



Newsletter

Vol 2, 2018

Audit / Tax / Advisory / Risk / Forensic

Smart decisions. Lasting value.



Message from the Managing Partner

It is almost a quarter of a century since Ghazali Mak established the auditing practice in the Sultanate and since then it has been a steady progress. Over the years the firm has evolved itself into Crowe Mak Ghazali, a multi-dimensional practice comprising of Audit, Tax, Business & Risk advisory, Forensic Accounting and information technology. Mak Ghazali is the member firm of Crowe Global the 8th largest Global accounting network with 804 offices spread over in 130 countries. Today with a strength of 55 professional and support staff in Oman, the firm has grown up to be one of the top six firms in the Sultanate. We are also a member of the technical Auditors advisory committee of the Capital Market Authority.

In between we have invested in strengthening our expertise and infrastructure to continue serving our clients with utmost quality and commitment. In line with this strategy, as we continue to achieve new heights, we have invested in our own new office in The office Building, strategically located in the midst of major businesses and shopping

areas in Al Khuwair. We would be honored to welcome you all to our brand new premises on level 5 of the Office building adjoining Ramees shopping and vertically opposite to Muscat Grand Mall and Avenues Mall.

On a different note, the recent surge in oil prices could see a buoyant economy with reduced scope for new government debt. According to economists the situation could be more robust for the economy with the oil prices touching almost \$90. The budget deficit is expected to be brought down to RO 3 Billion from RO 5,3 Billion in 2016. This is giving a very positive vibe for the national economy. With this bright note I wish all our clients and well-wishers a happy and blessed National day.

Davis Kallukaran
Founding and
Managing Partner
Crowe Mak Ghazali llc



Occupational Fraud - a Challenge

With the rapidly changing digital environment Accountants and Auditors are facing significant risks in their profession in preventing and detecting occupational frauds. To bring awareness to the business community on the significance of Occupational Fraud, the world is celebrating the International Fraud Awareness week. International Fraud Awareness Week is an opportunity for anti-fraud professionals and communities to come together to look at how far reaching the effects of fraud can be. Organizations worldwide lose an estimated 5 percent of their annual revenues to fraud, according to the 2018 ACFE Report to the Nations on Occupational Fraud and Abuse. According to the report a single instance of fraud can be devastating: the average loss, per fraud case was \$145,000, and more than a fifth of the cases involved losses of at least \$1 million.

Fraud takes many shapes and forms, among them corporate fraud, consumer fraud, tax fraud, identity theft and many others. The biggest mistake business owners make is believing that they are immune to fraud, whereas in reality, anyone can fall victim to it. How vulnerable is your company to fraud? Do you have adequate controls in place to prevent it?

One of the best defences against fraud is a workforce that is trained in prevention and detection. The good news? There are some basic steps your organization can take immediately to lessen your vulnerability to fraud:

Be Proactive. Establish Hiring Procedures. Train Employees in Fraud Prevention. Implement a Fraud Hotline. Increase the Perception of Detection. Implementing these tips could help prevent your organization from becoming a victim.

Davis Kallukaran

Procurement Corruption

Procurement function is one of the most vulnerable business function in any business susceptible to corrupt practices and manipulations. This is one of the major areas of corruption.

When we drill down to Middle east market, plenty of government infrastructure projects are happening with relation to airports, roads, ports and other oil related sectors. The chances for procurement related frauds and corruptions are more.

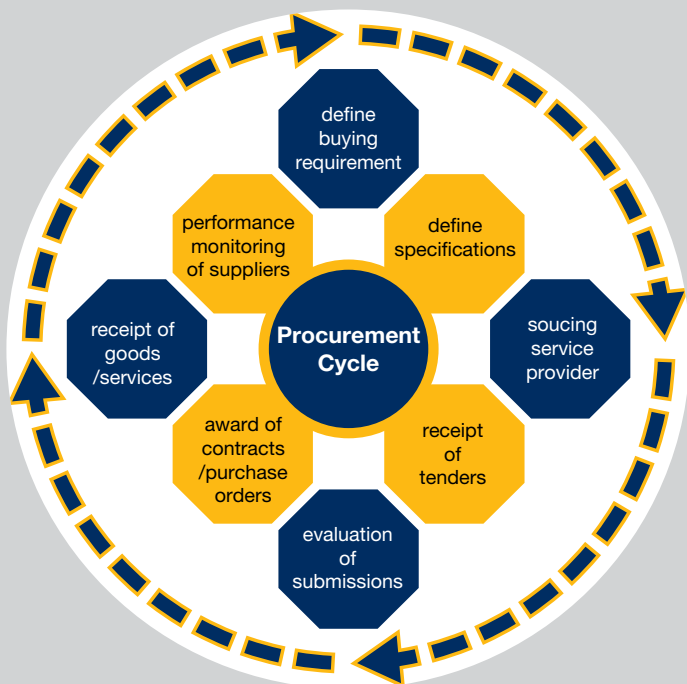
Many governments and business houses have zero tolerance policy to corruption and bribery. Bribery is a crime in most countries and penalties can be severe. UK Bribery Act, US FCPA and ISO 37001 all makes paying or taking a bribe is illegal and also hold companies liable for failing to prevent bribery. The only defense a company has to the crime of failing to prevent bribery is if the company can prove that it had in place adequate procedures designed to prevent bribery and corruption.

Any corruption in procurement would not only bring financial losses to the company, but also endangers its reputation among employees and business partners. Chances of procurement corruption is in every stage of procurement cycle.

Corruption, bribery and other fraud practices erode the profits of your company, increase its operating costs and tarnish its reputation along with penalties and punishments. Building up an ethical corporate culture based on policies, procedures and follow-up with standards and framework will be a great defense against corruption and fraud .



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Partner , Forensic Technology Services

VAT is almost there! Are you prepared?

The introduction of VAT has become more certain now with the Ministry of Finance announcing the target date of 1st September 2019 (<http://www.omanobserver.om/vat-from-sept-next-year/>). The VAT Framework Agreement stated that the participating countries have to implement VAT latest by 1st January 2019. As of date, VAT has been already implemented in UAE and KSA and Oman will follow the Framework agreement soon.

It is extremely important for businesses to understand and start preparing for VAT in Oman. VAT is a tax on private and final consumption of goods and services but is charged indirectly by charging taxable vendor with the collection of tax on their sale of goods and services. The vendor is allowed to take VAT credit on its purchases and hence the net impact on vendors is nullified. Hence, businesses should understand the fact that they are the 'tax collectors' for the government. If they do not do it correctly, they will have to pay penalties stated in the local VAT law.

As per the framework agreement, all goods and services are subject to 5% VAT. However, VAT will either be zero rated or exempt for the education, health, real estate and local transport. It also gives option to Member states to zero rate

the oil, petroleum derivatives and gas sector. The Ministry of Finance stated that VAT will be not imposed in the health, education, part of the housing and logistics sectors and 94 food items in Oman (<http://www.omanobserver.om/vat-from-sept-next-year/>).

We at Crowe Mak Ghazali, have strong practice in VAT advisory services. We conduct workshops and in-house trainings for VAT. We assist businesses in tax determination and impact/gap analysis for VAT. We assist in developing a VAT strategy and define a VAT control framework. We review the accounting software designs from VAT adaptability aspect. We supervise the IT design changes in the accounting systems for VAT implementation. We create transaction test scenarios and assist in validating those and recommend solutions to address any gap. We work with VAT engine vendors and can advise for any need for a bold-on VAT solution. We assist in VAT registration with the Tax authorities.

We strongly believe in partnering with businesses for VAT advisory and support services throughout the VAT adoption process and be with them for any teething issues till filing of first and subsequent returns.

3i approach for IFRS 9, 15 and 16

The accounting world is currently grappling with the advent of the three new International Financial Reporting Standards (IFRS). These Standards are:

1. IFRS 9 – Financial Instruments became mandatory effective 01 January 2018.
2. IFRS 15 – Revenue from Contracts with Customers became mandatory effective 01 January 2018.
3. IFRS 16 – Leases will become mandatory effective 01 Jan 2019 with an option for early adoption.

These Standards impact almost all sectors of the business world with significant implications on the financial statements. Individual entities

should conduct studies on the applicability and implications of these standards so that they shall be adequately prepared for the obligatory changes required in their financial reporting. It is imperative to give the right accounting treatment to the business transactions as required by these Standards, so that presentation and disclosure requirements shall be adequately met. Needless to state that these steps would minimize any risk associated with non-compliance or partial compliance of the Standards which may have serious repercussions on the entities.

The principles of recognition and measurement of the financial instruments under IFRS 9 have undergone significant changes compared to IAS 39. However, for measuring the impairment

loss, IFRS 9 fundamentally shifts the approach from the “Incurred Loss Model” to a more robust “Expected Credit Loss Model” the entities must take especially the development of a risk model to arrive at the expected credit losses (ECL).

IFRS 15 requires entities to relook at their revenue streams and existing contracts with customers and will bring in a lot of discipline in their business practices. Unlike the earlier standard that viewed revenue solely as a line item in the income statement, the new standard states that revenue recognition will have to be derived from changes in assets and liabilities.

The other standard IFRS 16 deals with leases. Leasing is a key financial solution enabling companies to use various assets without the need for purchasing them which would otherwise involve large cash outflows. Current standard generally require lessees to account for lease transactions, either as off-balance sheet operating lease or as on-balance sheet finance lease. Under IFRS 16, lessees will have to recognise almost all leases on the balance sheet which will reflect their right to use an asset for a period and the associated liability to pay rentals. The lessor’s accounting model remains mostly unchanged compared to the legacy standard.

IFRS 16 will have many accounting and financial implications for companies: balance sheets will enlarge and EBITDA and gearing ratios will increase. The new standard modifies both the expense character and recognition pattern, affecting almost all commonly used financial metrics such as asset turnover, interest cover, EBIT, operating profit, net income, EPS, ROCE, ROE and operating cash flows.

These standards may require companies to transform their business processes, not just in finance and accounting, but also in IT, operations, tax, treasury and legal among others.

To be ready for these standards, companies should start thinking about their implementation plans now. Despite the practical expedients provided, these standards are likely to have a great impact on many companies and transition will require substantive time and effort. The possible implications are too far reaching to procrastinate until the last minute. Many companies are seeking professional advice on

the implementation of these guidelines. Hence it has become imperative for the companies to train their workforce.

At Crowe Mak Ghazali llc, we undertake this endeavour to guide and assist our clients to be totally prepared with the requirements of these Standards. As a part of our professional commitment, we conduct training sessions/ workshops and undertake studies on the impact of these Standards on the individual entities and guide them step-by-step in the implementation process.

We have developed a unique “3i - Approach” involving the following three steps:

Step 1 – Impart knowledge to our clients by way of conducting training/ workshops both as a public event and as a specially customised in-house event for individual entities;

Step 2 – Impact Analysis – Undertake professional service to evaluate the impact of these Standards on the financial statements of the clients for the year ended 31 December 2018;

Step 3 – Implementation process – Provide a step-by-step guidance and assistance for implementing the requirements of these Standards to different entities.

We offer our professional service to assist our valued clients in the implementation of these Standards in an effective and efficient manner so that they may totally comply with the presentation and disclosure requirements of these Standards in their financial statements for the year ended 31 December 2018.

Post Script –

In addition, it should also be noted that “IFRS 17 – Insurance Contracts” will become mandatory from 01 January 2021 with requirement to present one-year comparative figures which makes it indirectly effective from 01 January 2020. Local regulators in many countries have already started prompting companies in the insurance sector to be geared up for the implementation of IFRS 17 and to submit a report on the gap analysis. Hence the need for the knowledge and skill requirement in this area need not be overstated.

James Ravi FCA, CPA

Director - Audit

TRANSITION OF FAMILY OWNED BUSINESS HOUSES... A NEED OF THE HOUR!!!

Oman, like other GCC countries, is the home of several family owned businesses. When we say family owned business it means those owned by member of a family. We can even see companies in which father, mother, kids, grand parents are all part of the shareholders. Some loving parents used to show their affection to children by sharing a minor portion of their ownership rights.

Family owned business comes with its own unique characteristics. Normally the leadership vest with most respected member, majority of the cases the elder member, involved in the business. This gives stability and continuation of the leadership. Since it is an extension of the family we can see elements of affection, commitment and flexibility in the overall business environment. Often the expenses of an aged family member is met by the business, irrespective of its tax implications!! Yes such a business is complicated, but it care about human values. Unlike those corporate bosses (of course with exceptions) who always look for better remuneration, a united family work together with a commitment rather than the penny coming to their pocket.

However there were negatives too. A conflict in family can extend to business, a divorce can cause fall of a business empire. Another risk is unfortunate events like death or disability of a key member. Many family businesses lack succession planning. So the shock to family always hit the business too. Some members of the family might be reluctant to share the ownership with outsiders. In those cases there can be a leadership vacuum

atleast as a temporary phenomenon. Moreover the transfer of ownership from generation to generation also weakens or diverts the vision and objectives of the business.

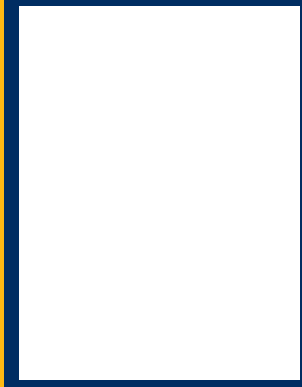
To mitigate this risk, several family business houses are moving towards various corporate structures where the family members sit in the board of the holding companies and the subsidiary companies are managed by independent management. Such a holding company structure will be more practical in case of business with diversified areas of operation.

However this transition is not an easy process. The impact of the transfer of ownership needs to be assessed from various angles like taxation, banking, local compliances, operational issues, contractual obligations etc., Transfer of ownership can be done on the basis of a proper business valuation, so that the goodwill created by the business can be reflected in the balance sheets of the Holding companies Ideally this restructuring process should be done by professionals who have sufficient experience in various fields.

This is an area where we at Crowe Oman can extend our support to family owned business.

Jim Joseph Itty, FCA

Director - Assurance and Corporate Finance



About us

Crowe Global is ranked among the top 8 global accounting networks with more than 216 independent accounting and advisory services firms with 764 offices and more than 35,000 professionals and staff in over 129 countries around the world. Crowe Global's member firms are committed to impeccable quality service, highly integrated service delivery processes and a common set of core values that guide decisions daily. Each firm is well established as a leader in its national business community and is staffed by nationals, thereby providing a knowledge of local laws and customs which is important to clients undertaking new ventures or expanding into other countries. Crowe Horwath International member firms are known for their personal service to privately and publicly held businesses in all sectors and have built an international reputation in the areas of audit, tax and advisory services.

Our Services

- Audit & Assurance
- Tax Advisory
- Internal Audit
- Forensic Accounting
- Due Diligence
- Business Valuation
- Accounting Services
- Company Incorporation
- ISO Consulting
- Strategy Consulting
- Policies & Procedures
- Market Research
- Feasibility Studies
- HR Consulting
- Corporate Training
- Corporate Advisory



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