

Navigating the SCA's circular on ICFR

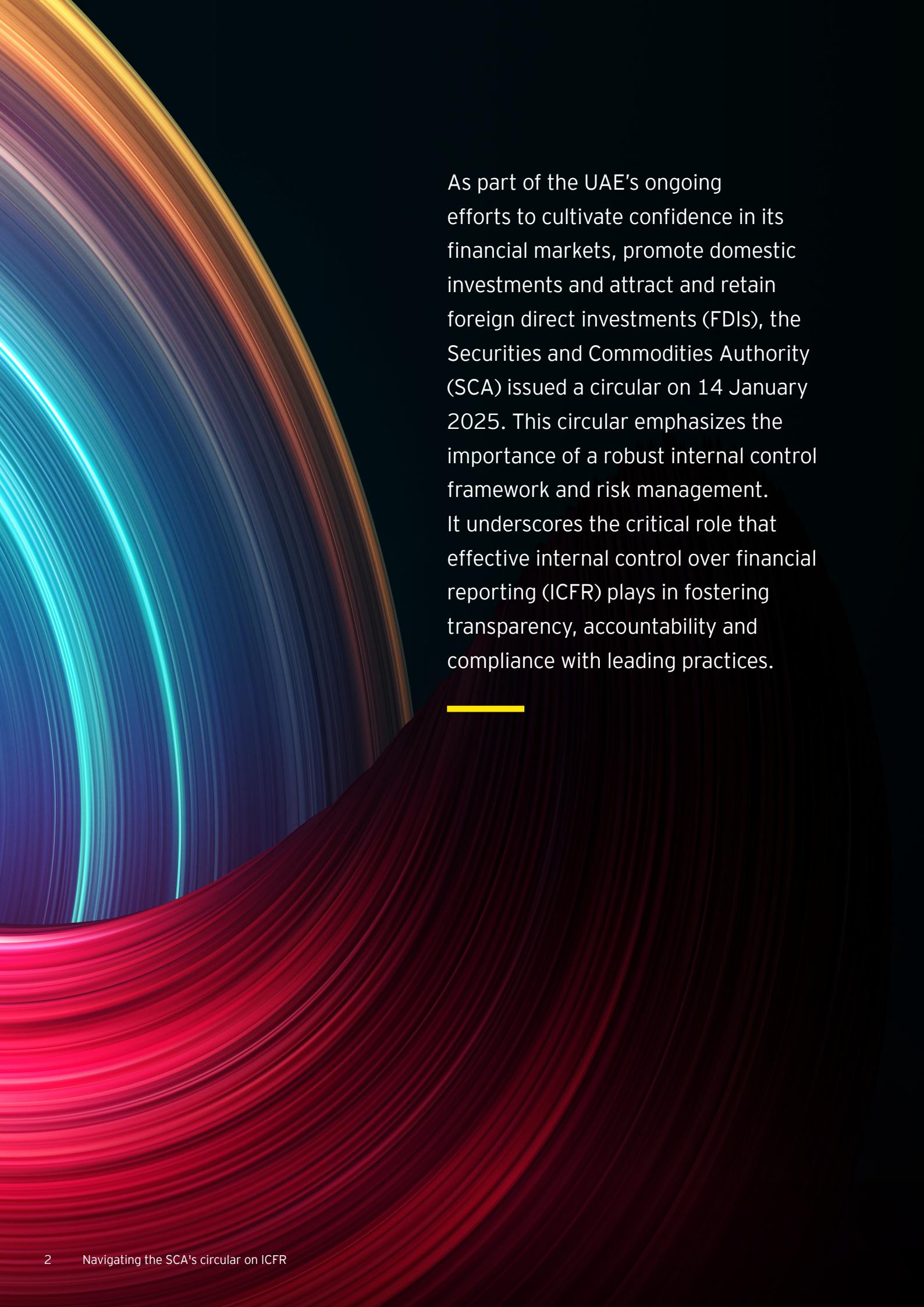
EY MENA's proven approach toward
successful implementation:
a roadmap for publicly listed entities



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As part of the UAE's ongoing efforts to cultivate confidence in its financial markets, promote domestic investments and attract and retain foreign direct investments (FDIs), the Securities and Commodities Authority (SCA) issued a circular on 14 January 2025. This circular emphasizes the importance of a robust internal control framework and risk management. It underscores the critical role that effective internal control over financial reporting (ICFR) plays in fostering transparency, accountability and compliance with leading practices.

The circular at a glance

The circular summarizes the key amendments introduced by the SCA in January 2024 to Article (14) of the Corporate Governance Guide, which reinforces the board of directors' obligations to establish effective internal control and risk management frameworks. These amendments aim to elevate corporate governance standards, align with international leading practices and foster a culture of risk proactiveness, ownership and accountability.

Furthermore, it mandates a structured, two-phase approach to implementing the internal control as depicted below:

Phase

01

Financial year 2024

Companies are required to perform a self-assessment of their internal control systems and risk management frameworks, including ICFR, and to address any identified gaps. The auditor's role will be limited to expressing an opinion on the effectiveness of ICFR and to issuing a separate review report on this, which will not be disclosed during this phase.

The circular also outlines the board's responsibilities in overseeing these frameworks, emphasizing the importance of accurate internal and external reporting, along with allowing external auditors to perform their independent assessments and to issue their opinion.

Phase

02

Financial year 2025

External auditors will be required to express their opinion on the company's internal control systems and risk management frameworks, including ICFR. During this phase, the external auditor's opinion and audit report will be disclosed.

Key considerations for first-year ICFR implementation

As companies embark on ICFR implementation for the first time, it is essential to develop well-defined and agile strategies that not only address challenges but also perceive them as opportunities for growth. We outline below key areas where companies may encounter obstacles, accompanied by tailored mitigation strategies that leverages the ICFR implementation capabilities of EY MENA to drive impactful and sustainable outcomes.

Key challenges in the first year of ICFR implementation:

Lack of clear and documented ICFR governance or ownership

Align timing of ICFR implementation to avoid peak periods and business disruption allowing adequate remediation time

Establish a culture of acceptance among process owners of sophisticated processes toward ICFR rather than perceiving it as a compliance burden

Ineffective collaboration and alignment between the ICFR owner within the company and the external auditor

Ability to differentiate financial reporting controls from operational or compliance controls, and to distinguish between key and non-key controls

Effective strategies for overcoming challenges

1 Establish clear roles and responsibilities to enable buy-in through effective change management

2 Prepare a comprehensive implementation plan engaging all relevant stakeholders by avoiding duplication of efforts and inefficiencies

3 Position ICFR as an opportunity to create value and enhance existing processes in alignment with global best practices by showcasing "what good looks like"

4 Maintain an open and transparent communication channel with the external auditor to avoid year-end surprises

5 Develop a risk-based ICFR framework aligned with COSO principles to define the universe of financial reporting risks, and map to financial assertions and key controls

The ICFR journey toward value creation

ICFR implementation should not be considered as a one-time exercise but an ongoing journey that requires continuous commitment and a clear tone at the top. Rather than being perceived as merely a compliance requirement, ICFR must be embedded into the company's DNA, with ownership shared across all hierarchical levels to maximize its value.

EY MENA has developed a tailored ICFR 5 Stars Maturity Model to support companies in transforming regulatory requirements into a catalyst for continuous improvement. By leveraging this model, companies can establish structured roadmaps to shape robust and resilient internal controls, adapt to evolving business needs and emerging risks to drive process excellence.

EY MENA's automated ICFR maturity assessment tool

Recognizing the growing market need for assessing ICFR maturity, EY MENA has developed a leading-edge tool that integrates global experience and key lessons from ICFR implementations.

This tool is designed to:

01

Assess a company's current ICFR maturity level.

02

Provide industrial insights and benchmarks.

03

Embed the five components and 17 principles of the COSO Internal Control-Integrated Framework (ICIF), as recommended by the SCA.

The EY MENA's automated ICFR maturity assessment tool empowers companies to assess their current state and develop targeted mitigation strategies to elevate their internal control environment.

By integrating comprehensive ICFR and effective risk management practices, companies are not only complying with regulatory requirements but also protecting stakeholders' investments, maximizing the return on investment (ROI) and ultimately enhancing the company's reputation and market value. These practices promote the safeguarding of assets and contribute to the overall financial health of the organization.

At EY MENA, we understand that the journey toward robust and resilient ICFR is both a strategic imperative and a transformative opportunity. EY MENA is uniquely equipped to assist companies in navigating these evolving regulatory requirements through our comprehensive and tailored ICFR solutions.

Whether you are at the beginning of your ICFR process or looking to reimagine your ongoing efforts, EY MENA is here to support you on this exciting journey.

Connect with us to explore in greater detail

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EYG no. 003835-25GbII
ED None.

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