

ACCOUNTING & AUDITING Newsletter

THE LATEST NEWS, VIEWS, AND ANNOUNCEMENTS | Quarter 1, 2021



NEWS

This is the second newsletter in the world of Auditing and Accounting by Premier Brains Accounting & Auditing.

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Back to work

Flexible work arrangements and work from home may be one of the pandemic-driven changes that will endure for accountants and auditors for years to come. Many organisations have realized their employees can be just as productive working remotely. Many employees already have their preferences set on working from home at least part of the time for the near future.

Organisations are supporting their people by offering more flexible hours and staffing up. But navigating business needs amid employees' personal needs during an ongoing pandemic has proved to be challenging. Due to different time schedules of young children at home and the work from home culture, the time schedules are different. In this article, we have discussed few of the common challenges faced by most of the audit firms.

Need a strategy that encompasses governmental guidelines

When you return to work in-office, it's not just a matter of unlocking the doors and letting everyone back in. It's crucial to consider to safeguarding the health of your employees, visitors, clients and vendors. The DHA has published guidelines and recommendations for employers planning to reopen their offices and businesses. Make sure to check these organizations' websites regularly for up-to-date guidance. Also address the emotional state of your team members. Being unsure what to expect when they go back to the office while also being worried about their health can be overwhelming.

Be clear about the specific steps the company is taking to promote worker health and safety and that these things are top priorities for the business. Consider a message from leadership welcoming people

back on the first day of reopening. But don't stop there: Transparent, continuous communication is essential.

A hybrid workforce necessitates new ways of managing teams

There are few tips to manage a hybrid team which works remotely and on sight:

- Help everyone stay connected. During video calls, update off-site staff on key takeaways from meetings held at the office that could impact their projects. Another idea could be to continue with all-virtual team meetings. Also, keep a pulse on whether technology is helping or hindering your workers. Ask them which tools – and which features of those solutions – are helping them communicate and collaborate most effectively.
- Don't stop remote nonwork conversations. Encourage in-office and remote staff to interact with each other as people, not just teammates. Throughout the pandemic, many organizations and their workers have used communication tools like Zoom and Team to share stories, play games, have informal chats and engage in fun team-building exercises. Consider embracing or expanding this practice to enhance the human connection between all your team members.
- Be vigilant for signs of disconnection. Don't overlook the fact that some remote workers may start to feel left out if they're not physically returning to the office. Out of sight shouldn't mean out of mind. Look for red flags signaling that remote

workers are struggling, such as missed deadlines, lack of communication or decreased interest in assignments.

Be flexible with employees

The exact timeline and process for employees returning to the office varies by company. Perhaps the best gift you can give your staff in the months ahead is to make it clear you don't expect them to return to work on-site until they're ready. That should help boost their morale – as well as their loyalty. The COVID-19 pandemic has been a time like no other, and its effect on workers will be lasting. So even as things continue to improve, don't stop expressing your appreciation for everything your team is doing to stay productive and contribute to the company's bottom line. After all, it's our dedicated team who will ultimately get us success.



IFRS 16 Leases updates

Recently, many lessors have granted rent concessions to their lessees. Both lessors and lessee are facing challenges in accounting for these concessions. IASB has responded to clarify these issues. We have summarised here, the potential effect on the carrying value of Right of Use Assets under IFRS 16 and impairment considerations.

IFRS 16 Leases – IASB's response to Covid-19-related rent concessions

Rent concessions may be rent deferrals or rent holidays.

What are the challenges in accounting for rent deferrals or rent holidays?

It's difficult to determine whether the rent concessions are lease modifications or not.

If there is a modification of lease then the lease liability has to be revised, with a corresponding adjustment to right of use asset.

A revised Incremental borrowing rate needs to be calculated. This creates operational challenges for many lessees. Moreover, if the incremental borrowing rate has reduced, then the lease liability can increase. This will have a corresponding increase in ROU and may lead to impairment issues.

Lessees in retail, hospitality and leisure sectors are mostly impacted as they have a high number of lessees.

What is the latest update from IASB?

The IASB issued Covid-19-Related Rent Concessions as an amendment to IFRS 16. According to this amendment, lessees may elect not to assess whether certain Covid-19-related rent concessions are lease modifications. The lessees are permitted to account for these rent concessions as if they were not lease modifications.

There are certain criteria for rent concessions. These criteria should be met in order to be subject to this practical expedient.

No changes to lessor accounting. ►

What are the criteria to qualify for above modification?

The rent concession should be a direct consequence of Covid-19 related

The revised consideration should be substantially the same as, or less than, the consideration, immediately preceding the change.

Any reduction in lease payments affects only payments originally due on or before 30 June 2022; and There is no substantive change to other terms and conditions of the lease.

What is the effective date?

Lessees shall apply the amendment for annual reporting periods beginning on or after 1 June 2020 (available for interim reports as well), with earlier application permitted (including in financial statements not yet authorized for issue at 28 May 2020).

What is the transition impact?

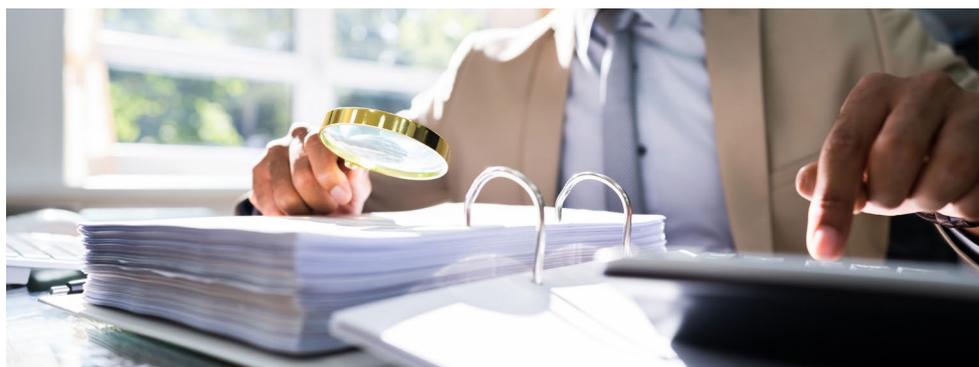
The amendment is to be applied retrospectively, with the cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained earnings (or other component of equity) at the beginning of the annual reporting period in which the amendment is first applied.

What are the disclosure requirements:

Its required to disclose that the practical expedient has been applied to all rent concessions meeting the criteria or, if not applied to all, information about the contracts to which it has been applied; and

The amount recognised in income statement to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient.

In the reporting period in which a lessee first applies the amendment, it is not required to disclose the quantitative information required by aragraph 28(f) of IAS 8.



What is Internal Control over Financial Reporting (ICFR)?

ICFR refers to the controls specifically designed to address risks related to financial reporting. In simple terms, a company's ICFR consists of the controls that are designed to provide reasonable assurance that the company's financial statements are reliable and prepared in accordance with IFRS.

Effective ICFR provides reasonable assurance that corporate records are not purposefully misstated in response to pressures for reporting high revenues, earnings or other targets. ICFR should therefore be designed and implemented with the risk of fraud in mind and tailored to the particular circumstances of the company. Controls can, however, be designed and implemented to address the process by which accounting judgments are made and thereby provide reasonable assurance that the financial reports are presented in accordance with applicable GAAP. A company's ICFR includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the company are being made only in accordance with authorisation of management and directors of the company; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

1. Components of ICFR

Control environment

It refers to the standards, processes, and structures and values within the organization. Controls designed to generate reliable financial reporting are more likely to succeed if the company's culture—including the "tone-at-the-top" established by senior management—reflects the importance of integrity and ethical values and a commitment to reliable financial reporting. ►

Risk Assessment

Risk assessment with reference to ICFR refers to the process adopted by the company to identify the Risk of Material Misstatements (RoMM) in financial statements. This component calls for a structured analysis of potential risks of misstatements, at two levels:

- » Financial statement level
- » Account balance and transaction type level

Risk assessment for ICFR needs to be conducted by persons competent to understand the financial reporting process, the disclosure requirements, the vulnerabilities to fraud, the temptations for misstatement at employee and or management levels, etc. The risk assessment needs to be done keeping in view the known stakeholders and expected readers of the financial statements

2. Control Activities

The specific actions established through policies and procedures designed to mitigate financial reporting risk—are another key component of ICFR. The following concepts are helpful to understanding control activities:

1. segregation of duties,
2. information technology (IT) controls and
3. entity-level and process-level controls

Mapping of risks with controls. It includes preparing a list of applicable controls and numbering it

- » Identifying controls that are no more required
- » Ensuring that IT controls are appropriately mapped

Information System and Communications In the context of ICFR, this component refers to multiple types of information flows and communication channels:

First, the entire flow of information from the occurrence or non-occurrence of all relevant events or transactions, its flow into the accounting system and ultimately into financial statements to ensure that the financial statements are complete, accurate and present a true and fair view.

Second, the flow of relevant information including regulatory developments to those charged with governance and/or those responsible for selection of accounting policies, finalizing accounting treatment and making financial estimates, to ensure transparency and fairness in financial reporting. Third, the communication of financial statements from the company to the owners and other stakeholders, including IA.

The presentation of financial statements free from any material misstatement necessitates that all these information and communication channels are operating effectively.

3. Monitoring of controls

This component entails the processes established by the

management to ensure that controls as designed are operating effectively and that lapses are identified and remedied in a timely manner. The monitoring activities may be carried out by introducing Control Self-Assessment (CSA), where each process owner periodically tests the process controls, or by an independent review by the internal auditors, quality auditors or management representatives, or by periodic management reviews.

Ensuring periodic review of all documented policies and processes.

Requiring all RCMs to be updated periodically to reflect the changes in the risk profile and controls.

Including, as part of internal audit scope, testing of controls depicted in the RCMs.

Responsible for ICFR

Management of the company is responsible for the design, implementation, and monitoring of ICFR. While management structures vary, in many companies, the principal financial officer (the chief financial officer or the chief accounting officer) and his or her staff have day-to-day responsibility for ICFR.

Icfr Deficiencies & Its Hierarchy

A deficiency in ICFR exists if the design or operation of a control does not allow management or employees, in the normal course of performing their assigned duties, to prevent or detect misstatements on a timely basis.

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