FINANCIAL DISTRESS: IS IT YOUR RESPONSIBILITY?

MAKE 2016 YOUR MOST PRODUCTIVE YEAR YET

FUTURE-PROOFING FOR TOMORROW’S WORKFORCE

MAKING YOUR ACCOUNTING PRACTICE MORE PROFITABLE

“The Fasset team were elated to hear that Fasset had won this prestigious award for the second year in succession. The award confirms that we are successfully communicating ‘Fasset’s story’ in a way, which enables our stakeholders to make an informed assessment of the Seta’s performance and future prospects,” says Fasset CEO, Cheryl James.

Fasset has obtained an unqualified audit report for fifteen years in succession. “This achievement attests to the fact that Fasset’s financial reporting is transparent and complies with statutory requirements. It also confirms that Fasset is an ethical and well-run organisation and has the necessary structures, policies and procedures in place to minimise risks. While a clean audit report instils confidence among our stakeholders, integrated reporting raises the bar as there is full transparency and accountability and disclosure in all performance areas. This provides additional confidence. This is very important as Fasset is a custodian of public funds. Our stakeholders need to know that Fasset is spending their skills levies prudently and is using these funds to add value to its stakeholders in accountable and tangible ways,” James explains.

Fasset was one of the first public entities in South Africa to embrace integrated reporting. “We have always actively sought out and implemented best practice, wherever possible. Recognising that integrated reporting is best practice, and also, aligned to the 2009 King Committee on the Code of Governance Principles for South Africa (King III Code) and the International Integrated Reporting Committee (IIC) Framework, we were one of the early adopters in South Africa, when we embarked on our integrated reporting journey in our 2012/2013 annual report. Global Reporting Initiative principles of transparency, inclusiveness, auditability, completeness, relevance, sustainability, context, accuracy, neutrality, comparability, clarity and timeliness constitute the basis for our reporting,” she informs.

James describes integrated reporting as “a rigorous process”. “It requires organisations to interrogate and constantly review how they add value to a range of stakeholders. This honest and transparent review on a continuous basis ensures that the organisation is performance-driven. It also ensures that organisations do not sweep challenges or issues under the carpet,” she observes.

To her mind one of integrated reporting’s key strengths lies in the fact that it compels organisations to report on their performance “warts and all.” “Integrated reporting means there is no scope to ‘cherry’ pick and only report on achievements, which position the organisation in a very positive light. Fasset believes that it is only by fully disclosing information about an organisation’s business model, organisational risks, performance, outputs and impact on the society and the environment and the challenges, which an organisation faces, that a true picture of organisational performance emerges. Our stakeholders want to know what the challenges and issues are and how we are addressing these,” she contends.

Integrated reporting has also had a profound impact on Fasset at an organisational level. “Since embarking on our integrated reporting journey, our organisational thinking has become far more integrated. Communication has improved and departments no longer operate as functional silos. Integrated thinking has enabled us to maximise synergies between departments, our various skills upliftment interventions and our stakeholders. This synergy is assisting us to implement Minister of Higher Education and Training, Dr Blade Nzimande’s vision of an integrated post-school education and training system,” James reveals.

Fasset is very pleased with the progress it has made in its integrated reporting journey to date. “We are very cognisant of the fact that integrated reporting is a journey, not a destination. We will continue to learn and continue to benchmark ourselves against local and global leaders in integrated reporting. We are determined to constantly strive to raise the bar in integrated reporting within the public sector,” James concludes.
<table>
<thead>
<tr>
<th>Page</th>
<th>Section</th>
<th>Title</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>04</td>
<td>FROM SAIPA</td>
<td>Word from SAIPA</td>
<td>Mulligay Pillay</td>
</tr>
<tr>
<td>06</td>
<td>#SAIPAFIRST</td>
<td>Ethics – The tiny voice that is frequently ignored</td>
<td>Aysha Naino</td>
</tr>
<tr>
<td>10</td>
<td>BUSINESS &amp; ECONOMY</td>
<td>Strategies to make your accounting practice more profitable</td>
<td>Rashied Small and Enrico Felaar</td>
</tr>
<tr>
<td>12</td>
<td></td>
<td>Find the balance to create the ultimate cash flow practices</td>
<td>Samantha du Chenne</td>
</tr>
<tr>
<td>14</td>
<td>ACCOUNTING TECHNICAL</td>
<td>Accounting for deferred taxation</td>
<td>Rashied Small, Yaeesh Yaseen and Jade Jansen</td>
</tr>
<tr>
<td>18</td>
<td></td>
<td>Accounting for government grants</td>
<td>Rashied Small, Jade Jansen and Lucinda Smidt</td>
</tr>
<tr>
<td>20</td>
<td></td>
<td>Financial distress – The responsibility of the Professional Accountant (SA)</td>
<td>Rashied Small, Lucinda Smidt and Achmad Joseph</td>
</tr>
<tr>
<td>22</td>
<td>INDUSTRY INSIGHTS</td>
<td>Future proofing the work place for tomorrow’s workforce</td>
<td>Lynley Main</td>
</tr>
<tr>
<td>24</td>
<td></td>
<td>Cognitive biases are bad for business</td>
<td>Prof Jim Taylor</td>
</tr>
<tr>
<td>26</td>
<td></td>
<td>How to be super productive in 2016</td>
<td>Will Yakowics</td>
</tr>
<tr>
<td>28</td>
<td></td>
<td>An international comparative study of South African-controlled foreign company legislation</td>
<td>Dr Krish Phagoo Singh</td>
</tr>
<tr>
<td>30</td>
<td>OFF BALANCE SHEET</td>
<td>Staff profile – Sibusiso Thungo</td>
<td></td>
</tr>
</tbody>
</table>
Civil rights activist Jesse Jackson famously said: “At the end of the day, we must go forward with hope and not backward by fear and division.”

Turbulent times induce fear and uncertainty in all but the strongest individuals, and strength in unity is therefore one of the most effective ways to counter the divisive impact of all the changes during the past year and the uncertain outlook of the year ahead.

Contrary to popular belief, unity does not need to lie in the agreement of opinion or approach; it can start from something as simple as being proud to be associated with a common goal, organisation or profession.

At SAIPA we recognise that it is extremely important for accountants to face trials as a unified force. Business has changed tremendously over the past five years, becoming more mobile, diverse and challenged by consumers that have access to an incredible amount of information.

It is therefore imperative that our members dedicate themselves to being comfortable with advising on issues outside of their preferred area of expertise, ranging from business finance access and management, to good governance practices.

Knowledge and skills in areas outside of the traditional sphere of expertise of accountancy – people management – can help accountants to navigate decisions made on bias, and steer a team towards a working rhythm based on mutual respect. It might even help to bridge the generational gap that influences issues ranging from recruitment to a change in how businesses should approach a work-life balance to keep the new generations engaged and motivated.

Our wish for our members for the coming year is a ‘next level’ experience as both a Professional Accountant (SA) and a trusted business advisor. We encourage you to continuously upgrade your knowledge and skills, find ways to maintain a positive outlook, and always create an energy of abundance for you and those around you.

Taking the words of Jesse Jackson to heart, let us use 2016 to learn what we can, do what we can, change what we can, and move forward with hope.
## 2016 CPD CALENDAR

<table>
<thead>
<tr>
<th>Region</th>
<th>Venue</th>
<th>Feb</th>
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### CPD TOPICS FOR 2016

<table>
<thead>
<tr>
<th>Jan/Feb</th>
<th>March</th>
<th>April</th>
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<td>Beyond Financial Statements</td>
<td>Public Sector Accounting &amp; Revenue Recognition</td>
<td>NPO &amp; Body Corporations &amp; Tax for Public Entities</td>
</tr>
<tr>
<td>Professional Ethics</td>
<td>Tax Update</td>
<td>Integrated Reporting for SMEs - Value for SMEs</td>
<td>Quality Assurance</td>
<td>Deferred Taxation</td>
<td>IFRS for SMEs update - Refresher</td>
<td>Trust &amp; Deceased Estates</td>
<td>Beyond Financial Statements</td>
<td>GRAP – Introduction to Public Sector</td>
<td>NPO &amp; Body Corporations &amp; Tax for Public Entities</td>
</tr>
</tbody>
</table>
After a decade as Chief Executive of SAIPA, Mr Shahied Daniels, recognised by the International Accounting Bulletin (IAB) as one of the top 50 most influential people in the global accountancy profession, has handed over the executive reigns. The SAIPA board has appointed Ms Faith Ngwenya as Acting Chief Executive.

Mr Daniels has played an instrumental part in the transformation of SAIPA, and as a result, in the accountancy profession. Under his leadership the Institute has grown tremendously and earned a reputation as one of the accountancy bodies of choice. The projects, alliances and partnerships formed during his time at SAIPA forms a firm foundation for the future growth of the Institute and the success of its members.

The regulation of the accountancy profession is gaining momentum at a rapid pace. This follows the 2013 World Bank Report on the Observance of Standards and Codes commonly referred to as ROSC. The report extensively reviewed the current status of the accountancy profession in South Africa and made recommendations to be considered by the National Treasury department (NT). The report was signed off by the minister at the beginning of 2014 and NT has started the process of implementing the recommendations.

SAIPA and SAICA

SAIPA and SAICA, through the collaboration agreement signed in April 2015, seek to strengthen their voice in making proposals on the regulation and proposed Accountancy Bill, in the best interest of the profession in South Africa. The collaboration is based on six objectives that the two institutes agreed to work together on. The two institutes are the two largest professional accountancy bodies in South Africa, and both are members of the International Federation of Accountants.

Professional Accountant (SA)

The qualification framework for the designation offered by SAIPA, namely Professional Accountant (SA) is underpinned by a competency framework which focuses on the holistic development of the professional to perform the work functions expected from clients and employers to the desired competency standards. In compliance with the International Education Standards (IES) the framework incorporates the development of:

- Technical/knowledge competence,
- Practical/applied skills competence, and
- Professional and ethical conduct (attributes).

The objective of the competency framework is to develop Professional Accountants who will add value to businesses and the economy beyond the compilation of financial statements, a professional
that will actively participate in the decision-making processes to ensure the sustainability of businesses through the efficient and effective utilisation of its value creation resources and business activities.

The objectives of the qualification framework are to (i) ensure the candidates have a comprehensive understanding of the fundamental technical knowledge affecting their work functions, (ii) the skills and ability to apply their technical knowledge to real-life business situations to develop solutions to challenges and problems, and (iii) to apply their minds to ensure that they conduct themselves and their work in professional and ethical ways.

The Professional Evaluation examination (PE) is rapidly moving towards a competency-based assessment, which requires the candidates to apply their knowledge in an integrated manner to address issues in business scenarios and case studies. The PE also assesses the soft skills (often referred to as pervasive skills) such as critical reading and thinking skills, analytical skills, report-writing skills and problem-solving skills.

Continuous Professional Development (CPD) programmes are implemented to ensure that Professional Accountants (SA) remain relevant and competent for the changing business environment.

**Broad-based Black Economic Empowerment**

Another partnership towards growth was formalised earlier this year when SAIPA signed an MOU with the new Association of B-BBEE Professionals (ABP). The DTI has recognised the new ABP as the professional body representing and governing members of the B-BBEE industry. The Association of B-BBEE Professionals and the National Association of BEE Consultants (NABC) announced in July 2015 that they are merging to form a single professional body for the broad-based black economic empowerment (B-BBEE) industry. The new entity will retain the Association of B-BBEE Professionals’ (ABP) name and take the lead to create and enforce a code of conduct for the B-BBEE industry, set the necessary academic and other qualifications, and provide continuous professional development. Partnering with the ABP means SAIPA will be able to help shape the code of conduct and academic qualifications for certification in the B-BBEE space, and our members will be able to participate in ABP’s continuous professional development programme at preferential rates. For more information on how this MOU benefits SAIPA members visit www.abp.org.za or send an enquiry to info@abp.org.za.

**CPA Ireland and SAIPA strategic partnership**

SAIPA recently entered into a Mutual Recognition Agreement (MRA) with the Institute of Certified Public Accountants in Ireland (CPA Ireland). CPA Ireland has greatly expanded its international network and influence in recent years, signing international agreements with accountancy bodies around the world, including in Australia, Canada, India and more.

The agreement with SAIPA offers both Institutes the opportunity to work more collaboratively together, undertaking joint research and thought leadership initiatives on the global stage. It also provides a route for qualified members of each body to become a member of the other body, and to enjoy the benefits which each organisation offers.

This agreement builds on the MOU signed between the two bodies some years ago agreeing to cooperate on matters of mutual interest and more recently a partnership established to distribute the unique online CPA Certificate in IPSAS™ Financial Reporting in South Africa.

Commenting on the alliance, Cindy Dibete, Chairman, SAIPA said, “SAIPA and CPA Ireland share a common global perspective on the advancement of the profession of accountancy. There is a history of collaboration between our two professional bodies, having worked together over the years through our involvement with IFAC and the Edinburgh Group.”

Brian Purcell, President, CPA Ireland, said, “This MRA strengthens the already excellent relationship between our two organisations. We have already collaborated through the previously signed MOU and when SAIPA partnered with CPA Ireland to deliver IPSASTM ensuring strengthened public financial management is delivered within South Africa.

The MRA came into effect on November 11th 2015. The agreement does not cover those wishing to practise as a public practice accountant and/or to undertake auditing work due to the specific regulatory and legal requirements in each jurisdiction.

**Projects for growth**

Project Achiever – a FASSET-funded project – aims to support qualifying applicants that have completed their accounting learnerships, but never had the courage to write the PE exam and qualify as Professional Accountants (SA). Qualifying candidates for this project also include those who are busy completing their final year learnerships, and those who have previously failed the PE exam. The initiative was created to ensure a suitably-sized pool of qualified professional accountants and thereby reduce the skills shortages experienced over the past few years.
The first intake of Project Achiever students wrote their Professional Evaluation in early November. These students have participated in intensive training sessions, presented on weekends by SAIPA-appointed facilitators to ensure learners can immediately apply what they’ve learned in an actual working environment. This special programme is based on integrated competency-based learning and aims to create lifelong learners instead of providing a once-off helping hand. Funding has been granted by FASSET for four groups of 120 candidates each and the final group will write their PE exams in May 2017.

SAIPA will notify its members once the new intake period for Project Achiever is open, and encourages all SAIPA members who currently employ trainees, or know of eligible candidates, to inspire eligible candidates to participate in this project.

National Accounting Olympiad

Another project that keeps on growing in success is the National Accounting Olympiad (NAO). This project was established in 2004 to develop high school talent passionate about the accountancy profession. Over the past 11 years the project has provided learners with remarkable insight into accounting and their individual potential.

The NAO tests different skills in different environments while remaining within the school curriculum content. There is a shortage of professional accountants and the NAO is aimed at raising both awareness and the level of accountancy in all schools. The accountancy profession is about ensuring the country, or a family, or a company, has what it takes to survive and grow. Professional bodies and practitioners have the responsibility of taking care of accounting learners to close the gaps between education curriculums and real world experience.

During the NAO process students undergo two levels of assessment. The average pass mark of 40% of those who wrote the first round of exams saw 1,365 students go through to the next round. In the second assessment this rose to an average of 63%. In the 11 years since its inception the NAO has seen participation rise to 370 schools with 3,388 of 63%. In the 11 years since its inception the NAO has seen participation rise to 370 schools with 3,388 of 63%. In the 11 years since its inception the NAO has seen participation rise to 370 schools with 3,388 of 63%. In the 11 years since its inception the NAO has seen participation rise to 370 schools with 3,388 of 63%.

The 2015 event saw the introduction of an app to support the learning opportunity and lessons were shared with teachers over WhatsApp for easier distribution. Sponsors for the NAO are some of South Africa’s accounting elite and include Leppard Underwriting, Lombard, University of Johannesburg, VKN Financial Services, Sage Pastel Accounting and Seartec.

For the winners, the SAIPA National Accounting Olympiad Awards Evening 2015 was nothing short of a life changing experience.

“My biggest dream is to be a professional accountant and having won this competition takes me one step closer to achieving it,” said Ayanda Mabunda, one of the public school winners. Jaco Schoeman, another winner, added: “The NAO is an opportunity to think outside the box and play with abstract concepts. Everything in life is about perspective, we can see challenges and obstacles, or we can see opportunities.” Other winners included Uviwe Mbombela, Roger Song and Raadiya Patel.

“Learners are assets and they can become anything and everything they want,” said Boniswa Madikizela, Senior Lecturer: Accounting, Department of Accountancy UJ. “Entering the NAO is not about winning, but about learning from, and enjoying, the experience. Accounting allows people to work in different and exciting roles and to interact with the community and make a difference in the lives of others. The NAO helps young people to recognise this value and gives them the support they need to take their dreams further.”

Plans for growth

SAIPA members are encouraged to advise clients on creative ways to grow their businesses in the struggling economy, to find creative ways to use technological innovations to increase your clients’ satisfaction, and to become creative in growing our profession and making space for the incoming generation of accountants.

SAIPA remains committed to forming international partnerships that allow its members opportunities to succeed on a global scale, to cultivating a generation of future accountants through creative communication that speaks their language, and to being at the forefront of creating and influencing legislation that helps our members, our institute, and our country grow.

Through regular member communication and CPD activities SAIPA intends to keep its members aware of new developments in various areas of expertise, as well as advancements that could impact member clients or employers.

Plans for growth include a strategic focus on becoming the Professional Accountancy organisation of choice, and to optimise the success of the Professional Accountant (SA) in the public interest. Activities to realise this strategy include:

- Securing the growth and transformation of SAIPA,
- Strengthening SAIPA’s relationships with national and international stakeholders,
- Enhancing the capacity and professionalism of the members and staff, and
- Ensuring compliance and sustainability of members and the Institute.
Some are resigned to being just a number. You wrestle with them.

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While business leadership, a balanced life, outstanding client service and efficient processes are critical for success, they mean nothing if the firm is not sufficiently profitable to make investments for the future and compensate its most important resource, the staff who are performers.

**Profitability strategies**

The following are strategies that can be implemented to improve the profitability of your accounting practice:

1. **Enhance revenue:** The most common plan to improve profitability is raising the rates for services offered. However, in a tough business environment with a high level of competition, raising rates is often a turn-off for clients in the small to medium-sized enterprises (SME) market while at the same time it encourages competitors to attract clients by undercutting your rates. Rates should be adjusted for inflation, whenever the competencies of the staff improve or the quality of the services rendered improves significantly. The best way to increase revenue is to provide more valuable work to clients by ensuring that you and your staff develop new skills and perhaps move into new or different niches. Furthermore, it is important that you start doing more true value billing i.e. bill on what the value is to the client rather than basing it on timesheets.

2. **Control engagement cost:** The drive to improve profitability is often to cut costs. But cutting costs often has a negative opportunity cost such as cutting corners and sacrificing quality. The value driver of your practice’s profitability is engagement management; namely having the allocated work responsibilities, the right staff and a resource and cost budget, and implementing efficient quality management systems that enhance monitoring throughout the entire process. There is nothing wrong with a planned write-off as it highlights the weaknesses in the engagement management process. It is the unplanned write-offs that suck the profitability out of your practice.

3. **Deal with unprofitable clients and services:** Focus on the clients and services that are profitable to your practice. Do not chase clients and work which is unprofitable in the pursuit of growing your practice. Take the time to evaluate the profitability of your clients and spend energies on servicing those clients with profit margins that meet your expectations. When assessing the profitability of your client ask the following questions:
How can we raise the margins on this client - (increase fees or reduce cost)?
Is there another staff member who can service this client more efficiently?
Is there another reason to keep this client?

4. Address under-performing partners and staff:
Under-performing staff take time and energy from more important activities in your practice. It is in the best interest of your practice to have a proper performance management and evaluation program – do not accept non-conformance or mediocrity as the standard for your practice.

5. Examine your marketing efforts and marketing return on investment (ROI):
Is your marketing targeting the right clients or the clients that meet your ideal client profile? Too many practices think that any business or person who breathes is a potential client. Do not accept clients who do not meet your expected profile just because it provides trainees and young professionals the opportunities to learn and gain experience on these clients. Ensure that your practice has a staff development programme – it is better if they learn from you.

6. Improve utilisation:
Productivity or utilisation of resources is crucial to the profitability of your practice. One way to increase productivity is by assigning weekly goals/targets to every staff member. Utilisation and productivity depends on the management of the practice – planning, monitoring and communication are essential.

7. Reduce overhead expenses:
Expenses always have a habit of creeping up if they are not properly controlled. Re-examine the overall expense structure of your practice on a regular basis. Know what you are getting in return for your expenses. Rather than just adding an inflationary amount to expenses, prepare a budget using a zero-based or results-based approach.

8. Invest in technology:
Technology is not the answer but it is a tool to improve the efficiency and cost effectiveness in your practice. While technology is a major expense to most practices, it can also be the number one driver of profitability. The more you can move towards a digital office, the more efficient your processes become and the more you will save on each engagement.

9. Focus:
Research indicates that practices with fewer goals each year are more profitable than those that have many goals, as they are able to focus more effectively on achieve their goals. The reason is simple; achieving goals such as quality client service, service and client profitability, effective systems with excellence drives profitability.

10. Keep score:
Finally, successful practices are those that keep score and communicate the results throughout the practice in order that staff know how they are doing. Measure your profitability by keeping score of revenue and profits, number of new clients, number of employees who have developed new competencies and number of implemented client service plans.

Conclusion
Become disciplined about running your practice. Remember it is usually the basic things that you need to do, day in and day out, that puts more on the bottom line.
Effective cash flow management is the cornerstone of any successful business and efficiently tracking and managing money as it goes in and out of the business, as well as proper budgeting, may mean the difference between operating a thriving company or closing your doors.

Ettiene Retief, Professional Accountant and Tax Specialist at FTR Tax and Corporate Administration points out that cash flow is a fundamental aspect of any business, regardless of its size. “Obviously, the larger the business, the more extensive the resources and the more a company may be able to leverage their capital, but ultimately, cash flow is a universal problem and all businesses have to manage and track their spend or face dire consequences.

Managing and tracking spend

Douglas Taylor of Wits Business School believes it’s simple – if you don’t track expenditure, you end up spending more than you have. He adds that when it comes to budgeting, there are some important things to consider. “When drafting budgets for a new year, remember that last year’s budget plus inflation does not make for an effectively considered budget. Inflation differs according to what you are buying, which means that estimating a general 6% for inflation is not an accurate estimate.”

He adds that a budget should be used to manage expenditure. “That is not to say that you cannot spend money that is not within the budget. When running a business, it’s inevitable that expenses such as laptop replacements or repairs to your building will occur. The important thing is to have a budget in place to use as a roadmap, to show where you’re going and to keep you financially on track.”

Of course, veering off track is all too easy at times. Taylor advises assessing every item on the budget, asking important questions: “Why are we spending this money? What is the purpose or benefit?” He believes that doing something simply because ‘we have always done it this way’, can be the biggest curse in a business.
Tracking money as it comes in and out of the business is as crucial as budgeting. It’s an important mindset to get into and keeping records of what has been spent and what money should be coming in, as well as when it is due, is part and parcel of running a successful business. “It’s all about timing,” says Retief. “Business owners need to understand not only where, but when they spend their money, how quickly products sell, when they need to replenish stock and how much they need in the bank to do so. These are all aspects of tracking and managing cash flow.”

Securing payment from clients

Securing payment can be a difficult task for small business owners, says Taylor. “We’re often scared that by chasing payment from clients we’ll anger or lose them.” He advises business owners to come to grips with the fact that, quite simply, they have done the work or delivered the goods, and are thus entitled to expect payment and ask for the money.

Having sound systems in place for collecting money is key. There must be a strict set of rules to follow in terms of collecting payment. “In the first place, ensure that you send your invoices out on time and that it is clear when payment is due. Make sure your banking details are easily accessible so that the obvious excuses such as not having received an invoice or the banking details cannot be used,” says Retief, adding that planning for late payments and ensuring the company will still be able to meet its obligations in terms of paying salaries and its own suppliers is critical. “If you see that payment from a client is likely to be late, have an appropriate plan B – for example, you may need to approach your bank to extend your overdraft.”

Payment terms for credit

For Retief, assessing the risk when you allow certain clients credit terms is an important starting point. Remember that longer credit terms equal more risk. “Start new relationships on a COD basis,” he advises. “Building relationships is key, as is limiting the amount of products or services that you sell on credit. Remember that just because you happen to be dealing with a large company doesn’t minimise the risk – in fact, larger companies have more red tape around processing payments and more leverage – don’t bite off more than you can chew,” he warns.

“Find ways of incentivising clients not paying on terms – offer them discounts for paying cash, for example,” says Taylor. “It’s important to remember that when clients pay on terms, you incur the cost of hiring a resource to follow up on payments, as well as their overheads. In addition, giving credit does not make you a profit – essentially what you have is book money in the bank, which you pay tax on. This is not the same as having cash in the bank, in fact you’re losing money that could be used either to invest back into the business or pay off debt. That said, credit is a tricky concept, as often refusal to give credit to clients can result in a loss of sales. Ultimately you need to define the credit terms you are comfortable with and have enough information on the client to assess the risk.”

Interest

Interest is always an issue when it comes to cash flow. “If you don’t have the actual cash in hand, it’s working capital that simply sits there,” says Taylor – it’s literally lying idle and costing you money.

Retief advises financing items such as equipment or other costly essentials the business may require. “This allows you to free up your cash, allowing the company to be more liquid. A common mistake is when companies use any free cash to invest back into the business and when they need actual cash, they don’t have it. Applying for an overdraft is more costly in terms of interest than asset financing is,” Retief informs.

While managing cash flow is sometimes a delicate balancing act, businesses should always take care to match expenditure to cash flow. While budgeting is an important part of the process, if the cash flow is not there, no amount of budgeting will help.
There are many debates and reasons why compilers of financial statements for small to medium-sized enterprises (SMEs) do not account for deferred tax – these range from it not adding value to the financial results of the business, to it being too difficult a concept to understand and implement. The focus of this article is on two critical issues relating to deferred taxation; namely compliance to the accounting standards and the cash flow benefits.

Concept of deferred taxation

Deferred taxation is a financial reporting concept and is not incorporated in the Income Tax Act. Deferred tax is a provision for future potential income tax payable or recoverable as a result of past transactions or events. Generally, deferred tax arises because of the differences that exist between the accounting profit (calculated in terms of the accounting standards) and the taxable income (calculated in terms of the provision of the Income Tax Act).
The most common cause resulting in deferred tax is the differences in the accounting policies adopted by the business and the provisions of the Income Tax Act.

Transactions giving rise to deferred tax

The transactions giving rise to deferred tax are presented by those which affect both the accounting profit and taxable income, but over different periods. It is important to note that deferred tax can only be recognised for temporary differences (differences that affect both profit and taxable income) and therefore excludes the differences only affecting the calculation of accounting profit or taxable income, namely, a non-temporary/permanent difference such as goodwill.

Deferred tax usually results from the application of accounting policies, which differs from the provisions of the Income Tax Act – such as depreciation and wear and tear allowances. For example, machinery with a cost of R600,000 and a residual value of R80,000 is depreciated on a straight-line basis over seven years. Wear and tear allowance is calculated at 20% on cost. At the end of its useful life, the carrying amount of the machinery will be R80,000, and if it is sold at its residual value, then the profit on disposal will be zero, giving the impression that there will be no income tax implications. However, the deferred tax liability will amount to R22,400 (R80,000 @ 28%) indicating that the entity will have a tax obligation on disposal of the machinery – tax on the recoupment. The deferred tax balance can be used by management to plan for the potential cash flows on disposal of the machinery.

Computation of deferred tax

Deferred tax can only be provided if:
- The business has an obligation at the reporting date for the future tax liability/asset;
- It is probable that the business will be required to transfer economic benefits in settlement of the obligation; and
- The amount of the obligations can be measured reliably.

Deferred tax is a provision which must be determined at the end of the reporting period and represents the amount that must be reported in the statement of financial position. Thus the tax rate used to calculate the deferred tax balance at the end of the period must be the rate applicable to future tax periods, that is the rate enacted at the reporting date – passed into law by Parliament. The temporary differences used to calculate the deferred tax balance represent the difference between the carrying amount (account value) and the tax base at the reporting date. The movement in the balances of the deferred tax provision from one period to the next represents the tax expense that is charged to the Profit & Loss.

Compliance issues

When the accounting officer’s report states that the financial statements are prepared in compliance with the accounting standards, whether IFRS for SMEs, Full IFRS or GRAP, it implies that all the standards relating to the transactions and activities of the business are compliant without any exceptions. If the entity does not provide for deferred taxation, then it cannot be claimed that the financial statements are prepared in compliance with the accounting standards. Furthermore, the primary cause for the non-provision of deferred tax by SMEs can be attributed to the selection of the accounting policies – mainly those relating to depreciation of property, plant and equipment.

Cash flow benefits

Deferred tax represents the future potential income tax payable or recoverable. This will enable the entity to plan for the possible effects of its future cash flows more effectively to meet the cash requirements for income tax.

For example, machinery with a cost of R500,000 and a residual value of R80,000 is depreciated on a straight-line basis over seven years. Wear and tear allowance is calculated at 20% on cost. At the end of its useful life, the carrying amount of the machinery will be R80,000, and if it is sold at its residual value, then the profit on disposal will be zero, giving the impression that there will be no income tax implications. However, the deferred tax liability will amount to R22,400 (R80,000 @ 28%) indicating that the entity will have a tax obligation on disposal of the machinery – tax on the recoupment. The deferred tax balance can be used by management to plan for the potential cash flows on disposal of the machinery.
Deferred tax liability or asset
A deferred tax liability arises when:
- Carrying amount of assets exceed their tax bases;
- Carrying amount of the liabilities is less than their tax bases; and
- Accounting profit exceeds the taxable income.

A deferred tax asset can only be recognised if the recoverability is probable or it will be limited to an estimated amount that will be recovered in future periods, i.e. the business will incur future tax liabilities against which the deferred tax asset can be set off. If management estimates that the business will have assessed losses in future, then the deferred tax asset may not be raised.

General
When the tax rate changes during the reporting period, the balance of the deferred tax at the beginning of the period must be adjusted based on the rate applicable at the end of the period – this adjustment is treated as a change in estimate and is reported in the statement of financial performance for the current period.

Although unused assessed losses are only recognised for tax purposes, it is carried forward to reduce the taxable income in future periods and thereby reduces the tax liability. The unused assessed loss is “deemed temporary difference” and therefore gives rise to a deferred tax asset. The deferred tax relating to the unused assessed loss is recognised separately from the ordinary temporary differences; and its recognition ranks last when determining the deferred tax balance at the end of the period – depending on the limitation in terms of its recoverability in future periods.

Conclusion
Deferred tax may be considered to add little or no value to the financial statements, but it does provide the users of financial statements with the potential impact on future cash flows of the business – it is important for cash flow management and valuation of businesses. For business advisory purposes, the role which the Professional Accountant (SA) has in the 21st century, deferred tax becomes an important component in cash management and planning. Furthermore, the adoption of appropriate accounting policies rather than just accepting the deductions in terms of the Income Tax Act, improves the quality and integrity of the financial statements through compliance to the accounting standards. So embrace deferred tax to promote the quality and status of Professional Accountants (SA).

Example
The following was extracted from the statement of financial position for the reporting ended 28 February:

<table>
<thead>
<tr>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrying amount</td>
</tr>
<tr>
<td>Property, Plant &amp; Equipment</td>
<td>756 000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>250 000</td>
</tr>
<tr>
<td>Inventory</td>
<td>345 000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>560 000</td>
</tr>
<tr>
<td>Cash &amp; cash equivalent</td>
<td>186 000</td>
</tr>
<tr>
<td>Equity</td>
<td>1 112 000</td>
</tr>
<tr>
<td>Long-term loans</td>
<td>380 000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>435 000</td>
</tr>
<tr>
<td>Taxation due</td>
<td>170 000</td>
</tr>
</tbody>
</table>

Goodwill results in a non-temporary difference, while Cash, Equity and Taxation due cannot be accounted for deferred tax purposes.

<table>
<thead>
<tr>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Temporary difference</td>
<td>20 000</td>
</tr>
<tr>
<td>Deferred tax balance – statement of financial position</td>
<td>5 600</td>
</tr>
<tr>
<td>Deferred tax expense – statement of financial performance</td>
<td>-38 920</td>
</tr>
</tbody>
</table>

The deferred tax expense reported in the statement of financial performance is a decrease in 2015 of R38,920 (2014 – increase of R44,250).
Today we live in an era of such rapid change and progression that leaders need to work constantly to develop the capacity for continuous change and recurrent adaptation, while ensuring that their identity and values remain constant.

The accounting profession is forever evolving and Professional Accountants (SA) need to always be ahead and keep up with the winds of change by strengthening their professional ethics and contributing to the development of a strong economy.

SAIPA members have a fundamental responsibility to safeguard and advance the interests of society. This implies acting with trustworthiness, integrity, and objectivity. This responsibility extends beyond a member’s own behaviour to the behaviour of colleagues and to the standards of the Institute and the profession.

It has taken Professional Accountants (SA) far too long to wake up to the fact that a gut feeling simply cannot—and should not—be ignored when making decisions in the accounting profession. Members are sometimes placed in a position of having to choose between earning a livelihood and making an ethical choice.

Turning a blind eye to fraudulent activities sometimes occurs through ignorance but most of the time it occurs when a member refuses to acknowledge what the little voice inside is saying.

Professional Accountants (SA) play an important role and are the backbone of the South African economy, particularly within the small, medium and micro-sized enterprises (SMME) sector, by handling the company’s financial records. Managers, creditors and investors depend on accurate accounting information to make good business decisions.

The level of responsibility given to accounting professionals can lead to the abuse of accounting practices, hence the reason why SAIPA holds ethics in such high esteem, and as from this year we have included Professional Ethics as one of the main requirements for Continuous Professional Development (CPD). Good ethics encourages a quality performance by professional accountants in business.

SAIPA signed an anti-corruption pledge last year. It is a warning to all members of the Institute to refrain from any fraudulent activities. Members are urged to continuously take into account compliance with the accounting regulations and legislative requirements. In every profession, people who break rules and neglect their duties should face the consequences. Below we have highlighted some of the essential activities that can lead Professional Accountants (SA) to have a tarnished reputation and possibly end their career:

Information biases include:

- Tax evasion
- Recording revenue prematurely or of dubious quality
- Recording fictitious revenue
- Increasing income with one-time gains
- Shifting current expenses to an earlier or later period
- Failing to record or improperly reducing liabilities
- Shifting current revenue to a later period
- Shifting future expenses to the current period as a special charge

Anonymously report fraud and inappropriate activity to legal@saipa.co.za
The South African government offers grants as a means of providing economic benefits to business entities with objectives of stimulating economic development and alleviating unemployment and poverty. Many small to medium-sized enterprises (SMEs) are relying on government grants to create business opportunities and kick-start business ventures for entrepreneurs – this is part of government’s strategy to stimulate economic growth.

Government grant concept

Government grants are defined as assistance provided to business entities in the form of the transfer of resources (cash or other considerations) in return for past or future compliance with certain conditions relating to the operations of the entity. Government grants exclude the forms of assistance provided by government which cannot be:

- Distinguished from the normal trading transactions of the entity
- Considered to have commercial value – such as the provision of general trading conditions, infrastructure, imposing trading constraints, etc.

Accounting treatment

A government grant is recognised only when there is reasonable assurance that (a) the entity will comply with any conditions attached to the grant – will meet the performance conditions, and (b) the grant will be received – the government will fulfil its obligations (IAS 20.7). If there is uncertainty about any of the above, then the grant must only be recognised when the conditions are met and/or the grant is received.

If the government grant is received as compensation for expenses/losses already incurred or for the purposes of providing immediate financial assistance with no future related costs and performance conditions it should be recognised via Profit & Loss during the period it is received. If the grant is received to compensate future expenses to be incurred (defined as revenue grants) for a period extending beyond one reporting period, then the grant must be recognised in Profit & Loss on a systematic basis over the period for which the related expenses are incurred. Revenue grants can be represented in the statement of financial performance either as (i) a separate line item under other income, or (ii) set off against the related expenses.

If the grant is represented by the transfer of non-monetary assets such as land or machinery, (defined as capital-based grants), then the fair value of the
asset must be recognised as the value of the grant. For example, if an entity receives farmland as a government grant, both the land and the grant must be measured at the fair value of the land at the date of recognition.

Capital-based grants shall be recognised in the statement of financial position either as:
- Deferred income which is amortised via Profit & Loss over the useful life of the asset, or
- Deducting the grant against the cost of the related asset – this has the effect of reducing the depreciation charged via the Profit & Loss.

A government grant that becomes repayable, perhaps as a result of the performance conditions not being satisfied, must be accounted for as a change in an accounting estimate – this only affects the financial statements of the period in which the entity becomes liable for the repayment. The repayment of the grant must be accounted for firstly, cancelling the amount against the balance of the deferred income – unamortised grant, and secondly, the remaining part of the repayment must be recognised via Profit & Loss.

If the repayment relates to a capital-based grant, then the repayment must be recognised against the carrying amount of the related asset – the adjusted carrying amount of the related asset must be depreciated over the remaining life of the asset. However, the accumulated depreciation can be adjusted as part of the depreciation for the current period to account for the effect of increasing the carrying amount of the related asset by the repayment – a retrospective adjustment to account for the effect of the repayment. This retrospective adjustment to the accumulated depreciation is not recommended or preferred.

**Disclosure in the financial statements**

The following information relating to government grants must be disclosed in the financial statements:
- Accounting policy including the recognition and method of presentation in the financial statements, that is recognised as other income or set off against the related expenses/asset;
- Nature and extent (measurement) it is recognised in the financial statements;
- Unfulfilled conditions and other conditions attached to the grant; and
- Other forms of government assistance the entity has benefited from directly.

**Income tax treatment**

Government grants are only recognised for income tax purposes if they are included or listed in the Eleventh Schedule of the Income Tax Act. The grant received or accrued in cash during the year of assessment cannot be included in gross income, but must be used to reduce the related expenses for which the grant was awarded as compensation – the expenses must be allowed as a deduction for tax purposes (s11 type expenses). If the grant is more than the expenses incurred, then the excess is carried forward to reduce the related expenses in the following year of assessment. However, if the grant exceeds the related expenses and no further expenses will be incurred in future, then the excess may be included in the gross income.

If the government grant was used for the acquisition, creation or improvement of an asset, then the base cost of the related asset must be reduced by the amount of the grant. The capital allowances such as Wear & Tear will be calculated on the reduced based cost.

If the government grant was used to acquire trading stock, the value of the expenditure must be reduced by the amount of the government grant applied to incur the expenses. The section 11 (a) deductions and the opening stock and closing stock must be reduced by the amount of the grant used to acquire the trading stock.

**Conclusion**

Government grants received by SMEs forms an integral part of the entities financing strategy and the report and accounting of such grants is an essential condition of the grant. Even though the representation of the grants in Profit & Loss may vary, reflecting it as income or set off against the related expenses, the net effect on the profit is the same. The treatment of grants for income tax purposes may differ from that of the accounting treatment giving rise to deferred tax.
Section 128(1) of the Companies Act of 2008 defines financial distress of the business as being reasonably:

(i) Unlikely to meet its debt obligations when they are due within the immediately ensuing six months, and

(ii) Likely to become insolvent within the immediately ensuing six months.

The Professional Accountant (SA) has a responsibility to assess the going concern (in terms of the accounting standards) as well as performing the liquidity and solvency test (in terms of the Companies Act) of the business when compiling the financial statements. The question that needs to be addressed is “What are the warnings signs that indicate that a business may be in or heading towards financial distress?”

Warning signs

The following warning signs indicating a threat of financial distress can be detected from the financial statements:

1. **Cash flow**: the cash flow statements are a critical indicator of financial distress. A negative operating cash flow and net cash flow for the period implies that the business is paying more cash than it is generating from its operations. If cash flow remains negative over a sustained period, it is a signal that the business is heading towards financial distress. Furthermore, a decline in the cash and cash equivalent amounts and/or investments may indicate that the business is facing cash flow difficulties or financial distress.

2. **Accounts receivable**: accounts receivable is a primary source of cash to finance the operating costs. If the accounts receivable and the proportion of customers exceeding their credit terms have increased continuously over a sustained period, the business may be facing impending financial distress. This situation can severely stretch the cash flow and as a result, the risk of the business having enough cash to meet and settle its creditors and liabilities increases. The debtors’ collection period can be used as a tool for analysis, but it is important to note that this represents an average figure and must be viewed in conjunction with the debtors’ age analysis.

3. **Loans/borrowing**: loans are a source of financing and have a significant impact on the capital structure and financial risk of a business. If loans/borrowings increase continuously over a sustained period, then the financial risk of the business increases, which places significant strain on the future cash flows of the business when the loans mature. Increases in loans also place restrictions on the business in terms of the types and levels of security required – when assets are used as security the business has less freedom and control.
over such assets. If the short-terms loans increase continuously over a sustained period, then there are indications that the internally generated cash is not sufficient to sustain the operations of the business.

4. **Inventory:** inventory represents an indication of the potential of the business to generate future sales and cash. If the inventory has increased continuously over a sustained period, then the indication may be that there is potential for future cash inflows, but it is important to assess the ability of the business to invest in inventory, which may place strain on its cash resources. However, if the inventory levels decrease over a sustained period, then there may be indications there is a decline in the business operations due to a lack of funding or a decline in sales activities. Although the inventory turnover ratio is used as a tool for analysis, it is important that the business model, inventory categories and sales cycle be taken into consideration.

5. **Sales:** analysis of the growth in sales provides the following indicators:
   - Whether the business model is effective,
   - The market response to your products or services,
   - Market structure and business position, and
   - Competitive advantage of the business.

Before making any conclusions of the results analysed, the following must be considered:
   (i) Changes to the business model and the sales mix,
   (ii) Drivers of the changes in sales (volume or price), and
   (iii) Marketing strategy (market or price driven).

Where there is no growth despite extreme marketing activities and even increases in business volume, this could mean that the market is not satisfied with the product or service and the business may inevitably close down.

6. **Profit:** profitability analysis is often used to measure the performance and financial status of the business. It is important to note that the profitability analysis can be used as an indicator for assessing financial distress, but it can also be used to provide contributing causes for financial distress – indicator of sales activity, market performance and cost management.

7. **Business analytics:** ratio analysis, such as current ratio, quick ratio and operating cash cycle, is often used to assess the short-term cash position of the business. However, it is important to acknowledge that these ratios do not provide a true reflection of the cash position or financial distress situation of the business.

The following warning signs indicating a threat of financial distress can be detected through discussions and observations:

1. **Relationship with bankers:** banking relationships are an important component to financial stability and business survival. When this relationship becomes significantly strained through requests for extra security, personal guarantees, withdrawing overdrafts and of course declined loans, it more often implies that the business’s creditworthiness has been adversely eroded.

2. **Financial records and reports:** many business owners do not know the financial position of their businesses due to the lack of maintaining proper accounting records or the lack of having regular financial reports. Not being able to track rising costs, accounts payables or significant strains of cash flows may result in the business digressing towards financial distress and becoming insolvent due to lack of good financial information. A company may be growing rapidly, making a profit, but also suffering negative cash flows – business may be incapable of sustaining its growth (“business outgrows itself to liquidation”).

3. **Management and systems:** management systems that rely heavily on one individual for decision-making could result in a decision-making gridlock – decisions may be delayed or may not be well-informed. An inexperienced management team with weak financial and organisational skills as well as a poor understanding of finance and business may also foreshadow problems. In addition internal problems such as changes in senior management and the resignation of key personnel are bells-and-whistles of trouble in an organisation.

**Conclusion**

Most companies use financial indicators as the main barometer to check against financial distress, but it is important to note there are other factors that contribute to financial failure. The indicators outlined above are just a few signs that the Professional Accountant (SA) should look out for, which will tell you that your business is headed for financial distress. Financial distress can be avoided if the Professional Accountant (SA) assists management to detect the signs and take timely corrective action. Businesses that are able to recognise early warning signs have survived by differentiating themselves or changing and improving their business model.

“Where there is no growth despite extreme marketing activities and even increases in business volume, this could mean that the market is not satisfied with the product or service and the business may inevitably close down.”
Tomorrow’s modern office spaces will be a world of pause rooms, lounges, hot desks and standing stations – and that’s just for when employees are physically in the office and not working remotely. It all points to a corporate culture that is changing and an outlook that accepts that offices as we traditionally have known them are soon to be a thing of the past.

Work-life balance

Although some companies continue to hold on to the clocking in at nine and leaving at five concept, with each employee allocated to his own desk, far more are embracing the flexibility that technology has made possible. Thanks to technology, staff are able to work remotely and still perform as efficiently and collaboratively as if they were actually in the office. Smart corporates are starting to implement the idea of work-life balance into everyday operations, understanding that happy workers are more likely to be productive ones. Flexible working conditions allow staff to work the hours that work for them while the proliferation of smart phones, fibre optic cables, better access to Wi-Fi and wearable technology means that employees can do the same work they would do in the office at home, or even in a coffee shop.

Collaborative spaces

A growing trend is that of creating collaborative spaces. Shared offices are becoming increasingly popular and they’re not only situated in office blocks – people in industries across the board are able to rent affordable desk space on a monthly basis in a variety of locations. This is particularly suited to
freelances and start-ups, which reap the benefits of working in the same space as like-minded people where knowledge and idea-sharing is an integral part of daily interactions. In this way, people are starting to create communities which equate to so much more than simply renting a desk.

Within this environment, a number of companies have started to question the efficiency and cost effectiveness of allocating every employee to a desk and chair. Ultimately, this means paying for space that is at times not being used, when this space could instead be shared between workers. To this end, hot desking – infrared technology which uses heat sensors to determine when a space is being used – allows for better management of space, as the data collected from the sensors allows companies to assess how efficiently office space is being utilised.

Not only does hot desking mean offices have fewer desks than they have employees, it also allows workers freedom of movement around the office – they’re able to sit and work wherever they feel comfortable: lounges, standing desks and tables, meeting rooms and canteens. This type of situation is best suited to companies that are able to be paperless, as well as able to provide staff with storage space for their personal belongings.

Of course the obvious down side to hot desking and working remotely is the fact that employees rarely see each other face to face, relying instead on email, Skype and phone calls to communicate. Ultimately though, what is lost in terms of working relationships is gained by the fact that employers have started to give their workers choice in terms of how and where they work, which in turn gives them a greater sense of control over their lives.

Flexible work areas

Future forward offices tend to be designed around choice. Cubicles are soon to become a thing of the past and employees will be able to choose whether they would prefer to work in open spaces or opt for somewhere more private. Leading innovators such as Google and Apple have long been implementing the idea of fewer desks and more open space. However, while the time employees spend sitting behind a desk may be decreasing, working in the open is not suited to everyone and companies must ensure the correct balance between open space and private areas which allow all employees to remain focused.

Offices of the future are set to look more like digital playgrounds than traditional work spaces. Technology will play an increasingly pivotal role – not only in terms of mobile and cloud computing but also in terms of organisations’ abilities to remain competitive. Ideas such as the Internet of Things, which is about using sensors and other embedded technologies to interact with smart devices through the Internet will become key to maintaining a competitive edge.

Despite flexibility and remote working being on the rise, collaboration and a sense of camaraderie between co-workers remains a crucial element of a happy work place. Brainstorming and collaboration are non-negotiable when it comes to innovation, not to mention the fact that friendships between colleagues make for a contented workforce. To this end, physical offices will continue to include spaces which encourage informal gatherings – think stairwells, corridors and hallways which have the potential to become collaborative spaces. Moreover, spaces that encourage physical movement are seen as more conducive to all types of productivity than sitting behind a desk.

Smart business decisions

The need for work-life balance is becoming an important aspect of any business. Concepts such as ‘bring your own device’ (BYOD) allow employees to work seamlessly between home and the office. ‘Going green’ has become less of a trend and more of smart business decision – think natural light that cuts down on utility costs, a multitude of plants indoors as well as easy access to outdoor areas and cafeterias that serve fresh organic food; all of which benefit the workforce and enhance output. Some truly forward thinking employers are even starting to embrace the idea of the power nap, installing furniture that facilitates short 20 minute naps during the day based on the belief that employees who feel well-rested and cared for tend to perform better. Some have even provided wearable technology which monitors the activity and health levels of employees, sending alerts when energy is low and rest is needed to maintain productivity.

It seems that office spaces of old are set to change dramatically, thanks both to technology and an understanding from employers that concepts such as choice, work-life balance and flexibility really do go a long way towards creating a positive, productive and happy workforce.
The conventional wisdom in classical economics is that we humans are ‘rational actors’ who, by our nature, make decisions and behave in ways that maximise advantage and utility and minimise risk and costs. This theory has driven economic policy for generations despite daily anecdotal evidence that we are anything but rational, for example, in how we invest and what we buy. Economists who embrace this assumption seem to live by the maxim, “if the facts don’t fit the theory, throw out the facts”, attributed, ironically enough, to Albert Einstein. But any notion that we are, in fact, rational actors, was blown out of the water by Dr Daniel Kahneman, the winner of the 2002 Nobel Prize for economics, and his late colleague Amos Tversky. Their groundbreaking, if not rather intuitive, findings on cognitive biases have demonstrated quite unequivocally that humans make decisions and act in ways that are anything but rational.

Cognitive biases can be characterised as the tendency to make decisions and take action based on limited acquisition and/or processing of information or on self-interest, overconfidence, or attachment to past experience. Cognitive biases can result in perceptual blindness or distortion (seeing things that aren’t really there), illogical interpretation (being nonsensical), inaccurate judgments (being just plain wrong), irrationality (being out of touch with reality), and bad decisions (being dumb). The outcomes of decisions that are influenced by cognitive biases can range from the mundane to the lasting to the catastrophic, for example, buying an unflattering outfit, getting married to the wrong person, and going to war, respectively.

Cognitive biases can be broadly placed in two categories. Information biases include the use of heuristics, or information-processing shortcuts, that produce fast and efficient, though not necessarily accurate, decisions and not paying attention nor adequately thinking through relevant information. Ego biases include emotional motivations, such as fear, anger, or worry, and social influences such as peer pressure, the desire for acceptance, and doubt that other people can be wrong.

When cognitive biases influence individuals, real problems can arise. But when cognitive biases impact a business, then the problems can be exponentially worse. Just think of the Edsel and the Microsoft Kin. Clearly, cognitive biases are bad for business. Cognitive biases are most problematic because they cause business people to make bad decisions. In my corporate consulting work, where I help companies make good decisions, I have identified 12 cognitive biases that appear to be most harmful to decision-making in the business world. Some of these cognitive biases were developed and empirically validated by Kahneman and Tversky. Others I identified and subsequently passed the ‘duck’ test (if it looks like a duck and sounds like a duck, it’s probably a duck).

Information biases include:

- Knee-jerk bias: Make fast and intuitive decisions when slow and deliberate decisions are necessary.
- Occam’s razor bias: Assume the most obvious decision is the best decision.
- Silo effect: Use too narrow an approach in making a decision.
- Confirmation bias: Focus on information that affirms your beliefs and assumptions.
- Inertia bias: Think, feel, and act in ways that are familiar, comfortable, predictable, and controllable.
Myopia bias: See and interpret the world through the narrow lens of your own experiences, baggage, beliefs, and assumptions.

Ego biases include:

- Shock-and-awe bias: Belief that our intellectual firepower alone is enough to make complex decisions.
- Overconfidence effect: Excessive confidence in our beliefs, knowledge, and abilities.
- Optimism bias: Overly optimistic, overestimating favourable outcomes and underestimating unfavourable outcomes.
- Homecoming queen/king bias: Act in ways that will increase our acceptance, liking, and popularity.
- Force field bias: Think, feel, and act in ways that reduce a perceived threat, anxiety, or fear.
- Planning fallacy: Underestimate the time and costs needed to complete a task.

Think about the bad decisions that you and your company have made over the years, both minor and catastrophic, and you will probably see the fingerprints of some of these cognitive biases all over the dead bodies.

You can fight back

The good news is that there are four steps you can take to mitigate cognitive biases in your individual decision-making and in the decisions that are made in your company.

1. Awareness is a key to reducing the influence of cognitive biases on decision-making. Simply knowing that cognitive biases exist and can distort your thinking will help lessen their impact. Learn as much as you can about cognitive biases and recognise them in yourself.

2. Collaboration may be the most effective tool for mitigating cognitive biases. Quite simply, it is easier to see biases in others than in yourself. When you are in decision-making meetings, have your cognitive-bias radar turned on and look for them in your colleagues.

3. Inquiry is fundamental to challenging the perceptions, judgments and conclusions that can be marred by cognitive biases. Using your understanding of cognitive biases, ask the right questions of yourself and others that will shed light on the presence of biases and on the best decisions that avoid their trap.

4. Though brainstorming and free-wheeling discussions can be valuable in generating decision options, they can also provide the miasma in which cognitive biases can float freely and contaminate the resulting decisions. When you establish a disciplined and consistent framework and process for making decisions, you increase your chances of catching cognitive biases before they hijack your decision-making.

Three Key Questions

Daniel Kahneman recommends that you ask three questions to minimize the impact of cognitive biases in your decision-making:

1. Is there any reason to suspect the people making the recommendation of biases based on self-interest, overconfidence, or attachment to past experiences? Realistically speaking, it is almost impossible for people not to have these three influence their decisions.

2. Have the people making the recommendation fallen in love with it? Again, this is almost inevitable because, in most cases, people wouldn’t make the recommendation unless they loved it.

3. Was there groupthink or were there dissenting opinions within the decision-making team? This question can be mitigated before the decision-making process begins by collecting a team of people who will proactively offer opposing viewpoints and challenge the conventional wisdom of the group.

In answering each of these questions, you must look closely at how each may be woven into the recommendation that has been offered and separate them from its value. If a recommendation doesn’t stand up to scrutiny on its own merits, free of cognitive bias, it should be discarded. Only by filtering out the cognitive biases that are sure to arise while decisions are being made can you be confident that, at the end of the day, the best decision for you and your company was made based on the best available information.

Source: www.psychologytoday.com
Now that 2015 is history, it’s time to start the new year right. Don’t let old habits of procrastination or feelings of being overwhelmed bog you down. You can fight the constant barrage of emails, texts, phone calls, requests, and piles of work by changing how you react and behave during those overwhelming work hours. Ron Friedman, who hosts the Peak Work Performance Summit webinar, interviews some top thinkers on productivity in the Harvard Business Review. Below is a round-up of the best advice for being productive and resilient this year.

**Protect your time**

You want to be the owner of your time throughout the day. Once you lose your grip on your own time, you start defending it from in-bound requests. If you’re on defence, you’ve already lost.

“Our most satisfying work comes about when we’re playing offense, working on projects that we ourselves initiate,” Friedman writes. “Many of us know this intuitively yet continue allowing ourselves to spend the vast majority of our days playing defence, responding to other people’s requests.”

Tom Rath, author of Are You Fully Charged?, says the first step in playing offense is to refrain from compulsively checking email and phone messages. Get one important thing done first before you start checking the inbox.

**Don’t get duped by busyness**

Busy-body work might make you feel good while you’re ticking the boxes on your to-do list, but busyness alone “robs us of our focus” and prevents us from getting the most important things done, Friedman writes. Top performers don’t let busy work ruin their productivity. In fact, many people think busy work is wasteful and insignificant.

“Busyness is not a marker of intelligence, importance, or success. Taken to an extreme, it is much more likely a marker of conformity or powerlessness or fear,” says Christine Carter, a sociologist expert at UC Berkeley’s Greater Good Science Centre.
Honour your limitations

You need to recognise the fallacy in the idea that the harder you work the more you get done. Brigid Schulte, author of the New York Times bestseller *Overwhelmed*, says society has tricked us into thinking the more hours we put in at work the better we’ll perform. But top performers are self-aware and know their own limitations and know living a balanced life will help you be more effective and productive.

“Being productive requires recognising that you can’t work for extended periods of time and maintain a high level of performance,” Friedman writes. “As humans, we have a limited capacity for focused attention.”

Carve out 90-minute time chunks for concentrated work with breaks in-between. If you balance your work day with exercise, meals, and time at home and good sleep, you’ll be more productive than if you were to cut out all of that stuff and stay at the office.

Implement the Hemingway strategy

You probably work on something as quickly as possible to make a deadline and then move onto the next without thinking about the completed project. But your best ideas will come when you sit and think about a project before it’s completed. Adam Grant, a psychologist, author, and professor at Wharton, says you could be more productive if you give yourself more time and sit with incomplete work rather than rushing to complete it.

“I used to sit down to write and not want to get up until I was done with a chapter or an argument,” Grant tells Friedman. “Now I will deliberately leave sentences just hanging in the middle and get up and go do something else. What I find when I come back is that I don’t have to do a lot of work to finish the sentence, and now I also have a bunch of new ideas for where the writing should go next.”

If you’re done with a project, you’re not going to think about it. Chances are that you’ll forget about it. Instead, step back, let unfinished work sit and ruminate over it, just like Ernest Hemingway used to do.

Being busy and quickly ticking off tasks from your to-do list doesn’t mean you’re productive. According to the experts, by slowing down and focusing on fewer tasks, you’ll get more done.
Historically, tax policies were formulated principally to deal with domestic economic and social concerns (OECD, 1998:13). While the domestic tax systems of essentially closed economies also had an international dimension — a limited form of the residence basis of taxation — in respect of the amount of tax that was to be levied on certain foreign-sourced income of domestic residents and including the taxation of locally-sourced income of non-residents, “the interaction of domestic tax systems [was] relatively [minimal], given the limited mobility of capital” (1998:13). But the situation changed in recent decades as a consequence of the accelerating globalisation of trade and investment, fundamentally altering the relationships among domestic tax systems, requiring countries to continually assess “their tax systems and public expenditures with a view to making adjustments where appropriate [so as] to improve the ‘fiscal climate’ for investment” (1998:13).

One major consequence of globalisation is the potential threat it poses to domestic economies in respect of the large exodus of capital flowing from domestic economies to foreign markets, thus prompting a major threat to domestic tax collection, especially, for capital exporting countries. With these large exodus of domestic capital being invested in foreign subsidiary companies means that, although the “residence basis of taxation” imposes taxation on the worldwide income of a county’s residents, taxes could still be avoided if such income is earned by South African-owned foreign subsidiary companies. This being attributable to the fact that the “foreign corporation ...is generally considered to be a separate taxable entity”, and that the controlling shareholders of the corporation “are not taxable until distributions from the corporation ...are received” (Arnold & McIntyre, 2002:87).

Therefore, the only alternative will be through the enactment of CFC regulations, which imposes taxes on domestic residents controlling the foreign entity, on the proportional amount of the income that is deemed to have been distributed to them by the controlled foreign company. The appropriateness of South Africa’s CFC regulations as domestic anti-avoidance tax measures is assessed in this study for its relevance in the international fiscal arena, highlighting key divergences, shortcomings and anomalies in the South African regulations compared with OECD recommendations, and with regulatory measures in the United Kingdom (jurisdictional-entity approach) and the United States (global transactional approach), these two exemplars offering paradigms of the most important CFC regulatory approaches currently in force.

Background

Dating from 1914, with the enactment of the inaugurating Income Tax Act, No. 28 of that year (South Africa, 1914), until 2000, the South African income tax system was based primarily on the source principle, according to which only income from a source within or deemed to be within the Republic (previous to 1961, the Union) was taxable in South Africa.

The year 2001 is considered a watershed, as the South African Income Tax system had undergone one of the most fundamental change in its taxing history. This transformation of its taxing system was attributable to the relaxation of exchange control regulations and the globalisation of the South African economy (Accountancy SA, 2001:3). Act No. 59 of 2000 had played a pivotal role in introducing the new underpinning for the South African income tax system, which migrated from the territorially inclined source basis of income tax (as the determining factor) to the residency of the taxpayer.

The gross income definition had been subject to a historical change to incorporate the accruing of a resident’s worldwide income and the retention of the right to tax non-residents on their South African sourced income. Section 9D, unlike in its previous application, had now been extended to include both passive and active income being subject to taxation, and with certain types of income being granted exemption in terms of Section 9D(9).

Scientific value and contribution

This research has been primarily qualitative in nature and is set within the context of axiomatic principles underpinning the OECD and UN Model Tax Conventions and the United Kingdom and United States CFC regulations. Therefore, the contribution made by the current research comprises of: an updated assessment of the current state of the South African CFC regulations, with indications, where pertinent, of anomalies, discrepancies, inconsistencies or lack of clarity in the South African regulations when seen in a broader international context; recommendations for possible regulatory amendments; identification of areas that could be the subject of fruitful further investigation.
Research findings

No single CFC regulatory framework exists that could serve as an international paradigm. It would not be unreasonable to say that international paradigms in this particular domain of tax regulations do not, and possibly cannot, exist. Promulgation of CFC regulations is determined on a country-by-country basis, shaped by the fiscal and macro-economic priorities of national governments, related to whether a particular country is capital importing or capital exporting, the level of tax non-compliance by its residents and the extent of foreign investments in tax havens and preferential tax regimes (PwC, 2012:1). Therefore, the preceding factors have been the main constituents contributing to the variations in the configuration of domestic CFC regulations.

South Africa is considered to be a net capital importing country, in contrast to the United States and the United Kingdom, which are net capital exporting countries. Therefore the country-specific elements of South Africa’s CFC regulations have largely been influenced by the relative scale of the country’s economy and of its outgoing foreign direct investment, which has resulted in a less complex regulatory regime pertaining to: qualifications criteria of a CFC, attribution rules, exemptions and relief provision. It is apparent from this study that in developing its CFC regulations, South Africa, on a country-specific level, has not followed any particular jurisdiction, and specifically not the United Kingdom or the United States.

Issues for future research

The dynamic and continually evolving nature of the CFC field also means that there is continuing need for extending the investigation of South African CFC regulations presented in this research to accommodate new circumstances, and it would also be appropriate to extend the comparative assessment of the South African legislation to take account of CFC approaches in other jurisdictions (certain BRICS countries, for example) beyond those considered here, where new types of transactional patterns might be a future concern. In addition, ongoing paradigm shifts in the United States and, in particular, the United Kingdom regulatory approaches to CFCs would be worth revisiting in the relatively near future, to determine how their outcomes, yet to fully appear, might have pertinence for the South African regulators.

Conclusion

A salient issue emerging in this study is that countries are responsible for their own design and promulgation of CFC regulations, tailored in accordance to their own domestic requirements and, consequently, no single CFC regulatory measure may serve as a paradigm. However, despite each country being responsible for the designing of its own CFC regulations, a high degree of convergence between national systems exists. CFC rules are a significant instance of such convergence – even, at times, of direct transplantation of key provisions from one jurisdiction to another: residence, definition of CFC, control requirements, attribution requirements of shareholders, calculation of net profit, and relief provisions. Further, notwithstanding tax competition, countries continue to adhere to their CFC regulatory measures for the important role that they play in guarding the domestic tax base from income being shifted abroad, and while there is, indeed, significant convergence in CFC regulations, at a more detailed level significant national differences nonetheless persist, shaped by particular domestic tax and national fiscal policy requirements. (Avi-Yonah & Sartori, 2012:6.)

In addition, the following key findings have emerged in this study:

- The paradigm shift in United Kingdom tax policy, as it migrates towards a territorially inclined tax system in CFC regulations, is more compatible with European Union (EU) requirements, and is propelled in large measure by EU-pressure globalisation, manifest in the recent series of judgements delivered by the ECJ.

- The new trajectory in United States tax policy – again, towards a territorially based taxing system – reflects a need to keep abreast of changes in the international tax environment, precipitated not least by the economic downturn in international markets. Fearing a drop in competitiveness of United States companies in the global marketplace, legislative tax changes seek to rekindle expansionism and growth of the United States economy through repatriation of foreign funds earned by CFCs (PwC, 2012).

- It would be unrealistic to seek an absolute paradigm for reform or evolution of South African CFC regulations in either of the countries chiefly considered in this thesis (United Kingdom, United States), although South African and United Kingdom CFC measures show significant affinities in their entity-based mechanisms to grant full exemption (United Kingdom, prior to Finance Bill 2011) and partial exemptions (South Africa) of a CFC’s chargeable profits. More particular constituents of CFC regulation in one or another of the two countries do, however, prove to be generally congenial to the South African situation and offer useful pointers for ongoing reform of the South African CFC measures.

References

**STAFF PROFILE**

**SIBUSISO THUNGO**

*Tax Manager, Centre of Tax Excellence, SAIPA*

**Q: Tell us about yourself**

*A: I am a down-to-earth, hardworking young man who grew up in Jozini in rural Northern KZN. I have been blessed with the opportunity of living in various provinces of this country. I joined SAIPA last year, after spending over nine years in various positions at SARS. I am a motivator, and as a person who believes in change, I like to challenge the status quo. I like to see people working together, growing and being treated fairly at all times.*

**Q: What do you do at SAIPA?**

*A: I am a Tax Manager responsible for managing the day to day running of the Centre of Tax Excellence (CoTE). This entails answering tax queries from SAIPA members, developing the CoTE strategy, which includes growing membership, and I am also the Managing Editor for *Tax Professional* magazine. I compile, source and edit articles for the monthly online tax newsletter, and I represent SAIPA at various stakeholders meetings.*

**Q: What is the best part of your job?**

*A: Being in a position of being able to resolve tax and efiling issues for our members is very fulfilling for me.*

**Q: What are some of the more challenging aspects of your job?**

*A: Being unable to meet some of the members’ expectations at the Centre of Tax Excellence, where we strive for quality in providing excellent service to our members. We sometimes find ourselves in the predicament where a particularly complex query has been received from a member; this requires time to conduct proper research to ensure the correct information or solution is provided. As a result, it takes more time to respond to the member in question. Some members do not always understand this time-consuming process, lose patience and become abusive to staff members. This can at times be very disheartening. However, compliments that the CoTE regularly receives serves as a great motivator to us to continue providing the best service to our members.*

**Q: What are your thoughts on the accounting industry as a whole and SAIPA’s role in it?**

*A: The accounting industry is very exciting, global and forever growing. It is an industry wherein we see a high number of transformation initiatives being introduced to assist the further growth of the profession. The possible regulation of the industry will certainly make things even more interesting. It is exciting to see SAIPA at the forefront in advocating transformation agendas and ensuring that, at all times, members are getting value for their money. The number of offerings that SAIPA has introduced, including collaboration with universities and other industry bodies, further enhances the SAIPA brand and is yielding positive results for both the Institute and its members.*

**Q: Who do you admire?**

*A: I admire God most. Without His grace I would not be where I am. I also have great admiration for my mother. It is not easy for a single parent to raise kids alone; however she did her best in raising us with the little she had, and made many sacrifices for us in order to be where we are today. She is a very strong woman, notwithstanding the physical challenges she has encountered. Lastly, I admire all the individuals who are making a positive difference in other people’s lives.*

**Q: What do you do for fun?**

*A: I enjoy singing. Music keeps me going at all times. I also enjoy doing philanthropic work and spending time with friends and family.*

**Q: Any personal goals or future plans you’d like to share with us?**

*A: I am currently working on my PhD in Leadership and am looking forward to finishing what has been a daunting journey. I am also looking at growing my own business, in order to contribute to the economic growth of this country and reducing the unemployment rate, particularly amongst the youth. I would like to establish my own foundation that will address the issues that I am most passionate about; including education, community development and effective leadership.*

“The number of offerings that SAIPA has introduced, including collaboration with universities and other industry bodies, further enhances the SAIPA brand and is yielding positive results for both the Institute and its members.”
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