



The Institute of  
**Internal Auditors**  
Kuwait

**protiviti**<sup>®</sup>  
Global Business Consulting

# CHANGING HORIZON IN INTERNAL AUDIT

Kuwait Pulse of  
Internal Audit Survey 2022



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# INTRODUCTION

As the COVID-19 pandemic impacted two years ago, Internal Audit (IA) globally witnessed swift innovation and improvisation to meet the challenges. In Kuwait, the stringent regulations issued by the Capital Market Authority (CMA) are making the IA fraternity more cognizant of their role in the fast-evolving corporate governance landscape.

In this backdrop, the Institute of Internal Auditors (IIA) Kuwait, in partnership with Protiviti Member Firm for the Middle East Region, conducted the survey to gain insights on recent IA trends in the region.

The survey is a useful tool for IA professionals and relevant stakeholders to understand how IA functions in Kuwait are adapting to the 'new normal'.

It also provides a comprehensive view of the practices adopted by them across organizations, including audit innovation, transformation and risk management abilities, among others.

This report aims to not only help peers benchmark their operations against leading practices but also make them aware against common pitfalls.

The survey reached out to IA professionals as well as audit committee members for their participation. Eighty-one respondents from public and private sector organizations in Kuwait participated in the survey.

The report looks beyond cataloguing the latest in IA innovations and governance capabilities to provide insight into the status of IA in Kuwait.



The survey focuses on five areas:

**Internal Audit Function:** Coverage and spread of the audit plan, audit plan development method, reporting structure, completion percentage, outsourcing and manpower size.

**Audit Innovation and Transformation:**

Adoption of innovative and technological transformation and its application in internal audit functions.

**Impact of COVID-19:** Impact on the internal audit strategy and audit plan, budget, level of engagement and consultation.

**Risk Management:** Highlights the areas related to emerging and atypical risks, auditor's perception, and organizational view.

**Capital Markets Authority (CMA) regulatory updates:** Highlights CMA regulation and requirements related to the governance of the IA function in listed companies.

The results were encouraging as IA, in many organizations, adopted NextGen audit techniques, like agile auditing or dynamic risk assessment. Also, 47% of the respondents said they were part of the crisis management teams during the pandemic, demonstrating an active consulting role under a wider mandate. However, IT risks remain a cause for concern and 30% of the survey respondents said IA function in their organizations did not have an IT auditor or had no plan for technology audit. Also, 37% of the respondents were not sure or had no plan to walk the innovation path, as per the survey. Risk management remains an evolving area with 30% of the respondents saying their organizations did not have a risk management function.

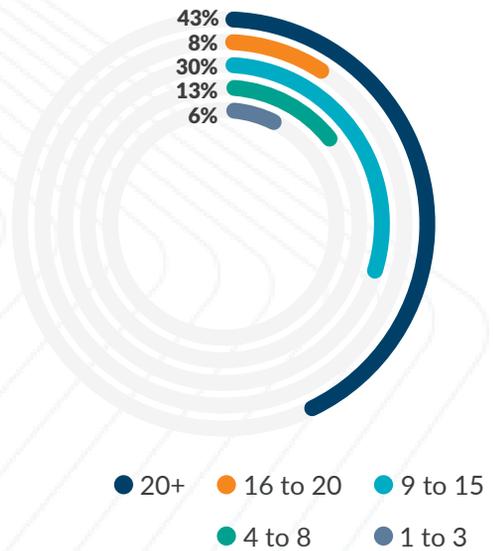


# INTERNAL AUDIT FUNCTION & RESOURCING

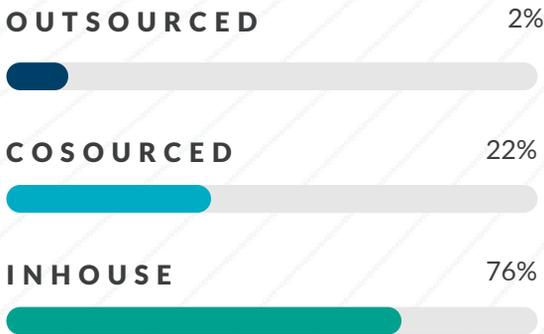


As per survey participants, 76% rely on in-house IA function over an outsourced or co-sourced model. The size of such in-house IAFs ranges from 16-20+ employees (51%) to 1-3 employees (6%).

## Size of In-house IA Function



## Types of IA Functions



## IT Audit

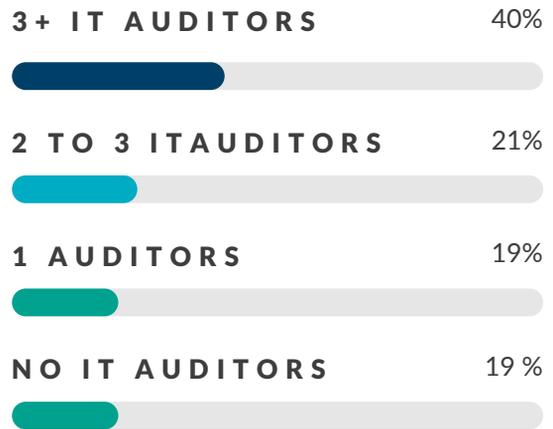
The survey shows that the representation of IT audit has a gap despite technology playing a key role across industries. Of the total respondents, 19% indicated that the IA function in their organizations do not have IT auditors, while 40% said they had 3+ or more IT auditors. This indicates that either companies do not feel the need to have specialized IT auditors, or they mostly rely on outsourced service providers.

The coverage of technology risk in the IA plan was distributed between 10% and 50% wherein no technology related audits were planned by 11% of survey respondents. This result is probably due to the absence of IT auditors in these organizations.

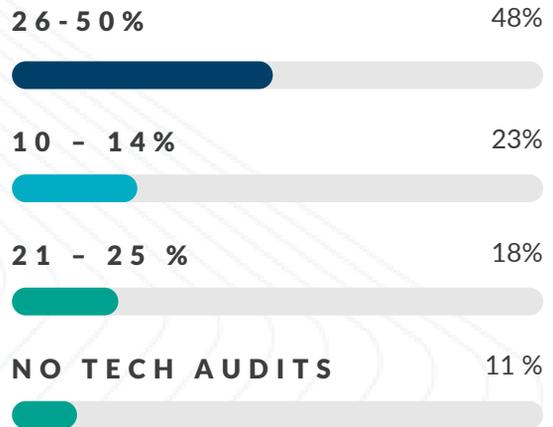
## Internal Audit Plan Performance

One of the key performance metrics for internal auditors is achievement of their plan in time. In this context, 41% of the survey respondents either reported no impact on their IA plan or they were able to achieve 100% of the audit plan. A possible reason could be the gradual resumption of business and IA operations after the COVID-19<sup>1</sup> vaccination drive.

## Number of IT Auditors



## Technology Audits in IA Plan



<sup>1</sup> COVID-19: The Initial Impact on Internal Audit Worldwide- An IIA Global Publication

## Internal Audit Plan Performance

There is also the possibility that 100% achievement was on account of an updated audit plan (to adjust to the current practical conditions due to COVID-19) or these respondents were from industries less impacted from the situation.

Nevertheless, **35% of survey respondents reported 75-99% achievement of IA plan which is more in line with global trends and reasonable business expectations.**

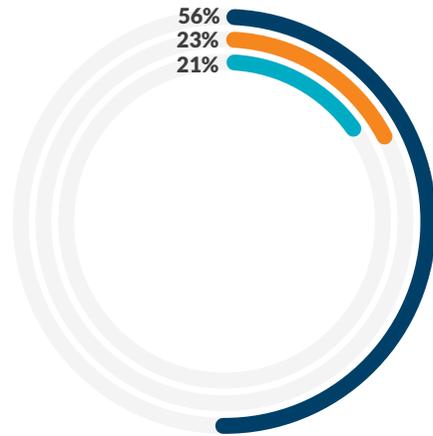
The impacted organizations were asked to determine in what way did COVID-19 affect their IA budget. To this, 53% of the respondents said there was no impact and 47% reported that their IA budgets got affected. This is also inline with global trends, which suggested that 4 in 10 IA function budgets were reduced<sup>1</sup>.

Among the respondents whose budgets were impacted, 70% suggested that IA budget was reduced by 10% or more.

## Quality Assurance

The survey shows that 56% of IA function conducted External Quality Assurance Review (EQAR) in the last two years, 21% were planning to carry out quality assurance in the next 12 months while 23% were not planning to undertake the exercise as it was not mandated by any regulating body concerned.

## Has your IA department carried out an External Quality Assurance Review (EQAR)?



- Conducted EQAR in last 2 years
- Not planning to conduct an EQAR, as it is not mandated by the applicable regulatory body
- Planning to conduct an EQAR, in the next 12 months

<sup>1</sup>COVID-19: The Initial Impact on Internal Audit Worldwide- An IIA Global Publication

# AUDIT INNOVATION & TRANSFORMATION



Technological transformation and its application in IA are no longer in the category of “good to have”. Instead, these are among the key factors distinguishing new age IA function from a traditional one. On the digital maturity scale, 35% of the survey respondents categorized themselves as ‘Digital Followers’. It was also noted that 37% of the respondents were either unsure or had no plan to undertake transformation innovation activities. However, **it was encouraging to see that 62% of the respondents showed interest in undertaking transformation or innovation activities in the next couple of years.**

While the survey does not identify the cause, it will be important for IA professionals and audit committees to gain visibility on various technologies and innovation developments in the IA space. They also need to explore potential areas where there are synergies and better cost benefit returns. IIA Kuwait is amongst key forum to keep abreast of crucial developments in these areas.

## Does your IA department have plans to undertake any transformation or innovation activities?



- Unsure
- Yes, within next year
- Yes, within the next two years
- No

## Definitions

### Digital Skeptic

Digital plans are not formalized, and initiatives are managed in an ad-hoc or reactive manner. React to competition. Risk averse

### Digital Beginner

Digital plans are not fully developed, although multiple digital initiatives are underway and the objective of these initiatives are understood. Embracing change. Collection of point solutions.

### Digital Follower

A digital strategy has been developed and the organization has a proven track record of delivering on digital initiatives. Digital initiatives are typically focused on discrete aspects of the customer

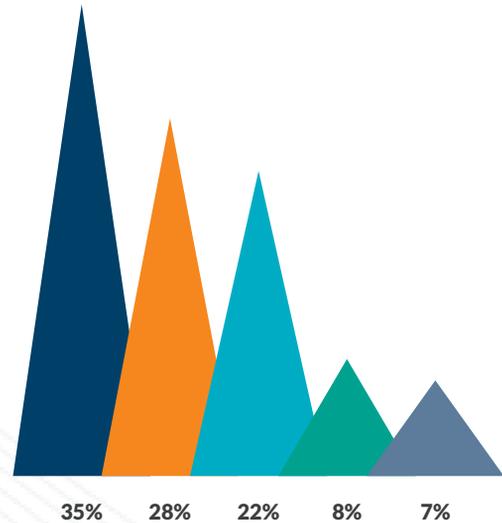
### Digital Top Performer

The organization has a proven track record of disrupting traditional business models. Digital aspects of strategic plans are continually improved based on lessons learned and predictive indicators. Innovative. Disruptive

### Digital Expert

Digital aspects are in place and managed quantitatively enterprise wide. High levels of process automation have been achieved. The organization has a proven track record of adopting emerging technologies. High levels of automation. Low-cost base. Hyper scalable

## How would you rank your organization and IA department on the Digital Maturity Scale?



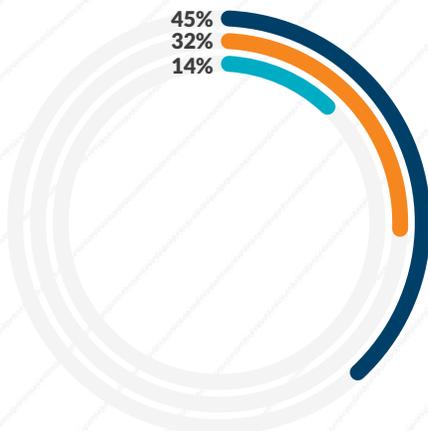
- Digital Follower
- Digital Expert
- Digital Beginner
- Digital Top Performer
- Digital Skeptic

# COVID-19 IMPACT ON IA FUNCTION



When COVID-19 hit the country, the government launched a series of containment measures. These included work-from-home, limited capacity on premises and timed curfews. According to 91% respondents COVID-19 led to a delay in the implementation of audit plans and/or they had to make changes in the audit priorities.

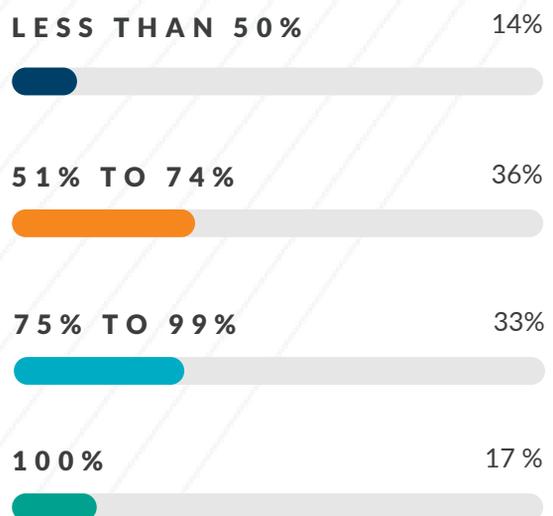
## What type of impact did the pandemic (COVID-19) have on your audit plan?



- Both changes in the audit priorities and delay in implementation
- Changes in the audit priorities
- Delay in implementation

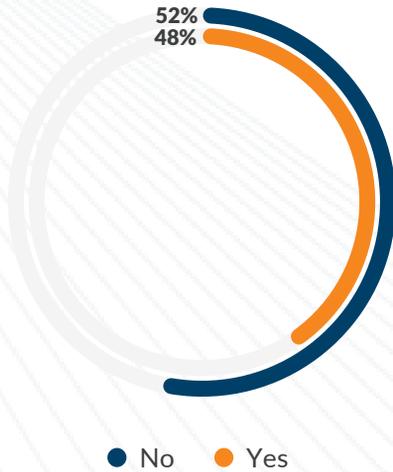
A closer look at the percentage of completion for the respondents who declared a delay in implementation of internal audit plan shows that only 17% achieved completion.

## For delay in implementation, what is the percentage of completion of the IA Plan?

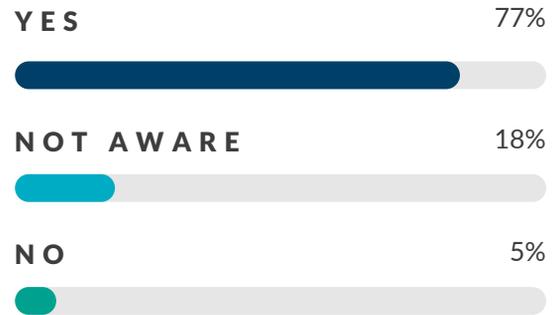


Nearly half of the respondents agreed that there was an impact of COVID 19 on their allocation of IA budget.

### Is the IA budget impacted due to COVID-19?



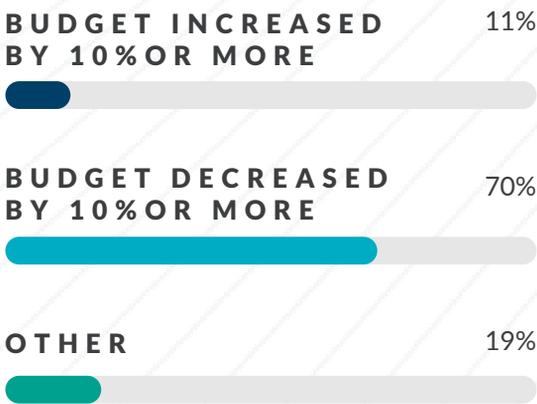
### Business Continuity Plan (BCP) was developed before COVID-19



### Did you update your current audit plan due to COVID-19



### If so, select the best option from below?



### If your answer is "Yes", what changes to the audit plan were made?



A vast majority (77%) of the participants indicated that they had a Business Continuity plan in place before COVID-19.

The respondents agreed that COVID-19 impact led to updating their IA plans for the organization.

When asked about how IA adjusted its plan and activities, 71% of the respondents stated that they had either participated in reviewing COVID-19 response strategy or had reviewed the design and control effectiveness of BCP & DRP Framework.

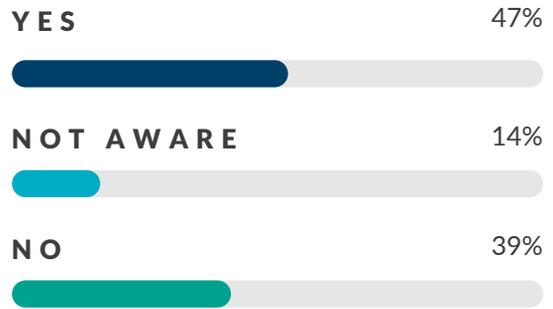
This is aligning with the practice advisory issued by IIA Global during the peak of COVID-19<sup>2</sup>. This also demonstrated that IA functions were flexible and agile to adapt to the requirement

Further, 47% of the respondents stated that they were part of the crisis management teams during the pandemic. This compliments the definition of internal audit as per the 'value added' aspect stipulated by the IIA and what the IAF can bring to the table outside of routine internal auditing.'

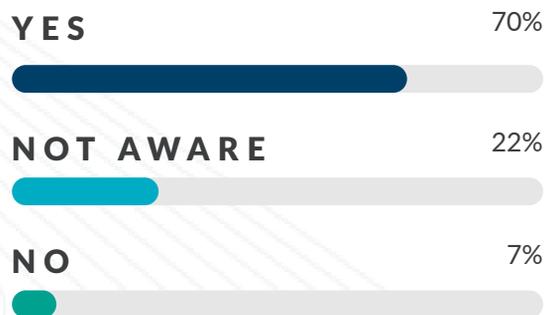
In the wake of the changing business operations owing to COVID-19, majority of the respondents declared that their organizations had updated their strategy.

IA functions have maintained their independence and objectivity in the challenging times with 82% highlighting that they did not execute conflicting activities.

### Was IA part of the crisis management team?



### Did your organization update its strategy due to COVID-19?



### Was IA asked to perform any task that could have impaired their objectivity and independence?



<sup>2</sup><https://na.theiia.org/periodicals/Public%20Documents/Internal-Audit-in-the-COVID-19-Era>

# RISK MANAGEMENT

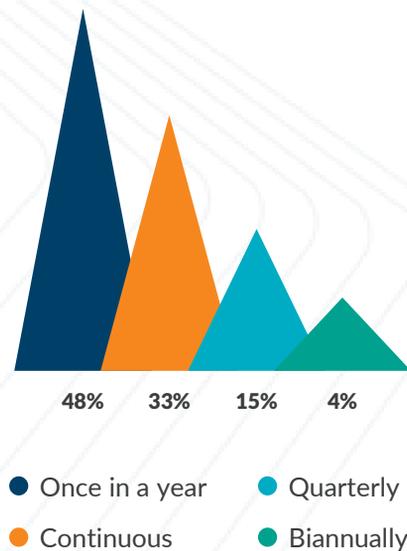


While 70% of the respondents said they had a separate risk management function within their respective organizations, 30% answered in the negative. It needs to be seen how such organizations tackle emerging risks to the business.

Forty-eight percent respondents stated that their organizations conduct annual risk assessments and 33% said it is a continuous/ongoing process.

**The IA function must be agile and should increase the frequency of risk assessment. Annual reviews are unlikely to help them and the business, given the dynamic nature and velocity of emerging risks and disruptions. Audit committee members must ensure that this is amongst their focus areas.**

## What is the frequency of risk assessments in your organization?



Sixty-three percent of the respondents mentioned that NextGen tools such as data analytics are being used to identify changes in risk. On the other hand, 80% of the respondents monitor Key Risk Indicators from high to moderate degree, including precursors to growing or emerging risks.

During the pandemic, majority (54%) of respondents anticipated cyber security to be among the top 3 risks followed by operational risk (27% respondents) and technology and digitalization risks (12% each). In addition, a large percentage of the respondents noted that:

- They had a moderate to high level of confidence in the abilities of their organizations to identify and assess emerging risks.
- Eighty-seven percent of the respondents had high to moderate level of confidence to identify and assess typical risks faced by the organizations.

## Do you have a separate risk management function?



# CAPITAL MARKETS AUTHORITY REGULATIONS UPDATES



Over the last few years, CMA introduced 17 modules regarding the requirements for all publicly listed companies. Below are the details of the participants' responses related to each of these areas:

## Does the applicable CMA Framework for Internal Audit (Executive Bylaws), address the following key areas with respect to?

### QUALITY ASSURANCE



### FUNCTIONAL REPORTING



### ADMINISTRATIVE REPORTING



### INDEPENDENCE



### ELIGIBILITY CRITERIA FOR AUDITORS



### ROLES AND RESPONSIBILITIES



● Strongly agree   ● Agree   ● Disagree   ● Neither agree nor disagree

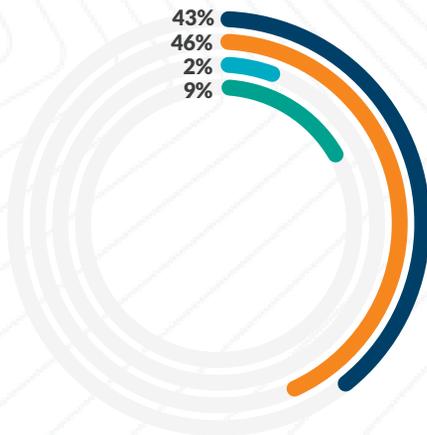
*"The company shall establish a department/ an office/ a unit for internal audit, which shall enjoy full technical independence." ~ CMA Executive Bylaws, Module 15 – Article 6-7*

In 2010, the Capital Markets Authority (CMA) of Kuwait introduced new regulation, 'Law No. (7) of 2010 Regarding the Establishment of the Capital Market Authority and Regulating Securities Activities and its Amendments'. In 2015, CMA issued the Resolution No. (72) Regarding Issuance of the Executive Bylaws of Law No. (7) of 2010.

Eighty-nine percent of the respondents unanimously agree that the CMA Executive Bylaws for IA address the key area 'Independence'.

### Independence of the Internal Audit Function

As independence is crucial to ensure an objective mindset, it is encouraging to note that majority of the respondents supported that the independence of internal audit function was adequately defined in CMA regulations.



- Strongly agree
- Agree
- Disagree
- Neither agree nor disagree

### Functional and Administrative Reporting

Defining the dual reporting relationship is a key element to achieve independence. The Chief Audit Executive should report functionally to the Audit Committee that has the task delegated to them by the Board, and administratively to the Chief Executive Officer. Majority of the respondents agreed that the CMA Executive Bylaws address the key area of 'Functional & Administrative Reporting'.

#### NEITHER AGREE NOR DISAGREE



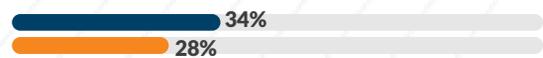
#### DISAGREE



#### AGREE



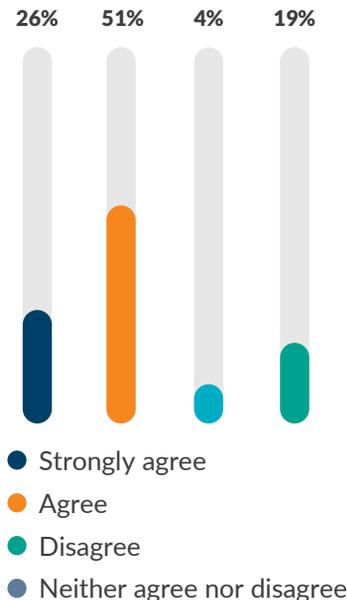
#### STRONGLY AGREE



- Functional reporting
- Administrative reporting

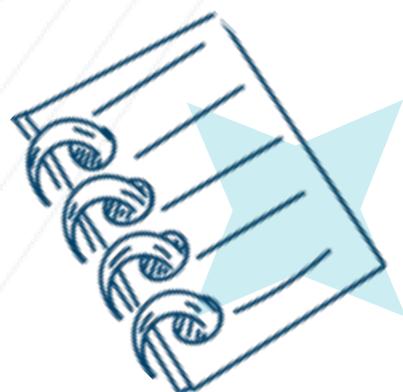
The external assessment is crucial to report independently to the Board on the internal audit conformance with the Code of Ethics and the 'Standards'. An overwhelming number of respondents supported that the CMA regulations address the key area of 'Quality assurance'. The Bylaws ' Module 15-Article 6-9 mentions, "... another auditing firm shall revise and evaluate the internal audit function periodically every three years, provided that both the internal audit committee and the Board of Directors shall be provided with a copy of such report." It is worth mentioning that **CMA has a more stringent requirement of conducting the External Quality Assurance review every three years as against the five-year period that the Institute of Internal Auditors (IIA) recommends** ("The External assessments must be conducted at least once every five years").<sup>3</sup>

## Eligibility Criteria for Auditors



The above graph shows that majority of the respondents agreed that the CMA regulations address the key area of 'Eligibility Criteria for Auditors'.

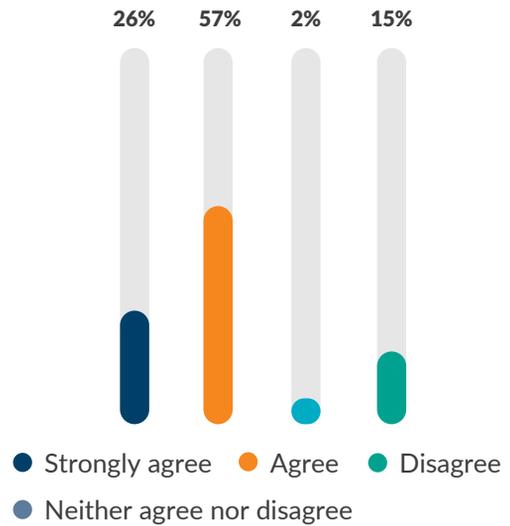
## Quality Assurance



<sup>3</sup> International standards for the professional practice of internal auditing (standards) no. 1312 - External assessments, issued by the Institute of Internal Auditors (IIA)

## Roles and Responsibilities of the Internal Audit Staff

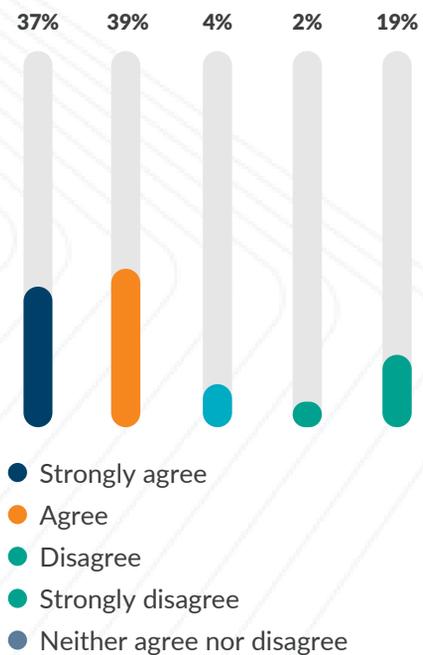
When asked if the CMA regulations addressed the internal audit staff roles and responsibilities, 83% respondents agreed that the Executive Bylaws addressed the key area of 'Roles and Responsibility' of the internal audit staff. Only 2% of the respondents disagreed.



## Qualification and experience requirements for an internal auditor is defined adequately

Over 75% respondents agreed that qualifications and experience of the internal audit staff were adequately defined by the CMA regulation.

CMA clearly defines the experience and qualifications required for the IA staff in Model 5 - appendix 3, stating, "Qualification and Experience requirements in Licensed people".



# CONCLUSION

As organizations fought challenges to operate in an economy that was closed for many industries, the impact of COVID-19 forced 4 out of 10 internal audit functions to make cuts in their budgets. (Source: IIAs Audit Executive Centre Survey on COVID-19 IMPACT ON INTERNAL AUDIT). In Kuwait, this ratio is in line with the trend as 10% IA budget cut is reported by the 33% of the total survey respondents. Additionally, 38% of the respondents reported the IA functions remain indecisive on innovation and transformation, which is necessitated change in today's doing business landscape.

Also, considering the use of technology across organizations, IT Audit is an area that the IA functions and audit committees need to pay attention. Number of IA functions do not have IT auditors or plan to have them on the team. They will need to evaluate how best to cover IT related areas to ensure reasonable assurance over the technology systems in their respective organizations.

**The overarching regulatory framework issued by CMA is all set to reduce the inconsistencies across organizations. However, at organizational level, awareness about the framework is needed among the management and IA functions to ensure independence is not compromised.**



It is evident that IA function stepped up against the COVID-19 challenges in multiple ways. While some of the teams participated in reviewing the COVID-19 response strategy and crisis management, others reviewed the BCP and DRP program design and effectiveness. Internal audit consulting and leadership role was appreciated by most of the respondents as an overwhelming number of them performed their responsibilities without impairing their objectivity.

The COVID-19 pandemic has had far-reaching consequences that have made it imperative for IA functions to evolve for executing daily responsibilities efficiently. In the past 24 months, they have built up efficiencies by using technology in audits, finding innovative ways of gathering evidence, conducting dynamic risk assessment, and maintaining a hybrid workplace, to name a few. As a result of innovation and transformation of IA function, 41% of survey respondents mentioned that they fully achieved their IA plan.

On the emerging risk landscape, although COVID-19 is getting managed, it has made everyone realize the impact, probability and velocity with which risks evolve and transcend. Continued alertness and evaluation are of critical importance, demanding better coordination and alignment of key business risks between Management, Risk/ Compliance, and IA Function. Liquidity and financial resilience continue to be the top risks.

Regulators and shareholders are demanding proper governance oversight. This demand can be best met if the information shared is accurate, precise, and reliable. IA function should be capable of providing reasonable assurance on all information going to the board and educate the board and executive management about the benefits that can be gained from independent assurance activity.

Even as IA function continues to provide assurance and insight, it must find new ways to contribute, learn, and grow. To that end, it's encouraging to see that majority of respondents are investing in training and upskilling. The future may look uncertain right now, but internal audit's unique knowledge and perspectives can be invaluable in guiding organizations through the new normal. By embracing change and thinking ahead, auditors can help their organizations emerge stronger than ever.

## Methodology & Demographics

Protiviti conducted IIA Kuwait Pulse Survey online from November to December 2021. Eighty-one internal audit leaders and professionals completed the survey questionnaire, including 20 who reported as CAE, CIA, Director of IA or Head of IA.

The survey consisted of a series of questions exploring the maturity of IAFs as well as to identify the level of maturity in the components under the following five categories:

- Internal Audit Function
- Audit Innovation & Transformation
- Impact of COVID-19 on Internal Audit Function
- Risks Management
- Capital Markets Authority (CMA) regulatory updates

In addition, survey participants were asked to provide demographic information about the nature, size of their businesses, and their titles or positions within the Internal Audit Function. We also asked a series of questions on the audit-related competencies, the number of years of experience in internal audit, and professional and academic qualifications. These details were used to help determine whether there were distinct capabilities and needs among different sizes and sectors of business or among individuals with different levels of seniority within the Internal Audit profession. All demographic information was provided voluntarily by respondents.

## Position

CAE/ CIA/ Director of IA/ Head of IA	25%
IA Manager	35%
Senior Auditor/ Auditor	40%

## Industry

Automotive	7.2%
Banking Industry	30.4%
Business Service	1.4%
Construction	4.3%
Education	1.4%
Financial Services	9.4%
Government	2.9%
Healthcare	2.2%
Hospitality	2.9%
Insurance	4.3%
Investment	2.2%
Manufacturing	5.1%
Oil & Gas	4.3%
Power & Utilities	1.4%
Retail	3.6%
Technology	0.7%

## Industry

Telecommunications	6.5%
Transportation & Logistics	2.9%
Wholesale Distribution	1.4%
Others	5.1%

## Certifications

CIA	73%
CISA	25%
CRMA	1%
CPA	1%

## Size of Organization (in USD)

100+ Mn	44%
10-99.99 Mn	36%
1-9.99 Mn	16%
< 1 Mn	4%

## No. of Employees

2000+	42%
1000 - 2000	20%
501- 1000	19%
0-500	19%

## Overall career experience

10+years	62%
6-9 years	24%
3-5 years	11%
< 2 years	3%

# ABOUT



## Pulse Survey

The survey was prepared by Institute of Internal Auditors (IIA) Kuwait in partnership with Protiviti. The questions considered Kuwait's unique internal audit context regulation and maturity environment. The Internal Audit Function of listed companies in Kuwait is regulated by the Capital Market Authority. The opinion of IA function is considered and regarded in most areas of business and IA is believed to be a key function in an organization.

In this context, Kuwait's CMA has taken an active role in drafting laws and guidelines in the form of CMA Executive Bylaws, which requires existence of the internal audit function in all listed companies in Kuwait. The authority defined the reporting structure, roles and responsibilities and the qualification and experience requirements. All these have contributed to increasing awareness and importance of IA and adding value to listed companies.

## About Institute of Internal Auditors

The IIA is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 190,000 members from more than 170 countries and territories. The association's global headquarters is in Lake Mary, FL, United states. (For more information, visit [www.theiia.org](http://www.theiia.org))

## About Protiviti

Protiviti ([www.protiviti.com](http://www.protiviti.com)) is a global consulting firm that delivers deep expertise, objective insights, a tailored approach, and unparalleled collaboration to help leaders confidently face the future. Protiviti and its independent and locally owned Member Firms provide clients with consulting and managed solutions in finance, technology, operations, data, digital, legal, governance, risk and internal audit through its network of more than 85 offices in over 25 countries.

Named to the [2022 Fortune 100 Best Companies to Work For®](#) list, Protiviti has served more than 80 percent of *Fortune* 100 and nearly 80 percent of *Fortune* 500 companies. The firm also works with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: [RHI](#)). Founded in 1948, Robert Half is a member of the S&P 500 index.

## Contact Us

### Sanjay Rajagopalan

Managing Director

Phone: +965-99006302

Email: [sanjay.rajagopalan@protivitiglobal.me](mailto:sanjay.rajagopalan@protivitiglobal.me)

### Daryoush Mohammadi Pour

Managing Director

Phone: +965-99694611

Email: [daryoush.pour@protivitiglobal.me](mailto:daryoush.pour@protivitiglobal.me)

### Vipin Sharma

Managing Director

Phone: +965-99950421

Email: [vipin.sharma@protivitiglobal.me](mailto:vipin.sharma@protivitiglobal.me)

## Our Kuwait office

### Kuwait

Al Shaheed Tower, 4th Floor

Khaled Ben Al-Waleed Street

Sharq P.O. Box: 1773

Safat 13018, State of Kuwait

Phone: +965.2242.6444

Email: [kuwait@protivitiglobal.me](mailto:kuwait@protivitiglobal.me)