



Institute of Risk Management

**IRM QATAR CHAPTER WORKSHOP/SEMINAR  
ON  
Risk Management in the eye of Internal  
Auditor**

**Held on – 9<sup>th</sup> December ,2019**

**SUMMARY REPORT ON SEMINAR PROCEEDINGS**

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## **Introduction**

IRM QATAR Chapter Workshop and Seminar to explore the topic of "Risk Management in the eyes of the Internal Auditor (IA)" in Doha, Qatar on 9 December 2019. The IRM invited three distinguished internal audit managers from three leading Qatari companies.

We were fortunate to have **Mr. Azeddine Douis**, Internal Auditor Manager of Qatar Foundation, **Mr. Wasim Mujawar**, Internal Audit Manager of QAPCO, and, **Mr. Richard Bedford**, Internal Audit Manager / CAE at Msheireb Properties join us and share their knowledge, perspective, and views with us. We were ably facilitated by **Mr. Arthur Winks**, Risk Manager of Msheireb Properties and **Mr. Hatem Elsafty**, Partner of Mazar's Qatar. Our discussion was governed by Chatham House Rules in order to allow for the exploration of the topic without participants having to worry about what they shared. We wanted to maximize the benefit of our time together.

## **Premise**

The workshop/seminar objective was to explore the following three questions to get a better understanding of the relationship between Risk Management and Internal Audit. We invited risk management (RM) practitioners to prepare questions they had always wanted to ask of Internal Auditors, but never had the chance to ask. The following three questions were developed to guide our exploration:

1. What is Internal Audit's view of the role of Risk Management?
2. What is the expected interface between risk function and Internal Audit?
3. Should the internal audit and risk management committees be combined?

### **1. What is Internal Audit's view of the role of Risk Management?**

Internal Audit views risk as an uncertainty or potential occurrence, that once identified, and irrespective of management's explanation of it, must be reported to the Board Audit Committee. Identification of risk by IA is usually facilitated by the annual audit planning exercise. This is an exercise where internal audit does its best to identify all major risks to the organization's ability to achieve its

Board approved objectives. Risks are identified, assessed, and mitigated (usually in the form of an applied control) and collated in a centralized catalogue.

It was noted by audit practitioners that prior to their employment in Qatar, the exposure to risk management was limited and primarily involved interactions with insurers for assessing insurable risk. It was noted that Boards felt the Managing Director was responsible for managing risk; the responsibility for which was assigned to project managers. That all changed with the publication of Turnbull's "Internal Control: Guidance for Directors on the Combined Code" in 1999, and the wholesale adoption of a risk-based approach to external and internal audit by regulators. Many auditors found themselves drafting risk registers to establish the audit universe and to facilitate audit planning, and to ensure the effectiveness of the internal control environment.

Others noted that the risk register developed by the risk management function only represents management's opinion and that the register's contents must be challenged by Internal Audit on behalf of the Board and the Board Audit Committee (BAC). The role of IA is to validate and challenge management's conclusions regarding risk management and to challenge management as to what is included in the risk register. It was argued that just because management provides a conclusion on the assessment of risk, they are, as per IA, in many cases below the organization's stated risk appetite, that does not always mean that they are. The role of internal audit is therefore to challenge management in general terms and the risk management function specifically. In other words, IA keeps management and the RM function honest. This can be a source of contention; or, if the risk management function is mature, it can be a compass for the whole organization to ensure that it is headed in the right direction.

## **2. What is the expected interface that links risk function and Internal Audit?**

There are multiple areas where RM and IA share and interact: the (a) risk register; (b) internal controls; (c) Three Lines of Defense (3LOD); and (d) IA assessing the maturity of RM function

### **(a) Risk Register**

The risk register is useful, not only for the identification and assessment of risk, but also for the identification of controls applied by management to mitigate risk. However, IA and RM examine the organization's risk register different perspectives. On one hand, risk management analyzes the risk register in terms of completeness (are all risks to objectives identified) and chosen controls and their effectiveness (this in turn, reflects the organization's risk appetite).

On the other, IA uses the risk register to analyze management's assessment of the control and control effectiveness. IA is given the authority by the BAC to challenge the contents of the risk register. It was argued that one can open any risk register and one will likely find that Management's assessment, on the whole, is below the Board approved risk appetite. If IA accepts management's assessment, the audit universe available will be very small in any organization.

IA examines all organizational risk registers (or register if it is collated in one document), including all key processes (which IA will review), and follows with the completion of a risk-based assurance map. It is felt that IA should ideally use the register that the risk management department has completed rather than inventing their own. The challenge and risk that two separate corporate risk register raises is: How can the Board rely on two risk ratings, that in the most challenging case, do not match. If RM concludes a risk is low, but IA concludes the same risk is high, what is the Board to conclude? It cannot accurately interpret or derive meaning from an average the high and low rating.

A key role of risk management, therefore, is to assist with the alignment of risk to help management convey to the Board an understanding of what is truly a high risk to the organization and a risk that reflects a true low rating. One participant noted, "I find risk registers to generally be very good in terms of identifying the risk. They usually contain the risk facing that particular industry or business, and they are great tools. The issue, however, that I have with risk registers is the assessment of control".

## **(b) Control**

A distinct point of differentiation between the IA and RM function offered by the panel was their perception in the difference of the assessment of control in terms of quality, effectiveness, and adequacy. By the end of the discussion, it was clear both functions are closer to agreement on the purpose and assessment of control than initially thought.

Internal Audit's role is to assess control for assurance purposes. IA is charged with assessing whether, the control designed and implemented by management to mitigate risk does so effectively. The need for IA to assess control design and effectiveness, is not entirely different from risk management's relationship with control. RM assesses control effectiveness in mitigating risk and for identifying residual risk to meeting objectives. If, for whatever reason the design of a control is found to be defective, or the impact of the control is ineffective in mitigating risk, then the Risk Manager will look to Management for guidance on transferring, avoiding, sharing, or accepting the identified residual risk. Both IA and RM acknowledge that the best control for mitigating risk are defined by business owners.

### **(c) Three Lines of Defense**

Another point of interaction was the Three Lines of Defense (3LOD) model and how it is used by IA to analyze risk to objectives and the role that the front line and management have in addressing risk to meet objectives. IA uses the model to provide assurance to the Board that risks to objectives are mitigate by the appropriate strategic, operations, reporting, and compliance function in the organization. This demonstrates how complimentary the IA and RM functions are.

### **(d) IA assessment of the risk management maturity**

Discussed at depth, panelists agreed that one of the first key steps of the IA function is to assess the level of maturity within the organization regarding its risk management activities. The more the mature the organization with regards to risk management, the more the IA function can place reliance on above interaction points (risk registers, controls and 3LOD). The less matured the organization in risk management the more the IA need to do provide the right assurance.

### **(e) Possible Areas of Friction**

One possible area of friction that exists with RM's and IA's assessment of risk, control, the 3LOD is over opposing views on how the business should be run; this is a potential source of contention. IA should have no opinion on the results achieved by the business; performance is management's responsibility. However, IA because of its knowledge of the overall business, which may differ significantly from that of the RM function, may be tempted to offer opinions on performance.

### **3. Should the internal audit and risk management committee be combined?**

Panelists and participants noted that the answer is contingent on the type of business, the type of organization, and the sector in which it operates, regulatory requirements, and, the decision of the Board and/or Management to keep committees separate or if it would be better to combine the two areas of responsibility in one.

It was noted that the risk committee is a management committee; it is not really a Board function (unless the business is financial services, banking, and/or insurance). In regard to the Board's role, and its duty, in terms of knowing the risk facing the business and how that being managed can be fulfilled by a risk committee. This is contingent on the Board having the time to devote to review the risk management process. A challenge that may emerge for Directors by combining the Risk and Internal Audit committee the risk for distraction is high because they may be unsure of which hat the organization needs them to wear. Directors may be focused on risk, or assurance, and will be challenged to focus on each with sufficient energy.

### **Conclusion**

The seminar was engaging and informative. It helped risk managers understand more clearly what their colleagues in the Internal Audit Department are trying to achieve – providing the Board Audit Committee with assurance that the control environment caused to be designed by management, controls implemented by management are working as intended, and risks to Board approved objectives are identified and mitigated.

Key takeaways were agreement on the importance of interaction between the two functions, if both exist; and the importance of IA in taking a leadership role in establishing the risk management function and raising maturity if the RM function doesn't exist; and finally, the importance of IA regularly assessing the maturity of the RM function, since the IA risk based plan and activities will significantly vary depending on the level of RM maturity.

## Thanks



## Authors

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