



Newsletter

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We wish all our clients, and the business community at large a happy 51st National day.

With positive signals all around the economy, Oman is stepping into a new era of progress and prosperity. This, in a big way is facilitated by the digital revolution. This exposes the country to lot of challenges. With people increasingly living their lives online, fraudsters have never had easier access to potential victims. COVID-19 has only accelerated that trend. Indeed, business is booming for cybercriminals, now focused on high-value

organizations. The move toward a more fragmented workplace has also gone hand in hand with increased inter-connectivity. The cost of a breach goes far beyond the IT infrastructure. Its downtime, its brand integrity and loss, and loss of faith from consumers and partners.

Since the outbreak of the COVID-19 pandemic early last year, the world has seen surges in cybercrime and cyber fraud as the shift to remote work, better enables these offenses. We all have to take a step back and realize that this is the world we live in, and it is forcing us to look at ourselves as well and recommitting ourselves to every possible solutions that are there.

In the past, organizations largely kept their data and employees in one, easily defensible place. But that all changed as the spread of COVID-19 forced employees to work from home, where they labour on less-protected laptops and in multiple locations. The amount of fraud reported that goes through these channels is significant, especially from banks and large enterprises and it is only going to get worse because of the hybrid and remote

work models which have expanded significantly as a result of the pandemic. One of the key goals for security leaders should be to move away from a prevention mind-set and to focus on early detection.

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Amendments to IFRS standards effective 2021 and beyond



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In a changing world, the Standard Setters of the International Financial Reporting Standards (IFRS) constantly endeavour to revise, amend and tweak the Standards, so that the financial reports present relevant and reliable information to the users.

Accordingly, the following is the summary of all new standards/amendments issued before 31 December 2020 with an effective date after 1 January 2021:

Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions:

As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2:

The Phase 2 amendments address issues

that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.

Amendments to IFRS 17 and IFRS 4, 'Insurance contracts' deferral of IFRS 9:

These amendments defer the date of application of IFRS 17 by 2 years to 1 January 2023 and change the fixed date of the temporary exemption in IFRS 4 from applying IFRS 9, Financial instrument until 1 January 2023.

Amendments to IAS 1, 'Presentation of financial statements' on classification of liabilities:

These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

A number of narrow-scope amendments to IFRS 3, IAS 16 and

some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16:

Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.

Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.



**A successful business requires one
simple thing: Passion**

- Teresa Collins 

Uplifting Traveller Confidence



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Last week I returned to Oman from a short international trip and was impressed by the smooth transition through the Muscat International Airport. The airport, aviation, health and relevant authorities in Oman have placed systematic and clear guidelines to ease the journey of travellers. In addition, it is evident that significant importance has been placed on health and safety measures.

As Oman continues to ease its travel rules and with the increase in traveller confidence, we can expect positive results for hoteliers, tourism activities and its related industries.

Based on an International Air Transport Association (IATA) survey it revealed some interesting future travel trends.

Future Travel Trends

- 57% expect to be traveling within two months of the pandemic being contained.
- 72% want to travel to see family and friends as soon as possible.
- 81% believe that they will be more likely to travel once they are vaccinated.
- 84% said they will not travel if there is a chance of quarantine at destination.
- 56% believe that they will postpone travel until the economy stabilizes.
- While traveller confidence continues to increase along with greater number of people being vaccinated, the selection of destinations, in my opinion, may depend on pre and post arrival factors.

Pre & Post Arrival Factors

Prior to the pandemic, tourists would have placed greater importance on the hotel options, sightseeing, attractions and ease of transport that a destination offers. Resulting to selection of a destination greatly dependent on post arrival factors.

Presently, we may also place importance on selecting a destination due to its pre-arrival factors such as:

- Is there a difference in requirements for vaccinated/unvaccinated travellers?
- How many PCRs will I have to conduct throughout my trip?
- What shall be the additional costs related to all the PCRs and Medical Insurances?
- Which forms, health credentials and mobile apps would I require?
- Will there be any institutional or home quarantine requirements on arrival?
- Are the requirements different when entering through air, land and sea borders?
- Are there sufficient and economical flight options to the country?

It becomes crucial that destinations are be able to communicate to travellers accurate, detailed and credible information. In anticipation of influx in travel, most countries are providing information through various authorities, airlines, marketing and tourism portals.

The responsibility shall always remain on us, the travellers, for gathering complete information prior to travelling. Meanwhile the path to rebuilding traveller confidence lies with all the those involved in the tourism, travel, hotel, leisure and related industries.

Robust communication, clarity and ensuring safety for travellers will increase the influx of tourists, investors and businesses. Crucial element shall be how existing businesses are able to capitalise and seek opportunities through the uplifting of traveller confidence.

“
I never
dreamed
about
success. I
worked for
it.

– Estee Lauder

COVID Financial Impact – Is the End in Sight...?



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Following the hugely successful vaccination program, we see that new infections and deaths due to COVID have all but disappeared here in the Sultanate. Once again the roads are full of traffic, restaurants, cafes and tea shops have opened their doors to hungry customers and the sight of a blue and white airplane over Al Mouj golf course is no longer mentioned in the same breath as the rare migratory birds.

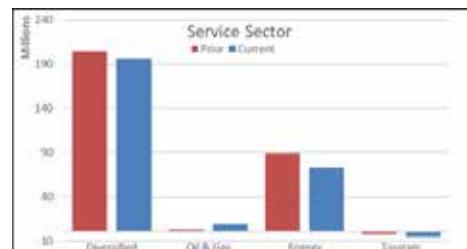
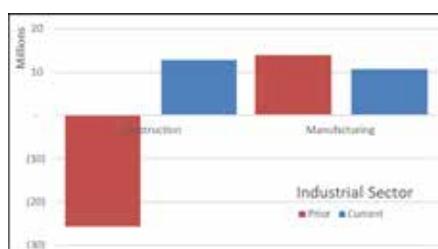
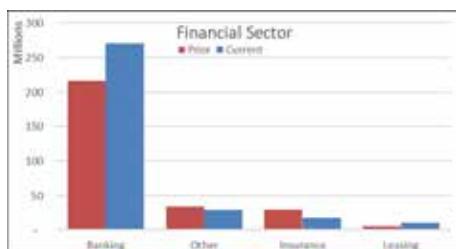
We are now hopefully nearing the end of the pandemic but we must tread with caution. Indeed, the CBO issued one final instruction to the banks to extend their loan deferral programs to troubled borrowers but that will most likely end in December. From 1st January we will be entering the world of the new normal. Whatever that may be. The backlog of world shipping continues long after the Suez Canal was unblocked and is predicted to spoil many European family Christmases, as the toys and presents simply can't be shipped from China in time. World fuel shortages have resulted in spikes in fuel prices and the related commodity prices close to the heart of Oman – Oil and Gas. On the other

side of the equation is the growing debate on carbon emissions and global warming, which was recently the subject of the highest level of debate between world leaders and Greta Thunberg during the COP26 World Climate Summit in Glasgow, UK.

This is most likely to be my penultimate article on the financial implications of the pandemic on the listed companies in Oman, extracted from the 3Q21 financial statements that have recently been published on the Muscat Stock Exchange. As usual, looking at the key sectors we see the recovery has already started in the Financial Services Sector, with banks and leasing companies recording increased profits as a result of lower provisions for credit losses. Most observers feel the end of the deferral program will be the real day of reckoning for this sector. Despite recording handsome increases in the value of their equity investments, the insurance industry has not been so fortunate as lower motor insurance business (primarily as a result of departing expats) and the COVID related cost of medical and life insurance claims is starting to bite.

Within the Industrial Sector, there seems to have been a cleanup of construction companies balance sheets and operations in the prior year, as large losses have turned into slim profits in the current year. Manufacturing is still finding life tough, as increased raw materials and shipping costs combined with subdued export market demand continue to provide challenges.

The main company within the Diversified Services Sector is Omantel who has reported consistent profits of RO 168m for the first 9 months. The decline in the profitability of the Energy Sector is due entirely to Al Kamel Power, which alone recorded a current year loss of RO 15m due to the write down of asset values following annulment of its contract with Oman Power and Water Company. Finally, we reach the key strategic sector of Tourism, which is yet to see any meaningful shoots of growth as inward tourism is yet to rebound. Hopefully the winter months and the new normal in 2022 will be favourable for this COVID battered sector.



There have been many casualties of the pandemic, on both the personal and corporate level, but (drawing from Darwin's theory of evolution) anyone still standing must be relieved that they have survived and are looking forward with confidence that future is going to be bright and full of new normal opportunities.



Always deliver more than expected

– Larry page



Pile up of Non-Performing Assets



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Non-Performing Asset (NPA) is defined as a loan asset, which has ceased to generate any income for a bank whether in the form of interest or principal repayment. Non-Performing Assets are a real threat to the existence of banking system and drain to any economy. The rise of NPAs can pose a huge hazard to the country's growth.

Why do Non-Performing Assets pile up?

There are multiple reasons for NPAs. Basically, it is due to bad loans.

Bad lending practices in terms of credit policy, terms of credit or security issues.

Business failures due to multiple reasons including internal failures.



Non-performing assets are generally classified as follows based on how long they stayed as non performing.

Sub-standard Assets: A sub-standard asset is the one that has stayed non-performing from less than or equal to 12 months. In this case, the present value is not enough to guarantee full due recovery to the institution.

Doubtful Asset: Doubtful assets are the ones that have been in the substandard category for full 12 months. A loan becomes doubtful when it inherits all the qualities defined in substandard assets along with traits of lacking liquidity. The repayment of the facility is highly questionable.

Loss Asset: Loss Assets are typically having an extended period of non-payment, and it can be reasonably assumed that it will not be repaid. It is identified to be written off by the appropriate authority.

Seasonal failures of entities making unable to repay on time and repeated incidents.

Economic crisis affecting the industry or economy as a whole.

NPAs have massive effect on the national economy. Pile-up of non-performing assets forced banks to collapse. To compensate the loss of income institutions has to increase interest rates on other products and services. Investors of banks and other related sectors get affected badly. No or low repayment of loan and interest lead to liquidity problems.

A robust risk management system and sound internal control measures helps to deal with the appropriate lending decisions.

Also, a speedy redressal mechanism is required which has to be more efficient than the regular legal proceedings.



Quality is
never an
accident.

It is always
the result of
intelligent
effort.

— John Ruskin.



Education and Career Journey as an Omani



Said Al Brashdi

Associate Auditor

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In December 2017, I got a chance to pursue my higher education in the UK where I managed to complete my bachelor degree in Accounting and Finance and ACCA professional qualification. At the outset, I was very excited, me being one of the few Omanis' who got the chance to study abroad but eventually this excitement turned into a life lesson of being independent, micromanaging all activities which were previously done by my parents. The transformation has enabled me to become more self-aware and resilient.

According to Tuckman, there are various stages of group formation that every group undergoes; the initial stage is characterized as forming and storming stage which involves power struggles, disagreements and uncertainties (Tuckman, 1965). Initially, I believe that I was in a forming and storming stage of Tuckman's model for quite some time as I was very independent because I was the only Omani and Arabic speaker in the whole University. Even though I was the only Arab student, our university was very diverse with students from all over

the world with different educational and cultural background. This usually stimulate better performance and innovation through contribution from each other (Stanford Graduate School of Business, 1999). Eventually I graduated from BPP University with a First-class honor and completed all ACCA professional exams on first attempt.

The most significant experience I had was working part-time as a finance assistant in a charity organization as well as studying for my professional qualification. Although most of the things which I did was basic accounting such as prepayments, accruals, bank reconciliation etc., it has introduced me to the working environment and the use of various accounting software which boosted my efficiency.

After completion of my studies, I moved back to Oman with high enthusiasm of getting a job opportunity in an audit firm. However, during that time, the Oman's economy was severely hit by Covid-19 which resulted in companies forcing employees to take all/most of their annual leave days during the lockdown period, with some companies going into liquidation which meant staff redundancy

was the only option to survive and the rest of the companies working remotely which tarnished all hope that I had in getting a job soon.

In about 5 months of constantly applying, I got an offer from Crowe as an audit associate working on internal and external audit engagements which have helped me put my knowledge into practice and experience real world scenarios as opposed to the ones outlined in the textbook.

Now that I have completed 6 months with Crowe, with the help of Crowe Oman team, I am confident to say that I have mastered major aspects in audit within different industries. Contingency model on groups recommends that sharing the problems with subordinates as a group and generate and evaluate outcomes to reach agreement on solution (Vroom and Yetton, 1973). With this experience and continuous help provided by Crowe from training sessions to one-on-one meetings with all engagement partners. As such, am keen and look forward to start the year-end engagements.

Our New Resources

Muzeebur Rahiman Shaik

Manager – GRC & Cyber Security Services

Experience

M.C.A with +19 years of experience in Information Technology, Cyber Security, GRC Consulting & Implementing, Digital Business Transformation, Governance of Enterprise IT, Risk Management, IT Auditing, Data Privacy, Machine Learning, Data Analytics, System Integration, and Project Management.

Professional Summary

Worked with the Government, Banking, Insurance, Manufacturing, Water & Electricity, Oil and Gas industries.

Education and Professional Affiliations

- M.C.A - Masters of Computer Application from Madurai Kamaraj University (India).
- CDPSE - Certified Data Privacy Solution Engineer from ISACA.
- CISA - Pursuing Certified Information Systems Auditor from ISACA.
- GRC & Data Privacy Certified Professional



Afrah AlGhafri

Forensic Auditor

Experience

A Certified Fraud Examiner (CFE), was graduated from Sultan Qaboos University with bachelor degree in Finance. Afrah has over two years of expertise in Finance & Accounts. She is now with the Forensic team in Crowe Oman.

Professional Summary

- Prepare and execute work plans for forensic accounting investigations, fraud investigations and dispute engagements
- Analyzing and reviewing documents and financial activities to identify instances of fraud
- Analyze financial statements, damage models and other accounting and financial related documents
- Independently conduct research on technical accounting issues

Professional Affiliations

- Association of Certified Fraud Examiners (ACFE)

Education

- Bachelor of Science – Major: Finance, College Of Economics and Political Science, Sultan Qaboos University.

Client & industry Focus

- Insurance and Financial Services
- Banking
- Educational
- Real estate
- Oil & gas
- Hospitality



VAT in Progress



Antony Kallukaran

As it stands from a GCC perspective, KSA, UAE, Bahrain and the Sultanate of Oman have implemented VAT. While KSA has a VAT rate of 15%, Bahrain has just approved a VAT rate of 10% effective from 1 January 2022 on taxable supplies. The UAE and the Sultanate of Oman have an effective VAT rate of 5%.

From Oman's perspective, as on 30 October 2021, the Q3 VAT returns were filed by most of the VAT registered companies with annual taxable supplies over RO 500,000 in the Sultanate of Oman. This brings to an end the 2nd quarter for VAT registered companies who have been charging VAT since the commencement date of 16 April 2021. While the Tax Authority had given an extended submission date of 23 September for the Q2 VAT returns, there was no extension available for the Q3 VAT returns.

From 1 October 2021, companies in the third bracket with taxable supplies over RO 250,000 have also commenced charging VAT on their supplies with their quarter ending 31 December 2021 and returns to be filed by 30 January 2022.

The registration window for the last bracket of companies with taxable supplies over RO 38,500 to RO 249,999 will open from 1 December 2021 all the way through 28 February 2022 with the effective date from 1 April 2022.

During this period the TAX Authority has brought forward certain amendments to the law, the key amendment being the VAT deferment option. Until this came into force, companies had to pay the VAT @ 5% on their imports while clearing the goods from the Customs border of the Sultanate of Oman. However, once this amendment came into force, the companies now have a choice of submitting a bank guarantee to the Tax Authority so that they do not have to pay the VAT at the time of clearing the goods from the customs borders but instead account for it while filing the quarterly VAT return. The bank guarantees may be for a duration from 3 months to 1 year and the importer can apply for deferment of tax by submitting a guarantee to the customs department one month before the entry of import. Approval or rejection of the application will come within 30 days.

Further, the Tax Authority has already commenced assessments of Q2 returns and certain companies have already been issued with queries and assessment notices. This will ensure that VAT refunds as applicable are processed at the earliest to ease the impact of VAT on companies' cash flow. VAT refund is not automatically done and a separate application has to be made for VAT refund in accordance with the conditions prescribed in the law.

With the year end, fast approaching, we are face with a couple of year end issues:

Goods supplied on or before 31 December 2021 & invoice Issued on or after 1 January 2022;

Payment received on or before 31 December 2021 & goods delivered on or after 1 January 2022

In both the above cases, VAT will be reported in 2021 Q4 VAT return.

Lastly, in the spirit of serving our clients better, we would like to introduce the VAT health check. VAT affects your everyday business transactions – both purchases and sales.

It can represent a challenge, particularly with regards to ensuring proper compliance and efficient cash flow management. It is particularly unsettling to have to deal with the authorities if you are not VAT compliant. Furthermore, even though VAT is theoretically meant to be a neutral tax for businesses, in practice VAT could possibly also burden your business with costs that are either irrecoverable or inadvertently not recovered. We can assist you by analyzing and organizing your VAT processes and recommend and set up a VAT control framework as required.

Way forward.. IFRS 9 Hedge Accounting



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With many companies in Oman taking advantage of the Central Bank window to defer loan payments to Banks during the 2020/21 COVID pandemic, many are now entering into discussions with their bankers to restructure the remaining facilities, as the path to recovery is uncertain, so further liquidity planning will be essential.

One such large company approached Crowe to provide assistance with an interesting conversion of a floating rate local multi-million Rial Omani currency facility into a fixed rate USD facility that combined a loan and an interest rate swap. With prior experience gained from working in financial institutions in many countries the team at Crowe Oman, Not only could

provide the accounting advisory services to ensure that IFRS 9 Hedge Accounting proceeded smoothly, but could also review the Loan Facility and ISDA Swap Documentation, to ensure the client was not exposed to any nasty shocks down the line, such as the impending transition away from LIBOR to alternative benchmarks.

Using international banking experience combined with the knowledge of the local market and regulatory requirements and by taking a central role in the structure and documentation discussions with the Bank, Crowe was able to secure a very favourable position for the client. During the process, with the knowledge and understanding of capital markets

transaction pricing, we were able to help the company secure a structure that not only better matched their cash inflows and outflows from a risk management perspective but the company was also able to lock-in substantial borrowing cost savings for their balance sheet.

If your company is looking to restructure loan facilities and would like accounting and/or structuring advice then please contact Karl to see how Crowe can help (karl.jackson@crowe.om).

