



Governance Guardianship: Spotlight on Internal Controls under SCA Regulations



KPMG Lower Gulf

June 2024

Webinar Guidelines

Recording



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Use the chat window to post your questions.

When posting questions, please include the person for whom the question is intended.

Agenda

1. Webinar Presentation

- 1.1 Corporate governance rules reinforced
- 1.2 Navigating the IC journey
- 1.3 External audit perspective

2. Panel discussion



With You Today – Presentation



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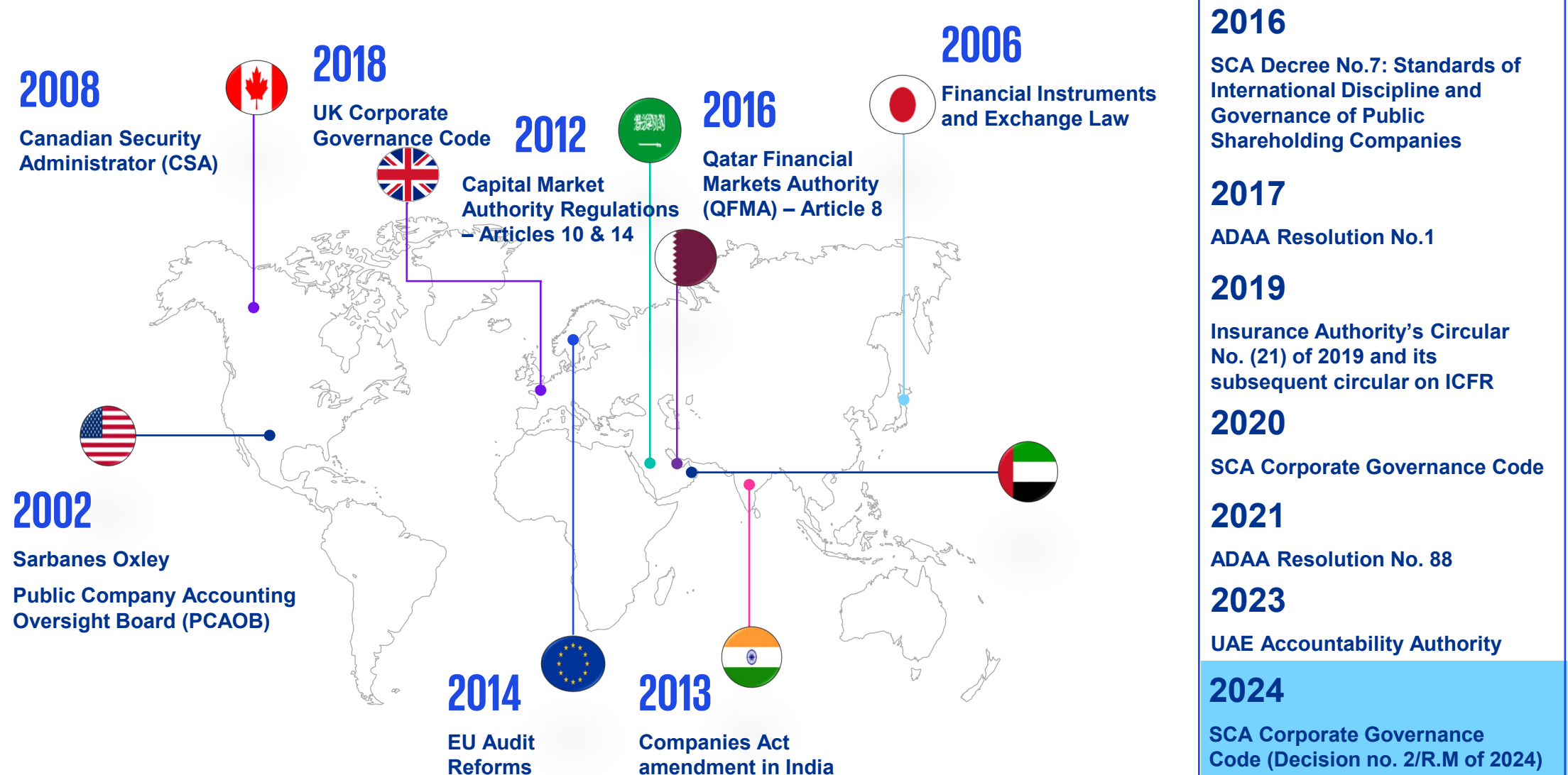
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1.1

Corporate Governance Rules Reinforced



Internal Control Regulatory Landscape



Amendments to the SCA Governance Code - Decision no. 2/RM of 2024)



Applicability

- Local Public Joint-Stock Companies listed in the UAE
- Excludes foreign, Financial Free trade zone companies, free zone companies
- Effective and applicable for year ending from 30 June 2024 and 31 December 2024 onwards



Key Amendments Areas

- Board composition
- Board obligations
- Definition of Related Parties
- Audit Committee report
- Governance Committee
- External Audit Report on IC

Scan Barcode to access the SCA Decision no. (3/Chairman):

English



Arabic

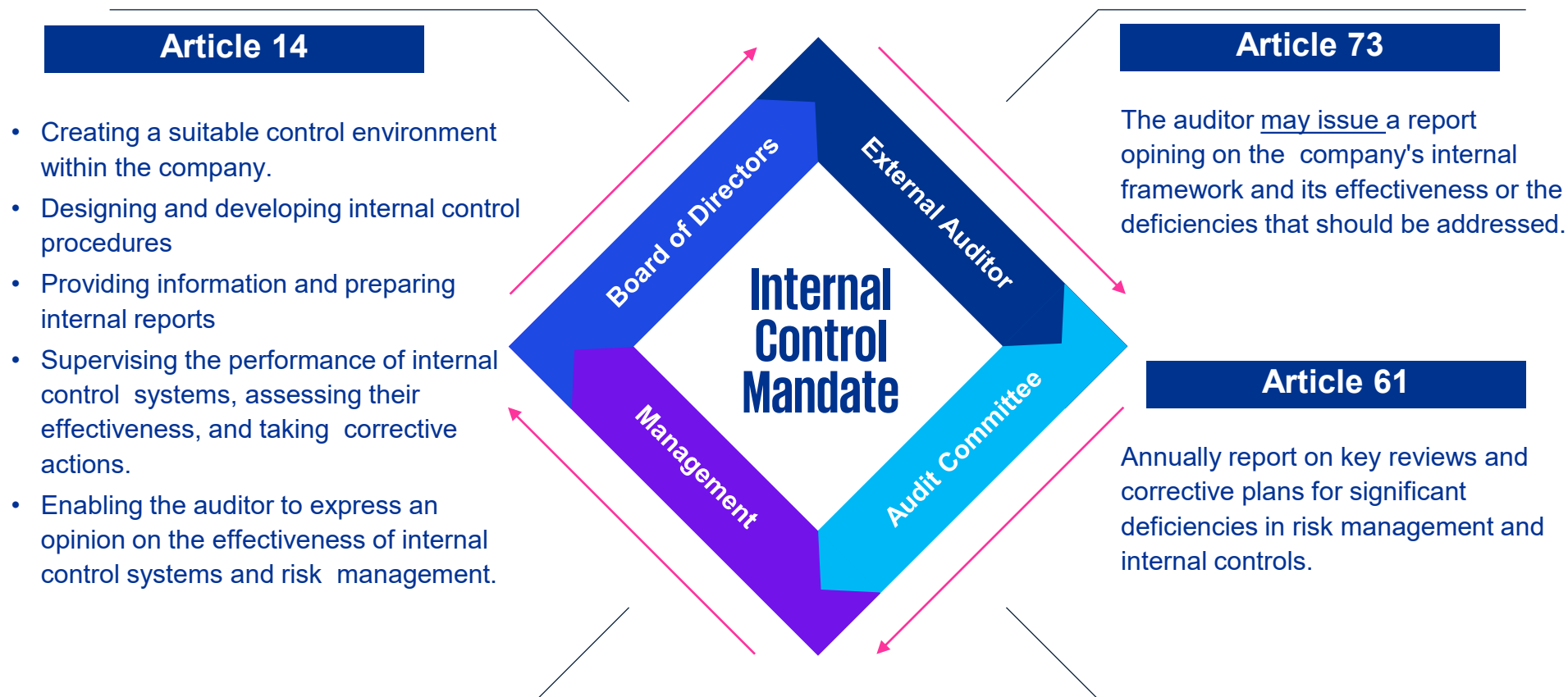


Key Management Considerations

- Internal Controls and Risk Management Framework (preferably COSO)
- Internal policies and guidelines covering all operations
- Internal Audit policies, procedures and plan
- Independent role of the Internal Audit function and Compliance Officer

Internal Control Mandate

The duties and obligations of the company's Board of Directors, Audit Committee, Management, and directives for the external auditor are as follows:



In comparison to ADAA Resolution

Regulators	Securities and Commodities Authority (SCA)	ADAA Resolution No. 88 of 2021
 Regional Scope	UAE	Abu Dhabi
 Applicability	All listed PJSC entities in the UAE	Abu Dhabi Subject Entities – More than 25% Government owned entities (both directly & indirectly)
 Domain	Extended Mandate (Entity wide risks and controls)	Financial reporting risks and controls (ICFR)
 Management Scope	Comprehensive covering governance, risk management, internal controls covering all aspects of operations	Focused on financial reporting risks and controls, including regulations and procedures related to key processes
 Industry Standards	COSO is recommended as the framework for internal controls, promoting excellence in governance and risk management practices.	Company based guidelines that ensures integrity and reliability of financial reporting
 Approach	A systematic and adaptable approach for internal controls, relevant to a range of operational, compliance and financial areas	Focuses on internal control mechanisms particularly concerning financial reporting processes
 Statutory Auditor Opinion	Statutory Auditors may express an opinion on the overall effectiveness of internal controls.	Statutory Auditors are mandated to review and provide an opinion on the effectiveness of ICFR.

Our perspective....

“ Since the mandate for the Board of Directors is clear, companies should begin by immediately scoping the requirements for implementing the COSO internal controls framework (Reporting, Operational and Compliance controls) and commencing the exercise. Once there is clarity from SCA, there can be discussions with the statutory auditors for their scope of work.

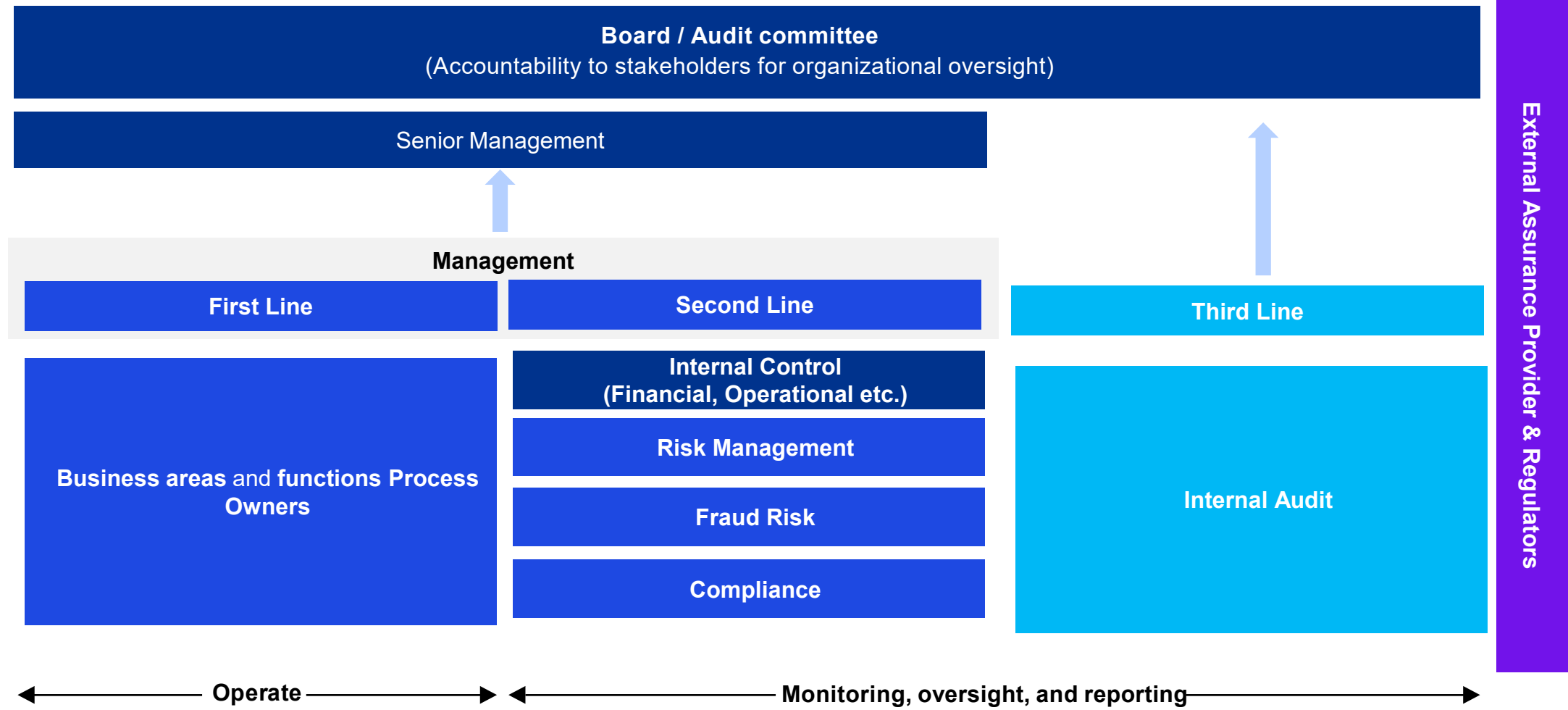
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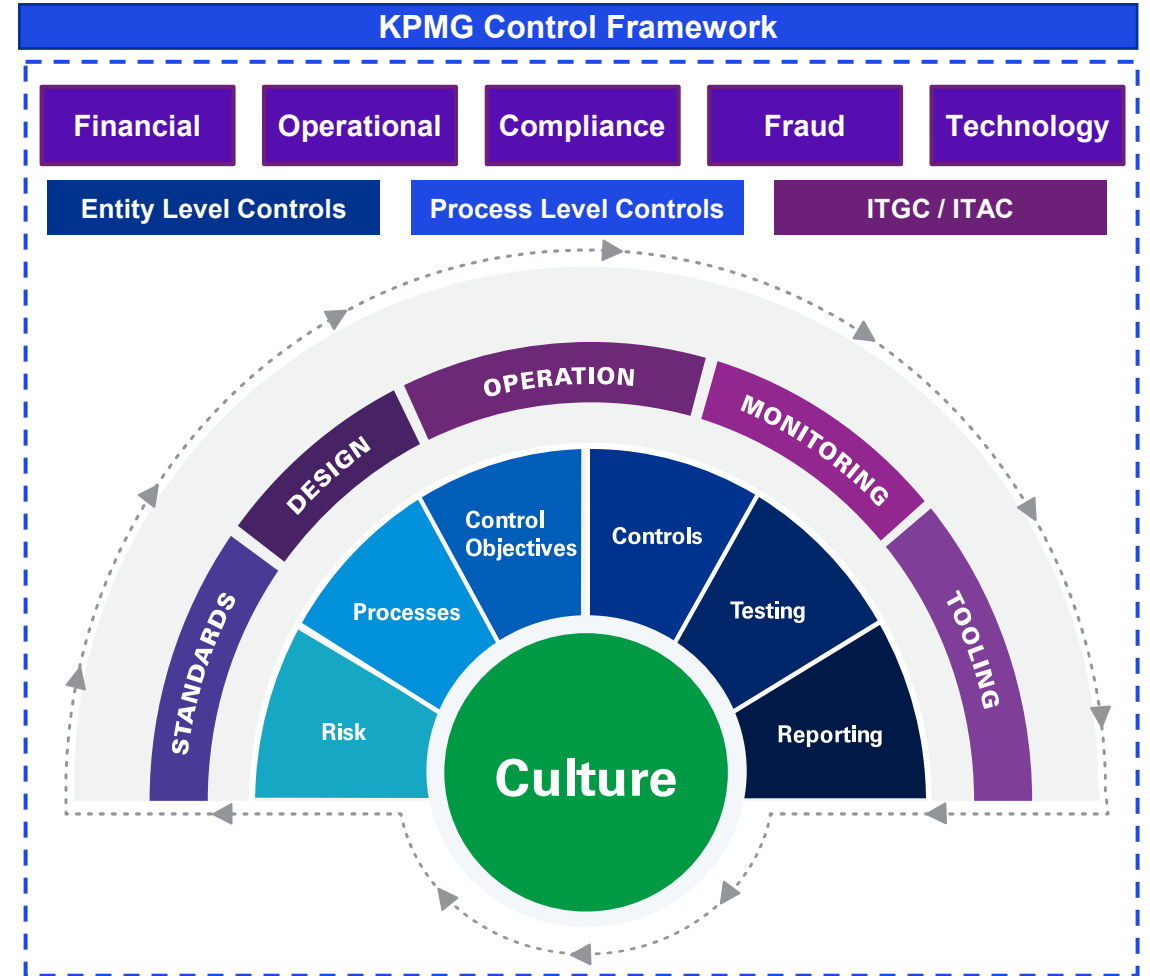
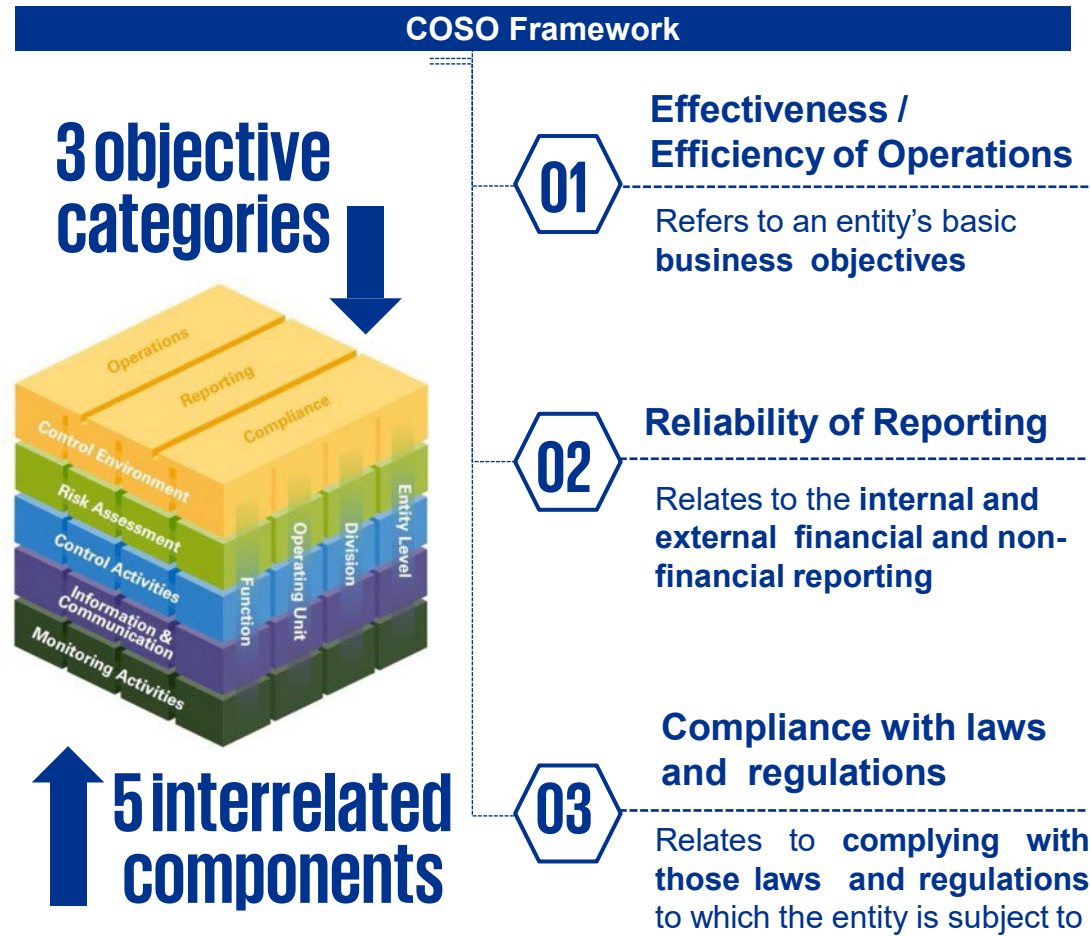
Navigating the IC journey



The Three Line Model

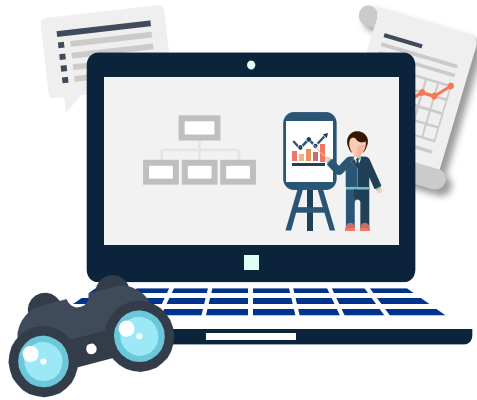


Key Elements of an Effective Controls Framework



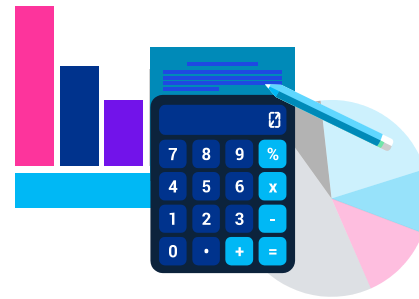
Types of Internal Controls

The controls can be categorized in the following three major categories:



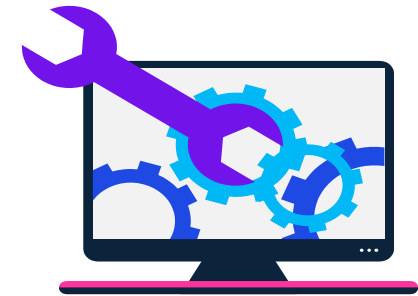
Entity Level Controls (ELCs)

- **Organizational level controls** that defines the tone at the top, operating style and ethical values.
- **Management directives** carried out by assessing **5 components of COSO framework**.



Process Level Controls (PLCs)

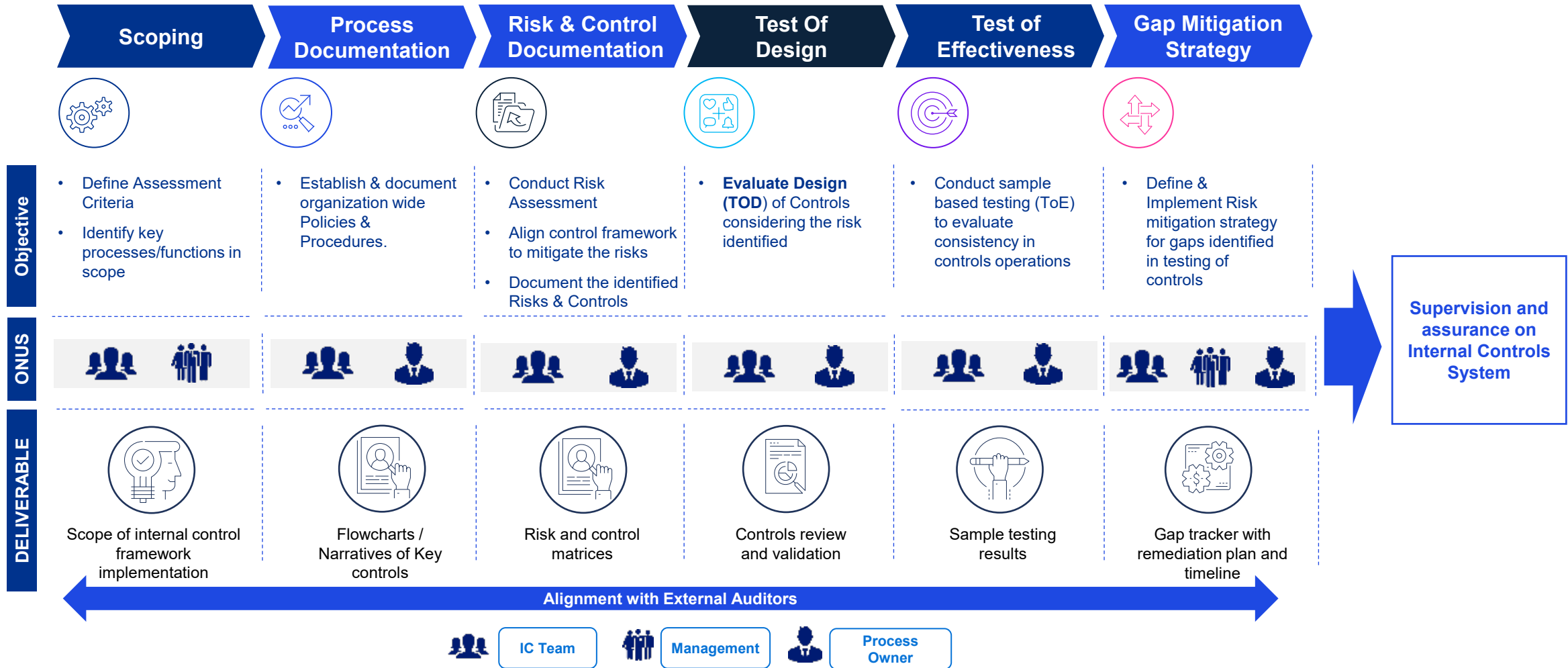
- Policies, procedures, and activities implemented within **business processes** to ensure that objectives related to **operational efficiency, reliable reporting, and compliance with laws and regulations** are achieved.



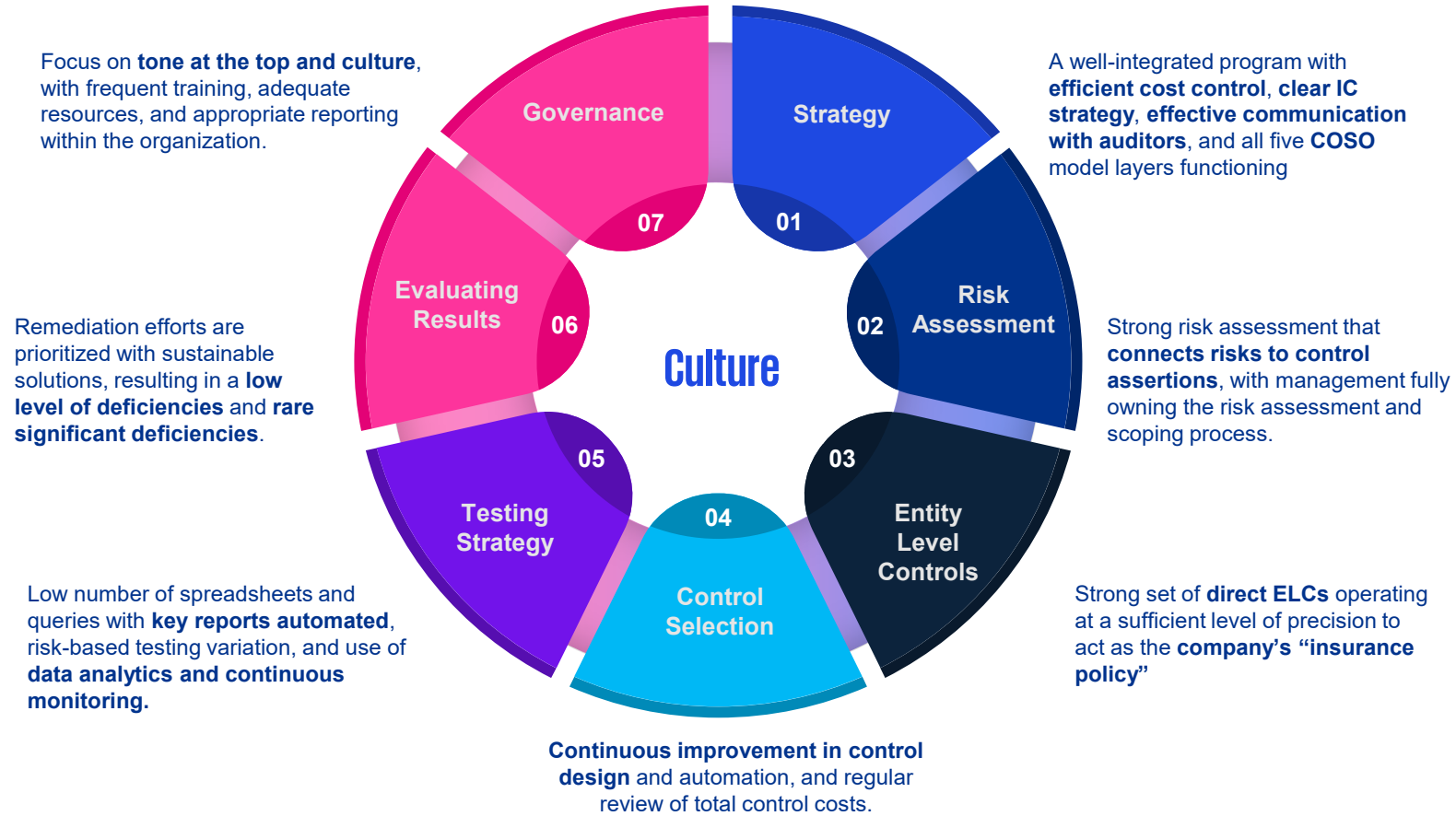
IT General Controls/IT Application Controls (ITGCs/ITACs)

- Financial and non-financial information generated from a **company's application system**
- **Application controls** are embedded within software programs

Internal Controls Implementation Approach



Key Attributes of a Healthy IC Program



Beyond Compliance: Cultivating a Culture of Control Excellence

As compliance progresses through fragmented to embedded states, **accountability** shifts from **Compliance/Finance to Operations**, fostering a culture of control excellence.

Soft elements to enable organizational control culture

- | | | |
|-------------------|-----------------|----------------|
| 1. Clarity | 3. Commitment | 5. Enforcement |
| 2. Role Modelling | 4. Transparency | |

1.3

External Audit Perspective



External Audit Perspective

01

External Auditors may issue a separate opinion on the effectiveness of Internal Control Systems

02

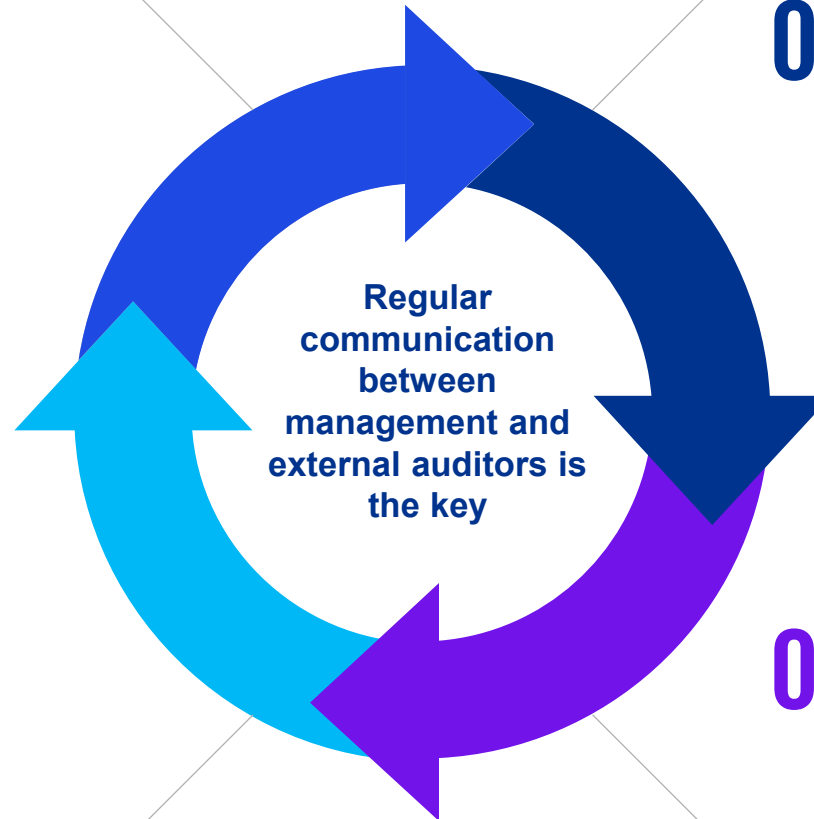
External Auditors provide negative assurance on the compliance framework

03

External Auditors to evaluate the whole financial reporting system using a risk-based approach

04

Typically, External Auditors focus on financial reporting controls and not operational controls so any assurance expectation needs to be aligned with organization's management



Are you ready?

1. Board Oversight

Board of Directors and Audit Committee providing robust oversight on internal control processes.

4. Delegation of Authority

Defined Delegation of Authority with established segregation of duties that is regularly reviewed and updated.

7. Internal Audit

Independent Internal Audit providing assurance on the organization's governance, risk management, and controls.

2. Ethics Framework & Policy

Code of conduct and whistleblower policy clearly and regularly communicated to all employees.

5. Enterprise Risk Management

ERM framework that has oversight of the Board Directors ensuring effective risk identification, mitigation, and ongoing monitoring.

8. Compliance Framework

Independent compliance function and a framework enabling compliance with applicable laws and regulations.

3. Organization Structure

Organizational structure with distinct lines of authority, and clarified roles and responsibilities.

6. Policies and Procedures

Documented policies, and procedures encompassing key business operations.

9. Resilience Management

Defined and documented Business Continuity Management plan that is regularly tested.

2

Panel Discussion



Panel Discussion



**Mohammad
Junaid Essa**

Head of Corporate
Governance Section
Securities & Commodities
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Guest Speaker



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Thank you

Please scan the QR code to watch an overview video on navigating the latest SCA Regulations



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