Mazars Messenger

AUGUST 2020

REGISTERED AUDITOR – A FIRM OF CHARTERED ACCOUNTANTS(SA)

AUDIT | TAX | ADVISORY

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COULD MANDATORY **JOINT AUDIT BE NEXT IN** SOUTH AFRICA'S ANTI-CORRUPTION **DRIVE?**

In President Cyril Ramaphosa's latest address to the nation, the clampdown on COVID-19 corruption emerged as a strong theme, with 36 investigations already said to be underway. Unfortunately, the news of unlawful or improper conduct in the procurement of goods, works and services has come as little surprise to many South Africans, who have become accustomed to the unabated corruption that continues to plague the country.

Set to contribute to this revived interest in corruption prevention is the proposed audit reform currently being debated within the auditing profession. To restore the industry's damaged credibility and shore it up against interference and complacency, regulators in numerous countries are evaluating the merits of instituting mandatory joint audits for public interest entities. Most notable among these is the United Kingdom (UK) which, due to the size of its market, could potentially act as a catalyst for the adoption of this principle across the globe.

This is according to Sanjay Ranchhoojee, Head of Audit at Mazars South Africa, who says that this development is extremely important for South African regulators to note, given the country's own efforts to improve the standards and performance of its audit industry.

"A joint audit is where two separate audit firms are appointed by a company to express a joint opinion on its financial statements. The firms divide the necessary fieldwork between them, according to their expertise and skills, and both firms conduct the audits of areas that involve a high level of judgment. We believe that this would be a particularly apt solution in the South African context, and that the global learnings around joint audit can prove it."

> The risk of major audit failures are always at their highest in the first two to three years of a new audit firm taking over.

Yolandie Ferreira, Partner and Audit Leader at Mazars, points out that this is a logical addition to the groundwork that South Africa has already laid for audit reform. "Mandatory audit firm rotation will come into effect from 1 April 2023. While this has the potential to make a positive change to the industry by helping to promote the independence of audit firms, it carries one significant risk."

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She explains that under mandatory firm rotation, listed companies are expected to appoint a new audit firm every ten years, in this period they will also have two audit partners signing off the accounts, as an audit partner needs to rotate every five years. However, the risk of major audit failures are always at their highest in the first two to three years of a new audit firm taking over.

"Appointing joint auditors under overlapping contract terms will help to accomplish the intention of audit firm rotation, while still ensuring that the handover process between firms takes place with as little disruption as possible and the loss of knowledge between firms are limited," she says.

With mandatory joint audits having been in place in France for over 50 years already, Ranchhoojee notes some of the key successes that the country's audit industry has had because of it. "For one, France has seen no major audit failures in many years."

Ferreira adds that the French market also illustrates the notion that mandatory joint audit can contribute to skills development and improve competitiveness in the audit industry. "It is important to mention that the number of challengers to the big four audit firms is much bigger in France, when compared to a country like the UK. Building skills outside of the big four auditing firms (Deloitte, PwC, EY and KPMG) is an especially important focus for a country like South Africa. Growing skills development and enabling challenger firms can also help the audit industry reach its transformation targets faster by extending opportunities to a much more diverse range of candidates."

The Competition and Markets Authority in the UK estimates that 100% of the top 120 companies on the London Stock Exchange are audited by the big four firms. By comparison, 44% of the 120 top listed companies in France are audited by two of the big four firms, and challengers often have around 40% of the joint audit engagements. At the same time, comparisons of audit fees in both countries have shown that the fees for listed companies in France are significantly lower than their counterparts in the UK.

"In addition, if one of the big four firms collapses or is banned from practising in a country (as we have seen in India, which was seeking a five-year auditing ban for Deloitte and KPMG in 2019), a mature joint audit market can help to prevent the industry from collapsing as a result of the void left by the exiting firm," Ranchhoojee says.

If mandatory joint audit is to be introduced in South Africa, there would need to be regulation in place to ensure an equitable split of work between the two cooperating firms.

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With that said, it is also worth taking a look at countries such as Denmark, where mandatory joint audit was initially implemented, but later abandoned. According to Ranchhoojee, Mazars has analysed the case of Denmark quite extensively.

"Unlike in France, where each firm has to audit a minimum of 40% of a company's books, it was common in Denmark to see one firm taking on 90% of the audit work, while the smaller firm only took on the remaining 10%.This disparity was a major reason for the failure of joint audit in Denmark, since a lot of firms did not want to participate in joint audits for listed firms because of this unfair division of work."

In light of this, Ferreira says that if mandatory joint audit is to be introduced in South Africa, there would need to be regulation in place to ensure an equitable split of work between the two cooperating firms. "When introducing joint audit, it won't necessarily be possible to enforce a 60/40 split between firms in the beginning.

"With strict and well-thought-out regulations, however, the big four firms can take on a much larger piece of the workload, which can be decreased over time as the challenger market matures," she adds.

Ferreira notes that South Africa already has some experience in joint audit, since it is standard practice in the banking industry. "The big four banks have been subject to joint audits for a number of years, and it has certainly helped them avoid major audit failures. The Prudential Authority of South Africa are also in the process of assessing implementation of Joint Audit for major Insurers."

Ranchhoojee adds that introducing mandatory joint audit in South Africa will enable better alignment with the global market. "But even more important than that – we desperately need to find a way of restoring confidence in our country's audit industry, and joint audit is the best way to do this," Ranchhoojee concludes.

Sanjay Ranchhoojee (Partner, Audit) and
Yolandie Ferreira (Partner, Audit)

AUGUST 2020

RESPONSIBLE **BANKING PRACTICES MUST INTEGRATE** ESG FACTORS

NEW BENCHMARK STUDY FROM MAZARS INDICATES

Conducted by Mazars internationally and focusing on European banks primarily, South Africa's Standard Bank was included in the assessment. The benchmark assessed 30 banks around the world on the integration of environmental, social and governance criteria into their commercial strategies and risk management frameworks. No banks were deemed "outstanding" on sustainability, but a handful are leading the way with innovative approaches that score highly against most scoring criteria. Banks focusing on environmentally responsible products but product offerings are yet to fully address socio-economic issues.

International audit and advisory firm Mazars shared a global assessment of how banks are embedding sustainability into their commercial practices. The findings show that environmental, social and governance criteria (ESG) are not yet fully integrated into banks' strategies around the world, and advise that more responsible banking practices can be achieved if banks make the criteria part of their risk management frameworks and measure this more effectively.

Presented in the report "*Responsible banking practices: benchmark study 2020*" (download here), the findings reveal just three out of the 30 banks assessed demonstrate best practice across a wide range of sustainability factors, with ten banks showing a sustainable approach across some factors and more than half (17) the number of banks showing limited evidence of a sustainable approach across most factors.

After assessing banks such as Barclays, BBVA, Citi, Credit Suisse, Santander, UBS, and Standard Bank, Mazars found no banks to be 'outstanding' – a scoring reserved for banks with a positive score in more than 90% of the criteria. Benchmark criteria included culture and governance, risk management, reporting, targets and more.

The report comes at a time when banks are reflecting on their purpose and values as the rise of social movements reshape how financial actors ensure what they invest in is not just environmentally sustainable but also socially inclusive.

The international assessment, undertaken by Mazars' London office, focused on European banks and included African, Southeast Asian, and American banks for illustration purposes.

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South Africa's Standard Bank was included because it has "demonstrated a significant interest in sustainability by participating in the United Nations Environment Programme Finance Initiative and being a signatory to the Principles for Responsible Banking. It is also a good illustration of the current state of play of practices in the region because it is the leading bank in term of total assets," said Leila Kamdem-Fotso, Partner at Mazars.

Although Mazars will not be revealing detail of each bank's individual score, Standard Bank was found to have demonstrated a sustainable approach to four key criteria, including:

1. Embedding ESG responsibilities into its governance structure through measures such as its social and ethics committee, client and supplier risk committees;
2. Implementing ESG monitoring into its risk management framework;
3. Making disclosures according to sustainability reporting standards such as Global Reporting Initiative (GRI); and
4. Developing social and environmental products and services addressing its impacts (such as loans, investment and bonds).

"Covid-19 has reaffirmed the positive role the banking sector can play by working with governments and regulators to keep the economy going. These findings should remind banks that the crisis is an opportunity to look beyond immediate priorities, re-assess their purpose and values and use some of the best practice outlined in our report to truly embed ESG factors in their decision-making on investments for the good of the business, their clients and society," said Kamdem-Fotso.

Partner for Advisory Services Mazars South Africa, Bongiwe Mbunge, says, "This report is an important industry benchmark for a relatively new – but extremely important – way of looking at corporate citizenship. Integrating ESG into one's reporting may seem like a simple or obvious thing to do in today's business world, but the report reminds us that the stark reality is that no bank is perfect in this regard – yet. There has been much progress made in recent years, but there is still a significant amount of work to do to ensure that ESG is truly at the heart of our banking system."

Most banks support sustainability frameworks and have launched corporate social responsibility programmes but the definition and disclosure of sustainability targets is not yet common practice.

BANKS STARTING TO FOCUS ON SOCIO-ECONOMIC ISSUES

The benchmark finds most banks have adopted or are implementing voluntary ESG reporting standards, but the majority (57%) have yet to fully integrate ESG factors into their Risk Management Framework using both qualitative and quantitative approaches.

Similarly, most banks support sustainability frameworks and have launched corporate social responsibility programmes but the definition and disclosure of sustainability targets is not yet common practice. And while all banks assessed offer environmentally responsible products, only 43% of them have developed a product offering that fully addresses socio-economic issues.

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TARGETS AND INCENTIVES

The benchmark report finds that the introduction of explicit targets could help banks increase their ESG achievements. Only 27% have set specific and measurable socio-economic targets in line with sustainability frameworks. On the other hand, just 13% of the banks assessed have sustainability-related financial incentives for the board and top management.

A BROADER RANGE OF COMMITMENTS

The report cites recent examples of banks ensuring they meet societal goals. For example, Barclays is working to embed human rights considerations into its client due diligence process. Also, Citi will develop an environmental and social action plan as a condition of financing when there are gaps between international standards and a client's environmental and social practices. The report also references Goldman Sachs (which was not one of the banks assessed) and who will now only advise companies on IPOs where there is at least one diverse board member as an example of increasing action on diversity.

ABOUT THE BENCHMARK

The analysis is based on 30 banks' publicly available information only (2018/2019 CSR and annual reports.) Mazars used an assessment matrix that covered: culture and governance; risk management; disclosure and reporting standards; frameworks, initiatives and targets and products and services. The analysis is focused on European banks, with the inclusion of some Southeast Asian, African and America banks for illustration purposes. The banks selected have demonstrated a significant interest in sustainability by participating in the UNEP FI initiatives and/or being signatories to the Principles for Responsible Banking. Banks assessed include Barclays, BBVA, Citi, Credit Suisse, Santander, Standard Chartered and UBS. For the full list, see the report here.

Authored by Mazars Thought Leadership Teams

AUGUST 2020

THE **RESHAPE CRISIS** RECOVERY PROGRAM

Disruption comes with the territory when running a business. With the Covid-19 pandemic expected to pose a threat for the next 12 to 18 months, Reshape has been designed to help your company navigate the crisis and secure its future.

WEATHER THE CRISIS WITH A PROGRAM DESIGNED TO GUIDE YOU THROUGH CHALLENGING TIMES

Many businesses have been plunged into uncertainty by the Covid-19 crisis. Consumer spending plummeted and industries slowed down, causing a ripple effect across the economy. With the full extent of the crisis and the ensuing recession still unclear, business owners and management teams are facing the prospect of significant volatility over months and years to come.

We designed the Reshape program to help you navigate your business through the crisis. We will assess current positioning and operational business impact and combine this with scenario planning and financial forecasting to make informed decisions on the priority areas to focus on.

This scenario-based crisis recovery plan will enable you to flex your operational practices and cost base at speed throughout the pandemic. Through in-depth workshops with owners and management teams, we take a deeper look into how your business is performing and put forward solutions to any challenges that arise.

Crisis recovery planning

In three easy steps we develop an agile action plan for stabilising and reshaping the business and optimising for long term value in a disruptive market.

- **Step 1:** Assessment of past & current performance.
- **Step 2:** Analysis of future potential scenarios by identifying key priorities and overall game plan.
- **Step 3:** Reshaping and optimising the business through a lean action plan, new budgets, and reporting system.

Focusing on performance drivers

We focus on building a tailored plan to address your core performance drivers:

1. Sales and markets
2. Business operations
3. Business performance and financial strength
4. Business innovation and digitalisation
5. Business leadership and management

The outcome is a detailed business plan that has a clear view over a two to three-year time horizon that offers forecasts across profit and loss, balance sheets and cash flow, and enables businesses to make informed decisions on the way forward through the crisis.

If your business has been impacted by the Covid-19 crisis or you are concerned that a prolonged recession may take its toll, **contact us** and a member of our team will be in touch to discuss further.

Authored by Mazars Thought Leadership Teams

Introducing our Digital Assets services.

Providing audit, tax, accounting and advisory expertise to the crypto sector through specialisation and understanding of cryptocurrencies and blockchain technology.

Increasing value to our current and prospective clients who operate in this unique industry, providing quality assurance represented by the Mazars brand.

For more information about our services to the cryptocurrency sector, please contact Wiehann Olivier at wiehann.olivier@mazars.co.za.

MAZARS

CRYPTOCURRENCY TRADERS SHOULD PREPARE FOR **STRICTER TAXES,** SAYS **MAZARS IN SOUTH AFRICA**

Over the last five years, South Africa has emerged as one of the world's most notable cryptocurrency adopters, and an estimated 13% of its internet users owning or using cryptocurrencies. With the South African Bitcoin/ZAR weekly trading volume – to name just one – currently standing close to R30million, there are various manners in which the South African Revenue Service (SARS) can track the gains made by South African taxpayers who trade cryptocurrencies.

This is according to Wiehann Olivier, Partner at the Audit Division of Mazars in South Africa, who says that there are various techniques SARS could apply for the direct taxing of cryptocurrencies. "To start, the fact that cryptocurrencies were created to allow for anonymous, frictionless and trusted peer-to-peer transaction to be conducted over the internet (including cross-border transactions) means that it can be used as a means of tax avoidance in a number of different ways."

As Olivier explains, investors can store their cryptocurrencies in paper or hardware wallets instead of relying on a custodian such as an exchange to safeguard their assets, which makes it impossible to confiscate these cryptocurrencies and extremely difficult to track their movements.

"There is also the option to rely on a series of smoke and mirrors. Different types of cryptocurrencies can be exchanged for one another and passed through a series of wallets and public key addresses to attempt to confuse the trading activities and to evade taxes."

He notes that SARS is currently relying on the honesty of South African taxpayers to include their realised gains on cryptocurrencies as part of their taxable income. "SARS has not yet released any specific legislation around the taxation of cryptocurrencies, besides that taxpayers need to include any realised gains from the trading of crypto currencies in their taxable income. However, we believe that SARS will publish new regulations in the coming years to have a more specific focus on these digital assets. One of these interventions may include introducing regulations that require all South African cryptocurrency exchanges to share information with SARS, making it more difficult to apply the above-mentioned method of avoidance. With that said, it will require SARS to gear itself to ensure that it can collect on what it is owed."

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There is also the possibility that offshore cryptocurrency exchanges and banks might have the same agreement with SARS as foreign institutional investors have, whereby they share individuals and companies' trading and asset holding data with revenue services from various countries. This would again make it more difficult to avoid paying tax by moving assets out of South Africa.

> Preparing for these interventions well ahead of time may be beneficial for cryptocurrency exchanges, traders and investors.

Notably, Olivier is of the opinion that businesses should already begin to prepare for tighter regulation of their digital assets. "Trading companies should consider acquiring the services of firms that can supply confirmation and reporting around its clients' digital currency audits, well before new regulations are introduced."

With the introduction of stricter tax legislation a virtual certainty within the next few years, Olivier adds that preparing for these interventions well ahead of time may be beneficial for cryptocurrency exchanges, traders and investors. "The regulation of digital assets in South Africa could even bring exciting business opportunities for many entrepreneurs and business," Olivier concludes.

Wiehann Olivier (Partner, Audit)
To discover how Mazars can assist with audits of Cryptocurrencies, please contact **Wiehann Olivier**

SARS RECOVERY – IS THERE HOPE?

SARS has been heavily damaged by the Zuma era and is now in recovery with the advent of Acting Commissioner Mark Kingon and current Commissioner Edward Kieswetter. System efforts are being made and changes in personnel are underway to remove the problematic areas. Even the Large Business Centre has been restored. The question is whether SARS is actually being restored to its former glory and able to ready itself for new challenges. More importantly, are these measures effective and is SARS really in a sufficient position to achieve the desired results?

The mountain that stood before Edward Kieswetter and his team when he took over the reins from acting commissioner Mark Kingon should not be underestimated. The wake of destruction from mismanagement was visible and restoring SARS to its former glory was dubbed by many as being impossible. I, however, remain optimistic, and believe in the words of the great Madiba - "It always seems impossible, until it is done."

From day one, Kieswetter knew that hope and trust needed to be restored before any meaningful changes could be made at SARS - not only that of the SARS staff, but that of the entire South African public, who were at their wits' end with the SARS systems, procedures and seemingly underhanded methods of window-dressing the tax collection figures.

Gaining trust unfortunately does not happen overnight. The slogan of one of South Africa's most successful fund managers sums it up perfectly: "trust is earned".

Kieswetter spent his first 100 days in office meeting with SARS staff, keenly listening to what they had to say. He used his time to schedule conferences in order to educate the public and clearly explain his vision of a restored SARS. He met with the private sector to communicate the progress he had made and how they could assist him, and he met with auditors and tax specialists at leading firms to gain their buy-in and restore confidence. Finally, and not to be overlooked, he used his political prowess to ensure that there was no unnecessary political intervention. The new SARS ship would only have one captain.

Technology has made possible new products and services that increase the efficiency and pleasure of our personal lives, and SARS has grabbed this opportunity with both hands.

Many could describe these actions as mere talk, without 'walking the walk'. However, it has been his recent steps that have kindled hope, and in particular his use of technology. Much has been said about the Fourth Industrial Revolution, in essence the embracing of technology. Technology has made possible new products and services that increase the efficiency and pleasure of our personal lives, and SARS has grabbed this opportunity with both hands.

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Technology can only be used with reliable information and converting data into useable information is where the true value becomes apparent.

Under the previous administration, the ill-investment of funds in a political agenda, instead of SARS systems, almost brought the revenue authority to its knees. However, Kieswetter's aggressive investment in technology and automation is undoubtedly a step in the right direction and makes one hopeful that SARS will be able to be restored to its former glory.

Even though there will be many teething problems, the use of technology will greatly improve the SARS systems. Kieswetter quickly identified that SARS staff were being kept busy with taxpayers who are unwilling to use technology, and that his branch staff could be much better utilised if the public could be won over to use the e-filing or SARS app platforms.

Additionally, SARS's handling of the COVID-19 pandemic has been first-class, and its staff's transition to working from home would not have been as easy if technology had not been embraced early on.

While the true rewards of these changes will not materialise immediately, given they require meticulous planning, preparation and implementation, there is light at the end of the tunnel.

I have great respect for what Kieswetter is trying to implement at SARS, and if he keeps doing what he is doing, SARS can be restored. Unfortunately, the measure of his success during the current economic climate is virtually impossible, and we will only see the true fruits thereof in years to come.

Nonetheless, I believe there is evidence that the proverbial SARS phoenix is stirring amidst the ashes.

Tertius Troost (Manager, Tax Consulting)
Our tax experts assist thousands of businesses like yours. **Contact us today**

HOW TO CALCULATE **IMPAIRMENT USING THE IFRS 9** SIMPLIFIED APPROACH

IFRS 9 requires impairment of financial assets based on expected credit losses.

There are two methods of calculating the expected credit losses;

A. The general approach, and

B. The simplified approach.

When applying the general approach, an assessment has to be made of the stage in which the debt falls as this will affect whether 12-month or lifetime expected credit losses should be recognised. When applying the simplified approach, we do not assess in which stage the debt falls as we always recognise lifetime expected credit losses.

In this article, we will have a look at when the simplified approach can be applied and how to go about the calculation of expected credit losses.

For which financial assets can the simplified approach be applied?

For the following financial assets, the simplified approach must be applied:	**For the following financial asset, you can choose the simplified approach or the general approach:**
▪ Trade receivables without a significant financing component; and ▪ Contract assets under IFRS 15 without a significant financing component	▪ Trade receivables with a significant financing component; ▪ Contract assets under IFRS 15 with a significant financing component; and ▪ Lease receivables (IAS 17 or IFRS 16)

IFRS 9 contains a practical expedient that allows the use of a provision matrix to calculate the lifetime expected credit losses under the simplified approach.

HOW WOULD YOU GO ABOUT CALCULATING THE EXPECTED CREDIT LOSSES ON A PROVISION MATRIX?

The example on the following page is a very simple example to illustrate the basic principles of the simplified approach. Take note that the effect of time value of money has not been incorporated into this example.

Step 1: Group trade receivables into portfolios based on shared credit characteristics

The objective of this step is to split the trade receivables into portfolios, which have the same, or similar loss patterns.

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The following characteristics can help in identifying the different portfolios:

- type of instrument,
- credit risk rating,
- collateral type,
- term to maturity,
- industry, or
- geographic location.

Remember to include disclosure in the financial statements on how instruments were grouped. [IFRS 7.35F(k)]

For example, if you have a debtors' book consisting of retail customers within South Africa and Zimbabwe, the credit risk profile of the debtors from the two countries may vary significantly. The debtors may have the same repayment terms and may operate in the same industry, but the credit risk profile may be very different. Zimbabwe is at risk of a recession, and, therefore, you would probably conclude that the South African debtors will form one portfolio, with the Zimbabwean debtors forming a separate portfolio based on their credit risk characteristics.

Step 2: Define a period of sales and credit losses relating to those sales

The purpose of this step is to determine a period over which to review the credit loss history of the entity to develop an understanding of the loss trends regarding trade receivables. This period must not be so short that the information is not meaningful/representative of reality but must also not be too long, which results in ignoring market information and changes in the customer base. Entities will need to apply their judgement in concluding on a period over which to monitor historical losses that makes sense and results in reliable and relevant information in calculating credit losses. The period could be anything from 12 to 60 months - any shorter or much longer risks, the information on which the matrix is based, being either not representative or potentially outdated.

Step 3: Calculate the payment profile of trade receivables

Let's illustrate how this calculation could look:

Company A has gathered the following information:	
Portfolio to be assessed	South African trade receivables
Representative sales period	12 months
Total South African credit sales recognised during this period	R300,000
Total credit losses recognised over the period (this is the debt written off)	R10,000

The debtors have 30-day repayment terms. This means that there is no significant financing component and you don't have to worry about discounting any figures. This can be up to a year if applying the IFRS 15 practical expedient for significant financing components.

The purpose of this step is to calculate the outstanding balance of trade receivables at the end of each time bucket up to the point where amounts are written off as irrecoverable.

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Note that this is not the debtors balance at year end. It's the total sales made to the debtors throughout the 12 months

When paid	Paid amount of R300,000	Cumulative amount paid	Ageing profile/ outstanding balance at the end of time bucket [1]	Calculation of outstanding balance at the end of time bucket (Total sales minus cumulative amount paid or written off)
Paid within 30 days	(150,000)	(150,000)	150,000	(300,000 - 150,000)
Paid between 30 and 60 days	(60,000)	(210,000)	90,000	(300,000 - 210,000)
Paid between 60 and 90 days	(40,000)	(250,000)	50,000	(300,000 - 250,000)
Paid within 90 and 120 days	(30,000)	(280,000)	20,000	(300,000 - 280,000)
Paid after 120 days	(10,000)	(290,000)	10,000	(300,000 - 290,000)
Written off **[2]**	(10,000)		-	(300,000 - 300,000)
Total	**(300,000)**			

Amounts in ZAR

Step 4: Calculate the historic credit loss percentage

Calculate this by dividing the loss of R10,000 determined above by the unpaid amount in each age band.

	Current sales	30 days	30 – 60 days	60 – 90 days	90 – 120 days	More than 120 days
Ageing profile of sales **[1]**	300,000	150,000	90,000	50,000	20,000	10,000
Loss **[2]**	10,000	10,000	10,000	10,000	10,000	10,000
Historical credit loss percentage [2]/[1]	**3.33%**	**6.67%**	**11.11%**	**20.00%**	**50.00%**	**100.00%**

Amounts in ZAR

The loss of R10,000 is applied because it remained unpaid in each respective timeband until it was eventually written off.

Step 5: Adjust the historical credit loss percentage for forward-looking information

IFRS 9 requires forward-looking information to be considered in setting credit loss allowances and requires that this information must adjust the credit loss percentages applied in measuring the allowances. This is likely to require the most judgement. Forward-looking information to consider should include micro- and macro-economic factors such as unemployment rates, economic growth and outlooks, the regulatory and technological environment, external market indicators and expected changes in the customer base.

An entity must find the macroeconomic factors that could affect its credit losses. This will be different for each entity/industry.

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When there is a linear relationship between the macroeconomic factor (i.e. unemployment rate) and the input (i.e. increase/decrease in collection of receivables), then the incorporation is quite simple. When the relationship is not linear, then the adjustment might require some modelling and may require the use of an expert.

For illustration purposes, let's assume that when the unemployment rate increases by 1%, it triggers a default loss of 10%. Please note that entities should be able to prove this.

Based on economic forecasts, Company A expects the unemployment rate to increase with 1%, and as a result, Company A increases the credit loss percentage calculated in Step 4 with 10% (R10,000 x 110% = R11,000).

Remember to disclose, in the notes to the financial statements, the forward-looking information applied. [IFRS 7.35G]

	Current sales	30 days	30 – 60 days	60 – 90 days	90 – 120 days	More than 120 days
Ageing profile of sales **[1]**	300,000	150,000	90,000	50,000	20,000	10,000
Loss **[2]**	(11,000)	(11,000)	(11,000)	(11,000)	(11,000)	(11,000)
Final credit loss percentage [2]/[1] (limited to 100%)	**3.67%**	**7.33%**	**12.22%**	**22.00%**	**55.00%**	**100.00%**

Amounts in ZAR

Step 6: Calculate the credit loss allowance at the end of the reporting period using the loss rates determined

To calculate the impairment at year-end, apply the loss percentage calculated in Step 5 to the debtors' balances for the South African portfolio at year-end.

	Total	Current	30 days	30 – 60 days	60 – 90 days	90 – 120 days	More than 120 days
Trade receivables at end of reporting period	25,000	10,000	5,000	4,000	3,000	2,000	1,000
Default rate from Step 5		3.67%	7.33%	12.22%	22%	55%	100%
Expected credit loss	**(3,982)**	**(367)**	**(367)**	**(489)**	**(660)**	**(1,100)**	**(1,000)**

Amounts in ZAR

The carrying value of South African trade receivables is R22,018 (R25,000 minus R3,982 impairment losses) at year-end.

This calculation process must be reperformed at each reporting period and is expected to change year on year.

The method may be the "simplified approach", but it does not necessarily indicate that the calculation is simple. There are still judgements to be made, especially concerning the forward-looking information. It is important to understand the debtors' book and to assess whether experts should be involved in the calculation at an early stage.

Nelia Joubert (Manager, IFRS)

EMPLOYEES WORKING **FROM HOME**

WHAT TAX DEDUCTIONS CAN YOU CLAIM?

Working from home is part of our "new normal" and home offices are predicted to remain a permanent feature of many employment relationships in the future.

Both employees and their employers should be familiar with the tax angles, in particular the opportunity to claim tax deductions. When and how do you qualify for deductions? What expenses can you deduct? We discuss the various ins and outs with a simple practical example to illustrate.

If you own your own home, read our tail ender note on the possible impact of claiming for a home office on your Capital Gains Tax liability when you sell your house.

"We like to give people the freedom to work where they want, safe in the knowledge that they have the drive and expertise to perform excellently, whether they at their desk or in their kitchen. Yours truly has never worked out of an office, and never will" (Richard Branson)

Thousands of employees have had to work from home since the lockdown began at the end of March. This story has been one of the success stories of Covid-19, as companies have reportedly found that productivity has increased, travel costs are right down and the work is still being done.

Employees stand to reap a range of financial and health benefits from working at home and both they and their employers should know that they may also be able to claim certain home office expenses as tax deductions.

Normally only independent contractors and commission-earners would claim these expenses, but SARS has confirmed the relief is available to full-time employees as well – but only in the specific circumstances set out in the Income Tax Act.

HOW YOU CAN CLAIM TAX DEDUCTIONS FOR A HOME OFFICE

The Income Tax Act sets out basic requirements that must be met if this tax relief is to apply:

- You must practice a "trade" – which can be employment, so by being employed this criterion is fulfilled.
- The home office must be specifically equipped for you to do your job – usually, this would mean a computer, broadband, printer, desk and chair, etc.
- The home office is be regularly and exclusively used by you to do your job – you will not be able to use that space for any other purpose, such as a home office, or even to store non-job related books or papers.
- More than 50% of your work needs to be performed in the home office – in other words you must work from home for at least six months of the tax year.

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TAX DEDUCTIONS ALLOWED

If the above criteria have been met, then you may deduct:

1. A portion of rental, bond interest, and home repairs on your home,
2. A portion of municipal rates, electricity and water,
3. Wear and tear on office equipment that you own (SARS has differing depreciation rates on computer equipment and office furniture).

You will also incur numerous costs in running your home office such as cell phone, bandwidth, equipment repairs, stationery and cleaning. As these are not specified in the Income Tax Act, it is better that you be reimbursed by your employer for these expenses.

In terms of points 1 and 2, as a taxpayer you need to make an apportionment of those costs when claiming them in the income tax return. Typically, this is done on a floor space (i.e. square metre) basis of the home office in relation to the total area of the home – see the example below.

As noted above, one of the criteria is that you can only claim a home office allowance if more than 50% of your work (at least six months of the tax year) is done in your home office. This is not a problem during lockdown (as the home office is being used 100% of the time) but should you want to continue claiming for a home office after the lockdown, then you will need to spend more than 50% of your working hours in your home office.

Example: Home Office

Notes	Calculation of deductions claimed		Rand
	Elizabeth needs to work from home and purchases...		
	A desk and chair		10 000
	Desktop computer and printer		12 000
	= Total equipment and furniture		**22 000**
	Elizabeth's monthly rates, water, refuse and electricity cost		4 000
	Elizabeth's monthly rental of her home		20 000
1	Her monthly data and cell phone cost		1 200
1	Stationery		120
	Her Annual tax return		
2	Wear and tear computer equipment	3 year write off	4 000
2	Furniture	10 year write off	1 000
	= Total wear and tear deduction		5 000
3	Water, rates, refuse and electricity		6 000
3	Rental claim		30 000
	= Total deductions claimed		**41 000**

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NOTES		
1	Company reimburses Elizabeth for these costs as they are not allowable per the Income Tax Act	
2	Annual depreciation computer = 12 000/3 = 4 000	
2	Annual depreciation furniture = 10 000/10 = 1 000	
3	Size of Elizabeth's house	200 square metres
	Size of her home office	25 square metres
	Claim is (25/200)	12,5% of allowable costs
	Annual municipal charge	48 000 4 000 monthly
	Claim is 48 000 x 12.5%	6 000
	Rental claim = annual rental x 12.5%	30 000 240 000 x 12.5%

These tax deductions effectively compensate you for your costs of equipping a home office. Both employers and employees benefit.

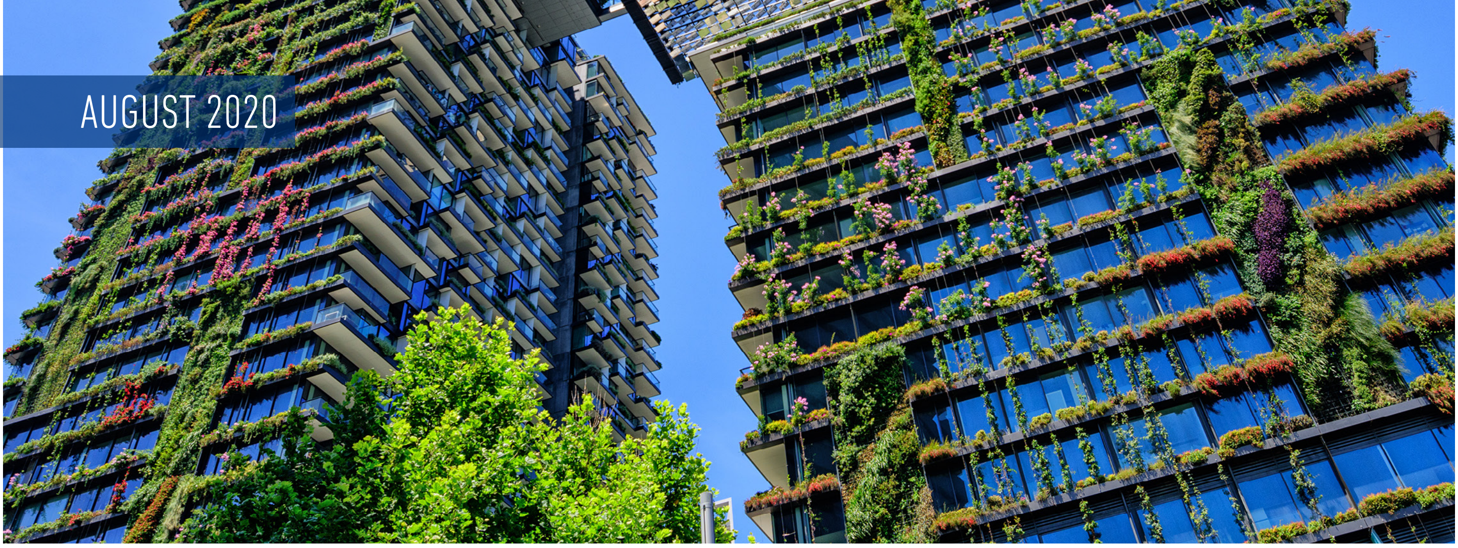
As an employee, make sure you get a letter from your employer to confirm that you are working from home, retain invoices and statements of these expenses, and keep a running spreadsheet of days worked at home for the tax year.

As an employer speak to your accountant when setting this up. SARS's requirements are stringent and you don't want your staff to be denied the deduction.

BEWARE THE CGT IMPACT!

Claiming for a home office as above may well have an adverse impact on the amount of Capital Gains Tax you have to pay when you eventually sell your home. This can become a complicated issue and calculation so it is essential to get professional advice on this aspect!

Authored by CA(SA)



STANDARDISING **EXTRA-FINANCIAL** DATA

STRIKING THE 'GREEN GOLD' OF THE ECOLOGICAL TRANSITION

Investing responsibly is no longer just a communications trend, a way to clear the conscience or enhance a corporate brand. Today, the practice is undertaken out of sincere societal commitments – driven by the expectations of those you work for and with, as well as growing awareness of the very real value of sustainable, green assets.

Appetite for these 'ESG assets', so-called for their environmental, social and governance credentials, has grown exponentially in recent years and has only accelerated during the Covid-19 pandemic.

As the financial sector will have to play a central role in the ecological transition – which can only be achieved through the proliferation of sustainable assets – its businesses need to invest with a long-term view and commit to shaping a more sustainable economic model.

PRIORITISING SUSTAINABILITY

In early 2020 global asset managers, including BlackRock, reaffirmed their intentions to do just that and prioritise sustainable investments. The move was encouraged by the world's central banks, which are increasingly raising awareness of the financial instability inherent in climate and ecological risks.

A recent study* conducted by Mazars and OMFIF of 33 central banks and regulators revealed 70% of them consider climate change to be a major threat to global financial stability.

In France and the UK, major banks and insurance companies are set to undergo 'stress tests' to assess their resistance to the impact of climate change and the ecological transition (for example on fossil fuel investment.) Similar plans have been proposed in the US and Australia, among other countries.

THE NEED FOR STANDARDISATION

If we want to achieve real change and ensure companies widely embrace the ESG goals, in particular for large companies that operate across several countries, there is a need for standardisation.

Difficulties arise when defining, recognising and standardising the information because regulations differ from one country to another.

Although the standardisation of extra-financial information is business critical, organisations are being let down by a lack of consistency in ESG data and issues when accessing and using it.

Difficulties arise when defining, recognising and standardising the information because regulations differ from one country to another, while the sheer number of organisations involved in evaluation and scoring has blurred the lines on what range of data should be assessed. What's more, the data can be expensive to produce and be of poor quality and, therefore, cannot be used for comparison purposes.

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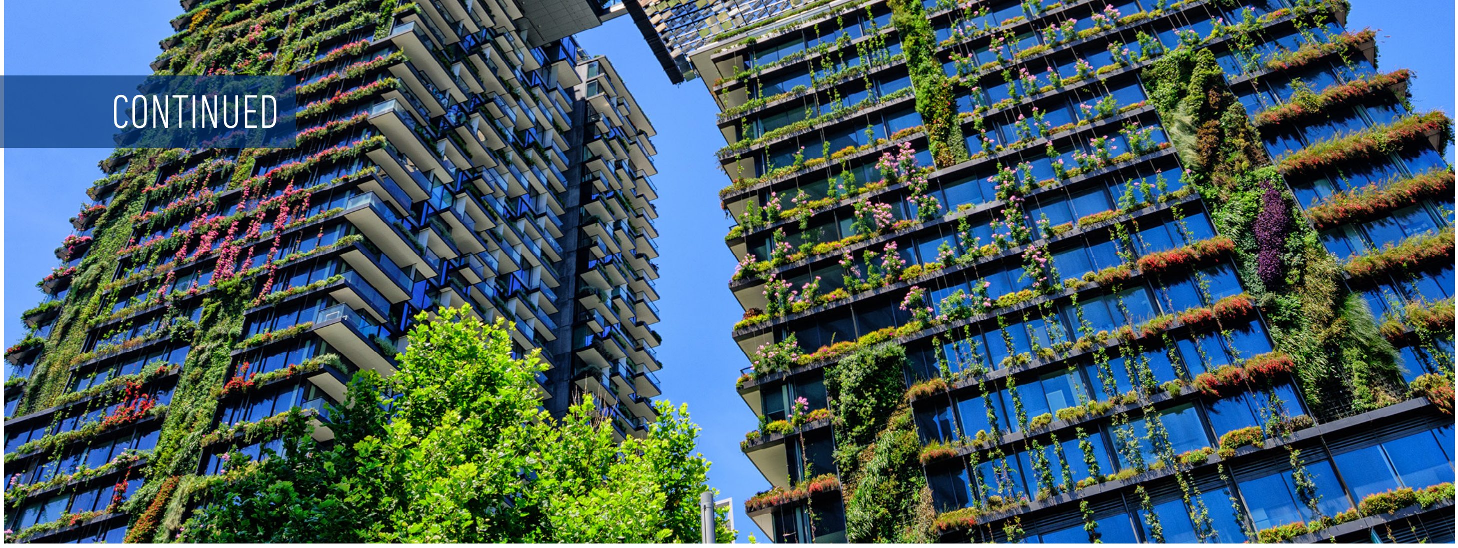

ROLE OF AUDIT FIRMS

In this fog, audit and consultancy firms should play a role: building on their core competencies to prepare businesses and support them – in particular – in the creation and use of ESG standards. To create shared reference points, and make them globally and officially recognised, we must explore three main questions:

- How should we measure the green, socially responsible performance of an organisation?
- What are the key indicators of ESG success? What does good and great look like?
- Which certifications should be implemented to guarantee sufficient contribution to the ecological transition?

The financial sector has a clear responsibility to treat these questions as a matter of urgency because the current lack of reliable, comparable data acts as a barrier to advancing climate change resolution: investors struggle to identify where and what they should support because they find it hard to assess the adequacy of the issuer's strategy to meet financial and ESG objectives.

Policy makers, regulators and supranational organisations, including the European Union, have an important part to play and need to work together to agree on the necessary reliability of the information and ensure it is of the same consistency and quality as financial data.

The standardisation of extra-financial data will constitute a great leap forward in its value to investors, businesses and others. It is, quite rightly, seen as 'green gold' waiting to be mined for the good of the ecological transition.

Hervé Helias (CEO and Chairman of the Mazars Group Executive Board)
This article is found on our InsightsForGood blog.
For more insightful articles **click here**

WHY STOP LEARNING ONCE YOU HAVE GRADUATED?

THREE QUESTIONS TO LAURENT CHOAIN, CHIEF PEOPLE, EDUCATION & CULTURE, MAZARS GROUP

Laurent, Mazars University was recently re-accredited CLIP, the leading independent accreditation system for corporate universities – what does this represent for Mazars?

EFMD is recognised globally as the accreditation body for management institutions, namely business schools, with EQUIS, and corporate universities, with CLIP. Clearly, receiving validation from peers who count among the most prominent players in the field of management education is a great accomplishment. But ultimately, this accreditation serves to confirm our core belief: education should be the backbone of any modern talent acquisition, management and development strategy.

Mazars, as all other Professional Service Firms, is talent intensive: we recruit young and smart people with a thirst for learning. Our key promise as an employer is employability. We know that most people do not stay with us forever and therefore, working at Mazars must above all be a qualifying experience. This is why we have chosen to focus our entire HR policy around education. The core activating principle being: "no career progression without education, and no education without career progression".

To make this a reality, we are currently in the progress of co-designing certificates and badges with our long-term partner LinkedIn – making sure our people's skills are recognised both inside and outside our firm.

Since we have long believed in the power of ecosystems, we are also developing degrees with business schools, as we know that 21st century education will happen at the crossroad of academia and the corporate world.

HOW HAS THE COVID-19 CRISIS AFFECTED YOUR PLANS AND STRATEGY?

Mazars University's fundamental mandate is to be the crucible of Mazars' continuous cultural transformation. It has, since its creation in 2008, served as the epicentre of passing on knowledge, developing new skills, fostering innovation and nurturing a strong sense of belonging. Mazars University's ultimate role is to make sure that Mazars stays relevant both today and tomorrow – a role which is all the more significant given the current context.

Covid-19 has actually accelerated existing, underlying trends: increasing attention to sustainability, the environment, society as a whole, flexibility, diversity & inclusion, innovation, technology, mobility, ethics, purpose... you name it. So, let's not waste a good crisis, as Churchill reportedly never said.

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CONTINUED

This is why at Mazars we have the ambition to turn our offices into campuses: this crisis has revealed that we do not need to come to the office every day, but we do need to come to collaborate, learn for life not only get trained for a job, innovate and cultivate a sense of organisational belonging. This global pandemic has urged us all to rethink the workplace to become more modern, inclusive and sustainable. We also want our premises to be a place where our clients can come, learn and develop solutions with us.

> Discerning clients, like the ones we serve, expect us to provide expertise on the most pressing topics.

WHAT ARE YOUR MAIN PRIORITIES IN THE COMING MONTHS?

Overall, to make Mazars – not solely Mazars University – a school of excellence, I have three big priorities on my radar:

1. Executive leadership and engagement

Mazars University will be instrumental in empowering the next generation of leaders expected to succeed the current one in the four coming years. Stewardship is one of Mazars' core values and the firm has already lived through four successful successions. Another one of my specific subjects today is executive engagement. Our partners cover a very wide field of management, which they must exercise in a modern way towards young and educated people.

2. Knowledge creation

Mazars is a brain-intensive organisation; its capability to leverage research that turns into thought leadership is real. Discerning clients, like the ones we serve, expect us to provide expertise on the most pressing topics. Mazars University has to continue to play its role in preparing and mobilising an always larger ecosystem to deliver on this promise and keep producing actionable knowledge.

3. Curation

In a world where large amounts of knowledge is readily available, channelling the right content to the right people will be a key differentiator. Developing experts in curation, namely this ability to identify and organise relevant content and share it as an articulated programme of professional development, will be one of the main focus areas of Mazars University.

In short, my mantra is: why stop learning once you have graduated? And this must be true for people at all hierarchical levels.

Laurent Choain (Chief People, Education & Culture)
This article is found on our InsightsForGood blog.
For more insightful articles **click here**

TECHNOLOGY HOLDS THE **KEY TO HOSPITALITY'S** POST COVID FUTURE

Against a background of economic uncertainty, the hospitality industry is preparing to re-invent itself with recent technological investments and stringent health and safety.

The hospitality industry is no stranger to keeping up with changing tastes and trends. Over the last decade, it has undergone massive transformation as new entrants ate into incumbents' market share while redefining people's booking habits.

However, the need to keep up with evolving customer expectations has remained constant. Now, as hospitality adapts to life post-Covid-19, businesses will need to balance economic recovery with new health and safety measures while customising offers that strengthen customer relationships.

HOW HOSPITALITY WORKED PRE-COVID-19

In recent years, the industry had heavily invested in technological innovation and adapted its service offerings. There is no doubt that the use of technology and artificial intelligence have begun to reshape hospitality as we know it. With the use of data and new hardware, hotels are now able to provide guests with a range of modern guest experiences. Among them, we find self-service solutions for check-in and smart rooms that offer more personalisation in terms of services, entertainment, and temperature and lighting controls.

However, as explained in the Mazars study **Artificial Intelligence A Game Changer in the Hospitality Industry**, there are still difference between what customers expect from personalised technology.

On one hand, if we look at geographical differences, we noticed that Chinese customers are more enthusiastic about the use of AI than their European counterparts. As an example, they favour automated check-in and check-out processes, and innovations such as robot translators.

On the other hand, and paying attention to different types of travellers, while business travellers mostly want efficiency, alternative criteria are becoming more and more important to others. If we focus on millennials, we see that the global experience and atmosphere are now major factors in their decision processes. But their expectations are even more complex: driven by environmental awareness, they are not only looking for a unique experience but the same they want to see the values and commitments they uphold in their personal lives (for instance, a low carbon footprint and no-waste approach.)

It seems that technological innovation can only go so far. Hospitality businesses will have to blend technology with human interactions if they want to please customers who are looking for ease-of-use coupled with personalised experiences.

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HOW COVID-19 CHANGED THE INDUSTRY AND HOW TECH IS HELPING

Hospitality is facing new challenges because of the recent Covid-19 pandemic. This unique event has forced us to reflect on our habits in a globalised world. Health and safety measures will go under the microscope like never before as we reconsider what traveling safely really looks like. While hygiene and health have always been important aspects of hospitality and catering, they could now be the decisive reason for winning – and losing – customers.

Therefore, we can expect new technologies facilitating health and safety to be created and applied. Self-sanitising door handles and facial recognition that aids contactless check-ins could become a 'must have' in the near future.

> If the situation requires a long-term reduction in human contact, the industry will have to rely on further technological innovations to maintain operations and enhance customers' experiences.

Indeed, while some tools were previously dismissed as fun gadgets, they may become indispensable for business continuity. For instance, we found in the above-mentioned study that virtual reality is already very popular among travellers. In the present context, the use of virtual reality could increase, especially with the aim of helping potential hotel guests in the booking phase by offering them a virtual tour of the location and verifying that social distancing rules can be applied. Similarly, robots and smart assistants could be used to handle customer requests, therefore limiting contamination risks.

Clearly, if the situation requires a long-term reduction in human contact, the industry will have to rely on further technological innovations to maintain operations and enhance customers' experiences, even when personal interactions between staff and customers are limited.

WHAT THE FUTURE OF HOSPITALITY COULD LOOK LIKE

The ongoing pandemic will force hospitality to reinvent itself again. This time, we expect that the change will be structural, as people opt for different kinds of hospitality experiences.

For instance, domestic tourism could experience a serious revival, creating opportunities for long-overlooked regions to welcome a record number of visitors. Meanwhile, popular tourist arrangements based on shared living and sleeping spaces such as holiday clubs, hostels, and cruise ships, could see their popularity fade as long as exceptional hygiene expectations remain the standard.

While a real paradigm shift is imaginable, we can be confident that the hospitality business has the ability to reinvent itself. Indeed, in the hospitality industry's recent history, we witnessed how the sector evolved through massive investments in data and technology. The upcoming challenges are numerous, but the industry – renowned for its resilience and dynamism – is ready to face its future.

Anton Lissorgues (Leader of Hospitality Practice at Mazars, France)

This article is found on our InsightsForGood blog.

For more insightful articles **click here**

YOUR **TAX DEADLINES**

- 1 September – Opening of 2020 Tax Season
- 7 September – PAYE submissions and payments
- 25 September – VAT manual submissions and payments
- 29 September – Excise Duty payments
- 30 September – VAT electronic submissions and payments
- 30 September – Provisional Tax Top-Up payments
- 30 September – Corporate Provisional Tax payments (March and September year-end entities)

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In South Africa, Mazars employs over 1 000 staff in 11 offices nationally.

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