ALL ABOARD:
GOVERNANCE AND THE
PROFESSIONAL ACCOUNTANT

AVOID DE-REGISTRATION
FILING ANNUAL RETURNS

KEY INSIGHTS
THE IFAC GLOBAL SURVEY

THE CHANGING ROLE AND EXPECTATIONS
FOR THE PROFESSIONAL ACCOUNTANT (SA)
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A WORD FROM SAIPA

SETTING THE COURSE FOR THE FUTURE

No matter where we turn, change is omnipresent and confronts us even in the most unusual or unexpected circumstances. Whether we like it or not, change is not just a buzzword, but a reality. Today’s world and business environment is evolving and reinventing itself at a pace not witnessed any time before in history.

We all try to stay ahead of the curve and not to let change get the better of us. While change poses an inevitable threat to the status quo and to so much that we have laboriously learnt and mastered over time, it also opens up new and hitherto unknown or even unimaginable opportunities for those who are ready to let go of the old to make space for the new.

SAIPA constantly strives to lead the way by embracing change with a view of actively shaping the future of the Institute, its members and the profession. We have dedicated this edition not only to important technical, ethical and legal aspects that you ought to be aware of, but we also made a concerted effort to take on a future-looking perspective. Some of the articles in this edition specifically look at what the future might hold in store for the Professional Accountant (SA).

The future is, of course, not set in stone. Thought-provoking articles and ideas can initiate discussions about future scenarios and induce us to apply our minds to where we could be, and where we want to be, in the future. They help us put the right measures in place today so that we can influence the course of the future in our favour. We can thereby actively shape the future and do not just have to accept the change once it is imposed on us.

The same holds true for the profession as a whole. The policy recommendations of the recent World Bank ROSC report herald far-reaching changes in the accountancy profession. SAIPA could assume a passive ‘wait and see’ approach and deal with these changes whenever they are imposed on the profession. However, we feel that it is more appropriate to take an active approach that allows us to be actively involved in shaping the future of our profession.

We can help shape a future in which we have the opportunity to use change as a means of continuous improvement. As a SAIPA member, you can look forward to an exciting future in which change is nothing to be afraid of, but rather something that helps advance the profession, its reputation and status – and ultimately you as a Professional Accountant (SA).
ALL ABOARD: GOVERNANCE AND THE PROFESSIONAL ACCOUNTANT

Like any other aspect of business, corporate governance is subject to change with the passage of time. This evolution is giving rise to the presence of a more varied cross-section of management team members on the board of directors. For example, given the growing dependency of many businesses on technology, the Chief Technology or Information Officer is increasingly considered a suitable candidate at the boardroom table.

A strong case can be made for the Professional Accountant as Chief Finance Officer too, who can bring valuable skills to the board to drive improved governance and value creation. That is according to Rashied Small, Education, Training and Membership Executive at the South African Institute of Professional Accountants (SAIPA), who says the composition of boards is changing as the priorities of business shift away from purely profit-based motives.

“The responsibilities of the board are no longer focused on the primary goal of profit maximisation, but more on corporate governance, business sustainability and value creation. Furthermore, the added responsibilities placed on the board by regulations (various applicable laws, which may differ from one industry sector to another) require board members to have much deeper business insight and knowledge,” Small says.

Small adds that this change is concomitant with a move from a process of ‘rubber stamping’ of decisions, which he says is a possibility from the more traditional seats around the table, to one where the board takes an oversight role with increased personal accountability for each director. In turn, mitigating the risk implied in personal accountability depends on deep subject matter experience.

Furthermore, continues Small, the re-definition of the Professional Accountant, by the International Federation of Accountants (IFAC) and SAIPA itself, implies that these individuals are increasingly viewed as value-adding professionals and not mere counters of money. “These professionals actively participate in the decision-making processes of the business to ensure that the organisation creates value,” he says.

A step back: Should the CFO be a Professional Accountant?

Small has already begun making the case that the person selected as the CFO should be a Professional Accountant. After all, it intuitively makes good sense that financial affairs be managed by a suitably well-versed individual.

He explains further why the CFO should ideally be a Professional Accountant: “The role of the CFO is to use information, both financial and non-financial, for decision-making purposes to ensure the sustainability...
and value creation of the organisation. Based on that, it is recommended that the CFO should be a Professional Accountant as the competencies required to perform their critical work functions are similar.”

In an entry on the IFAC website, Stathis Gould, Head of Accountants in Business, points out that finance leadership goes beyond the hard data contained in spreadsheets and business management software systems. Instead, it requires an appreciation of the importance of the dual aspects of compliance and performance. ‘Professional accountants need to live up to these expectations if they are to occupy finance leadership positions’, he writes. ‘It is now more important than ever for the accountancy profession to develop outstanding professionals who are well equipped to work in business and government, and well prepared to take on finance leadership roles.’

Gould says the benefit of Professional Accountants in CFO roles should be more widely understood and valued by regulators, employers and other stakeholders, as well as better articulated by the profession. ‘Given their professional education and training, and with relevant career experience and aptitude, Professional Accountants in CFO and related finance leadership roles should be well placed to meet expectations.’

The positioning of the CFO

The status of the CFO within any given organisation has a material influence on whether or not he or she should be considered for a seat on the board of directors. A critical determining factor is their positioning within the organisation. Gould writes ‘CFOs should occupy a senior management position or be a member of the board, but this is not always the case. A CFO serving as a fiduciary director has duties governed by specific legal requirements, such as ensuring the company is accountable to shareholders, and as part of ensuring sustainable value creation, they should take into account wider stakeholder interests.’

Gould adds that where the CFO is not a board member, he or she should operate at the highest level of senior management. ‘This is a critical part of better business and management. Investors and other stakeholders should have confidence that the CFO has sufficient status in an organisation to ensure financial discipline and strong financial management, as well as responsible and robust strategic and operational decision-making.’

Elevation to the board

Small points out that perhaps the biggest barrier to the Professional Accountant joining the board of directors is the enduring perception that he or she is nothing more than an accounting specialist. While that is certainly true, it doesn’t mean the value that the individual can add ends there: “With the changing business environment, the competencies of the Professional Accountant must change to incorporate a much wider business skill set,” he says.

The suitability of the Professional Accountant on the board was the topic of discussion for a recently (January 2015) convened panel conducted by the International Federation of Accountants and which featured some of the United Kingdom’s top business brains. The panel identified four key tasks for the CFO, just one of which is financial security. The other three are:

- Effective compliance and control
- Help the business navigate change and advise on strategic direction
- Build the capability of the finance function

To meet these new expectations, an element of re-skilling or up-skilling may be necessary, in line with the fact that on the board of directors, the Professional Accountant is no longer merely acting as a provider of information, but also increasingly as a user of information as an active participant in decision-making processes. “At this level, individuals are expected to contribute and participate in the decision-making process by providing guidance for the sustainability and value creation of the organisation,” Small confirms.

His advice for those Professional Accountants who aspire to board positions is straightforward and it doesn’t just apply to those in the financial fields. “Any professional should not focus on what he or she has done, but on what they can do. This can be achieved by displaying the competency skills sets that can add value to the board and the business at large. The Professional Accountant plays an important role in every organisation, as outlined in the integrated reporting framework. When that person has the additional competencies necessary to guide sustainability and value creation, they are suitable for appointment as a director.”
The success of businesses in the 21st century will be driven by making effective and timeous decisions that are informed by key stakeholders in the organisation. Pivotal to the decision-making process is accurate and reliable information which ensures that decision-making becomes an intelligent process rather than a sharp/lucky guess or just a “gut feel” decision.

At the core of the information pool is financial information, both historical and forecasts, which is integrated with qualitative information to provide a holistic overview of the context for the decisions that need to be made. The needs of decision makers are changing the role of the Professional Accountant from a provider of financial information into the decision-making process to an active participant with the responsibility of providing insight and analysis of the information.

Changing dynamics for the Professional Accountant

The changed demands of the users of financial statements and reports, especially internal users and decision makers, have changed the role of the Professional Accountant and the competencies required to satisfy the needs of the users. Management and decision makers in business organisations are primarily concerned with the following:

- **Key performance indicators (KPIs)** – to monitor and evaluate the performance of the decisions taken;
- **Sustainability** – to ensure the future of the business beyond the concept of being a going concern, but securing the successful continuation and growth of the business;
- **Compliance** – to ensure that the business complies with all regulations, which often require the support of financial information to pursue its sustainability and success; and
- **Risk** – to ensure that the risks which may threaten the success and sustainability of the business are controlled, managed and minimised.

The expectation of management and decision makers is that the Professional Accountant will provide input to achieve the above objectives and concerns. These expectations change the dynamics for the Professional Accountant from a passive provider of information to an active user, analyst and participant in the decision-making process. This requires the Professional Accountant to change the perception from being a “pin-striped” straight jacket sitting in the back office to a dynamic and active participant in the business decision-making processes.

**21st century Professional Accountant**

The changing expectations placed on the Professional Accountant result in a paradigm shift towards providing value-added services, which will contribute to the success and sustainability of the organisation. The following have been classified as critical work functions:

<table>
<thead>
<tr>
<th>Role/functions</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Creator of business value</strong></td>
<td>Participating in the decision-making processes which set and guide the course for the execution and delivery of sustainable business value creation. This involves taking an active role in the design and implementation of strategies, policies, plans, structures and governance measures for business value creation.</td>
</tr>
<tr>
<td><strong>Enabler of business value</strong></td>
<td>Participating in the managerial and operational decision-making processes to achieve sustainable value creation. This involves taking a supporting role by informing and guiding managerial and operational decision-making and the implementation of strategies to achieve sustainable value creation, planning, monitoring and improvement of supporting processes.</td>
</tr>
<tr>
<td><strong>Preserver of business value</strong></td>
<td>Implementation of risk management processes which will protect sustainable business value creation. This involves assisting management in implementing systems and procedures that protect the sustainable business value creation strategy against strategic, operational and financial risks by ensuring compliance with regulations, standards and good corporate governance practices.</td>
</tr>
<tr>
<td><strong>Reporter of business value</strong></td>
<td>Participating in the transparent and effective communication of sustainable business value creation to all stakeholders. This involves supporting the implementation of enabling and transparent communication systems for the delivery of sustainable business value to all stakeholders.</td>
</tr>
</tbody>
</table>
Critical work functions of the Professional Accountant

The expectations placed on the Professional Accountant in the 21st century require a new set of competencies, which can be summarised as follows:

<table>
<thead>
<tr>
<th>Critical work functions</th>
<th>Competencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Record and process business transactions</td>
<td>Competencies to identify, classify, record, process and update account records</td>
</tr>
<tr>
<td>Prepare financial statements and reports</td>
<td>Competencies to draft financial statements in compliance with the requirements of IFRS and the internal users</td>
</tr>
<tr>
<td>Use information (financial and non-financial) to assess and evaluate risks</td>
<td>Competencies to apply techniques to identify and quantify risks and develop management strategies to control and minimise risks</td>
</tr>
<tr>
<td>Use information (financial and non-financial) to plan sustainable business value creation</td>
<td>Competencies to assist and develop strategies to achieve sustainable business value creation</td>
</tr>
<tr>
<td>Use information (financial and non-financial) to improve operating efficiency and productivity</td>
<td>Competencies to develop strategies that will improve operating efficiency, cost control and the maximisation of profit</td>
</tr>
</tbody>
</table>

From the above table, it is clear that the critical work functions of the modern-day Professional Accountant’s job description focus more on the analysis and utilisation of information to assist management with the decision-making process.

Core competencies of the Professional Accountant

The table on the right illustrates the core competencies of the Professional Accountant to perform the expected critical work functions at the desired competence standards.

The competency skills set will improve the quality of service delivery by the Professional Accountant, while it will, at the same time, enhance the value-added contribution that can be made to the success and sustainability of the organisation and/or clients.

Conclusion

In order to remain relevant in the accountancy profession as well as in the service delivery, private or public sectors, it is important that Professional Accountants upskill themselves with the competencies to fulfil the expectations of their clients and/or organisation and can fully live up to their new role.

The major challenge is the necessary change in mindset and the conversion/improvement of competencies to meet the new expectations placed on the Professional Accountant. A psychological paradigm shift needs to be made from perceiving the Professional Accountant as a provider of financial information, viz. preparing financial statements and reports, to an integral contributor and active participant in the decision-making processes of the organisation and/or clients.

Six competency areas

<table>
<thead>
<tr>
<th>Financial Reporting</th>
<th>Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial reporting needs and systems</td>
<td>Financial planning and analysis</td>
</tr>
<tr>
<td>Accounting policies and transactions</td>
<td>Treasury management</td>
</tr>
<tr>
<td>Financial report preparation</td>
<td>Capital budgeting/valuation/corporate finance</td>
</tr>
<tr>
<td>Financial statement analysis</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Audit and Assurance</th>
<th>Management Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal control</td>
<td>Management reporting needs and systems</td>
</tr>
<tr>
<td>Internal audit or external assurance requirements (basis and risk assessment)</td>
<td>Planning, budgeting and forecasting</td>
</tr>
<tr>
<td>Internal audit or external audit engagements (risk response and reporting)</td>
<td>Cost/revenue/profitability management</td>
</tr>
<tr>
<td></td>
<td>Organisational/individual performance management</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strategy and Governance</th>
<th>Taxation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance, mission, values and mandate</td>
<td>Income tax legislation and research</td>
</tr>
<tr>
<td>Strategy development and implementation</td>
<td>Tax compliance: corporate or personal</td>
</tr>
<tr>
<td>Enterprise risk management</td>
<td>Tax planning: corporate or personal</td>
</tr>
</tbody>
</table>

Enabling competencies

- Professional and ethical behaviour
- Problem-solving and decision-making
- Communication
- Self-management
- Teamwork and leadership
MODELS OF SUCCESS?

Jeff Drew – Senior Editor, Journal of Accountancy

A
drian G. Simmons, CPA, would like to see the term “The Firm of the Future” become a thing of the past. “[It] is somewhat of a limiting term,” said Simmons, chief creative designer of a Maryland accounting firm and co-founder of the Thriveal Laboratory. “It presents the idea that there is a single model we are evolving into. We need to get rid of that idea. ‘The Firm of the Future’ is really ‘Firms of the Future’.”

That concept was at the heart of the first experiment conducted by the Thriveal Laboratory, which was created by Simmons and Jason M. Blumer, CPA, chief innovation officer of Blumer CPAs and founder of the Thriveal CPA network, a community of accountants pushing for creativity and change in the profession.

The hypothesis of the first Thriveal Labs experiment was that “there will be multiple successful business models for accounting firms of the future.” To test that hypothesis, Thriveal assembled a team of six small firm leaders to prototype new business models for public accounting – a process that reinforced Simmons’ belief that the ability to develop and adapt business models will be a key differentiator among accounting firms in the near future.

“Business model design is going to become a strategic skill that will become a competitive advantage,” Simmons said. “CPAs who have a comfort level playing with business models will be the ones who succeed.”

While Thriveal uses the term business model to describe the prototypes outlined in the experiment report, the models presented could also be adapted to lines of business within an existing firm. The tool used to develop the prototypes focuses on areas related to a line of business – customer segments and relationships, revenue streams, cost structure, key partners, activities and resources. It does not directly address culture and talent, other areas identified by the AICPA Private Companies Practice Section as essential in developing accounting firm business models. This article uses the term lines of business in explaining the Thriveal prototyping process.

The firm of the future: A value proposition

Ron Baker, founder of the VeraSage Institute and author of several books, including 2003’s The Firm of the Future: A Guide for Accountants, Lawyers, and Other Professional Services (co-authored by Paul Dunn), has largely popularised the concept of ‘The Firm of the Future.’ Since then, Baker has emerged
as the foremost proponent of value pricing in the accountancy profession, arguing that accounting firms should abandon the time sheet and instead price their services based on the value they create for the client.

Baker agrees with Simmons that there is not just one definitive business model for accounting firms in the future. Instead, Baker defines the term business model as “How your firm creates value for customers and how you capture that value.”

Despite the book’s title, Baker says ‘The Firm of the Future’ never argued that firms should adopt the same business model.

“We didn’t use the term ‘business model’ in the book, as it wasn’t in the popular lexicon back in 2003,” said Baker. “The book advocates leveraging knowledge, not time, including the human capital of a firm’s knowledge workers, along with its social and structural capital, effectiveness over efficiency, and value pricing over hourly billing.”

Baker’s concepts have served as the foundation for a vision of the future of public accounting that thought leaders in the profession have embraced and championed in books, articles and conference sessions. Several variations of the vision exist, but most, if not all of them, attribute the following characteristics to the accounting firm business model of the future:

- Accounting firms must focus on becoming trusted advisers that provide their clients with the insight, analysis and advice needed to make quick business decisions and develop long-term business strategies;
- Accounting firms can leverage client accounting and outsourced and/or fractional CFO/controller services as an avenue to build deeper relationships with clients, learn more about their business situations, and position themselves to provide proactive advice, helping to cement a role as the trusted business adviser;
- Accounting firms should focus on developing great depth of knowledge in specific industry and sub-industry verticals – specialising in, for example, not just restaurants but quick service chains. This approach is enhanced by the emergence of cloud and mobile technologies, which make data available on an anywhere, anytime basis and create communication channels that eliminate most geographic barriers to doing business. This, in turn, allows firms of all sizes to add clients, employees and contractors in geographically diverse locations; and
- Trusted adviser and client accounting services do not readily lend themselves to hourly pricing. Value pricing will emerge as the primary method for setting client fees and delivering higher profits, greater client satisfaction and more growth opportunities for firms.

Prototyping new lines of business

Simmons sees value pricing as a tool that helps to develop firm business models. In his view, value pricing enables innovation and exploration. Firms can uncover new opportunities for clients by asking probing, aspirational, open-ended questions about the client’s business that are designed to determine which services the client might want or need. Value-pricing techniques then help the firm determine whether it can generate sufficient fees to make a profit on the engagement.

Similarly, firms can use the value concept to ascertain which opportunities to pursue in an increasingly segmented marketplace. “There are so many things we can do,” Simmons said. “What the accountant of today is trying to answer is, ‘What should I do?’ ”

To help with that process, the Thriveal Laboratory turned to the Business Model Canvas, a tool for visualising and adapting business models created by Alexander Osterwalder. For its experiment, the Thriveal Lab had the participating practitioners create types of accounting businesses using the canvas that constructs and deconstructs business models using nine building blocks. At the centre of the canvas is ‘Value Propositions’, where the prototype builder attempts to establish the reason for pursuing the business by answering questions related to the customer problems the line of business would solve and the value it would provide.

How it works in real life

While the Thriveal experiment involved brainstorming different business types, many firms are trying and succeeding with business line innovation and adaptation. One example is Lord & Associates PC/CPAs, a 30-year-old Michigan firm that has been transformed in recent years.
The biggest change by far was when we switched to value pricing,” said Corey Lord, CPA, CGMA, the firm’s chief innovation officer and virtual CFO. “I thought it made so much more sense than billing by the hour, and it opened up new avenues for different types of services for us to offer.”

No longer worried about incurring additional fees under an hourly billing structure, Lord’s clients began to contact the firm much more frequently with questions and ideas. This interaction led Lord to add consulting to its list of services. That, in turn, led Lord to determine that it should offer consulting services in specialised industries.

“The one that we chose was restaurants,” Lord said. “I’m a foodie, love food, love cooking. I used to work in restaurants, so I really understood the process and, now that I know the financial end of it, it’s very beneficial for me to bring that extra expertise.”

Lord has also experimented with different pricing models. Lord refers to one of those as ‘pay what you want’ pricing. “It’s basically value pricing without us actually saying anything about what we want for price,” he said. “One of our clients ended up paying us $500 more per month than I thought they were going to offer. My original proposal was less.”

The future is now

As the accounting profession continues to undergo unprecedented change, more and more firms will have to take a hard look at how and why they run their business. Firms will need to develop the skills to accurately assess market conditions, business opportunities, and their own operations and motivations. The ability to create, evaluate and adjust lines of business is poised to emerge as a key differentiator in the marketplace.

The approach used in the Thriveal experiment is just one option for accounting firms looking to diversify – or even transform – their business. Firms have many options as they adjust to the needs of the marketplace. It is a process that starts with a look inside the firm – its culture, talent and goals.

“Building the business model of the future has many elements, with client strategy being one component,” said Mark Koziel, CPA, CGMA, Vice President – Firm Services & Global Alliances at the AICPA. “Other important factors to consider as you build your model would include firm structure, staffing, culture and technology. Structure would be the optimum starting point to figure out what you want the firm to look like in five years and what you can do to remain relevant and competitive. Then figuring out who you want to serve, who will help you serve them, and how you will serve them rounds out the building of a full business model.”

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Many entrepreneurs and owners of SMEs are under the impression that the profit they make is equal to the cash the business generates and often overcommit the business with financial obligations. Research throughout the world indicates that 33.7% of SMEs are liquidated as a direct cause of cash flow difficulties. In South Africa, research indicates that approximately 100 SMEs are liquidated monthly, with the primary cause being cash flow difficulties and the inability to meet their financial obligations.

Professional accountants who render services to SMEs, especially when preparing financial statements, have a statutory obligation in terms of Section 4 of the Companies Act of 2008 to assess the liquidity and solvency of the business. The professional accountant’s responsibility is to prevent businesses from trading recklessly in an insolvent situation by requiring that the entity is not only liquid, i.e. able to pay its debts as they become due in the ordinary course of business, but also that it is solvent at the time of concluding the transaction.

Cash versus Profit

All businesses are established to make a profit and are driven by the primary business goal of profit maximisation. Profit is an accounting concept and is calculated by applying the accounting principles for recognising business transactions pertaining to income and expenses, i.e. profit is generated when the income exceeds the expenses incurred. Profit is a performance indicator used to (i) measure the return that business owners obtain for bearing the costs and risks of running the business, (ii) measure how successful the business is, and (iii) attract external funding. Profit can also be reinvested in the business to stimulate organic and internal growth.

Cash flow is more dynamic for business owners as it reflects reality by being concerned with the movement of money in and out of a business, and more importantly, the timing of the cash flow movements. The decision-making of the business, financial stability, profitability and the ability to meet financial obligations depend on the amount of cash at the disposal of the business. Cash is not governed by any accounting concept and is represented by all forms of cash flows. It is not...
restricted to income and expenses, and therefore includes cash inflows from investors, such as loans, and any outflows for the acquisition of assets. The cash position is an important indicator when assessing the ability of the business to pay for its future operating expenses and meet its future financial obligations.

The principle difference between cash and profit is the timing of recognising the business transaction. Profit, viz. income and expenses, are recognised based on the accrual principle, which states that transactions should be recognised when they occur, irrespective of when the cash flow takes place. For example, if a business purchases goods at a cost of R35,000 (expenses) and sells all the goods for R56,000 (income), the profit earned will be R21,000. However, if the business paid cash to purchase the goods and will only receive the cash from the customer 60 days after the date the goods were sold, there will be an initial cash outflow of R35,000 without any cash inflow, resulting in a negative cash flow of R35,000. Business owners will base their decisions on the profit of R21,000 earned on the assumption that the cash is available, but in reality the business’ cash is R35,000 out of pocket.

The second difference between cash and profit is that cash flows account for all business transactions, including assets and liabilities. For example, if a business operates on a cash basis and incurs expenses of R40,000 and earns an income of R71,000, while also paying R50,000 for machinery purchased, then the profit earned amounts to R31,000, which is cash, but the net cash flow is an outflow of R19,000 after deducting the cash outflow for machinery (asset).

Liquidity

Liquidity measures the extent to which an organisation has cash to meet immediate and short-term obligations, or the ease and rate by which assets can be converted into cash to meet financial obligations. From an accounting perspective, liquidity measures the ability of current assets to cover/meet current liabilities and is often measured by the current and acid test ratios. From the perspective of an investor, liquidity measures the ability to quickly convert assets into cash with little or no loss in the value of the asset.

The following are financial ratios used to analyse and assess the liquidity of a business:

- **Current ratio:** This ratio measures whether short-term assets are readily available to meet short-term obligations, i.e. it measures the ability of the business to pay. A high current ratio provides short-term creditors assurance that the risk of the business not meeting its obligations is low. When using the current ratio to assess the liquidity of a business, it is important to take into consideration the nature and type of the assets and the market for converting the assets into cash. The general benchmark for the current ratio is 2:1, and any ratio above this indicates a low liquidity risk.

- **Acid test ratio:** This ratio is a refinement of the current ratio by only taking into account the most liquid assets and ignoring less liquid assets, such as inventory, prepaid expenses and deferred income, which may take longer to convert into cash. A high acid test ratio indicates a higher position of liquidity. The general benchmark for the current ratio is 2:1, and any ratio above this indicates a low liquidity risk.

- **Cash ratio:** This ratio is a further refinement of both current and acid test ratios and only takes into consideration cash and cash equivalent assets, including invested funds. The cash ratio is seldom used as it is not realistic for a business to intentionally maintain high levels of cash assets to cover current liabilities. The reason being is that it is often seen as poor asset utilisation for a business to hold large amounts of cash on its balance sheet, as this money could be returned to shareholders or used elsewhere to generate higher returns.

- **Working capital:** This financial metric measures the operating liquidity of the business and is calculated as the difference between current assets and current liabilities. A business may be profitable and have sufficient resources to sustain its business, but be short on working capital if its current assets do not exceed current liabilities. Positive working capital is required to ensure that a business is able to continue its operations and that it has sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses.

- **Operating cash cycle:** This ratio measures the number of days a business’ cash is tied up in its operations and the benefit it gets from the payment terms from its creditors. The ratio measures the time it takes the business to sell its inventory, collect cash
The weakness of the liquidity ratios is that they are based on the assumption that all assets can be converted easily into cash without any loss in value. However, the liquidation of assets into cash may be subjected to certain conditions, i.e. trade receivable may only be converted into cash based on the payment terms.

Solvency

Solvency is a key metric used to measure a business’ ability to meet all its debt, both short-term and long-term, as well as other financial obligations, which makes it attractive to any investor. Solvency measures the degree of financial risk that a business encounters. “Financial risk” measures the extent of the debt obligations that must be met by the business, regardless of its cash flow. The solvency ratios are used to assess the level of debt of the business and decide whether this level is appropriate. The lower a company’s solvency ratio, the greater the probability that it will default on its debt obligations.

The following are financial ratios used to analyse and assess the solvency of a business:

Solvency ratio: This ratio measures the operating cash capacity of the business to pay all its debts (short- and long-term) from its operations or profit. It is calculated by comparing the net profit before accounting for depreciation to the total debts. A business may have a low long-term debt amount, but if its cash management practices are poor, resulting in an increase in its payables, its solvency position may not be as solid as would be indicated by measures that include only debt.

Debt-to-equity ratio: This ratio indicates the degree of financial leverage being used by the business and includes both short-term and long-term debt, and measures the composition of the financial structure applied by the business. A rising debt-to-equity ratio implies higher financial risk and interest expenses, and beyond a certain point, it may affect a company’s credit rating, making it more expensive to raise more debt.

Capitalisation ratio: This ratio measures the composition of the financial structure of the business and compares long-term debts to equity. The capitalisation ratio focuses on the relationship of debt liabilities as a component of a company’s total capital base or permanent capital structure. A business which is highly leveraged may find its freedom of action restricted by its creditors and/or have its profitability hurt by high interest costs.

Debt/Asset cover ratio: This ratio measures the leverage or degree to which the business’ assets have been financed with debt (short-term and long-term), and compares the total liabilities to the total assets. A higher ratio indicates a greater degree of leverage, which equates to high financial risk, while a low ratio indicates a lesser dependence on debt to finance the resources and operations of the business. If a business generates returns above its cost of capital, investors will benefit as any gains or losses are magnified by the use of leverage in its capital structure.

Interest cover: This ratio measures the company’s ability to meet the interest expenses on its debt with its operating income (earnings before interest and taxes – EBIT). The ability to stay current with interest payment obligations is absolutely critical for a company as a going concern. While the non-payment of debt principal may cause serious financial and operating risks, a business can continue to operate for quite some time as long as it is able to service its interest expenses.
Conclusion
Entrepreneurs and owners of SMEs are often under the delusion that profit is equal to cash. Cash and cash flow is more important when making operating decisions, while profit is a useful indicator to measure performance and success. Similarly, liquidity and solvency are often misunderstood to mean the same as they both provide useful information and indicators of the financial health and risk of the business.

Liquidity measures the ability of the business to pay short-term obligations and thus focuses on its operations, while solvency measures the ability to meet long-term debt obligations. A solvent company is one that owns more than it owes. In other words, it has a positive net worth and a manageable debt load. On the other hand, a company with adequate liquidity may have enough cash available to pay its bills, but it may be heading for financial disaster down the road. Cash flow or liquidity problems are more easily addressed than insolvency by managing operating expenses more stringently.

Liquidity is important when the focus, as for so many SMEs, is ensuring short-term operational survival, which is dependent on the ability of the business to have sufficient cash to pay its short-term obligations when they are due. Solvency, on the other hand, focuses more on the capacity of the business to sustain its activities by meeting its long-term financial obligations. The solvency of a business is significantly influenced by the degree of leverage employed in the capital and financing structure of the business.
THE FASSET-FUNDED TVET WORKPLACE EXPERIENCE PROJECT IS BUILDING A SKILLS PIPELINE FOR THE SOUTH AFRICAN ECONOMY

Fasset (the Seta for Finance and Accounting Services) is partnering with employers in the Fasset sector to build a pipeline of skills through the Fasset-funded Technical and Vocational Education and Training (TVET) Workplace Experience Project.

The project provides learners with the 18 months work experience required to achieve the National N Diploma, thereby enhancing their employability. Most importantly, the project will expose employers to TVET learners as an alternative source for recruitment.

Employers are not required to pay the learner a salary. Fasset will pay the learner a monthly stipend for the 18 month period. Any other benefits that may accrue are the employer’s responsibility. There is no limit to the number of learners that an employer may recruit. Employers are, however, required to provide learners with work related to their particular field of study. Fasset will conduct a pre-evaluation of the workplace to see whether the workplace has the capacity and the right skills and systems in place to support a learner.

Learners are required to maintain a logbook. This will be submitted to the TVET College, which will then forward this to the Department of Higher Education and Training (DHET) for assessment.

Fasset would like to thank all employers who are participating in the Fasset-funded TVET Workplace Experience Project. These partnerships are helping to build a skills pipeline for the entire economy. Fasset would like to alert employers to the fact that there are currently TVET learners available for this project. The application form can be downloaded from the website www.fasset.org.za.
On reviewing the financial statements of many capital-intensive businesses, especially SMEs, one often notices that the carrying amount of Property, Plant & Equipment is inexplicably low in comparison to the revenue and profit generated. In many of these situations, the reason can be attributed to the fact that a large proportion of the items of Property, Plant & Equipment are fully depreciated, but are still actively used in operations to generate revenue and profit. The implication of this is that an asset with a zero value has the potential to generate future economic benefits. Questions then arise as to whether the financial statements are a true and fair reflection of the business activities.

The accuracy and reliability of the financial statements are underpinned by the accounting policies adopted by the entity. Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements [IAS 8]. These include any methods, measurement systems and procedures for determining the results and values that should be presented in the financial statements. Accounting policies differ from accounting principles in that the principles are the guidelines/rules as outlined in the accounting standards and the policies reflect the manner in which management interprets and applies the principles to ensure compliance. One of the key reasons many investors and analysts pay attention to accounting policies is that their subjective nature is believed to be a tool for abuse by creative accounting. The use of accounting policies and procedures is one method of creating the internal controls needed for a successful and compliant organisation (Sarbanes Oxley).

Importance of accounting policies
Accounting policies are very important for the following reasons:

- Accounting standards are not prescriptive and allow alternative treatments for similar transactions, and thus improve the quality of the information presented in the financial statements;
- They provide an indication of whether management is conservative or aggressive when reporting results, especially earnings;
- They serve as a basis of measurement for the information presented in the financial statements and thus affect its fair presentation;
- They provide the user with insight and thorough understanding of the information provided in the financial statements; and
- They provide useful information when analysing and comparing information across entities.

Criteria considered when setting accounting policies
The following guidance is provided regarding the selection and application of accounting policies [IAS 8]:

- An accounting policy should be determined by applying a Standard or Interpretation which specifically applies to a transaction, an event or condition;
- If Standards or Interpretations do not address a specific transaction, event or condition, an entity should develop and apply a policy that is relevant to the decision-making needs of users of financial statements and is reliable as well; and
- If any preceding guidance is not available for an accounting policy, management must use its own judgment in selecting a policy it deems fit for the scenario.

The following process should be followed when establishing an accounting policy:

- The requirements and guidelines in Standards and Interpretations which deal with similar and related issues;
- The definitions, recognition criteria and concepts of measurement for income, expenses, assets and liabilities as outlined in the International Accounting Standards Board (IASB) Framework; and
- Most recent pronouncements of other standard-setting bodies to the extent that these do not conflict with the Standards, Interpretations and the IASB Framework.

Depreciation policies
Depreciation is often described as the amount by which the economic value embedded in the asset diminishes through its use, namely the estimated cost of using the asset in the process of generating income or carrying out the operating activities of the entity. The depreciation policy adopted by the
entity directly affects the profit for the period, i.e. the depreciation expense charged to profit or loss, and the carrying amount of the assets in the statement of financial position. The depreciation policy adopted by an entity impacts on the two main areas on which a practitioner expresses an opinion, namely the fair presentation of the financial position of the entity and the financial performance of the entity.

The following factors should be considered when determining the appropriateness of the depreciation policy adopted by the entity [refer to IFRS for SMEs s17.21]:

- The expected usage of the asset – assessed with reference to the expected capacity, physical output and production plans of the entity;
- Expected physical wear and tear – assessed by reviewing the operational factors for which the asset is used (standard hours, continuous usage or shifts) and the repairs and maintenance plans of the entity;
- Changes in technology – assessed by reviewing the technical obsolescence caused by changes in the industry, production processes, technology, etc.;
- Changes in commercial obsolescence – assessed by reviewing the market conditions for the products and outputs of the asset;
- Legal limitations – assessed by reviewing legal and other regulations that may restrict the period for which the asset may be used; and
- Replacement policy of the entity – assessed by reviewing the replacement strategy and capital expenditure budgets of the entity.

S17.22 states that the entity should select a depreciation policy and method that reflects the pattern in which it expects to consume the economic benefits embedded in the asset through its use. This requires judgement from management of the entity, but more importantly, the practitioner should assess the appropriateness of the depreciation policy adopted that will enhance the fair presentation of the financial statements.

Impact of a depreciation policy on the financial statements

The risks of applying an inappropriate depreciation policy are:

- Non-compliance with the provision of IFRS for SMEs [s17.16 – s17.23] – this is a significant risk to the practitioner and the opinion expressed on the financial statements;
- Fair presentation of the financial position and financial performance of the entity – impacting on the qualitative characteristics of the financial statements;
- Impacting on the solvency and financial risks of the entity – directly affected by measuring the carrying amount of the depreciable assets; and
- Impacting on the profitability and performance of the entity – directly affected by the depreciation expense and the useful lives of the depreciable assets.

Illustrative example

On 1 January 2008, an entity acquired machinery at a cost of R800,000. Management estimates that the machinery will be used for an estimated period of eight years, after which it will be replaced. However, in terms of the Income Tax Act, a wear and tear allowance of 20% on cost is allowed as a deduction per annum. If the entity adopts a depreciation policy based on the wear and tear allowance, depreciation of R160,000 will be recognised as a depreciation expense for five years to reduce the machinery to a nil carrying amount. However, for the remaining three years to the end of its useful life, no depreciation expense will be recognised, thereby increasing the profit for the last three years by approximately R160,000 per annum. This distorts the profit trend of the entity and may result in investors making an incorrect investment decision based on the reported profit.

Conclusion

S17.23 states that the entity and the practitioner should review the depreciation policy, including the useful life and residual value, at each reporting date. If there are indications of significant changes in the pattern in which the entity expects to consume the future economic benefits embedded in the asset, the depreciation method/policy shall be changed to reflect the new pattern of consumption.

The primary purpose of preparing and presenting financial statements is the fair presentation of the financial position and financial performance of the entity, which is enhanced by reflecting the economic substance of the transactions rather than adherence to the legal requirements and form. Furthermore, financial statements are prepared to provide users with useful, relevant and reliable information for economic decision-making. Thus, in the interest and protection of the practitioner, it is important that the determination and adoption of a depreciation policy for and by an entity be reconsidered with an added responsibility.
Businesses of all sizes that are registered in South Africa have obligations and regulations that they need to follow each year, including filing tax returns with the South African Revenue Service (SARS). Another important duty is the requirement by law for all companies registered in terms of the Companies Act and close corporations (CC) registered in terms of the Close Corporations Act in South Africa to lodge an annual return with the Companies and Intellectual Property Commission (CIPC).

“In addition to submitting the return within a prescribed period based on the anniversary date of the organisation’s registration,” explains Etienne Retief, director of FTR Tax and Corporate Administration and Chairperson of the National Tax Committee of the South African Institute of Professional Accountants (SAIPA), “each company and CC is required to pay the annual fee. The failure to follow this process places the company at risk of being de-registered by the CIPC.”

There are a number of important reasons why companies and CCs are required to file their annual returns. “The most important purpose is to ensure that the company’s or CC’s information, such as its address, is updated and that the CIPC record of the company or CC is current,” Retief notes. Through the annual return, companies or CCs are able to update their email addresses, website details, telephone numbers, mobile numbers, principal place of business and business descriptions.

“The annual return further provides statistical information and serves as a confirmation that the company or CC is still active. Many individuals in the past have registered a company and never started trading or have ceased trading, merely abandoning the company and not following procedure to de-register the company,” he explains.

Filing in five easy steps

Filing an annual return is a simple and easy-to-follow process, made up of five steps.

The first step is to register as a customer on the CIPC website, which is a quick and painless procedure. The second step involves the calculation of the annual return fee, which differs for companies and CCs according to yearly turnover and whether the return is filed on time. Each company or CC can calculate the fee payable by making use of the annual return calculator on the site. The third step involves depositing the fees into the CIPC bank account. Following the successful filing of the return – the fourth step – a certificate for the annual return lodgement confirmation will be generated for the company or CC to keep as reference, which is the fifth and final step.

“As a result of a large number of companies and CCs failing to follow the correct procedure, annual returns have become a vital annual commitment to undertake as a statutory requirement,” reveals SAIPA Technical Executive Faith Ngwenya.

“Although there have been inconsistencies in past applications by the CIPC,” points out Retief, “the law prescribes that a company’s annual return must be filed within 30 business days of the anniversary date of the business’ incorporation. CCs have an obligation to file within the anniversary month of incorporation, but have up until the month thereafter to complete the process.”

Termination of the juristic person

Should companies and CCs fail to file their annual returns in a timeous manner, it is the assumption that the organisation is inactive and the CIPC will then give notice of their intent to de-register. The de-registration process serves to remove the company or CC from the CIPC’s active records.

“De-registration effectively terminates the juristic person,” Retief explains. It is the legal effect of the de-registration process, the CIPC concurs, and with the withdrawal of the juristic personality, the
organisation ceases to exist. A juristic person, as
defined by the National Credit Act, is a company,
partnership, corporation, association or other body
of persons corporate or un-incorporated that has an
independent right of existence under the law with
accompanying legal entitlements and obligations.

There are three categories of juristic persons
recognised within South Africa: associations
established in separate legislation, associations
incorporated in terms of enabling legislation
and associations that comply with common law
requirements for the establishment of a juristic person.

Associations established in separate legislation
can only be constituted with permission from
the government as they are usually where the
government has an extensive interest in their
operations – Eskom and the South African
Broadcasting Corporation are two such examples
and they are regulated by specific statutes.

Associations incorporated in terms of enabling
legislation are also controlled by the government
in the interests of society, but do not need
governmental permission for their creation, only
requiring registration in terms of a general enabling
statute, write Hanneretha Kruger and Ann Skelton
in The Law of Persons in South Africa. Corporations
and banks generally fall under this definition.

Finally, associations that comply with common
law requirements to establish a juristic person
only require that the entities continue to exist,
irrespective of changes in membership, that the
associations carry rights and duties separately from
their members and that their objective should not
be the acquisition of gain, otherwise they must
register as a company.

Put simply, a juristic person or personality is a non-
living entity such as a corporation that is regarded
by law to be a person. The de-registration of a
company or close corporation would therefore
effectively end or terminate that personhood and
mean that it is no longer a legal entity. “The banks
may close the entity’s bank account and the owners
and members may lose limited liability,” notes
Ngwenya. “Once the corporate veil is pierced, the
members and owners are held personally liable for
the entity’s obligations. This is a fact that is rarely
considered by most businesses and exposes the
entity to possible litigation.”

“In the normal course of events,” Retief remarks,
“a company can be de-registered voluntarily if it
has stopped trading and has no assets or liabilities.
However, if the company or CC has significant
liabilities, which either exceed its liabilities or
render it unable to pay its debts, the company can
be voluntarily liquidated or forced into liquidation
by its creditors.”

The ins and outs of restoration

“On the whole, though,” reports Retief, “de-
registration as a result of non-filing of the annual
return is based on the assumption that the
company is no longer trading and therefore no
longer active. It is important to note that if that
is not in fact the case, de-registration can be
stopped, unless it has been finalised – late fees
will be payable and outstanding returns will need
to be filed, but no permanent damage will have
been done. However, once the de-registration has
been finalised, companies will have to apply to go
through a restoration, while CCs will need to apply
for a restoration and will then need to be converted
to a company.”

“Restoration is a difficult process with a number of
conditions and there is no assurance that the CIPC
will re-instate the entity,” warns Ngwenya. The
company or CC can only make an application for
restoration if it has followed procedure:

- Confirm the status of the entity with CIPC
- Once it is confirmed that the entity
  has been de-registered, submit a
  re-instatement application and all
  outstanding returns and ensure that
  there are sufficient funds in the CIPC
  customer/agent’s account to settle all the
  outstanding annual returns fees.

The following supporting documents must
be uploaded to CIPC:
- Certified ID copy of the applicant
  (director or member)
- Certified copy of the customer/agent
  filing the application
- Multiple Deed search (reflecting
  immovable property registered in the
  de-registered entity’s name if applicable)
Letter from the Department of Works indicating the department has no objection to the re-instatement (only required if there is immovable property)

Advertising in a local newspaper, giving 21 days’ notice of proposed application for re-instatement

Affidavit indicating the reasons for the non-filing of annual returns

Sufficient documentary proof that the entity was in business at the time of de-registration (provide evidence that the entity was conducting business-related activities at the time of de-registration, namely bank statements for 12 months running over the date of de-registration) or that it had outstanding assets and liabilities at the time of de-registration

Once these steps have been followed, the CIPC will review the case and make the decision, but it is necessary to keep in mind, advises Ngwenya, “that a company or close corporation will only be re-instated if it was in business at the time of the de-registration and can sufficiently prove it, if immovable property is registered in the name of the de-registered entity and if it is in the creditors’ best interests.”

“If none of the above can be proven by the documentary evidence, CIPC will not re-instate the entity and it is advised that a new company be registered,” Ngwenya says. “What must be noted is that if the de-registered entity is a CC and CIPC has not found grounds to re-instate, the CC can no longer be registered and the new entity will have to be a private company.”

“Another important factor for companies and CCs to take into account,” adds Retief, “is that there is a difference between re-registration of a company and restoration. If a company voluntarily de-registers and re-registers at a later date, the ‘person’ was terminated at de-registration and reincarnated at the date of re-registration. With restoration, however, it reverses the de-registration entirely so avoids the gap in retrospect.”

The bumpy restoration road

There are various risks at play for the entity to take into consideration in the period between de-registration and restoration. According to Retief, the main risk is that while the company is de-registered and not yet restored, the directors and other members have no legal authority. With the company being a juristic person, this means that the entity cannot interact or make decisions for itself and will therefore need directors.

“As an example of the issue, a director of the company is appointed as the public officer for all income tax and VAT purposes and SARS addresses all notices and assessments to this officer. The public officer is the only person who may engage with SARS with regard to lodging objections, changing company details, submitting returns and other administrative functions,” Retief reveals.

The public officer has the ability to appoint a tax practitioner to act on his/her behalf though and power of attorney is given to the practitioner. Once the company is de-registered, however, the resolution appointing the director as a public officer terminates, the power of attorney and engagement with the tax practitioner terminates, and legally, the director/public officer and tax practitioner have no authority to file returns, lodge objections, request statements of account or any other tax administrative actions. Once the company is restored, the authorities are also restored as if there was no interruption. However, until then, authority is absent.

Additionally, if the application for restoration is denied by the CIPC, then it will become necessary to register a new company, which comes with its own set of challenges. “Registering a new company does not resolve the matter, as the equity, assets and liabilities of the de-registered company cannot merely be transferred to the new company,” Retief states.

It is important to remember that the company has employees subject to employment contracts and labour laws, bank accounts and supplier/creditor agreements. Also, the debtor is liable to pay the company it transacted and contracted with, and a new company does not automatically assume the right to collect the debt of another company as its own. These are only a few examples of the legal and technical issues and risks, illustrating the importance of lodging the annual returns.

“The annual return is often not regarded to be as urgent and important as the annual tax returns, which is a very dangerous perception,” Retief concludes. “The company’s legal personality must be maintained and failing to lodge the annual return has significant risks. In fact, I would argue that a company can’t be regarded as a going concern if the annual return has not been submitted, as it implies the ceasing of trade and could result in the termination of the company.”
Recent SAIPA CPD training aimed to give professional accountants the tools they need to make the right ethical choices in their professional lives. SAIPA members are both professionals and business people, giving them a unique set of ethical challenges.

Like any business, they continually have to balance short-term financial profit with longer-term sustainability. These tricky challenges make acting ethically difficult, typically when short-term profit comes into conflict with doing what is morally correct and makes sense in terms of long-term sustainability. Governance codes such as King III have put ethics very much on the corporate agenda, and thus on the agenda of all businesses.

For example, a professional accountant could face the following business-related ethical dilemma: A large potential client with operations in Russia wants to engage the company’s services, but makes it clear that bribery is the name of the game in that market. As their accountant, you will be expected to disguise these payments in the books. The choice may not be easy, because you have just lost a major client and may face the necessity of retrenching staff.

However, professional accountants are also, as their name suggests, members of a profession (like doctors and clergy). They thus have a well-established obligation to use their skills in the best interests of others. In other words, a professional doesn’t have the luxury of making decisions purely based on what makes commercial sense – although as already noted, ethical considerations are increasingly part of the business landscape. Professionals have a monopoly in their area of expertise, and professional ethics are designed to keep them from abusing their power and to protect the profession’s reputation.

This type of professional ethics is also codified in the enabling legislation as well as the constitutions of the relevant professional bodies, like SAIPA and IFAC. For example, imagine you are the independent trustee on the family trust of a rich family, for whose businesses you also provide accounting services. In your capacity as a trustee, you advise the trust not to pay out the money requested by one of the children on the basis that she has failed two years of varsity in America, and you suspect she is just using the money to have a good time. But her doting mother is furious and threatens to terminate the accounting contract if you continue to oppose the payments. In other words, your professional duty as a trustee, and your obligation to the greater good of the family, is in conflict with your need to keep a lucrative business contract.

Real issues

These are real issues that SAIPA members are grappling with on a daily basis and this CPD training was therefore very much in response to members’ requests. As a professional body, SAIPA has a duty to help its members access the training that they need, and so SAIPA contracted the experts at the Ethics Institute of South Africa (EthicsSA) to run the course.

Kris Dobie, Manager of Organisational Ethics Development at EthicsSA, says that the half-day course offered a good insight into the principles of ethical reasoning to equip professional accountants to think through a specific set of circumstances properly.

“The theory is very important, because there are so many variables in each ethical dilemma – and sometimes they are even hard to identify,” he says. “It is thus critical for professional accountants to understand the principles to enable them to deal with every eventuality. However, the course also had plenty of case to give attendees the opportunity to apply the theory to real situations.”
Death and disability are never easy situations to deal with, but when it happens, there are decisions to be made, either by yourself (in the case of non-debilitating disabilities), or your next of kin, beneficiaries or executors when you are incapacitated or pass away. We advise that all SAIPA members inform their next of kin, beneficiaries or executors of the below process or include it as part of their documents kept with their will.

### Non-debilitating disability

In the event that you are disabled and in a position to inform SAIPA about your disability, we ask that this be done as soon as possible. A period of at least 60 days of same with a supporting letter from your doctor is required in this case. At the time of the formal notification of your situation, your options will be discussed.

### Incapacity/death

In the unfortunate event that you sustain a debilitating disability, or upon your death, the following is required by your next of kin, beneficiaries or executors:

1. Notice must be given to SAIPA and all clients of the change in circumstance.
2. Confirmation in writing to SAIPA by means of the death or medical certificate of the member.

### Consideration for the new accountant

1. It is important to be sensitive. Reassure and inform clients about proposed changes in light of the member’s passing or incapacity. You may be required to have face-to-face meetings with each client. All clients must be given written notification that their accountant can no longer fulfill his/her duties towards them. This would be a good way to confirm the state (goodwill) of the practise.
2. Remember that the client has an option to continue with the practice, or pay all fees owing and collect his/her documents. Should the unfortunate situation occur during tax season, you may be inundated with requests for the transfer of an e-profile. You may never withhold an e-profile, even if there are fees owed to you, although this does not preclude your right to use legal recourse to obtain the owed fees. If you are not a SAIPA member, you may not sign off on any financial statement or process any SARS transactions. Only a qualified person who has thoroughly perused and calculated all amounts may sign off on financial statements.

3. SAIPA can provide a list of SAIPA members in your area, should the client decide to move his/her business or if you are looking to employ the services of a SAIPA member.
4. If another SAIPA member purchases the practice, the clients still need to be informed and provided with new engagement letters stating the new accountant’s details.

### Practical Questions and Answers

Below are some questions and answers that should be kept in beneficiaries/executors’ minds should the above situation befall a member.

1. **Can the firm continue to trade as registered Professional Accountants (SA) if they now use an independent external accounting officer to sign reports on their behalf?** No, the person who held the designation of Professional Accountant (SA) is no longer available to sign off and take responsibility, so the use of the designation will be considered illegal.

2. **Can independent external accountants use the SAIPA logo on their billboard, signatures, letterheads etc.?** No, they cannot. The logo and all other elements are designated to the admitted SAIPA member, so anything related to SAIPA as the member who held the designation and all the “fruits” that are associated with it are no longer there.

3. **If the accounting firm was registered as a close corporation (CC), can someone who is not a member of SAIPA take control of the CC and continue to trade?** No. The CC can be sold and the member who bought it can take up ownership using whatever designation is given to them by their institute. A non-SAIPA member may never assume ownership of a SAIPA-branded practice.

4. **Can the independent external accounting officer’s practitioner number or an employee’s practitioner number be used to engage with SARS for information and submissions?** The tax practitioner number that can be used is that of a tax practitioner registered with a controlling body. A new
5. **What are the implications of using the deceased’s practitioner number after his death?** It is illegal (fraud), equivalent to using the ID number of a dead person.

6. **If the banking details were in the name of the accounting officer who passed away (individual), can a new bank account be opened in the name of a CC (where the deceased accounting officer is the only member) after his/her passing and before the finalisation of the estate to continue trading?** No. The CC can be bought and the member changed, but the new member will have to trade with his/her designation. If the deceased was a sole practitioner, then the account will be frozen and will fall into the estate. Only the Executor will have control once appointed.

7. **What are the implications if someone who is not a qualified accounting officer or a member of SAIPA purports themselves to be as such?** SAIPA will take legal action against that person. A non-SAIPA member may not use the SAIPA designation, regardless of his/her office within the CC.

8. **What are the implications of an independent external accounting officer signing reports on the letterhead of the deceased that still contained the details of the deceased, including practice number, qualifications and SAIPA membership number?** It is fraudulent and illegal. If the person is a SAIPA member who has not verified all documentation before signing it off, disciplinary action may be taken against them. If they are not a SAIPA member, their institute will be notified.

9. **How long should it take for the deceased/disabled member to be replaced?** The member should be replaced within 60 working days after his/her death or disability.

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**Conclusion**

As a SAIPA member, you are required to assist us in protecting the reputation of the designation Professional Accountant (SA) and our Institute. We have recently signed an anti-corruption pledge and, in aligning with same, we request your assistance herein. Should you come across any abuse towards the profession or the Institute and wish to remain anonymous, your identity will be withheld.

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In the 2014 IFAC Global SMP Survey, practitioners in small- and medium-sized practices (SMPs) all over the world were asked questions about the challenges they and their clients face, the market factors and technologies they expect to affect them in the future, the services they provide and the performance of their practice.

The survey not only included questions on the SMPs themselves, but also on their small- and medium-sized entity (SME) clients, including the challenges they face, their exposure to financial crimes, access to finance and the extent of their international operations.

The following article compares and analyses the key findings and differences between South African (SA) respondents and the global respondents. The comparison allows us to identify areas where South African SMPs and their SME clients face more challenges than their international counterparts and areas where they perform better.

Key findings on SMPs

**Attracting new clients, retaining clients, competition and price pressure**

- Attracting new clients appears to be much less of a challenge in SA than globally. Only 38.2% of the SA respondents see it as a high or very high challenge, as opposed to 58.1% of the global respondents.

- Similarly, retaining existing clients appears to be more of a challenge globally, with 35.6% of the global respondents rating it as a high or very high challenge, as opposed to 12.3% in SA.

- These results are in line with the finding that ‘differentiating from the competition’ is currently not seen as a challenge or only a low challenge for almost one third of the SA respondents (30.1%), while this is true for only 19.0% of the global respondents. In fact, almost half of the global respondents (49.7%) consider it a high or very high challenge to differentiate themselves from the competition – significantly less than in SA (29.8%).

- These findings on the current situation are similar to how respondents expect the extent of competition to impact on the way their practice operates in the next 5 years. 34.4% of the SA respondents expect a high or very high impact of competition, while globally, respondents almost twice as often expect a high or very high impact of competition on their practice (56.9%).

- In view of the lower challenges to attract and retain clients, and less competitive pressure that is perceived by SA respondents, it is not surprising that fewer of the SA respondents are experiencing a pressure to lower fees. 42.5% of the SA respondents feel that the pressure to lower fees is currently a high or very high challenge, as opposed to 50.6% of the global respondents.

- At the same time, rising costs pose a bigger challenge to SMPs in SA than globally, with 60.8% of the SA and only 49.9% of the global respondents indicating that rising costs are presently a high or very high challenge.

- Among all the challenges currently faced by the respondents’ practices, SMPs in SA assigned the highest share of ‘high or very high challenge’ ratings to ‘Rising costs’ (60.8%), followed by ‘Keeping up with new regulations and standards’ (55.1%). Internationally, ‘Keeping up with new regulations and standards’ is also among the top two high or very high challenges (indicated by 56.7% of the respondents). However, international respondents gave the highest rating to ‘Attracting new clients’ (58.1%).

**Services offered by SMPs**

- In terms of business advisory and consulting services that the respondents’ practices provided to clients in 2014, there are some striking differences between SA and global SMPs:

  - Corporate advisory (mergers, legal, valuations, financing) services were offered by only 46.8% of the SA respondents, but by 61.4% of the global respondents (14.6 percentage points more).

  - Business development (strategy, marketing, benchmarking, budgeting) was offered by 56.2% of the SA respondents, but by only 41.8% of the...
global respondents (14.4 percentage points less).

- **Tax planning** was offered by 90.6% of the SA respondents, but only by 76.2% of the global respondents (14.4 percentage points less).

- **Information technology** was offered by 33.4% of the SA respondents, but only by 21.5% of the global respondents (11.9 percentage points less).

- **Pension planning** was offered by 17.7% of the SA respondents, but only by 12.2% of the global respondents (5.5 percentage points less).

- Other services offered by at least one in five of the SA survey respondents include:
  - **Human resources/Employment regulations** (34.8% of the respondents);
  - **Succession planning/Business transfers** (25.8% of the respondents); and
  - **Enhanced organisational reporting** (integrated reporting, sustainability reporting, corporate social responsibility reporting) (22.4% of the respondents).

**Practice revenue**

- SMPs in SA experienced a better performance in terms of practice fee revenue changes in 2014 compared to 2013 than their international counterparts. For only 14.7% of the SA respondents, practice fee revenue decreased moderately or even substantially, compared to 27.5% of the global respondents.

- The better performance of SMPs in SA is underscored by the fact that 55.2% of the SA respondents, but only 41.3% of the global respondents noted that their practice fee revenue in 2014 increased moderately or even substantially compared to 2013.

- Looking into the future, respondents were asked how they expect practice fee revenue for selected service areas to change in 2015 compared to 2014. SMPs both in SA and globally seem to be rather optimistic about 2015, with notably less than 20% of the respondents indicating that they expect a moderate or substantial decrease in any of the service areas included.

  - For ‘Accounting, Compilation, and Other Non-assurance/Related Services’, a staggering 68.3% of the SA respondents expect practice fee revenue to increase moderately or even substantially.
revenue to increase moderately or substantially – as opposed to a only 42.4% who expect so globally.

- For ‘Tax’, an even higher share of 73.9% of the SA respondents expect a moderate or substantial increase in practice fee revenue. Global SMPs are less optimistic for this service too, with a substantially lower share of respondents who expect a moderate or substantial increase in practice fee revenue (47.6%).

- For ‘Advisory/Consulting Services’ practice fee revenues, 57.9% of the SA and 49.6% of the global respondents foresee a moderate or substantial increase.

- For ‘Audit and Assurance’, the expectations are rather positive too, even though with lower shares of respondents who expect practice fee revenue to increase moderately or substantially (SA: 30.5%; globally: 39.5%).

### New technologies

- The accountancy profession – like many other professions too – is faced with an array of new technologies, and the pace of technology improvements and new products is faster these days than any time in the past.

- SMPs in SA appear to keep up with new technologies relatively better than their international counterparts. Keeping up with new technology is a high or very high challenge for almost half of the global respondents (45.9%), but less than a third of the SA respondents (32.5%) consider it a high or very high challenge.

- Keeping abreast of new technology developments is vital for SMPs. In fact, the majority of the respondents expect technology developments to have a marked impact on the way their practice operates in the next 5 years. Almost half of the respondents (48.6% globally and 42.9% in SA) expect technology developments to have a high or very high impact on how their practice operates in the next 5 years.

- Listing a few specific technologies, and asking survey respondents how they expect these technologies to impact on their practice over the next 5 years, the responses of SA and global respondents are very similar. The largest shares of ‘very high or high impact’ were given to the following technologies (in decreasing order): Business intelligence and data analysis software and tools; Cloud computing; Mobile devices; Client Relationship Management (CRM) and document management software and tools.

- XML and XBRL (eXtensible Markup Language and eXtensible Business Reporting Language) and speech recognition tools are the two technologies that stand out in the sense that respondents do not expect these to have an equally big impact on their practice over the next 5 years.

- 35.6% of the global respondents and only 22.8% of the SA respondents expect XML and XBRL to have a high or very high impact.

- Speech recognition tools are even less frequently expected to have an impact: only 23.4% of the global respondents and 14.7% of the SA respondents indicated that they expect a high or very high impact over the next 5 years.

### Regulations and standards

- Contrary to previous years, the differences in terms of keeping up with new regulations and standards have almost disappeared. 55.1% of the SA respondents and a similar share of 56.7% of the global respondents indicated that keeping up with new regulations and standards is presently a high or very high challenge.

- Nonetheless, keeping up with new regulations and standards obviously continues to be a challenge for SMPs all over the world. Only 3.7% of the SA respondents and 4.1% of the global respondents indicated that keeping up with new regulations and standards is no challenge at all.

- SMPs expect the regulatory environment to have a considerable impact on the way their practice operates in the next 5 years. Only 9.0% of the SA and 10.3% of the global respondents expect the regulatory environment to have a very low or low impact, while 60.8% of the SA and 60.5% of the global respondents expect it to have a high or very high impact on how their practice operates in the next 5 years.
Gender of professional accountants

The survey results suggest that women are more represented in the accountancy profession in SA than globally. 32.1% of the SA respondents, but only 26.8% of the global respondents are female.

Key findings on SMEs

SMEs in SA appear to be significantly less globalised than their global counterparts:

- A vast majority of the SA respondents (82.9%) indicated that only 1-5% of their SME clients operate internationally. By contrast, only 57.0% of the global respondents indicated such a low share of SME clients that operate internationally.
- 26.3% of the global, but only 8.4% of the SA respondents have over 10% of SME clients who operate internationally.

Access to finance for SMEs appears to be somewhat more of a challenge in SA than it is perceived globally. Fewer respondents from SA indicated that none of their SME clients who sought access to new finance experienced difficulty accessing finance (7.7% vs. 11.2% globally).

About a third of the SA respondents (33.4%) indicated that over 25% of their SME clients who sought access to new finance experienced difficulty accessing finance, while only about a quarter of the global respondents (24.1%) experienced such difficulty.

However, about the same share of respondents rated ‘difficulties accessing finance’ as a high or very high challenge for their SME clients (53.2% in SA; 51.2% globally).

In 2014, financial crimes affected SMEs in South Africa disproportionately more than SMEs globally:

- About two thirds of the global respondents (63.9%), but only about one third (33.4%) of the SA respondents indicated that none of their SME clients experienced any asset misappropriation/theft.
- 75.2% of the SMEs globally did not experience any bribery or corruption.

In SA, more than every second SME was confronted with bribery or corruption, with only 48.8% indicating that they did not experience it.

For all of the financial crimes included in the IFAC survey, the share of respondents who reported that none of their SME clients experienced the particular financial crime is lower in SA than globally, suggesting that SMEs in SA are generally more exposed to financial crimes.

In particular, SMEs in SA seem to have experienced the following financial crimes significantly more often than their international counterparts: Asset misappropriation/Theft; Bribery and corruption; Cybercrime; Identity fraud; Securities fraud; and Intellectual property infringement.

In terms of the challenges faced by their SME clients, the largest differences between SA and the global results can be found for competition. 60.7% of the global respondents indicated that competition is a high or very high challenge for their SME clients, while only 45.5% of the SA respondents indicated that it is a high or very high challenge for their SME clients.

On the other hand, 75.3% of the SA respondents see rising costs as a high or very high challenge for their SME clients, as opposed to only 67.0% of the global respondents.

Economic uncertainty affects SMEs globally and in SA, with 69.3% of the SA respondents and 66.0% of the global respondents rating it as a high or very high challenge for their SME clients.


1 All results in this article are based on data from the International Federation of Accountants (IFAC). SAIPA wishes to thank IFAC for kindly providing the comparative data from the IFAC GLOBAL SMP SURVEY 2014 (South African and global results).
Q: Tell us about yourself
A: I am a professional educationist with experience in education restructuring and curriculum development. I have taught on various programmes in all areas of accounting, auditing, investment and finance, and management at both under- and postgraduate levels. I have been involved in the accounting profession in South Africa for most of my life and have been involved with SAIPA since its establishment. I am a human capital developer by description and have been involved in business development for more than 20 years.

Q: What do you do at SAIPA?
A: I am responsible for education, training and membership. This has always been my passion as it enables me to be actively involved in the capacity development of professionals who directly or indirectly contribute to the development and sustainability of the economy and people of my country.

Q: What is the best part of your job?
A: Assisting people to improve themselves professionally, while at the same time enabling them to develop a positive attitude towards problem-solving. Explaining how to focus on the spirit in which laws and regulations are written rather than magnifying their problems because of the letter of the laws and regulations.

Q: What are some of the more challenging aspects of your job?
A: Changing the mindset of an organisation and its staff to realise that SAIPA’s core function is to provide the best quality services to members in order to enhance the proficiency within the profession. Changing the attitude of members to fully accept that they are professionals in their own right and are not inferior to other professionals in the industry.

Q: What are your thoughts on the accounting industry as a whole and SAIPA’s role in it?
A: The reason I joined SAIPA is deeply rooted in my heart, because I am of the opinion that the Professional Accountant will drive our economy to greater heights. SAIPA can become the vehicle to sustain the human capacity development in the profession. I believe that with the intellectual resources at its disposal, SAIPA has a major role to play.

Q: What do you do for fun?
A: I am a professional sports coach (cricket, rugby, soccer and chess) and spend my time designing programmes that contribute to the success of young and potentially gifted individuals. I also enjoy reading, writing and preparing educational material.

Q: Any personal goals or future plans you’d like to share with us?
A: To contribute to the educational sector in a manner that will improve the global competitive index of South Africa, while at the same time re-instilling moral and ethical values into our society, and alleviating poverty through education.
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