

OPINION

SPOTLIGHT SERIES ON EXTERNAL FINANCIAL AUDITING IN THE UAE FINANCIAL STATEMENTS – WHAT IS THE NEW LEGAL REQUIREMENT



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Introduction

The introduction of Corporate Tax in the UAE has raised the bar of what is required of businesses in terms of their accounting, administration and financial reporting. Businesses will have to 'up their game' in a big way because what used to be best practice has now become simple compliance.

UAE businesses are now asking what this means in terms of the requirement to prepare financial statements and to what standard. In this update we clarify the situation.

Through a combination of Federal Law, Free Zone Law and Regulation and Corporate Tax Law and Regulation, **all businesses are required to maintain proper books of account and prepare annual financial statements.** With a few exceptions, the law requires these to be **prepared under International Financial Reporting Standards (IFRS).**

This combination of UAE commercial law and the stipulations of the Corporate Tax legislation effectively means that **all businesses with sales over AED 50 million must prepare financial statements in line with IFRS. Small and medium-sized entities which derive revenue of less than AED 50 million but greater than AED 3 million must use accruals-based accounting to the standard of the simplified IFRS regime, whilst businesses with sales of less than this figure may prepare accounts on a cash basis.**

Failure to adhere to the above will be viewed as a violation of the Corporate Tax Law and may result in administrative penalties.

Below is a summary of the law in this regard

a. Mainland Commercial Law

Federal Law number (32) of 2021, governing Commercial Companies in Article 27 – Accounts of the Company states that a **company shall prepare annual financial accounts** including a balance sheet and the profit and loss account and shall apply **International Accounting Standards and Practices** in preparing its periodical and annual accounts, to give a clear and accurate idea of the profits and losses thereof.

b. Free Zone Commercial Law

Entities located within a free trade zone report to the free trade zone authority for the relevant zone and with very few exceptions are **required to submit audited financial statements in accordance with IFRS** and International Standards in Auditing (IAS), annually.

c. Corporate Tax Law

UAE Corporate Tax Law provides that the Taxable Income of each Taxable Person shall be determined separately, on the basis of properly prepared, standalone (unconsolidated) **Financial Statements** for financial reporting purposes **in accordance with the Accounting Standards accepted in the UAE for Corporate Tax purposes.**

Ministerial Decision No. 114 of 2023 specifies that the only Accounting Standards accepted in the UAE for Corporate Tax purposes are the International Financial Reporting Standards ("**IFRS**") and the International Reporting Standard for small and medium-sized entities ("**IFRS for SMEs**").

Taxable persons may only use International Financial Reporting Standards for small and medium-sized entities if they derive revenue of less than AED 50 million. All businesses with sales over AED 3 million must use accruals-based accounting, whilst businesses with sales of less than this figure may prepare accounts on a cash basis.

How can we help

RAA is a top international quality, UAE-headquartered audit firm. We provide audits ranging from small entrepreneurs to complex multinationals. We offer our clients high quality and competent auditors at **prices that are far more competitive** than Big 4 and other UAE-based international offices.

Who we are

RAA Auditing is a UAE-registered audit and accounting firm in Dubai, with extensive experience of auditing in both the UAE mainland and most of the free zones.

We are focused on providing entrepreneurial businesses of varying sizes with timely, proactive, and customized business solutions from start-up and early development to the latest stages of a business's lifecycle. Our audits aim to help clients mitigate risk, improve operational efficiencies, and safeguard their business by providing clarity on issues that matter.

Our audit and liquidation assignments are led by independent auditors with a commitment to the highest standard.

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