THE SAIPA ENTREPRENEURSHIP REPORT
Key Insights

CAN SMES AFFORD TO BE ETHICAL?
What are the costs?

TRANSFORMATION IN THE ACCOUNTANCY INDUSTRY
IS CHANGE HAPPENING RAPIDLY ENOUGH?

DOING BUSINESS IN SUB-SAHARAN AFRICA
What the research shows
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At the recent SAIPA Annual General Meeting, our chairperson, Shirley Olsen, praised SAIPA’s ‘creative and thoughtful team of leaders’ who have helped SAIPA to ‘break free from the shackles of the past, radically transforming itself into a dynamic professional organisation’, capable of standing proud both nationally and internationally.

We are delighted to announce the appointment of the following people to SAIPA’s board and its various committees:

**EXCO**
- Shirley Olsen – Chairman
- Cindy Dibete – Deputy Chairman
- Altaaf Parker – Board Member
- Muhammad Seedat – Board Member

**ARC**
- Ayhashoni Ramikosi – Board Member
- Ram Nadoo – Board Member
- Charle de Kock – SAIPA Member
- Romeshni Govender – Non-SAIPA Member
- Shirley Bahula-Ermias – Non-SAIPA Member

**NOMCOM**
- Shirley Olsen – Chairman
- Muhammad Seedat – Board Member
- Parmi Natesan – IoDSA
- Joseph Tshiwilowilo – SAIPA Member
- Leon van Vuuren – Ethics Institute
- Shahied Daniels – Ex Officio

**Investigations Committee**
- Prof David Taylor – Legal Member (Chair)
- Lynn Mosisa – Legal Member (Alternate Chair)
- Relean Davids – SAIPA Member
- Karthi Naircker – SAIPA Member (Alternate)
- Sesham Sanga – Public Interest Member
- Nischea Mapa – Public Interest Member (Alternate)

**Disciplinary Committee**
- Asha Naicker Peremaran – Legal Member (Chair)
- Irene Neyt – Legal Member (Alternate Chair)
- Aabeel Mangolende – SAIPA Member
- Martin van Rensburg – SAIPA Member (Alternate)
- Skytho Sithole – Public Interest Member
- Dr. Jason van Niekerk – Public Interest Member (Alternate)

**Appeals Committee**
- Ash Naidoo Alli – Legal Member (Chair)
- Asha J. H. de Villiers Botha – Legal Member (Alternate)
- Kenneth Badenhorst – SAIPA Member
- Etienne Retief – SAIPA Member (Alternate)
- Geoffrey Ngomoya – Public Interest Member
- Deipa Singh – Public Interest Member (Alternate)

**Social and Ethics Committee**
- Prof Dacres Rossouw – Chairman
- Ram Nadoo
- Nontobeko Nhanda

We are pleased to recognise that where others have floundered in the wake of economic turbulence brought about by international events, SAIPA has successfully surfed these enormous waves of change by reinventing itself and consistently punching way above its weight.

SAIPA continues to increase its membership, with the current number of members standing at 10,477. Also, our ongoing work to ensure greater representation continues to bear fruit as now 22.9% of our members are of colour and 42.6% are female.

In an increasingly globalised world, where networks are important to exploit the economic and other benefits this inter-connectedness brings, organisations cannot afford to adopt a mere national focus. SAIPA has responded to this need by reaching out to other Professional Accountancy Organisations (PAOs) in Africa and abroad, building bridges that foster mutually beneficial relationships.

We have also sought to securely position ourselves within national and international governance structures, thereby ensuring that we wield our influence to the benefit of our members. Although SAIPA is proud of having made meaningful advances in its operations to date, we remain fully committed to constantly improving the quality of service we render to our members and other stakeholders.

Shahied Daniels
Chief Executive
SAIPA
DOING BUSINESS IN SUB-SAHARAN AFRICA: WHAT THE RESEARCH SHOWS

Based on a research report by Dr Thomas Hoeppli, Economic Research Analyst, SAIPA

Countries in sub-Saharan Africa have been among the fastest-growing economies in the world over the past few years. In fact, six of the world’s ten fastest-growing economies of the past decade are in sub-Saharan Africa (The Economist, 2013). Tapping into these markets appears to be a promising way of expanding a business. However, a closer look at the region reveals that even though economic growth has been very high over the past decade, entering these markets and doing business in these countries comes with a few challenges.

Sub-Saharan Africa has experienced high growth rates, but in many countries, income per capita (based on purchasing-power-parity) has not seen a similar growth but in many countries, income per capita (based on purchasing-power-parity) has not seen a similar growth. Moreover, despite increasing demand in the region, trading across borders seems to be more challenging than in other parts of the world according to the World Bank/IFC index.

Economic Growth in Sub-Saharan Africa
Sub-Saharan Africa has attracted considerable attention due to its high economic growth rates since the mid-1990s and particularly over the past decade when many advanced economies have struggled to recover from the effects of the global financial and economic crisis that has sparked severe recessions.

Comparing GDP growth rates in sub-Saharan Africa since 2001 with the respective growth rates in the advanced economies, the good performance of these countries becomes evident. The average annual GDP growth was almost four percentage points higher in sub-Saharan Africa than in the advanced economies between 2001 and 2013.

Annual growth rates in excess of 5% are expected in many sub-Saharan countries over the next few years. These fast-growing economies therefore appear to offer attractive export markets and business opportunities, especially in comparison to the local market which is growing at a much slower pace.

Oil and gas production are major contributors to growth in the region. Natural gas production grew by an annual average of 10% over the past ten years, and is projected to grow at an annual average rate of about 5% from 2010 to 2040 (EIA, 2012). The contribution of natural resources to the high growth rates is evident: oil-exporting sub-Saharan countries have significantly higher real GDP growth rates than oil-importing countries (IMF, 2013).

“...In the eight sub-Saharan countries where doing business is relatively easier, there are a number of recurring factors that pose substantial challenges to businesses.”

Ease of Doing Business
The World Bank, in collaboration with the International Finance Corporation (IFC), has published annual Doing Business reports since 2003. The 2014 report covers 11 indicators and 189 economies. Economies are ranked on their ease of doing business, from 1 to 189. The ranking shows how conducive the environment is to starting and operating a local business. The index averages a country’s rankings based on 10 topics and includes:

1. Starting a Business
2. Dealing with Construction Permits
3. Getting Electricity
4. Registering Property
5. Getting Credit
6. Protecting Investors
7. Paying Taxes
8. Trading Across Borders
9. Enforcing Contracts
10. Resolving Insolvency

Not many sub-Saharan countries feature in the higher rankings of the index. Of the 47 sub-Saharan countries included, only eight are ranked among the top 100, while the rest are ranked between 121 and 189. The majority of the sub-Saharan countries thus appear to be among the more difficult countries in the world to do business in.

Doing business and GDP
It could be assumed that the higher a country ranks in the ease of doing business index, i.e. the more conducive the business environment, the higher economic growth would be. However, this is not the case. Even though many sub-Saharan countries have a large number of small- and medium-sized enterprises (SMEs), these are almost exclusively micro companies and often not part of the formal economy.

Accordingly, SMEs in the formal sector contribute less than 20% to GDP in most African countries, while they contribute up to 40% in high-income countries (Fjose et al., 2010).

Although countries in which doing business is easier have not seen higher average growth rates since 2008, there is a correlation between the ease of doing business and the income level achieved. GDP per capita, based on purchasing-power-parity, tends to be higher the better the country is ranked in the index. This suggests that over time, a more favourable business environment has resulted in a higher level of GDP per capita. It is also an indication that potential customers in these ‘easier-to-do-business’ countries tend to have a higher purchasing power.

South Africa ranks comparatively well in most of the 10 topics covered in the index and has only two areas that were ranked higher than 100, namely Getting Electricity ranked 150th out of 189 and Trading Across Borders ranked 186th out of 189. Even Mauritius – the best-ranked sub-Saharan country – has a problematic factor; namely Dealing with Construction Permits ranked 123rd out of 189.

The challenges in doing business
The World Economic Forum regularly analyses the most problematic factors for doing business in a country. For their Global Competitiveness Report 2013 – 2014, respondents in a total of 148 economies were asked to select the five most problematic factors for doing business in their country and rank them between one (most problematic) and five. Even in the eight sub-Saharan countries where doing business is relatively easier, there are a number of recurring factors that pose substantial challenges to businesses. There are certain factors that can be summarised into four broad categories: Finance, Government, Infrastructure and Labour. The most problematic factors (in descending order) are the following:

1. Access to finance;
2. Inefficient government bureaucracy;
3. Poor work ethic in national labour force;
4. Corruption;
5. Inadequately educated workforce;
6. Inadequate supply of infrastructure;
7. Restrictive labour laws.

Increasing demand and trade
Another way of tapping into the growth markets in sub-Saharan Africa, instead of physically establishing a business, is through trade. The exceptionally high economic growth in many of these countries, which has been spurred by export activities and related investment, suggests that demand for imported products as well as exports is increasing rapidly. However, a closer look at the development of per capita income over time reveals that sub-Saharan Africa lags far behind other emerging markets.
GDP (based on Purchasing-Power-Parity (PPP) per capita GDP) in other emerging country groups (Emerging and Developing Europe, Latin America/ Caribbean and Emerging and Developing Asia) has grown more quickly than in sub-Saharan Africa since 1990. Sub-Saharan Africa has not only started at a low level in 1990 (just slightly higher than emerging and developing Asia), but its per capita GDP has increased more slowly than in the other country groups.

Standing still but going backwards
Citing a new World Bank paper, The Economist (2014) reports that from 1993 to 2008, the average per capita income in sub-Saharan Africa hardly budged, only increasing marginally from $742 to $762 per year over that period. These figures include the richer countries, such as the Seychelles and South Africa. According to Lakner & Milanovic (2013), excluding these two countries, the average per capita income actually decreased over the period from $608 to $556.

These figures put the high growth rates and the perceived business potential in these countries into perspective.

Growth has not translated into significantly higher per capita incomes. Moreover, trading across borders in sub-Saharan Africa is not as easy as in other parts of the world. In a report prepared for the Commonwealth Secretariat entitled ‘Impediments to Intra-Regional Trade in Sub-Saharan Africa’, it is emphasised that intra-regional trade in sub-Saharan Africa appears to be low despite multilateral, regional and bilateral trade agreements. While there have been reductions in tariffs among countries in the region, non-tariff barriers still act as major constraints on trade and limit the gains from increased market access through tariff reductions (Overseas Development Institute, 2010).

“Growth has not translated into significantly higher per capita incomes. Moreover, trading across borders in sub-Saharan Africa is not as easy as in other parts of the world.”

Conclusions
The fast-growing markets in sub-Saharan African economies have come under the radar as new potential markets, both for exports and for business expansions. While many of these countries offer excellent opportunities in certain sectors or industries, the research shows that the region is a challenging place to do business. Furthermore, despite high growth over the past decade, income per capita continues to lag behind other developing economies. Nonetheless, growth has created additional demand and higher purchasing power, which creates opportunities for businesses that are undeterred by a business environment that may not be as easy as in other countries.

The full research paper including references can be downloaded using the following link: www.saipa.co.za/page/350321/research-agenda
That said, while many entrepreneurs and experts agree that the climate presents some challenges, a strong sense of optimism about South Africa remains.

**KEY RECOMMENDATION**

Policymakers should explore mechanisms that provide incentives to South African SMEs to invest in capacity to mitigate the currency risk our volatile rand creates.

**SAIPA Entrepreneurship Survey**

Professional Accountants in South Africa overwhelmingly conveyed the message that more can be done to support entrepreneurs and SMEs. The need to provide entrepreneurs and businesses with non-financial support was underscored by 49% of the respondents who indicated that the biggest threat to the survival of start-ups is the lack of business and financial skills of entrepreneurs.

The second biggest threat identified to start-up success was a lack of funding and insufficient access to debt financing market means that entrepreneurs and SMEs are generally more dependent on informal sources. Information asymmetry in the financing market means that entrepreneurs and SMEs are often an essential factor in building a successful business. Given the relatively high numbers of non-governmental organisations (NGOs) in South Africa, supporting social enterprises that apply entrepreneurial thinking to our socio-economic development should provide opportunities for economic growth. Economic migration may be another important factor – not only by supplementing our local skills base but also by increasing our rates of entrepreneurial activity.

Another key social challenge is to increase the participation by women in the economy. Our culture needs to celebrate women entrepreneurs and business owners and we need to raise the visibility of the many government initiatives targeting women.

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**KEY RECOMMENDATION**

Build the profile and prestige of the entrepreneur and highlight the potential rewards of starting one’s own business.

**Culture of Entrepreneurship**

Research on entrepreneurship consistently highlights the importance of culture as an enabling factor and stresses the need for development policies and strategies that take culture into account. The challenges facing South Africa with regard to poverty and unemployment are immense, and overcoming them will require a culture that builds partnerships and encourages collaborations.

Adapting to societal values and solving shared problems is often an essential factor in building a successful business. Given the relatively high numbers of non-governmental organisations (NGOs) in South Africa, supporting social enterprises that apply entrepreneurial thinking to our socio-economic development should provide opportunities for economic growth. Economic migration may be another important factor – not only by supplementing our local skills base but also by increasing our rates of entrepreneurial activity.

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**KEY RECOMMENDATION**

Initiatives that focus on developing the financial and business management skills of entrepreneurs and small business owners will improve the survival rate of start-up businesses and should be supported by government and could also be promoted through Public-Private Partnerships (PPP).

**Culture of Entrepreneurship**

Research on entrepreneurship consistently highlights the importance of culture as an enabling factor and stresses the need for development policies and strategies that take culture into account. The challenges facing South Africa with regard to poverty and unemployment are immense, and overcoming them will require a culture that builds partnerships and encourages collaborations, both between the South African government and its citizens and between the citizens themselves. To build relationships and develop trust between South Africans will require strong political and civic leadership to lead the way.

An important element of an entrepreneurial culture is the willingness to take risks. However, many talented and capable South Africans do not have the resources and savings to cushion against the financial loss of a failed venture. The safe option therefore is not to risk entrepreneurship, but to remain within the relative safety of employment.

"The challenges facing South Africa with regard to poverty and unemployment are immense, and overcoming them will require a culture that builds partnerships and encourages collaborations."

**Barriers to Entrepreneurship**

The Global Entrepreneurship Monitor (GEM) classifies South Africa as an efficiency-driven economy which should, in theory, provide a good climate for opportunity-driven entrepreneurs to develop ideas with growth and job creation potential. While policymakers have sound incentives to focus resources on this class of entrepreneurs, the benefits of self-employment, social cohesion, and stability in society that would come with assisting survivalist, necessity-driven entrepreneurs supports a two-pronged approach.

Obtaining financing is one major barrier to starting a business and many South Africans obtain seed capital from informal sources. Information asymmetry in the financing market means that entrepreneurs and SMEs are not always aware of what financing options are available. The relative complexity of the regulatory environment can also deter entrepreneurial activity. Education and entrepreneurial activity are tied together and a poor education system may be the most significant barrier restraining entrepreneurs.

Here mentors could provide a much-needed support system to help small business owners and improve start-up success rates.

**KEY RECOMMENDATION**

Develop mentorship programmes that connect potential and intentional entrepreneurs to mentors to help them develop their concepts and to support them in the initial phases of their business.

**Support for Entrepreneurs**

How we allocate scarce resources should be guided by an assessment of which interventions and mechanisms provide the best returns on investment. Setting qualitative goals will allow us to better evaluate the existing mechanisms in place and to focus our efforts on those support interventions which have real, measured impact.

Enterprise and Supplier Development (ESD) programmes offer a promising mechanism with which to build SME capacity and support long-term sustainability. The new B-BBEE codes should provide more incentives to corporations and government to open up their supply chains. Public-private partnerships hold the key to South Africa’s economic development and growth. By leveraging off private sector capacity and expertise, government could overcome its issues of capacity. Universities can also play a role in connecting stakeholders and resources from around the world.

Developing an efficient schooling system that provides quality education for all citizens is undoubtedly the most cost-effective way of supporting South Africa’s long-term economic growth and development.

**KEY RECOMMENDATION**

When developing ESD programmes, corporates and government should connect with support institutions like seda which will help mitigate their risks of opening up their supply chains. Corporations should develop the ‘heartbeat’ of entrepreneurship, particularly around issues of creating impact and the value of the various soft factors that policymakers are addressing.

**Funding and Access to Bank Credit**

South Africa’s banking system is well regarded internationally. The WEF Global Competitiveness survey registered encouraging improvements in South Africa in 2012 with regard to the affordability of banking services, the development of the venture capital market, and the ease of access to loans. Entrepreneurs and SMEs are generally more dependent on debt financing and the limited set of financing sources available make SMEs more vulnerable to the changing conditions in credit markets.

With no proven track records to establish the certainty of future cash flows, banks are generally unable to risk depository funds on businesses that are at the beginning of their life cycle. Credit guarantees schemes are excellent mechanisms with which to increase lending to SMEs and entrepreneurs with good business ideas, but these schemes have collateral and/or equity constraints. Seda is currently engaging with the banks in South Africa to determine how to increase the use of this tool to support SME development.

**KEY RECOMMENDATION**

A government-led task-team should collaborate with the banks to investigate how to develop a credit bureau to overcome issues of asymmetric information and facilitate lending to entrepreneurs and SMEs. This should also include collaboration between professional bodies and banks to provide more non-financial support.

**Taxation Environment**

While SARS is widely recognised as one of the most efficient government institutions, many SAIPA respondents would like to see more assistance for entrepreneurs and SMEs through the tax system. Tax incentives can affect entrepreneurs and small businesses positively in two ways: either by targeting their businesses directly or by providing incentive mechanisms to their service providers, financiers, employees, or themselves in their personal capacity.

A complex tax system with many incentives and exemptions can, however, negatively affect small businesses because of the associated cost of compliance.

The 2013 tax review includes a specific focus on small business issues and an analysis of tax compliance costs, possible streamlining of tax administration, and the simplification of the tax legislation.
PARTNERSHIPS WITH SMEs

FASSET BUILDS STRONG PARTNERSHIPS WITH SMEs

Cheryl James, Fasset CEO, describes the Fasset (Finance and Accounting services) sector as a predominantly SMME sector. “Recognising the importance of a robust SMME sector, Fasset has built strong partnerships with these organisations in its sector. SMMEs registered with Fasset are able to access a number of Fasset benefits, including grants. They are also able to attend Fasset’s Lifelong Learning events,” she informs. Grants include the National Student Financial Aid Scheme (NSFAS), the Loan Repayment Grant (NRG) and the Learnership Cash Entry and Exit Grant (LCEG). “By assisting learners in the repayment of their NSFAS loan, Fasset enables SMMEs to retain their learners, and by so doing, to build a sustainable skills pipeline within their organisation,” James observes.

Fasset’s flagship Lifelong Learning events are also playing a very important role in ensuring that the soft skills of SMME employers and their learners remain current. “Offered by Fasset at no cost whatsoever to its members, Continuous Professional Development (CPD) would otherwise be unaffordable for many SMMEs,” James notes.

James cites as another benefit, which SMME employers really appreciate, the fact that they are able to recruit quality, work-ready beneficiaries of Fasset-funded bridging programmes. Fasset urges SMME employers to continue partnering with Fasset. “By so doing, we can create a strong, vibrant cadre of finance and accounting professionals, who are well-positioned to assist government to roll out its National Development Plan (NDP),” James concludes.

“SMMEs constitute a very important stakeholder grouping in South Africa. Government is looking to SMMEs to generate economic growth. Government is also looking to SMMEs to create jobs,” says Fasset CEO, Cheryl James.

Small businesses are generally cautious about investing in new staff because labour law regulations in South Africa are administratively intensive, particularly when dealing with problem employees. In line with international trends, South Africa has introduced Business Rescue for companies and close corporations to try and restructure and remain in business, and success rates are improving.

Key Recommendation

Additional tax incentives should be considered not only for entrepreneurs and SMMEs, but also for their support service providers, mentors, and (informal) financiers. The proposed Business Licensing Bill should be aligned with the Tax Administration Act to avoid duplication of efforts and increased compliance costs.

Regulatory Environment

The legal and regulatory frameworks in South Africa determine how government, businesses and society interact and engage with one another and compliance is a necessary cost of doing business in the formal economy. Excessive red tape is regularly cited as hampering SME growth, and small businesses are disproportionately affected. The need to reduce red tape to support SMMEs is acknowledged by government, and recent interventions include the 2013 DTI publication Guidelines for Reducing Municipal Red Tape.

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Transformation in the accountancy industry continues to be a controversial topic. While some players commend the progress already made, others find the pace unsatisfyingly slow.

Nevin Lalsab of the South African Institute of Professional Accountants (SAIPA) says that in spite of the organisation’s efforts – which include the establishment of a growth and transformation division, headed by two officers to oversee the private and public sectors respectively – and steady progress, membership remains overwhelmingly white and male.

So, what is the problem? According to industry players, the issues are deep-seated: Lance Tomlinson, Assurance Leader: Africa at EY, points to poor maths and science marks, which affect the industry’s pipeline. His colleague, Trevonica Naidu, who heads Diversity and Inclusivity at EY, points out that this is not only a matter of inadequate teaching standards; in many cases, it is a legacy issue. It is only recently that black learners have started to consider accountancy as a profession; for many, whose parents were schooled according to Apartheid’s Bantu education system, there is a lack of practical support available on the home front that may cripple their ambitions.

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Key Recommendation

The laws relating to non-performance and disciplinary procedures should reflect the nature of SME-employee relationships, which cannot be compared to those within government and big businesses.

The SAIPA Entrepreneurship Report can be downloaded using the following link: http://www.saipa.co.za/page/344022/saipa-entrepreneurship-report

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Like its industry counterparts, EY has programmes in place targeting schools and universities, aiming to educate black youngsters about the possibility of an accounting career. PwC, meanwhile, provides grants to Business Skills South Africa and the Farianani Rural Business Women’s Training Initiative, and joins forces with black-owned businesses to facilitate training, both formally and through skills transfer.

KPMG has embedded the issue in its strategy, the organisation appointed a Transformation Advisory Council (comprising senior partners, including the CEO) several years ago. The Council is responsible for ensuring the transformation strategy is appropriately implemented. Added to this, the organisation has joined forces with partners in the private and public sector to launch targeted initiatives.

At SAIPA, Lalsab says that the organisation has ‘an imprint’ with the public sector and targets the private sector too, by making presentations at major corporates and conducting gap analyses. “This allows us to identify the areas a candidate must improve upon if they wish to qualify to join SAIPA,” he explains. School and university visits are also part of the programme, and an Accounting Olympiad has been introduced to raise awareness amongst black learners. In addition, SAIPA has recently teamed up with the Association for the Advancement of Black Accountants of Southern Africa (ABASA) to further the cause of transformation in the profession. The Olympiad is one of the fruits of this collaboration, and other activities aiming at raising awareness are in the pipeline.

In spite of these efforts, Tantaswa Fubu, president of ABASA, says that the rate of transformation is ‘less than satisfactory’. Her major concern is the fact that of the 21% of black individuals making up the country’s CA population, only 9% are African – and the percentage of African women making up this figure is even lower. “This clearly indicates that, even though the black numbers have increased quite a lot given where we come from, when you consider the demographics of our country, it simply is not enough. It is one thing to encourage black children to enter the profession, but it is entirely another game to ensure that they can access it and subsequently succeed. I believe we need to relook access and pass rates,” she states.

ABASA is certainly working hard to rectify the problem. A schools programme aims not only to encourage black students to enter the profession, but also offers career guidance. A bursary fund is in place and, although it is not big enough to support all deserving students, where it is unable to help, it pairs the students with professional firms. Student chapters assist in readiness students for the professional world, and a debating competition has been introduced at university level, with the aim of fostering students’ knowledge and public speaking skills and, with this, their confidence. Finally, students’ leadership skills are honed through a leadership camp.

Where would she like to see a greater level of progress? “We need more black women,” Fubu says. “Representation at C-suite level is also a problem, especially within JSE-listed companies.” Fubu notes that many organisations explain this away by saying that black professionals job hop and are expensive. “Our retort, as ABASA, is that if the conditions in a company do not make me feel like this is a home of which I can be proud, of course I will move. More importantly, if we are so expensive, let us look at the highest paid professionals in the country – should we not expect to find a whole lot of black professionals at the top of that list? If not, then, surely, there are issues we need to address.”

“**“We aren’t yet close to reflecting the country’s demographics, but we are moving in the right direction.”**

So, where to from here? For Fubu, the first step lies in creating the awareness that the industry has a tradition of privilege, which it is reluctant to change. ABASA is engaging with various organisations to discuss how they can facilitate transformation, and is challenging perceptions (such as the notion of black as expensive job hoppers). “We also started - some three years ago - an ABASA Survey where we involved what is normally referred to as the ‘Big Four’ accounting firms. In the last year, we also included Sizwe Mntslaba Gobodo.”

“This survey seeks to understand issues affecting our constituencies in these firms. For the first time this year, when discussing the issues with the respective CEOs, we have asked them to commit to a plan to address each respective firm’s major issues. They have committed to communicating this to their representatives,” she informs. She adds that the industry’s charter is also going under review.

Lalsab urges professional accountants to let go of long-standing preconceptions. “People considering their selection of trainee accountants need to be aware that a qualification from a university in a previously disadvantaged area is just as solid as any other. The curriculum is the same wherever you study,” he says emphatically. To bring this point home, SAIPA is working with these universities to ensure that their curricula are SAIPA-accredited. Even those at lower levels of the organisation can help, says Tomlinson. “We are often reminded of the words of Dr Naudé Khosa: ‘Lift while you rise’.” Each person in this profession has the obligation to help where they can, whether that is by mentoring or coaching a junior employee, helping a student with maths, lecturing, keeping the books of an association or serving on an NGO.”

The last word goes to Andrew Harrington, CEO of Grant Thornton. “I believe that this is a transforming industry. We aren’t yet close to reflecting the country’s demographics, but we are moving in the right direction. If the number of black accountants increases by just two or three per cent each year – as it has already done – it’s just a matter of time until we reach our goals.”

The accountancy industry is one of the least demographically representative in South Africa, and for this reason, SAIPA has joined forces with ABASA – a collaboration that seeks to raise awareness of the Professional Accountant (SA) as a career choice amongst secondary-school learners.

SAIPA and ABASA are collaborating on the National Accounting Olympiad. The Olympiad aims to make Accounting as a subject more accessible, particularly to rural learners, and to expose the option of becoming a Professional Accountant (SA) as an exciting career to aspiring young accountants in Grade 12.

“The increase in the number of schools that participated in the 2013 National Accounting Olympiad reflects an increasing awareness of professional accounting as a career choice,” says Navin Lalsab, Accreditation, Compliance & Development Executive at SAIPA and Chairperson of the SAIPA National Accounting Olympiad Committee. All entrants are given study guides that help the learners in their schoolwork and in preparation for their final matric examinations. “Learners who perform well in Accounting are more likely to pursue this as a career option, so part of our aim is to ensure that they are as well prepared as they can possibly be for their final exams,” he says.

In addition, SAIPA is expanding its campaign to raise awareness of what it means to be a Professional Accountant (SA) through its partnership with ABASA. “During both ABASA and SAIPA visits to schools, we make an effort to explain the career options available for those who are interested in accounting as a profession,” says Lalsab. “A perception persists that becoming an external auditor is the only option available, yet as a Professional Accountant (SA), individuals have the option of getting to meet and understand in terms of the strategic running of a company, more strategic business advisor than narrow cruncher.”

SAIPA is confident that through its collaboration with ABASA, the two organisations will be able to expand their reach, specifically in rural areas, where accounting is often neglected as a subject.
IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS
Faith Nguyen, Technical & Standards Executive, SAIPA

The requirements for recognising revenue are changing. The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) (collectively, the Boards) have issued new requirements for recognising revenue under both IFRS and US GAAP. The new standard is the final product of more than a decade of efforts, including multiple documents exposed for public comment, numerous round tables, other discussion forums and extensive deliberations by the Boards. The core principle of IFRS 15 is that revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The scope
IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard’s requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity’s ordinary activities (e.g. sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

Effective date
The standard will apply to annual periods beginning on or after 1 January 2017 (15 December 2016 for public entities reporting under US GAAP). Early adoption is permitted under IFRS, but not for public entities reporting under US GAAP. Entities will transition following either a full retrospective approach or a modified retrospective approach. The modified approach will allow the standard to be applied to existing contracts beginning with the current period. No restatement of the comparative periods will be required under this approach, as long as comparative disclosures about the current period’s revenues under existing IFRS are included.

The five-step model
The principles in the standard will be applied using a five-step model. Entities will need to exercise judgement when considering the terms of the contracts and all relevant facts and circumstances. The requirements will need to be applied consistently to contracts with similar characteristics and in similar circumstances.

STEP 1: Identify the contract(s) with a customer
Contracts may be written, verbal or implied by customary business practices, but must be enforceable and have commercial substance. The model applies to each contract with a customer once it is probable the entity will collect the consideration to which it will be entitled. In evaluating whether collection is probable, the entity would consider only the customer’s ability and intention to pay the consideration when due. An entity may combine two or more contracts that are entered into at or near the same time with the same customer, and account for them as a single contract, provided that they meet specific criteria. The standard provides detailed requirements for contract modifications. Depending on the specific facts and circumstances, a modification may be accounted for as a separate contract or a modification of the original contract.

STEP 3: Determine the transaction price
The transaction price is the amount of consideration to which an entity expects to be entitled and includes:

- An estimate of any variable consideration (e.g. it may vary due to rebates or bonuses), using either a probability-weighted expected value or the most likely amount, whichever better predicts the amount of consideration to which the entity will be entitled;
- The effect of the time value of money, if there is a financing component that is significant to the contract;
- The fair value of any non-cash consideration;
- The effect of any consideration payable to the customer, such as vouchers and coupons.

The transaction price is generally not adjusted for credit risk. However, it may be constrained because of variable consideration. That is, an entity can include variable consideration in the transaction price only to the extent it is highly probable that a subsequent change in estimated variable consideration will not result in a significant revenue reversal. A significant reversal occurs when a change in the estimate results in a significant downward adjustment in the amount of cumulative revenue recognised from the contract with the customer. For sales and usage-based royalties from the licence of intellectual property, the standard specifies that an entity does not include such consideration in the transaction price before the subsequent sale or usage occurs.

STEP 4: Allocate the transaction price to the separate performance obligations
An entity must allocate the transaction price to each separate performance obligation on a relative stand-alone selling price basis, with limited exceptions. One exception in the standard permits an entity to allocate a variable amount of consideration, together with any subsequent changes in that variable consideration, to one or more (but not all) performance obligations, if specified criteria are met. When determining stand-alone selling prices, an entity must use observable information, if it is available. If stand-alone selling prices are not directly observable, an entity will need to use estimates based on reasonably available information. Examples of reasonably available information include an adjusted market assessment approach or an expected cost plus a margin approach. Only when the stand-alone selling price of a good or service is highly variable or uncertain (as explained in the standard), can a residual approach be used.

STEP 2: Identify the separate performance obligations in the contract
Once the contract has been identified, an entity will need to evaluate the terms and customary business practices to identify which promised goods or services, or a bundle of promised goods or services, should be accounted for as separate performance obligations. The key determinant for identifying a separate performance obligation is whether a good or service, or a bundle, is distinct. A good or service is distinct if the customer can benefit from the good or service on its own or together with other readily available resources and the good or service is separately identifiable from other promises in the contract. Each distinct good or service will be a separate performance obligation.

“Extensive disclosures will be required, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.”
The core principle of IFRS 15 is that revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” Additional application guidance is provided to assist entities when determining whether a licence of intellectual property transfers to a customer over time or at a point in time.

STEP 5: Recognise revenue when (or as) the entity satisfies a performance obligation

An entity satisfies a performance obligation by transferring control of a promised good or service to the customer, which could occur over time or at a point in time.

A performance obligation is satisfied at a point in time, unless it meets one of the following criteria, in which case it is satisfied over time:

- The customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs.
- The entity’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- The entity’s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Revenue is recognised in line with the pattern of transfer. Revenue that is allocated to performance obligations satisfied at a point in time will be recognised over the period the performance obligation is satisfied, using a single method that best depicts the pattern of the transfer of control over time.

In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. Provided those costs are expected to be recovered, they can be capitalised and subsequently amortised and tested for impairment. Application guidance is provided in the standard to assist entities in applying its requirements to common arrangements, including licences, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services and breakage.

The IASB tentatively decided that it would need to describe and explain any such departures in the Basis for Conclusions on that IFRS.

Section 2: Definitions of the elements of financial statements

Assets and liabilities

The IASB discussed the definitions of an asset and a liability. The existing definitions are:

- An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
- A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

The IASB decided to build on the existing Conceptual Framework – updating, improving and filling in gaps rather than fundamentally reconsidering all aspects.

“The IASB decided to build on the existing Conceptual Framework – updating, improving and filling in gaps rather than fundamentally reconsidering all aspects.”
An obligation can be viewed as having arisen from past events if the amount of the liability will be determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period.

Uncertainty

The IASB’s preliminary views are:

- The definitions of assets and liabilities should not retain the notion that an inflow or outflow is ‘expected’. An asset must be capable of producing economic benefits. A liability must be capable of resulting in a transfer of economic resources.

- The Conceptual Framework should not set a probability threshold for the rare cases in which it is uncertain whether an asset or a liability exists. If there could be significant uncertainty about whether a particular type of asset or liability exists, the IASB would decide how to deal with that uncertainty when it develops or revises a standard on that type of asset or liability.

- The recognition criteria should not retain the existing reference to probability.

Other elements

This section briefly discusses how to define the main building blocks (elements) for the statements of profit or loss and other comprehensive income (income and expense), the statement of cash flows (cash receipts and cash payments) and the statement of changes in equity (contributions to equity, distributions of equity, and transfers between classes of equity).

Section 3: Additional guidance to support the asset and liability definitions

Section 3 suggests the following:

- To support the definition of an asset, guidance should be provided on:
  - The meaning of ‘economic resource’; and
  - The meaning of ‘control’.

- To support the definition of a liability, guidance should be provided on:
  - The meaning of ‘transfer an economic resource’;
  - Constructive obligations; and
  - The meaning of ‘present’ obligation.

- To support both definitions, guidance should be provided on:
  - Reporting the substance of contractual rights and contractual obligations; and
  - Executory contracts.

For constructive obligations, the IASB’s preliminary view is that the existing definition of a liability – which encompasses both legal and constructive obligations – should be retained and more guidance should be added to help to distinguish constructive obligations from economic compulsion. The discussion on the meaning of present obligation notes that a present obligation arises from past events. An obligation can be viewed as having arisen from past events if the amount of the liability will be determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period. However, it is unclear whether such past events are sufficient to create a present obligation if any requirement to transfer an economic resource remains conditional on the entity’s future actions.

The discussion identifies three different views that the IASB could use as a starting point in developing guidance for the Conceptual Framework:

- View 1: A present obligation must have arisen from past events and be strictly unconditional. An entity does not have a present obligation if it could, at least in theory, avoid the transfer through its future actions.

- View 2: A present obligation must have arisen from past events and be practically unconditional. An obligation is practically unconditional if the entity does not have the practical ability to avoid the transfer through its future actions.

- View 3: A present obligation must have arisen from past events, but may be conditional on the entity’s future actions.

The IASB has tentatively rejected View 1. However, it has not reached a preliminary view in favour of View 2 or View 3.

Section 4: Recognition and derecognition

- Recognition: When should an entity’s statement of financial position report an economic resource as an asset or an obligation as a liability?

- Derecognition: When should an entity remove an asset or a liability from its statement of financial position?

The IASB’s preliminary view on recognition is that an entity should recognise all its assets and liabilities, unless the IASB decides when developing or revising a particular Standard that an entity need not, or should not, recognise an asset or a liability because:

- Recognising the asset (or the liability) would provide users of financial statements with information that is not relevant or is not sufficiently relevant to justify the cost; or

- No measure of the asset (or the liability) would result in a faithful representation of the asset (or the liability) and the changes in the asset (or the liability), even if all necessary descriptions and explanations are disclosed.

The existing Conceptual Framework does not address derecognition. The IASB’s preliminary view is that an entity should derecognise an asset or a liability when it no longer meets the recognition criteria. However, for cases in which an entity retains a component of an asset or a liability, the IASB should determine, when developing or revising particular Standards, how the entity would best portray the changes that resulted from the transaction. Possible approaches include:

- Enhanced disclosure;

- Presenting any rights or obligations retained on a line item that is different from the line item used for the original rights or obligations, to highlight the greater concentration of risk; or

- Continuing to recognise the original asset or liability and treating the proceeds received or paid for the transfer as a loan received or granted.

Section 5: Definition of equity and distinction between liability and equity elements

The IASB’s preliminary views are that:

- The Conceptual Framework should retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities.

- The Conceptual Framework should state that the IASB should use the definition of a liability to distinguish liabilities from equity instruments. Two consequences of this are:

  - Obligations to issue equity instruments are not liabilities; and

  - Obligations that will arise only when the reporting entity is liquidated are not liabilities.

An entity should:

- Update the measure of each class of equity claim at the end of each reporting period.

- Recognise updates to those measurements in the statement of changes in equity as a transfer of wealth between classes of equity claim.

- If an entity has issued no equity instruments, it may be appropriate to treat the most subordinated class of instruments as if it were an equity claim, with suitable disclosure.

- Identify whether to use such an approach, and if so, when, would be a decision that the IASB would need to make when it develops or revises particular Standards.

The resources of the entity, claims against the entity and changes in resources and claims; and

- How efficiently and effectively the entity’s management and governing board have discharged their responsibilities to use the entity’s resources.

- A single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements.
When selecting which measurement to use for a particular item, the IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and OCI.

The relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to future cash flows. Consequently, the selection of a measurement:
- For a particular asset should depend on how that asset contributes to future cash flows;
- and
- For a particular liability should depend on how the entity will settle or fulfill that liability.

The number of different measurements used should be the smallest number necessary to provide the relevant information. Unnecessary measurement changes should be avoided and necessary measurement changes should be explained.

The benefits of a particular measurement to users of financial statements need to be sufficient to justify the cost.

## Section 7: Presentation and disclosure

The IASB’s preliminary views on presentation and disclosure are that:
- The objective of primary financial statements is to provide summarised information about recognised assets, liabilities, equity, income, expenses, changes in equity, and cash flows that has been classified and aggregated in a manner that is useful to users of financial statements in making decisions about providing resources to the entity.
- The objective of the notes to the financial statements is to supplement the primary financial statements by providing additional useful information about:
  - The assets, liabilities, equity, income, expenses, changes in equity, and cash flows of the entity; and
  - How efficiently and effectively the entity’s management and governing board have discharged their responsibilities to use the entity’s resources.
- To meet the objective of disclosure, the IASB would normally consider requiring disclosure about the following:
  - The reporting entity as a whole;
  - Amounts recognised in the entity’s primary financial statements, including changes in those amounts (for example, disaggregation of line items, roll-forwards, reconciliation); and
  - The nature and extent of the entity’s unrecognised assets and liabilities;
- The nature and extent of risks arising from the entity’s assets and liabilities (whether recognised or unrecognised); and
- The methods, assumptions and judgements, and changes in those methods, assumptions and judgements, that affect amounts presented or otherwise disclosed.

The concept of materiality is clearly described in the existing Conceptual Framework. Consequently, the IASB does not propose to amend, or add to, the guidance on materiality. However, the IASB is considering developing additional guidance or education material on materiality outside of the Conceptual Framework project.

Forward-looking information would be included in the notes to the financial statements if it provides relevant information about existing assets and liabilities or about assets and liabilities that existed during the reporting period.

The purpose of the statement(s) of profit or loss and OCI:
- Presentation in the statement of comprehensive income
- and OCI; and
- Whether the Conceptual Framework should require a profit or loss total or subtotal and whether it should require or permit recycling.

The IASB’s preliminary views are that:
- The Conceptual Framework should require a profit or loss total or subtotal that also results, or could result, in some items of income or expense being recycled; and
- The use of OCI should be limited to items of income or expense resulting from changes in current measures of assets and liabilities (remeasurements). However, not all such remeasurements would be eligible for recognition in OCI.


## Section 8: Presentation in the statement of comprehensive income

HOW PROFESSIONAL ACCOUNTANTS CAN IMPROVE STAKEHOLDERS’ UNDERSTANDING OF ORGANISATIONAL PERFORMANCE

Chris Hicks, CPA Canada, and Vincent Topphoff, IFAC

As many organisational leaders believe that measures developed under generally accepted accounting principles (GAAP) often do not fully capture an organisation’s current performance or future prospects. To fill this void, they frequently provide additional financial measures that are not specifically defined by accounting standards: supplementary financial measures. Many such measures are widely used in both internal and external reporting, for example, Earnings Before Interest, Taxes, Depreciation, and Amortisation (EBITDA), Underlying Profit, and Free Cash Flow. However, some commenters believe that organisations use such measures in their external reporting to obscure poor performance.

To help Professional Accountants address this issue and develop and report useful measures, the Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC) has issued proposed guidance, Developing and Reporting Supplementary Financial Measures. The proposed guidance provides principles regarding the qualities a measure should have and disclosures that should accompany them if reported externally. The guidance is meant for all organisations that want to use supplementary financial measures, regardless of size or structure, private or public. The guidance can also be applied to non-financial measures, such as greenhouse gas emissions or barrels of oil-equivalent production.

Considerations for development and reporting Building on the qualitative characteristics of useful financial information*, the guidance recommends Professional Accountants consider a number of attributes when developing and reporting supplementary financial measures. A supplementary financial measure should be:

- Relevant—used by management to assess performance or employed by knowledgeable users of the external report.
- Complete—providing all the information necessary for a user to understand the phenomenon being depicted.
- Neutral—not slanted, weighted, or manipulated to obtain a desired result.
- Transparent—aligned with its components and accompanied by sufficient explanation to make it as free as is practical from uncertainty and estimation error.

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Understanding and verifiable—allowing knowledgeable users to understand its construction and limitations and conclude that it faithfully reports what it purports to depict.

Comparability—between entities in the same industry and between entities at different points in time—reported at the same time as the related financial statements.

Disclosure tips In addition to these attributes, the guidance provides a number of tips for disclosure of supplementary financial measures.

- To avoid confusion, supplementary financial measures should be clearly defined. Additionally, the purpose of a measure should be disclosed. Further, supplementary financial measures should be labelled as such and be clearly distinguished from GAAP measures.
- When the components of a measure change or their calculation changes, the reason for the change should be explained and the comparative amounts should be restated to the new basis of calculation.
- A supplementary financial measure should include a quantitative reconciliation of the measure to the most directly comparable reported GAAP measure.

- A supplementary financial measure should be presented with sufficient information to enable a user to understand its components and see that the measure is complete, neutral and free from error.
- An externally-reported supplementary financial measure should be presented so that it complements, but does not overshadow, an organisation’s GAAP measures.

Given the absence of definitions for supplementary financial measures, many jurisdictions regulate their use and disclosure when reported externally. Accordingly, the proposed guidance should be considered in light of the regulations in the particular jurisdiction where it is applied. The proposed guidance also includes a limited list of relevant resources from IFAC, its member bodies, and other relevant organisations.

* As identified in the Conceptual Framework for Financial Reporting issued by the International Accounting Standards Board and the US Financial Accounting Standards Board.
CAN SMES AFFORD TO BE ETHICAL?

Cynthia Schoeman, Ethics Monitoring & Management Services

The value of entrepreneurs and small and medium-sized enterprises (SMEs) is widely recognised in terms of the contribution this sector makes to the economy and to job creation. Accordingly, much attention is being focused on how to promote SMEs, as reflected by the government’s announcement in Parliament in February 2014 to boost its support for SMEs by R6.5bn over the next three years. Given the growing importance of this sector, it warrants asking whether ethics is less relevant for small-scale operations.

The growing importance of this sector, it warrants asking whether ethics is less relevant for small-scale operations. The costs of being ethical

An argument that is raised against following an ethical approach is that SMEs cannot afford the cost and time that this incurs. However, this view mostly equates ethics solely with compliance. Legal and regulatory compliance can be a burden, especially for small operations and both the time and cost warrant being minimised. But that should not be confused with running a business ethically, which entails ethical leadership and actions and choices that reflect honesty, responsibility, accountability, fairness and respect. Instead, SMEs should recognise that ethics can serve to differentiate them from their competitors. As such, ethics becomes a strategic advantage that can serve as a catalyst for growth.

Ethics also matters for SMEs in terms of setting a precedent for the future. Ideally, the culture of the start-up operation should provide a sound foundation for the culture of the future corporation it aspires to become. Starting the right way also avoids the ‘legacy cost’ when earlier unethical practices are held against the company in the future.

A primary fact that is central to the issue of ethics and SMEs is the high failure rate of entrepreneurs who start businesses. According to Bloomberg, 80% of entrepreneurs fail within the first 18 months. The challenge of survival is thus very real. This risk is often increased by how SMEs are treated by their clients. When dealing with large organisations and the public sector, SMEs can be too small to negotiate fair contracts and the consequences of this can be quite severe. For example, when faced with a ‘take-it-or-leave-it’ choice. They can also be too small to fight back when treated unfairly. When, for example, the clients refuse to pay the full fee, implying they will follow a legal route to enforce their view, the SME is unlikely to be able to afford the cost of legal help to challenge them – even if they are entirely in the right. Such treatment should be recognised for what it is: the blatant abuse of power. While there is no single way that SMEs can avoid this, they nonetheless need to be wary that they manage the risk in their business carefully. The ideal solution is that large organisations and the public sector accept that they have a moral obligation to treat smaller organisations with fairness and integrity. Crucially, this includes reasonable payment terms.

Limited financial resources often do not allow SMEs to weather the cash flow challenge when payment is delayed. The consequent negative cash flow can force small employers to retrench staff or to incur debt to cover their costs and can even lead to the closure of the business. A recent initiative by the National Small Business Chamber, the Prompt Payment Code, which aims to get government departments and corporates to pay their small suppliers within 30 days, is to be commended. And more can be done by government to drive and monitor prompt payments by all its departments.

Business survival and rationalisation

The challenge of survival for SMEs brings with it further ethical challenges – specifically whether the pursuit of survival lends itself to cutting corners. For example, can the need to sustain positive cash flows lead to customers being overcharged? Does the pressure to gain access to work lead to false or inflated claims about the company’s services, products or expertise? Would the entrepreneur be tempted to offer a bribe (or agree to a request for a bribe) in exchange for a lucrative contract that could support the company’s continued existence?

The ethical challenge the entrepreneur faces is between the short-term gain of an unethical approach versus the long-term cost if the misconduct becomes known. This cost can be very damaging to the business, encompassing reputational damage, the erosion of trust with key clients and, in extreme cases, legal action and criminal prosecution. This dilemma is exacerbated by the immediate gain being relatively certain, while the risk of being found out is only a possibility, and by the fact that people often rationalise their ethical choices.

Rationalisation is especially problematic because it rests on the person knowing what is right, but finding a reason or circumstance to justify why unethical action is acceptable.

“The ideal solution is that large organisations and the public sector accept that they have a moral obligation to treat smaller organisations with fairness and integrity.”}

The rationalisation can, for example, be based on the claim that it is standard practice or that other people are doing the same things, or on the view that it is not so serious. These arguments are also used to reduce the guilt associated with the misconduct, generally by transferring it elsewhere.

Thus it is likely to be expressed as, “I was forced to do so to keep the company going”. But the overarching factor that will dictate how such ethical dilemmas are managed will be the ethics of the leader, be that the entrepreneur or the business owner. Leadership is widely accepted as the most powerful influencer of ethics and this is particularly so in SMEs because, unlike their counterparts in larger organisations, leaders in SMEs are generally not subject to formal governance structures. Therefore, not only does ethics matter a great deal for SMEs, but ethical leadership matters even more.

ETHICAL CHECKLIST

An ethical checklist is a useful tool to manage ethics relative to specific issues and to ensure that the business looks beyond both the short-term implications of the issue and its own interests in the matter. Pertinent questions would include:

1. Is the proposed action (or choice or decision) legal?
2. Does the action meet the company’s ethical standards?
3. Could the action be shared without shame or guilt with others, such as with one’s family?
4. How would this action be defined if viewed by outsiders, for example, by the press?
5. Who would be affected by the action and what would the impact be?
6. Does the action set a sound precedent for the future?

The checklist serves as a useful decision-making tool for entrepreneurs and small business owners, offering insights on how to make sound ethical choices, ensuring a conducive business environment.

Cynthia Schoeman

ETHICS
WHISTLE-BLOWERS: NUISANCE OR NECESSITY?

Chio Sakutukwa, Advisor: Corporate Statutory Services at RSM Betty & Dickson (Johannesburg)

A whistle-blower is defined in the South African Protected Disclosures Act, 2000, as an employee who provides information about his or her company or his or her superior, which he or she reasonably believes provides evidence of a criminal offence, failure to comply with a legal duty, a miscarriage of justice, health and welfare, environmental damage or unfair discrimination. In the public sector, this list is extended to gross mismanagement and gross mismanagement of public funds.

Whistle-blowing is a concept that makes most employees and employers nervous. This is not surprising given the checkered history of whistle-blowing across the world. Edward Snowden is possibly the most famous whistle-blower in recent times. As a result of his actions, he is now on his country’s, and former employer’s, ‘most wanted’ list. Twelve years ago, Wendy Addison blew the whistle on a R12 million fraud in Leisurenet, and as a result was dismissed from her job and was rendered unemployable by the bad publicity. She was also forced to leave South Africa due to threats on her life and has described herself as ‘living a life of abject poverty’ since then.

In both cases, the employer suffered massive reputational damage as a result of the negative media exposure.

Part of good corporate governance

Despite its negative history, whistle-blowing is a recognised and integral part of good corporate governance. Diligent employees often serve as an early warning system when a company’s internal controls fail. A formal whistle-blowing process is an internationally recognised characteristic of a company with strong, healthy corporate governance policies. Similarly, a fear of whistle-blowers relates directly to the weakness in the corporate governance of the company. As the Obama-Biden Transition Project put it, ‘often the best source of information about waste, fraud, and abuse in government (or a company) is an existing government (or company) employee committed to public integrity and willing to speak out. Such acts of courage and patriotism, which can sometimes save lives and often save taxpayer dollars, should be encouraged rather than stifled. We need to empower... employees as watchdogs of wrongdoing and partners in performance’.

In line with that, the Protected Disclosures Act, the Labour Relations Act, and the Companies Act protect employees in South Africa who make protected disclosures in respect of their employer from occupational detriment as a result thereof. This includes disciplinary action, demotion, victimisation, etc. With this protection of employees comes reputation risk to companies who do not have a formal whistle-blowing procedure in place and choose to deal with matters on an ad hoc basis. In such a company, an honest employee will not know who to approach in respect of their concern and may end up approaching an external body like the media to address the issue.

In a company or his or her superior, information about his or her concerns may end up approaching an external body like the media to address the issue.

Best practice guidelines

The Institute of Chartered Secretaries & Administrators International (IPSA International), has issued a Best Practice Guide on whistle-blowing for companies in response to the rising awareness around this subject. The Guide recommends the following:

- The procedure will be effective only if it has the confidence of the employees. As such, employee representatives should be involved in the establishment and implementation of the procedure;
- The procedure should be documented and a copy supplied to every employee;
- The procedure should set out the key aspects, including the individual to be approached to report suspicions. This may be the company secretary;
- The procedure should contain a statement that the company takes malpractice and misconduct seriously and is committed to a culture of openness in which employees can report legitimate concerns without fear of penalty or punishment;

- Examples of conduct to be reported and the level of proof required should be set out. Often a reasonable suspicion will be sufficient;
- The procedure should clearly state that false or malicious allegations will result in disciplinary action against the individual making them;
- Both an internal and external procedure may be offered depending on the needs of the company; and
- The process of investigating an allegation should be set out.

Before companies opt to deal with whistle-blowing on an ad hoc basis, they would do well to consider that Enron’s Senior Manager, Sherron Watkins, repeatedly and unsuccessfully tried to alert the directors to the fact that the company was on the verge of financial collapse. Without a specified individual to report to, her warning went unheeded and Enron went on to collapse in spectacular fashion a while later. Similarly, Cynthia Cooper, an internal auditor at Worldcom, was ignored numerous times when she tried to point out accounting malpractices that eventually led to the largest filing for bankruptcy in American history, as the corporate giant was crushed by its USD$1 billion dollar debt load. Finally, a whistle-blower will be paid US$63.9 million this year for providing tips that led to JPMorgan Chase & Co’s agreement to pay $614 million and tighten oversight to resolve charges that it defrauded the government into insuring flawed home loans.

The tides in whistle-blowing are turning and companies would be well advised to turn with them and establish formal whistle-blowing procedures and guidelines.

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In an era where technology is at one's fingertips and acronyms replace lengthy sentences, we thought it prudent to give you a quick reference guide to some of those nagging questions.

FAQs regarding the Broad-Based Black Economic Empowerment Act

May I use the new B-BBEE Act rules and issue a certificate as a Professional Accountant (SA)?

Keep apples with apples! The new B-BBEE Act is under review due to many concerns regarding the required affidavit and more especially regarding GEE. We strongly suggest that, until further notice, you revert to the old rules. We know that the temptation of an increased threshold is enticing, but always remember that you should never compromise your integrity.

You may not follow the new rules and issue a certificate. There is no validity in a certificate as legislation does not make provision for one. The date was extended for the implementation of the new rules from 11 October 2014 to 30 April 2015.

Can I issue a B-BBEE certificate to a legal entity that I have a vested interest in?

Perhaps I should ask you this: Would you accept a B-BBEE certificate for SAIPA produced by one of our board members or staff? It is unethical to produce a certificate for a legal entity you have a vested interest in, as a conflict of interest automatically exists. The conduct in itself is unprofessional and can put Professional Accountants (SA) in a bad light. The expectation is that as SAIPA members, we should know better.

FAQs relating to being a Commissioner of Oaths

Am I a Commissioner of Oaths?

By virtue of your status as a Professional Accountant (SA), you are ex officio a Commissioner of Oaths. Just to put your mind at ease, we refer you to a notice in the Government Gazette 25137 dated 4 July 2003. A copy of the notice is available on our website under Quick Links, entitled 'Commissioner of Oaths Guide'.

Go to http://www.saipa.co.za/page/227659/commissioner-oaths-guide

Where do I get my stamp?

You may instruct any stationer to create a stamp confirming all of your details.

What should my stamp look like?

COMMISSIONER OF OATHS
Ex-officio – Professional Accountant (SA)
Member number:
Address:
Telephone number:

General FAQ

What does it mean to be in Good Standing with the Institute?

This entails that all your fees are paid up; and you have no confirmed disciplinary rulings or outstanding fines against you; and your CPD (Continuous Professional Development) hours are up to date.

If I am a Professional Accountant (SA), how many structured CPD hours do I require?

You need a total of 20 structured hours made up as follows:

Accounting: 4 hours
Tax: 4 hours
Any other: 12 hours

If I am a Tax Practitioner, how many structured CPD hours do I require?

You need a total of 20 structured hours made up as follows:

Accounting: 4 hours
Tax: 12 hours
Any other: 4 hours

As Confucius said, ‘The cautious seldom err’, so we invite you to contact us at the Legal and Ethics Division, at SAIPA at legal@saipa.co.za, in respect of any legal queries or concerns you may have, in the hope that together we can maintain the SAIPA brand and continue to strive for professionalism and integrity.

Financial Management: Turning theory into practice

Financial Management: Turning theory into practice is an accessible and principles-based financial management textbook, taking cognisance of changes in the economic environment and their implications for the role of financial management and the teaching of the subject. The book seeks to develop problem-solving, critical thinking and ethical business leaders, but at the same time provide academic and financial literacy support to students. This approach serves to produce students who possess both technical competence and leadership qualities. The book is suitable for both undergraduate and honours Accounting students.

The opening case studies engage student interest and illustrate why the principles covered in the chapter are important for running a business in South Africa. Worked examples include questions to start developing the basic critical skills students will need to acquire as part of the competencies expected by the professional bodies. Solutions to the worked examples guide students through the problem in a step-by-step manner and give them the confidence to tackle questions on their own. Practical activities offer real-life examples of what a cost accountant might be expected to do in the workplace, such as writing memos and advising clients on cost-control measures, allowing students to practically apply the theory learnt in the chapter. Basic definitions reinforce concepts and end-of-chapter questions provide practice.

Principles of Cost Accounting offers a solid theoretical foundation in cost accounting aligned with the curriculum of a number of professional bodies. The book builds knowledge in incremental steps, allowing students to develop the framework required to conceptualise the technicalities of cost accounting. It refers to the specifics of accounting practice in the South African context where relevant, developing students’ competence for their workplace.

Principles of Cost Accounting offers a holistic approach to understanding the work of a cost accountant and incorporates decision-making and communication skills. Suitable for undergraduate courses in Cost Accounting as part of a Diploma in Accounting taken at universities or universities of technology, the book can be used from first through to third year.

Each chapter contains an opening practical example which illustrates why the principles covered in the chapter are important for running a business in South Africa. Worked examples include questions to start developing the basic critical skills students will need to acquire as part of the competencies expected by the professional bodies. Solutions to the worked examples guide students through the problem in a step-by-step manner and give them the confidence to tackle questions on their own. Practical activities offer real-life examples of what a cost accountant might be expected to do in the workplace, such as writing memos and advising clients on cost-control measures, allowing students to practically apply the theory learnt in the chapter. Basic definitions reinforce concepts and end-of-chapter questions provide practice.
Leonard's Last Day at the Office

Jeremy Maggs

In the far corner of the office canteen, two rapidly deflating helium balloons tried valiantly to stay upright and dance in the hot breeze caused by a limpid three-cycle office fan. Emblazoned on their silver bodies were the words 'Farewell' and 'Good luck'.

In the foreground was a hastily set Formica table on which sat three plastic plates of savoury snacks. Shiny mini-sausage rolls all with their grey innards exposed, competing with Ritz crackers and a variety of toppings that included past-sell-by-date sardines, Dayglo yellow cheddar cheese with fluorescent green pickled onions and a paste that resembled humus but instead had the texture of day-old pre-mixed Polyfilla. Next to that was a tin bath with melting ice in which packs of cheap beer, cider and jug-wine nestled together for comfort.

From a scratchy sound system strains of seventies soft-rock (mostly Air Supply) played over the noise of awkward and stilted conversation. The entire room was dominated by a badly hung white banner which read 'Happy The Rest of Your Life'. Welcome to Leonard Dungworth's retirement party.

Leonard had spent a lifetime at the company in the Accounts Receivable Department and was frankly ready to go. Technology baffled him, and even after countless short courses he still couldn't see the advantage of a spreadsheet over a well-inked leather bound ledger.

He found the pace of the company bewildering and was perpetually vexed by having to go to meetings between 1pm and 2pm – his time for sitting outside on a bench and eating a wholesome egg-mayonnaise sandwich lovingly prepared by his wife Marjorie and feeding some of the crusts to the pigeons. He knew it was time to quit when he was asked to prepare a bond indenture and contingent liability report referencing the double-declining balance depreciation method. He had to sit down and settle himself with a cup of Lapsang Souchong tea and a sweet biscuit.

So there he was making small talk with the testosterone-heavy corporate raiders' department who were about to wipe a profitable family business off the map with the speed of a Blue Streak air-to-surface missile fired from a swooping drone. Leonard was mentally rehearsing his speech which he was dreading, as his jelly legs kept reminding him. He also didn't understand why he was being asked if he would be using a tablet for his notes – his cut-out cue cards, well numbered, had always worked in the past. He was also mentally debating whether to thank his long-dead secretary Gertrude Smellie. It always galled him when people gave a loud sniff at her surname. She was stout of heart and stout of frame and could file like there was no tomorrow.

Then he heard the 29-year-old MD extolling his virtues of a strong work ethic, a quiet dignity and a polite manner and he started to think how the gold watch would look on his thinning hairless wrist. He was not prepared for the line that said: “...and Leonard we’ve clubbed together and here’s a voucher for a day of bungee-jumping, great white shark cage-diving and a guided base jump. We wish you well.” Leonard left the room slowly, to a muted applause. He hoped the pigeons would appreciate the sausage roll crust collected in his pocket.

“The entire room was dominated by a badly hung white banner which read ‘Happy The Rest of Your Life’. Welcome to Leonard Dungworth’s retirement party.”

The site will continually be updated with new CRMPs as they become available.

Visit www.crmp.co.za and “take a tour” to learn more about features such as:

- Related laws;
- Dashboard;
- Diagrams and reports; and
- Hyperlinked references.

CRMPs currently available:
- Consumer Protection Act (Rights) and (Interactions) (2 Plans);
- FAIS Act suite (3 Plans);
- Financial Intelligence Centre Act;
- Occupational Health and Safety Act (Core duties) and (Offices) (2 Plans);
- Companies Act
  - Private companies (Governance) and (Authorisations) (2 Plans);
  - Public companies (Governance) and (Authorisations) (2 Plans); and
- Municipal Finance Management Act (Municipality accounts).

A CRMP is an invaluable compliance tool that will assist you to:
- Easily identify and assess applicable regulatory requirements;
- Analyse the objective of the requirement and how it applies to you;
- Identify the associated compliance risk;
- Record the control measures that are in place to mitigate this risk;
- Document any additional controls required; and
- Email additional controls and target dates to responsible person.

The NEW COMPLIANCE RISK MANAGEMENT PLAN (CRMP) WEBSITE IS NOW AVAILABLE AT www.crmp.co.za.

This project was spearheaded by the Compliance Institute Southern Africa in line with their Generally Accepted Compliance Practice framework.
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