



# Advantage



## Learnership Incentives



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Substantially enhanced tax allowances have been introduced with effect from the beginning of tax years ending on or after 1 January 2010. For February year end taxpayers, that means from 1 March 2009.

A registered learnership agreement means a contract of apprenticeship registered in terms of the Manpower Training Act if the minimum required period is more than 12 months. Alternatively it is a learnership agreement that is registered in accordance with the Skills Development Act. All agreements must be entered into before 1 October 2011.

In respect of all registered learnerships entered into after 1 March 2009, there will be a flat commencement allowance per learnership of R30 000 as well as a completion allowance of R30 000 irrespective of the remuneration of the employee. For employees with certain

disabilities, both amounts are increased to R50 000.

The deductions for multi-year learnerships are also enhanced. The commencement allowance will be able to be claimed in respect of each successive year of learnership. In the final year of the contract, the completion allowance is multiplied by the number of consecutive completed full years of the learnership.

There are also simplified rules in the case of employee terminations and for transfer of learnerships to a new employer. There is no recoupment irrespective of the reason for the cancellation or transfer. Instead, learnership lasting for a period of less than 12 months (for whatever reason) will be eligible only for a pro rata amount of the commencement allowance and where the 12 months is over 2 tax years, it may be split over 2 tax years. If the learnership is taken

over by a new employer, the completion allowance is then only available to the new employer as well as the remaining pro rata share of the commencement allowance.

**Example:**

**Facts:** Employer X (a calendar year taxpayer) concludes and registers a three year learnership agreement with a learner at the beginning of January 2010. The learner shifts employment to employer Y (a calendar year taxpayer) at the end of June 2011. The learner subsequently completes the learnership with employer Y. Assume the learner does not have any disabilities.

**Result:** In 2010, employer X may claim the full R30 000 commencement allowance. In 2011, employer X may claim R15 000 of the commencement allowance and employer Y claiming the R15 000 remainder. At the close of 2012, employer Y may claim the final R30 000 commencement allowance as well as a R90 000 completion allowance (the basic R30 000 amount multiplied by three).

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## Improving the quality of computer data for audit purposes



**Anton du Toit**  
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Computer-assisted audit techniques (CAATs) are very important tools in the external auditor's toolbox, and even more so for the bigger clients with thousands or millions of transactions per annum and/or with large volumes of inventory or many accounts receivable or payable.

CAATs form one of the core areas of expertise offered by Horwath IT Services. That is in addition to security audits and reviews, software training of staff and clients' staff, maintenance of audit software, and many other areas. CAATs mean the use of audit software like ACL and even MS Excel, to analyse electronic data of clients.

It is important to realise that an audit, whether it requires CAATs or not, should be performed effectively and efficiently. The ability to do so is often dependent on the quality of the information received from the client. In the days before the general use of computers, a client may give an auditor a trial balance that does not balance, or a list of accounts receivable that does not reconcile with the control account in the general ledger. This would entail the auditor and the audit team

spending additional time on the audit, which would not only make the audit more expensive, but would also be an unnecessary waste of audit resources.

The auditor is supposed to audit the financial statements and the underlying financial information, and not to create or re-create them. That is the responsibility of management and more specifically of the financial accountant or manager or director. Having said all this, in the "good old days" the auditor often performed the missing accounting work just to get the job finished (and often because the financial department was not able to produce the relevant reconciliations).

The same argument is relevant today when almost all clients make use of a computerised accounting system. In such a system, it is highly unlikely that the trial balance will not balance, or that the list of accounts receivable would not agree with the control account in the general ledger, as both have been produced by the same system, and the system has built-in controls and checks and balances.

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# Attaining the Most Competitive Funding in Africa



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The amount and type of funding available for a new hotel project will depend on the financiers' perception of the risk-return relationship on the investment. It is therefore clear that to obtain funding for a project, it will first and foremost be necessary to demonstrate project viability. The viability of a project refers to the potential of a proposed project, assuming effective management, to deliver the required rate of return to its investors.

Traditionally, project viability is determined by a number of key components. Market research and analysis should allow the developer to determine the most appropriate location, size, and standard for the project, as well as the type and number of facilities it should offer. Indicative financial projections, based on the market analysis, should enable a refining of the project variables and give an indication of the viability of a project. It can then be argued that, barring any major external disruptions and developments, and given appropriate management, the project should be able to deliver projected profits. Subsequently, a return on investment can be estimated and appropriate funding sought.

The financing structure of a project will,

at least to a certain extent, be dictated by the viability of the project. However, small changes in debt ratios, interest rates and payment terms, influence financing costs so significantly that it can also be argued that the actual structuring of funding received does influence the cash flows of a project.

In order to structure the financing of a project in such a way that cash flow is optimized, the following can be considered:

### Maximise debt / Reduce equity requirements:

Depending on the project returns and interest rates, the higher the debt funding for a project, the higher the return on equity. At the same time however, financiers are often reluctant to provide more than 50% of hotel start-up financing costs. For financiers to be persuaded to take up more debt, the following can be considered:

- Provide performance sureties based on guaranteed performance. Financiers' exposure is limited and they will be more willing to provide funding;
- Create artificial levels of debt by attracting different investors to take up different financing profiles.

Varying ratios, interest rates, and payment periods will affect the risk to the respective financiers, thus enabling the financiers to dictate the risk they are willing to commit to.

- Provide quasi-equity by extending shareholder loans instead of shareholders providing up-front share capital. Based on the project and negotiations, such loans may be repayable on a fixed term basis.

### Reduce interest rates and increase the repayment period:

Depending on a resultant negotiated financing structure, and considering the risk-return relationship for financiers, interest rates and repayment periods on both the senior and mezzanine debt portions should be negotiated with the financiers.

**Conclusion:** Although some of the above actions are particularly relevant to Africa, many of the actions suggested would also be applicable in financing scenarios elsewhere in the world. The ultimate challenge in obtaining the most competitive funding in Africa is to be adaptable and alert. Contact Michèle: +27 21 527 2100  
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## Botswana - (South) Africa's Best Kept Secret



**Guru Gurumoorthi**  
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Many of you may agree that Botswana is Africa's best kept secret. But there may be many more of you right in South Africa who would regret having missed so many great business and investment opportunities in having treated Botswana, your neighbour, as one of South Africa's best kept secrets! Yet, Botswana Export Development and Investment Authority has offices right on 3rd Floor, Standard Bank Centre, East Entrance, 11 Alice Lane, Sandton and is accessible by phone 011-8848959 or email mgogaral@bedia.co.za.

www.bedia.co.bw will surely tell you why you should invest in Botswana. Stable economic and political environment, low corruption, low inflation, democratic government, educated work force, sound infra-structure, and good quality of life are all excellent reasons to invest in Botswana however subjective or rather political it may look to some over-cautious readers! But remember that these words are coming from Horwath Gurugroup – a firm set up by expatriate professional accountants who have lived in Botswana for over 2 decades.

Objectively speaking, on the investment protection front, Botswana's constitution prohibits nationalization of private companies; there are no foreign exchange controls or

restrictions; Botswana is a signatory to the Overseas Private Investment Corporation that provides guarantees for US private investors; and is a signatory to The World Bank's Multilateral Investment Guarantee Agency.

In respect of trade agreements, goods originating from Botswana enjoy customs and duty free treatment in Europe, USA, any SADC or SACU countries, not to mention that there is a special trade agreement with Zimbabwe.

There are many customs rebates and concessions—e.g. industrial rebate concession, general rebate, customs duty drawback, duty credit certificate, duty-free importation of machinery, Schedule 470.03 concession for manufacturing companies and bonded store facility, etc.

Unlike articles from many accounting and auditing firms, Horwath Gurugroup would mention the low income tax regime as the last (if not the least) point.

So, if and when you want to invest in Botswana, simply email partners@gurugroup.bw and we will be delighted to meet with you in either Johannesburg, Durban or Cape Town. After all, a 15% tax rate for manufacturing and IFSC

companies is unthinkable for many business people in South Africa, Africa and the world!

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## Tax Update Seminar

Kent Karro of Horwath Zeller Karro, Cape Town recently visited five of the major cities in South Africa to deliver a Tax Update Seminar after the recent promulgation of the annual tax amendments by Parliament.

The seminars were attended by Chartered Accountants and Attorneys in public practice as well as by those in commerce and industry who are involved with tax issues. A total of approximately 200 people attended the seminars.

The Horwath name received prominence in all the brochures posted to thousands of potential attendees and handed out at the seminars. From a marketing and public relations point of view, participation in the seminars was a great success.

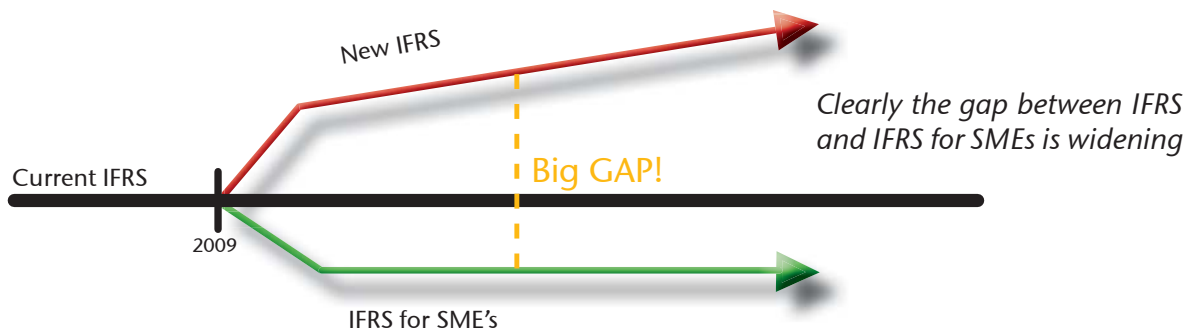


# What's Happening in the World of Corporate Reporting for Small and Medium Sized Entities (SMEs)

Since the middle of August 2009, an alternative Framework for the preparation of financial statements was issued with the intention of simplifying the reporting requirements for an SME company. The question that arises is whether the objective of simplification has been achieved? In the current year there have been over 39 changes to the comprehensive IFRS literature, with the effect that disclosure and accounting are continually becoming more complex.



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IFRS for SME has stability, in that it will remain in its existing form for at least the next 3 years to allow SMEs to become familiar with the framework and apply it correctly. Over the past couple of months, Horwath's technical team have spent time becoming more familiar with the IFRS for SME standard in an effort to better advise clients of the major differences between the new standard and full IFRS.

Some of the significant differences between the two standards include the following:

- While the need to annually assess residual values and useful lives has been removed, the prohibition against revaluing items of property, plant and equipment and intangible assets has been eliminated.
- The capitalising of borrowing costs is prohibited.

- All intangibles assets must be amortised over a period not exceeding ten years.

Clearly IFRS for SMEs is not for all companies. So if you are considering moving your company to IFRS for SMEs, contact your Horwath Partner or contact the Horwath IFRS Technical Department.

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## Improving the quality of computer data for audit purposes continued from Page 1 .....

What does happen, however, in medium-sized to larger companies, is that the electronic data, which is saved in a transaction file or a master file, is part of a database feeding information into the general ledger system. So instead of asking a client for a sales journal, IT Services may now request an electronic file of all sales transactions for the year, on which CAATs can be performed. This is when some problems start to emerge and where audit time is wasted. This happens when the client is not able to produce the electronic files (in which case this may have to be done by IT Services themselves), or to produce electronic files that reconcile to the balances in the general ledger.

In the past year, Horwath IT Services have performed CAATs on more than 30 audit clients and the results of producing computer data files for this purpose have ranged from excellent data extraction and reconciliations to very poor data extractions and situations where the audit team was required to produce the reconciliations (just like in "the good old days!").

Horwath IT Services have found a strong relationship between the quality of data extracted, reconciled and produced and the size, level and expertise of the IT departments of clients.

### Examples are:

- The best results came from clients with strong in-house IT departments where there is either very good co-operation between IT and the financial department, or where people with a mix of IT and financial expertise were employed in the IT department.
- Where clients have strong in-house IT departments lacking co-operation with the financial department or lacking financial expertise, the data could usually be extracted, but the audit team was required to either provide the communication between the IT and financial departments to facilitate the reconciliations, or to perform the reconciliations themselves – in both cases wasting valuable audit time.
- Clients making use of external computer consultants, i.e. outsourcing the IT function, very often experience the largest problems to extract or reconcile the data. As with in-house departments, the data quality depends on co-operation with the financial department and/or accounting expertise present in the consulting firm. An added problem may be created in gaining access to the data, for example where Horwath IT Services are required to extract the data, but the consultant (at a different office) must provide the access. Furthermore, in smaller consulting firms, the financial and/or accounting expertise may not

be present.

- Larger clients making use of service bureaus can often provide excellent data files and reconciliations, depending on the level of access and co-operation offered by the service bureau – these could be the only limiting factors in making use of CAATs. Usually the service bureaus employ people with strong financial and accounting expertise over and above the IT experts.

Clients should thus beware, especially in times of rapid growth, that the IT department (or consultant) keeps up with and grows with the volumes and complexity of computer data produced. This would ensure that, should the threshold of making use of CAATs be reached, the client would be able to produce high quality data files to the auditors (this is not the only advantage – the biggest advantage would be for management to believe in the integrity of the underlying data to produce the monthly management reports and financial statements). Remember that, legally, the computer records form part of the accounting records and a client cannot refuse the auditor access to the electronic data without the risk of receiving a qualified audit report.

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# The Minefields of Business Assurance



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At Horwath Financial Services we often review the business assurance arrangements of our clients and find that the risks related to the death or disability of a shareholder have not been completely mitigated.

In one instance, we assisted three shareholders of a private company who believed that they had effectively dealt with these risks. Their intention was that the remaining shareholders would purchase the shares of a deceased or disabled shareholder, and life insurance policies were used as the funding mechanism. A "health check" revealed the following:

- 1) "A" had ceded an existing policy in his own name to "B" and "C",
- 2) The premiums on all the policies were paid by the company and charged to the loan accounts of the policy life assureds (as opposed to the policy owners/beneficiaries),
- 3) "C's" policy had the spouse nominated as the beneficiary in case of death,
- 4) There was no disability cover on any of the policies,
- 5) There was no Buy and Sell Agreement in place and the shareholders agreement did not cover death or disability of a shareholder.

*In a Buy and Sell Agreement, the parties agree that upon the death or disability of one of the parties, the remaining parties are obliged to buy the shares from the estate of the deceased or disabled party who is obliged to sell. Insurance policies are usually used to create the funding for this transaction.*

For the proceeds of an insurance policy to be exempt from estate duty, the policy must have been taken out to fund a buy and sell obligation of the deceased's share or like interest in that company, or interest in a partnership, and any claim by the deceased against the company. A further requirement is that no part of any premium of a policy on the life of an assured may be paid by the life assured. Because of Points 1 and 2 above, "A"'s deceased's estate would have carried the estate duty liability of 20% of the payout but could have been able to reclaim the duty from the policy beneficiaries "B" and "C". "A", "B" and "C" would have been deemed to have paid a portion of the premium of the policy on their own lives, because they had borne the premiums on the policies paid by the company on their own lives in respect of the payments by the company paying the premiums.

Point 3 meant that upon the death of the insured, the insurer would make payment to the spouse and the policy would therefore not create liquidity for the remaining shareholders to purchase the shares from the deceased's estate. And with no Buy and Sell Agreement

in place, there was no obligation on the parties to buy and sell the shares even if the insured amount was paid out to the remaining shareholders.

After reviewing the results of the "health check", the shareholders agreed to cancel the existing arrangements and mandated us to correctly structure their agreements and policies. In so doing, the shareholders unexpectedly received approximately R240 000 from the surrender values of their existing policies and they mitigated the future risks relating to death or disability of a shareholder.

Business assurance is a highly specialised field. At a recent Financial Services Board conference, the Ombud of the Life Insurance Industry paid special attention to this field because of the number of complaints that he had received from people who had been incorrectly advised. He emphasised that it was a complicated area of business, and that advisors who wanted to operate in the field of Business Assurance should be properly trained.

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## Legal Processes Involved in Evicting Tenants



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Durban Property Managers (Pty) Ltd., the specialist property management division of Horwath, highlight to landlords some of the salient features of the legal processes involved in evicting tenants.

### Can a tenant be evicted without legal process being followed?

Unfortunately, even if the tenant has been served with a proper Notice by the landlord, due legal process must be followed including issuing of Summons, obtaining Judgement for eviction or bringing an Application before the High Court (Supreme Court). It follows that only the Sheriff of the Court is permitted to evict a tenant under a properly issued Warrant of Ejectment.

arrears with rental payments.

When the matter reached High Court, the landlord was not granted an Eviction Order because of a technicality relating to the name of the lessor on the original Lease Agreement signed between the tenant and the previous owner of the building. A long-drawn out process followed and the tenant continued to argue that the present landlord did not have "locus standi".

During the entire process, the tenant benefited from the occupation of the premises and eventually only vacated under duress because of scheduled renovations to the entire building.

Although the crux of the problem was the tenant's default with rental payments, the

entire matter became quite protracted and unnecessarily expensive for the landlord.

### Is a "Right to Evict" Clause in the Lease Agreement valid?

A recent press article discussed this point. It emphasized that notwithstanding a clause being included in a lease agreement between a landlord and a tenant wherein the parties agree that, should the tenant be in breach, the landlord has the right to evict the tenant **without a Court Order, this practice is not permissible in law.**

The article further confirmed that despite the tenant signing the lease agreement, it does not make the clause enforceable. The article also reinforced the view that the Courts and Rental Housing Tribunal **do not permit the eviction of a tenant without a Court Order, irrespective of the circumstances.**

### What are the landlord's rights if a tenant refuses to vacate?

This is a common problem that landlords encounter.

The landlord is protected by law in the event of a tenant giving Notice to Vacate or refusing to vacate upon expiry of the lease period. If a tenant has agreed in terms of the Lease Agreement to vacate on a specific date but remains in occupation after the last day of this period, then the landlord should approach the Courts to have the tenant evicted.

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Durban Property Managers encountered such a case relating to a tenant who lapsed into

## The Horwath Advantage

"The Horwath Advantage" is the newsletter of Horwath in Southern Africa.

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