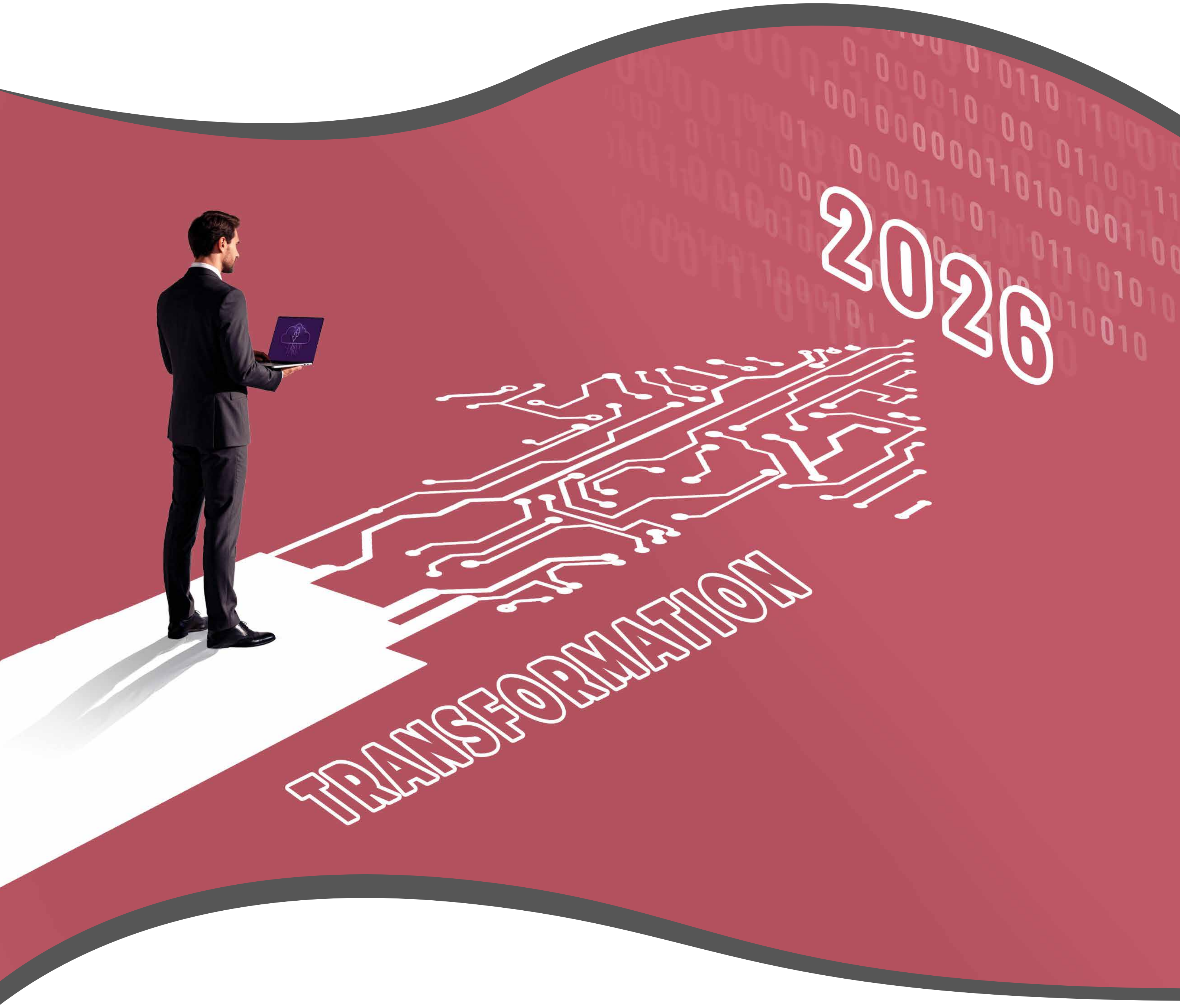
# NEWSLETTER

VOLUME 6 - ISSUE 1
JANUARY 2026

# EMBRACING CHANGE




"WE STRIVE AND SHARE SUCCESS TOGETHER"

# TABLE OF CONTENTS



# Evas Constantin is now Registered Auditor with the DFSA

We are pleased to announce that Evas Constantin Auditing LLC is now registered as a Registered Auditor with the Dubai Financial Services Authority (DFSA) to carry out the audit of

- **Domestic Authorised Firms;**
- **Domestic Funds; and**
- **Authorised Market Institution.**

**Vijaya MOHAN, FCA**
Managing Partner & CEO

Dear readers,

## Message from the Managing Partner

In Brooklyn, New York City, a 12-year-old boy once spent countless hours over an eight-by-eight wooden board. Day after day, often for four to six hours at a stretch, he moved his pieces from one square to another-at home, in libraries, in chess clubs-often alone, replaying games endlessly in his mind. His mother worried about what seemed like an obsession. But to young Bobby Fischer, each game was a separate life, and every move carried a sense of finality.

In 1958, at just fourteen years of age, and without the guidance of a formal coach, Fischer became the youngest U.S. Chess Champion. Over time, through discipline and unwavering immersion, he went on to challenge the finest players of the Soviet Union-unsettling an empire that had turned chess into a national institution.

As we turn the pages into a new year, this reflection feels particularly relevant. The arrival of a new year often brings with it a familiar ritual-ambitious resolutions, carefully articulated goals, and promises of absolute discipline. Yet, more often than not, the failure to act consistently leads to lost motivation, diminished self-trust, and a quiet surrender to the next cycle of intentions. It is a narrative well known to us all-sometimes even treated with gentle humour.

Perhaps this is where embracing new beginnings takes on a deeper meaning-not as a ceremonial reset bound to the calendar, but as a conscious choice to begin again with clarity and purpose. True renewal emerges when we step into each day unburdened by yesterday and fully present to what lies ahead.

*"Begin at once to live and count each separate day as a separate life."* - Seneca

Seneca, the Stoic philosopher of ancient Rome, offers a timeless counterpoint. Failure, he suggests, is not the true loss. The real danger lies in postponement-in waiting for the next year, the next milestone, or the next "fresh start." To Seneca, this was nothing more than moral delay. Each day, when lived fully, is already a complete life in itself.

At **Evas Constantin**, we subscribe deeply to this philosophy. As professionals, it is not only aspirational but strategically sound to treat each day of our craft as a separate life. Every assignment, every initiative, and every decision stands on its own merit. This shift in perspective transforms how we operate. It cultivates resilience, sharpens accountability, and instils a quiet confidence—a "never say die" attitude that reflects in smooth, sophisticated, and potent execution.

When we treat our work as sacrosanct—free from the limitations of yesterday's self—we allow continuous refinement to take place. Improvement, however small, compounds over time, much like fine wine that matures with patience. In this sense, every day becomes a new year, and every professional a renewed version of themselves.

Sustained performance and consistent excellence, however, do not emerge from discipline alone. They arise from pleasure in the craft, complete immersion, and a state of flow. When we are fully present—absorbed in what we do-the work ceases to feel transactional and becomes transformational. To flow is to rise above the ordinary, and to flow, one must be immersed as though today were the only day that truly mattered.

## IN THIS EDITION

With this spirit, we step confidently into 2026.

Driven by the vision of conducting technical sessions and contributing to the profession by enhancing learning and training, this approach fosters meaningful dialogue with experienced professionals, reinforcing clarity of thought, practical interpretation, and a commitment to continuous learning.

Against this backdrop, we have curated a set of articles that reflect both the evolving technical landscape and the deeper professional responsibilities that accompany it:

- **IFRS 18 – Presentation and Disclosure in the Financial Statements**
- **Corporate Tax Update – Aggregated Financial Statements for Tax Groups**
- **ISA 705 – Modifications to the Opinion in the Independent Auditor's Report**
- **VAT Compliance – Key Recent Changes**
- **UAE's Innovation Momentum: Early 2026**

Each article is intended not merely to inform, but to provoke thought, encourage preparedness, and support professional growth in a rapidly changing environment.

We hope these pages enrich your thinking and illuminate many of the days ahead. Above all, we extend our deepest gratitude to those who contributed their time, insight, and expertise to this edition. To our readers, thank you for sustaining the curiosity that gives this work its purpose.

Here's to living each day as a separate life-embracing both victories and defeats, navigating every motion that makes us human, and remaining fully immersed in the craft we have chosen.

*Happy Reading!*

# IFRS 18

## PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS - A NEW ERA OF TRANSPARENCY, COMPARABILITY, AND CONSISTENCY IN FINANCIAL STATEMENTS

### INTRODUCTION - A LANDMARK CHANGE IN FINANCIAL REPORTING

In April 2024, the International Accounting Standards Board (IASB) issued IFRS 18 – Presentation and Disclosure in Financial Statements, marking one of the most significant reforms in financial reporting in recent decades. This new standard will replace IAS 1 – Presentation of Financial Statements and will be effective for annual reporting periods beginning on or after 1 January 2027, with early adoption permitted.

For many years, IAS 1 provided entities with considerable flexibility in presenting financial performance, particularly in defining subtotals such as operating profit. While flexibility allowed entities to tailor reporting to their business models, it also resulted in inconsistent presentation, reduced comparability, and confusion among investors and analysts.

IFRS 18 responds directly to these long-standing concerns. The standard introduces defined subtotals, structured income and expense classifications, enhanced disclosure of management-defined performance measures, and stronger aggregation principles. Collectively, these changes aim to ensure that financial statements better reflect economic performance and are easier to compare across entities and industries.

### WHY IFRS 18 MATTERS IN TODAY'S ENVIRONMENT

In the current global reporting environment, users of financial statements increasingly demand:

- Clear separation between operating performance and financing or investment activities
- Transparent explanations of management-adjusted metrics
- Consistent performance indicators across companies and jurisdictions

With capital markets becoming more data-driven and investors relying heavily on analytical tools, comparability and transparency are no longer optional. IFRS 18 represents the IASB's response to these evolving expectations.

## CORE OBJECTIVES OF IFRS 18

The overarching objective of IFRS 18 is to enhance the usefulness of financial statements by making them more comparable, reliable, and informative. To achieve this, the standard introduces several fundamental changes:

- Standardised subtotals such as Operating Profit and Profit before Financing and Income Taxes
- Mandatory classification of all income and expenses into five clearly defined categories
- Transparent disclosure of Management Performance Measures (MPMs) used in public communications
- Improved aggregation and disaggregation principles to avoid obscuring material information

These objectives are designed to ensure that users can clearly understand:

- How an entity generates profits
- The distinction between operational performance and financing decisions
- Management's perspective on performance and how it aligns with IFRS measures

## SCOPE OF APPLICATION

IFRS 18 applies to all entities preparing general purpose financial statements in accordance with IFRS Accounting Standards. While the standard primarily affects the statement of profit or loss, its impact extends to:

- Notes to the financial statements
- Performance reporting narratives
- Investor presentations and public communications

Entities across all industries will need to reassess how they present and explain financial performance.

## FROM IAS 1 TO IFRS 18: WHAT HAS CHANGED? MOVING AWAY FROM FLEXIBILITY TO CONSISTENCY

Under IAS 1, entities had discretion in:

- Defining operating profit
- Choosing which income and expense items to include or exclude
- Presenting performance measures without mandatory reconciliation

As a result, similar entities often reported materially different "operating profits", limiting meaningful comparison. IFRS 18 replaces this discretion with a structured, principle-based framework, ensuring consistency while still allowing entities to reflect their business models appropriately.

## DEFINED SUBTOTALS – A GAME CHANGER

IFRS 18 introduces two mandatory subtotals in the statement of profit or loss:

1. Operating Profit
2. Profit before Financing costs and Income Taxes

These subtotals are clearly defined and must be presented by all entities. This ensures that:

- Operating performance is isolated from financing decisions
- Users can assess core business profitability more reliably
- Performance comparisons across industries become more meaningful

## CLASSIFICATION & MANAGEMENT PERFORMANCE MEASURES - MANDATORY CLASSIFICATION OF INCOME AND EXPENSES

IFRS 18 requires all income and expenses to be classified into five defined categories:

1. Operating
2. Investing
3. Financing
4. Income Taxes
5. Discontinued Operations

This structure provides a clearer narrative of how value is created and consumed within the business. It also removes ambiguity that previously arose from mixed or inconsistent classifications.

For example:

- Investment income is clearly separated from operating activities
- Financing costs are isolated from operational performance
- Tax effects are transparently presented

## ILLUSTRATIVE EXTRACT (IFRS 18 FORMAT):

The overarching objective of IFRS 18 is to enhance the usefulness of financial statements by making them more comparable, reliable, and informative. To achieve this, the standard introduces several fundamental changes:

| Line Item | Amounts | Classification |
|---|---|---|
| Revenue | XXXX | Operating |
| Cost of sales | XXXX | |
| **Gross profit** | **XXXX** | |
| Other operating income | XXXX | |
| Selling expenses | XXXX | |
| Research and development | XXXX | |
| General and admin expenses | XXXX | |
| Other operating expenses | XXXX | |
| **Operating profit** | **XXXX** | **Mandatory Sub total** |
| Share of profit and gains on disposal of associates and joint ventures | XXXX | Investing |
| **Profit / (loss) before financing costs and income taxes** | **XXXX** | **Mandatory Sub total** |
| Interest expenses on borrowings and lease liabilities | XXXX | Finance |
| Interest expenses on pension liabilities and provisions | XXXX | |
| **Profit / (loss) before income taxes** | **XXXX** | **Mandatory Sub total** |
| Income tax expense | XXXX | **Income tax** |
| **Profit / (loss) for the year from continuing operations** | **XXXX** | **Mandatory Sub total** |
| Profit / (loss) for the year from discontinuing operations | XXXX | **Discontinued operations** |
| **Profit / (loss) for the year** | **XXXX** | |

## MANAGEMENT PERFORMANCE MEASURES (MPMS): TRANSPARENCY AT THE FOREFRONT

One of the most impactful changes under IFRS 18 is the formal introduction of Management Performance Measures (MPMs).

MPMs are:

- Subtotals of income and expenses
- Used by management in public communications
- Not explicitly defined by IFRS Accounting Standards

Under IFRS 18, entities must disclose all MPMs in a single dedicated note, including:

- The purpose of the MPM
- How it is calculated
- A reconciliation to the most directly comparable IFRS subtotal
- Related tax and non-controlling interest effects

## ILLUSTRATIVE EXAMPLE – ADJUSTED EBITDA

| Description | Amount (AED) |
|---|---|
| Operating profit (IFRS 18) | 500,000 |
| Add: Depreciation & amortisation | 50,000 |
| Add: Non-recurring restructuring costs | 20,000 |
| **Adjusted EBITDA** | **570,000** |

This requirement significantly enhances transparency and prevents selective performance reporting.

Under IAS 1, there was no specific requirement or defined framework for disclosing Management Performance Measures (MPMs) with standardized definitions or reconciliation. IFRS 18 requires entities to identify their management-defined performance measures (MPMs), with detailed disclosures provided in the notes to the financial statements for those used in public communications.

## ENHANCED AGGREGATION AND DISAGGREGATION PRINCIPLES

IAS 1 provided only general guidance on grouping items in the profit or loss statement. Entities could aggregate or disaggregate at their discretion, sometimes leading to over simplified or unclear reporting. IFRS 18 introduces clear principles for aggregation and disaggregation, ensuring that material items are not hidden in broad categories. This helps users identify significant components of income and expenses and understand underlying performance drivers.

**Example:**
Instead of showing “Other Expenses: 100,000”, IFRS 18 requires disaggregation:

| | |
|---|---|
| Marketing Expenses: | 40,000 |
| Research & Development: | 35,000 |
| Legal Fees: | 25,000 |

## CONCLUSION – A NEW BENCHMARK FOR FINANCIAL REPORTING

The introduction of IFRS 18 represents a fundamental shift in how financial performance is communicated. By replacing IAS 1, the IASB has established a more disciplined and transparent reporting framework that aligns with modern investor expectations.

While implementation will require:

- System updates
- Re-evaluation of reporting processes
- Enhanced disclosures and training

The benefits are substantial:

- Improved comparability across entities
- Stronger investor confidence
- More meaningful performance analysis
- Greater accountability in management reporting

IFRS 18 sets a new global benchmark, ensuring that financial statements are not only compliant, but also clear, consistent, and decision-useful for all stakeholders.

At EVAS Constantin, we view IFRS 18 not merely as a regulatory change, but as an opportunity for organizations to tell a clearer, more compelling performance story-one that resonates with investors, regulators, and other stakeholders.

By combining technical excellence with commercial insight, EVAS Constantin enables clients to transition to IFRS 18 with confidence, clarity, and control, reinforcing trust in financial reporting and strengthening stakeholder confidence in an increasingly transparent reporting environment.

CORPORATE TAX UPDATES

# AGGREGATED FINANCIAL STATEMENTS FOR TAX GROUPS


## SHIFT IN CORPORATE TAX GROUP COMPLIANCES

Transformation doesn't always arrive with disruption. Sometimes, it arrives quietly—as a shift in rules, processes, or perspective that forces us to rethink what we thought was settled.
In the UAE, the Corporate Tax framework is evolving in this way. With the introduction of Ministerial Decision No. 7 of 2025 and FTA Clarification CTP007, the requirement has shifted from traditional consolidated financial statements to Aggregated Financial Statements (AFS) for Corporate Tax Groups.

## KEY FACTS

- AFS are prepared as special-purpose financial statements, which may differ from IFRS-based consolidated financial statements in certain aspects, and are intended solely for determining the taxable income of the Tax Group.
- AFS prepared based on this framework must undergo a special purpose audit as per the relevant International Standards on Auditing ("ISA")
- The audited AFS must be presented in AED and be submitted to the FTA at the time of filing the Tax Return.

### Key Differences between Aggregated Financial statements and Consolidated Financial Statements:

| Feature | Aggregated Financial Statements (AFS) | Consolidated Financial Statements (CFS) |
|---|---|---|
| **Framework** | IFRS or IFRS for SMEs with some deviation for aggregation purposes | IFRS or IFRS for SMEs |
| **Business Combination Adjustments (IFRS 3)** | Does not record goodwill, gains on bargain purchases, and fair value adjustments to assets and liabilities | Records goodwill, gains on bargain purchases, and fair value adjustments to assets and liabilities |
| **Pre/Post Tax profit for consolidation** | Pre-tax profit/loss is aggregated; current or deferred UAE Corporate Tax balances are not aggregated | Includes consolidated current taxes and deferred tax assets and liabilities |

| Feature | Aggregated Financial Statements (AFS) | Consolidated Financial Statements (CFS) |
|---|---|---|
| **Presentation Currency** | Must be presented in UAE Dirham (AED) | Presented in the functional or reporting currency defined by accounting standards |
| **Audit Requirement** | Requires a special purpose audit as per International Standards on Auditing ("ISA") | Undergoes a general-purpose audit to ensure a "true and fair" view of the group's financial position |

## FROM THRESHOLDS TO UNIVERSALITY: A MINDSET SHIFT

- **Until 31 December 2024 ---›** Audit is required only if the Tax Group's consolidated revenue exceeds AED 50 million (Ministerial Decision No. 82 of 2023)
- **From 01 January 2025 ---›** All Tax Groups, regardless of revenue, must prepare audited AFS (Ministerial Decision No. 84 of 2025)
- **Standalone audits not required ---›** Members of a Tax Group are not required to maintain audited standalone financial statements for Corporate Tax purposes, even if a member's revenue exceeds AED 50 million (Applicable for all Tax Periods commencing on or after 1 June 2023)

## IS YOUR CORPORATE TAX GROUP PREPARED FOR SPECIAL-PURPOSE AFS?

### 1 Line by line Aggregation :

Members must combine their financial data line-by-line from standalone financial statements prepared using uniform accounting policies, eliminating transactions between the members, while retaining investments or equity balances between group members.

### 2 Consolidation adjustments:

For the purpose of preparing the AFS of a Tax Group, the standalone financial statements of an acquiring entity should exclude the accounting impact of business combinations under IFRS 3 (Business Combinations) and the effects of consolidation under IFRS 10 (CFS).

Accordingly, adjustments related to goodwill, gains on bargain purchases, or fair value remeasurements of assets and liabilities recorded in IFRS-compliant CFS shall not be reflected in the AFS. Failure to do so may either understate CT (through goodwill impairment) or overstate CT (through bargain purchase gains).

However, where a business combination is executed without the acquisition of a separate legal entity, the resultant assets, liabilities, goodwill, or gain on bargain purchase recognized in the acquiring entity's separate financial statements shall be fully included in the AFS of the Tax Group.

Investments in subsidiaries, joint ventures, and associates that are not members of the Tax Group shall be measured at cost less impairment.

To illustrate this further, Holding Company "A" in the UAE has wholly owned Subsidiary Company "B" in the UAE which was acquired for AED 120 where the fair value of Company B's net identifiable assets is AED 105.

In the CFS prepared by A, goodwill will be recorded at AED 15 as per IFRS 3. However, for the purpose of AFS of the tax group, this goodwill and any fair value remeasurements arising from consolidation under IFRS 10 are excluded, and only the investment in B at its standalone cost of AED 120 is reflected.

However, in cases where a parent company acquired a business as a going concern through an asset purchase for AED 200, without acquiring a separate legal entity, the transaction includes the acquired assets, liabilities along with the goodwill of AED 40, which is recognised directly in Parent Company's standalone financial statements under IFRS 3. As this transaction does not give rise to a subsidiary or consolidation under IFRS 10, the recognized assets, liabilities and goodwill of AED 40 are fully included in the AFS of the Tax Group.

## 3 Prior non-deductible loss:

Transactions between Tax Group members are not eliminated if a member has previously recognized a deductible loss from those transactions before joining the tax group. Hence, the transactions cannot be eliminated until the deductible losses are fully reversed by including such reversal as a part of the tax group's taxable income.

Let's understand this with the help of an illustration involving an inter-company loan between Company X (Parent) and Company Y (Subsidiary):

| |
|---|
| **Year 1** (pre grouping) – X grants a loan to Y |
| **Year 2** (pre grouping) – X determines loan as impaired, consequently it has recognized a Deferred Tax Asset ("DTA") in its standalone books and considered such impairment as deductible loss. |
| **Year 3** (Tax Group Formed) – The loan cannot be eliminated in the AFS as X has impaired the loan in the standalone books and a DTA is booked against the impairment. |
| **Year 4** (Reversal of loss) – Company X reverses the impairment and the DTA in its standalone financial books (for example, because Company Y's financial position improved). This reversal (income) upto the prior deductible loss must be included in the Taxable Income of the Tax Group. Once this loss is reversed, the loan transaction will then be eliminated as a standard inter-company transaction in future statements. |

## 4 Impairment of Investments in Subsidiaries:

Any impairment recognized by the Parent Company on its investment in a Subsidiary within the Tax Group, as well as any impairment recognized by a Subsidiary on its direct investment in another Subsidiary within the Tax Group, shall not be eliminated.

Consider, for instance, Parent Company "P" and its wholly owned Subsidiary "S" are both members of the same UAE Tax Group. P originally acquired its investment in S at a cost of AED 500. Due to a sustained deterioration in S's operating performance, P performed an impairment assessment under IAS 36 and determined the recoverable amount of its investment to be AED 380, resulting in an impairment loss of AED 120 recognized in P's standalone financial statements. In preparing the AFS of the Tax Group, the carrying amount of the investment in S shall be recorded as AED 500 without giving effect of impairment loss of AED 120.

## FROM GROUP TO STANDALONE: VALUATION ON EXIT

When a company exits a Tax Group, it must use the asset and liability values recorded in the group's AFS as its opening balances. Even if accounting standards do not permit the direct adoption of these values, the company's taxable income must still be computed as though these values had been applied. The idea is that the exiting entity must continue from that same tax position.

As an illustration, Subsidiary Company (S) exited the Tax Group on 31 December 2026 and became a standalone taxable person. At exit, the Tax Group's AFS reflected S's plant and equipment at AED 1,200 and inventory at AED 300, while S's standalone IFRS accounts showed lower carrying amounts of AED 900 and AED 280, respectively. According to the framework, on 01 January 2027, S must compute its post-exit Corporate Tax using the AFS values as its opening tax bases, even though these amounts are not reflected in its accounting records, so that depreciation and cost of sales continue on a consistent basis and taxable income is neither duplicated nor omitted on exit from the Tax Group.

## ARE YOU MEETING THE PRESENTATION & DISCLOSURE REQUIREMENTS OF AFS?

**The AFS must include:**

- Statement of Financial Position
- Statement of Profit or Loss
- Statement of Other Comprehensive Income
- Statement of Changes in Equity

They must also disclose the preparation framework, the basis of aggregation, and the key accounting policies, estimates, and judgments applied.

The clarification CTP007 also includes a template auditor's report in the annexure and detailed guidance on the preparation and audit of AFS.

## FINAL THOUGHTS ON AFS COMPLIANCE

This special purpose framework creates a unique approach tailored specifically for Tax Group reporting requirements. Despite these deviations, statements must comply with IFRS in all other respects, ensuring consistency and reliability. The move to AFS marks a fundamental shift in how Corporate Tax Groups approach compliance in the UAE. With audited, special-purpose AFS now mandatory for all Tax Groups, regardless of size, businesses must reassess their financial reporting processes, governance, and readiness for audit. Early preparation, clarity on aggregation mechanics, and alignment with FTA guidance will be key to ensuring smooth compliance and minimizing tax risk going forward.


# ISA 705

## MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

### WHEN AND HOW AN AUDITOR CHANGES THE AUDIT OPINION

In an ideal world, every audit ends with a clean, unmodified opinion. But in reality, auditors often face situations where financial statements do not tell the complete or correct story — or where audit evidence itself is missing.

This is where ISA 705 – Modification to the Opinion in the Independent Auditor's Report steps in.

### ISA 700 VS ISA 705 — SETTING THE CONTEXT

Before understanding modified opinions, it is important to distinguish ISA 700 from ISA 705, as they work together.

| Aspect | ISA 700 | ISA 705 |
|---|---|---|
| **Purpose** | Forms and expresses an unmodified opinion | Guides how to modify the opinion |
| **Applicability** | When financial statements are free from material misstatement | When financial statements are materially misstated or evidence is insufficient |
| **Opinion Type** | Unmodified ("True and fair view") | Qualified / Adverse / Disclaimer |
| **Audit Framework** | Core audit reporting standard | Supplementary standard (does not replace ISA 700) |
| **Report Structure** | Standard report structure | Structure changes depending on type of modification |

ISA 700 always applies. ISA 705 only changes how the opinion is expressed, not how the audit is performed.

### WHY ISA 705 MATTERS

ISA 705 guides auditors on how to report responsibly and transparently when things are not right. An auditor must modify the opinion when:

- The financial statements contain material misstatements, or
- The auditor is unable to obtain sufficient appropriate audit evidence

Importantly, ISA 700 continues to apply — ISA 705 only modifies how the opinion is expressed, not the entire audit framework.

## THE AUDITOR'S OBJECTIVE

To clearly communicate an appropriately modified opinion when:

- The financial statements are not free from material misstatement, or
- Audit limitations prevent forming a reliable conclusion

*Clarity is key - users of financial statements must understand what went wrong and how serious it is.*

## TYPES OF MODIFIED OPINIONS UNDER ISA 705

ISA 705 recognises three types of modified opinions:

| Report heading | Key Trigger | Pervasiveness | Outcome |
|---|---|---|---|
| **Qualified Opinion** | Material misstatement or scope limitation | Not pervasive | "Except for…" |
| **Adverse Opinion** | Material and pervasive misstatement | Pervasive | FS do not present true and fair view |
| **Disclaimer of Opinion** | Inability to obtain evidence | Material & pervasive | No audit opinion expressed |

### Qualified Opinion - "Except for…"

**Used when:**

- Misstatements are material but not pervasive, OR
- Audit evidence could not be obtained, but the possible impact is not widespread

**Example -** A company fails to bifurcate loans into long-term and short-term categories.
The issue affects disclosures but does not distort the entire financial position.

**Result: Qualified Opinion**

### Adverse Opinion - "The financial statements do NOT present a true and fair view"

**Used when:**

- Misstatements are both material and pervasive

**What does pervasive mean?**
Misstatements that:

- Affect multiple areas of the financial statements
- Represent a substantial portion of the financials
- Are fundamental to users' understanding

**Example** - A UAE group company provides management services to a related Free Zone entity.

**Issue Identified by auditor**

- Services billed at significantly below market value
- No transfer pricing documentation
- Artificial profit shifting to low-tax entity
- Significant understatement of taxable income

**Audit Assessment -** Misstatement affects Revenue, Expenses, Tax expense, Related party disclosures and the resulting impact is material & pervasive.

**Audit Opinion - Adverse Opinion**

## Disclaimer of Opinion — "We cannot express an opinion"

**Used when:**

- The auditor cannot obtain sufficient appropriate audit evidence
- The possible effects are material and pervasive

**Example**

- Migration from manual accounting to SAP
- Data extraction failures
- No manual records
- Non-cooperation from management

**Result: Disclaimer of Opinion**

**How does the audit report change in a Disclaimer?**

- No audit opinion is expressed
- Auditor does not conclude on true and fair view
- Certain standard sections are modified or omitted
- Emphasis is placed on Basis for Disclaimer of Opinion

## WHEN MANAGEMENT LIMITS THE AUDIT SCOPE

Sometimes, limitations arise after accepting the audit - often imposed by management.

### ISA 705 requires the auditor to:

- Request removal of the limitation
- Communicate with those charged with governance
- Attempt alternative audit procedures

### If evidence still cannot be obtained:

- Material but not pervasive impact → Qualified Opinion
- Material and pervasive impact → Disclaimer of Opinion

## WHY ISA 705 IS ESPECIALLY IMPORTANT IN THE UAE

In the UAE ecosystem, a modified audit opinion can directly impact:

- Bank loan renewals & restructuring
- VAT & Corporate Tax filings
- ICV certification scores
- Free zone license renewals
- Group reporting to overseas parents

ISA 705 ensures that users are clearly warned when financial statements cannot be relied upon as presented.

## BROADER BUSINESS IMPLICATIONS

Beyond compliance, modified opinions can affect:

- Access to financing (banks may increase risk premiums)
- Regulatory perception by FTA, Free Zones, and MoIAT
- Investor confidence and valuation
- Business continuity, especially for government-linked entities
- Future tenders and contracts

## KEY TAKEAWAY - CORPORATE TAX & VAT LENS

In the UAE, tax compliance and audit opinions are deeply interconnected.

| Issue Type | Likely Opinion |
|---|---|
| Tax miscalculation (limited) | Qualified |
| Tax manipulation / fraud | Adverse |
| No tax data / no cooperation | Disclaimer |

## KEY TAKEAWAY FOR STAKEHOLDERS

Modified opinions are not failures of audit — they are signals of transparency and professional judgment. They:

- Protect users of financial statements
- Highlight areas of concern clearly
- Reinforce auditor independence and credibility

## CONCLUSION

ISA 705 plays a critical role in ensuring that audit reports speak the truth - even when it's uncomfortable. Whether it's a Qualified, Adverse, or Disclaimer of opinion, the objective remains the same i.e. to communicate clearly, responsibly, and in the public interest.

Understanding ISA 705 helps auditors, management, and users alike appreciate why modified opinions exist - and why they matter.


ISA 705

# VAT COMPLIANCE
## KEY RECENT CHANGES


### Key VAT Changes for 2026

The UAE's VAT landscape has continued to evolve over the past year. Starting 1 January 2026, businesses will need to adapt to key changes introduced under Federal Decree-Laws No. 16 & 17 of 2025, issued by the UAE Ministry of Finance. These decisions bring significant amendments to Federal Decree-Law No. 8 of 2017 (UAE VAT Law) and Federal Decree-Law No. 28 of 2022 (Tax Procedures), with important implications for VAT compliance, refunds, and input tax recovery.

Below are a summary of the key amendments and their potential impact on taxpayers.

### 1 Reverse Charge Mechanism (RCM) Self-Invoicing Removed – A Welcome Relief for Businesses

Previously, VAT Public Clarification VATP044 was introduced to provide guidance on self-invoicing obligations, particularly in relation to the import of services. It specified that self-invoicing was mandatory where the importer did not possess a valid supplier invoice or other supporting documentation containing key details such as the supplier and recipient information, description of services, consideration, and document date. To mitigate the administrative burden arising from this requirement, the clarification further stated that recipients could apply for a VAT administrative exception. Notably, however, the Public Clarification did not address or provide guidance on self-invoicing requirements for the import of goods.

With effect from 1 January 2026, the requirement to issue self-invoices for VAT accounted for under the RCM on imports of goods and services acquired for business purposes has been eliminated. This change is expected to significantly reduce the administrative and compliance burden on businesses engaged in cross-border purchase transactions.

## 2 VAT Credit deadlines to watch

- Excess recoverable Input VAT may now be carried forward for a maximum of five years from the end of the relevant tax period in which it arose. Any unused balance after this period shall lapse permanently and cannot be utilised, offset, or refunded.
- Refund claims for VAT credit balances (including excess tax paid and credits arising from returns, tax assessments or Voluntary Disclosures) must be submitted within five years from the end of the relevant tax period. Failure to meet this deadline will result in forfeiture of the refund.

**Special timelines apply where credits arise:**

| Scenario | Timeline |
|---|---|
| From an FTA decision issued after the five-year period or in its last 90 days | one-year filing window |
| In the final 90 days of the five-year period | 90-day filing window |

### Transitional Relief:

Transitional relief is available for taxpayers whose five-year limitation period has expired as of 1 January 2026. Such taxpayers may submit refund claims or offset against payable taxes or penalties by 31 December 2026.

### Example:

If a VAT credit balance relates to any of the tax period for the year 2019, the five-year limitation period would have lapsed as of 1 January 2026. Accordingly, as per the transitional provisions, the taxpayer may submit a refund claim by 31 December 2026.

## 3 Excess Refunds: Voluntary Disclosure (VD) Filing timelines

In cases where the refund claimed is higher than the amount correctly due:

| Scenario | Timeline |
|---|---|
| Refund application is under FTA review even after the expiry of 5 years | VD can be submitted after five years |
| Refund application submitted within the one-year transitional period following its lapse | VD may be submitted within two years from the date a refund request is filed, provided that the FTA has not yet issued a decision on the refund application. |

## Example:

A taxpayer submits a VAT refund request for the tax period January 2019 to March 2019 on 01 March 2026. If the FTA has not issued a decision on such refund application on the date the VD is intended to be filed, the taxpayer may submit a VD before 28 February 2028.

## 4 Extended FTA Audit timelines and Assessment Powers for Refund Claims

The FTA may conduct a tax audit or issue a tax assessment in relation to a refund application even submitted in the fifth year, provided the audit is completed or assessment is issued within two years from the date of the relevant request.

Similarly, the FTA may conduct a tax audit or issue a tax assessment in relation to a Refund application submitted within the one-year transitional period following its lapse, provided the audit is completed or assessment is issued within two years from the date of the relevant request.

## Example:

A taxpayer submits a VAT refund application for the tax period April 2021 to June 2021 on 01 April 2026. Although the five-year limitation period expires on 30 June 2026, the FTA may conduct an audit or issue an assessment beyond the five-year limitation period. However, such audit or assessment must be completed by 30 March 2028, being two years from the date of the refund request.

## 5 Strengthened Anti-Evasion Rules for Input Tax Recovery

Input VAT recovery shall be denied where:

- The supply or chain thereof is linked to tax evasion;
- The taxpayer was aware of such connection or should reasonably have known of such evasion;
- The taxpayer failed to perform supplier and transaction verification in line with FTA requirements prior to recovery of such Input VAT.

Further clarifications are awaited from the FTA regarding the measures, procedures, and conditions under which this provision will apply.

## 6 Voluntary Disclosures – Reduced Compliance Burden

Voluntary Disclosures will no longer be required for errors or omissions in tax returns that do not affect the tax payable. Such errors may be corrected directly through the relevant VAT return. Voluntary Disclosures will only be required in cases to be specified by the FTA.

## Conclusion

In a nutshell, as 2026 unfolds, businesses should review their VAT portals, compliance processes, and documentation to safeguard their right to claim input or excess VAT credits, the right to file Voluntary Disclosures, and monitor audits and anti-evasion rules to prevent penalties for non-compliances.

# UAE'S INNOVATION MOMENTUM: EARLY 2026

As the first quarter of 2026 unfolds, the United Arab Emirates (UAE) continues to lead as a global hub of innovation, collaboration, and bold ideas. With visionary leadership, forward-looking policies, and a future-ready ecosystem, the UAE is shaping the future across sectors ranging from artificial intelligence to quantum technologies, and from smart infrastructure to digital transformation.

## Driving Progress Through Visionary Leadership

The UAE's ecosystem of advancement is guided by national strategies like We the UAE 2031, the UAE National Innovation Strategy, and the UAE Digital Government Strategy 2025. These frameworks focus on human capital development, business growth incentives, and advanced technology adoption, creating a unified vision for long-term transformation. It is this foundation that powers the cutting-edge events, startups, and technological breakthroughs taking place this quarter.

## Key Innovation Events at the outset of 2026

Building on this foundation, this quarter brings a host of global forums and summits that showcase the UAE as a living laboratory of innovation:

| | |
|---|---|
| **BlockSphere Summit (Feb 4–5)** | Connecting leaders and investors in blockchain and digital asset infrastructure. |
| **PropTech Connect ME (Feb 4–5)** | Highlighting digital transformation in real estate and property technologies. |
| **4th Data Science & AI Summit (Feb 9–10)** | Exploring cutting-edge AI, machine learning, and analytics trends. |
| **Dubai AI Week (Apr 7–8)** | Accelerating applied AI adoption across industries. |
| **Quantum Innovation Summit (Apr 7–9)** | Showcasing the potential of quantum technologies across sectors. |

These events are more than conferences, they are intersections of ideas, investment, and technology, where global experts converge to co-create the future.

Thus, the UAE continues to demonstrate that progress is not just a goal, it's a way of life. With a thriving ecosystem of visionary leadership, transformative events, and a growing network of startups and global talent, the country is shaping the technologies, ideas, and collaborations that will define the future. Beyond technologies and strategies, it is the people, partnerships, and ideas coming together that truly drive progress, making the UAE a global stage where vision meets action and the future takes shape today.

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