Grant Thornton

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Success line

May 2014

In this issue

Grant Thornton named 'Best managed international firm'

The Managing Partners' Forum, a professional body that celebrates the value of leadership and management excellence, has named Grant Thornton 'Best managed international firm.' Judged by an independent panel of subject matter experts, the award recognises the strength of Grant Thornton's global strategy and leadership, which has enabled Grant Thornton to lead the major global accounting networks in revenue growth for the last two years.

Ed Nusbaum, Grant Thornton global CEO, said, "I am delighted that we have been named 'Best managed international firm'. The award is a reflection of our clear focus on achieving our strategy, as well as the great work, collaboration and determination of everyone working for Grant Thornton globally. We have one clear strategy and I thank everyone at Grant Thornton for their commitment to making it a reality in each market."

The award criteria focuses on six key areas: effective communication of the strategy; collaboration with external specialists and partners; positive impact on the client experience; enthusiastic employees living the firm's values; performance improvement and commercial success.

The judging panel said, "Grant Thornton is faced with the formidable competition of the Big 4 accounting firms but has developed an ambitious five year strategy across 127 countries, with a view to both growing revenues and enhancing its reputation. In a difficult market the firm has achieved very significant levels of growth, a level of international co-ordination and integration and has now positioned itself as a strong and credible challenger brand in a very consolidated market."

Jay Ramesh, Grant Thornton Botswana's Managing Partner, said "I am very proud that Grant Thornton has achieved the esteemed status of 'Best managed international firm' and thank each and every individual of the Botswana Firm for having contributed positively in their own respective ways towards this achievement. As the Botswana member firm of the Grant Thornton network, we operate with one Global Strategy, Values, Methodologies and Tools thereby enabling us to deliver value added service in our chosen market that we operate while contributing to the global success of Grant Thornton."

MPF Awards For Management Excellence 2014

Winner
Best managed international firm

Meet our senior management team

Raja Ram
President

Jay Ramesh
Managing Partner

Heartiest congratulations to our recently promoted senior management team members.

Vijay Kalyanaraman
Partner
Advisory Services

Dinesh Mallan
Partner
Audit Assurance

Aswin Vaidyanathan
Partner
Audit Assurance

Madhavan Venkatachary
Partner
Audit Assurance

Sunny Mulakulam
Associate Director
Audit Assurance

Anjana Suresh
Partner
Corporate Services

Aparna Vijay
Associate Director
Corporate Services

Rajesh Narasimhan
Partner
Outsourcing & Taxation

Anthony Quashie
Partner
Outsourcing & Taxation

Pushpa Ramesh
Principal
Support Services

Ranjitha Dinesh
Principal
Support Services

Real Estate Sector - IFRS 13 Fair Value Measurement

Compiled by Sreekrishnan Veeraraghavan – Senior Executive, Audit Assurance

During 2011 the International Accounting Standards Board (IASB) issued IFRS 13 "Fair Value Measurement" which provides a single source of guidance for all fair value measurements, clarifying the definition of fair value and enhancing disclosures about reported fair value estimates. The current requirements in IAS 40 "Investment Property" relating to fair value determination will be replaced by the requirements of IFRS 13. The standard will:

i. assist in improving consistency and comparability, and
ii. contribute to users' understanding of what fair value represents.

A key point to highlight is that the standard addresses ***how*** to measure fair value, not ***when*** to measure it.

Definition of fair value

In IFRS 13, fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". The price is determined at measurement date under current market conditions (i.e. an exit price). This is regardless of whether that price is directly observable or estimated using another valuation technique. Fair value considers specific characteristics for the assets like condition, location and any restrictions on the sale. The transactions are assumed to take place in the principal market (i.e. market with the greatest volume and level of activity) or in the absence of a principal market, the most advantageous market (the market that maximises /minimises the amount received/ paid, after transaction and transport costs).

Market participants are buyers and sellers in the principal (or most advantageous) market who are:

i. independent of each other,
ii. knowledgeable about the asset or liability, and
iii. able and willing to enter into a transaction for the asset or liability.

The fair value framework set out in IFRS 13 contains specific requirements relating to highest and best use, valuation premise and principal (or most advantageous) market. This may require entities to reconsider their methods and assumptions for determining fair value and also while testing them for impairment.

Highest and best use (HBU) - Fair value measurement of non-financial assets considers a market participant's ability and not the entity's ability to generate economic benefits by using the asset in its highest and best use. For example, modifications to be made to the property interest to reflect its highest and best use may be considered in the appraisal, only if and when other market participants would also consider making these investments. The factors to consider in determining the highest and best use are physical possibility, legal permission and financial viability.

Valuation premise - (If the HBU is on a stand-alone basis, fair value is the price that would be received in a current sale to a market participant that would use the asset on a standalone basis.)
If the HBU is in combination with other assets, fair value is the price that would be received in a current sale to a market participant, assuming the asset will be used in combination with those assets (which are also assumed to be available to the market participant). This assumption is necessary as without it, IFRS 13's exit value approach might lead to valuing some highly specialised assets and items such as work-in-progress as scrap.

Insight

The inputs to a valuation technique may differ depending on how a non-financial asset is assumed to be used. Because IFRS 13 measures fair value from the perspective of market participants, an asset's current use by its owner may not be relevant if other market participants would use the asset differently.

IFRS 13 does not however require an entity to perform an exhaustive search for other potential uses of a non-financial asset if there is no evidence to suggest that the current use of an asset is not its highest and best use. The highest and best use principle should be applied in conjunction with the guidance on the most advantageous market, and the valuation premise. The interactions between assets also has to be evaluated. For example, in valuing land with an industrial building, an alternative use for the 'bare' land may yield a higher value. This would however imply a zero value for the building. When the land and building are considered together, the combined value may be higher based on current use. In that case the current use is the highest and best use.

Compliance with IFRS 13

Compliance with IFRS 13 in assessing the appraisal includes, but is not limited to, identifying the appropriate principal market, market participants, adjustment to valuation data, valuation approaches and appropriate judgement in determining the highest and best use and adjustment of expected future cash flows.

Appropriate valuation techniques

The valuation technique used to measure fair value should be appropriate for the circumstances, and one for which sufficient data is available. Valuation techniques that are typically used include the market approach, the income approach and the cost approach.

Approach	Description
Market approach	Based on identical or comparable assets
Income approach	Discounting of future cash flows to arrive at the present values
Cost approach	Current replacement costs

Fair value hierarchy

IFRS 13 includes a fair value hierarchy that categorises the inputs to valuation techniques used to measure fair value into three (input) levels:

Level 1: Observable quoted prices are available in active markets

Level 2: Quoted prices are not available, but fair value is based on observable market data

Level 3: Unobservable inputs

The level of an item is based on its lowest input level.

Example	Likely hierarchy level
Quoted shares in a company traded on a major stock exchange	Level 1
Unquoted shares in an unquoted private company, for which valuation uses earnings multiple from similar listed competitors along with various unobservable inputs	Level 3
Bonds traded on a market with quoted prices but infrequent recent transactions, where the last transactions was two weeks prior to reporting date. Valuation uses quoted price adjusted for observable market trends in past two weeks.	Level 2
Investment property valued using observable prices per square metre for similar properties with adjustments foe specific characteristics	Level 2 or Level 3 (depending on the adjustments)

Disclosure requirements

Disclosure requirements for investment property held at fair values are tabulated overleaf.

No.	Disclosures	IFRS 13	Current IAS 40
1	Fair value at reporting period end	Required	Required
2	Level of fair value hierarchy	Required	Not required
3	Valuation technique for Level 2 & 3	Required	Not required
4	Level 3 quantitative information- unobservable input	Required	Not required
5	Reconciliation of balances between opening and closing for Level 3 measurements	Required	Required
6	Total gains and losses for Level 3 measured assets and liabilities included in profit and loss at reporting date	Required	Required
7	Valuation process for Level 3 measurements	Required	Not required
8	Facts and reasons to be disclosed for difference in HBU and current use	Required	Not required

The disclosure requirements for investment property held at cost, for which fair value is disclosed, is the same as shown above, except for items 4 to 7 which are not required to be disclosed as per IFRS 13. It is however recommended that management must exercise judgement to identify the nature and extent of IFRS 13 disclosures required for the purpose of decision making.

Insight

In transitioning from the existing fair value guidance to IFRS 13, an entity:

- applies the new measurement guidance at the beginning of the annual period in which it adopts IFRS 13, not the beginning of the comparative period (i.e.: at 1 January 2013 for a company with a 31 December year-end, assuming it adopts on-time and not early),
- treats any differences arising in the same way as a change in accounting estimate (e.g.: a change will affect profit or loss for investment property measured under IAS 40's fair value model, or other comprehensive income for an available-for-sale financial asset).

Concluding remarks

IFRS 13 is likely to change current practices in various ways. We leave you below, with some major points to consider:

- fair value is defined in terms of an 'exit price'
- transaction price may not necessarily represent fair value
- priority is given to observable inputs when measuring fair value
- more consideration of possible alternative use is required for non-financial assets
- additional and improved disclosure requirements apply
- non-financial items are included in the hierarchical fair value disclosures.

Non-profit organizations

Compiled by Anthony Quashie - Partner, Outsourcing and Taxation

Non-profit organizations are those formed with no intension to make profits or gain. They are normally formed for the benefit of their members, a particular cause or the public at large. They can also be referred to as Public Benefit Organizations.

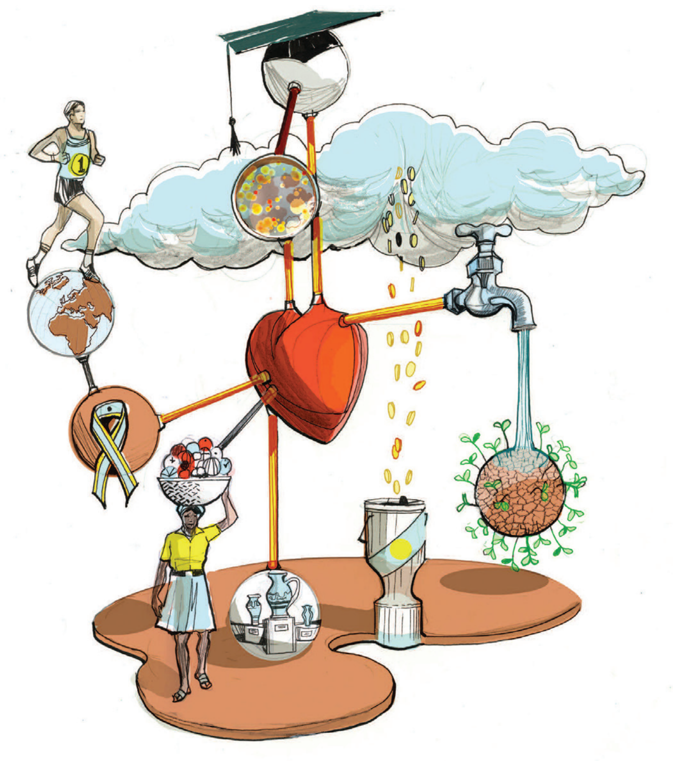
The not for profit industry is a key global investment sector incorporating a diverse range of organizations which may include, public trusts, social and sporting associations, charitable institutions, religious and educational institutions. Examples of such organizations in Botswana are the Bill and Melinda Gates Foundation, Champions for an HIV-Free Generation, the Red Cross, Cheshire Foundation, and some local football clubs and educational institutions.

On a basic operating level, non profit organizations face many of the challenges as for-profit businesses, including stretched resources as a result of current economic climates and emerging legislations. However non-profit organizations also face unique issues such as access to funding, fund raising, securing or and maintaining tax exempt status, controlling expenditures, government relations an increased demand for service.

Financial challenges

Charities: Over the last decade, charitable organizations have come under increasing pressure to become more commercial and business like in order to deliver their services and meet the increased demands for services caused by the challenging economic climate. At a time when donations from corporations and individuals and Government funding are falling, there is an increased financial burden on charities; resulting in greater focus and awareness of the need to reduce costs to enable an organization to run more effectively. This has led to organizations sharing resources to cut costs and combining programmes under one umbrella. By creating alliances and outsourcing, the accounting and human resource functions are able to leverage scale and drive down back-office costs and instead focus on key fund raising initiatives.

In the current environment there is also greater pressure on charities to be of a critical size. Mergers and acquisitions are increasingly being considered by charities as a way to achieve greater access to funding to support continued development of activities. Finding the right merger or acquisition candidate is key to ensuring the organizations can be integrated effectively.



Higher education: The higher education sector is characterised by a changing economic and regulatory framework which is forcing organisations to think more strategically about the future and structure of their institutions. The economic climate continues to put financial pressure on universities and colleges. Funding is increasingly restricted as a result of the declining financial support from governments and stricter covenants from banks on the loans provided to higher education organisations. Furthermore, the industry is witnessing a decrease in levels of student enrolment due to lack of financial aid and job security after higher education, coupled with rising costs and increased tuition fees. There is therefore a greater need for higher education institutions to focus awareness on reducing costs to enable their organisation to run more efficiently and effectively.

Tax implications

In Botswana, the fiscal legislation with regards to non-profit organizations found in the Income Tax Act, 1995, defines these organizations as companies for tax purposes. Just like any other company non-profit organizations have to register for tax purposes and file the relevant necessary returns. Therefore taxation treatment of not for profit organizations is the same as taxation treatment of companies except for the following exceptions:

1. **Charitable, Religious, Educational Institutions and Public Trusts**
   - Income from the above organizations is taxable only if it is business income or disposal gains and has not been applied / utilized for public objectives.
   - The income must have been applied within the accounting period.
   - The application period may be extended by the Commissioner General to such a period as allowed by him as a result of a request for an extension by the institution.
   - Non business income like donations, offerings, tithes, subscriptions fees etc, and income applied for public objectives within the accounting period is not liable to tax.

2. **Social and Sporting Associations**
   - All income (business or non business) from social and sporting associations is liable to tax if not applied / utilized for public objectives.
   - The income must have been applied within the accounting period.
   - The application period may be extended by the Commissioner General to such a period as allowed by him as a result of a request for an extension by the institutions.

Despite all the challenges and emerging regulations governing such organizations, they exist for a specific purpose which is driven by a desire to do good. Hence they still continue to thrive and attract a great deal of interest and invaluable resources.

International Business Report - Women in business

Compiled by Marketing Team

As the world celebrated International Women's Day, a few Batswana held activities to commemorate the day complimenting the significance of women empowerment.

Botswana stands 14th in the league table of 45 countries participating in Grant Thornton's IBR survey of women in business.

New research from Grant Thornton International Business Report (IBR) reveals that 24% of businesses in Botswana have women in their board of directors or as company overseers i.e. Chief Executive Officers and Chief Financial Officers. Compared to Botswana, South Africa has experienced an 8% decrease between 2013 and 2014, for businesses which will support the introduction of quotas for the number of women on executive boards of large listed companies while Botswana saw an increase of 4%. Botswana businesses will see the benefits of widening their net as tapping into more candidates means higher chances of recruiting star performers; the people who will ultimately determine their growth trajectory.

Despite a groundswell of discussion and debate, the proportion of women holding top jobs around the world remain at just under a quarter.

Grant Thornton has been tracking the proportion of women in senior management since 2004 and the research this year finds that the proportion of women in the most senior roles has stagnated at 24% - the same as the result in 2012, 2009 and 2007. In Botswana women in the most senior roles has also remained stagnant at 32% between 2013 and 2014. The question this raises is: what are women's roadblocks on the path to senior management?

One of the eminent women in Senior management in Botswana, CEO of Zurich, Bilkiss Moorad says "it is no secret that women in Botswana form the fulcrum around which every family organizes itself. Through the years, this has become the de facto reality. Women today have moved forward and taken steps to educate themselves and with the high levels of literacy amongst them, the next step would be to use this education and take it a step forward".

Just one in seven delegates at the annual World Economic Forum gathering was a woman this year. This statistic alone explains why the issue of women in businesses inspires so much passion and debate, emphasising that the path from the classroom to the boardroom is anything but straightforward. **Bilkiss Moorad** suggests that "to make the move, women should develop a strong education background, learn to manage their time effectively and develop strong self-branding because it takes hard work and commitment to get to the boardroom. The time has come for the organizations as well as the men in the country to become more supportive of women wanting to lead. Admittedly, there needs to be a change in the mindset of the men, organizations and even the country to help this change".

Research indicates that, female participation in education is soaring high in many economies over recent years, particularly emerging markets, which have traditionally lagged behind; this comes as a positive development.

The IBR also shows support for the introduction of quotas to get more women on boards is growing.

Globally, close to one in two business leaders (45%) would now like to see quotas for the numbers of women on the boards of large listed companies, up from just over one in three (37%) in 2013. Interestingly, support has grown sharply in the EU (from 33% to 41%) where the imposition of quotas are most likely, but also in the BRIC economies (41% to 72%) while support remains high in Latin America (68%) and Asia Pacific (57%). Across the G7, however, only 33% of business leaders are in support of quotas.

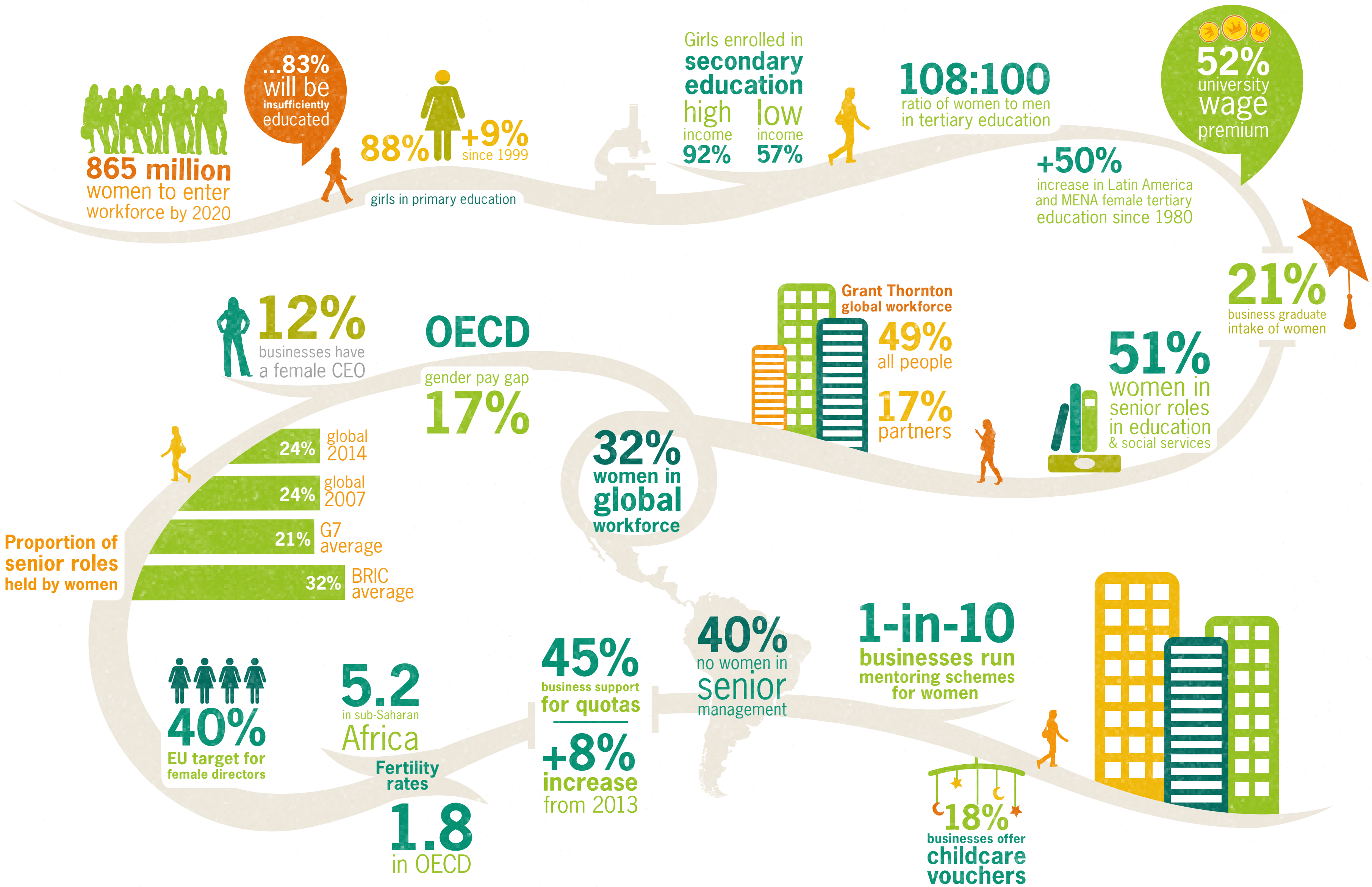
A point where there are more women studying in tertiary education than men has been reached but whether the subjects they are studying prepare them appropriately for jobs in senior management is debatable. In terms of industries there is a much higher proportion of women in sectors such as education & social services, personal services (strong links to public sector) and also in hospitality. It is also above the global average with 29% of women in senior positions in both healthcare and financial services.

The figures gathered this year around the gender of graduates being hired by businesses add a further layer of complexity to this discussion; as just 21% of the typical global graduate intake are women. Businesses are closing themselves off to a huge swathe of potential workers – talent which numerous studies suggest would help them grow faster.

Grant Thornton International has developed the Women's International Leadership Link, a programme to support and mentor women and just one in ten businesses around the world have launched something comparable. Schemes that offer tangible support for mothers looking to juggle pressures at work and at home are pretty thin on the ground. So businesses should play their part in getting more female graduates through the door.

A fair proportion of a business's future leaders are expected to come from its pool of graduates, so getting more women starting at that level will increase the odds of them making it to the top.

The Grant Thornton International Business Report (IBR) provides insight into the views and expectations of more than 12,500 businesses per year across 45 economies. IBR is a survey of both listed and privately held businesses. The data for this release are drawn from interviews with 6,700 chief executive officers, managing directors, chairmen or other senior executives from all industry sectors conducted between November 2013 and February 2014.


865 million women to enter workforce by 2020
...83% will be insufficiently educated
88% +9% since 1999
girls in primary education
Girls enrolled in secondary education
high income 92%
low income 57%
108:100 ratio of women to men in tertiary education
52% university wage premium
+50% increase in Latin America and MENA female tertiary education since 1980
21% business graduate intake of women
51% women in senior roles in education & social services
Grant Thornton global workforce
49% all people
17% partners
32% women in global workforce
12% businesses have a female CEO
OECD gender pay gap 17%
24% global 2014
24% global 2007
21% G7 average
32% BRIC average
Proportion of senior roles held by women
40% EU target for female directors
5.2 in sub-Saharan Africa
Fertility rates
1.8 in OECD
45% business support for quotas
+8% increase from 2013
40% no women in senior management
1-in-10 businesses run mentoring schemes for women
18% businesses offer childcare vouchers

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