

Resolution 157 of UAE Accountability Authority



FOREWORD

In recent times, there has been an increasing focus on strengthening governance across companies in the United Arab Emirates (UAE).

Established under Federal Decree-Law No. (56) of 2023, the UAEAA plays a pivotal role in overseeing the implementation of governance principles and auditing standards to uphold the financial and operational integrity of the nation's public and semi-public entities.

With the ultimate focus on maintaining transparency among the stakeholders, UAEAA continuously monitors the key developments worldwide in strengthening governance and adopting principles that contribute to achieving its vision.

Resolution 157, UAEAA's latest initiative, introduces additional audit requirements and enforces the adoption of globally recognized standards, such as the COSO Internal Control Framework, ensuring a systematic and robust approach to financial reporting.

With Resolution 157, the UAEAA underscores its commitment to fostering a culture of accountability and operational resilience across its regulated entities. This thought leadership document delves into the specifics of these changes, providing a strategic lens for organizations to navigate and leverage this transformative regulation.



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OVERVIEW

Effective Date:

Resolution 157 is effective from August 2024 on applicable subject entities.

Note – the resolution applies except for the works contracted prior to August 2024

Subject Entities:

Resolution 157 is applicable on federal entities and entities in which the federal government has an ownership stake of more than 25%

Key requirements of Resolution 157:

Resolution 157 introduces comprehensive requirements to enhance the quality of audits and the robustness of Internal Controls Over Financial Reporting (ICoFR). The key requirements include:

- Enhance audit quality and ensure effective ICoFR reporting
- External auditor to test controls for key transactions and address fraud risks within the audit report
- External Auditors to assess risks and control processes relating to financial reporting
- External Auditors to provide opinions on compliance, internal controls, and financial statements

Snapshot of Articles 4 and 5

Article 4 lays down additional audit requirements, which aim to:

Enhance the quality of audit services provided to subject entities and strengthen the principles of integrity, transparency, accountability, and sound management practice at the subject entities when the Auditor performs the following tasks:

01

Ensure that the financial statements fairly reflect the financial position and performance of the entity.

02

Ensure the effectiveness of internal controls over financial reporting, which covers regulations and procedures relating to key transactions.

03

Verify subject entities' compliance with laws, regulations, rules, policies, resolutions, and governance principles/rules applicable to the subject entity and that have an impact on the entity's financial statements.

Article 5 lays down additional audit requirements that are added to audit standards globally, as follows:

IAS 200

Overall Objectives of the Auditor

Test the effectiveness of internal control systems over financial reporting for key transactions

IAS 240

Responsibility Relating to Fraud

- Highlight any absence or ineffectiveness of anti-corruption
- and anti-fraud controls, policies, or procedures, include them in the management letter.

IAS 265

Communicating Deficiencies

- Notify the Authority of identified internal control deficiencies, including Material Weaknesses & Significant Deficiencies

IAS 315

Identifying & Assessing Risks of Material Misstatement

- Assess internal control systems to ensure effective, efficient, and economical resource utilization, and compliance with laws and regulations.
- Evaluate internal controls over key operations, such as Procurement, Human Resources Investments etc

IAS 330

Auditor's Responses to Assessed Risks

- Design and implement internal control tests to gather sufficient evidence supporting opinion on financial reporting controls.

IAS 700

Forming an Opinion and Reporting

- Include the following in the auditor's report:
- Financial statement audit findings.
- Opinions on internal control systems over financial reporting.
- Opinions on legal and regulatory compliance



Implications for Subject Entities

Entities under the purview of Resolution 157 must address roles and responsibilities to achieve compliance:

Enhance the quality of audit services provided to subject entities and strengthen the principles of integrity, transparency, accountability, and sound management practice at the subject entities when the Auditor performs the following tasks:

Audit Committee

- Oversee the integrity of financial reporting and the adequacy of internal controls.
- Provide direction & guidance to management on the effective implementation of internal controls.
- Review management's assessment of internal control effectiveness and external auditor's attestation.

Board

- Provide strategic guidance and insights to the organization.
- Oversee the adoption of enterprise-wide risk management frameworks that integrate Internal Controls Over Financial Reporting (ICoFR) with broader operational and strategic risks.
- Hold management accountable for implementing and maintaining adequate internal controls.

Management

- Conduct an annual assessment of the effectiveness of internal controls over financial reporting.
- Maintain documentation supporting the design and operational effectiveness of controls.
- Update internal policies and procedures suitable to company's operations and compliant with international leading practices.
- Promote integrity and accountability through robust internal controls and ethical practices.



THINKING BEYOND COMPLIANCE

Resolution 157 is not merely a compliance requirement; it offers entities an opportunity to:



CONCLUSION:

Resolution 157 signifies a paradigm shift in the UAE's regulatory landscape, underscoring the importance of robust ICoFR. Entities that proactively embrace these changes will not only ensure compliance but also position themselves as leaders in corporate governance and financial integrity. By adopting a strategic approach to implementing Resolution 157's requirements, organizations can achieve long-term resilience, transparency, and enhance stakeholder value.



ICOFR Journey and how Uniquis can help

Planning and Scoping

- Establish key milestones, outline project governance, agree overall objectives and materiality with management to implement ICOFR in line with the COSO Framework
- Assess risks and materiality to identify key processes, business units, accounts, and assertions
- Identify the financial reporting IT systems / applications deployed within the organisation

Setting the core project team

Obtain in-depth process understanding

- Conduct detailed process walkthroughs with process owners across scoped in processes and IT systems / applications

Test of Design (TOD) and Test of Effectiveness (TOE)

- Evaluate the design of controls identified
- Select appropriate samples for testing the design effectiveness of the controls in line with established global methodology
- Evaluate the operating effectiveness of controls, including those addressing fraud risks
- Reperform the test of design and operating effectiveness for controls that have been remediated before year-end

Development of RCMs and Flowcharts for processes

- Initiate process level controls documentation and review of existing process flows and narratives
- Document Process Flowcharts
- Identify control attributes
- Develop the Risk Control Matrix (RCM)

Entity level controls & IT General Controls

- Review of IT general controls (ITGC) including IT Governance; IT Access controls; Change Management; Computer Operations and Program Development Controls
- Assess Entity-Level Controls
- Develop RCM for Entity-Level Controls and IT General Controls
- Evaluate design and effectiveness of ELC's and ITGC's

Gap Remediation & Coordination with External Auditors

- Prepare a comprehensive management report on key findings and recommendations
- Document a detailed mitigation plan
- Identify areas for improvement and outlining a strategic roadmap for enhancement
- Facilitate coordination with external auditors to ensure timely reporting and adherence to regulatory standards

A TEAM THAT YOU CAN TRUST TO DELIVER



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