special coaching to Newly Qualified CAs and graduates with Completed Articles.

Call us on (011) 315-9900 or email associates@smithgarb.co.za

Thornhill Office Park, Building No. 27, Bekker Street, Midrand
P.O. Box 4525, Halfway House, 1685

Please go to our website for more positions or to submit your CV: www.smithgarb.co.za

Leaders in recruitment since 1982

For all our positions please visit our website: www.thepc.co.za | 011-244-5380

Rekenmeesters-, oudit- en belastingpraktyke of ONS KOOP

Rekenmeesters-, oudit- en belastingpraktyke of “blokke van fooio”. Kontak Pieter by 0823320646 of pieterw@bvsa.ltd as jy daarin belangstel om te verkoop.
THE HISTORY OF THE CA PROFESSION

“In a highly competitive world, if the profession is to continue to attract exceptional young people, it must demonstrate through its story why the CA(SA) career is the one they should choose.”

– Johnson Njeke, Chairman of the Editorial Committee.

PURCHASE YOUR COPY NOW!

Get your copy for as little as R402.50 including VAT

ORDER NOW

FIGURE THAT!

THE STORY OF THE CHARTERED ACCOUNTANCY PROFESSION IN SOUTH AFRICA

by REX GIBSON

SAICA
THE SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS

develop.influence.lead.