Crowe

Best Wishes For Another Year of peace and property

FOCUS

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Taking stock of strategies implemented

It is imperative for each and every business enterprise to take a stock as to how far the strategies they have discussed, deliberated and decided in the beginning of the year were successfully implemented during the year. What and where are the gaps and lapses? What corrections were taken during the year?

This process is required to formulate better strategies that are more effective, implementable and acceptable for the situation the enterprise is and will be in. This would plug the shortcoming surfaced during the year with the strategies formulated in the beginning of the year.

In modern corporate culture, a formal strategy formulation process is a must. Most elements of strategy formulation process require a budget and strong planning based on reliable and accurate data as compared to the plan made in the beginning of the year.

While formulating the strategies, besides the previous year data, the following factors must be considered;

i. Public trust in the company and its business

ii. Impact of changing trend, environmental and political change and customer perception

iii. Leadership policy

iv. Technological developments and digital transformation

v. Taxation

vi. Competitors' positioning.

In formulating strategies, understanding of the followings areas needs to be developed.

Planning

Planning is the process of deciding what action should be taken in the future. Planning as we know it, grew out of the 'Gantt Chart' originally designed in 1917 to plan war production. Slowly planning became sophisticated, using statistics and analytical tools, as well as employing the advantages provided by quantification to convert experience and intuition in to process.

The plan is a framework involving different types of resources: human, financial, and material. While planning requires forecasting, one needs to ensure that the data is reliable and complete. Policies are written to clarify the do's and dont's, thereby avoiding repetitive decisions on same or similar issue.

Directing and controlling

Directing means much more than simply administrative-type duties. It includes delegating, motivating, stimulating creativity, watching for improvements in productivity, coordinating, and managing change. Still, to a significant directing is a day-to-day activity that has a great deal to do with overcoming obstacles and differences, as well as pulling efforts together into winning combinations.

Financial Planning

One of the most important elements of sound corporate governance is the system designed for financial planning and control. Vital components of such a system are long-range planning, asset management, budgeting and budgetary control, cost control, profitability analysis, and cash flow projections. Each of these major component parts can be further analyzed into its constituents.

Conclusion

Strategy should be based on company' objectives. Things to bear in mind are;

Cost leadership – Become the lowest cost competitor

Differentiation – Develop products or services that provide superior value

Focus – Target a specific industry segment, ignoring the rest

Competitive Advantage: Creating and Sustaining Superior Performance

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OECD BEPS Developments in the GCC Region

Implementation of the four minimum standards prescribed by the BEPS framework

Issue **laws** in line with the other BEPS actions.

Evaluation of corporate tax structure

The Organisation for Economic Cooperation and Developement (OECD) Base Erosion and Profit Shifting (BEPS) Action Plan is currently being implemented in most countries in the GCC region. Such implementation will not only impact on the laws and regulations of these jurisdictions but also on other aspects of financial and corporate regulations.

The OECD refers to BEPS as "tax planning strategies used by multinational enterprises that exploit gaps and mismatches in tax rules to avoid paying tax". Although the GCC countries are not OECD members, five GCC countries have joined the OECD Inclusive Framework on BEPS ("IF"). As a minimum requirement, the IF countries must implement four Actions which are Action 5 on harmful tax practices, Action 6 on prevention of tax treaty abuse, Action 13 on country-by-country reporting (CbCR) and Action 14 on mutual agreement procedure.

A Multilateral Instrument ("MLI") has been introduced as BEPS Action 15 and by implementing this Action, three of the four minimum requirements of the IF are covered. Thus, some of the GCC countries have implemented or committed to implement this Action. Despite its effectiveness for the implementing countries, Action 15 will have significant impact on almost all double tax treaties that the GCC countries signed with other countries.

Businesses utilizing the benefits of such treaties need to re-evaluate their corporate and taxation structure. To date, the UAE has ratified and implemented the MLI whilst KSA, Oman, Kuwait and Qatar have signed the MLI Convention.

To be taken off the non-cooperative jurisdictions list of the EU, Bahrain and the UAE have fully implemented the Economic Substance Regulations ("ESR"). In the UAE, the ESR also apply to offshore companies conducting Relevant Activities. The ESR are part of the realization of BEPS Action 5 which is very crucial for jurisdictions with no or a low tax regime.

Companies subject to these regulations must demonstrate that they have economic substance in these jurisdictions rather than just taking advantage of the favorable taxation regime. In addition to significant administrative penalties and the possibility of business license suspension, the spontaneous exchange of information with other tax authorities will be triggered as soon as companies do not meet the requirements or generate revenue from certain intellectual property rights.

In KSA, transfer pricing regulations were introduced in 2019 and they include the requirement of CbCR for multinational companies with annual consolidated revenue exceeding a certain threshold. Along with KSA, the UAE has also implemented CbCR regulations for which the first notification deadline was on 31 December 2019.

It is expected that all IF countries will continue implementing the four minimum requirements in 2020 and onwards. Thus, tax or finance functions in multinational companies with a presence in the region should always be updated on the national level and OECD level developments for this initiative.

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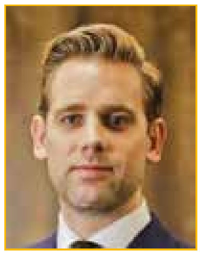

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Holiday Homes in Dubai, a regulatory debate

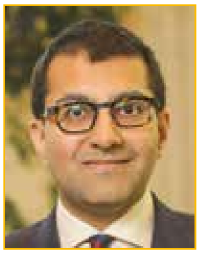
It would be unfair for our readers if I did not provide my own thoughts on the hotly debated topic of Emaar's, the developer of the world's tallest tower, memo saying "Homeowners operating their apartments and villas as holiday homes are requested to cease such activities before 19 September 2019".

This news comes as a mixed bag. To homeowners who are residents, there is hope that Emaar will "restore the community to the serene, safe and peaceful neighbourhood it is intended to be".

To homeowners, who made a buy-to-let investment, this is not news they want to hear. Especially, when recent news that the number of international overnight visitors to Dubai increased by 3 per cent in the first half of 2019, to 8.36 million - according to new figures from the emirate's Department of Tourism and Commerce Marketing (Dubai Tourism).

The pressure on buy-to-let is increasing. Figures from Dubai Tourism and consultancy firm STR showed that both the average daily rate charged by hoteliers and revenue per available room continued to fall during the first half of the year. Further pressure is expected, as the supply of new hotel rooms continues to build ahead of next year's Expo 2020 event.

Undoubtedly, there will be a short-term impact on holiday home lettings in the Downtown area. In the long term, a better regulated market will mean travellers get greater value in what is one of Dubai's premier holiday destination. As the satisfaction of travellers increase, this should drive up the demand for short-term holiday rentals and hence, better returns for investors.



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Technological Furore an Era of Entrepreneurial Re-evolution

There are millions of varying sizes business houses around the globe. Nearly all of them are in a state of flux. Such state of continuous evolution and re-evolution is not just a passing phase; it is here to stay. The model of business keeps on changing though one aspect remains a constant; Selling. Management needs to align itself constantly in this age where disruption has become a norm.

What is the management supposed to do?

The business management has no option but to adopt the change or perish. The old school of management will need to adjust it's sails to be in the direction of the wind and not against it. The following is the need of the hour.

Adopt technology and automation

All routine processes are better left to technology, not only will it be more efficient, it also saves costs. What if the technology adopted now becomes obsolete sooner rather than later? Yes, this is a risk which the management needs to address wherein ideally businesses should choose a flexible and scalable automation platform. What about investments in technology? Yes, there will be investments required; such can be done on a piece meal basis or on a gradual basis.

Relearning

Resources both humans and machines require learning on a continuous basis. They have to accept that keeping themselves abreast on the market scene and adopting the required change is the need of the hour. Formal learning and university degrees will face a challenge as practical and unstructured learning will gain greater importance.

People

Nearly every business sector would need to consider their personnel as their most valuable resource. Automation and technology will take care of menial and repetitive work yet even with AI and machine learning, creative skills of the personnel shall prevail. Flexibility will dawn the new era of technology superseding the existing traditional workplace custom, wherein work would be in consonance with the time and location of the employee as well as channelization of flexible working conditions among multiple employers. Physical placement of the employee at the employer's premise is likely to be become a thing of the past. Global hiring will become common in a few years with the help of high connectivity and digitization.

Assets

There is a gradual shift from asset ownership to uberization. There is a good chance that entities will choose pay per use asset rather than a full ownership asset. Asset ownership will be left to specialized companies

Competition

Business entities will have to be on a constant look out for any new disruption in their sector. Disruptions often start at a small level and work their way upwards. Progressive companies are now investing into new startups to have a pulse on what is forthcoming. By such investment they get a seat on the board of a new startup and thus can be hands on what could be expected in the near future. Such investment into a startup is not made with an intention to have a positive return on the investment but only to secure that disruption can be known at its early stage and necessary adjustments be done.

Cyber security

With the advent of the digital and connected age nearly all machines will talk to each other. This will also open doors for cyber-attacks. Business houses would need to gear themselves for better cyber security to avert this risk albeit at an additional investment.

Paperless

With digitization the documentation will break free from its paper roots and nearly all documents will be digitized. Even the authorities are aligning themselves to accept digital evidence. Invoices, contracts, delivery orders, shipment documents will all exist in the soft version and hence paper documents are likely to become a thing of the past.

We cannot be certain about the future however being prepared for its challenges is the only way to ensure reasonable chance of success.

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Movement to Shine a Spotlight on Fraud

Fraud costs organizations worldwide an estimated 5 percent of their annual revenues, according to a study conducted by the Association of Certified Fraud Examiners (ACFE).

The seriousness of the global fraud problem is why Crowe UAE participated in International Fraud Awareness Week, Nov. 17-23, 2019, as an official supporter to promote anti-fraud awareness and education. The movement, known commonly as Fraud Week, champions the need to proactively fight fraud and help safeguard business and investments from the growing fraud problem.

During the Fraud Awareness Week Crowe UAE signed a MOU with AlNazaha Association for Joint Cooperation and sharing Experience in the field of Integrity and Anti-Fraud Concepts in the UAE.

To kickstart the initiative and to mark the International Fraud Awareness Week, Saad Maniar, Senior Partner & I visited Zayed University Dubai & Abu Dhabi Campus to conduct two outreach events reaching out to more than 120 students. The topics discussed were Integrity, Ethics and Anti-Fraud with the young bright students who are the leaders of tomorrow.

I truly believe that collaboration with the professionals and working towards a common goal of fighting fraud together would help organizations to achieve their objectives. We at Crowe UAE truly believe in our value of sharing and giving back to the society. I am very happy to be part of the initiative of AlNazaha, it is a great opportunity to serve the UAE and to take this excellent initiative ahead.

Also, I am extremely happy to share that I will be representing Crowe UAE in the Executive Committee of AlNazaha to support and promote the objectives.

On this occasion Ms. Naeima Almenhali, Chairperson of AlNazaha Association, said "One of our main objective is to establish strategic partnerships for the purpose of collaboration and exchange of the experiences in integrity and anti-fraud concepts among the UAE Community. I truly believe that Crowe UAE will support us to achieve our objectives"

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Driving up Financial Reporting Quality

“Quality means doing it right when no one is looking.” -Henry Ford.

Commitment to Quality and abiding by Ethics are the way forward, more rightly so in today’s world.

Accounting scandals pose a key challenge in today’ corporate landscape. They are a function of financial statement frauds. Interestingly, in instances of fraudulent financial reporting, the investor or the business or the media community normally do not talk about the Boards or the Senior Management or the failure of controls but ask; Who were the Auditors and what were they doing?

The ‘expectation gap’ broadly measures public concern about audit. The public looks upto the auditors towards reliance on financial statements, expecting that the financial statements give a ‘true and fair view’, and professional skepticism has been duly applied. The auditors are expected to detect and report fraud that materially affects the financial statements. It is not always possible due to inherent limitations. They are also expected to do more on the solvency, liquidity and viability of the firm.

Auditors are tasked with greater expectation to play an active role in driving up the quality of financial reporting. We 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 driving up the financial reporting quality.

Financial Reporting Quality

Financial reporting quality is vital to enhancing transparency, investor confidence, financial stability and strengthening corporate governance. This gives to rise to the question -Would any of the corporate scandals of epic proportions so far be averted if the financial reporting quality was higher? High-quality financial reporting provides information that is useful to relevant users in assessing corporate performance and prospects. Low-quality financial reporting contains inaccurate, misleading, or incomplete information.

Financial reporting objective is “to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions”. Qualitative characteristics of accounting information that must be present for information to be useful in making decisions: Relevance and Representational faithfulness. Enhancing Qualitative Characteristics that impact how useful the information are: Verifiability, Timeliness, Understandability and Comparability.

Financial Reporting Quality Improvement Areas – Brief snapshot (Non-Exhaustive)

1. Those in charge of Governance / Board’s to have proper process for ensuring integrity and quality of Financials.
2. Proper Year-End planning and close.
3. Competencies and expertise of Management Team and/or Audit Committees and/or Board of Directors.
4. Quality of information in financial reports, including proper disclosures in notes.
5. Earnings quality broadly including the quality of earnings, cash flow, and/or balance sheet items. Earnings quality and financial reporting quality are linked. Revenue recognition approaches.
6. Presentation choices (including non-GAAP measures that may influence analyst opinion), accounting methods, and estimates; Considerations of Materiality, Liquidity and Going-Concern.
7. More mechanisms required possibly include the free market and incentives to minimize cost of capital, auditors, provisions tailored to penalize misreporting, proper enforcement by regulatory entities.
8. Non adoption of aggressive accounting practices, creative accounting Vs conservative accounting. “Aggressive” typically refers to choices aimed to enhance the company’s reported performance and financial position via inflating revenues, earnings, and/or operating cash flow or by reducing expenses and/or the balance sheet debt.
9. Flexibility of Finance function in selection of accounting policies and in formulating estimates provides opportunities for aggressive accounting viz.
   a) Accounting choices affecting earnings and balance sheets include inventory cost flow assumptions, estimates of uncollectible accounts receivable, estimated realizability of deferred tax assets, depreciation method, estimated salvage value of depreciable assets, estimated useful life of depreciable assets.
   b) Cash from operations -a metric of interest to investors that may be enhanced by operating choices viz. stretching accounts payable, and possibly by classification choices.
10. Investments by the corporates in boosting finance function’s capabilities given the fact the statutory responsibility for preparation of financials rests with the company’s management.

Lastly but not the least, all the stakeholders have interests in achieving high quality financial reporting. All of them should do their bit within their ambit for greater good, stability of the financial system and towards a better future for all.

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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.