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INDUSTRY 4.0 – FIGHT OR FLIGHT FOR ACCOUNTING

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(Unstructured)

THE FUTURE OF
ACCOUNTING

PROFESSIONAL JUDGEMENT
IN THE ACCOUNTANCY
PROFESSION

UNDERSTANDING THE
INDEPENDENT REVIEW

A man with a beard and mustache, wearing a dark blue suit, white shirt, and teal tie, stands with his arms crossed in a modern office setting. He is smiling at the camera. The background shows office cubicles and a desk with a computer monitor.

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Zobuzwe Ngobese – Marketing and Communications Executive

EMBRACING CHANGE FOR FUTURE FOCUS

"Change is the law of life and those who look only to the past or present are certain to miss the future." ~ John F. Kennedy

This quote certainly holds true for Professional Accountants (SA) practicing within the South African accounting profession at large. All of us need to plan for the future and be ready for change in all aspects of our lives.

A number of positive changes have taken place within the Institute. SAIPA recently welcomed back Mr Shahied Daniels as Chief Executive. We wish Mr Daniels all the success in his appointment as he leads the Institute into an inspired future of challenges, changes, regulation and 4IR.

The Fourth Industrial Revolution is upon us – also referred to as Industry 4.0. Concepts such as automation, artificial intelligence (AI) and the Internet of Things (IoT) are technological buzzwords that need to be embraced by accounting professionals across the board. Whilst many might fear what the future may bring and how the role of a professional accountant will be impacted; the reality is that this change is inevitable and needs to be addressed in order to remain relevant in a digital world. In our article on page 6, we explore some of these changes and how these may affect Professional Accountants (SA).

In addition to the technological changes facing the accounting world, there are global changes that will influence the role of SAIPA members as strategic

business advisors. The article on page 8 shares some valuable insights on how the accounting professional will need to evolve in these changing times.

Professional judgement is a critical role played by Professional Accountants (SA). In order to effectively provide sound judgements to our clients and stakeholders, it is imperative that we have confidence in reporting and implementing principles-based standards. In this edition, we have an entire section dedicated to the importance and framework of implementing professional judgement.

SAIPA is working hard behind the scenes to assist and support our members to enhance their professional value proposition and develop their competencies. Continuous professional development is mandated to all active SAIPA members. CPD seminars are offered in venues all around South Africa, and also as online webinars, enabling you to update your knowledge from the comfort of your home or office. We encourage members to attend these seminars regularly, to stay abreast of industry changes.

In closing, we urge you to embrace the inevitable changes and challenges faced on a daily basis and become the change you wish to see in the world.

Zobuzwe Ngobese
Marketing and Communications Executive



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NEW SAIPA DISTRICTS: SEDIBENG & NORTH DISTRICTS EASTERN CAPE

SAIPA recently established a district association in the Sedibeng municipal area. The district chairman, Pitso Zwane, a Professional Accountant (SA) and Manager of Municipal Capacity Building & IGR at the Gauteng Provincial Treasury, says the community in the local and surrounding areas will benefit greatly from the Institute's presence and initiatives there.

Sedibeng's economy is dominated by tourism, agriculture and presents growth opportunities in agriculture and tourism. "The association intends to cater for members in those sectors the same high standard of training, support and networks in forums," says Zwane, "but we'll make CPDs relevant to local accountants who must keep abreast with best practices, for example, in agricultural accounting."

For further information regarding the Sedibeng district contact Ms Refilwe Mosweu at 062 429 9767.

SAIPA also created a new North District association in the Eastern Cape, incorporating the towns of Cradock, Queenstown, Middleburg, Hofmeyr and Somerset East. The elected chairperson for the North District is Arlo Slabbert, a Professional Accountant (SA) and Senior Portfolio Manager at a Cradock-based accounting firm. Slabbert is assisted by three other committee members.

SAIPA Southern Region chairperson, Ian Ferreira-Massyn, says the initiative will benefit members in those towns and the surrounding areas. "It will especially help in terms of having to drive to the cities to attend training and networking events. For members in outlying areas, this can mean waking up at 4am or

driving home late at night, making it less appealing to participate. Now, they can attend local CPDs while forming bonds with accountants in neighbouring communities," he says.

The association will initially offer CPDs and regular member forums where local accountants can keep their skills updated, discuss problems and get acquainted with other practitioners. The committee will determine which other events are feasible based on identified needs and available resources. CPD topics will be tailored to suit the areas of focus for local accountants; for example agricultural operations for the large farming community of Cradock.

North District chairman, Arlo Slabbert can be contacted on arlo@cdk.tdp.co.za for more information.

MESSAGE FROM THE NEW SAIPA CE

Thank you to the SAIPA Board for their trust and faith in me, in serving once again as Chief Executive. It is an honour to lead the Institute into an inspired future. I am committed to serving SAIPA as an Institute, members with dedication, commitment and excellence and the accountancy profession in the best interest of SAIPA members.

As Professional Accountants (SA), practicing predominantly as SMPs, your role is to ethically serve your clients by restoring and enhancing the public's trust in accountants and enhancing your competencies. We are continuously working hard to update our Competency Framework and CPD programmes to be relevant and pro-active so that you can best serve your clients, businesses and societies.

The Fourth Industrial Revolution is here and the inevitable changes we once saw on the horizon are in our midst. Over the next ten years, business and finance landscapes will undergo massive changes. Future-ready Professional Accountants will

need to continuously upskill and develop competencies in order to stay ahead. SAIPA is collaborating with relevant member bodies to address these issues and develop advanced accounting principles for an automated future.

This as an exciting period during which the profession may be disrupted but will be completely revolutionised, emerging stronger and more relevant than ever.

The financial crisis has shown that no amount of technology can save an economy if those holding the purse strings are corrupt; and this pattern has repeated itself over the past decades at all levels of business and government. Even our reputation may have been tarnished by a few rogue accountants.

To the conscientious 99.9% of SAIPA members who are #SAIPAproud and hold themselves to a higher standard, respecting the public interest, thank you for adhering to our code of conduct and ethics and ask that you remain ready to combat NOCLAR wherever you encounter it.

Whatever 2019 holds, we have tailored ourselves as business advisors to the nation, whether in business or government. Let's do whatever it takes to restore the public trust others have so recklessly squandered. Although we are well into the year, I wish you every success and assure you of SAIPA's continued support throughout.



**Shahied Daniels –
CE, SAIPA**



Automation, Artificial Intelligence (AI), the Internet of Things (IoT) and Industry 4.0 itself – the full integration of information and communications with automation technology – has been a subject of much fear and debate across industries, and the accounting industry is not immune. Accounting professionals are for the first time questioning what their roles will be in this new, digitised climate; and if they will in fact, even have a role to play at all.

Consensus within the accounting industry, both in SA and abroad is that the job of accounting professional will remain safe, albeit somewhat different to the way it has been practiced in the past. With automation has come a paradigm shift that has affected the profession and those working in it, a new space in which accounting professionals will need to learn to operate.

Shahied Daniels, CE at SAIPA sees the changes in the industry as a source of excitement and an opportunity to revolutionise and disrupt the sector, allowing it to emerge stronger and more relevant than ever before.

Daniels points out that the long-anticipated changes are now on our doorstep. Within the next 10 years, the production and distribution

landscapes will no longer be recognisable. He adds that with this, management decisions will be made via AI, which will make the job of the accounting professional – whose mandate it is to cross check the data, as well as analyse it and make assurances – more challenging than ever before.

It is in this context that future-ready professionals will need to have an in-depth understanding of data analytics and other skills which have never before been necessary. To this end, Daniels reveals that SAIPA is consulting with other industry bodies such as IFAC to develop principles for the profession that will see accounting professionals becoming increasingly fit for an automated future.

Indeed, both SAIPA and IFAC have been monitoring the impact of AI driven systems for some time and believe that the definition of the accountant in this new era is not cut and dried. While it is relatively easy to automate functions such as bookkeeping and accounting, those professionals who have been willing to expand their scope of work are finding more opportunity than ever before.

Moreover, AI in its current form does not operate at the same level as a human being. AI must be trained to perform certain tasks by analysing data within particular boundaries and has to be configured to know once a task has been completed. In a training environment, it will learn through trial and error until it has perfected the task and can be put to use within a business environment.

The training itself can take months and if programmed incorrectly, AI can make repeated mistakes that in isolation may not be detected immediately but will create a compound effect of inaccuracies that will only be noticed once it is too late.

It also can't sign off on reports or audits, which means that those professionals who are willing to upskill will have an ongoing, more strategic role to play in terms of the innovative application of AI, which remains a human function.

While technology undeniably adds value to clients, the accounting professional has now been cast into a role where he or she can in fact be the driver of business automation and look into a whole new range of services including AI assurance and innovative accounting for the future, which will enhance the standing of the accounting professional as a business advisor.

Perhaps the biggest change that the Industrial Revolution has brought to the accounting profession is the switch from that of 'crunching numbers' to a more analytical role. While technology has simplified the process of producing automated financial statements and other repetitive tasks, the accounting professional still has a pivotal role to play in the analysis of that information and the application of the data to sustain and grow the businesses of customers. As such, problem solving and analysis have become critical skills in the field.

In order to assist accounting professionals to remain relevant in this context, SAIPA itself has launched a programme which applies technology to the understanding of accounting, finance and auditing and allows for the more analytical performance of these tasks. Competency-based education is key, allowing accountants to question what an analysis of the financial statement can say about the business, as well as playing an advisory role as opposed to merely delivering the numbers.

Further advantages of the digital world mean that accounting professionals are able to access data that was previously unavailable to them via embedded sensors. Professionals are now able to extract data from common pools which is useful in terms of better decision making and timekeeping as well as a higher quality of data which has greater accuracy and efficiency as well as increased relevance and the credibility of reporting.

Risk analysis is an additional area where accounting professionals will come to the fore in the age of Industry 4.0. In a digital world, connected devices inevitably contain an element of vulnerability. The accounting professional has an advisory role to play here. Within this space, the accountant can assist clients to predict profitability as well the ROI on investments into technology. Other areas include pricing analysis as well cost saving analysis where production has become more efficient and effective. Contract management as well as terms and conditions are additional advisory areas where accountants are now able to play a pivotal role.

Ultimately, the response to Industry 4.0 should not be one of fear, but rather to see where the opportunities lie in a more strategic application of the profession. Of course, those wishing to capitalise must keep abreast of professional development and continued education as well as collaboration with others in the sector, together with industry bodies and opportunities to upskill to remain relevant. ■

INDUSTRY 4.0 GUIDELINES FOR ACCOUNTANTS AND SMES

- Become familiar with the technology that is available within your field of accounting – technology actually makes the job of accounting more accurate and reduces the margin of error
- Accountants can help SMEs to analyse the risks associated with IoT such as hacking, as well as getting the most impact from the data they collect
- Auditing has become simpler thanks to technology – real time financial data means that both SMEs and accounting professionals are able to become aware of fraudulent activity more timeously, and therefore limit the damage
- Stay on track with trends and changes to find your role in the automated industry
- Accounting professionals are now able to fulfil advisory roles and develop new accounting and reporting structures
- An in-depth understanding of IoT will enable accounting professionals to better advise clients and to further their own opportunities
- There is so much potential created by Industry 4.0. Rather than lamenting job loss, SMEs and accounting professionals should be seeking opportunity and engagement within cyber physical systems
- Belonging to professional bodies is crucial with regards to keeping abreast of developments in the IoT space as well as professional development and upskilling
- Training, education and upskilling of staff has a business imperative

RE-INVENTING THE PROFESSIONAL ACCOUNTANT

Rashied Small, Yaesh Yaseen & Hashim Salie

There are constant reminders in all forms of media that the jobs of Professional Accountants and auditors are at risk as a result of the 4th Industrial Revolution – research has indicated that 93.8% of the functions performed by accountants and auditors will be taken over by technology and digitalisation. Questions on the minds of accountants and Professional Accounting Organisations (PAOs) is whether the end is in near or what can should be done to survive? In the words of esteemed SAIPA Chairman, Shafiek Dollie, “Bring on the 4th Industrial Revolution, we and our members are ready to face the challenge”.

Generally, Professional Accountants perform the functions of bookkeeping, compilation of financial statements and other related compliance functions such as taxation services. The consensus is that these functions will be performed by “Bots” or technology which will place Professional Accountants at risk in this space of services. According to Hashim Salie, the days of Professional Accountants making a living from providing record keeping and compliance services are numbered, and it is time that they catch a wake-up call and smell the roses transcending beyond the numbers. Yaesh Yaseen’s research indicates that in order to survive the 4th Industrial Revolution, the words “Adapt or die” are being whispered in the corridors of the accountancy profession.

Digitisation and technology have impacted “real time accounting” – from the document to the ledger accounts in an instant and has made the compilation of financial statements through standardisation forms nothing but a click of the button. It is important to note that the reliability of the accounting records depends on three core accounting principles: classification, measurements and recognition – these conceptual principles require human intervention to ensure the accuracy and reliability of the records. The application of these principles is based on the context of a business and its operations, the technical knowledge and experience of Professional Accountants is therefore are critical to this function to ensure the accuracy of the accounting records to facilitate effective business decision-making. In the record keeping functional area, the Professional Accountant transcends from the data processor (bookkeeping function) to the quality assurance of the processing function – assuring the quality and integrity of the accounting information.

Financial statements are compiled to ensure the compliance to the principles of “fair representation” and the value of financial

statements to users for decision-making purposes. It is accepted that technology will become the tools to prepare financial statements in compliance with the accounting framework selected by the business entity. In order to remain relevant in the arena of compilation of financial statements, Professional Accountants must shift from compiling the financial statements to being advisors which require the competence to analyse, interpret and use information to facilitate effective decision-making by the users of financial statements.

To survive this new landscape, Professional Accountants must up their game from being bean-counters and compliance service providers to becoming value adding business advisors. To this end, SAIPA has made a strategic decision as early as 2014 to ensure that Professional Accountants (SA) are equipped to fulfil their role as business advisors adding value through:

- **Creator of value** – actively involved in assisting management with strategic planning and decision making. Applying the competence in accounting together with their experiences to integrate qualitative and quantitative information to assist management to perform a situation analysis as well as developing the strategic business plan.
- **Enabler of value** – actively involved in providing advice and facilitation at an operational level, especially in terms of costing, cost saving and efficiency as well as in the area of management accounting and financing decisions.
- **Preserver of value** – actively involved in the providing advice and support in risk management, especially with mitigating financial and going concern risks.
- **Reporter of value** – this goes beyond rendering compliance services but focuses on providing qualitative reports to support the effective management of the business as well as decision-making.

Thus, the new path for the Professional Accountant (SA) is to evolve and re-invent him/herself to become a user of technology and digitisation to improve relevance as a value-added business professional to combat the threat posed by the 4th Industrial Revolution. Transcending to remain relevant in the 4th Industrial Revolution means that a Professional Accountant (SA) must become part of the technological and digitisation change but should not become it. The fears that most Professional Accountants have about the 4th Industrial Revolution are embedded in their resistance to become a change agent coupled with the need to become IT and data coding specialists. However, this is far from the truth as it requires the Professional Accountant to embrace the use of technology to render a re-defined role in the business environment.

THE FUTURE OF ACCOUNTING: WHAT TO EXPECT IN THE NEXT 5 YEARS

TECHNOLOGY	Technologies like AI, Internet of Things (IoT), blockchain and cloud computing will continue to disrupt classical accounting but won't replace accountants. The practitioner's value proposition will migrate away from manual transaction entry, compiling reports and number crunching. Instead, they will channel automatically generated insights into actionable business development initiatives, risk management plans, flexible and sustainable business models and much more.
PERSISTENCE OF ACCOUNTING	The US Bureau of Labour Statistics predicts a 10% growth in the demand for accountants and a 19% growth in the demand for financial managers until 2026. The need for accountants is growing worldwide, a similar projection would be valid for South Africa. So, robots and AIs aside, the accountant's services should remain a key business function for at least the next decade.
GENDER EQUALITY	<p>The accounting profession is still dominated by men. A quick analysis of the membership count of some of South Africa's PAOs renders a gender ratio of approximately one female accountant to every two males. The success achieved by SAIPA in pursuing the gender transformation of its membership has been phenomenal – the composition of its female members has increased from 28% in 2010 to 47% in 2018.</p> <p>The profession needs to continue to change dramatically over the next decade. Firms must actively encourage women, who have been marginalised in the past, to enter the profession and give them assurance of equal pay, opportunities and treatment. Through the implementation of Project Achiever, a programme developed to facilitate the preparation SAIPA's Professional Competence-based Evaluation as well as for the career as a Professional Accountant (SA), the number of female candidates that have graduated to become full members over the past four years amounted to 1,900.</p>

EMPOWERMENT	In five to 10 years from now, a new generation of accountants will have entered the workforce. But will they represent South Africa's true demographics? To ensure they do, South Africa needs more black accounting candidates today. First, though, we must acknowledge the economic constraints many young black Africans face and provide stronger programmes to help them reach their goal. This includes subsidised education, possible earn-while-you-learn opportunities, and career support that turns an unattainable dream into an achievable future. To this end, SAIPA has through the partial funding of FASSET for Project Achiever professionalised approximately 3,000 black African Professional Accountants over a period of four years – this has been achieved through the aggressive commitment to its transformation agenda.
STRONGER REGULATION	Stricter laws are being developed in the wake of several high-profile accounting scandals. Such attempts to curb misconduct will likely pick up pace around the world. By 2030, legislation governing accounting practices will be even more restrictive and specially appointed industry watchdogs with legal clout could exist. The ROSC report published in June 2013 recommended that both the auditing and the accounting professions should be regulated. To strengthen its responsibility of self-regulation, SAIPA has been proactive in strengthening its investigations and disciplinary processes as well as implementing inspection and reviews of all of its members.
ADVANCED STANDARDS	Does the quality of historical data affect AIs decision-making abilities? Can AI learn unethical behaviour? How can accountants give assurance on an AI's financial assumptions based on data too large for humans to analyse? Could AI's spontaneously invent cryptic accounting processes, and should we stop them? Global standards bodies have begun asking these difficult questions to develop new standards that enable automation while still protecting the public interest. These standards will, therefore, become much more sophisticated, regulating both humans and machines.
TECHNOLOGY-ORIENTED TRAINING	Tertiary education, initial professional development (IPD) and continuing professional development (CPD) frameworks will evolve to complement technology adoption. They should also take cognisance of the professional accountant's ever-changing role in response to this trend.

EMBRACING THE FUTURE

While accountants will still be in demand for quite some time, they must start preparing themselves to move in synch with the forces that will shape the industry over the next decade. By doing so, they will promote themselves to a more valued position than ever before. ■



2019's TOP TECH INNOVATIONS

for SA accountants and
small business owners

Colin Timmis, Professional Accountant (SA)

Advancing technologies like Artificial Intelligence (AI) and automation suggest that the accountancy profession will soon be manned by machines. In fact, this report indicates that 31% of small business owners in South Africa don't believe they'll need an accountant in 10 years' time.

The real picture is a little less extreme. There is no doubt that new tech is taking on traditional tasks with increasing efficiency and accuracy – but rather than sounding a death-knell for the profession it provides accountants with an excellent opportunity.

The right technology used in the right way can enable accountants to take on an advisory role and offer more value to their clients' businesses – and 30% of SA's small business owners agree.

Whether you are a small business owner or an accountant, to get the most from the new digital world of work, you need to know which technologies are relevant to you. Here are the top four innovations set to disrupt the SA accountancy and small business sectors even more in 2019.

BLOCKCHAIN

Blockchain is largely known through its relationship with cryptocurrencies. However, this transparent digital ledger has far wider uses, one of which is its ability to provide a solution to an auditing challenge that accountants have been battling with for decades: lack of trust.

Essentially, blockchain replaces manual audits with third-entry accounting and exact timestamping. Not only does this remove the potential for human error, it speeds up the auditing process and makes it far more secure. What's more, the process is far simpler and costs less than the manual approach.

Accountants can use blockchain to maintain and reconcile ledgers with absolute certainty over the ownership and history of assets. With record-keeping taken care of, accountants are free to focus on business planning, resource allocation and financial objectives.

CHATBOTS

Chatbots have been around for some time but as the technology advances their use is expanding. Bots rely on cloud-based technology and can assist a range of businesses that have embraced the cloud, including accountancy firms.

Chatbots integrate with messaging apps such as Facebook and Slack to keep track of financial transactions. Accountants can then communicate with the bots and ask them for information – similar to colleagues chatting over a messaging system.

In South Africa, chatbots are already proving successful with examples such as Haziebot which works to close the gap between jobseekers and prospective employers on social media platforms, and Keirabot which makes it easier for buyers to search for properties by using browsing functions via messaging apps and AI to perform credit checks.

Given South Africa's many languages and cultures, the use of chatbots, AI, natural language processing and machine learning technologies is predicted to grow in 2019 to facilitate greater communication for businesses across a range of sectors.

CLOUD COMPUTING

Cloud computing continues to revolutionise the accounting industry. It offers businesses of all shapes and sizes unparalleled benefits that simply can't be ignored – such as enhanced efficiency and reduced costs. For the modern accountant looking to stay relevant in a changing world of work, embracing the cloud and all the relevant software it supports is a no-brainer.

Cloud accounting software can, for example, reconcile receipts with bank statements in minutes. And this can be done from anywhere with an internet connection at any time. Tasks that used to take hours and relied on back and forth emails can now be done in real-time using the latest financial information. Both accountants and their clients can benefit from greater collaboration, remote access to data, enhanced responsiveness and better cash flow management.

“Given South Africa's many languages and cultures, the use of chatbots, AI, natural language processing and machine learning technologies is predicted to grow in 2019 to facilitate greater communication for businesses across a range of sectors.”

AUTOMATION AND AI

Automation and AI are perceived as two of the biggest threats to jobs within the accountancy sector. Automation can take care of administrative tasks like the accounts payable process; which provides great relief for small business owners. Rather than feeling concerned accountants too should enjoy the liberation of such time-consuming, admin-heavy tasks.

With automation and AI, chatbots, cloud computing and blockchain taking care of the more repetitive side of business management, accountants and their clients can focus on more strategic areas such as financial planning and goal-setting. It's a win-win that fosters greater business relationships and helps ensure longevity. ■

INDEPENDENT REVIEW – UNDERSTANDING RATIO ANALYSIS

Rashied Small, Zuhayr Dollie & Yaeesh Yasseen

There is a common misunderstanding about the application of analytical procedures when conducting an independent review, especially when applying ratio analysis as a method. It is important to realise that any method applied to carry out the review engagement must be aligned in achieving the objective of assessing the risk of material misstatement of the financial statements. This article focuses on the use of ratio analysis as a method for analytical procedures in a financial statement review engagement.



The primary objective of conducting the preliminary analytical review, which forms part of the planning phase of the engagement, is to identify potential risks which require further investigation. This requires the comparison of the results as presented in the financial statements with what is expected based on the understanding of the business and professional judgement. Before commencing with the application of analytical procedures the practitioners must set the accepted tolerant levels of deviation from the expected outcomes (level of risk) both in terms of the monetary amount and as a percentage – this is important to ensure that all significant deviations at account or transaction level are taken into consideration. The results of previous periods, budgets, industry averages, competitors, qualitative information and relationships with other account balance can be used as a basis for comparison. If both criteria are exceeded then the account will be highlighted as a significant risk area, while if only one of the criteria is exceeded then it imply that the variation may be to be investigated at a transaction level.

The following example, using ratio analysis as a method of conducting analytical procedures for reviews of financial statements:

	Actual	Budget	Prior year	Industry
Current ratio	1.6 : 1	1.5 : 1	1.5 : 1	1.7 : 1
Quick ratio	0.87 : 1	0.76 : 1	0.76 : 1	1.2 : 1
Inventory turnover	12.1	13.8	13.5	14.2
Debtors turnover	7.2	8.3	8.9	9.5
Provision for bad debts	R34,500	R40,000	R43,000	R41,500
Interest cover ratio	5.3	8.1	6.5	6.2
Debt to equity	0.55	0.35	0.45	0.40
Gross margin	26.7%	29.0%	29.6%	29.0%
Admin expense %	11.2%	11.2%	12.1%	13.5%
Return on equity	16.1%	17.0%	14.8%	15.6%
Return on assets	14.8%	14.3%	13.4%	14.7%

The business in a moderate gross margin environment and its profitability is dependent on a high sales volume to cover its operating overheads. Financial gearing is important to

“...analytical procedures are techniques used by practitioners to understand the organisation’s finances, operating environment and its history.”

management to manage its costs while maintaining its profit margin for solvency during economic downturns. The business was not competitive to maintain industry average profit margins and therefore budgeted for an improved performance. The sales strategy of the business was to reduce and control its operating costs while increasing its sales volumes to improve profitability.

ANALYTICAL PROCEDURES	
CURRENT RATIO	The current ratio increased marginally in comparison compared to the budget and previous period (6.7%) while it is aligned to the industry average – the variation may be with the expected tolerance level of the practitioner (assume 10%) and therefore may not require detailed investigation.
QUICK RATIO	The quick ratio decreased significantly in comparison to the previous period (14%) and is drastically below the industry average (72%) – this indicates a high-risk area as it outside the expected tolerance level of the practitioner and will therefore requires detailed investigation.
INVENTORY TURNOVER	The inventory turnover ratio increased significantly in comparison to the previous period (16%) indicated that it takes the business longer to convert its goods into sales, as well as being longer than the industry average – this indicates a high-risk area (stock piling, high investment in inventory and obsolescence) as it is outside the expected tolerance level of the practitioner and will therefore requires detailed investigation.
DEBTORS TURNOVER	The debtors turnover ratio decreased significantly in comparison to the previous period (15%) and is well below that of the industry average (32%) which indicates that the business in taking longer to collect is cash from customers – this indicates a high-risk area (liquidity risk) as it is outside the expected tolerance level of the practitioner and therefore requires detailed investigation.
PROVISION FOR BAD DEBTS	The provision for doubtful debts reduced significantly in comparison to the previous period (25%) and the industry average (20%) – this indicates a high-risk area as it is outside the expected tolerance level of the practitioner and will therefore requires detailed investigation as the debtor turnover also increased.

INTEREST COVER RATIO	The interest cover ratio decreased significantly in comparison to the budget (53%), previous period (23%) and the industry average (17%) which is an indication that either the profit reduced or the interest expense increased – this indicates a high-risk area (liquidity risk) as it is outside the expected tolerance level of the practitioner and therefore requires detailed investigation.
DEBT TO EQUITY	The debt to equity ratio increased significantly in comparison to the budget (57%), previous period (18%) and the industry average (35%) which is an indication that the debt financing or gearing of the business has increased – this indicates a high-risk area (financial and solvency risk) as it is outside the expected tolerance level of the practitioner and therefore requires detailed investigation (this must be viewed in relation to the interest cover ratio).
GROSS MARGIN	The gross margin has decreased moderately in comparison to the budget, previous period and the industry average (approximately 11%) - this indicates a low-risk area as it is slightly outside the expected tolerance level of the practitioner and therefore does not require detailed investigation (in line with the sales strategy of the business).
ADMIN EXPENSE %	The administrative expenses as a percentage of sales are equal to the budget and has decreased in comparison to the previous year (8%) and the industry average (21%) which indicates that it is aligned to the strategy of the business – this indicates a low-risk area as it is within the expected tolerance level of the practitioner and therefore does not require detailed investigation.
RETURN ON EQUITY	The return on equity ratio marginally below the budget (6%) increased in comparison to the previous year (9%) and industry average (3%) – this indicates a low risk area as it is within the expected tolerance level of the practitioner and therefore does not require detailed investigation.
RETURN ON ASSETS	The return on assets ratio is marginally above the budget (3%) and the industry average but increased moderately in comparison to the previous period (10%) – this indicates a low-risk area as it is within the expected tolerance level of the practitioner and therefore does not require detailed investigation.

In summary, analytical procedures are techniques used by practitioners to understand the organisation’s finances, operating environment and its history. However, the error many practitioners do when applying analytical procedures for independent reviews as that they interpret the ratios from a business perspective (performance of the organisation) rather than for the identification of risks. ■

INDEPENDENT REVIEW – UNDERSTANDING THE PRACTICAL CONSIDERATIONS

Rashied Small, Prof. Jade Jansen & Yaeesh Yasseen

An independent review of the financial statements is an alternative assurance engagement where the Professional Accountant is certified to conduct an independent review provides limited assurance on a set of annual financial statements performed in terms of the required of ISRS 2400.



Practitioners who provide moderate assurance, are not involved in the compilation of the financial statement (a critical indicator of independence). In terms of Regulation 29(4) of the Companies Act 71 of 2008 an independent review of a company's annual financial statements must be carried out:

- (a) In the case of a company whose public interest score for the particular financial year was at least 100, by a practitioner and member of a Professional Accounting Organisation that has been accredited in terms of section 33 of the Auditing Professions Act; or
- (b) In the case of a company whose public interest score for the particular financial year was less than 100, by:
 - (i) A person contemplated in paragraph (a); or
 - (ii) A person who is qualified to be appointed as an accounting officer of a close corporation in terms of section 60 (1), (2) and (4) of the Close Corporations Act, 1984 (Act No. 69 of 1984).

Independent reviews are not required for owner-managed profit companies but can be performed voluntarily if the public

interest score is less than 350 and the financial statements are independently compiled, or if the public interest score is less than 100. An independent review can also be performed voluntarily for CCs. To determine if a review is necessary, a cost-benefit analysis may be conducted.

When performing an independent review, the practitioner usually performs an inquiry and analytical procedure to obtain sufficient appropriate evidence as the basis to express an opinion on any matter material to the financial statements.

Analytical procedures are risk assessment techniques that assist the practitioner in evaluating the risks of material misstatements in order to provide a basis for designing and implementing a response to the risks identified. Analytical procedures will assist the practitioner in identifying unusual transactions or events, amounts, ratios and trends that may indicate that a potential risk of material misstatement of the financial statements that will impact on the opinion expressed. *Analytical procedures consist of evaluations of financial information through analysis of reasonable relationships among both financial and non-financial data.* These

procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a material significant amount.

Analytical procedures can be applied using the following approaches:

1. Bottom-up approach:

- Determine what the data suggested – trends and/or deviations;
- Determine where there are potential risks;
- Determine where there are potential indications of fraud; and
- Determine the areas of the financial statements require investigation based on the objective of detecting material misstatements.

2. Top-down approach focuses on the objectives and assertions of the engagement and include:

- Determine if the content of the financial statements are consistent with the practitioners expectations; and
- Determine if there are significant and material deviations from the expected trends.

The use of analytics in the accountancy profession, especially when practitioners apply analytical procedures when performing reviews, has become an important tool for practitioners. Analytics and technology enhances the quality of the results of analytical procedures applied by:

- Improving the quality of analytics by ensuring the reliability and quality of the data and the parameters/expectations set by the practitioner;
- Improving the analysis of deviations and variances by highlighting unusual variances or those that are outside the tolerance levels set by the practitioner;
- Reducing the risk of statistical sampling as they enable effective and efficient investigation of 100% of the data in the population;
- Minimising the disruption to the client as it enables the practitioner to have access to the data without interference with the work of staff; and
- Improving communication with those responsible with governance by interacting with and reporting to them on matters which are significant to the oversight of the financial reporting process.

The purposes of conducting analytical procedures when performing an independent review are:

- **Preliminary analytical review** – are performed to obtain an understanding of the business and its environment, such as financial performance relative to prior years and relevant industry and comparison groups, to assess the risk of material misstatement in order to determine the nature, timing and extent of investigative procedures to conduct.
- **Substantive analytical procedures** – are performed when the practitioner considers that the use of analytical procedures can be more effectively reduce the risk of material misstatements at the assertion level to an acceptable level.
- **Final analytical review** – are performed as an overall

review of the financial statements at the end of the review to assess whether they are consistent with the practitioner's understanding of the entity.

There are several types of analytical procedures commonly used by practitioners when performing review engagements and the selection of the procedure will influence the reliability and precision of the expectation. The practitioner will choose the procedures based on the purpose of the test and the desired level of assurance. The following are the type of analytical procedures that could be applied:

- **Trend analysis** – the analysis of changes in an account over time.
- **Ratio analysis** – the comparison, across time or to a benchmark, of relationships between financial statement accounts and/or between an account and non-financial data with a focus to analyse the deviations of the changes in relation to the expected tolerance level.
- **Reasonableness testing** – the analysis of accounts, or changes in accounts between accounting periods, that involves the development of a model to form an expectation based on financial data, non-financial data, or both.
- **Scanning analytics** – search within accounts or other entity data to identify anomalous individual items (Big Data), while the other types use aggregated financial information.

The following are key factors that affect the reliability and precision of conducting analytical procedures:

1. DISAGGREGATION

Disaggregated analytical procedures looks at the composition of a balance(s) based on time (monthly or weekly) and the source(s) (geographic region or product) of the underlying data. The more detailed the level at which analytical procedures are performed, the greater the potential reliability/precision of the results of the procedures. Analytical procedures performed at a high level may mask significant, but offsetting, differences that are more likely to come to the practitioner's attention when procedures are performed on disaggregated data. The objective of the engagement procedure will determine whether data for an analytical procedure should be disaggregated and to what degree it should be disaggregated.

2. DATA RELIABILITY

The more reliable the data and source of the data are, the more reliable/precise the expectation. Data produced from systems and records or that are not subject to manipulation by persons in a position to influence accounting activities, are generally considered more reliable.

3. PREDICTABILITY

There is a direct correlation between the predictability of the data and the quality of the expectation derived from the data. The more reliable/precise an expectation is for an analytical procedure, the greater will be the potential reliability of that procedure. The use of non-financial data, such as number of employees, occupancy rates, units produced, etc. in developing an expectation may increase the practitioner's ability to predict account relationships.

4. TYPE OF ANALYTICAL PROCEDURES

Each of the type of analytical procedure uses a different method to form an expectation and are ranked from lowest to highest in order of their inherent precision. If the practitioner needs a high level of assurance from a substantive analytical procedure, they should develop a relatively precise expectation by selecting an appropriate analytical procedure. There is a direct correlation between the type of analytical procedure selected and the precision it can provide.

The application of accounting standards and accounting policies involves a high degree of judgement by management who set and select the accounting frameworks and policies use to draft financial statements. Where decisions are required about the appropriateness of a particular accounting judgement, the concept of materiality only becomes an issue if the judgement is significant to the users of financial statements. Materiality is an assessment made by the practitioner of the amount of tolerance of misstatements of financial statements in relationship to the risk to the users of financial statements. Information is regarded to be material if its omission or misstatement could influence the economic decision of the users taken on the basis of the financial statements. Materiality depends on the size (monetary value) of the item or error judged in the particular circumstances of its omission or misstatement. Materiality provides a threshold for the practitioner rather than a qualitative characteristic which information must have if it is to be useful to the users of financial

statements – the preliminary judgement of the maximum amount by which the practitioner believes that financial statements could be misstated and still not affect the decisions of reasonable users. The following factors can be used to determine the level of materiality (based on professional judgement of the practitioner):

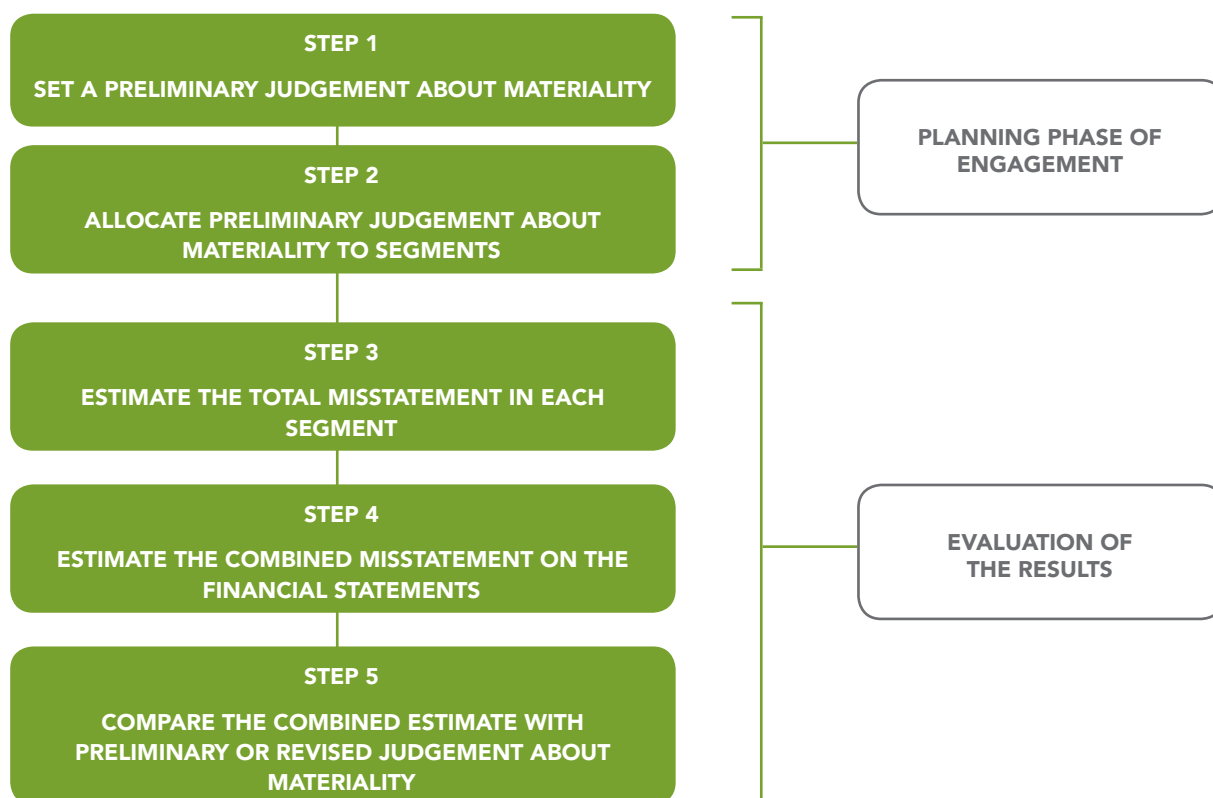
- Quantitative basis – total revenue, gross profit, profit before tax, total assets, or three-year average income; and
- Qualitative amount – may be adjusted lower for the qualitative factors such as risk of violating contractual agreements, misclassification of transactions (e.g. asset as an expense), high internal and external pressure (manipulation of results), high risk of fraud, or high risk of bankruptcy.

When determine the materiality threshold the practitioner must take into consideration the following:

- Nature of the misstatement;
- Amount of the misstatement; and
- Impact of the misstatement on the financial statements.

In summary it is important to understand the objective of performing analytical procedures together with the type of procedures that is the most appropriate to obtain precise and reliable expectations. The application of the analytical procedures applied is based on the materiality level of the practitioner. ■

The following steps are followed in determining the level of acceptable materiality threshold:



WHY THE CLOUD AND WHY NOW?

Alex Clark, Head of Sales, Receipt Bank South Africa

Cloud computing is increasingly more popular in South Africa. Not only does it help to increase the efficiency and productivity of small and medium-sized enterprises (SMEs), but as Nick Martindale said in his article "[Innovation Is As Free As A Cloud](http://www.raconteur.net/technology/innovation-is-as-free-as-a-cloud)" www.raconteur.net/technology/innovation-is-as-free-as-a-cloud, the "flexibility offered by cloud computing makes businesses more agile and able to innovate, without costly commitments to IT infrastructure."

Ever since the industrial revolution we have been subject to the introduction and development of new technology. What was then the introduction of machinery to replace production by hand, is now better utilisation of new technology to improve on the old. As we have seen in the car industry, once luxury features, such as, electric windows and power steering, trickle down into the mass market when their benefits are established, and production becomes more affordable – something that is now happening with the cloud. Kacee Johnson, Founder of the [Blue Ocean Principles](http://www.blueoceanprinciples.com) (www.blueoceanprinciples.com), said "There is nothing new about Cloud Computing, it's just finally affordable to where it is being used by the masses." The ideals behind the industrial revolution and automation still ring true with cloud computing; by making the nuts and bolts of business more straightforward (installation of document management systems, erosion of geographical barriers and facilitating easier intra-team collaboration) much of the stress associated with the day-to-day running of a business is reduced, allowing business owners to spend more time working on, rather than in, their business.

THE IMPACT OF TECHNOLOGY ON PRODUCTIVITY

As technological advancements have been made through time, they've gradually been adapted into our everyday lives. Emails replaced letters and now, with the introduction of instant messaging platforms like 'Slack,' the use of email for internal communications is gradually being phased out. Few people carry both a phone and an iPod and now with apps like 'Spotify,' one can also connect with friends and family to share playlists. 86% of SME owners use smartphones in their business "all the time", according to last year's SME Landscape Report www.bizcommunity.com/Article/196/713/184864.html.

The adoption of software into business is perhaps the simplest way to increase efficiency (thinking of the tax season just passed) –

instead of spending hours doing bookkeeping, why not use an app that can help do it in a quarter of the time? Instead of waiting for monthly, or quarterly management accounts, why not be proactive and get a cloud-based financial management system, giving real time access to accounts? More regular access to this information will assist in making more informed decisions, have a better understanding of crucial data and know not only what happened in the business three months ago, but how the business is likely to perform in three month's time. By taking advantage of technology that saves time and makes day-to-day tasks more straightforward, one can unburden oneself from unnecessary duties, and focus on more important business matters allowing for more efficiency and more productivity.

THE OPPORTUNITY AWAITS

Despite cloud systems being cheaper, and more readily available than ever before, the cost of many of these systems still remains a barrier for most SMEs. This is largely due to the misconception that spending money to regain otherwise lost time is an unwise investment; especially in an early stage business, when cash flow may be restricted.

However with the level of competition increasing and with the need to remain agile and adaptive in the current market to survive and to succeed, it has become imperative for business owners to exploit available technologies such as cloud to help introduce efficiencies within their businesses.

With more efficiency comes increased productivity and the time to spend on powerful insights to grow business.

Find out how Receipt Bank can transform your practice at www.receiptbank.com ■

THE REVISED CONCEPTUAL FRAMEWORK¹

Faith Ngwenya, Technical & Standards Executive, SAIPA



The revised Conceptual Framework for Financial Reporting was issued by the International Accounting Standards Board (IASB) in March 2018 and is effective immediately for the Board and the IFRS Interpretations Committee. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

The previous Conceptual Framework (the 2010 Conceptual Framework) was criticised for its lack of clarity, the exclusion of certain important concepts and for being outdated in terms of the IASB's current thinking. Following the IASB's agenda consultation in 2011, the Conceptual Framework project was added to the IASB's work plan in September 2012. Since then, the IASB has issued a discussion paper in July 2013 and an exposure draft in June 2015.

The conceptual framework emphasises that investors need information about financial performance (income and expenses) as well as financial position (assets, liabilities, and equity). The framework also contains guidance for reporting financial performance.

As defined in the new conceptual framework, assets and liabilities focus on a company's rights and responsibilities. The framework also states that financial statement preparers' decisions about what information to report about assets, liabilities, income, and expenses should be based on what is useful to investors.

The conceptual framework is designed to ensure that IFRS are conceptually consistent and that similar transactions are treated in the same way, enabling the provision of useful information for investors and others. In addition, the conceptual framework helps companies develop accounting policies when no IFRS standard applies to a particular transaction.

The revised framework includes:

- A new chapter on measurement.
- Guidance on reporting financial performance.
- New definitions and guidance.
- Clarifications on important areas such as the roles of stewardship, prudence, and measurement uncertainty in financial statements.

In addition to the new conceptual framework and basis for conclusions, the IASB issued *Amendments to References to the Conceptual Framework in IFRS Standards* to update references in IFRS standards to previous versions of the conceptual framework.

The 2018 revised *Conceptual Framework* sets out:

- The objective of general-purpose financial reporting;
- The qualitative characteristics of useful financial information;
- A description of the reporting entity and its boundary;

- Definitions of an asset, a liability, equity, income and expenses and guidance supporting these definitions;
- Criteria for including assets and liabilities in financial statements (recognition) and guidance on when to remove them (derecognition);
- Measurement bases and guidance on when to use them;
- Concepts and guidance on presentation and disclosure; and
- Concepts relating to capital and capital maintenance.

The Board believes that financial statements prepared for this purpose meet the common needs of most users. This is because nearly all users are making economic decisions, for example:

- To decide when to buy, hold or sell an equity investment.
- To assess the stewardship or accountability of management.
- To assess the ability of the entity to pay and provide other benefits to its employees.
- To assess the security for amounts lent to the entity.
- To determine taxation policies.
- To determine distributable profits and dividends.
- To prepare and use national income statistics.
- To regulate the activities of entities.

Financial statements are most commonly prepared in accordance with an accounting model based on recoverable historical cost and the nominal financial capital maintenance concept. Other models and concepts may be more appropriate in order to meet the objective of providing information that is useful for making economic decisions although there is at present no consensus for change. This *Conceptual Framework* has been developed so that it is applicable to a range of accounting models and concepts of capital and capital maintenance.

OBJECTIVE OF THE CONCEPTUAL FRAMEWORK

The objective of general-purpose financial reporting¹ is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit. However, general-purpose financial reports do not and cannot provide all the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events

“The performance of the reporting entity’s cash flows during a period also helps users to assess the entity’s ability to generate future net cash inflows. It indicates how the reporting entity obtains and spends cash.”

and political climate, and industry and company outlooks. General-purpose financial reports are not designed to show the value of a reporting entity; but they provide information to help existing and potential investors, lenders and other creditors to estimate the value of the reporting entity.

FINANCIAL PERFORMANCE REFLECTED BY PAST CASH FLOWS

The performance of the reporting entity’s cash flows during a period also helps users to assess the entity’s ability to generate future net cash inflows. It indicates how the reporting entity obtains and spends cash, including information about its borrowing and repayment of debt, cash dividends or other cash distributions to investors, and other factors that may affect the entity’s liquidity or solvency. Information about cash flows helps users understand a reporting entity’s operations, evaluate its financing and investing activities, assess its liquidity or solvency and interpret other information about financial performance.

CHANGES IN ECONOMIC RESOURCES AND CLAIMS NOT RESULTING FROM FINANCIAL PERFORMANCE

A reporting entity’s economic resources and claims may also change for reasons other than financial performance, such as issuing additional ownership shares. Information about this type of change is necessary to give users a complete understanding of why the reporting entity’s economic resources and claims changed and the implications of those changes for its future financial performance.

QUALITATIVE CHARACTERISTICS OF FINANCIAL INFORMATION

The qualitative characteristics of useful financial information discussed in this chapter identify the types of information that are likely to be most useful to the existing and potential investors, lenders and other creditors for making decisions about the reporting entity on the basis of information in its financial report (financial information).

The Board has however reintroduced the concept of prudence, and defined the concept of measurement uncertainty in assessing the usefulness of financial information:

- **Prudence** – the Board observed, during its outreach process, that users understand ‘prudence’ to mean different things, and the removal of the concept from the 2010 Conceptual

Framework had led to further confusion amongst users. The Board believes that prudence supports neutrality of information and therefore describes prudence as ‘the exercise of caution when making judgements under conditions of uncertainty’.

- **Measurement uncertainty** – in the revised Conceptual Framework, the Board acknowledged that measurement uncertainty is a factor that can affect faithful representation. For example, in some cases, relevant information may have a high level of measurement uncertainty, which may reduce its usefulness. Slightly less relevant information with a lower measurement uncertainty may be preferable in such cases. Further, in the 2010 Conceptual Framework, the concept of substance over form was not highlighted as a separate component of faithful representation, which led some users to think that the concept was no longer relevant. However, this was not the Board’s intention, so the revised Conceptual Framework reinstates an explicit reference to the need to ‘faithfully represent the substance of the phenomena that it purports to represent’.

If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable. Fundamental qualitative characteristics are relevance and faithful representation.

Relevance – relevant financial information can make a difference in the decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources. Financial information can make a difference in decisions if it has predictive value, confirmatory value or both. Information must be both relevant and faithfully represented if it is to be useful. Neither a faithful representation of an irrelevant phenomenon nor an unfaithful representation of a relevant phenomenon helps users make good decisions

Faithful representation does not mean accurate in all respects. Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects.

Comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented. The enhancing qualitative characteristics may also help determine which of two ways should be used to depict a phenomenon if both are considered equally relevant and faithfully represented.

UNDERLYING ASSUMPTION GOING CONCERN

The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed



ELEMENTS OF THE FINANCIAL STATEMENTS

Chapter 3 is a new chapter in the revised Conceptual Framework. It describes the scope and objective of financial statements, stating that financial statements are a particular form of financial report, which provides information about the assets, liabilities, equity, income and expenses of the reporting entity. Consolidated, unconsolidated and combined financial statements are all acknowledged as forms of financial statements in the revised Conceptual Framework.

Financial statements portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements. The elements directly related to the measurement of financial position in the balance sheet are assets, liabilities and equity. The elements directly related to the measurement of performance in the income statement are income and expenses. The statement of changes in financial position usually reflects income statement elements and changes in balance sheet elements; accordingly, this *Conceptual Framework* identifies no elements that are unique to this statement.

The presentation of these elements in the balance sheet and the income statement involves a process of sub-classification. For example, assets and liabilities may be classified by their nature or function in the business of the entity in order to display information in the manner most useful to users for purposes of making economic decisions.

FINANCIAL POSITION

The elements directly related to the measurement of financial position are assets, liabilities and equity. These are defined as follows:

Asset	
2010 Conceptual framework definition	New Conceptual framework definition
A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity	A present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits

The new definition clarifies that an asset is an economic resource, and that the potential economic benefits no longer need to be 'expected' to flow to the entity – they do not need to be certain or even likely (but if this is the case, the recognition and measurement of the asset may be affected).

An entity usually employs its assets to produce goods or services capable of satisfying the wants or needs of customers; because these goods or services can satisfy these wants or needs, customers are prepared to pay for them and hence contribute to the cash flow of the entity. Cash itself renders a service to the entity because of its command over other resources.

The future economic benefits embodied in an asset may flow to the entity in a number of ways. For example, an asset may be:

- Used singly or in combination with other assets in the production of goods or services to be sold by the entity;
- Exchanged for other assets;
- Used to settle a liability; or
- Distributed to the owners of the entity.



Liability

2010 Conceptual framework definition

A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits

New Conceptual framework definition

A present obligation of the entity to transfer an **economic resource** as a result of past events. An obligation is a duty of responsibility that the entity has no practical ability to avoid

EQUITY

The definition of equity has not changed and still defines it as the residual interest in the assets of the entity after deducting all its liabilities.

The definitions of an asset and a liability identify their essential features but do not attempt to specify the criteria that need to be met before they are recognised in the balance sheet. In assessing whether an item meets the definition of an asset, liability or equity, attention needs to be given to its underlying substance and economic reality and not merely its legal form. Thus, for example, in the case of finance leases, the substance and economic reality are that the lessee acquires the economic benefits of the use of the leased asset for the major part of its useful life in return for entering into an obligation to pay for that right an amount approximating to the fair value of the asset and the related finance charge. The finance lease gives rise to items that satisfy the definition of an

asset and a liability and are recognised as such in the lessee's balance sheet.

Unit of account – decisions about selecting a unit of account for recognition and measurement of an element of the financial statements would need to be made at the standard level, but the chapter includes a discussion of factors to consider when determining which unit of account to use.

Derecognition – is 'the removal of all or part of a recognised asset of liability from an entity's statement of financial position'. It goes on to say that derecognition normally occurs:

- For an asset, when the entity loses control of all or part of the recognised asset
- For a liability, when the entity no longer has a present obligation for all or part of the recognised liability

Derecognition should aim to faithfully represent those assets and liabilities retained after the transaction, if any, and any change in assets and liabilities as a result of the transaction that led to the derecognition.

Measurement bases – the information they provide and factors to consider when selecting a measurement basis. The 2010 Conceptual Framework did not include much guidance on measurement. In developing the revised Conceptual Framework, the Board considered whether a single measurement basis should be mandated. However, it concluded that different measurement bases could provide useful information to users in different circumstances. Therefore, two categories of measurement basis were identified:

- Historical cost measurement basis
- Current value measurement basis

Historical cost measures provide information about elements that is derived from the historical price of the transaction or event that gave rise to the item being considered for measurement; this would be the cost incurred in acquiring the asset. For a liability, this would be the value of the consideration received to incur the liability. The historical cost of both an asset and a liability will be updated over time to depict, for example, any consumption of the asset or fulfilment of the liability, or the impact of any events that cause the asset to become impaired or the liability onerous.

Current value measures provide monetary information about elements, using information updated to reflect conditions at the measurement date. Measurement bases may include fair value, value in use, fulfilment value and current cost. The description of fair value in the revised Conceptual Framework is in line with IFRS 13 Fair Value Measurement, and the descriptions of value in use and fulfilment value are derived from IAS 36 Impairment of Assets.

PRESENTATION AND DISCLOSURE

The topic of presentation and disclosure was not addressed in the 2010 Conceptual Framework. The revised Conceptual Framework therefore introduces the following:

“The historical cost of both an asset and a liability will be updated over time to depict, for example, any consumption of the asset or fulfilment of the liability, or the impact of any events that cause the asset to become impaired or the liability onerous.”

- Concepts describing how information should be presented and disclosed in financial statements
- Guidance on classifying income and expenses for the Board to use when it decides whether they are to be included in or outside of the statement of profit or loss
- Guidance for the Board on whether and when income and expenses included in other comprehensive income (OCI) should subsequently be recycled to profit or loss This chapter introduces the term ‘statement(s) of financial performance’ to refer to the statement of profit or loss together with the statement presenting OCI. ■

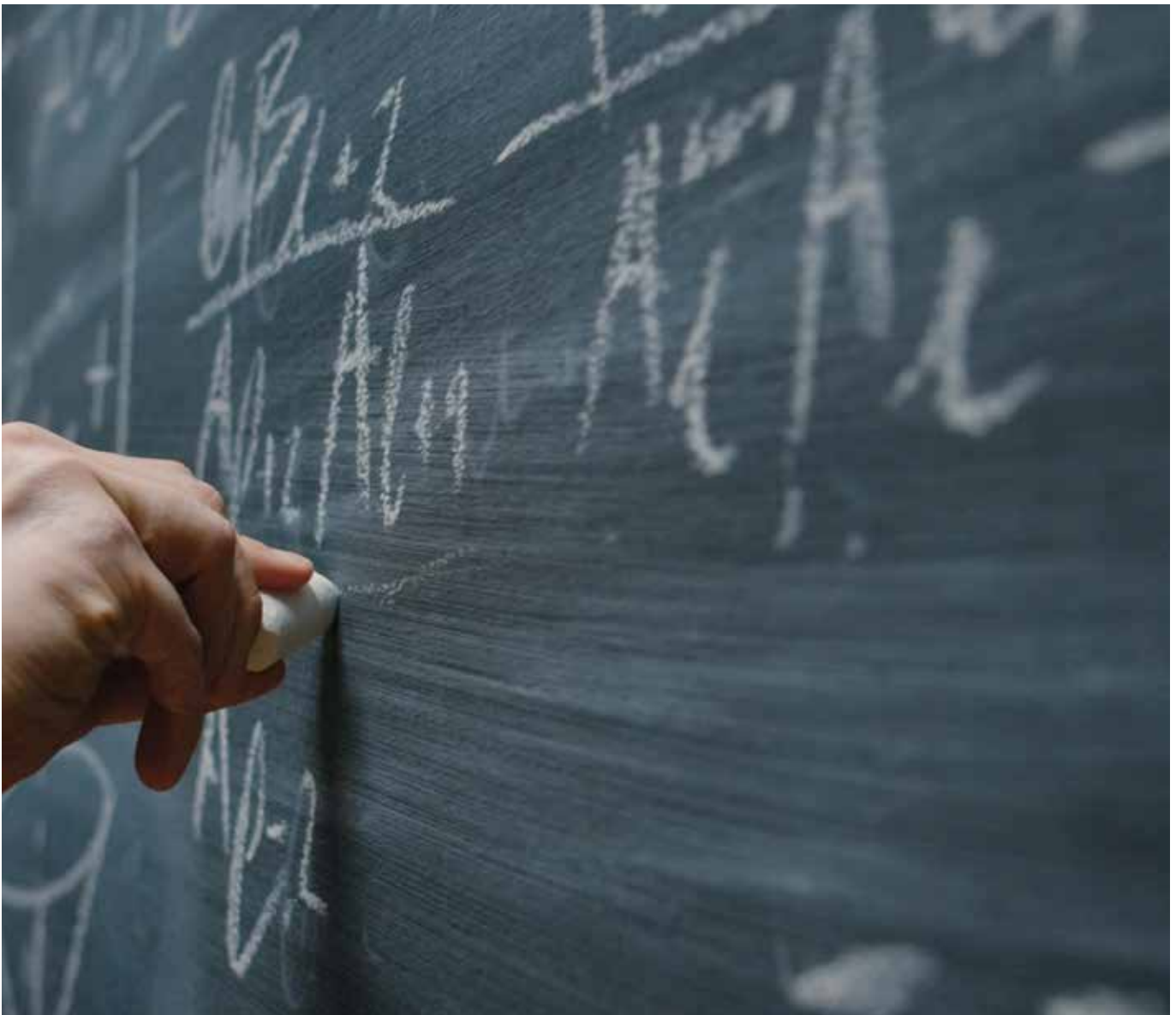
¹ International Accounting Standards Board



7 LESSONS FOR SMALL & MEDIUM ACCOUNTING PRACTICES

Faith Ngwenya, Technical and Standards Executive, SAIPA

Late last year, the Edinburgh Group released *The Small to Medium Sized Practitioner (SMP) of the future in a changing world, 2019*, a report on the results of its SMP of the future survey. Rather than summarise a document that is both sweeping in its scope and publicly available on the Group's website, let's look at a selection of its recommendations on how SMPs can build a future-proof accounting firm.



“Building a brand is hard; building one that differentiates itself favourably from the rest is a knight’s quest. Think of your brand as an actor on screen. Can it evoke the emotions from your audience you direct it to? Will it win their respect and motivate them to do business with you? ”

Surprisingly, most of the report’s recommendations could be described as “textbook” or “back-to-basics”. Yet, as pressure to survive grows, SMPs might set these business mainstays aside in favour of fighting fires. The owners of small and medium entities rely on their SMP for support and providing guidance in the changing environment. The fourth industrial revolution requires new solutions to old and current problems. It would pay any firm’s leadership to revisit them frequently.

1. KNOW YOUR CLIENT

Easier said than done, this business fundamental still vexes even the largest organisations. However, the SMP that is willing to follow the breadcrumb trail left in the media, online forums, consumer research and other data sources will discover unmet needs. When they focus their resources on or design new services around them, they start becoming the practice clients turn to for results, not sales pitches. Their limited resources can be overcome by forming networks, thus leveraging each other’s resources.

2. KNOW YOUR COMPETITOR

Another basic marketing principle is to win clients by offering services your competitors don’t or cannot. To capitalise on their shortcomings, you must first know who they are and what they are up to. This means regularly scanning the market for new firms and discovering their strategies for growth. Not only will you identify the gaps they’ve overlooked but also their strengths that pose a threat, so you can start developing robust plans to defend your territory.

3. BUILD A DISTINCTIVE BRAND

Building a brand is hard; building one that differentiates itself favourably from the rest is a knight’s quest. Think of your brand as an actor on screen. Can it evoke the emotions from your audience you direct it to? Will it win their respect and motivate them to do business with you? If not, a brand consultant or PR firm can help you fashion a brand identity that positions you favourably and prompts new business.

4. AUTOMATE EVERYTHING

In other words, embrace technology to improve efficiency. Every repetitive task can be automated, even in part. Every minute once wasted can now be made productive. Favour accounting software that takes work away from you. Use mobile technologies to do business on the go and cloud services to share information while collaborating with clients in real time. Don’t hesitate, because if you don’t do these things and more, others will, and they will win the market. What was clear from survey responses is that most SMPs have started refocusing most of their resources on technology and innovation.

5. SMARTEN UP

Well-trained, knowledgeable staff bring in more income. That’s a fact. You could hire the best you can afford or train up existing workers to increase their performance and expertise. Either way, you can take control of your firm’s brainpower and productivity by leveraging the vast number of online learning courses. These include advanced accounting skills but also important soft skills like time management and critical thinking. Additionally, take advantage of the information resources provided by your professional accounting organisation (PAO).

6. NETWORK PROFESSIONALLY

Professional networking is when several firms, each with its own specialisation, work together to provide shared clients with a more diverse set of services. Potentially, they can also share resources to offset costs and collaborate on larger projects. Only 30% of respondents in the survey said they belong to a network, association or alliance. Yet, this is an ideal way to emulate the strengths of larger firms and close the competitive gap where growth capital is not readily available.

7. SCALE GRACEFULLY

It may seem counterintuitive but excellent sales can kill a firm. If an SMP takes on more engagements than it can handle, corners get cut, quality drops, mistakes increase, and dissatisfied clients go elsewhere. Every SMP should understand its practical limits and only retain the number of clients and assignments for which it has sufficient resources. How then can it grow?

It must scale those resources and therefore their capacity. This can be done in two ways. The first is to increase the number of resources. This requires that more clients are indeed available and it means costs will rise with each new resource. The second is to increase the capacity of existing resources. This is more cost effective and can be achieved mainly through previously discussed points – upskilling, automation, networking, etc.

MORE INFORMATION

IFAC’s *Guide to Practice Management for Small- and Medium-Sized Practices*, 4th Edition, along with its supporting Companion Manual, is an excellent resource for private practices. You can also contact SAIPA’s national office for advice about your SMP and more information about a district support group in your area. ■

PROFESSIONAL JUDGEMENT IN THE ACCOUNTANCY PROFESSION

Rashied Small, Jade Jansen & Azmatullah Latief



The objective of management of an organisation is to present in the financial statements a favourable image of the entity's economic reality, while complying with all the accounting principles of the accounting standards (Belkaoui, 2004). A fundamental part of this objective is to engage Professional Accountants with sufficient knowledge and experience in the process, since they are able to apply the relevant skills and knowledge in order to identify all the reasonable alternatives to present the financial information (Berheci, 2010; Gîrbină and Bunea, 2008).

Therefore, a detailed consideration of information that may seem contradictory and might lead to an erroneous solution is needed, as the key to a proper and consistent application of professional judgement in the presentation of the financial information (Feleagă and Feleagă, 2007).

Accounting regulation has the following objectives:

- To ensure the regulation of accounting policies and to determine ways to improve the accounting, in general terms;
- To allow the users of financial statements to make reasonable decisions based on the provided financial information;
- To create a climate of trust between the owners of capital and the business managers; and
- To serve as a "referee" between the parties of the economic life, especially the accounting information providers and the professional accountants who certify its quality, thus ensuring its reliability.

The selection of accounting policy and estimation techniques is made with the purpose of presenting information useful and relevant for users, which are in line with the organisation's specific activities. The accounting and engagement standards also place particular emphasis on the need to consider qualitative characteristics of financial information and the use of professional judgment when preparing the financial statements. Professional judgement is applied in the process of applying accounting policies (IAS 1 para 122) as well as assumptions and other major sources of estimation uncertainty (IAS 1 para 125). These principles can be easily adapted for other judgements where there is a degree of uncertainty and subjectivity involved.

With the movement in financial reporting toward more principle-based standards and more fair value measurements, exercising good professional judgement is increasingly important for Professional Accountants. The fundamental characteristic that distinguishes an exceptional professional from one who is just average in the accountancy profession is the ability to consistently make high-quality professional judgements. The question is, "Can you teach good or professional judgement?" Many people believe that it is a gift; either you have it or you do not; while others say you cannot teach good judgement; rather, it must be developed through the "school of hard knocks" after many years of experience.

Merriam Webster's dictionary defines judgement as, "an opinion or decision that is based on careful thought; the act or process of

forming an opinion or making a decision after careful thought; the act of judging something or someone; the ability to make good decisions about what should be done. Judgement is the process of reaching a decision or drawing a conclusion where there are a number of possible alternative solutions. Decision making involves the act of choosing among options or alternatives, while judgement involves "the process of forming an opinion or evaluation by discerning and comparing." Thus, judgement is a subset of the process of decision making – any judgements are typically made in coming to a decision. In all areas of a Professional Accountants' engagement they are repeatedly using their judgement, through careful thought based on evidence, experience, knowledge and skills; to form opinions and make good decisions about what should be done to provide competent and ethical services.

"Judgement is the process of reaching a decision or drawing a conclusion where there are a number of possible alternative solutions."

Merriam Webster's dictionary defines professional (adj.) as, "relating to a job that requires special education, training, or skill; done or given by a person who works in a particular profession; characterised by or conforming to the technical or ethical standards of a profession; exhibiting a courteous, conscientious, and generally businesslike manner in the workplace." A practical definition of professional judgement can be defined as "Applying accumulated knowledge, skills and experience, in a way that is informed by professional standards, regulations and ethical principles, to develop an opinion or decision about what should be done to best serve clients."

Based on the aforementioned, it can be concluded that professional judgement is a critical element the skill set and competence of the Professional Accountant. Professional judgement depends on the knowledge, experience, integrity, objectivity and professional skepticism of the individual. Although professional skepticism is not the focus of this article, a brief description of professional

skepticism is “the attitude of the professional when performing an engagement – it is generally referring to the individual’s point of view, frame of mind, perception and the way in which the individual looks at things”.

Professional Accountants are recognised professionals due to their special education, knowledge and skills in the area of accountancy and finance. They are also members of a recognised regulated Professional Accounting Organisations (PAOs) and are accountable for compliance with the standards, laws and ethics that govern the profession; and must also comply with the mandatory requirements of Continuous Professional Development (CPD) programmes to maintain their competence in a constantly changing environment.

Profession judgement occurs in a setting of uncertainty and risk, is typically exercised in three broad areas:

- Evaluation of evidence (e.g., does the evidence obtained from confirmations, combined with other audit evidence, provide sufficient appropriate audit evidence to determine whether accounts receivable is fairly stated);
- Estimating probabilities (e.g., determining whether the probability-weighted cash flows used by a company to determine the recoverability of non-current assets are reasonable); and
- Deciding between options (e.g., audit procedure choices, such as inquiry of management, inspection, or confirmation).



THE FOUR BUILDING BLOCKS OF PROFESSIONAL JUDGEMENT:

1. KNOWLEDGE:

Through academic and practical training, Professional Accountants acquire a unique body of knowledge that lays the foundation for professional judgement. To enter the profession, aspiring Professional Accountants must acquire technical knowledge

(minimum academic qualification) and practical discipline and experience (learnership) under the supervision of seasoned professional. The reasons completing a programme of practical education is that this practical experience further builds knowledge, including exposure to formulating and applying professional judgement to accountancy practice. Accountancy practice changes over time with changes in standards, regulations, technology and the manner in which business is conducted. While part of being professional is doing what you were trained to do, evidence-based practice contributes to the body of knowledge that Professional Accountants use when contemplating the best course of action to exercise their professional judgement. If Professional Accountants are not keeping up with current standards, regulations and research, they may be missing critical information for effective decision-making for client-centred service delivery.

2. PROFESSIONAL OBLIGATIONS:

Professional Accountants have a professional obligation to practice competently and ethically. This duty includes using their professional judgement to effectively apply the professional standards, regulations and ethics that govern accountancy profession, for example, Code of Conduct and Ethical Behaviour, Engagement Standards and relevant legislation and regulations. The Professional Accountant’s responsibility as per the International Standard of Quality Control (ISQC 1) is to apply professional judgement when assessing risk relating to the engagement, identify the corresponding mitigating actions, and then implement the best course of action for client-centred service delivery. Using professional judgement to assess their competence and to accept the engagement which are within their limits assists the Professional Accountant to mitigate risks to clients. As professional judgement involves making decisions about what should be done to best serve clients in terms of the engagement, we cannot ignore the role of professional ethics in professional judgement. Professional ethics is concerned with determining which behaviour(s) reflect professional values, such as integrity, objectivity, due care and client-centred decisions.

3. EXPERIENCE:

Ongoing experience in the profession has a significant influence on professional judgement. Seasoned Professional Accountants apply a large body of knowledge, skills, values and experiences; practical wisdom is acquired through many years of practice. Not formally taught and learned, practical wisdom is acquired largely through work experience, ongoing learning and informal conversations with respected peers. Practical wisdom and experience help develop and refine professional judgement. By critically considering practices, Professional Accountants can reflect and evaluate their decisions, weigh alternatives and examine outcomes. Ongoing reflective practice can have a significant impact on the development of professional judgement when Professional Accountants assess their actions to determine whether their decisions were appropriate, to make adjustments if necessary or to improve outcomes in the future.

4. CLIENT INPUT:

The accountancy profession rests on the principle of providing client-centred services in all areas of practice in compliance with

the proficiency standards. Each client has different circumstances, environments and expectations, therefore when applying principle-based standards the professional judgement is essential to render quality services in terms of the specific engagement. When exercising professional judgement, a Professional Accountant must not only consider their knowledge, professional obligations and experience, but also the specific needs, wants and goals of clients for client-centered services. While there are certainly challenges with addressing the credibility of some information, Professional Accountants should be open to client input. In cases where your professional judgement and decisions do not align with your client's, respect their preferences (provided they are informed), include the preferences into the services they provide and document the action accordingly.

The judgments made by accounting professionals might be challenged because of the nature of their professional responsibilities and the flexibility of the existing regulatory environment. Different conclusions can be reached in applying the accounting and engagement standards, even in similar circumstances, which does not necessarily mean that one conclusion is right and the other is wrong (Ionescu, 2011). If ever the professional judgement is questioned, a Professional Accountant must be prepared to provide sound, evidence-based rationale to support their decisions – a proper documentation of the used procedures is required, which can show the analysis of the facts, circumstances, and alternatives considered as a basis for conclusions. Professional Accountant accountability is also important for PAO proceedings where the context and circumstances regarding a complaint or a mandatory report will be considered. A Professional Accountant's actions (including the actions they chose not to take) and their professional judgement will also be examined during the proceedings.

Exercising professional judgement means taking responsibility and being able to account for your actions in all circumstances. There may be times when a Professional Accountant has exercised excellent professional judgement and through no fault of his/her own, there

“Exercising professional judgement means taking responsibility and being able to account for your actions in all circumstances. There may be times when a Professional Accountant has exercised excellent professional judgement and through no fault of his/her own, there are adverse engagement outcomes. Professional Accountants are held accountable no matter the outcome, good or bad.”

are adverse engagement outcomes. Professional Accountants are held accountable no matter the outcome, good or bad.

In conclusion, professional judgement is an essential skill set requirement when applying principle-based standards as it allows the Professional Accountant to the standards against any variation of circumstances, including diverse economies, legislations and cultures in a consistent and transparent manner. Thus, to practice professional judgement the Professional Accountant must have an inquiring mindset, being alert to factors and circumstances that affects the engagement. There is no question that talent and experience are important components of effective professional judgement, but it is possible to enhance your professional judgement skills through learning and applying some key concepts to different businesses and business transactions or circumstances. ■



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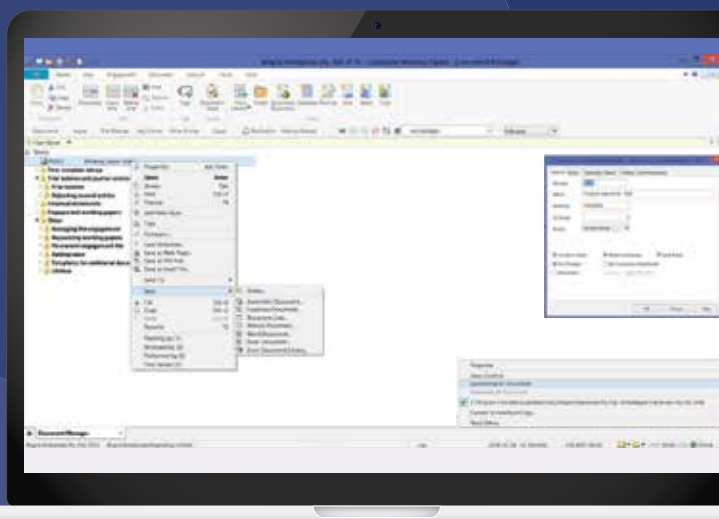


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FRAMEWORK FOR PROFESSIONAL JUDGEMENT

Rashied Small, Prof. Jade Jansen & Yaeesh Yasseen

“Confidence in financial reporting and in principles-based standards requires us to demonstrate collectively that, as professionals, we are capable of making sound judgements. I believe that this professional judgement framework is vital for the future of the profession.” Sir David Tweedie, former Chair of the IASB and ICAS President 2012.

Principle-based standards provide a framework within which the regulatory intention can be satisfied and complied with, and the economic substance of transactions faithfully represented, without the need for detailed rules.

This approach provides scope for professional opinion and relies on the application of sound professional judgement by all stakeholders (preparers, compilers, reviewers, auditors, audit committees and regulators). In a complex and changing environment clearly articulated principles are a more powerful driver of consistency, simplicity and quality than a series of rules which can create unnecessary complexity and stimulate avoidance rather than compliance.

Quality control (ISQC 1), ethics and governance play an important part in fulfilling the engagement obligations, thus it is the principal of a practice or the board or its equivalent, who is ultimately responsible for the annual report and financial statements as well as setting the ‘tone at the top’ for a sound ethical culture and cascading the company values across all levels of the organisation. Good ethics across an organisation lie at the heart of sound decision making and professional judgement. The importance of the ‘tone at the top’ of an organisation, its integrity, and a sound ethical culture cannot be underestimated in the effective operation of principles-based standards and the quality and integrity of judgements made. Decision makers should not be swayed by any undue pressures or conflicts of interest when making professional judgement.

Professional judgement is applied in determining the appropriate accounting treatment for a particular transaction or group of transactions or an event, where:

- There is no specific standard covering the transaction; or
- There is a standard but no detailed provision of how to deal with its implementation in practice; or
- There are accounting principles in a standard but no detailed provision of how to deal with a specific principle in practice; or
- The standard provides sufficient detail and implementation guidance but still requires significant judgement in its

application to the particular circumstances as the appropriate conclusion is highly context-specific; or

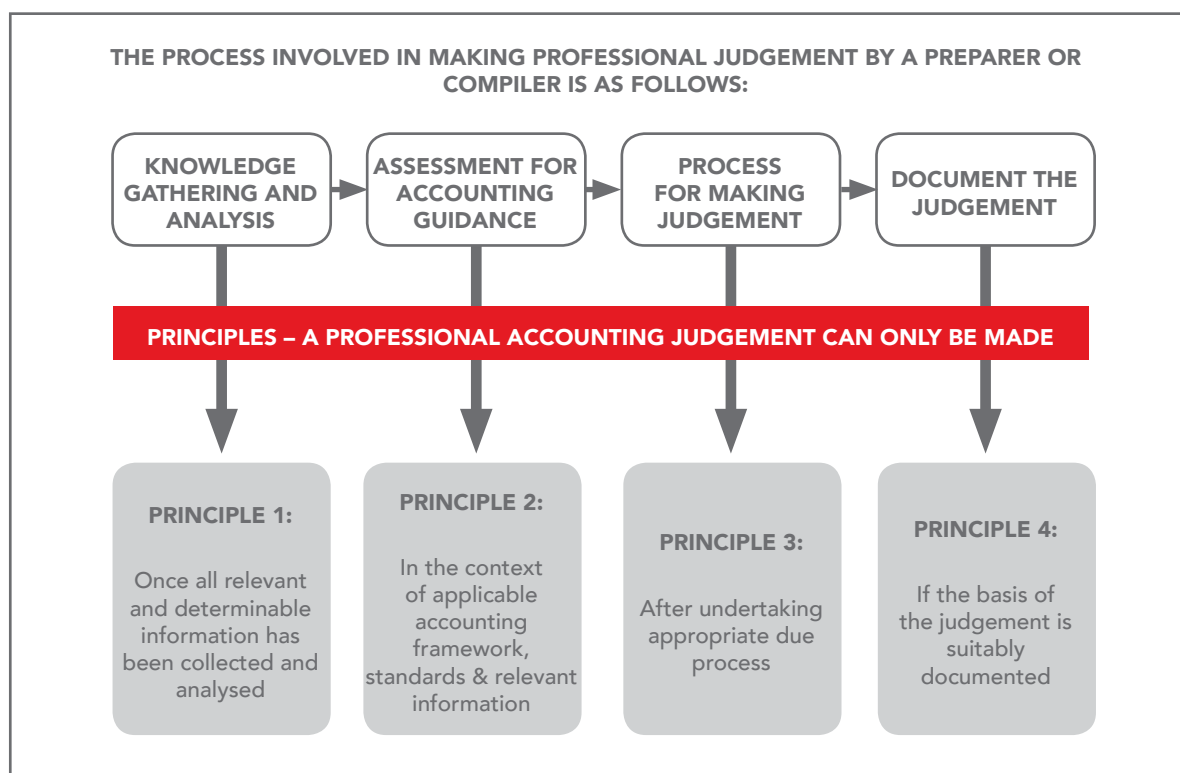
- There is more than one set of accounting principles that may apply to the transaction.

Preparers including directors and compilers should ensure that appropriate working papers and other documents are prepared and retained to record the process of making key professional judgements and support the judgements made. The preparer and compiler has responsibility for assessing and mitigating the risk of material misstatements and thus the onus is on the individual to identify all relevant and determinable facts at the time the professional judgement or a decision is made. See diagram on page 23.

PRINCIPLE 1 - KNOWLEDGE GATHERING AND ANALYSIS:

A professional accounting judgement can only be made once all relevant and determinable information has been collected and analysed – this allows the preparer and compiler to make an informed judgement and decision. Understanding the purpose, legal terms/conditions and economic substance of the transaction(s) is of critical importance when exercising professional judgement:

Information gathering	Read all relevant documentation, including contracts, agreements, correspondence, etc. which influence and impact the professional judgement exercised.
Liquidity impact analysis	Consider the expected cash flows from the transaction and the impact on the entity's cash position – in terms of the Companies Act it is important to ensure that there was no reckless trading by management – conduct a liquidity and solvency test.



Commercial substance of transaction	Consider why each party is undertaking the transaction in order to understand its substance/ commercial reality – determine economic intent with which that transaction has been concluded impacts on the classification of the transaction.
Recognition criteria of the transaction	Identify if there are any related or linked transactions which need to be considered in determining the economic substance – transactions which are dependent on the occurrence of future event may not have immediate economic substance for initial recognition.
Alternative outcomes and risks	Consider the uncertainties and range of possible outcomes of the transaction – a conservative approach is applied when recognising and measuring transactions where there are alternative outcome with varying risks.
Financial statement impact	Consider the effect of the transaction, once completed, on the entity's assets, liabilities and operational capabilities – impact of the transaction on the going concern of the business is essential when applying professional judgement to transactions.
Risks and benefits associated with the transactions	Prepare a risk and reward analysis. Consider who bears the risk and who receives the benefits under a range of scenarios governed by the transaction.
Apply professional skepticism	Ask probing questions of those parties who set up the transaction – apply appropriate skepticism to determine the economic intention and substance of the transaction.

PRINCIPLE 2 - ASSESSMENT OF ACCOUNTING GUIDANCE:

A professional accounting judgement can only be made in the context of the applicable accounting framework, accounting standards and other relevant information. Consider what would be the expected/common sense approach of accounting for the transaction and whether the transaction is covered by existing standards and the extent to which judgement is required. In the absence of a relevant standard or specific guidance within a standard, or where there are conflicting standards or principles, refer to IAS 8 (paras 10-12), as appropriate, and proceed as follows:

Specific standard	Consider the treatment of similar transactions under the relevant accounting framework – consider a specific standards which govern transaction with similar economic substance, nature and conditions.
Conceptual framework	Refer to the conceptual framework for broad principles on definition, recognition and measurement of assets, liabilities, income and expenses – if no specific standards, then the principles of the conceptual framework must be applied to classify and measure the transactions in terms of the five elements of the financial statements.
Research material	Refer to available authoritative accounting texts, for additional guidance – refer to guideline provided by accounting standard authorities or accounting research on similar transactions.
Comparison to other countries	Consider if there is a generally accepted accounting practice in either the home or other countries – compare the accounting treatment of similar transactions in other jurisdictions, e.g. US GAAP.

Industry guideline	Consider if there is an accepted industry practice – determine the common practice for similar transactions in the industry but also take into consider the context of the transaction for the business.
Similar transactions	Consider if there are other precedents for identical or similar transactions.
Other accounting frameworks	Consider pronouncements of other standard-setting bodies with similar conceptual frameworks, e.g. IPSAS, GRAP, US GAAP.
Fair representation	Consider if the resulting financial information is both relevant and reliable and gives a fair presentation of the transaction – consider the impact on the qualitative characteristics of the financial statements (fair representation and relevance).

PRINCIPLE 3 - PROCESS FOR MAKING A JUDGEMENT

A professional accounting judgement can only be made after undertaking appropriate due process in applying judgement and decision-making. Professional judgement should be made after obtaining the above information and considering the following:

Consultation	<p>Consider and assess the range of alternative accounting treatments and select the one that is most appropriate for the nature of the transaction and in the context of the business.</p> <p>Identify the resultant accounting treatment and entries and ensure they make sense; and identify the appropriate note disclosures.</p> <p>Consult with peers, experts, other professionals, PAO or regulator to seek advice and discuss your alternative options and possible judgement decision.</p>
Validation	Follow approval/escalation procedure within the practice for key judgements to ensure that material judgements have been endorsed, for example, by the audit committee or board. Identify points in time where reassessment of judgement will be required – for example period ends or trigger points in the initial contract.
Consideration	Identify any self-interest and conflicts of interest to ensure the objectivity of and ethical behaviour for the judgement. Consider whether your proposal is one which you would be happy to defend against any possible reputational risk. Consider the possibility of bias in the judgement process and reassess the judgement as appropriate.

PRINCIPLE 4 - DOCUMENTATION OF JUDGEMENT

A professional accounting judgement can only be made if the basis of the judgement is suitably documented. The following should be documented in the entity's paperwork:

Overview of the transaction	Provide details of the nature of the transactions, conditions in which the transactions were concluded, the commercial and economic substance of the transaction, the risks and benefits associated with the transaction, and any other information known at that point in time.
Relevant accounting literature considered	The accounting standards and other research information used to substantiate the recognition, measurement and disclosure of the transaction.
Alternative options	<p>Details of the alternative options available, their accounting treatments and impact of the fair representation of the financial statements.</p> <p>Prioritisation of the alternative options and the reasons why the final solution was chosen and the reasons the other options were discounted.</p>
Due process	<p>The process followed in making the decision such as sources used and relied upon, discussions held and with whom, the decision-maker and date of the decision.</p> <p>Any shortcomings in the decision-making process, for example, if the decision was subject to time pressures or specific expert advice could not be obtained.</p>
Sensitivity analysis	The sensitivity of the judgement to changes in the assumptions made or circumstances of the transaction.
Disclosure requirements	Make disclosure of key, material or significant judgements in the financial statements as required by IAS 1 (paras 122 and 125).

In conclusion, any professional accounting judgement made by the preparer or compiler of the financial statements must ensure compliance to the accounting standards with the specific objective of enhance the qualitative characteristics of the financial statements (fair representation and relevance). Professional judgement is always placed in question because insufficient documentation to support the decision and decision-making process is lacking. ■

Duties of Professional Accountants acting as Commissioners of Oaths

SAIPA Legal, Ethics and Compliance Department

The prevention and mitigation of bribery and corruption is an obligation placed on companies by the UK Bribery Act 2010, which states that companies must implement effective controls, measures and due diligence to demonstrate their commitment towards preventing bribery as a matter of priority.

As announced in Government Gazette 37980 on 12 September 2014, the Justices of the Peace and Commissioners of Oaths Act No. 16 of 1963, Regulation No. 61B, recognises every Professional Accountant (SA) as an ex officio Commissioner of Oaths by virtue of their position of trust in society.

The fiduciary duties of the title are few, but their correct execution is essential to protecting the public interest and serving justice. They must, therefore, be treated with the same care and precision as the practitioner's professional services.

A commission of oaths' duties are twofold: administering oaths and certifying document copies. Members can download SAIPA's Commissioner of Oaths Guide for more details, available at www.saipa.co.za/commissioner-oaths-guide.

ADMINISTERING OATHS

A person can make a statement or agree to make a statement which they formalise by swearing to its truthfulness before the commissioner of oaths. The commissioner must be present to confirm the person's identity, and their willingness and competence to make the declaration. The statement is reduced to writing and certified by the commissioner as a record that it was indeed made in their presence.

CERTIFYING DOCUMENT COPIES

Valuable documents are seldom transferred to third parties for processing for fear of them being lost or damaged. A commissioner of oaths can certify a copy of a document as a true copy, allowing it to be used instead of the original. The commissioner must, therefore, inspect the original, never taking it on faith or accepting secondary evidence that it exists and is identical. If it was later discovered that there was a difference, this would be a serious breach that may carry legal consequences for the commissioner of

"A commission of oaths' duties are twofold: administering oaths and certifying document copies."

oaths. Regardless, SAIPA will discipline accountants found guilty of negligence in these duties to protect the Institute from disrepute.

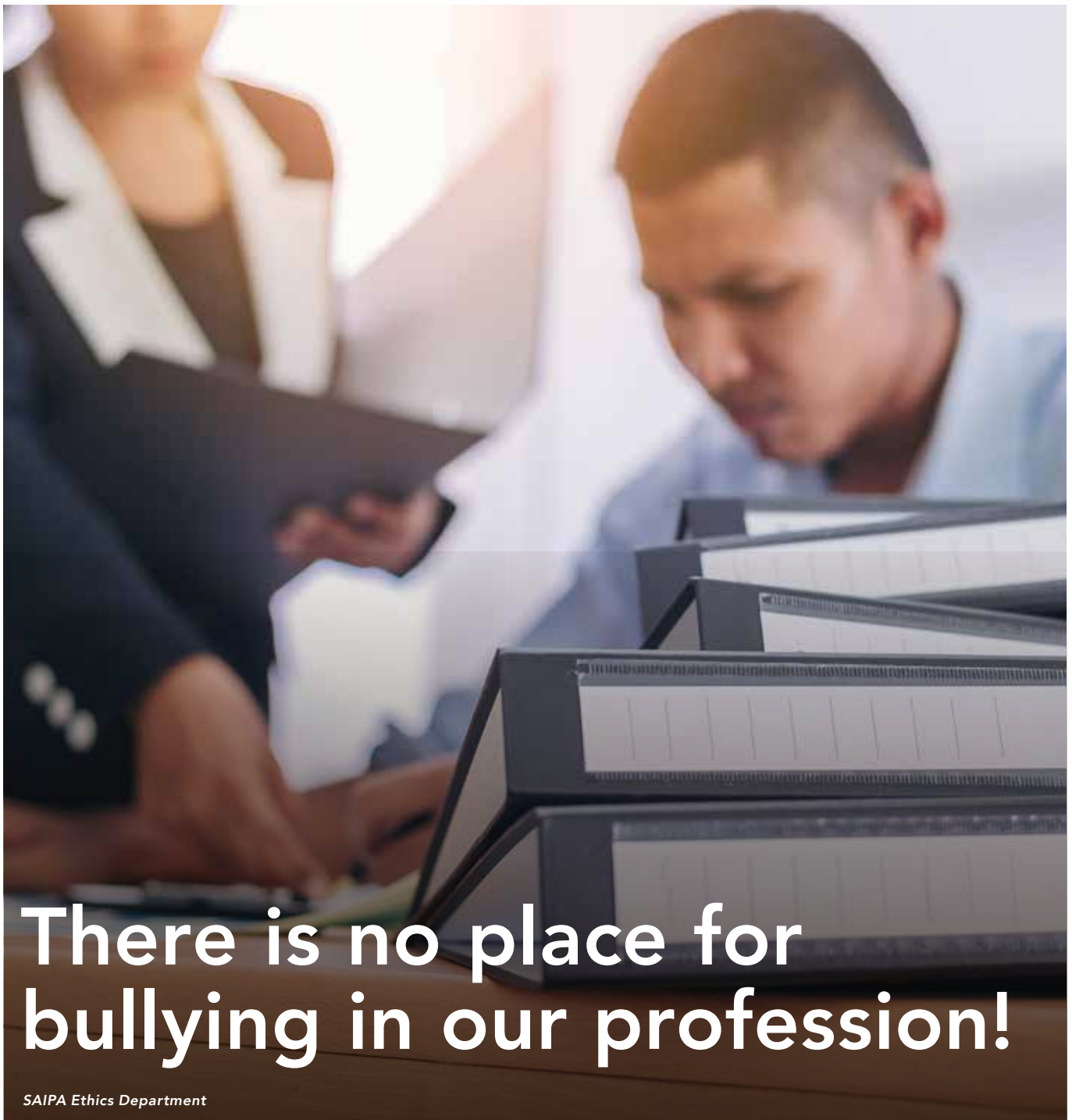
DUE CARE

The requirements of the above duties must be satisfied in all respects as even the slightest error or omission can render the process ineffective. In *Absa Bank Ltd vs Botha NO and Others*, an affidavit described a female defendant using alternating masculine and feminine terms. This contradictory identification called into question whether the commissioner of oaths had been present and therefore the validity of the affidavit. Inevitably, the court dismissed the case with costs payable by the plaintiff. Sadly, the plaintiff likely had a strong case and suffered unnecessary loss. Whether the commissioner of oaths was held accountable is unknown, but they were undoubtedly professionally embarrassed.

Unfortunately, similar incidents are common, involving both the administration of oaths and the certification of copies. In extreme cases, those involved in serious crimes may walk free. Additionally, a careless commissioner of oaths could be deemed complicit in a crime, for example, if they certify false copies later used in fraud.

PROFESSIONAL CONDUCT

SAIPA members acting as a commissioner of oaths continue to be ambassadors and must conduct themselves with the same professionalism and trustworthiness befitting their designation. ■



There is no place for bullying in our profession!

SAIPA Ethics Department

Bullying is often associated with the school playground. In recent times, it has reared its ugly face in politics resulting in state capture and has even evolved to cyber space through social media taunts and trolling. The ugly truth is that bullying is very common among adults too, be it in business relations or between co-workers. We are taught from a young age that being louder, stronger and fiercer makes you better.

Success in any industry is dependent on building relationships, whether with co-workers, clients or any other stakeholders. Good relationships open doors to more opportunities and can yield higher profits and business expansion. We should create environments that revere harmony and understanding in an attempt to create better synergy. Over the last two years SAIPA has received a growing number of complaints regarding Principals or Overall Evaluators (OEs) bullying trainees or Professional Accountants (SA) bullying their clients.

Let us consider the following scenario:

Mr A who is on a retainer with XYZ Professional Accountants (SA) has been constantly reminded to provide his source documents on a monthly basis. He has blatantly ignored all correspondence from XYZ and decides to bring his shoe box of source documents at his leisure. He demands that a copy of financials be ready in 48 hours so that he can apply for a bank loan. He insists that he cannot pay his account until he gets the loan approved.

As soon as XYZ dives in and leaves everything else, rescheduling prior appointments, working through the night to reach the deadline, XYZ has now unknowingly accepted to be a victim of bullying. This behaviour will now be repeated throughout the relationship and in turn XYZ will neglect and maybe lose good business relationships with other clients. Further, the mistakes that will accompany the financials may lead XYZ to bigger problems.

The total disregard for other fellow beings should not be tolerated as it gives power to the bully and misery and isolation to the oppressed. A confident trainee who has good qualities of a future Professional Accountant (SA) may end up resigning due to a bad experience of being bullied.

The other example that I would like to draw your attention to is called "the culture of diminishing dignity".

SYNC Professional Accounts (SA) was a very successful ATC who had close to 30 learners at a time. It was centrally based next to the university and all the confident, young, innocent and naïve trainees wanted to be part of the ATC. It was every trainees' dream to join SYNC Professional Accountants (SA). None of the trainees stayed longer than a year at the ATC. It was always resignations with immediate effect.

An investigation was done on the ATC, as none of the trainees dared to inform SAIPA about their reasons for their immediate resignations. It was a long process to get to the bottom of the abuse scenarios, but fortunately two out of the seven resigned trainees that year put a stop to it and spoke out. Their confessions were appalling.

At times of pressure, the Principle of the ATC as well as the appointed OEs barked instructions and demanded outcomes within impossible timeframes. Unfair accusations were a norm and respect for trainees' dignity was non-existent. It became obvious that the ATC condoned a culture where it was acceptable to treat trainees like door mats.

The next morning, after the abuse scenario, all the victims would walk to their desk and find 'tokens of appreciation' from their bullies. Those that could not bare the abuse were the ones that resigned the same day of the abuse scenario. Others became immune to the management behaviours, bowed their heads and prayed for tomorrow to arrive. The trainees that resigned were begged by their remainder colleagues to never disclose the abuse scenario to SAIPA as they would suffer the loss of the tokens of appreciation.

This was a vicious cycle, but thanks to the brave trainees who managed to speak out, the ATC was presented to the Investigation Committee and later referred to the Disciplinary Committee for struck off. The remaining trainees were accommodated at other ATCs.

It is noted that SAIPA will not accept any bullying of trainees, as they are the future of the accountancy profession, be it in business or in practice. Professional Accountants (SA) are also advised to heed the light bulbs when it comes to clients that are bullies. Accepting the ill treatment once allows one to fall for the abuse over and over.

SAIPA has also recently received cases of tax practitioners bullying SARS officials as well.

It is noted that bullying is regarded as unprofessional behaviour and a breach to the International Ethics Standards Board of Accountants' (IESBA) fundamental principles. Investigations and disciplinary action will be taken against those who breach the SAIPA By-laws, Code of Conduct as well as the IESBA Code. ■



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CAMAF All SAIPA members are eligible to become members of CAMAF (Chartered Accountants (SA) Medical Aid Fund), either as an individual or an employer group.



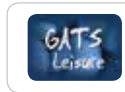
CASEWARE SAIPA and CaseWare have partnered to transform how practices work by introducing the CaseWare Cloud solution.



EUROPCAR This agreement allows SAIPA members in good standing to get a 10% discount on all car hire booked online. Go to wl.europcar.co.za/saipa to book.



GAP COVER SAIPA has partnered with The Financial Specialists (Pty) Ltd to offer SAIPA members and their employees Medical Expense Shortfall cover at discounts of 28% – 32%.



GATS LEISURE International tour operator, GATS offers SAIPA members specially negotiated rates, bonus discounts and special travel package offers.



PPS All SAIPA members in good standing qualify to belong to PPS. Short-term Insurance: exclusive to the graduate professional for car, home and business.



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NATIONAL ACCOUNTING OLYMPIAD

We're very excited to announce the launch of the 2019 SAIPA National Accounting Olympiad (NAO).

The NAO was started in 2002 and has seen a steady rise in entries every year – and we're anticipating that 2019 will be the best turn out yet. The NAO competition is a key part of SAIPA's strategy to promote accounting as a career of choice among school goers. South Africa needs new accountants to continually enter the job market, and a significant lack of interest now will mean a skills shortage of seven to eight years in the future.

Accounting is an exciting and rewarding career, so we want teens everywhere to seriously consider it as they prepare for tertiary studies. The NAO 2019 is also a good way for scholars to get a taste of the profession, and they'll have the opportunity to interact with SAIPA staff, sponsors and potential future employers.

NEW FORMAT

This year the Olympiad has a new format and will run over one round. This gives us a longer lead time to market the Olympiad around South Africa. The top national winners in each grade (Grade 11 and Grade 12) will be announced later in the year and the winners honoured in a gala awards event – date and venue to be confirmed.

GREAT PRIZES FOR LEARNERS, SCHOOLS AND TEACHERS!

HOW SCHOOLS CAN ENTER

Entries are officially open and we will be contacting Grade 11 and 12 accounting teachers around the country in a bid to encourage them to enter this prestigious annual competition.

The entry fee is R50* per student. There is no limit to the number of pupils each school may register. However, entrants should currently be taking Accounting as a school subject with the intention of studying a B.Com degree.

Leaners wishing to compete must be registered by their schools, either by completing the NAO Entry Form – a copy can be downloaded from the SAIPA website, or by emailing gugu@nsrm.co.za.

HOW YOU CAN ASSIST

We would like to encourage members to assist with recruiting schools in their districts to enter – it could be the school you went to, or your children attend, or even the one you drive past every day. Please speak to your Regional Chair or Regional Representative for more information on how you can get involved.

ENTRIES CLOSE: 14 June 2019 • **EXAM DATE:** 29 July 2019

*** NO ENTRY FEE FOR NON-FEE PAYING SCHOOLS**

Download your entry form at www.saipa.co.za

OPEN FOR GRADES 11 & 12

TEST YOURSELF AGAINST THE BEST!

COULD YOU BE ONE OF THE TOP ACCOUNTING STUDENTS IN SOUTH AFRICA?

NAO 2018 – FACTS & FIGURES

7 000
LEARNERS ENTERED

FROM

467
SCHOOLS

13 WINNERS TIED FOR THE TOP 3 SPOTS PROVINCIAL & NATIONALLY ACROSS THE GRADE 11 & 12 CATEGORIES

8
PUPILS
FROM JOHANNESBURG PUBLIC SCHOOL
KING EDWARD VII
REACHED THE NATIONAL

TOP 50

TOP PERFORMERS

1
GRADE 12 WINNER
AND
2
GRADE 11 WINNERS

FROM
RONDEBOSCH BOYS HIGH
WESTERN CAPE

KWAZULU-NATAL
PROVINCE SHONE BRIGHTLY IN 2018

6
WINNERS

OUT OF THE

TOTAL 13



CONGRATULATIONS TO OUR 2018 WINNERS

Simon Fella

Director, Walworth Consulting



Tell us about your professional life

I did my articles at the HGG Financial Group in Somerset West. After I qualified, I was offered the opportunity to stay on as an

Assistant Manager, I was later promoted to Group Accountant. In 2017, I was appointed as Financial Manager for a logistics company in Cape Town. The position taught me a lot, but I missed the client interaction. It was then that Chris van Zyl approached me with the idea to jointly found Walworth Consulting, a move that I have never regretted.

How long have you been a SAIPA member?

I wrote the SAIPA entrance exam in April 2012, and qualified as a Professional Accountant (SA) in May 2012.

What got you interested in accounting and becoming a Professional Accountant (SA)?

Accounting was always a subject that I enjoyed at school, and having an enthusiastic teacher helped me in that direction. A deep understanding of accounting allows one to get a very real and true insight into the strength and potential of individual businesses.

What do you think are the biggest challenges facing the profession?

Firstly, there needs to be a more aggressive adoption of the amazing software solutions available to both clients and practitioners. This needs to be supported by a continued improvement in the development and compatibility of software. Secondly, whilst there might not necessarily be a lack of ethics, there is certainly room for more transparency.

What do you love about the profession?

I really enjoy gaining an insight and understanding of the workings of various industries and being able to make a valuable contribution to businesses.

How has being a SAIPA member assisted you in advancing within your profession?

Being a member of SAIPA has encouraged me to stay up to date in terms of legislation as well as the latest in technology so that I can best serve my clients.

YOU ARE INVITED TO ACOA 2019



ACOA
5th Edition
AFRICA CONGRESS
OF ACCOUNTANTS

**19, 20 & 21
JUNE 2019
PALAIS DES
CONGRÉS
MARRAKECH**



The Pan African Federation of Accountants (PAFA) in conjunction with OEC Morocco cordially invite members and stakeholders of the accountancy profession to the 5th Africa Congress of Accountants (ACOA 2019) in Marrakech Morocco on June 19-21, 2019 at the **Palais des Congrès**.

The Congress aims to bring together government representatives, regulators, the media, accountants and other stakeholders across and beyond Africa to share experiences and create a vision that will deliver the Africa we want and deserve under the theme – For a successful Public Sector Performance in Africa.

Visit the website to book your seat, and for more information.

www.acoa2019.com

Delouise van der Westhuizen (née de Wet)

Training Specialist, SAIPA



Tell us a little about yourself –

I was born in Swaziland and grew up in Pretoria in a place called Eersterust. I am married with two beautiful children and I have five siblings. I've been working for SAIPA for the past nine years, starting at reception and ending up in the education department. I'd describe myself as a person with a versatile skillset, a lot of integrity and a willingness to go the extra mile to satisfy our members.

What do you do at SAIPA?

I am the Training Specialist and responsible for all trainee-related activities, ensuring they are carried out promptly and efficiently according to the constraints of the Quality Management System as well as tertiary institution accreditations.

What is the best part of your job?

It is always changing – always evolving – and I get front row seats watching the process of a simple idea grow into a competitive strategy. Every day is different, and it is a constant adventure. My awesome colleagues in the ET department are a wonderful part of my job; knowing that if a problem arises, we all jump in and try to find a solution collectively.

What are some of the more challenging aspects of your job?

My most challenging thing at the moment is deciding where I spend my time. There are so many things happening within the accounting/education industry. Prioritising my work is really important – so I'm being really strict with myself at the moment to make sure I balance everything; to do my job well and also speak to other departments and people about how we can work together and the benefits that will bring. Learning how to manage time and expectations of both colleagues, stakeholders and trainees, facing new challenges on a daily basis and developing my technical skills – these are some particularly challenging aspects of my job!

What are your thoughts on the South African accounting sector as a whole and SAIPA's role in it?

The accounting industry is always evolving. If we can get the youth to love accounting, and think of the possibilities, the accounting industry would certainly be diversified. I feel that SAIPA has set a platform and placed recognition in the accounting industry. Accounting should not be seen as only for matured people, but for young, fresh blood from all walks of life.

Who do you admire?

I do admire my Executive, Prof Rashied Small. He is very knowledgeable in all aspects of the profession and always encourages us to think out of the box, not being limited to anything. I get a great sense of accomplishment when I am up against a deadline and we only have one shot to get it right and it turns out better than we could have imagined. Having a boss that appreciates the work I do and always thanks me for the hard work at the end of the day, makes it all worthwhile.

“The accounting industry is always evolving. If we can get the youth to love accounting, and think of the possibilities, the accounting industry would certainly be diversified.”

What do you do for fun?

For fun, I enjoy spending quality time with my family and friends. Whether we are making dinner and watching movies, going thrift shopping or grabbing a quick lunch, as long as I am amongst great company with good conversation, I am happy. I also love to sing (secretively) and redesign my home at times.

Any personal goals or future plans you'd like to share with us?

In five years, I would love to be an industry expert that others can go to for ideas, help and to strategize. I've had amazing mentors and managers, so I'd like to be able to provide similar guidance, potentially taking on a leadership role. Finally, I'd like to have taken the lead on projects I'm passionate about. I'm motivated by connecting my initiatives to the company's larger goals, and I'm excited by the prospect of getting more experience in that. ■



The modern accounting landscape is more than just a number crunching game. It transcends traditional career boundaries and expands into all facets of the South African financial context and beyond. Today, a Professional Accountant (SA) aims for value creation for businesses, wealth creation for investors/owners and of course, the ultimate goal of sustainable economic growth. SAIPA encompasses those objectives across private practices, corporate, public and education sectors. The South African Institute of Professional Accountants has more than 35 years of experience to make meaningful contributions to your career, as well as the accountancy profession as a whole.

The future of Accounting



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