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A brief overview of the revised draft Chartered Accountancy Profession Sector Code



On 26 April 2019, a revised draft of the Chartered Accountancy Profession Sector Code (CAPSC) was published for public commentary and input (*Government Gazette 42417*).

The revised draft seeks to grow the number of black people in the Chartered Accountancy (CA) profession in order to “reflect the country’s population demographics, to empower and enable them to meaningfully participate in and sustain the growth of the economy, thereby advancing equal opportunity and equitable income distribution”. For ease of reference and in order to reduce the complexity of the revised draft, we have outlined the salient points in this blog.

The application of the CAPSC is not only limited to the CA profession but also includes sector employers and education institutions. However, the application of the CAPSC to the latter is limited to these employers and institutions only insofar as they employ South African Institute of Chartered Accountants (SAICA) trainees and members of SAICA or when they offer accredited SAICA education and training programmes that lead to attaining the designation “Chartered Accountant South Africa” (CA(SA)). All staff, partners and directors employed by firms in public practice also fall within the ambit of this revised draft.

The revised draft CAPSC makes the same distinction between exempted micro enterprises (EMEs), qualifying small enterprises (QSEs) and large entities as per the Broad-Based Black Economic Empowerment (B-BBEE) Codes of Good Practice (the Codes). The respective automatic recognition levels and B-BBEE procurement recognition are identical to those in the Codes.

Priority elements

The CAPSC makes provision for priority elements in the same way as the Codes and can be summarised as follows:

- **Ownership** – To comply with Ownership as priority element, a measured entity must achieve a sub-minimum of 40% of the total weighting points of 6 points for sub-indicators dealing with economic interest in the hands of black people and economic interest in the hands of black CAs (40% of 6 points = 2,4 points);
- **Skills Development** – A sub-minimum of 40% of the total weighting points of 30 points for Skills Development must be achieved (40% of 30 points = 12 points);
- **Enterprise and Supplier Development** – A measured entity must achieve a sub-minimum of 40% for each of the following three categories:
 - Preferential Procurement: 40% of 15 points (6 points);
 - Supplier Development: 40% of 10 points (4 points); and
 - Enterprise Development: 40% of 5 points (2 points).

Large enterprises must comply with all three priority elements, while QSEs need to comply with Ownership and any one of the other two priority elements, being Skills Development or Enterprise and Supplier Development.

Compliance targets and B-BBEE scorecard indicators

Although the aim of the revised draft is to align the CAPSC with the Codes, it deviates somewhat from the Codes in terms of targets and weightings for some elements.

The revised draft places significant emphasis on skills development by increasing the weighting of targets for the Skills Development element by 10 additional points, allowing for ways in which the profession can achieve the vision of the CAPSC. The revised draft further removes 10 points from the Enterprise and Supplier Development element by decreasing the element's total to 30 points instead of 40 points as per the Codes. The reason for this is that the CA profession falls within the service industry where a large portion of procurement spend is not discretionary.

The point allocation in terms of the revised draft CAPSC is therefore as follows:

Further deviations in terms of compliance targets and scorecard indicators:

1. Ownership:

- The Ownership compliance target for exercisable voting rights, as well as economic interest in the hands of black people has been increased to 32,5% and to 13% for black females;
- 20% of the exercisable voting rights and economic interest respectively must be in the hands of black CAs and 6,5% of the 13% mentioned above in the hands of black female CAs;
- There is no sub-indicator for new entrants and net value;
- Additional sub-indicators were introduced for exceeding the compliance target for exercisable voting rights in the hands of black people beyond 32,5%;
- The measurement of Ownership as a priority element looks at the sub-indicators dealing with economic interest in the hands of black people and economic interest in the hands of black CAs instead of net value as per the Codes.

2. Skills Development:

- A new sub-indicator was included in the Skills Development scorecard. This indicator will earn a measured entity 5 points for specific bursary expenditure on current and potential black employees. Amounts spent with SAICA's Thuthuka Education Upliftment Fund will also qualify under this sub-indicator. The compliance target for this sub-indicator is 4% of net profit after tax (NPAT) or 0,5% of turnover (turnover should be used where a firm practises as a professional partnership and the partnership is included in affiliated entities, compared to using NPAT where incorporated structures are included in affiliated entities).
- The sub-indicators dealing with a measured entity's headcount-target under Skills Development include a higher compliance target (18% compared to 2,5%) for black employees participating in learnerships, apprenticeships and internships.
- Two new sub-indicators for the number of black people who have completed their learnerships and passed the qualifying examinations, as well as the number of black people who do not have their Certificate in the Theory of Accounting (CTA) at the beginning of their Learnership but have successfully completed their SAICA learnership, are also added to the Skills Development scorecard;
- An additional indicator under bonus points makes provision for a measured entity to earn points for the number of African and Coloured people absorbed at the end of a learnership programme. The CA profession is over-represented in terms of Indian and White CAs. By adding this indicator, CAPSC incentivises measured entities that absorb a larger number of African and Coloured learners.

3. Enterprise and Supplier Development:

- The annual value of all contributions made in terms of the Supplier Development target has been lowered to 1% of NPAT or 0,125% of turnover, compared to the Codes' 2% of NPAT.
- As the vision of the revised draft is to grow the number of black people in the CA profession to reflect the country's population demographics, the CAPSC incorporates a new sub-indicator under Supplier Development which makes provision for capacitating South Africa's historically disadvantaged tertiary institutions (HDIs) so that they can develop future black CAs. The CAPSC suggests that contributions in terms of this sub-indicator will ensure that all the degrees obtained at HDIs are of the same quality as those of accredited universities. This is seen by the CA profession as Supplier Development, as these institutions provide the employers with future employees. The compliance target for this new sub-indicator is 1% of NPAT or 0,125% of turnover. Measured entities are encouraged to direct their contributions towards this sub-indicator through Thuthuka.
- The two bonus point indicators for Enterprise and Supplier Development as per the Codes do not appear in the revised draft CAPSC. A new indicator for the annual value of contributions made to the development of black-owned professional services firms through joint audits or sub-contracted audits will earn a measured entity 2 bonus points if the contribution equals or exceeds 1% of NPAT or 0,125% of turnover.

The QSE scorecard consists of 25 points for Ownership, 15 points for Management Control, 35 points for Skills Development, 20 points for Enterprise and Supplier Development and 5 points for Socio-Economic Development contributions.

The revised draft CAPSC does not leave everyone excited about the renewed efforts to transform the CA profession. The SA Institute of Business Accountants (SAIBA) has already indicated that they oppose the CAPSC. They are of the opinion that the CAPSC only benefits SAICA, which they see as a monopoly player in the sector. They want CAPSC to be replaced with an Accountancy Profession Code and will therefore object to the CAPSC on the basis of anti-competitiveness and the fact that it is not in line with the B-BBEE principles of broad empowerment.

Individuals who wish to comment on the revised draft CAPSC should e-mail the DTI (for the attention of Sipho Solfafa) at cacode@thedti.gov.za by no later than 25 June 2019.

BEE changes as your business evolves, along with legislation as can be seen from the above. We will keep you up to date with any progress or new announcements made in this regard. We encourage our clients and other impacted businesses to speak to our Project Managers or professional team of *BEE Consultants* for specific guidance on how these amendments are likely to affect them as each company faces unique challenges. *SERR Synergy assists businesses to implement viable B-BBEE initiatives* and ensure alignment of initiatives with the legal requirements of the B-BBEE Codes.

About the author:

Danel Gous is a Law graduate from the University of Potchefstroom for Christian Higher Education. She also obtained a Master's degree in Import and Export Law at the North West University, Potchefstroom. Danel is an admitted High Court attorney, conveyancer and notary with more than 10 years' legal practice experience. She joined SERR Synergy's B-BBEE Department in 2016 where she currently holds the position of Senior Project Manag

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