Bahrain internal audit survey 2018

Enhancing strategic value of internal audit

April 2018
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Contents

Executive summary 3
Internal audit: A look into the future 4
Defining superior internal audit quality 5
Internal audit and strategy: A vital connection 6
Technology: A catalyst for change 8
Internal audit sourcing models 10
An effective internal audit department 14
Risk management and internal audit: Creating synergies 16
Conclusion 18
About the survey 19
About KPMG 19
Executive summary

The main role of the Internal Audit (IA) function in any organization is to strategically assess and improve governance, risk management and internal control processes. IA professionals often agree that assessing and managing risks are among the most important activities that they can currently deliver on, or have the potential to deliver.

As companies attempt to redefine their IA activities in keeping with the changing business landscape, internal auditors are increasingly expected to view their activities from a business perspective. To be in a position to do so, a sustained flow of communication between IA executives and the rest of the organization is essential to articulate how IA activities can add value and improve quality for other functions and the organization in general.

In this survey, we examine the perceptions of senior IA executives in Bahrain on the following key issues:

— What is the best definition of quality for IA?
— What can organizations do to improve the quality of IA?

Our survey findings suggest that heads of IA, Audit Committees and chief financial officers (CFOs) generally agree that there is significant scope for IA to play a more strategic role in improving overall quality of work. This could be done by raising awareness of the role of IA activities in achieving business excellence and improving operational efficiency.

We also found that for the majority of respondents, IA quality is synonymous with commitment as well as the demonstration of technical excellence, and service delivery. Performance of effective and efficient audits, in addition to the provision of internal/external training and continuous review, would be the most suitable measure that could improve the quality of IA.

The future of the IA role also depends on its ability to embrace emerging technologies.

According to the majority of our survey respondents, the benefits of adopting digital solutions within IA activities can have a drastic impact on efficiency.

In the context of IA sourcing, co-sourcing has been identified as one of the most popular approaches globally, and it is also expected to be the most preferred options for organizations in Bahrain for the foreseeable future. According to our survey respondents, most organizations believe that adopting this model enables organizations to benefit from independent perspective, getting access to subject matter professionals and overall it helps organizations to benchmark themselves against key players in the market.

The survey also explores possible scenarios which, if implemented, could improve the efficiency of IA activities:

— An increased focus on strategic sourcing, especially co-sourcing.
— Hiring of chief audit executives (CAEs) with the appropriate skill set and talent.
— Adopting and aligning internal controls and the IA activity with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013 framework.
— Leveraging optimal technological solutions and capabilities.

As the need for risk oversight continues to be felt, a growing number of organizations are aware that the combination of the IA and Risk Management functions could enhance overall risk management capability within the organization. In fact, according to a majority of the respondents, using risk management tools can add enormous value to the IA process, as they seek to achieve efficient risk mitigation.
Internal audit: A look into the future

As a function, IA enables organizations to evaluate their business operations in realtime and anticipate future issues by assessing risks, devising risk management practices and providing perspective on emerging risks.

As businesses become more complex and diversified, the expectations related to IA activities - management level activities or day-to-day tasks - also grow. The scope for IA responsibilities has expanded beyond traditional compliance and financial reporting; It now includes identifying emerging risks and facilitating the implementation of Enterprise Risk Management (ERM).

As new laws and regulations are introduced, their requirements challenge boards to maintain higher levels of transparency, objectivity and professionalism. Some experts believe that IA is one of the key entities which enables the assessment of enterprise-wide risks. In Bahrain, nearly 60 percent of our respondents agreed on the inclusion of IA to provide an integrated view of the adequacy of enterprise level risk coverage.

The IA department can play a critical role within the organization, as it provides the necessary knowledge pertaining to market intelligence, quality assurance, compliance adherence, intra-organizational data interdependencies, risk assessment and risk management.

According to our survey, more than 85 percent of the respondents agreed that the ability to provide insight on emerging risks, enables informed decision-making and improves business efficiency.

The surveyed Bahrain-based IA professionals agreed that organizations increasingly regard the comprehension of organizational efficiency and effectiveness (90 percent) and identification of emerging risks (85 percent) as the two main characteristics which define the IA activity (Chart 1). This is in-line with the findings derived from the KPMG global survey on ‘Enhancing the Value of Internal Audit’, which reported that IA professionals were more likely to describe an insightful and valuable IA function in similar terms.

In essence, internal auditors may play a key role in an organization’s cost reduction and rationalization efforts; but can also offer performance-driven business solutions while identifying instances of fraud, inefficiencies and non-compliance. It is, therefore, critical for organizations to ensure a consistently high level of IA quality.

This brings two important questions to the fore: How to supervise IA quality, and what can organizations do to achieve it?

Chart 1: Which of the following characteristics best describe an insightful and valuable IA?

- Provides insight into efficiency and effectiveness: 90%
- Reveals existing and emerging risks: 85%
- Provides operational feedback: 80%
- Provides compliance feedback: 80%
- Increases communication across the organization: 75%
- Finds potential revenue enhancement, cost savings and/or smarter CAPEX spend: 70%

Internal audit survey 2018, KPMG in Bahrain, April 2018
Defining superior IA quality

Eighty-five percent of the IA professionals in Bahrain define IA quality as a 'commitment and demonstration of technical excellence, quality service delivery and; performance of effective and efficient audits’.

Internal and external training, along with continuous review and monitoring, are likely to enable auditors to further their knowledge of both audit systems and overall processes, and operations. This would subsequently allow them to better identify inefficiencies and map emerging risks and potential business opportunities against the organization’s strategic priorities.

Elevating IA activities

Outsourcing was also identified as one of the means which could improve IA quality in an organization. There are a few limitations associated with this practice, such as a potential lack of in-depth understanding of the business operations that are typically imbibed by in-house auditors. However, outsourcing was generally believed to have important advantages.

Organizations may have recourse to outsourcing for cost reduction and rationalization purposes. It also provides an organization access to a certain level of expertise, which may not be practical or cost-effective to maintain in-house. In addition, outsourcing (or co-sourcing) the audit activity can help minimize the actual or apparent loss of objectivity and may further lead to knowledge sharing between in-house auditors and the co-sourced party, resulting in more effective and enhanced quality within the IA function.

“Having had the opportunity to work with clients from across a full spectrum of size, industry and sector; we have been able to witness and experience first-hand as to how the rapid advancements of digitalization, data analytics, and other technologies impact businesses; and more specifically the IA functions and related activities in the marketplace. Our experience indicates that technological disruptions, evolving complexities in the business landscape, growing skills gap and a high demand for collaboration and strategic resourcing, are all intrinsically interlinked; and trying to maintain an effective balancing act will be a huge focus area for the future generation of IA professionals. Based on the analysis from the recent survey, we hope that this report will help shed light on the key strategic priorities for IA functions and professionals for the next three years, as they balance between supporting supervision, retaining their independence, understanding the technological disruption and adding value to the overall business.

Jeyapriya Partiban
Partner
Head of Risk Consulting
KPMG in Bahrain

Chart 2: Top two ways to ensure IA quality - currently or in three years

| 60% | Training |
| 40% | Review |

Internal audit survey 2018, KPMG in Bahrain, April 2018
IA and strategy: A vital connection

As the strategic role of IA appears to be more aspirational than actual, there is significant scope to better position the IA function as a key contributor to business success.

In today’s dynamic and complex business environment, organizations must focus on implementing continuous improvements to their current processes if they seek to be more efficient, achieve strong results and benefit from sound governance. Companies must aim to be in a better position to ascertain risks and opportunities that can improve their chances to succeed. The IA function can contribute to identify these and subsequently provide insights on ways to ensure continuous improvement. The IA activity, therefore, has the potential to offer value-added and beneficial services to an organization’s management and board, and should be recognized as an essential component of its overall strategy.

Does IA have a strategic or supportive role?

IA can play both a strategic and a supportive role within an organization. However, given the potential insights and value-add that IA can provide, this role could be more associated with strategy than support, as highlighted by the participants in the global survey. According to six out of 10 IA professionals and almost all (99 percent) executive stakeholders surveyed globally, the IA activity is more strategic in nature.

However, the sentiment is quite different in Bahrain. According to our survey results in Bahrain, more than half of the IA professionals (65 percent) consider IA to be a support function rather than a strategic one. This stark difference between the global and Bahrain results indicates that the strategic nature of IA is still more aspirational rather than reality within a local context.

Indeed, IA professionals aspire to see the role of the internal auditor evolve into that of a more strategic partner in the near future. In fact, according to Bahrain’s survey, 25 percent of the respondents believed that IA was involved in an organization’s strategic planning process, as opposed to directly being involved in the elaboration of the strategic plan (Chart 5).

While all professionals and leaders are aware of the strategic links between IA and the overall business strategy, only a limited number of organizations engage the IA function during the elaboration phase of a company’s business strategy. This may explain why nearly all IA professionals are convinced that improving the status of IA activity could contribute to an overall improvement in the quality of IA.

It is imperative to highlight here that, by definition, the role of IA is rarely to help set a strategy. Rather, it is to audit an organization’s processes and to subsequently facilitate deep-dive analysis of strategic decisions, evaluate possible risks and as a result be in a better position to provide insights to management.

It is therefore critical for the IA function within an organization to be aligned with its strategic priorities and be involved in the overall strategic planning process, either through consultation and/or review of outcomes. For instance, inputs from the IA team should be sought and taken into consideration while determining the organization’s strategic initiatives.

Internal audit survey 2018, KPMG in Bahrain, April 2018
The IA activity should, ideally, reflect a profound understanding of business processes, and be in a position to identify potential issues that could disrupt these processes and devise ways to mitigate them.

In Bahrain, with the support of the management team, the IA function should be increasingly involved in improving its knowledge of business matters, controls and compliance, and not only be limited to questions related to processes. In addition to assessing risks, IA teams should also monitor and report potential opportunities that the business is seeking to capitalize on.

Therefore, organizations should enhance the scope of IA activities, and ensure internal auditors are clear about their roles and contribution to the business to deliver the necessary insights expected from them. This requires ongoing dialogue between the IA function and the rest of the business. Once this is established, the IA role can be expected to improve its contribution to strategic decision-making.
Technology: A catalyst for change

The future of IA depends on its ability to embrace technology in a manner that is instrumental to replacing the old mindset with a new one.

In the digital world that we currently live in, companies worldwide are now more keen than ever, to explore the advantages of using emerging technologies to enhance efficiency. This approach has filtered down to to most functions, including IA.

In Bahrain, a majority of IA professionals (95 percent) surveyed believed that the adoption of technology can trigger greater efficiency, a perception shared by their global IA professional counterparts (75 percent).

From audit management software and cloud computing to mobile apps and big data, internal auditors are keen to explore how emerging technologies can change the way they work, help them become more productive and deliver greater value to the business. However, only 35 percent of IA professionals opted to enhance their technological capabilities for certain functions/risks on a regular basis.

Importance of data and analytics

Auditors are starting to adopt data and analytics, but digital transformation in IA is still in its infancy in Bahrain. As shown in Chart 7, only 30 percent of IA professionals surveyed state that they have already started implementing analytics within their respective organizations. However, the greater proportion of IA professionals (60 percent) believe that internal audit activities within their organizations had not yet implemented data and analytics. This is primarily due to the underlying complexity in the implementation of analytics within IA.

Chart 6: Organization’s adoption of technological capabilities to identify and respond to emerging risks

<table>
<thead>
<tr>
<th>Technology Capability</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regularly</td>
<td>35%</td>
</tr>
<tr>
<td>Sporadically/ad hoc</td>
<td>35%</td>
</tr>
<tr>
<td>Enterprise-wide</td>
<td>20%</td>
</tr>
<tr>
<td>Do not employ</td>
<td>10%</td>
</tr>
</tbody>
</table>

Chart 7: What best describes your company’s Data and Analytics capabilities?

- We employ these capabilities regularly for certain functions/certain risks: 60%
- We employ these capabilities sporadically/ad hoc: 30%
- We employ these capabilities enterprise-wide and rely on them: 10%
- We do not employ any technological capabilities to identify/respond to emerging risks: 10%

We do not yet employ data and analytics
Starting to implement
Already implemented

Internal audit survey 2018, KPMG in Bahrain, April 2018
Challenge the status quo

As part of an ever-changing business environment, organizations today are aware that maintaining the status quo is no longer sufficient. It is therefore important for companies to be agile enough to cope with unexpected events and challenges.

For this purpose, adopting a technology-enabled two-phased approach of continuous auditing and monitoring is vital. Together, these methods can enhance the timely, ongoing review of financial data and internal control within an organization. While continuous auditing can assist auditors as they analyze data for early identification of outliers or risks, continuous monitoring further enables the management team to assess the business against key performance metrics.

Emerging technologies

The fourth industrial revolution has paved the way for emerging technologies such as Robotic Process Automation (RPA) and Artificial Intelligence (AI), which can offer auditors the opportunity to be innovative in various aspects of IA, such as risk assessment, planning, execution and reporting.

Some audit activities have already started considering using bots for routine control testing. These can perform tasks in a fraction of time and for a fraction of the cost required for a real person. While some in the consulting world speculate on the impact of robotics on headcount and costs, auditors are increasingly exploring this option as a means to alleviate perennial constraints on resources and budget.

Furthermore, in the case of IA, the technology offers non-negligible advantages, such as reduction in errors, higher efficiency and ability to make better predictions. Another area where auditors can leverage the benefits of IA is during the document review process — machine learning now makes it possible to train the system on a set of sample contracts until it learns how to identify and extract key terms. This, in turn, can potentially provide auditors with more time to focus on examining more complex and higher risk areas.

Another such example is the combination of cognitive technology with visualization tools. This can bring audit information to life through automated charting and graphics, allowing a detailed analysis of data and, timely calibrated responses.

The future of IA, therefore, rests on the ability of the activity to widen its scope in a manner that would enable it to not only focus on the traditional regulatory and compliance matters, but also help organizations manage risk and operations. As demonstrated in this survey, the IA activity has been slow, and at times reluctant, to leverage data and analytics. It is critical that the IA activity looks to embrace the digital revolution and use technology to its advantage.

Chart 8: What advanced data analysis tools does your company use?

<table>
<thead>
<tr>
<th>Tool Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>We primarily rely on standard Microsoft tools</td>
<td>60%</td>
</tr>
<tr>
<td>We have purchased and use a data &amp; analytics tool</td>
<td>25%</td>
</tr>
<tr>
<td>Not displayed</td>
<td>15%</td>
</tr>
</tbody>
</table>

Internal audit survey 2018, KPMG in Bahrain, April 2018
IA sourcing models

Global executives and Bahrain-based experts have diverging views on the responsibilities of the IA activity within an organization.

In recent years, the IA function has gained in importance and now assumes a more varied set of responsibilities. As business structures become more complex and operations more sophisticated, there is a pressing need to ensure that risks are adequately managed.

A company’s overall goals should be compliant with audit policy and procedures. Yet, Bahrain based IA professionals recommend that IA should play a better role when it comes to recommending policy and procedures. They also suggest that organizations rely on third-party providers and other in-house departments.

The role of IA across business functions is expanding. Globally, around 85 percent of executive stakeholders believe that IA should be considered for its capacity to leverage financial reporting certifications and provide external audit assistance. However, Bahrain based IA professionals, prefer the involvement of a third party service provider. Fifty percent of IA professionals surveyed, believe that a third party should be leveraged to validate financial reporting certifications and provide external audit assistance.

One of the most critical aspects of the IA activity is risk assessment. Seventy-five percent of the surveyed Bahrain-based IA professionals would rather rely on IA to provide insights into strategic, operational, legal and regulatory, and financial risk coverage. They also prefer IA to operate in a management advisory capacity, and to be involved in the design of risk-associated processes and controls.

At a global level, executive stakeholders perceive that either internal audit or a third party can provide independent assurance regarding the adequacy of financial risk. However, more than half of the Bahrain-based IA professionals (60 percent) prefer only internal audit for independent assurance regarding the adequacy of financial risk.

Chart 9: Top three key areas where internal audit can play an important role

- **75%** - Audit Company Policy & Procedures
- **Provide insights into various types of risk coverage - 75%**
- **70%** - Management advisory in designing processes for various risks

Internal audit survey 2018, KPMG in Bahrain, April 2018
In-sourcing still a preferred option?

Optimizing IA capabilities requires significant investment in skilled resources, methods, training, career paths and technical infrastructure. While organizations of all sizes can benefit from IA, the decision of choosing an in-house team of IA staff, outsourced or co-sourced can have an impact on the value generated by IA.

Choosing the right resourcing model begins with an accurate assessment of the complexity and needs of an organization. Every model has its own set of benefits and drawbacks.

Companies that have in-house IA functions enable the management to gain instantaneous knowledge of any issue at hand, which, in turn, allows them to retain full control over their approach. A key advantage of this model is that it provides a key opportunities for developing future leaders within a particular organization. Members of the IA department are trained in various functions within the organization, which enables them to develop an adequate understanding of the key risks and challenges faced by the organization.

One of the drawbacks of the internal sourcing model is the difficulty some internal auditors face when acquiring or maintaining the levels of specialized skills required. This is associated with the elevated costs associated to investing in the skill set required.

The past few years have witnessed a decline in the popularity of this model. According to a KPMG global IA survey, only 4 percent of the executive stakeholders preferred this approach and this number is expected to further decline.

Meanwhile, 50 percent of Bahrain-based IA professionals indicated their preference towards the internal sourcing model.

Chart 10: Percentage of Bahrain-based IA professionals indicating a preference towards the in-sourcing model

50% At present
45% In 3 Years

Internal audit survey 2018, KPMG in Bahrain, April 2018
Co-sourcing: The most popular avenue of IA sourcing

Most IA activities now use some level of partial sourcing (also referred to as co-sourcing) arrangement to meet specific skills gaps, or to benefit from wider industry sector knowledge.

By co-sourcing critical elements of IA activity, an organization can focus on reassigning key personnel to tasks which leverage their core competencies, while benefiting from the specific skills, best practice, industry and corporate audit knowledge brought through the co-sourcing relationship. One of the main deficiencies of the IA co-sourcing model is that it requires continuous coordination from the organization to ensure seamless delivery of IA services.

The co-sourcing model is the most popular of the three sourcing models. Globally, 87 percent of executive stakeholders expressed a preference for this approach, with the number expected to rise to 90 percent over the next three years.

With the growing popularity of co-sourcing, it is critical to identify the key traits organizations look for when deciding to adopt in-sourcing or outsourcing.

The majority of IA professionals (70 percent) feel that associating with external partners helps to get an independent perspective, access subject matter experts and benchmark existing processes.

Seventy percent of IA professionals highlighted the significance of an independent perspective, especially when some internal stakeholders run the risk of becoming complacent or resistant to change. External partners can bring insights, information and best practices from their broader exposure. They are then better positioned to have more independent and clearer conversations with the senior management.

Based on the perspective of Bahrain-based IA professionals, 70 percent of respondents gave greater priority towards the access to subject matter professionals. The involvement of industry experts reinforces their confidence in the level of assurance needed to grow sustainably while exploring the opportunities presented by an evolving risk landscape.

Chart 11
Preference of co-sourcing

Internal audit survey 2018, KPMG in Bahrain, April 2018
Outsourcing losing out to co-sourcing

Apart from reducing operating expenditure, some companies believe that outsourcing the IA expertise to better-equipped specialists may lead to improved services and a more substantial return on investment. However, as per the current scenario, this model has some perceived drawbacks. The main one is that as the expertise does not reside in-house within the organization, there is an evident limitation on the ability to transfer knowledge and build capabilities of the IA activity within the organization.

Within both the global and Bahrain landscape, this model is the least preferred among the three and has also registered a consistent decline. Only 20 percent of IA professionals prefer fully outsourcing the IA activity.

Given the current economic environment and potential emerging risks, it is critical to understand the concerns of an organization while opting to either co-source or completely outsource the IA activity.

The majority of IA professionals in Bahrain (80 percent) believe that the lack of institutional knowledge is the biggest risk factor.

When considering which sourcing option to adopt, organizations must consider which model is most suitable to their requirements. Companies must understand that the IA function is increasingly playing an advisory role to the business. It is therefore essential to conduct a proper assessment of the various sourcing models and evaluate their respective suitability.

Chart 12: What risks do you see in outsourcing/co-sourcing your IA department?

- Lack of institutional knowledge: 80%
- Loss of in-house skills/experience: 70%
- Does not align with company culture: 55%
- Lack of visibility into audit processes: 35%
- Investment in time to ‘ramp-up’ team: 30%
- Other: 40%

Internal audit survey 2018, KPMG in Bahrain, April 2018
An effective IA department

A more regulated business environment means it is critical for organizations to have an effective IA department. Organizations can achieve this by embracing strategic sourcing, adopting updated frameworks and leveraging technological capabilities.

Over the years, IA has become highly sophisticated and is virtually a business in itself. As such, putting an effective IA department in place requires a significant level of investment in skilled resources, methods, training and technical infrastructure.

Attributes of an effective internal auditor

Critical thinking and good communication are essential skills that bring together all other components of an audit practitioner’s competency set. The essential set of skills required to be a successful internal auditor is also experiencing a massive shift. While technical skills remain absolutely necessary, internal auditors need to possess a broad range of non-technical attributes if they want to succeed.

Globally, executives considered non-technical attributes as the competitive differentiators. Two-thirds of the respondents perceive communication skills as the ‘highest’ preferred skill which internal auditors ought to possess. Similarly in Bahrain, IA professionals also regard communication skills as high preference.

Another important trait appreciated by IA professionals around the world are business acumen and critical thinking. In Bahrain, this is also considered as the most important skill set for emerging internal auditors.

At the same time, in-house professionals are expected to develop their technical expertise by seeking out new assignments, projects and development opportunities.

Adoption of COSO 2013 and heightened focus on technology

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) released its updated Internal Control – Integrated Framework in May 2013. This framework essentially provides Audit Committees and management teams with the opportunity to start afresh and view IA differently. COSO 2013 helps create an effective controlled environment and a strong risk assessment process, including identifying and addressing fraud risks.

In Bahrain, the level of adoption and alignment with COSO 2013 is still quite low. Among our survey respondents, (10 percent) of IA professionals claimed that their organization was aligned with COSO 2013.

COSO 2013 and its updated framework focus on technology. The framework update, driven by changes in the business and operating environments, encourages the use of, and reliance on evolving technologies. It provides more guidance on how technology relates to an entity’s internal control structure.

Chart 13: Top 5 qualities preferred in a chief audit executive (CAE)

- **80%** Understanding of risk
- **80%** Good Communicator
- **80%** Ability to increase status of the IA function
- **75%** Leadership skills
- **70%** Industry expert

Internal audit survey 2018, KPMG in Bahrain, April 2018
In this context, 35 percent of the IA professionals expressed their intention to adopt and employ relevant technology (Chart 14). This is because they believe it will help them identify and respond to emerging risks more effectively, over the next three years.

An effective IA department should aim to leverage relevant technology solutions and use them as enablers for greater transparency and accountability for internal control and various IA activities. The 2013 COSO framework also provides a new opportunity for IA committees to take a fresh look at internal control, to create value for the organization and manage heightening expectations.

Hence, to gain from the prospective benefits and rewards, the IA department of the future should:

— focus on strategic sourcing, with a key focus on co-sourcing
— employ CAEs with appropriate skills and talent
— adopt and align their internal controls and IA activities with the COSO 2013 framework
— leverage the optimal technological solutions and capabilities.

**Chart 14: Organization’s adoption of technological capabilities to identify and respond to emerging risks**

We employ these capabilities regularly for certain functions/certain risks
We employ these capabilities sporadically/ad hoc
We employ these capabilities enterprise-wide and rely on them
We do not employ any technological capabilities to identify/respond to emerging risks

Internal audit survey 2018, KPMG in Bahrain, April 2018
Risk management and IA: Creating synergies

The evolution of advanced risk management capabilities depends on the organization’s ability to create collaborative opportunities for both risk management and IA activities.

As the need for risk oversight continues to grow, companies increasingly acknowledge that a combination of IA and risk management can be extremely effective.

Managing risk effectively

In Bahrain, 80 percent of the surveyed IA professionals agreed that the use of risk management tools adds enormous value to the IA process and lead to efficient risk mitigation.

An efficient risk management framework is one which is able to effectively maximize resources and minimize an organization’s vulnerability towards risk, be it internal or external. This may help successful companies in their efforts to stay relevant and evolve.

Given the dynamic nature of business, there are key considerations to take into account when prioritizing risks and what a company should focus on:

— Some people view emerging risks to be important; it has been observed that a sense of naivety is still prevalent among some members of senior management, especially when they assume that risks, such as cyber-attacks, may not affect their organization.
— Similarly, internal auditors are also said to be focusing more on operational risks, as opposed to finance and compliance risks. Audit Committees are now becoming increasingly dependent on IA to assist them as they navigate through a more complex risk landscape. This, in turn, may affect the day-to-day operations of a business.
— Due to the volatile nature of the business environment, risks may lead to significant disruption and may even an organization’s foundation.

Chart 15: How does your organization attain enterprise-wide risk coverage and mitigation?

- Through a collaboration of several key functions (e.g. Internal Audit, Legal, Compliance) 40%
- Through a separate ERM function 25%
- Through the IA function 20%
- Risk is owned at the function level 10%
- Through the Compliance function 5%

Internal audit survey 2018, KPMG in Bahrain, April 2018
The results indicate that IA professionals in Bahrain are well aware of the importance of an effective mitigation framework, and have expressed confidence in their organization’s ability to identify and adequately manage different types of risks: Emerging, strategic, operational or compliance related.

The need to collaborate

Given the overlap in roles, it can be easy to get confused between risk management and IA, especially when answering key questions such as:

— How should a company view enterprise risk management (ERM)?
— How do risk management and IA fit into the larger scheme of things to facilitate enterprise-wide risk coverage?
— How can IA both assist and independently evaluate risk management activities?

This confusion in roles may have hindered collaboration between the two functions, resulting in a less coordinated approach when it comes to dealing with risk in some organizations.

Value creation for an organization

In light of the above, companies now increasingly require risk practitioners and internal auditors to work together, to add to the overall value they bring to an organization. Some key enablers that can help drive this process include:

— Linking an audit plan with enterprise risk assessment.
— Obtaining help in efficiently identifying critical risks, creating an aligned view of the organization’s risk profile and adopting a consistent risk management vocabulary.
— Sharing of talent and resources, enables combining of skills and expertise from both functions. This would help in developing a common understanding of risk management and subsequently facilitate the achievement of the organization’s objectives.
— Developing a common platform to ensure smooth cross-function collaboration. This would create an ecosystem that supports increased inter-function communication between risk and IA.

Internal audit survey 2018, KPMG in Bahrain, April 2018
Conclusion

Assessment of IA through a strategic lens
In any organization, the IA activity plays both a strategic and a supporting role. It therefore has the potential to simultaneously offer the most value to an organization’s management and board, making it an essential component of its overall strategy. However, in Bahrain, viewing IA as a strategic role is still limited to being more aspirational than real – a clear indication that, while IA professionals are aware of the strategic link between IA and business strategy, there is ample scope to do more.

Collaboration is key
IA and risk management are considered to be two sides of the same coin. Both functions are deeply invested in guarding an organization from potential threats and ensuring it maximizes its growth potential at every stage. Therefore, due recognition must be given to companies which look into creating a collaborative environment for both functions to work together.

Technology-enabled continuous monitoring
With the growing potential offered by emerging technologies, such as AI and robotics, the impact of technology on businesses is undeniable. This presents the IA with the opportunity to achieve greater efficiency by leveraging the latest technological tools available to provide continuous monitoring and auditing.

In-sourcing vs. co-sourcing vs. outsourcing
Choosing an appropriate IA model begins with an accurate assessment of size, complexity and needs of a particular organization. Consequently, the ‘one size fits all’ model does not apply when an organization is considering either of the three options: in-sourcing, co-sourcing or outsourcing. Given the dynamic nature of the business environment, this choice can be even more challenging as organizations strive to achieve their business goals efficiently and effectively. Also, the decision depends on regulatory requirements.

The ideal IA department
Considering the various functions that an IA function has the potential to perform within an organization, there are several schools of thought when it comes to providing a quintessential definition for ‘ideal’. That being said, a balanced mix of strong IA leadership, skilled resources, adoption of industry standard frameworks and increased use of enablement tools offered by emerging technologies, are some of the elements that can help an IA function on their journey towards being the IDEAL IA function.

Not only can this help companies measure their real-time performance, it can also enable them to keep up with a dynamic risk landscape. Thus, it is important for companies to adopt and continuously invest in improving their technological capabilities, so as to leverage emerging technologies effectively.
About the survey

The survey report is based on the analysis of responses from our respondents in Bahrain.

In terms of the respondents’ demography and background; 35 percent of the surveyed IA professionals represented companies with an annual revenue of between US$10 million and US$49 million.

Some sections of this report also refer to the global IA survey. This survey was conducted by KPMG International among 134 members of the Institute of Internal Auditors (in July 2016), and 405 executive stakeholders (in July 2015).

About KPMG

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 152 countries and have 200,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative (KPMG International), a Swiss entity. Each KPMG firm is a legally distinct and separate entity, and describes itself as such.

Our local presence

KPMG has had a presence in the Kingdom of Bahrain for nearly 50 years. From a small local accounting firm, founded in 1968 by university friends Jassim M. Fakhro and Hussain Kasim, KPMG in Bahrain has become one of the largest and most prestigious professional services firms in the country.

KPMG employs over 300 professional staff and partners. We provide clients with a suite of locally supported Audit, Tax and Advisory services. We recruit the best and brightest from around the world. We currently have 17 nationalities working across our teams, but we also draw on local talent.

KPMG’s Risk Consulting practice has a dedicated team locally comprising 30 internal audit professionals.
Contacts details:

Jeyapriya Partiban
Partner, Risk Consulting
KPMG in Bahrain
T: +973 17222322
M: +973 39603823
E: jeyapriyapartiban@kpmg.com

Ramesh Gajula
Director, Risk Consulting
KPMG in Bahrain
T: +973 17222377
M: +973 39067635
E: rgajula@kpmg.com

Weldon Marquis
Associate director, Risk Consulting
KPMG in Bahrain
T: +973 17222350
M: +973 33067875
E: wmarquis@kpmg.com

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