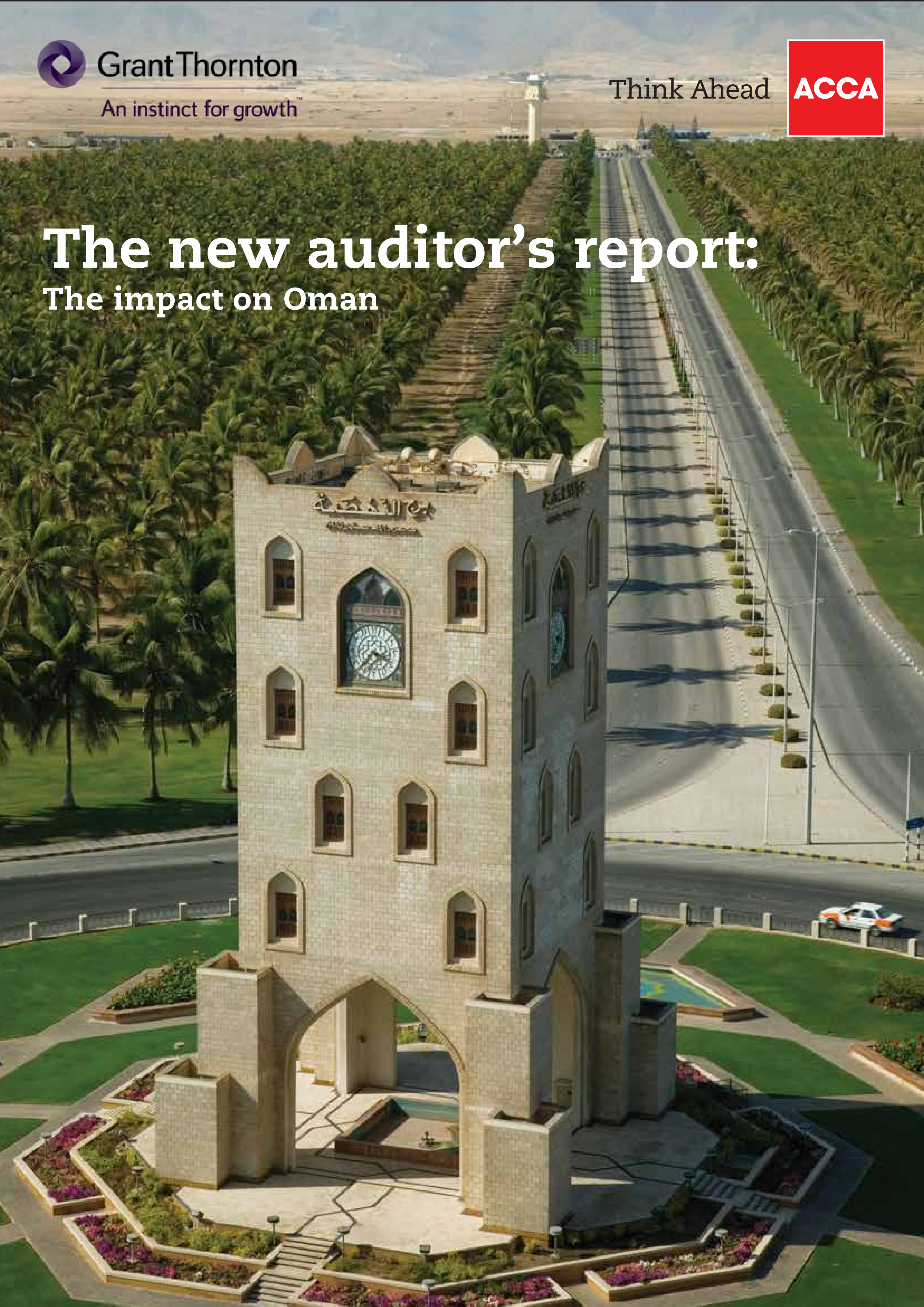
Grant Thornton
An instinct for growth™

Think Ahead ACCA



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 entitles 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.

Overview of the layout of the new audit report	
Opinion	The audit opinion and identification of what's been audited will now be the first section of the report.
Basis for opinion	The Basis for opinion will directly follow the Opinion section and, in addition to referring to compliance with the ISAs and referring to the auditor's responsibilities section, will now include the new assertion of the auditor's independence. If the audit opinion has been modified, the explanation would be here too.
Material uncertainty regarding going concern (if any)	If there is a material uncertainty with respect to going concern, it will now be described in a separate section that identifies it as such.
Emphasis paragraphs* (if any)	*An emphasis of matter paragraph may be next if, for example, it is relevant to understanding the financial reporting framework, or it might follow the key audit matters if it relates to a matter also addressed in that section.
Key audit matters	The new section providing insight into the key matters addressed in the audit will be required for audits of listed companies, but can also be included voluntarily by others.
Other matter paragraphs* (if any)	*The placement of an Other Matter paragraph could be here if it relates to the financial statement audit only, or later in the report if it relates to other legal or regulatory requirements, or both.
Other information	A new section in the auditor's report will describe the auditor's responsibilities for "other information" (e.g., the rest of the annual report, including the management report) and the outcome of fulfilling those responsibilities.
Responsibilities for the financial statements	The description of management's responsibilities will be expanded to explain its responsibilities with respect to going concern. It will also now identify those charged with governance (if different from management).
Auditor's responsibilities	The description of the auditor's responsibilities under the ISAs is now much more comprehensive and includes a description of the auditor's responsibilities with respect to going concern.
Report on other legal and regulatory requirements	The form and content vary depending on legal requirements prescribed by local law or regulation.
Date, address and signature	In addition to the signature, address and date, auditor's reports for listed companies will now also have to identify the engagement partner's name.

Figure 1: Overview of the layout of the new audit report

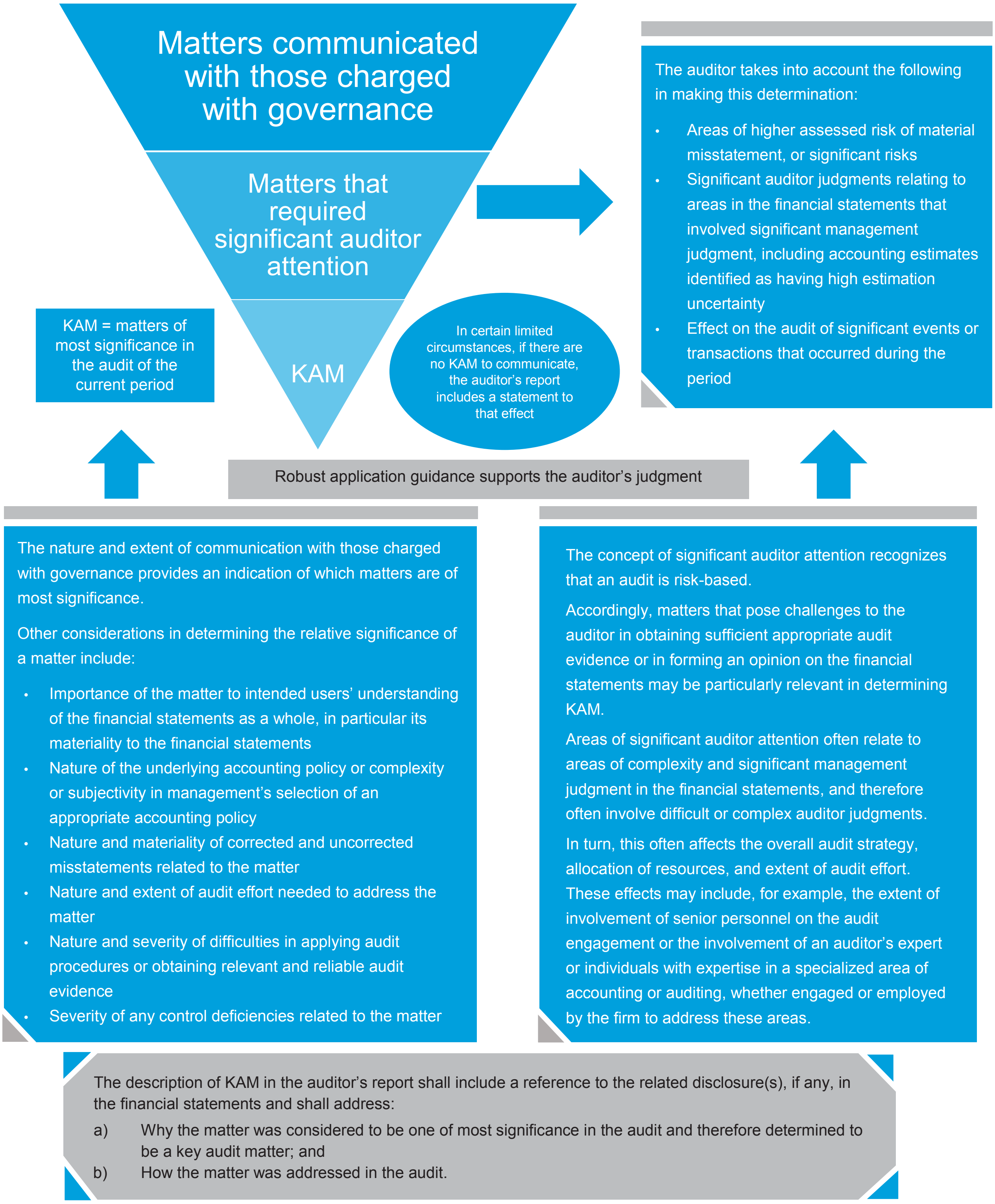


Figure 2: Determining and communicating key audit matters (KAM), IAASB

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.

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 188,000 members and 480,000 students in 178 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of 100 offices and centres and more than 7,400Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

About Grant Thornton Oman

Abu Timam Grant Thornton is a leading accounting and consulting firm providing assurance, tax and advisory services to privately held businesses and public interest entities.   There clients not only get the benefit of their local knowledge, but can also access the knowledge and experience of more than 2,500 partners in more than 100 countries through the global organisation. This unique combination has made Abu Timam Grant Thornton the fastest-growing firm in the Sultanate of Oman.

Contact us:

ACCA Middle East
Dubai Knowledge Village
Block No. 19
Office No. S01
Dubai, United Arab Emirates
T: +971 (0)4 391 5451
F: +971 (0)4 366 4068
E: info@ae.accaglobal.com
W: www.accaglobal.com/middle-east/en.html

Grant Thronton Oman
P.O Box 57,
Al Harthy complex P.C.
118 Muscat,
Muscat 118 Sultanate of Oman
T: +968 24 571 320
E: info@om.gt.com
W: http://www.grantthornton.om/