



Internal Audit: key risks and areas of focus for 2022

Sultanate of Oman

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Foreword

In the Sultanate of Oman, Internal Audit (IA) functions are becoming increasingly important within their organizations, delivering advisory as well as assurance services to address important risks.

With the backdrop of the wider economic and social challenges presented by a global pandemic, the expectations of the IA function continue to grow. For the function to adapt to a changing risk landscape, it needs to be agile in all aspects of the audit approach. At times, the audit plan may need to be flexed, and the methodology and audit approach adapted to a remote working environment.

Drawing up a sound risk-based IA plan is critical for the function's success.

The Institute of Internal Auditors (IIA) standard '2010 – planning' states that "the Chief Audit Executive must establish a risk-based plan to determine the priorities of the IA function, consistent with the organization's goals".

This publication aims to assist Chief Audit Executives (CAEs) during their annual audit planning process. We hope it will provoke thought and facilitate discussion. If you would like to further explore the topics covered within this report, please do not hesitate to contact us.



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Key risks and focus areas for 2022

An effective and sound risk-based plan is one of the most critical components for determining IAs success as a value-adding and strategic business partner. With regard to the annual IA planning process, the main question posed to every head of IA continues to be:

Are you aware of the current and emerging risks facing the organization?



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01 Compliance and regulation

“The compliance and regulatory framework continues to evolve over time. Managing compliance and regulatory risks is increasingly becoming complex and companies need a structured approach to identify, measure, examine, implement and monitor the key compliance and regulatory risks. Internal auditors can play a pivotal role in regulatory and compliance risk management by providing objective and independent assurance on the effectiveness of company’s compliance and regulatory frameworks and internal control system surrounding them.”



Maryam Zaman

Partner – GRCS
KPMG Lower Gulf

Emerging risks and themes:

In the Sultanates' complex and rapidly evolving regulatory environment, it is increasingly important that organizations demonstrate good governance, robust controls, and effective compliance with local regulations. Traditionally, organizations in Oman have contended with essential compliance requirements of the Commercial companies law, the Capital Markets Authority, Ministry of Labor, Tax Authority and others in a decentralized fashion. Today organizations are taking the opportunity to incrementally improve the management of their local and global compliance requirements and transform the way the entire regulatory compliance through the usage of technology such as governance, risk and compliance (GRC) systems to automate compliance and monitoring programs.

Key considerations:



Assess whether the organization has a regularly updated inventory of regulatory bodies and requirements applicable to their operations



Evaluate the company's approach to managing its local and global compliance obligations, including the integration of the requirements of any acquired assets



Gauge the organization's response to notable issues of non-compliance



Include a review of discrete 'at risk' compliance activities at a micro level, including whether established controls over compliance risks are operating in practice in line with established policies and procedures



Ensure compliance training programs offered to employees and other stakeholders are appropriate for their roles and the geographies



02 Third-party relationships

“To boost productivity and adapt to changing business models, companies across the Sultanate increasingly are relying on third parties to carry out vital business functions. As valuable as these relationships are, it is important for organizations to fully understand and appreciate the commercial, regulatory, and reputational risks that can arise.”



Harris Matin

Director – Advisory
KPMG Lower Gulf

Emerging risks and themes:

Third-party risk management remains important as organizations choose to outsource their business functions to third-party vendors, emphasizing an existing need for contract management. Whilst traditionally IA has provided assurance inside the organization – the focus is quickly turning outward.

As the pandemic is disrupting the supply chain and business service set-up of many companies, relationships with third parties are changing. Vendor insolvencies have the potential to cause significant disruption and few companies accounted for the risk of outsourcing to overseas territories such as India and parts of Southeast Asia during a global lockdown.

Bearing in mind the prolonged impact of the pandemic, companies need to ensure they are receiving the anticipated benefits from those external relationships while having in place appropriate controls to reduce risk.



Key considerations:

-  Evaluate the organization's third-party risk management, governance and controls framework and understand how third parties are identified, risk assessed, and managed end-to-end
-  Evaluate contract management processes used by management to track third-party relationships
-  Perform audits consistent with right to audit clauses
-  Assess third-party compliance with company's information security standards
-  Develop, implement and calibrate a contentious monitoring system of self-reported data from third-party business partners

Talent management and succession

“Diversity, equity, inclusion, digital labor advancement, Omanization, and hybrid work environments give rise to several opportunities and challenges with regard to people, performance management, engagement and culture. The IA function should look for evidence that the business understands and is forecasting what skills and competencies are required to secure its immediate and longer-term objectives.”



Firas Haddad
Partner – GRCS
KPMG Lower Gulf

Emerging risks and themes:

Organizations across the Sultanate continue to contend with employee engagement, wellness, and retention programs with the rapid convergence to hybrid and/or remote methods of working and organizing personnel. The prolonged effects and subsequent waves of Covid-19 are expected to continue to force a hybrid working environment – which gives rise to risks related to performance, employee engagement, talent and retention.

Private sector companies in Oman continue to navigate Omanization requirements. Succession planning for key positions within organizations is of vital importance as organizations need to have an active mapping and forecasting capability to understand and anticipate the organization's human capital requirements in the medium to long-term.

The search for future talent and subject matter experts is often challenging and organizations invest heavily in recruitment and retention programs to ensure retention of top talent.



Key considerations:



Assess the design, organizational setup and effectiveness of learning and development programs



Audit the 'hire to retire' processes and evaluate the efficiency of HR processes, e.g., assess the design and effectiveness of the recruitment and selection process to ensure that the right people are hired



Assess the organizations' succession plan – does it align with the Omanization agenda?



Assess the maturity of the organization's short, medium and long-term succession plan for managerial staff and technical roles



Review and assess compliance against evolving labor requirements as issued by the Ministry of Labor

04 Supply chain

“The pandemic has disrupted demand and product supply, setting up a bullwhip effect of supply and demand mismatches. While Covid-19 may be the catalyst for companies to revisit their supply chain strategy, new models and capabilities, short-term actions need to be made to respond to the immediate challenge. IA plays a vital role by providing independent and objective assurance on the entity’s overall supply chain strategy and internal control system pertaining to the supply chain management.”



Sudhir Arvind

Partner – Head of GRCS
KPMG Lower Gulf

Emerging risks and themes:

The scale of the pandemic and new Covid variants, a global shortage of key goods and materials, and severe supply chain disruptions are causing logistic challenges that are increasing organization's costs and extending their recovery time. Companies can adopt various responses to overcome supply chain disruption: enhance focus on labor planning, illuminate the extended supply network, understand and activate alternate sources of supply, update inventory policy and planning parameters, and enhance inbound materials' visibility etc.

Key considerations:



Include supply chain management in the internal audit plan and develop a comprehensive audit program covering all areas of supply chain management including but not limited to procurement planning and budgeting, procurement process and controls, vendor prequalification and performance, vendor management and contract processing for vendors



Ensure the IA function highlights key gaps and bottlenecks within the supply chain management process



Highlight opportunities such as reducing lead times, introducing new policies and procedures and controls



Continuously monitor progress by performing follow-up audits to ensure all audit recommendations are implemented and there are no unaddressed supply chain management risks



05 Changes in the tax landscape

“As tax compliance becomes heavily monitored and subject to penalties as well as reputational damage, organizations must be at the forefront of changes to manage their obligation. Companies should enhance their tax compliance and governance framework to address the increasing demands of the tax laws. The IA function plays a vital role by addressing control deficiencies pertaining to the tax compliance function.”



Aabha Lekhak

Partner – Tax
KPMG Lower Gulf

Emerging risks and themes:

The evolving tax landscape in the GCC and in Oman requires businesses to critically examine their tax compliance and governance framework. Tax functions are expected to demonstrate transparency, controls in reporting processes and strategies to identify and mitigate risks (if any) on an on-going basis. Non-compliance can result in financial losses on account of additional taxes, penalties and tax leakages as well as reputational damage with various stakeholders (including the regulators). The recent introduction of Value Added Tax in Oman only increases this pressure on businesses.

The IA strategy should include appropriate tests to validate the company's compliance with new tax laws and continuously monitor the compliance with current tax regime.



Key considerations:



Ensure that the IA function has sufficient knowledge about existing/new tax laws and compliance obligations



Design an IA program to periodically review compliance with tax legislation and assess controls with respect to the correct determination and reporting of taxes



Assess the organizations capability to proactively adapt to changes in its tax obligations to ensure compliance, minimize/optimize the incidence of tax, adopt a holistic approach towards compliance (e.g., processes, systems, contracts, pricing, stakeholder communication, etc.)



Build a robust compliance and governance framework to identify, quantify, communicate and mitigate potential risks arising from non-compliance as well as inefficiencies

Cyber and data security

“Digitization is increasingly becoming vital for a business’s success, and companies are continuing and, in many cases, accelerating their digital journey. We are witnessing increased use of robotic process automation (RPA) and artificial intelligence (AI) to support optimization, further use of cloud technologies, and the evolution of cyber strategy to combat emerging threats. Business leaders responsible for governance need to partner with the internal audit function to ensure technological risks are appropriately managed.”



**Abhisek
Bhattacharyya**

Partner – Head of IT
Internal Audit services
KPMG Lower Gulf

Emerging risks and themes:

Bearing in mind the emergence of the remote workplace where controls and security principles are often ignored or forgotten, the IA activity should also be mindful of basics and accelerated emerging risks. In 2022, business leaders will be raising their expectations for the IA function as management and governance committees continue to pull IA resources into more strategic initiatives, in addition to the standard technology IAs.

Key considerations:



The IA activity should partner with the business, working with the three lines of defense to identify new technology risks and conduct unplanned, quick-hit audits over the design and implementation of new technologies as needed. A focus on emerging risk areas like ransomware/technology resilience, DevOps, and RPA/AI can be considered



While it is vital to keep up with the pace of change, it is also essential to remain focused on the basics. Foundational areas of general technology controls, IT governance and risk, and IT asset management, in addition to areas requiring specialist skills around cybersecurity and vulnerability assessment, data governance, and privacy, will need continued attention from IA function



For public joint stock organizations operating in the Sultanate of Oman: assess compliance against article 164 of CMA decision no. 27/2021 'Audit committee, internal auditor, legal advisor and external auditor' and CMA circular no. E/1/2022 'Issuing information security guidelines'



Liquidity management

“Cash is key to the survival and growth of any business. As the global economy faces challenges, effective cash management to maintain a steady stream of working capital is crucial. We have seen cash and liquidity remain front and center in the minds of business leaders in the Sultanate. Today, businesses focus on re-prioritizing spending and seek opportunities to accelerate collections to counter volatility through revenue and credit risk. Internal Audit professionals can support the business.”



Aqeel Al Lawati

Partner

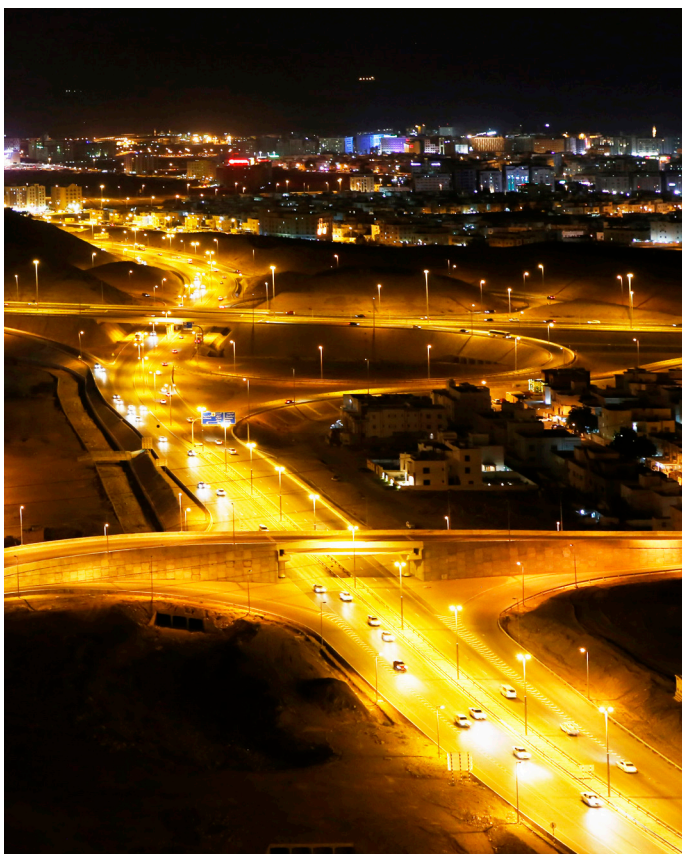
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Emerging risks and themes:

The Sultanate's economy continues to be impacted by the pandemic. Reduced demand and uncertainty have placed unprecedented emphasis on effective cash management.

Organizations are prioritizing cash management by taking proactive steps to gain control over the situation. This includes attempting to gain visibility over cash flows, managing working capital needs, conducting thorough reviews to release illiquid (non-moving) cash, and ensuring the business model fully considers cash requirements.

Inefficiencies with regards to policies, processes and systems, as well as with an organization's culture and its people, can hinder cash management performance.



Key considerations:

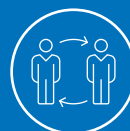
The IA function should consider making use of data and analytics to identify cash management inefficiencies, understand root causes and develop a plan for improvement. Specific areas and/or root causes to be assessed may include:



Weak policies, controls and processes that are not aligned to overall strategy and/or no longer fit for purpose



Systems that are unable to produce timely, accurate and insightful management information



Culture: a strategy and KPIs that drive suboptimal behavior around cash management. For example, sales teams are incentivized by revenue targets but not cash collection



People: a lack of awareness around the importance of cash management and a limited understanding of what is required

08 Business resilience

“Oman continues to contend with the ongoing effects of the global pandemic and recent disruption caused by cyclone Shaheen. Due to the prolonged effects of the pandemic and ongoing potential crises, fatigue is setting in for many organizations.”



Nagaraj Uchill

Director – GRCS
KPMG Lower Gulf

Emerging risks and themes:

Early returns in 2022 suggest that we have not seen the end of disruption caused by the pandemic, severe weather or a cyber attack. Organizational crisis management plans are dynamic and continue to be updated.

Recently, we have seen regulators (the Capital Market Authority) and owners (Oman Investment Authority) in the Sultanate emphasize the establishment, implementation, and monitoring of business continuity management.

IA plays an important role in helping organizations identify weaknesses in an organization's business continuity management plans. Auditors should look to assess organizational strategies in place to protect against disruption.

Key considerations:



Conduct an independent review of the entire crisis management system, including governance, processes and risks, and evaluate the quality and extent of coverage of various crises



IA should also seek evidence of the governance around crisis decision-making and the integrity of data and information reported to crisis committees



Bearing in mind recent events and knowledge of emerging risks, facilitate brainstorming workshops with senior management to consider various scenarios that may arise



Digitalization and intelligent automation

“Technological advancements — such as robotic process automation, machine learning, and cognitive solutions — are changing the business world rapidly. Many organizations in Oman have embarked on this journey of digitalization and intelligent automation. Companies must remain aware of the risks and governance responsibilities associated with intelligent automation and applications when embarking on digital transformation projects.”



Anuj Agarwal

Director – GRCS
KPMG Lower Gulf

Emerging risks and themes:

AI, algorithms, the internet of things, cognitive computing and robotic process automation are among the top technologies that will continue to have a significant impact on the way we conduct business in the future. As digitalization continues to rapidly modify operations, business processes and business models, it generates large quantities of data, and creates new risks and opportunities for organizations.

IA has a critical role in an increasingly digital workplace. Proper integration and utilization of automation programs as part of the IA approach can help organizations meet their governance, risk, controls, and compliance requirements and prevent damage to relationships with partners, auditors, and regulators, as well as avoid significant fines.

Key considerations:



IA can add value by assessing the change management process and recommending enhancements to ensure that governance, risk and control matters are appropriately considered across the digital change life cycle



In addition, IA can leverage the information generated from new technologies to enhance coverage while providing assurance over organizations' control environments



Environmental, social, governance (ESG)

“Management teams across organizations are recognizing the opportunities and risks ESG presents. This includes the due diligence required to integrate ESG measures across any organization. To make informed decisions, directors must have reliable assurance from the IA function on the effectiveness of ESG management, including ESG governance, risk assessment, key performance indicator (KPI) monitoring, and reporting.”



Siddharth Behal

Partner – GRCS
KPMG Lower Gulf

Emerging risks and themes:

ESG is a broad concept that covers the areas of corporate governance, human rights, labour practices, environment, operating practices, customer issues, community involvement, and development. ESG's importance is underlined by customers, investors, regulators and other stakeholders who are expecting actions and reports that go beyond financial results. Many organizations in Oman have included ESG initiatives in their strategic plan and mission.

ESG impacts all levels of an organization, from its strategic goals to its operations. Given the overarching character of the concept, it is essential that ESG initiatives are consistently managed. Organizations should evaluate their ESG impact, risks and opportunities across the entire value chain. They should think beyond the 'traditional' reputational risks. Issues and malpractices related to ESG can pose environmental, compliance, financial and reputation risks that can severely damage the company.



Key considerations:

Early in the ESG journey, the IA function may seek to support management in answering relevant questions such as:



Does our organization know who the company's stakeholders are, and their expectations regarding the organization's ESG responsibility?



Is there a clear view on all ESG risks, including compliance risk related to existing and forthcoming national and international legislation, and are those regularly reassessed?



Do we have a defined ESG culture that goes hand in hand with our ESG initiatives?



Do we measure our ESG activities based on KPIs linked to the ESG strategy?

About KPMG in Oman



Establishment

KPMG in Oman is a part of KPMG Lower Gulf's regional network and KPMG International Cooperative's global network. For almost 50 years, KPMG Lower Gulf Limited has been providing audit, tax and advisory services to a broad range of domestic and international, public and private sector clients across all major aspects of business and the economy in the Sultanate of Oman. We work alongside our clients by building trust, mitigating risks and identifying business opportunities.

Established in 1973, the Lower Gulf firm now employs 1,783 people across four offices, including 192 partners and directors in Oman and the UAE.

An international network of professionals

KPMG Oman LLC is part of KPMG International Cooperative's global network of professional member firms. **Entering its 152nd year, the KPMG network includes approximately 236,000 professionals in over 145 countries worldwide.** KPMG in Oman is well connected with its global member network and combines its local knowledge with international expertise, providing our clients' sector and specialist skills.

KPMG is widely represented in the Middle East: along with offices in Oman, UAE, Saudi Arabia, Bahrain, Kuwait, Qatar, Egypt, Jordan, Lebanon, Palestine, and Iraq.

About KPMG Governance, Risk & Compliance Services

KPMG's Governance, risk and compliance services (GRCS) professionals work with management, internal audit (IA), risk, and compliance directors, and audit and risk committees, to:



Provide co-sourced and out-sourcing internal audit services



Design, execute and advise on enterprise risk management (ERM)



Evaluate and improve internal audit functions. Provide internal audit co-sourcing and outsourcing services



Systematize and evaluate internal control systems and Sarbanes-Oxley (SOX) compliance programs



Deploy continuous auditing and continuous monitoring (CA/CM) techniques



Rationalize monitoring functions and governance practices

KPMG as an Internal Audit partner

Whether you opt for an outsourcing, co-sourcing or insourcing solution, we can provide the following services:



Act as sparring partner for all issues related to the role, position and audit agenda of the Internal Audit function.



Provide the latest audit methodology (KPMG Internal Audit methodology, DA, Internal Audit tools).



Support all process steps of an Internal Audit function, from planning to execution of audits, reporting and tracking.



Provide access to best practice and benchmarking.



Offer worldwide local support with specific language skills and knowledge regarding local regulatory requirements.

Through our proven methodology, our experience and extensive expertise, we are the right partner for you to fully exploit the potential of your Internal Audit function in an increasingly complex environment.







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