



# **Guidelines for Implementing the Statutory Auditor Appointment Rules**



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## **Chapter 1**

### **Introduction**

This guideline has been prepared to assist the subject entities of Abu Dhabi Accountability Authority in applying the statutory auditor appointment rules (SAAR) issued by the Chairman of Abu Dhabi Accountability Authority's resolution no. (53) of 2020.

This guideline is of an indicative nature only and shall not be considered a substitute for the SAAR issued by the Chairman of Abu Dhabi Accountability Authority's resolution no. (53) of 2020, hence, the terms and definitions contained in the Statutory Auditor Appointment Rules must be carefully considered when applying these guidelines.

## **Chapter Two**

### **Request for Audit Services Proposals**

1. Audit Services Proposals are to be requested from at least five audit firms from the List of Auditors approved by the authority, including at least two local audit firms as available within the List of Auditors approved by the authority.
2. The audit firms registered in the government's procurement system or the Entity's procurement system are invited to submit their Audit Services Proposals until the approved List of Auditors by the authority is finalized, issued, and published on the Authority's website.
3. In the event that the contracted audit firm is not included in the List of Auditors approved and issued by the authority, the Subject Entity shall immediately terminate the contractual agreement and request Audit Services Proposals from the audit firms listed within the List of Auditors issued by the Authority, taking into account the second clause of this chapter.
4. The scope of the audit services shall be determined in accordance with the Authority's Approved Auditing Standards, which shall include:
  - The financial statements of the Subject Entity.
  - Testing the effectiveness of internal controls over financial reporting.
  - The requirements of the Financial System law and the instructions of the Department of Finance regarding the preparation and implementation of the budget, and the relevant supporting resolutions and circulars, and any statutory or regulatory requirements with financial impact on their financial statements.
5. Auditor appointment procedures shall be initiated to ensure the Entity's compliance to the timeframes within the Financial System Law. The subject entity should allow sufficient time



for the Statutory Auditors invited to submit proposals of financial statements audit services  
**(Appendix 1)**

6. The Statutory Auditor shall submit the commercial proposal separately from the technical proposal. In the event of non-compliance with the same, the submitted proposal shall be discarded.
7. The audit services proposal must include the proposed number of hours of auditors who are UAE nationals, which shall be no less than 30% of the total proposed number of hours. In the event of non-compliance with the same, the submitted proposal shall be discarded. Also, the subject entity must ensure compliance with this requirement after the appointment of the Statutory Auditor.
8. The Request for Audit Services Proposals must include a full description of the nature of the engagement, related procedures, all required information that the audit firms must submit as part of their Audit Services Proposal, and the necessary conditions for accepting the submitted proposal by the subject entity. **Form (1) “Request for Audit Services Proposals”**

### **Chapter 3**

#### **Declarations**

The following declarations shall be provided by the Statutory Auditor when submitting the audit services proposals, and shall be provided annually upon reappointment before commencing the audit engagement:

1. A declaration of independence signed by the engagement partner and all partners who are taking part in the audit and the team members in accordance with the provisions of article (6) of The Statutory Auditor Appointment Rules. **Form (2) “Declarations of Independence”**
  - 1.1 Statutory Auditor’s Independence is evaluated in accordance with the criteria listed in **(Appendix 2)**.
2. A declaration of responsibility signed by the Statutory Auditor to bear responsibility for any damages resulting from errors or professional failure on their part in carrying out their duties, without setting the limitation of the Statutory Auditor’s liability towards the entity or others,



in accordance with the standards issued by The Ministry or the Competent Authority. **Form (3) “Deceleration of Responsibility”**

3. A declaration of confidentiality signed by the engagement partner and all partners who are taking part in the audit and all of the audit team members in accordance with the provisions of article (9) of The Statutory Auditor Appointment Rules. **Form (4) “Declaration of Confidentiality of information”**

## **Chapter 4**

### **Guidelines for Evaluating Audit Services Proposals**

1. Those charged with governance at the Subject Entity (such as the chairman of the entity, its board of directors, the audit committee, or those with equivalent capacity) shall issue a resolution to form a team in accordance to evaluate the audit services proposals. The team as a minimum shall include, members from the following departments:
  - Finance Department
  - Internal Audit Department
  - Legal Department
  - Any other member selected by those charged with governance at the Subject Entity.
2. The Subject Entity shall evaluate audit services proposals in accordance with the rules and evaluation requirements stipulated below, where a weighted system shall be used to determine the best proposal, as follows:
  - a. The Technical Evaluation, which includes the following:
    - First: The Technical Evaluation with a weight of (70%)
    - Second: In Country Value, with a weight of (15%)
  - b. The Commercial Evaluation of the proposal, with a weight of (15%)
3. After completion of the technical evaluation and commercial evaluation, the evaluation team shall prepare the combined evaluation report including their recommendation, then present it for approval in accordance with the delegation of authority within the Entity regarding the



appointment of the Statutory Auditor. The Subject Entity shall appoint the audit firm that obtained the best combined evaluation.

**First: Technical Evaluation Guidelines**

The evaluation team shall perform the technical evaluation of the proposals first without addressing the evaluation of the commercial proposals. The proposal shall be deemed technically accepted if it receives a score of at least 51 points out of the 85 total points allocated to the technical evaluation.

The technical evaluation shall evaluate the respective professional experience of the audit firm and the members of the audit team, **Form (5) “Audit services proposals fees and Audit team proposed number of hours”** and **Form (6) “Resumes of the proposed members”**. The necessary guidelines for carrying out the technical evaluation of audit proposals are as follows:

**a. Discard audit proposals if the following are found:**

No:	Evaluation Criteria	Evaluation Criteria Description	Guidelines
1	<b>Independence Evaluation</b>	<ul style="list-style-type: none"> <li>• The Statutory Auditor is not independent.</li> <li>• The Statutory Auditor provides professional services, other than audit services that threatens its independence.</li> <li>• Failure to submit the Declaration of Independence by the Statutory Auditor.</li> </ul>	<ul style="list-style-type: none"> <li>• Discard any audit service proposal where the Statutory Auditor is found to be not independent in mind or in appearance. Also, the Subject Entity shall immediately terminate the service of the Statutory Auditor in case it is found to be not independent.</li> <li>• Discard any audit service proposal where the Statutory Auditor does not provide the required declaration.</li> <li>• Discard any audit service proposal where the Statutory Auditor provides professional services, other than audit services that threatens its independence.</li> </ul>
2	<b>Evaluation of the Confidentiality of Information</b>	<ul style="list-style-type: none"> <li>• Failure to submit the Declaration of Confidentiality of information by the Statutory Auditor.</li> <li>• Failure to maintain the audit files and working papers within the Emirate.</li> </ul>	Discard any audit service proposal where the Statutory Auditor does not provide the required declarations that confirm the commitment in respect of the confidentiality of information, or if the Statutory Auditor fails to



			maintain the audit files and the working papers within the Emirate.
3	<b>The List of Auditors</b>	The audit firm is not included in the List of Auditors issued by the Authority in accordance with The Statutory Auditor Appointment Rules.	Once the list of auditors is issued and published on the Authority's website, any audit services proposal submitted by an audit firm that is not included in the related list shall be discarded .
4	<b>Request for Audit Services Proposals</b>	<ul style="list-style-type: none"> <li>• Failure to meet all the requirements stipulated in the mandatory proposal requirements may result in the non-acceptance of the submitted proposal.</li> <li>• Failure to submit the commercial proposal separately from the technical proposal.</li> <li>• Receipt of the audit services proposal after the after the communicated submission deadline.</li> </ul>	Discard any audit services proposal that fails to meet all the requirements stipulated in the mandatory proposal requirements. Also, the proposal shall be discarded in case the Statutory Auditor doesn't submit the proposal's technical and commercial information in a separate manner, or if the statutory auditor's proposal is submitted after the submission deadline.
5	<b>UAE national Auditors' rate of contribution</b>	Failure to allocate at least 30% of the proposed number of hours to auditors who are UAE nationals within the audit services proposal.	Discard any audit services proposal where the allocated number of hours to auditors who are UAE nationals is less than 30% of the proposed number of hours working.
6	<b>Statutory Auditor's Governance Evaluation</b>	The Statutory Auditor sets a limitation of its liability and does not submit the Declaration of Responsibility.	<ul style="list-style-type: none"> <li>• Discard any audit services proposal where the Statutory Auditor sets a limitation of its liability.</li> <li>• Discard any audit services proposal where the Statutory Auditor does not submit the required Declaration of Responsibility.</li> </ul>

## b. Evaluation of Audit Quality Indicators

No:	Evaluation Criteria Description	Maximum Points Granted	Guidelines
1	Evaluate the audit methodology proposed by the Statutory Auditor and ensure it meets the requirements of the International Standards on Auditing and the Authority's Approved Standards on Auditing.	15	<p>The audit methodology proposed by the Statutory Auditor is evaluated to ensure that it meets the following qualitative aspects:</p> <p><b><u>Audit Plan in respect of: (7 Points)</u></b></p> <ul style="list-style-type: none"> <li>▪ The Statutory Auditor understands the risks associated with the regulatory frameworks and operational processes of the Subject Entity.</li> </ul>



			<ul style="list-style-type: none"> <li>▪ The scope of audit services in accordance with the requirements of The Statutory Auditor Appointment Rules.</li> <li>▪ The Statutory Auditor’s approach and procedures and adherence to the timeframes specified in the proposal.</li> </ul> <p><b>Professional Capabilities in respect of: (8 Points)</b></p> <ul style="list-style-type: none"> <li>▪ Previous experience with similar entities, or in the same industry in which the entity operates.</li> <li>▪ Knowledge of changes that have a direct or indirect impact on the entity (change in approved standards, environment, laws, etc.).</li> <li>▪ Appropriateness to the size of the Subject Entity, and the nature and complexity of its activities.</li> </ul>
2.1	Ensure that the proposed working hours for executive auditors (managers and partners) are reasonable and appropriate for the audit work, and ensures the targeted audit quality.	5	Compare the proposed working hours of executive auditors with the volume of audit work at the level of the engagement partner and the audit manager, and award (5) points to the statutory auditor that allocated the highest number of hours, then (1) point is deducted in a descending sequence from each statutory auditor that allocated fewer working hours.
2.2	Ensure that the proposed working hours for non-executive auditors are reasonable and appropriate for the audit work, and ensures the targeted audit quality.	5	Compare the proposed working hours of non-executive auditors with the volume of audit work at the level of audit field staff (below audit manager level), and award (5) points to the statutory auditor that allocated the highest number of hours, then (1) point is deducted in a descending sequence from each statutory auditor that allocated fewer working hours.
3	Ensure that the proposed team members possess the appropriate and necessary skills and expertise in the Subject Entity’s field of work.	10	<p>The necessary and appropriate skills, and experiences of the audit team members are evaluated considering the following qualitative criteria:</p> <ul style="list-style-type: none"> <li>▪ The members of the proposed team have the necessary experience to audit the Subject Entity, including auditing the financial statements, testing the effectiveness of internal control over financial reporting, and the entity’s compliance with laws and circulars that have a financial impact. <b>(5 Points)</b></li> <li>▪ Understanding of the country's business environment, the applicable financial reporting framework used (IPSAS, IFRS, etc.), and experience in modern auditing techniques (Data Analysis Tools for population review, financial analysis, etc.). <b>(5 Points)</b></li> </ul>



<p style="text-align: center;">4</p>	<p style="text-align: center;">Review the resumes of the proposed audit team members and evaluate their academic and professional qualifications, work experience, and compliance with the CPE hours.</p>	<p style="text-align: center;">10</p>	<p>Based on the information provided in the resumes of the proposed team members submitted as part of the Statutory Auditor's proposal, the evaluation is carried out as follows:</p> <ol style="list-style-type: none"> <li>1. Number of Professionally Qualified Auditors: (4) points are awarded to the Statutory Auditor's work team that includes the highest number of professionally qualified auditors, then (1) point is deducted in a descending sequence from each proposed audit teams that has lesser number of professionally qualified auditors. <b>Note:</b> No points shall be awarded to a Statutory Auditor that does not include at least one professionally qualified auditor as part of the proposal submitted (i.e. US CPA, ACCA, ACA, etc.)</li> <li>2. Proposed team members' years of experience: (4) points are awarded to the Statutory Auditor's proposed audit team members that have the most years of experience, then (1) point is deducted in a descending sequence from the proposed audit teams that have fewer years of experience.</li> <li>3. Compliance with the Continuing Professional Education (CPE) hours: Based on the results of the comparison of the information mentioned within the submitted resume of the proposed team members in respect of CPE hours, (2) points are awarded to the audit team that has achieved the highest number of CPE hours, then (1) point is awarded to the other audit teams that achieved fewer CPE hours. <b>Note:</b> No points shall be awarded to a Statutory Auditor that has employees who have not completed at least 120 CPE hours within the last three years.</li> </ol>
<p style="text-align: center;">5</p>	<p>Ensure that the proposed working hours for experts in specialized technical fields are reasonable and appropriate for the audit work and ensures the targeted audit quality</p>	<p style="text-align: center;">5</p>	<p>(5) points shall be awarded to the Statutory Auditor that allocates the highest number of hours to experts in specialized technical fields, then (1) point shall be deducted in a descending sequence from each statutory auditor that allocated fewer working hours. <b>Note:</b> As a minimum, the Statutory Auditor should involve experts in specialized in the technical field of information technology within the proposed audit methodology. No points shall be awarded to a</p>



			Statutory Auditor that is not planning to involve any experts specialized in technical fields .
6	Ensure that the proposed audit team includes auditors who are UAE nationals.	5	Compare the number of proposed auditors who are UAE nationals, their proposed number of working hours within the proposal, and their roles within the proposed audit team. (5) points are awarded to the Statutory Auditor that allocated the highest number of hours, then (1) point is deducted in a descending sequence from each statutory auditor that allocated fewer working hours. <b>Note:</b> Any proposal submitted by a Statutory Auditor that has allocated less than 30% of the proposed number of working hours to auditors who are UAE nationals shall be discarded.

**c. Quality Control Evaluation:**

No:	Evaluation Criteria Description	Maximum Points Granted	Guidelines
1	The Statutory Auditor applies quality control procedures in accordance with the Approved Standards on Auditing.	10	Based on the information provided in the Statutory Auditor's proposal, the quality control procedures in place are evaluated to ensure that the audit engagement is carried out at all times in accordance with the highest quality standards, according to the following: <ul style="list-style-type: none"> <li>▪ The involvement of an independent quality reviewer with specific competencies and responsibilities in the audit engagement by allocating a number of working hours to him.</li> <li>▪ Levels of internal reviews to be performed by the auditor in-charge of the fieldwork, the engagement manager, and the engagement partner.</li> </ul>
2	The performance of the Statutory Auditor inside and outside the country for the last five years, during which the statutory Auditor was not a party in any Legal Dispute resulting from misconduct or gross negligence in the performance of audit services.	5	Based on the information provided in the Statutory Auditor's proposal regarding legal disputes during the last five years, the statutory auditor's performance is evaluated by verifying the following: (5) Points are awarded to the Statutory auditor that has had no legal disputes inside and outside the country during the last five years. No points are awarded to the Statutory auditor that was party to a legal dispute inside or outside the country, resulting from misconduct or gross negligence in performing audit services during the last five years, regardless of the dispute's size and details.



## **Second: In-Country Value Guidelines**

The in-country value aims to develop the national human capital, support the professional and knowledge-based economy in the country and the Emirate, and promote competitiveness between national firms, by focusing on the percentage of employees who are UAE nationals out of the total occupied jobs and out of the total partners within the audit firm.

<b>No:</b>	<b>Evaluation Criteria Description</b>	<b>Maximum Points Granted</b>	<b>Guidelines</b>
<b>1</b>	The total number of auditors who are UAE nationals at the audit firm is no less than (25%) of the total occupied jobs within the firm on the date the proposal was submitted.	10	(10) points are awarded to the Statutory Auditor's proposal, that includes a statement showing that auditors who are UAE nationals is no less than (25%) of the total occupied jobs within the audit firm. Otherwise, no points are awarded to the Statutory Auditor.
<b>2</b>	The total number of partners who are UAE nationals at the audit firm and registered as professional practitioners in The Ministry's register is no less than (50%) of the total partners at the firm.	5	(5) points are awarded to the Statutory Auditor's proposal, that includes a statement showing that the partners who are UAE nationals at the audit firm and registered as professional practitioners in The Ministry's register is no less than (50%) of the total partners at the firm. Otherwise, no points are awarded to the statutory auditor.

According to Article No. (20) Clause (2) Paragraph (b) of The Statutory Auditor Appointment Rules: "The Authority may, as it deems necessary, grant a grace period not exceeding eighteen (18) months from the date these Rules come into effect, to allow for regularization in accordance with the requirements of clause (2) of article (11) of the Rules." During the grace period, the points assigned to the in-country value are added to the evaluation of audit quality indicators allocating the points to the relative weight of each evaluation criteria.

## **Third: Commercial Evaluation Guidelines**

After the completion of the technical proposal evaluation, the commercial evaluation is carried out in accordance with the following:



- Agreeing the proposed number of hours in the commercial proposal with those in the technical proposal, whereby the Statutory Auditor is contacted in the event that the proposed hours in the commercial proposal differ from those in the technical proposal. The Statutory Auditor's proposal is then discarded when the difference is confirmed without any modification to the received commercial proposal.
- Calculate the average fee for the technically accepted proposals and exclude all proposals that are 50% above or below the calculated average fee.

**Fee Comparison:**

<b>Evaluation Criteria Description</b>	<b>Maximum Points Granted</b>	<b>Guidelines</b>
The average hourly fee is calculated from the Statutory Auditor's commercial proposal by dividing the total proposed fees by the number of proposed hours. The calculated average hourly fee of each Statutory Auditor is then compared with each other.	15	(15) points are awarded to the proposal with the lowest average fees per hour, then (3) points are deducted in an ascending sequence of the calculated average hourly fees proposed by the Statutory Auditor.

**Form (7) "Example on the Evaluation of Audit Services Proposals"**



## Chapter 5

### Engagement Letter Guidelines

1. The Subject Entity shall appoint the Statutory Auditor that received the highest combined score through an Engagement Letter, and as per the approval in accordance with the delegation of authority within the Entity regarding the appointment of the auditor.
2. The purpose of the engagement letter is to ensure the achievement of the contracting parties' expectations and document their professional relationship, including clarifications in respect of the rights, duties and responsibilities of the Subject Entity and the Statutory Auditor, deliverables, timelines, terms and conditions for payment of fees and costs, communication, and dispute resolution if they occur.
3. The engagement letter proposed by the statutory auditor is expected to be in compliance with the laws and regulations relating to the audit profession in the country and the Emirate, as well as the professional standards and the Authority's Approved Standards on Auditing, the Statutory Auditor Appointment Rules, and shall reflect the statutory auditor's experiences in managing its professional relationship with its clients.
4. The engagement letter should include but is not limited to the following:
  - Objectives of the audit of the financial statements.
  - Audit Scope (audit of the financial statements, testing the effectiveness of internal controls over financial reporting, testing the requirements of the Financial System law and the instructions of the Department of Finance regarding the preparation and implementation of the budget, and the relevant supporting resolutions and circulars, and any statutory or regulatory requirements with financial impact on their financial statements) including reference to the relevant legislation and instructions, or statements issued by the professional organizations to which the auditor is bound.
  - Ownership of working papers.
  - Types of reports that can be issued.
  - Management responsibilities and Letter of Representation.
  - The fees, the basis of calculation, and the billing arrangements (not to be mentioned until the Statutory Auditor is appointed, but it may be referred to when the information on the



proposed fees is submitted separately at the stage of commercial proposals for audit services).

- Key dates and follow ups.
- Conditions for Statutory Auditors' work, which include:
  - The firm's registered office and head office.
  - The statutory auditors' responsibility and methods of correspondence with the Subject Entity.
  - Management's responsibility and information access.
  - Information and confidentiality.
  - Copyright and intellectual property.
  - The Statutory Auditors' responsibility and the timing of any claims submission .
  - Force majeure.
  - Ending the engagement.
  - The law and the legislative authority that governs the work of the Statutory Auditor.
  - The law and Legislative authority that governs disputes between the Statutory Auditor and the Subject Entity.

## **Chapter 6**

### **Guidelines for Evaluating Statutory Auditor Reappointment**

The Statutory Auditor shall be appointed on an annual basis, for a maximum duration of four consecutive years. From one fiscal year to another, those charged with governance shall evaluate the performance of the Statutory Auditor before its reappointment, taking into account the following:

1. The evaluation of the audit quality indicators in respect of the Statutory Auditor's previous year work, by reviewing the actual performance against the terms submitted within the audit services proposal (compare actual working hours with proposed working hours in the proposal, the members of the audit team, the audit quality team and its procedures).
2. The experience and performance of the team members that carried out the audit.
3. The submission of all declarations as required within the request for audit services proposals.
4. The Authority's comments on the performance of the Statutory Auditor as well as any other matter that may affect the reappointment of the Statutory Auditor.



**Form (8) “Statutory Auditor Reappointment Evaluation Questionnaire ”** is a guide to the Subject Entity when conducting this evaluation.

## **Chapter Seven:**

### **Guidelines for Subject Entities Operating Outside the Country**

1. The Subject Entity operating outside the country shall implement The Statutory Auditor Appointment Rules, in accordance with the relevant legislation in the country in which it operates.
2. The Subject Entity operating outside the country may request audit services proposals from audit firms that are not included in the list of auditors issued by the Authority, and without requesting audit services proposals from local audit firms, provided that they are registered with the relevant authority that regulates the audit profession in the country in which they operate.
3. The Subject Entity operating outside the country is exempted of the requirement relating to the proposed number of hours of auditors who are UAE nationals, which shall be no less than 30% of the total proposed number of hours. Accordingly, the Subject Entity amends the weighting system to determine the best proposal as follows:
  - The Technical Evaluation with a weight of 85%
  - The Commercial Evaluation of the proposal, with a weight of 15%
4. The Statutory Auditor may keep the electronic or the physical audit working papers at the premise of the audit firm within the country in which it operates, taking into account the other provisions of Article (9) of the statutory auditor appointment rules regarding the confidentiality of information undertaking.
5. The Subject Entity may neither apply the In-Country Value requirements nor other related requirement as stipulated in other Articles of the statutory auditor appointment rules.



## **Chapter Eight:**

### **Statutory Auditor Independence Guidelines in respect of Non-Audit Services**

Those charged with governance shall assess the Statutory Auditor's independence in relation to non-audit services, and ensure that the Statutory Auditor is independent in mind and appearance before appointing or reappointing the statutory auditor.

The Subject Entity shall discard any audit services proposal where the statutory auditor is found to be not independent in mind or in appearance. Also, the Subject Entity shall immediately terminate the service of the Statutory Auditor in case it is found to be not independent.

**Appendix (2) “Statutory Auditor Independence Evaluation Criteria ”** is a guide to assess the Statutory Auditor's independence regarding non-audit services.



# Forms



## Form (1) “Request for Audit Services Proposals”

### Request for Audit Services Proposals for (Entity Name)

Engagement Partner

(The audit firm’s name)

Abu Dhabi

United Arab Emirates

Greetings,

**Subject: Request for Audit Services Proposals**

**For (Subject Entity Name)**

(Entity Name) invites your esteemed firm to submit an Audit Services Proposal no later than..... at its address mentioned in paragraph (b) under Clause 4 "Procedures related to the request for proposal". The following is a description of the activity of (Entity Name), the scope of the required audit services, and other related information.

#### **1. Overview of (Entity Name) and a description of its activity**

(Full subject Entity name) is (a public joint-stock company, a government department, a government authority, etc.), which was established on (the date of establishment) in accordance with Law No. (...) of the year (...). to (aim of establishing the Subject Entity). The fiscal year for (Entity Name) is (Indicate the financial period from ..... to .....)

(Entity Name) wants to appoint a Statutory Auditor to audit the financial statements for the following financial periods:

A. The period from the date of establishment on..... (Insert date) to ..... (date), or

B- Year ending in ..... (insert date)

#### **2. The Period of the Contract**

The contract covers the period from (insert date) to (date) or the year ending on (date), starting on the date of signing the engagement letter and ending with the completion of the audit work. A



Statutory Auditor can be re-appointed for another three consecutive years, after (Entity Name) successfully evaluates the quality of the audit services provided and the performance of the audit team. The Statutory Auditor will also be required to submit all relevant declarations regarding independence, confidentiality of information, and responsibility, without setting the limitations of the Statutory Auditor's liability, in addition to taking into account the observations issued by the Abu Dhabi Accountability Authority in this regard.

### **3. Nature and Scope of the engagement**

#### **a) The Scope of financial statements audit services**

The engagement will be carried out in accordance with the standards on auditing approved by the Abu Dhabi Accountability Authority, which requires the issuance of a report expressing professional opinion on whether the financial statements of (Entity Name) fairly reflect, in all material respects, the financial position of (Entity Name) as of (date), financial performance and cash flows for the year (for the period) ending on (date) in accordance with (indicate the international framework for financial reporting under which the financial statements were prepared, for example: International Public Sector Accounting Standards or International Financial Reporting Standards.)

The Statutory Auditor shall ensure that the financial statements of (Entity Name) do not contain violations of the relevant legal and regulatory requirements (for example: Law No. 1 of 2017 on the Financial System for the Government of Abu Dhabi, the Department of Finance's instructions regarding the preparation and execution of the budget and the supporting decisions and circulars, the requirements of the legislation establishing it and regulating its work, and the circulars and resolutions that have a financial impact on its financial statements, in addition to the establishment law, articles of association, and the UAE Federal Law No. 2 of 2015 on Commercial Companies and its amendments).

In addition to submitting a report on the financial statements and ensure the Entity's compliance with the relevant legal and regulatory requirements as stated above, the effectiveness of the internal control systems on financial reports shall be tested including the policies and procedures pertaining to key activities, which requires the issuance of a separate report that includes the Statutory Auditor's professional opinion on the effectiveness of internal control systems (including but not limited to the control systems of: Procurement, awarding of contracts, human resources,



investment, payables payments, revenue, receivables collection, inventory management, asset management, and period end closing)

**b) Management’s Report**

The Statutory Auditor shall prepare a report for management detailing important matters and weaknesses that were identified during the audit of the financial statements for (Entity Name). The report shall include recommendations and management’s response on these observations. The report can also state that no significant observation was identified.

**c) Key Audit work Dates**

The following are the key audit dates details (based on current information):

Completion of the planning and the execution of the financial statements audit	No later than <u>(date)</u>
Draft financial statements audit report	No later than <u>(date)</u>
Final financial statements audit report	No later than three months after the end of the fiscal year (period) on <u>(date)</u> .
Management report to the Board of Directors/ or equivalent	No later than <u>(date)</u>

**d) Obtaining Information and Data**

The statutory auditors will be allowed to access accounting books and records, meet with employees, and obtain all needed facilitation from (Entity Name) to carry out the required audit engagement, considering the necessity of full confidentiality commitment by the audit team members in respect of the information obtained during the course of the audit engagement.

**e) Reasons for Changing the Current Statutory Auditor**

The Subject Entity shall cite the reasons for changing the current Statutory Auditor, or if the financial statements are being audited for the first time.

**f) Administrative Aspects**

The terms and conditions listed below shall apply to this services proposal and any subsequent contracts. Your submission of any proposal in response to this request constitutes your implicit agreement to all terms and conditions listed below.



#### 4. Procedures Relating to the Request for Proposal

##### a) Inquiries

All inquiries related to this request must be submitted by e-mail to the concerned employee mentioned in paragraph (b) below. Any information obtained from any other source is considered unofficial and should not be relied upon. In the event that other additional information is provided in regard to the request for proposals, that information will be communicated to all parties that received the request for proposal.

##### b) Closing Date

<b>Inquiries through E-mail</b>	<b>Mail/Delivery</b>	<b>e-Procurement Platform</b>
<u>(E-mail address)</u> For the attention of: (Name of the concerned employee)	<u>(Name and address of subject entity)</u> For the attention of: (Name of the concerned employee)	Contact the concerned department at the Subject Entity for details.

A full copy of your proposal must be received no later than (hour - date) via (procurement platform/mail/ delivery).

Kindly submit the commercial proposal separately from the technical proposal. In the event that of non-compliance with the same, the submitted proposal shall be discarded.

In the event that proposals are submitted through mail or delivery, the proposals must be placed in sealed envelopes, indicating on it the name and the address of the Statutory Auditor, in addition to the following: “**Financial Statements Audit Services Proposals - (Entity Name)**”

##### c) Late Submissions

All proposals received after the closing date will be rejected and returned sealed to the sender.

#### 5. Mandatory Proposal Requirements

Below are the Mandatory Proposal Requirements; the proposals that do not meet these requirements will be discarded and will not receive any further consideration during the proposal evaluation process.

- Commercial proposals must be submitted separately from the technical proposals.



- Proposals must be delivered to the specified place and at the specified date and time.
- Proposals must be signed by the authorized person at the audit firm.
- Proposals must be submitted in (Arabic or English) and should not be sent by fax or e-mail.
- The audit team proposed must include at least one member who is a UAE national, for the proposal to be accepted. The proposed working hours allocated to the auditor who is a UAE national shall be no less than 30% of the total proposed number of hours.
- To ensure the receipt of proposals in similar and comparable format , all Statutory Auditors are required to submit an audit service proposal that contains the following as a minimum:
  - Table of content that includes page numbers.
  - Names of all the audit firm’s partners in the United Arab Emirates, their partnership percentage, their auditor’s registration number, and their nationality.
  - A statement detailing the headcount, names, and years of experience of the audit firm’s partners who are UAE nationals and enrolled on the professional practitioners register at The Ministry on the date of the proposal’s submission , and their percentage out of the audit firm’s total number of partners enrolled on the professional practitioners register at The Ministry.
  - A statement detailing the headcount, names, and years of experience of the firm’s audit employees who are UAE nationals on the date of the proposal’s submission, and their percentage out of the total firm’s audit employees.
  - The commercial license and practicing licenses issued by the Ministry of Economy and the competent authority.
  - Declaration of Independence submitted by the engagement partner, the other partners that are involved in the audit, and all members of the audit team, as clarified in **Form (2)**.
  - Declaration of responsibility by the Statutory Auditor to bear responsibility for any damages resulting from errors or professional failure on his part in carrying out his duties, without setting the limitation of the Statutory Auditor’s liability towards the entity or others, in accordance with the standards issued by The Ministry or the Competent Authority as clarified in **Form (3)**.
  - The proposed Engagement Letter to be signed.



- Details of all non-audit services that the Statutory Auditor is currently providing or has provided to the (Entity Name) within the last three years.
- The resumes, professional and academic qualifications, and professional experience of the engagement partner and the proposed audit team members, highlighting the UAE nationals audit team members and their headcount. Also, the extent to which the proposed audit team is familiar with the regulations and laws relating to the activities of the Subject Entity. As clarified in **Form (6)**.
- Details of the number of the continuing professional education hours obtained by the audit team members within the last three years.
- The resumes of the specialized experts in specialized technical fields as required and clarified in **Form (6)**.
- Proposed audit plan and strategy and the audit methodology employed.
- A detailed description of the Statutory Auditor's quality control system and procedures used to ensure confidentiality of information.
- Details of all legal disputes which the statutory auditor was a party of, inside and outside the country.
- Declaration and undertaking to maintain confidentiality of information submitted by the engagement partner, the other partners involved in the audit, and all members of the audit team. In addition to storing the audit file inside the Emirate as clarified in **Form (4)**.
- The proposed working hours for each audit team member as clarified in **Form (5.1)**, of which no less than 30% shall be performed by auditors who are UAE nationals.
- Schedule of the total professional fees indicating the fees per hour for each audit team member and the specialized experts, along with any other fees related to the services requested as clarified in **Form (5.2)**.
- The Statutory Auditor's location, size, experience, qualifications, and similar previous related engagements.
- The Statutory Auditor's experience relating to the nature of the Entity's activity, whether a government entity or a company.



- The Statutory Auditor’s experience relating to the audit of information systems, and the other specialized technical fields services that are necessary to carry out the audit work.
- The Statutory Auditor's policy for informing its clients of changes that may occur to key personnel and the continuity of its employees on each audit assignment.
- In the event that the Statutory Auditor contracts third party specialized experts or consultants to assist in the audit work, the submitted proposal must include the scope of their work, their qualifications, selection criteria, estimated fees, in addition to the estimated timeframe for completion of their services.
- Commercial proposals must be submitted **separately from technical proposals**. In the event of non-compliance with the same, the **proposal submitted shall be discarded**. Additionally, failure to cover all the above requirements may lead to rejecting the submitted proposal.

## **6. Additional Terms and Conditions**

### **a) Submitted Proposals may not be Withdrawn**

The Statutory Auditor may amend or withdraw the submitted proposal before the expiry of the specified timeframe for receipt of proposals, by providing a clear and detailed written notice. Proposals are non-cancellable after the expiry of the specified timeframe for receipt of proposals.

Proposals must be valid for a period of no less than 90 days from the specified timeframe for receipt of proposals.

### **b) Change in wording Used in Proposals**

The Statutory Auditor may not make any changes in the wording of the submitted proposal after the expiry of the specified timeframe for receipt of proposals, and no words or comments may be added to the proposal.

### **c) Expenses borne by the Statutory Auditor**

The Statutory Auditor shall bear the expenses of preparing its audit services proposal. If (Entity Name) decides to reject all submitted proposals, then (Entity Name) will not be held legally liable vis-à-vis any Statutory Auditor for any type of claims or lawsuits, whether related to costs or



incurred losses by the Statutory Auditor for preparing the audit services proposal, or the loss of expected profits as a result of the final contract or any other reason.

In addition to the preceding paragraph, the Statutory Auditor undertakes that, by submitting the audit services proposal, the Statutory Auditor shall not claim compensation for any incurred losses for any reason in connection with the engagement or due to competition. When the Statutory Auditor submits an audit services proposal, they forfeit any right to compensation for losses or lost profits resulting of not being awarded the contract.

**d) Acceptance of Proposal**

A request for proposal is not considered a service purchase contract. Also, (Entity Name) is not obligated to contract with the Statutory Auditor that proposed the lowest fees within its proposal or with any other Statutory Auditor. The Statutory Auditor will not obtain any legal rights or privileges in relation to providing the service until a related written agreement is issued and signed.

**e) Liability for Errors**

(Entity Name) has made reasonable efforts to ensure the correctness of the information included in this request for services, nonetheless, this information has been provided as guidance only to the invited Statutory Auditors to submit their service proposals. Hence, (Entity Name) does not guarantee the correctness and completeness of that information. Nothing in the request for proposal shall prevent the Statutory Auditor from expressing their opinion or findings regarding this request for proposal.

**f) Amendments to Terms and Conditions**

(Entity Name) reserves the full right to amend the terms and conditions related to the request for proposal at any time and as required. This includes the right to cancel the request for proposal at any time prior to contracting with any of the Statutory Auditors that have been invited.

**g) Documents Proposals Ownership**

All documents submitted as part of the proposals, shall be owned by (Entity Name).

**h) Confidentiality of Information**



This document or any part of it shall not be used for any purpose other than the submission of proposals.

Any information related to (Entity Name) obtained by the Statutory Auditor as a result of their participation in the proposal submission process is considered confidential and shall not be disclosed.

## **7. Proposal Evaluation**

(Entity Name) shall evaluate the received proposals based on quality, fees amount, and in-country value (in full compliance with The Statutory Auditor Appointment Rules issued by the Abu Dhabi Accountability Authority). This includes reviewing proposals, conducting interviews with Statutory Auditors (as deemed appropriate by the entity), noting the importance of the complete and timely response of the Statutory Auditor to the requirements of (Entity Name).

A weighted system shall be used to evaluate and determine the best proposal, as follows:

a. The Technical Evaluation with a weight of (85%), which includes the following:

First: The Technical Evaluation with a weight of (70%)

Second: In Country Value, with a weight of (15%)

b. The Commercial Evaluation of the proposal, with a weight of (15%)

(Entity Name) shall appoint the Statutory Auditor that received the highest cumulative score.

Proposals that do not meet all the mandatory requirements will be discarded without any further consideration. Only proposals that meet all the mandatory requirements will be evaluated.

Proposals will be evaluated on the basis of the information included in the service proposals only.

### **Signature**

(Name and title of responsible individual)



## Form (2) Declaration of Independence

### Form (2.1) Statutory Auditor's Declaration of Independence

Esteemed (Entity Name)

Abu Dhabi - United Arab Emirates

#### **Subject: Declaration of Independence**

With regard to the financial statements audit of (Entity Name) for the year ending on 31/12/20XX, I hereby send you this declaration confirming my independence and the independence of all our firm's partners, in addition to the independence of all the employees participating in the audit of (Entity Name), and to the relevant extent of the Entity, and its related parties. Also, we ensure our complete independence throughout and after the period covered by the financial statements.

I am aware, familiar with, and in full compliance with the code of ethics issued by the International Federation of Accountants (IFAC), and the standards issued by the Abu Dhabi Accountability Authority and the Ministry of Economy or (the competent authority in case the subject entity operates outside the country).

There is no financial interest to be gained by the engagement partner, the other partners that are involved in the audit, and all of the audit team members, and their relatives up to the fourth degree in respect of (Entity Name) during the statutory auditor's appointment period and any subsequent reappointment.

We have not provided any professional non-audit services to (Entity Name), which includes but is not limited to providing bookkeeping services, the design of the financial information system, the design and implementation of internal control systems, valuation services, insurance services, internal audit services, legal advisory services, investment or tax consultancy services, investment banking services, human resources services, or any other services that would place us in a position to audit our own work, or result in acting as a member of management, employee or advocate of the Subject Entity.

I also acknowledge that the total professional fees paid by (Entity Name) do not exceed 15% of the total annual revenue (of our firm/firm's branch) in the Emirate of Abu Dhabi.



If, at any time after the issuance of this declaration and up to the date of issuance of the audited financial statements, I become aware that my independence, or the independence of our firm, or any member of the audit team has been compromised, I will immediately notify those charged with governance at (Entity Name).

Best Regards,

**Partner Name**

**Signature:**

**Date:**

**Note:** Failure to attach this declaration as required by the request for audit services proposals above, may lead to the rejection of the submitted proposal.



**Form (2.2) Declaration of Independence of all the partners involved in the  
audit engagement and all of the audit team members**

Esteemed (Entity Name)

Abu Dhabi - United Arab Emirates

**Subject: Declaration of Independence**

With regard to the financial statements audit of (Entity Name) for the year ending on 31/12/20XX, and as per our positions, we hereby send you this declaration confirming our independence in respect of (Entity Name), and to the relevant extent of the Entity, and its related parties. Also, we ensure our complete independence throughout and after the period covered by the financial statements.

We are aware, familiar with, and in full compliance with the code of ethics issued by the International Federation of Accountants (IFAC), and the standards issued by the Abu Dhabi Accountability Authority and the Ministry of Economy or (the competent authority in case the subject entity operates outside the country).

There is no financial interest to be gained by any of the audit team members, and their relatives up to the fourth degree in respect of (Entity Name) during the statutory auditor’s appointment period and any subsequent reappointment.

If, at any time after the issuance of this declaration and up to the date of issuance of the audited financial statements, we become aware that our independence has been compromised, we will immediately notify the engagement partner at the (Audit firm's Name) to rectify and remedy the situation.

Best Regards,

(Engagement Manager’s Name) Signature Date:	(The auditor in-charge of the fieldwork’s Name) Signature Date:	(Team Member’s name) Signature Date:
(Team Member’s name)	(Team Member’s name)	(Team Member’s name)



Signature Date:	Signature Date:	Signature Date:
(Team Member's name) Signature Date:	(Team Member's name) Signature Date:	(Team Member's name) Signature Date:

**Note:** Please include the signature of all the proposed audit team members within the audit services proposal. Failure to attach this declaration as required by the request for audit services proposals above, may lead to the rejection of the submitted proposal.



### Form (3) Declaration of Responsibility

I/we, the Statutory Auditor, acknowledge that I/we have read all the instructions, terms and conditions contained in the request for proposal, and my acceptance of these instructions, terms and conditions is hereby a confirmation of my commitment to comply with them.

I/we, the Statutory Auditor, bear responsibility for any damages resulting from errors or professional failure on my/our part in carrying out my/our duties, without setting the limitation of my/our liability towards the entity or others, in accordance with the standards issued by The Ministry or (the competent authority in case the subject entity operates outside the country).

Statutory Auditor's Full Legal Name:

Signature of the employee authorized to sign on behalf of the Statutory Auditor:

Name and title of the authorized employee to sign:

Signature Date:

**Note:** Failure to attach this declaration as required by the request for audit services proposals above, may lead to the rejection of the submitted proposal.



## Form (4) “Declaration of Confidentiality of Information”

Esteemed (Entity Name)

Abu Dhabi - United Arab Emirates

### **Subject: Declaration of Confidentiality of Information and Audit File storage**

With regard to the financial statements audit of (Entity Name) for the year ending on 31/12/20XX, I hereby send you this declaration undertaking that myself, all the partners at our firm, and all the employees participating in the audit of (Entity Name) will not disclose any information obtained or examined in connection with the performance of our engagement, and will not disclose this information or audit working papers to any other employees at our firm that are not a part of the Entity’s audit team or to any other person or entity without the written consent of (Entity Name).

We undertake not to copy or transfer the supporting documents related to the audit of (Entity Name), whether manually or electronically, outside the premises of (Entity Name). Also, we undertake to document the audit procedures in the audit file and store it either manually or electronically inside the audit firm premises within The Emirate, in accordance with the instructions issued from time to time by The Abu Dhabi Accountability Authority and The Ministry of Economy or (the competent authority in case the subject entity operates outside the country).

Best Regards,

(Name of Partner) Signature Date:		(Engagement Manager’s Name) Signature: Date:	
(Team Member’s name) Signature: Date:	(Team Member’s name) Signature: Date:	(Team Member’s name) Signature: Date:	(Team Member’s name) Signature: Date:
(Team Member’s name) Signature: Date:	(Team Member’s name) Signature: Date:	(Team Member’s name) Signature: Date:	(Team Member’s name) Signature: Date:

**Note:** Failure to attach this declaration as required by the request for audit services proposal above, may lead to the rejection of the submitted proposal.



## Form (5) Audit services proposals fees and Audit team proposed number of hours

### Form (5.1) Audit Team proposed number of Hours in the Technical Proposal

1. Audit Team and Working Hours to be included within the technical proposal:

Description	Working Hours			
	Audit Work Planning from ..... to .....	Audit Execution Field Work from ..... to .....	Review and Report Preparation from ..... to.....	Total
Engagement Partner				
<b>UAE National</b> Engagement Partner				
Audit Manager				
<b>UAE National</b> Audit Manager				
Other Audit Team Members (Please list details based on title hierarchy, separating the senior auditor's working hours from other auditors' working hours).				
UAE National Audit Team Members				
Other Specialized experts (Please list details based on specialty, for example: Information Technology)				
<b>Total</b>				

**(Working hours must be specified for each audit team member)**



**Form (5.2) Audit Team proposed number of Hours and Fees in the Commercial Proposal**

2. Audit Team, working hours, and Fees to be included within the commercial proposal:

Description	Working Hours		
	Total Working Hours	Fee per Hour	Total Fees
Engagement Partner			
UAE National Engagement Partner			
Audit Manager			
UAE National Audit Manager			
Other Audit Team Members (Please list details based on title hierarchy, separating the senior auditor's working hours from other auditors' working hours).			
UAE National Audit Team Members			
Other Specialized experts (Please list details based on specialty, for example: Information Technology)			
Travel and accommodation costs*			
<b>Total Working Hours and Fees</b>			
Average hourly fees for all employees**			AED
Average hourly fees for executive employees participating in the task ***			AED
Average hourly fees for non-executive employees participating in the task ***			AED

\*Represents the actual expenses related to external field visits (outside the city/headquarters) of (Entity Name), which must be supported by supporting documents such as invoices and airline tickets.

\*\* Represents the average hourly fees for all employees (total fees/total working hours).

\*\*\* Represents the average hourly fees for managers and higher levels.

\*\*\*\* Average hourly fees for all employees below manager level.

**Important Note:**

Fee information must be submitted separately and may not be presented as part of the technical proposal. The entire proposal will be rejected if any information related to fees is included within the technical proposal,



## Form (6) Resumes of the proposed members

The resumes submitted by the Statutory Auditor within the audit services proposal for each audit team member participating in the engagement shall include, at a minimum, the following information:

### 1. Name of the Audit Team Member

### 2. Academic Qualifications

Include information about member's bachelor's degree and other postgraduate studies, if any.

### 3. Professional Qualifications

Include information on the professional qualifications obtained by the audit team member.

### 4. Professional Experience:

Include details of the entities that the audit team member has worked on, years of experience and his latest job position held.

### 5. The areas and business sectors that the audit team has worked on

This information shall be provided in the below format:

Entity Name	Entity's Field of Work	Years of Experience	Type of Service Provided

When preparing the previous table, the information should be arranged according to its relevance to the business sector and nature of activities carried out by the Subject Entity.

### 6. Training

Details of the training courses attended by the audit team member and the number of continuous professional education (CPE) hours received within the last three years.



**Form (7) “Example on the Evaluation of Audit Services Proposals”**

**First: Technical Proposal Evaluation Table:**

**a) Evaluation of Audit Quality Indicators:**

<b>Evaluation Criteria Description</b>	<b>Maximum Points Granted</b>	<b>Statutory Auditor 1</b>	<b>Statutory Auditor 2</b>	<b>Statutory Auditor 3</b>	<b>Statutory Auditor 4</b>	<b>Statutory Auditor 5</b>
Evaluate the audit methodology proposed by the Statutory Auditor and ensure it meets the requirements of the International Standards on Auditing and The Authority’s Approved Standards on Auditing.	15	10	10	10	12	10
Ensure that the proposed working hours for executive auditors (managers and partners) are reasonable and appropriate for the audit and ensures the targeted audit quality.	5	3	2	4	5	1
Ensure that the proposed working hours for non-executive auditors are reasonable and appropriate for the audit work and ensures the targeted audit quality.	5	2	3	4	5	1
Ensure that the proposed team members possess the appropriate and necessary skills and expertise in the Subject Entity’s field of work.	10	2	4	6	10	8
Review the resumes of the proposed audit team members and evaluate their academic and professional qualifications, work experience, and	10	3	3	9	9	6



compliance with the CPE hours.						
Ensure that the proposed working hours for experts in specialized technical fields are reasonable and appropriate for the audit work and ensures the targeted audit quality.	5	4	5	2	3	1
Ensure that the proposed audit team includes auditors who are UAE nationals.	5	3	5	4	2	1
<b>Total</b>	<b>55</b>	<b>27</b>	<b>32</b>	<b>39</b>	<b>46</b>	<b>28</b>

**b) Quality Control Evaluation:**

<b>Evaluation Criteria Description</b>	<b>Maximum Points Granted</b>	<b>Statutory Auditor 1</b>	<b>Statutory Auditor 2</b>	<b>Statutory Auditor 3</b>	<b>Statutory Auditor 4</b>	<b>Statutory Auditor 5</b>
The Statutory Auditor applies quality control procedures in accordance with the Approved Standards on Auditing.	10	4	6	8	10	2
The performance of the Statutory Auditor inside and outside the country for the last five years, during which the Statutory Auditor was not a party in any Legal Dispute resulting from misconduct or gross negligence in the performance of audit services.	5	5	5	5	5	0
<b>Total</b>	<b>15</b>	<b>9</b>	<b>11</b>	<b>13</b>	<b>15</b>	<b>2</b>



## Second: In-Country Value Guidelines

<b>Evaluation Criteria Description</b>	<b>Maximum Points Granted</b>	<b>Statutory Auditor 1</b>	<b>Statutory Auditor 2</b>	<b>Statutory Auditor 3</b>	<b>Statutory Auditor 4</b>	<b>Statutory Auditor 5</b>
The total number of auditors who are UAE nationals at the audit firm is no less than (25%) of the total occupied jobs within the firm on the date the proposal was submitted.	10	10	10	10	0	10
The total partners who are UAE nationals at the audit firm and registered as professional practitioners in The Ministry's register is no less than (50%) of the total partners at the firm.	5	5	5	0	0	5
<b>Total</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>10</b>	<b>0</b>	<b>15</b>

## Third: Results of the technical evaluation of the proposal and the in-country value

	<b>Maximum Points Granted</b>	<b>Statutory Auditor 1</b>	<b>Statutory Auditor 2</b>	<b>Statutory Auditor 3</b>	<b>Statutory Auditor 4</b>	<b>Statutory Auditor 5</b>
<b>Technical Evaluation Total</b>	<b>85</b>	<b>51</b>	<b>58</b>	<b>62</b>	<b>61</b>	<b>45</b>
<b>Does the Statutory Auditor meet the technical requirements with a minimum of 50 points?</b>	-	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>

In accordance with the results of the above technical evaluation, Statutory Auditor 5 will be disqualified due to not meeting the technical requirements.

A copy of the above table can be obtained from the Abu Dhabi Accountability Authority's website to assist in calculating the sum of the technical and commercial evaluations.



**Fourth: Commercial Proposal Evaluation:**

After selecting the Statutory Auditor’s proposals that are technically accepted in accordance with the above requirements above, the Subject Entity shall evaluate the fees proposed by the Statutory Auditor as follows:

- 1- The Subject Entity begins the process by agreeing the proposed number of hours in the commercial proposal with those in the technical proposal, whereby proposals are discarded if the hours proposed in the commercial proposal differ from those in the technical proposal, as shown in the table below:

	<b>Statutory Auditor 1</b>	<b>Statutory Auditor 2</b>	<b>Statutory Auditor 3</b>	<b>Statutory Auditor 4</b>	<b>Statutory Auditor 5</b>
Is there a difference between the hours proposed in the commercial proposal from those in the technical proposal?	No	No	No	No	The proposal did not pass the technical evaluation.
Shall the proposal be discarded?	No	No	No	No	

- 2- The Subject Entity calculates the average fees for the technically accepted proposals as shown in the table below:

	<b>Statutory Auditor 1</b>	<b>Statutory Auditor 2</b>	<b>Statutory Auditor 3</b>	<b>Statutory Auditor 4</b>	<b>Statutory Auditor 5</b>	<b>Fee Average</b>	<b>Fee Average + 50%</b>	<b>Fee Average - 50%</b>
<b>Calculation of fees for the technically accepted proposals</b>	325,400	815,500	566,350	378,000	The proposal did not pass the technical evaluation.	521,313	781,969	260,656



3- In the event that the Statutory Auditor’s proposed fees are less than or more than 50% of the average fees of the proposals that were calculated in step (2) above, this proposal is considered ineligible and will be discarded, as shown in the table below.

	<b>Statutory Auditor 1</b>	<b>Statutory Auditor 2</b>	<b>Statutory Auditor 3</b>	<b>Statutory Auditor 4</b>	<b>Statutory Auditor 5</b>
Shall the proposal be discarded? In case the proposed fees are less or more than 50% of the average proposal fees.	No	Yes	No	No	Not applicable

Statutory Auditor 2’s audit services proposal is discarded because the proposed fee submitted is more than 50% of the average fee.

4- The Subject Entity completes the commercial evaluation of the proposal that have not been discarded as shown in the table below:

	<b>Maximum Points Granted</b>	<b>Statutory Auditor 1</b>	<b>Statutory Auditor 2</b>	<b>Statutory Auditor 3</b>	<b>Statutory Auditor 4</b>	<b>Statutory Auditor 5</b>
Evaluation of the average hourly fees proposed by the Statutory Auditors.	15	12	Proposal was discarded.	9	15	Proposal was discarded.
<b>Commercial Evaluation Total</b>	<b>15</b>	<b>12</b>	<b>Proposal was discarded.</b>	<b>9</b>	<b>15</b>	<b>Proposal was discarded.</b>

**Fifth: Combined Proposal evaluation:**

After completing the technical and commercial evaluations, the evaluation team shall prepare the combined evaluation report including their recommendation, then present it for approval in accordance with the delegation of authority within the Entity regarding the appointment of the Statutory Auditor, as shown in the combined evaluation table below:



<b>Evaluation Criteria Description</b>	<b>Maximum Points Granted</b>	<b>Statutory Auditor 1</b>	<b>Statutory Auditor 2</b>	<b>Statutory Auditor 3</b>	<b>Statutory Auditor 4</b>	<b>Statutory Auditor 5</b>
Technical Evaluation Total	85	51	58	62	61	Proposal is discarded.
Commercial Evaluation Total	15	12	Proposal is discarded.	9	15	Proposal is discarded.
Technical and Commercial Evaluation Total	<b>100</b>	<b>63</b>	<b>Proposal is discarded.</b>	<b>71</b>	<b>76</b>	<b>Proposal is discarded.</b>

The Subject Entity shall recommend the appointment of the Statutory auditor that received the highest evaluation combined score.



**Form (8) Questionnaire for the Evaluation of Statutory Auditor Reappointment**

<b>Statutory Auditor Evaluation - Questions for members of the Audit Committee or those with equivalent capacity:</b>		<b>Yes</b>	<b>No</b>	<b>Remarks</b>
1-	Did the Statutory Auditor meet with the audit committee when requested by the committee?			
2-	Did the proposed audit team include members who are UAE nationals and constitute at least 30% of the working hours?  (A statement of the actual working hours is requested from the statutory auditor, then it is compared with the hours included in the submitted proposal).			If the answer is “no”, there is no need to complete the questionnaire, and the Statutory Auditor should not be reappointed.
3-	Did the Statutory Auditor address topics of utmost importance, Anti-corruption programs and controls methods used in the Subject Entity?			
4-	Did the Statutory Auditor notify the audit committee of any risks of which the committee was not previously aware?			
5-	Did the Statutory Auditor adequately examine quality issues in financial reports, including the application of new and important accounting principles? Did the Statutory Auditor examine issues related to the compliance of the Subject Entity with local laws and regulations and regulatory requirements? Did the Statutory Auditor adequately assess the effectiveness of the internal control systems for financial reports?			
6-	Did the Statutory Auditor discuss matters with the audit committee freely, or does the Statutory Auditor appear to be protecting the management?			
7-	Does management appear to have influence over the Statutory Auditor?			
8-	Does it appear that the Statutory Auditor is against or reluctant to raise issues that may have a negative impact on management?			



<b>Statutory Auditor Evaluation - Questions for members of the Audit Committee or those with equivalent capacity:</b>		<b>Yes</b>	<b>No</b>	<b>Remarks</b>
9-	Is the audit committee satisfied with the planning and conduct of the audit, including the audit of financial statements, internal control over financial reports, and the entity's compliance with legal and regulatory requirements?			
10-	By reviewing all audit and non-audit services provided by the statutory Auditor in the previous year, are you convinced that the Statutory Auditor is still independent and objective, both in mind and appearance?			A Statutory Auditor shall not be reappointed if they provided any prohibited non-audit services.
11-	Is the fee paid by the Subject Entity to the Statutory Auditor for its audit and other services accounts to more than 15% of the annual revenue (of the firm's branch / firm) of the Statutory Auditor in the Emirate of Abu Dhabi? A declaration shall be requested in this regard from the Statutory Auditor.			The Statutory Auditor shall not be reappointed in the event that the fees paid by the Subject Entity to the Statutory Auditor for its audit and other services exceed 15% of the annual revenue (of the firm's branch/ firm) of the Statutory Auditor in the Emirate of Abu Dhabi.
12-	Did the letter of observations issued by the Authority contain significant observations? Did the Statutory Auditor respond to these observations and addressed them in an appropriate manner?			The Statutory Auditor shall not be reappointed if the following has been found: <ul style="list-style-type: none"> <li>▪ The observations are the result of misconduct or gross negligence by the Statutory Auditor.</li> <li>▪ Inappropriate responses and</li> </ul>



<b>Statutory Auditor Evaluation - Questions for members of the Audit Committee or those with equivalent capacity:</b>		<b>Yes</b>	<b>No</b>	<b>Remarks</b>
				failure to address the observations by the Statutory Auditor. Significant Observations includes but is not limited to those affecting the Statutory Auditor's issued opinion.
13-	Is the audit committee satisfied with its relationship with the Statutory Auditor? When making this decision, the committee shall consider the following: (a) whether the engagement partner participated in committee meetings, (b) whether the Statutory Auditor was honest in discussions with the committee, (c) whether the Statutory Auditor was honest with the committee during executive sessions, and (d) whether the Statutory Auditor provided services to the Subject Entity on the agreed upon dates?			
14-	Is the audit committee satisfied that the letter of representation signed by management does not contain unusual clauses, and that the uncorrected misstatements are not material enough to affect the credibility of the financial statements?			The committee shall review the letter of representation to highlight unusual clauses that the Statutory Auditor relied upon as audit evidence without sufficient evidence that supports the correctness of the decisions and judgments made by management, in addition to the uncorrected misstatements' impact on the financial statements



<b>Statutory Auditor Evaluation - Questions for members of the Audit Committee or those with equivalent capacity:</b>		<b>Yes</b>	<b>No</b>	<b>Remarks</b>
				before making a decision to reappoint the Statutory Auditor.
15-	Were the audit fees fair and reasonable as per the committee's knowledge in comparison with the fees of the other companies/ entities, and in respect of the data or indicators available to the committee?			
16-	Did the Statutory Auditor provide constructive observations, findings and recommendations in areas that need improvement, especially regarding internal control systems related to financial reports and the entity's compliance with legal and regulatory requirements? Were the observations and related recommendations of key matters contained within the management letter in a constructive manner?			
17-	Is the Statutory Auditor included in the List of Auditors approved by the Abu Dhabi Accountability Authority?			A Statutory Auditor shall not be reappointed if they are not included in the updated List of Auditors on the date of reappointment.
18-	<p>Did the Statutory Auditor submit the required reports to the Abu Dhabi Accountability Authority as outlined below?</p> <ul style="list-style-type: none"> <li>▪ An interim follow up report regarding the progress of the audit at the Subject Entity before December 31 of each year.</li> <li>▪ A final follow up report regarding the progress of the audit at the Subject Entity before March 31<sup>st</sup> of each year.</li> </ul> <p>To Confirm with the Statutory Auditor whether the required reports were submitted to the Abu Dhabi Accountability Authority.</p>			The Statutory Auditor shall not be reappointed if they do not submit the required reports by the specified time.



<b>Statutory Auditor Evaluation - Questions for members of the Audit Committee or those with equivalent capacity:</b>		<b>Yes</b>	<b>No</b>	<b>Remarks</b>
19-	Did the Statutory Auditor report to the Abu Dhabi Accountability Authority of the financial and administrative violations that were presented to the committee? Confirmation to be directly verified from the Statutory Auditor.			The Statutory Auditor shall not be reappointed if it fails to report to the Abu Dhabi Accountability Authority of the financial and administrative violations presented to the committee.
20-	Ensure that the Statutory Auditor complied with the number of working hours proposed for each audit team member within the audit services proposal. (A statement of the actual working hours is requested from the statutory auditor, then it is compared with the hours included in the submitted proposal).			
21-	Did the Statutory Auditor perform adequate audit procedures regarding the subsidiaries of the subject entity (if any) and in accordance with international standards on auditing and the standards on auditing approved by the Authority?			
22-	Did the Statutory Auditor calculate the audit materiality in a reasonable manner in accordance with the approved standards on auditing?			
23-	Did the Statutory Auditor perform adequate audit procedures regarding significant estimates, fraud risks and significant transactions?			



<b>Statutory Auditor Evaluation- Questions for the Chief Audit Executive (head of internal audit)</b>		<b>Yes</b>	<b>No</b>	
1-	In your opinion and as per your experience working with the Statutory Auditor, are you satisfied with the scope, nature, extent, and timing of the audit work performed by the Statutory Auditor?			
2-	Did the Statutory Auditor collaborate with you to ensure that the audit efforts are coordinated and comprehensive, and to ensure that duplicative efforts are minimized, and that the Statutory Auditor's resources are used effectively?			
3-	A Are you satisfied with the knowledge, experience and capabilities of the personnel assigned to perform the audit?			
	B Are you satisfied with the engagement partner, audit manager, and the auditor in charge of the fieldwork?			
4-	A Did the Statutory Auditor work in collaboration with internal auditors according to the plan?			
	B Was the task carried out through cooperation and in a spirit of professionalism and mutual respect?			
5-	A Did the Statutory Auditor provide prohibited non-audit services other than to the financial statements audit to the Subject			A Statutory Auditor shall not be reappointed if they provided any prohibited non-audit services other



Statutory Auditor Evaluation- Questions for the Chief Audit Executive (head of internal audit)			Yes	No	
		Entity that threatens its independence?			than financial statements audit.
	B	Are you aware of any other information that may affect the independence of the Statutory Auditor?			
	C	Are you aware of any member of the audit team that may not be fully independent of the Subject Entity for any reason?			
-6		If given the choice, would you reappoint the Statutory Auditor for the coming year? And why?			
-7		Does the Statutory Auditor have a quality control system in place to monitor compliance with the requirements of independence?			



<b>Statutory Auditor Evaluation – Questions for the Executive Director of Financial Affairs</b>		<b>Yes</b>	<b>No</b>	<b>Remarks</b>
1-	In your opinion and as per your experience working with the Statutory Auditor, are you satisfied with the scope, nature, extent and timing of the audit work and procedures performed by the Statutory Auditor?			
2-	Are you satisfied with the knowledge, experience and capabilities of the personnel assigned to perform the audit? Does the Statutory Auditor display sufficient knowledge of the updated and latest international standards on auditing and the relevant financial reporting framework (for example: international financial reporting standards)?			
3-	Are you satisfied with the leadership team assigned to the audit engagement which includes the engagement partner, audit manager, and the auditor in charge of the fieldwork?			
4-	If given the choice, would you reappoint the Statutory Auditor for the coming year? And why?			
5-	Did the Statutory Auditor comply with the requirements stated in the request for audit services proposals and/or subsequent engagement letter?			
6-	Does the Statutory Auditor effectively coordinate with the management of the Subject Entity to enforce compliance with the key audit dates agreed upon with the Audit Committee? (Taking into account the Statutory Auditor’s communication skills, meeting schedules, submission of the audit work requirements in advance by the Statutory Auditor, etc.)			



<b>Statutory Auditor Evaluation – Questions for the Executive Director of Financial Affairs</b>		<b>Yes</b>	<b>No</b>	<b>Remarks</b>
7-	Did the Statutory Auditor adhere to the key audit team members (engagement partner, audit manager, and the auditor in charge of the fieldwork) outlined in the audit services proposal when carrying out the engagement?			

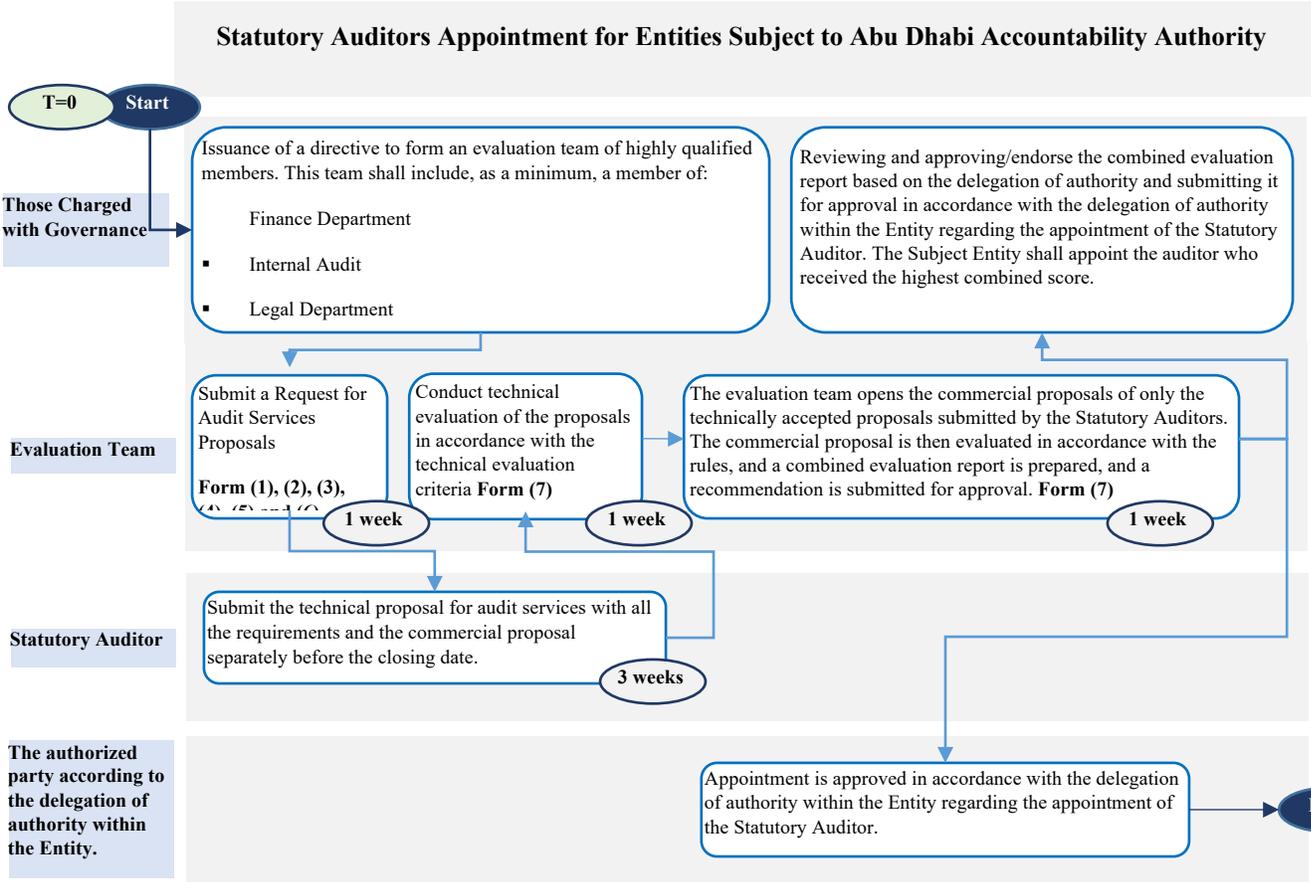


# Appendix 1

## Timeline



# Timeline



**Appendix 2**  
**Statutory Auditor**  
**Independence Evaluation**  
**Criteria**



## **Appendix 2 Statutory Auditor Independence Guidelines**

### **1. Introduction**

In February 2021, the updated Statutory Auditor appointment Rules (SAAR) issued by Abu Dhabi Accountability Authority (ADAA) was published, applicable to its subject entities and their respective statutory auditors. The updated rules require audit firms to be independent when undertaking audits, reviews and other assurance engagements.

Hence, audit firms are required to comply with the fundamental principles of being independent, and subject entities are responsible for ensuring their independence. However, Firms and network firms might provide a range of non-audit services to their audit subject entities, consistent with their skills and expertise, which might create threats to independence.

The purpose of this paper is to provide guidance on the application of the independence requirements in the SAAR relating to the provision of non-audit services by the statutory auditor because of the following:

- There has been constant confusion amongst ADAA's subject entities and their respective statutory auditors in respect of which non-audit services are prohibited.
- All audit firms usually provide non-audit services to their respective subject entities, which might represent a substantial amount of the yearly income of these audit firms. Furthermore, since the audit firms are profit oriented, they aim for maximization of their service offering by scale.
- Given the specialized and wide offering of non-audit services by these audit firms, they are usually invited to submit proposals for non-audit services which could threaten their independence.

This guideline streamlines the assessment of whether non-audit services create threats to the auditor's independence and shall be applied in conjunction with the independence requirements instituted by the International Ethics Standards Board of the IFAC.



## 1.1 Terms and glossary

<b>ADAA</b>	Abu Dhabi Accountability Authority
<b>SAAR</b>	Rules for appointing the Statutory Auditors of Subject Entities, issued as per Chairman of Abu Dhabi Accountability Authority Resolution No. (53) of 2020 Pertaining to the Statutory Auditors Appointment Rules for Entities Subject to Abu Dhabi Accountability Authority.
<b>Audit Firms or firms</b>	Statutory Auditors or network firm relating to the list of Statutory Auditors prepared, approved and periodically amended by The Authority, which includes the Statutory Auditors licensed by The Ministry and the Competent Authority to practice The Profession within The State in accordance with the Law Regulating the Profession; and who are qualified according to the standards and controls issued and approved by The Authority in accordance with the Law and any other relevant legislations to provide Financial Statements Audit Services to Subject Entities.
<b>Network firms</b>	Network firm means a firm or entity that belongs to a network. Network means a larger structure: a. That is aimed at cooperation; and b. That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or significant part of professional resources.
<b>Subject Entity or Audit Client</b>	An entity in respect of which an audit firm has been engaged to perform an audit engagement. All audit clients that are ADAA subject entities.
<b>Audit partner</b>	A person who is a partner in an audit firm or a person who has equivalent responsibility, who is a member of the engagement team, other than a specialist or technical partner or equivalent who consults with others on the engagement team regarding technical or industry specific issues, transactions or events.
<b>PIE</b>	Public interest entities. All subject entities are public interest entities.
<b>Those charged with governance. Subject entities</b>	The party responsible for overseeing the strategic direction of the entity and obligations related to the accountability of the entity (for example: board of director, audit committee, etc.). Entities subject to The Authority's mandate in accordance with the provisions of The Authority's Law.
<b>Statutory auditors.</b>	A natural or legal person registered in The Ministry's register of auditors practicing the profession, and responsible for auditing the financial statements of Subject Entities.

## 1.2 SAAR on independence and NAS.

Article (6) : Independence Evaluation:

"1. The Statutory auditor's independence, both in mind and in appearance, shall be evaluated and confirmed through the following:



a. The Statutory auditor's full adherence to the code of ethics of professional accountants issued by the International Federation of Accountants (IFAC), and any other standards issued by The Ministry, the Relevant Authority, or The Authority from time to time.

b. The engagement partner, other partners at the firm, and all of the audit team members, and their relatives up to the fourth degree shall not hold any financial interest at the Subject Entity which they are appointed to audit during the term of the auditor's appointment and any extension thereof.

c. The Statutory Auditor shall not provide any professional services to the subject entity, other than the audit services; such as and not limited to: providing bookkeeping services, the design or implementation of internal control systems, valuation services, insurance services, internal audit services, legal, investment or tax consultancy services, any banking or investment services, human resources services, or any other services that would place him/her in a position to audit his/her own work, or result in acting as a member of management, employee or advocate of the Subject Entity.

2. The Subject Entity shall discard any proposal where the statutory auditor is found not to be independent in mind or in appearance. The Subject Entity shall immediately terminate the service of the statutory auditor once they are found not to be independent."



## 2 Audit services

### 2.1 Audit work

This relates to the financial statements audit engagements for the subject entities as required by the applicable legislation. Audit work includes judgments regarding the nature and extent of evidence necessary to support an audit opinion and includes:

- identifying, evaluating, and testing, where appropriate, those internal control systems the effectiveness of which is necessary for the engagement and where, if any control weaknesses are identified, extended testing will be required; and
- additional work undertaken to respond to risks identified by management or the audit committee that the firm considers could impact the firm's opinion on financial statements.

### 2.2 Threats to Objectivity and Independence

The principal types of threats to the integrity, objectivity and independence of the statutory auditor are:

Type of threat	Meaning
Self-interest threat	The threat that a financial or other interest will inappropriately influence a member's judgement or behavior.
Self-review threat	The threat that a member will inappropriately evaluate the results of a previous judgement made, or an activity performed by the member, or by another individual within the member's firm or employing organization, on which the member will rely when forming a judgement as part of performing a current activity
Advocacy threat	The threat that a member will promote a subject entity's or employing organization's position to the point that the member's objectivity is compromised
Familiarity (or trust) threat	The threat that due to a long or close relationship with a subject entity, or employing organization, a member will be too sympathetic to their interests or too accepting of their work
Intimidation threat	The threat that a member will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the member

If the audit firm was appointed as Statutory Auditor, its partners and staff should remain alert to the possibility that any of these threats may occur in connection with other services and shall apply necessary safeguard.

### 2.3 Audit related services



These are services other than 'audit work' for which the auditor of the entity is an appropriate provider particularly where those services are required by law or regulation relating to the jurisdiction and activities of the subject entity.

These audit related services are those professional services:

- Where the scope of work is within the standards issued by international auditing and assurance Board (IAASB) because it requires objective assurance to be issued on the financial information being examined upon completion of the assignment.
- Largely carried out by members of the audit engagement team,

Audit services include, but are not limited to:

- reviews of interim financial information as required by law or regulation.
- reporting on regulatory returns as required by law or regulation.
- reporting to a regulator on subject entity assets as required by law or regulation.
- reporting on government grants as required by law or regulation.
- reporting on internal financial controls as required by law or regulation.
- extended audit work authorized by those charged with governance performed on financial information and/or financial controls where this work is integrated with the audit work and is performed on the same principal terms and conditions.
- reports, that are not 'audit related services', required by the competent authorities/regulators supervising the audited entity, where the authority/regulator has either specified the auditor to provide the service or identified to the entity that the auditor would be an appropriate choice for service provider;
- Financial statement audit engagements, incremental to the audit work required for the purpose of the consolidated financial statements, where required by applicable legislation,
- Audits and reviews of selected financial information as required by applicable legislation for the purpose of the subject entity satisfying self-insurance and workers compensation arrangements.

## **2.4 Safeguards on Audit related services**

Audit related services are permitted provided that the related threats to auditor independence are managed through proper application of necessary safeguards.

- *Subject to the cap*

A fee cap of maximum 70% of the average of the fees paid in the last three consecutive financial years for the statutory audit(s) of the audited entity shall be applied as a safeguard on permissible audit related services.

- *Approval of permitted services and related communication from the statutory auditor*



The engagement partner shall ensure that only the above-mentioned services are described as audit related services in communications with those charged with governance of the subject entity, which shall be verified by those charged with governance.

These services require the approval of those charged with governance.

**3 Non-audit services**

Non-audit services comprise any engagement in which a firm, or a member of its network, provides professional services other than the audit work and the audit related services to a subject entity.

Non-audit services relate to other additional services not defined as audit work or audit related services in section 2 of this guideline.

According to SAAR, non-audit services include any service that would place the auditor in a position to audit his/her own work, or result in acting as a member of management, employee or advocate of the Subject Entity such as but not limited to:

#	Non-audit service	Attachment #
1	Assuming Management Responsibilities for a subject entity	Attachment 1
2	Accounting and bookkeeping services.	Attachment 2
3	Valuation and actuarial valuation services	Attachment 3
4	Tax and compliance services	Attachment 4
5	Legal and litigation support services	Attachment 5
6	Human resource and recruiting services	Attachment 6
7	Internal audit services	Attachment 7
8	Information technology systems services	Attachment 8
9	Corporate finance services	Attachment 9

**3.1 Non permissibility of non-audit services**

The statutory auditor firm cannot provide non audit services during his engagement period as a statutory auditor to the subject entity.

**3.2 Cooling period after providing the NAS**

- The statutory auditor cannot provide the prohibited non-audit services listed above during the period between the beginning of the period audited and the issuing of the audit report.
- Furthermore, for professional services relating to “Designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems” the statutory auditor has to re-consider provision of such services during the financial year immediately preceding the beginning of the period audited.



### **3.3 Providing the NAS to the parent and subsidiary**

A statutory auditor or any member of the audit firm network carrying out the audit of a subject entity that prepare Group financial statements, shall not directly or indirectly provide to the audited entity and its parent or controlled entities any non-audit services in the period between the beginning of the period audited and the issuing of the audit report.

## **4 New business practices**

The evolution of financial markets and changes in information technology, are among the developments that make it impossible to draw up an all-inclusive list of non-audit services that might be provided to an audit subject entity. As a result, the non-audit services mentioned above does not include a comprehensive list of all non-audit services that might be provided to an audit subject entity.

For any professional services not mentioned in sections 2 & 3 above; it is the responsibility of the statutory auditor and those charged with governance to evaluate the independence threats taking into consideration the following factors that are relevant in evaluating the level of threats created by providing a non-audit service to an audit subject entity including:

- The nature, scope, and purpose of the service.
- The degree of reliance that will be placed on the outcome of the service as part of the audit.
- The legal and regulatory environment in which the service is provided.
- Whether the outcome of the service will affect matters reflected in the financial statements on which the firm will express an opinion, and, if so:
  - The extent to which the outcome of the service will have a material effect on the financial statements.
  - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.
- The level of expertise of the subject entity's management and employees with respect to the type of service provided.
- The extent of the subject entity's involvement in determining significant matters of judgment.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the subject entity's:
  - Accounting records or financial statements on which the firm will express an opinion.
  - Internal controls over financial reporting.
- The likely relevance and impact of the non-audit / additional service on the financial statements, or on subject matter information or subject matter of the engagement.



- The extent to which performance of the proposed non-audit / additional service will involve the exercise of professional judgment.
- The size of the non-audit / additional service and the associated fee.
- The basis on which the fee is to be calculated.
- The members of the statutory auditor who would be carrying out the non-audit / additional service.
- The employees from the subject entity relevant to the engagement who would be involved in the non-audit / additional service.



## **5 Additional consideration**

### **a. Materiality**

Non-audit services are prohibited regardless of their value and the calculated materiality by the Statutory Auditor, as the provision of the above services is a breach of the statutory auditor's independence.

### **b. Fees**

The statutory auditor shall take into consideration the fee cap stipulated in section 2.4 of this guideline, as well as ensuring that the total compensation to be received for audit work, audit related services, and non-audit services, in aggregate, from the subject entity shall not exceed 15% of its total revenue taking.

### **c. Relationship with subject entity consideration**

Some situations may create threats that cannot be reduced to an acceptable level. These situations relate to certain interests and relationships for auditors of subject entities and shall be assessed as part of the independence valuation. Kindly refer to Attachment 10 for examples.

### **d. Foreign jurisdiction**

Subject entities operating in foreign jurisdictions shall apply the provisions of these guidelines in conjunction and taking into consideration the related regulations in relation to the non-audit services provision by the statutory auditors in the jurisdiction they operate.



## **6 Breach of the provisions of this paper**

### **Impact**

Identification of possible or actual threats to independence might adversely affect the timely completion of the audit and may call into question the reliability of the company's financial reports.

Ensuring the Statutory auditor's independence is a joint responsibility of the statutory auditor and those charged with governance as required by the SAAR. Hence, any impairment to the independence of the statutory auditor as stipulated in the SAAR and these guidelines shall be considered as a breach to the SAAR.

### **Auditor accountability**

The Statutory Auditor that is found to be in breach of the SAAR and its related guidelines issued by ADAA may face one of the measures according to article 17 of the SAAR.



## **Attachment 1: Assuming Management Responsibilities**

### *1. Meaning and examples*

Management responsibilities involve controlling, leading, and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical, and intangible resources.

Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include but are not limited to the following:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Working capital management.
- Providing financial information.
- Business process optimization.
- Cash management.
- Transfer pricing.
- Managing the administration of an insolvent subject entity
- Creating supply chain efficiency and the like.
- Taking responsibility for:
  - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
  - Designing, implementing, monitoring or maintaining internal control.

### *2. Prohibition on assuming Management Responsibilities*

An audit firm or a network firm shall not assume any management responsibility for an audit subject entity.



### ***3. Impact on assuming Management Responsibilities***

Providing a non-audit service to an audit subject entity creates self-review and self-interest threats if the firm or network firm assumes a management responsibility when performing the service. Assuming a management responsibility also creates a familiarity, threat and might create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.



## **Attachment 2: Accounting and bookkeeping services**

### *1. Meaning and examples*

Accounting and bookkeeping services comprise a broad range of services including but not limited to:

- Payroll services.
- Preparation of accounting records or financial statements
  - Maintaining or preparing the entity's, or related entities, accounting records.
  - Preparing the financial statements or preparing financial statements which form the basis of the financial statements on which the audit report is provided; or
  - Preparing or originating source data underlying such financial statements.
- Preparation of journal entries or source documents:
  - Prepares or changes a journal entry, determines or changes an account code or a classification for a transaction or prepares or changes another accounting record, for the entity or a related entity, that affects the financial statements subject to audit or review by the member or firm, without obtaining the approval of management of the entity; or
  - prepares a source document or originating data or makes a change to such a document or data underlying such financial statements.
- Performance of management functions:
  - Authorizing, approving, executing, or consummating a transaction.
  - Having or exercising authority on behalf of the entity.
  - determining which recommendation of the member or firm will be implemented; or
  - Reporting in a management role to those charged with governance of the entity.

### *2. Prohibition on provision of the non-audit service*

An audit firm or a network firm shall not provide Accounting and bookkeeping services to an audit subject entity.

### *3. Exception and special consideration*

Providing clerical assistance, such as typing, formatting, printing, and binding financial statements, is unlikely to be a significant threat.

## **Attachment 3: Valuation and actuarial valuation services**

### *1. Meaning and examples*

- A valuation service involves the making of assumptions with respect to future events and the application of certain methodologies and techniques, in order to compute an amount



or provide an opinion with respect to a specific value or range of values, for a business as a whole, an intangible or tangible asset or a liability.

- Actuarial services include the determination of an amount to be recorded in the subject entity's financial statements and related accounts.

**2. Prohibition on assuming Management Responsibilities**

An audit firm or a network firm shall not provide valuation services to an audit subject entity.

**3. Exception and special consideration**

- It is usual for the persons conducting an audit engagement (and in some cases other public interest assurance engagements) to provide management with accounting advice in relation to valuation matters that have come to the attention of persons conducting the engagement during the course of the engagement. Such matters might typically include:
  - comments on valuation assumptions and their appropriateness.
  - errors identified in a valuation calculation and suggestions for correcting them.
  - advice on accounting policies and any valuation methodologies used in their application advise on such matters does not constitute valuation services.
- Where the firm is engaged to verify the accuracy of data to be used in a valuation to be performed by others, such engagements do not constitute valuation services
- The firm may use its own actuary to assist in conducting the audit if the subject entity's actuary or a third-party actuary provides management with its actuarial capabilities.



## **Attachment 4: Tax and compliance services**

### *1. Meaning*

The range of activities encompassed by the term tax and compliance services is wide. They include where the firm:

- provides advice to the entity on one or more specific matter at the request of the entity; or
- undertakes a substantial proportion of the tax planning or compliance work for the entity; or
- promotes tax structures or products to the entity, the effectiveness of which is likely to be influenced by the way they are accounted for in the financial statements, or in other subject matter information.

Whilst it is possible to consider tax services under broad headings, such as tax compliance, in practice these services are often interrelated, and may be incorporated as part of non audit services provided by the firm. It is, therefore, impracticable to analyze services in this way for the purposes of attempting to identify generically the threats to which specific tax services give rise. As a result, firms need to identify and assess, on a case-by-case basis, the potential threats to the integrity, objectivity and independence of the firm and covered persons before deciding whether to provide tax services to an entity relevant to an engagement.

The prohibited tax and compliance services comprise a broad range of services including but not limited to unless the support from the statutory auditor in respect of such services is required by law:

- To provide tax services to an entity relevant to an engagement where the service would involve the firm undertaking a management role.
- Calculating direct or indirect, current or deferred tax liabilities (or assets)
- Tax planning or other tax advisory services where its effectiveness requires a particular accounting treatment or presentation in the financial statements, and there are reasonable doubts as to its appropriateness
- Acting as an advocate for a subject entity in the resolution of tax disputes before a public tribunal or court
- Litigation support services involving estimating damages or other amounts that affect the financial statements
- Preparation of tax forms
- Payroll tax
- Customs duties
- Identification of public subsidies and tax incentives
- Support regarding tax inspections by tax authorities
- Provision of tax advice



**2. *Prohibition on provision of the non-audit service***

An audit firm or a network firm shall not provide Tax and compliance services to an audit subject entity.



## **Attachment 5: Legal and litigation support services**

### *1. Meaning and examples*

- Legal services are defined as any services for which the individual providing the services must either:
  - Have the required legal training to practice law; or
  - Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.
- The Prohibited Legal services comprise a broad range of services including but not limited to:
  - Acting in an Advisory Role: legal advisory services might include a wide and diversified range of service areas including both corporate and commercial services to audit subject entities, such as:
    - i. Contract support.
    - ii. Supporting an audit subject entity in executing a transaction.
    - iii. Mergers and acquisitions.
    - iv. Supporting and assisting an audit subject entity's internal legal department.
    - v. Legal due diligence and restructuring
  - Acting as General Counsel
  - Acting in an Advocacy Role (resolving or negotiating in a dispute or litigation)
- The Prohibited Litigation support services comprise a broad range of services including but not limited to:
  - Acting as a witness, including an expert witness.
  - Litigation support services involving estimating damages or other amounts that affect the financial statements
  - Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or another legal dispute
  - Assistance with document management and retrieval in relation to a legal dispute or litigation.

### **2. Prohibition on provision of the non-audit service**

An audit firm or a network firm shall not provide Legal and litigation support services to an audit subject entity.

## **Attachment 6: Human resource and recruiting services**

### *1. Meaning and examples*

The prohibited Human resource and recruiting services comprise a broad range of services including but not limited to:



- Performing negotiations for a subject entity as part of a recruiting service
- Recruiting services for a position at the subject entity as director or officer, or for a senior management position that can exert significant influence over accounting records or the financial statements
- Developing job descriptions.
- Developing a process for identifying and selecting potential candidates.
- Searching for or seeking out candidates.
- Screening potential candidates for the role by:
  - Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.
  - Undertaking reference checks of prospective candidates.
  - Interviewing and selecting suitable candidates and advising on candidates' competence.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.
- Setting the organizational structure.
- Cost control

**2. Prohibition on provision of the non-audit service**

An audit firm or a network firm shall not provide Human resource and recruiting services to an audit subject entity.



## **Attachment 7: Internal audit services**

### *1. Meaning and examples*

Internal audit services involve assisting the audit subject entity in the performance of its internal audit activities. Internal audit activities might include:

- Monitoring of internal control - reviewing controls, monitoring their operation and recommending improvements to them.
- Examining financial and operating information by:
  - Reviewing the means used to identify, measure, classify and report financial and operating information.
  - Inquiring specifically into individual items including detailed testing of transactions, balances, and procedures.
- Reviewing the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity.
- Reviewing compliance with:
  - Laws and regulations and other external requirements.
  - Management policies, directives, and other internal requirements.

The prohibited internal audit services comprise a broad range of services including but not limited to:

- Designing, implementing, monitoring, and maintaining internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems (subject to a one-year cooling-in period)
- Setting internal audit policies or the strategic direction of internal audit activities.
- Directing and taking responsibility for the actions of the entity's internal audit employees.
- Deciding which recommendations resulting from internal audit activities to implement.
- Reporting the results of the internal audit activities to those charged with governance on behalf of management.
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.

### *2. Prohibition on provision of the non-audit service*

An audit firm or a network firm shall not provide Internal audit services to an audit subject entity.



## **Attachment 8: Information technology systems services**

### **1. *Meaning and examples***

Services related to IT systems include the design or implementation of hardware or software systems. The IT systems might:

- Aggregate source data.
- Form part of the internal control over financial reporting; or
- Generate information that affects the accounting records or financial statements, including related disclosures.

However, the IT systems might also involve matters that are unrelated to the audit subject entity's accounting records or the internal control over financial reporting or financial statements.

### **2. Prohibition on provision of the non-audit service**

An audit firm or a network firm shall not provide Information technology systems services to an audit subject entity.



## Attachment 9: Corporate finance services

### 1. *Meaning and examples*

The prohibited corporate finance services comprise a broad range of services including but not limited to:

- Assisting an audit subject entity in developing corporate strategies.
- Identifying possible targets for the audit subject entity to acquire.
- Advising on disposal transactions.
- Assisting in finance raising transactions.
- Providing advice on the structuring and restructuring of a corporate finance transaction or on financing arrangements that will directly affect amounts that will be reported in the financial statements on which the firm will express an opinion, including but not limited to:
  - Providing preliminary general advice on the options and choices available to management or stakeholders of an entity facing urgent financial or other difficulties.
  - Undertaking a review of the business of the entity with a view to advising the entity on liquidity management or operational restructuring options.
  - Advising on the development of forecasts or projections, for presentation to lenders and other stakeholders, including assumptions.
  - Advising the entity on how to fund its financing requirements, including equity and debt restructuring programs.
  - Participating in the design or implementation of an overall restructuring plan including, for example, participating in the preparation of cash flow and other forecasts and financial models underpinning the overall restructuring plan.
- Services linked to the financing, capital structure and allocation, and investment strategy of the audit subject entity
- Promoting, dealing in or underwriting the entity's or a related entity's securities.
- Having custody of assets of the entity or a related entity, including taking temporary possession of securities purchased by the entity or a related entity.
- Advising the entity or a related entity on other corporate finance matters where:
  - the effectiveness of the advice depends on a particular accounting treatment or presentation in the financial statements.
  - the outcome or consequences of the advice has or will have a material effect on the financial statements; and
  - the engagement team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.



**2. *Prohibition on provision of the non-audit service***

An audit firm or a network firm shall not provide corporate finance services to an audit subject entity.



## **Attachment 10: Prohibited Interests, Relationships and Actions**

Prohibited Interests, Relationships and Actions might create a breach of independence, and an audit firm shall refuse engaging with or withdraw from an engagement with a subject entity with a breach may occur. Prohibited interests, relationships and actions include but are not limited to the following:

### Acting where a conflict of interest compromises professional or business judgement

- Participating in an audit team if an immediate family member is, or was during the engagement period, a director or officer of the subject entity or an employee able to exert significant influence over accounting records or financial statements of the subject entity
- Participating in an audit team if, during the period covered by the audit report, an individual served as a director or officer of the audit subject entity or was an employee able to exert significant influence over the accounting records or financial statements.
- Significant connections between a firm and a former partner or audit team member who is now employed by an audit subject entity.
- Long association with the subject entity, including serving as an Engagement Partner, Engagement Quality Control Reviewer, Key members of the audit engagement team, or other Key Partners at the Statutory Auditor subject to specified cooling-off periods. Partners on a cooling-off period due to long association are prohibited from:
  - Being on the audit engagement team.
  - Providing quality control.
  - Consulting with the subject entity or engagement team on technical or industry-specific issues, transactions or events affecting the audit engagement.
  - Leading or coordinating the professional services provided to that subject entity.
  - Overseeing the relationship with the subject entity; or
  - Undertaking any other role or activity involving frequent interaction with senior management or those charged with governance of the subject entity, or direct influence on the outcome of the audit engagement"

### Direct or material indirect business and financial relationships.

- Audit firms may not have any direct or material indirect business and financial relationships with the entity, its parent, officers, directors, or significant shareholders. Thus, audit committees should consider whether the company has implemented processes that identify such prohibited relationships.
- Any form of creditor/ debtor relationships including but not limited to banking, broker-dealer, futures commission merchant accounts services, insurance products and interests in investment companies.



- Material loans, or guarantees for a loan, from a subject entity that is not a bank or similar institution.
- Gifts and hospitality from the subject entity that are other than trivial and inconsequential.
- Offering or encouraging others to offer inducements or accepting or encouraging others to accept inducements, that the auditor considers is made with the intent to improperly influence the behavior of the recipient or another individual
- Contingent fees and commissions or similar benefits for provision of services are prohibited and audit committees should not approve engagements that remunerate an independent auditor on these bases.



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