ICOFR Playbook

Background

In today's dynamic and risk-intensive business landscape, business organisations are under increasing pressure to uphold the accuracy of financial reporting, maintain regulatory compliance, and ensure operational resilience. A well-structured internal control framework, encompassing financial, operational, technological, and anti-fraud objectives, is critical to achieving these goals. The widely recognised COSO framework provides a comprehensive foundation for such controls. In the UAE, multiple regulatory bodies mandate the implementation of internal control systems, making it essential for companies to adopt a structured approach to internal controls governance.

The applicable regulatory requirements in the UAE are as follows:

Regulation	SCA Governance Code -Decision no. 2/RM of 2024) Articles 14,61, and 73	ADAA Resolution No. 88 of 2021	Circular No. (21) of 2019 of "2020	Resolution #157 of 2024
Regulator	Securities and Commodities Authority (SCA)	Abu Dhabi Accountability Authority (ADAA)	CBUAE	UAE Accountability Authority
Applicability	All listed PSJC companies in the UAE	Abu Dhabi Government-owned entities, both directly and indirectly more than 25% of their capital	All insurance and Takaful Insurance Companies in the UAE and their foreign branches	All UAE Federal Government Ministries, authorities, and corporations in which the federal government has a minimum share of 25% in their capital
Focus	Broad focus on entity-wide risks and controls (including operational and compliance controls)	Specifically focuses on financial reporting risks and controls	Specifically focuses on financial reporting risks and controls	Broad focus on entity-wide risks and controls (including operational, risk and compliance controls)

In the UAE, the COSO Internal Controls Framework is recommended by other regulators and specifically mandated by the SCA. Most organisations are using the COSO framework either to comply with existing regulatory requirements or to improve their business processes, or both. This is recognised globally as the leading standard for effective governance. The COSO framework empowers businesses to proactively manage risks, safeguard assets, and build stakeholder trust while driving sustainable growth.

Specific requirements for listed entities

The Securities and Commodities Authority (SCA) issued a circular - Chairman of the Authority's Board of Directors No. (02/R.M) of 2024 dated January 14, 2025, on Internal Control and Risk Management Framework. Listed companies in the UAE are **required** to develop an appropriate internal control and risk management framework for the company's operations in line with the COSO framework and implementation through:

▶ Developing an appropriate control environment within the Company

▶ Designing and developing Internal control procedures

▶ Oversight of internal control systems performance, evaluating their effectiveness, and taking corrective actions

▶ Enabling the external auditor to provide an Opinion on the Effectiveness of Internal Control and Risk Management Systems, including **effective internal controls over financial reporting (ICOFR)**

Approach

Companies are expected to implement the requirements above in a phased approach as follows:

Year	2024 (Phase 1)	2025 and beyond (Phase 2)
Management and board responsibility	▶ Self-assessment to be conducted with respect to internal control systems and risk management including those related to financial reporting (ICOFR) ▶ Address any control design and operating effectiveness gaps arising.	▶ Self-assessment to be conducted with respect to internal control systems and risk management including those related to financial reporting (ICOFR) ▶ Address any control design and operating effectiveness gaps arising.
External Auditor responsibility	▶ Expresses an opinion on the effectiveness of internal control and risk management systems related to internal controls over financial reporting (ICOFR) **only** for the fiscal year 2024. ▶ Review a separate ICOFR report issued for this purpose (which will not be disclosed).	▶ Express an opinion on the effectiveness of the internal control and risk management systems, including internal controls over financial reporting (ICOFR), for the fiscal year 2025. ▶ A separate report will be issued (disclosed during this phase), including the auditor's opinion on the effectiveness of internal control systems, identifying deficiencies, and recommending necessary corrective actions (audited).

In summary, phase 1 focuses on internal controls over financial reporting only, and phase 2 focuses on the entire control framework covering internal controls and risk management, including ICOFR.

COSO 2013 framework

The COSO 2013 internal control framework is the leading internal control framework for most organisations. It assists management in implementing robust controls to mitigate risks, which may prevent the achievement of operational, compliance and financial control objectives. Below are the compliance requirements and expected outcomes.

Based on 17 principles that are mandatory and action-oriented

▶ Demonstrates
▶ Evaluates
▶ Holds accountable
▶ Specifies
▶ Communicates

Must evaluate and document:

▶ Whether all 17 principles and the related 87 points of focus are adequately designed and operating effectively
▶ Whether all 5 Components are working together
▶ Compliance with each principle, component, and overall points of focus.
▶ Whether or not there are Material Weaknesses

Below is an illustrated snapshot of conclusions and outcome against each COSO component principle after the control evaluation.

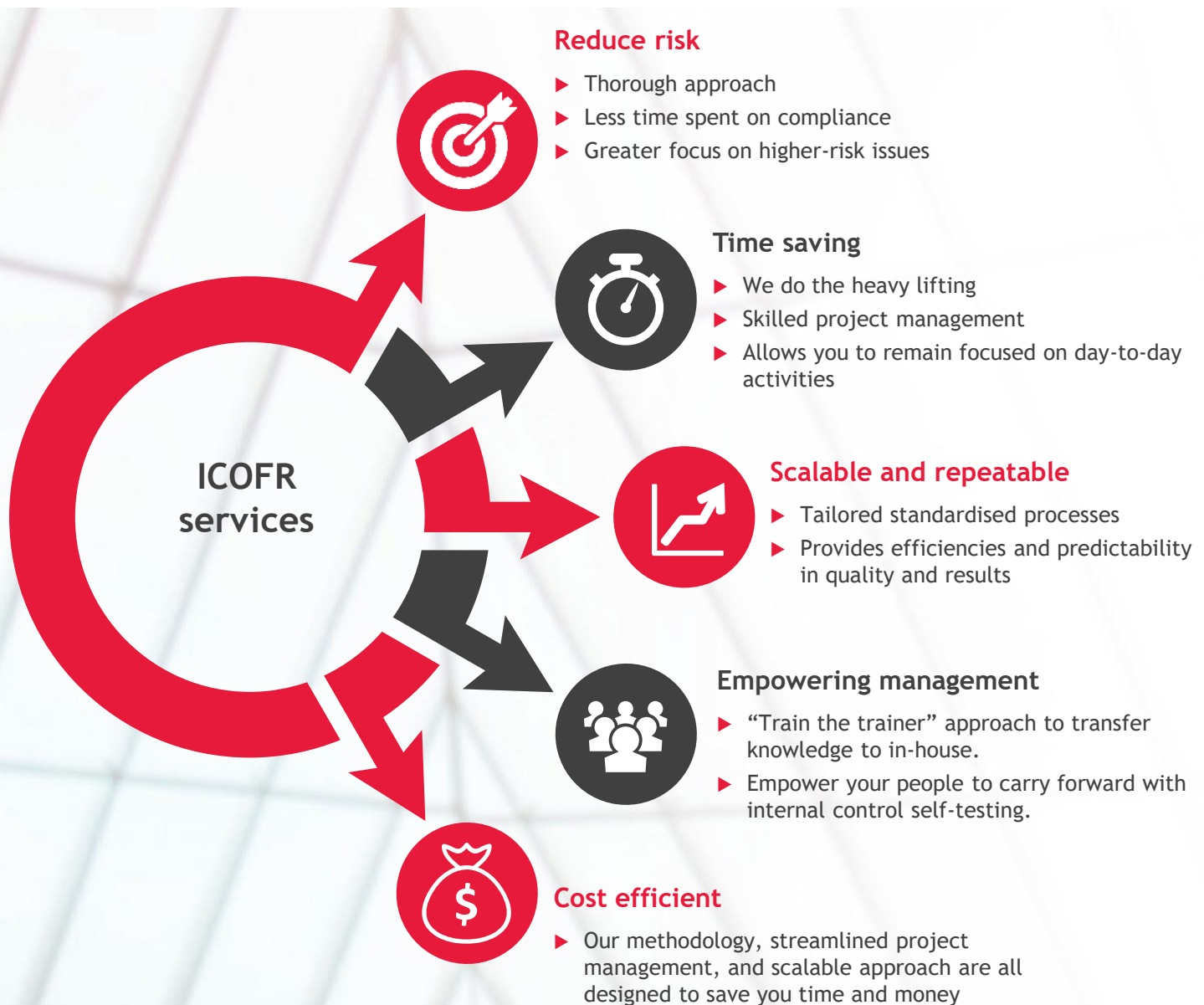| COSO Conclusions			
#	Component Principle	Design Conclusion	Operating Conclusion
	Overall - Principles Working Together	**Adequate**	**Effective**
1.	**Control Environment**	**Adequate**	**Effective**
	1. Demonstrates Commitment to Integrity and Ethical Values	Adequate	Effective
	2. Exercises Oversight Responsibility	Adequate	Effective
	3. Establishes Structure, Authority, and Responsibility	Adequate	Effective
	4. Demonstrates Commitment to Competence	Adequate	Effective
	5. Enforces Accountability	Adequate	Effective
2.	**Risk Assessment**	**Inadequate**	**Ineffective**
	6. Specifies Suitable Objectives	Inadequate	Ineffective
	7. Identifies and Analyzes Risks	Inadequate	Ineffective
	8. Assesses Fraud Risk	Inadequate	Ineffective
	9. Identifies and Analyzes Sig... ...nge	Adequate	Effective
3.	**Control Activities**	**Adequate**	**Effective**
	10. Selects and Devel... ... Activities	Adequate	Effective
	11. Selects and ... ...neral Controls Over Technology	Adequate	Effective
	12. Deploys thro... ...cies and Procedures	Adequate	Effective
4.	**Information & Communication**	**Adequate**	**Effective**
	13. Uses Relevant Information	Adequate	Effective
	14. Communicates Internally	Adequate	Effective
	15. Communicates Externally	Adequate	Effective
5.	**Monitoring**	**Adequate**	**Effective**
	16. Conducts Ongoing and/or Separate Evaluations	Adequate	Effective
	17. Evaluates and Communicates Deficiencies	Adequate	Effective

Illustrative

The 'WHY'

Internal control framework

#	Objective	Challenge / risk	Solution
1	Ensure Accuracy and Reliability of Financial Statements	▶ Errors, omissions, or fraud in financial reporting can lead to regulatory penalties, investor distrust, and costly restatements.	▶ Prevent errors with automated reconciliations, segregation of duties (SoD), and approval workflows.
2	Achieve Compliance and Avoid Penalties	▶ Non-compliance with regulations (e.g., SCA, CBUAE and ADAA) and reputational damage.	▶ Implement an internal control framework based on COSO to meet regulatory requirements.
3	Mitigate Fraud and Operational Risks	▶ Fraud costs organizations 5% of annual revenue each year (ACFE Report, 2024), while weak controls expose businesses to operational failures.	▶ Prevent fraud via SoD, access controls, and whistleblower programs and Identify risks proactively through risk assessments and heat maps
4	Enhance Stakeholder Confidence	▶ Investors, lenders, and board members demand trustworthy financial data to make decisions.	▶ Build credibility with transparent, auditable processes implemented via an internal control framework.
5	Drive Operational Efficiency	▶ Manual, redundant processes waste time and resources.	▶ Automate controls (e.g., ERP validations, auto-reconciliations) and eliminate redundancies by streamlining workflows.

"By implementing a COSO-aligned internal control framework, your organization won't just meet compliance—it will gain a strategic asset that drives efficiency, trust, and long-term resilience."
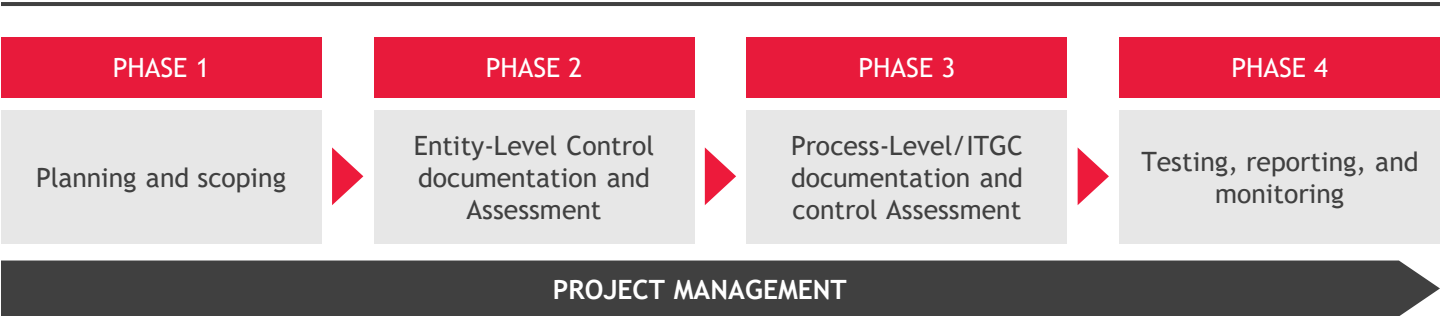
Internal controls over financial reporting (ICOFR) value proposition

We collaborate with businesses to supplement, strengthen and build capacity within your internal control testing teams – adding technical resources, reducing risk, and saving you time and money.

ICOFR services

Reduce risk

▶ Thorough approach
▶ Less time spent on compliance
▶ Greater focus on higher-risk issues

Time saving

▶ We do the heavy lifting
▶ Skilled project management
▶ Allows you to remain focused on day-to-day activities

Scalable and repeatable

▶ Tailored standardised processes
▶ Provides efficiencies and predictability in quality and results

Empowering management

▶ "Train the trainer" approach to transfer knowledge to in-house.
▶ Empower your people to carry forward with internal control self-testing.

Cost efficient

▶ Our methodology, streamlined project management, and scalable approach are all designed to save you time and money

ICOFR approach

We have included an overview of our comprehensive COSO - ICOFR methodology below and on the following slide to benefit your understanding of our comprehensive approach. This methodology is integral to everything we do, and as such, we will bring our holistic knowledge and experience to serve you with our testing activities.

PHASE 1	PHASE 2	PHASE 3	PHASE 4
Planning and scoping	Entity-Level Control documentation and Assessment	Process-Level/ITGC documentation and control Assessment	Testing, reporting, and monitoring

PROJECT MANAGEMENT

PHASE 1	PLANNING AND SCOPING

PHASE DESCRIPTION	KEY ACTIVITIES	TYPICAL DELIVERABLES
▶ Collectively develop the project plan, risk assessment, scoping analysis (by location and cycle), roles and responsibilities, and program protocols with the project team members and stakeholders ▶ Discuss the scoping analysis with management to ensure any significant changes that were not included in the assessment were considered and analyzed ▶ Identify the in-scope applications ▶ Develop the project timeline ▶ Establish the documentation standards (risk and control matrices, test workpapers, etc.)	▶ Develop financial risk assessment ▶ Identify financially-significant accounts, processes, and transaction streams ▶ Identify critical IT applications ▶ Define framework and documentation standards ▶ Coordinate with external auditors to ensure alignment with COSO scoping	▶ Project plan (includes project timeline, responsibilities, and milestones) ▶ Financial statement risk assessment and scoping analysis ▶ Recommendations for ICOFR Planning and Scoping Memo

ICOFR approach

PHASE 2	ENTITY-LEVEL CONTROL DOCUMENTATION AND ASSESSMENT	
PHASE DESCRIPTION	**KEY ACTIVITIES**	**TYPICAL DELIVERABLES**
▶ Evaluate the overall structure and components of the entity-level control environment using COSO 2013 ▶ Provide recommendations for improving the design of the entity-level controls ▶ Document and test entity-level controls	▶ Assess entity-level controls and corporate governance ▶ Document processes and controls via narratives, flowcharts, and risk control matrices	▶ Flowcharts, narratives, and risk and control matrices and recommendations for improvement of design

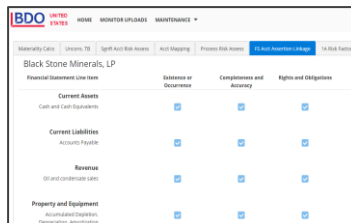| PHASE 3	PROCESS-LEVEL/ITGC DOCUMENTATION AND CONTROL ASSESSMENT	
PHASE DESCRIPTION	**KEY ACTIVITIES**	**TYPICAL DELIVERABLES**
▶ Document significant processes, ITGC's and associated risks and controls ▶ Assess whether controls, as designed, are effective in mitigating the identified risks, including fraud considerations ▶ Develop process narratives and flowcharts to aid management's understanding of the key processes in place ▶ Prepare risk and control matrices to document the key risks and control mitigation systems in place	▶ Document processes and controls via narratives, flowcharts, and risk control matrices ▶ Identify key controls for ICOFR ▶ Perform interviews to confirm process, ITGC, and key controls identified and provide recommendations for enhancement, as necessary ▶ Assess control design and implementation via walkthroughs	▶ Risk controls matrices for all key risks and related control points ▶ Assessment of the design of controls and recommendations for improvement of design ▶ Summary of critical findings

PHASE 4	TESTING, REPORTING AND MONITORING	
PHASE DESCRIPTION	**KEY ACTIVITIES**	**TYPICAL DELIVERABLES**
▶ Develop and execute a test plan of key ICOFR controls ▶ Test key controls for operating effectiveness ▶ Provide recommendations for improvement and discuss with management ▶ Provide ongoing status reports to management, the Audit Committee, and the external auditors as requested, including the progress of the project against established timelines and budget	▶ Develop testing procedures to assess control operating effectiveness ▶ Test the effectiveness of the key controls ▶ Identify exceptions and make recommendations for remediation ▶ After remediation is completed, retest for both control design and effectiveness ▶ Provide updates to management, external auditors, and other stakeholders throughout the course of ICOFR compliance ▶ Report control deficiencies and remediation status to management	▶ Updated control matrix reflecting procedures performed, results of such procedures, and assessment of risks ▶ Documentation of all detailed testing ▶ Summary of critical findings

ICOFR tools

Our web-based dashboards for ICOFR reporting will enable management to gain insights into the status of the ICOFR Program.

▶ Detailed task list to track status, start and end dates, and percentage complete

▶ Automatically feeds into dashboards and reports for seamless information updates

▶ Collaborative tool allowing for controlled input from multiple users

▶ Single point of truth for workstream progress

Data-driven risk management

Performing a risk assessment for ICOFR can be challenging and time-consuming even for experienced audit professionals. BDO's risk assessment tool for ICOFR is designed to guide you through the step-by-step process via a user-friendly web interface to improve your risk management program.

INITIATE

▶ Web-based repository to store financial, risk, and control data

▶ Supports multiple materiality methodologies

MAP

▶ Evaluates quantitative and qualitative risk factors

▶ Map business processes to financial accounts and assertions

ANALYZE

▶ Automatically calculates materiality thresholds

▶ Analyzes results and determines in-scope processes and entities

VALUE

▶ Enables data-driven risk management

▶ Provides transparency and quality in how risk is assessed

▶ Reduces processing time and amount of rework

▶ Allows for quick risk reassessment based on new assumptions
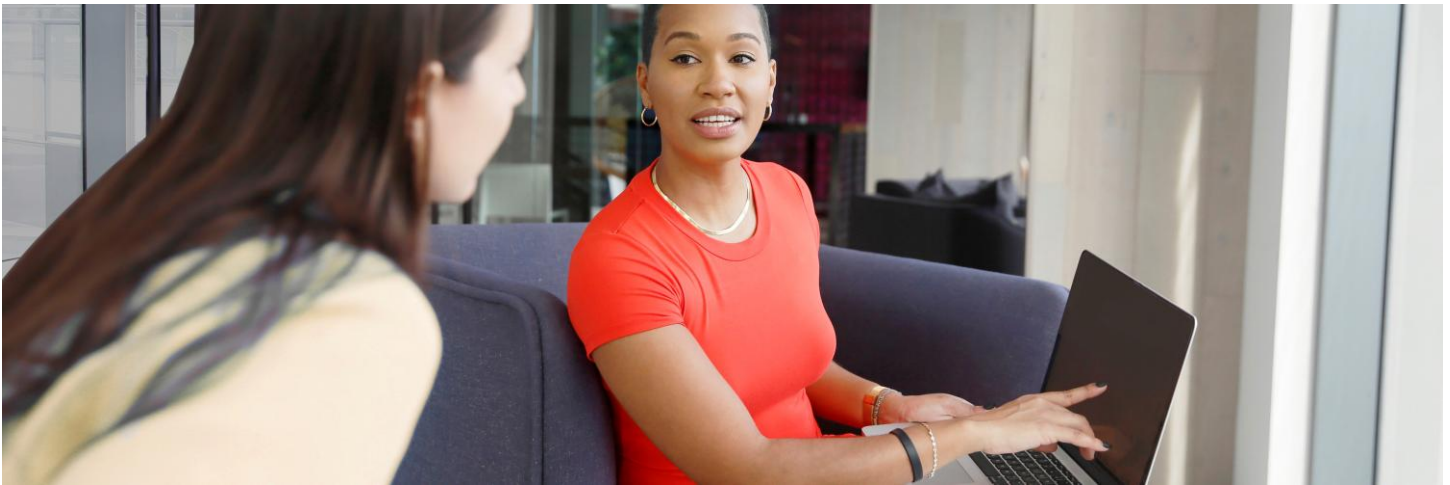
Working with external auditors

Critical to the success of any engagement are the development of good communication channels and a common understanding of the Company's strategic objectives by its external auditors and members of the board of directors.

Our team works closely with our clients and their external auditors to assist with the management of risk and the achievement of strategic business objectives through proper internal control systems.

Prior to BDO commencing any of our ICOFR Phases, we will discuss our methodology, approach and timeline with your [external auditor] and obtain their "buy-in". We pride ourselves on maintaining excellent relationships with the external auditors of our ICOFR clients. No one likes surprises towards the end of an audit, and we will work proactively to reduce the risk that the Company is not positioned to accurately and completely attest to the effectiveness of their internal controls.

We recognise the importance of keeping the lines of communication open between our team and [external auditor]. As an extension of management, we routinely advocate for our clients' interests to their external auditors.

Maximum reliance by external auditors

Aligned goals and expectations

Early and ongoing communication and collaboration

Client success stories

A technology company

BDO conducted an ICOFR gap assessment covering entity-level controls, process-level controls, ITGC, including mapping of the 17 components of the COSO framework based on ADAA requirements. The outcome from this project was:

ICOFR Gap Assessment & Implementation

- Risk and control matrices for all relevant processes
- Gap assessment report with recommendations
- Implementation plan

The above outcomes enabled our client to upscale their internal control maturity, governance and control framework.

An educational institution

ICOFR opinion

BDO was the external auditor of this company. We conducted a review of the ICOFR of the entity and provided an opinion on the state of internal controls over financial reporting. This covered entity-level controls, ITGC and process level controls, including compliance.

In addition to the opinion on the financial statements, an opinion on the status of internal controls over financial reporting was provided, thereby satisfying ADAA requirements.

A professional services company

ICOFR Gap Assessment & Implementation

BDO conducted an ICOFR gap assessment covering entity-level controls, process-level controls, ITGC, including mapping of the 17 components of the COSO framework based on ADAA requirements. The outcome from this project was:

- Risk and control matrices for all relevant processes
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Post the deliverables, we engaged with the external auditor as part of their testing of controls resulting in a much smoother and effective external audit ICOFR review process.

A USD6 billion global chemical company

SOX compliance (USA)

Conducted a SOX compliance engagement for a $6 billion global chemical company, including planning, scoping, assessing risks, key control benchmarking, documenting internal controls, implementing the 2013 COSO Framework, identifying gaps, leading remediation plans for certain high-risk gaps, and recommending process improvements. Prepared process documentation (flowcharts and step-narratives) and worked directly with the Internal Audit function to implement the testing approach.

The outcome of the project resulted in the increased maturity of the internal control environment of the company and met regulatory compliance requirements.

FTSE50 global client

SOX readiness assessment and implementation support (UK)

We worked with stakeholders to develop an approach which covered a number of key phases:
- Performed scoping and risk assessment, roadmap & operating model
- COSO/ ELC assessment, control environment assessment
- IT and business processes deep dives
- GRC tool selection support & implementation
- Enhanced process, risk and control documentation, including controls operating model
- Developed and delivered targeted training and implementation support
- Controls testing programme design and delivery using GRC tooling.

Following the completion of the project, BDO was appointed as the UK SOX implementation partner

How BDO can assist

BDO has been helping businesses globally and locally in the UAE to improve their internal controls and optimise business processes using COSO / SOX frameworks. This includes developing a business-focused internal control framework covering the three key control objectives - operational, compliance and finance, tailor-made specific ICOFR implementation projects focusing only on the financial control objective.

We can specifically assist with the following:

#	Scope	Outcome
1	**Implementing internal control framework -** Implementing full scope COSO Framework We assist businesses in designing and implementing robust internal control governance structures, grounded in the globally recognised COSO Integrated Internal Control Framework (ICF). Our approach covers all three COSO control objectives — operational, financial reporting, and compliance — ensuring your internal control system is aligned, effective, and audit-ready.	▶ 17 COSO principles mapped to the 5 core components of internal control ▶ Customised Internal Control Framework (ICF) policy ▶ Risk and control matrices, process flowcharts covering operational, financial and compliance processes ▶ Internal control gap assessment report and a tailored implementation roadmap to close control gaps ▶ Assist in the control certification by management. ▶ Deliver training and awareness programs for relevant teams, embedding change through structured knowledge transfer and culture alignment.
2	**Implementing Internal Controls over Financial Reporting Framework** We assist businesses in implementing an internal control framework in a phased manner, by starting with internal controls over financial reporting **only.** Our approach will cover the financial reporting control objectives by reviewing all processes and controls relevant to financial reporting.	▶ 17 COSO principles mapped to the 5 core components of the ICF. ▶ Customised Internal Controls over Financial Reporting Framework (ICOFR) policy ▶ Risk and control matrices, process flowcharts covering financial reporting processes entity-level controls and ITGCs. ▶ Internal control gap assessment report and a tailored implementation roadmap to close control gaps. ▶ Assist in the control certification by management. ▶ Deliver training and awareness programs for relevant teams, embedding change through structured knowledge transfer and culture alignment.
3	**Internal controls gap assessment / periodic testing of internal controls** (test of design and operating effectiveness) We assist businesses that have either implemented the full ICF framework or ICOFR only and would want assistance to test the design and operating effectiveness of the controls and update their risk and control matrices in preparation for an external audit.	▶ Updated risk and control matrices, process flowcharts covering financial reporting processes entity-level controls and ITGCs. ▶ Internal control gap assessment report and a tailored implementation roadmap to close control gaps. ▶ Assist in the control certification by management.

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Our Offices

200 +
PEOPLE

6
OFFICES

50+ YEARS
PRESENCE IN THE UAE

BDO IN THE UNITED ARAB EMIRATES

BDO's distinctive reputation for client proximity is built upon our commitment to all our stakeholders that what matters to them matters to us. Our clients recognize us as their preferred adviser, appreciating our seamless service worldwide. No matter how large we become, we will continue to remain united under a common purpose: helping people thrive, every day.

We have a partner-led approach, which delivers the highest quality of service by using short, functional chains of communications to aid decision-making. Clients benefit from our fresh thinking, constructive challenge and practical understanding of the issues they face. Developing strong, personal relationships with our clients is at the forefront of our service approach at BDO UAE.

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