

## Governance Guardianship: Spotlight on Internal Controls under SCA Regulations



**KPMG Lower Gulf** 

## **Webinar Guidelines**

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Microphones and video will remain disabled for all participants.

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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



**Nigaar Joaffur** 

Associate Director, Advisory KPMG Lower Gulf



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Partner, Advisory KPMG Lower Gulf



**Richard Ackland** 

Partner, Audit KPMG Lower Gulf

## With You Today - Expert Panel



## Mohammad Junaid Essa

Head of Corporate
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Luisa v. Esterházy

Partner, Audit and EMA SOX Lead, KPMG Germany



**Richard Ackland** 

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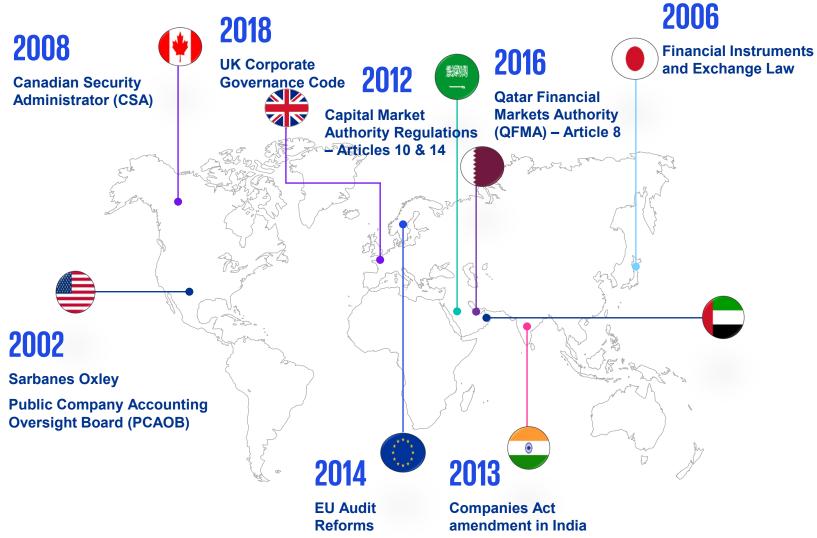
## **Sudhir Arvind**

Partner & Head of Governance, Risk and Compliance Services KPMG Lower Gulf





## Internal Control Regulatory Landscape



#### 2016

SCA Decree No.7: Standards of International Discipline and Governance of Public Shareholding Companies

#### 2017

**ADAA Resolution No.1** 

#### 2019

Insurance Authority's Circular No. (21) of 2019 and its subsequent circular on ICFR

#### 2020

**SCA Corporate Governance Code** 

#### 2021

**ADAA Resolution No. 88** 

#### 2023

**UAE Accountability Authority** 

#### 2024

SCA Corporate Governance Code (Decision no. 2/R.M of 2024)





# 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





- 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:

#### **Article 14**

- Creating a suitable control environment within the company.
- Designing and developing internal control procedures
- Providing information and preparing internal reports
- Supervising the performance of internal control systems, assessing their effectiveness, and taking corrective actions.
- Enabling the auditor to express an opinion on the effectiveness of internal control systems and risk management.

Board of Directors

Internal Control Mandate

Mandate

Audit Contributes

Audit Contributes

#### **Article 73**

The auditor <u>may issue</u> a report opining on the company's internal framework and its effectiveness or the deficiencies that should be addressed.

#### **Article 61**

Annually report on key reviews and corrective plans for significant deficiencies in risk management and internal controls.



## In comparison to ADAA Resolution

#### Regulators

#### **Securities and Commodities Authority (SCA)**

#### ADAA Resolution No. 88 of 2021



UAE



All listed PJSC entities in the UAE

Abu Dhabi Subject Entities - More than 25% Government owned entities (both directly & indirectly)

Abu Dhabi



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



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



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 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....**

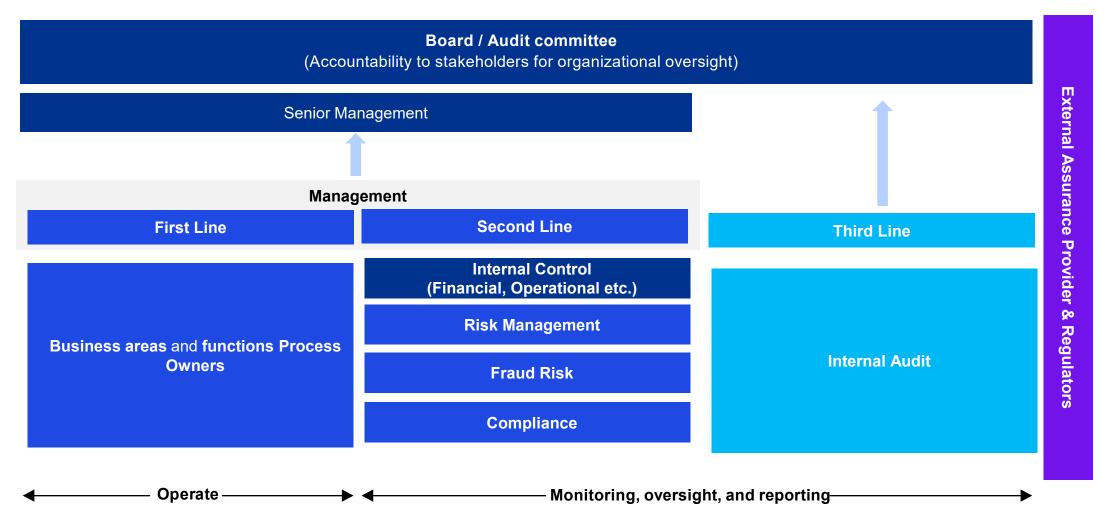
Since the mandate for the Board of Directors is clear. companies should begin by immediately scoping the requirements for implementing the COSO internal controls framework (Reporting, Operational and Compliance controls) and commencing the exercise. Once there is clarity from SCA, there can be discussions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





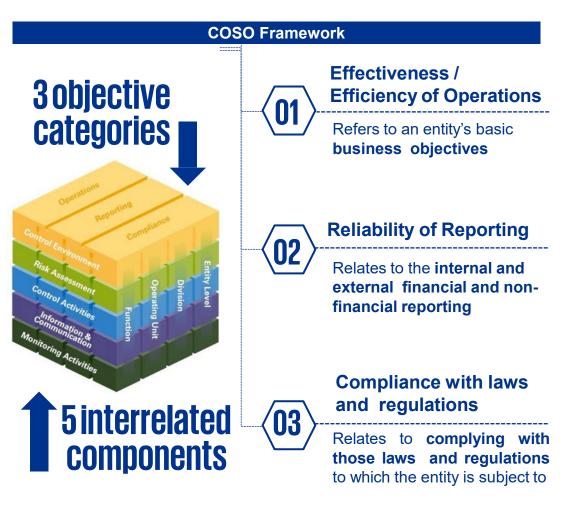


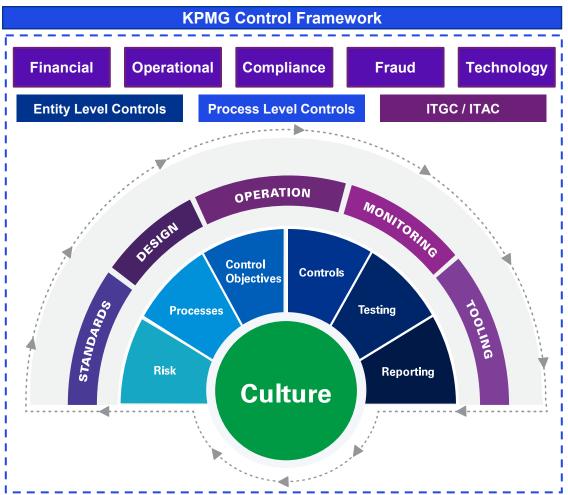
## The Three Line Model





## **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**

**Scoping** 

Process Documentation

Risk & Control Documentation

Test Of Design

Test of Effectiveness Gap Mitigation Strategy















- Define Assessment Criteria
- Identify key processes/functions in scope
- Establish & document organization wide Policies & Procedures.
  - ment Conduct Risk e Assessment
    - Align control framework to mitigate the risks
    - Document the identified Risks & Controls
- Evaluate Design (TOD) of Controls considering the risk identified
- Conduct sample based testing (ToE) to evaluate consistency in controls operations
- Define & Implement Risk mitigation strategy for gaps identified in testing of controls

SUNO

DELIVERABLE























Supervision and assurance on Internal Controls System



Scope of internal control framework implementation



Flowcharts / Narratives of Key controls



Risk and control matrices



Controls review and validation



Sample testing results



Gap tracker with remediation plan and timeline

**Alignment with External Auditors** 



IC Team



Management

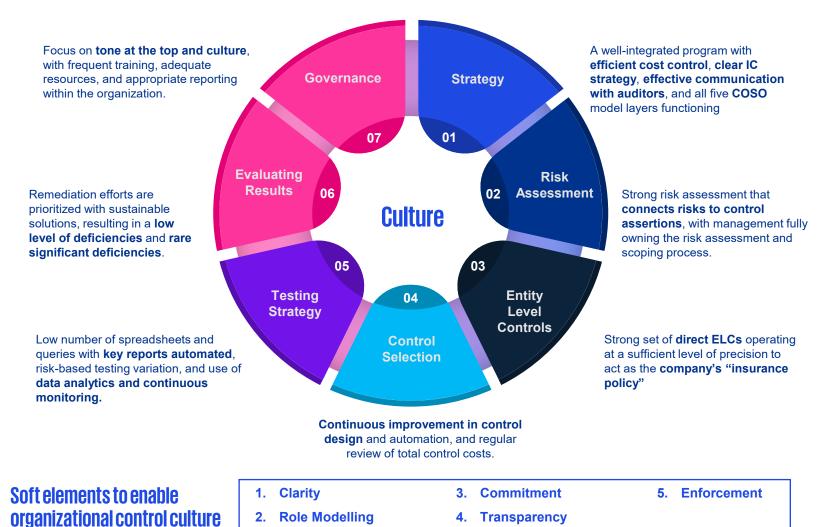


Process Owner





## **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.





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# External Audit Perspective

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## **External Audit Perspective**

External Auditors may issue a External Auditors provide negative assurance on the separate opinion on the effectiveness of Internal compliance framework **Control Systems** Regular communication between management and external auditors is the key **External Auditors to evaluate** Typically, External Auditors focus on financial reporting controls and not the whole financial reporting system using a risk-based operational controls so any assurance expectation needs to be aligned with approach



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.





## **Panel Discussion**



## Mohammad Junaid Essa

Head of Corporate
Governance Section
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## Luisa v. Esterházy

Partner, Audit and EMA SOX Lead, KPMG Lower Gulf



## **Richard Ackland**

Partner, Audit KPMG Lower Gulf



## **Sudhir Arvind**

Partner & Head of Governance, Risk and Compliance Services KPMG Lower Gulf

# Thank you

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

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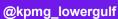
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