The new auditor’s report:
The impact on Oman
The International Auditing and Assurance Standards Board (IAASB) finalised its project on auditor reporting, which resulted in a set of new and revised standards on auditor reporting, as well as revised versions of ISA which were released in January 2015. These changes are now live, impacting all audits of financial statements for periods ending from 15 December 2016.

But how well understood are these changes? Who will the new standards impact in Oman? What are the benefits and potential challenges that the revisions may present for preparers and users of audited financial statements? To discuss this further, a joint ACCA and Grant Thornton roundtable was held on 17 January 2017 in Oman. This paper summaries the output of the discussions and key recommendations to help support the successful implementation and realization of the intended benefits of the new reporting standards.
How aware are key stakeholders of the changes and their impact?

The roundtable discussion indicated that understanding of the changes in Oman is currently low. Key areas where further clarification would support the successful implementation and realisation of the benefits of the new form audit report (figure 1) were seen to be communication around the purpose and means of identifying Key Audit Matters (figure 2). The initial perception from a number of the round table participants was that Key Audit Matters were linked to disclosures or qualifications, and thus were associated with negative commentary. With additional clarification it was recognised that Key Audit Matters served an important purpose in identifying those areas upon which the Auditor and those with responsibility for governance focused their discussions. These areas need not be negative and in fact could represent future business opportunities.

In addition the round table participants felt that there was a need for additional communication in Oman regarding exactly which entities would be impacted by the new standard. It is mandated that all listed companies adopt IAS 700 however it is at the discretion of local authorities as to whether they should also include other entities within its scope, specifically public interest entities.

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Figure 1: Overview of the layout of the new audit report
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Determining and Communicating Key Audit Matters (“KAM”)
June 2016

Matters communicated with those charged with governance

Matters that required significant auditor attention

KAM = matters of most significance in the audit of the current period

In certain limited circumstances, if there are no KAM to communicate, the auditor’s report includes a statement to that effect

Robust application guidance supports the auditor’s judgment

The concept of significant auditor attention recognizes that an audit is risk-based. Accordingly, matters that pose challenges to the auditor in obtaining sufficient appropriate audit evidence or in forming an opinion on the financial statements may be particularly relevant in determining KAM.

Areas of significant auditor attention often relate to areas of complexity and significant management judgment in the financial statements, and therefore often involve difficult or complex auditor judgments.

In turn, this often affects the overall audit strategy, allocation of resources, and extent of audit effort. These effects may include, for example, the extent of involvement of senior personnel on the audit engagement or the involvement of an auditor’s expert or individuals with expertise in a specialized area of accounting or auditing, whether engaged or employed by the firm to address these areas.

The description of KAM in the auditor’s report shall include a reference to the related disclosure(s), if any, in the financial statements and shall address:

a) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and

b) How the matter was addressed in the audit.

Figure 2: Determining and communicating key audit matters (KAM), IAASB
What are deemed as key benefits for the Omani business community of the new auditor’s report?

The general consensus was that the new format auditors report will encourage increased engagement from a wider audience both internally and externally in the audit report. This in turn should lead to an increase in the scrutiny and quality of what is presented externally.

Particularly for banks and investors these revisions should result in a more meaningful report, helping readers to understand the key issues that are impacting the business, both positively and potentially negatively, more clearly. It was universally seen to be a positive change to put the audit opinion up front.

The clearer accountability that would come from the mandatory disclosure of the name of the engagement partner and greater focus on those charged with governance would, it was felt, lead to a more considered report and in turn help with the continuous improvement of business governance in Oman. Long term this focus was hoped to have a beneficial impact on the wider Omani business environment through surfacing the judgement behind business decisions, building awareness and confidence in businesses.

The participants felt that it was important to note that the changes did not represent a change in how audits were conducted or an increased scrutiny from the Auditors. The information now to be included in the audit report would previously have been communicated to shareholders and the organisation in the management letter. But the inclusion in the report itself of the information focused upon in the discussions between auditor and those charged with governance will ensure greater transparency for a wider audience and provide an opportunity for greater benchmarking, potentially even becoming a marketing tool for organisations.

It was also suggested that a potential benefit for organisations could be a greater interaction and connection between internal and external audit. In addition this external transparency should lead to an increased internal focus on the areas identified in the Key Audit Matters and enable management and the Board of Directors to have a common platform and priority areas upon which to focus, as there was an expectation that there would be regular reporting on the KAM going forward. It was also thought that greater oversight from the Audit Committees of the management could encourage more careful thought in areas where greater judgement was applied in the accounting treatments (for example).
What are seen to be the possible challenges in Oman as a result of these changes?

As previously identified the relatively low level of awareness of the changes in Oman was seen to be a critical challenge. In order to realise the benefits of the changes from an investor and user perspective - then agreement on what the key audit matters are and how they should be presented is critical. If a business is going to be open to and comfortable with the inclusion of increased information being presented to a wider audience then they need to be educated on the purpose of the change. In particular the understanding of what constitutes a Key Audit Matter and that this is not necessarily a negative area needs to be better understood. It was recognised that there was room for subjectivity when it came to agreement between the auditors and those charged with governance on what exactly constituted a matter of audit significance and it was expected that more in depth conversations and greater dialogue would be required to filter what should be included before the report was finalised.

It was felt that the clearer accountability for the Audit Committee in particular could pose specific challenges in Oman where it was felt there was still work to be done in relation to the training and development of Audit Committee members. This increased focus could at its extreme lead to a greater reticence from individuals to take on board and governance roles where they are more explicitly linked to the performance on the company.

Also as previously identified there was some uncertainty from participants about who exactly would be required to comply with this standard, this was seen to be an area that had to be clarified and communicated as a matter of priority.

There were also questions around the timing of the implementation for Oman, with the macro economic conditions still turbulent and continued uncertainty and fluctuations in oil prices this may make additional levels of disclosure more complex. Particularly if the end users of the audit report are not fully aware of the definition of areas such as key audit matters there is a risk that it may increase uncertainty or undermine business confidence.

Conclusion

Ultimately these changes were viewed very positively for Oman. The increased discussion that should result from these changes, both internally and externally will lead to improved controls, an emphasis on clearer responsibility and accountability – all of which should lead to better and more sustainable business and economic success for Oman.

Key recommendations

As a result of the roundtable the participants identified three key recommendations to help support the successful implementation of the changes to the Audit report in Oman:

1. All key stakeholders; regulators, professional bodies and the audit firms, to work together to communicate the changes to businesses with a focus on the benefits.
2. Additional support and training for Audit Committees and other board members to ensure their preparedness for implementing these changes. This links to the work already underway by the CMA regarding independent evaluation of boards in Oman.
3. Clear guidance to all relevant stakeholders on the entities to be covered by this standard in Oman.
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