



The Institute of  
Internal Auditors  
Oman

# 2020 Oman Pulse of Internal Audit



# Pulse of Internal Audit



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# Pulse of Internal Audit



## IIA Oman:

IIA Oman chapter was established in 2003. The chapter has over 250 qualified and professional base members. IIA Oman provides several services to enhance the knowledge of IAF, provides education to personnel who are pursuing the studies related to internal auditing (Certified Internal Auditors) or in risk management (Certification in Risk Management Assurance). IIA Oman also conducts CPE sessions which are highly regarded among its members and other professionals.

IIA Oman mission is to promote internal audit profession and provide learning and development opportunities so its members can remain competent and relevant to their organisation

### **Disclaimer:**

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# Pulse of Internal Audit



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## Acknowledgement

We would like to take this opportunity to pray for the soul of the late Majesty Sultan Qaboos who orchestrated the foundations of corporate governance and best practices in Oman. Our appreciation is extended to His Majesty Sultan Haitham Bin Tarik Al Said for enhancing the support to corporate governance by including the corporate governance as one the themes in Oman 2020-2040 Vision.

IIA Oman is very thankful to our main sponsor; College of Banking and Financial Studies (CBFS) and to Capital Market Authority (CMA), IIA Global, Chief Audit Executives and the members of IIA Oman for their continuous support.

## Preface:

This document is produced to celebrate Internal Audit Month @ MAY. The aim is to identify the emerging issues which can be considered as necessary at the present times. This document is not only for the internal auditor but it can be utilized by any audit profession around the globe. It is an effort made by IIA Oman Chapter to identify the key issues faced by Internal Audit Function (IAF) which are related to IAF within the organization, COVID 19 impact, Emerging and Atypical Risks evaluation and Audit Innovation & Transformation. This is the first ever survey conducted of this kind therefore comparative figures cannot be provided. However, and in order to provide the best of the information, we at IIA Oman are determined to continue this effort and it will be improved on every year.

# Pulse of Internal Audit



## Introduction:

Internal Audit Function (IAF) is considered a necessary part of the governance management system and is available in almost all of the codes of governance developed by many countries or authorities including the Sultanate of Oman (Oman). The IIA Global 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))

The survey was conducted on 14th May 2020 up to end of June 2020. This study is conducted at the organizational (firm) level and the survey targeted the Chief Audit Executive/ Head of IAF. Responses received were from 72 respondents from both public and private sectors.

## The survey focused on four main areas:

### Section 1: Demographic Profile

Gender, sectors, internal audit related competencies, number of years of experience in internal audit, professional and academic qualifications

### Section 2: Internal Audit Function (IA)

Coverage and spread of the audit plan, audit plan development method, reporting structure, completion percentage , outsourcing , manpower size , employment sources

### Section 3: COVID 19 impact

Impact on internal audit strategy and audit plan, manpower, level of engagement and consultation

### Section 4: Emerging & Atypical Risks

Covers the areas related to emerging & atypical risk, auditor's perception and organizational views

## About the Pulse:

The survey was drafted by IIA Oman and some questions were adapted from the IIA Audit Executive Center study conducted in 2019. The survey questions considered Oman's unique internal audit and regulation maturity environment. The authors performed peer review for refinement. Details and analysis of the questions are mentioned in the subsequent sections.

# Pulse of Internal Audit



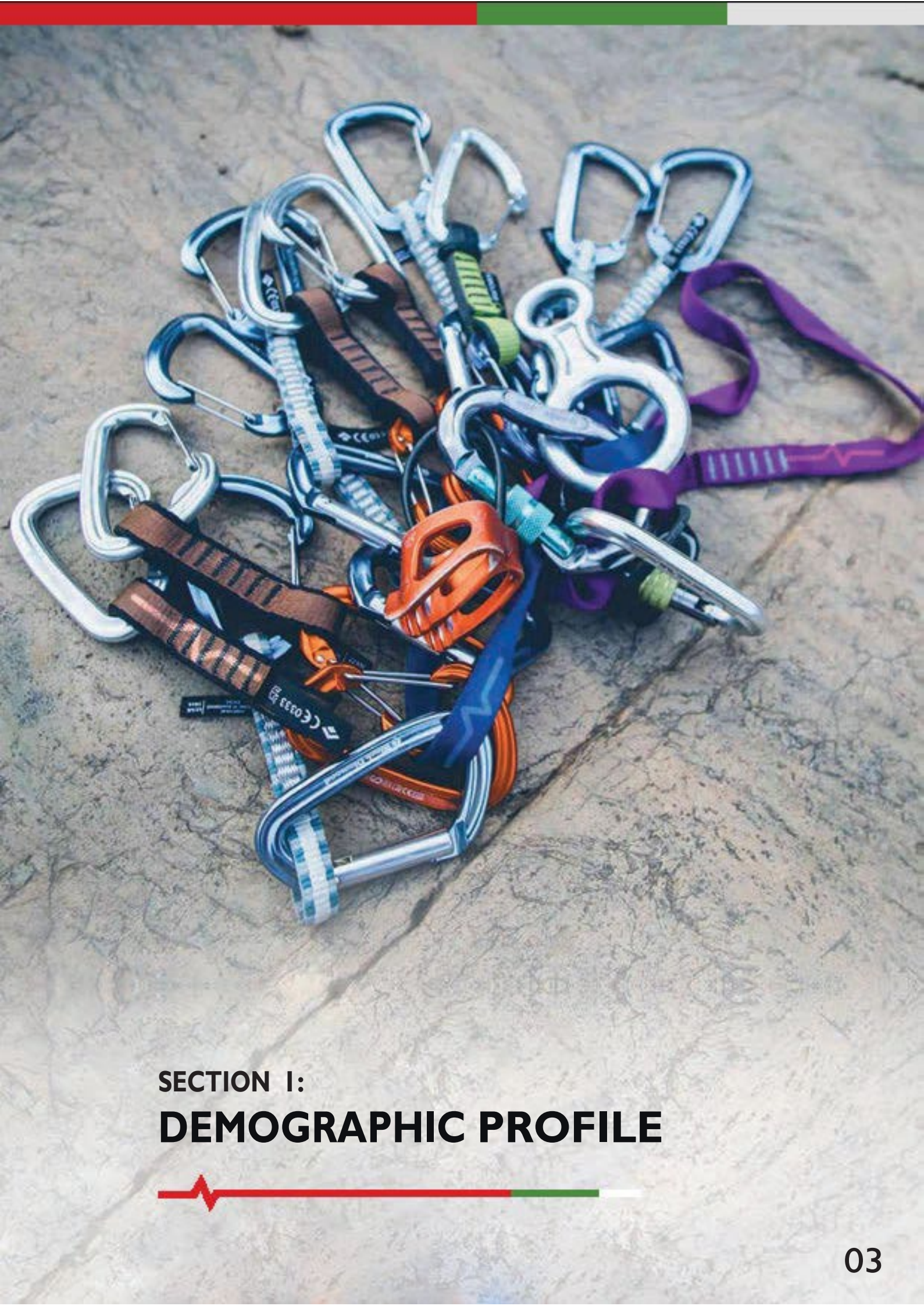
***Beyond merely cataloging the latest in Internal Audit innovations and governance capabilities, this document provides insight to the status of Internal Audit in Oman.***

The Internal Audit Function (IAF) of listed companies in Oman is highly regulated by the Capital Market Authority. The opinion of IAF is considered and regarded in all sorts of business and IAF is believed as a cornerstone and necessary function of the organization. However, there are few IAF which still follow traditional internal audit practices that do not support the business to achieve its strategy. The root causes for these practices are either related to the internal audit management itself or to senior management and or board of directors. This study did not delve into these root causes and we hope to have this area in our next survey or it could be a field of study for any literature relate to Internal Audit in Oman.

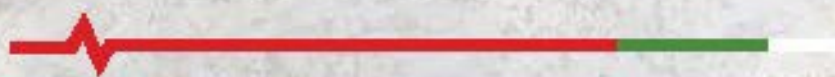
The majority of the Chief Audit Executives/Heads of IAF are professionally qualified as Certified Internal Auditors or equivalent and they also possess the other financial certifications and degrees. A Mix of audit and finance provided these leaders foresight and knowledge which is fundamental towards developing the internal controls in any organization.

IAFs is supported by Audit Committees; however, the majority of the organizations are not heading towards transformation and they are also not supported for this transformation. But on the other hand, IAF is providing risk-based services to the organizations by identifying the high risk areas, becoming part of the crisis management team and involving themselves in updating business initiatives.

70% of IAF are able to complete their annual audit plans although, for the majority of the organizations average percentage of IAF in comparison with overall employees is merely ranging from 1% to 8% only. This study is not identifying the expected number of IAFs in any organization but is giving a holistic view of the overall trend.



SECTION I:  
**DEMOGRAPHIC PROFILE**

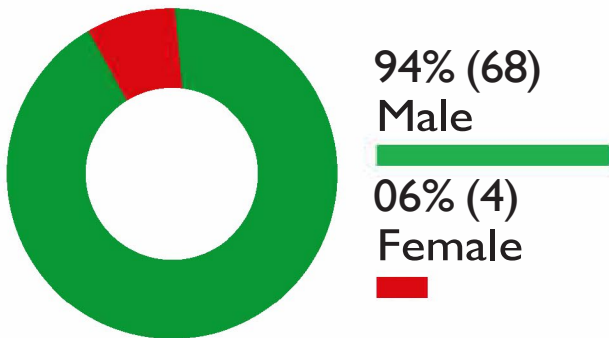


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94% of the CAEs who responded are male and 58% have more than 10 years of internal audit experience. 54% work in privately held companies such as SAOC and LLC, 25% work in government owned organizations or the government sector and only 14% work in listed companies. Total professional qualifications held by CAEs are CIA, CRMA CISA, CPA and others. The highest number of certification held is CIA which is 31% of the total certifications. On the other hand, the majority of CAEs possesses a Master's degree which is related to the field of business followed by the Bachelor degree.

## GENDER

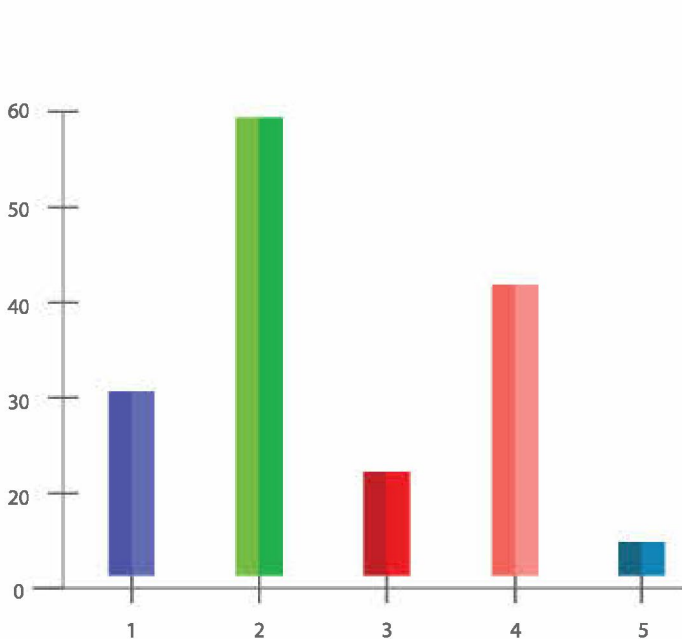


81% of IAF are reporting to the Audit Committee or Board of Directors; however, a few IAFs are reporting to the Chief Executive Officer or subordinates. With regards to the professional background, the majority of the respondents are from the field of internal audit whereas 26% have a financial background. Only 28% of the employees working in IAF are active members in the Institute Internal Auditor (IIA).

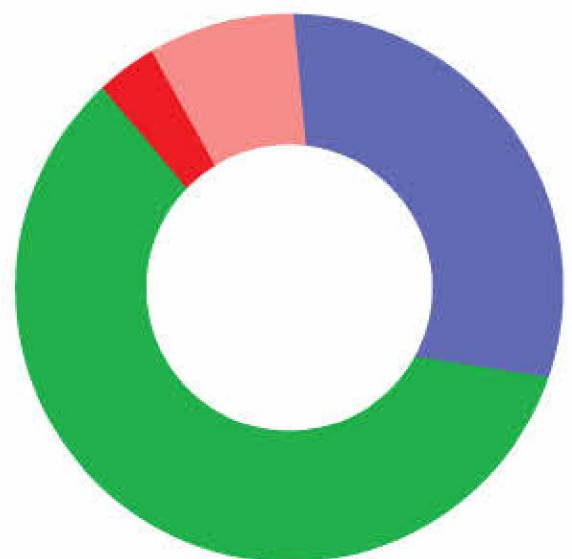
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## TYPE OF THE ORGANIZATION WORKING WITH



## DESIGNATION IN ORGANIZATION



LISTED 14%	PVT 54%	NFP 6%	GOVT 25%	FAMILY 3%	CAE/DIA 32%	MANAGER 58%	OTHER 3%	OTHER DEF 7%
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**SECTION 2 :**  
**INTERNAL AUDIT**  
**FUNCTION**

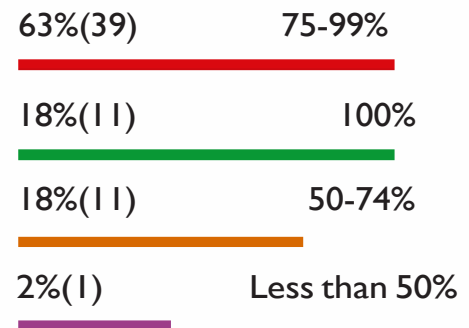
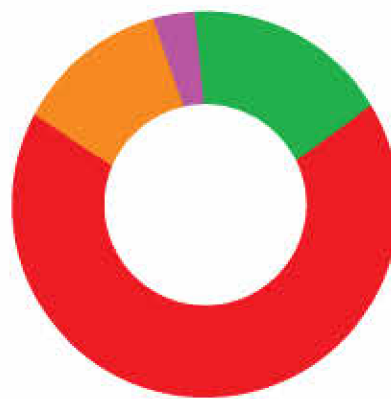


# Pulse of Internal Audit

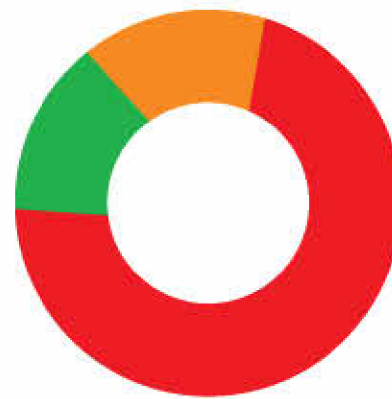


Executing the audit plan completely and on time is one of the key deliverable and expectation of the audit committee from Internal Audit. Our survey shows that 18% of the respondents managed to fully complete their audit plan in the last two years and 63% of the respondents completed between 75-99% of their plans. More analysis is required to investigate the reasons behind this low completion rate which can be addressed in the next survey

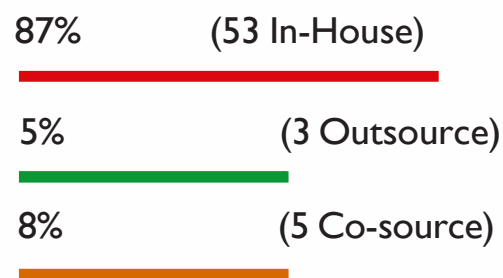
What is the percentage of your audit plan completion for the last 2 years



87% of the participating organizations have their in-house internal audit although the number of respondents working in listed companies and are mandatory required to have in-house IAF is only 14%. This gives a very good indication on the level of board of directors' reliance on in-house internal audit compared to the outsourced or co-sourced.



Do you have in-house or outsourced IA?



The survey shows that 50% of IAF have a quality assurance program which is considered very low. We hope to see this number increasing in the coming surveys. With regards to IAF size, Table 1 summarizes the percentages of IA staff in organizations with gross annual revenue ranging from 1-100 million in proportion to the total staff and to the finance department staff.

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Table I : Percentage of IA staff in Organization

Gross annual revenue of Organization in OMR (Million)	Percentage of IA staff v/s total number of employees in Organization	Percentage of IA staff v/s total number of finance department employee
10 to 100	4-15	4-20
1 to 10	1-3	1-3

When CAEs/ HoD asked about the top competencies required for their organizations, the majority considered business/sector knowledge as the top one. The second top competencies are technical and soft skills. The technical are particularly related to finance, account and IFRS standards. The soft ones are problem solving, critical thinking and communication.



It was really interesting to know the top three risks faced by the organizations. A total of 173 risks were reported. For the purpose of this report, these risks are categorized into common risks and presented below: Few of the risks which are not common are not covered here.



SECTION 3:

# IMPACT OF COVID 19



# Pulse of Internal Audit



The whole world is suffering from the COVID-19 pandemic. It has not only impacted the individual life but also the financial health of the organizations. It is important to understand the impact of the pandemic the on IAF.

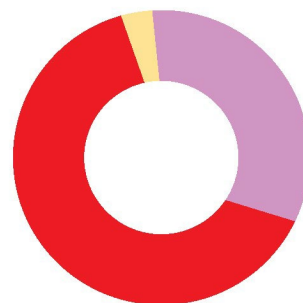
When asked about the audit plan and organizational strategy, 46% of IAF updated their audit plans and 68% of the organization updated their strategies. The majority of the organizations which updated their organizational plan and/ or audit plan due to COVID 19 belongs to the Financial Sector of business.

With regards to the changes in audit plan, the following were the main changes introduced in the plan: (for the purpose of this report, below mentioned are combined into a similar category)

1. Postponement of some audit areas
2. Assess the emerging risk
3. Assess the impact of timelines since working from Home
4. Reduced scope as result of availability and access to information
5. Conducting online reviews
6. Review of all controls changes due to the pandemic
7. Reorganize the audit plan based on where the risks have become high.

As COVID 19 develops the terminology of the "new normal" similarly, it obliged organizations to develop several new aspects of strategies including the development of business continuity plan (BCP). 55% of the respondents said that they had no BCP in place and only 40% responded that BCP existed in their organizations. The survey indicated that the IAF may not have been proactive to advise or advocate for business continuity. IAF need to include the assessment of business continuity of their organizations during the periodical risk assessment and planning regardless of the organization size.

Were Business Continuity Plans (BCP) developed before the COVID-19 pandemic?



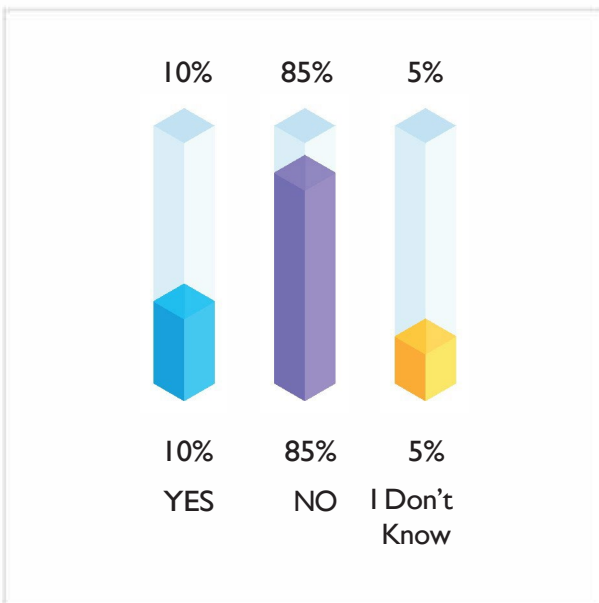
55%(34)	YES
40%(25)	YES
5%(3)	I don't know

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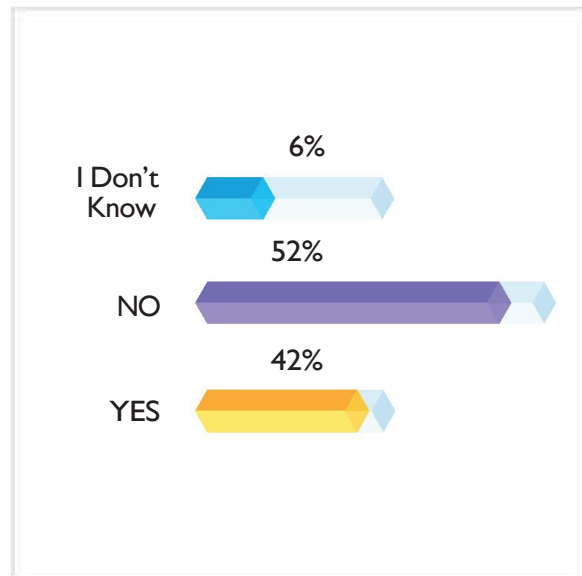


45% of IAF were part of the crises management team or involved in updating the business strategic initiatives. 55% responded that they were not consulted. It is not obvious why the majority of IAF were not involved and this needs to be investigated further by CAE/HOD to ensure that they are relevant and are considered as a trusted advisor.

Was IA asked to perform any task that can be considered as against internal audit principles i.e. objectivity and independence



Was IA involved in updating the business strategic initiatives

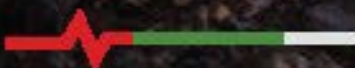


In addition to the above, a few of the IAFs informed that they were asked to perform those tasks which could jeopardize their independence and objectivity. 88% informed that they did not perform such a task. There could be many reasons surrounding IAFs deciding to perform the task which is subjecting to their independence and objectivity; however, in many other global organizations it was performed for the survival of the organization and the same could be the case of organizations in Oman.

A person is rappelling down a rope from a natural rock archway. The archway frames a view of a coastal town with a winding road, greenery, and a blue sea. In the background, there are mountains under a clear sky. The person is in the center of the arch, holding onto the rope with both hands and feet. The rope is attached to the top of the arch and extends down to the person. The rock is a reddish-brown color. The sea is a deep blue, and the sky is a pale blue. The town below has several buildings and trees. A road winds through the town. The overall scene is one of adventure and natural beauty.

SECTION 4:

# RESPONSE TO EMERGING RISKS



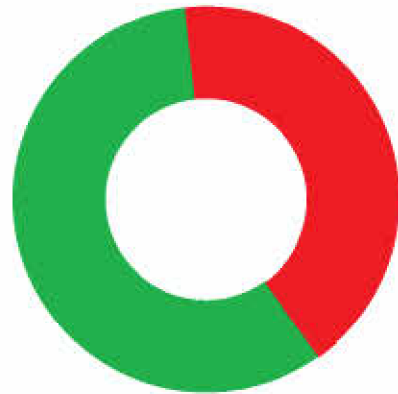
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This section covers the risk function, IAF capabilities of assessing emerging and atypical risks and organizational aptitudes towards highlighting and mitigating these risks. Emerging risks are new risks or those that were of no consequence in the past. Atypical Risk means risks that are difficult to define and assess or those very infrequent in occurrence.

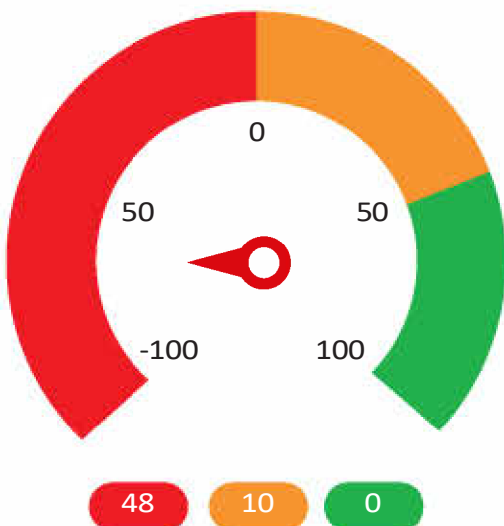
56% of the respondents said that they do not have a separate risk management function. It would be interesting to know how organizational management is dealing with the area of risk.

Do you have a risk department?



44% (27)	YES
56% (35)	NO

Rate your confidence for an organization to identify and assess risks



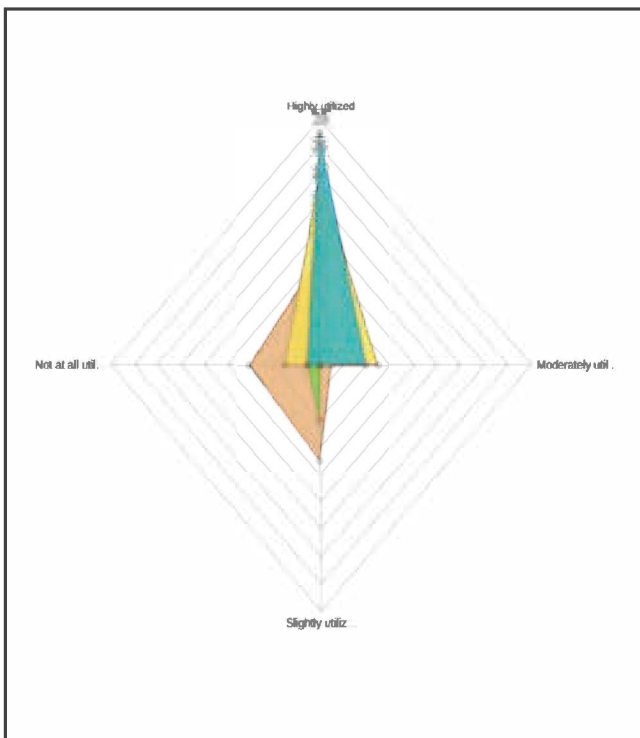
The survey revealed that IAF does not have high confidence on the organization's ability to identify and assess emerging risks and atypical risks. However, IAF has a very high confidence on its ability to identify emerging risks and atypical risks to management. This can be easily assessed as more than half of the respondents indicated that they did not have a separate risk management department.



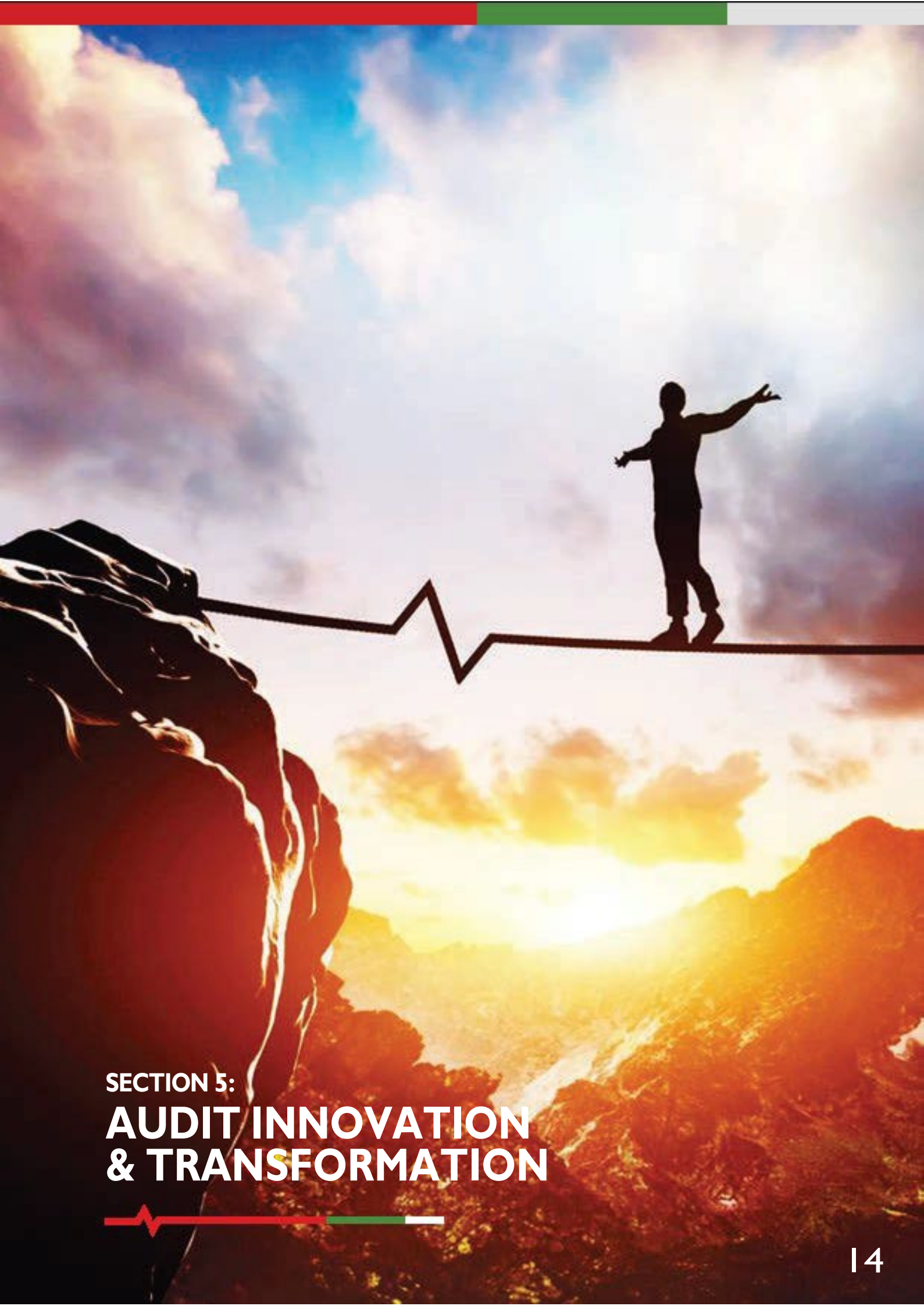
# Pulse of Internal Audit



Respondents were also asked to inform about the methods utilized by IAF to assess risks. The majority of the respondents informed that they conduct informal or ad hoc updates to the risk assessment and audit plans followed by the periodically interviewing management during the year to identify changes in the organization's risk portfolio.



- Periodically interview management during the year to identify changes in the organization's risks
- Conduct informal or ad hoc updates to the risk assessment and audit plans
- Identify and monitor key risk indicators (KRIs), including precursors to growing or emerging risks
- Perform advanced data analytics to identify and assess changes in risks that otherwise would not be



**SECTION 5:**  
**AUDIT INNOVATION  
& TRANSFORMATION**

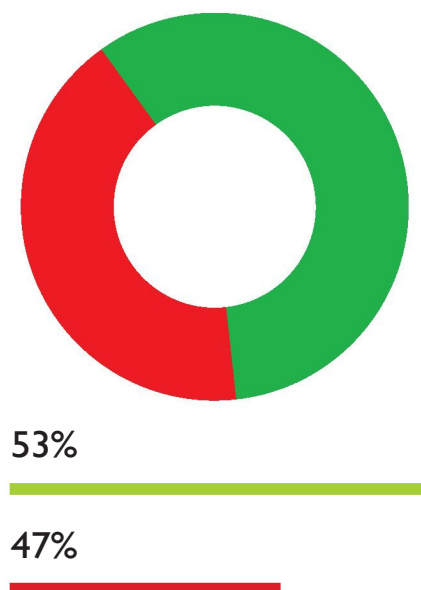


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The IAF must remain viable in today's competitive environment. As the governance, risk and compliance landscape continue to evolve, the IAF must search for new ways to evaluate what is in their audit plans and become creative in support of management's pursuit of business objectives.

Our survey shows that only 53% of the IAFs are undertaking transformation or innovation initiatives. whereas, 47% of the respondents are not undertaking these initiatives. It was also informed by respondents that all those who are not undertaking transformation initiatives now, 44% of them have the desire to initiate the transformation initiative in future.



## Does your IAF have any plans to undertake transformation

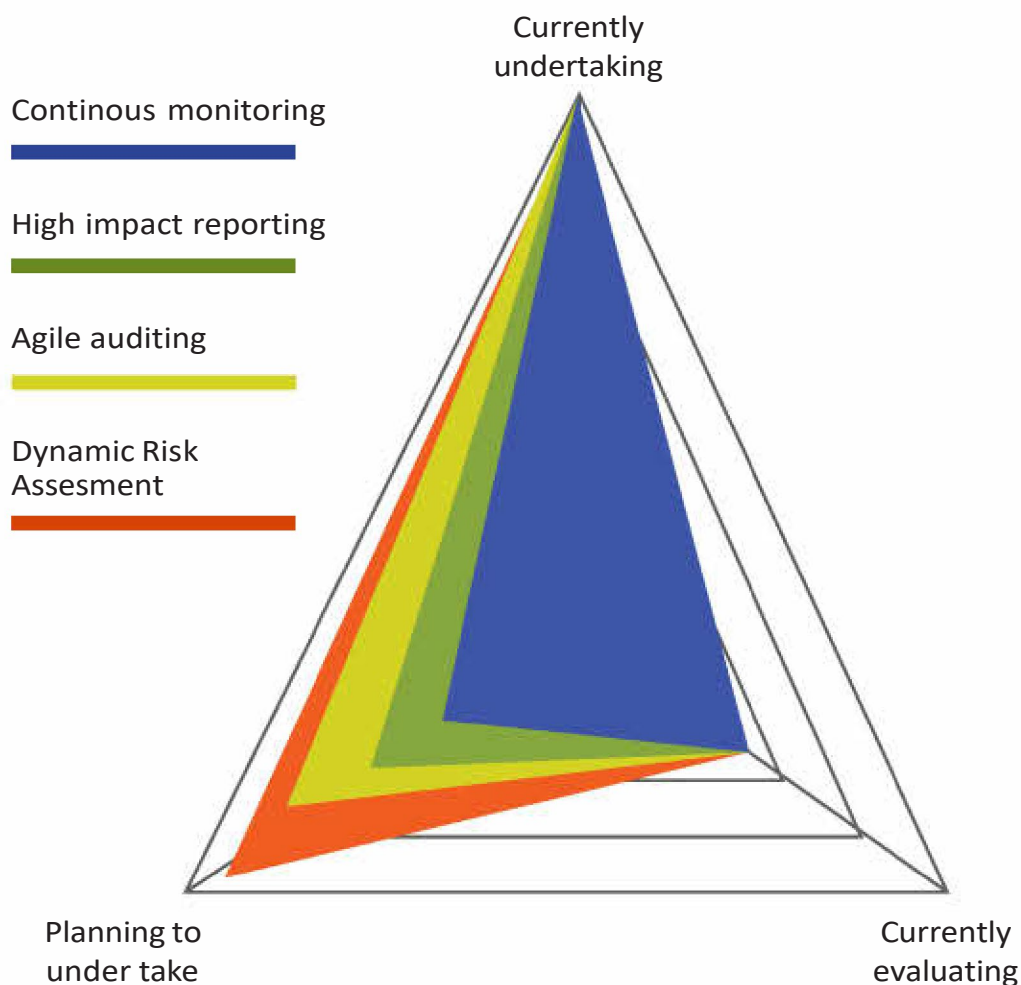


The survey shows that Audit Committees are really keen for IAF to transform internal audit to make use of the technology and keep up to date but unfortunately not much progress is visible in this regard. However, progress is expected and we can see change in the future surveys.

# Pulse of Internal Audit



With regards to the methodologies undertaken for the transformation, it was informed that the majority of the IAF are adopting continuous monitoring followed by the high impact reporting; However, agile auditing and dynamic risk assessment is on the lower side. It is worth mentioning that IIA Oman will be delivering a series of sessions covering the agile auditing and we are confident that in the next coming year it will be adopted in the same fashion as continuous monitoring





**SECTION 6:**  
**DISCUSSION &**  
**RECOMMENDATIONS**



# Pulse of Internal Audit



This report will assist CAEs and other parties interested in Internal Audit to better understand the status of the profession and compare it with their peers. This report develops the trends and norms followed by the IAF and the organization's attitude towards their IAFs. This report is a first time attempt by IIA Oman to assess the status of the internal audit profession in Oman by engaging the related stakeholders to reflect on their practical experience.

In the current pandemic scenario and especially when things go awry, any area of misaligned risk not only presents clear risks to the organization, but it can also undermine the confidence in IAF. Usually in times of crisis, IAF falls victim to the inevitable question of "Where were the internal auditors?" CAEs can protect against such criticism by raising their voices when misalignment or control weaknesses go unaddressed or when new risks are not properly addressed. *After all, a risk not communicated is a risk assumed.*

The survey revealed one alarming signal where IAFs in Oman are not heading towards innovation or transformation. More alarming is that the majority of IAFs are not even planning for such a move despite believing that Audit committees are very keen to see the transformation. Unless Audit committees and CAEs push for such a move, IAFs will keep following the traditional method of auditing and this will jeopardize the status of the IAF within the organization and its ability to really add value.

With the continuous changes in business environment, it is necessary for IAFs to adopt the changes and to implement them in their daily work. The first step towards identifying the transformational changes is to become a member of IIA so that updates are available. Second IAFs especially CAEs should pursue their CIA certification. This certification will assist in achieving their goals and will also provide them with the voice of recognition.

Since the IAF reports to the Audit Committee, therefore the support is essential. For all those IAFs where reporting is made other than the Audit Committee, it would be difficult for IAFs to perform independently and it may jeopardize the objectivity. In order to transform, IAFs should utilize continuous monitoring, high impact reporting, an agile audit approach and dynamic risk assessments.

IAF function size is relatively small in all organizations; however, the exact number of personnel requirements is completely dependent upon organizational business nature and availability of appropriate resource. The decision to have in-house/outsourced IAF is dependent upon the risk associated, complexity of the business and lastly, the budget availability. It is always recommended to have in-house IAF due to several reasons which includes continuous monitoring, better understanding of change in business and sound perception of organizational culture.

Organizations should have BCP. As informed by respondents, many organizations developed BCP after the emergence of a crisis and only a few of the organizations were ready with their BCP. The IAF should be a part of BCP and should participate in the business strategy initiatives and this can only be attained if IAF demonstrates its value to the business.

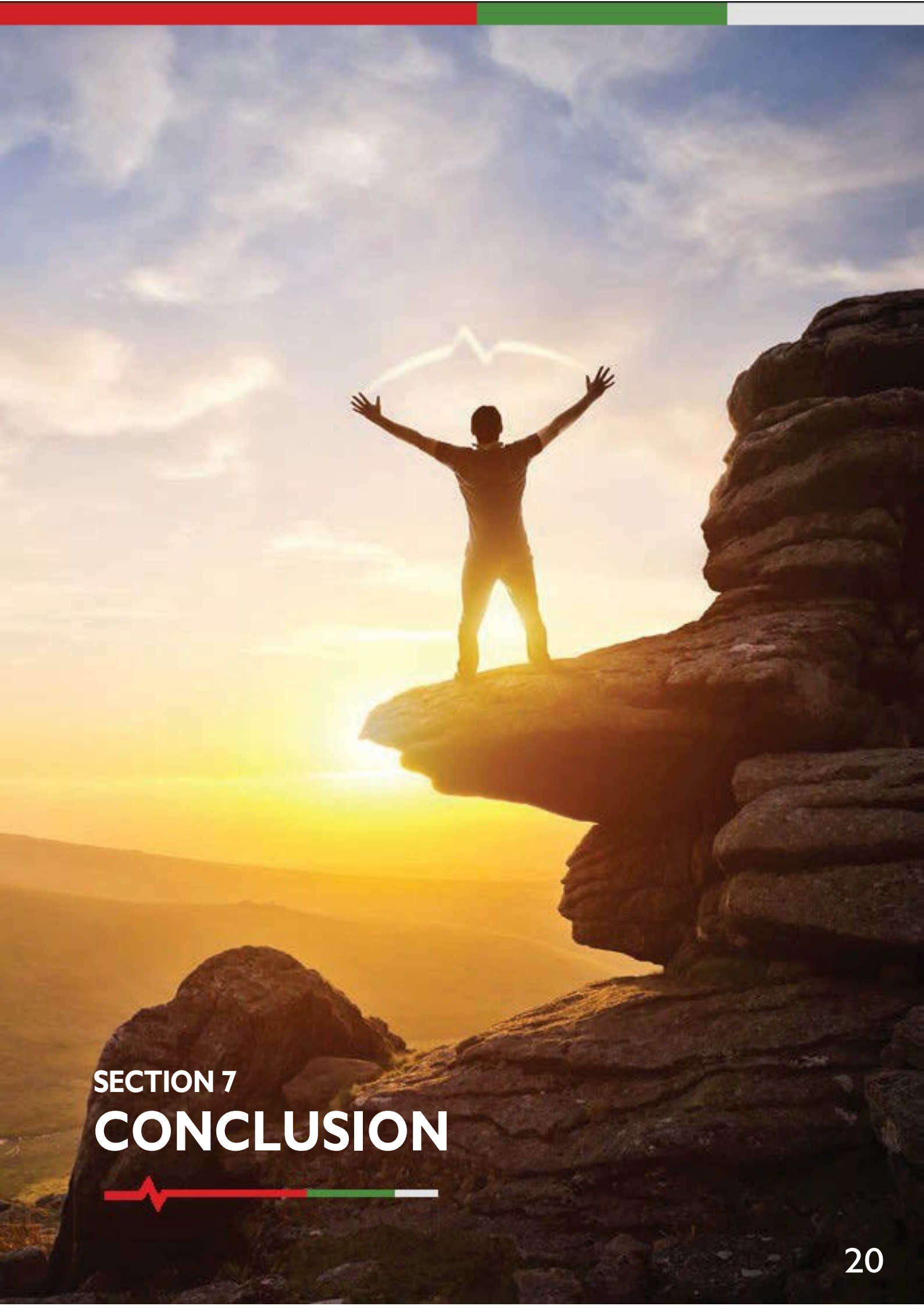
# Pulse of Internal Audit



IAF's plans should be dynamic and cater for the changes required at the time of crisis. It is highly recommended that IAFs should not perform any task which can jeopardize their independence but again if it is necessary for the survival of organizations, IAF should first obtain permission from the Audit Committee and then refrain from performing the audit of the area for at least a period of one year. In cases where audit is necessitated for that area, then IAF personnel not involved in the management work process should perform that audit and provide opinions and recommendations.

Risk management and risk assessment expertise are well known for the IAF. The majority of the respondents said that IAF is capable of identifying emerging and atypical risks. Although the organizational management is responsible for the risk identification, with the knowledge and expertise of IAFs, they are best suited to perform this additional task and assist organizations in identifying and mitigating risks. In a situation where IAF perceives that risk assessment function is not serving its purpose or IAF identifies that there are several risks which are not highlighted by risk management function then it is the duty of IAF to inform the Executive Management and/or Audit Committee.

The IAF's identifies or verifies the risk in the normal course of audit or through several other procedures. These highlighted risks can become a part of organizational risk register. The IAF also provides the mitigation factors which assist organizations in several ways. In order to assess the risks, the IAF should utilize techniques such as but not limited to interviewing management during the year to identify changes in the organization's risks, conduct informal or ad hoc updates to the risk assessment and audit plans, identify and monitor key risk indicators (KRIs) and perform advanced data analytics to identify and assess changes in risks that otherwise would not be apparent.



SECTION 7

# CONCLUSION





# Pulse of Internal Audit



The IAF is necessary in every organization regardless of its shape and form. The need to establish in-house IAF is made mandatory by the Capital Market Authority (CMA) for any listed company with a paid-in capital of Ro 5 million and above. While there is a mandatory requirement in listed companies, our survey reveals that many SAOC, LLC and family-owned companies also have their in-house IAFs. This is a very good indicator on the increasing importance of internal audit to the governing bodies and the demand of hiring qualified internal audit professionals.

The landscape of Internal Audit is changing drastically. A few years back we were talking about mobile auditing and remote auditing and now it has emerged to Artificial Intelligence, Robotic Process Automation and Big Data Analytics. Those who can become skilled at these worldchanging developments will guide their organizations to success.

However, success will come only to those who can balance the opportunities and risks. IAFs must play a central role in assisting organizations to realize their potential growth and achieve their missions and visions. This will require IAFs to develop team members with the necessary skills to provide independent assurance on increasingly complex risk issues and for their CAEs to have the strength and courage to make their voices heard in boardrooms.

For IAFs to be successful, they should be well-versed in technological changes and IAF transformation. IAFs are encouraged to have active membership with IIA Oman and to engage with the CAE discussions groups. They should strive to achieve their certifications in internal audit. An IAF's audit plan should be dynamic and flexible to cater for the changing needs of the organization.

In the current pandemic situation, the IAF should be a part of BCP and reshape organizational strategies. This can be performed with the agile auditing approach and by playing the role of business innovator. With the knowledge of overall organizational operations, IAF can be a crucial element in the decision making process by embedding the potential risk and also by informing the mitigation factors. CAEs must educate themselves about emerging and atypical risks that can potentially impact the organization. CAEs must heavily contribute when the organization relies solely on management assurances about mitigation of emerging and atypical risks. CAEs should push for stronger key risk indicators to monitor and provide assurance on processes to identify and mitigate emerging and atypical risks.

Regulators and shareholders are demanding proper governance oversight. This demand can be best accomplished if the provided information is accurate, precise and reliable. IAF should be capable of providing assurance on all information going to the board and can also educate the board and executive management about the benefits that can be provided by the independent assurance activity.

