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[www.morar.co.za](http://www.morar.co.za)



Nedbank House  
Ground Floor  
161 Pietermaritz Street  
PIETERMARITZBURG  
3201

With offices in all other major cities

Tel: 033 345 4004  
Fax: 033 342 5699  
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#### SMEs: SHOULD YOU BUILD AN APP FOR YOUR BUSINESS?



*“The secret of change is to focus all of your energy, not on fighting the old, but on building the new” (Socrates)*

Applications (apps) have been topical since the rise of the smartphone. For many small and medium sized businesses the cost of developing an app has been prohibitive but this is changing rapidly.

#### *What's the big deal?*

Apps have the following benefits -

- They are a direct channel to your customers. If customers use your app, they are less likely to use Google when needing your product or service – they will just click on your app on their mobile phone.
- There is plenty of value added to both parties. The customer has the convenience of using the app and can, for example, get better pricing as a loyal customer or easily find accessible information on your services and products. From your point of view you have a “locked in” sale.
- It's a good way of building your brand and gaining brand recognition. The more a customer becomes aware of your brand, the more likely that customer will try your product or service.
- A cardinal rule of marketing is getting to know your customers. An app is an effective way of engaging with them.

#### *Apps aren't for everyone*

Before you rush into developing your own dedicated app, make sure that it will actually add value to both your clients (they won't download it unless the benefit to them is clear) and to your business. Not all businesses will benefit - talk it through with your accountant before incurring any major cost.

#### *How to get your own*

The cost of using an agency to build an app has dropped. This is a function of rising volumes – as their frequency increases, so the price falls. Even more significant is advancing technology which allows you to build your own app.

If you develop your own app, remember the importance of planning and designing the app. Customers want easy-to-use, minimum “keyboarding” and accessible apps.

As apps can improve your business, why not think about developing your own one?

#### THE SUPREME COURT OF APPEAL RESCUES BUSINESS RESCUE



*“..... a stratagem involving a wholly undesirable exploitation of legal technicalities for their own advantage” (Court's comment on the conduct of the directors in the case below)*

Business rescue was one of the new features of the 2008 Companies Act (“the Act”). It is designed to give ailing companies time and

space to get back on their feet and resume trading. Business rescue replaced Judicial Management which was widely considered a failure in the previous Companies Act. It is more flexible than Judicial Management – for example, a director's resolution can institute business rescue proceedings whereas a court order was required for Judicial Management.

### ***The problem - technicalities***

Although business rescue got off to a promising start, it suffered some setbacks in various High Court decisions, based around procedural aspects of business rescue, which threatened to undermine the whole process.

### ***SCA to the rescue***

A recent case that ended up in the Supreme Court of Appeal (SCA) has however come to the rescue.

A company, whose major asset was a property, was R3.3 million behind in its mortgage payments. The bank holding the mortgage obtained a judgment against the company. The directors of the company put the company into business rescue to prevent the judgment being executed and to attempt to find other funding sources for the company.

Business rescue was instituted but the business rescue practitioner's attempts to raise money failed and in terms of the rescue plan the next step was to sell the property.

The directors of the company (who did not want the property to be transferred to the purchaser) then approached the courts to nullify the whole process on the technicality that certain procedural requirements had not been complied with.

The High Court on that basis held that the resolution to commence business rescue had lapsed and was a nullity, despite expressing its frustration at the conduct of the directors, it being undisputed that the sole purpose behind the application was to prevent the sale of the property and to prolong the directors' occupation of their home. Clearly if Business Rescue can be undermined in this way by loopholes, its functioning as an effective mechanism is threatened.

At this stage, an appeal was heard by the SCA.

### ***What did the SCA say?***

The Court found it difficult to reconcile the laudable intentions of the Act of giving struggling companies the space to recover against the fact that the Act's aims could seemingly be effectively torpedoed by "trivial" non-compliance with administrative procedures.

The Court held that only a court can terminate business rescue proceedings. Therefore, whilst "trivial" non-compliance could open the way for a court application to nullify the resolution to enter business rescue, it did not automatically terminate business rescue.

Instead, held the SCA, "the court needs to be satisfied that in the light of all the facts it is just and equitable to set the resolution aside and terminate the business rescue".

In the circumstances, the appeal was allowed and the business rescue continues.

This important new judgment effectively precludes parties using loopholes to their advantage and thereby undermining the business rescue provisions of the Companies Act.

## **THE NEW AUDITORS' REPORT IS COMING – HOW WILL IT AFFECT YOU?**



The single most important document released by auditors is the auditor's report which appears in the audited annual financial statements.



The so-called new and revised auditor reporting standards are effective for audits of financial statements for periods ending on or after 15 December 2016; in essence, 31 December 2016 financial year-ends. Although the audit opinion as such does not change, the auditor's report has been enhanced to improve its communicative value and to provide more entity-specific and audit-specific information about the audit that has been performed.

### ***The main changes***

- The revised audit report will begin with the audit opinion – currently it appears well down in the audit report. This will immediately be followed by a section wherein the auditor describes the basis for opinion.
- The auditor is required to make an affirmative statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and that the auditor has fulfilled his/her other ethical responsibilities in accordance with these requirements
- Introduced into the audit report is a section on key audit matters (KAM). The auditor will communicate those matters that, in the auditor's professional judgment were the most significant in the audit of the financial statements of the current period. KAM is mandatory for listed entities and in those instances where required by law or regulation; for all other audits it is voluntary.
- Enhanced reporting on going concern:
  - The auditor's report will provide a description of management's responsibilities in terms of assessing the entity's ability to continue as a going concern and the auditor's responsibilities pertaining to management's use of the going concern basis of accounting.
  - If the auditor concludes that a material uncertainty exists, this is to be reported in a separate section of the auditor's report called "Material Uncertainty Related to Going Concern".
- Enhanced description of the auditor's responsibilities in the audit of financial statements and key features of the audit.

### ***Expected benefits***

- Improved communication between the auditor and those charged with governance, as well as providing a basis for investors to further engage with the governance custodians in the entity (e.g. the board of directors and the audit committee).
- Increased focus by management and those charged with governance on disclosures in the financial statements.
- Enhanced focus by the auditor on items to be reported on. This should sharpen the "professional scepticism" of the auditor.
- More transparency should flow from this. The information value of the audited financial statements should improve.

It is worth noting that these new requirements are not intended to change the scope of the audit.

**Your relationship with your auditor will probably be more robust but it will enhance the quality of the audit and your understanding of the audit process.**

### **TRUSTEES: THE NEW TAX RETURN FORM - TAKE ADVICE NOW!**



Towards the end of last year, SARS introduced a new IT12T tax return form for trusts. For the current tax year these need to be completed in full. The return needs to be lodged on or by 29



February 2016.

Trustees be aware – the form is twenty two pages long and will need planning and preparation.

### ***Why a new form?***

The SARS five year compliance programme (2012-2017) focused on high risk areas to SARS – one of which was high net-worth individuals and the use of trusts to shield assets from tax liability.

**Thus, SARS is looking to gain new tax revenues from trusts and with twenty two pages of disclosure you need to be on your guard when completing the return.**

### ***The main features***

- Expanded financial and legal reporting requirements
  - Details of the trust's offshore and local assets and liabilities
  - Comprehensive information on types of income (rental, farming partnerships etc)
  - Foreign and local capital gains and distribution of such gains to beneficiaries
- Full details of all parties contributing funds, assets, loans etc. into the trust will need to be provided as well as details of the actual transactions made
- Full details of any party benefitting in any way from the trust as well as details of the benefits received or enjoyed will need to be provided for every beneficiary
  - If there are 50 or less people to whom these transactions applied, then list every transaction in the IT12T return
  - If there are more than 50 people then provide detail of every transaction in excess of R500,000
- What type of rights the beneficiaries enjoy (vested or discretionary rights).

As you can see this is quite an undertaking which apart from the time to prepare will also require substantial knowledge and understanding of taxation.

**To make matters worse SARS intend issuing a replacement for this new return, possibly at short notice during October 2015. Note that any data captured and saved but not yet submitted to SARS on the current return will be lost on implementation of the new return.**

The bottom line is that there has probably been no better time to seek advice from your accountant.

### **WHAT IS SLOWING THE GROWTH OF THE SME SECTOR? SEE THE SAICA SURVEY RESULTS HERE**



Red tape, lack of funding and compliance with legislation continue to be the main challenges faced by most Small Medium Enterprises (SMEs) in South Africa – according to a latest survey conducted by the South African Institute of Chartered Accountants (SAICA). Access the full “2015 SME insights report” at [http://www.saica.co.za/Portals/0/documents/SAICA\\_SME.PDF](http://www.saica.co.za/Portals/0/documents/SAICA_SME.PDF).

### **YOUR TAX DEADLINES FOR OCTOBER**

The EMP501 Employer Reconciliation for the period 1 March to 31 August is due on October 30th. This needs to be accurate and can be time consuming, so get it in

early.

## ***Have a Great October***

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