

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.

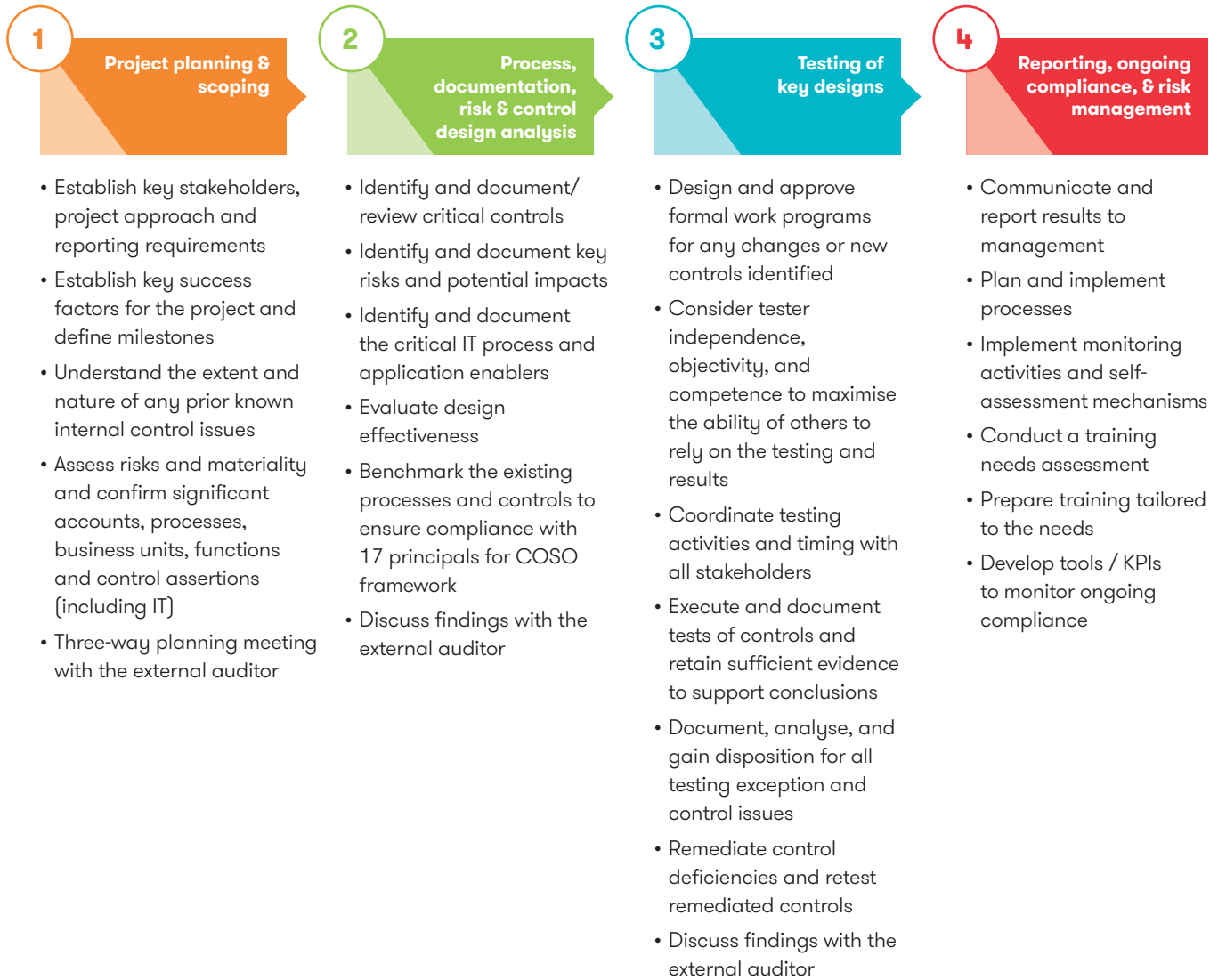
The Resolution is concise and succinct, with far-reaching implications for the entire professional accounting and auditing industry in Abu Dhabi. It is already being referred to as 'Abu Dhabi SOX' (Sarbanes-Oxley Act of 2002 in the United States) and for good reason. Its first requirement is for the 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:

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

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



“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.”



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

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