

FOCUS

RELATED PARTY TRANSACTION:

Many high-profile accounting frauds in recent years (e.g., Enron, Adelphia, Tyco, Refco, Hollinger, Rite Aid) have involved related party transactions, creating concern among regulators and other market participants about the appropriate monitoring and auditing of these transactions.

The objective of IAS 24 - Related Party Disclosures is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

A related party is a person or an entity that is related to a reporting entity if that person has control, joint control, or significant influence over the entity or is a member of its key management personnel.

- Related to a reporting entity if it is a parent, subsidiary, fellow subsidiary, associate, or joint venture of the reporting entity, or it is controlled, jointly controlled, or significantly influenced or managed by a person who is a related party.

There are many types of transactions that can be conducted between related parties, such as sales, purchases, asset transfers, leases, lending arrangements (including co borrowings), guarantees, allocations of common costs, and the filing of consolidated tax returns.

In general, any related party transaction should be disclosed that would impact the decision making of the users of a company's financial statements.

This involves the following disclosures:

- General: Disclose all material related party transactions, including the nature of the relationship, the nature of the transactions, the amounts due to or from related parties and the settlement terms (including tax-related balances), and the method by which any current and deferred tax expense is allocated to the members of a group.
- Control relationship: Disclose the nature of any control relationship where the company and other entities are under common ownership or management control, and this control could yield results different from what would be the case if the other entities were not under similar control, even if there are no transactions between the businesses.
- Receivables. Separately disclose any receivables from officers, employees, or affiliated entities.

Depending on the transactions, it may be acceptable to aggregate some related party information by type of transaction. Also, it may be necessary to disclose the name of a related party, if doing so is required to understand the relationship.

- When disclosing related party information, do not state or imply that the transactions were on an arm's-length basis, unless you can substantiate the claim.

The FIVE POINT Action Plan:

The following five-point action plan focuses on the specific areas where existing audit work on related party relationships and transactions could be developed to enhance the quality of the audit.

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1. PLAN YOUR WORK ON THE AUDIT THOROUGHLY

- Plan the audit by updating existing information, and, where possible, obtain a list of related parties from clients or compile a list based on discussions with clients.
- Ask management about changes from the prior period, the nature of the relationships, whether any transactions have been entered into and the type and purpose of the transactions.
- Ensure that the client understands who or what related parties are and why the relevant disclosure requirements are necessary.

2. FOCUS ON THE RISK OF MATERIAL MISSTATEMENT

- Understand the nature, size and complexity of the businesses and use family trees or document group structures.
- Follow up indicators of the existence of undisclosed related parties or transactions.
- Consider the impact of undisclosed related party relationships and transactions as a potential fraud risk.
- Consider the qualitative aspects of materiality.

3. UNDERSTAND THE INTERNAL CONTROLS AT THE COMPANY

- Understand the controls, if any, that management has put in place to identify, account for and disclose related party transactions and to approval of significant transactions.

4. DESIGN PROCEDURES TO RESPOND TO RISKS IDENTIFIED

Inspecting bank and legal confirmations obtained as part of other audit procedures; – inspecting minutes of shareholder and management meetings and any other records or documents considered necessary, such as regulatory returns, tax returns and records of investments.

- Establish the nature of significant transactions outside the company's normal course of business.

- Consider any arm's-length assertions and obtain supporting evidence from third parties.

5. PERFORM COMPLETION PROCEDURES

- Obtain a representation that management has disclosed the identity of related parties, relationships and transactions of which they are aware have been appropriately accounted for and disclosed.
- Ensure that the accounting for and disclosure are appropriate.

- Consider the implications of the findings from work performed on related parties and related party transactions for the audit opinion.



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EVENTFUL DUBAI

How events impact the growth of the city?

While trade, tourism, travel, real estate, retail and financial services are said to be some of the key drivers of Dubai economy, various events from vibrant sectors of diverse scales add immensely to the impetus. The strategic location and exceptional connectivity have placed Dubai as the gateway of Middle East not just as a trade hub but an epicentre of major events and exhibitions.

Dubai hosts various trade shows, art exhibitions, musical shows, literature fests, economic and sports events whether it is World Government Summit, Gulfood, Fitness Challenge, Shopping Festival, Gitex and various other initiatives. Especially, the dedicated and purpose-built complex for exhibition and events, Dubai World Trade Centre is home to numerous events throughout the calendar year.

In terms of the magnitude and scale, one of the most sought-after event of this decade is Expo 2020. Major sectors anticipating major growth are infrastructure, hospitality,

tourism, human resource & communication, social and economic impact.

As Dubai is gearing up the preparations for Expo 2020, the major infrastructure developments include 15 km of new rail lines, road and port connectivity. As a venue for the event, a whole new District 2020 is taking shape in the 145 sq.km. area of Dubai South. The total value of projects linked to Dubai Expo 2020 is estimated at Dh 122 billion including exhibition centres, residential complexes, business parks, logistic hubs and hotels.

The mega event is expected to generate more than 250,000 jobs. Hospitality, leisure and media sectors will require highly skilled professionals apart from blue colour workers for the large-scale infra-developments.

Expo 2020 is also expected to attract foreign investments from USD 100 to 150 billion across various sectors like real estate, retail, hospitality, healthcare and IT. It is expected that the economy of Dubai will grow at a rate of 4 percent in the run-up to the main event. It will also open up windows for further

economic diversification and investments in UAE.

Expo 2020 will have a continual impact on the economic growth of the city and the region. Apart from the above-mentioned sectors, one area wherein such events leave an everlasting impact on the host country is its global stature. For the last three decades, Dubai has earned a reputation for real estate, trade and tourism marvel on the world stage. Expo 2020 is definitely going to be a crowning jewel in the growth story of the global metropolis, Dubai.



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VAT IN THE UAE – AN EASY CHECK OUT FOR HOTEL ACCOUNTANTS?

It has been a successful two months for hotels. Not in terms of occupancies, which do not seem to be rising as quickly as the supply of new rooms. Gaining an increase of RevPAR remains a challenge for properties which are not near public transport or tourist attractions.

Whilst charging, paying and reclaim of VAT is largely straightforward (I use the word largely with caution), the key challenges for hotel accountants in the UAE are two.

The first, how easy and efficient would it be, to claim back VAT on the purchase of hotel

assets. As currently, a commercial sale of VAT would be subject to VAT. This is further complicated, when there is a conversion of the usage of a property from commercial to residential and vice versa.

The second, is around the management reporting. How easy would it be for a management accountant to forecast changes to the VAT law, especially the ones related to exempt supplies and benefits to employees.

I am certain that auditors and business advisors to the Tourism and Hospitality industry, would appreciate clarity on how tax is likely to evolve in, not only the UAE, but the region. Investments in the tourism and hotel industry are long term and often start paying back after a few years.

Certainly, Dubai remains ahead of the curve when it comes to investment opportunities, giving its robust legislation and attractive returns. Investors and operators would appreciate factoring in expected increases and changes in costs in their longer-term budgeting.



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DIFC LAWS-UPDATE

Wealth Management and Succession Planning

New laws aimed at improving and enhancing private wealth management and succession planning have come into force effective from 21st March 2018.

The Foundations Law will provide more flexibility in structuring wealth management and succession planning solutions to family businesses. A person ('founder') contributes property to a specific purpose by following certain formalities to create a Foundation. A Foundation has a separate legal personality and is "self-owned". The Foundation is governed by its constitutional documents and governing body members do not have a personal liability. The liability of Foundation is limited to its assets.

In addition, the DIFC Trust Law has been re-enacted replacing the existing law. The new Trust Law brings in a number of technical improvements taking into consideration international best practices. The new Trust Law has provisions for recognition of foreign trusts in DIFC besides provisions for protection of incapacitated or unborn beneficiaries. While the Foundations Law brings a new regime for establishing Foundations in DIFC, the new Trust Law enhances the existing law relating to trusts.

Automatic Exchange of Financial Information

DIFC Common Reporting Standards Law and Regulations have come into force effective from 21st March 2018. The new law imposes certain obligations on reporting financial institutions. Reporting financial

institutions are now required to collect and report information relating to certain types of accounts. The DIFC Registrar of Companies is the relevant authority for the administration and enforcement of reporting requirements in the DIFC.



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PARTNERSHIP PROTECTION

You and your partners are the foundation and driving force of your company's success. What would happen if one of them dies, suffers from a critical illness or becomes permanently disabled? What would happen to their shares?

Partnership protection ensures that upon the death of a business partner, a cash sum equal to the value of the deceased partner's shares will be paid out to the remaining partner(s).

The money can then be used to buy shares from the deceased's family. However, partnership protection does not

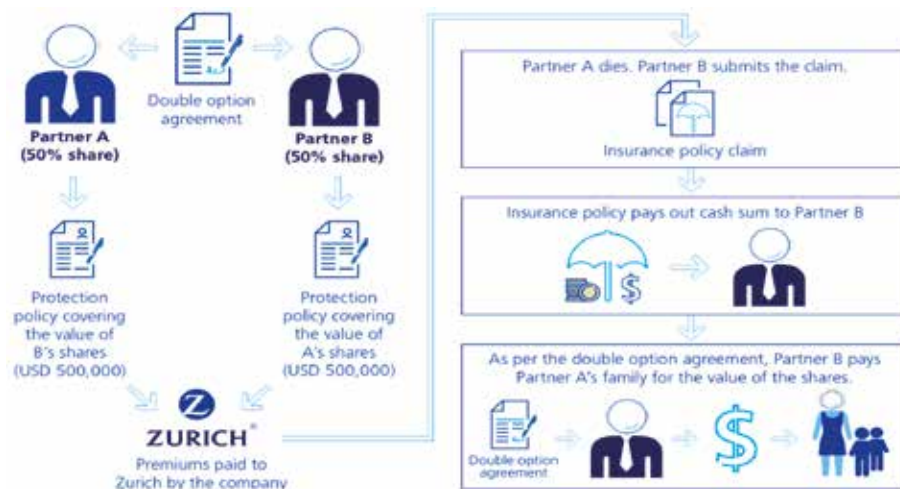
enforce the sale of shares.

Partnership protection ensures that upon the death of a business partner, a cash sum equal to the value of the deceased partner's shares will be paid out to the remaining partner(s).

For this, a legal framework* should be set up.



How a double option agreement and partnership protection work together



What is a double option agreement?

A double option agreement enforces the sale of shares by either side - the family and the partner(s). This ensures the family is compensated fairly, and the remaining partners can continue to run the business with minimum disruption.

*One possible solution for a legal framework is a double option agreement. We have a draft of this agreement for consideration by your legal advisers.



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NEW REVENUE GUIDANCE : IFRS 15 – REVENUE FROM CONTRACT WITH CUSTOMERS

Do you know how to transit from IAS 18 / IAS 11 to IFRS 15?

IFRS 15 issued by International Accounting Standard Board (IASB), is effective for annual periods beginning on or after January 1, 2018. Almost all the Companies will be impacted by the new standard to some extent and the impact may vary depending upon the operations, industry and the current accounting policies followed by the entities.

IFRS 15 replaces IAS 18/ IAS 11 with single model for performance obligations. IFRS 15 shifts the focus from Risk and Rewards to Control and also provides vast guidance on accounting treatment for various transaction types like multiple element arrangements, variable considerations, repurchase arrangements, contract costs and so on.

IFRS 15 lays down five step revenue recognition model:

- Identify the contract with customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price
- Recognise revenue when performance obligations satisfied

IFRS 15 brings several challenges to the smoother implementation and few of which may include:

- Assessment of transitional impact
- Identifying performance obligations,
- Factors relating to transaction price - estimating variable consideration, adjusting consideration for effects for time value of money, non-cash considerations.
- Allocation of transaction price
- Gathering of information for increased disclosures

So, effective implementation of IFRS 15

requires considerable and timely effort from the management in terms of understanding the requirements of the standard, assessing your IT systems, business processes, controls, contract terms, management report etc., in order to gather adequate data and information to ensure appropriate accounting treatment and adequate disclosure.



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About Us

Your global partner

Crowe Horwath in UAE is a leading member firm of Crowe Horwath International which is ranked as the top 8 global accounting network with more than 764 offices with 35,000 partners and staff. In 2018, Crowe Horwath is ranked as the 6th largest in United Arab Emirates and globally as the 8th largest accountancy network.

The firm continually demonstrates a commitment to quality and provides an exceptional experience to those clients it serves. As a multidisciplinary practice, we offer unparalleled access to international expertise and talent. Our commitment, to the highest technical standards and integrity, ensures that our clients receive the most accurate and relevant advice.

Providing quality and efficient professional services leverage by our extensive experience of local businesses and a 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.

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*Source: The ranking is based as per International Accounting Bulletin's, April 2018 Issue 584, publication.

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