

Effectiveness Testing of Internal Controls

Complying with ADAA Resolution No. 1 of 2017

Resolution No. 1 of the Chairman of Abu Dhabi Accountability Authority (ADAA) applies to all statutory audits of ADAA subject entities and subsidiaries, with effect from August 2017.

The Resolution is concise and succinct, with far-reaching implications for the entire professional accounting and auditing industry in Abu Dhabi. It is already being referred to as 'Abu Dhabi SOX' (Sarbanes-Oxley Act of 2002 in the United States) and for good reason. Its first requirement is for the statutory auditor to test the effectiveness of internal controls over financial reporting and issue an opinion on its findings.

The Resolution also has a quasi-legal requirement in that it requires the statutory auditor to verify an entity's compliance with Law Number (1) of 2017 concerning the financial system of the Government of Abu Dhabi and Department of Finance instructions as well as the law of establishment of the entity. The auditor must also consider the compliance of the entity with any requirements of laws, resolutions and circulars to the extent that they have an impact on the financial statements.

Key challenges for subject entities to consider:

then conduct a further exercise to

with them.

explore compliance

Remedial time Compliance with Key financial Effectiveness of Impact of a . laws & reporting risks & where controls internal controls qualified may not be in resolutions relevant controls audit report Testing an entity's Early engagement Time must be The auditor is Consideration allocated in compliance with is needed with the required to issue needs to be given the relevant statutory auditor the event that an opinion on the to the impact of laws, resolutions to agree the key entities discover effectiveness of a qualified audit and circulars is financial reporting that some key internal controls report on the risks and relevant over financial effectiveness of a challenge in controls may not itself as many controls as well as be in place or may reporting internal controls. entities will need not be designed throughout the year their frequency of Such a report to do some form of operation. appropriately to as well as at the will have adverse "stock-take" first to allow for these year end. Entities implications for really identify and controls to be therefore need to senior management understand the revisited and tested demonstrate that as well key full suite of laws, ahead of the stakeholders in the their controls have resolutions and external auditor been documented entity and should circulars which are testing. and operating for be avoided at all applicable and costs.

the majority of the year under audit which means action is due now.

Grant Thornton can support subject entities to comply with the resolution through a four-phase approach:



- Three-way planning meeting with the external auditor
- Discuss findings with the external auditor
- Execute and document tests 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

compliance

"Resolution No. 1 is unquestionably a gamechanger for the entire accounting and auditing profession in Abu Dhabi. We welcome the introduction of Resolution No. 1 as we believe it will bring greater robustness and rigour to the financial reporting and external audit process. It will lead to a significant upskilling in the expertise of many people in the industry and, one of the lessons learned from the introduction of SOX in the United States was how pervasive the process was in any entity. Divisions and teams which previously had little interaction with the financial reporting process were effectively forced to understand exactly how their operations fitted in as well as understand how important the financial reporting process is to the market. Ultimately, we believe it will become recognised best practice in the entire Abu Dhabi market and, in time, the UAE as a whole."



Samer Hijazi Partner and Head of Abu Dhabi office samer.hijazi@ae.gt.com

Contact us to discuss how Grant Thornton can support your entity with Resolution No.1 compliance.

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