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ABU DHABI ACCOUNTABILITY AUTHORITY

ADAA IFRS digest

IFRS news, updates from ADAA, IASB and the Accounting Profession

October 2017

WHAT'S NEW THIS MONTH

ADAA's hot topics

The law of unintended consequences. IASB issues Practice Statement 2: Making Materiality Judgements.

PWC IFRS news. IFRIC, IFRS 16, IFRS 9 and IFRS 15.

Pay attention to the words, not just numbers. Know how to explain it not just calculate it. IFRS 9 changes IFRS 7.

KPMG IFRS Institute publishes 2017 Accounting Change Survey results.

EY IFRS. All EY's IFRS publications on a page.

And on the back page ***A flash in the pan*** an insight from ADAA's Hasina Al Adawi

WHAT'S NEW FROM IFAC AND THE IASB

The IASB is located in Cannon Street, London

The law of unintended consequences. IASB issues Practice Statement 2 Rarer than hen's teeth. Seven years since the first, the second arrives. So why not a standard? Well when something gets into the too difficult box and the IASB has completed a lot of work, a practice statement is an easier out. It's not mandatory to comply with in order to comply with IFRS. So ignore it then. That is one option, but this one has a point.

Practice statement 1 'Management Commentary' said the numbers don't tell the whole story, so management please do. Please provide your version of what the numbers say. Now in 2017 the IASB says: The numbers are too cluttered, too much detail, too much boiler plate, too much disclosure. Financial reports are too long and too difficult to read. And we agree.

IAS 1.7 tells us the purpose of financial statements is to meet requirements of users who are not in a position to require an entity to prepare reports tailored to meet their particular information needs. It also says (1.17) in virtually all circumstance, an entity achieves a fair presentation by compliance with applicable IFRS. So like the middle lane motorist sitting safely at 100kph audit firms have published checklists and illustrative accounts for IFRS reporters to safely follow. Tick the box on those and all will be okay. Yes, but no more! You are free. The practice statement says: *"An entity may not provide a disclosure specified by an IFRS standard if the information resulting from that disclosure is not material."* This is the case even if the standard contains a list of specified disclosure requirements, or describes them as minimum requirements. But there is a sting – *"the entity must consider whether to provide information not specified by IFRS if that information is necessary to understand the impact of particular transactions other events and conditions on the entity's income, balance sheet and cash."* More here.

WHAT'S NEW FROM THE ACCOUNTING PROFESSION

And finally please turn the page for ADAA's monthly accounting insight…

PWC IFRS news. IFRIC, IFRS 16, IFRS 9 and IFRS 15.

- When IFRIC decides a standard is clear enough, an Agenda Decision is published. It is educational material and not part of existing standards and not mandatory. Nonetheless enforcers in many jurisdictions expect entities to apply accounting policies in line with the Agenda Decisions. (Why would you not? Ed). Hence the IASB has started a project to amend IAS 8 so that what were previously measurement decisions (estimates) become policy decisions. For example; measuring inventory at FIFO or weighted average cost.
- IFRS 16 – how to get started.
- IFRS 9 – Hedge accounting deferral option.
- IFRS 15 – When to capitalize contract costs and the practical expedient. More here.

KPMG IFRS Institute publishes 2017 Accounting Change Survey results.

- IFRS 15 poses greater implementation challenges than anticipated. Sixty percent are running behind time due to competing priorities and resource constraints.
- Fewer companies are to implement system changes before IFRS 15 is effective. Not surprising given running behind time!
- Sixty percent are surprised at the challenges implementing the leasing standard – identifying embedded leases, selecting and implementing an effective leasing system.
- Forty percent report costs are over budget. More here.

Pay attention to the words, not just numbers. Illustrative disclosures under IFRS 7 as amended by IFRS 9. Enhance your understanding with Deloitte's illustrative International Bank GAAP financial statements here.

EY IFRS. All EY's IFRS publications on one page.

- What new Standards are in play at 30th September 2017?
- Consolidation and joint arrangements. Want to know more?

And IFRS 9, 15, 16. More here.

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A flash in the pan – an insight from ADAA's Hasina Al Adawi

An odd title you might think for an article on ethics. What does a frying pan have to do with ethics? Nothing, as it happens.

'A flash in the pan' is a phrase first coined in a review of Reflections a 17th century play written by the first English poet laureate John Dryden. The context was "If Cannons were so well bred in his Metaphor as only to flash in the Pan, I dare lay an even wager that Dryden durst venture to Sea."

The phrase was adapted in the 18th century to refer to a person that showed great initial promise but failed subsequently to deliver.

To flash in the pan means the cannons cannot be effective. To show great promise and not deliver in the 21st century is not what we want our accountants to be.

Fortunately, when we find something that is not right, help is at hand from the International Ethics Standards Board for Accountants (IESBA).

Non-Compliance with Laws and Regulations (**NOCLAR**). Is an act of omission or commission, intentional or not, contrary to prevailing law or regulations.

The IESBA published a standard in 2016, dealing with NOCLARs arising during an engagement or employment.

For a matter to be deemed a NOCLAR it has to have either:

1. A direct impact on the decision of material amounts and disclosures in the financial statements of the client's or employee's company. And/or
2. The NOCLAR is a fundamental matter to the company's operations and its ability to continue as a business, or to avoid any material penalties.

The standard applies to all professional accountants. Responsibility to resolve or deter NOCLAR rests with management or if the NOCLAR involves management, those charged with governance.

Instances not considered NOCLARs, include:

- Clearly inconsequential matters.
- Personal misconduct unrelated to the client or employer's business activities.
- Non-compliance by persons other than the professional accountant's client or employer.

If legal or regulatory provisions in a jurisdiction address NOCLAR then the professional accountant complies with those jurisdictions provisions even if they are different from the IESBA's standard.

When aware of a NOCLAR the professional accountant must act. Not doing so is an abdication of professional ethical responsibilities and a disciplinary matter for the member's Accounting Institute.

The IESBA's NOCLAR framework is designed for:

- Auditors in public practice
- Professionals in public practice who are not Auditors
- Individuals with senior roles in a business
- Individuals not in senior role in the business.

The responsibilities of the professional accountant differ for audit and non-audit engagements.

NOCLAR framework for Audit services

- Determine if either of the two features of NOCLAR apply.
- Document your understanding of the regulations and applicability to the matter, the persons involved, timing and nature.
- Discuss with the legal counsel at your firm and follow up with the reporter of the NOCLAR to confirm understanding of the matter and the relevant facts.
- Discuss the matter with management at the company to advise them to take appropriate measures to address and resolve the NOCLAR.
- In situations where management is involved the matter is reported to those charged with governance.

The auditor must evaluate management's actions and if management has taken no action and the matter passes the public interest test the auditor reports the matter to a third party authority or regulator.

NOCLAR framework for Non Audit services

Similar to above except when the non-audit professional client lacks specific protocols to deal with NOCLAR. Then the NOCLAR is reported to the auditor.

Differences between IESBA & American Institute of Certified Public Accountant (AICPA)

- IESBA permits disclosure to third parties when necessary. AICPA prohibits such actions without prior client consent.
- The AICPA does not tailor the standard for different professionals in the public interest.
- The IESBA standard allows the current auditor to inform the successor of any NOCLAR. AICPA does not unless prior approval by client.
- IESBA encourages non-audit service professionals to document the NOCLAR matters. The AICPA requires it.

Concluding thoughts

Professor Steven Mintz states *"it's one thing to know something is wrong; it's another thing to act on it."*

Regardless of the jurisdiction any professional follows, all individuals should aim to do the right thing, by either reporting or resolving matters of non-compliance.

The framework and standards are there to guide the professional accountant but it is every professional's ethical responsibility to take action when facing NOCLAR and other matters

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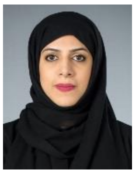
ADAA EDITORIAL TEAM


Sara Al Sajwani


Hasina Al Adawi


Hanan Al Harati


Amna Huwail


Ebrahim Al Shaikhali


Dawood Al Hammadi


Mahmoud Shahin


Ahmed Al Mazrouei


Richard Wright


Steven Ralls
Head of Accounting and Auditing Standards
AASD@adaa.abudhabi.ae

Property of:

Abu Dhabi Accountability Authority Hamdan Street, Falcon Tower, Abu Dhabi, P.O. Box: 435 -
Phone: +971 2 639 2200 Fax: +971 2 633 4122
www.adaa.abudhabi.ae