Change is inevitable

Accounting and audit embark on a new journey

The business arena is poised for a series of significant changes in certain accounting and auditing standards impacting different stakeholders, especially in regard to the high level strategies and Enterprise Resource Planning (ERP) systems and processes.
Reengineering the core concepts

The direction is toward more transparent and advanced tools that practitioners need to cope with the fast changing economy and public needs. The amendments and new releases in auditing and accounting standards are a reflection of the evolution in the market. Ever more complex business transactions put a heavy strain on different market players to provide sound and efficient solutions to interpret and translate them into a company's records and external reporting. To understand this important phase better, it is key to have a quick and insightful look into the upcoming changes, the associated challenges and possible action plans from auditors on the one hand and company management on the other.

Redefining certain accounting perceptions

Over the past couple of years the International Accounting Standards Board (IASB) announced several amendments and new releases of accounting standards that will drastically impact financial reporting requirements. The main triggering factor for this change is the increasing need to provide users of financial statements with a more transparent view of the numbers. The global business market experienced a wide spectrum of transactions, business deals, technological advancements, types of investments and ERP systems over the past decade, that have imposed high risks on the organizations and pressure on regulators, accountants, auditors and other concerned parties in the way they address such matters.

As an example of the significant changes, the IASB has issued a new International Financial Reporting Standard (IFRS15-Revenue from Contracts with Customers) that establishes the principles by which an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS15 will significantly impact the revenue recognition process wherein the control approach (transfer of risk and rewards) under the exiting standard (IAS18) will be superseded by a "five-step model" as follows:

Identify the contract → Identify the performance obligation → Determine the transaction price → Allocate the price to the transaction and finally → Recognize revenue when each performance obligation is satisfied.

More standards/amendments to be implemented in the coming couple of years (IFRS9-Financial Instruments, IFRS16-Leases and others) will also trigger a redefinition of the core understanding of accounting principles—a certain indication that the future approach is for a more detailed scrutiny of transactions to establish clearer handling of controversial and judgmental accounting issues.

Auditors: tell me what's on your mind!

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As an example of recent developments, the International Auditing and Assurance Standards Board (IAASB) issued new and revised auditor reporting standards to be applied in 2016 subject to a different date being specified in local law or regulation. The new standards drastically change the audit report, which is the most visible output of an audit. Aside from the modifications in the structure of the audit report, an integral part has been introduced, Key Audit Matters (KAMs), in which the auditor explains certain matters which took considerable audit attention or are rather considered to be complex, judgmental and very material or risky to the financial statements. Such points were covered previously in the auditor’s communication with those charged with governance yet with the new standard, these matters will be further shared with the public, as part of the auditor’s report, for a more transparent and clearer level of communication. While the application might be cumbersome and complex for both management and the auditors, the opportunity and benefit to the users of the financial statements...
outweigh such challenges. The users are more aware of critical areas, have clearer information to decide on the level of trust they place in the financial statements as well as hearing the auditor’s perspective on risks. No doubt that such change would be very helpful to set proper expectations, avoid confusion and allow the auditors to articulate their work clearly to the public.

Handle with patience
While the change is necessary and crucial for a better business outlook, there are serious challenges that have to be considered. The application of some of the standards entail additional costs that might be significant to some organizations whose systems cannot be tailored to cater to the new requirements, notwithstanding the need to train the staff, update policies and reconsider strategies to achieve compliance. On the other hand, audit firms are also taking serious steps to continue enhancing their approaches, systems and ensure that their professionals are equipped with the necessary tools to execute their work with the highest standards of quality.

Embrace the change or miss the ride
The market is moving at a very fast pace and this goes for the different needs of the global business platform. Changes have a wide impact on different professions and would definitely need seamless cooperation between regulators, senior management, auditors and other stakeholders. It is, however, imperative to envisage these changes as opportunities and try to leverage their positive outcome on the workforce. A key factor is to have a flexible mindset that will foster the efforts toward receptiveness of helpful ideas and overcome the associated difficulties and challenges in resisting change.

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