

# TAG-Audit Newsletter

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## Abu-Ghazaleh Holds Discussion with Experts about New Judicial Decisions on the Responsibility of Partners



AMMAN – Talal Abu-Ghazaleh Knowledge Forum organized a panel discussion on “the new judicial decisions in the responsibility of partners and signatories in limited liability companies”; chaired by HE Dr. Talal Abu-Ghazaleh and attended by lawyers, businessmen, stakeholders and media professionals.

During the session, many experts stressed the importance of creating a stable, legislative, conflict-free environment, attractive to investors and compatible with international legislations.

Dr. Talal Abu-Ghazaleh summarized the main recommendations discussed by the participants and pointing on that not individuals who should

not be penalized for institutions’ shortfalls and deficiencies, and that it is important to differentiate between the responsibilities of the administration and that of the investor.: “There are different judicial decisions under the same topic which need to be addressed. In some cases, decisions conflict in favor of some parties against others.”

He referred to the need for addressing conflict of laws. Each country is obliged to amend its legislation according to international agreements and comply with the law while issuing decisions. He called for the establishment of a department dedicated to settling conflicts with investors especially in light of the fact that they are entitled

to take legal action against any country that violates investment laws.

Regarding the double penalty fine applied to the litigant in certain cases, Dr. Abu-Ghazaleh stated that this is unconstitutional and instils fear of the judiciary which must represent the rights of all people. He also called for changing the stereotype that portrays a merchant as a stakeholder. The merchant, like any employee or worker, serves the nation and contributes to solving problems, namely unemployment.

Dr. Abu Ghazaleh stressed the importance of involving stakeholders in the law amendment or decision-making processes. This allows for solutions that satisfy all parties and achieve the ultimate goal of keeping investors rather than alienating them, he said.

During the session, Lawyer Dr. Ghalib Shniekat reviewed the legal responsibility of partners and the administration in limited liability companies according to the Jordanian Companies Law and Jordan legislation. Lawyer Qasim Al-Dhmour reviewed the responsibility of partners and signatories for financial statements and tax liabilities related to the limited liability

companies. In addition, Lawyer Dr. Tawfiq Al-Harsh reviewed the past and current judicial decisions issued by the Jordanian Judiciary of which explicitly some violate the article on the responsibility of a limited liability company partner. Also, Lawyers Thabit Al-War and Tariq Abu-Raghib discussed the effect of the change in judicial decisions on investment, especially when partners and the administration are responsible; in a personal capacity, for the taxes resulting from the activities of their limited liability company.

The speakers stressed that a stable legislative environment attracts investors. They also called for maintaining national investments by providing facilities since this contributes to national output and job creation for youth; referring to the fact that the Jordanian economy will be at risk if the current state of investment does not change.

It should be noted that the stakeholder discussions are in the process of developing a final report that includes recommendations for decision-makers and relevant entities to address deficiencies and current challenges in order to protect current investments and to preserve the rights of the nation and its citizens.

## TAG-Org Participates in the National Symposium of the Integrity and Anti-corruption Commission

AMMAN – Talal Abu-Ghazaleh Organization (TAG-Org) representative, Mr. Fadi Al Daoud participated in the National Symposium entitled “Wasta is a Loss of Rights” organized by the Integrity and Anti-Corruption Commission on International Anti-Corruption Day, under the patronage of President of the Jordanian Senate HE Faisal Al-Fayez at Al Hussein Youth City.

In his opening speech, Al-Fayez underlined the directions of His Majesty King Abdullah II promoting the necessity to counter corruption for the achievement of justice, transparency, and the rule of law noting that fighting corruption and Wasta (nepotism) is a national priority.

Chairman of the Integrity and Anti-Corruption Commission, Dr. Mohammed Al-Allaf, said



that the annual observance of International Anti-Corruption Day is an essential component of worldwide efforts to combat this global phenomenon and its damaging consequences that have a detrimental effect on the security and stability of developing societies, and negatively impact their economic and development programs.

Al-Allaf noted that the National Strategy for Integrity and Anti-Corruption 2017-2025 was launched last year drawing inspiration from directives by His Majesty King Abdullah II to combat corruption in all forms, adding that the Strategy is also consistent with the content of the National Integrity Charter, its Executive Plan and Jordan Vision 2025 as well as being consistent with national plans to fight corruption.

Al Daoud talked about Governance of Institutions and their Role in National Resource Management, stating that His Majesty King Abdullah II has always been proactive in addressing reform policies including economic transparency in addition to administrative, judicial, legislative and educational reform programs.

He added that the implementation of reform cannot take place in any state or institution without the application of governance based on best practices in management including essential

concepts such as teamwork and supporting the concept of partnership with the citizen based on principles of transparency, accountability and responsibility.

He noted that His Majesty honored Dr. Talal Abu-Ghazaleh by appointing him as member of the Royal Integrity Commission, which formulated the National Integrity Charter. Dr. Abu-Ghazaleh has consistently expressed the importance of this mission for him on a personal level as he has always been involved in the study and examination of transparency laws and standards worldwide to formulate the best standards.

He also underlined TAG-Org's experience in the field of financial audit and highlighted the need, according to Dr. Abu-Ghazaleh, for internal quality assurance to ensure the quality of work and the importance of an independent internal audit.

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## Preparing for the Leases Accounting Standard: A Tool for Audit Committees

Preparing for the Leases Accounting Standard: A Tool for Audit Committees is designed to help audit committees exercise their oversight responsibilities as companies implement a new leases accounting standard that begins to take effect in January 2019. The tool includes an overview of the new standard and offers important questions for audit committee members to consider for successful implementation.

<https://www.thecaq.org/preparing-leases-accounting-standard-tool-audit-committees>



## Impact of IFRS 9 Implementation Will be Manageable for GCC Banks

DUBAI - The implementation International Financial Reporting Standards 9 (IFRS 9) from January 1, 2018, a game changer for banks across the world, is expected to be manageable for the Gulf Cooperation Council (GCC) banks according to rating agencies and banking sector analysts.

IFRS 9 will require banks to take a more forward-looking approach to provisioning. At the moment, banks are required to set aside specific provisions only when they incur losses, or when the counterparty or financial asset defaults on its obligations. Under IFRS 9, banks will have to set aside provisions in advance, based on their loss expectations.

The new regulation strongly affects the way credit losses are recognized in the profit and loss (P&L) statement. While impairments are currently based on ‘incurred losses’, IFRS 9 introduces an approach based on future expectations, namely expected losses (EL).

“Our view that the impact of IFRS 9 will be manageable is due in part to the relatively conservative approach that GCC banks already take to calculating and setting aside loan-loss provisions. Some banks, for example those in Kuwait, take a conservative approach as part of local regulatory requirements to set aside general provisions for all their lending portfolios,” said S&P Global Ratings credit analyst Mohammad Damak.

Under S&P’s base-case scenario, rated GCC banks will have to set aside additional provisions equivalent to 17 percent of their net operating income on average following the adoption of IFRS 9. Excluding banks with no provision shortfall, the same measure rises



to 27 percent under the base-case scenario. However, these results mask significant differences between banks.

“We focus on GCC banks’ lending portfolios when it comes to estimating lifetime expected losses. The current financial disclosures do not allow us to calculate the potential impact of lifetime losses from other assets that are in scope of IFRS 9, such as financial instruments accounted for at amortized cost. However, we take the view that the effect of calculating the potential losses from these assets will be limited because of the relatively conservative approach that the GCC banks we rate take toward the quality of their investment portfolios,” said Damak.

The least affected rated banks would be in Kuwait. This is because the regulator already requires banks in Kuwait to set aside a general provision on their performing facilities equivalent to 1 percent of cash facilities and 0.5 percent of non-cash facilities.

The most affected rated banks would be in Qatar, primarily due to the specific cases of a couple of Qatari banks that have either seen a significant deterioration in their asset quality indicators, or

an increase in past due but not impaired loans, over the past couple of years.

Despite the relatively low impact on provisioning, analysts say switching to IFRS9 will be challenging for GCC banks. The absence of a long default history in many countries, coupled with difficulties in correctly assessing collateral values and time frames for realizations, makes

it particularly tricky to assess expected loan losses. Banks are working closely with their auditors and adapting technology and systems to make sure they can plug data gaps to model forward-looking losses.

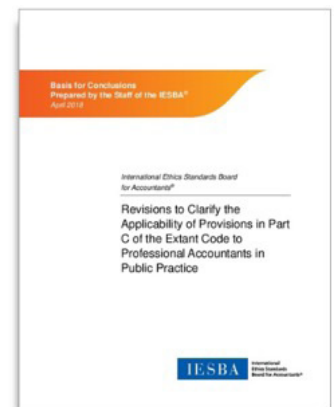
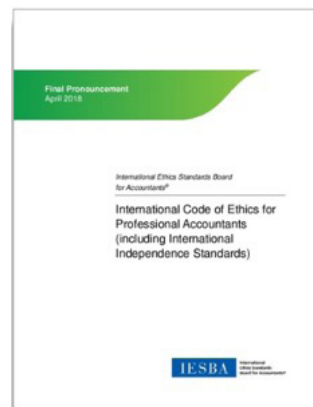
<http://gulfnnews.com/business/sectors/banking/impact-of-ifs-9-implementation-will-be-manageable-for-gcc-banks-1.2038062>

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## Final Pronouncement - The Restructured Code

International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) is the culmination of extensive research and global stakeholder consultation. The Code includes substantive revisions and is completely rewritten under a new structure and drafting convention. The Code brings together key ethics advances over the past four years, including the NOCLAR and Long Association provisions and includes an enhanced conceptual framework. Key revisions include:

- Revised “safeguards” provisions better aligned to threats to compliance with the fundamental principles;
- Stronger independence provisions regarding long association of personnel with audit clients;
- New and revised sections dedicated to professional accountants in business (PAIBs) relating to:
  - » preparing and presenting information; and
  - » pressure to breach the fundamental principles.



- Clear guidance for accountants in public practice that relevant PAIB provisions are applicable to them;
- New guidance to emphasize the importance of understanding facts and circumstances when exercising professional judgment; and
- New guidance to explain how compliance with the fundamental principles supports the exercise of professional skepticism in an audit or other assurance engagements.

<https://www.ifac.org/publications-resources/final-pronouncement-restructured-code>

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## Influential Leader Sought for IAASB Chair

NEW YORK - The global search is underway for an exceptional individual to lead the International Auditing and Assurance Standards Board (IAASB) into its next era.

The Chair leads the IAASB’s strategic direction



and development of high-quality international audit standards, as well as facilitates the

consultative processes that underpin the board's credibility and activities. The Chair develops and maintains effective relationships with international oversight authorities and regulatory bodies, national standard setters, investor and preparer communities, the audit practitioner community and other key stakeholders. The next IAASB Chair will also guide the board through any transitional period and change implementation arising from the IAASB reforms.

The successful candidate has significant, senior-level experience and is well recognized within professional and regulatory communities. He or she has effective leadership, diplomacy, communication, and strategic skills; demonstrated professional competency; and a strong commitment to the IAASB's public interest mission. He or she also understands the significant travel commitment involved.

The IAASB Chair is appointed for a renewable three-year term, commencing January 1, 2019. A complete job description, along with application instructions, is available on the IAASB website. Applications are due May 20.

This global search is being conducted by the Interim Nominating Committee, which was formed in February 2018 to conduct the IAASB Chair nominations process and make a final recommendation to the IFAC Board and Public Interest Oversight Board. The Committee held its inaugural meeting on March 28 in New York to finalize the position description and outline the selection process. More information on the Committee is available online.

<http://www.iaasb.org/interim-nominating-committee>

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*April 11, 2018*

*By Ed Clowes, Staff Reporter*

## **UAE Achieves '98.8 Percent VAT Compliance': Federal Tax Authority**

DUBAI Nearly 100 percent of companies in the UAE that were obliged to pay value added tax (VAT) have since registered to do so, according to Khalid Al Bustani, director general of the Federal Tax Authority (FTA).

In remarks to the media on the anniversary of the first 100 days of VAT in the UAE, the senior official also said he suspected a number of companies failing to register, either deliberately or accidentally.

"We will not tolerate tax evaders, and we will not tolerate tax avoiders," Al Bustani said sharply.

Despite this, he said that the FTA had attained a good level of compliance.

"We have achieved 98.8 percent compliance," Al Bustani told the gathered media on Wednesday morning.

"Even though the UAE is new to the tax system, achieving that level of compliance reflects how



advanced the UAE is. They were ready for the implementation of VAT," he added.

Al Bustani also pointed to the success of the self-declaration system, which encouraged private sector companies to submit tax returns on a self-declared basis.

The five percent tax was implemented on January 1, 2018, as part of the government's strategy to diversify its revenues.

“VAT came after comprehensive studies from the UAE. The results of studies showed that a new tax will support economic development,” Al Bustani said.

According to the FTA, around 275,000 companies have registered to date, with 2,160 applications pending. Al Bustani said he was pleased by this number, given that the project is only 100 days old.

They say that around 14,402 firms were forced to resubmit their applications.

“We are under discussion with these companies, who needed to re-apply due to missing information, or information not submitted correctly, before they can be approved by the FTA,” Al Bustani said.

Meanwhile, the FTA said that it suspected a number of companies of not registering.

“We believe there are a large number of companies who have not registered yet,” the senior official said, adding that some of these may be intentional.

“We want to pass the message on: It’s an obligation to register, and they are violating the law if they don’t,” he said.

The FTA has postponed the penalty for not registering until the end of April to give companies more time to prepare their business, but it said on Wednesday that this did not mean these companies were exempt from registering.

“They are obliged to register, and pay VAT amounts since January,” Al Bustani said bluntly.

“We will need to take action against them, and violate them. Those who have not registered are tax evaders. We will take necessary actions,” he said.

To combat this, the FTA says that it has planned a roadshow with the Department of Economic Development (DED) to send its analysts to these unregistered companies to “help them register, if they are having technical issues.”

<http://gulfnews.com/business/economy/vat/uae-achieves-98-8-per-cent-vat-compliance-federal-tax-authority-1.2203557>