

Only One Earth

In the universe are billions of galaxies, In our galaxy are billions of planets, But there is **#OnlyOneEarth**.
Let's take care of it.

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Wishing our new President, **His Highness Sheikh Mohamed bin Zayed Al Nahyan**, hearty congratulations as he takes on the role of UAE's 3rd president since becoming independent in 1971. We wholeheartedly pledge our alliance to him and cannot wait to witness yet another exhilarating era of growth and prosperity.

Our deepest condolences on the passing of **His Highness Sheikh Khalifa bin Zayed Al Nahyan**. He will always be remembered for his incredible leadership and humanitarian work, and his legacy shall remain forever.



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HELLO FROM US



Welcome to the latest edition of EVAS Plus, our quarterly newsletter series. We have consolidated our efforts, position, and learnings to bring to you the latest industry insights and key academic concepts, all of which we hope will help keep you updated and provide you with vital information to thrive in your industry and profession.

We have themed this newsletter to include an important message, which is often ignored i.e., our environment. Humanity continues to consume far more natural resources than the planet can sustainably provide. Businesses need to put sustainability at the heart of their decision-making as a healthy planet is the backbone of nearly every industry on Earth. It is time for us to change. Let us make a promise to make our planet a greener and healthier place to live!

For our academic sections, we will be covering the below topics:

IFRS DESK

IAS 2: Inventories

Prescribes the accounting treatment for inventories, provides guidance on the determination of cost and its subsequent recognition as expense including any write down to NRV.

ISA DESK

ISA 505: External Confirmations

Provides guidance to the auditor, when using external confirmation procedures, and to design and perform such procedures to obtain relevant and reliable audit evidence.

TAX DESK

Indirect Tax

As mentioned in the previous newsletter, we cover the remnant part on the taxation aspects in real estate industry in UAE.

Direct Tax

In this edition, we have attempted to identify and analyse certain important questions / aspects which can be explored more in the UAE Corporate Tax based on the recently published Public Consultation Document.

We hope that you find the information contained herein to be insightful and informative. Do let us know any other topic that you would like us to cover in the upcoming editions.

Happy Reading !

VIJAYA MOHAN

Managing Partner
EVAS International



Ensuring a better future is our instinct, not only on the economic front, but also on the social security front. However, such development without addressing the environmental aspects will be undesirable.

We need to come together to preserve and protect planet earth. Listed below are some actions that we can take in our business to restore nature and build a healthy planet for our next generations.

Afterall, we have **"Only One Earth"**.

Products and materials

- Design new business models and resultant products and services that embrace repairability, upgradable products with long life cycles and natural materials, coupled with programmes that collect, remanufacture, repurpose or recycle them at the end of their lives.
- Support campaigns to drive global consumer behaviour change, including promoting sustainability aspirations like making durable, refurbished and recycled products more popular.
- Phase out unnecessary, avoidable, and problematic plastic items and replace them with alternative materials, products, and services.



Energy and climate

- Design and adopt a green business strategy that values sustainability, minimizes emissions and other environmental impacts.
- Move your company's savings and pension scheme to vehicles that support sustainable initiatives and do not harm the climate, human health or biodiversity.
- Set emission reduction targets for your business, work to continuously reduce the carbon footprint of your operations, products, and services, and report publicly on your progress.

Transport

- Scaling up of mobility-as-a-service, such as bike- and car-sharing, and connected urban logistics that reduce emissions, traffic and environmental impact.
- The development and/or deployment of interoperable electric charging and new electric vehicles for all types of transport.
- Low-carbon fuels for long range and heavy-duty transportation, including in shipping and aviation.

Food Systems

- Produce food in sustainable farming systems and fisheries that preserve and restore the productivity of our land and oceans, prevent pollution and protect biodiversity.
- Support campaigns to shift consumer choices towards healthy and sustainable foods and to reduce food waste.
- Prioritize foods that are regional, seasonal, plant-rich and are made with few chemical inputs.
- Minimize packaging and use only reusable or recyclable materials.

UAE Corporate Tax - Certain open areas in the Public Consultation Document

By Amith Ravindren

The UAE Corporate Tax (CT) will come into effect in the United Arab Emirates (UAE) from financial years starting on or after **01 June 2023**.



On 31 January 2022, the UAE Tax Authority made an announcement to introduce Corporate Tax and released the FAQs to address the preliminary queries of applicability and procedures. On 28 April 2022, the Ministry of Finance (MOF) released a Public Consultation Document for obtaining inputs from interested parties. The MOF also invited comments on areas that are otherwise not covered in that document. It also indicated that the Tax Procedures Law to be released at a later stage will clarify many procedural aspects.

This article is an attempt at identifying few of the critical unresolved questions in the Public Consultation Document, which should ideally be clarified as a part of the Tax Procedures Law.

A THE PROSE IN POEM

Para 4.4 of the Public Consultation Document provides that a foreign company may be treated as a resident person for CT and be liable to pay taxes if it is effectively managed and controlled in the UAE. There is no followable guideline for analysing the Place of Effective Management (POEM), however the Public Consultation Document puts the POEM as a question of fact and provides indication that POEM may be linked to the location of directors or other decision makers of the entity.

With the advent of flexible, home-based working trend post 2020 and the UAE's improved VISA regime, it may be possible for top level managers to reside, work and take decisions from UAE while the effective result of those decisions happen in another country.

Hence, it is expected that the procedural documents may bring up further clarifications to the concept of POEM for taxing Foreign Companies. Equivalence may be drawn from Article 4 of the OECD Model Convention where the contracting states may endeavour to determine by mutual agreement the residency of a taxable person by virtue of non-exhaustive indicators like:

- ✓ Place of incorporation
- ✓ The geographical segment of highest revenue
- ✓ Location of major asset base
- ✓ Location of books of account
- ✓ Location of board meetings
- ✓ Location where the employees are situated, and the major payroll expenses are incurred, etc



B HOW FREE ARE THE FREE ZONES?

Para 3.27 of the Public Consultation Document provides that tax incentives that is currently being provided to Free Zone Persons shall be honoured provided they maintain adequate substance and comply with all regulatory requirements. While this term adequate substance is not defined, further clarification is awaited as to understanding if the conditions for adequate substance will be same as that mentioned in the Economic Substance Regulations.

If a parallel reference is drawn, the Free Zone Companies may have to do Economic Substance Reporting, with or without the occurrence of a Relevant Activity in addition to the annual CT return. The reporting may focus on financial indicators like Revenue, Profit, Asset base and non-financial indicators like the number of qualified and skilled employees, number of board meetings to prove adequate substance in the UAE.

While 'Certainty and Simplicity' is a key principle of the CT law, it would be worth finding out if Free Zone persons, who are an important part of the UAE economy would have to take up this additional compliance.

Further, there is a specific mention in para 3.28 of the Public Consultation Document that *'In line with the original intentions and purpose of Free Zones, a Free Zone person can benefit from a 0% CT rate on income earned from transactions with businesses located outside UAE, or from trading with businesses located in the same or other Free Zone'.*

These wordings if interpreted literally, gives the impression that all transactions by the Free Zones with business outside UAE are entitled to 0% CT rate, while only Trading transactions between or within businesses in Free Zones get eligibility for 0% rate. It is unclear if income from services within and between Free Zone Persons would qualify for 0% rate. A clarity in this regard would be essential to determine the taxability of various transactions which include purely service or a hybrid operation which can/cannot separate the service and goods element from the invoiced amount.

C TAX GROUPS

Section 6.1 of the Public Consultation document provides that taxpayers can form a tax group. However, the idea of tax group in CT is rigid compared to the existing VAT laws. In the VAT laws, thrust element for forming a tax group is the existence of 'related parties' between the members of the group. The laws are also not particularly concerned with the type of taxpayer's establishment (sole person, partnership, companies etc).

However, the Public Consultation Document provides that a Tax Group can only be formed by UAE resident group of companies, and that the parent company must hold at least 95% of the share capital of the subsidiaries directly or indirectly. This provides a limited number of taxpayers the opportunity to file as a group.

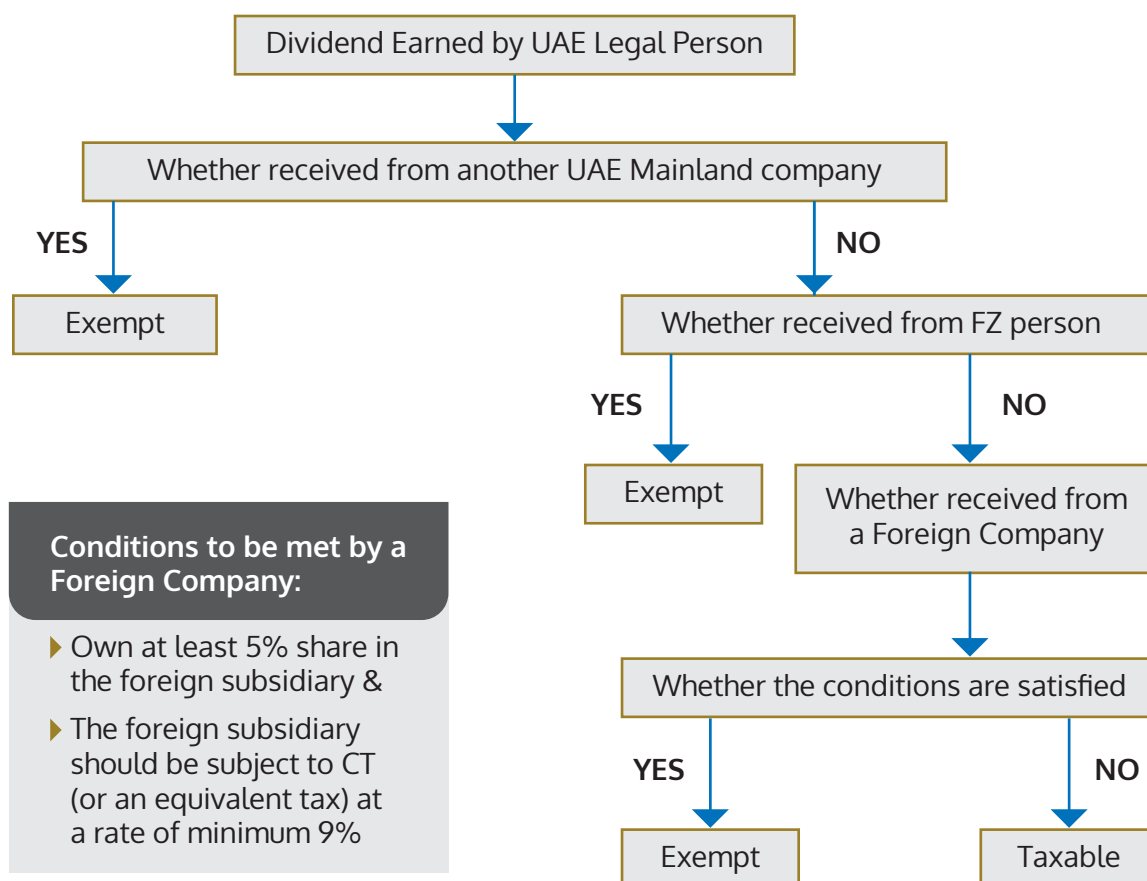
Para 6.4 of the Public Consultation document also provides that CT regime would allow for consolidation for tax purposes essentially for wholly owned group of companies if they have 75% common ownership.

Based on a plain reading of the above terms, it is unsure if taxpayers being sole proprietorships, Free Zone entities and other related constitutions will be allowed to file as a tax group. If not, there may be an increase in compliance costs for separate tax registrations, accounting and filing of return on those persons. Moreover, losses of one entity may not be combined with the profit of another entity.

D DIVIDENDS AND CAPITAL GAINS

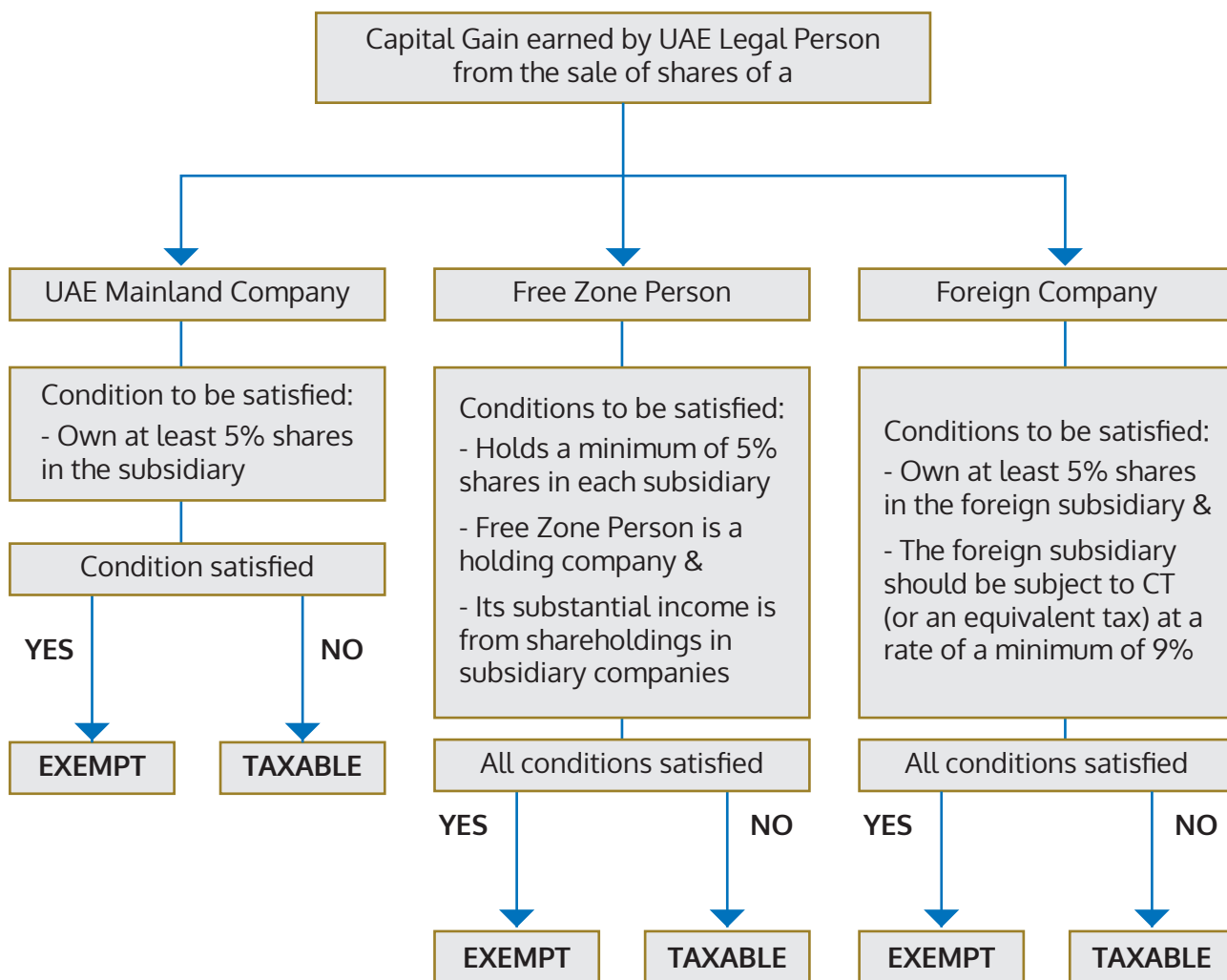
According to the Public Consultation Document, a UAE corporate shareholder will generally be exempt from CT on dividends received from a subsidiary company. The purpose of this participation exemption is to avoid double taxation of corporate profits, first when they are earned by the subsidiary company and second when profits are distributed to the shareholders.

Dividends distributed by a UAE mainland company and Free Zone Persons are exempt in the hands of the recipient. However, those earned from Foreign Companies are taxable where the total holding of the recipient is less than 5%.



Also, Capital Gains earned by sale of shares of a UAE mainland company is exempt if the recipient owns at least 5% of the shares in the subsidiary at the time of sale.

The capital gains earned from a free zone person would be exempt only if the recipient is a holding company, has *substantial income* from the shareholdings in the subsidiary and it holds minimum 5% of shares. And that earned from a foreign company is exempt if the recipient owns 5% shares in foreign subsidiary.



While these taxability regulations for dividends and capital gains are very straightforward, there are a plethora of unresolved questions that arise on the subject. The prominent one being the definition of dividend, specifically if it includes distribution of free reserves, interest free loans offered to the shareholder and other distributions in kind.

Clarity is also needed on allowability of expenses that are incidental to the taxpayer on account of dividend and the point of taxation (on declaration or receipt).

With respect to capital gains, a clear definition is awaited for 'substantial income' with respect to sale of shares in a free zone person, whether gifting or donation of shares constitute sale of shares, the computation of capital gains including the allowability of purchase consideration and indexation, and the allowability of set off of capital losses from regular income.

Way forward

While these are just the cream of the unresolved questions, the issue is therefore an increased need of clarity in the UAE Corporate Tax regime, which would be solved by the introduction of detailed procedures and detailed legal framework.

Note: The interpretation and opinions on the Public Consultation document is of the author and does not constitute the views of Evas International nor the Ministry of Finance or the Federal tax Authority.

IAS 2 Inventories



Inventories are assets

- held for sale in the ordinary course of business
- in the process of production for such sale
- in the form of materials or supplies to be consumed in the production process or in the rendering of services

Objectives of IAS 2

- to prescribe the accounting treatment for inventories
- to provide guidance on the determination of cost and its subsequent recognition as expense including any write down to NRV
- to provide guidance on the cost formulas

Scope of IAS 2

- Shall be applied to all inventories except:
- Financial instruments (IAS 32 and IFRS 9)
 - Biological assets related to agricultural activity (IAS 41) and
 - Agricultural produce at the point of harvest (IAS 41)

Measurement principles do not apply to Inventories held by:

- ⊘ Producers of agricultural and forest products, agricultural produce after harvest and minerals and mineral products to the extent that they are valued at NRV
- ⊘ Commodity broker traders who measure their inventories at fair value less costs to sell (FVLCTS)

MEASUREMENT OF INVENTORIES

Inventories are measured at lower of cost or net realizable value (NRV)

COST

1. all costs of purchase
2. costs of conversion and
3. other costs incurred to bring the inventories to their present location and condition

NRV

estimated selling price in the ordinary course of business

- (-) estimated costs of completion
- (-) estimated costs to make the sale

[Estimates of NRV are based on the most reliable evidence available at the time of estimates]

Costs of purchase includes

- Purchase price
- Import duties
- Other taxes (other than those subsequently recoverable from taxing entities)
- Transport, handling, and other costs directly attributable to the acquisition of finished goods, materials, and services
- Trade discounts, rebates and other similar items are deducted in determining the costs of purchase

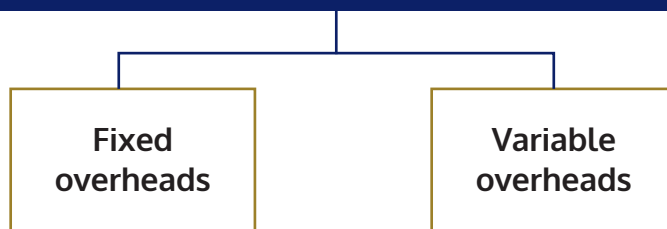
Costs of conversion includes

- Costs directly related to the units of production such as direct labour
- **Systematic allocation*** of fixed and variable production overheads that are incurred in converting materials into finished goods
- When joint products are produced or when there is a main product and a by-product and costs are not separately identifiable - allocate on a rational and consistent basis.
- Most by-products are immaterial in nature and hence should be measured at NRV and deducted from the main product cost

Other costs incurred to bring the inventories to their present location and condition excludes

- Abnormal amounts of wasted materials, labour, or other production overheads
- Storage costs unless those costs are necessary in the production process before a further production stage
- Administrative overheads
- Selling costs
- Finance element where inventories are purchased on deferred settlement terms
- Borrowing costs (IAS 23) – [to be included only in limited circumstances, for example – qualifying assets like grape vine]

*Systematic allocation



- Allocation is based on the normal capacity of the production facilities taking into consideration loss of capacity from planned maintenance.
- Actual level may be used if it approximates normal capacity.
- In case of abnormally high production, fixed overhead allocation is decreased so that inventories are not measured above cost.
- Unallocated overheads are expensed off

- Allocation is based on the actual use

Alternative techniques for the measurement of cost may be used if the results approximate the cost.

- **Standard cost method** considers the normal levels of materials and supplies, labour, efficiency, and capacity utilization. These are regularly reviewed and revised in the light of current conditions.
- **Retail method** (often used in the retail industry where there are many rapidly changing items with similar margins). Cost of inventory is determined by reducing the sales value of the inventory by the appropriate gross profit margin.

COST FORMULA

The method used should reflect the fairest possible approximation of the cost incurred in bringing the inventories to their present location and condition.

a) Specific identification method

- for items that are not ordinarily interchangeable, and
- for goods or services produced and segregated for specific projects.

b) FIFO

c) WACM

An entity shall use the same cost formula for all inventories having a similar nature and use to the entity

Why should inventories be written down to their NRV?

The practice of writing inventories down below cost to NRV is consistent with the view that assets should not be carried in excess of amounts expected to be realized from their sale or use.

Inventories to be written down to NRV	Damaged inventory
	Obsolete inventory (Wholly or partly)
Inventories not to be written down to NRV	Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.
	However, if cost of finished goods exceeds the NRV, then write down to NRV. In such cases replacement cost of the materials may be the best available measure of the NRV
Procedure	Item by item
	Grouping of certain similar or related items
Reversal of write down	When the circumstances that previously caused inventories to be written down below cost no longer exist or it is evident that NRV has increased, then recognize reversals of write down as a reduction in the amount of inventories recognized as an expense in the period in which reversal occurs.
	Reversal is limited to the amount of the original write down

Recognition as an expense

- When inventories are sold, carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized
- Any write downs and all losses of inventories shall be recognized as an expense in the period of write down or loss occurs
- Reversal of write downs (see above)
- Inventories allocated to other asset accounts (example – used as a component of a self-constructed PPE) are recognized as an expense during the useful life of that asset

Disclosure

- Accounting policies adopted in measuring inventories including the cost formula
- Total carrying amount of inventories and classification (merchandise, production supplies, materials, work in progress, finished goods)
- Carrying amounts of inventories carried at FVLCTS
- Amount of inventories recognized as an expense during the period (cost of sales include unallocated production overheads and abnormal amounts of production costs of inventories)
- Amount of write downs of inventories
- Amount of any reversal of write downs
- Circumstances or events that led to the write down
- Carrying amount of inventories pledged as a security for liabilities

ICV Update: Mandatory Nafis Registration



The MoIAT (Ministry of Industry and Advanced Technology) has recently announced that all ICV certified entities / entities intending to apply for ICV certification, must register as a partner on the Nafis Website (<https://nafis.gov.ae/>). The confirmation email is to be shared with the ICV Certifying Body prior to signing the ICV engagement letter, thereby making the Nafis Registration a pre-requisite to applying for an ICV certification.

Nafis is a governmental federal program launched in September 2021 as part of “Projects of the 50”, aimed at increasing the competitiveness of Emirati talent and empowering them to pursue opportunities in the UAE’s private sector over the next 5 years. The percentage of Emirati workforce in private companies is set to increase from 2% to 10% during the said period.

The Nafis program provides a platform where private companies are able to access a centralized database of Emirati talent, thus making the recruitment process seamless.

5 STEP REGISTRATION PROCESS

- 1 On the Nafis website, go to the ‘Menu’ option and click on ‘Sign in as a Partner’.
- 2 Login using the UAE pass account of the company’s owner/authorized representative.
- 3 Fill in the details on the application form.
- 4 Upload the requisite documents:
 - a. License
 - b. Letter of Authorisation stating that the UAE pass belongs to a representative who has been authorised by the company to complete the registration on its behalf
 - c. Company Logo
 - d. MOHRE Electronic Company Card (not applicable for Free Zone companies)
- 5 Submit the form and wait for an email confirming the partner registration. If there is any mismatch in documentation, Nafis will put the application on hold until said matter is rectified. After rectification, wait for an email validating the partner registration. Once the partner profile creation/validation email is received from Nafis, the registration process is complete.

Everything You Need To Know About VAT On Real Estate In UAE (PART 2)



CONTINUED FROM PREVIOUS EDITION...

Sl No.	Areas covered in the previous edition of the newsletter	Sl No.	Areas covered in the current edition of newsletter
1	Place of supply	8	Commercial real estate
2	Residential Buildings	9	Mixed use developments
3	Labour camps	10	Owners Associations
4	Farmhouses	11	Development infrastructure
5	Conversion of a building into a new residential building	12	Supplies between landlords and tenants
6	Charitable building	13	Construction Industry
7	Bare land	14	VAT refund

8 COMMERCIAL REAL ESTATE



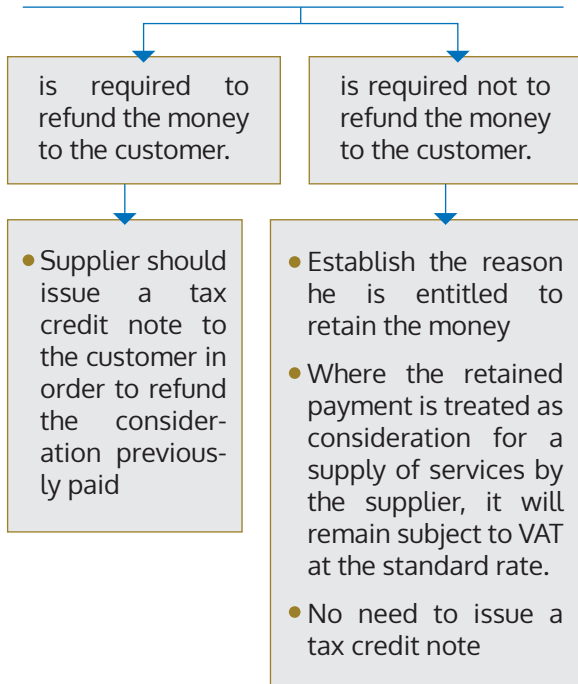
Commercial real estate is any land or building, which are not one of the following:

- a building designed as a residential building or number of residential buildings, or
- a building intended for use by a charity for a relevant charitable activity, or
- bare land.

The supply of commercial real estate is subject to VAT at the standard rate of **5%**.

Cancelled Developments

Where a planned development is cancelled, and the supplier accepts full or partial payment in relation to the supply of real estate and the supplier:



Payment of VAT on sales of commercial real estate

A special payment process exists where sales of commercial real estate are made.

It does not apply to the following:

- Sales or leases of residential property;
- Leases of commercial property
- Sales of commercial property by the developer of that property; and
- The sale of commercial property with the benefit of sitting tenants to a buyer who is a taxable person which qualifies as the transfer of a business.

In such cases, the seller of the property will issue a tax invoice to the buyer in relation to the sale proceeds of the property as normal. However, before completing the ownership transfer process with the Land Department, the buyer of the commercial property will be required to pay the VAT due on the purchase directly to the FTA.

9

MIXED USE DEVELOPMENTS

A mixed-use development is a building or plot of land which has clear and distinct areas which are put to different uses which would have a different VAT treatment when supplied.

For example, a building which has retail units on the ground floor level, office or commercial space on the middle floors of the building and residential units on the top floor would be considered a mixed-use development



When distinct part is supplied

VAT Liability

Shall depend on the use of the part of the building which is being supplied.

Commercial Unit

Standard rate

Residential Unit

Exempt or zero rated

When development is sold in its entirety

VAT Liability

Shall be necessary to apportion the consideration received between the different parts of the building

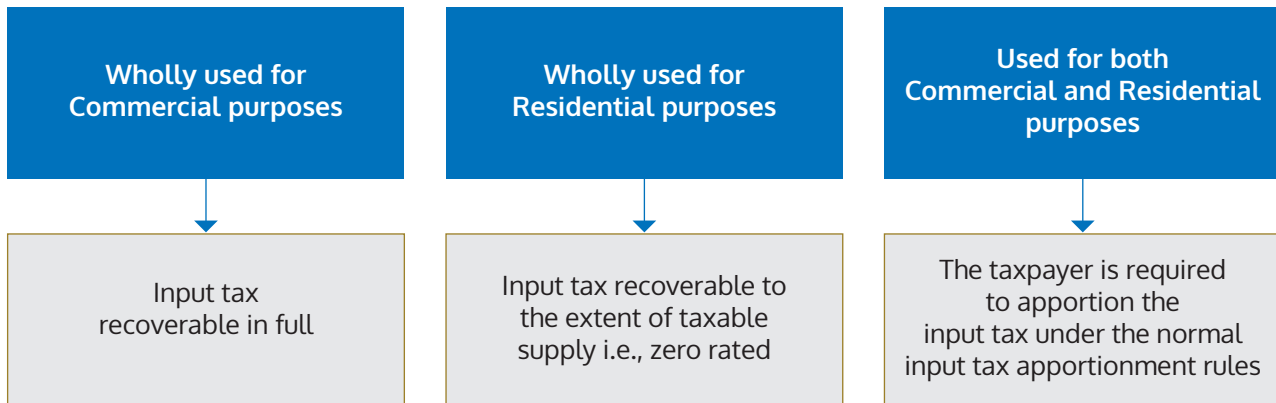
Value relating to commercial part

Standard rate

Value relating to residential unit

Exempt or zero rated

VAT on development costs / repair and maintenance costs



10 OWNERS ASSOCIATIONS

As per VAT Guide on Real Estate, Owners associations were required to get registered on fulfillment of certain conditions.

However, Law No. 6 of 2019 Concerning Ownership of Jointly Owned Real Property in the Emirate of Dubai was issued and had a significant impact on Dubai Owners' Associations and Management Entities.

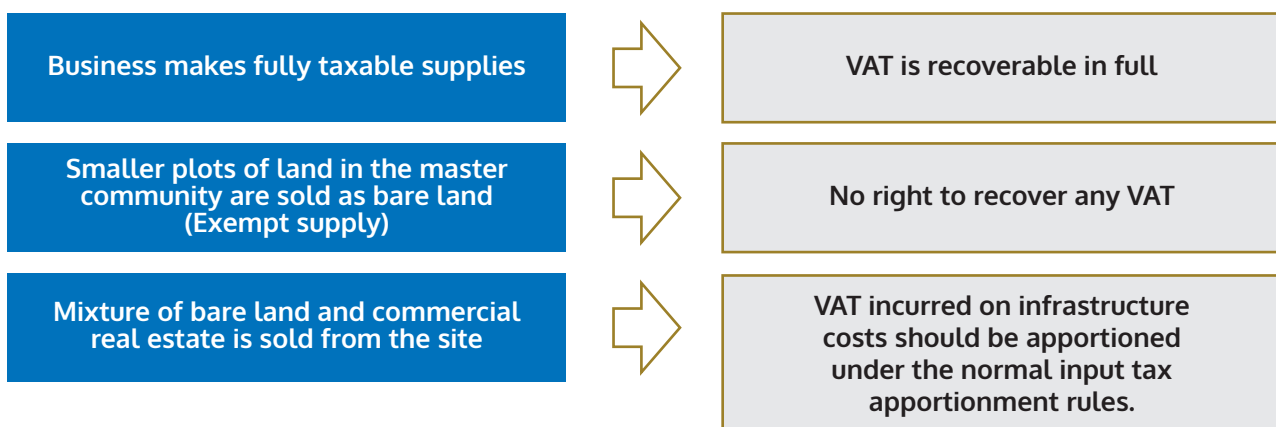
It stated that all rights and obligations of Dubai Owners' Associations were transferred to Management Entities, which resulted in Dubai Owners' Associations no longer making taxable supplies

Based on Law No. 6, VAT Public Clarification (VATP022) was released, which stated that Dubai Owners' Associations no longer make taxable supplies are, required to deregister for VAT.

There are, however, numerous Dubai Owners' Associations that are still registered for VAT.

11 DEVELOPMENT INFRASTRUCTURE

Where a master developer incurs VAT in the course of constructing communal infrastructure on a large plot of land, such VAT shall be recoverable as a general overhead cost of the business.



12 SUPPLIES BETWEEN LANDLORDS AND TENANTS

Scenarios	VAT applicability
VAT registered prospective tenant received inducement fees for entering into a lease (both commercial/ residential property) - Considered as taxable supply of the tenant.	Standard rate
VAT unregistered prospective tenant received inducement fees from landlord for entering into a lease for commercial/ residential property.	Out of scope
Landlord grants a rent-free period in return for no consideration (the tenant is not obliged or required to provide anything in return, and the tenant is not a related party).	Out of scope
Consideration paid for lease surrender by the landlord to the VAT registered tenant - Considered as taxable supply of the tenant.	Standard rate
Consideration paid for lease surrender by the landlord to the VAT unregistered tenant	Out of scope
Dilapidation payments which the landlord will recover from tenants, at or near the termination of the lease, for repairs and maintenance works which is undertaken over the life of the lease by the tenant and which will be undertaken by the landlord.	Standard rate
Dilapidation payments which the landlord will recover from tenants, at or near the termination of the lease, to cover the cost of restoring the property to its original condition or which are paid as damages or for breach of contract relating to a requirement to properly maintain the property.	Out of scope

13 CONSTRUCTION INDUSTRY

Construction services which are supplied in the UAE are subject to VAT at 5%. This VAT treatment will apply regardless of the type of building which is being constructed.

Date of supply in the construction industry

The normal date of supply rules apply to construction services in the same way as they apply to any other service i.e. the date of supply will be the earlier date of the following:

- Receipt of payment;
- Completion of the services; or
- An invoice is issued in respect of the supply.



Applying the above date of supply rules may not always be straightforward for supplies within the construction industry and therefore special rules apply for the services which are supplied on a continuous or on-going basis over a period of time.

Date of supply in different scenarios:

Scenario	Date of supply – earliest of the following:
Where a contract includes periodic payments or consecutive invoices	<ul style="list-style-type: none"> • The date of issuance of any tax invoice; • The date payment is due as shown on the tax invoice; • The date of receipt of payment. <p>In the event that 12 months has passed from the date of provision of the goods or services and none of the above events has occurred, a date of supply will be triggered at the 12-month point.</p>
Retention payments	<ul style="list-style-type: none"> • The time the retention payment has been made • The issuance of a tax invoice in relation to the retention; or • 12 months from the date the work has been signed off as complete (e.g. certified).
Retention payments against services – considered to be a single supply and the services are considered to have already been completed.	<ul style="list-style-type: none"> • Receipt of payment; • Completion of the services; or • An invoice is issued in respect of the supply.
Retention payments against services – considered to be a single supply and the services are not considered to have been completed.	<ul style="list-style-type: none"> • The time the retention payment has been made • The work has been signed off as complete; or • The tax invoice has been issued.

14 VAT REFUND

Where a UAE citizen owns or acquires land in the UAE on which the person builds or commissions the construction of his own residence, he shall be entitled to make a claim to the FTA to repay the VAT on the expenses of constructing the residence.

Conditions for the special VAT refund

- The claim may only be made by a natural person who is a UAE national.
- The claim must relate to a newly constructed building to be used solely as the residence of the person or the person's family; and
- The claim may not be made in connection with a building that will not be used solely as a residence by the person or the person's family
- The refund claim must be lodged with the FTA within 6 months from the date of completion of the newly built residence.

Costs which are eligible to be refunded under the scheme

- Services provided by contractors, including the services of builders, architects, engineers and other similar services necessary for the successful construction of the residence.
- Building materials, being goods of a type normally incorporated by builders in a residential building or its site, but not including furniture or electrical appliances.

Goods are normally considered to be incorporated into a building when they are fixed in such a way that the fixing or removal of those goods would either require the use of tools or result in the need for remedial work to the fabric of the building, or substantial damage to the goods themselves.

ISA 505 External Confirmations



MEANING OF EXTERNAL CONFIRMATION

External confirmation is audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.

An auditor may obtain external confirmations from third parties to corroborate any audit evidence already available with the auditor.

ISA 505 on External Confirmations guides an auditor on how to deal with confirmation requests served to third parties.

OBJECTIVE

The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence.

Need for external confirmations

To obtain the evidence that qualifies for both sufficiency and appropriateness, the auditor is required to design and implement audit procedures which are reliable.

ISA 500 states that audit evidence is more reliable when:

- ✓ it is obtained from independent sources outside the entity.
- ✓ it is obtained directly by the auditor rather than being obtained indirectly or by inference.
- ✓ it exists in documentary form, whether paper, electronic or other medium.

To obtain information directly and from independent sources, the auditor has the right to obtain confirmations from third parties outside the organization. Such confirmations are called external confirmations.

These external confirmations are used to confirm the information auditor already has acquired and increase the assurance of evidence already obtained.

External Confirmation Procedures

When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:

- [A] Determining the information to be confirmed or requested
- [B] Selecting the appropriate confirming party
- [C] Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and
- [D] Sending the requests, including follow-up requests when applicable, to the confirming party

Factors to consider when designing confirmation requests include:

- ▶ The assertions being addressed.
- ▶ Specific identified risks of material misstatement, including fraud risks.
- ▶ The layout and presentation of the confirmation request.
- ▶ Prior experience on the audit or similar engagements.
- ▶ The method of communication (for example, in paper form, or by electronic or other medium).
- ▶ Management's authorization or encouragement to the confirming parties to respond to the auditor. Confirming parties may only be willing to respond to a confirmation request containing management's authorization.
- ▶ The ability of the intended confirming party to confirm or provide the requested information.

Positive and Negative confirmation requests

POSITIVE CONFIRMATION

A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request or providing the requested information.

When a Response to a Positive Confirmation Request Is Necessary ?

- ▶ The information available to corroborate management's assertion(s) is only available outside the entity.
- ▶ Specific fraud risk factors, such as the risk of management override of controls, or the risk of collusion which can involve employee(s) and/or management, prevent the auditor from relying on evidence from the entity.

NEGATIVE CONFIRMATION

A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.

- ▶ A failure of a confirming party to respond to a negative confirmation request provides significantly less persuasive audit evidence than does a response to a positive confirmation request.
- ▶ Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is not in their favour, and less likely to respond otherwise.
- ▶ Sending negative confirmation requests to holders of bank deposit accounts may be a useful procedure in considering whether such balances may be understated but is unlikely to be effective if the auditor is seeking evidence regarding overstatement.

Responses with exceptions

- ▶ Exceptions noted in responses to confirmation requests may indicate misstatements or potential misstatements in the financial statements.
- ▶ When a misstatement is identified, the auditor is required by ISA 240 to evaluate whether such misstatement is indicative of fraud.
- ▶ Exceptions may provide a guide to the quality of responses from similar confirming parties or for similar accounts.
- ▶ Exceptions also may indicate a deficiency, or deficiencies, in the entity's internal control over financial reporting.
- ▶ Some exceptions do not represent misstatements. For example, the auditor may conclude that differences in responses to confirmation requests are due to timing, measurement, or clerical errors in the external confirmation procedures.

Management's Refusal to Allow the Auditor to Send a Confirmation Request



If management refuses to allow the auditor to send a confirmation request, the auditor shall:

- a) Inquire as to management's reasons for the refusal and seek audit evidence as to their validity and reasonableness
- b) Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing, and extent of other audit procedures and
- c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.

- ▶ If the auditor concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with those charged with governance in accordance with ISA 260.
- ▶ The auditor also shall determine the implications for the audit and the auditor's opinion in accordance with ISA 705

DOUBTS ABOUT RELIABILITY

If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor shall obtain further audit evidence to resolve those doubts.

NOT RELIABLE

If the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing, and extent of other audit procedures.

NON- RESPONSES

In the case of each non-response, the auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence.

Evaluating the Evidence Obtained

When evaluating the results of individual external confirmation requests, the auditor may categorize such results as follows:

- ▶ A response by the appropriate confirming party indicating agreement with the information provided in the confirmation request, or providing requested information without exception
- ▶ A response deemed unreliable
- ▶ A non-response
- ▶ A response indicating an exception

The auditor's evaluation, when taken into account with other audit procedures the auditor may have performed, may assist the auditor in concluding whether sufficient appropriate audit evidence has been obtained or whether further audit evidence is necessary, as required by ISA 330.

The Electricity Tariff Incentive Program



The Electricity Tariff Incentive Program (ETIP) was launched by the Industrial Development Bureau (IDB) of Abu Dhabi Department of Economic Development (ADDED) in the year 2019 in collaboration with Abu Dhabi Distribution Company (ADDC) and Al Ain Distribution Company (AADC). It aims to promote competitiveness and investments in Abu Dhabi as a first option for large scale industrial companies by way of boosting the productivity level of industrial facilities, enhancing their economic impact and improving energy efficiency.

OBJECTIVES OF THE PROGRAM

1. Enhance the economic impact of the industrial sector
2. Boost the productivity of manufacturing entities by encouraging technological transformation
3. Improve the efficiency of the energy usage

COST EFFICIENCY

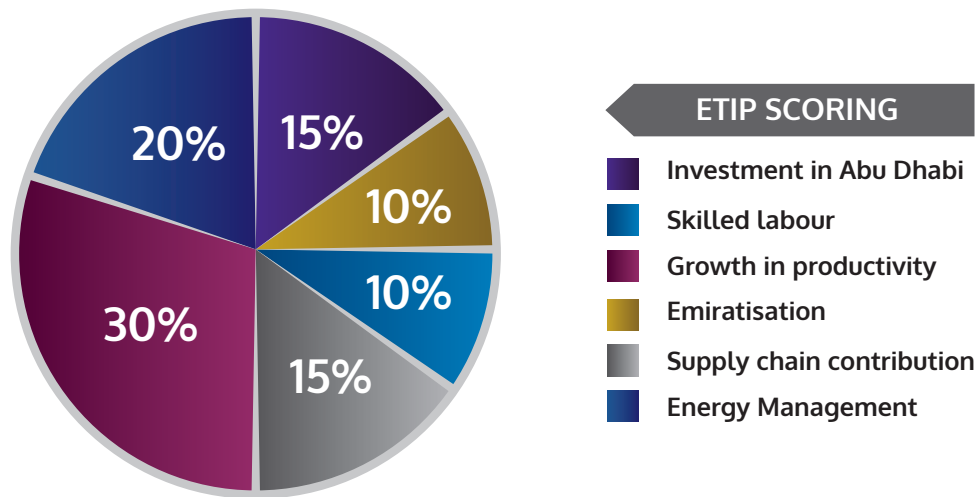
A subsidy is provided on the rate of electricity, to manufacturers with an active industrial license in the Emirate of Abu Dhabi. This subsidy is offered if the manufacturer satisfies certain pre-defined criteria. Additionally, companies need a minimum score of 50 to be eligible for the discounted electricity tariff. The highest slab avails the most benefit in the form of subsidy.

Category	Range of Score	Tariff Price
A	(Score > 80 Points)	20 Fils
B	(Score between 80 – 60 Points)	22 Fils
C	(Score between 59 – 50 Points)	25 Fils

SCORING METHODOLOGY

ETIP score is determined based on fulfilment of requirements under following criteria:

Area	Weightage	Basis of Computation
Economic Impact	50%	Investment in Abu Dhabi, Emiratization, Skilled Labour and Supply Chain Support
Productivity	30%	Value Addition
Energy Management System	20%	Connectivity Load



PROCESS AND REQUIREMENTS

All entities with production industrial licenses in Abu Dhabi (excluding Free Zones) are eligible to participate in the program and each certificate is issued based on one industrial license only. If there are more than one distribution accounts for a factory/license, the ETIP certificates are to be obtained for each factory/license and they would need to list all the accounts in the ETIP application.

Since the Economic Impact factor is relatively similar under ETIP and ICV (In-Country Value), investors could create synergy effects under ETIP and the localization programs by rerouting investments in the UAE into the Emirate of Abu Dhabi.

There are 13 criteria set forth by ADDED and ADDC to be uploaded on the ETIP portal for verification by IDB. Once the review is complete, the manufacturer will receive a system generated ETIP Enrolment Certificate and Evaluation Score Card mentioning the score and category approved under ETIP Program.

Other Documents required for the ETIP Program include:

1. Audited Financial Statements / Management Accounts, as applicable
2. Asset Declaration Letter
3. WPS Statistics Report
4. Certified Labour List issued by MOHRE
5. ETIP Manpower Declaration and Emirati Pension Report
6. ETIP Skilled Labour Declaration
7. ADDC documents
8. Any other documents considered necessary for verification

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EVAS
International

+971 4 266 0734, +971 4 272 4701
+971 2 645 7775
info@evasinternational.com
www.evasinternational.com

UAE

ABU DHABI

Suite No: 1601
P.O Box 25929
Kamala Tower
Khalidiya Street

DUBAI

Suite No: 305, 309 & 327
P.O Box 82631
City Bay Business Centre
Abu Hail

JAFZA

Office No: 15518
JAFZA 15
Jebel Ali Free Zone
Dubai

SHARJAH

Office No: Q1-04-006/A
P.O Box 513424
SAIF Zone

RAS AL KHAIMAH

Suite No: 103
P.O Box 5846
Abbas Al Blooshi Bldg.
Al Nakheel

INDIA

TRIVANDRUM:

Shivadha Towers, 2nd floor
TC 31/480- 3, Near Canara Bank
Pettah, Trivandrum
Kerala - 695024

PUNALUR

Building No. XIII/670A,C
Kochuvilayil
Tholicodu P.O, Punalur
Kerala - 691333

KOLLAM:

Nuface Dental Health Care Building
First Floor
Sankar Nagar Residency Road
Kollam, Kerala - 691001



GGi
INDEPENDENT MEMBER