

# IASCA Newsletter

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## YOUR GATE TO ACCOUNTING, AUDITING AND CODE OF ETHICS

### IN THIS ISSUE

- 1 Abu-Ghazaleh: Digital Transformation is Crucial to Cope with Technological Advancements
- 2 Abu-Ghazaleh: Our Agreement with Delta University will Take Education to Another Higher Level
- 3 Abu-Ghazaleh: MoU with the Council of Arab Economic Unity will Contribute to Capacity Development in the Arab World
- 4 Abu-Ghazaleh: ASCA (Jordan) Issues Translated Arabic Version of 2018 Handbook of the International Code of Ethics for Professional Accountants
- 5 Impact of New Reporting Standards on Gulf Banks has been 'Manageable', Says S&P
- 6 Impairment under IFRS 9: A Cross-Functional Challenge

### At the annual meeting of the International Arab Society of Certified Accountants

### Abu-Ghazaleh: Digital Transformation is Crucial to Cope with Technological Advancements



CAIRO - The International Arab Society of Certified Accountants (IASCA) held its annual meeting under the chairmanship of HE Dr. Talal Abu-Ghazaleh, founder and chairman of IASCA, with Society members from different Arab countries in attendance.

During the meeting, the 2018 annual report was reviewed as well as the financial statements and the budget in addition to various issues related to the work of IASCA were discussed including the need to transform the professional curricula, training courses and exams into electronic system.

Dr. Abu-Ghazaleh pointed out that the recent digital transformation of the Society is a result of the urgent need to

cope with technological advancements in the accounting and auditing profession, adding that IASCA offers digital training courses and replaced its traditional paper exams with an electronic examination system through "Tadrib Online" platform to facilitate access for all students around the world.

Dr. Abu-Ghazaleh announced that IASCA will offer a number of professional programs as electronic courses on 'Tadrib Online' including the International Arab Certified Management Accountant (IACMA) and the IFRS Expert certificates.

During the meeting, IASCA announced that it will be holding a unique conference in cooperation with the League of Arab



States entitled “Transformation from Education to Innovation” which will focus on the changes in the accounting education field.

It is noteworthy to mention that the International Arab Society of Certified Accountants (IASCA) was established in 1984 as a non-profit professional accounting association in London, UK. It was

formally registered in Amman on February 24, 1994, with the aim of advancing the profession of accounting, auditing and other related disciplines in the countries of the League of Arab States. IASCA also aims at maintaining the professional independence of Arab accountants and their protection, as well as the application of professional supervisory measures.

## Abu-Ghazaleh: Our Agreement with Delta University will Take Education to Another Higher Level



CAIRO - The International Arab Society of Certified Accountants (IASCA) and Egypt’s Delta University for Science and Technology (DU) signed a Memorandum of Understanding (MoU) to develop the level of quality in the education and research fields through cooperation in training, qualification and consulting.

both parties share the same goal in developing quality of education and in translating and publishing the International Accounting Standards (IAS), noting that IASCA is the sole Arab entity authorized to translate the Standards into Arabic.

According to the MoU, signed by HE Dr. Talal Abu-Ghazaleh, founder and chairman of IASCA, and Dr. Yahya Mashad, President of Delta University the two parties will exchange experts, lecturers and specialists in different sectors to engage in implementing training courses and programs, in addition to research and scientific studies and organizing conferences and seminars.

Meanwhile, Dr. Mashad commended the keenness of the two parties to sign the MoU saying that the expertise of IASCA in the MBA and DPA programs are excellent and students will definitely “benefit from such a cooperation.”

Delta University for Science and Technology in Mansoura is one of the entities of Delta Group. It is a University that operates according to the highest national and international accreditation standards and includes many faculties. The University is looking forward to becoming a leading University in education, research and community service on the national and regional levels. This can be achieved by preparing the graduate to become the nucleus for future leaders with their scientific skills, to participate in developing Egyptian society and seek solutions to community problems.

Dr. Abu-Ghazaleh stated that signing the MoU is a positive move that will enhance IASCA’s mission in developing and facilitating the dissemination of information relating to the accounting profession to be exchanged among accountants.

He also expressed satisfaction in reaching such an agreement with Delta University as



## Abu-Ghazaleh: MoU with the Council of Arab Economic Unity will Contribute to Capacity Development in the Arab World



CAIRO - The International Arab Society of Certified Accountants (IASCA), chaired by HE Dr. Talal Abu-Ghazaleh, signed a memorandum of understanding (MoU) with the Arab Training, Research and Studies Center under the umbrella of the Council of Arab Economic Unity (CAEU) – the League of Arab States.

Furthermore, Dr. Abu-Ghazaleh, founder and chairman of IASCA, highlighted the importance of the memorandum in exchanging professional expertise and qualifying the administrative leadership through development programs in the financial Arabic market.

The MoU aims at cooperating towards capacity development in the scientific and technological fields by offering a number of training, management development and accounting programs to contribute to the economic development in Arab countries.

For his part, Dr. Sami Kreishan, the Director General of the Center, expressed his gratitude for signing the agreement which reflects the vision of HE the Ambassador Mohammad Rabie, CAEU Secretary General, by providing the opportunity for exchanging information, studies, reports and research, in addition to holding training courses, workshops, seminars and conferences as well as exchanging multimedia and global publications that benefit the Center and IASCA affiliates.

According to the MoU, the two parties will cooperate in holding training courses and workshops related to the fields of joint interest, particularly in launching the certificate of International Public Sector Accounting Standards (IPSAS) Expert with a training course on how to better understand the Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities in the Arab countries.

The Council of Arab Economic Unity was established in 1964. It aims at establishing a comprehensive economic unity among the Arab League countries.

## Abu-Ghazaleh: ASCA (Jordan) Issues Translated Arabic Version of 2018 Handbook of the International Code of Ethics for Professional Accountants

AMMAN- The Arab Society of Certified Accountants (ASCA/Jordan) issued the approved translated Arabic version of the 2018 Handbook of the International Code of Ethics for Professional Accountants, issued by the International Federation of Accountants (IFAC).

The Handbook has been revised as follows:

- NOCLAR Pronouncement- Responding to Non-Compliance with Laws and Regulations;
- Changes to the Code Addressing the Long Association of Personnel with an Audit or Assurance Client; and



The Handbook, issued for the first time separately from the international auditing standards, has been completely restructured in a new arrangement that makes it easier to navigate, use and enforce.

- Changes to Part C of the Code Addressing Preparation and Presentation of Information and Pressure to Breach the Fundamental Principles.

The Guide incorporates several substantive additions and revisions, including:

- Clearer and more robust provisions pertaining to safeguards that are better aligned with threats to compliance with the fundamental principles and to independence.
- Strengthened independence provisions addressing the long association of personnel with an audit or assurance client.
- New and revised sections dedicated to professional accountants in business (PAIBs) relating to

preparing and presenting information, pressure to breach the fundamental principles.

- Clear guidance for professional accountants in public practice (PAPPs) that relevant PAIB provisions set out in Part 2 of the Code are applicable to them.
- Strengthened provisions for PAIBs and PAPPs pertaining to the offering or accepting of inducements, including gifts and hospitality.
- New application material to emphasize the importance of understanding facts and circumstances when exercising professional judgment.
- New application material to explain how compliance with the fundamental principles supports the exercise of professional skepticism in an audit or other assurance engagement.

## Impact of New Reporting Standards on Gulf Banks has been ‘Manageable’, Says S&P

The impact of GCC banks adopting International Financial Reporting Standards 9 has been manageable” in the year since they were implemented, according to a new report from S&P Global Ratings.

Under IFRS 9, banks disclose the breakdown of their portfolio by different stages defined in the standards. All S&P’s rated GCC banks have done so, with the exception of Kuwaiti banks.

According to the report, a less supportive economic environment” has led to slight deterioration in the asset quality indicators of regional banks, particularly in the UAE and Saudi Arabia. Stage 3 loans comprised 3.1 percent of their total loans at the end of 2018, compared to 2.6 percent at the end of 2017.

Kuwait was found to be the only country where the asset quality indicators of rated banks improved, although S&P attributes this more to write-offs than to a genuine improvement in the underlying asset quality.

### Remain stable

Over the next 12 to 24 months, S&P expects GCC banks’ stock of problematic loans (those after stage 2 or 3) to remain stable, although some stage 2 loans will migrate to stage 3.

If the GCC manages to maintain its rate of slight economic recovery, the pace of migrations is expected to slow when compared to those of 2018. If oil prices fall significantly past a base scenario of \$60 per barrel, that the asset quality indicators will weaken further.



The report also found that the average cost of risk for rated GCC banks fell by 10 basis points compared to 2017, despite an increase in non-performing loans.

S&P attributes this to IFRS 9, where the opening impact is charged to the bank’s equity and not to its income statement.

Despite that transition and the fact that banks had to take the hit up front, most of the banks decided to maintain a stable charge in their income statement,” the report noted. It is worth noting that cost of risk dropped...in the UAE and was stable in all the other countries.”

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## Impairment under IFRS 9: A Cross-Functional Challenge

The advent of IFRS 9 Financial Instruments has impacted the business world profoundly. One of the most challenging and contentious provisions of the standard is the recognition of expected credit losses (ECL) for the impairment on financial assets. Formerly under IAS 39, credit losses were only recognized to the extent that there was objective evidence of impairment. In other words, a loss event needed to have occurred, before an impairment loss could be recognized. But IFRS 9 introduces a new impairment model based on ECL, resulting in the recognition of a loss allowance before the loss event occurs. Under this approach, entities require to book ECL based on its historic default rates, adjusting for current conditions with forward-looking macro-economic information. IMPACT ON BANKING SECTOR IFRS 9 prescribes two approaches for recognizing and measuring the ECL, namely, General Approach and Simplified Approach. General Approach is largely applicable to banks and financial institutions.

This approach outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition to compute ‘12-month loss’ or ‘lifetime loss’. Banks for many years have been subject to Basel Accords and have been using credit risk-weighted assets to test capital adequacy. Hence for them the infrastructure to compute the ECL has already been in place.

The data, models and the processes used for risk disclosure can now be used for ECL computation with necessary fine-tuning and be incorporated into the financial statements. IMPACT ON NON-BANKING SECTOR This is not the case for all other nonbanking businesses, which have to use the Simplified Approach to compute ECL on trade receivables, due from related parties, cash and bank balances. Though the standard prescribes lifetime ECL under the Simplified Approach, it provides neither any model nor methodology to compute the ECL. Unlike the banks, these entities do not have their own models nor any data structure to compute ECL. However, IFRS 9

provides very vaguely that ECL shall reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; time value of money; and forecasts of future economic conditions. Moreover, IFRS 9 does not directly define the term ‘default’. Instead it provides that there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to



demonstrate that a more lagging default criterion is more appropriate.

As entities generally face a huge delay in collection these days, they invariably rebut this presumption to justify a delay as long as one or two years. COMPLEX SIMULATIONS IFRS 9 does not directly prescribe how the simplified approach is to be applied to determine ECL, instead it provides a practical expedient to use a provision matrix.

A provision matrix might specify fixed provision rates depending on the number of days a trade receivable is past due. But IFRS 9 remains silent on how to compute these rates used in the provision matrix.

The standard also requires the estimate of ECL to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In practice, this may be a complex exercise involving detailed simulations of multiple scenarios.

Another requirement for ECL computation is the adjustment for forward-looking macroeconomic factors such as property prices, commodity prices, etc. This may involve applying intricate statistical models which fall outside the scope of accounting function. CROSS-FUNCTIONAL APPROACH Thus, the impairment provisions under IFRS 9 require a cross-functional approach synthesizing finance and risk methodologies. Ironically finance function is driven by facts and figure while risk function is driven by stochastic statistics making ECL computation all the more complex.

As the management is bracing itself to meet these challenges for the first time in the preparation of financial statements, they invariably seek the help of external consultants. In the coming years, they should be in a position to build their own models and data structure with in-house skillset to comply with the requirements of ECL under IFRS 9.

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The International Arab Society of Certified Accountants (IASCA)

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## الدورات التدريبية المتوفرة على المنصة:



### الدورات القصيرة المتخصصة في مجال المحاسبة والتدقيق

١ - محاسبة التكاليف

٢ - محاسبة عقود الإيجار

٣ - محاسبة الأصول الثابتة

٤ - محاسبة الأدوات المالية

٥ - محاسبة عقود الإنشاءات

٦ - محاسبة الأصول غير الملموسة

٧ - محاسبة النقدية والذمم المدينة

٨ - تصميم خطة وبرنامج التدقيق الخارجي

٩ - تقييم المخاطر وعناصره في التدقيق الخارجي

١٠ - خدمات التأكيد والخدمات ذات العلاقة ورقابة الجودة

١١ - محاسبة المخزون بموجب معايير المحاسبة الدولية

١٢ - عرض القوائم المالية وفقاً لمعايير المحاسبة الدولية

١٣ - دورة نظام الرقابة الداخلية الفعال وفقاً لمفهوم COSO

١٤ - التخطيط لعملية التدقيق وفقاً لمعايير التدقيق الدولية

١٥ - مفهوم المنظمات غير الربحية ومحاسبتها والإبلاغ عنها

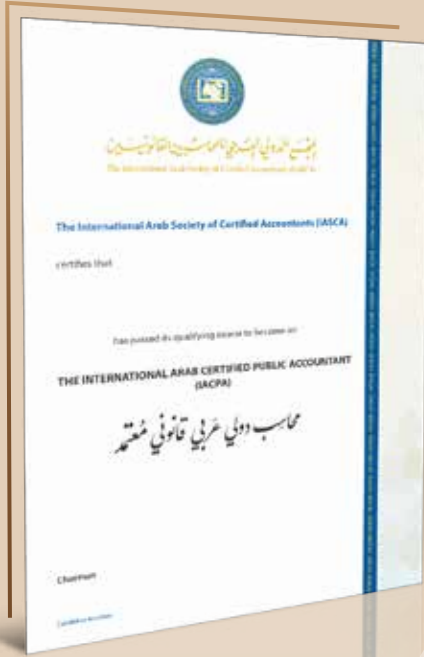
١٦ - اعداد القوائم المالية الموحدة والمنفصلة وإندماج الأعمال

١٧ - إصدار التقارير وأنواع الرأي وكيفية صياغته في ضوء آخر التعديلات

١٨ - إعداد قائمة التدفقات النقدية بموجب معيار المحاسبة الدولي رقم (٧)

### دورات مهنية تأهيلية:

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