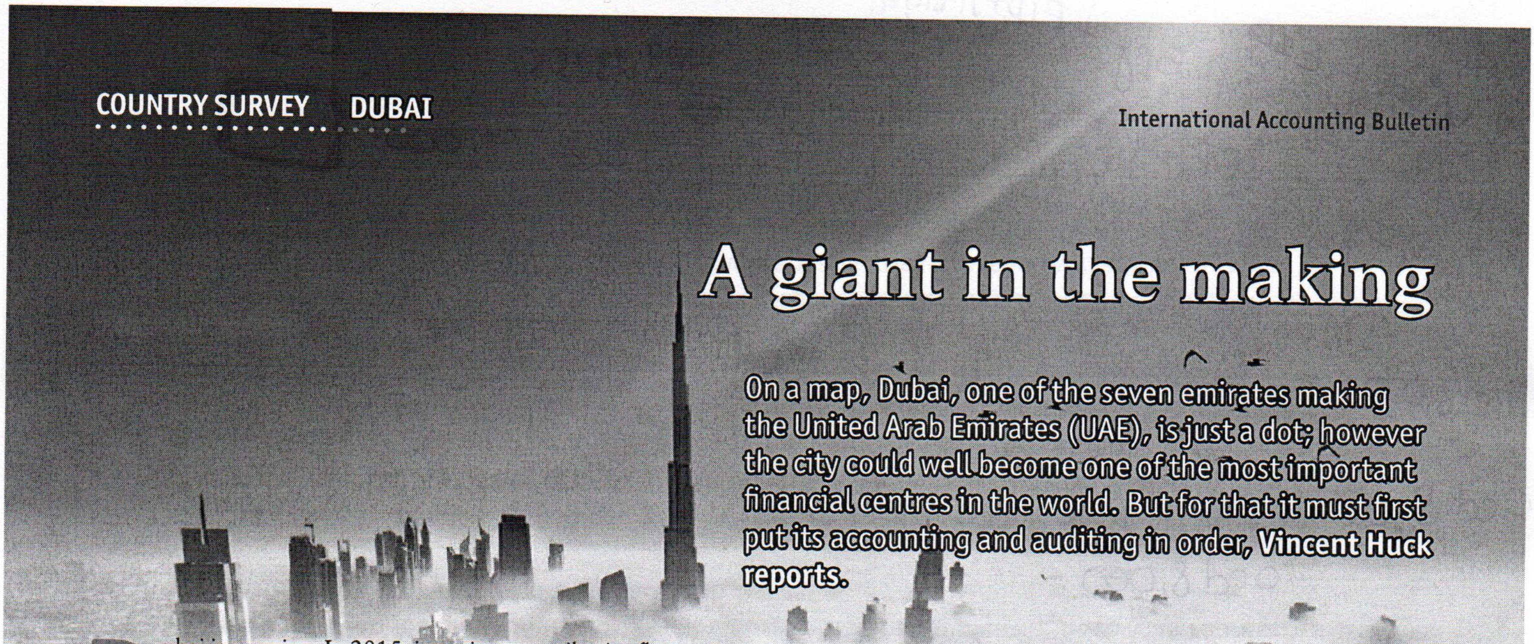

A giant in the making

On a map, Dubai, one of the seven emirates making the United Arab Emirates (UAE), is just a dot; however the city could well become one of the most important financial centres in the world. But for that it must first put its accounting and auditing in order, Vincent Huck reports.

Dubai is growing. In 2015, its estimated 4% growth looks to be nearly as good as its 5% growth in 2014. The country has the busiest airport in the world, with 70 million travellers a year, and one of the largest ports in the Middle East at Jebel Ali.

Then there's the man-made islands in the shape of palm trees hosting luxurious villas. And, because it has less oil reserves then its neighbouring emirates, Dubai always had to diversify its economy and therefore in some respects looks like a more sustainable economic model than other regional powers. Yet all these signs of wealth might reach a dead end due to Dubai's accounting and auditing profession being left unregulated for years.

Indeed regulatory powers lie with the federal ministry of economy and as it only represents a small part of what the ministry does, practitioners can easily feel frustrated. Moreover, to be awarded an audit licence requirements have been loose, a degree in engineering or some banking experience being enough.

As a result, audited financial statements are easy to find off the counter and at a very low price. Consequently, despite the tremendous opportunities of a growing economy, firms face numerous challenges.

"Dubai was built from basically nothing 15 years ago to the number two resort in the world today," Tim Howe, managing director at Al Ghaith & Co (MSI Global Alliance), summarises. "However the regional tension will eventually affect Dubai. Fly Dubai and Emirates, the two airlines, have been hit because of closed routes in Syria, Libya and Yemen. And we are going to lose a certain amount of potential clients because of the regional instability."

Oil prices have also impacted Dubai, Howe continues. Even though the Emirate has relatively low reserves and therefore is not too dependent on oil production, Dubai's tourism, travel and trade are all impacted by oil price fluctuations.

In the past 10 years, the government has made some effort to tighten the audit regulation, and it's now a legal requirement for new audit firms which apply for a licence to have an Emirati as partner with at least 25% of shares. This can prove costly and, as a consequence, a lot of expatriates who can't perform audit work anymore are taking over the accounting work, Howe says.

But opportunities remain and they are tremendous, Howe adds. "There are more people coming into Dubai," he says. "It's said the population will increase by 7% in the next few years.

"Expo 2020 is coming to Dubai and there are massive investments. Four theme parks are opening and two of the biggest shopping malls in the world are being built. If all things go well we're going to be very comfortable. The only uncertainty is the knock-on effect of the EU economic situation and the regional instability."

For Mago Singh, group managing partner at Baker Tilly JFC, the main challenges are to clamp down on the bad practices and put the audit house in order. The quality of the financial information is bad, he says. "It impacts the banks and financial institutions; it weakens the economy and affects the statistical information system of the country because the figures reported are not of quality."

Singh is hopeful that the Federal Law No. 2 of 2015 concerning commercial companies which came into force in July this year will have a positive impact on the situation. The law tightens audit regulation, requiring would-be auditors applying for a licence to have at least a bachelor's degree in accounting or an equivalent qualification. The law also requires companies to rotate auditors every three years.

Howe says the rotation will probably remain among the Big Four players, and that the impact of the new law will only be evident next year. "For our small firm it will be business as usual with no major problems envisaged."

Another issue faced by firms, according to Howe, is staffing. While there is a wide pool of CVs and people applying for jobs, especially from Southeast Asia and Eastern Africa, finding the right people can be tricky. "Every week, I will receive at least 50 unsolicited CVs," Howe explains. "Great care has to be taken to sort out the good from the bad as the pool is from a diverse range of countries, all with varying levels of professionalism and competence."

At Baker Tilly JFC, Singh says the issue is not so much about hiring people but rather retaining them. There's a high volatility in staff who easily change from one job to another and because they are mostly expats from Pakistan, India, Sri Lanka, the Philippines, Zimbabwe and Egypt, they might even leave the country.

Howe explains that locals were traditionally absorbed in the family businesses, but as the economy is growing and families are becoming larger, as well as children becoming more educated, family businesses can't accommodate all the children. For years the solution had been to go into the public sector, but more and more he says they move into industry.

Nevertheless Howe says it's very rare to see a UAE national working in a small audit firm, because their rate is five to six times higher than what you would normally get in those positions.

Nevertheless, and despite the challenges, the glass is far from being half empty in Dubai for accounting professionals. And interviewed firm leaders seem to look at difficulties only as the last barriers to the birth of a giant.

Indeed Dubai is already a global transport and trade hub; once it has proper reporting and auditing in place, the Emirate will only be a short step away of becoming one of the most important financial centre globally. ■