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## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL ALUMINIUM PRODUCTS COMPANY SAOG**

### **Report on the audit of the financial statements**

#### **Opinion**

We have audited the financial statements of National Aluminium Product Company SAOG (the Company) set out on pages 2 to 41, which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 (IFRS).

#### **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 *Auditors' 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) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Other Matter**

The financial statements of the Company for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 4 March 2018.

#### **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 year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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**Valuation of Inventories****Refer to note 7 of the financial statements.***The key audit matter*

Inventories are significant to the Company as these represent approximately 13% of total assets. The raw materials mainly comprise aluminium billets, which are subject to price volatility. This can impact the net realisable value of inventories including raw material, work-in-progress and finished goods. Furthermore, the estimation of inventory impairment provision involves significant management judgment. Inventories, net of impairment, amounted to RO 5 million at 31 December 2018.

*How the matter was addressed in our audit*

Our audit procedures in this area included, among others:

- testing the design and operating effectiveness of selected controls over the accuracy of the ageing report for inventories. We involved IT specialist to test the accuracy of inventory aging report;
- agreeing the cost of inventories on a sample basis to supporting documents (for example, purchase orders, invoices and goods receipt notes);
- assessing the reasonableness of the inventory impairment policy applied by the management for impairment against old and obsolete stores and spares;
- checking the accuracy of application of the inventory impairment policy at 31 December 2018;
- attending the annual inventory count performed by the Management to identify any obsolete inventories; and
- considering the selling price realised for items sold subsequent to year end verses the carrying values of inventories to assess that net realisable values are appropriate.

**Impairment of Trade Receivables****Refer to note 8 of the financial statements.****The key audit matter**

As at 31 December 2018 the Company has significant trade receivables representing 51% of total assets.

IFRS 9 "Financial Instruments" (IFRS 9) was adopted by the Company on 1 January 2018 and has resulted in change in accounting for impairment from an incurred loss model to a forward looking expected credit loss (ECL) model. The determination of expected loss involves significant estimates and judgments.

Given the inherently judgmental nature of determining ECL and this being the first year of its application, this is considered as a key audit matter.

*How the matter was addressed in our audit*

Our audit procedures in this area among others included:

- obtaining an understanding of the Company's process for estimating ECL and assessing the appropriateness of the ECL methodology and the new accounting policy against the requirements of IFRS 9;

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- assessing the reasonableness of management's key assumptions and judgments made in determining the ECL allowances, segmenting of receivables and data sources;
- testing key inputs of the model, such as those used to calculate the likelihood of default and the subsequent loss on default, by comparing to historical data.
- We involved IT specialist to test the accuracy of receivable aging report; and
- assessed the adequacy of the credit risk disclosure in the financial statements.

**Other Information**

Management is responsible for the other information. The other information comprises the chairman's report, Management Discussion and Analysis report and Corporate Governance Report but does not include the financial statements and our auditors' report thereon.

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 regard.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and their preparation in compliance with the relevant disclosure requirements of the Capital Market Authority and the applicable provisions of the Commercial Companies Law of 1974, as amended, 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, 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditors' 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 auditors' 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.

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

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- 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 auditors' 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 auditors' 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 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 auditors' 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.

#### Report on Other Legal and Regulatory requirements

We report that the financial statements of the Company as at and for the year ended 31 December 2018, in all material respects, comply with the:

- relevant disclosure requirements of the Capital Market Authority; and
- applicable provisions of the Commercial Companies Law of 1974, as amended.

27 February 2019

KPMG

Mobeen Chaudhri

