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Independent auditor's report to the shareholders of Dhofar Insurance Company SAOG

Opinion

We have audited the accompanying financial statements of Dhofar Insurance Company SAOG ("the Company"), which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. Key audit matters are selected from the matters communicated with Those Charged with Governance, but are not intended to represent all matters that were discussed with them. Our audit procedures relating to these key matters were designed in the context of our audit of the financial statements as a whole, and we do not provide a separate opinion on these matters.

Outstanding claims reserve (OCR)

We refer to Note 20 in the financial statements that states the gross provision for outstanding claims reserve of OMR 101,481,845 and net provision of OMR 20,404,783. Given the level of subjectivity inherent in estimating the impact of claims events that have occurred but for which the ultimate outcome remains uncertain; the risk related to the estimation of liabilities for outstanding claims reserve including claims incurred but not reported (IBNR) are key judgmental areas for management.

Small changes in the assumptions used to value the liabilities, particularly those relating to the amount and timing of future claims, can lead to material impact on the valuations of the insurance liabilities. The key assumptions that drive the reserving calculations include loss ratios and estimates of the frequency and severity of claims.



**Independent auditor's report to the shareholders of
Dhofar Insurance Company SAOG (continued)**

Key audit matters (continued)

Outstanding claims reserve (OCR) (continued)

The valuation of insurance liabilities depends on accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating insurance liabilities, or for forming judgments over key assumptions, is not complete and accurate, then material impact on the valuation of insurance liabilities may arise.

The risk of material misstatements is heightened given the uncertainty and volatility in the current claims environment and, therefore, this has been considered as a key audit matter.

Our response

We examined the process used by the management to estimate the liabilities for OCR and the related reinsurers share. Our procedures included understanding and testing the operating effectiveness of controls in the claims handling and reserving process, including controls over completeness and accuracy of the claim estimates recorded. We performed substantive tests on amounts recorded for a sample of claims notified. We evaluated the completeness, accuracy of data, key assumptions used and the results of the insurance liability adequacy test. Further, we ensured that the reserve to be created for incurred but not reported claims were based on the actuarial report received from the independent actuary. We also assessed the adequacy of the Company's related disclosures.

Insurance and reinsurance contract receivables

We refer to Note 13 in the financial statements. The Company has significant net insurance and reinsurance contract receivables against written premium policies amounting to OMR 8,071,843. For companies under financial stress due to slow down in business, there is risk over the recoverability of these balances. Therefore, this has been considered as a key audit matter.

Our response

Our audit procedures included testing the Company's controls over premium and insurance receivables collection processes; testing the receipt of cash post the year-end; and testing the adequacy of the Company's provisions against insurance receivables by assessing the management's assumptions, taking into account externally available data on trade credit exposures and our own knowledge of recent bad debts experience. We also considered the adequacy of the Company's disclosures about the degree of estimation involved in arriving at the provision.

Investments

We refer to Notes 8(a), 8(b), 8(c) and 8(d) in the financial statements which state that a significant portion of the Company's funds are invested in financial instruments comprising of available-for-sale investments, equity accounted associates, held-for-trading investments and held-to-maturity investments amounting to OMR 3,855,461, OMR 2,605,937, OMR 402,141 and OMR 6,123,800, respectively. The Company measures the available-for-sale investments at their fair values, changes in which are recognised in other comprehensive income. Further, an impairment review of the available-for-sale investments is performed and impairment charges, if any, are recognised when there has either been a significant or prolonged decline in the fair value below their cost. With regards to equity accounted associates, the Company records its share of the profits or losses based on audited financial statements. The Company values its held-for-trading investments at their fair values obtained from the respective securities markets in which it has invested and regularly monitors the factors that affect the stock movement prices. The Company has recognised the held-to-maturity investments at amortised cost and any change in fair value is routed through statement of the comprehensive income.



**Independent auditor's report to the shareholders of
Dhofar Insurance Company SAOG (continued)**

Key audit matters (continued)

Investments (continued)

Since investments constitute, in aggregate, a significant amount in the statement of financial position, valuation of these investments has been considered as a key audit matter.

Our response

In auditing the available-for-sale investments, equity accounted associates, held-for-trading investments and held-to-maturity investments, we have assessed the processes and key controls relating to valuation of these financial instruments. In addition, we have performed valuation testing on a sample of these investments, reviewed the Company's investment policies and assessed the adequacy of the impairment charges on available-for-sale investments, held-to-maturity investments and the share of profits or losses for equity accounted associates. We have also considered whether the disclosures in relation to these investments comply with the relevant disclosures requirements.

Revenue recognition and unearned revenue

We refer to Note 28 in the financial statements, which states that the Company earned net premium income of OMR 19,521,720 during the year ended 31 December 2018. Further, the Company has deferred premium revenue based on the Capital Market Authority (CMA) regulations which requires deferment of unexpired premiums based on the 1/365 method. As there is a risk of material misstatement relating to the recognition of premium revenue and the judgment involved in the deferral of unearned premium in line with the expiration of the risk, therefore has been considered as a key audit matter.

Our response

Our procedures included an assessment of the design of controls over premium recording and collection, and testing their operating effectiveness. We carried out tests of details on a sample of policies and also used analytical procedures to assess the completeness of premium revenue. In addition, we tested the calculations, and considered the adequacy, of the provision for unearned premium, in line with the risk expiry. We also compared the unearned premium provided against the level required by the CMA regulations. Further, we assessed the adequacy of the disclosure for revenue recognition and unearned revenue in the financial statements.

Legal cases

We refer to Note 40 in the financial statements which states that the Company has instituted various civil and criminal cases against its former senior executives. Some of these executives have instituted counter claims, in civil and labour courts, in the Sultanate of Oman. Given the level of subjectivity and uncertainty on the ultimate outcome of the court cases; the risk related to estimation of the liability is a key judgmental area for the management.

Our response

We have verified the underlying agreements, contracts, transactions with the ex-employees, provisions created in the accounting records and interim and final court orders. We have also obtained the external lawyers letter confirming the status of the cases as at the statement of financial position date and, accordingly, ensured the adequacy of the related disclosures in the Company's financial statements.



**Independent auditor's report to the shareholders of
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Other information

Those Charged With Governance and the management of the Company are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report but does not include the financial statements and our auditor's report thereon. We have obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2018 Annual Report after the date of our auditor's report:

- Chairman's Report
- Management Discussion and Analysis Report

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regards.

Responsibilities of management and Those Charged With Governance for the financial statements

The management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Those Charged With Governance either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those Charged With Governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



**Independent auditor's report to the shareholders of
Dhofar Insurance Company SAOG (continued)**

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Those Charged with Governance.
- Conclude on the appropriateness of Those Charged With Governance use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Those Charged With Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Those Charged With Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Those Charged With Governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



**Independent auditor's report to the shareholders of
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Report on other legal and regulatory requirements

Further, as required by the Commercial Companies Law 1974, as amended, of the Sultanate of Oman, and the Rules and Guidelines on Disclosure issued by the Capital Market Authority, we report that:

- (1) we have obtained all the information we considered necessary for the purpose of our audit;
- (2) the Company has maintained proper books of account and the financial statements are in agreement therewith; and
- (3) the financial information included in the Annual Report is consistent with the books of account of the Company.

In addition, we report that, nothing has come to our attention which causes us to believe that the Company has breached any of the applicable provisions of the Commercial Companies Law 1974, as amended, of the Sultanate of Oman, and the Rules and Guidelines on Disclosure issued by the Capital Market Authority, which would materially affect its activities, or its financial position as at 31 December 2018.

BDO

Muscat

Date: 27 February 2019



B. Kapur

**Bipin Kapur
Partner**