

Ebook

# Fixed asset integrity in MENAT: a comprehensive guide to IFRS compliance



# Introduction

**Did you know? Asset misappropriation schemes account for 87% of corporate fraud schemes, as reported by ACFE.**

In today's era of globalisation and interconnectivity, an increasing number of companies are extending the geographical scope of their operations in the Middle East, Africa, and Turkey. Expansion inevitably leads to the acquisition of more equipment, machinery, and facilities—in short, more fixed assets. As businesses grow internationally, stricter asset reporting rules and standards become necessary for their success, productivity, and the well-being of society. Creating reports and forecasts can be complex and challenging, especially without the right tools. By using proper fixed asset management procedures, companies in the Middle East, Africa, and Turkey can avoid fines and prevent misappropriation.

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## Navigating legal compliance challenges in MENAT

This guide aims to help you gain a thorough understanding of the most crucial international rules and standards of fixed asset reporting, and how integrated fixed asset management solutions can assist you in maintaining compliance. It will also elucidate the best practices for calculating fixed asset depreciation and introduce you to region-specific regulations, enabling your company and financial teams to expertly learn how to:

- ▲ **Effortlessly pass fixed asset audits**
- ▲ **Maximise your productivity through standardisation**
- ▲ **Fully comprehend the specifics and importance of IFRS, ISO, and IPSAS**

## About Iron Mountain fixed asset management

At Iron Mountain Incorporated (NYSE: IRM), we strive to give our customers end-to-end solutions—the people, processes and technologies—that streamline fixed asset verification. We work with our partners to help them become true industry leaders in efficient and automated asset accounting in ways that are sustainable, compliant, and competitive.

Proper fixed asset management can help your business cut costs, improve future planning, decision-making, as well as eliminate headaches from audits and regulatory pressures.

→ **Visit the website**

# Why fixed asset management is vital to success

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## Importance of fixed asset management solutions

In the Middle East, North Africa, and Turkey (MENAT) region, fixed assets represent a considerable portion of capital investments. Globally, **fixed assets account for 35-50%** of total assets when looking at **Fortune 500 companies**.

MENAT has witnessed impressive growth since the 2008-2009 financial crisis, particularly in the Gulf Cooperation Council (GCC) countries. With **an average real GDP growth rate of 5.2%** from 2010 to 2014 and a strong performance in subsequent years, the MENAT region's economy offers vast opportunities for businesses.

**In 2022, the value of fixed assets in MENAT reached USD 64.27 billion and is projected to grow at a robust CAGR of 8.13% through 2027.**

## Big opportunities: how companies can save big with fixed asset management

Investing in fixed asset management (FAM) solutions can yield significant benefits for businesses, as evidenced by A.T. Kearney's **survey** of 558 companies. Companies that implemented integrated FAM solutions reported:

- > **28.3% increase in maintenance productivity**
- > **20.1% decrease in equipment downtime**
- > **19.4% savings in material costs**
- > **17.8% reduction in maintenance costs**



## Revenue opportunities

Fixed assets often represent a considerable investment for many companies and serve as a primary source of revenue. As a result, optimising fixed asset management to maximise the revenue generated is vital for business success. Effective fixed asset management can reduce overall operational costs and mitigate the risk of accidents and miscalculations. For large organisations, addressing these concerns can safeguard revenue and ensure compliant and sustainable operations.

Effective management of your assets opens up an arsenal of opportunities, allowing your business to:

- Maximise asset utilisation and lifespan
- Minimise assets' downtime and maintenance costs
- Ensure accurate financial reporting and overall regulatory compliance
- Optimise capital budgeting and planning
- Improve operational efficiency and productivity

## Enterprise benefits

Integrated fixed asset management solutions, powered by a combination of digital and traditional tools, encompass and interact with every stage of business. This ensures that you can leverage both accounting and operational benefits:

- Ensure quick, centralised access to asset-related information to facilitate decision-making
- Maintain a sustainable and compliant overall operational cycle
- Keep a comprehensive asset record, including warranty information, maintenance manuals, schedules, and service history
- Track the location of fixed assets to ensure proper oversight and protect against theft
- Monitor physical equipment to minimise downtime
- Oversee assets across multiple locations for streamlined operations
- Reduce maintenance costs
- Improve overall productivity
- Keep an up-to-date record of assets that are no longer in use
- Streamline employee performance

## Business growth and continuity

As the MENAT region continues to evolve and expand, businesses must be prepared to navigate the unique challenges and opportunities that come with growth. By mastering the art of fixed asset management, organisations can harness their full potential, ensuring that their tangible assets are efficiently utilised and maintained, and that their financial and operational goals are seamlessly aligned. By implementing comprehensive asset management solutions into your operations, you can excel in both accounting and operational aspects, setting yourself apart from competitors by minimising financial losses, protecting your assets from depreciation, and alleviating your employees from the burden of excessive bureaucracy.

In this ever-changing environment, those who embrace the power of integrated fixed asset management solutions will not only adapt and thrive, but will also pave the way for future innovation and success in the region.



### Security

Top-notch solutions to protect your assets and data from depreciation or damage



### Compassion

Expert-level support and guidance to help you navigate through challenges



### Trust

Secure storage of data to protect your business interests



### Compliance

Automated tagging, reporting, and tracking capabilities to stay compliant with IFRS



### Accessibility

Reliable and convenient storage of vital asset information to ensure quick decision-making



### Customisation

Tailored tracking, tagging, and reporting mechanisms to meet your business needs



### Digitalisation

Integrated hybrid solutions that combine human input and digital tools to streamline your operations



### Vigilance

Comprehensive asset tracking solutions to prevent theft or loss of equipment



# Keeping up with new standards and IFRS

## Ensure accurate fixed asset reporting in MENAT

Accurate tracking and management of fixed assets is crucial for understanding a company's true financial standing, as well as ensuring compliance with relevant laws and regulations governing the acquisition, use, and eventual disposal of these assets.

### FRS impact on MENAT businesses

The recent adoption of **International Financial Reporting Standards (IFRSs)** has further emphasised the importance of high-quality financial reporting for businesses in the MENAT region.

These new global regulation standards pave the way for opportunities such as mergers and acquisitions, new investment opportunities, and a gateway for MENAT businesses into the global marketplace.



**46% of small businesses in MENAT fail to properly track their physical inventory.**

As the global economy grows and companies and investors expand their businesses, the demand for accurate financial reports and statements has surged. This demand has driven the adoption of international reporting standards to create a shared business language that transcends borders, thereby enhancing the efficiency of international markets.

## Regulatory requirements

Over the past decade, countries have been quick to introduce laws that regulate asset reporting, in addition to distinctive taxation measures. For example, KSA has enacted intricate requirements concerning asset management, which include specific asset depreciation reduction taxation procedures. The specifics of operation in the region make effective fixed asset management essential for organisations to meet the growing demands of the market while playing by the rules.

## IFRS

The International Financial Reporting Standards (IFRS) serve as guiding principles for measuring and reporting transactions, assets, and events. Developed by the International Accounting Standards Board (IASB), these standards later formed the foundation for preparing financial statements. Studies indicate that MENAT firms adopting IFRS demonstrate higher financial reporting quality.

## ISO

In 2014, the International Standards Organisation (ISO) introduced the ISO 55000 series. ISO 55000 consists of three standards providing guidelines for effective and efficient asset management systems, enabling organisations to optimise assets and reduce the cost of ownership. Certification in ISO 55001, which is its primary derivative, is internationally recognised and valid for three years, subject to annual surveillance audits. The certification benefits organisations by promoting structured, transparent, and efficient asset management, risk mitigation, reduced operating costs, reliable decision-making, and enhanced brand reputation. It is suitable for organisations aiming to manage and improve the value of their fixed assets.

## IPSAS

In the public sector, the International Public Sector Accounting Standards (IPSAS) are used by entities worldwide for preparing financial statements. These standards are based on the International Accounting Standard IAS No. 16 and pertain to tangible assets maintained for use in production, supply of goods or services, leasing, or administrative purposes.

## Navigating non-compliance risks

Failing to comply with international standards is not just about losing revenue; it can also lead to legal consequences in certain countries.

For instance, in Saudi Arabia, domestic public companies must adhere to IFRS accounting standards. The Saudi Organisation for Chartered and Professional Accountants (SOCPA) is a supervisory body responsible for monitoring businesses' compliance with these standards. Companies that exhibit poor compliance with IFRS during SOCPA audits may face stringent penalties. Similar procedures exist in other countries within the region.

This is where integrated fixed asset management solutions become crucial. Iron Mountain fixed asset management solutions not only assist companies in adhering to these standards but also ensure a seamless compliance process. By providing tailored strategies and cutting-edge technology, Iron Mountain helps businesses navigate the complexities of IFRS compliance, reducing risks, and fostering a secure financial environment.



## Getting to know depreciation

The fixed asset management software market is expected to grow by 12% by 2026 as a result of automation and greater focus on depreciation value.

Depreciation is a gradual wearing out of fixed assets, acknowledging that their value diminishes as they are utilised in business operations. When a company fails to accurately monitor the wearing out of its assets, it may inadvertently overpay taxes and insurance, leading to financial losses.

## Depreciation in MENAT

USAID estimates aggravated depreciation rates of 35% for devices used in operations and production, while building depreciation rates range from 2% to 10%. In Saudi Arabia, PwC outlines specific limitations and guidelines for asset depreciation deductions. Depreciation rates for various categories of depreciable tangible or intangible assets range from 5% for fixed buildings to 25% for factories, machines, and equipment, as the table below demonstrates:

Asset category	Depreciation rate (%)
Fixed buildings	5
Industrial and agricultural movable buildings	10
Factories, machines and equipment, computer application programs, passenger cars, and cargo vehicles	25
Expenditures for geological surveying, drilling, exploration, and other preliminary work to exploit and develop natural resources and their fields	20
All other tangible or intangible assets not included in previous categories, such as furniture, planes, ships and trains, and goodwill	10



## How to calculate depreciation

In accounting, depreciation rate allocates the cost of a fixed asset across multiple reporting periods, acknowledging the consumption of the asset's service potential over time. This process is crucial for asset valuation, service costing, resource allocation, and performance assessment.

There are many formulas for calculating depreciation. The two most common methods are the straight-line method and the double-declining instalment method.

### > Straight-line method

The annual depreciation premium is calculated using the equation:

$$\text{(fixed asset cost - scrap value) / total useful life of the fixed asset}$$

**Example:** A machine purchased for 50,000 riyals 10 years ago with a current scrap value of 3,000 riyals has a depreciation premium of:  $(50,000 - 3,000) / 5 \text{ years} = 5,400$  riyals per month.

### > Double-declining instalment method

This method calculates the depreciation percentage for the fixed asset, followed by the annual depreciation premium, deducting the previous year's depreciation from the asset value.

Using the previous example and an approximate depreciation rate of 40%:

$$40\% = 2 \times 1 / 5$$

$$\text{First depreciation instalment} = 50,000 \times 40\% = 20,000$$

$$\text{Second depreciation instalment} = (50,000 - 20,000) \times 40\% = 12,000$$

$$\text{Third depreciation instalment} = (50,000 - 20,000 - 12,000) \times 40\% = 7,200$$

Fourth and fifth instalments deduct all previous instalments, calculating depreciation at the end of ten years.

The selected depreciation method should align with the asset's usage pattern. Depreciation rates need yearly review and adjustments based on factors like the asset's lifespan.

## Know when to automate fixed asset calculations

Knowing the formula is often not enough. Besides, conventional tools like Microsoft Excel or Google Sheets lack built-in capabilities to automatically calculate asset depreciation without extensive coding and customisation.







Fixed asset management software effortlessly computes depreciation over an asset's lifetime, enabling companies to select the best method and schedule (monthly or annual). For businesses upgrading old machinery and costly assets, the software not only calculates depreciation but also sends timely reminders for initiating the disposal process.

# Our fixed asset management solutions

## Iron Mountain FAM at your service

Full visibility and tracking of your assets goes beyond the basics of accurate financial statements. Our solution enables you to reduce dependency on individuals and ensure full control over your fixed assets through periodic audits and asset data mapping.

### Components of our FAM solution

 <p>Policy review &amp; procedure consultation</p>	 <p>Physical audit</p>
 <p>Barcoding &amp; tagging</p>	 <p>Physical tracking software module</p>
 <p>Integration with financial module</p>	 <p>[ optional ] Financial management software module</p>

## Policy review & procedure consultation

We combine a human approach with software to give a truly end-to-end solution with fixed asset management. Our teams will gain a thorough understanding of the customer's buildings, asset catalogues, locations, and existing physical objects.

- › Provide an executive presentation summarising the above
- › Collect data required for the Empirical Survey
- › Define assets categories and subcategories and their respective attributes

## Physical audit

Iron Mountain is one of the only providers in the MENAT region able to conduct a comprehensive physical audit when your company requires a physical count, tagging, and data reconciliation process that requires professional manual work. The Iron Mountain FAM Solution is able to provide:

- › Comprehensive and cost effective physical audits
- › Verification and reconciliation against book values and vice versa
- › List of assets including: Missing, Unfound, Damaged, Mislabeled, Scrap Assets

## Barcode and tagging

Our physical counting teams will tag all the required assets and remove the old tags if required. We use special labelling, tagging, tracking and monitoring tools, including asset codes that are both human readable and data-enabled (using RFID or Barcode) that uniquely identifies each Asset type. Our clients can expect services that allow for:

- › Cataloguing important tags including region, city, building, floor and room
- › Defining each asset type according to the policy and procedural consultation
- › Specifying the condition of each asset and any other relevant details

## Integration with financial and ERP technology

Centralise access to one source of financial truth for your entire fixed asset register. Asset tracking, labelling and software can easily be integrated to major ERP with the ability to read, extract, store and upload the data to third party applications or other major formats.

- › Build a flawless Fixed Asset Register and Catalogue
- › Connect fixed asset tracking with other business-critical operations
- › Accurate production planning and reporting

## Physical tracking software module

Transform your manual processes and paper-based workflows into digital systems. Iron Mountain FAM software helps you stay organised, automate inventory tracking, and ensures seamless communication between sales, production, warehousing, procurement, administration, and finance.

- Reduce data entry and dependency on individuals
- Mitigate risks of loss or theft by ensuring all assets are monitored
- Automate generation of data rather than manual work on spreadsheets

[ Optional ]

## Financial management software module

Fixed asset management software stores details about each company-owned asset in the cloud, calculates depreciation using various methods, and posts information to the accounting system. This ensures accurate and up-to-date financial statements. Integrated solutions provide a central location for asset details and automating depreciation calculations and accounting system updates.

- Accurate asset depreciation forecasting and reporting
- Clean assets' list (fixed asset register) cross matched with your financial database
- Hierarchical classification structure of your assets for financial and physical tracking



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[ironmountain.com](https://www.ironmountain.com)

### About Iron Mountain

Iron Mountain Incorporated (NYSE: IRM), founded in 1951, is the global leader for storage and information management services. Trusted by more than 220,000 organizations around the world, and with a real estate network of more than 85 million square feet across more than 1,400 facilities in over 50 countries, Iron Mountain stores and protects billions of information assets, including critical business information, highly sensitive data, and cultural and historical artifacts. Providing solutions that include secure storage, information management, digital transformation, secure destruction, as well as data centers, art storage and logistics, and cloud services, Iron Mountain helps organizations to lower cost and risk, comply with regulations, recover from disaster, and enable a more digital way of working. Visit [www.ironmountain.com](https://www.ironmountain.com) for more information.

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