

**BY E-MAIL**

14 January 2026

To: Audit Principals of DFSA Registered Auditors

RE: 2026 AUDIT MONITORING FOCUS

Dear Audit Principals,

The purpose of this letter is to inform Registered Auditors (RA) of the DFSA's 2026 audit monitoring focus and confirm the DFSA's general audit inspection cycle.

The DFSA's audit inspection cycle runs from January to December each year. The DFSA will continue to conduct inspections of RAs of Public Listed Companies, domestic Authorised Firms, Authorised Market Institutions, and Domestic Funds. In the event we have identified any significant issues in our previous audit inspections, we will escalate follow-up inspections to ensure the relevant RAs are taking appropriate actions to address our observations and findings.

This letter is intended as a general overview of the DFSA's current audit focus and may be subject to change. In the event the DFSA determines changes are necessary, the DFSA will inform RAs accordingly.

The DFSA's 2026 audit monitoring focus includes, but is not limited to, the following:

1. Systems of Quality Management:
 - 1.1. Resources
 - 1.2. Use of artificial intelligence in audit
 - 1.3. Consultations
2. Revenue recognition; and
3. other focus areas.

These are elaborated on below:

1. Systems of Quality Management

An RA's system of quality management (SoQM) is vital because it establishes robust policies and procedures to ensure that audit engagements are performed with professional competence, due care, and independence, thereby safeguarding the reliability of financial information in the Dubai International Financial Centre (DIFC). SoQMs should proactively identify and mitigate risks to audit quality, such as conflicts of interest and inadequate resources, which could otherwise lead to material misstatements. Ultimately, a strong SoQM upholds public trust in the audit profession and protects stakeholders.

1.1 Resources

We expect RAs to allocate sufficient human and technological resources to support high-quality audit engagements – ensuring that Engagement Teams (ETs) possess the necessary time, competence and capabilities to delivery their work effectively. Resourcing decisions must reflect audit engagements



complexity and risk with leadership oversight to avoid overburdening staff or compromising independence.

Key areas of focus:

- a) Sufficient and competent resource allocation tailored to the risk and complexity of audit engagements.
- b) Investment in appropriate audit technology, including data analytics and artificial intelligence (AI) tools to enhance risk assessment and efficiency.
- c) Ongoing realtime independent monitoring with root cause analysis of deficiencies.
- d) Transparent reporting and timely remedial actions to ensure continuous improvement.

1.2 Use of artificial intelligence (AI) in audit

Where RAs use AI, we expect them to be used as supportive tools in a human-led process with qualified professionals designing, overseeing, and critically evaluating AI outputs to ensure audit quality. AI must be robustly tested, validated, and integrated into the RA's SoQM with clearly documented policies and procedures on its application, limitations, and impact on audit evidence. Human judgement remains central in risk assessment, decision-making, and final conclusions – preventing over-reliance on automated systems.

Equally, RAs should guard against the use of unauthorised AI by staff – especially with respect to confidential information. Clear and comprehensive policies and procedures should be in place in this regard.

Key areas of focus:

- a) Clear policies and procedures on the use or prohibition of use of AI in audit engagements.
- b) Human-led integration with professional oversight and critical evaluation of outputs.
- c) Rigorous testing, validation, and documentation of AI tools with the SoQM.
- d) Ongoing training and monitoring to ensure ethical, compliant, and effective AI application.

1.3 Consultations

We expect RAs to establish formal consultation policies under ISQM 1, requiring ETs to consult internally or externally on complex, contentious, or high risk matters such as accounting estimates, going concern issues, fraud indicators, or modified audit opinions. These policies must identify when consultations are mandated, designate qualified and independent staff with relevant experience and ensure timely resolution with appropriate formal documented conclusions that inform the audit opinion.

RAs must monitor consultation effectiveness through their SoQMs, reviewing whether consultations are appropriately triggered, adequately documented, and consistently applied across audit engagements.

Key areas of focus:

- a) Mandatory consultation policies for complex, contentious, or high risk audit matters.
- b) Designation of qualified independent consultants with timely, documented resolution of areas.



- c) Monitoring consultation triggers, documentation, and consistent application.
- d) Clear process to close the loop, ensuring ETs implement and confirm consultation conclusions.

2. Revenue recognition

We expect ETs to apply heightened professional skepticism when auditing revenue recognition, given its susceptibility to manipulation and material misstatement risk under the International Financial Reporting Standard (IFRS) 15 – Revenue from Contracts with Customers. ETs must thoroughly understand their audit client's business model, contracts, and performance obligations to assess whether revenue is recognised in accordance with the five-step model, particularly focusing on the timing and measurement of revenue.

Close attention should be given to the identification and testing of IFRS 15 recognition triggers, such as the satisfaction of performance obligations over time, which requires audit evidence on satisfaction of performance obligations, enforceable rights and obligations, and collectability. ETs must evaluate contract modifications, variable considerations, and principal vs agent considerations to ensure revenue is not prematurely or improperly recognised.

Key areas of focus:

- a) Heightened professional skepticism and deep understanding of the IFRS 15 five-step revenue recognition model.
- b) Rigorous identification and testing of satisfaction of performance obligations over time and other IFRS 15 recognition triggers.
- c) Appropriate documentation of risk assessment, control testing, and substantive audit procedures.
- d) Challenging management judgements on variable considerations, contract terms, and collectability.

3. Other focus areas

The DFSA will continue to undertake on-site visits of selected RAs in relation to their reporting of DFSA regulated entities in accordance with the DFSA's AUD Rule 6.2.1. The DFSA will continue to assess ETs, their competencies, and the level of training provided by RAs to their staff to enable them to perform work on all relevant regulatory reports as listed below:

- a) Regulatory Returns Auditor's Report;
- b) Client Money Auditor's Report;
- c) Insurance Monies Auditor's Report;
- d) Safe Custody Investment Auditor's Report;
- e) Safe Custody Crypto Token Auditor's Report; and
- f) Money Services Auditor's Report.

We wish to remind RAs that relying solely on inquiry procedures is insufficient and inappropriate.

Furthermore, with respect to items b, c, d, or e above - ETs should review and assess DFSA regulated entity's systems and controls regardless of whether Client Monies, Client Assets, or Insurance Monies are held or controlled during the year.



The audit focus set out in this letter should not be relied upon as any limit on the exercise by the DFSA of its regulatory functions and powers. The DFSA will notify each RA selected for an assessment in 2026.

If you have any questions about this letter, please contact our audit oversight team using the DFSA Supervised Firm Contact Form located on the [DFSA ePortal](#).

Yours sincerely,

A handwritten signature in blue ink that reads 'Naweed Lalani'.

Naweed Lalani
Director, Supervision