



الجمعية السعودية للمراجعين الداخليين
The Saudi Institute of Internal Auditors

protiviti®
Global Business Consulting

KSA PULSE OF INTERNAL AUDIT SURVEY 2023 ANALYSIS REPORT



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EXECUTIVE SUMMARY

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Internal Audit's (IA) ability to offer value-based assurance and consulting services, combined with the capital market and other regulations, has led to IA positioning itself as a strategic and valued partner to the organization that brings an unbiased, objective view to any problem or opportunity that arises. The pandemic has led to unprecedented levels of innovation and transformation among organizations worldwide as they needed to adapt and be agile to respond to and manage the changes brought about by the global pandemic.

The pandemic presented organizations with an opportunity to challenge conventional norms and accepted practices, prompting them to discover novel and inventive ways of enhancing customer experiences, bolstering strategic and operational resilience, incorporating enabling technologies, leveraging data for competitive differentiation, and employing advanced analytical methods. As a result, innovation and transformation have become indispensable for ensuring sustained business relevance and competitiveness in the long term.

Like all other functions, the capabilities and competencies of Internal Audit have faced trials due to pandemic-induced changes and advancements. These factors have necessitated increased agility, nimbleness, and engagement from the Internal Audit function, particularly from the Chief Audit Executive (CAE), to remain pertinent within a swiftly evolving business landscape. This has underscored the importance of cultivating a substantial knowledge base, honing skills, and gaining insights that can revolutionize the business.

In this context, understanding recent trends in Internal Audit specific to the Saudi market is crucial. To achieve this, Protiviti Member Firm in the Middle East Region collaborated with the Saudi IIA to provide the Internal Audit community and relevant stakeholders with insights into how Internal Audit functions in KSA are adapting to drive innovation, enhance resilience, and manage or mitigate risks.

Our Internal Audit survey underscores the need for Chief Audit Executives and Audit Committees to initiate discussions with the business about future steps rather than being confined by the past or present. This entails considering how the function can redefine its role within established boundaries and identifying areas where it's appropriate to challenge and expand those boundaries. This is a prime opportunity to cultivate a rejuvenated vision and strategy for the Internal Audit function, reinforcing its dual role as a guardian of organizational value and a catalyst for innovation.

KEY FINDINGS

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Internal Audit as a Function

- Considering the disruptions caused due to technological innovations and cybersecurity-related threats being a key concern for many organizations, it is imperative for the Internal Audit function to ensure that IT-related audits are included in annual plans and that the team members are equipped with IT and Cybersecurity skillsets. In the survey, 26% of respondents said that they do not consider IT audits as part of their Internal Audit plan, and 44% of the respondents mentioned that their Internal Audit function does not comprise of personnel with IT or cybersecurity expertise.
- It was interesting to note that performing ERM, ESG, and AML-related audits was gradually gaining traction amongst organizations to be included in their reviews.
- Although an Internal Audit is mandated to provide independent and objective assurance of an organization's operations, it was noted that nearly half the respondents (46%) stated that the independence of the Internal Audit function or their team members was compromised.

02

Transformation and Innovation

- The survey indicated a clear shift in the perspective of the Audit Committee members that, encouraged the Internal Audit function to pro-actively innovate, transform, and explore new and better ways of delivery. Feedback received from 65% of the respondents stated that there is extensive support from the Audit Committee for Internal Audit to undertake transformation or innovation-related activities. Further, 60% of the respondents indicated that transformation and innovative initiatives would be undertaken within the next two years.
- Approximately 60% of the respondents mentioned that they are digitally mature.

03

Risk Management

- The survey highlighted the presence of a formal and ongoing process for identifying and assessing emerging risks with active contribution from senior management, which indicates a paradigm shift in the organization's outlook towards risk management. Significantly, 63% of respondents agreed that their organization has a formal process that periodically engages senior management and key business unit leaders to identify, review, and prioritize top risks.
- Amongst the top three organizational risks, 43% anticipate liquidity/ financial risk as the top risk, followed by digital innovation & disruption (29%), and operational risk (29%).

04

Stakeholder Relationship

- The responses indicated that the governance oversight by the Audit Committee has evolved to a more mature state. As indicated by 71% of respondents, the skills and experience of the Audit Committee adds value, and provides adequate governance oversight on issues related to internal controls.
- In 23% organizations, Audit Committee meetings were conducted less than twice a year. In comparison, 57% organizations stated that Audit Committee meetings were held at least 2 to 6 times in a year, and 20% conducted Audit Committee meetings more than 6 times in a year.

FORGING FORWARD

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In today's business landscape, organizations are pursuing accelerated growth objectives. In this context, Internal Auditors assume a pivotal role in elevating efficiency through the creation of efficient internal control measures and strategies that can accommodate both ongoing and anticipated changes. To facilitate these transformations, it becomes imperative for Internal Auditors to concentrate their efforts on three key areas:

- **Partnership**

In order to enhance the organization's resilience profile, it is essential for the Internal Audit team to partner and communicate with the management regarding the organization's strategic growth plans. This allows the team to present various scenarios to contemplate and identify potential risks that need to be addressed and managed.

- **Collaboration**

It is vital for Internal Audit teams to have a comprehensive understanding of the organization's strategic growth plans to effectively develop and implement audit plans that can manage the changes associated with them. This will enable the team to collaborate and devise customized plans that address the specific changes. The team should remain actively engaged and maintain a mindset focused on risk management and effective controls, especially when it comes to the new methods of operating and managing data and security.

- **Internal Audit Resilience**

Having a robust Internal Audit function can be highly beneficial for the business. This requires the team to possess the appropriate expertise, competencies, and comprehension to ensure that they are familiar and proficient with internal controls and the organization's operations, especially as it embraces novel digital technologies.

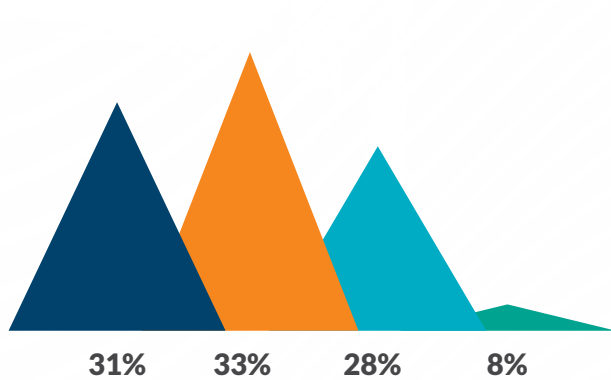
This is an opportune time to embed innovation in Internal Audit. IA professionals are equally eager to engage in strategic initiatives that have a deeper impact on the overall business.

Although adhering to conventional practices might initially seem more comfortable, it's crucial to consider whether this direction aligns with the organization's long-term objectives. Occurrences such as pandemics, natural calamities, socio-political unrest, and similar events have been foreseen and experienced over the years. However, in recent times, only digitally adept organizations with a forward-looking mindset were better equipped to navigate crises effectively.

DEMOGRAPHIC PROFILE

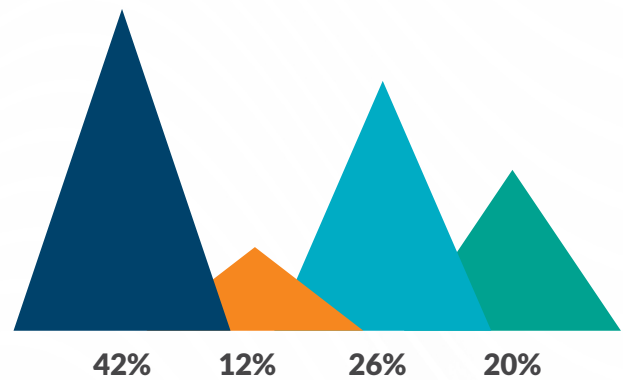
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Designation in the Company



- CAE/ CIA/ IA Director
- IA Manager
- Senior Auditor/Auditor
- Others

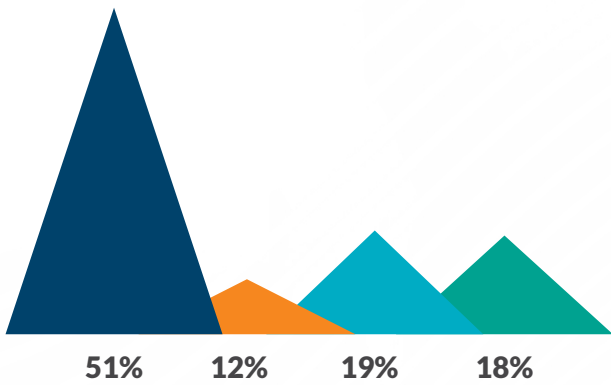
Legal Status of the Company



- Joint Stock Company (Public)
- Joint Stock Company (Closed)
- Limited Liability Company
- Others

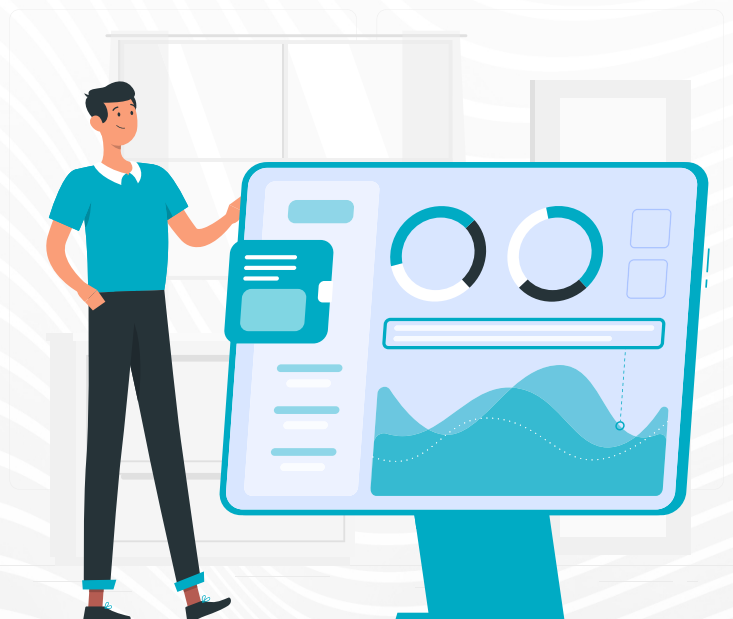
Approximately 64% of the respondents hold CAE/ CIA/ IA Director and IA Manager positions in their respective organizations.

Gross Annual Revenue of the Company

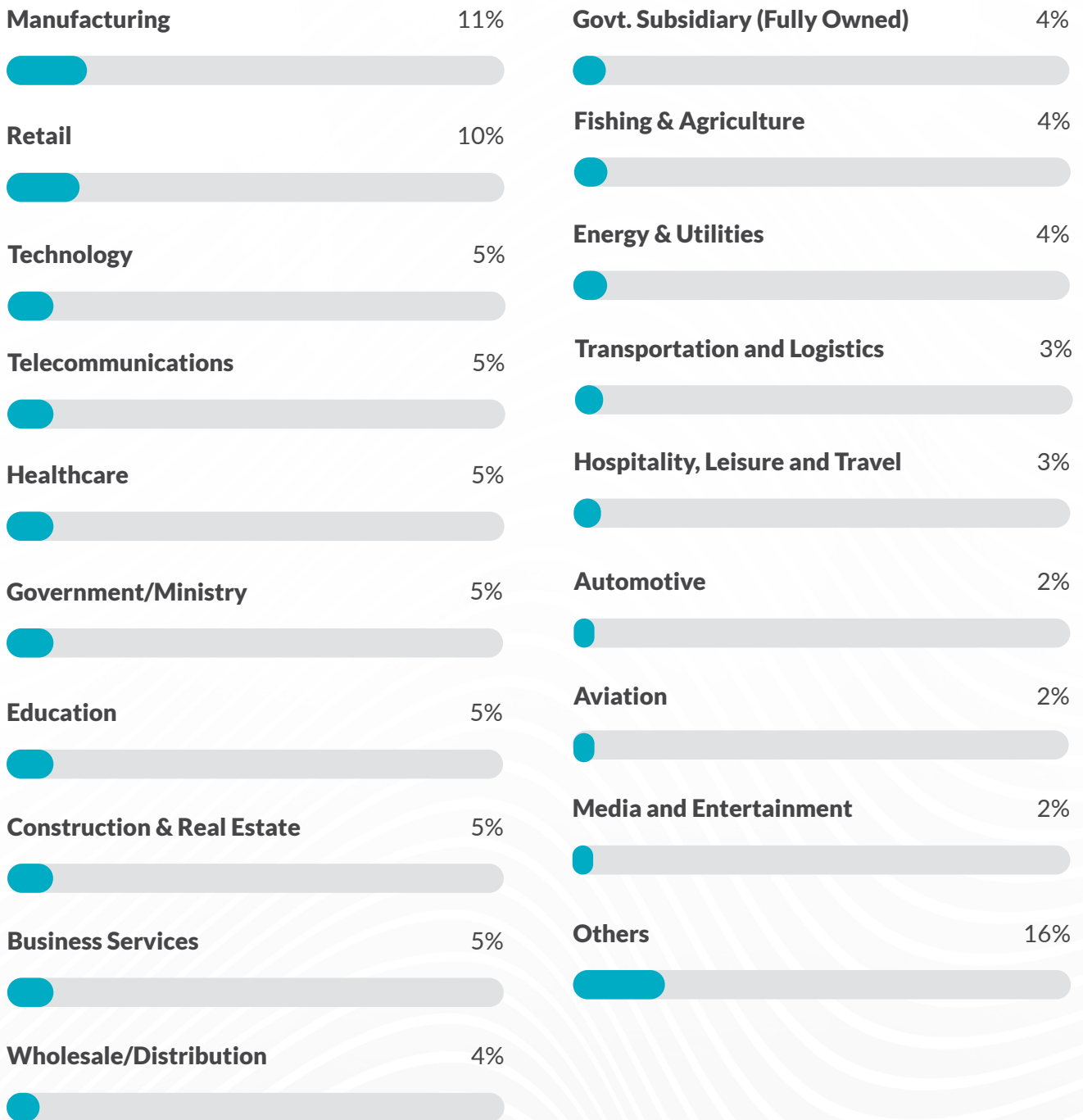


- SAR 1000+million
- SAR 500 to 1000 million
- SAR 100 to 500 million
- Less than SAR 100 million

51% of the respondent organizations have more than SAR 1 billion as gross revenue. About 31% range from SAR 100 million to 1 billion, and the remaining 18% are below SAR 100 million.

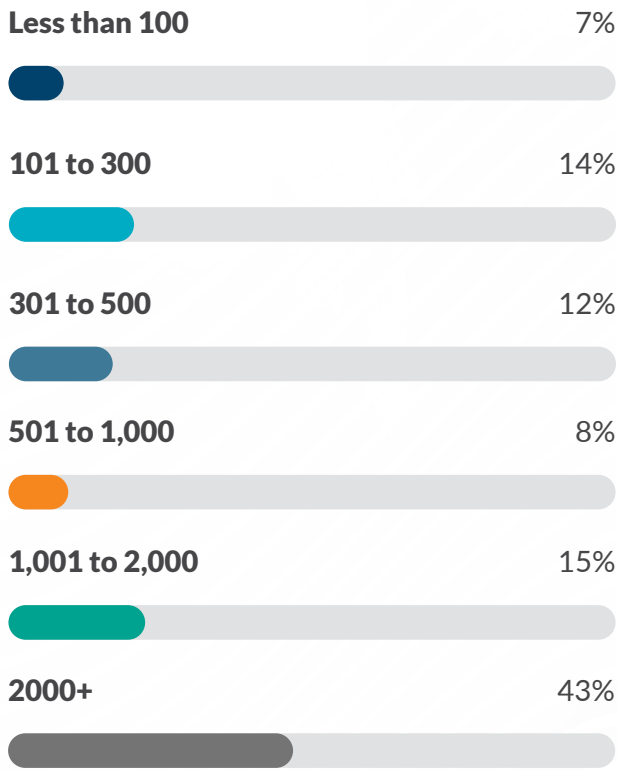


Primary Industry



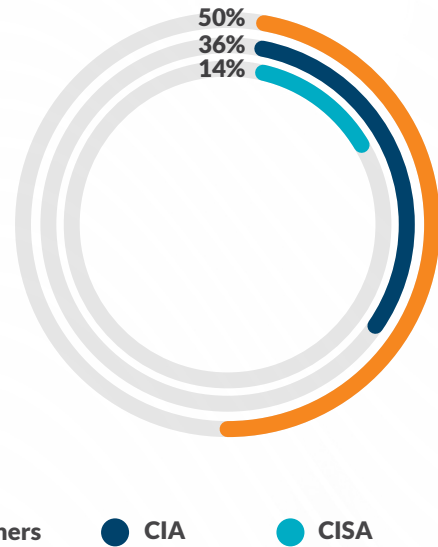
There is a fairly good spread of the industry mix, with an average of 5% across all industries. In comparison, 11% of the respondents correspond to the manufacturing industry, and 10% to the retail industry.

Number of Employees



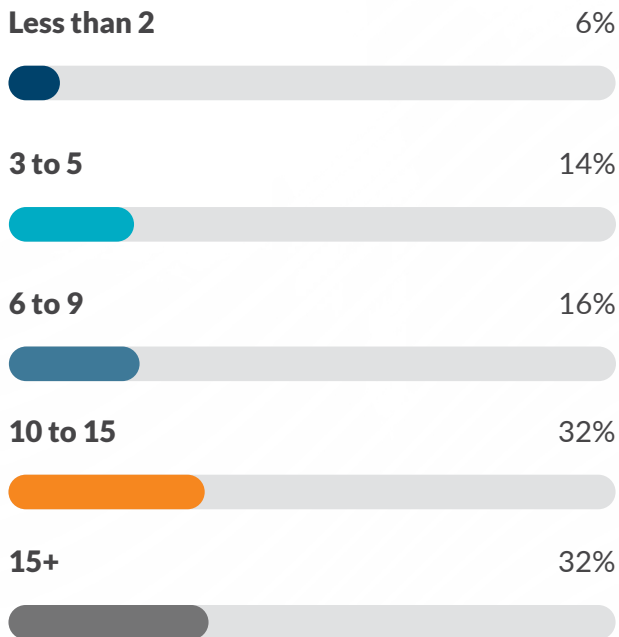
About 58% of organizations employ more than 1,000 personnel, while 20% range from 301 to 1,000, and 21% have less than 300 employees.

Professional Certifications



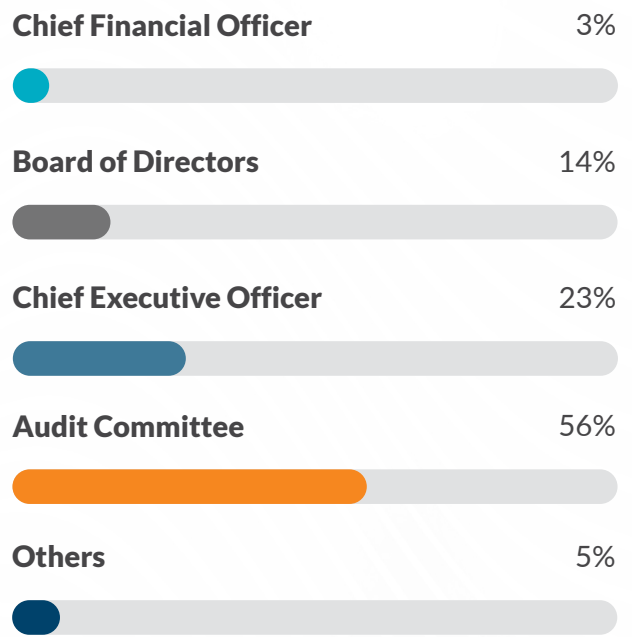
24% of the respondents, out of others comprising 50%, stated that they hold professional accounting certifications such as CA, CPA, CFA, ACCA, etc. In comparison, the remaining 76% of respondents have certifications such as CISA, CRMA, PMP, etc.

Years of Working Experience



64% respondents stated that they have more than 10 years of experience.

Reporting of Internal Audit function



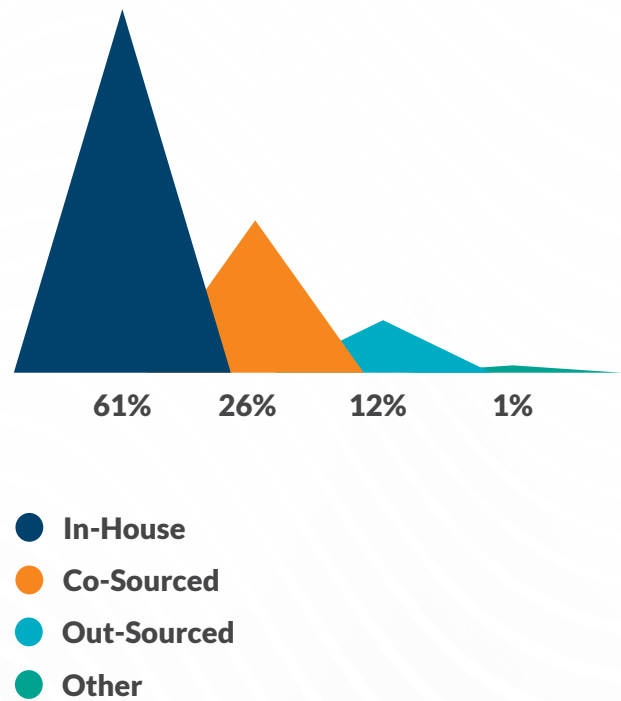
In more than 30% of the organizations, there is scope for Internal Audit function reporting structure to be aligned to leading global practices to provide independent assurance on the operating effectiveness of the organization's risk management governance and internal control environment.

INTERNAL AUDIT FUNCTION

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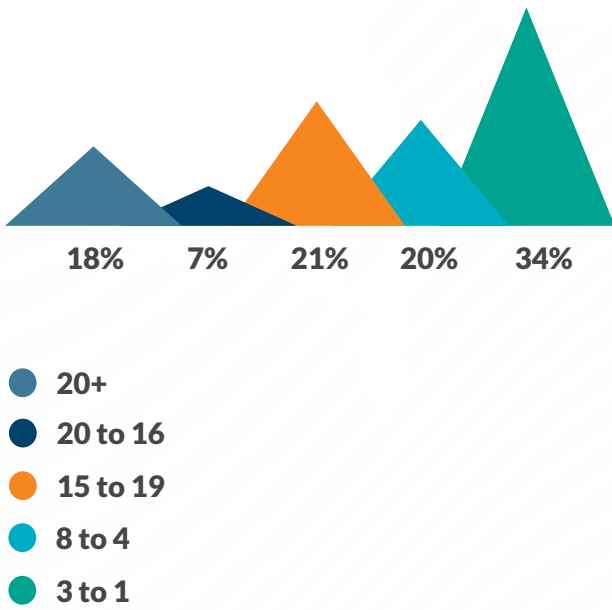
Although technology is an enabler for the seamless operations of an organization, the survey results indicate that IT-related reviews and skill sets are not receiving due importance within organizations across industries. The Internal Audit function must move towards becoming a forward-thinking, flexible, and consultative resource for the organization. Further, the survey revealed that 52% of the respondents do not perform a fraud risk assessment. However, for the Internal Audit functions to be relevant, agile, and act as an advisor to the company, they must move away from traditional boundaries to become strategic contributors and strengthen their position at the executive table.

Management of Internal Audit



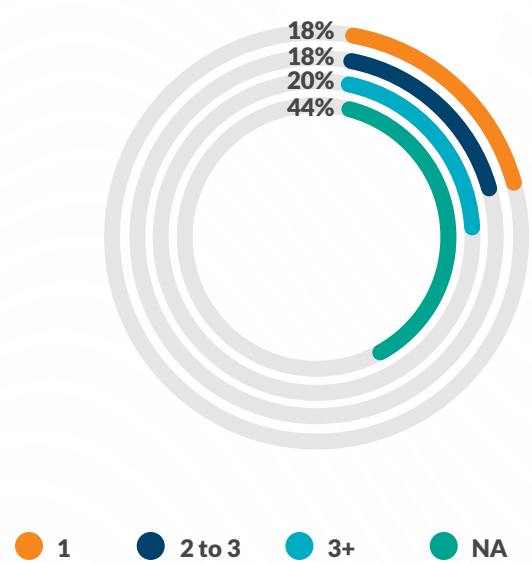
In about 60% of the organizations, the Internal Audit function is managed in-house and in the remaining (40%) it is managed through a combination of co-sourced and out-sourced models.

Number of Employees in the Internal Audit function



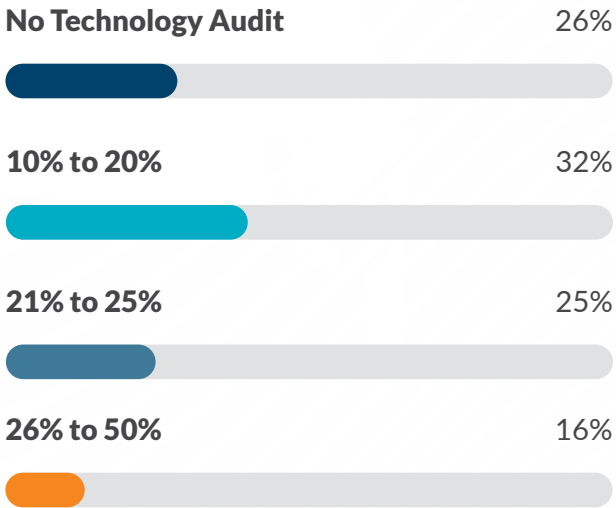
The analysis indicates a direct correlation between the model adopted by organizations to perform an Internal Audit (approximately 60% is managed in-house) with the number of employees in their IA function (65% having more than 4 employees).

Number of IT Auditors in the Internal Audit function



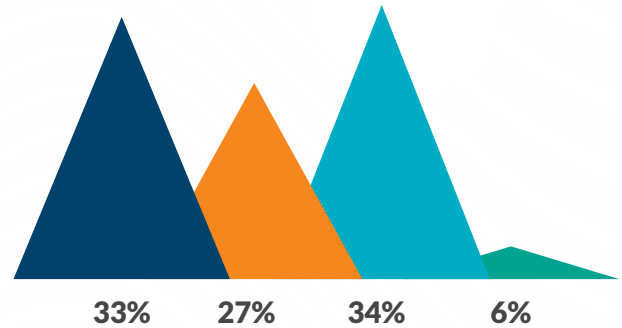
Considering the disruptions caused due to technological innovations, organizations would need personnel with IT and cybersecurity experience in their IA function to identify, mitigate, report, and monitor IT-related risks. However, 44% of the respondents stated that in their organizations IA function does not have personnel with IT and cybersecurity expertise.

Percentage of IA plan associated with Technology Risk Coverage



Based on the survey, 26% of the respondents stated that their organizations do not consider technology audit as part of their IA plan.

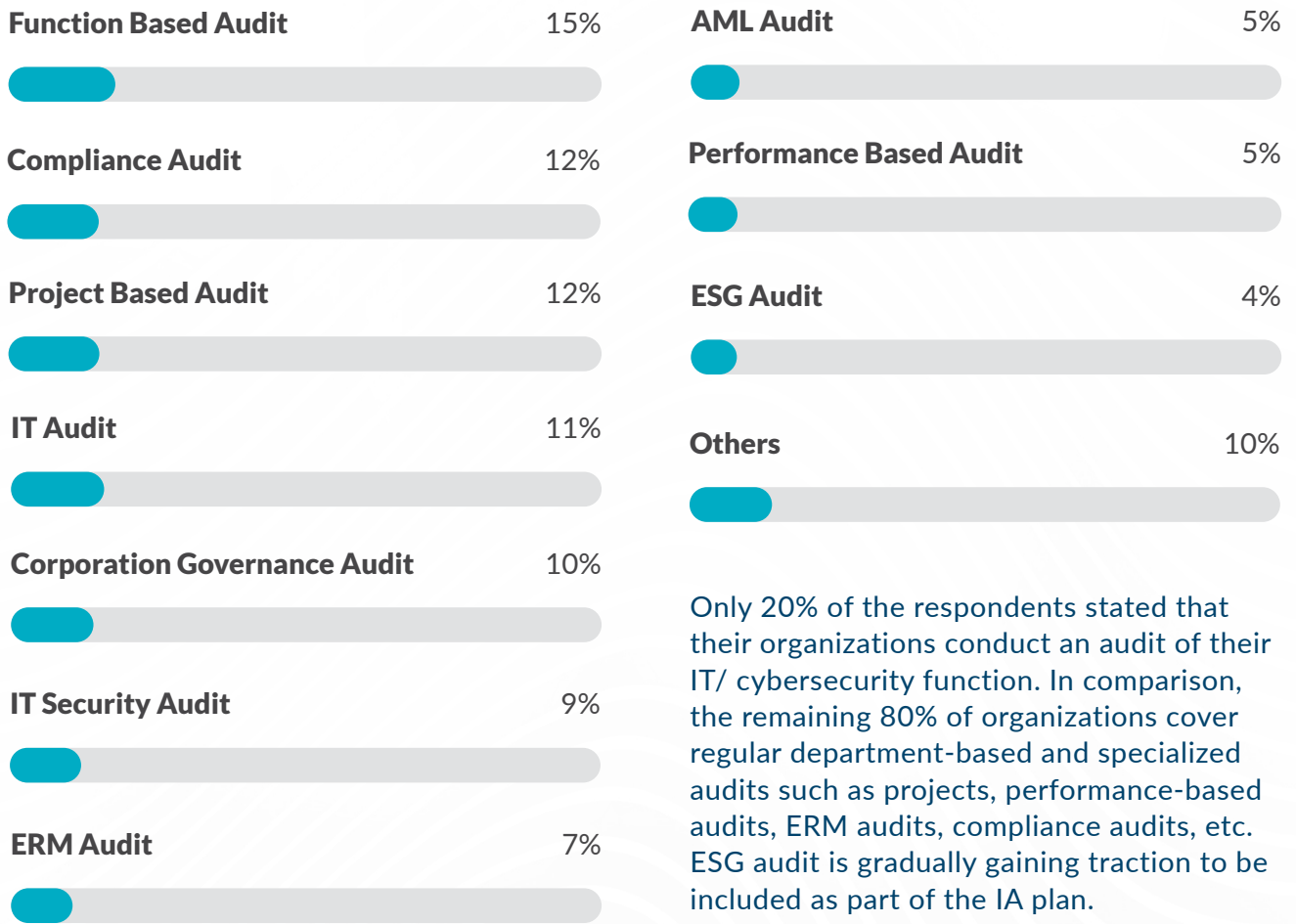
External Quality Assurance Review (EQAR) carried out by Internal Audit function



- Conducted an EQAR in the last 4 years
- Planning to conduct an EQAR in the next 12 months
- Not planning to conduct EQAR
- Others

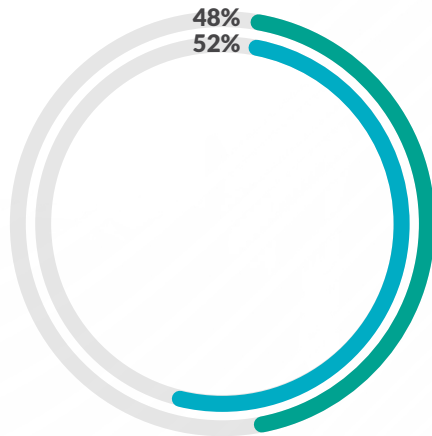
About 60% of the respondents highlighted that their organizations have conducted or are planning to conduct EQAR, whereas the other 40% are not considering EQAR.

Type of Audit included in the Internal Audit plan



Only 20% of the respondents stated that their organizations conduct an audit of their IT/ cybersecurity function. In comparison, the remaining 80% of organizations cover regular department-based and specialized audits such as projects, performance-based audits, ERM audits, compliance audits, etc. ESG audit is gradually gaining traction to be included as part of the IA plan.

Internal Audit function responsible for Fraud Risk Assessment

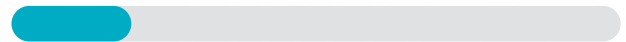


● Yes ● No

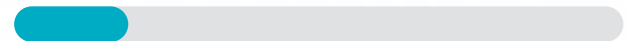
Over 50% of the respondents do not agree that the IA function is responsible for fraud risk assessment.

Instances where Internal Audit independence could have been compromised

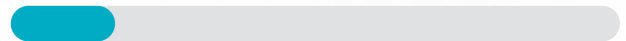
IA is unduly influenced by the Management, who try to define/limit the scope and provide limited access to information and data. 19%



Company (Board of Directors, Audit Committee, and Management) do not encourage critical control exceptions to be highlighted in the Audit Committee presentation. 18%



I was asked to develop the policies and procedures for business functions. 16%



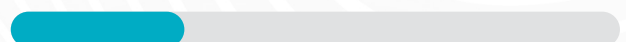
I was asked to pre-audit vouchers for accounts posting and other operational areas. 12%



I reviewed the work for which I was previously responsible. 9%



Others 26%



Close to 46% of the respondents mentioned that their independence was compromised through various means, such as:

- Undue influence by management by limiting the scope: 19%
- Critical exceptions not encouraged to be highlighted: 18%
- Asked to review the work previously responsible 9%

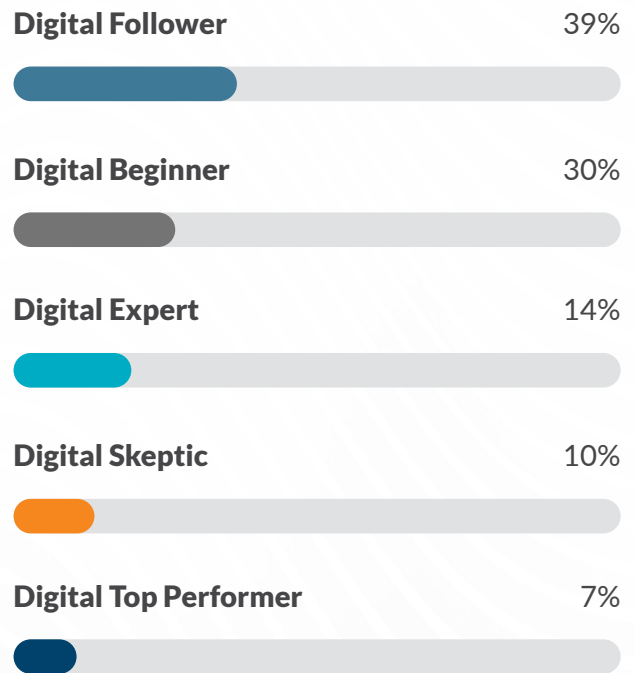
AUDIT INNOVATION AND TRANSFORMATION

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It is encouraging to see that a number of Internal Audit functions across industries are engaged in some form of innovation or transformation initiative. Even amongst those Internal Audit functions that are yet to engage in any transformation/innovation initiatives, they are on the agenda for most of them in the next two years, which is a positive trend.

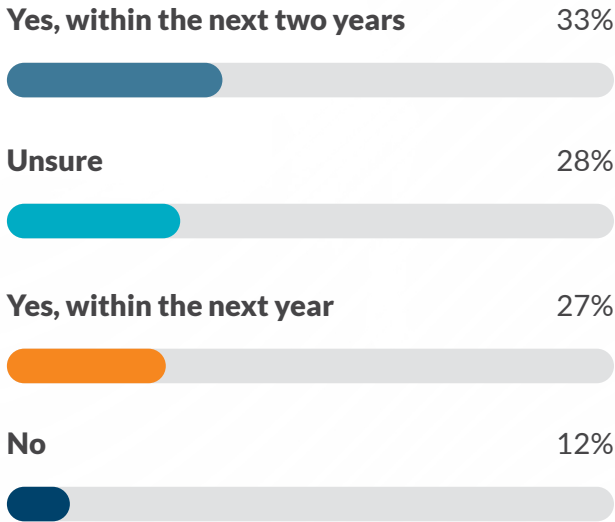
However, 35% of the respondents have expressed that they are either unsure or have no plans to implement any transformative initiative. These organizations should consider this development more proactively as the results suggest their peers are moving forward with their plans.

Ranking of Internal Audit function on Digital Maturity Scale



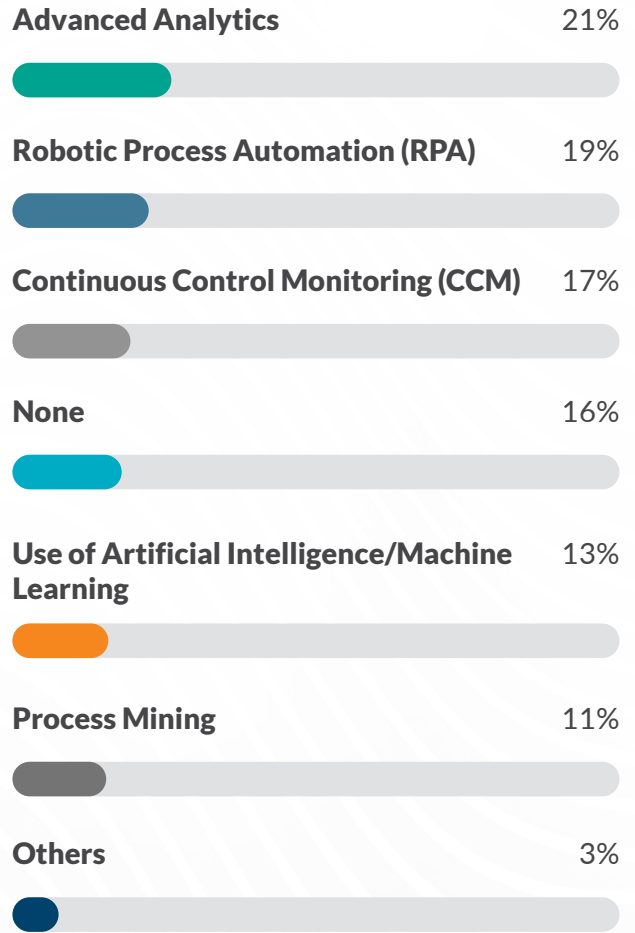
About 60% of the organizations and their IA function have adopted digitalization, 30% are beginners, and 10% are unwilling to adopt digitalization.

Internal Audit function plans to undertake any Transformation or Innovation Activities



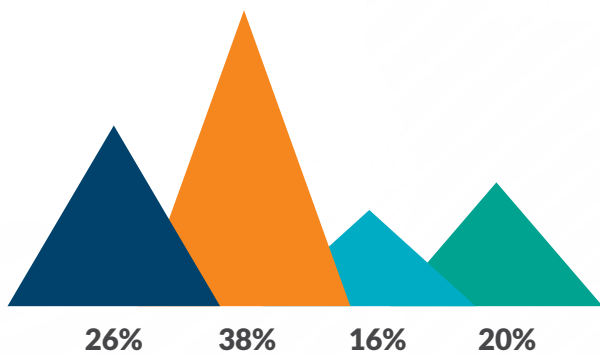
60% of the respondents stated that their organizations are willing to undertake transformation or innovation activities in their IA function within the next two years, whereas 28% and 12% respectively are unsure and have no plans to undertake such activities.

Digital Transformation initiatives undertaken by Internal Audit function or plans to undertake during the year



Close to 80% of the respondents highlighted that their Internal Audit functions have undertaken or plan to undertake multiple digital transformation initiatives during the year, while 20% of the respondents have not undertaken or do not plan to undertake any digital transformation initiatives.

Audit Committee willingness to undertake Internal Audit Transformation or Innovation Activities



- High degree of interest
- Moderate level of interest
- No interest/low level of interest
- Not aware

In 65% of organizations' Audit Committee is willing to undertake transformation or innovation activities for the Internal Audit function, whereas the remaining 16% of organizations have low/ no interest.

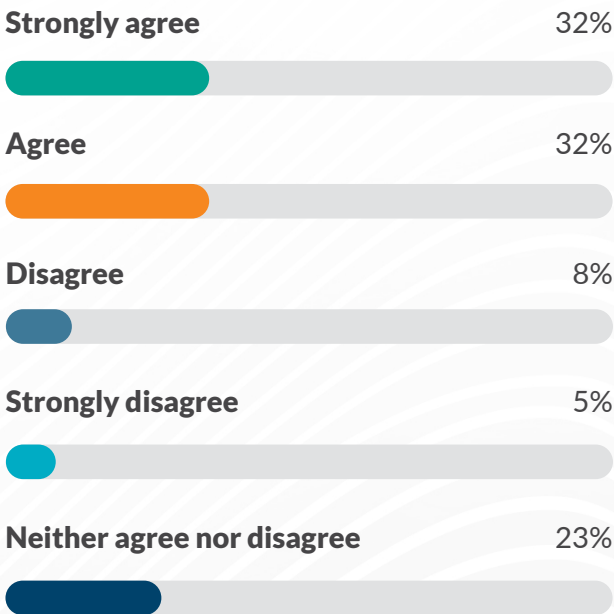


RISK MANAGEMENT

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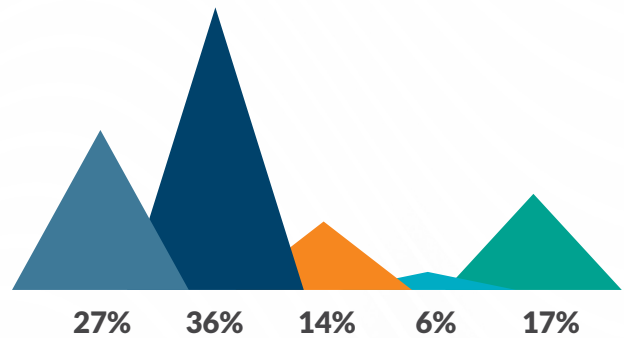
While 52% of the respondents stated that they have a separate Risk Management function within their organization, it is unclear how 48% of the respondents are tackling or managing the emerging risks to their business. Accordingly, the risk assessment must be performed more frequently to remain agile and resilient, and monitor the emerging risks that may impact the organization.

Relationships among various “three lines models” (typically Management, Risk Management/Compliance, and Internal Audit) are clearly defined and ensure effective coordination and collaboration



64% of respondents agree that three lines model relationships are clearly defined and ensure effective coordination and collaboration.

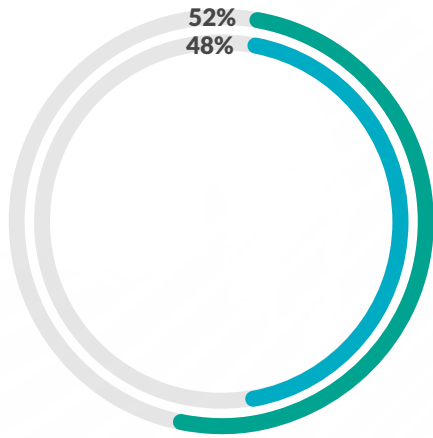
The Organization has a formal process in place that periodically engages senior management and key business unit leaders to identify, review, and prioritize the list of entity’s top risks



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

63% of respondents agree that their organization has a formal process in place that periodically engages senior management and key business unit leaders to identify, review, and prioritize top risks.

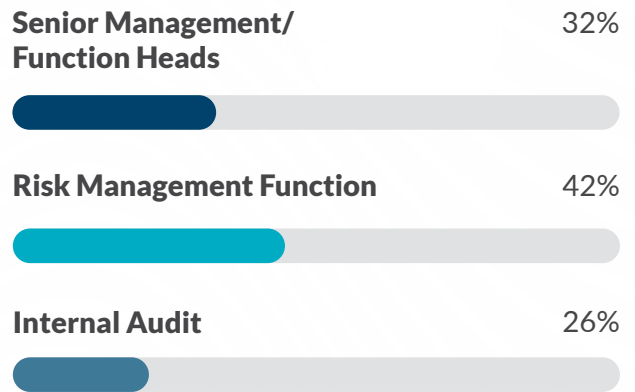
Separate Risk Management Function



● Yes ● No

52% of respondents stated that their organization has a separate risk management function.

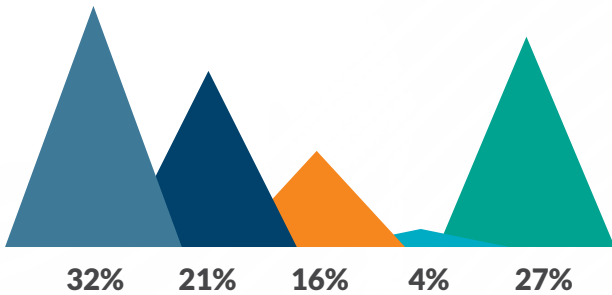
Responsibility for the overall Risk Identification



42% of the respondents stated that the risk management function makes the overall risk identification, while 26% responded that Internal Audit Function does it.



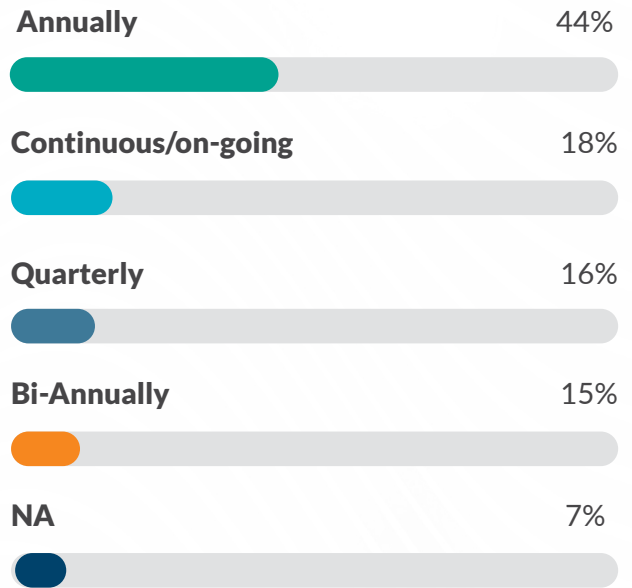
Confidence in the abilities of your Company to identify and assess Emerging Risks



- Very confident
- Moderate level of confidence
- Low level of confidence
- Not confident at all
- Neither confident nor unconfident

53% of respondents have confidence in their organization’s ability to identify and assess emerging risks, while 27% are unsure.

Frequency of Risk Assessments in the Company



44% of respondents stated that their organization conducts risk assessments annually, while 18% responded that it is continuous/ongoing, 16% responded quarterly, and 15% responded bi-annually.

Internal Audit methods to Assess Risk

Performs advanced data analytics to identify and assess changes in risks that otherwise would not be apparent



Identifies and monitors Key Risk Indicators (KRIs), including precursors to growing or emerging risks



Conducts informal or ad hoc updates to the Risk Assessment and Audit Plan

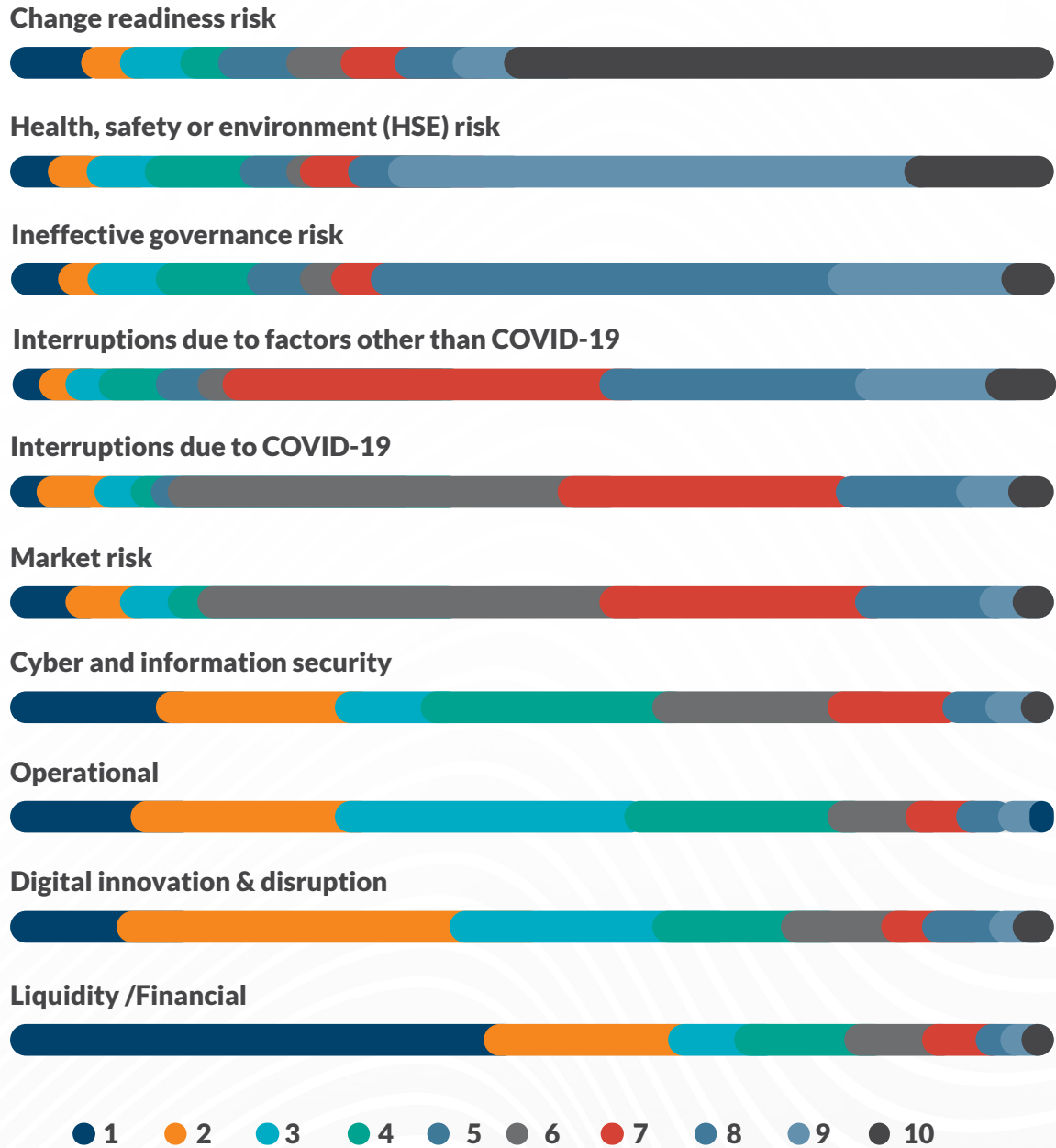


Periodically interviews management during the year to identify changes in the company's risks



39% of the IA functions moderately utilize advanced data analytics to identify and assess changes to the risks that otherwise would not be apparent. While 41% of the IA functions highly utilize periodic interviews with the management to identify changes to company's risks.

Risk Prioritization



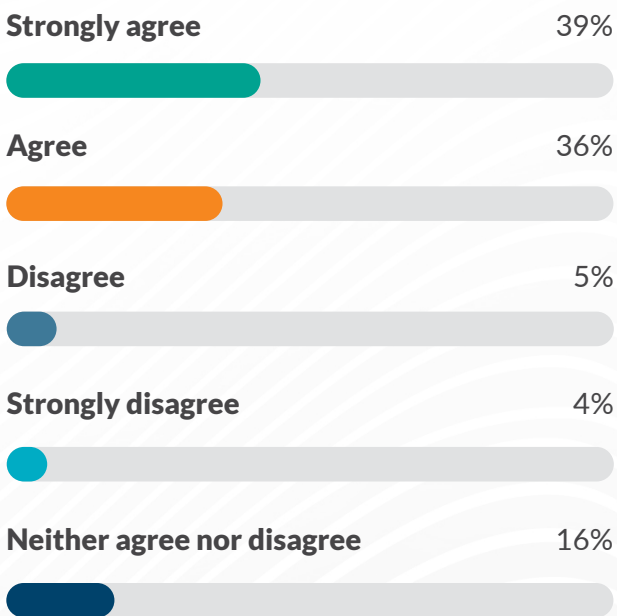
As per the respondents, 43% anticipate liquidity/ financial risk as the top risk, followed by digital innovation & disruption (29%), and operational risk (29%).

STAKEHOLDER RELATIONSHIP

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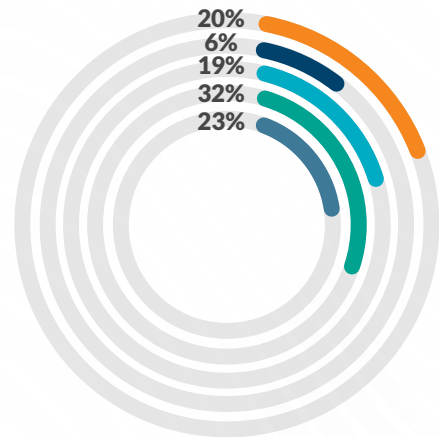
The regulatory framework defines the minimum standards that Internal Audit functions must comply. This includes the skill sets of the Audit Committee (AC), qualifications of the AC, independence, meeting frequencies, etc. About 71% of respondents agree that the skills and experience of the Audit Committee adds value and provides adequate governance oversight on issues related to internal controls.

Qualification and experience requirements for an Internal Auditor is defined adequately



75% of respondents agree that qualification and experience requirements for an Internal Auditor are adequately defined in their organization.

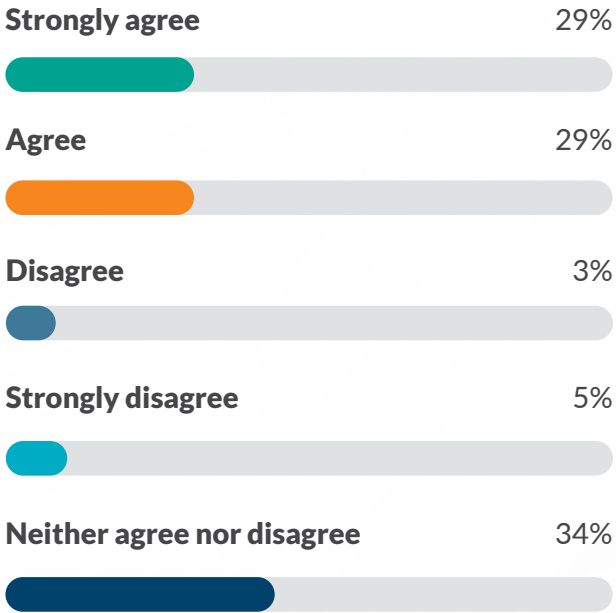
Number of Audit Committee meetings conducted during the year



● >6 ● 5 to 6 ● 4 to 6 ● 2 to 4 ● <2

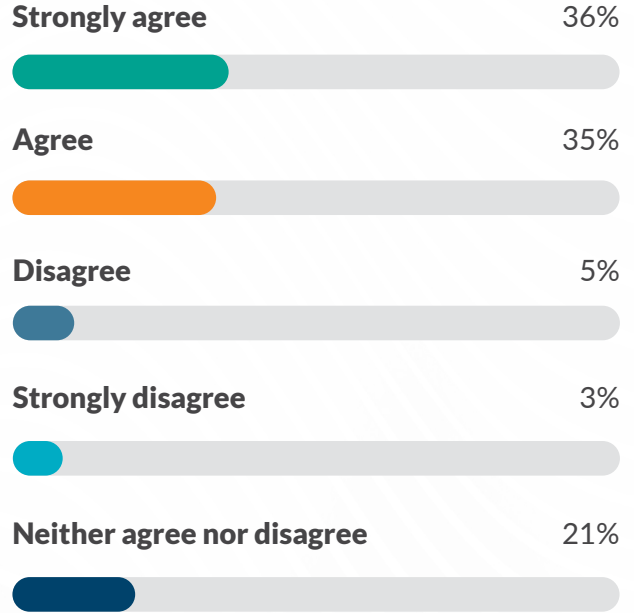
In 23% of organizations, Audit Committee meetings were conducted less than 2 times a year. In comparison, 57% of the organizations stated that Audit Committee meetings were held at least 2 – 6 times a year, and 20% of organizations conducted Audit Committee meetings more than 6 times a year.

Board of Directors and Management satisfaction with the value provided by Internal Audit



58% of respondents agree that Internal Audit provides value through assurance, consulting activities, and promoting governance culture within the organization.

Skills and experience of the Audit Committee add and provide adequate Governance Oversight on issues related to Internal Controls



71% of respondents agree that the skills and experience of the audit committee add value and provide adequate governance oversight on issues related to internal controls.

CONCLUSION

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A majority of the survey participants reported that audits were reprioritized or postponed due to operational challenges or limitations brought about by the pandemic. This points to a considerable change in the priorities of the Internal Audit function and/or the expectations of the organization from IA functions, with the aim of staying pertinent and contributing to value.

Even prior to the pandemic, there was a growing trend towards digitalization and automation of business operations. Organizations that had already implemented adaptable technology were better equipped to navigate the challenges presented by the pandemic. However, our survey indicates that there is a significant need for improvement in the digital capabilities of IA functions, as over 40% of respondents are digital skeptics or beginners when it comes to digital maturity. Only a small fraction of IA functions is currently well-equipped with digital enablement and automation. In light of the rapidly changing business landscape driven by technology, IA functions should focus on innovation and transformation in order to remain competitive.

IA functions have made considerable strides to remain pertinent and provide value amidst the difficulties presented by the rapidly evolving business environment. They have adapted in various ways, such as participating in crisis management, identifying altered risks, conducting remote audits, increasing their utilization of data analytics, and engaging in a greater number of consulting projects.

The world is evolving rapidly, with the added complexities of technological disruptions, health crises, and geopolitical uncertainties. However, the specialized insights and perspectives of Internal Audit can prove to be immensely valuable in navigating these challenges and uncertainties for organizations.

In the Kingdom of Saudi Arabia, the regulatory framework has been favorable towards cultivating a strong understanding of the significance of the Internal Audit function, particularly in regards to independence. As a result, the majority of respondents indicated that there have been limited instances that have undermined the objectivity and independence of the IA function.

ABOUT SAUDI INSTITUTE OF INTERNAL AUDITORS

The Saudi Institute of Internal Auditors is a professional and recognized institute in the auditing sector. Established in 2011 under the Council of Ministers [resolution no. (84)], We are a non-profit affiliate of The Institute of Internal Auditors (IIA) under the local supervision of the General Court of Audit. As the only official Internal Audit source in Saudi Arabia, we set the bar for professionalism while sharing knowledge on internal auditing processes. The Saudi Institute of Internal Auditors is committed to reaffirming ethical internal audit standards while providing educational and regulatory guidelines on the Internal Audit profession.

ABOUT PROTIVITI

Protiviti (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, analytics, digital, governance, risk and internal audit through its network of more than 85 offices in over 25 countries.

Named to the 2023 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.

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