



Compliance Risk Survey

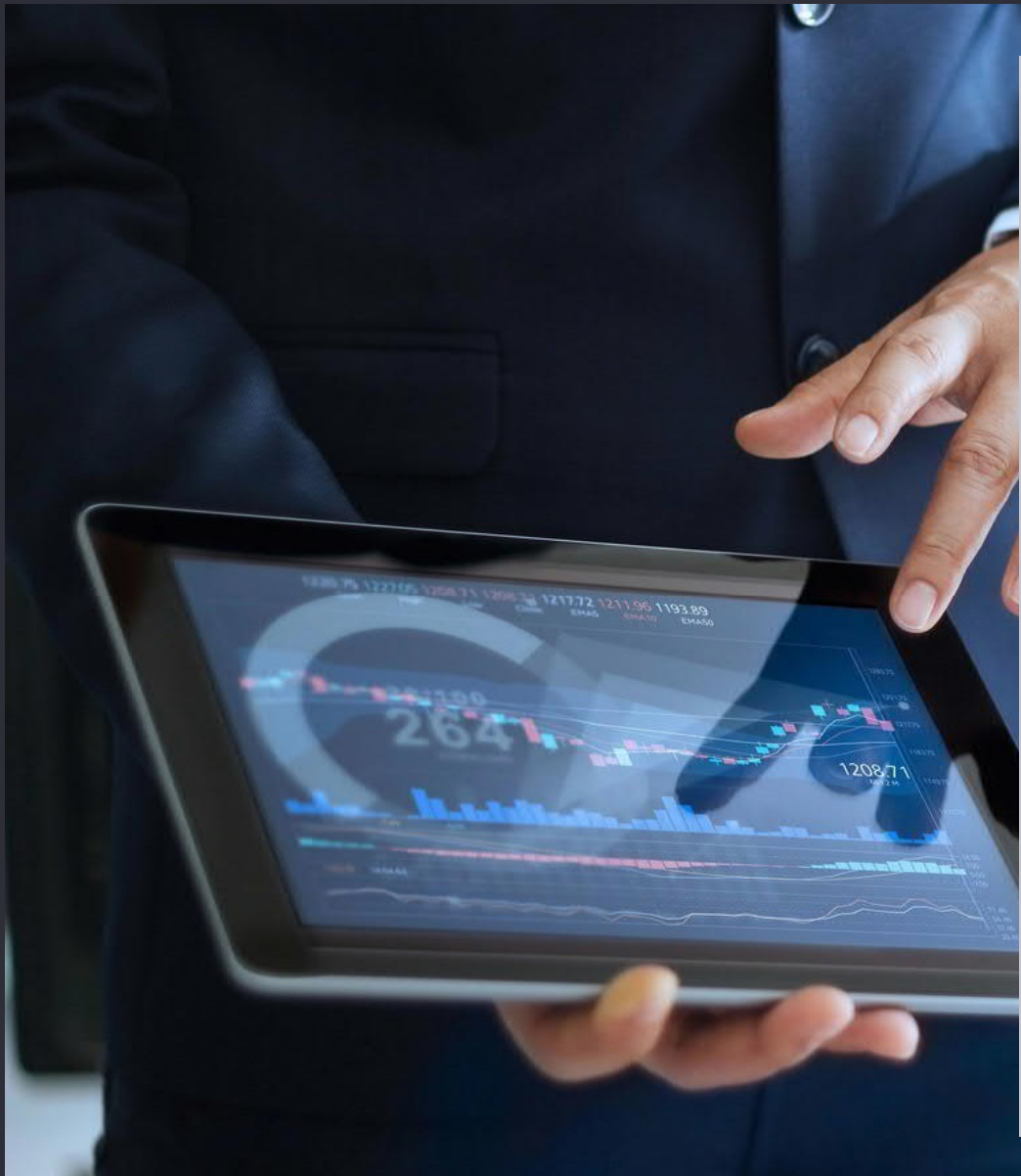
Middle East region analysis

August 2021



EY

Building a better
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Approach to the compliance risk survey

In light of the COVID-19 pandemic, and while organizations are focusing on building resilience within their business strategies and operations, one of the key areas that they are still struggling with is Compliance Risk Management.

Shifting regulations, increased enforcement and adoption of new technologies are changing the landscape of business and associated risks, therefore representing a challenge for organizations to build and maintain compliance regimes that keep up with a rapidly evolving regulatory environment, in their markets and beyond.

The implications of such changes are expected to continue in affecting the policies related to domestic and regional supply chain, employment and human capital policies, data and cyber security, environment sustainability, tax, financial planning and reporting, etc.

The survey sheds light on practices and mechanisms that represent the full cycle of Compliance Risk Management, and provides insights on how such practices are being addressed by participating organizations. Topics covered include:

- Compliance framework and culture
- Compliance governance
- Compliance process and policy
- Digital enablement and training

The survey was conducted in the MENA region, and analyzes the approach and enablers used by sectors and organizations within the market to manage, monitor and report on compliance risks.

63% of organizations consider compliance as part of their top five challenges.

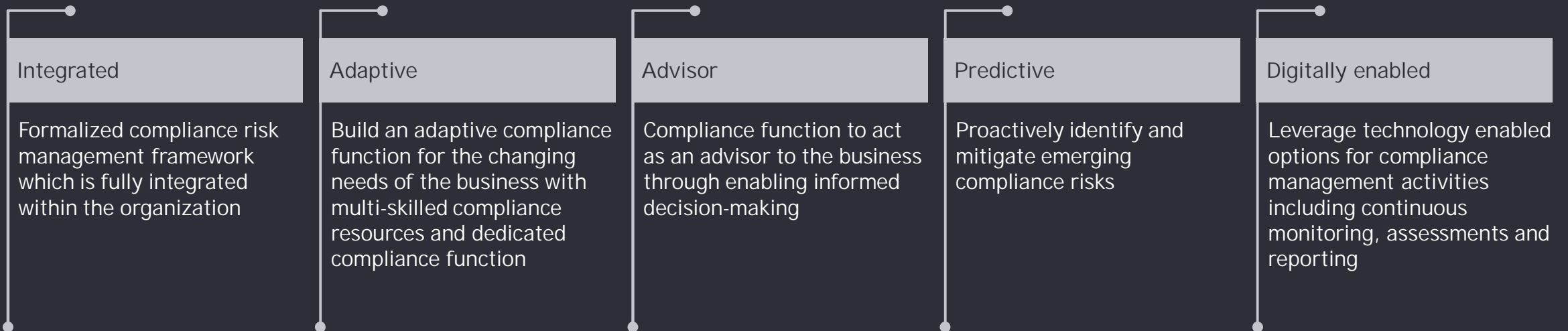


Survey conclusion

The survey result suggests strengthening governance and compliance culture remains a key challenge in managing compliance risks within the business. Organizations could still make substantial progress in their compliance journey, through shifting their capabilities toward a more adaptive, integrated and digitally supportive compliance function.

The key areas of improvement that have been identified include the need to move away from a fragmented approach to a holistic compliance management which offers a real-time view of risks and controls, and provides that compliance becomes an integral part of business strategy and processes, rather than an obstacle to their effective achievement.

Compliance function of the future needs to be:





Participation

Market participants

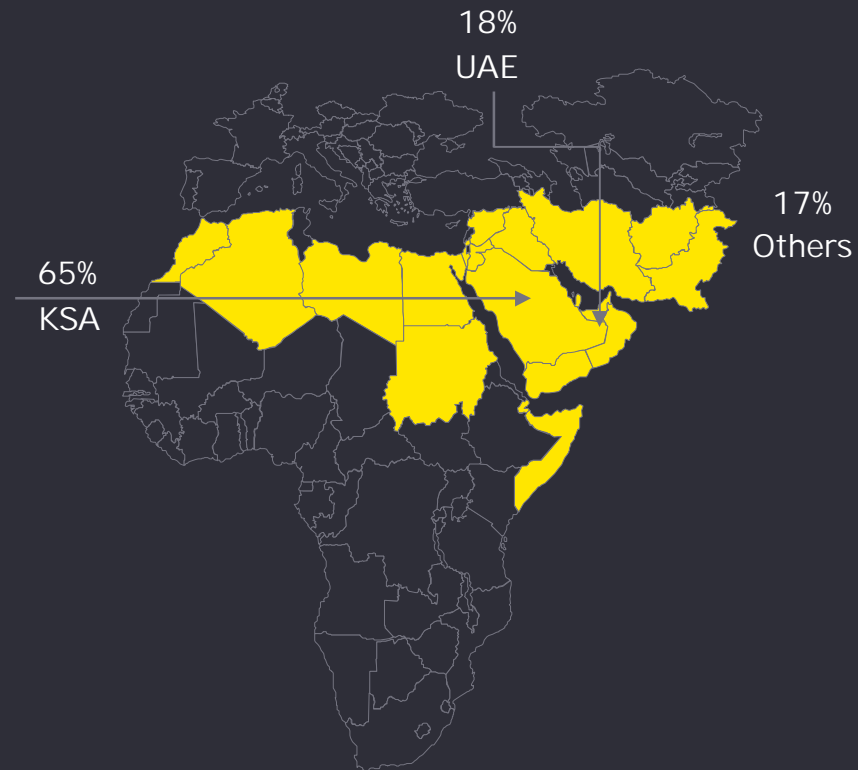
26% of responses were received from government and public sector

22% of responses were received from financial sector

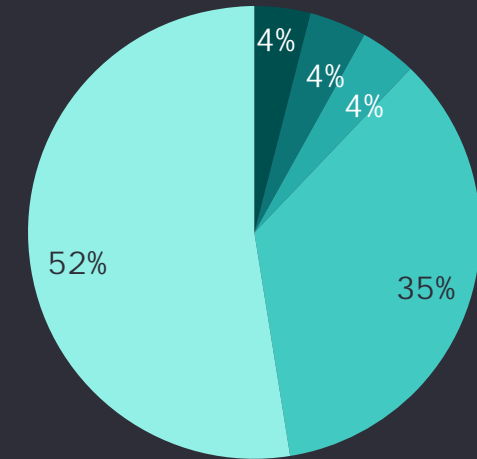
13% of responses were received from energy sector

39% of responses received from all other sectors

Respondents' presence in the MENA region



Respondent job title



- Company Secretary
- Chief Financial Officer
- General Counsel or Chief Legal Officer
- Chief Risk Officer
- Chief Compliance Officer



Compliance framework and culture

A key priority for organizations is to drive a Compliance Function that is supported by a robust framework which:

- Sets the tone at the top to position the function as a strategic partner to the business
- Operates based on a comprehensive compliance risk management program



- Formal and integrated compliance risk management program – 52% of respondents rated their compliance risk management program maturity as “basic” or “developing”
- Engagement of the board of directors in compliance oversight – only 30% respondents state that compliance risk management is a recurring agenda item on the board meetings
- Compliance function as business enabler and trusted advisor within the organization – only 43% of the respondents view the function as business enabler and collaborate to the organization success

Compliance governance

Organizations need to develop an agile and efficient compliance framework that addresses governance challenges and is equipped with the required skills and latest technologies, to adequately manage the various phases of the compliance lifecycle.



- Compliance governance framework – 78% of respondents indicated that the key challenges in compliance risk management are related to strengthening governance and compliance culture, policy management and automating compliance monitoring
- Defined compliance ownership within the first line of defence – only 46% of respondents have indicated that respective business functions take ownership of compliance
- Growing need for diversity of skills in the compliance function, including data analytics and domain expertise to adapt to changing needs – 43% of respondents have indicated that primary skill of resources in the compliance function across organizations is legal or regulatory knowledge



Compliance process and policy

Compliance should be managed based on identifying and prioritizing applicable regulations and associated obligations. This could be achieved through clearly defined risk appetite and strategies toward managing compliance risks and through establishing the right policy, processes and responsibilities.



- Investment in creating and maintaining a centralized inventory of regulatory obligations – 65% of the organizations do not have a centralized repository of applicable regulatory obligations with 39% stating that no formal tracking of regulatory obligations is in place
- Evaluation and improvement of regulatory change management process to capture updates in applicable laws, rules and regulations – only 48% of organizations stated that they have the mechanism to identify emerging compliance risks
- Most common metrics used to evaluate effectiveness of the compliance practices are internally focused, with minimal input from third party assessments (such as regulatory audits)

Digital enablement

Digital systems can be further adopted for streamlined and automated management of compliance obligations, including horizon scanning, compliance risk assessment, monitoring and reporting.

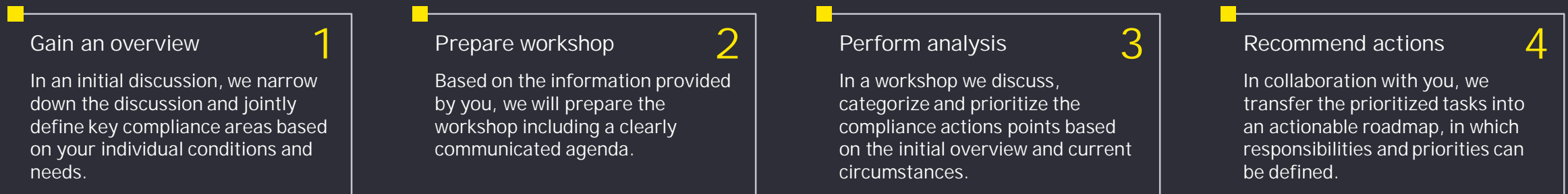


- Investment in the digitization of the compliance risk management process (horizon scanning, monitoring and reporting, and compliance health assessment) – 57% of the organizations do not use technology services to support compliance management, or use it partially (e.g., for compliance assessment and monitoring)

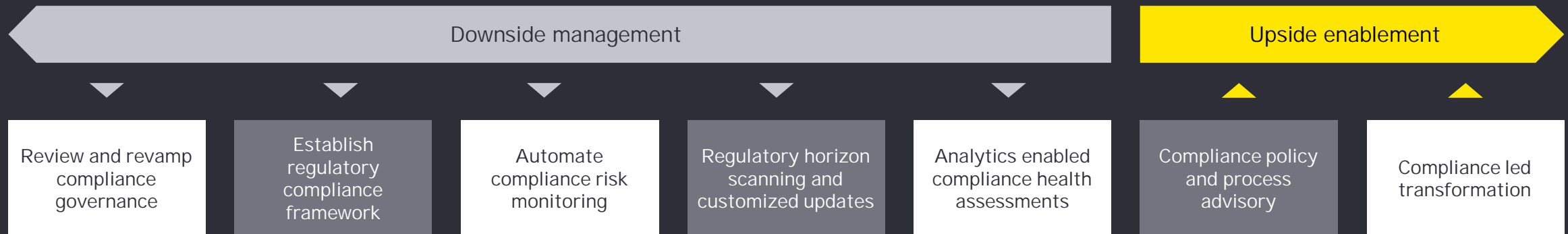


We would be pleased to support you in critically assessing your compliance activities considering the rising risk and importance of managing compliance obligations. Our approach is centred around identifying the areas of focus, followed by developing a tailor-made compliance solution to your business. Our methods are derived from global best practices and leverage an extensive experience in the field, with a wide community of legal and compliance experts.

Our approach



Risk reduction





Check your pulse

To help you prepare for our discussion and the overall compliance risk journey, we have herein included quick health check points for your consideration.

Elements	Basic	Intermediate	Leading
Framework	<ul style="list-style-type: none"> Lacks defined framework for compliance identification Relies on third party consultants or freely available sources 	<ul style="list-style-type: none"> Defined compliance framework but adequacy, updates and coverage of compliance landscape is questionable 	<ul style="list-style-type: none"> Well defined framework developed with help of internal or external legal counsel or subject matter experts with on-going support for compliance changes
Culture	<ul style="list-style-type: none"> No defined compliance culture Focus on avoiding critical non-compliances only Reactive in nature 	<ul style="list-style-type: none"> Well defined compliance culture at the top but awareness and maturity at the ground level is yet to take off 	<ul style="list-style-type: none"> Zero tolerance attitude towards non-compliance and tone at the top consistent with the ground level compliance practices
Governance	<ul style="list-style-type: none"> No formal compliance organization Driven by either the finance function or business teams 	<ul style="list-style-type: none"> Clearly identified roles and responsibilities in certain sectors only Compliance reporting and accountability across owners is still unclear 	<ul style="list-style-type: none"> Well defined responsibilities and authority for compliance monitoring and assessment Empowered central function for ensuring compliance
Process	<ul style="list-style-type: none"> Ad hoc approach to compliances with no mapping between compliance requirements and other dependent activities 	<ul style="list-style-type: none"> Good mapping between process and systems with compliance requirements but not consistent across the organization 	<ul style="list-style-type: none"> Business processes, systems and technology are aligned to compliance requirements and established compliance assessment and monitoring process
Policy	<ul style="list-style-type: none"> Basic policies in place with no sensitization with the local compliance requirements 	<ul style="list-style-type: none"> Policies in line with compliance requirements, however, review of these policies, post compliance updates is not done on a regular basis 	<ul style="list-style-type: none"> Well defined business policies aligned to the compliance requirements Defined policies, processes and trained owners for critical compliances who actively update policies with changes in the compliance requirements
Technology	<ul style="list-style-type: none"> Work primarily on excel sheets and at best annual reporting for the reference of the senior management 	<ul style="list-style-type: none"> Compliance tool in place but either not used effectively on the ground or no support on the updates, assessment and limited reporting 	<ul style="list-style-type: none"> Technology support for compliance process for ensuring real time update and monitoring of compliance level by business process and at an organization level

Detailed survey analysis



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4.1

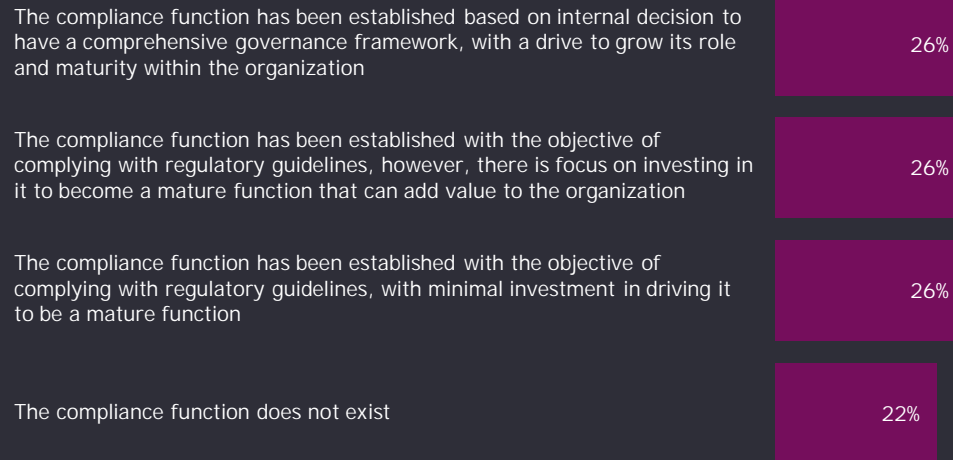
Compliance framework and culture

Need to build a strong and well defined compliance function with a formalized compliance risk management program



- For 22% of the respondents, compliance function does not exist, while for 52%, the function only focuses on complying with regulatory guidelines
- Lack of formalized and integrated compliance risk management program with 52% of the respondents rating their compliance risk management program maturity as “developing” or “basic”

Compliance is viewed as a mandatory function within the organization based on regulatory enforcement



Maturity level of the organization's compliance risk management program

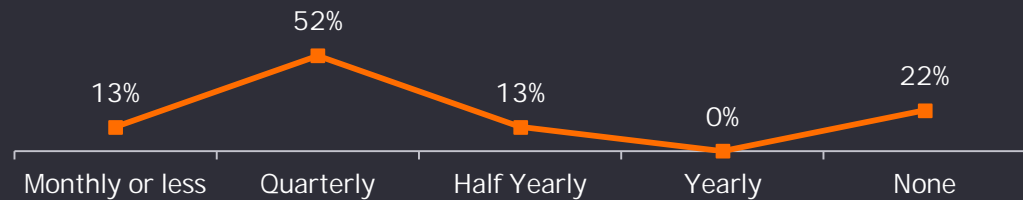


Enhance compliance culture with a strong tone at the top

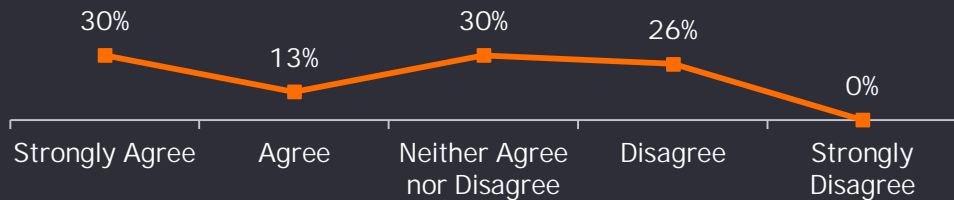


- Board of directors involvement in compliance oversight is weak with only 30% of the respondents stating that compliance risk management is a recurring agenda on the board meetings
- Compliance function needs to work toward being a business enabler and trusted partner within the organization – only 43% of the respondents view the compliance function as a business enabler and trusted partner in facilitating organizational success

Frequency of compliance status reporting to management/board/audit committee



Compliance function is viewed as a business enabler and trusted partner in facilitating organizational success



Board of Directors involvement in the oversight of the compliance activities

Compliance risk management is a recurring agenda item on the board meetings for proactive management. The corporate delegation of authorities includes approval requirements and escalation procedures to the board for certain thresholds of regulatory and other compliance exposure

30%

Compliance risk management is discussed in board meetings occasionally, and certain related approval matters are raised to the board as required

26%

Compliance is an ad hoc topic, and reactively raised with the board for information or action approval, as and when related incidents occur

26%

Compliance is not discussed at board level. In rare occasions compliance matters where randomly raised, but not as planned agenda items

9%

Compliance is not discussed at board level

9%



4.2

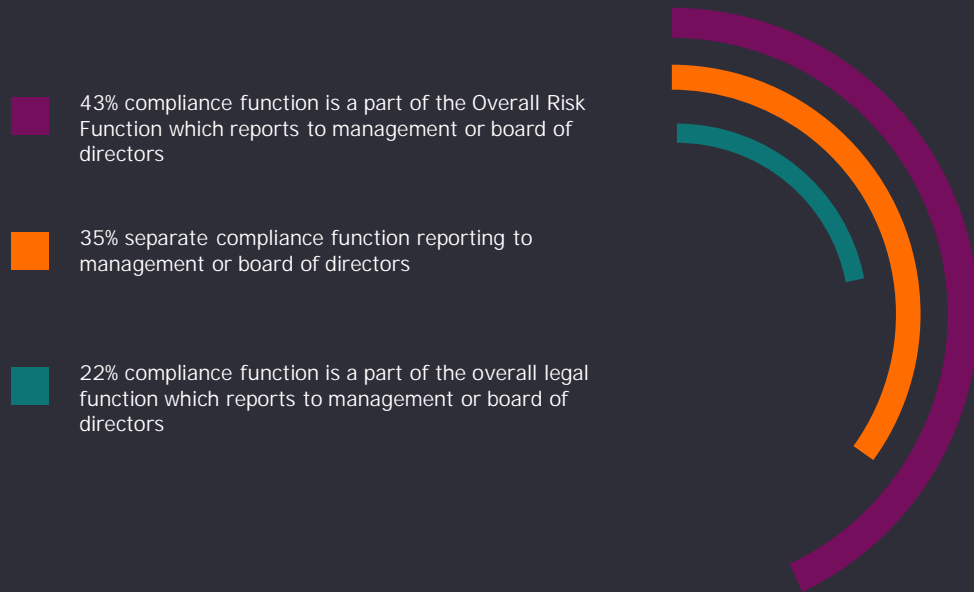
Compliance governance

Strengthen compliance responsibility and compliance risk ownership in the first line of defence

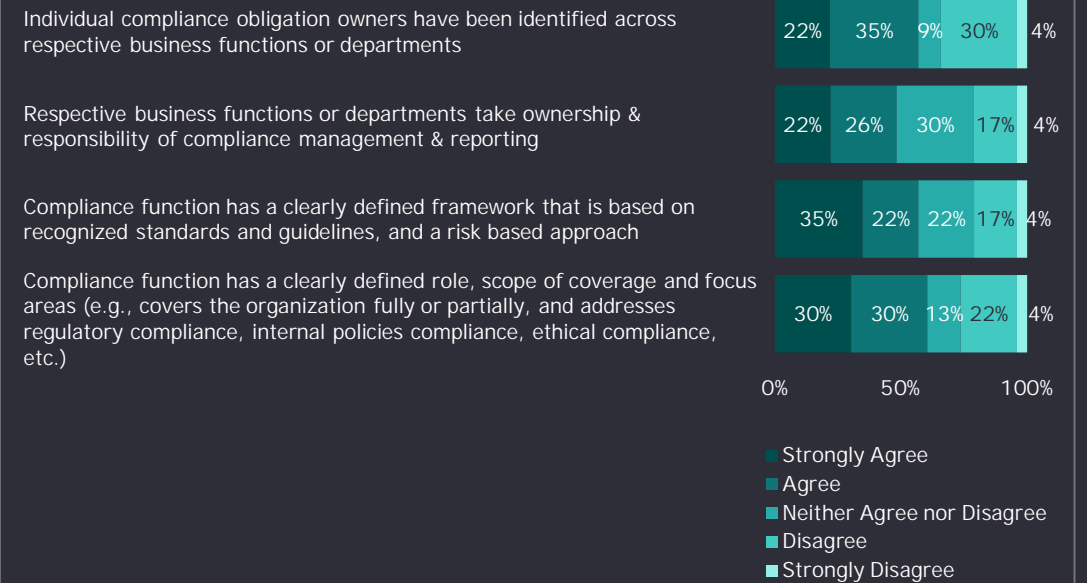


- Possible lack of authority and involvement of the compliance function in strategic decision making with only 35% of the respondents indicating that they have an independent compliance function with direct reporting to management or board of directors
- Need to strengthen compliance ownership in the first line of defence as only 46% respondents have indicated that respective business functions take ownership of compliance

Compliance function reporting structure in your organization



Compliance management structure



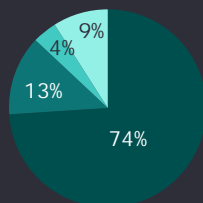
Need for right skills and resources to build a compliance function of the future



- Compliance functions have limited resources to carry out their objectives with 74% of the organizations having less than five people in their compliance functions. They are further limited with lack of diverse skill sets in the function.
- With the ever evolving regulatory landscape, organizations are estimating their investment in compliance risk management activities would increase going forward.

Compliance function headcount in the organization

- Less than 5
- 5-10
- 11-15
- >15

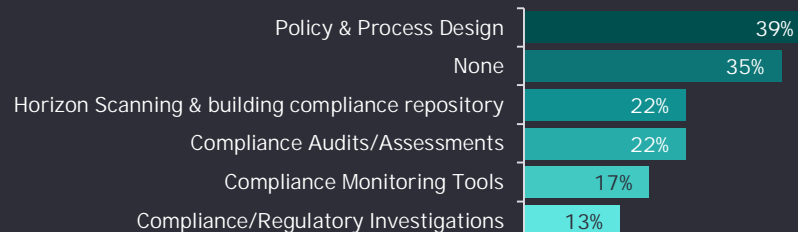


Primary skill of resources in the compliance function

- 43% legal or regulatory knowledge
- 39% assessment, audit and analytics skills
- 17% compliance, domain or technical expertise



External resources/third parties level of use to support compliance function activities



Estimate the change in financial investment for compliance risk management activities in the upcoming 12 months for your organization



Key challenges in compliance management

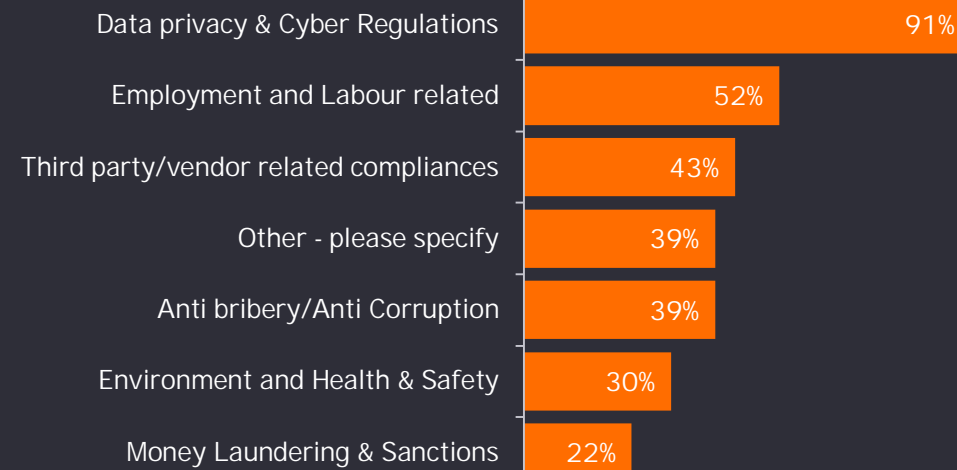


- Organizations need to develop an agile and efficient compliance framework equipped with the latest technologies and enhanced governance frameworks to address the challenges in compliance risk management as identified in the survey
- Key regulatory focus areas for organizations include data privacy and cyber regulations, employment and labor, and third party compliances

Challenges in managing compliance risks



Major compliance risk management themes



*Other comments (1) Operational Risk/Business Continuity Resilience/Strategic Risk and Workforce Risk. (2) CMA Bylaws/Boursa Kuwait Rulebook, (3) Cash liquidity management, (4) Local regulations, (5) Monitoring, Reporting, Transparency, (6) Troy Pei



4.3

Compliance process and policy

Getting the fundamentals right to address compliance risks



- Organizations need to get fundamental rights and ensure they are aware of all compliance obligations applicable. Around 65% of the respondents indicate that organizations do not possess a centralized inventory of regulatory obligations which are monitored and updated on a regular basis
- Organization need to improve regulatory change management process to capture upcoming changes in applicable laws, rules and regulations with only 48% organizations stating that they have processes to identify emerging compliance risks

Maintaining inventory of all applicable regulatory obligations across geographies and services

Leading: a centralized inventory of applicable regulations is in place, and subject to on-going monitoring of emerging changes in content and risk profiling

0%

Advanced: a centralized inventory of applicable regulations is in place, and subject to on-going monitoring of emerging changes in content and risk profiling

22%

Evolved: a centralized inventory of applicable regulations is in place, but captures the obligations at a high level

13%

Developing: an inventory of regulatory obligations is maintained on a decentralized basis by the compliance business owners

26%

Basic – No formal tracking of regulatory obligations is in place

39%

Compliance obligations assessment

Effective processes are in place to alert the management about events of non-compliance, and to investigate and respond to such events

13%

39%

35%

9%

4%

The organization has a defined periodic assessment & monitoring process to provide reasonable assurance on compliance with applicable laws, rules and regulations

22%

35%

22%

17%

4%

The organization has a defined process in place to identify and address emerging compliance obligations related to changes in applicable laws, rules and regulations

9%

39%

30%

17%

4%

0% 50% 100%

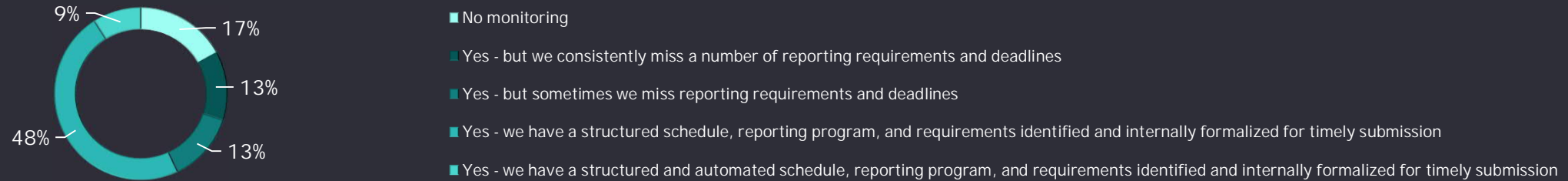
Strongly Agree
Agree
Neither Agree nor Disagree
Disagree
Strongly Disagree

Measuring compliance effectiveness through right metrics

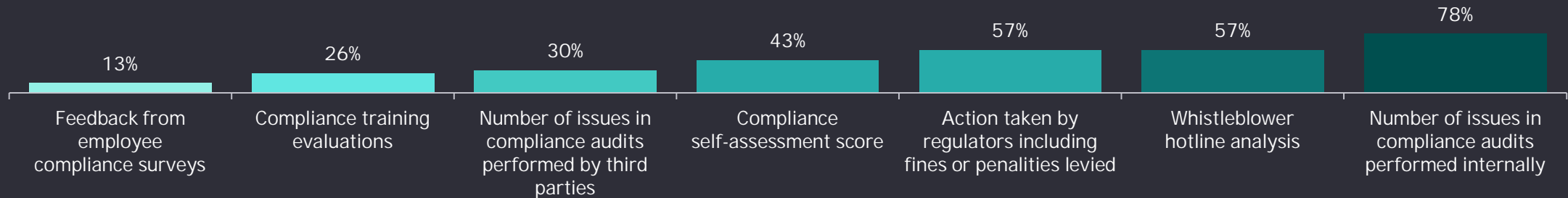


- Most common metrics used to evaluate effectiveness of compliance program are internally focussed – compliance audits performed internally, whistle-blower hotline analysis and self assessment. Metrics that capture external information, other than regulator action, such as third-party audits need to catch up.

The organization monitors and responds to regulatory reporting requirements and timelines as set by the relevant regulators



Processes, methods or metrics used to evaluate effectiveness of compliance program





4.4

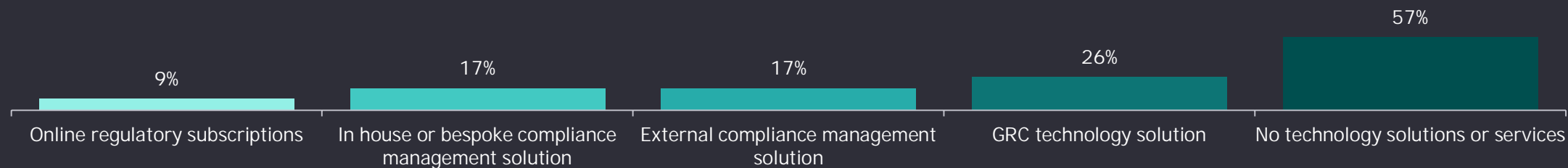
Digital enablement

Digitization of compliance function to enhance compliance management

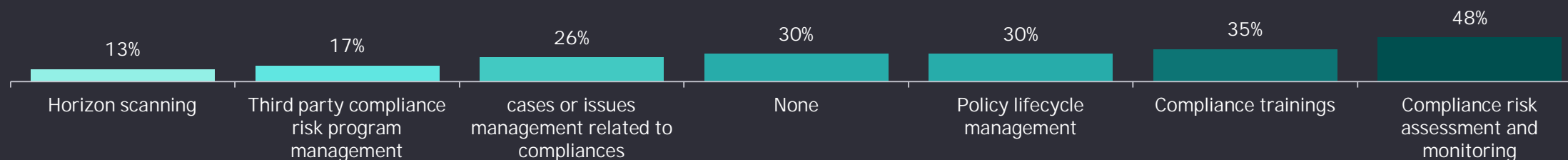


- Organizations need to invest in digitization and automation of compliance risk management activities (horizon scanning, monitoring and reporting, compliance health assessment) – 57% organizations use no technology services to support compliance management
- Organizations that use technology services leverage it mostly for assessment and monitoring, and compliance trainings

Technology services currently used to support compliance management activities in your organization



Compliance management areas where any technology support (a desktop or cloud application, information aggregator service provider) is being used in your organization program

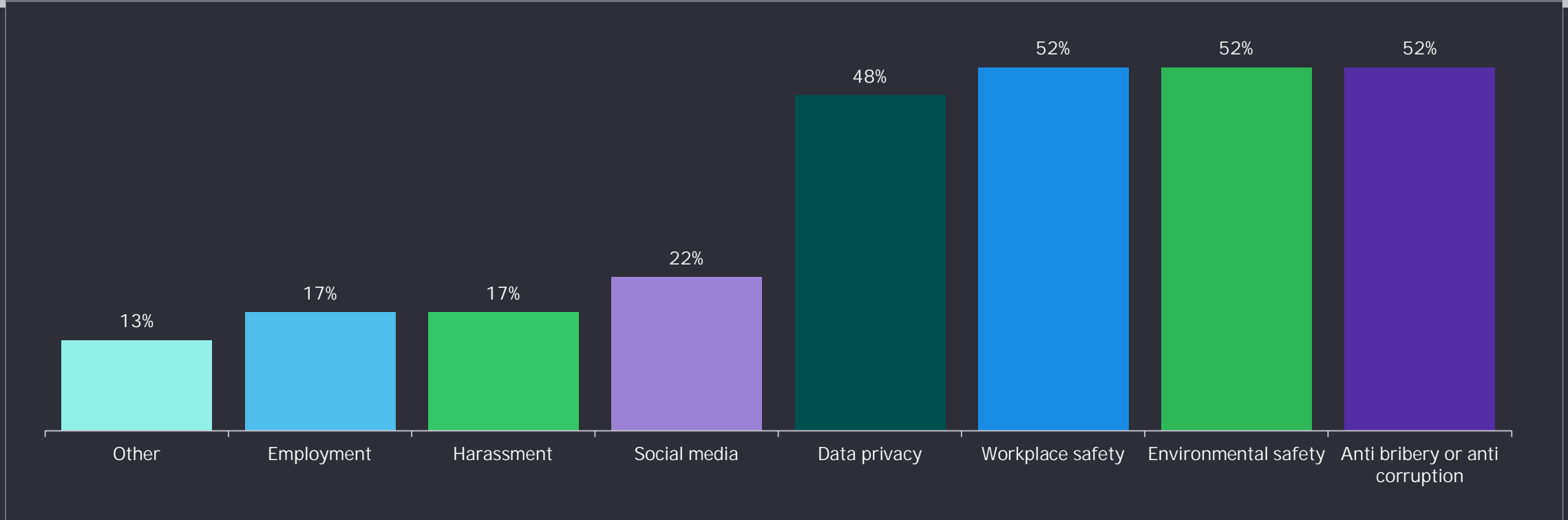


Compliance training programs



- 52% of the respondents state that their compliance program focused on workplace safety, environmental safety and anti bribery or anti corruption in the last 12 months

In terms of subject matter, what training programs in the last 12 months has your compliance program focused on?



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