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Contents

Mazars rebrand marks key milestones

- **Mazars rolls out rebrand in more than 90 countries and territories**
- **Rebrand supports successful expansion strategy and recognises that Mazars brings different perspective to audit, tax and advisory market**
- **Rebrand reaffirms commitment to building a fair and prosperous world**

South Africa, 21 October 2020: Mazars, the international tax, audit and advisory firm with operations in South Africa, today unveils its new global brand identity in more than 90 countries and territories, marking a key milestone in the firm's evolution. The rebrand reflects Mazars' aspiration to bring choice and a different perspective to the audit, tax and advisory market, and reaffirms its commitment to building a fair, prosperous and sustainable world.

Hervé Hélias, CEO & Chairman of Mazars Group, said: "I'm very excited to reveal our new brand identity and positioning, after two years of deep and broad consultation with our partners, employees, clients and stakeholders. It reflects who we are today and confirms our aspirations for the type of firm we want to be in the future. We are one connected team around the world, with the scale to serve large international clients and the agility to be creative and personal in our approach. In each country we operate, our teams combine cultural understanding with global perspective, offering clients of all shapes and sizes a true partnership, one that gives them confidence in their business and helps them achieve their ambitions."

Celebrating balanced growth and successful expansion

Mazars is launching the rebrand on the back of steady, balanced growth and successful expansion, which reflects its strong position in the marketplace. Last year, the international audit, tax and advisory firm recorded revenues of €1.8 billion (2018/2019 financial year), up 10.4% (excluding Forex impact of +0.2%) compared to the previous exercise. The increase in revenues in 2018/2019 was supported by a strong 9.0% organic growth.

The rebrand also recognises Mazars' evolution into an international group, now present in more than 90 countries and territories, with nearly 25,000 colleagues around the world. The Mazars North America Alliance brings an additional 16,000 professionals available to serve Mazars' international clients who operate in the USA and Canada. The firm's international expansion is reflected in the geographic spread of its revenue sources: more than a third of Mazars' fee income now comes from outside Europe. Asia-Pacific enjoyed the highest growth rate of 22.6% in 2018/2019 and this region now represents approximately 15% of Mazars total revenues.

Commenting on Mazars' growth and expansion, Hélias said: "In 75 years, our guiding principles haven't changed, but our firm has. We have doubled in size in the past ten years and the diversity of our offerings, clients and talent has flourished as we have grown. Today, we work with nearly 2,000 Public Interest Entity (PIE) clients around the world on their audit; 30% of the listed companies in France, and in China, we serve almost 140 large-listed companies. At the same time, we serve over 50,000 privately owned and family businesses, from private clients and start-ups to mature international clients."

Mazars is an international and multicultural company built on partnerships, which continues to grow and extend its reach around the world, and including in South Africa. The rebrand will help Mazars present itself more consistently across the globe, but it will always celebrate its local roots in South Africa, says to Mazars in South Africa co-CEOs, Anoop Ninan and Michelle Olckers. Mazars has been in South Africa since 2007 serving large listed, multi-national and privately owned businesses.

Ninan and Olckers are extremely proud of the new brand, and what it will represent for the company in SA: "We are a firm that is driven by our purpose to help build the economic foundations of a fair and prosperous world – through caring for our people and our clients' successes, the health of financial markets, and the integrity of our industry as a whole.

Mazars rebrand marks key milestones

Mazars in South Africa brings a genuinely different perspective to the audit and advisory market in SA, anchored by our integrated approach, personalised service and culture focused on delivering to the highest quality and ethical standards. Our new brand reflects who we are and how we work, and this is an incredibly important milestone in the evolution of our offering in South Africa."

Providing a different and balanced perspective

Collaborating with agility on a global scale, recognised for the diversity and quality of its professionals and empowering them to deliver consistent, high-quality and bespoke services that meet clients' needs, Mazars brings a genuinely different perspective to the audit, tax and advisory market, which is reflected in the new brand identity.

"Mazars University has just received CLIP accreditation for the second time running. This is the leading accreditation for corporate universities. We feel a strong responsibility towards our people and their employability. Helping them grow as experts in their fields and empowering them to lead is essential to serve our clients according to our highest standards and remain an employer of choice," Hélias said.

The firm continues to invest in audit – expertise, technology, quality control – and to actively shape the debate for enabling a healthy and sustainable audit industry. "An industry which needs technical and regulatory innovations, consistent quality standards and choice," explains Hélias. While audit represents nearly 50% of its activity, Mazars developed its range of services in accounting, tax, consulting and financial advisory, convinced that this diversity of expertise is highly relevant to businesses, whatever their size, who need to navigate complex regulatory markets and to grow in a sustainable way.

The new brand identity also reaffirms Mazars' purpose and long-standing values of integrity, responsibility and accountability. At the heart of its commitment to building a fair and prosperous world is the firm's leadership position on researching and shaping the debate about how financial services can help mitigate the effects of climate change, as well as its contribution to a collective reflection with all stakeholders to secure the quality of audit and close the expectation gap facing the entire profession.

Cécile Kossoff, Chief Brand, Marketing and Communications Officer at Mazars, who led the global rebranding initiative, comments: "We are all incredibly proud of our firm, of our journey, and of the new Mazars brand. This new identity is built on the firm's DNA, reinforcing who we are, how we work and what makes us different. It reflects our heritage and integrated approach, combining a true international reach with deep local roots; our sense of responsibility to the industry; the long-standing technical expertise and quality we offer; the focus and mutual respect we have for our clients, the unique human touch they value, the confidence and reassurance that we bring to them; and our commitment to do the right thing."

“We are all incredibly proud of our firm, of our journey, and of the new Mazars brand. This new identity is built on the firm’s DNA, reinforcing who we are, how we work and what makes us different. ”

SA needs to flatten its debt curve

South Africa's increasing reliance on debt as a means to fill government coffers is unsustainable and may tip us over the edge into a looming debt trap. This is according to the tax team at Mazars in South Africa, who were responding to Finance Minister Tito Mboweni's Medium-Term Budget Policy statement delivered on 28 October.

Heading for a fall

Tertius Troost, Tax Manager at Mazars in South Africa said: "We talk a lot about flattening the COVID-19 curve, but government must also focus on flattening the debt curve. Debt is spiralling out of control. it started at a reasonable 30% in 2010, and is now expected to breach 80% in 2020. We're heading straight for a debt trap; it's like paying off your house with a credit card."

Debt: GDP (2010 – 2020)

Bernard Sacks, Tax Partner at Mazars in South Arica, shares this sentiment. "In 2009, every Rand the government spent bought us R1.60 in GDP. Now Mboweni is saying that every Rand in government spend yields less than R1 in GDP. In other words, we're getting poorer and poorer, and more and more indebted," he said.

He went on to say that government needs to find a creative way to increase income to facilitate increased spending. "Clearly government can't spend itself out of the crisis."

Focus on growth rather than spend

Mike Teuchert, Tax Partner at Mazars in South Africa, added that government should orientate itself around growing the economy. "We need to see a mindset change from the government that it'll focus less on social spending and bailing out failing state-owned enterprises that aren't contributing to growth, and more on ways in which it can foster economic growth."

One of the ways government could achieve this is by lowering taxes, especially since government has recognised that raising taxes is not the answer to the economy's problems.

"It's good that the Minister has publicly aired the view that tax increases are not the most effective means to generate revenue and that they can be detrimental to GDP," adds David French, Tax Consulting Director at Mazars in South Africa.

Sacks said: "It sounds counter-intuitive that you'd want to reduce taxes, but the reality is that over time, this is what will stimulate the growth we so badly need."

On the bright side

It wasn't all bad news though.

Teuchert highlighted that the shortfall in tax revenue could have been worse. "The R312.8 billion gap in tax revenue could have been a lot worse. It's quite close to government's previous estimate of R300 billion, so at least there are no surprises there," he said.

Meanwhile Althea Soobyah, Tax Consulting Director at Mazars in South Africa, is encouraged that there appears to be progress on efforts to investigate the R3.5 billion in tenders that were improperly awarded during the national lockdown.

The freeze on state wages over the next three years was also positive news, but there are doubts as to how government will achieve this and what impact such a move could have on service delivery.

Sacks predicts government may be forced to reinstitute a voluntary redundancy package. "It'll be an unpopular but necessary measure," he said. "The public sector has to come to the party now. We're all in this canoe together and it's time we all play our part in paddling it to shore."

Authored by our Tax experts.

Identity Fraud

Remains risk in South Africa

Identity theft or identity fraud may seem like a far-fetched concept that is unlikely to affect you, but the reality is that it is a highly prevalent form of fraud in South Africa that occurs daily. According to the Southern Africa Fraud Prevention Services (SAFPS), the use of real identities by criminals increased by 99% between 2018 and 2019 which highlights the threat of identity fraud in our country.

What is identity theft?

Identity theft occurs when a person deliberately uses the name and personal information of an individual or juristic person to gain financial benefits or cause financial loss to the impacted party. This type of fraud, according to the SAFPS, can cause both financial and reputational loss to the impacted parties. However, the real threat of identity theft is that it can often continue for long periods of time without being detected.

Who is a target?

Whether you're a person who keeps a low profile or a company in the limelight, anyone can be a victim of identity fraud. Christo Snyman, Director at Mazars South Africa and Vice President of the International Association of Financial Crimes Investigators (IAFCI) in South Africa, says they recently investigated a case of identity fraud that affected a well-known South African financial services company. About a month ago, this company received a phone call from one of their stationery providers in Cape Town. According to the stationery company, they received a credit application from the company for a large sum, but questioned the legitimacy of the application. Upon closer inspection, the stationery company realised that the information provided by the applicant was inaccurate.

Two weeks later, the same company received another call from a different stationery supplier in Johannesburg who said they received a purchase order totalling R 105 315.00. Once again, the stationery supplier was alert and noticed discrepancies in the information provided by the applicant and immediately followed up with the company.

Had neither of these stationery providers followed up, they could have suffered great losses from the fraudulent applications. Additionally, the long-standing business relationship between this well-known company and their providers would have been tarnished.

How can you combat identity theft?

As the above example indicates, identify theft can result in damages for both the person whose identity has been compromised and service providers who unknowingly engage with fraudsters. According to the South African Banking Risk Information Centre (SABRIC), there are numerous ways in which both these parties can combat identity theft. Here are a few tips:

1. Take precautionary measures by never sharing your personal information with any unverified institution or individual.
2. Check whether your personal information has been compromised on free data breached websites like Have I been Pwned.
3. If you suspect that you have been a victim of fraud, call SAFPS immediately on 011 867 2234 and apply for a free Protective Registration listing which will notify credit providers to handle your information with care.
4. If you have been a victim of identity theft, immediately report it to the South African Police Service (SAPS) as well as your relevant credit provider.
5. If you are a supplier who allows clients to buy on credit, never assume the accuracy of a client's information and always check the validity of the information they provide.

While identify theft is looming large in South Africa, there are many organisations who actively try and minimise its effect on society. Through the above measures, you can follow the correct protocol to protect your personal information and report any suspect cases of identity theft.

For more information on this topic, feel free to contact Christo Snyman, Director at Mazars South Africa and Vice President of the International Association of Financial Crimes Investigators (IAFCI) in South Africa.

Christo Snyman
Director, Forensic Services

The hype, the profits and the unregulated

Recent headlines around cryptocurrencies have steered away from its mesmerising mystery and shed light on the inevitable risks surrounding an unregulated financial asset. From Ponzi schemes to hacking teams, cryptocurrencies made the news for all the wrong reasons over the past few months begging us to ask the question: Where is our beloved bitcoin heading?

Looking at other groundbreaking innovations for reference, there will always be two sides to the coin. On the one hand, innovations like the internet gave us access to a world of knowledge. On the other, it opened up a gateway for the dark web. Similarly, Artificial Intelligence's (AI) downfall is that it infringes on our privacy, yet it has the potential to significantly improve our lives.

Most technology isn't inherently good or bad, but both. The important thing is to identify, recognise and address its risks in order to manage its impact on society. In the case of cryptocurrencies, it's fortunately quite clear that all the major risks associated with it can be addressed through one key point of action: regulation.

Cryptocurrencies and those who provide advice on these digital assets need to be regulated by the Financial Sector Conduct Authority (FSCA) as soon as possible. The issue that we currently have in this unregulated industry is that anyone who wants to invest in cryptocurrencies, needs to do extensive and vigorous research before they are able to do so.

In April this year, the Intergovernmental Fintech Working Group released a position paper on crypto assets to provide specific recommendations for the development of a regulatory framework for crypto assets in South Africa. One of the objectives outlined in this paper was that a regulatory framework for cryptocurrencies should also ensure consumer and investor protection, which includes financial consumer education.

"Anything that links cryptocurrencies to something sinister only decreases the momentum on the mass adoption of the technology," Olivier says. "We want to ideally move into a space where cryptocurrencies are regulated so that people are able to embrace the technology for investment or practical use without being afraid of fraudsters."

He adds that once cryptocurrencies and Virtual Assets Service Providers (VASPs) are regulated, it will require businesses that operate in the industry to be audited. This in turn will add to the credibility of the industry and build the required trust. From an investment perspective, trust is everything and clients trust their asset managers to know the difference between a good investment and a scam. The first and lowest hurdle to clear when considering an investment opportunity is whether that investment is regulated.

Cryptocurrencies, like any technological advancement, comes with both highs and lows. Its potential is endless, but its current pitfalls are unavoidable. "Most businesses and individuals that operate in this industry that I have spoken to have two specific goals: regulate the environment and educate the general public," Olivier says.

Crypto

The hype, the profits and the unregulated

Tips for the trade of cryptocurrencies

While experts work on drawing up a regulatory framework for crypto assets, education on good practices by VASPs is vital. Olivier lists the following tips that every person can apply when investing in cryptocurrencies.

If you are new to cryptocurrencies, here are 10 red flags to look out for in fraudulent investments and scams:

1. White papers or investment methodologies that are extremely difficult to understand and follow.
2. Complex and vague explanations of the investment opportunities.
3. Promises of guaranteed returns which seem unrealistic.
4. A countdown clock with a deadline not to miss a once in a lifetime opportunity.
5. Phrases that link a generation of wealth to short timelines eg. "Your money should work for you."
6. Attractive pictures of luxury cars, beaches, etc.
7. Poorly built presentations asking you to not contact the company involved, but the person whom you received the presentation from.
8. Bogus testimonials on websites that create the illusion of credibility.
9. Fictitious teams or employees who cannot be found on LinkedIn.
10. Income that is not predominantly generated by the growth of your investment, but from a referral fee.

If you are familiar with cryptocurrencies and you are or planning to invest through a VASP, here are 5 tips to take note of:

1. Never give out your password.
2. Beware of phishing emails that require you to update information or log into bogus sites that looks like your VASP's site.
3. Do your homework and look for a reputable service provider with a proven track record which can be trusted such as Luno or Revix.
4. Do a Google search - as easy as that!
5. If you manage your own public and private key, follow best practice in ensuring that your private key is stored safely. Security is everything, whether you safeguard your own crypto or make use of a VASP.

Wiehann Olivier
Partner, Audit

“The issue that we currently have in this unregulated industry is that anyone who wants to invest in cryptocurrencies, needs to do extensive and vigorous research before they are able to do so.”

The perception that the integration of sustainability into corporate strategy and the operations of a business needs big budgets and large sustainability teams, remains largely debatable. This perception often excludes small businesses from the conversation around sustainability and subsequently from the benefits of doing "better" business.

Regulatory requirements and public concerns around climate change, resource use, water scarcity, labour relations and corporate governance have brought sustainability into the mainstream and high up on the agendas of large businesses and governments across the world. All the more reason why it is important for privately-owned businesses and small to medium enterprises (SMEs) to be included in this transition. This is because privately-owned businesses and SMEs drive most of the economic activity and consequently have the biggest impact (as a sector) on our sustainability.

Furthermore, and quite critically for the sector, it is shaping the behaviours of customers and consumers. According to the Global Future Consumer Study (2017), nearly one third of the population was born between 1997 and 2012 (Generation Z) and they prioritize social justice, action against climate change and let their individuality shape their purchasing behaviour. Consumption is driven by trust, personalization and alignment with personal values for this generation and the one that comes before it (1981 – 1996). Another important issue to consider is that Environmental, Social & Governance (ESG) integration is key for attracting and retaining talent. The modern professional is purpose-driven and wants to work with companies that they can be proud to be associated with. According to the Cone Communications Millennial CSR Study (2019), 64% of millennials (1981 – 1996) look at a company's corporate social responsibility before committing to work with them.

There is a lot more in it for the SME, and the SME has an advantage over the large corporate when it comes to integrating ESG in a meaningful way.

This is due to SMEs being able to make decisions sooner and faster. They are more flexible and are more responsive to their customers. This allows the small to medium-sized business to make simpler, quicker-to-implement changes that can make a significant financial difference. Changing markets and consumer behaviours are opportunities for the SME to achieve cost-efficiency, innovation and brand enhancement through the integration of ESG factors. Going digital to improve efficiencies in the delivery of products and services, switching to work-on-demand models to reduce payroll expenses while allowing workers time to pursue other interests or just spend less time in the office, find new revenue streams in the reuse and/or redesign of products and services, and so forth. This all begins with understanding where the ESG risks and opportunities lie for the SME, through an assessment of these and developing a roadmap for the business to becoming more resilient, responsible and responsive.

"The questions small businesses may want to ask themselves are:

- What are the megatrends affecting our business?
- How can we make our supply chain more resilient by choosing a more sustainable path?
- How can we reuse or redesign our products and services to ensure demand for these remains?
- How can we ensure our supply chain is sustainable?
- Is there a possibility to become more efficient by reusing material, look at alternative sources, renegotiate supplier contracts, and at the same time strengthen our brand's sustainability image?" – Ylva Hannestad, Deputy Head of Group Sustainability Finance.

A global challenge to the adoption of ESG integration as a strategy in small to medium-sized businesses is a perception that these developments (changing consumer behaviours and shifts in the regulatory environment) are threats rather than opportunities. Companies are often discouraged by what seems to be a complex exercise they may not have the knowledge nor the resources to undertake. Our ESG service line at Mazars seeks to respond to this fear of methodological complexity and make more accessible the ability to analyse the multitude of factors to be managed and reported upon to transition to a business model that integrates ESG considerations.

The stakes could not be higher. SMEs are the backbone of every market economy and without the proportionate action, may find themselves having trouble operating in a changing world and unable to compete. Asset allocation strategies are changing and that may raise financial challenges for SMEs looking for investment. Competitors may exploit opportunities with lower operating costs due to more efficient business models that may trade them out of business. Finally, if we want to create a sustainable economy, SMEs must be a large part of the agenda. A thriving SME sector is the engine for growth and that growth needs to be sustainable.

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A time for board introspection

As shareholder and public scrutiny transcends to the point of being invasive, Boards are increasingly being paralysed by indecision and risk aversion. If 2020 has taught the world anything, it is that agility in the face of adversity will determine our future. Similarly, the Board of Directors no longer have a choice but to be agile in order for businesses to move beyond mere survival.

The answer to Board efficacy is simple – introspection. Unfiltered, unabated and honest introspection. Investors, regulators and other stakeholders are seeking greater board effectiveness and accountability and are increasingly interested in board evaluation processes and results.

Well-performing Boards share a key characteristic, and that is that the Board's tone of leadership inspires and requires active, candid, and relevant participation from all members, as well as healthy debate and independent, yet collaborative decision-making. Where the Board culture and dynamic is healthy, Board members should see Board assessments as important and beneficial guidance in becoming more effective. The Mazars approach to Board introspection focuses beyond compliance to fit-for-purpose governance, and involves delving deeper into some of the following areas:

Board Composition – How often do Boards introspectively look at how they are composite? Does your Board have the appropriate number and balance in skills, expertise and knowledge to carry out their fiduciary duties? Boards should regularly review their composition or risk being inefficient or missing out on fresh and new perspectives.

Board Meetings – Board to constantly review if Board meetings are effectively facilitated, discussions are robust, and if Boards are having the right discussions without encroaching on management responsibilities.

Stakeholder Inclusivity - Are Boards ensuring a stakeholder inclusive approach in decision making, are Boards aware of all key stakeholders and their expectations and are Boards providing stakeholders the necessary information to make informed decisions.

Ethical Leadership – In South Africa we have seen how unethical behaviour damages not only an organization's health but also public perception. As the ultimate guardians of the organization`s financial, human, and reputational capital, corporate Boards need to set their bar higher, and replace reactive approaches to misbehaviour with a proactive approach to succeeding with integrity.

Sustainability – Sustainability is now central to an organizations continued ability to operate. As such Boards are required to review measures around financial matters, environmental foot prints and social initiatives.

Board Relationship with Management – The relations between the Board and management is critical to an organisation's long-term success. To be effective, Boards and management, in particular the CEO, have to work as a team. As such it is in the best interest of the organization that there is constant review on information provided by the executive, lines of communication and reporting structures to promote a one team approach.

While Board assessments can be uncomfortable to perform and receive, it has become apparent to Mazars that conducting a Board Assessment promotes Good Governance within the organisation. We have witnessed this transformation first hand at some of our clients, and have developed a forward thinking Board assessment methodology encompassing a host of material topics, in addition to the ones outlined, in line with best practice developments.

If you would like to learn more about how Mazars can assist you, please feel free to contact :Ishan Bhowani Director – Public Sector & Governance Ishan.Bhowani@mazars.co.za

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Digital transformation

21st century risk and opportunity

Digitisation is here to stay, so organisations should consider treating it as a long-term investment. In the near future, it may be difficult to imagine a company not involved, in some way, in digitisation.

While Uber, Amazon and Netflix grab headlines for their growth in the platform economy, traditional companies are also digitising. UPS uses smart routing devices to trim millions of miles on their delivery routes. Caterpillar now equips its tractors and diggers with internet-enabled sensors that provide data to customers and itself for smarter maintenance and performance. Insead.edu

This publication is aimed to provide an appreciation of the world-wide status of digitisation, opportunities as well as risks to consider as organisations navigate this all important journey.

Digital transformation is the application of digital technologies to fundamentally impact all aspects of business and society. It is keeping up with new technologies such as Internet of Things (IOT), Artificial Intelligence (AI), Machine Learning, Robotic Process Automation (RPA), and 3D printing to utilise them in improving your business.

Key Elements leading Digital to Transformation

Digital Transformation, it's all about achieving the balance in roles that technology and people play in an organisation empowering employees and redesigning the organisation so that humans have more fulfilling work, rather than designing people out of a job completely.

Organisations can do better only if they transform and drive change across the organisation, change the way they work as an organization, and be far better than before. The benefit of digital transformation can enhance organisations, to offer more services and to expand globally.

Digital business transformation is not just about technology, it's about speed, efficiency, data, and knowing faster. To compete more effectively in the digital environment, companies are determining how to innovate digitally from three perspectives: culture, talent, and technology.

Worldwide companies adopting digitisation strategies

- **McDonalds** – One of the most recognised brands in the world as a result of high customer service levels. They have made large strides in applying transformation. The company used digital innovation across alternative ordering channels (PC, tablet, mobile phone) to increase revenue. Customers can now order online by logging onto the application. In the background, geo location technology is used to identify and so detect close vicinity stores and identify the closest pickup point.
- **UberEats** –Fast food is getting faster. Through utilising data, and geo location UberEats is transforming business by driving company sales through delivery options as well as providing customer with food within minutes.
- **Pitney Bowes** – Almost 100 years ago, Arthur Pitney invented the postage meter, introducing the concept of metered mail to the world and smoothing the path of commerce for the foreseeable future. Since building the Pitney Bowes Commerce Cloud, the company has become one of the largest software companies in the world, with customers relying on it for everything from location intelligence to global e-commerce and customer information management solutions.
- **Locally**, companies have also successfully adopted digitisation strategies to improve stakeholder experience and improving its bottom line performance. An example of this is the banking sector which is shaping the future of digital banking starting with Augmented Reality and Banking TV. Banks are imposing on its customers by incorporating information on their smartphone thereby delivering an enhanced version of the real world. Banks also partner with retail outlets and by doing so utilise augmented reality technology to help customers find nearby retail partners.

Figure 1 outlines the growth in digitisation between 2019 and 2020. It is quite evident that on a comparative basis, there is a steady trend of growth based on organisations evolvement of digitisation strategies. Notably:

- Most major players keep growing – Facebook, Netflix, Twitter, Instagram, Google, YouTube and WhatsApp.
- Some platforms disappeared from this data analysis – LinkedIn and Vine.
- New platforms made it – imgur and Tik Tok.
- Instagram has been skyrocketing in a year; evolving and almost doubling scrollers from 2019 to 2020 on the platform

This is what happens in an internet minute

2019	
Netflix	694 444 hours watched
Google	3.8 million search queries
Facebook	1 million logging in
Messaging	18.1 million texts sent
YouTube	4.5 million videos viewed
App stores	390 030 apps downloaded
Instagram	347 222 scolling instagrams
Twitter	87 500 people tweeting
Tinder	1.4 million swipes
Email	188 million emails sent
Twitch	1 million views
Music	41 streaming subscriptions
Speakers	180 smart speakers shipped
Giphy	4.8 million gif served
Whats app	41.6 milion messages sent
Snapchat	2.1 million snaps created
Shopping	$996 956 spent online

2020	
Netflix	764 000 hours watched
Google	4.1 million search queries
Facebook	1.3 million logging in
Messaging	19 million texts sent
YouTube	4.7 million videos viewed
App stores	400 000 apps downloaded
Instagram	694 444 scolling instagrams
Twitter	194 444 people tweeting
Tinder	1.6 million swipes
Email	190 million emails sent
Twitch	1.2 million views
Tik Tok	1 400 downloads
Speakers	305 smart speakers shipped
Imgur	2.5 million images viewed
Whats app	59 milion messages sent
Snapchat	2.5 million snaps created
Shopping	$1.1 million spent online

Fig 1: Internet Minute usage globally

Digital Transformation
21st century risk and opportunity

Similarly, the new "Digital in 2020 Global Overview report" from "We Are Social and Hootsuite" (Figure 2) reveals that more than half of the world's population now uses the internet.
The digital world experienced spectacular growth in 2020, with the pace of change accelerating across almost all key indicators versus 2015.

The headline numbers are:

- 4.54 billion global internet users in 2020, equalling 59% penetration;
- 3.80 billion global social media users in 2020, equalling 49% penetration, and
- 5.19 billion global mobile users in 2020, equalling 67% penetration.

Digital around the World in 2020

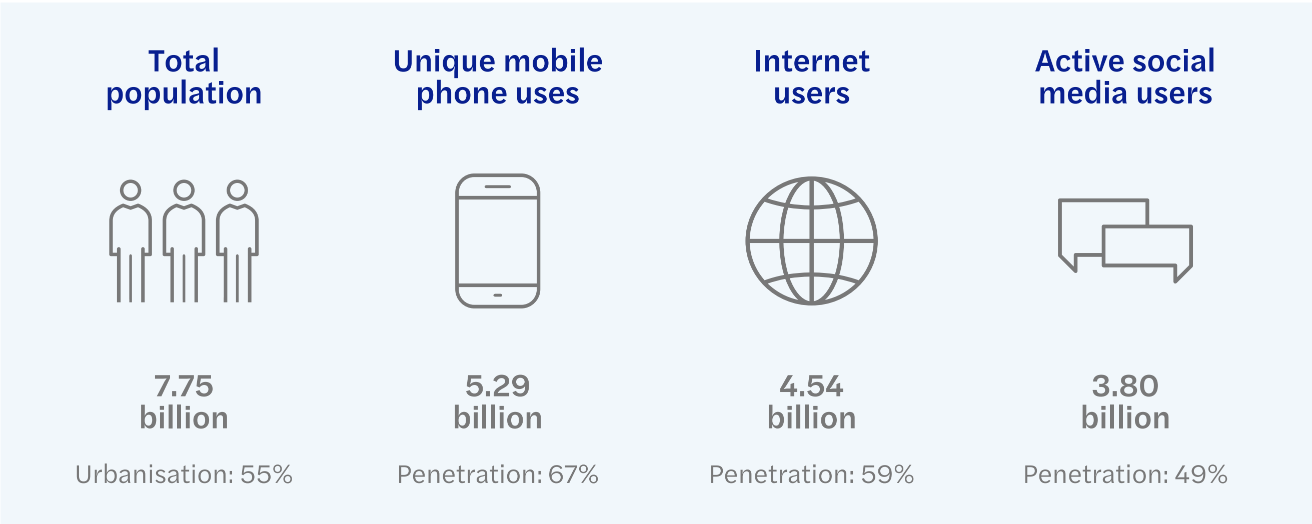

Fig 2: Global Digital Snapshot

From the statistics above, it is quite evident that digitisation is here to stay. According to King IV, "The Governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process". Whilst organisations embark on their digitisation strategies and capitalise on the opportunities, consideration should be given around key risks in this space which has a huge reputation risk if not clearly managed:

1. Digital revolution has led to increase of electronic commerce and mobile commerce. This development has also resulted in increase in the Internet fraud (Rubin 2006). Without proper skills and knowledge of how to effectively use the Internet, consumers face risks of identifying potential theft and using online tools for phishing their private information. Given the nature of online transactions, it is easier for fraudsters to disguise themselves and mislead unsuspecting consumers into sending them their finances. By association organisations could well become recipients of this fraud.

2. Information sharing and privacy has become a general concern in digital revolution. The ability of the digital platform to store large volumes of information presents a possibility for unauthorised tracking of individual activities and interests. Without careful application of digital technology, there is a possibility that people can collect substantial personal information that can lead to creating an individual's profile. This information can be used for fraudulent purposes such as selling them to marketing agencies without the user's knowledge. Regulatory requirements such as General Data Protection Regulation (GDPR) in Europe and Protection of Personal Information Act (POPIA) in South Africa, should be well understood where digitisation requires keeping customer details.

3. Digital revolution also led to the emergence of copyright infringement and trademark issues. The ability of consumers to illegally reproduce and distribute original works which are protected has dramatically changed the intellectual property phenomena. Copyright infringement is critical especially in the film, music and television industries (Rubin 2006). With regard to this, individuals that struggle to produce their intellectual innovations are not well compensated for their efforts. Unscrupulous individuals, instead, take the full benefits of this hard work by reproducing and redistributing these materials without legal permission.

"The benefit of digital transformation can enhance organisations, to offer more services and to expand globally."

Zakariyya Mehtar
Senior Manager IT Audit,
IT Assurance & Advisory Services

Reference and Credit

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Mazars welcome
first group of YES programme data scientists

For eight young aspiring individuals, the 1st of September will always be remembered as the start of their exciting journey to become trained data scientists.

Through the vision of our Co-CEO Anoop Ninan, the Mazars Data School, situated in Mazars Gauteng welcomed its first group of YES candidates, sourced through the successful YES programme. Under the guidance of Bilal Vallee (Director: IT Technology and Consulting) much work was done in the months preceding the opening, as curriculums had to developed, integration plans worked on; and with the assistance of Sandica Balrishrie (Manager: B-BBEE Services) and Human Resources, the creation of approved learnerships.

The students have a varied set of qualifications ranging from Mathematical Sciences degrees, to degrees and certificates in Information Technology.

During the months of September and October, the students were put through an intense training programme in conjunction with training Partners Sambe Consulting, Datasecure and Mazars internal training and development teams.

Training was provided on utilising the data analytics tools within Excel and the foundation levels in learning how to become certified Microsoft SQL analysts.

Further training in the form of Advanced Microsoft SQL, Power Bi and software development courses are planned strategically over the next 10 months.

The vision for the students at the conclusion of their one-year programme is to deploy these students into firstly internal Mazars divisions, thereby injecting direct data analytics skills and resultant efficiencies into each division.

In addition, students will be seconded to different offices in the country, where this is possible. This will expand Mazars offering of data analytics and ensure each office has their own dedicated resource.

We would like to take this opportunity to wish our students all the best in their programme.

Dinesh Gurlal
Senior Manager, Technology and Consulting, IT Audit division

First intake of students

Mazars Gauteng welcomed the following students from diverse backgrounds as the first intake of students:

1. Mbali Marule
2. Ignatious Phaka
3. Reneilwe Sefora
4. Paul Moraka
5. Kagiso Emely
6. Keven Molaba
7. Unathi Tolugu
8. Ntanganedzeni Munyai

Covid-19

Operating lease rent concessions given by lessors

The ongoing COVID-19 pandemic has significantly reshaped the world we live in and how we account for certain transactions. One such affected transaction includes how lessees and lessors account for their leases under IFRS 16 Leases ('IFRS 16'). The pandemic has caused much financial hardship on lessees in making their lease payments, and as a result lessors have looked to providing specific COVID-19 rent concessions to ease the economic impact of the pandemic.

Covid-19

Operating lease rent concessions given by lessors

The International Accounting Standards Board ('IASB') has amended IFRS 16 relating to how lessees account for rent concessions as a result of COVID-19. These amendments provide lessees with a practical expedient that allows a lessee an accounting policy choice for rent concessions. The lessee may choose to account for these as either a once-off reduction in rent by accounting for it as a variable lease expense through profit or loss or as a lease modification. These amendments are applicable immediately due to the ongoing pandemic.

It is important to note, however, that these amendments are not applicable to lessors who provide their lessees with COVID-19 rent concessions.

So what does IFRS 16 say about how a lessor should account for COVID-19 rent concessions?

Lessors must continue to account for COVID-19 rent concessions by applying the specific lease modification guidance in IFRS 16 (i.e. paragraphs 79-80 and 87). The lessor must determine if the rent concession meets the definition of a lease modification. The definition of a lease modification applies equally to lessees and lessors, except that for lessors, rent concessions accounting treatment will depend on the classification of the lease.

What is a lease modification?

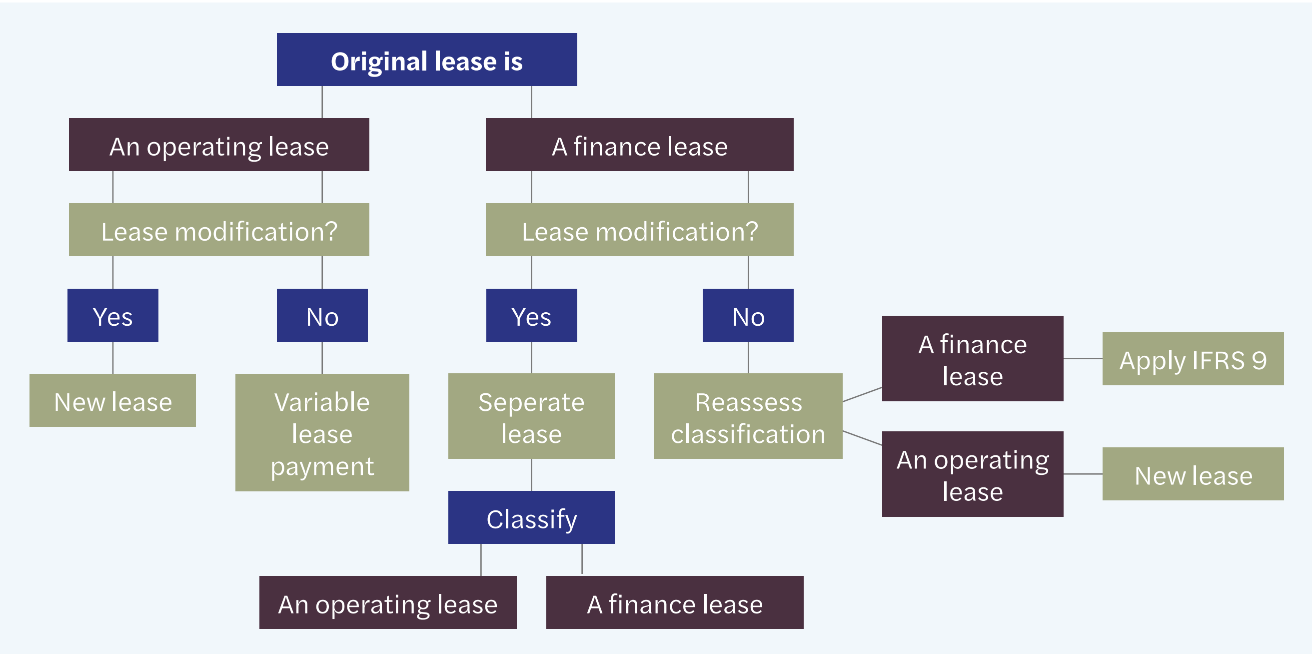
Changes to the scope of a lease or to the lease term and/or lease consideration of the original contract terms are lease modifications. Examples of lease modifications can include increasing or decreasing the scope of a lease (i.e. adding or removing the right to use one or more underlying assets, shortening or increasing the contractual term or by increasing or decreasing lease payments.)

The diagram below ummarises the accounting treatment relating to a rent concession for an operating lease or finance lease: accrued lease payments relating to the original lease as part of the lease payment for the new lease). The lessor recognises lease income on a systematic basis that represents the pattern in which the underlying asset is used.

Where a lessor modifies a finance lease, the lessor will need to reassess the lease classification. A modification that increases the scope and consideration of the lease by an amount that is commensurate with the stand-alone price is accounted for as a separate lease.

For finance leases that are modified that do not result in a separate lease, the lessor will assess whether the classification of the lease would have

Lessor lease modifications



been different if the modified terms had been effective at inception date. If the lessor determines the modified lease would have been classified as an operating lease at inception date, then the lessor accounts for the lease as a new lease from the effective date of the modification.

If the modified lease would have remained a finance lease at inception of the lease, the lessor then applies IFRS 9 Financial Instruments ('IFRS 9') and adjusts its measurement of the lease receivable to reflect any reduction in future contractual lease payments that arise from giving its lessee a COVID-19 rent concession, recognising a modification gain or loss.

What does a lessor do if the concessions on an operating lease do not meet the definition of a lease modification?

If a change that is part of the original terms of the lease does not meet the definition of a lease modification, the lessor will generally account for such a change as a variable lease payment, i.e. the lessor recognises a reduced operating lease income during the concession period only.

What are significant changes to lease payments that would lead to a lease modification?

Lease deferrals deferred by a lessor for a period of time (say three months) that are recovered from the lessee at a later stage, are essentially 'catch-up' or deferred lease payments. In such cases, the lease consideration is unchanged as such a lease payment deferral has not changed the scope or the consideration significantly, such a deferral just affords the lessee cash flow relief. Such deferrals are not considered to be lease modifications.

Further to this, if the lessor includes the time value of money in a subsequent period to recover the deferred lease payments, such time value of money is not considered to be significant enough to warrant a change in lease consideration and would not be considered a lease modification as opposed to a more significant change in lease payments like a forgiveness of lease payments would be considered a lease modification.

Operating lease rent concessions given by lessors

How does a lessor assess the definition of a lease modification?

The lessor will assess whether the rent concession meets the definition of a lease modification as discussed above. The below are some examples relating to COVID-19 operating lease rent concession scenarios that could be seen in practice:

Lessor COVID-19 rent concessions	Suggested IFRS 16 treatment
1. Lessor provides a rent concession that decreases the lettable area and lease payments*. *The original lease terms did not include the reductions.	▪ This is considered to be a lease modification due to the change in scope and lease payments. ▪ Lessor accounts for this modification as a new lease* from the effective date of the modification for the remaining term of the lease (lessor must take into account any accrued lease payments relating to the original lease). *Applicable to operating and finance leases.
2. The lessee informs the lessor that it is unable to pay the full lease payment for the next month. The lessee is still liable for the lease payment*, no rent concession is made. This operating lease income is not expected to be fully collected due to the financial trouble of the lessee. *The original lease terms did not change.	▪ This is not considered to be a lease modification as the original lease term and scope of the lease has not changed. ▪ The Lessor will continue to recognise its operating lease income on a straight-line basis. ▪ For the lease receivable, the lessor should recognise the full operating lease income and recognise an impairment in terms of IFRS 9 on the lease receivable; or ▪ The lessor can recognise the operating lease income to the extent of what is collectable, i.e. the part payment of the lease.
3. Lessor provides a rent concession that forgives the operating lessee's future lease payments for three months. *Assume that this rent concession did not change the classification of the lease.	▪ The rent concession results in a decrease in lease payments which was not part of the original lease terms, therefore this is considered to be a lease modification. ▪ Lessor accounts for this modification as a new lease from the effective date of the modification for the remaining term of the lease. ▪ The straight-lining will be recognised using the new lease payments over the new/remaining lease term.
4. The lessor has provided a rent concession* by waiving part of the lease receivable in an operating lease for a month after the lessee only paid a portion of its lease payment. The lessor raised an IFRS 9 impairment loss on the lease receivable prior to the rent concession. *Assume that this rent concession did not change the classification of the lease.	▪ The past lease receivable is derecognised under IFRS 9 ▪ The lessor will continue to recognise lease income over the new lease term. ▪ The impaired lease receivable does not impact the lease modification.

What does South African Law and IFRS 16 have to do with one another?

The COVID-19 pandemic around the world has also brought about some legislative changes. Governments and certain jurisdictions have introduced laws that require lessors to provide lessees with certain rent concessions to assist with the economic impact of the pandemic. As a result of such legislation, the applicability of the definition of a lease modification needs to be more closely considered and assessed.

In South Africa, in the absence of a force majeure clause in a lease agreement, common law takes precedence. Under South African common law, a lessee may be entitled to request a rent concession (or 'remission of rent') due to loss of use of the leased asset as a result of unforeseen circumstances not in the control of the lessee.

This was quite true during the beginning of our hard lockdown where many businesses were forced to cease trading and shut down for a period of time. IFRS 16 unfortunately does not provide guidance around such legal modifications, so therefore there will be diversity in practice in considering whether a legal requirement to provide a rent concession is a lease modification or not. Preparers could either interpret a legal requirement to provide a rent concession as a change to the original terms of a lease agreement or that such legal requirement bounds the lessee and lessor to the agreement in the jurisdiction the lease agreement was entered into and any changes in legislation would not be considered a lease modification.

What else should lessors consider when providing operating lease COVID-19 rent concessions?

Lessors should assess whether the underlying asset, operating lease income and related lease receivables are measured appropriately.

IAS 36 Impairment of Assets should be applied to property, plant and equipment, a right-of-use asset that is not investment property and investment property measured at cost. For investment property measured at fair value, the lessor must ensure that the fair value of the investment property reflects the fair value in an active market. The lessor must consider whether operating lease income and their lease receivable is correctly recognised and in line with the enforceable terms of the lease, which involves assessment of whether the rent concession meets the definition of a lease modification.
The lessor must apply IFRS 9 to operating lease receivables and monitor their recoverability in terms of this standard accordingly. IFRS 16 does not require any specific disclosure in respect of lease modifications as a result of COVID-19 rent concessions. It is, however, advisable for the lessor disclose information (i.e. information that impacts the financial position, financial performance and cash flows) that will assist users of the lessors financial statements to assess and understand the effect of the COVID-19 rent concessions.

Final thoughts

The COVID-19 pandemic is proving to be a trying time for IFRS preparers. There is a lot to consider in a many areas of IFRS with one of them on leases. Lease modifications in terms of IFRS 16 are not easy and can become complex to apply. Judgement will also need to be applied in determining whether a rent concession meets the definition of a lease modification or not. Lessors will have to relook at the terms of the lease and the agreed terms of the rent concession with the lessee and consider all the facts and circumstances for each lease before determining the accounting impact.

Karolina Martin
Senior Manager, IFRS

The five most common tax pitfalls
that small business owners should avoid

At a time of deep economic recession, small businesses must manage their accounting and tax functions efficiently and smoothly to avoid any unnecessary costs like SARS penalties. Making elementary mistakes with a small company's tax affairs can have disastrous and costly effects for a firm's ability to survive these harsh times. In this article, we have identified five tax hazards that many small businesses, especially newly established ones, overlook. This situation is because the owners of these companies often do not have tax expertise, or they are unwilling to use a professional to ensure that their tax affairs are shipshape. Avoid these common tax pitfalls when managing your company's affairs...

There are five common tax pitfalls that owners of small businesses should look out for and avoid.

These hazards include three value added tax (VAT) issues, one provisional tax matter, and the fifth item deals with the tax implications for owners of small businesses when they draw money from their company.

Failing to avoid these pitfalls can cost small businesses dearly in terms of time, stress, and money, including fines. The cost of sorting out these hazards can even destroy small businesses.

1. Failure to register for VAT

The first issue is that many owners of small businesses fail to realise that the VAT Act requires that they register for VAT. This requirement becomes necessary once a business has made taxable supplies exceeding R1 million during twelve consecutive months.

Once a small business reaches this threshold, then they need to charge their clients VAT for the goods or services sold. "When small businesses manage their tax affairs, they often neglect to do this because they are not aware of this requirement," Jean du Toit, head of tax technical for Tax Consulting South Africa.

If it comes to light that a company failed to register for VAT, then SARS could impose penalties, including understatement charges and late payment fines and interest. These penalties will be back dated to when a small company should have been accounting for VAT.

Small businesses can register for VAT with SARS by applying online, and the process is reasonably straightforward and quick but ask for professional help in any doubt.

For micro businesses, it may not initially be viable to register for VAT, as they may be mainly dealing with suppliers and clients of a similar size.

However, the larger a business grows, the more it would lose out on the opportunity to deduct input VAT that they pay over to VAT vendors that supply them with goods and services and so miss out on lower costs. Input VAT is the tax that a VAT vendor can claim back as a deduction from SARS. The output VAT is the tax that a VAT vendor levies on the supply of goods and services and then pays over this tax to SARS.

The advantage of registering for VAT is that it gives a company greater access to business opportunities, including tenders and contract, which usually require a company to have a VAT number. The only way to rectify the lack of the required VAT registration was to apply for SARS' Voluntary Disclosure Programme (VDP), Du Toit said. Such a VDP application could see SARS waive any penalties, but it would require the company to pay over the VAT due and interest on late payment of this tax. Ask your accountant to help with any VDP application.

A business can voluntarily register for VAT if over twelve months its income exceeded R50,000. Tertius Troost, a Mazars senior tax consultant, said it might benefit a small business to register voluntarily for VAT if they have many suppliers. But companies must know that there was a cost that went with complying with the VAT Act, he added.

2. Failure to obtain valid tax invoices

The second pitfall relating to VAT was that small business owners often fail to secure valid tax invoices for their VAT input claims, Troost said. Input VAT should have a neutral impact on a company, but if SARS disallows specific claims, then the input VAT becomes a cost, and that will reduce a company's profitability.

When a small company claimed input VAT from SARS, it was required to keep records, including specific invoices from their suppliers. "If a company's administration is not up to scratch, they might not have these documents, or these documents may not meet SARS' requirements as prescribed in the VAT Act.

At that point, SARS won't allow you to claim back your input VAT," Du Toit added.

Ettiene Retief, FTR Tax and Corporate Administration partner, said that SARS usually focussed on the invoices a company received from its suppliers when reviewing VAT input claims.

The VAT Act specifies that the following details should appear on an invoice for any amount greater than R5000:

a. The word "tax invoice" or "VAT invoice" or "invoice",

b. The name, address, and VAT registration number of the supplier,

c. The name, address and, where the recipient is a registered vendor, the VAT registration number of the recipient,

d. The unique number of the invoice, and

e. An accurate description of the goods or services supplied, and the volume or quantity of goods or services provided.

For invoices of less than R5000, only the supplier's information needs to be included on the invoice and not the recipient's details. Here the supplier need not specify the quantity of goods or services supplied.

3. Trying to claim input VAT for the wrong items

The third issue regarding VAT is that small companies often try to claim input VAT on entertainment, petrol, and rental of motor vehicles. But the VAT Act makes it clear that companies cannot claim these expenses for VAT purposes.

If a company bought milk, coffee, and sugar to offer to its clients when they visited, the company could not claim VAT on these items because SARS viewed these as entertainment costs, Retief said. "When I'm in my boardroom, I'm selling my time and the coffee is not part of what I'm selling," he added. "However, if I own a coffee shop, then I can claim VAT on the coffee beans that I buy," he added.

If SARS finds that a person or company claimed goods ineligible for VAT purposes, it will reject these claims. In addition, if SARS finds that a person or company has overstated their input VAT, then that means understatement penalties and interest would apply.

4. Misunderstanding about income received in advance

The fourth common issue was that small businesses often forgot that income received in advance was taxable, Du Toit said.

A common area where companies required deposits was for major construction contracts, he added. An advance payment like this was immediately taxable in the hands of the recipient of that money. Retief said that an exception to this rule was when a company was paid a deposit as security.

This knowledge is vital for small businesses when they need to make their provisional tax submissions. SARS requires taxpayers to make these submissions twice a year in February and August.

Small companies had to include income received in advance in their provisional tax disclosure to SARS or face penalties.

5. Implications of drawing money from the business

The fifth prevalent tax issue of which small businesses are often unaware is the tax implications of drawing money from their company through interest-free loans or withdrawals that SARS would deem to be dividends or remuneration. This situation arises with small companies which have a sole director or owner, and he or she makes loans from the company to themselves.

Another problem is that small companies rarely establish a formal loan agreement between the company and the director.

If a company director takes a loan from the company without charging interest, then SARS would view that interest as a dividend in specie paid by the company to the director and the company would have to pay dividends tax on that amount.

Another way that directors of small companies try to avoid paying tax on their remuneration is to have their company issue them with a loan, instead of being paid a salary. "The company should classify the loan as a salary. What often happens is that the director never pays back the loan, or they pay it back slowly over many years to avoid paying income tax," Du Toit said. "If SARS does a full audit of a company's books and they see that in substance that loan is not a real loan but a salary, then the agency can reclassify that item, and there will be tax consequences such as penalties and interest," he added.

Troost said that usually, the most tax-efficient way for a director or owner of a small company to withdraw money from their company was to receive a salary rather than to withdraw money as a dividend or to receive an interest-free loan.

Retief said that owners of small businesses often make withdrawals from their business by paying for personal items. But the problem was that the owner and the company are separate legal entities.

Directors of small companies often used this means of withdrawing money from the business to avoid paying tax, he added. "With small businesses, the temptation is not to show a big salary because of the tax is payable on that money," Retief said.

At the end of the financial year, the company puts payments for personal items through the director's loan accounts. But it is often difficult to untangle all the transactions and split the personal items from the company transactions, Retief said.

Keep this list of common pitfalls in mind and ask your accountant for advice on your specific circumstances in any doubt.

Your tax deadlines for November 2020

- 6 November: Monthly PAYE submissions and payments
- 16 November: D-date for taxpayers filing online
- 25 November: VAT manual submissions and payments
- 27 November: Excise Duty payments
- 30 November: VAT electronic submissions and payments
- 30 November: Company Provisional Tax Payments where applicable

Information courtesy of CA(SA).

"Making elementary mistakes with a small company's tax affairs can have disastrous and costly effects for a firm's ability to survive these harsh times."

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