Talal Abu-Ghazaleh & Co. International

Global Company for Auditing and Accounting

TAGAudit

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Talal Abu-Ghazaleh &Co. International (TAG-Audit) is a leading global accounting and auditing firm. It is considered as an independent member company of Talal Abu- Ghazaleh organization (TAG-Org). TAG-Audit provides a complete range of internal auditing, external auditing, taxation, and other financial services based on international professional standards.

IN THIS ISSUE

‘Abu-Ghazaleh Global’ and Amman Stock Exchange Sign Cooperation Agreement To implement Quality Management System (ISO 9001)

AMMAN – Talal Abu-Ghazaleh & Co. Consulting (TAG-Consult), a member of Talal Abu-Ghazaleh Global (TAG.Global), has signed an agreement with the Amman Stock Exchange (ASE) to cooperate in the field of consulting services.

The agreement, signed by HE Dr. Talal Abu-Ghazaleh founder and chairman of TAG.Global, and the CEO of the Amman Stock Exchange, Mr. Mazen Wathaifi, aims at providing consulting services to the Amman Stock Exchange in the field of designing and implementing the Quality Management System (ISO 9001) at its various departments and organizational units.

Commenting on this event, Dr. Abu-Ghazaleh expressed his pride in the long-standing cooperation with the Amman Stock Exchange, during which numerous projects have been implemented. He said that this additional step indicates ASE’s commitment to develop its work and activities.

Dr. Abu-Ghazaleh also emphasized the importance of ASE as the ‘oversight entity’ of this type of important investment, which contributes to redirecting domestic and foreign investment resources toward investments in economic activities in accordance with the highest international standards, disclosure and transparency practices; praising the expertise of ASE professionals, which effectively played an important role in cooperating with the TAG.Global’s consulting teams.

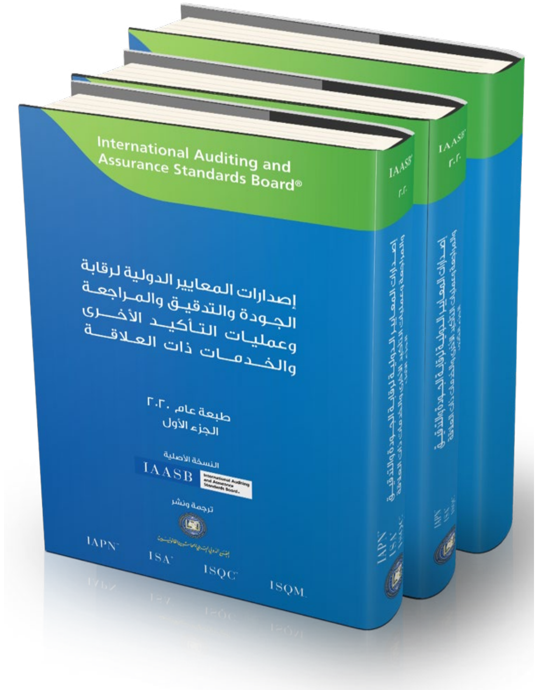
For his part, Mr. Wathaifi expressed his pride in cooperating with TAG.Global, and highly commanded the Organization’s efforts in providing the ASE with the best services including consulting, designing and implementing quality management systems, and e-archiving services.

He further referred to the ongoing development processes at the Amman Stock Exchange, highlighting in particular the continued digital transformation process and the usage of phone applications to stay up to date with stock market trading. That is in addition to committing the AS20: the 20 listed companies that are most active and reliable according to their highest trade dealing; and are the leading companies in the ASE, (ASE20 Index), to establish a special investor relations unit and submit sustainability reports for 2023.

Mr. Wathaifi also noted that the ASE carried out several projects in recent years to improve the legislative and technical frameworks of the investment climate in the Kingdom, and enhances the competitiveness of listed companies, which contributes to the development of the national economy and attracts more investment.

It is worth mentioning that Talal Abu-Ghazaleh Global (TAG.Global) has successfully implemented several quality management systems based on ISO 9001 in many public and private sector projects, and it is also a member of the ISO Technical Committee 176 (ISO/TC 176).

Abu-Ghazaleh: Issuing the Arabic Translated Version of the "International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements 2020" Handbook



AMMAN- HE Dr. Talal Abu-Ghazaleh, chairman of IASCA, announced the publication of the most recent updated Arabic version of the Arabic Translated Version of "International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements 2020" handbook, in cooperation between IASCA and the International Federation of Accountants (IFAC).

Dr. Abu-Ghazaleh outlined the most important amendments in the 2021 version as follows, :

1. ISA 540 (revised), Auditing Accounting Estimates and Related Disclosures, to supersede the previous ISA 540;
2. Confirming amendments to the standards of the IAASB as a result of revising the code of ethics of professional accountants issued by the IESBA;
3. Volume 1 and 2 of the IAASB handbook included the amendments arising from the confirming and subsequent amendments to the code of ethics of professional accountants that were restructured and issued by the International Ethics Standards Board for Accountants (IESBA).

The standards that were included but not yet effective:

1. ISA 315 (revised), identifying and assessing the risks of material misstatement;
2. Conforming and consequential amendments to other international auditing standards arising from ISA 315 (revised);
3. ISQM 1, quality management for firms that perform audits or reviews of financial statements, or other assurance or related services engagements, as this standard addresses the firm's responsibility to design, implement, and operate a system of quality management relevant to audits or reviews of financial statements, or other assurance or related services engagements.
4. ISQM 2, engagement quality reviews, which addresses the appointment and eligibility of the engagement quality reviewer, and the engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review.

ISA 220 (revised), quality management for an audit of financial statements;

- Conforming and consequential amendments to other international auditing Standards arising from the quality management projects;
- ISRS 4400 (revised), agreed-upon procedures engagements.

It is worth mentioning that IASCA relentlessly seeks to develop accounting and management as well as the relevant disciplines and principles that apply to all or some professional services. Moreover, IASCA seeks to develop the level of competence, practice, and behavior to attain the highest professional levels through its interest in accounting publications, and by following the most recent trends in accounting and auditing.

IASB proposes temporary relief from deferred tax accounting for OECD Pillar Two taxes

The International Accounting Standards Board (IASB) has proposed amendments to IAS 12 Income Taxes. The proposed amendments aim to provide temporary relief from accounting for deferred taxes arising from the imminent implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD).

The IASB is responding to stakeholders' concerns about the potential implications of these rules for the accounting for income tax in financial statements. In particular, stakeholders were concerned about the uncertainty over the accounting for deferred taxes arising from the rules. They said there was an urgent need for clarity in the light of the imminent implementation of these rules in some jurisdictions.

The proposed amendments would introduce:

- a temporary exception to the accounting for deferred taxes arising from the implementation of the rules; and
- targeted disclosure requirements for affected companies.

Andreas Barckow, Chair of the IASB, said:
The IASB is monitoring developments in this space and in response has proposed amendments that will provide timely relief for affected companies and will avoid inconsistent interpretations, and therefore inconsistent application, of IAS 12 while providing investors with useful information.

More than 135 countries and jurisdictions representing more than 90% of global GDP have agreed to the Pillar Two model rules. The rules:

- aim to address the tax challenges arising from the digitalisation of the economy; and
- provide a template for the implementation of a minimum corporate tax rate of 15% that large multinational companies would pay on income generated in each jurisdiction in which they operate.

https://www.ifrs.org/news-and-events/news/2023/01/iasb-proposes-temporary-relief-from-deferred-tax-accounting-for-oecd-pillar-two-taxes/

Definition of a Lease—Substitution Rights (IFRS 16) Tentative Agenda Decision and Comment Letters

LONDON - The IFRS Interpretations Committee (Interpretations Committee) discussed the following matter and tentatively decided not to add a standard-setting project to the work plan. The Committee will reconsider this tentative decision, including the reasons for not adding a standard-setting project, at a future meeting. The Committee invites comments on the tentative agenda decision. All comments will be on the public record and posted on our website unless a respondent requests confidentiality and we grant that request. We do not normally grant such requests unless they are supported by good reason, for example, commercial confidence.

Tentative Agenda Decision

The Committee received a request about how to assess whether a contract contains a lease. The request asked about:

a. the level at which to evaluate whether a contract contains a lease—by considering each asset separately or all assets together—when the contract is for the use of more than one similar asset.
b. how to assess whether a contract contains a lease applying IFRS 16 when the supplier has particular substitution rights—i.e. the supplier:

I. has the practical ability to substitute alternative assets throughout the period of use; but
II. would not benefit economically from the exercise of its right to substitute the asset throughout the period of use.

The Definition of a Lease

Paragraph 9 of IFRS 16 states that ‘a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration’. Applying paragraph B9 of IFRS 16, to meet the definition of a lease the customer must have both:

a. the right to obtain substantially all the economic benefits from the use of an identified asset throughout the period of use; and
b. the right to direct the use of the identified asset throughout the period of use.

The period of use is ‘the total period of time that an asset is used to fulfill a contract with a customer (including any non-consecutive periods of time)’. (Appendix A to IFRS 16)

Paragraph B12 of IFRS 16 states that ‘an entity shall assess whether a contract contains a lease for each potential separate lease component’ and directs an entity to paragraph B32 of IFRS 16 for application guidance on separate lease components. Paragraph B32 specifies that the right to use an underlying asset is a separate lease component if both:

a. the lessee can benefit from the use of the underlying asset either on its own or together with other resources readily available to it; and
b. the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract.

Identified Asset

The first requirement for a contract to meet the definition of a lease is that a customer controls the use of an identified asset. Paragraphs B13–B20 of IFRS 16 provide application guidance on an identified asset.

Paragraph B13 states that 'an asset is typically identified by being explicitly specified in a contract. However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer'.

But 'even if an asset is specified, a customer does not have the right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use' (paragraph B14). In that case, the supplier—rather than the customer—controls the use of the asset. As a consequence, there is no identified asset; the contract does not contain a lease.

For a substitution right to be substantive, paragraph B14 states that both of the following conditions must exist:

a. the supplier has the practical ability to substitute alternative assets throughout the period of use (for example, the customer cannot prevent the supplier from substituting the asset and alternative assets are readily available to the supplier or could be sourced by the supplier within a reasonable period of time); and
b. the supplier would benefit economically from the exercise of its right to substitute the asset (i.e. the economic benefits associated with substituting the asset are expected to exceed the costs associated with substituting the asset).

Paragraph B16 states that 'an entity's evaluation of whether a supplier's substitution right is substantive excludes consideration of future events that, at the inception of the contract, are not considered likely to occur.'

Paragraphs B15–B18 specify requirements that mean, in each of the following situations, a supplier's substitution right is not substantive (or the customer is not precluded from having the right to use an identified asset):

a. the supplier has the right or obligation to substitute the asset only on or after a particular date or the occurrence of a specified event;
b. the supplier would benefit economically from the exercise of its right only on the occurrence of a future event that, at the inception of the contract, is not considered likely to occur; or
c. the supplier has the right or obligation to substitute the asset only for repairs and maintenance, if the asset is not operating properly or if a technical upgrade becomes available.

Paragraph B17 notes that the costs of substitution are more likely to exceed the associated benefits when the asset is located at the customer's premises or elsewhere. Paragraph B19 requires the customer to presume that a supplier's substitution right is not substantive if the customer cannot readily determine whether the supplier has a substantive substitution right.

Paragraph BC113 of the Basis for Conclusions on IFRS 16 explains the IASB's rationale in developing the requirements on substitution rights and states that 'the IASB's intention in including [these requirements] is to differentiate between:

a. substitution rights that result in there being no identified asset because the supplier, rather than the customer, control the use of an asset; and
b. substitution rights that do not change the substance or character of the contract because it is not likely, or practically or economically feasible, for the supplier to exercise those rights'.

Paragraph BC113 goes on to explain that, at the time of developing IFRS 16, the IASB was of the view 'that, in many cases, it will be clear that the supplier would not benefit from the exercise of a substitution right because of the costs associated with substituting an asset'. 'If substitution rights are substantive, then the IASB thinks that this would be relatively clear from the facts and circumstances' (paragraph BC115).

Consequently, the Committee observed that the requirements in paragraphs B13–B19 set a high hurdle for a customer to conclude that there is no identified asset when an asset is explicitly or implicitly specified. The Committee also observed that determining whether a supplier's right to substitute an asset is substantive throughout the period of use requires judgment.

Application of the requirements in IFRS 16 to the fact pattern described in the request

In the fact pattern described in the request:

a. a customer enters into a 10-year contract with a supplier for the use of 100 similar new assets—batteries used in electric buses. The customer uses each battery together with other resources readily available to it (each battery is used in a bus that the customer owns or leases from a party unrelated to the supplier).
b. applying the requirements in paragraphs B14–B18, it is determined that the supplier has the practical ability to substitute alternative assets throughout the contract term such that the condition in paragraph B14 (a) exists.
c. if a battery were to be substituted, the supplier would be required to compensate the customer for any revenue lost or costs incurred while the substitution takes place. Whether substitution is economically beneficial for the supplier at a point in time depends on both the amount of compensation payable to the customer and the condition of the battery. At the inception of the contract, it is expected that the supplier would not benefit economically from substituting a battery that has been used for less than three years but could benefit economically from substituting a battery that has been used for three years or more.

The Level at which to Evaluate whether a Contract Contains a Lease

In the fact pattern described in the request, the customer is able to benefit from the use of each asset (a battery) together with other resources (a bus) available to it and each battery is neither highly dependent on, nor highly interrelated with, the other batteries in the contract.

Therefore, the Committee concluded that, in the fact pattern described in the request, applying paragraph B12, the customer assesses whether the contract contains a lease—including evaluating whether the supplier's substitution right is substantive—for each potential separate lease component, i.e. for each battery.

Identified Asset

In the fact pattern described in the request, each battery is specified. Even if not explicitly specified in the contract, a battery would be implicitly specified at the time it is made available for the customer's use. Therefore, the Committee observed that, unless the supplier has the substantive right to substitute the battery throughout the period of use, each battery is an identified asset.

In the fact pattern described in the request, the condition in paragraph B14 (a)—the supplier has the practical ability to substitute alternative assets throughout the period of use—is assumed to exist. The Committee observed, however, that the condition in paragraph B14 (b) does not exist throughout the period of use because the supplier is not expected to benefit economically from exercising its right to substitute a battery for at least the first three years of the contract. Those years are part of the period of use. Consequently, the supplier's substitution right is not substantive throughout the period of use.

Therefore, the Committee concluded that, in the fact pattern described in the request, each battery is an identified asset. To assess whether the contract contains a lease, the customer would then apply the requirements in paragraphs B21–B30 of IFRS 16 to determine whether, throughout the period of use, it has the right to obtain substantially all the economic benefits from use, and direct the use, of each battery.

The Committee concluded that the principles and requirements in IFRS 16 provide an adequate basis for an entity to evaluate the level at which to assess whether the contract contains a lease and whether there is an identified asset in the fact pattern described in the request. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

The deadline for commenting on the tentative agenda decision is February 6, 2023. The Committee will consider all comments received in writing by that date; agenda papers analyzing comments received will include analysis only of comments received by that date.

IPSASB SEEKS COMMENTS ON CONCESSIONARY LEASES PROPOSALS FOR THE PUBLIC SECTOR

The International Public Sector Accounting Standards Board (IPSASB) has released Exposure Draft (ED) 84, Concessionary Leases and Right-of-Use Assets In-kind (Amendments to IPSAS 43 and IPSAS 23) for comment.

ED 84 is part of phase two of the IPSASB's Leases project. It proposes amendments to IPSAS 43, Leases on accounting for concessionary leases, as well as new guidance on right-of-use assets in-kind and consequential amendments to IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers).

Feedback received to the IPSASB's Request for Information (RFI), Concessionary Leases and Other Arrangements Similar to Leases helped shape ED 84 and is summarized in a Feedback Statement published alongside the new ED.

"In light of the responses to the RFI, the IPSASB decided to propose new guidance on concessionary leases and right-of-use assets in-kind," said IPSASB Chair Ian Carruthers. "The proposals in ED 84 will provide new guidance that will enhance transparency, accountability, and decision-making in the public sector."

Access ED 84 and related documents including the Feedback Statement, At-a-Glance, and webcast at the IPSASB's website.

www.ipsasb.org

New IAASB Fact Sheet Helps Auditors Navigate Quality Management for Group Audits

NEW YORK- The International Auditing and Assurance Standards Board (IAASB) **published a new fact sheet** on the interactions between **International Standard on Audit (ISA) 220 (Revised)**, which addresses quality management at the engagement level, and ISA 600 on group audits. The fact sheet highlights aspects of a group audit that may be affected by ISA 220 (Revised) and **International Standard on Quality Management 1** addressing quality management at the firm level. This includes the revised definition of engagement team and leadership and direction, supervision, and review responsibilities.

The factsheet will be particularly useful for group audits in which component auditors are involved.

Source: www.ifac.org

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