CA(SA) TRAINING PROGRAMME

IMPLEMENTATION GUIDE

Effective 1 January 2010

(Revised August 2012)
INTRODUCTION

On 1 January 2010, SAICA implemented the new CA(SA) Training Programme. The training programme encompasses the basic set of skills required by a Chartered Accountant after completing their training programme. The skills have been derived from the SAICA competency framework, which documents the complete set of knowledge and skills required by Chartered Accountants in South Africa.

The purpose of this guide is to provide training offices with additional guidance, ideas and potential examples for the implementation of the CA(SA) Training Programme and clarify the interpretation of the individual competencies outlined.

The document does not contain an exhaustive list of all activities that would satisfy each competency, nor does it document all possible scenarios. It has been designed to assist in designing customized programmes and to provide practical suggestions for different training environments. Professional judgment should be applied by the training office when considering individual activities and their link to the training outcomes.

This guide acts as a supplementary set of guidelines for current and prospective training offices and trainees to assist with the successful implementation of the new training model. The document should be used in conjunction with the documentation relating specifically to detailed outcomes of the new model.

This guide provides examples of typical activities that can be performed in training offices in public practice, commerce and industry and the public sector.

APPLICATION OF THIS GUIDE

Trainee accountants
Every trainee completes a mandatory period of practical experience in a CA Training Office. These CA Training Offices provide an approved CA Training Program which is required to teach trainees to apply formal learning in real work situations under the supervision of experienced CAs(SA). Thus it is in the CA Training Office that trainees develop and enhance their professional abilities and judgement, learn to apply CA values and ethics, and gain a sense of “belonging” to the CA profession.

This guide should be used by trainee accountants to assist them in developing and demonstrating the technical and professional skills required in terms of assessment. Developing and demonstrating both technical and professional skills forms part of the SAICA’s training requirements for becoming a chartered accountant.

Training officers
The implementation guide provides training officers with guidelines and suggestions for providing trainee accountants with exposure to the practical training requirements prescribed in SAICA’s competency framework. These guidelines and suggestions will enable training officers to effectively implement and facilitate the learning process for trainee accountants, design effective training programmes and consider the use of innovative alternatives for gaps in practical training experiences.
BACKGROUND

STRUCTURE OF THE TRAINING PROGRAMME

The CA(SA) Training Programme is based on the seven areas of competence as defined by the SAICA competency framework. The seven areas are:

1. Accounting and External Reporting
2. Pervasive Professional Skills
3. Financial Management
4. Management Decision-Making and Control
5. Taxation
6. Auditing and Assurance
7. Internal Audit, Risk Management and Governance

The first underlying principle of the new programme is that all trainee accountants should receive practical experience in all seven areas during their training contract. This will ensure a well rounded professional accountant who at least has basic practical experience in the fundamentals of business. This will also ensure consistency in the quality of the training experience across training offices.

The second underlying principle of the programme is that all trainees should attain advanced experience in certain skills. Accounting and External Reporting as well as the Pervasive Professional Skills are considered to be fundamental to a professional chartered accountant and have been defined as compulsory skills for trainee accountants. It should therefore be interpreted that it is compulsory for trainee accountants to attain these skills at an advanced level. An advanced level implies a significant amount of time in developing skills, and application of concepts in complex situations and environments. This can be interpreted in different ways, dependent on the context of the training office, and this guide seeks to provide examples and clarity on the interpretation of advanced experience.

The third underlying principle relates to the flexibility that training offices have to provide advanced experience outside of the compulsory skill areas. The training programme requires that training offices provide advanced experience in at least one of the remaining five skill areas. The selected area of advanced experience is referred to as the “elective” module and the programme requires only one elective. A training office may, however, provide multiple electives dependent on the business model, context and business need. This provides flexibility and recognition of the training office business environment, but also ensures that trainees receive advanced experience in at least three of the seven learning areas.

The remaining four skill areas that are not “compulsory” or selected as an “elective”, default to the basic experience requirement or “residual” learning area. The practical skill requirements for these areas are far less onerous and can be attained in simple environments.

HOW TO USE THIS GUIDE

The remainder of this guide is focused on providing practical examples and potential activities that may be appropriate to attain the required level of experience in the compulsory, elective and residual skills areas. The examples used are neither exhaustive nor prescriptive, but merely potential solutions. The document has been organised to provide solutions in different training office contexts, namely public practice, commerce and industry and the public sector. It is important that training officers and trainee accountants apply professional judgment in ascertaining whether a specific task or activity constitutes a direct link to the required practical skill and also when determining the appropriate level of complexity to satisfy “advanced” experience. This will need to be interpreted based on the facts of the situation and in relation to all external and internal factors. This guide attempts to clarify some of the more common or likely scenarios.

It is suggested that trainees use this guide as a precursor to their rotation to a division, new audit engagement or as part of their ongoing self monitoring of learning development in order to align their expectations to the level of skill they need to attain. Training officers and other stakeholders may wish to use this guide to assist in designing a learning plan over a training period to ensure coverage of all practical skills.
Any learning gaps due to a lack of practical opportunities during the training period or due to the nature of the training office should be planned for through the use of simulations as an alternative to direct on-the-job experience.

Compulsory skills are documented so as to provide examples of activities that will align to the skills required in an advanced context for training offices in public practice, commerce and industry and public sector.

The electives have been written with practical examples that are relevant for the context. For example it is assumed training offices in public practice will select audit as the elective. The remaining elective areas assume a training office in commerce and industry or in the public sector.

The residual skills in the final section of this document contain, in a table format, examples of how the skill areas can be attained as a possible by-product of a chosen elective for all three contexts, namely training offices in public practice, commerce and industry and the public sector.
Entities recognise, measure and report on their performance. The reports generated are for a variety of users and can be financial or non-financial in nature. Examples include divisional financial statements (internal), balanced scorecard reporting (internal), general-purpose financial statements (external) and components of the Management Discussion and Analysis contained in the annual report (external). Entities report information to their various stakeholders in order to meet their stewardship requirements and to fulfill stakeholders' needs.

The primary role in this competency area will be as part of a team that is competent in understanding an entity's reporting requirements and the importance of providing relevant, accurate and complete information in meeting the entity’s reporting requirements. The team has a thorough knowledge of generally accepted accounting practice, their application in IFRS and a thorough understanding of when and how to apply them.

### COMPETENCY | AE(C)1 SEL ects A ppropriate Accounting Frameworks and Policies

| TASK | AE(C)1.1 Based on the entity’s financial reporting needs and the stakeholders identified, decides on the appropriate accounting framework. |

**Background**

Globally there seems to be a lack of understanding pertaining to the usage of conceptual accounting frameworks. Some of this confusion arises because some accounting frameworks are principle based and others are rules based. Trainee accountants are required to identify all the relevant accounting frameworks that may be applicable to the entity, and will therefore have to be knowledgeable and informed about the relevant accounting frameworks. Examples of relevant frameworks include:

1. South African Statements of Generally Accepted Accounting Practice (SA GAAP)
2. International Financial Reporting Standards (IFRS)
4. Statement of Generally Accepted Accounting Practice (GAAP) for Small and Medium-sized Entities (SMEs)
5. The Minister of Finance approved Standards of Generally Recognised Accounting Practice (GRAP) for implementation by constitutional institutions and certain public entities for financial years ending on or after 31 March 2006.

Other specific accounting frameworks:

2. Reporting to the Registrar of Banks in terms of the Regulations to the Banks Act.
3. National Treasury Legislation and Requirements: Division of Revenue Act (DORA), Public Finance Management Act (PFMA) and Municipal Finance Management Act (MFMA).

**Public Practice**

When planning an audit, the trainee accountant must consider the various accounting frameworks (e.g. IFRS or IFRS for SME’s or US GAAP) available to their client, evaluate whether the client has made the appropriate choice of accounting framework with regards to the stakeholders identified and document their decision.

**Commerce and Industry**

When preparing the financial statements for an entity (e.g. the training office or a subsidiary within the group of the training office), the trainee accountant must consider whether the entity is using the relevant accounting framework (for example IFRS or IFRS for SME’s or US GAAP). In making this decisions the trainee should consider the context (e.g. industry, country of listing etc.) and the stakeholders’ requirements (e.g. the requirements of shareholders, creditors, government and tax authorities) in evaluating whether the entity is using the appropriate accounting framework. Trainee accountants should document their decision in this regard.

**Public Sector**
When planning an audit or preparing financials, the trainee must consider the nature of the audit client / entity e.g. NGO’s, parastatals, municipalities and the available accounting frameworks (e.g. IFRS or GRAP) appropriate for the audit client / entity and evaluate whether the audit client / entity has made the correct choice of accounting framework with regards to the stakeholders identified and document their decision.

| TASK | AE(C)1.2 Selects or evaluates accounting policies within the appropriate accounting framework that most fairly present the financial situation. |

**Background**

From an Audit and Commerce perspective accounting policies will be assessed based on the requirements as specified in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (AC 103).

In public sector entities trainee accountants are required to assess the effectiveness of accounting policies based on the criteria as specified in GRAP 3. GRAP 3 stipulates that in the absence of a particular Standard of GRAP or GAAP that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is:

1. Relevant to the economic decision-making needs of users; and
2. Reliable in that the financial statements:
   a. Represent faithfully the financial position, financial performance and cash flows of the entity;
   b. Reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
   c. Are neutral, i.e. free from bias;
   d. Are prudent; and
   e. Are complete in all material respects

**Public Practice**

When performing the fieldwork of an audit, trainee accountants will gain exposure to different components of the financial statements. Each of these components will have various accounting policies applicable to them. Trainee accountants must assess whether the accounting policies selected are appropriate in relation to the accounting framework and document their assessment, e.g. in performing audit field work on the revenue section of the income statement revenue recognition must align to the principles outlined in IAS18.

**Commerce and Industry**

Trainees are exposed to different components of the financial statements when recording transactions and preparing financial statements. Each of these components will relate to specific accounting policies. Trainee accountants must assess whether the accounting policies selected are appropriate in relation to the accounting framework, e.g. revenue recognition in the income statement must align to the principles outlined in IAS18.

**Public Sector**

When performing the field work of an audit, recording transactions or preparing financial statements, Trainee accountants will gain exposure to different components of the financial statements. Each of these components will relate to specific accounting policies. Trainee accountants must assess whether the accounting policies selected are appropriate in relation to the accounting framework, e.g. revenue generated by foreign exchange transactions in the statement of comprehensive income must align to the principles outlined in GRAP 9. The accounting policies selected may also have to comply with GRAP 3.

| TASK | AE(C)1.3 Develops or evaluates accounting policies in accordance with accounting framework. |

**Public Practice**

Trainees will gain exposure to different components of the financial statements when performing the field work of a statutory audit. Each of these components will have different accounting policies applicable to them. Trainee Accountants must assess whether the accounting policies selected are appropriate in relation to the accounting framework, e.g. when performing the audit fieldwork on the audit of Anglo Platinum for the 2008 financial year, the audit
team will have to establish whether the accounting policy for metal inventory is appropriate in terms of the Accounting Framework and IFRS 6. The following extract from the financial statements of Anglo Platinum describes their accounting policy for recognizing and accounting for metal inventory and the audit team need to assess if this is appropriate in terms of the Accounting Framework and IFRS 6.

Critical accounting estimates and judgments
In preparing the annual financial statements in terms of IFRS, the Group’s management is required to make certain estimates and assumptions that may materially affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period and the related disclosures. The actual results often vary from these estimates due to the inherent uncertainty involved in making estimates and assumptions concerning future events. These estimates and judgments are based on historical experience, current and expected future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates
Those estimates and assumptions that may result in material adjustments to the carrying amount of assets and liabilities and related disclosures within the next financial year are discussed below.

Metal inventory
Work-in-progress is valued at the lower of net realisable value and the average cost of production or purchase less net revenue from sales of other metals, in the ratio of the contribution of these metals to gross sales revenue. Production costs are allocated to platinum, palladium, rhodium and nickel (“joint products”) by dividing the mine output into total mine production costs, determined on a 12-month rolling average basis. The quantity of ounces of joint products in work-in-progress is calculated based on the following factors:

- The theoretical inventory at that point in time which is calculated by adding the inputs to the previous physical inventory and then deducting the outputs for the inventory period.
- The inputs and outputs include estimates due to the delay in finalising analytical values.
- The estimates are subsequently trued up to the final metal accounting quantities when available.
- The theoretical inventory is then converted to a refined equivalent inventory by applying appropriate recoveries depending on where the material is within the pipeline. The recoveries are based on actual results as determined by the inventory count and are in line with industry standards.

Source: Anglo Platinum annual financial statements 2008

Commerce and Industry
When recording transactions and preparing financial statements, trainee accountants will gain exposure to different components of the financial statements. Each of these components will have different accounting policies applicable to them. Trainee Accountants must assess whether the accounting policies selected are appropriate in relation to the accounting framework, e.g. revenue recognition in the statement of comprehensive income must align to the principles outlined in IAS18.

The following is an extract from the revenue recognition policy of Anglo Platinum. Trainee Accountants should be able to determine if the current revenue recognition practices at Anglo Platinum are in line with this policy and determine if this policy complies with IAS 18.

10. Revenue recognition
- Revenue from the sale of metals and intermediary products is recognised when the risks and rewards of ownership are transferred to the buyer. Gross sales revenue represents the invoiced amounts excluding value-added tax.
- Dividends are recognised when the right to receive payment is established.
- Interest is recognised on a time proportion basis, which takes into account the effective yield on the asset over the period it is expected to be held.
- Royalties are recognised when the right to receive payment is established.

Source: Anglo Platinum annual financial statements 2008

Public Sector
When performing the field work of an audit, recording transactions or preparing financial statements, trainee accountants will gain exposure to different components of the financial statements. Each of these components will have different accounting policies applicable to them. Trainee Accountants must assess whether the accounting policies selected are appropriate in relation to the accounting framework, e.g. revenue generated by foreign exchange transactions in the statement of comprehensive income must align to the principles outlined in GRAP 9. The accounting policies selected may also have to comply with GRAP 3.
<table>
<thead>
<tr>
<th>COMPETENCY</th>
<th>AE(C)2 ACCOUNTS FOR THE ENTITY’S TRANSACTIONS, INCLUDING NON-ROUTINE TRANSACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TASK</strong></td>
<td><strong>AE(C)2.1 Analyses and calculates, or evaluates the accounting for routine transactions, for example sales, cost of sales, operating expenses, etc.</strong></td>
</tr>
</tbody>
</table>

**Public Practice**
The auditor’s primary concern with routine transactions is that all the transactions should be accurately captured and appropriately authorised, especially if the company operates within a high transaction volume environment.

When performing the planning and field work of an audit or preparing financial statements, trainee accountants must document the client’s processes, systems and controls for processing routine transactions, e.g. sub-systems or Point-of-sale systems feeding into the General Ledger or Enterprise Resource Planning Systems such as SAP. For less sophisticated clients, Trainee Accountants may substantively test the processing of routine transactions by examining the flow of transactions within accounting packages (e.g. Pastel Accounting) or by the utilisation of CAATs.

**Commerce and Industry**
Trainee Accountants must be able to execute or supervise the processing of accounting transactions in various accounting packages (e.g. SAP, Pastel and Oracle).

**Public Sector**
When performing the planning and field work of an engagement client, Trainee Accountants must document the client’s processes, systems and controls for processing routine transactions, e.g. Postbank implemented SAP’s new solution for high-volume transaction banking.

Non-assurance Trainee Accountants must be able to execute or oversee processing of accounting transactions in various accounting and operational packages like SAP, Cognos and eNatis.

| TASK          | **AE(C)2.2 Analyses and calculates, or evaluates the accounting for non-routine transactions, for example mergers and acquisitions, divestitures, provisions etc.** |

According to Puttick and Van Esch, non-routine transactions are expected to:
1. Be low in transaction volumes
2. Be unpredictable in terms of the timing
3. Require a high degree of judgment in order to determine the value of the transaction.
4. Involve questions regarding intent or economic substance.

**Public Practice**
When performing the field work of an audit, trainee accountants must evaluate and document the treatment of non-routine transactions, e.g. impairment of assets, change in accounting policy, consolidations, acquisitions, revaluations, foreign exchange translation of financial statements, provision for bad debts, etc.

**Commerce and Industry**
Trainee Accountants must be able to execute or oversee and document the accounting treatment of non-routine transactions, e.g. year-end transactions like the valuation of investments in private companies, impairment of assets, change in accounting policy, consolidations, acquisitions, revaluations, foreign exchange translation of financial statements, provision for bad debts, etc.
Public Sector
When performing the planning and field work of an audit or preparing financial statements, trainee accountants must be able to execute or oversee and document the treatment of non-routine transactions, e.g. year-end transactions, impairment of assets, change in accounting policy, consolidations, acquisitions, revaluations, foreign exchange translation of financial statements, provision for bad debts, etc.

<table>
<thead>
<tr>
<th>TASK</th>
<th>AE(C)2.3 Performs or evaluates reconciliations of financial information (e.g. bank reconciliations, accounts payable reconciliation, general ledger control account reconciliations etc.).</th>
</tr>
</thead>
</table>

Reconciliations are a handy tool to ensure that a particular data set is free from duplications and errors, as well as to identify fraud.

Public Practice
When performing the field work of an audit, trainee accountants must interrogate reconciliations performed by management and evaluate high risk reconciling items or perform reconciliations relating to the audit, e.g. reconciling the audit pack to the General Ledger.

Commerce and Industry
Trainee Accountants must be able to perform reconciliations of control accounts, suspense accounts, bank accounts and subsidiary ledgers. Trainee Accountants must be able to identify, evaluate and resolve high-risk reconciling items.

Public Sector
When performing the field work of an audit, trainee accountants must interrogate reconciliations performed by management and evaluate high risk reconciling items or perform reconciliations relating to the audit (e.g. reconciling the audit pack to the General Ledger). Trainee Accountants must be able to perform reconciliations of control accounts, suspense accounts, bank accounts and subsidiary ledgers.
COMPETENCY | AE(C)3 PREPARES OR EVALUATES FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

| TASK | AE(C)3.1 Prepares or evaluates financial statements in accordance with the identified accounting framework. |

**Public Practice**
When performing the field work of an audit, trainee accountants must be able to map financial information from the accounting package, audit working papers and trial balance to the correct layout of the financial statements in accordance with the relevant accounting frameworks. Part of this process will include evaluating the classification and allocation of line items in the financial statements. Trainee accountants must assess the quality of disclosures contained in the financial statements and provide feedback when necessary.

**Commerce and Industry**
Trainee Accountants must be able to extract financial information from the accounting package to draft the financial statements in accordance with the relevant accounting frameworks. Part of this process will include classification and allocation of line items in the financial statements. Trainee Accountants must ensure the correct disclosure in the financial statements.

**Public Sector**
Trainee Accountants must be able to map financial information from the accounting package, audit working papers and trial balance to the correct layout of the financial statements in accordance with the relevant accounting frameworks. Part of this process will include evaluating the classification and allocation of line items in the financial statements. Trainee Accountants must also be able to assess the quality of disclosures in the financial statements and provide feedback when necessary. This will be useful in the preparation of financial statements or the audit of financial statements.

| TASK | AE(C)3.2 Prepares or evaluates notes to the financial statements in accordance with the identified accounting frameworks. |

**Public Practice**
When performing the field work of an audit, trainee accountants must be able to map financial information from the accounting package, audit working papers and trial balance to the correct layout of the notes to the financial statements in accordance with the relevant accounting frameworks. Part of this process will include evaluating the accuracy and integrity of information required for the notes. Trainee Accountants must be able to assess the completeness, accuracy and validity of the disclosure of the financial statements and provide feedback when necessary.

**Commerce and Industry**
Trainee accountants must be able to extract financial information from the accounting package or relevant database to draft the notes to the financial statements in accordance with the relevant accounting frameworks. Part of this process will include preparing notes that are valid, accurate and complete, fulfilling disclosure requirements of the relevant accounting framework and providing valuable information to end users.

**Public Sector**
When performing the field work of an audit, Trainee Accountants must be able to map financial information from the accounting package, audit working papers and trial balance to the correct layout of the notes to the financial statements in accordance with the relevant accounting frameworks. Part of this process will include evaluating the accuracy and integrity of information required for the notes. Trainee Accountants must be able to assess the completeness, accuracy and validity of the disclosure of the financial statements and provide feedback when necessary. Trainee Accountants must also be able to extract financial information from the accounting package or relevant database to draft the notes to the financial statements in accordance with the relevant accounting frameworks.
Directors Reports: In the Director’s report the following considerations are typically discussed, as evident from the 2008 BHP Billiton and Sasol director’s reports:
1. Principal activities, state of affairs and business review
2. Share capital and buy-back programs
3. Results, financial statements and going concern
4. Directors
   a. Remuneration and share interests
   b. Indemnities and insurance
   c. Employee policies and involvement
5. Environmental performance
6. Dividends
7. Auditors
8. Non-audit services
9. Political and charitable donations
10. Research and development
11. Creditor payment policy
12. Subsequent events
13. Performance in relation to environmental regulation
14. Share capital, restrictions on transfer of shares and other additional information

Corporate Governance Reports may include factors such as:
1. Governance at the entity (Board powers and procedures)
2. Shareholder engagement
3. Board of Directors – Composition, review, re-election and renewal
4. Company secretary
5. Board Committees
6. Risk management
7. Sustainability reporting
8. Business conduct
9. Market disclosure
10. Conformance with corporate governance standards

Trainees can utilise the information in these reports to assess if a company will remain a going concern, to identify business risks and future strategy, and to obtain knowledge of the business.

Public Practice
Trainee accountants must be able to utilise knowledge gained from the planning and execution stages of the audit to assess and document the appropriateness of information prepared by management in the annual report. This may include the director's report, corporate governance report, sustainability report, etc.

Commerce and Industry
Trainee accountants must demonstrate an awareness of the non-financial information disclosed in the annual report of their company and those of competitors. Trainee accountants should be evaluated on their comprehension of the non-financial information in the annual report.

Public Sector
Trainee accountants must be able to assess and document the appropriateness of information prepared by management in the annual report, utilising knowledge gained from the planning and execution stages of the audit or from their business knowledge of the entity. This overview may include the director's report, corporate governance report, sustainability report, etc.
COMPETENCY | AE(C)4 INTERPRETS FINANCIAL STATEMENTS

TASK | AE(C)4.1 Calculates profitability, efficiency (activity), solvency and liquidity ratios from the financial statements.

Standard ratios:
The following standard ratios can be utilised to assess profitability, solvency and liquidity:
1. Gross profit margin
2. Net Profit margin
3. Return on Assets
4. Return on Equity
5. Current ratio
6. Quick ratio
7. Debtors days, Creditor days and Inventory days
8. Debt to Equity ratio
9. Debt ratio
10. Interest cover ratio
11. Cash flow cover ratio

At an advanced level, trainees should also be able to identify and discuss revenue drivers and cost drivers per division, segment, and geographical area or revenue stream.

The following is an example of performance ratios for an entity comprising of 2 divisions:

Source: SAICA
**Public Practice**
When completing the planning and field work of an audit, trainee accountants should calculate and document the financial condition and performance of their client and their client’s competitors.

**Commerce and Industry**
When preparing financial statements, trainee accountants should calculate and document the financial condition and performance of their training office and its competitors.

**Public Sector**
When preparing or auditing financial statements, trainee accountants should calculate and document the financial condition and performance of their training office or the auditee, and compare it to industry benchmarks of similar entities.

<table>
<thead>
<tr>
<th>TASK</th>
<th>AE(C)4.2 Based on the ratios calculated in AE4.1, analyses and explains the financial performance of the business, and provides recommendations from analysis.</th>
</tr>
</thead>
</table>

Refer to the previous example.

**Public Practice**
Trainee accountants should use information from the ratio analysis to identify audit risk items as well as provide feedback to the client on areas of improvement.

**Commerce and Industry**
Trainee accountants should use information from the ratio analysis to identify strengths, weaknesses, opportunities and threats for their training office or related entity in relation to primary entity.

**Public Sector**
Trainee accountants should use information from the ratio analysis to identify strengths, weaknesses, opportunities and threats for their training office or related entity in relation to primary entity or utilise the information to identify audit risks and to provide feedback to management on potential areas for improvement.
PERVASIVE PROFESSIONAL SKILLS

BUSINESS ETHICS

Whether recently qualified or highly experienced, all CAs are required to uphold ethical principles and conduct themselves professionally. Acting with integrity, through adherence to these values, is fundamental to the profession’s commitment to excellence and the public interest.

Integrity means acting ethically and honestly, carrying out all work with an objective frame of mind and maintaining independence, both in fact and in appearance, when involved with independent services. Integrity also means that CAs raise and address issues regarding stewardship — that is, the discharge by management of its stewardship responsibilities to those who have provided resources to an entity. CAs monitor whether management is being accountable and honest in addressing issues of stewardship and when making decisions or reporting information.

It is this strong commitment to integrity in everything that CAs do that earns them their reputation for trustworthiness, and the confidence of clients, employers and the public at large. As a result, clients and employers seek to involve CAs in the most significant financial and business decisions that they face.

_The greatest evil is not done in those sordid dens of crime that Dickens loved to paint. It is conceived and moved, seconded and carried and minuted, in clean, carpeted, warmed and well-lighted offices, by quiet men with white collars and cut fingernails, and smooth-shaven chins, who do not need to raise their voices._ --C.S. Lewis

<table>
<thead>
<tr>
<th>COMPETENCY</th>
<th>BE(C) ACTS ETHICALLY AND IN ACCORDANCE WITH THE RULES OF PROFESSIONAL CONDUCT</th>
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<tbody>
<tr>
<td>TASK</td>
<td>BE(C)1 Displays honesty and integrity.</td>
</tr>
</tbody>
</table>

Public Practice/Commerce and Industry/Public Sector
According to SAICA’s code of professional conduct, Integrity can be defined as: “A professional accountant should be straightforward and honest in all professional and business relationships.”

A professional accountant should not be associated with reports, returns, communications or other information where they believe that the information:
1. Contains a materially false or misleading statement;
2. Contains statements or information furnished recklessly; or
3. Omits or obscures information required to be included where such omission or obscurity would be misleading.

Source: SAICA Code of Professional Conduct Section 110

Research has shown that the pressure to meet unrealistic business objectives and time pressure will often lead to unethical behaviour. Trainee accountants must identify a personal or professional situation where they are faced with an ethical dilemma. They must resolve the situation as they see fit and report on the decision making process that they followed (providing evidence where appropriate).

Examples of situations include:
1. Providing honest feedback to subordinates
2. Recording and disclosure of unplanned time
3. Being honest with assessment documentation,
4. Claiming for travel,
5. Accurate recording of overtime,
6. Adequately responding when others have cheated (Phantom ticking)
7. Use of company resources for personal reasons
According to SAICA’s Code of Professional Conduct, due care can be defined as: “A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. A professional accountant should act diligently and in accordance with applicable technical and professional standards when providing professional services.”

Failure to perform work without due care can result in a civil law suit where damages can be claimed from a Chartered Accountant. Damages awarded will depend on financial losses incurred as a result of negligence.

The following is an example of a situation where an audit practitioner was fined and suspended due a lack of due care. The individual was fined R100,000 and he also had to contribute R300,000 to cover the legal expenses of the prosecution.

**DISCIPLINARY COMMITTEE**

The Disciplinary Committee met once during this period, on 22 June 2009 to hear the case against Mr V. The matter related to the audit of financial statements of various property companies, which were public but unlisted.

The finding and sentence of the committee, from which the facts are apparent, were delivered by the chairman, Adv W HG van der Linde SC. They are reproduced in full.

In this matter the respondent was charged with 13 counts of improper conduct. After documentation substantiating the charges were made available to him, he pleaded guilty to some but not others of those charges. At the commencement of the proceedings the pro forma prosecutor applied to amend the charge-sheet. The effect of the amendment was to reduce the charges and to re-categorise them. Counsel who appeared for the respondent did not object to the amendment and it was granted. The respondent then pleaded guilty to the charges as amended and he was found guilty on his plea.

Source: IRBA news Issue 10 October 2009

**Public Practice**

This skill will be displayed through the completeness and quality of audit working papers and audit files produced. Another indicator is the speed with which review notes are cleared or the timeous requesting of assistance for sections where support is required.

**Commerce and Industry**

This skill will be displayed through the quality and accuracy of the preparation of month end files and accounting reconciliations. Another indicator is the timeous clearing of any questions raised by supervisors during the review of reconciliations or month end files.

**Public Sector**

This skill will be displayed through the quality and accuracy of the preparation of month end files, audit files or accounting reconciliations. Another indicator is the timeous clearing of any questions raised by supervisors during the review of reconciliations, month end files or audit files.
**TASK** BE(C)3 Maintains objectivity and independence

**Public Practice / Commerce and Industry / Public Sector**
Providing accurate and objective feedback to colleagues with whom they share a personal relationship, sharing information with friends objectively and enforcing the standards of the audit program or the quality of accounting information prepared. This objective may also be achieved through attendance of the compulsory SAICA Ethics Programme and will be measured by exception.

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**TASK** BE(C)4 Avoids conflict of interest

**Audit firm / Commerce and Industry / Public Sector**

“A conflict of interest occurs when an individual or organisation is involved in multiple interests, one of which could possibly corrupt the motivation for an act in the other.

A conflict of interest can only exist if a person or testimony is entrusted with some impartiality; a modicum of trust is necessary to create it. The presence of a conflict of interest is independent from the execution of impropriety. Therefore, a conflict of interest can be discovered and voluntarily defused before any corruption occurs.”

*Source: Wikipedia*

Chartered Accountants have a common law duty to avoid any conflict of interest and to act in the best interest of the company, audit firm or public sector entity at all times.

The following are examples from the SAICA code of Conduct that may result in a conflict of interest for members:

1. A financial interest in a client or jointly holding a financial interest with a client.
2. Undue dependence on total fees from a client.
3. Having a close business relationship with a client.
4. Concern about the possibility of losing a client.
5. Potential employment with a client.
6. Contingent fees relating to an assurance engagement.
7. A loan to or from an assurance client or any of its directors or officers.
8. The discovery of a significant error during a re-evaluation of the work of the professional accountant in public practice.
9. Reporting on the operation of financial systems after being involved in their design or implementation.
10. Having prepared the original data used to generate records that are the subject matter of the engagement.
11. A member of the assurance team being, or having recently been, a director or officer of that client.
12. A member of the assurance team being, or having recently been, employed by the client in a position to exert direct and significant influence over the subject matter of the engagement.
13. Performing a service for a client that directly affects the subject matter of the assurance engagement.

A professional accountant in business may face pressure to:

1. Act contrary to law or regulation.
2. Act contrary to technical or professional standards.
3. Facilitate unethical or illegal earnings management strategies.
4. Lie to, or otherwise intentionally mislead (including misleading by remaining silent) others, in particular:
   - The auditors of the employing organisation; or
   - Regulators.

*Source: SAICA Code of Professional conduct; Sections 220 and 310*
**TASK BE(C)5 Protects the confidentiality of information**

Public Practice/Commerce and Industry/Public Sector
The principle of confidentiality imposes an obligation on professional accountants to refrain from:
1. Disclosing outside the firm or employing organisation confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and
2. Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.

*Source: SAICA Code of Professional Conduct section 140*

**Case study 1:**
As a respected employee and thought leader, you find yourself in a difficult situation. One of your peers has approached you with some sensitive information. About 24 hours ago he was attending a project meeting at the conference facilities of a local hotel. Coincidentally, a competing firm was also holding a conference at the same hotel on the same day. As your colleague wandered into one of the breakaway rooms, he saw a document that was left behind by the competitor. While reading it he realised that it contained highly confidential information about the competitor’s marketing effort. Should you use this information, it would give you the competitive edge. The colleague apparently handed the document over to hotel personnel at the lobby, without identifying himself, but did phone you later that day to convey the important aspects of the document, as they reflect on your field of expertise. You are now going into a strategic management meeting and are not sure if you should use the contents of the said “lost document” to your organisation’s advantage. What should you do?

**Case study 2:**
You are asked to address an international audience at one of the local universities. This falls within the parameters of the marketing initiatives of your organisation and it is viewed as a good opportunity to network with external stakeholders. The invitation, addressed to your organisation, asked for a representative to focus on the current economic situation and the so-called sub-prime credit crisis. You are an expert in financial services and while rendering consultancy on a regular basis to clients, you are also studying part-time to improve your knowledge of the subject. During the QandA session you are asked about your organisation’s view on a specific topic that recently appeared on the front page of local newspapers. Although you are not sure what the official view on the specific topic is, you feel you are more than qualified to answer the question. Not only are you the leading authority in your organisation on this issue, you also have scientific evidence (through your personal studies) to back up your arguments. The captive audience, mostly academics, will appreciate an honest answer and you feel that sidestepping the question may do more harm than good. What should you do?

**TASK BE(C)6 Maintains and enhances the profession’s reputation**

Public Practice/Commerce and Industry/Public Sector
Trainee accountants should not bring the profession into discredit through unethical or unprofessional behaviour.

Chartered accountants should be careful when they market themselves. They should not:
1. Make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or
2. Make disparaging references or unsubstantiated comparisons to the work of others.

*Source: SAICA Code of Professional Conduct section 150*

**TASK BE(C)7 Adheres to the rules of professional conduct, including the SAICA Code of Professional Conduct**

Public Practice/Commerce and Industry/Public Sector
All trainee accountants are required to maintain the highest professional standards of conduct and adhere to all the specified sections as stipulated in the Code of Professional Conduct.
### TASK BE(C)8 Identifies and adequately responds to potential ethical dilemmas

**Public Practice/Commerce and Industry/Public Sector**

Ethical dilemmas in the workplace should be dealt with and resolved in a professional manner by always applying the principles as set out in Code of Professional Conduct.

Other potential ethical dilemmas may include:

1. Paying out big bonuses to the management team of an entity, given the entity’s struggling financial position during the year under review.
2. In an attempt to keep profits as high as possible, not to spend any money on repairs and maintenance in a manufacturing company.
3. How to deal with employees who have contracted HIV in the work environment.

### TASK BE(C)9 Applies ethical principles to business activities, business decisions and policy development

**Public Practice/Commerce and Industry/Public Sector**

Refer to examples listed above.
MANAGEMENT AND LEADERSHIP

Wide-ranging professional skills make up those qualities that the CA brings to any task. These skills encompass the creation, analysis, evaluation, and synthesis of information and ideas; problem-solving and decision-making skills; communication and management skills, and proficiency in technology. They are vital to the professional success of CAs.

COMPETENCY | ML(C) DEMONSTRATES AN ABILITY TO MANAGE AND LEAD

**TASK** | **ML(C)1** Keeps abreast of global and local economic events through reading and interpreting the financial and business press

**Public Practice/Commerce and Industry/Public Sector**
Trainee accountants must be:
- Aware of what is happening in the world and how this impacts on the business environment
- Up to date (e.g. read newspapers or financial and business magazines)
- Aware of professional matters
- Able to view matters holistically
- Aware of developments in accountancy trends and techniques

Business happens within a context, and any businessperson or organisation that is unaware of the context within which they are operating will invariably be confronted with some nasty surprises that will threaten their success and even existence. It is therefore important, as a businessperson, to keep abreast of what is going on in the world around you. This includes being aware of what is going on globally, nationally and locally, as well as considering economic, political and social issues that may affect your business directly or indirectly.

Trainee accountants are being prepared for a life in business. The sooner they can get into the habit of staying abreast with economic, political and social events (globally and locally) the better off they will be during each stage of their careers. Staying abreast with what is happening in the world can also add significant meaning and excitement to the trainee accountant’s work during the training contract – they may even realize that it gives them an advantage in their work and interactions with others. If they are able to recognise how a change in the interest rate or a shift in oil supply affects their organisation, or the client’s businesses, then they will have a much better picture of what they are doing and how external forces are impacting their day-to-day work and life. It also places the trainee accountant in a better position to lead, motivate and advise others. If they wish to position themselves for a successful and meaningful career in business, then they should start developing the habit of reading good quality newspapers, listening to informative radio shows and visiting news-rich websites early on in their careers.

**TASK** | **ML(C)2** Identifies critical factors in the economic, social, legislative, regulatory and political environment that impacts on business and financial decisions of an entity

**Public Practice/Commerce and Industry/Public Sector**
Trainee accountants will demonstrate business and political awareness by:
- Referring to broad business and political issues in audit planning documents and relating them back to the business of the client.
- Discussing the impact of broad business and political issues with more senior people in the organisation, and with clients.
- Referring to broad business and political issues as the basis for certain assumptions in audit working papers e.g. in an analytical review.
- Introducing new ways of doing things based on current accounting and auditing trends.
Public Practice/Commerce and Industry/Public Sector
The identification of factors which may impact an entity’s financial strategies, mostly relates to risks that can affect an entity’s competitive advantage. Trainee accountants should be able to perform an analysis of the business environment of an entity. In order to accomplish this goal, trainee accountants should be able to prepare the following:
- Perform a structural analysis of various industries
- Perform a competitor analysis
- Be able to assess how competitors may react to an entity’s strategy
- Be able to interpret market signals
- Identify competitive areas where an entity can obtain a competitive advantage.

Various performance management techniques can be utilised in order to ensure that goal concurrence is obtained throughout an entity in order to implement a financial strategy. The following are examples of management techniques:
- Balanced Scorecard
- Economic Value Added techniques
- Residual income

Public Practice/Commerce and Industry/Public Sector
The following are examples of project management techniques that must be applied by trainee accountants:
- Budgets: Trainees must be able to
  - Make contributions
  - Understand the process
  - Plan resources (staff, materials, etc.) for assignments
- Planning of people/resources to assist with their development
- Managing their own development
- Project milestones
- Project stakeholders
- Critical path analysis

Much of the work of a chartered accountant is project based - whether it is instituting a new reporting system in a commercial entity, or being responsible for a year-end audit at a client. Thus the ability to plan and manage a project is very important. Planning includes ensuring that goals are set for the project, assembling resources (people, finances, technology etc.), setting tasks and establishing timelines. Managing requires one to implement a plan and make adaptations on a day-to-day basis so as to achieve the set goals. Managing a project is often a paradoxical process; one needs to manage a tension between achieving the project goals, delivering on time within certain costs, and ensuring the motivation and development of the people on the project.

It is likely that a trainee accountant will work on project teams from very early on in their training contract. Whether it is as part of an audit team in an audit firm, or on a project team within a business, they will need to play a role in contributing to the outcome of a specific project. As a trainee accountant works on a project team, they will get the chance to participate in planning and budgeting processes and to observe what works, and does not work, in terms of managing a project. As they progress through their training contract, they will be afforded the opportunity to play a more active role in planning and managing projects. This may include being the accountant in charge on an audit, overseeing the implementation or upgrade of a system, doing a review of controls with an organisation, or even managing a training course or social event for the office.

Trainee accountants will need to plan and manage a project under the following circumstances:
- When in a position of responsibility for an audit team.
- If they have to oversee the implementation or upgrade of a system within an organisation.
- In doing a review of controls and reporting on weaknesses in controls within an organisation.
• When asked to do special projects by a senior person in the organisation.
• When organizing a social activity, social event or training course within the office

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<th>TASK</th>
<th>ML(C)5  Leads effective meetings</th>
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**Public Practice/Commerce and Industry/Public Sector**

This skill focuses on the ability of a trainee accountant to effectively interact with others in a professional setting. Specific professional settings relevant to the application of this skill are meetings and performance feedback discussions, as well the execution of professional tasks and assignments.

A trainee accountant should therefore be able to:
• Plan and host a meeting.
• Interact effectively in a professional meeting.

**Planning a meeting**:
The trainee accountant could ask for an opportunity to arrange an internal meeting e.g. a meeting of a social committee or internal staff meeting. The trainee accountant should ask a superior for an outline of what they expect from the meeting and for a basic framework for planning and leading a meeting. They should then follow through on the assignment, setting up the meeting in a professional way, making sure the right people are invited, that they get an agenda, that the meeting is well managed and the minutes from the meeting are recorded and distributed. After they have carried out such a task they should ask their superior for feedback on how they did, what worked, what didn’t work and what they should do differently next time around?

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<th>TASK</th>
<th>ML(C)6  Respects deadlines, manages time and organises tasks logically</th>
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**Public Practice/Commerce and Industry/Public Sector**

A trainee accountant should be able to:
• Manage time effectively
• Identify and prioritise significant issues
• Complete jobs within time frames

The world of business, and particularly finance, is riddled with tough deadlines. Chartered Accountants are regularly required to work under high pressure to get things done within a certain timeframe – this makes the ability to prioritize an important skill. From one week to the next, a CA(SA) needs to be effective in managing time, but more specifically, when working within a specific deadline, a CA(SA) needs to be able to identify and prioritise the important issues and work on what is critical. Chartered accountants who consistently miss deadlines, inside or outside of public practice, and who fail to meet the expectations of their role, will create a bad impression, placing themselves and the profession in a very unfavourable light. It will also mean that the organisations or clients for whom they are working will not be served well.

Almost every task within an accounting department, as well as very task on an audit has a deadline attached to it. Throughout the trainee accountants training contract they will be working under time pressure. The earlier they learn to manage their time effectively and prioritize when confronted with a deadline, the more effective they will be as a trainee accountant, and the more they will probably enjoy their work. Time management will be required to balance work and studies, to decide in what order to do tasks on an audit, to manage critical tasks on a project, and to ensure that they still have some time for sport, fun and socializing.

Trainee accountants will need to prioritise when they find themselves in the following situations:
• When they are given a number of tasks relating to a specific assignment and they need to decide which task to do in which order.
• When they are working on multiple assignments or projects with differing deadlines, and they have a number of tasks relating to each project or assignment that need to be done in a specific order to make sure that the deadlines are met.
• When preparing for an exam, or when they have a university assignment to complete in addition to work responsibilities and they need to decide in what order to do each of the different activities.
When assigning work to junior trainees on an audit team to make sure that all the work is completed within a specified deadline.

**TASK ML(C)7 Delegates tasks effectively**

**Public Practice/Commerce and Industry/Public Sector**  
A trainee accountant should be able to:

- Identify the right people for the right jobs  
- Delegate work to correct levels  
- Delegate appropriately  
- Apply economy of effort  
- Review and provide feedback on delegation

If professionals had to do all their work alone without engaging the assistance of others, they would be very ineffective and make very little money. Most high-powered roles in business require delegation of work to others. It is an art, which if successfully executed, will leave the person who has been asked to take on a specific task or responsibility, feeling empowered and motivated to get the job done, and to get it done well. However, if badly done, delegation can have very negative consequences for all involved. The further a professional advances in his/her career, the more important effective delegation is likely to become. But the sooner the skill is acquired, the sooner benefits will be noticed, not least of which will be career advancement.

When trainee accountants start their training contracts, they will be the ones being delegated to. Senior people will assign tasks to the trainee accountants that they will need to carry out in accordance with their instructions. It is worthwhile for the trainee accountant to note how people go about assigning tasks to them, and how they feel about the tasks that get assigned to them. If they feel excited and empowered, then the person probably did an effective job in delegating. If they feel lost, unmotivated, unsure or dejected, then the person likely did a poor job of delegating. The trainee accountant should pay attention to what the people who make them feel motivated do, compared to what the people who make them feel dejected do – this will give them insight into what it takes to be effective in delegating to others. As a trainee accountant advances in seniority in their training contract, it is critical that they learn to delegate well and with ease, as they will be expected to delegate in a number of circumstances. From delegating audit sections to junior trainees, to getting someone else to take over an admin task for them, to empowering others to do work that they have overall responsibility for. If they can develop the skill of effective delegation as soon as possible, it will serve them well throughout their training contract, and will attract career success for many years thereafter.

**Trainee accountants will need to delegate when:**

- They assign work to others – this may be assigning an audit section, and inventory count, reconciliation or an admin task.  
- They are required to work on more than one task or assignment at a time, and they are given an extra person to help them.  
- They pass down an office admin task to a more junior person e.g. arranging social events or organisation of the office sports team.  
- They go on study leave or vacation, and they need to ask someone to assist them with work that needs to be completed whilst they are away.

**TASK ML(C)8 Manages and supervises others effectively**

**Public Practice/Commerce and Industry/Public Sector**  
A trainee accountant should be able to:

- Give performance feedback in a balanced and equitable way.  
- Operate effectively with others on professional tasks and assignments, working through and resolving conflicts and personality clashes.
An effective team leader should delegate tasks to team members, set clear expectations and follow up on the progress of team members as they carry out the task given to them; as well as giving them feedback during and after the process.

**TASK**  
**ML(C)9 Works effectively with colleagues and clients from diverse backgrounds and cultures**

### Public Practice/Commerce and Industry/Public Sector

The South African workplace is a melting pot of people from different cultural and intellectual backgrounds. To effectively operate in such a workplace, a professional person therefore needs to be able to recognise and respect that people are different in many ways. Professionals need be able to deal with both cultural and intellectual differences internally – with co-workers and others in the organisation – and externally – with customers, suppliers and clients.

Cultural diversity encompasses the cultural differences that exist between people, such as language, dress and traditions; and the way societies organise themselves, their concept of morality and religion, and the way they interact with the environment. Intellectual diversity encompasses differences in intellect and perspectives that emanate primarily from different levels and focus of education and training. Professional people need to work with people and serve clients that cut across cultural divides and have different levels of education and training. It is thus critical to be able to recognise where people are different and to then be able to leverage those differences for the benefit of the project, assignment or task on which they are working.

Trainee accountants will need to deal with diversity issues with other trainees, with employees in the organisation in which they are employed, and with clients. Other trainees are likely to come from different cultural backgrounds and thus, in dealing with trainees on training courses, in project teams and in day-to-day activities, they will need to recognise and respect people’s cultural differences. This may play out in many ways, such as in accepting that others may observe different religious holidays from them, which could influence their ability to work at certain times, or in peoples varying inclinations to partake in social activities. Ideally they should aim to openly discuss these issues with others so that during their training contract they can become more culturally aware of, and sensitive to the differences that may exist between cultures, thereby learning to respect others for their uniqueness.

Trainee accountants will also need to work with people of different intellectual, educational and experience levels. In many instances they may need to engage with people who are not trained as accountants, and they may need to discuss complex financial issues with such people. They should be sensitive to the fact that not everyone understands accounting principles or accounting jargon, and so they should learn to explain issues in a simple, understandable way without being condescending or disrespectful. They should also always check that the other person understands what they are communicating. They may also need to interact with senior people who are operating on a higher intellectual and experience level than what they are used to. In such instances, they should be comfortable asking questions to ensure that they correctly understand what such a person is saying.

Trainee accountants will need to demonstrate an awareness of diversity issues in the following situations:

- On training courses when working in teams where people are from different cultural backgrounds.
- Responding to comments passed when working in project teams where there may be a cross section of people from different cultural backgrounds.
- In day-to-day interactions with people within the organisation e.g. interacting with both senior people and junior trainees, as well as with administrative staff - always recognizing differences in education, training and experience.
- Arranging or attending social events with clients, or with others from the company. For example, when arranging a client lunch, being respectful of people’s dietary requirements.
- Interacting with client personnel in gathering audit evidence e.g. when observing a stock count or getting access to records one may need to deal with people of different levels of education and experience.
- Dealing with technical specialists in or outside the organisation – this could give rise to instances when one needs to deal with people on a different intellectual level.
- Travelling with colleagues to out of town jobs and assignments may cause situations where there is a need to confront and deal with cultural differences.
Public Practice/Commerce and Industry/Public Sector

A trainee accountant should be able to:

- Work in a team
- Achieve assignment objectives

Professionals typically work in teams. Part of being able to effectively carry out one’s tasks as a professional invariably means having to work with others in a team. In the long run some CAs(SA) will lead large organisations where they will be responsible for team cohesion and the alignment of thousands of people; whereas others will migrate into very specialist roles in which teams are small or even non-existent. Whatever career path a CA(SA) eventually chooses, working effectively in a team will certainly be critical in the early part of their career, and they should thus develop and demonstrate the ability to firstly work as part of a team and secondly to lead a team of people.

When working within a team it is important for a young professional to understand their role in the team and to contribute to the overall performance of the team. Further down the line it is important for them to be able to assemble a team of people, set objectives, motivate the team and achieve objectives.

Within the domain of teamwork the concept of delegation is important both in terms of being delegated to and in terms of delegating to others. A competent team player should effectively carry out tasks that are delegated to them and be able to give feedback to the team leader in terms of their progress on such tasks. An effective team leader should delegate tasks to team members, setting clear expectations and following up on their progress as they carry out the task given to them; as well as giving them feedback during and after the process.

Trainee accountants in public practice typically work in audit teams throughout their training contract. Only on very small audits do trainees operate in isolation. Trainee accountants will form part of the team early in the training contract, accepting instructions from more senior people on their team. Later in their training contract they will take a supervisory role within a team, delegating tasks, providing feedback, and serving as an information link between the audit team and the audit manager or partner. Audit teams typically operate together on a single audit and once the audit is over a new team is formed for the next assignment. Trainee accountants therefore need to be adaptable to be able to work effectively with new teams throughout their training contracts.

If trainee accountants are in commerce and industry or in the public sector, they will be placed on project teams within different departments during their rotations. Such teams are likely to be established to achieve specific tasks within the organisation. They will need to be flexible in moving from one team to the next as they rotate. It could be a challenge to adapt as they operate with new team leaders and members throughout their rotation, but this is part of the learning process embedded in the training contract, and is a valuable one.

Trainee accountants will also be required to work in teams on training courses. Many experiential learning exercises require trainees to operate in groups creating another context for trainees to develop teamwork skills.

Examples of when trainee accountants will be required to demonstrate teamwork include:

- When a trainee accountant is assigned to a project a team in the department in which they are operating and they need to integrate with organisational teams to achieve specific organisational objectives.
- If they get the opportunity to serve on internal committees during their training contract e.g. a social, sport or trainee representative committee. This will provide an opportunity to work within a team environment to achieve goals.
- On training programmes that require teamwork for the completion of activities. Such activities will encourage trainees to both build and exhibit teamwork skills.
- When participating in corporate social events which may involve teamwork (e.g. action cricket, inter-firm soccer, action netball or corporate video creation).
- If they are seconded to other departments within a firm for a short period (e.g. being sent to work in the tax department), and they need to integrate quickly with a team in that department in order to be able to what is required on the specific assignment.
Public Practice/Commerce and Industry/Public Sector
Trainee accountants should be able to resolve personality clashes, e.g. colleagues, customers, suppliers.

This skill focuses on the ability of a trainee accountant to effectively interact with others in a professional setting. Specific professional settings, relevant to the application of this skill, are meetings and performance feedback discussions, as well in the execution of professional tasks and assignments.

A trainee accountant should therefore be able to:
- Be comfortable receiving performance feedback.
- Give performance feedback in a balanced and equitable way.
- Operate effectively with others on professional tasks and assignments, working through and resolving conflicts and personality clashes.

Trainee accountants tend to work in teams with others trainees. Teams may be very small and homogenous (just two trainees from very similar backgrounds), or they may be large project or audit teams made up of many people from diverse backgrounds. This skill focuses specifically on the trainee accountant's ability to interact effectively with other individuals on a team on a one-on-one basis, as opposed to being able to lead the overall team (this skill, which is the teamwork aspect of a trainee’s interactions, is discussed in the previous section). As trainee accountants work with other trainees they are likely to come up against people with whom the potential for conflict exists, or with whom they have might have a personality clash. Their ability to identify and resolve such a situation is part of this skill. This skill will also prove particularly valuable later on in the training contract, when they may be required to give more junior trainees feedback on their performance on a task or assignment.

Trainees work extensively with more senior people – managers or partners (if in an audit firm). Such relationships provide a context in which they need to work effectively with others and potentially manage conflict. Trainees are also required to receive performance feedback from those more senior than them, and it is in such a situation that this skill may prove important.
PERSONAL ATTRIBUTES

The profession’s commitment to be leaders in enhancing decision-making and improving organisational performance requires CAs to foster individual characteristics that are vital to fulfilling this commitment. Thus, CAs take responsibility for maintaining their own professional competence by maintaining awareness of new developments and for managing their own careers. They know their own limitations, and use professional judgment in deciding when to involve specialists and other professionals. They demonstrate leadership, exercise initiative, and strive constantly to add value; they are innovators, and they are adaptable. These individual attributes manifest themselves in all of the CA’s professional undertakings and at all stages of his or her career.

In addition to these attributes CAs should have a combination of intellectual ability and ability to apply themselves which together with other competencies enables there to be life-long learning. It is recognised that CAs work in demanding situations and that intellectual and application ability should be of a level which enables life-long learning to occur in this context.

COMPETENCY | PA(C) MAINTAINS AWARENESS OF NEW DEVELOPMENTS, EXERCISES INITIATIVE, COMMUNICATED EFFECTIVELY AND STRIVES CONSTANTLY TO ADD VALUE

TASK | PA(C)1 Responds and adapts to change

Public Practice/Commerce and Industry/Public Sector

A trainee accountant should be able to:
- Demonstrate an attitude towards change
- Prepare for change
- Demonstrate a willingness and acceptance of necessary changes
- Be flexible
- Recognise when circumstances have changed and a change in approach/process is necessary

The business environment is in a constant state of flux, things are changing rapidly all of the time. As such, people who wish to succeed in such an environment need to be able to change and adapt. This includes chartered accountants, who should be able to adapt as things in their environment change. This includes keeping up to date with accounting and auditing changes, adapting to technological shifts and being flexible when organisations and industries change.

The training contract signifies a time of rapid personal change. Trainee accountants are usually expected to learn a new computer software programme (for accounting or auditing), to understand the structure and culture of the firm and to be able to fit into it, to learn new methodologies. They may even have to adjust to working life for the first time. Their ability to adapt to change will be put to the test on a daily basis, from day one of their training contract. They will continually be given new projects and clients, expected to work with new people, rotated to different parts of the organisation and in amongst all this change, they will be expected to develop some level of supervisory skill as you progress from year to year.

Trainee accountants will need to be adaptable when:
- Adjusting to new clients (in public practice) or to new departments in a rotation (outside of public practice).
- Working with new people on new teams.
- A superior leaves the organisation and they are required to report to a new person.
- When taking on more senior roles with increased responsibility on a team from one year to the next.
- When there is a change in an auditing or accounting standard, or a change in corporate law or in the firm’s methodology or system.
- There is restructuring in the organisation or a client organisation.
Identifies problems, conducts research, evaluates evidence and makes appropriate decisions

Public Practice/Commerce and Industry/Public Sector
A trainee accountant should be able to:
- Present ‘optional’ solutions
- Test underlying assumptions for reasonableness and risk
- Evaluate significant change in business
- Work through unusual issues methodically and solve them creatively
- Obtain and understand information on a new business activity

The business world is becoming increasingly complex. Technology changes constantly, globalization means that more and more organisations operate across international boundaries, and competition between firms is becoming fiercer. In order to survive and thrive in such a complex environment, CAs(SA) need to be able to identify and solve unstructured problems. Most structured problems have already been solved - it is the potential for solving unstructured problems that makes professional people valuable in the business environment. Research suggests that problem solving improves when people identify multiple possible solutions to a problem and they are able to evaluate between the alternatives. Thus chartered accountants need to be able to recognise when it is necessary to identify alternative options. And then they need to be able to employ a logical method of assessing alternatives so that the most reasonable solution, based on available information available, can be selected.

Uncertain situations and unstructured problems will need to be confronted throughout a trainee accountant’s training contract, and the level of complexity and uncertainty of such situations and problems is only likely to increase. Initially, trainee accountants will need to solve problems in collaboration with more senior trainees and/or other superiors. Later on, they may need to solve some challenging problems independently. Problems that they may confront during their training contract could include issues such as which audit test to select, setting up systems and controls for processing information, how to account for ambiguous or complex transactions and establishing whether provisions and accruals are reasonable. All these decisions are of a different nature and have different assumptions and implications. It is thus important to not only develop a logical approach to decision making, but also a flexible one.

Trainee accountants will need to identify and solve unstructured problems in the following situations:
- In deciding on and designing efficient and effective audit tests.
- In adapting audit procedures when all the required information is not readily available.
- In deciding how to get a large amount of work done in a short space of time, due to very tight reporting deadlines.
- In establishing reasonable levels for provisions or accruals at month- or year-end.
- In assisting in the design or testing of control systems.

Asks appropriate and probing questions to obtain required information

Public Practice/Commerce and Industry/Public Sector
Preparation doesn’t have to be an overwhelming task, but it MUST ALWAYS happen. Preparation is about as asking yourself questions about the people involved and your objectives:

**Questions about the people involved:**
- What intentions do they have?
- What needs (subjective or objective) might they have?
- What problems will they raise? What objections?
- Are they in a position to make a decision or do they have to consult someone else?

**Questions about your personal objectives**
- What are my objectives for this question?
- What are my priorities? (Note they may not be the same as objectives)
- What are my variables? On which of them can I compromise? On which can I concede?
**TASK PA(C)4 Communications effectively in written format**

**Public Practice/Commerce and Industry/Public Sector**
A trainee accountant should be able to:

- Write reports, letters and memoranda and prepare information in a presentable format
- Present information (formal and informal) to internal and external stakeholders e.g. financial results

Professional people need to be able to communicate. In some instances such communication will be written (e.g. written letters, reports, memo’s, emails etc.) and in other instances it will take the form of verbal presentations. A professional’s ability to communicate effectively greatly influences how effective and competent others will regard you as being. As with other professionals, people judge CAs(SA) by the interactions they have with them - a CA(SA) therefore needs to be able to write effectively, which includes writing in a style appropriate for the situation; and to be able to verbally present and defend views in both formal and informal situations.

Trainee accountant should start developing and demonstrating communication skills from the outset of their training contracts. Initially they will be required to explain to clients what information they need in order to carry out a task, and they will be expected to prepare working papers that are easy to read and that clearly explain what they have done in carrying out their work. As they progress through their training contract they will need to prepare reports and present or discuss findings with small groups of people on their team. As a senior trainee accountant it is likely that they will need to present plans and ideas to teams of people, and that they will need to prepare more elaborate written reports. Throughout their training contract, and their career, they are going to have to present views in a verbal and written format that is well delivered and clearly understandable. It is also likely that the task may get progressively more complex and challenging as they advance in the process.

Trainee accountants may be required to present their views effectively in the following situations:

- When preparing working papers or similar documentation that record what they have done. In preparing such documentation it is important that they are able to effectively present their views in a written form.
- On a training course where they might have to deliver a verbal presentation, get up in front of a group present or defend an idea, or submit a written report.
- As they progress through their training contract, they will invariably have to write reports e.g. writing up report items on an audit, or writing a report on variances in a budget versus actual analysis. Such documents are usually formal written documents and need to be professionally prepared. There are times where they may also be required to present findings from such a report in addition to writing the report.

Later in their training contracts, trainee accountants may be required to make a presentation at a project planning or audit-planning meeting. As they become responsible for planning and implementing projects, so the ability to competently present their plans to groups of people will become even more valuable.

**TASK PA(C)5 Communications effectively in verbal format**

**Public Practice/Commerce and Industry/Public Sector**

- Interviews with internal and external stakeholders and correct interpretation of this information
- Actively listening
- Follow instructions
- Present and defend views verbally
- Explain work performed to senior or manager

A person’s ability to communicate effectively is heavily impacted by their ability to listen and read effectively. It is therefore important for trainees to develop the skill of listening actively to others when engaging in a discussion, and of reading and comprehending instructions, reports, working papers and other documents.

You may be required to present your views effectively in the following situations:

- When preparing working papers or similar documentation that record what you have done. In preparing such documentation it is important that you are able to effectively present your views in a written form.
• If you are asked to verbally explain what you have done to a more senior person. In explaining your work to a more senior person, you will have the opportunity to develop and demonstrate your ability to communicate verbally.

### TASK PA(C)6 Takes responsibility for own development

**Public Practice/Commerce and Industry/Public Sector**

A trainee accountant should be able to:

- Learning pro-actively
- Take responsibility for own learning
- Demonstrate a positive attitude towards training contract
- Lead by example
- Display positive work ethic
- Take initiative in solving problems

As professionals, chartered accountants need to remain up to date on knowledge and skills that relate to their job. If a person professing to be a CA(SA) has lost touch with what is going on in the accounting and finance world, and they engage in work that requires such knowledge, then they run a high risk of discrediting themselves and the profession. Things change regularly within the profession. Chartered accountants therefore need to be proactive about their own learning and take responsibility for staying up to date with developments in the field. A number of CAs(SA) also have the responsibility of being leaders in business and society and therefore need to demonstrate leadership and influence in many situations in which they find themselves. In demonstrating leadership and becoming a role model to others, they should seek to set an example and exhibit a positive work ethic. Calling yourself a CA(SA) carries with it a certain level of responsibility to uphold the reputation of the profession and to have a positive effect on society.

As trainee accountants progress through their careers, they will be in a position of influence, which calls for them to set an example for others below them and to pass down what they have learned. They will have the chance to supervise small groups very early on in their training contract, and they may be responsible for delegating work to others and leading them on the job as early as their second year. In their third year they will definitely get the chance to supervise work teams, and they will be required to behave in such a way as to get the most out of their team. It is therefore important to develop their influence and initiative from as early on as possible. A trainee accountant’s work ethic and focus is monitored throughout the training contract by both senior people (for evaluation purposes) and by junior people (as they look for clues on how to behave and react). Thus, in terms of being a positive role model and in succeeding in their training contract, it is important for a trainee accountant to display influence, initiative and self-learning.

Trainee accountants should learn to demonstrate initiative, influence and self-learning in the workplace in the following situations:

- When taking responsibility for junior trainees or vacation students.
- Through active participation and enthusiasm in taking part in learning opportunities, such as training courses and feedback sessions.
- In taking job assignments seriously and attempting to get maximum benefit from each project and task that they are given.
- In focusing on specific development points that are communicated to them in their performance evaluations, and seeking to improve in those areas before the next evaluation.
- In participating in office activities that are outside of one’s regular job role e.g. being involved in an office sports team, a social committee or something similar.
As the Information and Information Technology competencies have become an integral part of virtually every task undertaken by CA candidates, they fall into the unique category of competencies that are of a pervasive nature but also contain elements of underlying knowledge related to their development, giving them the characteristics of a specific competency. There are many competencies that refer to “information”, “processes” or “systems” where, although not explicit in the description, information technology is a consideration. When reviewing all the competencies in the Training Programme, trainees and training officers must keep in mind that both manual and automated systems are contemplated.

**COMPETENCY  |  IT(C) USES IT AS A MEANS OF WORKING MORE EFFICIENTLY AND EFFECTIVELY**

**TASK  |  IT(C)1  Effectively uses IT applications including spreadsheets, word processing, presentation and e-mail**

**Public Practice/Commerce and Industry/Public Sector**

IT applications can be used in the following scenarios within the work environment:

**Spreadsheets**
1. Business reporting like Management Accounts
2. Drafting of financial statements
3. Drafting audit working papers
4. Financial modelling - valuations
5. Manipulation of data sets (sorting, filtering, converting, completing, sub totalling, cross-tabulating, formatting, splitting and joining of data sets)
6. The creation of budgets

**Word documents**
1. Drafting of letters like Management letters and Engagement letters.
2. Drafting of financial statements
3. Drafting audit working papers
4. Report writing like audit reports or performance reports.

**Presentations**
1. Presentation of financial data like interim reports and performance overviews.
2. Presentation of business proposals to potential new clients.
3. Used extensively in business meetings and project meetings.

**E-mail**
1. This is an effective business communication tool that can be utilised to communicate with:
   - Clients
   - Colleagues
   - Suppliers
   - Business associates
2. It can also be utilised as an effective daily planner which may assist with time managements.
3. It can also be used to maintain client data such as: names of contacts, contact numbers and addresses.
4. It also has a functionality to document and store notes.

**TASK  |  IT(C)2  Effectively uses the internet as a source of information**

**Public Practice/Commerce and Industry/Public Sector**

Trainees can utilise the Internet in order to:
1. Obtain technical information from SAICA’s website
2. Obtain information on the business environment of a potential engagement client
3. Expand their general knowledge on world events, economics and business news from websites as www.cnn.com or www.moneyweb.co.za for example.

<table>
<thead>
<tr>
<th>TASK</th>
<th>IT(C)3 Applies procedures and controls to ensure integrity and security of personal IT resources, e.g. password protection, backup procedures, anti-virus measures, etc</th>
</tr>
</thead>
</table>

Public Practice/Commerce and Industry/Public Sector

1. Password protection is vital in order to ensure that confidential client or company data is shared with unauthorised individuals or entities.
2. Back up procedures are necessary in order to ensure that vital data is not lost, in the event where databases may become corrupted or if a major system failure occurs or in the event of a natural disaster.
3. Antivirus measures serve to protect confidential information or to protect data from being corrupted or deleted.
ELECTIVE SKILLS

AUDITING

Assurance engagements involve a practitioner expressing “… a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria” (IAASB’s Assurance Framework).

The primary role in this competency area will be as part of a team undertaking assurance engagements in public practice. That team has expertise in assessing an entity’s assurance needs and in performing those services. The team enhances the degree of reliance that shareholders, audit committees, boards of directors and other governing bodies can place on financial information and reporting processes.

COMPETENCY | AA(E)1 PERFORMS PRE-ENGAGEMENT ACTIVITIES

References:
- IAS 300: Planning an Audit of Financial Statements
- IAS 315: Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment
- IAS 330: The Auditor’s Responses to Assessed Risks

TASK | AA(E)1.1 Identifies, for review and input by others, the nature, scope, standards and legislation applicable to a particular engagement

As part of a financial statement audit, trainee accountants will be required to draft working papers (either electronic or paper-based working papers) whereby the following factors are considered:

1) **Nature of the audit**: Where it is justified to place reliance on internal controls, the audit may include more analytical procedures. If however reliance on internal controls is not justified, then the audit will be more substantive in nature.
2) **Scope of the audit**: Where it is justified to place reliance on internal controls, the audit consists of less substantive testing oppose to the contrary. Substantive procedures may also be spread over the year and early verification may be possible in the event were reliance can be placed on internal controls in comparison to situations were reliance cannot be placed on internal controls, where testing may occur mainly at year-end.
3) **Standards and Legislation applicable**: The chartered accountant will be required to assess the regulatory environment of the entity which may include a review of:
   a. Accounting policies and industry specific practices
   b. Regulatory frame work
   c. Legislation
   d. Taxation
   e. Government policies
   f. Environmental requirements

The following may be considered to be an example of working paper were legislative issues are addressed.
Trainee accountants will be required to perform and document a risk assessment of the engagement. Audit risk is influenced by Inherent Risk, Control Risk and Detection Risk. Trainee accountants are therefore required to consider the following factors as part of pre-engagement activities:

1. Auditor independence given a close client/auditor relationship?
2. Does management ignore internal controls?
3. Does the entity rely on internal controls?
4. Does management may have an inclination to manipulate accounting records?
5. Are accounting transactions correctly classified given the different tax implications?
6. Do the auditors perform accounting or consulting work for the client as well?

It is required that complete records should be maintained for all audit work performed and audit evidence obtained.

**Example of an Audit Engagement Letter**

The following letter is for use as a guide in conjunction with the considerations outlined in this ISA and will need to be varied according to individual requirements and circumstances. To the Board of Directors or the appropriate representative of senior management:
You have requested that we audit the balance sheet of .................... as of ..........., and the related statements of income and cash flows for the year then ending. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be made with the objective of our expressing an opinion on the financial statements.

We will conduct our audit in accordance with International Standards on Auditing (or refer to relevant national standards or practices). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered.

In addition to our report on the financial statements, we expect to provide you with a separate letter concerning any material weaknesses in accounting and internal control systems which come to our notice.

We remind you that the responsibility for the preparation of financial statements including adequate disclosure is that of the management of the company. This includes the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the company. As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our audit. Our fees, which will be billed as work progresses, are based on the time required by the individuals assigned to the engagement plus out-of-pocket expenses. Individual hourly rates vary according to the degree of responsibility involved and the experience and skill required.

TERMS OF AUDIT ENGAGEMENTS (CONFORMED)
7 ISA 210 (CONFORMED)
This letter will be effective for future years unless it is terminated, amended or superseded. Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our audit of the financial statements.

XYZ and Co.
Acknowledged on behalf of ABC Company by

(signed)

Name and Title
Date
Reference: IAS 210 TERMS OF AUDIT ENGAGEMENTS
As part of a financial audit trainee accountants should obtain an understanding of:

1. **External Factors:**
   a. Industry conditions
   b. Regulatory environment
   c. Economic factors

2. **Internal Factors:**
   d. The nature of Business Operations
   e. The nature of Investments
   f. Financing activities
   g. The Financial Reporting environment

3. The corporate strategy and identification of business risks

Therefore it will be required from trainee accountants obtain knowledge of the above-mentioned factors through:

1. Discussions with management
2. Analytical procedures
3. Inspection of activities
4. Research

The following may be considered as an example of a working paper on understanding the business environment of the entity:
 TASK | AA(E)2.2 Obtains an understanding of and documents the entity’s information system and key internal controls (including IT controls)

Obtain an understanding of the following internal controls:
1. Segregation of duties or independent checks.
2. Oversight of senior management expenditures, such as travel and other reimbursements.
3. Oversight of employees responsible for assets, for example, supervision or monitoring of locations.
4. Management control
5. Job applicant screening of employees with access to assets
6. System of authorization and approval of transactions
7. Physical safeguarding over cash, investments, inventory, or fixed assets.
8. Mandatory vacations for employees performing key control functions.
9. Adequate access controls over automated records, including controls over and review of computer systems event logs
10. Budgetary controls

The following working paper may be considered as an example of understanding and documenting the entity’s systems and internal controls.
OVERVIEW OF SALARIES SYSTEM

New employees

- Multi-copy change form, appointment letter and other employment documents
  - Prepared by employee/Human Resources (HR) Manager
  - Documents signed by Mr Hopkins
  - Captured by Mr Hopkins' personal assistant (PA), and updated to employee master file
  - Filed in employee's file kept in Mr Hopkins' office (by PA)

Changes to employee standing data

- Multi-copy change form, and supporting documentation
  - Prepared by employee/HR Manager
  - Form signed by Mr Hopkins
  - Filed in employee's file kept in Mr Hopkins' office (by PA)

Employee disbursements (e.g. travel)

- Multi-copy claim form
  - Prepared by employee
  - Form signed by Head: Support Services Captured by bookkeeper
  - Filed with claim forms by bookkeeper
  - Disbursement report
The Auditor General also specified their requirements for systems descriptions and walk-through tests in the AG issues guidance on auditing of performance information for 2007/8 cycle for public entities. The following is an extract from this document:
 TASK  AA(E)2.3 Identifies and documents the major classes of transactions and balances for an engagement entity

Through inspection of the financial records identify the major classes of transactions and balances by assessing the materiality of each class of transactions or balances.
COMPETENCY AA(E)3 IDENTIFIES AND EVALUATES THE RISK OF MATERIAL MISSTATEMENT

TASK AA(E)3.1 Evaluates and documents the adequacy of the design of control activities in the prevention or detection of material misstatement, and suggests improvements where appropriate

By monitoring the working of internal controls throughout the period under review trainee accountants should be able to assess the effectiveness of internal controls as well as ascertaining if internal controls were working effectively throughout the period under review. Therefore review items like:

1. Reconciliations for evidence that these reconciliations were reviewed
2. Confirm through inspection that stationary control is maintained
3. Compare internal data with external data
4. Confirm through inspection that access controls to accounting records, assets and systems access are maintained.

TASK AA(E)3.2 Evaluates and documents the risk of material misstatement at an overall financial statement level

This relates to the assessment of the risk of material misstatement of the financial statements as a whole and will be based on judgment.

TASK AA(E)3.3 Evaluates and documents the risk of material misstatement at the account balance level by assertion

The trainee accountant will assess the risk of material misstatement per assertion (Completeness, Validity, and Accuracy) and will usually rate the risk as high, medium or low.

TASK AA(E)3.4 Evaluates and documents the risk of fraud


In general, the higher the risk of material misstatement, or the greater the reliance on controls, is likely to be. Factors may include:

1) A weak control environment.
2) Weak monitoring of controls.
3) A significant manual element to the relevant controls.
4) Personnel changes that significantly affect the application of the control.
5) Changing circumstances that indicate the need for changes in the control.
6) Weak general IT-controls.

The Trainee accountant will therefore be required to assess the internal control environment based on the factors described above.

TASK AA(E)3.5 Identifies and documents the significant risks that could result in material misstatement

Refer to the examples listed above.
The trainee accountant will have to consider the following when setting planning materiality:

1) Quantitative indicators as per DP6

<table>
<thead>
<tr>
<th>Basis</th>
<th>Range (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expenditure</td>
<td>0.25 - 1%</td>
</tr>
<tr>
<td>Total revenue</td>
<td>0.25 - 1%</td>
</tr>
<tr>
<td>Surplus for the period</td>
<td>2.5 - 10%</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>2 - 5%</td>
</tr>
<tr>
<td>Total assets (Current + Noncurrent)</td>
<td>0.5 - 2%</td>
</tr>
</tbody>
</table>

2) Qualitative indicators
   a. The control environment
   b. Integrity of management
   c. Statutory requirements
   d. Problems incurred during prior year audits
   e. Results from analytical procedures
   f. Possibility of illegal transactions.

This calculation will be based on judgment as well as the factors listed above.
### COMPETENCY: AA(E)5 DESIGNS EFFECTIVE AND EFFICIENT PROCEDURES

#### TASK: AA(E)5.1 Identifies and documents appropriate tests of internal control (including IT internal controls, where appropriate), including the determination of sample sizes and methods of selection

This may include audit procedures like:
1. Ascertain if all transactions are duly authorised according to Management specifications.
2. Ascertain if daily transactions are supervised by the appropriate senior official.
3. Ascertain if all the work performed was reviewed by an independent person.

#### TASK: AA(E)5.2 Identifies and documents appropriate substantive tests of detail, including the determination of sample sizes and methods of selection

Sample sizes will be determined by the following factors:
1. The results from controls testing
2. The reliability of audit evidence
3. The materiality levels of balance sheet accounts or transactions.

Types of substantive testing will include:
1. Detailed testing of transactions
2. Analytical procedures

#### TASK: AA(E)5.3 Identifies and documents appropriate substantive analytical review procedures

The trainee accountant will calculate the relevant ratios and analyse trends as well as obtain explanations for many variances.

For example if we were busy auditing an airline operator it may be beneficial to calculate revenue per aero plane and compare this to previous years. This may then provide assurance as to the completeness of revenue.

The following may be considered as an example of an audit programme consisting of substantive audit procedures:
**TASK AA(E)5.4** Considers and documents the need for using the work of others in conducting the audit (experts, internal auditors or other auditors)

This will in most circumstances depend on the client’s requirements or regulations applicable to the client.

**TASK AA(E)5.5** Considers and documents the need to use computer assisted audit techniques to gather suitable audit evidence

*Reference: IAS 1009*

CAATs are generally used for:
1. Analytical procedures
2. Analysing or selecting samples
3. Substantive testing

It can also be used to test controls by re-processing data or for simulation proposes.
Example:
If you suspect fraud which would be reflected in any data files, Computer Assisted Auditing Techniques (CAATS) can be used to search for symptoms through huge quantities of data. CAATS is a brilliant means to identify fraud extremely quickly. Testing data for exceptions can be done within a few minutes and can produce dynamic results.
It can be used when analysing 29,000 cheque records and may result in finding 3 fraudulent cheques within minutes.
Examples of using CAATS for detection of fraud include:
1. Search for duplicate payments.
2. Analyse voids and refunds by employee.
3. Matching vendor address to employee address.
5. Searching for duplicate employee and vendor details.
6. Search for duplicate addresses within files.
COMPETENCY | AA(E)6 EXECUTES THE WORK PLAN, DOCUMENTS AND EVALUATES RESULTS

TASK | AA(E)6.1 Performs and documents the planned tests of internal control and identifies situations where follow-up/extended work is required

The following may be considered to be an example of a working paper where internal controls are tested:

```
Client: Softco (Pty) Ltd | Year-end: 30/09/2008
Prepared by: A Byte | Date: 15/09/2008
Reviewed by: | Date:
Subject: Systems description: Salaries

1. Remuneration paid to the company’s 70 staff members represents the major expenditure of Softco (Pty) Ltd.

2. Softco (Pty) Ltd uses a reputable purchased payroll software package. Refer to work paper 400-32 for a schematic representation of the salaries system (extracted from the client’s systems description for salaries). Whilst most of the pictures depicting the system are self-evident, the following require explanation:
   - Hardcopy source documents/reports
   - Electronic transaction logs/master file

3. The following controls were identified as being suitably designed and implemented over the computerised payroll package:

<table>
<thead>
<tr>
<th>Control questionnaire (for salary and Electronic Funds Transfer (EFT) systems):</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Are sound general controls (including physical access controls) in place?</td>
<td>Yes</td>
</tr>
<tr>
<td>2. Are there effective controls over unused stationery?</td>
<td>Yes</td>
</tr>
<tr>
<td>3. Is the design of source documents adequate to facilitate the recording of transaction data?</td>
<td>Yes</td>
</tr>
<tr>
<td>4. Are source documents sequentially numbered, where appropriate, and sequence checked?</td>
<td>No</td>
</tr>
<tr>
<td>5. Are sound logical access controls in place to restrict the ability to capture transactions and events to authorized employees only?</td>
<td>Yes</td>
</tr>
<tr>
<td>6. Are sound edit checks such as the following in place to ensure that all data captured is accurate?</td>
<td>Yes</td>
</tr>
</tbody>
</table>
   - Screen formatting and dialogue
   - Missing data checks
   - Alphanumeric checks
   - Field size checks
   - Limit checks
   - Validity checks of standing data fields captured (to master file)
| 7. Are the controls over the transmission of the EFT file to the bank adequate? | Yes |
| 8. Are adequate controls in place to ensure the confidentiality of information? | Yes |

4. Recording of salary expense:

   4.1 The full payment per the EFT logs in respect of staff costs is posted to the “Salaries” account in the general ledger. At the end of the month, the following journal entry is recorded:

   ```
   Dr Software development costs \[\text{R XX}\]
   Cr Salaries \[\text{R XX}\]
   ```

   The amount in this journal entry is the gross remuneration of employees in the software development division per the monthly payroll.

Source: IRBA

TASK | AA(E)6.2 Performs and documents the planned substantive tests of detail and identifies situations where follow-up/extended work is required

The following may be considered to be an example of a working paper where substantive testing is conducted:

...
OBJECTIVE: To obtain sufficient appropriate evidence about software development costs.

<table>
<thead>
<tr>
<th>Audit procedure</th>
<th>Findings</th>
<th>WP Ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ascertain, by inspection, that the accounting policy for software development costs conforms to the requirements of the International Financial Reporting Standards.</td>
<td>No exceptions found.</td>
<td></td>
</tr>
<tr>
<td>2. Agree the opening balance to last year’s closing balance.</td>
<td>No exceptions found.</td>
<td></td>
</tr>
<tr>
<td>3. Reperform the costs in the general ledger account.</td>
<td>No exceptions found.</td>
<td></td>
</tr>
<tr>
<td>4. Request a schedule of the amounts capitalised to software development costs, and:</td>
<td>No exceptions found.</td>
<td></td>
</tr>
<tr>
<td>4.1 Perform the costing on the schedule</td>
<td>No exceptions found.</td>
<td></td>
</tr>
<tr>
<td>4.2 For each amount capitalised inspect the supporting documents for amounts.</td>
<td>No exceptions found.</td>
<td></td>
</tr>
<tr>
<td>5. Reperform the clerical accuracy of the amortisation calculation.</td>
<td>Done. Calculation was found to be mathematically correct.</td>
<td>500-06</td>
</tr>
<tr>
<td>6. Agree, by inspection, the closing balance on the general ledger account to the trial balance and balance sheet.</td>
<td>No exceptions found.</td>
<td></td>
</tr>
<tr>
<td>7. Establish whether there are any encumbrances on the company’s rights to the software by:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.1 Inspecting prior years’ audit work papers</td>
<td>Done. Mr Hopkins has confirmed that no such encumbrances exist.</td>
<td></td>
</tr>
<tr>
<td>7.2 Enquiring from the managing director.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Perform the following analytical procedures:</td>
<td></td>
<td>500-06</td>
</tr>
<tr>
<td>8.1 Carrying amount divided by the revenue derived from new systems and compare to prior years.</td>
<td>Done. There has been an increase in this ratio over the last few years. For Mr Hopkins this will be remedied once marketing of the new software has commenced.</td>
<td></td>
</tr>
<tr>
<td>8.2 Ensure as to the reason for any unexpected variation.</td>
<td>Done.</td>
<td></td>
</tr>
<tr>
<td>9. Request that the client include references to all assertions pertaining to software development costs in the management representation letter.</td>
<td>To be completed awaiting finalised notes to the annual financial statements.</td>
<td></td>
</tr>
<tr>
<td>10. Inspect the notes to the annual financial statements for the adequacy of disclosures pertaining to software development costs.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

CONCLUSION: With the exception of presentation and disclosure (still to be addressed), sufficient appropriate evidence has been gathered about software development costs.

Source: IRBA

**TASK**

AA(E)6.3 Performs and documents the planned substantive analytical review procedures and identifies situations where follow-up/extended work is required

The following can be considered to be an example of analytical procedures on software development costs:
The trainee accountant will have to consider if the audit evidence is adequate, reliable and applicable.

The trainee accountant will have to consider if additional substantive procedures will be required or additional control testing.
COMPETENCY | AA(E)7 COMPLETES THE ENGAGEMENT

**TASK** | AA(E)7.1 Analyses and discusses the impact of unadjusted errors on the audit report and the need for additional work

The trainee accountants will be required to draft a summary of unadjusted errors and discuss this with the engagement partner as well as request the client to sign the schedule of unadjusted audit differences.

The following is an example of a working paper related to a summary of unadjusted audit differences:

<table>
<thead>
<tr>
<th>Client: Softco (Pty) Ltd</th>
<th>Year-end: 30/09/2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepared by: A Byte</td>
<td>Date: 15/10/2008</td>
</tr>
<tr>
<td>Reviewed by:</td>
<td>200-20</td>
</tr>
<tr>
<td>Subject: Summary of audit work undertaken: Applicable to all categories of revenue</td>
<td>1/1</td>
</tr>
</tbody>
</table>

**Audit procedures:**

1. Reperform the casting on the revenue accounts in the general ledger.
2. Inspect the reconciliation of the total of the debtors’ balances in the sub-ledger to the balance on the trade accounts receivable account in the general ledger, and verify the validity and accuracy of any reconciling items.
3. Inspect the revenue accounts in the general ledger for any unusual debit/credit entries and investigate the reasons for these entries.
4. Agree the total revenue for each category of revenue from the general ledger account to the lead schedule for revenue.
5. Inspect the notes to the annual financial statements to ensure the appropriate disclosure of matters pertaining to this revenue.

**Finding(s):** The procedures were performed satisfactorily. No misstatements were detected.
The trainee accountants will be required to identify post balance sheet events and to consider the impact thereof on the financial statement.

The following are examples of post balance sheet events which normally should be classified as adjusting events:

1. Fixed assets: The subsequent determination of the purchase price or of the proceeds of sale of assets purchased or sold before the year end.
2. Property: A valuation which provides evidence of a permanent diminution in value.
3. Investments: The receipt of a copy of the financial statements or other information in respect of an unlisted company which provides evidence of a permanent diminution in the value of a long-term investment.
4. Stocks and work in progress:
   a. The receipt of proceeds of sales after the balance sheet date or other evidence concerning the net realisable value of stocks.
   b. The receipt of evidence that the previous estimate of accrued profit on a long-term contract was materially inaccurate.

Non-adjusting events:
The following are examples of post balance sheet events which normally should be classified as non-adjusting events:

1. Mergers and acquisitions.
2. Reconstructions and proposed reconstructions.
3. Issues of shares and debentures.
4. Purchases and sales of fixed assets and investments.
5. Losses of fixed assets or stocks as a result of a catastrophe such as fire or flood.
COMPETENCY | AA(E)8 PREPARES INFORMATION FOR MEETINGS WITH STAKEHOLDERS

| TASK | AA(E)8.1 Prepares, for review and input by others, the report to management on findings arising from the engagement |

Extract from a Management letter:

**CBP – FMC 06-04 – Drawback record keeping deficiency (NFR No. CBP 06-08)**

CBP is required to keep all liquidated entries, including drawback claims, for eight years either on site at port locations, or at an off-site record storage facility. Once liquidated, the entries must remain on site for twelve months. Two of 195 sample drawback claims selected could not be located. Both missing sample items are the responsibility of the Chicago drawback office.

**Recommendation:**

We recommend that CBP maintain its entry documentation in accordance with the *Records Control Handbook* and emphasize accountability for location of claims. This can be achieved through the use of a log book to track who is responsible for each claim.

COMPETENCY | AA(E)9 IDENTIFIES AND RESPONDS TO REPORTABLE IRREGULARITIES

| TASK | AA(E)9.1 Identifies and communicates potential unlawful acts or omissions where there may be reason to believe that it may constitute a reportable irregularity |

Some examples of potential reportable irregularities include:
1. Non-payment of amounts withheld with the sanction of person responsible for management of the entity (for example PAYE, Pension or Medical Aid contributions)
2. Payment of bribes with the sanction or direction of a person responsible for management of the entity
3. Trading whilst factually insolvent
4. Income tax and other tax submissions not made or fraudulent
5. Books and records not maintained
6. Unauthorised directors loans and expenses
7. Theft or fraud committed by any person responsible for management of the entity
Corporate transactions such as mergers, acquisitions, and divestitures have become commonplace in our global environment. Entities are frequently faced with financing choices with strategic consequences. Their managers must make capital structure decisions, evaluate short-term and long-term financing needs, and choose appropriate finance tools that are appropriate to the entity’s strategic direction and the competitive environment within which it operates.

The primary role in this competency area will be as part of a team of external advisors or employed as a member of a management team. As part of the team, a CA assists in converting the entity’s strategies into specific financial objectives and then fulfilling those objectives. The team evaluates the entity’s financing needs, investment decisions and analyses operating performance.

**COMPETENCY** | **FM(E)1 ANALYSES THE ENTITY’S FINANCIAL SITUATION**

**TASK** | **FM(E)1.1 Evaluates and documents the entity’s/business unit’s financial position (for example, using financial analysis, ratio analysis, trend analysis and/or cash flow analysis)**

1. Demonstrate an understanding of financial performance and indicators.
2. Demonstrate an ability to:
   a. Analyse and interpret financial statements
   b. Calculate the relevant ratios in terms of profitability, liquidity, activity and solvency
   c. Identify trends and make appropriate comparisons
3. Report on identified issues with recommendations for actions.

**Example:** Trainees should be able to identify and understand all the relevant cost and revenue drivers within an entity. If we have to analyse the financial statements of Lufthansa, we may be inclined to analyse the following factors:
4. Analysis of cost and revenue, SLA and services structure
5. Identification of cost and revenue drivers on products and processes
6. Definition of determinants, algorithms for trend analysis and early warning indicators
7. Definition of cost allocation and aggregation levels for the annual result and business planning simulation / automation
8. Profitability, performance and cost management for all services and customers
9. Trend analyses and simulations
10. Business impact analysis
11. Pricing scenario evaluation
12. SLA and customer profitability analysis

**TASK** | **FM(E)1.2 Documents, for review and input by others, recommendations for improving the performance of the entity/business unit, based on the analysis performed.**

**Example:** If you are analyzing the financial statements for a farming operation; it may be beneficial to investigate the following factors in order to maximize profitability:
1. The scale of the operations: A farm can be either too big or too small.
2. The cost of labour: By streamlining farming operations, labour costs may be reduced.
3. Investigate efficiency: Efficiency has to be achieved in operational, financial and economic terms in order to be sustainable.
4. Assess leverage: Ensure that the weighted average cost of capital is as low as it can be.
5. Consider merging with another farming operation.
COMPETENCY | FM(E)2 | MONITORS CASH FLOW
--- | --- | ---
TASK | FM(E)2.1 | Prepares or evaluates a cash flow forecast for an entity/business unit.  

The following is an example of a cash flow forecast:

<table>
<thead>
<tr>
<th>Income Statement</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Next</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>1,212</td>
<td>1,655</td>
<td>1,666</td>
<td>1,777</td>
<td>1,608</td>
<td>1,625</td>
<td>845</td>
<td>474</td>
<td>631</td>
<td>858</td>
<td>702</td>
<td>215</td>
<td>85</td>
<td>600</td>
</tr>
<tr>
<td>Direct Costs</td>
<td>1,113</td>
<td>1,490</td>
<td>1,519</td>
<td>1,521</td>
<td>1,549</td>
<td>1,482</td>
<td>771</td>
<td>432</td>
<td>575</td>
<td>782</td>
<td>640</td>
<td>195</td>
<td>78</td>
<td>547</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>99</td>
<td>165</td>
<td>147</td>
<td>156</td>
<td>140</td>
<td>143</td>
<td>74</td>
<td>42</td>
<td>56</td>
<td>76</td>
<td>62</td>
<td>10</td>
<td>8</td>
<td>53</td>
</tr>
<tr>
<td>Indirect Costs</td>
<td>69</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Net Profit</td>
<td>30</td>
<td>96</td>
<td>77</td>
<td>86</td>
<td>79</td>
<td>73</td>
<td>4</td>
<td>28</td>
<td>14</td>
<td>6</td>
<td>(6)</td>
<td>(5)</td>
<td>(1)</td>
<td>(17)</td>
</tr>
</tbody>
</table>

| Cash Flow        |     |     |     |     |     |     |     |     |     |     |     |     |     |     |      |
|------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|------|
| Starting Cash    | (1,401) | (1,470) | (1,534) | (1,855) | (1,994) | (1,950) | (1,799) | (1,128) | (277) | 51   | (154) | (261) | 114 | 546  |
| Plus Cash In     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |      |
| From Sales       | 1,144 | 740 | 1,270 | 1,537 | 1,691 | 1,730 | 1,700 | 1,448 | 947 | 606 | 649 | 762 | 619 | 305  |
| Other            | 10   | 10   | 10   | 10   | 10   | 10   | 10   | 10   | 10   | 10   | 10   | 10   | 10   | 11   |
| Total Cash In    | 1,154 | 750 | 1,280 | 1,547 | 1,701 | 1,740 | 1,710 | 1,458 | 957 | 616 | 639 | 772 | 629 | 316  |
| Less Cash Out    |     |     |     |     |     |     |     |     |     |     |     |     |     |     |      |
| Direct Costs     | 69   | 70   | 70   | 70   | 70   | 70   | 70   | 70   | 70   | 70   | 70   | 70   | 70   | 70   |
| Indirect Costs   | 31   | 30   | 20   | 20   | 20   | 20   | 20   | 20   | 20   | 20   | 20   | 20   | 20   | 20   |
| Other            | 1,223 | 814 | 1,692 | 1,685 | 1,567 | 1,589 | 1,038 | 607 | 630 | 621 | 765 | 597 | 158 | 520  |
| Total Cash Out   |     |     |     |     |     |     |     |     |     |     |     |     |     |     |      |
| Ending Cash      | (1,470) | (1,534) | (1,856) | (1,994) | (1,950) | (1,799) | (1,128) | (277) | 51   | (154) | (261) | 114 | 546 | 341  |

Trainee accountants are therefore required to analyse and discuss the reasonability of each underlying assumption used in the preparation of the cash flow forecast.

TASK | FM(E)2.2 | Identifies when there may be a cash shortfall or excess funds and documents, for review and input by others, possible action plans.

Trainees will be required to prepare a time analysis of cash inflows and outflows and identify potential shortfalls of excess funds.
If a short fall of funds do occur, the following methods of liquidity may be considered:

1. Factoring debtors.
2. Obtaining vendor financing.
4. Minimizing operational expenditure.
5. Keep inventory levels as low as possible without the risk of running out of stock.
A working capital assessment, usually involves an assessment of the cash conversion cycle of a company. Trainee accountants are therefore required to be able to calculate the cycle for various companies.

The cash conversion cycle of Woolworths and Pick and Pay for the 2008 financial year can be calculated as follow:

<table>
<thead>
<tr>
<th>Source: Gitman</th>
</tr>
</thead>
</table>

Entity’s can improve their working capital management by:

1. Improving debtors collections
2. Reducing debtors days
3. Reducing inventory levels
4. Increasing accounts payable days
COMPETENCY | FM(E)4 IDENTIFIES AND EVALUATES SOURCES OF FUNDS

TASK | FM(E)4.1 Analyses and documents an entity’s/business unit’s funding needs

Trainee accountants are required to:
1. Demonstrate an understanding of sources of finance
2. Demonstrate an ability to select the most appropriate source of finance, taking into account company policy and business strategy, and considering the following options:
   a. foreign vs. local
   b. fixed vs. variable
   c. long-term vs. short term
   d. capital vs. money markets
3. Determine the cost of financing

Example: The following SME tool kit can therefore be used in the identification of sources of financing for small entities:
1. **How Much Money Do You Need?**
   a. What do you need it for?
   b. Unsecured Loans
   c. Secured Loans
   d. Collateral
2. **Loans vs. Investment?**
3. **Where to Get the Money?**
   a. Types of Funding Sources
   b. Lender Comparison Table
4. **The Art of Getting the Money?**
   a. Business Loans
   b. Repayment Plan

TASK | FM(E)4.1 Identifies and evaluates, for input and review by others, sources of funding to meet the entity's/business unit’s funding needs

For example: If an entity requires long term financing they may wish to consider the following sources of financing:
1. Issuing additional ordinary shares
2. Issuing preference shares
3. Conducting a rights issue
4. Long term loans from banks
5. Issuing debentures / bonds
6. Obtaining a government grant

Trainee accountants are then required to determine and recommend the most suitable form of financing for the entity based on the following factors:
- The impact on financial risk
- The impact of changes in control of the company
- The cost associated with each form of financing
- Administrative requirements
- Repayment requirements

In 2008 the following companies were involved in private equity transactions:
At an advanced level trainee accountants will be required to analyse transactions like these and make recommendations where required.

**TASK**

**FM(E)4.3** Identifies the need for, and evaluates on a preliminary basis, the use of derivatives in managing an entity’s/business unit’s funding needs

**For example:**

SA Home Loans will offer a fixed interest rate mortgage loans over a period of 20 years. They will therefore utilise interest rate swaps to hedge the interest rate risk.

Integer Home Loans may offer their clients an interest rate cap options whereby the Interest rate will be capped if changes within a certain number of basis points either of prime or JIBAR rates this will ensure that instalments remains within a specific range to the original instalment, limiting the risk.

<table>
<thead>
<tr>
<th>Name of investment</th>
<th>Equity provider/s</th>
<th>Debt provider/s</th>
<th>Total funding raised</th>
<th>Type of investment</th>
<th>Private Equity Fund's equity interest</th>
<th>Part of syndication</th>
<th>BEE ownership (post deal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edcon</td>
<td>Bain Capital</td>
<td>Barclays Capital</td>
<td>R27 132m</td>
<td>LBO</td>
<td>Controlling interest</td>
<td>Yes</td>
<td>Not empowered</td>
</tr>
<tr>
<td></td>
<td>Barclays</td>
<td>Absa Capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Barclays Capital</td>
<td>Abia Capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alexander Forbas</td>
<td>Actis Africa</td>
<td>RMB</td>
<td>R8 992m</td>
<td>LBO</td>
<td>50.1%</td>
<td>Yes</td>
<td>Black-influenced company</td>
</tr>
<tr>
<td></td>
<td>Ethos Harbourwest Capital</td>
<td>Investac Bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Capital International</td>
<td>Nedbank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>OTPP</td>
<td>JP Morgan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Goldman Sachs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primedia</td>
<td>Brait</td>
<td>RMB</td>
<td>R7 300m</td>
<td>LBO</td>
<td>18.3%</td>
<td>Yes</td>
<td>38.8%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>OMGISA Vantage Capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: KPMG and SACVA survey 2008
Trainee accountants are required to analyze a business plan by focusing on the following areas:

1. Where the business will be located?
2. When the company started?
3. What products or services are sold?
4. How the business will operate?
5. Who will operate the business?
6. Legal structure of business?
7. Mission statement?
8. Overview of industry?
9. Identification of the risks facing the entity?
10. Consider Opportunity costs
11. Consider economic factors

**Example:** The City of Tshwane recently developed a financial plan, whereby issues like community safety, environmental management and transport divisions are addressed. It will be the role of Chartered Accountants to assess the feasibility of this plan from the following perspectives:

1. Strategic implications
2. Assessing macro economic factors like inflation that may influence the plan
3. Assessing the debt levels of the entity
4. Assess potential revenue generating opportunities
5. The increases in service delivery costs
1. Demonstrate an understanding of:
   (i) Macro factors to be considered in setting the budget/planning parameters, taking into account the period of the budget/plan (1 year, 3 years, etc.)
   (ii) The process followed by the organisation to prepare for, review and finalise the budget/plan
2. Demonstrate an ability to:
   (iii) Prepare budgets/plans with motivations
   (iv) Manage and report using existing budgets/plans (i.e. compare and monitor budgets against actual performance)
   (v) Identify and report on budget/plan variances
3. Investigate variances of budgeted to actual and make appropriate recommendations

**Example:** Sasol Ltd has announced that they are currently in a consultation process regarding the closure of Sasol Nitro's phosphoric acid operations in Phalaborwa. Trainee accountants will be required to assess the impact of such a decision on:
1. Macro economic factors: How will this decision influence the level of unemployment in the Phalaborwa area? How will the public image of Sasol be impacted by such a decision?
2. How much will it cost to decommission this plant and define the future savings of such a decision?
3. Prepare a capital budget for the decision to abandon this project taking into account any opportunity costs that may arise from this decision.
4. Make a management recommendation based on the financial and non-financial implications of this decision.

**Example:** The Williams 5 and 10 company is a discount retail store, selling a variety of goods at discount prices. The company is considering opening one more retail outlet in 1999. They are viewing the expansion project as a 5 year project.
Trainee accountants are therefore required to:

1. Identify all the initial cash flows applicable to this project.
2. Assess the implications of real growth and inflation.
3. Assess the tax implications of such a decision (Capital Gains Tax, Recoupment, Scapping allowances and Capital allowances)
4. Be able to plan working capital requirements
5. Plan capital expansion expenditure.
6. Identify all the opportunity costs
7. Be able to deal with options within the capital budget
8. Be able to deal with the foreign exchange implications of a capital budget.

**TASK**

**FM(E)6.3** Documents or presents recommendations on the replacement or acquisition of a capital asset

This decision will depend on the net present value of the capital budget decision or the internal rate of return of the project.
Trainee accountants are required to display the following skills:
Demonstrate an understanding of valuation principles and qualitative factors to consider
1. Prepare a valuation of a business, entity or other assets or liabilities
2. Present the valuation and other factors impacting on the valuation, i.e. estimates and/or assumptions.

Example: Valuations may be performed based on the following methods:
1. Free Cash Flow methodology
2. The Earnings Yield or P/E Multiple methodology
3. The Dividend Yield methodology
4. The Net Asset Value methodology
5. A combination of cash based and earnings based valuations.

At an advanced level trainee accountants should be able to adjust valuations for various risk factors like operational risks or risks implied in operating in new geographical areas.

Valuations may also take into account the influence of synergy in terms of a proposed merger or acquisition as well as other qualitative factors like obtaining a BEE-rating.

Example: The following factors and critical assumption may influence the valuation of a Technology company:
1. The lack of fixed assets: Technology companies will in most likelihood not have huge investments in property, plant and equipment. Most of their assets are expected to be intangible assets like prototypes.
2. Projections are critical: It may be that the value of a Technology company is driven by the expectation of future revenue derived from its intellectual and intangible assets.
3. Capital: The calculation for cost of capital may be difficult as most Technology companies are usually financed by equity investments.
4. Management strength: Good ideas may have value but without management strength good ideas may have very little value. A strong management team may be worth their weight in gold.

Monte Carlo simulations can be very useful in this regard. Trainee accountants are therefore required to stress test the basis of the valuation by adjusting various assumptions and inputs.
It is the responsibility of management to direct and control the entity in the effective, efficient, and ethical pursuit of the entity’s strategic objectives. The key attributes of management’s information requirements in this regard, is information that is both relevant to, and sufficiently detailed for, management’s purposes. The primary role of the CA in this competency area will be as part of a management team that enhances the entity’s decision-making performance because team members are competent in translating an entity’s strategies into measurable objectives, identifying the information requirements of the business decisions and control mechanisms necessary to pursue those objectives, designing the information systems necessary to generate the required information, and using the information generated to gauge an entity’s effectiveness in meeting those objectives.

<table>
<thead>
<tr>
<th>COMPETENCY</th>
<th>MD(E)1 IDENTIFIES THE ENTITY’S/BUSINESS UNIT’S KEY PERFORMANCE INDICATORS</th>
</tr>
</thead>
</table>

**TASK** MD(E)1.1 Identifies and documents financial and non-financial performance indicators that are key to the entity/business unit, including any industry-specific benchmarks

The following are examples of Key Performance Indicators within various areas within an entity:

1. Human Resources Recruitment: New employee satisfaction rate with recruiting process.
2. Human Resources Employee Development: Percentage of Human Resources budget spent on training.
3. Finance and Business Indicators: Profit per employee, Profit per customer, Return on Equity
4. Health and Safety: Number of fatalities per e.g. 100,000 hours worked
5. Environmental: Amount of energy saved due to conservation and efficiency improvements.

**TASK** MD(E)1.2 Critically evaluates and documents the applicability of the performance measurement system to measure the key performance indicators.

For example: A performance measurement system that is based on Economic Value Added measures may not necessarily be able to measure performance in the areas of Human Resources Management, Health and Safety and Environmental performance. In this instance a Balanced Scorecard approach may be more effective.
**COMPETENCY**

MD(E)2 EVALUATES THE DESIGN OF THE ENTITY’S RESPONSIBILITY ACCOUNTING SYSTEM

**TASK**

MD(E)2.1 Critically evaluates and documents the key components of the management accounting system of an entity/business unit, including the financial and non financial reports produced.

Trainee accountants will be required to document the following:

1. The conceptual framework of the management accounting system
2. Financial measures utilised in the management accounting environment
3. Non-Financial measures utilised in the management accounting environment

The following is an example of financial measures, where an entity can determine how much they are spending at various other companies.

**Spend: Top Merchants**

![Graph showing spend by top merchants](image-url)

An example of non-financial measures can be the number of calls received in a call centre during a particular day.
COMPETENCY | MD(E)3  PREPARES, ANALYSES AND MONITORS BUDGETS

| TASK | MD(E)3.1  Prepares a budget for an entity/business unit, with clearly documented assumptions |

The following is an example of an annual budget for a division within a corporation.

<table>
<thead>
<tr>
<th>AZANIA ENGINEERING (PTY) LTD</th>
<th>MAINTENANCE DIVISION</th>
<th>FIRST DRAFT BUDGET</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2007 year</td>
</tr>
<tr>
<td></td>
<td></td>
<td>R’000</td>
</tr>
<tr>
<td>Maintenance revenue (750 installed gensets @ R1 500 per month)</td>
<td></td>
<td>13 500</td>
</tr>
<tr>
<td>Gross profit on expected sale of parts</td>
<td></td>
<td>4 500</td>
</tr>
<tr>
<td>Direct labour costs (15 technicians + 15 assistants + supervisor)</td>
<td></td>
<td>(6 600)</td>
</tr>
<tr>
<td>Depreciation of motor vehicles</td>
<td></td>
<td>(560)</td>
</tr>
<tr>
<td>Travelling expenses</td>
<td></td>
<td>(920)</td>
</tr>
<tr>
<td>Contribution</td>
<td></td>
<td>9 920</td>
</tr>
</tbody>
</table>

Source: SAICA

The following factors can be considered when documenting assumptions:
1. Identification of all the relevant costs?
2. Consider current capacity constraints?
3. Current pricing policy?
4. Any discount agreements that may be part of this division?

| TASK | MD(E)3.2  Performs sensitivity analysis on prepared budgets, varying key assumptions to document a range of possible outcomes |

Monte Carlo simulations can be very useful in this regard. Trainee accountants are therefore required to stress test the basis of the budget by adjusting various assumptions and inputs.
TASK | MD(E)4.1 Analyses the actual performance against budget, and documents the findings

The following is an example of a budget variance analysis from the South York municipality in the UK:

**REVENUE OUTFLOW VARIATION STATEMENT - ANALYSIS OF BUDGET VARIANCES MAY 2009**

<table>
<thead>
<tr>
<th>BUDGET NAME</th>
<th>VARIATION £</th>
<th>REASON/BREAKDOWN</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Grants</td>
<td>(199,034)</td>
<td>Anticipated SCC funding for smoke alarms in 2009/10 based on projected expenditure targets</td>
<td>(64,000)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Miss Dorothy grant funding carried forward from previous year since unspent</td>
<td>(22,000)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SCC grant funding from previous year originally intended for smoke alarms initiative, however, carried forward on agreement with SCC to be used to fund sprinkler systems projects</td>
<td>(42,000)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Young Firefighters grant - carry forward of unspent funding from 2008/09 to be utilised in this financial year</td>
<td>(11,000)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>New Burdens Grant - increased projection of income to be drawn down based on an increase in anticipated expenditure for the year</td>
<td>(31,000)</td>
</tr>
<tr>
<td>Customer &amp; Client Receipts</td>
<td>(33,058)</td>
<td>Seconded Officers Income - When the original budget was set, there were no seconded officers so no budget provision was made to anticipate any income. However, since then, an officer has been seconded to full time Union duties, for which we can claim 80% of their salary back from the FBU. This surplus represents the addition income due to be recovered</td>
<td>(20,000)</td>
</tr>
<tr>
<td>Balance</td>
<td></td>
<td></td>
<td>19,000</td>
</tr>
</tbody>
</table>

**NET EXPENDITURE - VARIANCE TO BUDGET (453,076)**

Source: South York municipality

TASK | MD(E)4.2 Investigates and documents reasons for variances

Refer to the example listed above.

TASK | MD(E)4.3 Develops, for input and review by others, a plan to address variances

The following measures can be implemented in order to limit budget variances:

1. Effective budget control and sound financial management
2. Implementing rolling forecast as part of the budget process within an entity.
MD(E)5 CONSIDERS THE APPLICABILITY OF COST MANAGEMENT TECHNIQUES

**TASK** MD(E)5.1 Critically analyses the methods used for allocation of costs in the entity/business unit

Transfer pricing refers to the price at which goods or services are transferred from one department to another.

1. Minimum transfer pricing for the transferring division = variable cost + opportunity cost - internal savings
2. Maximum transfer pricing for the receiving division = Indifference point between the first and second best alternatives

**For example:** Sasol consists of a Mining division and a Synfuels division (where fuels are manufactured). The mining division may sell coal to the Synfuels division at an arm's length basis. Trainee accountants will be required to assess the reasonability of transfer pricing practices within an entity.

**TASK** MD(E)5.2 Makes recommendations for improved cost control and cost efficiency

**For example:** Governments around the world are trying to improve public sector fleet management because of rigid budget constraints.

The following techniques can therefore be introduced in order to improve cost control:

1. Know your own cost by segment or division
2. Outsource certain functions if these services can be provided in the market at reduced prices (in house repairs vs. sub-contracting)
3. Lower inventory carrying costs by reducing inventory levels for parts that can be easily be assessable from the local market.
5. Standardize vehicles and parts.
6. Analyse repairs and maintenance per division or segment.
7. Number of employees: Employee related costs are usually one of the biggest expenses with an entity. Therefore manage employee performance carefully to ensure productivity.
8. Reduce the fleet size if possible.

**TASK** MD(E)5.3 Evaluates and documents cost allocation options within or across divisions within the entity/ business unit, for example the appropriate application of transfer pricing.

The following may be various options of cost allocations to consider when allocating costs in a transportation company, which operates a fleet of trucks and also has its own maintenance division:

1. 70% of fuel costs of the maintenance division to service trucks that may have broken down on the side of the road, and 30% of normal maintenance costs.
2. 100% of fuel costs of the maintenance division to service trucks that may have broken down on the side of the road.
3. 100% of maintenance costs.
4. 30% of fuel costs of the maintenance division to service trucks that may have broken down on the side of the road, and 70% of maintenance costs.
The following factors will have to be considered when deciding on the appropriateness of the pricing decision:

1. Variable costs
2. Opportunity costs
3. Internal savings

The following extract is an example from Steers’ Wacky Wednesday specials and how they identify costs and make the relevant pricing decision.

**WACKY WEDNESDAY COSTING: BBQ & MAYO BURGER**

<table>
<thead>
<tr>
<th>Stock Item</th>
<th>Qty</th>
<th>UOM</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBQ</td>
<td>30ml</td>
<td></td>
<td>R 0.31</td>
</tr>
<tr>
<td>beef patty 100g</td>
<td>2</td>
<td></td>
<td>R 8.22</td>
</tr>
<tr>
<td>dill cucumber</td>
<td>6 slices</td>
<td></td>
<td>R 0.21</td>
</tr>
<tr>
<td>hamburger rolls</td>
<td>2</td>
<td></td>
<td>R 2.59</td>
</tr>
<tr>
<td>seasoning salt</td>
<td>2g</td>
<td></td>
<td>R 0.07</td>
</tr>
<tr>
<td>Mayo</td>
<td>30ml</td>
<td></td>
<td>R 0.52</td>
</tr>
<tr>
<td>tomo 41</td>
<td>1</td>
<td></td>
<td>R 0.81</td>
</tr>
<tr>
<td>label small</td>
<td>1</td>
<td></td>
<td>R 0.02</td>
</tr>
<tr>
<td>med shopper</td>
<td>0.5</td>
<td></td>
<td>R 0.21</td>
</tr>
<tr>
<td>serviette</td>
<td>2</td>
<td></td>
<td>R 0.10</td>
</tr>
<tr>
<td><strong>SELLING PRICE excl. VAT</strong></td>
<td></td>
<td></td>
<td>25.39</td>
</tr>
<tr>
<td><strong>SELLING PRICE incl. VAT</strong></td>
<td></td>
<td></td>
<td>28.95</td>
</tr>
<tr>
<td><strong>Gross Profit Rand</strong></td>
<td></td>
<td></td>
<td>12.33</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td></td>
<td></td>
<td>48.57%</td>
</tr>
<tr>
<td><strong>Food Cost</strong></td>
<td></td>
<td></td>
<td>51.43%</td>
</tr>
</tbody>
</table>

Source: [http://steersonline.myhost.co.za](http://steersonline.myhost.co.za)
Taxation continues to be a complex area. Entities and individuals are challenged to identify tax-planning opportunities in order to reduce their tax burden while remaining in compliance with laws and regulations. It is essential to stay abreast of new rules and regulations to ensure optimal tax structuring and compliance.

The primary role in this competency area will be as part of a team of external advisors, or as a member of a corporate. That team provides guidance on appropriate taxation strategies. A CA contributes to the team by being competent in identifying the entity or individual’s compliance and reporting requirements, and in developing and implementing the entity or individual’s tax-planning strategies.

### COMPETENCY | TX(E)1 UNDERSTAND THE ENTITY’S TAX PROFILE

#### TASK | TX(E)1.1 Identifies and documents the information required for the analysis of an entity’s tax profile, for example the form of the entity, taxpayer’s residency and liability for tax, exposure to taxation associated with various forms of income and organisational structure, etc.

Tax profiling can be done based on the following variables:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Form of the entity</th>
<th>Tax payer residency</th>
<th>Liability for Tax</th>
<th>Forms of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>S. Blom</td>
<td>Natural person</td>
<td>South Africa</td>
<td>Yes</td>
<td>Salary</td>
</tr>
<tr>
<td>T. Madiba consulting</td>
<td>Small Business Corporation</td>
<td>South Africa</td>
<td>Yes</td>
<td>Fees</td>
</tr>
<tr>
<td>Finlab CC</td>
<td>Closed Corporation</td>
<td>South Africa</td>
<td>Yes</td>
<td>Farming</td>
</tr>
<tr>
<td>JP Morgan SA</td>
<td>Branch of foreign entity</td>
<td>South Africa</td>
<td>Yes</td>
<td>Interest and Fees</td>
</tr>
<tr>
<td>Harmony Gold LTD</td>
<td>Company</td>
<td>South Africa</td>
<td>Yes</td>
<td>Profit on sale of precious metals</td>
</tr>
</tbody>
</table>

#### TASK | TX(E)1.2 Analyses the tax implications of different business vehicles.

Tax rates for the year ended 28 February 2010 have been set at the following levels for the various entities.

<table>
<thead>
<tr>
<th>Entity</th>
<th>Tax rate on taxable income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Person / Special Trust</td>
<td>18% to 40% on a sliding scale</td>
</tr>
<tr>
<td>Trusts</td>
<td>40%</td>
</tr>
<tr>
<td>South African companies and closed corporations</td>
<td>28%</td>
</tr>
<tr>
<td>Foreign resident company which earn income from SA</td>
<td>33%</td>
</tr>
<tr>
<td>Personal service provider companies</td>
<td>33%</td>
</tr>
<tr>
<td>Small business corporations</td>
<td>0%, 10%, 28% on various levels of taxable income</td>
</tr>
<tr>
<td>Micro Businesses (Turnover tax)</td>
<td>0% to 7% on various levels of taxable income</td>
</tr>
</tbody>
</table>

Trainee accountants will be required to identify and utilise the correct tax rates based on the different business vehicle types.
COMPETENCY | TX(E)2 DOCUMENTS COMPLIANCE AND FILING REQUIREMENTS FOR DIFFERENT TAXES

| TASK | TX(E)2.1 Documents the filing requirements and deadlines for individuals, corporations and trusts. |

For the 2008 tax season the following deadlines were applicable:

**Companies**
Submit the reconciled EMP 501 with copies of all tax certificates to SARS via eFiling, on a disc or manually at a SARS branch office. If a disc is submitted to SARS, a printed and SIGNED copy of the EMP 501 must accompany it.
DEADLINE: 29 August 2008

**Individuals**
Submission of income tax returns via eFiling
DEADLINE:
eFiling submission: 23 Jan 2009

**Employers**
Preparation and training:
DEADLINE: May – 30 June 2008

Filing Season for Employers starts!
EMP501:
DEADLINE: 1 July 2008

Deadline for PAYE reconciliation:
DEADLINE: 29 August 2008

| TASK | TX(E)2.2 Documents standard processes to ensure all tax deadlines are met, including the timely analysis of assessments and reassessments and the consequences of failing to meet those deadlines. |

In order to ensure compliance with all the tax deadlines, it may benefit an entity to draw up a calendar of all the applicable tax deadlines and ensure that all the various tax returns are submitted by a specified deadline dates.

Grant Thornton has suggested the following tax calendar for the 2009 filing season.
Tax calendar 2009

| TASK | TX(E)2.3 Documents the filing requirements and deadlines in relation to employees’ tax returns (PAYE, UIF and SDL), provisional tax returns and VAT returns. |

Refer to the tax calendar mentioned above.
**TASK TX(E)3.1** Collects and calculates the information needed to file the tax return for an individual, considering: inclusion and classification of income from different sources, exclusion of exempt income, deductibility of expenses.

For example: Trainee accountants will therefore be required to calculate taxable income for individuals after taking into account fringe benefits, handicapped person allowances and medical expenses, capital gains, dividends received etc.

```
Example – Fringe benefit and medical scheme contributions

Mr C has a taxable income (before the medical expenses fringe benefit or deduction) of R112 000 for the year ended 29 February 2008. His employer contributes R400 per month to the medical aid in respect of Mr C’s membership, and Mr C contributes R180 per month. In addition, Mr C incurred R9 400 in qualifying medical expenditure for the year, which he did not recover from the medical aid. Mr C is 24 years old and has no dependants.

**2008 Tax calculation**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable income before medical expense deduction</td>
<td>R112 000</td>
</tr>
<tr>
<td>Fringe Benefit - employer contribution, 12 x (R400-R530) - see note</td>
<td>nil</td>
</tr>
<tr>
<td>Employee deduction</td>
<td></td>
</tr>
<tr>
<td>- contributions, 12 x R180</td>
<td>R2 160</td>
</tr>
<tr>
<td>- deductible limit, 12 x R530</td>
<td>R6 360</td>
</tr>
<tr>
<td>- reduced by amount of tax-free fringe benefit, 12 x R400</td>
<td>(4 800)</td>
</tr>
<tr>
<td>Therefore, deduct contributions, limited to</td>
<td>R1 560</td>
</tr>
<tr>
<td>Non-deductible contribution</td>
<td>R600</td>
</tr>
<tr>
<td>Other medical expenses</td>
<td>9 400</td>
</tr>
</tbody>
</table>

Less: (R112 000 – 1 560) x 7.5%                                               | (1 717)      |

**Taxable income after section 18 deduction**                                | R108 723     |

Note: The employer can make tax-free contributions to a medical scheme, in respect of an employee. The tax-free portion is limited to R530 per employee per month or R1 060 per month for an employee and one dependent, and R320 per month extra for each additional dependent. As Mr C’s employer contributed R400 per month, it is totally tax-free because it is within the limit of R530 per month for Mr C – see chapter 20. As the R400 has been used by the employer to reduce the fringe benefit, the employee must reduce the limit of his tax-deductible contributions to the medical aid scheme by R400 per month. As the 7.5% limit is calculated after deducting the medical aid contributions of Mr C, it is not affected by whether Mr C makes the contributions, or the employer makes the contributions and reduces Mr C’s salary accordingly.
```

Source: Hedron

**TASK TX(E)3.2** Prepares the income tax return.

Trainee accountants are required to complete tax returns for individuals. The form attached below is an example of the new 2-page tax return for individuals.
COMPETENCY | TX(E)4  CALCULATES INCOME TAX PAYABLE AND PREPARES INCOME TAX RETURN FOR A CORPORATION

| TASK | TX(E)4.1  Collects and calculates the information needed to file the tax return for a corporation, considering: type of corporation, inclusion and classification of income from different sources, deductibility of expenses and tax deductions and credits |

At an advanced level trainee accountants will be required to deal with the following special rulings in terms of the Income Tax act that will be applicable to corporations (Part III of the Income Tax Act):

1. Assets-for-Shares transactions (section 42)
2. Amalgamation transactions (sections 44)
3. Intergroup transactions (section 45)
4. Unbundling transactions (section 46)
5. Transactions involving deregistration and liquidation (section 47)
6. Entities that are controlled by foreign companies

It may also be a requirement to determine the tax liability for a consolidated group of companies.

| TASK | TX(E)4.2  Prepares the Income Tax return |

Trainee accountants will be required to complete an Income Tax return for a corporation. The following document is an extract of an income tax return for a branch of a foreign company:
### Part 1: CFC Information

- **Registered name of CFC**
- **Foreign tax ref no**
- **Country of incorporation**
- **CFC financial year from**
- **Registered business address**
- **Physical business address**
- **Nature of business**

### Part 2: Ownership Information

<table>
<thead>
<tr>
<th>Classes of participation rights</th>
<th>Taxpayer</th>
<th>Indirectly</th>
<th>Connected persons</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

Source: SARS
Dividend tax will be implemented in 2010 and is set a rate of 10% for local individual tax payers. Domestic retirement funds, public benefit organisations and domestic companies are exempt. Foreigners are eligible for a reduction to 5% under tax-treaty benefits.

At an advanced level it will be required from trainee accountants to deal with dividend taxed in terms foreign branched and to investigate arbitrage opportunities.

The following table compares the current position to foreign branch tax and to withholdings varying between 5% and 10% as at 5 July 2009.

<table>
<thead>
<tr>
<th></th>
<th>Company STC</th>
<th>Branch of Foreign Company</th>
<th>Company 5% withholding</th>
<th>Company 7.5% withholding</th>
<th>Company 10% withholding</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>Normal Tax</strong></td>
<td>28</td>
<td>33</td>
<td>28</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td><strong>Income Available for</strong></td>
<td>72</td>
<td>67</td>
<td>72</td>
<td>72</td>
<td>72</td>
</tr>
<tr>
<td><strong>Distribution</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>STC (10/110)</strong></td>
<td>6.55</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Withholding</strong></td>
<td>0</td>
<td>0</td>
<td>3.6</td>
<td>5.4</td>
<td>7.2</td>
</tr>
<tr>
<td><strong>Paid to Shareholder</strong></td>
<td>65.45</td>
<td>67</td>
<td>68.4</td>
<td>66.6</td>
<td>64.8</td>
</tr>
</tbody>
</table>

*Source: Moneyweb Tax*
COMPETENCY    TX(E)5  CALCULATE OTHER TAXES PAYABLE AND PREPARE APPROPRIATE RETURNS

**TASK**     TX(E)5.1  Identifies when capital gains tax (CGT) is applicable and calculates the CGT tax payable on qualifying transactions.

Trainee accountants will be required to understand the implications of the following factors on the Capital Gains Tax calculation:
1. Profits or losses that are incurred over more than one year
2. Deemed acquisitions of assets
3. The basis cost of an asset (paragraph 20)
4. Amounts excluded from the basis cost calculation
5. Limitations on expenses
6. Acquisition of assets prior to 1 October 2001
7. Partial acquisitions of assets
8. Loss restriction rules
9. Foreign companies
10. Foreign exchange assets and liabilities

**TASK**     TX(E)5.2  Records indirect taxes (VAT) for transactions in accordance with relevant legislation.

From a VAT perspective it is important to be able to distinguish between:
1. Exempt supplies
2. Zero-rated supplies
3. Normal supplies standard rates (14%)

VAT is only charged on taxable supplies made by a vendor. Companies are only required to register for VAT if their taxable supplies exceed R1m.

For Example: In terms of GRAP, public sector entities have to comply with the following process as stipulated by National Treasury:
### TASK TX(E)5.3 Prepares the indirect tax (VAT) return.

The following is an extract from a VAT 201 return. Trainee accountants are required to complete this form based on the entity’s financial data.
UIF contributions payable by employers on a monthly basis are calculated at 2% of remuneration paid or payable to each of their employees during that month. The amount of the contribution payable –

1. by an employee, is 1% of the remuneration paid or payable by the employer during any month; and
2. by an employer, is 1% of the remuneration paid or payable by the employer to that employee during any month.

SDL

Section 3(1) and (4) of the Skills Development Levies Act prescribe that the employer must pay a skills development levy of 1% of the leviable amount from 1 April 2001.

Provisional Tax and employees tax are based on the same principals as the calculation for income tax for individuals or corporations.
**TASK TX(E)5.5** Prepares appropriate returns, electronic or otherwise, for other taxes including provisional tax, employees tax (PAYE), SDL and UIF

**For example:** The following is an extract from the provisional tax return for a corporation.

![Image of SARS provisional tax return]

**Source:** SARS
COMPETENCY  TX(E)6 DISCLOSES ALL TAX INFORMATION AND COMPUTATIONS CORRECTLY IN THE FINANCIAL STATEMENTS

TASK  TX(E)6.1 Discloses all relevant tax information and amounts in the financial statements of an entity in accordance with guidance provided by the relevant accounting standards.

Cross reference this section to: AE3.2 for both TX 6.1 and TX 6.2

For example: The following are extracts from the annual financial reports for Sasol Limited for the 2009 financial year.

Sasol Limited Group

monetary exchanges with governments

For the year ended 30 June

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rm</td>
<td>Rm</td>
<td>Rm</td>
<td>Rm</td>
<td>Rm</td>
</tr>
<tr>
<td>Direct taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South African normal tax</td>
<td>8 467</td>
<td>8 497</td>
<td>6 016</td>
<td>5 644</td>
<td>5 211</td>
</tr>
<tr>
<td>foreign tax</td>
<td>515</td>
<td>387</td>
<td>248</td>
<td>421</td>
<td>736</td>
</tr>
<tr>
<td>Secondary Taxation on Companies</td>
<td>831</td>
<td>637</td>
<td>529</td>
<td>555</td>
<td>379</td>
</tr>
<tr>
<td>Employees' tax</td>
<td>3 045</td>
<td>2 564</td>
<td>2 044</td>
<td>1 872</td>
<td>1 769</td>
</tr>
<tr>
<td>Indirect taxes</td>
<td>14 506</td>
<td>13 112</td>
<td>11 748</td>
<td>7 818</td>
<td>6 595</td>
</tr>
<tr>
<td>customs, excise and fuel duty</td>
<td>13 148</td>
<td>11 855</td>
<td>10 873</td>
<td>8 030</td>
<td>7 424</td>
</tr>
<tr>
<td>property tax</td>
<td>92</td>
<td>75</td>
<td>84</td>
<td>66</td>
<td>65</td>
</tr>
<tr>
<td>RSC levies</td>
<td>5</td>
<td>5</td>
<td>6</td>
<td>141</td>
<td>110</td>
</tr>
<tr>
<td>net VAT (received)/paid</td>
<td>(1 056)</td>
<td>(152)</td>
<td>(163)</td>
<td>(651)</td>
<td>(1 153)</td>
</tr>
<tr>
<td>other</td>
<td>2 317</td>
<td>1 320</td>
<td>622</td>
<td>172</td>
<td>149</td>
</tr>
<tr>
<td>Net monetary exchanges with governments</td>
<td>26 964</td>
<td>25 197</td>
<td>20 585</td>
<td>16 310</td>
<td>12 690</td>
</tr>
<tr>
<td>South Africa</td>
<td>24 646</td>
<td>23 182</td>
<td>19 027</td>
<td>15 591</td>
<td>11 462</td>
</tr>
<tr>
<td>Germany</td>
<td>777</td>
<td>490</td>
<td>711</td>
<td>753</td>
<td>682</td>
</tr>
<tr>
<td>United states of America</td>
<td>220</td>
<td>193</td>
<td>152</td>
<td>152</td>
<td>55</td>
</tr>
<tr>
<td>Other</td>
<td>1 321</td>
<td>1 332</td>
<td>665</td>
<td>(156)</td>
<td>481</td>
</tr>
</tbody>
</table>

28 Tax paid

Amounts unpaid at beginning of year: (1 522) (1 465) (1 899)
Net interest received on tax 1 1 7
Penalties paid on tax (15) (19) –
Income tax per income statement 41 (9 413) (9 521) (6 733)
Acquisition of businesses 55 (1) (1) –
Disposal of businesses 56 – 2 2
Reclassification from held for sale – – (16)
Translation of foreign operations 47 23 (9) (17)

(10 927) (11 094) (8 716)
Tax payable per statement of financial position 675 1 522 1 465
Per the statement of cash flows (10 252) (9 572) (7 251)

Compliance

Normal tax
South Africa (8 802) (8 079) (6 448)
foreign (631) (875) (198)
STC (819) (624) (605)

(10 252) (9 572) (7 251)
### 23 Deferred tax continued

**Calculated tax losses carried forward that have not been recognised**

<table>
<thead>
<tr>
<th>Expiry</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>between one and two years</td>
<td>787</td>
<td>668</td>
<td>311</td>
</tr>
<tr>
<td>between two and five years</td>
<td>823</td>
<td>1,407</td>
<td>1,293</td>
</tr>
<tr>
<td>thereafter</td>
<td>3,345</td>
<td>1,634</td>
<td>984</td>
</tr>
<tr>
<td>Indefinite life</td>
<td>510</td>
<td>1,337</td>
<td>766</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,465</td>
<td>5,046</td>
<td>3,354</td>
</tr>
</tbody>
</table>

**Unremitted earnings of foreign subsidiaries, foreign associates and foreign incorporated joint ventures**

No provision is made for the income tax effect that may arise on the remittance of unremitted earnings by certain foreign subsidiaries, foreign associates and foreign incorporated joint ventures. It is management’s intention that, where there is no double taxation relief, these earnings will be permanently re-invested in these entities.

<table>
<thead>
<tr>
<th>Region</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unremitted earnings at end of year</td>
<td>4,201</td>
<td>12,298</td>
<td>7,238</td>
</tr>
<tr>
<td>Europe</td>
<td>1,225</td>
<td>9,449</td>
<td>6,217</td>
</tr>
<tr>
<td>Rest of Africa</td>
<td>560</td>
<td>1,259</td>
<td>632</td>
</tr>
<tr>
<td>United States of America</td>
<td>425</td>
<td>575</td>
<td>248</td>
</tr>
<tr>
<td>Other</td>
<td>1,991</td>
<td>815</td>
<td>141</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,651</td>
<td>212</td>
<td>65</td>
</tr>
</tbody>
</table>

**Tax effect if remitted**

<table>
<thead>
<tr>
<th>Region</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>115</td>
<td>147</td>
<td>36</td>
</tr>
<tr>
<td>Rest of Africa</td>
<td>6</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>United States of America</td>
<td>10</td>
<td>29</td>
<td>13</td>
</tr>
<tr>
<td>Other</td>
<td>34</td>
<td>28</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: Sasol
<table>
<thead>
<tr>
<th>COMPETENCY</th>
<th>TX(E)7 IDENTIFIES AND MAKES RECOMMENDATIONS ON SPECIFIC TAX-PLANNING OPPORTUNITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>TASK</td>
<td>TX(E)7.1 Identifies and makes recommendations concerning tax planning opportunities, for example retirement planning, estate duty planning, the use of trusts or the structuring of corporate transactions</td>
</tr>
</tbody>
</table>

For example:
1. If you have property in a Special Purpose Vehicle (SPV) and you wish to sell this property to somebody else without paying capital gains tax, it may be beneficial to following the following strategy:
2. Increase the authorised ordinary share capital in the company drastically and issue the new ordinary shares to the new owner. For instance: if there were a 100 shares, with a par value of 1c per share, in the company previously, then issue 1 000 000 new shares to the new prospective owners.
3. The new owner will now have control over the SPV and be able to appoint a new Board of Directors.
4. The original shares in the company may now be close to worthless because of the dilution in control cause by issuing a whole bunch of new shares that it can be sold to the new owners at a low value as well. This will then reduce the liability of paying capital gains tax.
### COMPETENCY
**TX(E)8** PREPARES INFORMATION TO RESPOND TO ASSESSMENTS, FILE OBJECTIONS AND APPEALS

### TASK
**TX(E)8.1** Analyses the content of assessments and reassessments to gain an understanding of the issues

For example: It may be beneficial to confirm that all the relevant deductions have been acknowledged by SARS.

**TX(E)8.2** Prepares responding materials required by regulation to file a notice of objection or initiate an appeal

The following is an extract of the ADR 1 form that has to be submitted to SARS in order to lodge an objection.

Source: SARS
Internal risk management continues to play a vital role in organisations. Entities need to be aware of risk to their business in order to be able to adequately respond to them. In an era that is moving towards greater transparency in the governance of businesses, there is becoming an even more urgent need for businesses to monitor and manage their governance practices.

The primary role in this competency area will be as part of a team of external advisors, or as a member of a corporate or a public-sector management / internal audit team. That team provides guidance on appropriate risk management and governance strategies. A CA contributes to the team by being competent in identifying internal risk to the entity (including the risks associated with poor governance), and in developing and implementing adequate responses to minimise those risks.

**COMPETENCY | IR(E)1 IDENTIFIES AND EVALUATES THE RISKS PERTAINING TO THE FINANCIAL INFORMATION SYSTEM**

**TASK | IR(E)1.1** Identifies and documents strategic, operational, financial and informational risks, based on an understanding of the environment in which the entity/audit engagement operates, its strategies and management processes

In planning an internal audit, trainee accountants are required to document the internal control environment of the entity and in so doing identify and document risks relevant for that audit. This is typical of the planning stage of most internal audits. A thorough understanding of internal processes will therefore be required and this may include:

1. Overview of organisational strategy
2. Value chain concepts
3. Supply chain concepts
4. Process flow analysis
5. Process modelling

The following may be an example of typical risks associated with supply chain management in a manufacturing process:

1. The sales department identifies a need for a product. The sales department tells the marketing department about their idea but the marketing department may start marketing the product without prior management authorization.
2. The marketing department use external business analysts to support the project and to complete the research but the business analysts may not be an approved supplier of the entity.
3. Data without supporting evidence may be passed back to the marketing department for completion of a business plan.
4. An incomplete business plan is forwarded to the Business Unit Manager / Directors.
5. A decision on the acceptance of the project was not taken by the appropriate Business Unit Manager but by an employee without the necessary authorization to do so.
6. After approval the plan, the plan may not be passed back to the analysts to prepare and implement the manufacturing process.
7. Inaccurate or incomplete details of raw materials and components are passed to purchasing.
8. Purchasing work with logistics and transport to plan the purchase and delivery of the materials to the manufacturing plant but purchasing orders may not necessarily be authorised according to the entity’s policy on procurement.
9. Suppliers receive orders for product and then dispatched on agreed transport on agreed dates but these suppliers may not necessarily be approved suppliers of the entity.
10. Carriers not approved by the business, transport the raw materials and components to the manufacturing site.
11. Products are received into the warehouse and then moved to manufacturing without the appropriate Goods Received Note or Delivery Note or without matching the delivery to the original order.
12. Finished products are moved from manufacturing to the finished goods warehouse which might be situated locally or in a remote location and these products could be transported without the necessary authorisation or documentation.
13. Finished goods are put into inventory awaiting orders. The company computer system is updated without the required level of senior supervision.
14. Customers place orders through customer services but customer credit records and limits are not confirmed before the orders are executed.
15. Customer Services take orders and input them to the company computer system where there may be a lack of general controls like password control.

16. The central computer system maintains transaction records and provided visibility of product for sale but back-ups of the central computer system may not be maintained.

17. An order is completed and the incorrect pick list sent to the warehouse.

18. A copy of the order is not sent to the export department and therefore the completion of required export documentation are not completed and not reviewed.

19. Export department manages the final dispatch of the product and produces inaccurate export documents without the required levels of authorization.

20. Documents are not sent to the warehouse to meet up with the finished order.

21. The unauthorised orders are dispatched by the warehouse.

22. The transport company collects the consignment and delivers it to the customer based upon the INCO terms of carriage but no confirmation of delivery or receipt of goods are received.

23. As stock has now been used the computer system generates a request for new stock but this order is not reviewed or authorised.

24. The re-order process generates a request to the purchasing department to place new orders with the suppliers without the required authorization and without confirming if the supplier is an authorised supplier of the entity.

From a public sector perspective, the National Treasury suggests the usage of the following framework in order to assess risks.

Source: Logistical Consultants
What is the source of each risk?

What might happen that could:
- Increase or decrease the effective achievement of objectives
- Make the achievement of the objectives more or less efficient (e.g. financial, people, time)
- Cause stakeholders to take action that may influence the achievement of objectives
- Produce additional benefits

Other considerations:
- What would the effect on objectives be?
- When, where, why, how are these risks (both positive and negative) likely to occur?
- Who might be involved or impacted?
- What controls currently exist to treat this risk (maximise positive risks or minimise negative risks)?
- What could cause the control not to have the desired affect on the risk?

Source: National Treasury
Trainee Accountants have to demonstrate an understanding the key information systems controls, in addition to other internal controls, which can include:
1. Logical information security (based on ISO 17799)
2. Segregation of duties
3. User account management
4. Application layer security
5. Network layer security
6. Operating systems security
7. Database security
8. Outsourced Environments and the Service Level Management Process
9. The systems development lifecycle

For example: The National Election Commission requested their internal auditors to document their processes on the following working paper format in line with the requirements as specified in The International Standards for the Professional Practice of Internal Auditing.

Appendix I: Process analysis document

<table>
<thead>
<tr>
<th>Electoral Commission</th>
<th>Process Analysis Document</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditee</td>
<td>Year End</td>
</tr>
<tr>
<td>Process</td>
<td>Prepared by</td>
</tr>
</tbody>
</table>

Process Overview

*(A short description/summary of the process needs to be recorded in this section)*

Strategic business risk

*(The identified strategic/operational business risk relating to this process needs to be recorded in this section)*

Inputs

*(Documentation and information needed at the start of the process needs to be recorded in this section)*

Activities

*(The steps taken by employees/system to generate the output needs to be documented in this section)*

Outputs

*(The documentation/results generated by the inputs and activities needs to be documented in this section)*

Computer information systems

*(All information systems used in the process identified above needs to be recorded in this section)*

Source: National Election Commission

Cross reference to AA 2.3 for another example on this matter.
## Task IR(E)3.1 As part of a team, selects suitable criteria or a recognised framework for control evaluation.

Trainee accountants have to demonstrate an awareness of international best practice or recognised internal control methodologies like:
1. Committee of Sponsoring Organisations of the Treadway Commission (COSO)
2. Sarbanes- Oxley Act
3. International Organisation for Standardization (ISO)
4. The International Standards for the Professional Practice of Internal Auditing
5. The International Auditing Practice Statements
6. The South African Auditing Practice Statements

## Task IR(E)3.2 Evaluates internal control in the context of the criteria / recognised framework and suggests improvements where deficiencies are identified.

Trainee accountants will have to document their evaluation of the internal control processes, recording exceptions and weaknesses.

Cross reference to AA 6.1 for a detailed example on this matter.

## Task IR(E)3.3 Assesses whether existing internal controls are functioning properly or if additional controls are needed and communicates ideas to supervisor

As part of the internal audit field work, trainee designs and executes tests of control as per the internal audit methodology of the organisation.

As part of this process, the following types of internal Controls will have to be assessed:
1. **Management controls**: These ensure that the institutions structure and systems support its policies, plans and objectives and operate within laws and regulations
2. **Administrative controls**: These ensure that policies and objectives are delivered in an efficient and effective manner and that losses are minimised
3. **Accounting controls**: These ensure that resources allocated are accounted for fully and transparently and are properly documented;
4. **Information Technology controls**: These controls relate to IT systems and include access control, controls of system software programmes, business continuity controls and other controls.

The following questions could provide useful information for a high level understanding of the underlying issues and the control improvements required:
1. What is the risk assessment telling us about the effectiveness of the current controls (What needs to be enhanced)?
2. What are the various options available for addressing the residual risk?
3. What amount and quality of information do we have about the risk (what additional information is required to fully understand and respond to this risk)?
4. How much is the additional control going to cost and how does this compare with the benefits to be derived from the additional control?
5. Is there a necessity for introducing new policies and procedures, or updating the existing policies and procedures?
6. How will we measure whether the new control measures are working or not?
7. What is the action plan for addressing the control gaps?
8. Who is the responsible person?
9. What project plans should we put in place?

*Source: National Treasury Guidelines on Control Activities*
Trainee accountants must know when to engage an IT specialist, how to brief them on the requirements and be able to interpret their reports and impact of their findings on their audit approach.

“For example, one of the key controls in an insurance company is a computer edit routine that ensures that a claimant is an active, full-paid member before claims are processed or payments are authorised. During an audit of an insurance company's claims processing function, audit software was used to compare claims processed during a certain time frame against the active membership file for that period. Exceptions were disclosed, as several of the processed claims were for non-active members. Further research revealed that the claims processing unit had been "taught" to override some of the edits so that the unit could "process claims more quickly" and, therefore, increase efficiency. Unfortunately, one of the edits that was overridden also checked on the eligibility of the claimants.

Making this discovery through manual testing would require that a sample be selected from the vast number of transactions processed. The larger the sample size, the more difficult the identification of exceptions; yet, the smaller the sample size, the less accurate the finding. The use of audit software enables the testing of the entire population of claims processed, so that identification of the total number of exceptions is much simpler.” D. Gin - Internal Auditor Journal, April 2006
COMPETENCY | IR(E)4 CONDUCTS PLANNING AND FIELDWORK WITHIN THE SCOPE OF INTERNAL AUDIT POLICIES

TASK | IR(E)4.1 Designs an appropriate audit programme

For example: As per IAPS 1006, the following factors should be considered in the development of an internal audit programme for a financial institution’s treasury department:

**Strategic Controls:**
Have those charged with governance established a formal policy for the bank’s treasury business that sets out:

1. The authorised activities and products the bank can trade on its own or a third party’s behalf, ideally broken down by product or risk group;
2. The markets in which trading activities take place: these could be regional markets, or Over-the-Counter (“OTC”) versus Exchange markets;
3. The procedures for measuring, analyzing, supervising and controlling risks;
4. The extent of risk positions permissible, after taking into account the risk they regard as acceptable;
5. The appropriate limits and procedures covering excesses over defined limits;
6. The procedures, including documentation, that must be complied with before new products or activities are introduced;
7. The type and frequency of reports to those charged with governance; and
8. The schedule and frequency with which the policy is reviewed, updated and approved?

**Operational controls**

1. Is there appropriate segregation of duties between the front office and back office?
2. Are the following activities conducted independently of the front office/business unit:
   a. Confirmation of trades;
   b. Recording and reconciliation of positions and results;
   c. Valuation of trades or independent verification of market prices; and
   d. Settlement of trades?
3. Are trade tickets pre-numbered (if not automatically generated)?
4. Does the bank have a code of conduct for its dealers that addresses the following:
5. Prohibiting dealers from trading on their own account;
6. Restricting acceptance of gifts and entertainment activities;
7. Confidentiality of customer information;
8. Identification of approved counterparties; and
9. Procedures for the review of dealers’ activities by management?
10. Are remuneration policies structured to avoid encouraging excessive risk taking?
11. Are new products introduced only after appropriate approvals are obtained and adequate procedures and risk control systems are in place?

**TASK | IR(E)4.2 Performs appropriate fieldwork in accordance with the audit programme**

Cross reference to AA 6.1
TASK | IR(E)4.3 Applies sampling techniques in accordance with the audit programme

For example: If the audit programme states that every fifth invoice should be agreed to authorised orders and delivery notes, starting at invoice number 326, then the following invoice numbers should be included in the sample: 331, 336, 341, 346, 351, 356, 361, etc.

If a particular invoice cannot form part of the original sample and cannot be tested as such, the reasons for the exception should be clearly documented on the working paper.

TASK | IR(E)4.4 Analyses test results to determine if additional work is required or if no further testing is necessary, to conclude on the effectiveness of the control environment

At an advanced level, trainee accountants should be able to identify any further controls testing that may be required. For example, if revenue generated by a software development business had to be assessed, the following internal controls may potentially be tested:

Maintenance of Customer Record spreadsheet
1. For a sample of entries on the batch input logs (direction of testing):
   a. Inspect the update form for evidence of review by the customer services manager.
   b. Reperform the control, by comparing the data on the form to supporting documentation (for validity and accuracy).
   c. Inspect whether independent checks are performed regarding batch input.
2. For a sample of batch input log, inspect the evidence of review by the employee performing the sequence checks and reconciliation of the batch totals.
3. Reperform the control by, for a sample of weeks, comparing the control/hash totals per the printout to the control/hash totals computed pre-input.
4. Reperform the sequence check of update forms on the batch input logs for selected weeks during the year.
5. Through test data, test the transfer of information from input facility to spreadsheet.
6. Test the access controls for the network drive and the input facility / spreadsheet:
7. Inspect onscreen password parameters (including minimum length, password expiry and user lockout policy).
8. If parameters cannot be viewed, ask a user to change password to determine the minimum length and note lockout onscreen.
9. Select a sample of employees from the access tables who have access to the LAN drive and determine whether their access rights (to the input facility and spreadsheet) are appropriate given their roles and responsibilities (and consistent with sound segregation of duties).
10. By using test data, make changes to the formulae in the spreadsheet to ascertain that all such changes are logged.
11. Inspect a sample of formulas generated by the audit logging software tool for evidence of review by the financial director.
12. Select a sample of formulas and recalculate the mathematical accuracy and logic of the formulas.

Invoicing
1. If the data is available, reperform the extraction (sorting) of the data needed to capture invoices for software upgrades for a particular month using CAATs and compare to the printout generated by the system.
2. Generate a CAATs report on the invoicing transaction logs to extract duplicate/omitted customer/contract numbers.
3. Inspect the evidence of review by the operations director on the log of monthly data to be used for invoicing purposes.
4. Inspect the evidence of review by the financial director performing the checks on the accuracy of the data captured to the invoicing module.
5. Reperform the accuracy of the amounts invoiced by comparing the control total of the invoice values generated for a month to the control total of the upgrade fees payable per the printout for the month.

Credit notes
1. For debit adjustments to the revenue from software upgrades account in the general ledger, agree the total to the listing of all credit notes processed (direction of testing).
   a. For a sample of credit notes on this listing:
* Inspect the evidence of review by the operations director in the request for credit register authorising the issuing of the credit note.
* Agree the details on the credit note to the corresponding invoice, by inspecting 15 credit notes.
* Reperform the calculation of the credit note amount with reference to the date of cancellation and the date of invoice.
* Inspect the relevant update form that the cancellation of the upgrade service has been recorded.

b. Inspect the credit note listing for evidence of review by the operations director.

2. Select a sample of invoices and credit notes that were generated during the year and inspect that these have been recorded in the correct ledger accounts in the correct amount (example by using audit software).

3. Using CAATs, obtain a report of missing invoice/credit note numbers and follow up.
   a. Enquire into the review of reports.
   b. For exceptions found during the management reviews of lists / documents, enquire how these were resolved, and inspect corroborating supporting documentation, to ensure the supervisory checks operated effectively.

4. Reverse any test data captured once the test has been performed.

Source: IRBA
<table>
<thead>
<tr>
<th>COMPETENCY</th>
<th>IR(E)5 DOCUMENTS THE RESULTS OF INTERNAL AUDIT PROCEDURES PERFORMED</th>
</tr>
</thead>
</table>

**TASK**

IR(E)5.1 Creates internal audit documentation that provides a clear link to significant findings or issues that arose during the engagement, and that contains sufficient information to support the nature, timing and extent of procedures performed and the results of those procedures.

Cross reference to AA 6.1 trainee accountants may also be required to document the working papers in line with the International Internal Auditing Standards 2330.
**COMPETENCY**
**IR(E)6 EVALUATES EVIDENCE, DRAWS CONCLUSIONS AND ISSUES APPROPRIATE REPORTS**

**TASK**
**IR(E)6.1 Evaluates the sufficiency and significance of the evidence and/or results of analysis.**

The following factors may influence the sufficiency and significance of evidence:
1. A weak control environment.
2. Weak monitoring of controls.
3. A significant manual element to the relevant controls.
4. Personnel changes that significantly affect the application of the control.
5. Changing circumstances that indicate the need for changes in the control.
6. Weak general IT-controls.

If the results from initial controls testing are not favourable, sample sizes for testing purposes can be extended.

Recommendations should also be made to the management team on any potential improvements that can be implemented in order to strengthen the internal control environment.

**TASK**
**IR(E)6.2 Identifies and evaluates inconsistencies, unexpected circumstances or findings, or findings that indicate possible fraud, error or illegal acts**

The same factors, as listed in IR 6.1, are usually a good indication of the fraud risk within a division or entity.

The following is a comparative between normal internal audit work vs. forensic investigation in order to detect fraud:

### Comparing Investigative Approaches

<table>
<thead>
<tr>
<th></th>
<th>Internal Auditing</th>
<th>Forensic Investigation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objective</strong></td>
<td>Ensures policies are being followed and identifies areas for operational improvement.</td>
<td>Gathers documentation to prove or disprove a fraud allegation.</td>
</tr>
<tr>
<td><strong>Timing</strong></td>
<td>Scheduled in advance.</td>
<td>Reacts to an allegation or suspicion.</td>
</tr>
<tr>
<td><strong>Work plan</strong></td>
<td>Defined work plan.</td>
<td>Work plan can change dramatically over time.</td>
</tr>
<tr>
<td><strong>Documentation used</strong></td>
<td>Company documentation.</td>
<td>Company and personal documentation, including e-mail reviews and background checks.</td>
</tr>
<tr>
<td><strong>Fraud schemes</strong></td>
<td>Considered during planning.</td>
<td>Detection and quantification of the alleged schemes.</td>
</tr>
<tr>
<td><strong>Interview style</strong></td>
<td>Fact finding.</td>
<td>Fact finding and interrogation.</td>
</tr>
<tr>
<td><strong>Intent determination</strong></td>
<td>Generally not considered.</td>
<td>Integral part of investigation.</td>
</tr>
<tr>
<td><strong>Sampling</strong></td>
<td>Frequently used.</td>
<td>Rarely used.</td>
</tr>
</tbody>
</table>

*Source: J Pollock, Internal Auditor, 2002*

However, Internal Audit should consider their Independence in investigating fraud within an entity. For example, if the suspected fraud involves governments or the executives of the entity, it is recommended that the matter rather be referred to an independent auditing firm of further investigation.
IR(E)6.3 Analyses and decides on the reasonableness of the conclusions on the subject matter, based on the outcome of internal audit procedures

The Trainee accountant will have to consider if the audit evidence is adequate, reliable and applicable when concluding on the internal audit investigation.

IR(E)6.4 Assists in the preparation of the final report with recommendations, management responses and an action plan

Cross reference to section AA 8.1

The following is an extract from the Auditor General’s report on the efficiency of internal controls at the Nxuba municipality.

<table>
<thead>
<tr>
<th>Reporting item</th>
<th>Control environment</th>
<th>Risk assessment</th>
<th>Control activities</th>
<th>Information and communication</th>
<th>Monitoring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Assets</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waste Management</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unauthorised Expenditure</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Control environment**: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.
- **Risk assessment**: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.
- **Control activities**: policies, procedures and practices that ensure that management’s financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.
- **Information and communication**: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allows people to carry out their financial reporting duties.
- **Monitoring**: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.
### COMPETENCY

<table>
<thead>
<tr>
<th>IR(E)7</th>
<th>ASSIST IN THE EVALUATION OF AN ENTITY’S PLANS FOR RISK MANAGEMENT</th>
</tr>
</thead>
</table>

**TASK**

| IR(E)7.1 | Documents suggested methods to manage risk, for example choosing not to undertake certain types of activities or transferring risk to third parties through insurance, hedging, outsourcing, etc. or mitigating risks through preventative and detective control procedures. |

For example, at an advanced level, trainee accountants may be required to discuss various risk management techniques for grain farmers in South Africa. The following risk management strategies may serve as suggestions:

1. The usage of forward contracts
2. The usage of production contracts
3. Diversification of products produced
4. Liquidity maintenance
5. Storage management

Another example is where ABSA’s risk management policy is all about proactive risk management by managing the following factors:

1. Grow retail deposits in order to mitigate liquidity risk.
2. Risk based pricing in order to ensure that the Bank is rewarded for the acceptance of risk.
3. Capitalise on cost management initiatives in order to minimize financial risk.
4. Margin Management in order to minimize financial risk.
5. Capital management in order to minimize treasury risks.

*Source: ABSA*
COMPETENCY | IR(E)8 CONDUCTS GOVERNANCE REVIEWS IN ACCORDANCE WITH APPROPRIATE GOVERNANCE STANDARDS

| TASK | IR(E)8.1 Documents and evaluates the components of the entity’s/audit engagement’s governance structure and its role (i.e. board of directors, audit committee, etc.). |

The following is an extract from Eskom’s documentation on their corporate Governance structures:

“Eskom views good corporate governance practices as integral to good performance. As a state-owned enterprise (SOE), it is critical for Eskom to fulfil its mandate in a manner that is in keeping with governance best practices and, in particular, with regard to accountability, transparency, fairness and responsibility. We have adhered to the statutory duties and responsibilities imposed by the Companies Act as augmented by the Public Finance Management Act (PFMA). Eskom’s systems and processes are regularly reviewed to ensure that compliance is monitored in this regard. In addition, Eskom is also guided on best practices by international developments as well as the King Report on Corporate Governance for South Africa – 2002 (King II) and the Protocol on Corporate Governance in the Public Sector – 2002. Certain Eskom employees have participated, at subcommittee level, in the drafting of the King III Report (King III) and comprehensive feedback was provided to the Institute of Directors on the draft document during the comment period.”

Source: ESKOM Corporate Governance report - 2009

It will then be required for a trainee accountant to evaluate if, in this instance, if Eskom did adhere to:

1. King Report on Corporate Governance for South Africa – 2002 (King II)
2. Protocol on Corporate Governance in the Public Sector – 2002

| TASK | IR(E)8.2 Critically evaluates the corporate governance practices of an entity/audit engagement in relation to relevant legislation and practices, documenting recommendations for improvement. |

In the case of Eskom, their corporate governance practices were reviewed by their internal auditors. Their review included a review of: committees, agendas, documentation tabled at board meetings, terms of reference and continuous director training. The following areas for improvement were identified:

1. Stakeholder engagement
2. Communication
3. Decision-making processes

| TASK | IR(E)8.3 Prepares or reviews and makes recommendation regarding the disclosure of corporate governance for an entity/audit engagement. |

The following is an extract from the King III disclosure checklist that can be utilised by Internal Auditors to assess compliance with corporate governance disclosure requirements.
<table>
<thead>
<tr>
<th>Disclosure requirement</th>
<th>Draft King III reference</th>
<th>Is the entity currently disclosing this information? Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.1 Preparation of an integrated report</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1.1 An integrated report that conveys adequate information about the operations of the company and its integrated sustainability and financial reporting should be prepared annually.</td>
<td>Chapter 3 par 17</td>
<td></td>
</tr>
<tr>
<td>1.1.2 The board should report to its shareholders and other stakeholders on the company’s economic, social and environmental performance.</td>
<td>Chapter 2 par 1</td>
<td></td>
</tr>
<tr>
<td>1.1.3 The board should include commentary on the company’s financial results to enhance the clarity and balance of reporting. This commentary should include information needed by an investor to make an informed assessment of the company’s economic value and not merely its book value. Companies should not only report on the positive aspects of their businesses but also on challenges and what steps are being taken to meet these challenges. The integrated report should not be confined to past issues but should provide forward-looking information to place results and performance in context and to show transparency.</td>
<td>Chapter 1 par 49, 50</td>
<td></td>
</tr>
</tbody>
</table>
RESIDUAL SKILLS

AUDITING AND ASSURANCE

Whilst an entry-level CA may have no intention of practicing as a Registered Auditor, it is recognised that certain competencies in Auditing and Assurance are essential to all entry-level CAs, albeit at different levels of proficiency. The skills below relate to a basic appreciation and awareness of the practical considerations of the external audit function by CAs engaged in activities outside public practice. During their role as part of a management team or as an external advisor or as part of a public sector management team, it is important that they understand and are able to evaluate and test internal controls. It is also important that they are able to communicate effectively with the external auditors.

COMPETENCY AA(R)1 EVALUATES INTERNAL CONTROL

| TASK   | AA(R)1.1 Obtains an understanding of and documents an entity’s/business unit’s information system and key internal controls (including IT controls) |
| TASK   | AA(R)1.2 Evaluates and documents the adequacy of the design of control activities in the prevention or detection of material misstatement, and suggests improvements where appropriate |
| TASK   | AA(R)1.3 Identifies and documents appropriate tests of internal control (including IT internal controls, where appropriate), including the determination of sample sizes and methods of selection |
| TASK   | AA(R)1.4 Performs and documents the planned tests of internal control and identifies issues where follow-up/extended work is required |

| TASK   | AA(R)1.5 Draws conclusions on whether the procedure meets the stated objectives |

Overall Context

<table>
<thead>
<tr>
<th>Public Practice</th>
<th>Commerce and Industry</th>
<th>Public Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>This section would not be applicable to trainees who complete the auditing elective in public practice or trainees who select the internal audit, risk management and governance elective in commerce and industry. For all other trainees, the practical work experience must include exposure to internal controls, an essential responsibility of directors and leaders of companies.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not applicable if auditing is selected as an elective.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>As part of an internal audit rotation</td>
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<td></td>
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<tr>
<td>Rotation to various risk departments within the entity</td>
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<tr>
<td>Not applicable for the Auditor General trainees, but for all other public sector trainees, they will need to cross reference this section to their internal audit elective, if applicable.</td>
<td></td>
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</tr>
<tr>
<td>These outcomes will be achieved within an internal audit environment.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Overall Context**

**Public Practice**

*Real life application*

Most of the recent high profile corporate failures of late resulted from a breakdown or missing control. Trainees should review past failures of well know companies and test these “missing” controls to their audit clients or training office (employer’s company).

**Mercedes**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Real life application</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><em>Most of the recent high profile corporate failures of late resulted from a breakdown or missing control. Trainees should review past failures of well known companies and test these “missing” controls to their audit clients or training office (employer’s company).</em></td>
<td></td>
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</table>

**COMPETENCY** AA(R)2 COMMUNICATES WITH EXTERNAL AUDIT

**TASK** AA(R)2.1 Communicates effectively with external audit stakeholders, for example preparing information requested, discussing audit findings and issues raised, describing internal controls and financial systems used.

**Overall Context**

This section would not be applicable to trainees who complete the auditing elective in public practice.

For all other trainees, their time performing internal audit or financial accounting functions must provide them with basic experience in preparing information for external audit and communicating effectively with external audit, developing a practical appreciation for the external audit process and methodology.

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<tbody>
<tr>
<td>This section would not be applicable to trainees who complete the auditing elective in public practice. For all other trainees, their time performing internal audit or financial accounting functions must provide them with basic experience in preparing information for external audit and communicating effectively with external audit, developing a practical appreciation for the external audit process and methodology.</td>
<td>• Not applicable if auditing is selected as an elective.</td>
<td>• Serving as an accountant within the entity / division with the responsibility of liaising with external auditors • Preparation of month end files for review by the external auditors • Rotation to internal audit with the responsibility of liaising with the external auditors</td>
<td>• Not applicable for the Auditor General trainees, but for all other public sector trainees, they will need to liaise with external audit and prepare financial information and communicate effectively with external audit.</td>
</tr>
</tbody>
</table>
Corporate transactions such as mergers, acquisitions, and divestitures have become commonplace in our global environment. Entities are frequently faced with financing choices with strategic consequences. Their managers must make capital structure decisions, evaluate short-term and long-term financing needs, and choose appropriate finance tools that are appropriate to the entity’s strategic direction and the competitive environment within which it operates.

**COMPETENCY**  
**FM(R)1 ANALYSES THE ENTITY’S FINANCIAL SITUATION**

**TASK**  
**FM(R)1.1 Analyses and documents the entity’s/business unit’s/engagement client’s financial position (for example, using financial analysis, ratio analysis, trend analysis and/or cash flow analysis)**

<table>
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</thead>
</table>
| Analysing the performance and position of a company is an essential skill for a business leader. Trainees should be able to analyse and interpret the different decisions a company makes in terms of the three main activities:  
- Operating  
- Financing  
- Investing  
Trainees should be able to make decisions and assess each of the above mentioned activities within any entity.  
*Real life application: Deloitte performs a thorough financial analysis of all clients during the planning phase of each audit. SABMiller analyses the performance of each business unit on a monthly basis* |  
- Perform financial analysis when planning an audit in order to identify audit risks  
- Compare actual financial results for division or company from the current financial year with prior year and investigate any variances  
- Compare actual financial results for division or company from the current financial year with budget and investigate any variances  
- Benchmark a client’s financial position and performance to competitors for audit risk and value-add purposes  
- Present a financial analysis of similar listed companies to the audit partner or manager as part of knowledge of the business of a client |  
- Compare actual financial results for division or company from the current financial year with prior year and investigate any variances  
- Compare actual financial results for division or company from the current financial year with budget and investigate any variances  
- Identify the risk profile of equity investments  
- Assess credit extension to subsidiaries or clients (debt and cash flow ratios)  
- Assess supplier / customer financial position  
- Perform a competitor analysis benchmarking analysis by calculating relevant ratios and presenting to management. |  
- Perform financial analysis when planning an audit in order to identify audit risks  
- Compare actual financial results for division or company from the current financial year with prior year and investigate any variances  
- Compare actual financial results for division or company from the current financial year with budget and investigate any variances |
COMPETENCY | FM(R)2 MONITORS CASH FLOW

| TASK | FM(R)2.1 Prepares or reviews a cash flow forecast for an entity/business unit/engagement client |
| TASK | FM(R)2.2 Identifies when there may be a cash shortfall or excess funds and discusses possible action plans |

Overall Context
A professional accountant must have practical skills in forecasting and managing cash flows of a business.

This would include basic skills in:
- Making reasonable assumptions in a forecast
- Reviewing management’s assumptions in a forecast
- The impact of inflation on cash flow forecasts
- The impact of changes in exchange rates and interest rates on cash forecasts
- Sensitivity, scenario analysis and stress test analysis of assumptions (preferably in Excel)
- The link between long term and short term financing decisions
- The impact of growth on the entity’s cash position

Real life application: Investec Bank monitors liquidity of each division on a daily basis.

Liquidity problems at Corporate Money Managers fund were identified by the Financial Services Board.

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</table>
| Examples of potential activities in public practice at a basic level would include:  
- Consulting to existing audit clients, providing feedback on the reasonableness of their forecasts  
- Perform a discounted cash flow valuation as part of a statutory audit where equity positions need to be values  
- Agreed-upon procedures/reviews  
- Performing cash flow forecast for an internal business unit/committee  
- Going concern audit procedures, for example identifying and discussing potential sources of financing in the event of a short fall and the impact on gearing, financial risk and taxation as part of the statutory audit  
- As part of the audit of cash, identifying and discussing essential investment opportunities in the event of excess funds (for example, money market investments)  
- Following the principals for cash management as set out in the Public Finance and Management Act (PFMA) as part of an accounting officer’s responsibilities  
- Discussing any short falls or excess funds with National Treasury |

- Performing an entity/divisional cash flow forecast  
- Reviewing an existing cash flow forecast and investigating any variances as part of a rotation to a financial control division of the entity  
- Identifying potential sources of financing in the event of a short fall (availability of overdraft facilities, vendor loans etc) and the impact on gearing, financial risk and taxation as part of a rotation to the financial control or treasury department of the entity/division  
- Identifying potential investment opportunities in the event of excess funds (for example, money market investments) as part of a rotation to the treasury department  
- Understanding the cash management process within an entity in terms of the sweeping of funds to central accounts, preparing cash management reconciliations and reports as part of a rotation to the accounting department |
### COMPETENCY
**FM(R)3** ANALYSES THE ENTITY’S WORKING CAPITAL

### TASK
**FM(R)3.1** Analyses the entity’s/business unit’s/engagement client’s current working capital position and documents recommendations for improvement

<table>
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</thead>
<tbody>
<tr>
<td>A business leader needs to understand the short term operating decisions required to make optimal use of short term working capital. For many businesses their short term assets are vital to the success of the business and constitute the majority of the balance sheet.</td>
<td><em>There is a potential cross reference to AE4 and FM1</em>&lt;br&gt;During the planning of an audit and as part of knowledge of the business, perform an analysis of working capital&lt;br&gt;As part of a statutory audit of the cash cycle and going concern review, assess the impact of changes to credit or collection policies, assess the impact of changes in inventory levels, assess the impact of changes in the collection policy, assess the impact of supplier discounts for early settlement on cash forecasts</td>
<td><em>There is a potential cross reference to AE4 and FM1</em>&lt;br&gt;As part of a rotation to the accounting department or operational departments, assess the impact of changes to credit or collection policies, assess the impact of changes in inventory levels, assess the impact of changes in the collection policy, assess the impact of supplier discounts for early settlement on cash forecasts</td>
<td><em>There is a potential cross reference to AE4 and FM1</em>&lt;br&gt;As part of the duties of accounting officers (as per the PFMA), trainees could review the impact of changes to credit/collection policies, changes in inventory levels, changes in the collection policy or supplier discounts for early settlement on cash forecasts</td>
</tr>
</tbody>
</table>

Professional accountants need to:

- Identify potential risks of any changes to the working capital policy of an entity
- Calculate and benchmark working capital ratios
- Apply methods to influence working capital

Real life application: The eThekwini Municipality changed its credit controls and debt collection policy in order to facilitate effective working capital management in July 2008.
### COMPETENCY | FM(R)4 APPRAISES CAPITAL INVESTMENT DECISIONS

### TASK

**FM(R)4.1** Documents the financial implications of an investment decision using the appropriate capital budgeting techniques

<table>
<thead>
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</tr>
</thead>
</table>
| A professional accountant must be able to make investment decisions that add value to a business. This would include a basic awareness of project appraisal techniques and the use of Excel to perform basic time value of money calculations such as Net Present Value (NPV), Internal Rate of Return (IRR), Payback period, and Accounting Rate of Return. | • Reviewing the capital budgeting worksheets of an audit client as part of the audit of assets  
• Performing a basic capital budgeting exercise for an internal office decision on equipment such as staff laptops, photocopiers etc.  
• Auditing the investment decision worksheets as part of the investments section of a client  
• Simulation | • Performing an capital budget for a capital project within the entity or division in order to ascertain if the project should go ahead  
• Performing a net present value of lease vs. buy calculation and decision within the entity or division  
• Calculating the break-even point for a capital project  
• Deciding if an entity should abandon or expand a specific project  
• Simulation | • Performing an capital budget for a capital project within the entity or division in order to ascertain if the project should go ahead  
• Performing a net present value of lease vs. buy calculation and decision within the entity or division  
• Calculating the break-even point for a capital project  
• Deciding if an entity should abandon or expand a specific project  
• Simulation |

*Real life application: Sasol an internal capital budgeting methodology and hurdle rates to assess projects at a divisional level*
### COMPETENCY | FM(R)5 ESTIMATES THE VALUE OF THE BUSINESS

### TASK | FM(R)5.1 Calculates a reasonable range of values for a business, using a combination of valuation techniques

<table>
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<tr>
<th>Overall Context</th>
<th>Public Practice</th>
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</thead>
<tbody>
<tr>
<td>While the valuation of a business is often complex and challenging, trainee accountants should have basic exposure to practical application of the concepts. This is an essential skill for business leaders, to quantify shareholder value.</td>
<td>During the planning phase of an audit, as part of the knowledge of the business research, perform a basic valuation of the client</td>
<td>Valuation of private equity positions (Management buy-outs, Leveraged buy-outs, Seed capital)</td>
<td>Public sector audits may require the valuation of other minority equity investments and unlisted investments</td>
</tr>
<tr>
<td>In business practice, a range of values would be derived using different techniques such as net asset value, liquidation value, P/E multiples, valuation by comparison, dividend yield and discounted cash flows.</td>
<td>Value-add to clients, business advisory type analysis</td>
<td>Assessing the value of future companies who may become a target for a take-over bid</td>
<td>Lenders such as the IDC would require valuations of clients</td>
</tr>
<tr>
<td><em>Real life application: Bidvest uses discounted cash flow models to find undervalued investments</em></td>
<td>Reviewing and analyzing client’s valuations of potential acquisitions and disposals</td>
<td>Financial analysts and portfolio managers may use this information in order to decide on future investment opportunities</td>
<td>Investors such as the PIC would need to assess if the entity’s share price is under-valued by the market</td>
</tr>
<tr>
<td></td>
<td>Valuing competitors</td>
<td>Valuations are often performed in the event where the entity is applying for long term funding</td>
<td>SARS may require independent valuations for CGT and income tax valuations</td>
</tr>
<tr>
<td></td>
<td>Simulation</td>
<td>Used to assess if the entity’s share price is under-valued by the market</td>
<td>Simulation</td>
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</table>
MANAGEMENT DECISION MAKING AND CONTROL

It is the responsibility of management to direct and control the entity in the effective, efficient, and ethical pursuit of the entity’s strategic objectives. The key attributes of management’s information requirements in this regard, is information that is both relevant to, and sufficiently detailed for, management’s purposes.

The primary role of the CA in this competency area will be as part of a management team that enhances the entity’s decision-making performance because team members are competent in translating an entity’s strategies into measurable objectives, identifying the information requirements of the business decisions and control mechanisms necessary to pursue those objectives, designing the information systems necessary to generate the required information, and using the information generated to gauge an entity’s effectiveness in meeting those objectives.

<table>
<thead>
<tr>
<th>COMPETENCY</th>
<th>MD(R)1 IDENTIFIES THE ENTITY’S/BUSINESS UNIT’S KEY PERFORMANCE INDICATORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>TASK</td>
<td>MD(R)1.1 Identifies and documents financial and non-financial performance indicators that are key to the entity/business unit/audit engagement, including any industry-specific benchmarks</td>
</tr>
<tr>
<td>TASK</td>
<td>MD(R)1.2 Critically evaluates and documents the key components of the management accounting system of an entity/business unit, including the financial and non financial reports produced.</td>
</tr>
</tbody>
</table>

Overall Context

Key performance indicators are often very useful as part of financial statement analysis and interpretation.

Management accounts are useful internal and management controls in order to ensure the effective management of the entity / division.

Real life application: African Rainbow Minerals display both financial and non-financial key performance indicators on their website in order to depict the sustainability of their operations.

<table>
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<tr>
<td>During the planning phase of an audit, trainees should analyse and document the relevant non financial indicators relevant to the client/industry, for example number of new products for a retailer, number of new patents for a manufacturer, number of fatalities for a mining company</td>
<td>Reviewing the performance of divisions and management teams as part of a rotation to the financial control division or in preparation of divisional management accounts</td>
<td>The audit of Performance Information</td>
<td>The audit of Performance Information</td>
</tr>
<tr>
<td>During the planning phase of an audit, trainees should inspect the management accounts and discuss the content thereof with the management team</td>
<td>Assisting in the preparation of the required disclosures in the annual financial statements of entities</td>
<td>Reviewing the performance of divisions and management teams as part of a rotation to the financial control division or in preparation of divisional management accounts</td>
<td>Reviewing the performance of divisions and management teams as part of a rotation to the financial control division or in preparation of divisional management accounts</td>
</tr>
<tr>
<td>Trainees could perform an analysis of their own firm’s management accounting system and report to management</td>
<td>Attendance of management meetings or preparation of agendas for management meetings were performance measures are being discussed</td>
<td>Preparation of employee performance review reports where key performance indicators are linked to the entity’s overall strategy</td>
<td>Preparation of employee performance review reports where key performance indicators are linked to the entity’s overall strategy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Regulators utilise this information in order to identify anti-competitive behaviour and predatory pricing by entities</td>
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</tr>
<tr>
<td>Overall Context</td>
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<tr>
<td></td>
<td>• Performance measures will be reflected in performance appraisals of employees of the audit firm</td>
<td>• Preparation of employee performance review reports where key performance indicators are linked to the entity’s overall strategy</td>
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<td></td>
<td></td>
<td>• Designing divisional management reporting formats and outputs</td>
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</tbody>
</table>
COMPETENCY | MD(R)2 PREPARES, ANALYSES AND MONITORS BUDGETS

TASK | MD(R)2.1 Prepares a budget for a entity/business unit/audit engagement, with clearly documented assumptions

TASK | MD(R)2.2 Performs sensitivity analysis on prepared budgets, varying key assumptions to document a range of possible outcomes

<table>
<thead>
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</table>
| **The principles of budgeting are essential in the accountant's role in planning and control. Professional accountants should have knowledge of budget preparation techniques and be able to review differences and take corrective action.**  
**Real life application:** The budgeting cycle is a major event for most successful businesses and usually involves operational staff contributing to targets. Budgeting techniques include:  
- Zero-based budgeting  
- Cost-based budgeting  
- Strategic budgeting | • Trainees should be able to prepare a simple budget for an audit engagement and manage the budget throughout the audit phases  
• Trainees should also review budgets as part of the planning phase of an audit  
• Trainees could be involved in social activities at the office requiring budgeting such as the firm social committee or a new division | • Preparation of rolling forecasts  
• Preparation of budgets for the entity/division  
• Review of budget vs. actual for divisions | • Trainees should be able to prepare a simple budget for an audit engagement and manage the budget throughout the audit phases  
• Trainees should also review budgets as part of the planning phase of an audit  
• Trainees could be involved in social activities at the office requiring budgeting such as the firm social committee or a new division |
### COMPETENCY | MD(R)3  ANALYSES AND INTERPRETS BUDGET VARIANCES

**TASK | MD(R)3.1 Analyses the actual performance against budget, and documents the findings**

**TASK | MD(R)3.2 Investigates and documents reasons for variances**

**TASK | MD(R)3.3 Develops, for input and review by others, a plan to address variances**

<table>
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<tbody>
<tr>
<td>It is essential to monitor performance against the planned outcome. This planning and control tool can be applied using basic functions in Excel and ask probing questions around key differences</td>
<td>• Controlling the audit budget on an engagement and investigating overruns.</td>
<td>• Investigating explanations for any variances between budgeted and actual results as part of a rotation to the financial control division or accounting division or group finance division</td>
<td>• Investigating explanations for any variances between budgeted and actual results as part of a rotation to the financial control division or accounting division or group finance division</td>
</tr>
</tbody>
</table>

**Real life application:**
The comparison of previous year’s budget to actual performance often reveals very useful information on trends and behavioural finance and this can be used to improve the budgeting process going forward. When planning an audit, review the prior year audit budget to the actual billings to determine consistent overruns and isolate the cause.
TAXATION

Taxation continues to be a complex area. Entities and individuals are challenged to identify tax-planning opportunities in order to reduce their tax burden while remaining in compliance with laws and regulations. They must stay abreast of new rules and regulations to ensure that their strategies are achieved.

COMPETENCY | TX(R)1 CALCULATES INCOME TAX PAYABLE AND PREPARES INCOME TAX RETURN FOR AN INDIVIDUAL

TASK | TX(R)1.1 Collects and calculates the information needed to file the tax return for an individual, considering: inclusion and classification of income from different sources, exclusion of exempt income, deductibility of expense

TASK | TX(R)1.2 Prepares the income tax return

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<td>At a residual level, these skills need to reflect a trainee’s ability to be comfortable with accurately preparing individual tax returns in terms of SARS requirements, specifically being able to use eFiling to complete their own or client’s tax returns. Trainees would need to be aware of items such as fringe benefits: - Low-interest loans - Cheap housing - Free goods or low prices - Motor vehicles / meals / household expenses / subsidised travel arrangements.</td>
<td>- Completing a trainee’s personal tax return, or the tax return of friends and family - Completing a client’s personal tax return - Testing the reasonability of payroll deductions during an audit as part of the payroll audit.</td>
<td>- Completing a trainee’s personal tax return, or the tax return of friends and family - Completing a client’s personal tax return - Testing the reasonability of payroll deductions during an audit as part of the payroll audit.</td>
<td>- Completing a trainee’s personal tax return, or the tax return of friends and family</td>
</tr>
</tbody>
</table>

Real life application: Completing the tax return for family and friends provides excellent hands on skills in practical challenges and nuances with SARS eFiling. It is a quick way to master tax and will aid preparation for examinations.
COMPETENCY | TX(R)2  CALCULATES INCOME TAX PAYABLE AND PREPARES INCOME TAX RETURN FOR A CORPORATION

| TASK | TX(R)2.1 Collects and calculates the information needed to file the tax return for a corporation, considering: type of corporation, inclusion and classification of income from different sources, deductibility of expenses and tax deductions and credits |
| TASK | TX(R)2.2 Prepares the Income Tax return |

| TASK | TX(R)2.3 Calculates secondary tax on companies or equivalent shareholder tax |

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<tbody>
<tr>
<td>Trainees need basic practical experience in corporate tax preparation and returns, including the use of SARS documentation, eFiling and shareholder tax returns. Trainees would need to consider specific circumstances in calculating the tax, for example foreign tax and inter-company transactions.</td>
<td>• While completing the audit of a company, the substantive testing of taxation balances will require trainees to have practical knowledge of company taxation. • Completing or reviewing client tax returns as part of the audit team. • Secondment to the taxation division of a firm, if applicable. • Presentation of Shareholder Tax update workshops with practical examples to managers.</td>
<td>• During rotation to the finance or taxation department, trainees would be expected to prepare the divisional / entity's tax pack or return as well as tax documentation. • Presentation of CGT/Shareholder Tax update workshop with practical examples to managers.</td>
<td>• As most public sector entities are not tax-paying entities, this may need to be covered through a basic simulation.</td>
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</table>

Real life application: Trainees who obtain practical exposure to company tax issues as a basic practical level are at a distinct advantage when it comes to leadership positions that require tax knowledge when structuring deals. Trainees can also present Shareholder Tax update workshops with examples to their managers in obtaining this experience.
### COMPETENCY: TX(R)3  CALCULATES OTHER TAXES PAYABLE AND PREPARES APPROPRIATE RETURNS

| TASK | TX(R)3.1 Calculates the appropriate CGT tax payable on qualifying transactions |
| TASK | TX(R)3.2 Records indirect taxes (VAT) for transactions in accordance with relevant legislation |
| TASK | TX(R)3.3 Prepares the indirect tax (VAT) return |

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<td>Trainees are expected to have practical skills in all forms of SARS taxation and filing requirements, including the disclosure of CGT and VAT on a manual or eFiling basis. This would be a common occurrence during the audit of an entity or as part of the finance team of an entity in commerce and industry.</td>
<td>• During the audit of a company, trainees may calculate or review the CGT calculations on qualifying transactions.</td>
<td>• During rotation to the finance or taxation department, trainees would be expected to prepare the CGT or VAT calculations as well as tax documentation.</td>
<td>• As most public sector entities are not tax-paying entities, this may need to be covered through a basic simulation.</td>
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<td><strong>Real life application</strong> Trainees will need to consider CGT on their personal acquisition and disposal of assets. Trainees can also present CGT/VAT update workshops with practical examples to their managers in obtaining this experience.</td>
<td>• Secondment to the taxation division of a firm, if applicable</td>
<td>• Presentation of CGT/VAT update workshops with practical examples to managers</td>
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<tr>
<td>COMPETENCY</td>
<td>TX(R)4 DISCLOSES ALL TAX INFORMATION AND COMPUTATIONS CORRECTLY IN THE FINANCIAL STATEMENTS</td>
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<tr>
<td>TASK 1</td>
<td>TX(R)4.1 Discloses all relevant tax information and amounts in the financial statements in accordance with guidance provided by the relevant accounting standards</td>
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<td>TASK 2</td>
<td>TX(R)4.2 Calculates and correctly discloses deferred tax in the financial statements</td>
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**Overall Context**
This is an overlap with the preparation of financial statements in AE3. In addition to preparing financial statements, trainees are expected to be able to calculate and disclose all income tax, deferred tax and other relevant tax category in the notes to the financial statements.

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<td>• Trainee’s will be given exposure to this through AE3, but this will ensure that they also are provided with practical experience in linking taxation calculations to the disclosure in the financial statements while auditing a client.</td>
<td>• Trainee’s will be given exposure to this through AE3, but this will ensure that they also are provided with practical experience in linking taxation calculations to the disclosure in the financial statements rotating through the finance/financial reporting division of an entity.</td>
<td>• As most public sector entities are not tax-paying entities, this may need to be covered through a basic simulation.</td>
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**INTERNAL AUDITING, RISK MANAGEMENT AND GOVERNANCE**

Internal risk management plays a vital role in organisations. Entities need to be aware of risk to their business in order to be able to adequately respond to them. In an era that is moving towards greater transparency in the governance of businesses, there is becoming an even more urgent need for businesses to monitor and manage their governance practices.

The primary role in this competency area will be as part of a team of external auditors, external advisors, or as a member of a corporate or a public-sector management / internal audit team. That team provides guidance on, or evaluates, risk management and governance strategies. A CA contributes to the team by being competent in identifying risk to the entity (including the risks associated with poor governance), and in developing and implementing adequate responses to minimise those risks.

**COMPETENCY**

| IR(R)1 IDENTIFIES AND EVALUATES THE RISKS PERTAINING TO THE FINANCIAL INFORMATION SYSTEM |

**TASK**

| IR(R)1.1 | Identifies and documents strategic, operational, financial and informational risks, based on an understanding of the environment in which the entity/audit engagement operates, its strategies and management processes |

| IR(R)1.2 | Assesses the impact of findings on the work to be performed |

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**Overall Context**

| Public Practice | Commerce and Industry | Public Sector |

**Real life application**

Even though trainees might not ordinarily perform this risk identification and assessment on an audit or as part of the finance team, it is an essential value add to the audit client or employer. Trainees could be given a special project to perform a short best practice review of risk management at a client or employer and then report to management with recommendations, adding value to the client/employer and providing the trainee with practical experience.

- This can be cross referenced to the auditing elective and trainees will receive exposure to this skill as part of the analysis of an audit client in the planning phase.
- Trainees could also perform a risk analysis on their training office (employer’s firm).

- This can be cross referenced to the internal auditing elective and trainees will receive exposure to this skill as part of the analysis of the risk management framework at their company.

- For trainees at the Auditor General, this can be cross referenced to the auditing elective and trainees will receive exposure to this skill as part of the analysis of an audit client in the planning phase.
- For other public sector trainees, this can be cross referenced to the internal auditing elective and trainees will receive exposure to this skill as part of the analysis of the risk management framework at their company.
COMPETENCY | IR(R)2 IDENTIFIES AND DOCUMENTS THE KEY INTERNAL CONTROLS (INCLUDING IT RELATED CONTROLS)

TASK | IR(R)2.1 Documents the entity’s key business processes and key controls (including IT controls) including the control environment, information system, business processes and control activities (general and application controls)

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<td>Designing and testing controls is vital to any growing or established business and is a responsibility of all directors of a company.</td>
<td>• This can be cross referenced to the auditing elective and trainees will receive exposure to this skill as part of the analysis of an audit client in the planning phase normally referred to as walkthrough testing.</td>
<td>• This can be cross referenced to the internal auditing elective and trainees will receive exposure to this skill as part of the analysis of the risk management framework at their company.</td>
<td>• For trainees at the Auditor General, this can be cross referenced to the auditing elective and trainees will receive exposure to this skill as part of the analysis of an audit client in the planning phase</td>
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<td>Real life application IT systems and controls are changing so rapidly that trainees can research and present best practice to management as a special project or as part of the audit (external or internal). Trainees should be encouraged to engage and learn from IT experts in this regard.</td>
<td>• For other public sector trainees, this can be cross referenced to the internal auditing elective and trainees will receive exposure to this skill as part of the analysis of the risk management framework at their company.</td>
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COMPETENCY | IR(R)3 EVALUATES INTERNAL CONTROL

**TASK** | IR(R)3.1 Evaluates internal control in the context of the criteria / recognised framework and suggests improvements where deficiencies are identified

**TASK** | IR(R)3.2 Assesses whether existing internal controls are functioning properly or if additional controls are needed and communicates ideas to supervisor

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| The testing of controls forms part of the audit function and should form part of management’s responsibility to ensure good governance. Trainees should have basic exposure to control testing design and execution. | • In the audit of large clients this will form part of the execution of fieldwork in completing the audit  
• In the audit of smaller clients, trainees may need to consider the design of internal controls as a value-add to the client as they grow and evolve in complexity.  
• Simulation may be the alternative to this for very small audit firms. | • These activities would be a direct by-product of internal audit fieldwork. | • For trainees in the Auditor General, control testing forms part of the new audit methodology and requirements and thus this skill would be a by-product of the audit elective  
• For trainees outside the Auditor General, this would typically be a by-product of internal audit elective.  
• Simulation may be the alternative to this for trainees not exposed to internal audit electives. |

*Real life application*
Most of the recent high profile corporate failures of late resulted from a breakdown or missing control. Trainees should review past failures of well know companies and test these “missing” controls to their audit clients or training office (employer’s company).
COMPETENCY | IR(R)4 CONDUCTS GOVERNANCE REVIEWS IN ACCORDANCE WITH
APPROPRIATE GOVERNANCE STANDARDS

| TASK | IR(R)4.1 Documents the components of the entity’s/audit engagement’s governance structure and its role (i.e. board of directors, audit committee, etc.) |
| TASK | IR(R)4.2 Critically evaluates the corporate governance practices of an entity/audit engagement in relation to relevant legislation and practices, documenting recommendations for improvement |

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| Corporate governance is a business imperative for small and large companies alike. It is relevant in the private and public sector through the different codes of practice. Trainees should have basic awareness and practical experience in applying the concepts of governance. | • This would take place during the knowledge of the business (planning) phase on a large audit  
• For the audit of smaller companies, trainees should consider making strategic and value-adding contributions to the client going forwards, providing best practice recommendations in the management letter.  
• Trainees could score clients against a King III scorecard and provide recommendations to management accordingly.  
• For SME audits, trainees should consider other basic governance principles and provide recommendations to management for the benefit of all stakeholders | • For trainees in commerce and industry, the internal audit elective may provide an opportunity to provide experience in auditing governance structure at their employer.  
• Other trainees should be allocated time to complete a special project for management on the adherence and compliance with governance standards and make strategic recommendations to management on how to improve governance practices in terms of King III or other relevant codes. | • PFMA/MFMA requirements and checklists would form part of the standard audit procedures in the public sector.  
• Trainees in the Auditor General would need to audit compliance, while trainees outside the Auditor General would need to prepare information on compliance. |

**Real life application**

Trainees could design a customized Governance scorecard, relevant for the industry of their audit client or training office and then present it to management.  
Trainees could also present a workshop on the latest governance pronouncements and make recommendations for the training office.
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