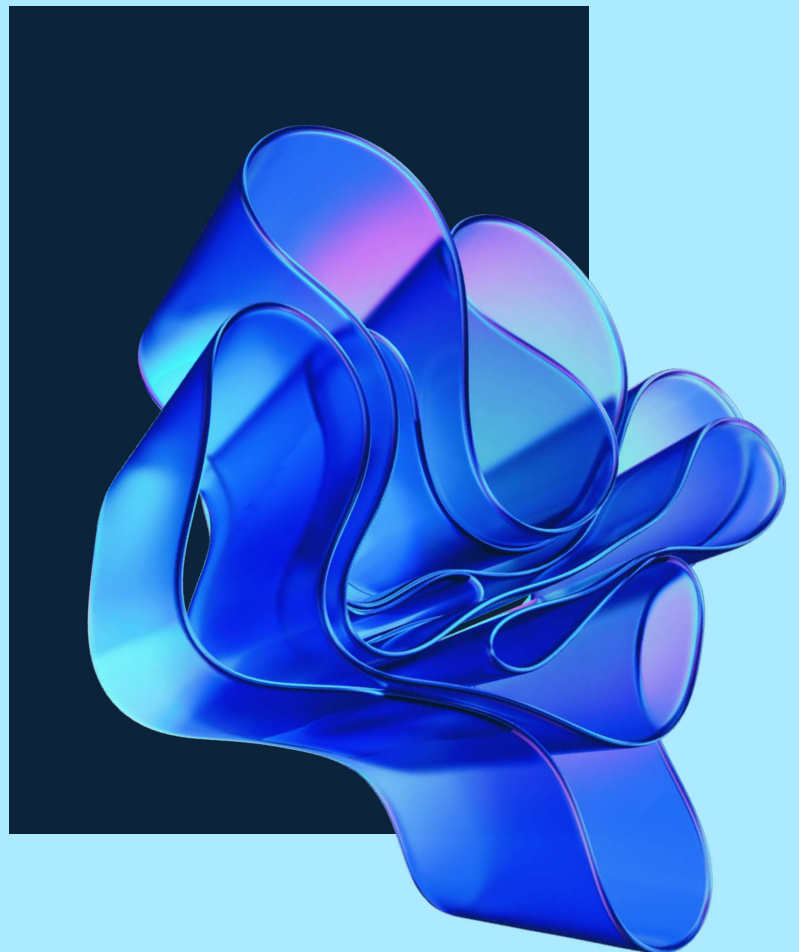




Fostering trust, embracing agility

Emerging risks and opportunities
shaping internal audit in Oman



KPMG Middle East

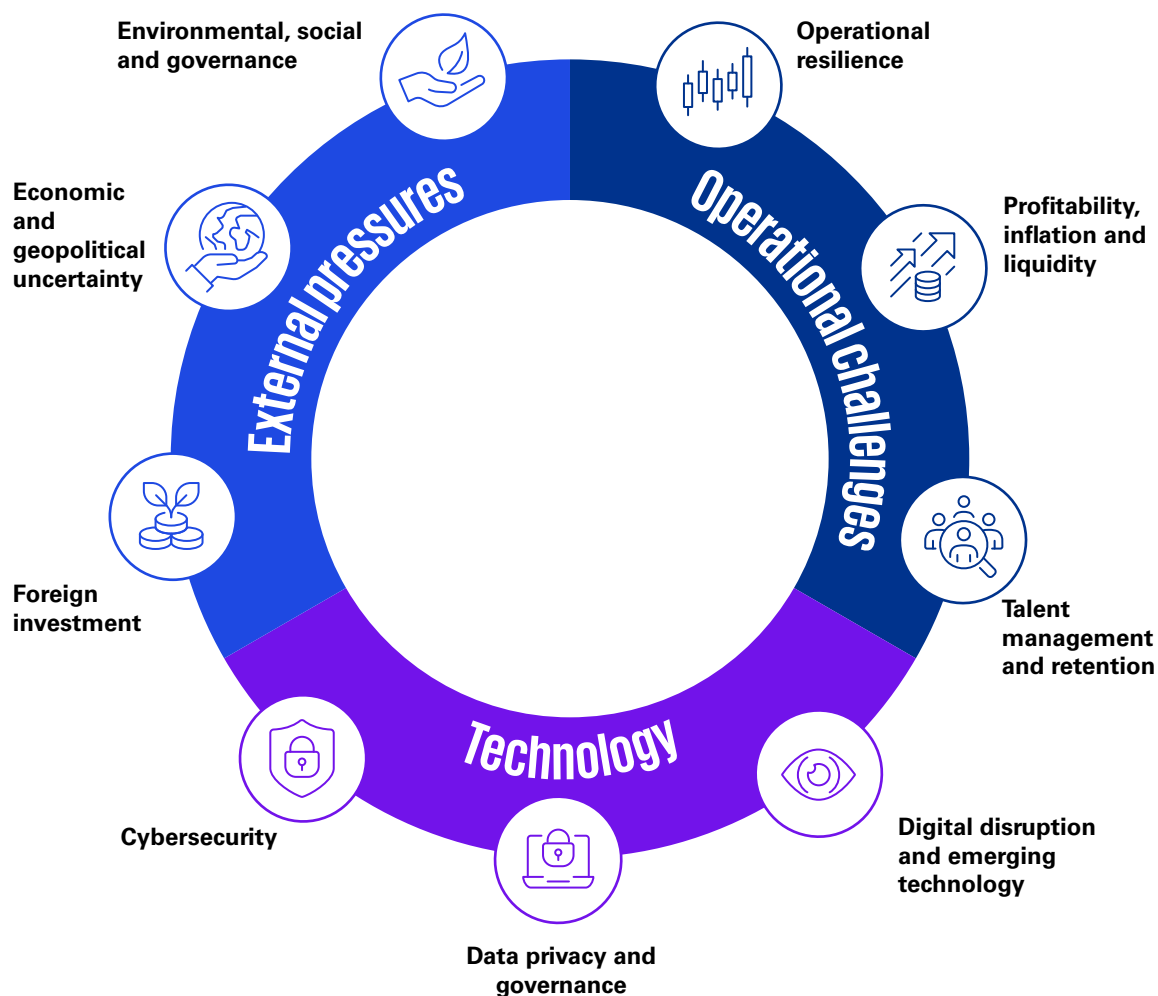
Introduction

Internal audit functions are confronting a risk environment marked by heightened uncertainty, unpredictability and volatility. These factors compel organizations to maintain a dynamic posture while planning for 2025, ensuring agility and responsiveness to continuous change.

The ability to anticipate potential issues and the flexibility to modify audit strategies are essential for safeguarding against these disruptions. The persistent uncertainties also amplify the stress on organizations' risk and control frameworks, necessitating vigilant and strategic responses.

This report explores the key areas and associated risks that internal audit functions should consider during the formulation of forward-looking internal audit plans for 2025. The themes encompass a spectrum of both emerging and established risks that should be applied in the creation of a responsive and agile internal audit plan.

Below is a selective list of thematic areas that can be considered as a foundation for evaluating an organization's future risk and control standing.



Technology

Unveiling the global evolution of innovation and connectivity

Today's dynamic technology landscape is catalyzing transformative shifts across industries. The rapid advancement of artificial intelligence (AI) and machine learning technologies continues to redefine operational paradigms, enabling unprecedented automation, optimization and decision-making capabilities. Regulatory frameworks like the European Union's General Data Protection Regulation (GDPR) and evolving global standards underscore the need for organizations to prioritize robust cybersecurity measures in their technological investments.

Holistically, organizations' risk management processes need to be prognostic and dynamic to navigate these challenges effectively. Below are the three main areas of focus:

Cybersecurity

Cybersecurity will remain a priority for organizations in 2025 and beyond. This is due to the increasing sophistication of cyber threats, digitization of customer channels, adoption of new technology platforms, and the ever-growing volume of sensitive data constantly moving across interconnected and integrated networks.

In 2024, we saw a rise in cyberattacks and data breaches in Oman disrupting some organizations' operations for weeks.

Key regulators, including the Central Bank of Oman (CBO) and the Ministry of Transport, Communications and Information Technology (MTCIT), as well as the Financial Services Authority, have published guidelines concerning the management of cybersecurity and information security practices.

Organizations will need to implement robust IT security measures and increase awareness of cybersecurity risks among their workforce to resist and evade the constant threat of cyberattacks in 2025.

Data privacy and governance

Customers, employees and regulatory bodies have all become more aware of their data privacy rights concerning personal information and the measures taken by organizations to safeguard such data.

Recent high profile data breaches in the Middle East have demonstrated the importance of understanding key data repositories and controls. This heightened awareness amplifies the potential risks faced by organizations.

Oman has strengthened its data governance landscape with the introduction of the Oman Personal Data Protection Law (PDPL) in 2024, establishing a robust framework to regulate the processing of personal data and enhance privacy safeguards.

Organizations lacking effective management and governance of their data practices may experience loss of customer trust, reputational damage, and face financial penalties and sanctions.

Digital disruption and emerging technology

There has been a recent upward trend in the use of AI technology by businesses. AI can be a major business enabler for an organization by harnessing the power of generative AI and processing complex data. Given the technological advancements in blockchain, AI and machine learning across the Middle east, it may witness faster growth in 2025.

Businesses are capitalizing the potential of technology to address rising demands and expectations, as well as driving customer loyalty and improving operational efficiency and profitability. Nevertheless, it is essential for organizations to be aware of the accompanying risks and proactively address them by focusing on the ethical deployment of these emerging technologies.

With strong governance and management controls, these technologies also present many benefits to organizations, such as reducing costs through system automation, minimizing human error and facilitating better collaboration.

The role of internal audit

Internal audit should assess existing controls to mitigate risks and ensure that the first and second lines of defense are continuously monitoring cybersecurity controls. This includes undertaking an assessment against relevant regulations or industry standards.

Internal audit can also provide valuable assurances through undertaking targeted reviews around user access management, data management and incident response.

A technical assessment, such as a vulnerability or penetration test, will help determine if an organization could be exploited in a cyberattack.

The role of internal audit

Internal audit should assess the data privacy and protection controls within an organization to ensure clarity around what data the organization has collected, why it has occurred and where it will be stored and transferred. If the data is secure, the internal audit function should also consider how long the data will be retained and how it is disposed in line with any regulation and organizational needs.

The function evaluates the data breach response plan's design, readiness and interlock with third-party plans. Additionally, it should form a comprehensive understanding of whether third parties have access to the organization's data and, if so, how this access is monitored and controlled.

The role of internal audit

Internal audit should assess the digital transformation strategy, providing advice on governance and control matters. This includes reviewing the design and controls around emerging technologies including cloud transition, zero trust architecture and distributed ledgers.

Internal audit can review how and why AI is being used by organizations and what controls are in place to mitigate the risks that may occur. This includes data, reliability, accountability, governance, security and privacy. KPMG's Trusted AI Framework outlines our strategic approach to reviewing AI solutions to ensure they are established and controlled in a responsible and ethical manner.

External pressures

The age of the polycrisis

The World Economic Forum (WEF) uses the term “polycrisis” to capture the essence of how a set of interconnected global risks and their compounding effects interact, resulting in a total impact that exceeds the sum of the individual parts. In light of the escalating levels of economic, geopolitical and environmental uncertainty, the frequency, intensity, interconnectedness and velocity of existing risks and threats are evolving. Meanwhile, new risks which were once thought improbable are coming to the forefront and substantially impacting Oman’s economy. These influences encompass a spectrum of factors including disruptions in supply chains, surges in inflation, spikes in energy expenditures, tightening regulatory requirements, shifts in monetary policy, and evolving stakeholder expectations. Consequently, it is essential that organizations’ risk management frameworks become more predictive and agile to effectively confront these challenges. We have highlighted the three main areas of focus:

Environmental, social and governance

ESG is now integral for long-term sustainability. There are multiple reporting requirements for ESG globally following the release of the ISSB standards (IFRS S1 and IFRS S2). As of 2025, ESG reporting is mandatory for publicly listed companies in Oman according to MSX requirements. These changes will improve transparency and assist investors in making more informed decisions.

Compliance requires transformational changes in business activities so that organizations can define their ESG disclosures and metrics. However, an ESG risk and reporting program should not be implemented in isolation. Organizations should recognize the potential value of connecting ESG efforts with long-term strategic goals, committing to a bigger vision that encourages transformation and drives sustainability and resilience. Many organizations in Oman have included ESG initiatives in their strategic plan, mission and financial reporting.

Economic and geopolitical uncertainty

The global economy has been experiencing an unprecedented degree of volatility, primarily driven by geopolitical issues. The wars in Ukraine and Gaza and the fragmentation of trade agreements are fueling substantial inflationary pressures in the region. They have also perpetuated the elevated prices of commodities, contributing to an increase in the cost of living.

In an attempt to curb this inflationary trend, central banks globally, including Oman, have raised interest rates to their highest levels in recent years. Nonetheless, despite the initial signs of inflation stabilization following the tightening of monetary policies, it is expected that geopolitical volatility will persist as a key driver of macroeconomic uncertainty into 2025 and beyond.

Recognizing that this state of economic flux and geopolitical volatility will constitute the new normal, organizations must adopt robust, forward-looking and adaptable long-term strategies to successfully navigate these complexities.

Foreign investment

Foreign investment plays a vital role in Oman’s economic diversification strategy, particularly under Vision 2040 which encourages external companies to invest in key sectors such as energy, infrastructure, technology and manufacturing. While foreign direct investment (FDI) brings capital, expertise and innovation, it also introduces risks related to regulatory compliance, national security, economic dependency and corporate governance.

The involvement of external entities may lead to concerns over data sovereignty, intellectual property protection and alignment with Oman’s long-term strategic interests. Additionally, risks such as contractual disputes, profit repatriation and local stakeholder engagement require careful management to ensure investments contribute to sustainable growth rather than create economic vulnerabilities.

The geopolitical landscape and fluctuating investor confidence further impact the stability and success of foreign investments in the country.



The role of internal audit

Internal audit plays a crucial role in supporting organizations’ readiness for reporting requirements, offering guidance on governance and controls, and reviewing processes related to ESG metrics reporting.

It also provides advice on aligning risk management capabilities with ESG risks and organizational goals, while continuously ensuring the effectiveness and efficiency of ESG risk management, internal controls and governance.

Additionally, internal audit evaluates data governance and control mechanisms to ensure accurate and thorough reporting.



The role of internal audit

In response to economic and geopolitical uncertainty, internal audit teams are integrating risk assessment as a core element in audit planning and risk evaluation. This integration should provide them with the scope to comprehend and appraise how the organization’s first and second lines of defense are addressing and managing the amplified risks and operational impact associated with geopolitical volatility.

Employing advanced tools like dynamic risk assessment (multi-faceted risk assessment solutions) and scenario modelling may enable an internal audit function to move beyond a standard two-dimensional risk analysis and investigate the connection between risks, their velocity and impact.



The role of internal audit

Internal audit would aid in ensuring adherence to Oman’s Foreign Capital Investment Law and sector-specific regulations to mitigate legal and reputational risks. It would assess investment sustainability and safeguard Oman’s economic and strategic priorities.

Additionally, the internal audit function would review cybersecurity, data sovereignty and intellectual property controls, especially in tech-driven investments. The function would also evaluate workforce integration, economic contributions, investor performance and dispute resolution mechanisms.

Operational challenges

Operational challenges in the digital age

Organizations must anticipate and address various thematic areas in the operational landscape to stay resilient and competitive. The heightened levels of economic, geopolitical and environmental uncertainty are creating new risks, threats and opportunities at an unprecedented rate and impacting the Omani economy.

Amidst the priority for escalating digital transformation, it has become apparent that functions need to be more progressive and dynamic to navigate concerns surrounding operational challenges. The three main areas of focus include:

Operational resilience

The persistent flux in economic, geopolitical and environmental conditions present new threats and opportunities to organizations, highlighting the need for robust and resilient systems. These systems must adapt to disruptions while protecting stakeholders, maintaining critical business processes and safeguarding the performance of key technology and information systems.

Oman's evolving regulatory environment also demands greater focus on resilience, continuity of essential services and providing a framework to uplift security against all hazards – both natural and human-induced.

Organizations are therefore investing in people, processes, data and technology to enhance resilience and taking preventative measures against disruption risks. They are also maintaining a final line of defense through crisis management, business continuity, emergency management, incident management, IT disaster recovery and IT service continuity management.

Profitability, inflation and liquidity

With inflation and interest rates reaching highs not seen since the early 2000s, 2024 was particularly marked by an intense macroeconomic volatility, placing considerable financial pressure on organizations worldwide. The expectation in 2025 is not for a swift return to stability but rather for a continued oscillation that companies must adeptly manage.

Some organizations in Oman are facing supply chain disruptions due to global inflation, potentially leading to decreased profitability from rising import prices.

In response, key internal functions are carefully evaluating the extent of these risks and their potential ramifications. These considerations range from the direct impact of inflated expenses that may reduce profitability, to the intricacies of liquidity management in a climate where credit could become more expensive and limited.

Talent management and retention

Effective talent management is crucial for organizational success, involving the attraction, retention and development of skills. Challenges, such as adapting to hybrid work models, talent acquisition and employee well-being are at the forefront.

In the coming years, emphasis on employee-centric initiatives is expected, including a focus on enhancing employee experiences, engagement, mental health, work-life balance and professional development. Remote working options and flexibility are increasingly regarded as essential components of employee satisfaction. A strong employee value proposition (EVP) is vital for talent retention, with younger employees particularly seeking alignment between their values and their employer's mission.

Strategic HR planning and organizational design are integral to achieving business objectives and mitigating risks. Additionally, the rapid evolution of AI is set to influence job roles, operational methods, required skills and overall organizational culture.



The role of internal audit

Internal audit evaluates the effectiveness of the organization's operational resilience and crisis management frameworks. This involves verifying that significant threats are identified, suitable response plans are established, and consideration of emerging risks is ongoing.

Additionally, internal audit should ensure that organizations comprehend the impact of disruptions, determine intolerable levels of risk and examine the cost-benefit analysis of mitigation and resilience measures.



The role of internal audit

Organizations must recognize the heightened strain on their finance teams due to challenging macroeconomic conditions.

Internal audit teams should conduct thorough reviews of investment and financing decisions, as well as supply chain and procurement practices. They should also assess management's approaches to identifying, evaluating and mitigating risks associated with inflation and interest rates, including preparing for potential adverse scenarios.



The role of internal audit

Internal audit should evaluate the organization's strategies for workforce planning, future skill requirements, and talent acquisition and retention.

It is crucial to comprehend the implications of employee turnover and hiring freezes on the internal control environment and the broader organizational impact.

Moreover, assessing management's oversight and plans to improve employee-centric aspects is an essential component of internal audit's role.

About KPMG Middle East

KPMG Middle East LLP is a part of the KPMG global organization of independent member firms that operate in 143 countries and territories and are affiliated with KPMG International Limited. We provide audit, tax and advisory services to public and private sector clients across Saudi Arabia, United Arab Emirates, Jordan, Lebanon, Oman, and Iraq, contracting through separate legal entities. We have a strong legacy in the region, where we have been established for over 50 years. KPMG Middle East LLP is well-connected with its global member network and combines its local knowledge with international expertise.

KPMG serves the diverse needs of businesses, governments, public-sector agencies, not-for-profit organizations, and the capital markets.

Our commitment to quality and service excellence underpins everything we do. We strive to deliver to the highest standards for our stakeholders, building trust through our actions and behavior, both professionally and personally.

Our values guide our day-to-day behavior, informing how we act, the decisions we make, and how we work with each other, our clients, and all our stakeholders.



Integrity:

We do what is right



Excellence:

We never stop learning and improving



Courage:

We think and act boldly



Together:

We respect each other and draw strength from our differences



For Better:

We do what matters.

Our purpose is to inspire confidence and empower change. By inspiring confidence in our people, clients and society, we help empower the change needed to solve the toughest challenges and lead the way forward.

KPMG's Impact Plan guides our commitments to serving our clients, people and communities across four categories: Planet, People, Prosperity, and Governance. These four priority areas assist us in defining and managing our environmental, social, economic and governance impacts to create a more sustainable future. We aim to deliver growth with purpose. We unite the best of KPMG to help our clients fulfil their purpose and deliver against the United Nations Sustainable Development Goals, so all our communities can thrive and prosper.

We are dedicated to delivering growth with purpose, helping our clients achieve their goals, and advancing sustainable progress to ensure that all our communities thrive. Empowered by our values, and committed to our purpose, our people are our greatest strength. Together, we are building a values-led organization of the future. For better.

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