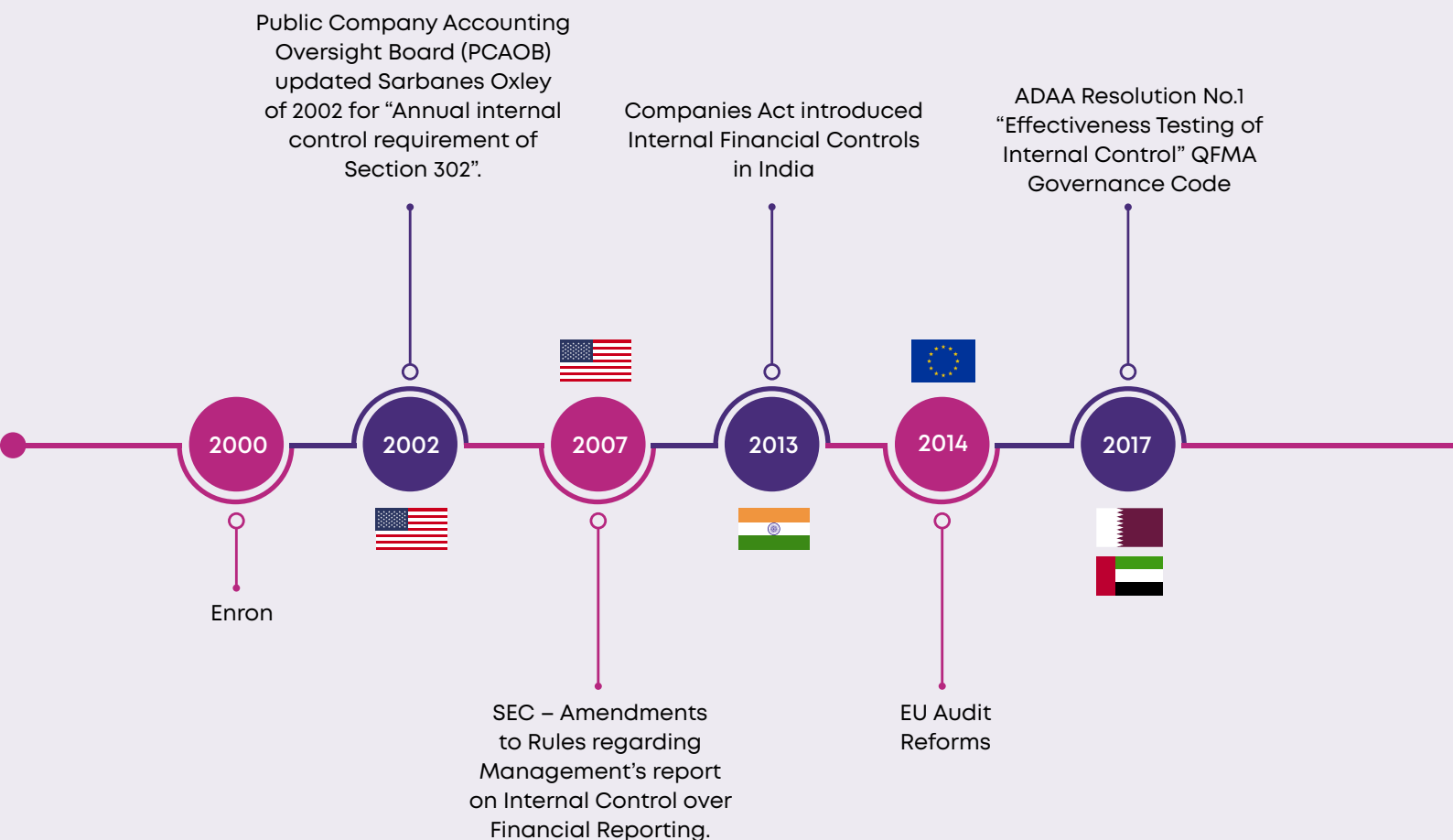


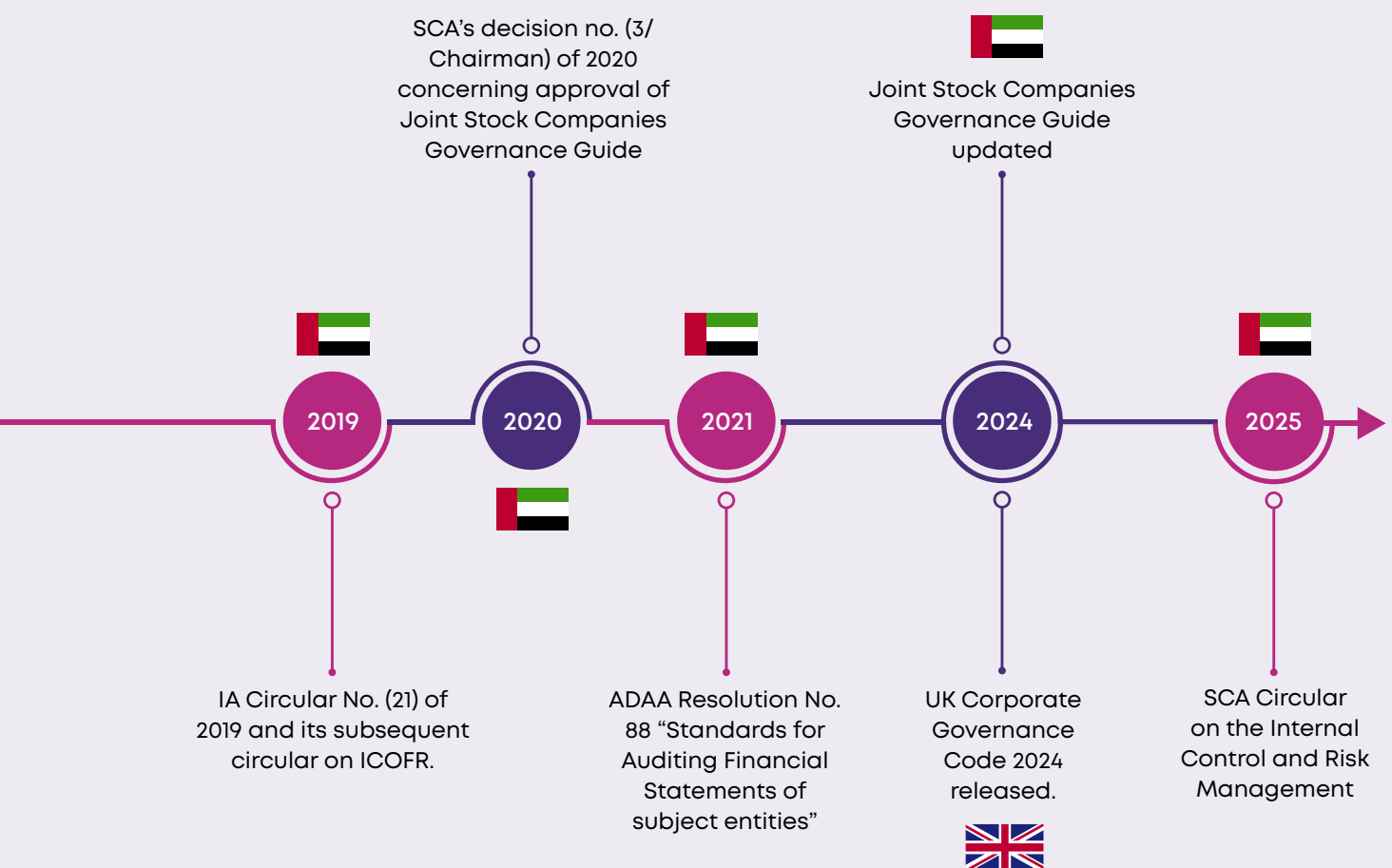
Whitepaper on Internal Controls over Financial Reporting (ICoFR) in the UAE



EXECUTIVE SUMMARY

Robust Internal Controls over Financial Reporting (ICoFR) are fundamental to the integrity, accuracy, and reliability of financial statements. In an increasingly complex and globalized business environment, organizations, regardless of size or sector, are under growing pressure from regulators, investors, and stakeholders to ensure that financial reporting reflects an accurate and fair view. This whitepaper explores the evolution, implementation, and strategic importance of ICoFR frameworks in the UAE and broader GCC region, drawing comparisons with global standards such as the U.S. Sarbanes-Oxley Act (SOX 404), the COSO framework, and international practices from the UK, India, and Canada.





In recent years, the UAE has made significant strides in strengthening corporate governance and control systems. Regulatory bodies such as the Securities and Commodities Authority (SCA), Abu Dhabi Accountability Authority (ADAA), UAE Accountability Authority, and various free zone authorities have issued directives and expectations around internal controls aligned with global best practices. For instance, ADAA's Resolution No. 1 of 2017 marked a turning point for Abu Dhabi government-linked entities, mandating independent evaluations of ICoFR. Similarly, SCA's revised corporate governance regulations now explicitly refer to board-level responsibility for ensuring the adequacy of internal controls over financial reporting. These developments signal a shift from reactive compliance to proactive risk and performance management across the region.

Despite growing regulatory momentum, the maturity of ICoFR implementations across the UAE and GCC remains varied. Many organizations, particularly family-owned businesses, SMEs, and fast-growing startups, lack formalized control environments, relying instead on informal processes and individual oversight. Even among more established entities, challenges persist in aligning cross-functional ownership, embedding the three lines model, and ensuring the reliability of information used in controls (IUC). Through real-world case studies presented in this whitepaper, we illustrate how different types of entities - government-linked enterprises, subsidiaries of multinationals, private businesses, and post-IPO firms have approached ICoFR implementation, highlighting key lessons, enablers, and pitfalls.

The whitepaper also outlines a step-by-step implementation roadmap for ICoFR, including practical guidance on risk assessment, control design, testing, remediation, and monitoring. It emphasizes the importance of cultural change, stakeholder buy-in, and enabling technologies (e.g., GRC platforms, automated workflows) to drive scalability and sustainability. Additionally, the paper benchmarks the UAE's regulatory and operational landscape against international standards, noting where the region is advancing and where gaps remain.

Effective governance around ICoFR is not merely about fulfilling a compliance checklist. The aim is to lay the groundwork for long-term business resilience and sustained stakeholder trust. Organizations that invest in strengthening their control environment experience benefits that go beyond audit outcomes: accelerated financial close, improved data integrity, reduced fraud risk, and enhanced investor confidence. As the UAE and GCC economies continue diversifying and attracting global capital, internal controls will play a central role in aligning financial transparency with strategic ambition. This whitepaper offers a practical perspective for entities, regulators, advisors, and boards seeking to proactively enhance the quality and governance of financial reporting across the region.



INTRODUCTION

ICoFR and why it matters

ICoFR refers to the processes, controls, policies, and procedures put in place by a company to ensure that its financial statements are reliable and accurate. PCAOB's AS 2201: An Audit of Internal Control Over Financial Reporting That is Integrated with an Audit of Financial Statements states, "Effective internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes."

In other words, it's the framework that helps a company ensure that all transactions are properly authorized and recorded, that assets are safeguarded from unauthorized use, that compliance with regulatory requirements is maintained, and that financial reports are free from material misstatements. ICoFR is essentially a subset of a company's overall internal control system, focused specifically on producing fair financial reporting.

Effective ICoFR is crucial for several reasons: it helps prevent and detect fraud, ensures that errors in financial records are minimized or caught, and thereby upholds the credibility of financial statements. This, in turn, fosters investor and stakeholder trust. For example, if a publicly listed company discloses in its annual report that its Internal Control Over Financial Reporting (ICoFR) is "not effective" due to failures in identifying and addressing risks of material misstatement in revenue recognition or inventory valuation. In that case, this can significantly erode investor confidence, trigger a sharp decline in stock price, prompt regulatory investigations, and potentially result in changes to senior management. *In the Middle East region, the past decade saw some corporate governance crises (for instance, high-profile cases in the healthcare and finance sectors), highlighting the need for stronger oversight of financial reporting¹.* These incidents have served as wake-up calls, underlining that even well-established companies are vulnerable if controls are weak or overridden.

Beyond avoiding negatives, strong ICoFR yields positive benefits: companies with robust controls tend to have more reliable financial information for decision-making, smoother external audits, and often a lower cost of capital (since investors and lenders gain confidence that the financials are trustworthy). A well-controlled finance function can also operate more efficiently, for example, less time spent correcting errors means more time analyzing data for business insights.

Relevance to the UAE economic diversification goal (UAE Vision 2030)

The emphasis on ICoFR aligns closely with the UAE's broader economic vision and development agenda (often encapsulated in initiatives such as the UAE Vision 2030 and related Emirate-level visions). A key pillar of these visions is to create a competitive, knowledge-based economy with a strong financial market that attracts investment. Achieving this requires high standards of corporate governance, transparency, and accountability. In its Economic Vision 2030, the Government of Abu Dhabi explicitly recognizes that enabling confident deployment of financial capital is fundamental to economic growth.

By promoting rigorous internal controls in companies (both listed and unlisted), the UAE is strengthening the foundations of its capital markets and protecting investors, which supports economic diversification goals. In practical terms, initiatives to improve ICoFR contribute to a business environment where local

¹ <https://www.pwc.com/m/en/services/assurance/risk-assurance/documents/internal-control-over-financial-reporting.pdf#:~:text=Over%20more%20recent%20years%2C%20the,well%20as%20their%20key%20responsibilities>

and foreign investors feel safer investing, knowing companies are required to maintain systems that reduce the risk of financial surprises or scandals. Robust ICoFR thus complements regulatory reforms and financial infrastructure development, helping the UAE transition into a world-class financial hub as envisioned in its strategic plans.

Having set the stage with the “what” and “why,” we now delve into the specifics. The following sections provide a detailed look at how ICoFR is being implemented and regulated in the UAE, what frameworks companies are using, the typical journey to establish ICoFR, the current gaps and challenges observed, comparisons with international practices, and practical insights through real-world scenarios and expert advice.



REGULATORY LANDSCAPE

The UAE's regulatory environment for internal controls has evolved rapidly in recent years, reflecting a clear intent to strengthen financial oversight and align with global best practices. Several authorities and laws govern aspects of ICoFR in the UAE, each contributing a piece to the overall compliance puzzle. Below is an overview of the key regulatory drivers:

Securities and Commodities Authority (SCA)

The SCA, which regulates publicly listed companies in UAE markets, has introduced robust new requirements for internal controls. Notably, in January 2024, the SCA amended its Corporate Governance Code to mandate that boards establish and maintain effective internal control and risk management systems, and critically, to “enable the auditor to express an opinion on the effectiveness of Internal Control & Risk Management, including Internal Control Over Financial Reporting.”

The Board Article (14)

The Board is responsible to:

- Develop and adopt an internal control framework and a risk management framework suitable for the company's operations and compliant with international practices (recommended COSO)
- Ensuring application of the framework through
 - Creating a suitable control environment,
 - Designing and developing internal control procedures,
 - Providing information and preparing internal reports,
 - Supervising the performance of internal control systems
- Enabling the Auditor to express an opinion on the effectiveness of internal control systems and risk management.

Audit Committee Article (61/Bis)

The annual report prepared by the Audit Committee to inter-alia includes:

- Actions taken / to be taken to address any deficiencies or weaknesses in the event of any failures in internal control or risk management
- Evidence of review of all medium- and high-risk reports issued by internal audit to determine whether they arise from major failures or weaknesses in internal control.
- Comprehensive information about the corrective treatment plan in the event of fundamental deficiencies in the areas of risk management and internal control systems.

Auditors Article (73)

The Auditor may issue a separate report on the effectiveness of the company's internal control systems and their compliance with the appropriate internal control framework defined by the Board of Directors.

Further, SCA has recently issued a comprehensive circular dated 29 October 2025 through which the first phase (trial and foundational phase) for implementing ICOFR is extended until the end of December 2026.

Extension of 1st Phase

SCA has extended the first phase for implementing the requirements of Internal Control over Financial Reporting (ICOFR) until end of 2026

2026 ICOFR Review

Companies to conduct evaluation, issue internal report and obtain external auditor's opinion for the financial year ending 31 Dec 2026, without public disclosure

2027 ICOFR Review

From the beginning of 2027, Companies shall conduct a full internal assessment and issue an internal control report including the external auditor's opinion on the effectiveness of ICFR

Disclosure of Opinion

Disclose the report including the external auditor's opinion within the integrated report for 2027, prior to the General Assembly meeting.

Opinion on Risk Management

Starting 2028, the report shall include the Risk Management component within the scope of assessment and reporting.

Abu Dhabi Accountability Authority (ADAA)

ADAA is a government watchdog in Abu Dhabi that oversees state-owned enterprises and government departments (often referred to as “Subject Entities”). ADAA has been a pioneer in the region for ICOFR mandates. It issued Resolution No. 1 of 2017, which, for the first time, required Abu Dhabi government entities and government-controlled companies to assess and test their internal controls over financial reporting. Building on that, ADAA Chairman’s Resolution No. 88 of 2021 was released in August 2021 to strengthen and formalize ICOFR requirements.

Article 2

Auditing standards approved by the Authority

Responsibilities of the auditor include:

- Abide by International Auditing Standards (IAS)
- Requirements set out in articles 5 and 6, details of additional audit requirements and auditor’s Code of Ethics.

Article 3

General Objectives of additional audit requirements

- Improve audit quality
- Promote integrity, transparency and accountability
- Ensure financial statements are true and fair
- Ensure effectiveness of Internal Control over Financial Report
- Assess compliance of subject entities

Article 5

General Objectives of Auditors of Subject Entities (IAS 2000)

- Test the effectiveness of ICFR.
- Examination of the effectiveness of IT controls for financial activities.
- Reporting to the authority on cases of fraud, corruption, etc.

Details of additional audit requirements (IAS 700)

The Auditor’s report should include:

- Financial statements
- Effectiveness of Internal Control over Financial Reporting
- Opinion on the subject entity’s compliance to laws and regulations
- Opinion on the statement of service performance

Article 6

Auditor’s Code of Ethics

Auditor’s responsibilities are:

- Monitor public funds
- Demonstrate honesty
- Demonstrate credibility
- Consider “The Code of Ethics for Professional Accountants”

**ADAA Subject Entities comprises of local departments, councils, authorities and other similar entities, in addition to instructions and projects in which the Abu Dhabi Government’s interest is equal to or greater than 25% inclusive of their subsidiaries, companies and projects.*

This resolution, titled “Standards for Auditing the Financial Statements of Subject Entities,” mandated that subject entities establish an ICOFR framework and required their external auditors to provide an opinion on the effectiveness of those internal controls as part of the annual audit. ADAA’s regulated entities (including many major Abu Dhabi companies with over 25% government ownership) have been performing SOX-like internal control evaluations for several years. ADAA’s proactive stance has not only improved governance in the public sector but also created a pool of local expertise and set an example that likely informed the SCA’s approach for listed companies.

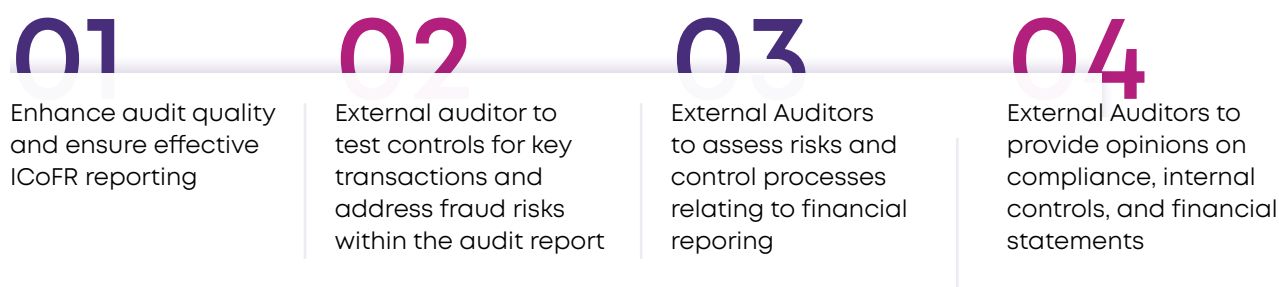
UAE Accountability Authority (UAE AA)

In late 2023, the UAE government established the UAE Accountability Authority (UAEAA), a federal-level body replacing the former State Audit Institution. The UAEAA serves as the supreme audit and financial oversight authority across federal government entities. One of its early moves has been to extend ICOFR rigor to the federal sphere. In 2024, the UAEAA issued Resolution No. 157, which mandates a “structured approach to ICOFR for federal entities and entities in which the federal government owns more than 25%”.

Key requirements of Resolution 157:

Resolution 157 introduces comprehensive requirements to enhance the quality of audits and therobustness of Internal Controls Over Financial Reporting (ICoFR).

The key requirements include:



This means ministries, federal authorities, and relevant government-owned companies are now required to design and implement internal control frameworks over financial reporting, and their audits will include evaluating these controls. UAEAA’s resolution also speaks to “enhanced audit requirements to strengthen oversight”, implying external auditors (and possibly UAEAA inspectors) will closely scrutinize ICOFR compliance. The establishment of the UAEAA and its focus on ICOFR reflect a nationwide push for transparency and accountability in line with best practices. It ensures that not only commercial companies but also government finances are subject to robust control standards, thereby safeguarding public funds.

Insurance Authority (IA)

The (former) UAE Insurance Authority—now merged under the Central Bank as the Insurance Division—was one of the first financial sector regulators in the UAE to enforce ICOFR requirements. In 2019, IA issued Circular No. 21, requiring all insurance and reinsurance companies in the UAE to implement an ICOFR framework and obtain an independent auditor’s report on the effectiveness of these internal controls.

This was followed by subsequent guidance clarifying the scope of controls to cover key processes like claims, premiums, investments, etc. The IA’s initiative was driven by a need to protect policyholders and ensure the reliability of insurers’ financial statements (important for an industry managing public savings and indemnities). Insurers had to align with COSO or similar frameworks, and many underwent significant upgrades to their finance systems and control activities as a result. The Central Bank has since continued this oversight for the insurance sector, and similar expectations have been extended to banks through its governance regulations (which, for example, require bank boards to attest to internal

control adequacy annually). The IA's ICOFR mandate in 2019 was part of a regional trend, as Qatar's and Oman's insurance regulators also took steps to bolster internal controls in financial institutions.

UAE Commercial Companies Law

Federal legislation, such as the UAE Commercial Companies Law (e.g., Federal Law No. 32 of 2021, which replaced earlier Company Law No. 2 of 2015), underpins corporate governance expectations for all companies (with additional provisions for public joint stock companies, PJSCs). As per the UAE Companies Law, the board of directors is responsible for applying governance rules and standards. This includes establishing controls, procedures, and practices that promote corporate discipline in line with international standards. Accordingly, it may be noted that companies not listed or regulated by the Securities and Commodities Authority (SCA) are also required to develop and implement a governance framework to ensure controls exist and operate effectively.

While the Commercial Companies Law does not prescribe a specific ICOFR framework, it creates a legal obligation for directors to safeguard the company's financial soundness through control mechanisms, thereby complementing the more detailed regulations of sectoral bodies. Noncompliance can expose directors to regulatory penalties and shareholder litigation, especially if control failures lead to financial losses.

Other regulations and governance codes

In addition to the above, there are other touchpoints in the UAE regulation relating to internal controls. For example, the UAE Central Bank's Corporate Governance guidelines for banks and financial institutions emphasize the need for a sound internal control system (covering financial reporting and compliance). The Dubai Financial Services Authority (DFSA) and Abu Dhabi Global Market (ADGM) FSRA, which regulate companies in the DIFC and ADGM free zones, respectively, also require firms (especially regulated financial firms and listed companies on NASDAQ Dubai) to have internal control functions and processes. Additionally, professional bodies like the UAE Accountants & Auditors Association (AAA) and the Institute of Internal Auditors' UAE chapters have raised awareness and trained professionals on ICOFR, complementing regulatory efforts. Overall, the patchwork of laws, resolutions, and codes is converging toward a common message: regardless of listing status or sector, UAE organizations are expected to maintain robust internal controls over financial reporting, and this expectation is increasingly enforceable through audits and regulatory inspections.

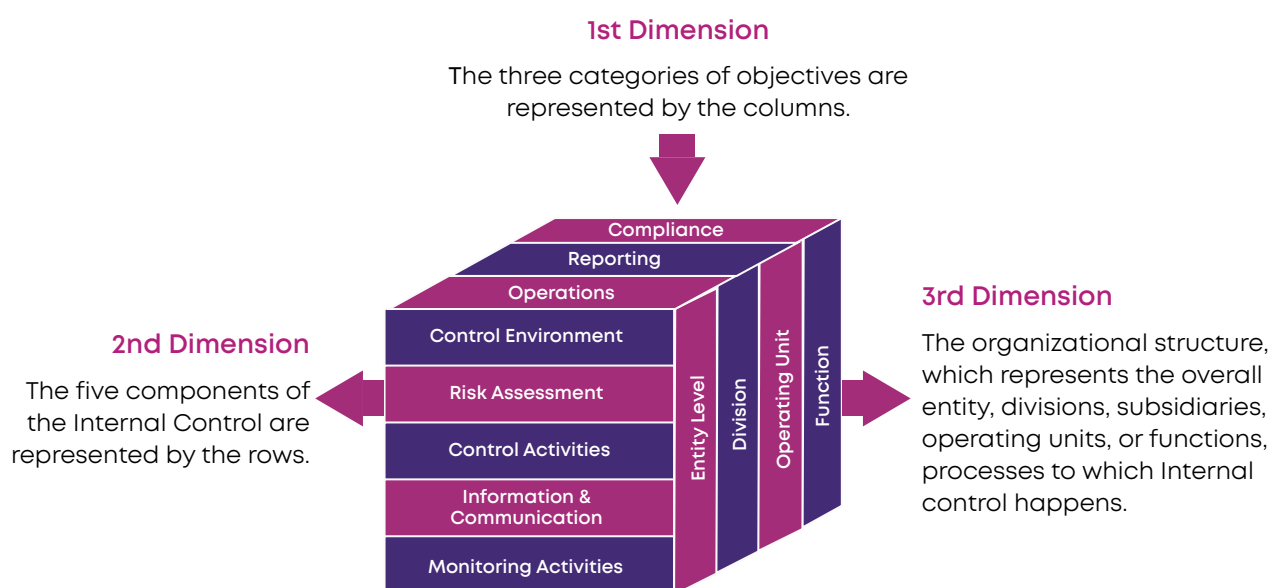
In summary, the UAE's regulatory landscape for ICoFR is evolving rapidly. What began with targeted mandates for government entities and insurers has expanded into a broader, economy-wide focus, driven by the SCA's revised guidelines for listed companies and federal initiatives led by the UAE Accountability Authority (UAEAA). Companies would be wise to stay ahead of these requirements, not only to remain compliant but to leverage the improvements in governance that strong internal controls can bring.

FRAMEWORK, COMPONENTS, AND OTHER ASPECTS

Implementing Internal Controls over Financial Reporting is not a hit-or-miss endeavour; it relies on well-established frameworks and structured approaches. Globally, the most prevalent framework for internal control (including ICoFR) is the COSO framework, which is also commonly used in the UAE. Additionally, clarifying the roles and responsibilities within the organization is vital – often done using the “Three Lines” model. This section outlines the key components of effective ICoFR, including the COSO principles, the three lines model, and other vital elements such as the quality of information used in controls.

Overview of the COSO framework and principles

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework is considered the gold standard for designing and evaluating internal control systems. First released in 1992 and updated in 2013, COSO provides a clear definition of internal control and a codified set of components and principles. COSO defines internal control (and by extension ICoFR) as “a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.” ICoFR focuses specifically on the Reporting objective – i.e., reliable financial reporting.



Key Elements of COSO

5

The Framework consists of 5 components of Internal Control

17

There are 17 principles representing the fundamental concepts associated with components

81

Supporting the seventeen principles are 81 attributes, representing characteristics associated with the principles

Under the COSO framework, there are five integrated components of internal control, which apply to ICOFR as follows:



Control Environment

This is the foundation of all other components, essentially the “tone at the top” and culture of the organization. It encompasses the ethical values, integrity, and competence of the company’s people and the governance oversight by the Board and management’s operating style. A strong control environment is characterized by clear ethical standards (e.g., a code of conduct), commitment to financial reporting competencies, and an organizational structure that assigns authority and responsibility appropriately. In practice, if leadership demonstrates support for internal controls (through their actions and communication) and if there are sound HR practices (training, accountability, etc.), employees are more likely to perform controls diligently. A weak control environment, on the other hand, might foster override of controls or reluctance to report issues.



Risk Assessment

Management must continuously assess the risks to reliable financial reporting. This involves identifying relevant financial reporting risks (e.g., risk of error or fraud in revenue recognition, risk of asset misappropriation, risk of misstatement of estimates), analyzing their potential impact and likelihood, and determining how they can be managed. In the ICOFR context, a proper risk assessment ensures that the company knows where its material risks lie. For example, a complex revenue process or a highly judgmental accounting estimate would be flagged as high-risk and require strong controls. COSO 2013 introduced specific principles about risk assessment, including specifying suitable objectives and considering fraud risk. Companies implementing ICOFR often begin by scoping in significant accounts and locations based on risk (often tied to materiality of financial statement line items), then identifying what could go wrong (WCGWs) in each process that could cause a material misstatement. This risk-centric approach prevents dissipating energy on trivial issues and focuses control design on what matters most.



Control Activities

These policies and procedures help ensure management’s directives (to address risks) are carried out. Control activities can be preventive, detective, manual, automated, or IT-dependent. Examples include approvals, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. In an ICOFR program, once risks of misstatement are identified, control activities are put in place to mitigate those risks to an acceptable level. For instance, to mitigate the risk of revenue being recorded inaccurately, a control activity might be “monthly review of all sales contracts >AED 1M by the Finance Manager for proper revenue recognition.” Control activities operate at various levels, from high-level monitoring controls to detailed transaction-level checks. IT controls (such as system access controls or automated application controls) are also part of control activities, given the dependence on IT systems in financial reporting. An aspect to highlight is the segregation of duties, a key principle that states that no single individual should control all aspects of a transaction (to reduce the risk of error or fraud). Many companies in the UAE have had to formalize their control activities when adopting ICOFR, document them in policies, and establish accountability for performance and monitoring of each control.



Information and Communication

This component addresses how information is identified, captured, and communicated in a timely manner to enable people to perform their control responsibilities. For ICOFR, relevant information includes both internally generated data (like financial records, transaction reports, and reconciliation statements) and external information (like new regulations or accounting standards) that could impact financial reporting. The systems (including accounting software and reporting tools) must produce information that is accurate, complete, and accessible to the right people. Equally, there must be effective communication

channels: management should communicate expectations about internal control responsibilities to staff (for example, through procedures manuals, training, and memos), and there should be channels for reporting issues (such as whistleblower hotlines or escalation protocols for control failures). One critical aspect regulators and auditors focus on is the quality of information used in controls. Controls often rely on reports or data – for example, a control that a manager reviews an “aged receivables report” to identify overdue accounts. If that report is generated from a system, the completeness and accuracy of the report itself must be ensured. Companies need to have controls that verify key system reports (often called IPE – Information Produced by the Entity) or use built-in system checks to ensure data integrity.



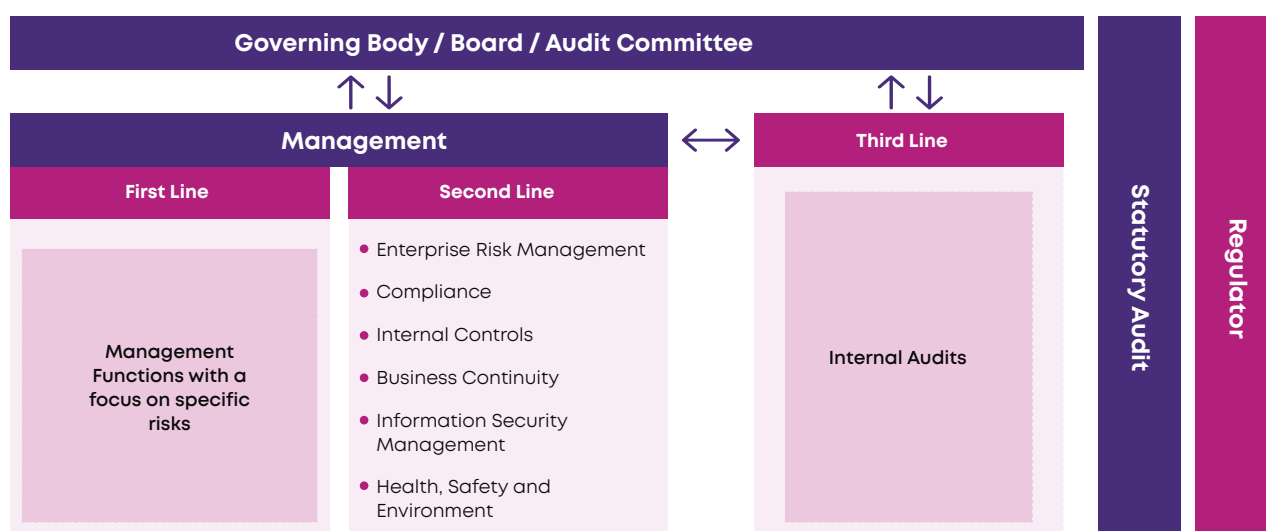
Model Validation & Back-Testing

No control system can remain static; organizations need to monitor their controls and remediate problems. Monitoring can be done through ongoing activities (built into normal operations, like a supervisor’s review of reconciliations every month, which not only is a control activity but also monitors whether related controls are working) and through separate evaluations (such as periodic internal audits or management self-assessments of controls). In an ICoFR program, monitoring includes activities like internal audit testing samples of controls throughout the year, or a CFO’s periodic process where control owners confirm the status of their controls. If deficiencies are identified (either by internal teams or external auditors), they should be reported to those in charge of governance and corrected promptly. The COSO framework emphasizes that monitoring should ensure that internal control continues to operate effectively over time and adapts to new risks. This requires establishing internal audit functions for regular control reviews, or using technology such as GRC (Governance, Risk & Compliance) software to track control execution and issues. Regulators like ADAA and SCA explicitly require that any material weaknesses or significant deficiencies found in internal controls are reported and that remediation plans are in place.

These five components and the 17 underlying principles form a comprehensive system. The COSO framework is scalable, i.e., applicable to a small business or a large multinational, and it serves as a common language for auditors and management to discuss internal controls.

The Three Lines Model (Roles and Responsibilities)

Implementing and sustaining ICoFR is a team effort that spans the entire organization. A helpful conceptual model to delineate responsibilities is the “Three Lines” model, now often just called the Three Lines Model after updates by the Institute of Internal Auditors (IIA). This model provides clarity on who is responsible for what, thereby preventing gaps or overlaps in risk management and control processes. Here’s how it breaks down in the context of ICoFR:



01

First Line – Operational management:

The first line consists of management and process owners directly responsible for executing controls and managing risks in their day-to-day operations. In an ICOFR context, this means department heads, accountants, and finance staff (as well as operational staff handling transactions) own the controls in their area. For example, the revenue accounting manager is responsible for ensuring all revenue transactions are recorded correctly and might be the one performing controls like reviewing billing reconciliations.

First-line managers are expected to ensure that the procedures are followed, records are kept, and any issues are corrected. A saying often used is “ownership of controls lives in the business, not with auditors.” This emphasizes that it’s not the auditors or compliance officers who make controls effective – the people doing the work. In the UAE, as companies formalize ICOFR, first-line managers are being trained to understand their roles. For instance, a warehouse manager might now be explicitly accountable for inventory count controls and must sign off on count results, which fosters accountability.

02

Second Line – Risk management & compliance:

The second line provides oversight, guidance, and support to the first line. It typically includes roles like risk management, compliance officers, internal control units, or finance controllers, but they are not involved in day-to-day processing. These individuals or teams develop the frameworks and policies for internal control, conduct training, monitor on an ongoing basis, and facilitate enterprise-wide risk assessments.

In an ICOFR project, a second-line function might be an “ICOFR implementation team” or an internal controls department that helps coordinate documentation of controls, tests some controls in advance, and checks that first-line owners remediate any issues. They serve as a bridge between the doers and the auditors. In smaller companies, the second line might be a finance controller wearing a compliance hat to double-check that reconciliations and approvals are happening. In larger UAE organizations (e.g., banks or those that went through ADAA’s ICOFR program), dedicated internal control or risk assurance teams were created to monitor ICOFR compliance, control self-assessments, and report results to top management. The second line thus helps “implement the company’s risk management program and monitor the process,” ensuring that the first line doesn’t deviate from the required procedures and that emerging risks (like a new accounting standard or a new IT system) are addressed with updated controls.

03

Third Line – Internal Audit (and External Audit):

The third line is independent assurance. It includes internal auditors, who report to the Board (usually the Audit Committee), and can also conceptually include external auditors in this model. Internal audit periodically evaluates the effectiveness of governance, risk management, and controls – essentially, they audit the internal control system.

In terms of ICOFR, internal auditors might do their own testing of controls, separate from management’s routine, to verify that controls are working (this is often done before year-end so that any issues can be fixed). They also evaluate the design – whether the controls appropriately address the financial reporting risks. External auditors, while not part of the organization’s hierarchy, provide an independent attestation on financial statements and (if required, like under SCA or ADAA mandates) on internal controls.

According to the Three Lines model, the third line “ensures the effectiveness of the first and second lines” by reviewing and verifying their work. In practice, internal audit in the UAE has been ramping up its focus on ICOFR in many companies, especially those preparing for the new SCA requirements. Many audit committees now ask internal audit to do readiness assessments for ICOFR, essentially acting as a dry run before the external auditor comes in. External auditors will ultimately perform their procedures on ICOFR (for listed companies beginning 2024/2025), making their perspective even more independent. It’s worth noting that under regulatory frameworks. At the same time, management is responsible for ICOFR, and an independent perspective often catches issues management might overlook, such as inconsistent execution of a control across branches or a potential segregation of duties conflict in a new system.

Oversight by the Board/Audit Committee:

Above the three lines, the governing body (Board of Directors) and specifically the Audit Committee (where one exists) play a critical oversight role. They are not a “line” per se, but they ensure that the three lines are functioning properly. The Board or Audit Committee approves the risk appetite (how much risk is acceptable) and is ultimately accountable to stakeholders for the organization’s control and risk management. They must foster a culture that values accountability and stay informed – for example, the Audit Committee should receive reports on any significant ICOFR deficiencies and remediation status. In the UAE, corporate governance codes (both SCAs and the Central Bank’s for banks) require the Board/Audit Committee to review internal controls’ effectiveness annually and address any weaknesses. With the new ICOFR audit requirements, Audit Committees will likely be even more engaged – working with management to ensure timely implementation of controls and with auditors to understand their findings. The “tone at the top” set by the Board and CEO is often cited as the number one factor in successful control environments.

By clearly delineating these roles, the Three Lines model helps avoid one common pitfall: assuming someone else is taking care of a risk when no one is. For example, without clarity, front-line staff might assume internal audit will catch any errors, whereas internal audit might think management has proper monitoring. The result could be a gap through which a material error slips. The Three Lines approach ensures first line does not abdicate its responsibilities, second line provides needed support without undermining ownership, and third line remains objective and thorough. When all three lines plus oversight work together, the organization has a much better chance of detecting and correcting control issues before they impact the financial statements or breach stakeholder trust.

Information used in controls

A special topic worth highlighting in any ICOFR framework discussion is the integrity of information used in controls. Modern financial reporting is heavily reliant on IT systems and data. Many control activities, particularly management review controls, involve using system-generated reports or spreadsheets as a basis for decision-making (for instance, reviewing an aged debtors report to identify bad debt provisions, or using a sales report from the ERP to confirm revenue completeness). If the underlying information feeding those controls is flawed, the control may be ineffective even if performed diligently.

In audit terminology, this is often referred to as IPE (Information Produced by the Entity) or IUC (Information Used in Control). In recent years, regulators and auditors have paid close attention to how companies ensure the completeness and accuracy of such information. In fact, deficiencies in IPE control have been a frequent cause of audit inspection findings globally. For example, if a company’s control is “Controller reviews a monthly expense variance report for anomalies,” the auditor will ask: How do we know the report the Controller received is complete and accurate (e.g., did it pull all transactions, are the formulas correct)? The company would need an automated control or a manual check to validate that report.

Best practices to address this include:

System controls and configurations

Wherever possible, rely on system-generated controls. If the report comes from a well-controlled system (with IT general controls in place, such as restricted access, change management, etc.), and the report logic is tested, then the risk is mitigated. For instance, if using an ERP, ensure the report is standard or, if customized, that it's been approved and tested. Many UAE firms undergoing ICOFR projects had to work closely with their IT departments to shore up IT General Controls (ITGCs) like access security, data backup, and program change controls because these form the foundation that makes reports trustworthy.

Completeness and accuracy checks

If a critical report is used for a control, management can establish a routine to verify it. For example, if a spreadsheet is used, one might manually reconcile totals from that spreadsheet to source data periodically to ensure nothing is omitted or duplicated. Another example: For an aging report, tie the total receivables per the aging to the general ledger balance monthly (completeness), and perhaps test a sample of invoices to ensure the aging buckets are calculated correctly (accuracy). These checks themselves become control activities.

Documentation of data sources

Clearly document, for each key control, what information is being relied on and its source. During ICOFR documentation, companies often prepare process narratives and flowcharts identifying "reports used" at each step. They also populate a Risk-Control Matrix (RCM), which notes for each control what information is used and how it is validated. This practice was initially new to some UAE companies, but guidance from global firms emphasized it as part of readiness for auditor review.

Addressing End-User Computing (EUC) risks

In many cases, data is exported to Excel for further analysis, for example, compiling consolidation adjustments or performing complex calculations. These spreadsheets (an example of EUC tools) can introduce errors (typos, formula mistakes). Companies should treat key spreadsheets as extensions of the financial system: apply version control, have someone review the formulas, lock cells, or use simple automation to reduce manual intervention, and consider periodically rebuilding them to ensure they still function as intended. Management review controls should explicitly consider the output and whether the input data is reliable. A control performer might sign off not only "I reviewed this report" but also "I verified this report's completeness by checking X." Embedding such mindsets is part of a mature ICOFR function.

In summary, high-quality information is the lifeblood of effective controls. The interplay between IT and finance is crucial: finance teams in UAE companies are increasingly partnering with IT to ensure that financial data flows are correct and to leverage technology for control effectiveness. Regulators understand this linkage too, and as part of ICOFR, boards are expected to ensure that management has put in place controls "on the information technology systems used in financial reporting." Companies that neglect this area may find even well-designed controls failing due to garbage-in, garbage-out issues. On the flip side, those that invest in good data governance and IT controls often find that compliance improves, and so does operational decision-making (because they have more trust in their own numbers).

IMPLEMENTATION ROADMAP AND TIMELINE

Typical implementation journey: Planning to Monitoring

Establishing ICOFR in an organization is a project that requires careful planning, resource commitment, and change management. Whether a company is implementing ICOFR for the first time due to new regulations or overhauling its existing controls, a structured roadmap can significantly increase the likelihood of success. Below, we outline a step-by-step implementation journey for ICOFR and discuss typical timelines, success factors, and common pitfalls drawn from both UAE and international experiences.

Planning and Scoping

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

Setting the core project team

Obtain in-depth process understanding

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

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

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

Development of RCMs and Flowcharts for processes

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

Entity level controls & and IT General Controls

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

Gap Remediation & Coordination with External Auditors

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

01

Scoping and planning

Start by defining the scope of ICOFR. This involves determining which entities, business units, accounts, and processes are in scope for internal control evaluation – usually driven by materiality and risk. For example, a company with multiple subsidiaries might scope in only those above a certain size or risk level for year one.

Planning also includes securing executive sponsorship (tone at the top is critical), assigning a project leader or team (often a steering committee including finance, internal audit, IT, etc.), and developing a detailed project plan with milestones. In this phase, companies often conduct kick-off workshops to educate process owners about ICOFR objectives and what to expect.

This would lead to a project charter or plan, scoping document listing significant accounts/ processes, and a roles and responsibilities matrix for the ICOFR project.

02

Documentation of processes and controls

The next step is to document the current state of processes that impact financial reporting. This is typically done through process narratives and/ or flowcharts, and Risk and Control Matrices (RCMs). The goal is to map out the key steps for each significant transaction stream (e.g., revenue, purchases, payroll, financial close, etc.), the risks of error/fraud at each step, and the controls in place to address those risks. For instance, in a revenue process, one would document how a sales order becomes an invoice, how revenue is recognized, how receipts are matched, and note controls like approvals, system checks, and reconciliations.

It's also important to identify entity-level controls (ELCs), broader controls like oversight by the board, policies, training programs, and general IT controls. In the UAE, companies sometimes engage consultants or use templates to accelerate documentation, but it's crucial that internal staff are involved so they truly understand their processes. By the end of this phase, you have a clear picture of "who does what" and existing control activities.

03

Testing (Design & Operating Effectiveness)

Before stakeholders like external auditors come into the picture, the company should internally verify that controls are working as intended. This can be done by an internal audit team or the ICOFR project team (sometimes with external advisors assisting). There are two aspects:

- design effectiveness – is the control, as designed, capable of preventing or detecting the errors it's meant to? (Often assessed via walkthroughs of the process), and
- operating effectiveness – is the control actually operating consistently as designed? (assessed by selecting samples from throughout the year and checking for evidence of control performance). For example, if a control is "CFO approves all journal entries above X amount," a tester would find a sample of large journal entries and see if the CFO's approval is documented for each. Any deviations (e.g., one instance was missing approval) are noted as exceptions.

This testing phase ideally happens at least mid-way through the first year of implementation so that if some controls are not effective, there's time to fix them (performing what's known as remediation and re-testing). In year 1, companies may find a number of failures – that's normal, and the key is to address root causes (maybe the person wasn't trained, or volume was too high to review all items, etc.) and reinforce the processes. Documentation of evidence is paramount here – a control that isn't evidenced (no signature, no log, etc.) essentially "did not happen" in the eyes of auditors. So, part of this stage is ensuring that all control activities leave an audit trail.

04

Remediation of deficiencies

If the testing phase identifies deficiencies (which can be categorized as material weaknesses, significant deficiencies, or lesser issues based on severity), the company should act to remediate them promptly. For instance, if a material weakness is found (the bank reconciliation process was flawed, leading to unreconciled differences not being caught), the company might need to implement compensating controls (like a detailed cash audit) and fix the reconciliation process going forward. Remediation might involve additional training, redesign of a control, or even hiring extra staff to ensure proper segregation. It is critical to document the remediation and, if time permits, perform re-testing to ensure the fix worked.

Companies should also involve their Audit Committees (and external auditors) in discussing any significant deficiencies or material weaknesses identified, demonstrating a commitment to transparency and improvement. For UAE-listed companies, identifying and addressing issues internally before the external auditor's official ICOFR audit is key to avoiding adverse opinions. The SCA's phased approach (self-assessment in 2024, external audit in 2025) essentially grants a year to do this cleanup.

05

Sustainability and ongoing monitoring

ICOFR moves into a business-as-usual mode after the initial implementation and remediation. This involves establishing routines for continuous monitoring. Management might integrate control performance into daily and monthly checklists (for example, a monthly closing checklist that includes all ICOFR controls to be done before books are closed). Many companies set up certification/ compliance processes – quarterly, control owners sign off that controls under their responsibility have been performed and any issues escalated. Internal audit typically creates an annual plan to test a rotation of controls or focus on areas that have had past deficiencies (this way, internal audit provides assurance to the Audit Committee on an ongoing basis).

Another aspect is to periodically update the risk assessment: as business changes (new products, acquisitions, etc.), the ICOFR framework should adapt (new controls may be needed, or some controls can be retired if processes change). Many organizations hold an annual ICOFR workshop to reflect on what went well and what could be improved in the control system, feeding into continuous improvement. The goal of ongoing monitoring is not just to pass audits, but to actually use ICOFR as a tool for better governance. Companies in the Middle East that have matured in ICOFR (like some in the financial sector) often report that over a few years, controls become part of the company DNA and fewer issues arise, allowing them to focus on optimizing controls (e.g., automating more, fine-tuning risk coverage) rather than firefighting.

This journey is iterative. In the first year, documentation and initial testing consume the most effort. In subsequent years, companies can iterate – expanding scope if needed (maybe including more processes or entities as they build capability), refining overly burdensome or ineffective controls, and integrating ICOFR compliance with other initiatives (like ERP upgrades or data analytics projects). It's common to see companies move from heavily relying on external consultants in year 1 to more internal management in year 2 and beyond, as internal teams gain expertise.

Typical timelines and resource considerations

The timeline for implementing ICOFR can vary widely based on the size of the company, complexity of operations, and urgency (regulatory deadline or not). However, some general benchmarks:

For a mid-sized company (let's say with a straightforward structure, one main location, perhaps operating in one industry), implementing ICOFR from scratch might take 3 to 4 months of concerted effort. This assumes the company already has basic processes that just need formalizing. If started at the beginning of a financial year, it could be ready by year-end to assert ICOFR.

For a large, diversified company (multiple business lines or geographies), it could take 7-12 months to implement fully. Often, such organizations phase the implementation – e.g., pilot in the biggest division first, then roll out to others, or focus on core financial processes first, then expand to all processes.

Regulatory lead time matters. In India, companies were given around a year's lead time when ICOFR became law; in the UAE, SCA's timeline effectively gives about a year (2024) for self-assessment before external attestation hits. A common recommendation is to start at least one year before the requirement, if possible, to allow for a full cycle of testing and remediation. One source suggests initiating the process at least a year ahead to avoid any "qualification in audit report" (i.e., negative audit outcome).

Within a given project, a rough timeline could be:

- 1-2 months for scoping and planning,
- 2-3 months for documentation (depending on how well processes are already documented),
- 1 month for gap analysis,
- 1-2 months to implement fixes (some can be done in parallel with documentation), and
- 2-3 months for initial testing and remediation. These can overlap; for instance, documentation might continue while some early testing begins in areas already documented.

Resource-wise, companies should prepare to dedicate a team. Many UAE companies have formed ICOFR project teams led by the CFO or CAE (Chief Audit Executive), involving members from finance, internal audit, and IT. External consultants are often engaged, especially for first-timers, to provide expertise and manpower, but it's important to ensure knowledge transfer to internal staff for sustainability. Training sessions are an important part of the timeline, and companies should factor in time to educate control performers on any new responsibilities.

Cost can be non-trivial: there's the cost of manpower (potentially hiring additional consultants or internal auditors), technology (maybe new software for documentation or control monitoring), and external advisory fees. However, many organizations view this as an investment in better financial management. Over time, costs tend to decline as processes become embedded. In the U.S., initial SOX compliance costs were famously high, but companies reported efficiencies and cost reductions in subsequent years once the heavy lifting was done. UAE companies may similarly find year 1 expensive, but year 2 and beyond much smoother if they build on lessons learned.

Success factors for implementation

From both global best practices and local insights, the following factors are often cited as critical to a successful ICOFR implementation:



Tone at the top and governance support

Executive leadership and the Board must actively support the ICOFR initiative. When employees see the CEO and Audit Committee emphasizing the importance of internal controls (and not just treating it as a formality), they are more likely to take it seriously. This also means providing sufficient budget and resources. It's a strong signal when a company's leadership says, "ICOFR is not just about compliance; it's about how we run a better company." In practical terms, management should receive periodic updates on the project, and roadblocks (like departmental resistance or resource needs) should be addressed promptly at a high level.



Clear roles and responsibilities

As discussed with the Three Lines model, clarity on who is doing what is paramount. Everyone involved should know their role during the project – e.g., "John in Finance will prepare the bank reconciliation, Mary (John's Manager) will review it and sign off." When roles aren't defined, things slip through cracks. Establishing a RACI matrix (Responsible, Accountable, Consulted, Informed) for each control can help. According to one expert commentary, internal controls often "fall apart when roles aren't clearly defined," and clear accountability leads to fewer audit headaches.



Comprehensive training and awareness

ICOFR introduces new concepts and tasks that many staff might not be familiar with. Training should be provided not just at the start but throughout:

- initial training on basic internal control concepts and the COSO framework, and
- specific training on how to perform and evidence particular controls

In the UAE, where companies may have multicultural workforces, it is important to ensure that language or communication barriers don't hinder understanding—training materials might need to be bilingual or very practically oriented. Also, don't train just the "what" but the "why"—when people understand the reason behind a control, they are more likely to do it well than just check a box.



Phased and well-timed approach

Trying to do everything at once can overwhelm the organization. A phased approach - whether by entity, process, or priority- helps manage workload. Timing is also key: avoid scheduling major ICOFR activities at peak business periods (for example, year-end closing or external audit season). One of the challenges noted for first-year ICOFR is aligning the implementation timeline to avoid disruption; companies should "avoid peak periods and allow adequate remediation time." Starting early in the fiscal year and perhaps staggering process rollouts can mitigate this. The project plan should have buffer time for unforeseen delays, as inevitably some tasks take longer than anticipated (like gathering evidence for old transactions).



Use of technology and tools

Leverage tools to reduce manual effort. There are software solutions for documentation (to maintain RCMs and narratives), workflow tools for control sign-offs, and data analytics for monitoring. Even using shared folders or a simple ticketing system to track control issues can be helpful. Automation of controls, where feasible, is a big win, e.g., implementing an automated three-way match in the procurement system can eliminate a manual matching control. Whether using a bespoke tool or Excel sheets, ensuring that documentation and evidence are systematically collected and stored is important for both project management and eventual audit review.



Focus on high-risk areas

It's easy to get lost in a sea of controls. A success factor is focusing on areas that could cause a material error in financial statements. This risk-based focus (emphasized in COSO and by auditors) ensures effort is not wasted perfecting a control over a minor process while a bigger risk goes uncontrolled. Management's risk assessment should be the guiding light throughout implementation. Also, prioritizing quick wins, e.g., some controls are easier to fix than others; addressing those quickly can show progress and build momentum (for example, drafting a financial closing checklist is a low-hanging fruit that can yield immediate improvement in consistency).



Early engagement with auditors

If an external audit firm will eventually audit ICoFR (as is the case now for listed companies under SCA), it pays to involve them early in discussions. While they can't act as consultants (due to independence), you can seek their input on whether your planned framework, scoping, and documentation format will meet their needs. According to best practices, "early engagement with external auditors fosters alignment and reduces duplicated efforts." It can also prevent unpleasant surprises at year-end by uncovering any differing expectations.



Cultivating a control culture

Perhaps the most intangible but powerful factor is when the organization's culture starts to embrace internal control. This means people take pride in doing things right the first time, report exceptions without fear, and see controls as part of good management rather than red tape. Management can encourage this by rewarding teams for compliance and improvements, integrating control responsibilities in performance appraisals, and sharing success stories (e.g., "thanks to our improved controls, our audit had zero findings this year" or "we caught a potential fraud early because of our new controls").

Common pitfalls and how to avoid them

Despite the best intentions, ICOFR implementations can run into pitfalls. Being aware of these common issues can help organizations avoid or mitigate them:

Treating ICOFR as a one-off compliance project

Some companies make the mistake of approaching ICOFR as a checkbox exercise to satisfy regulators or auditors, without integrating it into the fabric of operations. This might manifest as a beautifully documented folder of controls that no one uses after the audit. The pitfall here is sustainability, i.e., controls deteriorate after initial implementation if not embedded. To avoid this, management should weave certain controls into existing routines (for example, make the monthly variance analysis control part of the monthly management meeting agenda) and assign clear ownership. The goal is to transition from project to business-as-usual mode by the second year.

Inadequate documentation and evidence

A frequent issue is poor documentation, either processes were not thoroughly documented (leading to missed controls or misunderstood steps) or, more commonly, the control performers do not retain evidence of the control. An undocumented control is essentially not auditable. Teams under pressure might do a review but not keep a record or not sign and date it, which later becomes an issue. The antidote is training and discipline: insist on simple things like sign-offs, standardized templates for reconciliations, and an archive of working papers. During testing, any instance of missing evidence should be flagged as a failure, which drives home the lesson.

Underestimating resource needs and change impact

Sometimes, companies assume that existing staff can absorb ICOFR tasks on top of their regular duties with no adjustments. This can lead to burnout or corners being cut. For example, an accountant who already works overtime may not realistically be able to perform four new controls each month without relief. Pitfall avoidance means reallocating work, hiring temps/extra staff for peak periods, or leveraging technology to ease workloads.

Overengineering or excessive controls

The flip side of not enough focus is too much. Some implementations result in an explosion of control activities far beyond what is needed for risk mitigation, creating bureaucracy and inefficiency. Overlapping controls (multiple controls addressing the same risk) or very granular controls that might not be necessary can bog down the process and frustrate staff. A common rationalization process is identifying key controls (primary ones) versus non-key (secondary). Focus on getting key controls right, as these are the ones that truly keep you safe from material errors.

Poor coordination and silos

ICOFR touches many departments (finance, operations, IT, HR for payroll, etc.). If a project is run in a silo (say, only by finance) without involving others, there might be resistance or a lack of necessary knowledge. Conversely, if multiple departments try to do things without coordination, efforts can be duplicated or conflicting. To counter this, cross-functional workshops and regular status meetings should be held where all stakeholders (including internal/external auditors as needed) align on progress and expectations. Clearly define who will do which testing to avoid redundant checks by different teams on the same control.

In conclusion, the journey to implement ICOFR can be intensive, but with a methodical approach and keen attention to the human and technical factors, it can be achieved within a reasonable time and budget. The key is to view it not just as compliance, but as an investment in better financial management. When done right, the company emerges with a clean bill of health from auditors, deeper insights into its processes, and more confidence in its financial information.

ADOPTION AND MATURITY OF ICOFR IN THE UAE

The adoption of Internal Controls over Financial Reporting across companies in the UAE spans a broad spectrum – from organizations that have fully integrated ICOFR into their corporate governance, to those just beginning to recognize its importance. In this section, we assess how far along UAE companies are on the ICOFR maturity curve, identify common gaps observed in practice, discuss differences between various jurisdictions within the UAE (mainland vs free zones), and highlight challenges like cost and talent that are shaping the pace of adoption.

Common gaps and weaknesses in current practice

While regulatory pressure is mounting, many companies in the UAE are still catching up on building robust ICOFR frameworks. Through audits, consulting engagements, and regulator feedback, some typical gaps have been noted:

Overreliance on manual processes

A large number of companies, especially mid-tier and private ones, rely on manual controls and spreadsheets for financial reporting. Manual controls (e.g., paper-based approvals, Excel reconciliations) are inherently prone to human error and can be inconsistently performed. A survey of common issues finds that “overreliance on manual controls” is a major challenge, leading to inefficiency and higher error rates. In the UAE, where businesses may have grown rapidly without commensurate systems investment, it’s not uncommon to see key processes like revenue recognition or inventory management handled in ad-hoc ways. The gap is that such manual processes often lack formal checkpoints or can be easily bypassed. For example, a manual journal entry process without a system workflow might rely solely on a hardcopy signature that could be skipped. The remedy being pursued is automation and systemization: companies are investing in ERP modules and automated workflows. However, the transition is ongoing, and many are still in the early stages of implementing or fully utilizing these systems. Until then, strengthening the oversight on manual controls (extra reviews, independent checks) is critical to compensate for this gap.

Inadequate documentation & process formalization

As mentioned earlier, scant documentation of processes and controls is a frequent weakness. Many firms historically operated with key knowledge in people’s heads rather than in written form. This leads to inconsistencies and difficulty in performing effective reviews or audits. If a process is not well documented, assessing its control effectiveness is hard. Regulators and advisors in the UAE have repeatedly encountered entities where policies and procedure manuals are outdated or non-existent, and control activities are not formally defined. One outcome is that new or rotating staff are unclear on what controls to perform, causing lapses. The push for ICOFR is forcing improvements here, for instance, ADAA’s requirements made Abu Dhabi entities create formal narratives, flowcharts, and RCMs, often for the first time, as a basis for control evaluation. Still, among smaller businesses, documentation remains a gap, sometimes due to a lack of know-how or simply the time needed to codify internal processes. Overcoming this requires prioritizing documentation as a fundamental step (even bringing in temporary resources or consultants to help draft processes if needed).



Lack of ongoing testing/second line

Prior to mandated ICOFR, many UAE companies did not have a habit of periodically testing their controls unless an issue surfaced. The concept of a “second line” doing compliance checks was limited mostly to banks and larger corporations. Thus, a gap identified is the absence of a monitoring mechanism internally, as companies wait for the external auditor or regulators to point out control failures. In some free zone companies and SMEs, there isn’t even an internal audit function, or it is not effectively utilized. A “limited second line” means risks can go unaddressed for long periods. For example, a company might not realize that reconciliations haven’t been done for months because no one outside the process has checked. To address this, many are now establishing internal audit or internal control departments (often part of finance or risk management) as a second line to monitor ICOFR compliance regularly. Additionally, audit committees insist on management’s own assessment reports. It’s a cultural change moving from a reactive stance (fix when a problem occurs) to a proactive stance (regular health checks to prevent problems).



Weak Entity-Level Controls (ELCs)

ELCs, like governance practices, code of ethics enforcement, whistleblower mechanisms, etc., set the overall tone. Some companies have impressive, detailed control lists but neglect broader governance aspects. For instance, if management override is a risk (which it always is), one needs controls such as audit committee oversight of top-level adjustments, or data analytics to spot unusual transactions. If a dominant owner or CEO can bypass controls without detection, that’s a significant gap. Regulators like SCA explicitly require boards to take responsibility for an internal control framework and annually certify its effectiveness, which puts ELCs front and centre. A common gap related to ELCs in some UAE firms is the lack of a code of conduct or ineffective enforcement of one, which can indirectly lead to higher fraud risk. Closing this gap involves top management demonstrating commitment to ethical practices and installing channels for reporting concerns safely (whistleblowing), which many have started to do in line with new governance codes.



Information technology and data controls lagging

As noted earlier, IT controls are sometimes the weakest link. Companies that have never undergone an IT audit find that basic controls like user access reviews, password policies, or secure data backup are not robust. A particular example is segregation of duties (SoD) conflicts in ERP systems, e.g., the same user can create vendors and approve payments, which is a control gap. In the rush of daily operations, such conflicts might have been ignored. However, under ICOFR review, these must be addressed by restricting access or implementing detective controls to monitor such users. Another IT-related gap is changing management, e.g., ensuring that when financial systems are updated or patched, it doesn’t inadvertently remove controls or data. To catch up, many UAE companies have been hiring IT auditors or using external specialists to assess their IT environment alongside ICOFR implementation. In regulated sectors (banking, telecom), regulators have separately enforced IT governance rules, but in others, this is a learning curve happening now due to ICOFR’s focus.

In summary, the current adoption is uneven. The most common gaps, such as manual controls, poor documentation, lack of internal testing, and weak IT controls, are being addressed gradually as companies respond to new regulations or pursue internal improvements. There is a recognition that addressing these gaps satisfies compliance and enhances business operations (e.g., automating a manual control often speeds up the process and reduces errors, a win-win).

Variations across free zones and mainland companies

The UAE's unique economic structure – with numerous Free Zones operating alongside the mainland (onshore) regime adds an extra dimension to how corporate practices like ICOFR are adopted. We observe some differences:

Regulatory scope

Mainland listed companies are under the purview of SCA and must adhere to its governance rules (now including ICOFR audits). Free Zone companies, unless listed on a local exchange (like NASDAQ Dubai in DIFC) or fall under specific regulations, might not have an external mandate for ICOFR. For example, a trading company in JAFZA (Jebel Ali Free Zone) answers mainly to the JAFZA authority's requirements, which historically focus on business licensing and not detailed financial controls. As a result, mainland companies, especially PJSCs, have been faster and more compelled to adopt ICOFR due to direct regulatory triggers. Free zone companies often adopt internal controls as a choice or due to parent company policies rather than local law. That said, certain free zones like DIFC and ADGM, which have their own financial regulators (DFSA and FSRA, respectively), impose high standards of corporate governance. A company listed on NASDAQ Dubai (DIFC) would be subject to DFSA's rules, which, as of now, encourage but do not mandate SOX 404-style audits; however, they require internal audit and risk management functions for listed entities.

Influence of multinationals

Free zones host many multinational corporations' subsidiaries (since they allow 100% foreign ownership). These subsidiaries often import their parent company's internal control frameworks, especially if the parent is subject to SOX or similar. For instance, a U.S.-based group with a subsidiary in a free zone will likely have that subsidiary comply with group ICOFR standards, even if the local law doesn't demand it. In these cases, the adoption of ICOFR in free zone firms can be very high and sometimes more mature than local firms because it's driven by global corporate policy. In contrast, many mainland companies are local or regional businesses that may not have had that global push and are adopting ICOFR primarily due to local regulatory changes.

Challenges: cost, talent, and resources

Implementing and maintaining ICOFR is challenging, especially in a region where it's a relatively new concept for many. The key challenges frequently cited are cost and talent constraints, among others:

01

Cost Considerations

Establishing an ICOFR framework can be costly initially. Companies may need to invest in new accounting systems or upgrades (to enable needed controls or better automation), spend on external consultants or control software, and possibly incur higher fees for the additional internal control audit work. For smaller companies, these costs can be a significant concern. Training staff and potential downtime to attend workshops also have implicit costs. Every expenditure is scrutinized for ROI, and the benefits of ICOFR (while real) are somewhat intangible or long-term (risk reduction, investor confidence) instead of immediate revenue-generating. However, this mindset is changing as non-compliance costs become evident and the risk of a material misstatement or financial scandal can far exceed the upfront cost of proper controls.

Companies are looking for cost-effective approaches, such as using existing personnel (with overtime or incentives) to take on some ICOFR roles instead of hiring entirely new departments or using shared services for control functions across a group of companies. Regulators, too, have been mindful; SCA, for instance, gave a phased approach, perhaps to allow companies (especially mid-sized listed ones) to spread the cost of compliance over a couple of years. Over time, if ICOFR leads to more efficient processes, it can save costs (for example, fewer errors mean less rework and audit adjustments, which can lower audit fees in the long run). But making that case to budget-conscious management is part of the challenge.

02

Talent Shortage

There is a notable shortage of skilled professionals in the area of internal controls and auditing. With the surge in demand (thanks to ADAA, SCA, UAEAA, etc., all emphasizing ICOFR), the market for experienced internal auditors, risk managers, and financial controllers with SOX/ICOFR knowledge has tightened. The UAE is a global talent magnet, but ICOFR is a specialized skill set. Many finance professionals have traditional accounting backgrounds but do not necessarily have training in COSO or risk management. Companies often have to train existing staff (which takes time) or hire from abroad (which can be expensive, and visa processes take time). We have seen an influx of SOX consultants from mature markets to the Middle East to fill this gap temporarily. The talent issue also affects external auditors and consultants themselves, as more entities require ICOFR audits, audit firms need more staff with relevant expertise; their ability to serve all clients may be stretched, potentially raising costs or causing delays if talent isn't sufficient.

To mitigate this, some companies are investing in training programs and certifications (like CIA—Certified Internal Auditor or SOX specialist courses) for their employees, and universities/professional bodies in the region are starting to incorporate internal control topics in their curricula. It's a growing pain that will likely ease in a few years as the workforce adjusts, but in the short term, it's a constraint.

03

Change management and Buy-In

Beyond cost and skills, another challenge is getting everyone on board. Implementing ICOFR can be seen as disruptive. Long-tenured staff might be defensive, perceiving control enforcement as criticism of how they used to do things. Achieving this mindset shift is challenging. It requires clear communication from top management about why ICOFR is being implemented (not because people are untrustworthy, but because it's needed for the company's growth and credibility) and how it benefits each stakeholder (for instance, an employee might benefit from more transparent processes making their job easier, or bonus schemes might be tied to clean audit outcomes, etc.). Some companies struggle in the first year because of pushback or lack of cooperation from departments, e.g., sales departments complaining that new controls slow down their deals, etc. Overcoming this entails demonstrating quick wins and being pragmatic (designing robust yet efficient controls, not needlessly bureaucratic).

04

Maintaining control effectiveness in high-growth environments

The UAE is a dynamic economy; companies here can grow very fast, and some are involved in transformative projects (like digital initiatives, entering new markets, mergers, and acquisitions). A big challenge is ensuring internal controls keep pace with such growth. A company could implement ICOFR in year 1, but if in year 2 they double in size or launch an all-new business line, the whole risk profile changes. High growth can strain controls; for example, volumes of transactions skyrocket, and a manual control that was fine at low volume becomes untenable. Or new personnel are added quickly, and they might not be as trained in controls. Thus, rapid growth or change is itself a challenge for maintaining ICOFR. Companies need to build scalability into their control design (perhaps adopting more IT-driven controls

that can handle volume) and continuously calibrate their risk assessment. The positive in the UAE context is that many new companies are born digital, which could mean they have more automated controls from the start; still, they may lack formal control frameworks.

Despite these challenges, the trajectory in the UAE is clearly towards greater adoption of ICoFR. The combination of regulatory nudges and a growing appreciation of the benefits is driving change. Many companies that initially approached it purely as compliance are now seeing side benefits: streamlined processes, better segregation leading to fewer fraud incidents, improved financial reporting timelines (since a structured closing process often is part of ICoFR), and even insights gained from analyzing control failures.

It's worth mentioning that regulators and bodies in the UAE seem aware of these challenges and are trying to provide support. For instance, the SCA holds workshops for listed companies on the new ICoFR rules, ADAA regularly issues guidance tools for its entities, and professional firms host webinars and roundtables to share experiences. The ecosystem is adjusting, and while cost and talent issues cannot be solved overnight, they are being addressed through collaborative efforts (such as secondments, training partnerships, etc.).

In conclusion, the adoption of ICoFR in the UAE is on an upward curve, albeit with a few bumps related to costs and capabilities. Companies that proactively tackle these challenges by budgeting appropriately, investing in people, and phasing their implementation tend to fare better and turn compliance into a competitive advantage (trust and resilience). Meanwhile, those who wait until the last minute may face higher costs (rush fees, fire-fighting fixes) and potentially more disruption. The clear message from the market is that ICoFR is becoming a standard expectation, and companies, whether in mainland or free zones, large or small, will eventually need to answer how they ensure the integrity of their financial reporting.



BENCHMARKING WITH OTHER COUNTRIES

The UAE's journey to enhance Internal Controls over Financial Reporting (ICOFR) is taking shape at a time when global benchmarks are well-established. By observing jurisdictions such as the United States, the United Kingdom, India, Qatar, and Canada, UAE-based entities can avoid early-stage pitfalls and instead adopt tested practices, leapfrogging into a more mature implementation phase. These comparisons offer guidance on regulation, governance practices, cost-effective strategies, and cultural shifts required to embed ICOFR into the organizational fabric.



United States

The Sarbanes–Oxley Act of 2002 (SOX) made the United States the global reference point for ICOFR, particularly through Section 404, which mandates management's evaluation and auditor attestation of internal controls for public companies. Initial implementation revealed high compliance costs, driven by over-documentation and a lack of standardized methodology. However, subsequent regulatory guidance from the Public Company Accounting Oversight Board (PCAOB) promoted a risk-based, top-down approach that optimized compliance. UAE entities can start with this refined approach, focusing on key controls tied to material risks and avoiding duplicative testing.

Additionally, SOX reshaped corporate governance by elevating the role of Audit Committees and placing personal responsibility on CEOs and CFOs for the accuracy of financial statements. This has led to greater management ownership of ICFR programs, with ongoing oversight and cultural alignment driven from the top. Technology adoption has also played a pivotal role in sustaining ICFR maturity, with U.S. companies increasingly deploying Governance, Risk & Compliance (GRC) platforms, automated control workflows, and data analytics tools. Many UAE companies



India

India's Companies Act, 2013, mandates both management and auditor responsibility for evaluating the effectiveness of Internal Financial Controls (IFC), similar to ICOFR. Implementation saw initial challenges like manual processes, inadequate documentation, and capability gaps, but improved significantly over time. The UAE can benefit from India's experience by encouraging professional training, issuing regulatory guidance, and phasing implementation for scalability. Notably, Indian firms found business value beyond compliance, using ICOFR initiatives to enhance process efficiency and governance maturity.



United Kingdom

The UK's corporate governance code and the Turnbull Guidance promoted a principles-based, board-driven ICOFR framework without mandatory auditor attestation. This lighter-touch model kept compliance costs lower but sometimes led to variability in implementation quality. Recent UK reforms consider strengthening director accountability and internal control disclosures. For the UAE, the UK offers lessons on balancing regulatory oversight with corporate flexibility. Europe also showcases how cultural expectations and investor pressure influence ICOFR maturity even in the absence of rigid rules.



Qatar

Qatar's Financial Markets Authority (QFMA) has mandated that listed companies implement internal control systems, including risk management and financial reporting controls. QFMA strongly emphasizes board responsibility and annual disclosures on the adequacy of internal controls. The governance code also requires Audit Committees to oversee control systems and report findings to the board. Qatar's approach highlights the importance of regulatory oversight and director accountability while providing UAE companies with a relevant regional benchmark. The UAE can take this further by incorporating formal testing and independent assurance into its regulatory roadmap.



Canada

Canada's approach to internal control (for companies listed on Canadian exchanges) is somewhat of a hybrid model. CEOs and CFOs of listed entities must certify ICFR effectiveness annually, but auditor attestation is not required unless the company is also listed in the U.S. Despite this, Canadian companies often maintain robust ICFR frameworks, driven by management accountability and market expectations. This approach achieves governance outcomes while controlling compliance costs. The trade-off is that some weaknesses might be missed or underreported without auditor checks. However, in practice, many Canadian firms use their internal audit to provide the necessary assurance to the CEO/CFO for the certification.

How the UAE can accelerate governance excellence

Learning from these countries, the UAE has the advantage of implementing ICoFR at a time when methodologies are well-developed and technology is advanced. Some ways the UAE can leapfrog:

Adopt a risk-based focus from day one

Unlike early SOX days in the U.S., UAE companies don't need to figure out how to streamline by trial and error; they can start with a risk-based approach (identify key risks, key controls) immediately. Regulators and auditors in the UAE are already emphasizing this in workshops. This avoids wasted effort and focuses resources efficiently.

Leverage technology and analytics

Start using available software for control management (cloud-based solutions are even affordable for mid-sized firms now). The UAE's push into artificial intelligence and digitization can spill into corporate governance. Real-time dashboards for control compliance, automated anomaly detection, and even blockchain for certain processes could put UAE companies at the cutting edge of ICoFR monitoring. By embracing these, they not only strengthen controls but could potentially reduce reliance on manual audits in the future.

Cultivate professional expertise

The UAE can accelerate upskilling through partnerships with global institutions and firms. For example, encouraging certifications or specific SOX/ICOFR programs among finance professionals will quickly build local capacity. Essentially, compress 20 years of global experience into a crash course for the local workforce. With its diverse expatriate population, the UAE can also bring experienced professionals from wherever they are available to train others.

Regulatory collaboration with Industry

One success factor in other countries was continuous dialogue – e.g., the PCAOB and SEC in the U.S. refined rules after industry feedback; Indian regulators extended deadlines for smaller companies when needed, etc. The UAE regulators (SCA, etc.) can maintain an open channel with companies and auditors to get feedback on implementation and be willing to adjust the approach if needed (without diluting the goal). For instance, if first-year results show a certain area is a common problem (say, IT controls), perhaps SCA could issue a guidance memo focusing on that or host a knowledge session. This agile, responsive regulation will help the UAE avoid drawn-out issues.

Promote a culture of governance as a value-add

The ultimate leapfrog is cultural. The goal is for UAE companies to move beyond viewing ICOFR as a regulatory requirement and to embrace the fact that effective controls are integral to sound business performance and long-term value creation. This took time in the U.S. and elsewhere, as early on, many saw SOX as a costly burden, but later studies showed that companies with strong ICOFR had a lower risk of scandal and often better performance. The UAE can try to instill that mindset from early in the process.

In conclusion, benchmarking tells us that a strong internal control regime is part of the evolution of any robust capital market. The UAE is reaching that stage now while drawing on lessons from the U.S.'s rigor, Europe's governance principles, India's and Qatar's broad mandate, and Canada's balanced approach. By learning from each other, the UAE can implement ICOFR in a way that fits its environment.



CASE STUDIES

To illustrate how Internal Controls over Financial Reporting are applied in practice, this section presents a few scenarios drawn from real-world contexts. These case studies (anonymized where necessary) reflect the diversity of applications of ICOFR in the UAE and beyond, i.e., from large organizations to smaller enterprises, and from success stories to cautionary tales. Each case highlights specific challenges and outcomes, offering insights that can be generalized to other organizations.

Case Study 1

Government-Linked Company

Background

Company A is a large Abu Dhabi government-linked entity operating in the utilities sector. Following ADAA's Resolution 1 of 2017, Company A embarked on an ICOFR implementation project in 2018 to comply with the requirement for effectiveness testing of internal controls.

Challenges

Initially, Company A discovered significant gaps; processes were heavily manual, and the internal audit team found a material control weakness in procurement (one in five entities in the ADAA survey had at least one material weakness identified by auditors). Additionally, the finance department was driving ICOFR with little engagement from operations, leading to a perception that this was purely a finance exercise.

Actions

With ADAA's oversight, Company A hired a consulting firm to help document processes and implement the COSO framework. They formed a cross-functional ICOFR steering committee that included operations and IT, not just finance. Over 9 months, they identified key in-scope processes (95% of entity-level processes by risk), implemented about 120 controls, and did a trial testing. They found a few design gaps, which they remediated by year-end – for example, introducing a monthly analytical review of fuel usage to detect any recording errors, which was a risk previously unmitigated.

Outcome

In the first formal ICOFR audit by their external auditor in 2019, Company A received an unqualified opinion on internal controls. More importantly, management began to see benefits: the CFO noted that financial close time had been reduced by 2 days due to more disciplined processes (closing checklists were one of the new controls). The procurement team discovered cost savings after implementing segregation of duties, as the extra oversight curbed some maverick spending. Over 3 years, Company A moved from seeing ICOFR as a compliance burden to leveraging it for better performance. By 2021, they had even advanced to using data analytics for continuous controls monitoring (e.g., flagging any payments made on weekends or outside working hours, which helped catch a few erroneous payments proactively).

Insight

This case underscores that with strong regulatory impetus (ADAA in this case) and management commitment, a company can achieve compliance and improve its operational efficiency and risk management. It also highlights the learning curve – the first year had notable deficiencies, but the control environment matured significantly with iterative improvement.

Case Study 2

UAE Subsidiary of a Multinational

Background

Company B is a manufacturing firm based in JAFZA Free Zone, a subsidiary of a European multinational corporation (MNC). The parent company was subject to European regulations and had a robust internal control framework, including a voluntarily implemented SOX-like program.

Challenges

Locally, Company B's team initially paid limited attention to internal controls, as the culture was more sales-driven and they felt distant from corporate requirements. However, when the parent company instituted quarterly internal control self-assessments, Company B struggled in the first round – they reported several control gaps (e.g., lack of a formalized credit control process and no documented disaster recovery plan for IT).

Actions

The parent's Internal Audit visited the UAE subsidiary to assist. They helped Company B adopt the group's standard ICOFR templates and tools. For instance, they introduced a standard risk-control matrix for the order-to-cash process that the group used worldwide and trained the local staff on performing and documenting each control (like credit limit checks, review of aging reports, etc.). The local management also hired an Internal Control Officer on secondment from the parent for one year to embed the practices.

Outcome

In the next assessment cycle, Company B showed marked improvement – most controls were implemented and operating. The local finance manager noted that having these controls actually reduced surprises: previously, sales would sometimes recognize revenue prematurely to meet targets, but with stricter cut-off controls and oversight, that stopped, leading to more accurate quarterly reporting to the parent. Additionally, the subsidiary's audit adjustments (corrections made during external audit) dropped to virtually nil, whereas before they often had to adjust inventories or accruals post-audit. When SCA's new ICOFR rule came into play (though Company B is not listed, assume hypothetically if they ever consider going public), the subsidiary realized they were already in good shape to meet such requirements, giving them an edge if they choose to list or when dealing with local banks and investors.

Insight

This case demonstrates the benefit of leveraging global best practices. A subsidiary that might not have organically developed a strong ICOFR was able to fast-track its control maturity by importing the parent's framework. It also shows the trickle-down effect – global companies can be conduits of knowledge transfer to the UAE market. Moreover, it highlights that what's good for compliance (accurate reporting) is also good for business (fewer errors, less firefighting during audits).

Case Study 3

Family-Owned Business

Background

Company C is a family-owned retail business in Dubai (LLC, not listed). In 20XX, the company faced an incident: a long-time finance supervisor was found to have perpetrated a fraud, embezzling funds by creating fake vendor payments. Investigations revealed that internal controls were very weak as the same person had access to vendor setup and invoice approval and could issue cheques with minimal oversight.

Challenges

The incident shook the family owners, who had trusted their small team implicitly. The financial loss was significant, but more importantly, they realized investor confidence (they were seeking private equity investment for expansion) could be undermined if governance wasn't fixed.

Actions

Company C engaged a risk advisory consultant to design an internal control improvement plan (even though they were under no regulatory mandate). They implemented a rudimentary but effective ICoFR framework over 6 months. Key measures included: segregation of duties, deploying a new accounting software with proper user access controls (the old system had a shared login), establishing an audit committee (they created a small advisory board including an external accountant to review finances periodically), and performing an internal audit (outsourced) twice a year, focusing on cash management and procurement. They also instituted a whistleblower policy and communicated a zero-tolerance tone from the top.

Outcome

The immediate result was that the company restored financial discipline – bank reconciliations were done monthly and reviewed by the owner, fraudulent vendors were pruned out, and payment processes were tightened, requiring dual signatories and verification of supporting documents. In the next year's financial audit, the external auditors noted the improved control environment in their management letter. Furthermore, when Company C re-engaged with potential investors, they demonstrated the steps taken to strengthen governance (they even voluntarily shared the internal auditor's summary reports). This significantly allayed investor concerns; ultimately, a deal was struck with a private equity firm. The new investors later remarked that it was unusual for a mid-sized family business in the region to have such governance. It was a key factor in their decision, indicating professionalism and reduced risk.

Insight

Company C's story is a cautionary tale turned success story. It highlights that it's never too late or too early for any company to institute ICoFR principles, even if not legally required. Good controls can protect against losses and serve as a signalling mechanism to outside stakeholders about the quality of management. For SMEs in the UAE, this is a powerful message: investing in internal controls can enhance business value and preparedness for growth (IPO, acquisitions, etc.), not just prevent negatives.

Case Study 4

Post-IPO Transition

Background

Company D is an Emirati tech startup that grew rapidly and listed on the Abu Dhabi Securities Exchange (ADX) in 2024. Pre-IPO, as a startup, it had very lean structures with a small finance team and informal controls.

Challenges

Upon listing, Company D came under SCA's corporate governance regulations, which (even before the ICOFR audit mandate) required an internal audit function and annual internal control review. Additionally, analysts and investors scrutinized its financial reporting closely, expecting reliability. The CFO realized the manual processes that had sufficed when private would not stand up to public scrutiny and audit rigor.

Actions

Even before the first year-end as a public company, Company D initiated an ICOFR implementation aligned to COSO. Given their tech orientation, they decided to automate as much as possible. They implemented a new cloud ERP system with a built-in approvals workflow and adopted an internal control management software to track all control activities. They also hired an experienced Head of Internal Audit with SOX experience from a prior job to set up internal audit and risk management. With a short runway (maybe 3 quarters before year-end reporting), they prioritized key areas – revenue recognition (critical, as a tech company with subscription revenue), cash handling, and IT security. Lower risk areas (like petty cash or minor expense processes) were addressed later.

Outcome

By the time of the first annual report, the company's external auditors could issue a clean opinion not only on the financials but also, when it became required, on ICOFR effectiveness (since the new SCA rules kicked in). The speed was impressive; the auditors commented that Company D, despite being newly public, had controls comparable to established firms. One reason was their heavy use of tech: for example, instead of manually checking revenue contracts for samples, they had an automated control that every new customer contract went through a centralized digital approval with a checklist, ensuring key terms were reviewed by finance while leaving an audit trail that auditors could easily examine. The investment community reacted positively, and the company's governance credibility was boosted, which was reflected in some governance ratings and possibly a lower perceived risk premium.

Insight

The post-IPO case illustrates how new public companies in the UAE can quickly scale up governance by leveraging technology and hiring key talent. It also shows that compliance deadlines (like the first annual report) can be met even in a short time if there is focus and resource commitment. The market expects a different level of rigor from public companies, and bridging that gap requires proactiveness, which Company D demonstrated. This is a template for many startups eyeing IPOs in the region: don't wait until after listing to figure out controls; start the process in parallel with IPO preparations (much like how they prepare financials and reporting systems).

These case studies collectively highlight a few themes:

- The journey from weak or no controls to strong ICOFR is challenging but achievable and rewarding
- Regulatory drivers (ADAA, SCA, etc.) significantly impact internal leadership, and crises can catalyze action
- Companies big and small, new, and old, all stand to benefit from improved internal controls – be it through fraud prevention, efficiency gains, or greater investor trust
- There are different paths to success, like leveraging global practices, using technology, phasing implementation, and each organization can choose what (or a combination usually fits best, as long as the core principles of ICOFR are upheld
- Perhaps most importantly, a common thread is that support from the top (owners, boards, CEOs) and engagement of the right expertise (internal or external) make the difference in turning intention into effective operation



RECOMMENDATIONS

Drawing from the analysis and insights above, this section provides targeted recommendations for the key stakeholders in strengthening Internal Controls over Financial Reporting in the UAE. The guidance is segmented for Management Committees (Board/Audit Committee level), Company Management, and Advisors/Consultants. By following these recommendations, each group can play its part in achieving a robust ICoFR that not only meets compliance requirements but also adds value to the organization.

For Management Committees (Board of Directors and Audit Committees):

Champion the cause and set the tone

The post-IPO case illustrates how new public companies in the UAE can quickly scale up governance by leveraging technology and hiring key talent. It also shows that compliance deadlines (like the first annual report) can be met even in a short time if there is focus and resource commitment. The market expects a different level of rigor from public companies, and bridging that gap requires proactiveness, which Company D demonstrated. This is a template for many startups eyeing IPOs in the region: don't wait until after listing to figure out controls; start the process in parallel with IPO preparations (much like how they prepare financials and reporting systems).

Ensure adequate resources and expertise

The Board/Audit Committee should evaluate whether management has the necessary talent and tools to implement and maintain ICoFR. If gaps are identified (e.g., no internal audit function, or lack of IT control knowledge), they should push to fill them via hiring, training, or outsourcing. They should also approve budgets that realistically cover what is needed for ICoFR compliance (it's more costly to do it halfway and then fix failures later). Engaging an Audit Committee member or external advisor with SOX/ICoFR experience can greatly assist in providing oversight and guidance.

Oversee the ICoFR process diligently

Management committees must play an active oversight role. This involves reviewing management's scoping of significant accounts and processes, understanding the key risk areas, and reviewing reports on control testing results. They should expect and review an annual ICoFR assessment report from management (and internal audit if applicable), which summarizes the effectiveness of controls and any deficiencies noted. If the external auditor will opine on ICoFR, the Audit Committee should discuss the plan with the auditor in advance and be briefed on the results. Essentially, the Audit Committee should function as the guardian of financial reporting quality, bridging between the implementers (management) and the assurers (internal/external auditors).

Plan for continuous improvement

The Board/Audit Committee should not view ICoFR as a one-time project but an ongoing effort. Encourage periodic external quality assessments or benchmarking of the company's internal control system. For example, after a couple of years of implementation, it may be wise to commission an independent review (perhaps by a consultant or through an Internal Audit QA) to identify gaps or areas for enhancement compared to peers or evolving best practices. Management committees should drive management not just to fix problems, but to proactively upgrade controls as the company grows or as new risks emerge (like new regulations, new technology risks, etc.).

For Company Management (Executives and process owners):

Integrate ICoFR into business-as-usual

Management should treat internal controls as an inherent part of each business process, not an extraneous audit requirement. This means embedding control responsibilities into job descriptions, performance goals, and daily checklists. For example, the sales manager's KPIs might include not just sales volume but also compliance with revenue recognition controls (i.e., no significant audit adjustments). By making control performance a normal expectation, it stops being a burden and becomes second nature.

Adopt a proactive, risk-based approach

Management should lead the initial risk assessment to identify where controls are most needed and keep updating this assessment at least annually or with any major change. Focus resources on areas with a higher risk of material misstatement (be it complex estimates, cash handling, or IT systems). This also means being proactive in fixing control weaknesses, i.e., if an issue is identified internally, address it immediately rather than waiting for an audit to flag it. Management should create internal deadlines for remediation well before external reporting deadlines. A practice to consider is a "management self-audit" or mock audit: essentially, before the external auditors or regulators evaluate, the management runs its own check (often via internal audit or a designated team) to catch and resolve issues.

Empower and educate staff

Provide comprehensive training to employees about their control responsibilities and the importance of those controls. This could include workshops on COSO basics for control owners, how to document evidence properly, and how to use any ICoFR-related software tools. Education should also cover ethics and fraud awareness, and good controls should protect the company and themselves. Additionally, rotate, or cross-train staff in key financial roles where feasible; rotation can sometimes uncover issues (a new person might spot an irregularity where a long-time person didn't) and prevents complacency.

Leverage technology and innovation

Management should actively seek technological solutions to bolster controls. This ranges from basic (using built-in ERP controls like three-way match, locking accounting periods timely) to advanced (data analytics for trend deviations, AI for anomaly detection, implementing continuous control monitoring tools). Not only can this make controls more effective, but it can also reduce manual effort in the long run. For instance, implementing an automated account reconciliation tool could significantly cut down errors and time spent, while providing better documentation for auditors. The goal should be to work smarter, not just harder, in managing controls.

Foster open communication and issue escalation

Create an environment where employees are comfortable reporting control issues or suggesting improvements. If a process owner feels a control is not working well or is impractical, management should welcome that feedback and work to adjust the process. Similarly, if someone spots a potential fraud or error, they should know the proper channels to report it without fear. This ties into maintaining an effective whistleblower mechanism and reinforcing that reporting issues is a positive, corrective action, not a punitive one. Many big frauds or failures (globally) had red flags that were ignored; management must ensure that at the first sign of a control failure (say an unexplained reconciliation difference), teams investigate and rectify rather than sweep it under the rug.

Coordinate with auditors and advisors

Management should maintain a constructive relationship with external auditors and consultants. Especially when new to ICoFR, it's wise to seek feedback. During the audit process, management

should facilitate as much as possible to have documentation organized, provide access to systems, and allocate knowledgeable personnel to liaise with auditors. Smooth coordination not only reduces audit time and fees but also builds credibility. If advisors are used for ICOFR implementation, management should ensure there is knowledge transfer, i.e., internal staff shadow the advisors so that when the consultants leave, the internal team can sustain the controls.

For advisors and consultants (audit firms, consulting firms, experts):

Provide tailored, practical guidance

Advisors should avoid a one-size-fits-all approach and instead tailor their recommendations to the company's size, complexity, and industry. It's important to prioritize, be practical, and focus on helping identify the "critical few" controls that will address the major risks. Provide tools like simple templates, checklists, and examples drawn from similar businesses to accelerate understanding. The goal is to make the implementation of ICOFR as smooth as possible for the client, demystifying concepts and cutting through jargon.

Ensure knowledge transfer and capacity building

A common pitfall is when consultants complete the implementation but leave process owners without a clear understanding of the controls in place. This limits the company's ability to operate and sustain the ICOFR framework over time. To ensure long-term effectiveness, advisors must prioritize hands-on training and knowledge transfer, equipping staff with the skills needed to maintain and execute controls confidently. This could be through workshops, joint working sessions (not just doing tasks for them but doing tasks with them), and creating user-friendly documentation (like a "controls manual" for the company). The idea is to 'teach them to fish' so that the client can maintain and update the ICOFR framework independently in the future. Many consulting engagements in the Middle East now also include a 'knowledge transfer' component: e.g., a fully populated RCM and a training session on how to update it annually. Advisors should be open about methodologies, too, maybe training key client personnel in COSO, risk assessment techniques, or how to test controls, so the client becomes more self-sufficient.

Stay current and contextual

Advisors should proactively incorporate the latest industry best practices, emerging trends, and regulatory updates into their guidance to the clients. This will ensure clients remain compliant and positioned to leverage evolving opportunities. For instance, if there are new guidelines from SCA or a new interpretation by audit regulators, advisors must inform and adjust advice accordingly. Similarly, global trends like the use of RPA (robotics) in controls or emerging risks like cybersecurity should be communicated. However, all advice should be given contextually. For example, while advising on whistleblower systems, consultants should consider local cultural nuances of reporting and maybe suggest measures to encourage usage. Or when recommending IT solutions, consider the local availability of support for those tools. Essentially, be the bridge between global best practice and local reality.

Overall, these recommendations aim at creating a synergy between all parties:

- Boards set the expectation and demand excellence, thereby empowering management.
- Management executes and integrates controls, thereby making auditors' and regulators' jobs easier.
- Advisors facilitate and enlighten the process, thereby accelerating achievement of goals and ensuring quality.

Each has a distinct but complementary role in the ecosystem of internal control. If each party fulfils their role effectively – with commitment and competence – the outcome will be robust ICOFR systems that inspire confidence and drive better corporate performance across the UAE's marketplace.

CONCLUSION

Summary of insights

In conclusion, establishing robust ICoFR presents a significant opportunity for UAE companies to strengthen governance and enhance business resilience in today's dynamic environment. The analysis in this whitepaper has traversed the definition and importance of ICoFR, the evolving regulatory landscape in the UAE (mirroring global moves toward enhanced governance), frameworks and models to guide implementation, and practical insights into implementation, current maturity levels, and international benchmarks. A few key takeaways:

Key Takeaways:



ICoFR is foundational to trust and growth

Reliable financial reporting, underpinned by robust internal controls, is a cornerstone of investor confidence and corporate longevity. Whether it's preventing fraud or avoiding errors, internal controls save companies from value-eroding incidents. As the UAE drives toward Vision 2030's goals of a diversified, knowledge-based economy, having its companies uphold world-class financial integrity is essential.



The UAE is making significant strides in governance

New regulations by SCA, ADAA, UAEAA, etc., signal that the country is serious about matching international standards like SOX 404. Companies must recognize this not as an optional compliance checkbox but as the new normal. Those who get ahead of the curve will find themselves better prepared and more attractive to global investors; those who lag may face regulatory and reputational repercussions.



Frameworks like COSO provide a road map

Companies do not have to start from a blank slate; the COSO framework and Three Lines model give clear guidance on what a sound internal control system looks like. Adopting these frameworks and customizing them to one's organizational context is a proven way to achieve effective controls.



Implementation is a journey - plan, execute, monitor

A successful ICoFR implementation requires careful planning (scoping, project plan, milestones), diligent execution (documenting, fixing gaps, testing), and continuous monitoring and improvement. Pitfalls can be avoided by learning from others (e.g., emphasize documentation, avoid over-engineering, ensure IT controls aren't neglected).



Varied starting points, common destination

Not all UAE companies are at the same maturity level, i.e., some are advanced thanks to prior initiatives, and others are just beginning. However, the destination is common: a baseline of control that ensures the integrity of financial reporting across the board. Free zone or mainland, big or small, every organization can benefit from adopting at least the basic tenets of ICoFR.



Global lessons are invaluable

The UAE can compress time by learning from decades of global experience – avoiding others' mistakes and emulating their successes. From the rigorous discipline of SOX in the US, to the flexibility and board leadership seen in Europe, to India's comprehensive rollout and Canada's balanced approach – each provides insights. The UAE's approach can indeed become a model itself, especially if it leapfrogs using technology and innovation as highlighted.



Collaboration is key

Success in ICoFR will come from collaboration – between regulators and industry, between boards and management, between management and staff, and between companies and their advisors. An aligned effort where everyone understands their role (as we detailed in the recommendations) will create an ecosystem where strong internal controls flourish naturally.

The time to act on internal controls is now. If you haven't started, begin with an honest assessment of your financial processes and risks. Engage experts or peers, create a plan, and commit to a timeline.

The call to action is clear: begin, improve, or reinforce your Internal Controls over Financial Reporting now, and contribute to a stronger, more transparent, and more prosperous business landscape in the UAE.

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