FOCUS

Quarterly Newsletter
Volume 95 Spring 2020

Ethics: The Need of the Hour

Ethics is concerned with what society considers to be right or wrong. It therefore relates to specific behavioral standards. Ethics plays a crucial role in everything that we do. For auditors who are commonly challenged on their ethics are governed by the professional bodies and institutions.

ACCA has insisted five fundamental ethical principles; integrity, being straight forward and honest in all professional and business relationship, professional behavior, to comply with relevant laws, respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority and regulations and avoid any action that discredits the profession.

As the world faces the coronavirus pandemic and the oil price war, the ethical test of all businesses and management would also be put to test. As global markets plunge, businesses shall face a challenging year with economists speculating a global recession in the making.

With economies and businesses struggling to ride the wave and the steps being taken by the governments to control the spread of COVID-19, this is significantly disrupting the demand for goods and services. This may push those in charge of governance to pursue desperate or unethical practices as a survival mechanism, as in times of crisis it is easy for management to make choices based upon emotions.

With restriction in travel and uncertainty of the level of impact, an auditor's ethics and professional integrity would be significantly tested on whether the opinion they provide on annual reports are true and fair in nature. There is an ongoing discussion within the accounting profession and regulators on developing alternative procedures in gathering client information and data.

Some areas of financial statements that may be impacted are:

1. Going concern
2. Change in fair value of assets
3. Realisation of receivables & loans
4. Impairment of inventory valuation
5. Risk & uncertainty disclosures

More so, regulators may expect the auditors to be explicit and sceptical in their assessment of 'going concern' and in the annual reports of their clients. For this reason, multiple partners' firm may have different reliance on the basis of their behavior pattern dealing on the matters of trust and ethics. As the number of human interactions in businesses would be limited, it follows that auditors will be faced with conflicts of interest and ethical dilemmas that they have to address.

However, as to what extent an auditor is independent and ethical needs to be judged from their behavior. This is of utmost importance as integrity and ethics will establish the level of trust and degree of reliance any user may place on an auditor.

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Public Clarification on the conditions for input tax recovery in the UAE

The Federal Tax Authority (FTA) has issued Public Clarification VATP017 on the timeframe for input tax recovery in the UAE.

The Public Clarification may have a significant impact for businesses to determine the tax period when input tax is recoverable. It also discusses the corrections mechanisms if input tax is not recovered in the correct tax period.

Input tax recovery conditions

One of the core principles of the VAT system in the UAE is that a taxable business is able to recover input tax on expenses in their VAT return.

The input tax recovery conditions in the UAE are as follows:

1 The expenses are used for activities of the taxable person that give the right to recover input tax.

2 A taxable person must have received a tax invoice from its supplier.

3 The taxable person pays the consideration or intends to make the payment within six months after the agreed date for the payment of the supply.

The Public Clarification is issued by the FTA about the condition that the taxable person must have the "intention" to make a payment of the supply within six months period.

Public Clarification VATP017

FTA clarifies that input tax is only recoverable in the first tax period when the tax payer has satisfied all conditions for recovery.

FTA states that the input tax recovery condition for the intention to make the payment within 6 months is satisfied when the intention for the payment is "formed" by the taxable person.

The intention could be formed through internal payment approvals and once the approval is completed, the intention should be considered as formed.

This means that if a tax invoice is received, but the intention for payment is not formed, the input tax is not recoverable until the intention to make payment within the prescribed period is formed by the taxable person.

FTA reiterates that the taxable person should substantiate that he formed the intention to make payment within a prescribed period. FTA does not mention how the proof for the intention of payment can be provided by businesses.

If a tax invoice is received in a tax period and the intention to make the payment has taken place in the subsequent tax period, the input tax is recoverable in the subsequent tax period when the intention for payment is formed.

Correction mechanisms

If the input tax is not claimed on time

Where the input tax is not recovered in the tax period in which all conditions are met, the taxable person can claim in the subsequent tax period. If the taxable person has not claimed input tax in the first two tax periods where the conditions are satisfied, a voluntary disclosure is required.

If the payment is not made within 6 months

If the payment is not made by the taxable person within 6 months after the prescribed period, the input tax should be reduced in the VAT return after the expiry of the six-month period.

After the payment is made to the supplier, the input tax claim can be included again in the VAT return of the taxable person.

What to do next?

We recommend VAT registrants in the UAE to review their internal payment processes to determine when the intention to make payments to suppliers is formed and how proof can be provided to the FTA. It should be concluded whether the registrant recovers input tax in the tax period in which the conditions are met.

If the internal payment process is not aligned with the input tax recovery conditions, amendments to your internal payment processes or historical VAT returns may be considered.

If you require any support reviewing your internal accounts payable policies and to determine the impact of the Public Clarification on your business, please contact us.

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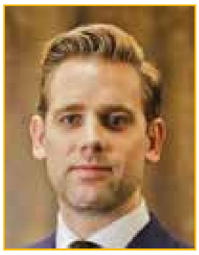

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Coronavirus Phishing Attacks

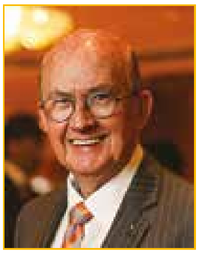
Security experts are warning of new phishing campaigns designed to capitalize on global fears of the fast-spreading coronavirus.

Last week saw the first reported UK infections of the virus, known for now as 2019-nCoV, after it spread around the world from an epicenter in Wuhan, China. Concerns persist over whether the true extent of the virus, which is said to have a mortality rate of 2%, has been downplayed by Beijing.

True to form, cyber-criminals are looking to exploit the widespread hunger for news about the outbreak by using it as a phishing lure clicking on the link in the email will lead to a covert malware download.

The sole intention of these threat actors is to play on the public's genuine fear to increase the likelihood of users clicking on an attachment or link delivered in a malicious communication, to cause infection, or for monetary gain. This is a rational choice by criminals as research has shown that over 90% of compromises occur by email.

There are a number of simple steps you can take to minimize your risk, such as using a reliable AV solution and following safe cyber-hygiene practices such as strong password usage and never enabling macros in any attachments if you do open them. I urge everyone to be vigilant at this time in relation to any emails or electronic communications purporting to be in relation to the support of those affected by the coronavirus.



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Businesses under disruption

Disruption is commonly understood to be a change in the use of technology by peer businesses which significantly changes the traditional way of doing business in the same industry. Hence technology is considered to be the driver of disruption.

Disruption in a business sector can happen not just because of technological advancements and automation; there are other driving forces which act as a catalyst and induce such disruptions. Lifestyle change, socio-economic change, change in values, change in regulations, age, economic conditions, etc. can be some of the factors which can instill model changes which can accelerate to become business disruptors. One should acknowledge that Millennials (22-37 years age) and Gen Z (under 21 years) shall be the dominant consumers of the future; the consumer tastes and preferences of these generations are remarkably different than the previous ones. Only those businesses which understand and gear up to the tastes of the new consumers will be the winners.

Most businesses are well aware that we are living in an age of disruptions though the irony is that in most cases such disruptions are perceived only after they have already occurred. It is quite likely that when management realizes that disruptions are happening in their industry, they are already in a slowdown phase where both profits and cash flows are showing discouraging trends. In view of such scenario, the management's appetite for new risk is very low. The low risk appetite coupled with the depleting resources makes it very difficult for the management to embark on the new change whether it be an adoption of a novel innovation or at times even treading into a different industry.

It is anticipated that the world will see many business disruptions in the near future. My take on some business sectors which are already facing disruptions are cited below:

Fashion watches: Wrist watches have been around for more than a century. Innumerable brands are available for the discerning buyer. Smart digital watches are a relatively new entrant. The new generation prefers accessories to be digital. It is likely that traditional wristwatch sector will face a huge challenge as choices and preferences are changing. As such, it seems, that the medium and low range traditional watches are facing an oblique future. High end brands which are more used as a status symbol would possibly do better than their counterparts. Businesses which are into manufacturing, distributing or retail of wrist watches need to introspect and realign themselves.

Gold Jewelry: Gold has been a medium of savings and investment since times immemorial. The Asian buyer, in particular, has considered gold jewelry as a primary and reliable source specifically in bad times and as a means of saving. Times are changing though – the generation which loved gold jewelry is steadily on a decline; the new generation are not much of savers. It is likely that this new generation may not choose gold as an adornment and rather prefer cheaper options which are available at the fraction of the costs. Gold jewelry manufacturers and retailers are expected to face a tough time in future.

Formal Higher education: Education is mode of learning for the reason of applying it both socially and economically. The traditional employment has been done on the basis of the degree or qualification one holds and the experience he/she has in the field. With the advent of online teaching courses the traditional colleges and universities will face a mammoth challenge. It is likely that more stress will be given by the recruiter on the knowledge of the person, hence traditional brick and mortar university degree certificates would possibly lose ground. Self-learning is the buzz word, with a little help from online courses a person can possibly find a suitable job. Employers would rather have their own test methods to assess the candidate rather than rely on the education certificates held by the person. Institutes which teach social skills might actually gain as physical interaction depletes. Traditional brick and mortar higher education institutes would possibly need to adjust their sails to get over the tide.

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Due Diligence: Deal or No Deal?

"And his negative side, in many cases, I turned a blind eye, especially when it comes to governance."

These were the words of Masayoshi Son, the man behind Softbank who lost more than $ 10 billion after turning a 'blind eye' to governance lapses at WeWork.

Investors buying into the herd mentality of the 'next big thing' or 'go big or go home' was partly the reason for this blunder. The other was the poor operational and financial due diligence. With rising cases like WeWork, due diligence becomes an inevitable process comprising of evaluating the following factors:

- Industry Analysis & outlook: Product/Service Viability
- Quality of financials and accounting process: Restatements, Adjustments, Working capital needs
- Quality of business assets: Change in Asset values, Credit facility covenants
- Financial Contingencies (if any)
- Quality of earnings: Long term business sustainability

With persistent lack of financials and historical data, it becomes tricky to evaluate a startup. Investors then turn their focus on the future prospects by evaluating the last two factors in depth. While Industry Analysis can be evaluated through secondary and primary research on the target market, Quality of earnings is more challenging to quantify. Nevertheless, it can be assessed for a startup by evaluating the answers to the following questions:

- Whether the revenues are based on one-time or repeat customers?
- Can the business concept be easily replicated? (Uber's many rivals like Lyft, Careem and Ola)
- Does the management's network significantly impact the business concept and revenue?
- Does governance of the business support the long-term vision of the company?

We live in turbulent times. In the midst of a global crisis with equity prices at all-time lows, temperatures at all year highs and a pandemic terrorizing the world, there are multiple invisible layers of increasing uncertainty that a business needs to wade through and it's important to ensure that the surfboard is of good quality before one can ride the waves.

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Tone at the Top

“It takes many good deeds to build a good reputation, and only a bad one to loose it.” - Benjamin Franklin.”

“Culture eats strategy for breakfast” - Peter Drucker

What is Tone at the Top?

Tone at the top, is used to describe an organization's general ethical climate, as established by its board of directors, audit committee, senior management and it permeates the organization from top to bottom. It also means necessary commitment directly from those charged with Governance responsibilities to being honest and ethical. Needless to add, tone at the top is not only critical for sound corporate governance but is a credible deterrent to fraud and unethical practices apart from fostering appropriate workplace behavior.

Why is tone at the top important?

Unethical tone at the top has unfortunately continued to contribute significantly to the corporate scandals leading to erosion of public trust, which has stooped to all time low. As a result, the stocks have a free fall and market capitalization gets drastically reduced apart from the exorbitant costs involved and losses incurred.

The corporate scandals have time and again brought to light various elements viz. greed, connivance, arrogance, fraud, conflict of interest, inequitable treatment. In addition, these not only expose a) the failures of those charged with governance responsibilities but also b) failures on part of the gatekeepers responsible for oversight and maintaining public trust.

Companies undertake pertinent reforms so that scandals don’t happen and the regulators step in to make changes to the corporate governance structures, foster accountability and improvements in other areas associated with the tone at the top.

Auditors are tasked with greater expectation to play an active role in contributing to improving tone at the top. We at Crowe, UAE are working with regulators and stakeholders to promote a culture of improvement. As part of our commitment in helping bridge the expectations gap, we attempt to highlight briefly the crucial matter of improving tone at the top.

Tone at the Top Improvement Areas-Brief snapshot

1. 1.The board of directors and the management team should exhibit and not just do a lip service on matters related to corporate governance, upholding ethics, quality and effective compliance
2. The Board, CEO and the other key officers viz. Chief Compliance officer should accordingly be involved in communicating, promoting, and displaying ethics and values “in action”. They should walk the talk. The behavior of top management must be visible to all concerned and set an example for rest of the organization to follow
3. There should be a code of conduct in place. The staff should be encouraged to report misconduct or any violations. Leaders should be receptive to employees' ethical concerns, value ethics and integrity over short-term business goals, and respond appropriately should they become aware of misconduct
4. Top management should offer opportunities to discuss and resolve ethical issues. Integrity should be rewarded
5. The board of directors should discuss the tone at the top related matters with the CFO independently without the presence of the Senior Management. The discussion should include key indicators around financial reporting quality. Focus on Financial reporting quality, is vital to enhancing transparency, investor confidence, financial stability and strengthening corporate governance
6. Support whole heartedly internal control environment. Tone at the top can be a key driver to fostering internal control environment. The importance of the control environment and people’s ethical behavior for internal control and the risk of fraud should be emphasized
7. Competent people should be hired across organization

Lastly but not the least, all the stakeholders should have interests in improving tone at the top.

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About Us

Your global partner

Crowe is ranked as the 8th largest accountancy network with globally more than 42,000 partners and people in over 130 countries.

We share a common purpose of building value for clients through international business. Still placing great emphasis on establishing long-term relations with each of our clients. This enables to work together in an atmosphere of openness and trust. Simply stated, it is how we live our core values – care, share, invest and grow.

The firm continually demonstrates a commitment to quality while serving clients through our international expertise and talent. Our commitment to the highest technical standards and integrity, ensures that our clients receive the most accurate and relevant advice.

We provide professional services by leveraging through extensive local experience and high level of partner involvement. Our aim to provide due diligence with care has enabled us to serve a diverse range of clients ranging from small family owned businesses to large multinational conglomerates.