

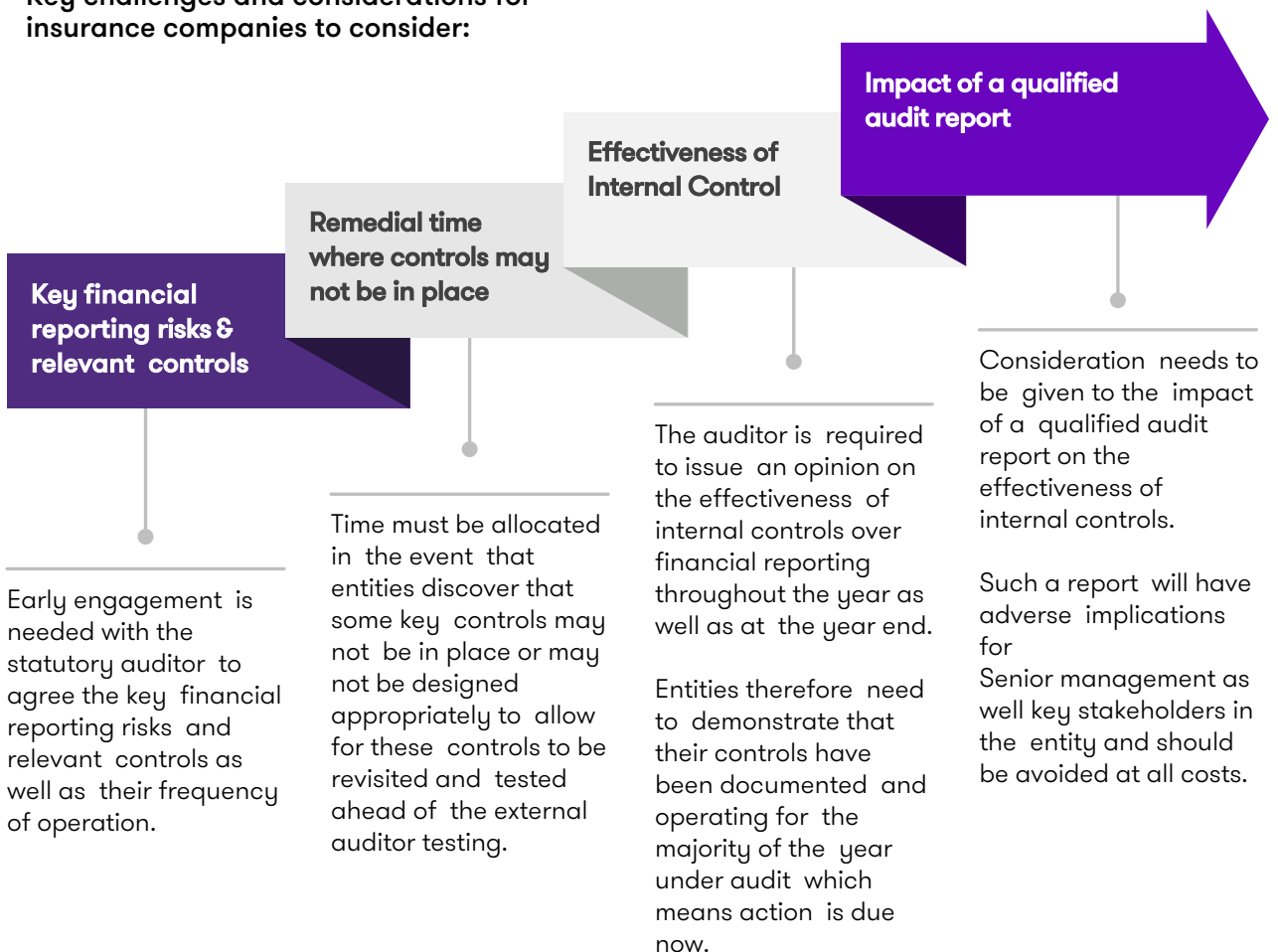
Effectiveness Testing of Internal Control

The Insurance Authority recently released Circular No. (21) of 2019 regarding 2020 Reporting Requirements for All Insurance Companies Operating in the UAE.

This Circular requires external auditors to issue a separate opinion on the effectiveness of internal controls over financial reporting at all insurance companies. Which the Circular makes no reference to a specific internal control framework, it is widely expected that the COSO framework will be adopted as best practice.

In order to issue such an opinion, external auditors will need to carry out extensive testing of the internal control framework in place at insurance companies across areas such as governance, business cycle controls and IT general controls i.e. effectively the majority of controls and processes in place at insurance companies.

Key challenges and considerations for insurance companies to consider:



Grant Thornton can support UAE Based Insurance Companies to comply with the resolution through a four-stage approach:

1 Project Planning & Scoping

- Establish key stakeholders, project approach and reporting requirements
- Establish key success factors for the project and define milestones
- Understand the extent and nature of any prior known internal control issues
- Assess risks and materiality and confirm significant accounts, processes, business units, functions and control assertions (including IT)
- Three-way planning meeting with the external auditor

2 Process, documentation, risk & control design analysis

- Identify and document/review critical controls
- Identify and document key risks and potential impacts
- Identify and document the critical IT processes and application enablers
- Evaluate design effectiveness
- Benchmark the existing processes and controls to the compliance with 17 principles for COSO framework
- Discuss findings with the external auditor

3 Testing of key designs

- Design and approve formal work programs for any changes or new controls identified
- Consider tester independence, objectivity, and competence to maximise the ability of others to rely on the testing and results
- Coordinate testing activities and timing with all stakeholders
- Execute and document test of controls and retain sufficient evidence to support conclusions
- Document, analyse and gain disposition for all testing exception and control issues
- Remediate control deficiencies and retest remediated controls
- Discuss findings with the external auditor

4 Reporting, ongoing compliance & risk management

- Communicate and report results to management
- Plan and implement processes
- Implement monitoring activities and self-assessment mechanisms
- Conduct a training needs assessment
- Prepare training tailored to the needs
- Develop tools/KPIs to monitor ongoing compliance

Circular No.21 is a gamechanger for the audit and accounting profession in the UAE. We welcome the circular as we believe it will bring greater robustness and rigour to the financial reporting and external audit process. It will lead to significant upskilling and expertise in the industry and , one of the lessons learned from the introduction of SOX in the US was how pervasive the process reporting process were effectively forced to understand exactly how their operations fitted in as well as understand how important the financial process is to the market. Ultimately, we believe it will become best practice in the entire UAE.

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