

# Newsletter

**ACCOUNTING & AUDITING**

THE LATEST NEWS, VIEWS, AND ANNOUNCEMENTS | Quarter 4, 2020

## NEWS

This is the first quarterly newsletter from Premier Brains Accounting & Auditing. It highlights the recent developments in the world of Auditing and Accounting.

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## How the pandemic has changed the way of working?

All the organizations have adapted due to pandemic. These changes are permanent. Here are few of the changes because of COVID-19:

### 1. Going Paperless

It has been a dream of many companies to go paperless, but it could not be achieved for most of them. To combat the impact of pandemic, all of us were forced to invest in technology, cloud approach and making virtual collaborations as our standard processes.

### 2. Digital Relationships

Video conference became the norm of working life and it replaced in-person meetings.

People who used to believe that building a rapport based on trust, ethics and code of conduct is not possible other than physical meetings had to learn new things. Digital platforms like Zoom and Microsoft Teams helped people organize meetings while still at home.

### 3. Transformation Of Work

Everyone had a change in basic assumptions. Most of us could not visit office and it fast tracked their digital transformation. Some organizations even used drones to see the physical stocks. Some companies have adopted Work From Home as a normal standard for future.



## IFRS 17 – Insurance contracts summary

The IASB published a new standard, IFRS 17 'Insurance Contracts' on Thursday 18 May 2017.

### Key objectives of IASB in introducing this standard

Creating one single IFRS accounting model for all types of insurance contracts.

- Increasing transparency by adopting the new accounting model and
- Align insurance accounting with the general IFRS accounting of other industries.

Insurance companies have been waiting for a long time to have a single global accounting standard that fits their unique and complex industry.

### Applicability

IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2023 and it replaces IFRS 4.

### Key features

- It applies to insurance contracts, including reinsurance contracts, it issues; Reinsurance contracts it holds; and Investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts (unless falls under IFRS 15)
- IFRS 17 reflects the IASB Board's view that an insurance contract combines features of both a financial instrument and a service contract. In addition, many insurance contracts generate cash flows with substantial variability over a long period. To provide useful information about these features, the Board developed an approach that:
- Combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract;
- presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and
- requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognise all insurance finance income or expenses for the reporting period in profit or loss or to recognise some of that income or expenses in other comprehensive income.

## Definition of Material – Amendments to IAS 1 and IAS 8

In October 2018, the International Accounting Standards Board (IASB or the Board) issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (the amendments) to align the definition of 'material' across the standards and to clarify certain aspects of the definition.

### Effective date

The amendments are effective for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

### Changes and reasoning behind the changes

The changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised

definition of 'material' quoted as below:

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

### The 3 new important aspects of the new definition are:

- Obscuring. The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be

omitted can have a similar effect. Although the term obscuring is new in the definition, it was already part of IAS 1 (IAS 1.30A)

- Could reasonably be expected to influence. The existing definition referred to 'could influence' for which the Board felt it might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote.
- Primary users. The existing definition referred only to 'users' which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose.

## ISAE 3402 assurance engagements

### Implementing and maintaining

Some companies have been outsourcing few processing for years to Service providers. The companies and its auditors need a degree of assurance that the service organization has a well-established internal control framework that is operating effectively. The reports on controls over processing at such service providers that impacts the financial statements of the companies is produced using International Standards on Assurance Engagements (ISAE) 3402 (issued by the International Auditing and Assurance Standards Board).

An ISAE 3402 engagement is

an examination (like an audit) of a description produced by the service organisation of the system(s) they operate on the behalf of insurance companies which are relevant to the internal control processes of TPAs.

Under the ISAE 3402 standard the service providers have primary responsibilities of:

1. Preparing and presenting a complete a correct description of the 'system' (i.e., the internal control framework)
2. Specifying the control objectives
3. Identifying the risks that threaten the achievement of the control objectives
4. Designing, implementing and

maintain controls to provide reasonable assurance that the control objectives will be achieved

5. Provide a written assertion to accompany the description as to the completeness and accuracy of the information provided and state the criteria used as a basis for making the assertion.

The auditors of service organizations shall determine if mentioned controls exist, are designed, and operated effectively (only type II) during a certain period. The auditor of the Companies can then rely on the service auditor opinion, when auditing the user organization financial statements.



## Amendment To IFRS Standard On Leases

Many Governments have recently offered certain reliefs to businesses. The tenants are negotiating with property owners for rent holidays and rent reductions.

In May 2020, the IASB issued amendment to IFRS Standard on leases to help lessees accounting for covid-19-related rent concessions. The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to covid-19-related rent concessions that reduce lease payments due on or before 30 June 2021.



The amendment will help entities dealing with similar reliefs and concessions in their financial reporting activities. **There are certain questions which needs to be considered:**

- Did the rent concession occur as a direct consequence of the COVID-19 pandemic?
- Does the change in lease payments result in revised consideration for the lease that is the same as, or less than, the consideration for the lease immediately preceding the change?
- Does the reduction in

lease payments affect only payments originally due on or before 30 June 2021?

- Is there no substantive change to other terms and conditions of the lease?
- Does the lessee choose to apply the practical expedient to all rent concession relating to leases with similar characteristics and in similar circumstances?

If answer to above said questions is yes than the Lessee does not

account for the change in lease payments as a lease modification. Rather, lessee accounts for the change in lease payments as if it were not a lease modification, and accounts (mostly) for as a variable lease payment. If accounted for as a variable lease payment, the concession is accounted for in statement of profit or loss in the period in which the event or condition that triggers those payments occurs.

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