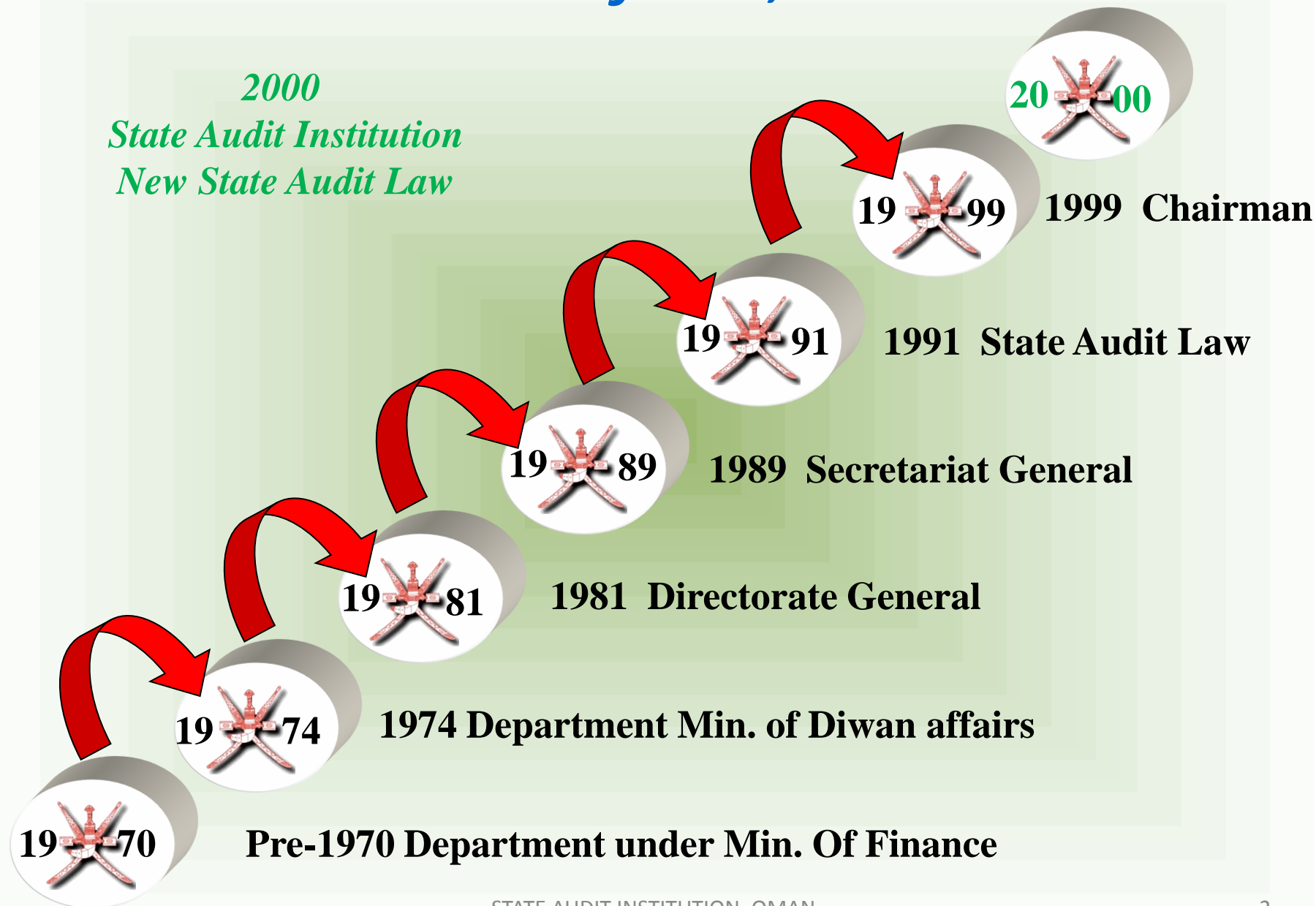




# SAI Role in Auditing State Owned Enterprises in Oman

Abdulrahman.A. Al Harthy  
MARCH 2010  
PARIS

# The Evolution of SAI, Oman



# Independence



- Chairman is appointed by HM. the Sultan through a Royal Decree
- Deputy Chairman is appointed by a Royal Decree
- Independence of SAI, Oman enshrined in State Audit Law of 2000 which provides full financial, administrative and operational autonomy

# Mandate



- Audit State Public Funds to
  - protect them, and
  - ensure
    - their proper employment,
    - compliance with financial laws & regulations
- Expose cases of financial irregularities
- Recommend means of redressing deficiencies in financial laws, rules and regulations
- Evaluate effectiveness of projects
- SAI also Considers specific request by the govt. for special and pre-audits

# Audit jurisdiction



## Ministries &, Autonomous Govt. Entities

1. Entities making up the Administrative apparatus of the State
2. Entities whose Budget is included in General State Budget (unless specifically exempted)

## Public Authorities & Companies and private concessions

1. Companies, with 51% or more Government Shareholding
2. Pension Funds, Private Bodies and Establishments guaranteed or subsidized by Government
3. Companies with Government concession to exploit a public utility / natural resource.

## Private Bodies & Institutions

Where Government or a Public Institution grants assistance.

# Audit Privileges and Access

- Shall audit at auditee's own premises
- Right to access all records
- Audits without notice
- Can engage experts, consultants
- Can sub-contract audits to professional external auditors

# SAI Reports



## PERIODIC REPORTS

### TO AUDITEES

Results to be communicated with recommendations for remedial action

Auditees expected to respond within two months

## ANNUAL REPORT

### TO HIS MAJESTY THE SULTAN

By the end of next financial year

Contents:

- Observations on State Annual Accounts
- General Evaluation of Development Projects
- Contraventions discovered during Audit; opinion on action taken regarding contraventions

# SAI Reports

**Reports to the  
Council of Ministers**

**Statement of lack of responses to SAI  
reports  
Annual Report on obstacles  
encountered by SAI in discharging its  
mandate**

**Reports to the  
Civil Services Council**

**Personnel matters not implemented  
by auditees**



# Oman Economy – Importance of Oil and Gas Sector



- As per Oman General Budget 2010, the general revenues for the year is estimated at about US\$16.5 billion as compared to about US\$14.5 billion in FY2009 budget, an increase of 14%
- Total oil & gas income caters to around 68% of the total public expenditure as compared to 83% during the beginning of seventh five year plan (FY2004 end).
- Oil and gas revenues contribute around 76% of the total revenues
- Diversification to other sectors – services – tourism, manufacturing, fisheries continues as per Oman Vision 2020 enunciated in 1995 and Five Year Plans– 2010 being last year of 7<sup>th</sup> five year Plan
- Increasing private investments in electricity sector and restructuring of telecom sector have taken place

# GDP and Oil and non-oil sectors contributions in billions of US\$



	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Oman GDP</b>	30.70	36.64	41.28	59.34
<b>Oil GDP</b>	15.50	17.28	18.28	30.34
<b>Non-Oil GDP</b>	15.20	19.46	23.00	29.00

# Audit of SOEs in Oman



1. Specialised audits of government Companies, with government ownership at least 51% shares:
  - Oil and Gas Companies
  - Aviation
  - Telecommunications
  - Shipping
  - Power
  - Commercial and industrial companies
2. Audit of Public Authorities and Establishments, including regulatory authorities
3. Audit of public investment funds – various pension funds
4. In addition, Concessions given by government for public utility or natural resource like oil and gas, etc. are under audit mandate

Overall, 103 such entities are under SAI audit jurisdiction

# Nature of Audit of SOEs



- Depending on volume and size of operations of a company and the importance of a particular sector to the national economy, periodicity of audit is decided
- Audit includes:
  - *Compliance audits, including propriety issues*
  - *Performance audits with reference to economy, efficiency and effectiveness of major operations of government companies and evaluation of company's performance vis-à-vis its goals and objectives*

# Linkage between financial audit and audit by SAI



- Annual accounts - source material an important linkage with audit by statutory auditors
- While Statutory auditors (external auditors) conduct financial audit of accounts of companies, audit by SAI covers compliance with rules and regulations and performance aspects of a company
- There is complementarity between two audits as financial statements and External Audit reports provide very useful information for SAI audits to give an assurance about the functioning of the government companies

# Financial Statements

- a useful tool for SAI audit



The Financial Statements throw clues on

- overall view of the operational and financial activities of the Company
- understanding on materiality issues
- Risk Areas
- Weakness in controls over costs

# Risk Assessment for Compliance and Performance Audits



Examine process and effectiveness of risk assessment based on:

- Quantum of turnover/paid up capital
- Performance of company/unit
- Quantum of contracts
- Critical areas involved
- Susceptibility to fraud
- Areas of weakness pointed out by internal Audit
- Pointing out areas of weakness and qualifications of accounts by statutory auditor

# Improving Audit Quality and Audit Results



- Quality encompasses all aspects of audit cycle covering audit planning, audit execution, audit reporting and follow up.
- Adoption of best practices including INTOSAI Standards and Guidelines in SAI Oman also ensures quality of audit.
- Continuous Capacity building programs to enhance audit skills of staff



# Transparency and Accountability

## - Code of Corporate Governance

- ❖ Good corporate governance practices implemented through Code of Corporate Governance for Public companies framed by the Capital Market Authority.
- ❖ All public listed companies, **including SOEs**, submit a Report on Corporate Governance along with Annual Report for shareholders bringing out best practices for ethical, transparent and impartial system of functioning at the top management level.
- ❖ External Auditors have to give a kind of an assurance specifically commenting on implementation of code of corporate governance by a listed SOE.
- ❖ ***SAI through its report attempts to give a further assurance on good corporate governance practices followed by company as per code and comments wherever there is a material variation or misrepresentation***

# Good governance practices in Oman



- SOEs are required to publish annual reports with financial statements.
- It is mandatory to have both internal audit department and the Audit Committee
- In Oman, External Auditors are appointed in the Annual General Meeting.
- The Auditor is appointed for one financial year. The same firm shall not be appointed as External Auditor for more than 4 consecutive final years.
- The Auditor can be appointed again after a cooling off period of 2 years.

# Good governance practices in Oman



- Appointment of independent directors is governed by code of corporate governance.
- Persons with background in the industry and experience are appointed to the board. Private sector personnel are also appointed to the board of SOEs.
- The concerned sectoral ministry has a say in the nomination of its representatives to the SOE board.
- The board appoints the CEOs through search committee which makes recommendation to the board.

# Value addition through Audit

- Through early intervention Audit like
  - (a) technical and financial evaluation of contracts and
  - (b) Formal pre-audit of certain companies resulting in savings worth millions of Rials
- Through audit sensitising of Auditees through seminars and workshops
- Through the convention of submission of audit findings and action taken to the Board of Directors
- Through effectiveness of specific, measurable, actionable, reasonable and timely SAI audit recommendations and their acceptability
- Through assurance on performance of entities

# Electricity sector – an overview



- **Sector Law** brought into effect in 2004
- **EHC (Electricity Holding Company) established.**
- Processes of power generation, transmission and distribution separated and nine new independent companies have been created out of the Ministry of Electricity, Housing and Water
- Unbundling completed in 2005
- in 2005 an independent regulatory body – **Authority for Electricity Regulation - AER** – established - entity responsible for public interest regulation of electricity sector under state law

# Audit of Electricity sector

## – some issues



- To match demand and supply:
  - Transmission losses and unregistered use of electricity
  - Need to improve efficiency
- Unfavourable distribution losses
- Deficiencies in meter reading, billing and revenue collection
- Need for
  - modernising electricity meters,
  - penalty for meters tampering,
  - employing skilled meter readers
- High operational expenses

# Audit of Electricity sector

## – some issues



### •Transmission Issues

- High losses - a risk to transmission system security
- Weakness in project management
- Delay in completion of projects

### •Generation Issues

- Frequent and prolonged forced outages
- Below par fuel efficiency
- Weakness in maintenance of units
- Delay in completing repairs
- Obsolete inventory

# Outcomes of SAI Audit

- significant monetary recovery of millions of riyals
- improvements in control systems and procedures
- enhancement of effectiveness and quality of expenditure
- policies, rules and regulations modified for future cost savings





THANK YOU