



ADAA digest

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

July 2018

WHAT'S NEW THIS MONTH

ADAA's
hot topics

Blockchain technology. It is a blockbuster!

IFRS 9, 15, and 16 impact interim financial statements. Are you prepared?

What is expected of the board of directors? A reminder to the independents and those charged with governance.

IPSASB disagree with the IASB. Proposal for a single right-of-use model.

COSO releases a supplement to ERM. Guidance to those in need.

Evaluation of misstatements. What is expected from the auditor

And on the back page **The fourth of the COSO five – Information and Communication**, an insight from ADAA's Hasina Al Adawi.

WHAT'S NEW FROM IFAC AND THE IASB

The IASB
is located
in Cannon
Street,
London

Blockchain technology. Seismic changes to accounting don't happen often. Colossus invented in 1941 enabled cryptanalysts to decipher intercepted radio teleprinter messages that had been encrypted using an unknown device. Blockchain uses that same technology, combines it with peer to peer sharing and the result is seismic. The technology is mostly known for its use in cryptocurrencies, such as Bitcoin. However, it is being increasingly experimented with in the world of finance. Blockchain serves as a platform for digital agreements, tokens if you like, representing real world assets, or currency, or property. Blockchain automates transactions and controls via self-executing smart contracts. Consider the possibility of a manufacturing plant where robots receive sales orders from the retailer's computer when a customer

removes a product from a shelf, replacement product is manufactured and dispatched, and settlement is via Blockchain. And the process repeats, and repeats. This is not Star Wars technology, it is here and now and the possibilities are incredible. Read more [here](#).

IPSASB disagree with the IASB. IFRS 16 replaces IAS 17. Normally IPSASB reviews a new standard from the IASB, concludes it is very sensible, and issues an update to IPSAS accordingly. This time they didn't. IPSASB is concerned at retaining lessor accounting from IAS 17. The problem arises when lessor and lessee are part of the same economic entity but separate records need to be maintained for the underlying asset and lease receivable. Both end up with an asset. Therefore, the IPSASB is considering applying the right-of-use model for lessors. Makes a bit more sense doesn't it. Details [here](#)

WHAT'S NEW FROM THE ACCOUNTING PROFESSION

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

IFRS 9, 15, and 16 impact on interim financial statements. Government of Abu Dhabi financial law number 1 of 2017, requires entities to prepare a half yearly financial statements. IAS 34 requires the application of new standards during the year, if they apply to the year-end reporting. IAS 34 requires a description of the nature and effect of the change, as well as the following disclosures:

- (1) The new accounting policy adopted, that would not have been included in the preceding annual financial statements,
- (2) Transitional methods deployed to apply the new accounting policies,
- (3) Key judgments and estimates applied,
- (4) Quantitative effects on the financials, and
- (5) Standard specific disclosures:
 - For IFRS 15, significant impairment of contracts assets should be disclosed, as well as a disaggregation of revenues,
 - For changes resulting from IFRS 9: changes in fair value measurement of financial assets and liabilities should be disclosed. Click [here](#)

What is expected of the board of directors? Following ADAA's decree on internal control, ADAA hosted training with guest speakers from GT USA on internal control and financial reports.

The control environment is the foundation for success of an internal control framework. Tone from the top. The setting of behaviours and attitudes and activities for what is expected of the Board, management and employees is vital when aiming for an effective framework. The board, management, and employees should understand the role of the board, what different stakeholders expect from them, and how vital the board's engagement with stakeholders is, in order to have an effective internal control framework. Look into [Grant Thornton's 2018 International Business Report](#)

COSO releases a supplement to ERM. The compendium, authored by PwC under direction of COSO, offers examples across a variety of industries with real-world advice about how to put an Enterprise risk management framework to use. [More here](#)

Evaluation of misstatements. The auditor has a duty to apply professional skepticism throughout the audit. Sometimes even, it is heightened! What does this mean? It means obtaining evidence that supports and considering evidence that does not. It also means recording the evidence effectively. "If it is not documented then it's not done" how else to prove the point? The majority of historic frauds stemmed from management collusion and poor quality audit evidence. An [article](#) published by ACCA discusses the auditor's responsibility through the International standard of Auditing 450 to evaluate misstatements.



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The fourth of the COSO five - Information and Communication an insight from ADAA's Hasina Al Adawi

In [ADAA IFRS Digest September 2017](#) we highlighted the importance of internal controls in the context of an audit of historic financial statements. Published in the Official Gazette 15th August 2017 is Decree number 1 of 2017. The decree requires Subject Entities to obtain from the Statutory Auditor (as part of the audit service) a separate report, on the effectiveness of the Subject Entities system of internal control.

Although the decree is framework neutral, COSO is one framework that might be applied and is the one in ISA 315 is based on.

In our previous publications we highlight the first three out of five components, in this we go through the fourth component "*Information and communication*." It is stating the obvious that without appropriate information, communicated timely and effectively, it is impossible to have an effective system of internal control system.

The five components of Internal Control:

- Control Environment
- Risk Assessment
- Control Activities
- **Information and Communication**
- Monitoring Activities

Component Four – Information and communication

The information and communication component explores internal and external uses of information. It considers the relevance, timeliness and accuracy of the information transmitted by the information systems to support the functioning of its internal control. Communication is a process necessary to obtain and share the information throughout the organization in an efficient manner. There are three principles (of seventeen COSO principles) for this component:

13) The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.

An organization needs to have an effective information system in place that captures, combines and stores all data that aims to support the efficiency of operations, management and decision-making in line with the organizational objectives.

Auditors are required by ISA 315.18 to "*obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas....*"

In addition, ISA 315.19 states, "*The auditor shall obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting....*"

This is an overwhelming principle for both organizations and auditors. It involves:

- obtaining and processing relevant information and maintaining quality throughout the process to reach appropriate conclusions in the preparation of financial statements.

- People who understand the objectives, risks and controls of the information flows necessary for accounting transaction.

14) The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.

Stakeholders communicate their vision and strategic objectives to management; management have a responsibility to ensure the oversight of these objectives being carried out at the operational level through policies and procedures.

Internal control is a way to accomplish objectives leading to success of the organization.

Organizations should assess whether there are any gaps in the communication process which could lead to risks not being detected and weaknesses in internal controls not found.

The compliance question has to be addressed too. Does the Board communicate in a downward mechanism that gets its relevant instructions to the compliance function? Does the compliance function communicate upwards what they are finding appropriately with the Board?

15) The organization communicates with external parties regarding matters affecting the functioning of internal control.

Technology outlines and controls the parameters of these external relationships and helps ensure information gets to people who will assess and take appropriate actions, if needed.

In an era where sophisticated technology is in place the possibility of unintentional or perhaps intentional information leakage is at its peak, which results in a need for internal controls to ensure that only appropriate and accurate information is shared externally.

Information can cause great damage if not managed or reported accurately, take the Volkswagen car manufacturer [scandal](#) that cheated on emissions testing as an example. This was an obvious example of poor communication of risks, but may also highlight serious problems with tone at the top according to US prosecutors in a recent indictment. What could they have differently that might not have cost USD 7.3 billion to fix?

Final thoughts

Information and communication has significant implications for all the other components in the framework.

If the quality of information and effectiveness of communication are not good enough wrong and incomplete transactions could be processed (or not). Decision making based on wrong information leads to disaster.

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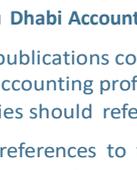
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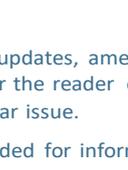
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