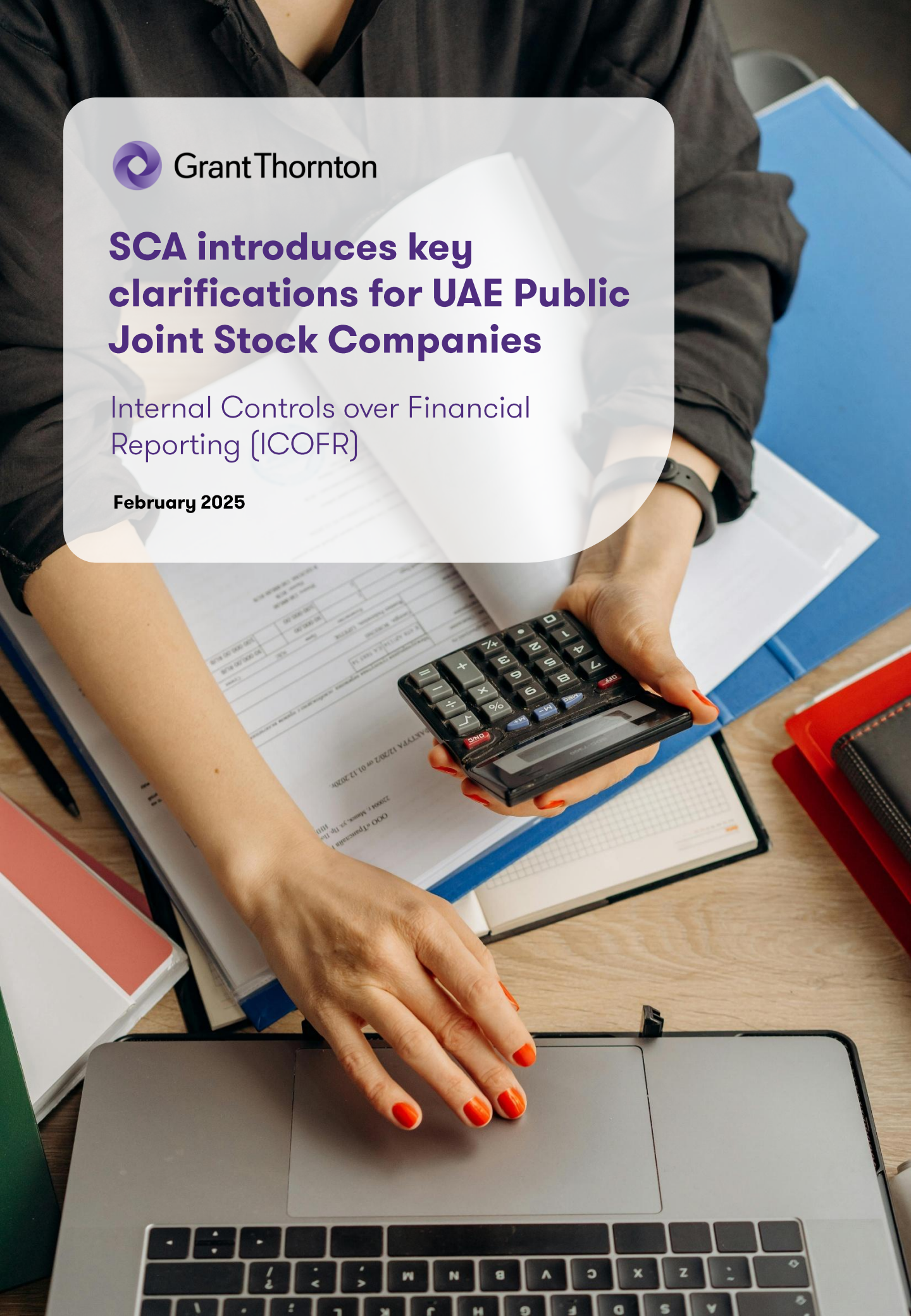




SCA introduces key clarifications for UAE Public Joint Stock Companies

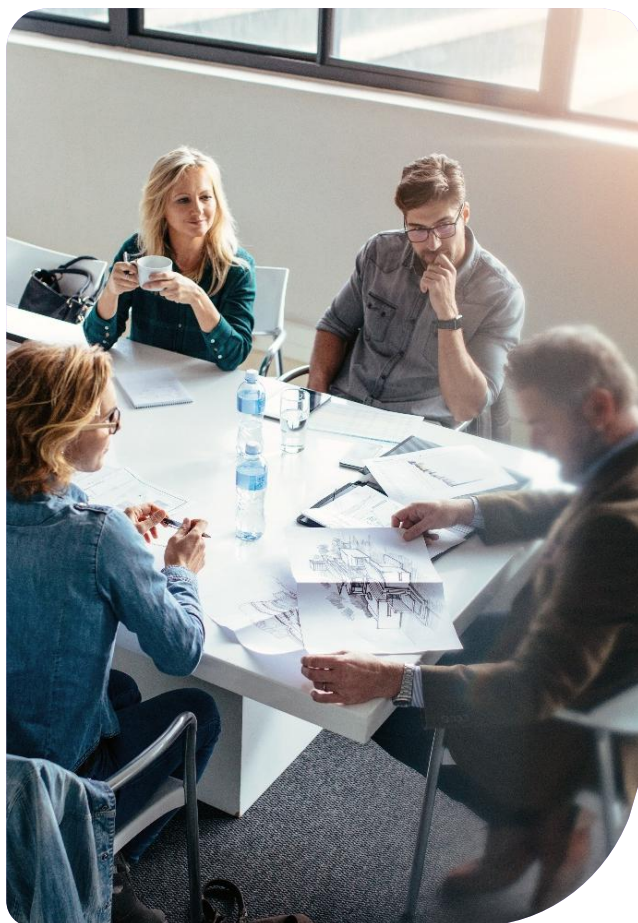
Internal Controls over Financial Reporting (ICOFR)

February 2025



Securities and Commodities Authority (“SCA”) issued a recent circular, highlighting key amendments and the minimum requirements for implementing the Governance Guide for Public Joint Stock Companies, as per the Chairman of the Board of Directors' decision No. (02 / R.M) of 2024. This decision updates the previous governance guidelines (No. 3 / R.M) of 2020, specifically amending Article (14) concerning the Board of Directors' obligations by revising Clause (7).

This circular marks a significant step toward enhancing corporate governance relating to financial reporting process and aligning UAE-listed entities with global leading practices, thereby boosting investor confidence in UAE Securities Market.



Navigating the new amendments

The amendments emphasise the need for public joint stock companies to establish comprehensive internal control and risk management systems that align with global standards, particularly the COSO framework, tailored to their size, nature, and operational complexity.

Companies can take the following steps to prepare:

1. Develop effective systems to identify, assess, monitor, and report risks in line with their risk appetite, while adopting a “three lines of defense” model to foster risk culture, strong governance, and accurate, timely internal reporting for informed decision-making.

2. The Board of Directors must ensure mechanisms are in place for auditors to express an opinion on the effectiveness of internal control and risk management systems, including ICOFR. Companies are allowed flexibility to use existing frameworks that meet the prescribed standards.

A phased approach

The circular introduces the following phases for Internal Control Review:

1

1st Phase (For the fiscal year 2024): Companies are required to conduct a self-assessment of their internal controls and risk management systems related to financial reporting (ICOFR), addressing any identified gaps. An independent auditor will review and present a private report to the Board of Directors.

2

2nd Phase (For the fiscal year 2025): Companies must allow auditors to express an opinion on the effectiveness of their overall internal control and risk management systems. The disclosed, audited report will include the auditor's opinion and highlight areas requiring corrective action.

Who is responsible for ensuring compliance with SCA requirements?

The SCA Circular dated January 14, 2025, clarifies the roles and responsibilities of the **Board of Directors, management, and auditors** as follows:

The Board of Directors' role in establishing an appropriate control environment

- **The Board retains ultimate responsibility** for ensuring the existence of effective risk management systems and internal controls that align with the company's potential risks, assessing their effectiveness, and undertaking necessary corrective actions, irrespective of specific responsibilities delegated to senior management.
- **The Board is accountable for establishing**, defining, and approving a suitable internal control and risk management framework for the company's operations in accordance with global best practices (COSO Framework), and ensuring its implementation through the guidelines specified in the Circular.

The role of management in implementing policies and procedures

- Management is tasked with implementing sound policies, effective procedures, and robust systems that comply with the risk management and internal control frameworks approved by the Board.
- Management is required to conduct a self-assessment regarding internal control systems and risk management related to financial reporting (ICOFR).

The role of external auditors in review and monitoring effectiveness

- **Phase One** – the auditor is required to review the effectiveness of internal control systems and risk management related to financial reporting (ICOFR) for the financial year 2024. The auditor will not provide an assurance opinion during this phase; rather, procedures will focus on understanding the design and implementation of the framework, including reviewing management's internal or third-party expert assessments. A private presentation/report shall be issued separately in this regard to the board of directors or audit committee (where applicable).
- **Phase Two** – the auditor will express an opinion on the effectiveness of internal control systems and risk management, including effective internal controls over financial reporting (ICOFR), for the financial year 2025. A separate report shall be issued containing the auditor's opinion on the effectiveness of the internal control systems, identifying any deficiencies and overall conclusion.



Frequently asked questions to help organizations navigate the new amendments

1. Who is required to comply with the Internal Controls and Risk Management Systems requirements?

The requirements apply to all Public Joint Stock Companies (PJSCs), including their material subsidiaries.

2. How does the circular treat existing Internal Control and Risk Management frameworks, including ICOFR?

Companies with internal control frameworks mandated by other regulators may continue to follow such other frameworks, provided such frameworks meet the minimum standards and/or criteria outlined in the circular.

3. Is an internal self-review mandatory?

For fiscal year 2024: Yes, companies must perform an internal self-review.

For fiscal year 2025: It is considered a leading practice to review the effectiveness of your internal control and risk management systems before undergoing an external auditor's review.

4. What are the reporting requirements for the auditor review?

For fiscal year 2024: A report/presentation must be addressed to the Board of Directors or audit committee (where applicable) this report is not required to be disclosed publicly.

For fiscal year 2025: A separate report, including the external auditor's opinion, is required and will be disclosed publicly (where applicable).

5. What is the scope of the review?

For fiscal year 2024: The review will assess the effectiveness of the internal control systems and risk management associated with preparing financial reports (ICOFR). The focus will be on Design and Implementation of the controls.

For fiscal year 2025: The review will expand to assess the overall effectiveness of the internal control and risk management systems including operating effectiveness.

6. When is a good time to start the review process for 2024?

Whilst based on current guidance, there is no deadline shared. It is recommended that Public Joint Stock companies initiate the process as soon as possible.

7. How can a company collaborate with its Internal Audit function on this assessment? Can a company use the existing outsourced Internal Audit service provider for such as assessment?

Internal Audit can play a meaningful role by engaging with management to ensure that the self-assessments are comprehensive and that controls gaps are identified. Whilst Internal Audit cannot provide the external auditors opinion, they can provide a layer of assurance by performing independent internal reviews before external audit conduct their reviews. This would aid by identifying any weaknesses and suggesting corrective actions.

How can Grant Thornton UAE help?

Our experts have the expertise—both domestically and internationally—to support companies in implementing and enhancing their ICOFR processes. Grant Thornton has significant experience around ICOFR and COSO framework design, implementation and reporting from our work with Abu Dhabi Accountability Authority (ADAA) regulated entities as external auditors or as advisors.

We can specifically assist with the following:

- As your advisors, we can help in establishing the COSO framework to address ICOFR requirements.
- Perform gap assessment and review the design adequacy and operating effectiveness of internal controls over financial reporting.
- Prepare the gap assessment report for the Senior Management and Audit Committee including the results of the ICOFR assessment.
- Assist with remediating control gaps as identified and test the operating effectiveness of ICOFR.
- Establishing monitoring mechanisms to assess compliance with regulatory expectations.

As your external auditors, due to regulatory and independence requirements we cannot perform the implementation work mentioned above, however we are well positioned to:

- Review the work you or your consultant has performed on ICOFR implementation and identify any gaps in testing or controls.
- Evaluate the effectiveness of the control environment and identify gaps and control failures.



Reach out to our team



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Disclaimer

The points mentioned above outline the significant changes introduced. For a complete overview of the amendments according to SCA regulations, please refer to the SCA Board of Directors' Decision No. (2/RM) of 2024. We are currently awaiting additional details from the SCA, as certain aspects of the amendments require further clarification.

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