

Building an

Internal Audit Function from Scratch:

A 2026 Roadmap for Saudi
SMEs

2026

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Effective assurance is not built by adding more controls. It is built by strengthening confidence in how the business is managed.

Why Saudi SMEs Should Build Assurance Before Growth Creates Complexity

Small and medium enterprises are no longer a supporting act in the Saudi economy. They are a headline Vision 2030 target, and the scrutiny that comes with capital, procurement access, and institutional partnership is arriving faster than most owner-led control environments have adapted.

The Saudi SME Landscape in 2026

Indicator	Latest Position	Governance Implication
Number of SMEs in the Kingdom	Over 1.83 million (end Q2 2026)	Competition for capital and contracts is intense; governance is a differentiator
SME employment	≈8.8 million people (2025)	People-related control risk scales faster than headcount
SME contribution to GDP	22.9% (2025), rising from ≈20% at Vision launch	Institutional expectations now track national policy
Vision 2030 target	35% of GDP by 2030	Scale-up requires audited, repeatable processes
SME financing portfolio	≈SAR 148 billion	Lenders increasingly price governance quality into terms
SAMA bank-lending target for SMEs	11%, with a long-term ambition near 20%	Credit access is expanding, and so is due diligence
Recent facility	Monsha'at and STC Bank, SAR 5 billion (Sept 2026)	New funding channels bring new reporting obligations
SME definition (employees)	Micro under 6; small 6–49; medium 50–249	Most groups cross a control threshold at the 50-employee mark

Sources: Monsha'at (Q2 2026); Vision 2030 Annual Report 2025; Saudi Central Bank (SAMA); Arab News (September 2026); Qoyod SME Report 2026.

Whether an organization is preparing for investment, securing financing, expanding operations, or professionalizing governance, it faces rising expectations for transparency and accountability. Many still delay establishing independent assurance on the assumption that it is a large-corporate concern. The 2026 fraud and control data say otherwise.

The Cost of Waiting: What the 2026 Fraud Data Shows

The fourteenth edition of the ACFE Report to the Nations analyzed 2,402 investigated cases across 143 countries, with documented losses exceeding USD 3.4 billion. Smaller organizations are not spared; they are disproportionately exposed because segregation of duties is harder to achieve with limited headcount.

2026 Fraud Benchmark	Figure	What It Means for an SME
Annual revenue lost to occupational fraud	≈5%	On SAR 100 million revenue, roughly SAR 5 million a year
Median loss per case	USD 104,000	Often larger than a first-year assurance budget
Average loss per case	USD 1,457,000	A single scheme can be existential for a mid-sized firm
Median time to detection	12 months	Losses compound while the scheme runs
Loss if detected within 6 months	≈USD 40,000 median	Early detection is the single largest cost lever
Loss if undetected beyond 5 years	Over USD 1.1 million average	Delay converts an incident into a crisis
Cases involving missing or overridden controls	More than half	Control design and control override are separate problems
Cases detected by tips	≈43% — the leading detection method	A reporting channel outperforms most control activity
Perpetrators showing behavioral red flags beforehand	≈84%	Signals exist; someone has to be looking
Median loss, owner or executive schemes	More than 9x employee schemes	Independence from management is the point of assurance

Source: ACFE, Occupational Fraud 2026: A Report to the Nations, 14th Edition (2,402 cases, 143 countries).

Where the Losses Concentrate

Asset misappropriation	Present in around 90% of cases, median loss USD 100,000
Corruption	Present in around 45% of cases, median loss USD 150,000
Financial statement fraud	Present in around 6% of cases, but median loss USD 1 million
Reporting channels	Email (34%) and web-based reporting (46%) both now surpass telephone hotlines (23%)

The 2026 Profession Benchmark: Doing More With Less

Even established functions are operating under pressure. The 2026 North American Pulse of Internal Audit, based on 373 chief audit executives surveyed between October and December 2025, shows resourcing tightening across the profession.

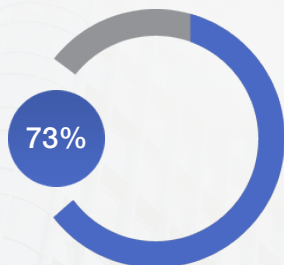
Measure	2024 - 2025	Lesson for a New Function
Functions reporting budget cuts	11% - 19%	Design for a small, scalable team from the outset
Functions reporting budget increases	34% - 23%	Justify scope with risk evidence, not headcount
Functions reporting staff cuts	11% - 18%	Co-sourcing specialist skills beats permanent hires
Funding sufficiency where strategically aligned	59%	Alignment to strategy is the funding argument
Funding sufficiency where only moderately aligned	29%	A 30-point gap driven by relevance, not size

Source: Internal Audit Foundation & The IIA, 2026 North American Pulse of Internal Audit (n = 373), released March 2026.

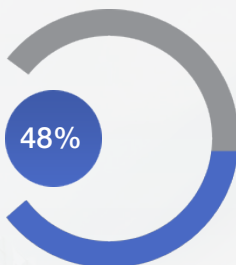
What Assurance Leaders Are Prioritizing Globally

The IIA surveyed more than 4,000 chief audit executives and directors across 131 countries for Risk in Focus 2026. The top five priorities set a sensible starting scope for any new plan:

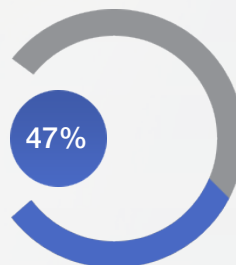
the first-ranked risk for
a fifth consecutive year



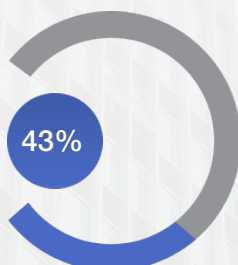
Cybersecurity



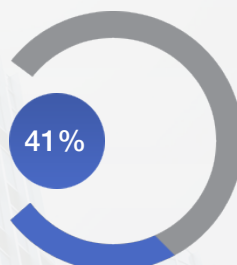
Digital disruption



Business resilience



Human capital



Regulatory change

Sources: IIA Risk in Focus 2026; Gartner 2026 Audit Plan Hot Spots, which found 96% of audit plans include cybersecurity assurance activity.

EXECUTIVE INSIGHT

The right time to establish independent assurance is before growth exposes control weaknesses, not after problems emerge.

Five Leadership Priorities for Establishing an Internal Audit Function

Each priority below pairs a leading practice with a 2026 benchmark and a concrete first step.

1. Define the Purpose Before Building the Capability

An internal audit function should reflect the organization's strategy, risk profile, and governance needs. Replicating a large-corporate structure rarely delivers value for a growing enterprise, and the 2026 data confirms why: funding sufficiency is 30 percentage points higher where assurance is closely aligned to strategy.

A charter is the founding document. At minimum it should set out:

- purpose, mandate, and the objectives assurance exists to serve
- independence, organizational positioning, and the functional reporting line
- authority, including unrestricted access to records, systems, people, and premises
- scope of work across governance, risk management, and internal control
- reporting responsibilities, escalation rights, and conflict-of-interest protocols
- conformance with the Global Internal Audit Standards, effective since January 2025

Leading practice: approve the charter at board or owner level before the first engagement begins, and review it annually.

2. Focus on the Risks That Matter Most

New functions often try to review every process at once. A risk-based approach concentrates limited capacity where impact is greatest. Start with an enterprise-wide risk assessment, then build a plan that a small team can genuinely deliver.

An illustrative first-year plan for a mid-sized Saudi enterprise:

Quarter	Audit Area	Primary Risk	Expected Output
Q1	Procurement and vendor payments	Fraud, related-party exposure, value leakage	Segregation of duties map; approval threshold reset
Q1	Cash, banking and treasury	Misappropriation, unauthorized transfers	Dual authorization and reconciliation controls
Q2	Payroll and HR administration	Ghost employees, GOSI and WPS compliance	Employee master-file validation
Q2	Revenue, credit and receivables	Leakage, collection risk, concentration	Credit policy and ageing discipline
Q3	IT general controls and cybersecurity	Access, backup, incident response, NCA ECC readiness	Access recertification; gap register
Q3	Regulatory compliance mapping	ZATCA, PDPL, labor and sector licensing	Obligation inventory with named owners
Q4	Inventory or project costing	Shrinkage, cost overrun, margin erosion	Physical verification and variance analysis
Q4	Follow-up on prior findings	Unpremeditated exposure	Board report on closure rates

Leading practice: cover six to eight areas well in year one rather than twenty superficially, and refresh the risk assessment every six months.

3. Build Governance Before Expanding Audit Activities

Assurance is only as credible as its independence. Because owner and executive schemes carry median losses more than nine times those committed by employees, the reporting line is not an administrative detail. It is the control.

Delivery Model	Typical SME Fit	Independence	Practical Trade-off
Fully outsourced	Under 100 employees, first-time assurance	High — external provider	Lower fixed cost; less day-to-day business familiarity
Co-sourced	100–500 employees, scaling fast	High	Internal lead plus specialist input on IT, cyber, forensics
In-house lean team	250+ employees or regulated activity	Depends on reporting line	Requires charter discipline to protect independence
Hybrid with rotating specialists	Multi-entity or multi-sector groups	High	Best coverage; needs strong planning and coordination

Leading practice: report functionally to the board or audit committee and administratively to the CEO. Where no committee exists, establish a quarterly owner-level assurance session with a written agenda and minutes.

4. Start Practical, Then Mature Over Time

A credible capability does not require a large team or complex methodology at launch. A focused, scalable start produces stronger long-term results and a faster first win.

Phase	Timeline	Deliverables
Establish	Days 1–90	Charter approved; risk assessment completed; risk-based plan endorsed; methodology and working-paper templates in place
Prove	Days 91–180	First two engagements delivered; findings rated by impact; management action plans agreed with owners and due dates
Embed	Days 181–365	Full-year plan executed; follow-up cycle running; first annual report to the board; quality self-assessment against the Standards
Scale	Year 2 onward	Data analytics introduced; continuous monitoring on high-volume processes; coordination with external audit and risk management

Leading practice: sequence the first two engagements where value is easiest to demonstrate, usually procurement and cash, so credibility is established before harder scopes are attempted.

5. Turn Findings into Business Improvement

Value is measured by improvements enabled, not findings reported. A function that issues fifty observations and closes ten has produced documentation, not assurance.

Track the capability on outcomes, not activity:

Performance Measure	Suggested Target	Why It Matters
Plan completion rate	≥90% of approved plan	Demonstrates resourcing is realistic
High-risk findings closed on time	≥85% within agreed dates	Converts observation into remediation
Average age of open high-risk findings	Under 90 days	Prevents a backlog of known exposure
Repeat findings	Declining year on year	Tests whether root causes were fixed
Recommendations with quantified benefit	Reported annually	Builds the business case for the function
Time to detect control failures	Well under the 12-month fraud median	Directly reduces expected loss

Leading practice: assign every action plan a named owner and a due date, and report closure rates to leadership each quarter alongside the findings themselves.

Assurance Maturity Ladder for Growing Enterprises

Use this in an owner or board session. The aim is not stage five. It is the stage that matches the next three years of ambition.

Stage	Characteristic	Typical Evidence	Stakeholder Confidence
1. Absent	Owner-led informal oversight	External audit only	Relies wholly on personal trust
2. Ad hoc	Reviews triggered by incidents	One-off investigations	Reactive, retrospective
3. Established	Charter and annual plan in place	Risk assessment, engagement reports	Structured and demonstrable
4. Risk-aligned	Plan follows enterprise risk	Action tracking, board reporting	Credible to lenders and investors
5. Value-adding	Advisory and analytics integrated	Continuous monitoring, quantified benefit	Supports IPO and institutional capital

Context: across established functions globally, 19% reported budget cuts in 2025 and only 23% reported increases, so maturity must be earned through demonstrated relevance rather than assumed growth (IIA Pulse, 2026).

The Better Question: How Much Independent Assurance Does Growth Require?

Most growing businesses begin by asking whether they need an audit department. That question produces an org chart. A better question produces a capability sized to the business.

Instead of asking: "Do we need an internal audit department?"

Ask: "What level of independent assurance does our business need to support its next stage of growth?"

For growing organizations, independent assurance is not a regulatory obligation reserved for large enterprises. It is a practical management tool that strengthens governance, improves operational performance, and builds confidence among owners, investors, lenders, and counterparties. The strongest capabilities evolve alongside the business, providing assurance that growth is supported by effective governance rather than constrained by avoidable risk.

How Insights Helps Organizations Build Effective Assurance

At Insights Financial & Management Consulting, we establish assurance capabilities that are practical, risk-based, and aligned to business objectives.

Service	Outcome for Leadership
Internal audit function design and establishment	A capability sized to your risk profile, operational within 90 days
Charters and audit methodologies	Board-approved mandate and working practices aligned to the Global Internal Audit Standards
Enterprise risk assessment and risk-based audit planning	A defensible plan that concentrates effort where exposure is greatest
Governance and internal control reviews	Evidence that controls operate, including where management can override them
Outsourced and co-sourced delivery	Specialist coverage in IT, cyber and forensics without permanent headcount
Integration with ERM, governance, compliance and business continuity	One assurance view across NCA, SDAIA/PDPL, ZATCA and sector obligations

The approach builds assurance capability that supports operational excellence and sustainable growth rather than adding a reporting layer.

Executive Takeaway

- ▶ Assurance should not be introduced because an organization has become large. It should be introduced because governance matters more as an organization grows.
- ▶ With roughly 5% of annual revenue lost to occupational fraud globally and a 12-month median detection time, waiting is a quantifiable cost, not a neutral choice.
- ▶ More than half of fraud cases involve missing or overridden controls, which is precisely the gap independent review exists to close.
- ▶ Organizations that establish practical, risk-based assurance early are better positioned to strengthen decision-making, protect stakeholder confidence, and access capital on better terms.

The strongest internal audit function is not the one that reports the most findings. It is the one that helps leadership make better decisions with greater confidence.



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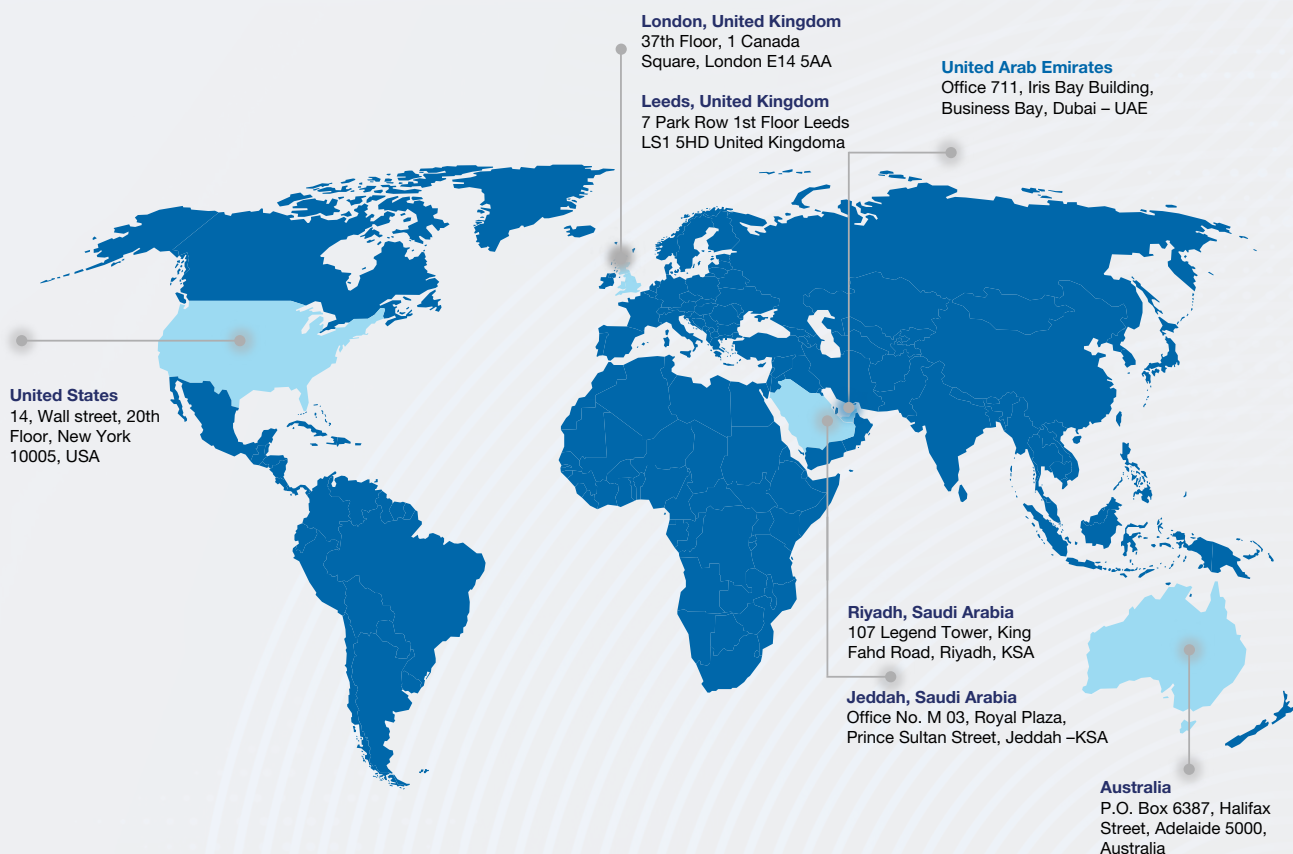
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Navigating Complexity, Simplifying Success

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