The changing role of Audit in Oman

White paper
The concept of transparency and rotation has been a long standing debate in relation to the audit market both within Oman and globally. More recently, there have been developments globally, particularly in the EU with the recent audit reforms being introduced to promote transparency and independence. This debate has led to many other emerging economies embracing the notion and the need for such reforms especially in countries where commercial decisions are predominately relationship focused.

In many economies having audited financial statements is a mandatory requirement. The auditor is required to be independent from the management team and board to ensure they remain equitable and can provide a precise uncompromised and comprehensive view of the company’s financial position.

Over time a working relationship is established in which some cases can translate further. These relationships can transpire beyond decades especially within a family owned business where the relationship is passed from one generation to the next, equally the same could be said for a corporation where the audit relationship has been established for years and therefore, change isn’t deemed as necessary.

The recent EU reforms have illustrated the importance of the need for audit rotation and the debate has pushed this topic up the agenda of investors and large company boards. It is clear that some companies and GCC members have noted the concerns and are already reacting to the EU reform.

Increased global regulation has further pushed the notion of audit rotation higher up the agenda, whilst Oman is leading the way in some respects with mandatory rotation already in place, the lack of an audit regulatory board in Oman, may prove to be slightly challenging.

Given the level of change and the enhanced requirements currently in progress within the Audit landscape globally, it is inevitable that the role of audit is set to change. This change will not only transpire to enhanced economies, but will also be reflective in emerging economies including Oman. This has led way to discussions on the topic of the ‘future of audit’ and the increase demands from business stakeholders who seek not only an audit report, but a value added report.

Grant Thornton and the ACCA took the opportunity to host leading individuals from regulators and banks to highly acclaimed CFOs from various sectors, to discuss the changing role and ‘future of Audit’ both globally and in Oman.

“The future of Audit around the world is set to change and continues to change with new laws and regulations, which in turn no doubt will change the role and future of Audit in Oman given the increased need for diversification within the economy”

Nasser Al Mugheiry
Managing Partner
Grant Thornton, Oman

“With Audit set to play an increasing role in business and economic success in Oman, the need to ensure that there is a growing pool of qualified Omani talent to support demand becomes ever more important.”

Lindsay Degouve de Nuncques
Head of Middle East
ACCA
Key themes: Future of Audit in Oman

Audit: looking beyond the numbers
The participants opened the roundtable by discussing the added value that an Audit can provide. Although it is not mandatory in Oman to have audited financial statements (other than for those companies currently listed on the Muscat Securities Market and being a requirement of the company law and tax authorities), the participants stressed just how important and valuable an Audit is. Given the increase in globalisation and the demand to expand cross borders, having an Audit can provide greater clarity to leverage greater return.

There is an increased need for value added reports which go beyond the numbers and highlight growth areas for businesses. The role of the auditor has to be seen as imperative to ensure the value of such insight is translated into the business and goes beyond just financial statements. In order for this to happen, the participants noted that the profession needs to be further endorsed and encouraged to ensure that awareness and understanding of the value of Audit is understood and remains so for years to come.

Companies currently listed on the Muscat Securities Market (MSM) are required to have audited financial statements and thus look to the top-tier professional services firms to support this, the element of rotation was seen to further ensure the profession isn’t guarded by the monopolised brands.

The participants highlighted that with the increase in globalisation, Oman needs to look at best practice examples as set by other economies to ensure they prepare for the future to further promote solidity in the market, profession and the future of audit.

Rotation: the changing landscape
In respect of audit rotation Oman is leading the way for the GCC as currently, it is mandatory for listed companies and government owned entities to rotate their audit. It was seen to be an opportunity for the wider region to learn from the experiences within Oman.

The participants discussed the element of rotation in further detail and highlighted that the experience in Oman to date has brought more advantages than disadvantages. Audit rotation provides a new perspective and can highlight areas of growth which may have once been overlooked. Thus, audit rotation was said to bring greater value and heighten the element of transparency.

It was recognised that when looking at audit rotation within family owned businesses, this may be met with slight levels of hesitation given that a relationship would have been formed over the years which heightens the notion of trust. However, in order to ensure the market remains competitive and transparency is heightened to further compete with increased competition and emerging trends, rotation was deemed a must.

The participants highlighted the need for sector knowledge and how audit rotation can provide different viewpoints which can further elevate growth and thus promote successful organisations further in Oman.

Regulation and governance: cutting through intricacy
As a result of a changing world, the need for regulation in key economies is rapidly increasing. Although many organisations have voiced that increased regulation can often prove to be complex for growing organisations, the need and benefit for such was discussed amongst the participants who voiced the need for increased regulation in Oman. In addition the need for more audit committees and a regulatory body was highlighted.

Increased regulation and governance will further safeguard the Omani economy for generations to come. The participants shared their views on the need to further mature the governance structure within the country which would allow organisations to further respond to the impending changes.

This will provide further value for capital markets in enhancing investor confidence and thus promoting economic growth. As the Gulf region assimilates into the global marketplace, corporate governance plays a dynamic role in improving the transparency, accountability, competitiveness and the notion of succession planning. Countries with a strong corporate governance culture attract greater domestic and foreign direct investment.

Realising the benefits of good corporate governance, central banks and capital markets in the GCC countries are developing corporate governance frameworks to simulate a globally competitive corporate structure. However, as the region is still young in terms of business environment, several measures are being taken to improve the implementation process of good governance, along with Oman already having a code of corporate governance for listed companies.

Having strong corporate governance fundamentals intertwined with corporate culture can further promote growth. It is particularly important for larger family owned businesses who operate in diversified sectors, where it can be slightly more complicated, as robust corporate governance can further safeguard growth and increase the desirability when looking for investment.
“Audit is the most critical line of defence against ‘Corporate Governance failure’, direct consequence of which is ‘business failure’. We need to ensure Quality Audit which depends upon the Auditors’ Integrity, Objectivity, Independence and Professionalism. Last but not the least, it must be the Auditor who raises the red flag first.”

Mohamed Said Awadh Al Abri
Official Secretary to the CMA Board &
Director General, Issues and Disclosures
Directorate
Capital Market Authority

Perspectives from Oman

Given the topic of discussion, highlighted below are some key takeaways from the roundtable which provides elements to consider, further shaping the future of Audit in Oman.

• There was a general consensus that in Oman greater co-ordination of the oversight of audit would be beneficial. There is currently no regulator of the audit environment in Oman and hence there could be oversight, which needs to be addressed in order for local businesses to become more global.

• The burden of regulation is notably increasing and there was a concern that the market in Oman needs to do more to attract further FDI to the country.

• A skills shortage was identified and the participants confirmed that more needs to be done to promote the profession and Omanisation.

• Best practice examples were discussed such as the Capital Markets Authority who have met with the market to consult with a focus on the future.

• Oman was seen to be leading the way regarding audit rotation which has been in force in the market for some time (3+1yr), but again like the UAE it is still dependent upon structure.

• Rotation is favored as it was said to bring fresh insight into the business which makes the market more competitive

• Audit is still based upon historical financial statements and in the region is perceived as having a tick box approach, with the use being somewhat limiting. Although for certain businesses SME’s for example, who are looking for finance the banks do and still are looking for audit assurance.

• The introduction of a robust tax system in addition to corporate tax, may also lead to more professionalism in the process, with an increased focus on tax collection, it may force greater regulation in Oman.

Omanisation: promoting sustainability for future success

According to news reports, expats make up approximately 40 per cent of Oman’s population of 4.2million, with the remainder of the workforce being from Oman. The government has highlighted the need to promote Omanisation to ensure the future of the country is safeguarded and that the nation of Oman continues to contribute to the success of the economy.

Thus, Omanisation has become a key topic for local businesses with set quotas being introduced to ensure government and private sector organisations uphold this commitment. As a result, the Audit profession within Oman is soon set to go through a period of change – as millennials from Oman enter the profession they will bring with them a new way of working, innovative solutions and suggestions to further promote growth in their nation.

However, in the interim the need to promote the profession amongst the Omani youth was discussed at the roundtable with greater awareness needed. The participants discussed their Omanisation programmes, with Grant Thornton sharing their nationalisation programme which encourages the youth of Oman to enter the audit profession.

With great awareness being driven by the ACCA and organisations such as Grant Thornton, the rise of Omani’s within the private sector continues to see a stark increase year on year. This is further promoted by government initiatives to encourage the local community further and encourage a dynamic workforce coupled with the local community to ensure that whilst Oman continues to compete with key global economies, it still maintains its heritage and authenticity for generations to come.

1 ‘As Omanisation gathers steam, expats fear for jobs’, Times of Oman (online)
The future of Audit in Oman

The insightful discussion led way to a futuristic view of the future of audit and how this should no longer be seen as a tick box exercise, but more so a value added partnership which is necessary for organisations who are truly looking to grow and achieve their growth ambitions.

Innovative solutions and the advance of technology would enable external auditors to benchmark the companies they audit against sets of data from across industries which will give them greater information on any potential risks. With access to such data, it will enable the auditor to translate this to their clients business which could provide leaders with valuable perspectives and insights that they can use in their business to further promote growth.

Alongside this it will provide value for capital markets in enhancing investor confidence and thus promoting economic growth. As the Gulf region assimilates into the global marketplace, corporate governance plays a dynamic role in improving the transparency, accountability, competitiveness and the notion of succession planning.

Appointing and choosing an auditor is a critical decision and commitment for any organisation, as businesses are more than likely making a long-term decision and choosing a company that will contribute significantly to the success of their business over time. Whilst choosing the external auditor, audit committees and decision makers should ask two important questions to which answers will have to be found in the selection process in accordance with the company’s specific circumstances, they are as follows: what is deemed as a quality audit? And what is the value of an audit?

The need for more consolidated reporting was also cited, with a greater emphasis needed on building key relationships and links with governmental bodies and agencies to reduce the regulatory burden that businesses currently face.

To further safeguard the economy and future of Audit, the need to promote the profession amongst Omanis is required with more stringent actions needed, to ensure it becomes an attractive career choice for young Omanis. The need to promote education in the fields of external and internal audit was highlighted as the importance of having qualified accountants who can truly compete with the demands of globalisation, was deemed key.

Taking into consideration the feedback from the roundtable and the topic of the future of audit, the decision of selecting the most appropriate external auditor has never been more so important than before. The future of Audit around the world is set to change and continues to change with new laws and regulations, which in turn no doubt will change the role and future of Audit in Oman given the increased need for diversification within the economy and hence, the impact of change in the audit landscape, can no longer be overlooked.

“As from a global perspective, the role of audit has evolved. It is soon to be embedded in each function/business of the organisation which is deemed vital from a control and governance perspective, in addition, the internal audit function or departments role remains vital to safeguard the organization and to act as a third line of defence.

As laws and regulation keeps changing, the regulatory and external audit environment keeps evolving. Though it can result in an increase burden, it is good for governance and protects the organisation from a risk perspective, therefore being imperative.”

Adnan Haroon
Chief Financial Officer/Chief Operating Officer
Standard Chartered Bank, Oman
ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. It offers 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. ACCA supports its 178,000 members and 455,000 students in 181 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 92 offices and centres and more than 7,110 Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

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