AKGVG & Associates
COVID 19 – Role of Internal Audit
Contents

1. Internal Audit Roles
2. Emerging COVID-19 Risk Areas
3. Execution of Internal Audit
4. Other Audit Considerations
5. Audit in Work From Home Conditions
6. Post Pandemic Actions
Internal Audit Roles

- Contributing to Business Continuity (BCP)
- Critical Aspects in BCP
- Evaluating Internal Audit Activities
- Supporting Crisis Response Team
- Promoting a Risk Culture
- Acting as a Controls Consultant
- Managing Critical Issues
- Managing Critical Issues - Examples
Contributing to Business Continuity (BCP)

- Many companies are struggling to cope with the challenges we are currently facing, partially because of the limited attention given to Business Continuity in the past.

- Internal auditors need to constructively collaborate with the client to develop agile responses and identify practical solutions.

- It is of critical importance to assist the client in its response and recovery phases.

- What Internal Auditors can do:
  - Contribute to the development and/or execution of the crisis management plan.
  - Contribute to the Business Continuity plan and the IT disaster recovery plan if relevant.
Critical aspects in BCP

- What is the designation of essential operations and plans to reassign staff from non-critical functions if employee absence is a threat?

- Garner confirmation of the chain of command and back-ups for leaders and critical roles.

- Review if IT infrastructure is able to support an increase in remote work and manage any added load to client-facing or service delivery technology that may occur.

- Create an internal communications plan to ensure that the business continuity plan (BCP), updates and changes can be communicated in real-time to those who need to know specific information; those who need to take a new action, and that the information has been received and action taken as appropriate.

- Ensure that you have multiple levels of redundancy, should a critical system failure occur.

- Assess the risk level of vendors or other parties that your organization depends on and gather confirmation from critical vendors that they have a robust BCP and are deployed as needed.
Supporting Crisis Response Teams

Whilst in many organisations it would not be expected for Internal Audit functions to form part of the immediate response, IA should play a key role within the ‘Looking Ahead’ team. Key activities could include the following:

- Providing objective and valuable organisational knowledge.
- Ensuring lessons learnt exercises are performed and recorded.
- Using their broad knowledge of the business to help ensure key risk areas or other considerations have been identified by the crisis response teams.
Promoting a Risk Culture

Risk professionals can actively take up the role ensuring that the risk management and business continuity measures:

- are clearly defined and understood,
- are made visible in the organisation,
- involve the entire organisation,
- are fully applied by top management,
- are executable,
- can be openly discussed,
- are enforced,
- are continuously improved.
Acting as a Controls Consultant

- Internal Auditors can provide supervisory services in relation to recovery efforts to make sure that they are on the right path.

- Internal controls can often escape the attention of the management or need to be avoided since the management focus will be on recovery. Consulting the management on analysing the potential control risks beyond immediate concerns.

- Consulting the management in the creating or modification of existing controls due to changes in business environment.

- Auditing on real time basis the new or modified internal controls set up by the management.

- Consulting the management on key internal controls that controls fraud risks on priority basis.
Managing Critical Issues

Assisting the management in determination of the most critical issues that needs to be managed for survival of the business:

- Evaluate the emerging risks of newer operating models and business practices.
- Redirecting the organization's attention to the immediate critical risks.
- Review and update the organization's fraud risk assessment in the context of changes to key controls as a result of staff's working from home.
Managing Critical Issues - Examples

- Finance and liquidity challenges may arise from revenue shortfalls, debt servicing requirements and rising customer credit risk. This may require changing processes and controls.

- Operations and supply chains may face disruption, possible declines in quality or availability, and new third-party risks.

- Tax and trade, dealing with logistics issues, the implications of shifting business or suppliers to different jurisdictions, and the potential need to change the organizational structure.

- Help manage regulator expectations by coordinating with the appropriate stakeholders.

- Strategy and brand may be affected by response to the COVID-19 crisis, which may require changes in long-term plans, while defining your brand for years to come.

- Crisis management and response should look at increased cybersecurity threats, greater network connectivity needs, and increased VPN usage as more employees work remotely.
Emerging COVID-19 Risk Areas

- User Access Controls
- Financial Risks
- Internal Controls
- Cyber Risks
- Fraud Risks
- Contracts
- Human Capital
Due to flexible working arrangements and individuals requiring greater access to systems to help cover for people who are off, user access controls may be compromised and conflicts of interest may arise. IA considerations could include the following:

- Monitoring controls in place – Whilst it may be necessary to remove segregation of duties rules in place, it is critical for organisations to maintain an audit trail that can be referred to at a later date.

- The detection of fraud risks and management overrides
Financial Risks

Internal Audit considerations could include the following:

- Understanding working capital requirements against scenario planning assumptions and assessing cash flow forecasts.

- Has the organisation done all it can to access government provided fiscal support and does it understand the long-term implications of that support (e.g., repayment of loans)?

- Challenging the completeness of management’s accounting and reporting impact analysis, particularly in the context of finalising March 2020 or any other period the regulator may prescribe.
Internal Controls

Internal Audit should understand the changes, both temporary and permanent, being made to the organisation’s internal control environment, with a specific focus on the following:

- Management review controls
- Accounting judgment controls (bad debt provision, inventory provision, impairment of goodwill and intangible assets, fair value of financial and non-financial assets)
- Associate or joint venture accounting controls
- Transaction processing controls
- Cash payments controls
- Automated business controls
- Outsource service providers
- Insider trading concerns
- Key person dependency/super user access
- Resilience and remote working
Cyber Risks

As the number of remote working environments and the use of third-party software to improve the effectiveness of remote working increases, individuals may inadvertently compromise business security. IA considerations could include the following:

- Are remote access controls built to scale?
- How are organisations raising awareness and bolstering threat detection and response to promote proactive identification of malicious activity?
- How are organisations tracking third-party security plans to prioritise access availability of services?
- Are hand-held devices being used more as people work remotely and, if so, are they secure and controlled?
- Does the organisation have sufficient and appropriate licenses in place to cover greater use of tools, technology, and software to support remote working?
- How is the organisation monitoring malicious or inadvertent insider threat risk caused by disgruntled or displaced employees and contractors?
- How is the organisation monitoring the increased use of collaboration tools and other, often unapproved and unmanaged, SaaS applications (Shadow IT)?
Fraud Risks

Incentives for committing fraud (both misappropriation of assets and financial reporting fraud) may also be heightened, especially if employee terminations occur or employees suffer significant personal financial stress. Key issues to be considered by the Internal Auditors:

- Increased opportunity to commit fraud if internal controls have been weakened. This becomes even more at risks in case of internal restructuring of processes or temporary capacity problems.

- Segregation of duties and relaxation of security controls at an entity based on changes to working conditions.

- Breach of debt covenants will this puts severe pressure on management of companies that are financial duress.

- Is there sufficient IT capacity to facilitate the tasks that are usually handled offline?

- Does a decrease in available employees lead to an increased risk of misappropriation of assets?
Internal Audit considerations could include the following:

- Has the organisation identified, or does Internal Audit have access to assist in identifying, key contractual clauses that may offer relief during this time, such as:
  - Force majeure
  - Notice provisions
  - Disaster Recovery and Business Continuity provisions
  - Limitation of liability
  - Liquidated damages
  - Governing law and jurisdiction
  - Supplier/Subcontractor location and supply chain path
  - Termination rights
  - Insurance
  - Other applicable clauses
Human Capital

IA considerations could include the following:

- The adequacy of plans being put in place by organisations to maintain the health and well-being of their workforce, including the implications for impact on mental health of remote working.

- Ensuring that any ‘work arounds’ used during lockdown period are regularised and appropriately controlled.

- Is there guidance available and complied with on the appropriate use of social media in this crisis period?

- Has the impact been considered on business as usual HR processes, such as annual performance assessments potentially being suspended?
Execution of Internal Audit

- Evaluating Internal Audit Plan
- Important Broad Considerations
- Reassessment of Audit: Assignments and Areas
- Exploring New Audit Execution Systems
- Using Technology In Audit
Evaluating Internal Audit Plan

- COVID-19 is causing organizations to adjust business operations and plans rapidly, presenting new ongoing challenges. The traditional audit plan might not work in this situation, so it might be time to investigate an agile approach.

- Changes to audit planning may also be required to adapt to the reprioritizations or delays that occurs within the business due to key auditees not being available.

- Agile audit plan can be an ideal audit approach while COVID-19 risks and priorities shift quickly, and remote audit teams use technology to stay better connected. Assessing suspension of the current internal audit plan.

- Review the resourcing plan to identify the specific skills required to effectively respond to newly posed risks.

- Embrace short-term prioritisation and regular review/updates to the audit plan to mirror the changing pace of risk and assurance needs.
Important Broad Considerations

Some of the broad aspects that Internal Auditors need to taken into consideration:

- Ability to conduct the Internal Audit and fulfil its responsibility towards stakeholders
- Maintaining the safety of Internal Audit teams during this pandemic.
- Modifications in the Internal Audit operation mode to deliver the assurance objectives.
- Maintenance of continuous and effective relationship with the stakeholders of the client.
- Management of remote working during this COVID-19 crisis.
- Management of resources and skills required for assurance engagements
Reassessment of Audit: Assignments and Areas

Internal Auditors needs to reassess their audit assignments and areas taking into account the pandemic situation. The following factors needs to be considered:

- Importance of the assignment and area.
- Possibility of conducting the Internal Audit assignment remotely or on site.
- Relevance and practicality of the assignment.
- Mandatory nature of the assignment due to laws and regulations.
- Risk level of the audit area in terms of high risk to low risk areas.
- Immediate and long term consideration as directed by the client.
- Logistics situation in case of On-site audits.
Exploring New Audit Execution Systems

The different ways in which Internal Audit can continue towards achievement of assurance objectives:

- Identifying new ways of connecting the Internal Audit teams members.
- Addressing risk based on their criticality and relevance in a speedy and flexibility manner.
- Conducting more proactive reviews and advisory services to add value to the client.
- Using the service of expert professionals to address important and immediate risky areas.
- Seeking regular input and feedback from the stakeholders for updated audit execution.
- Stimulating the use of data analytics to increase understanding and providing assurance services without disrupting the business in its recovery phase.
Using Technology in Internal Audit

Internal auditors should explore technology which comes with features that:

❖ Conducting audit interviews and meetings through secure video conferencing.

❖ Get live video feeds of client locations for issues such as inventory count.

❖ Single, united platform to increase collaboration and communication.

❖ Workflows that keep remote workers informed on all stages of the audit.

❖ A library of documentation, templates, and workflows at everybody’s fingertips.

❖ A complete audit trail, to track everything and ensure your audit work remains defensible to regulators and external auditors.
Other Audit Considerations:

- Maintaining Corporate Presence
- Communication with Audit Committee and Management
- Working with other Assurance Providers
- Supporting Audit Staff
Maintaining Corporate Presence

IA functions should consider the following to maintaining corporate presence while remote working:

- Increasing the number of progress meetings held with key stakeholders across the business.

- It is imperative that Internal audit teams continue to develop strong relationships with clients in order to built around trust, credibility, efficiency, and transparency.

- Where possible use video calls to build rapport and establish trust with stakeholders.

- Maintaining regular communication with the Audit Committee’s about the current expectations from the audit and support required to get the resources for the audit.
Communicate with Audit Committee and Management

- Proactive discussions with the client on the impact of the coronavirus on the company, its business, operations, reporting timetable and the related audit timetable, including contingency plans.

- Logistical issues in preparing accounts and undertaking audits will require auditors to develop alternative audit procedures to gather sufficient appropriate audit evidence.

- Discuss with management about incorporation of COVID impact into their risk assessment processes. Sharing emerging risks areas for better risk management process.

- Implications of additional risks identified on understanding of entity and its environment.

- Communication about changing the audit plans to be more adaptive and more transparent.

- Identify and explain the value of your proposed new projects or activities by providing real-time feedback to management.
Working With Other Assurance Providers

Work more closely with other assurance providers to reduce disruption to the business:

❖ At these times of reduced management and organisational bandwidth, IA functions should seek opportunities to reduce overlap with other assurance providers including External Audit, Compliance, and Enterprise Risk Management.

❖ Where possible, engage with such assurance providers to understand their scope of work, coverage, and depth of testing to be performed to identify and progress opportunities to collaborate and assist.
Supporting Audit Staff

Internal Auditors should keep their staff motivated and support them whilst working in remote environments through measures such as:

- Weekly team catch ups – Hearing the latest news from team members and sharing ideas.
- Check-ins – Check-in with individual team members to discuss any isolation issues, workloads, etc.
- Daily stand ups – Audit teams to have a short daily call providing an opportunity for the team to provide a high-level overview of their work and whether they are experiencing any delays in completing tasks.
- Virtual coffee sessions – A fun way to help stay connected as a team.
- Family tree – Assign all team members a mentor and encourage more frequent check-ins. These check-ins can be used as a forum to share challenges and solutions.
- Success stories – Share success stories and positive events happening across the organisation to maintain a positive outlook.
- Contingency plan – Some IA team members are going to fall ill. Plan now for contingency arrangements on each key audit review and at the leadership/management level.
Auditing in Work From Home Conditions

- A remote working environment warrants greater security measures as it does not have the same levels of safety and security as the workplace.

- Creating flexibility and convenience in working through use of technologies.

- File sharing platforms and cloud based shared data rooms are also extremely critical.

- Organisations need to have applications that can be remotely logged into with complete security.

- Discussing with the clients about the requirements of documents in digital form.

- Discussing limitations of auditing in remote conditions with the client.

- Determination of rules of information sharing with the type of technology that will be used.

- Establishment of rules of engagement with specific roles.
Auditing in Work From Home Conditions

Some of the key benefits of ‘Work From Home’ model:

- Internal auditors will be able to Access to the services of talented and subject-matter experts.
- Organisations with robust policies and procedures will find it easier to work remotely, compared to less matured organisations who introduce ad-hoc procedures.
- Remote auditing will yields better results in environments with detailed documented procedures.
- Remote auditing ensures uninterrupted service in situations of unavoidable loss of workforce or long and unplanned leaves of absence.
- Remote auditing offers significant savings in Travel expenses that can be a major part of the IA budget for the year.
- Remote auditing also offers significant savings in time spent on travelling to client’s location.
- It will allow for more in-depth documentation, paper trails and reporting.
Post Pandemic Actions

- Adopt many of the practices that have proved to work effectively during the crisis as the ‘new normal’, such as, more remote working, video conferencing, and remote data analysis. This will have ongoing benefits in terms of efficiency, lower expenses, better work-life balance for IA team.

- Adopting a more flexible and iterative risk assessment and planning process to allow for more flexibility in how to deploy resources in the future.

- In the future, there will be more remote working, less travel, greater use of technology, and many other changes, depending on industry (e.g., closing physical points of sale, rethinking offshoring, pushing people to digital channels, dealing with permanent changes to customer behaviour, changes to regulatory approaches and people strategy). IA needs to consider theses and the impact on their future focus.