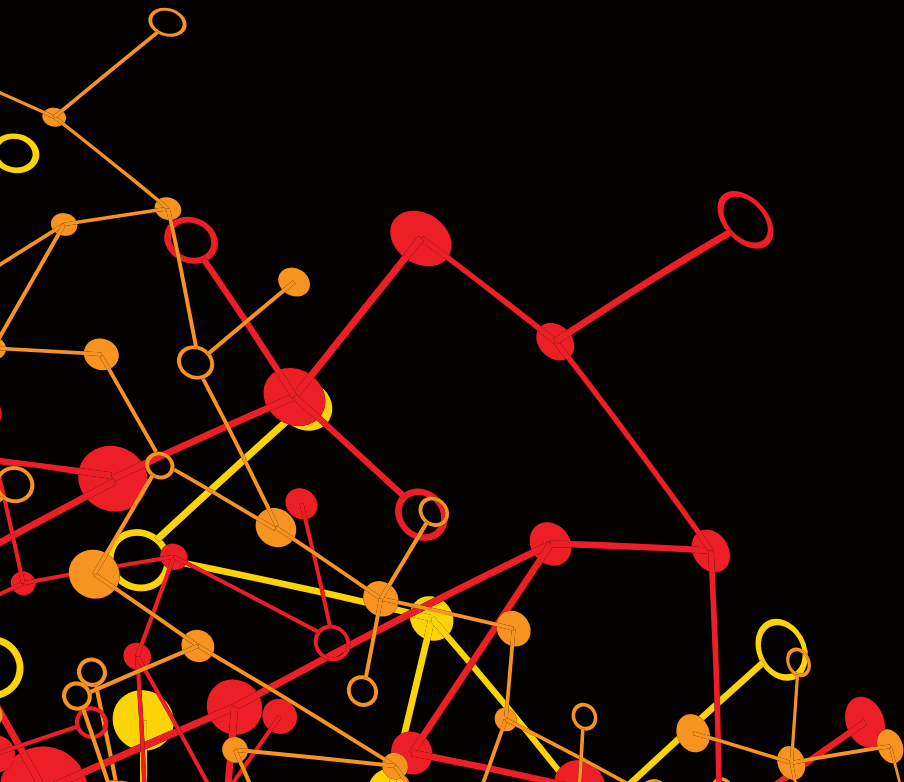# Deloitte.

COVID-19

Reacting to COVID-19 in internal
control over financial reporting

Contents

Anticipating challenges in internal control over financial reporting

"The CSA is ready to take action where necessary, to ensure market participants have the flexibility they need to focus on critical business decisions, while managing risks to their employees, investors, customers and other stakeholders."

Louis Morisset, CSA chair and president and CEO of the Autorité des marchés financiers

"Actual effects will depend on many factors beyond the control and knowledge of issuers. However, how issuers plan for that uncertainty and how they choose to respond to events as they unfold can nevertheless be material to an investment decision."
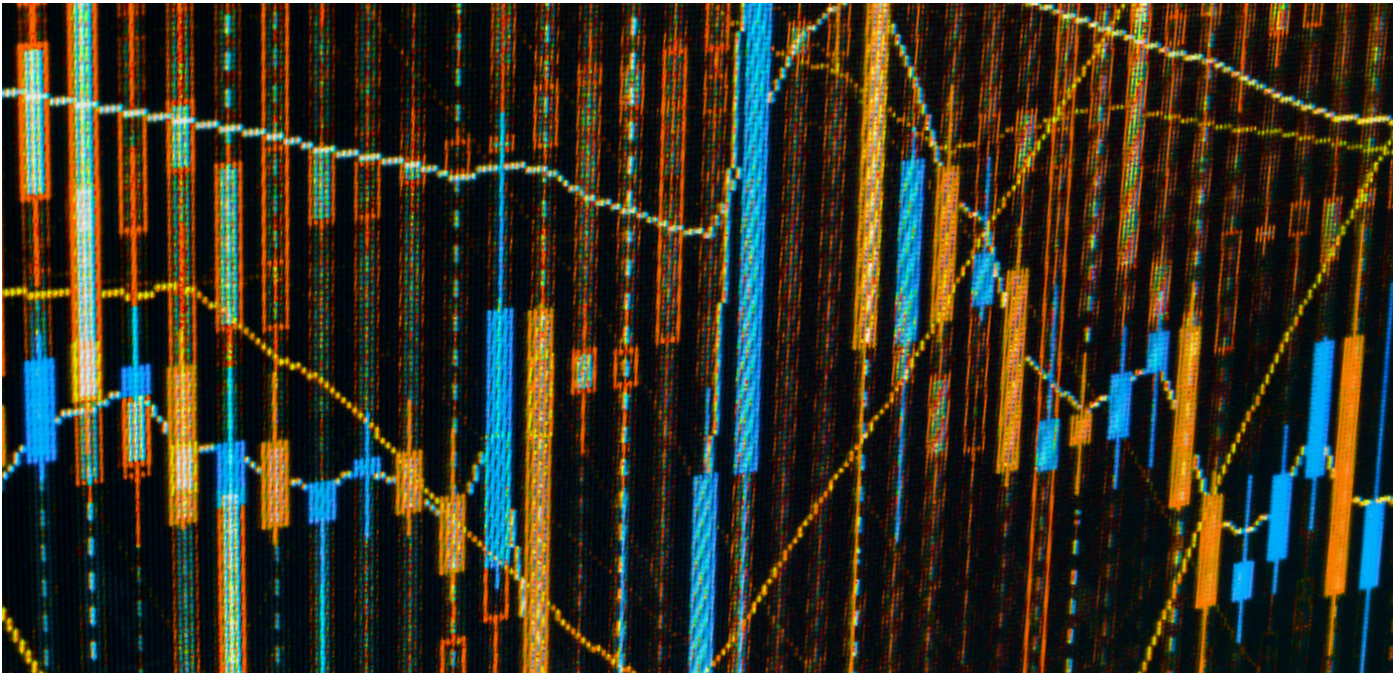
Jay Clayton, SEC chairman

Organizations across the globe are reacting to the impact the coronavirus 2019 (COVID-19) pandemic has had on their people and operations. As organizations enact crisis management and recovery plans—with a focus on ensuring the safety of their people and assets—businesses are redeploying resources to high-priority, mission-critical areas in an effort to maintain business operations.

Businesses may contemplate diverting some financial reporting and internal control effort toward operational matters; however, periods of uncertainty typically require more judgment, increased override or change of management controls, and can unintentionally create circumstances conducive to fraud. While relief may be available and provide flexibility in reporting timelines, management

remains accountable and responsible for providing investors, regulators, and other stakeholders with relevant and timely information about operational and financial performance. Consequently, internal controls are as, if not more, critical to instilling confidence in reliable financial reporting and disclosures.

The extent to which an organization will ultimately be impacted is difficult to predict at this relatively early stage of the COVID-19 outbreak; ongoing review of your organization's internal control environment is imperative to managing financial reporting risk for all reporting periods. With many organizations currently preparing for quarterly or year-end reporting, we have highlighted some key considerations for internal controls over financial reporting programs.

Management actions to consider in response to COVID-19

1. **Reassess the financial reporting timeline and relax timing constraints, where possible, on the operation of key controls**. This will likely need to be part of management's risk assessment to ensure that all key controls operate in the appropriate time period (e.g., prior to year-end, for many controls), but potentially some controls may need to operate simultaneously rather than in the traditional step-by-step hierarchy of the financial reporting process.

– **Regulatory reporting relief**: The Canadian Securities Administrators (CSA) and US Securities and Exchange Commission (SEC) have respectively issued guidance to companies over relief related to the extension of periodic filings normally required to be made of issuers on or before June 1, 2020.

At this time, it is difficult to predict any further dispensations or easement of financial reporting requirements should the impact of COVID-19 extend for a prolonged period. It is also unknown at this time how many filers may elect to use the relief available.

2. **Prepare for a virtual close**. Many organizations are accustomed to in-office processing of close activities, live discussions and review sessions, and ease of access to data that may not be as readily available as organizations transition to remote work.

   The financial close impacts on normal period close activities, processes, review, and approval cycles – including the synthesis and sharing of supporting documentation – will be critical to the production and review of fairly presented financial statements. As your close process changes, your controls during close, consolidation and last mile reporting may be modified as well. Additional due diligence over changing control environments may be required.

3. **Formally document where certain decisions have been made to provide temporary relief**—for example, changes in timelines or new responsibilities being granted—so that it can be evidenced within management ICFR testing programs and to their auditors, including financial statement and service auditors, at a later date (via email or other means).

4. **Keep in mind that fraud risks may change in such a time of crisis**, as new opportunities are enabled for both internal and external parties. Incentives for committing fraud—both misappropriation of assets and financial reporting fraud—may also be heightened, especially if significant redundancies are likely to be required or employees suffer significant personal financial stress. However, for some organizations, misappropriation of physical assets may become less likely with more employees working remotely.

5. **Ensure early and ongoing discussion with auditors, including financial statement and service auditors**, to avoid surprises later in the year. Consider the accounting impact of the COVID-19 pandemic on key judgments, valuations and assumptions within financial statements. Audit approaches are likely going to need to evolve as well.

6. **To respond to the matters above, extensive prioritization is needed, and it may be appropriate to put existing business and control transformation plans on hold**. Project management will be key, especially if there are other significant business needs that have taken priority for some of the critical resources for management focus. Any existing remediation projects will likely have to be reassessed and expectations discussed early with the auditors, including financial statement and service auditors.

ICFR program impacts
Your program maturity matters.
Each organization's ICFR program will be uniquely impacted by COVID-19. We anticipate that organizations with increased automation and that have significant amounts of technology in their control environment will have different challenges to address than those with a more manual control environment. However, neither approach is free from potential pitfalls that may occur in the coming weeks and months.

Consider the accounting impact of the COVID-19 pandemic on key judgments, valuations and assumptions.

It is prudent to consider your program on a holistic basis for potential changes or shifts in focus, both in terms of how you approach ICFR (such as scoping and risk assessment, testing approaches, etc.) as well as in reviewing the control environment and underlying business and technology controls; additional controls or control modifications may be required to address risk created by COVID-19. The following list of program areas is not exhaustive, but it highlights where additional attention may be required:

1. **Scoping and risk assessment.**
   Performing a tailored risk assessment, including review of the principles and points of focus in the COSO 2013 framework in light of changes, should be completed. Scoping and risk assessment conclusions should be revisited to verify that they reflect the current reporting period's organizational risks.

   Specifically, the following process areas may have increased risk:
   – Revenue, supply chain, technology and other infrastructure disruption
   – Processes that are reliant on select few resources (e.g., highly technical areas, estimates, and significant judgments) and may require updates to delegation of authority
   – Processes that are highly manual
   – Areas that are susceptible to fraud (e.g., money movement)

2. **The design of controls may need to be adjusted** (as well as appropriate documentation of the adjustment maintained) to compensate for changes in risk, or contingency plans may need to be put in place for outsourced service providers.
   – It is important to remember that both the interim and annual certificates require certification of the design of disclosure controls and procedures (DC&P), design of ICFR and material changes in ICFR during the reporting period.

3. **Evaluation of the operating effectiveness of controls may need to include a plan for increased levels of remote testing.** This will likely also result in an increased focus on the quality of documented evidence to support the evaluation of the operating effectiveness of controls, in particular a management review control where judgment is used by testers to evaluate the sufficiency of the documentation to support a conclusion that the control is operating effectively.

4. **Changes in workforce, remote working and in the business as a result of COVID-19 may increase control deficiencies**. Management will need to put in place plans for a timely and effective response. This will require careful project management and put increased pressure on those individuals with the best knowledge of internal control.

5. **Typical communication plans with senior management and board members may need to be revisited** so that they are given the information they need on a timely basis to fulfil their responsibilities.

Cyber, accounting, and business process impacts
We have outlined on the following pages a series of impact considerations related to your business processes, technology, ICFR program, and testing practices.

Specific considerations for cybersecurity and general accounting and financial reporting requirements are also available. These may be updated frequently, so please check the following webpages to get the latest updates:

- Deloitte's Cyber Risk Services webpage
- IFRS in Focus – Accounting considerations related to the coronavirus 2019 disease
- Deloitte Canada's Pandemic preparedness and responding to COVID-19 webpage
- Deloitte Global's Combating COVID-19 with resilience webpage
- Financial Reporting Alerts on SEC reporting topics on DART (subscribers only)

Business control implications

Area	Management review controls
Considerations	Breakdown in review-type controls or the inability of individuals to perform control duties *(e.g., due to employee illness or the closure of affected offices).* Lack of reliable information may affect management's ability to effectively operate controls *(e.g., personnel may not be available in offices in affected areas to provide information that is essential to the effective operation of an internal control).* Inability of personnel to meet live and conduct meetings may impact the design or operation of the control.
Responses	Verify that control processes and narratives are up to date in the event control owners need to change. Establish a plan for cross-training among control owners. Establish that any new or temporary control owners have the appropriate authority and competency to perform the control activities (consider appropriate segregation of duties). Identify other controls that can provide the same assurance but use different information sources. Plan to implement new controls that provide additional assurance over the reliability of information *(e.g., manual checking back to source documents, such as invoices).* Enhance existing meeting controls to take into account reviews occurring remotely, including alternative means for holding meetings and a process to resolve questions raised during reviews. Evaluate whether changes to the criteria for investigation or the process for follow-up are necessary. Evaluate whether expectations used in controls that rely on the comparison of current financial information to the budget, forecast, or prior-period results remain appropriate.
Area	Management review controls over complex accounting estimates *(e.g., impairment of goodwill and other intangible assets, fair value of financial and non-financial assets).*
Considerations	Failure to consider the impact of new uncertainties and market volatility on significant accounting estimates.
Responses	Perform a top-down risk assessment of significant accounting estimates to identify where existing controls may need to specifically consider COVID-19 impacts and communicate the results of this to control owners. Verify that the disclosures to financial statements appropriately disclose the sensitivity of those key assumptions. Enhance existing controls to enable appropriate, and documented, consideration of COVID-19.
Area	Equity method investments and joint ventures
Considerations	Lack of access to timely or reliable financial information from an equity method investment or joint venture.
Responses	Establish regular communication with management of the equity method investment or joint venture to monitor likelihood of impacts to the entity in upcoming financial reporting periods. Reconsider the materiality of each equity method investment or joint venture to the consolidated financial statements, to evaluate the in-scope key controls.

Business control implications

Area	Transaction processing controls
Considerations	Transactions may not be processed on a timely basis due to COVID-19 and as a result backlogs in transaction processing may form (on-shore or off-shore).
Responses	Have enhanced monitoring processes and controls to monitor the effectiveness of daily/weekly transaction processing controls. See additional considerations in the risk assessment section below.
Area	Cash payments controls
Considerations	Payments may require a dedicated computer terminal or hardware for the validation of payments. Lack of availability to reach individuals to verify transactions/approvals. Backup contact details with the bank to verify potentially fraudulent payments are not updated. Insufficient dual payment signatories are available to approve payments. Changes in reporting/approval lines may not have been communicated to, or acted on, by the bank.
Responses	Test all processes involving online banking access to determine if they can be operated remotely. Review payment approvers listing, and risk assess whether expanding it is appropriate (being careful of segregation of duties). Ask bank for additional hardware devices and/or to relax hardware payment controls. Speak with bank to discuss emergency contact details and failsafe processes.
Area	Automated controls
Considerations	If manually triggered and/or monitored, the automated control may fail to operate due to personnel being unavailable. Failures for other reasons may not be detected on a timely basis if monitoring of controls is not operating.
Responses	Identify which automated controls are most susceptible to failure, due to COVID-19 or based on historical trends. Verify that appropriate compensating or mitigating controls exist and are operating effectively to mitigate any risks arising from a failure to operate the automated controls.

Business control implications

Area	Extended enterprise (e.g., third-party arrangements, outsourced service providers
Considerations	External organizations essential to the control environment may face their own challenges, which could affect their ability to reliably execute their processes and controls upon which reliance is placed.
Responses	Contact outsourced service providers to evaluate their ability to continue to operate in accordance with established service level agreements (SLAs) or key performance indicators (KPIs), including monitoring of their service providers.
	Assess the likelihood of receiving at a future point in time a service organization report (e.g., SOC-1) that is qualified.
	Assess what temporary changes outsourced service providers have made to their control environments.
	Evaluate the extent to which additional oversight of outsourced service providers is required.
	Assess compensating controls the outsourced service providers deemed to be at most risk, and implement new or updated complementary user entity controls if required.
	Verify that contingency planning is in place in case an alternative service provider needs to be used.
	Consider changes to conclusions on what activities need to be outsourced versus what is currently outsourced, based upon changes to your risk assessment.
Area	Insider trader concerns
Considerations	Employees may have access to non-public information and so trading restrictions may need to be imposed, as the potential effects of COVID-19 could constitute material non-public information.
	This risk may be elevated if the financial reporting timeline is extended.
Responses	Entities should consider how their code of ethics and insider-trading policies address, prevent, and deter trading that is based on material non-public information, including information related to COVID-19.
	Communications to employees may be needed to remind them of their obligations.
Area	Changes in current business transformation projects
Considerations	Likely to be similar to the potential considerations under current technology transformation projects (see page 10).
Responses	Likely to be similar to the possible responses under current technology transformation projects (see page 10).

IT control implications

Area	Super user access
Considerations	Organizations may have contingency or succession plans for senior executives;] however, this may not adequately cover IT personnel. With increased dependency on IT personnel and infrastructure to support the organization working remotely, the availability or ability of IT personnel for internal control-related matters could be limited. Key IT staff with administrative privileges may be unable to perform their duties *(e.g., due to illness)* and this may impact the ability of the organization to address IT failures or operate key IT controls.
Responses	Assess the exposure of current IT capabilities, including outsourced activities, to determine where risk could be present. Consider cross-training IT staff to support multiple IT activities, subject to segregation of duties considerations. Consider using password vaults or other methods to enable administrative accounts to be used in a secure manner if a key individual is not available. Perform a pre-emptive review of IT controls to identify which users and super users are most critical. Consider designing contingency plans for IT personnel, so that key controls can continue to be operated (segregation of duties should be considered as part of this scenario-planning).

Area	Extended enterprise
Considerations	Likely to be similar to the potential considerations under business control implications (see page 8).
Responses	Likely to be similar to the possible responses under business control implications (see page 8).

IT control implications

Area	Change management
Considerations	Individuals try to shortcut the change management process because they believe COVID-19 will result in delays.
	Business personnel are unavailable to approve changes.
	Responsibilities change due to personnel being unavailable, and this may result in developers having access to promote through changes to a production environment.
	With COVID-19 taking a significant amount of the organization's focus, inadequate testing of changes may be done before they are allowed to go live.
	Critical changes may need to be made, but the relevant process could be dependent on personnel that may not be available or temporary personnel who are not adequately trained, leading to an error.
	Routine changes, such as application of security patches, may not be completed in a timely manner due to more urgent priorities.
Responses	Communicate with the business to reduce the volume of changes requested, to critical items only.
	Verify that monitoring controls over change management continue operate effectively the period, to detect any deviations from required testing and approval processes.
	Verify that changes to developer access rights continue to be reviewed and perform mitigating procedures on a timely basis if issues are identified.
	Carefully review existing processes for addressing critical changes to verify that they remain pertinent and that only appropriate personnel are given these responsibilities.
	Independently challenge requests marked by the business as being critical to ascertain if this really is the case or if normal change processes should be followed.
Area	Changes in current technology transformation projects
Considerations	New systems or upgrades of systems may be delayed due to COVID-19, but there may be a significant need for this to be completed on schedule from an internal control over financial reporting perspective *(e.g., remediation of a significant deficiency or material weakness)*.
	Key resources may be redeployed, resulting in the project being inadequately staffed or having inadequate expertise to execute successfully.
	A dependency on third-party vendors or external service partners for the successfully delivery of the project may exist, and these third parties could be unable to fulfil their requirements due to COVID-19.
Responses	Critically consider which projects need to continue and which can be put on hold for the short-term.
	Perform an up-front reassessment of timelines for key projects to identify revised completion dates and to commence planning for any adverse consequences due to anticipated late delivery.
	Assess resource redeployments from key projects to determine the impact on the project timetable or to determine if additional activities, such as quality assurance, need to be performed so that the project is completed successfully.
	Verify that contingency planning is in place in case an alternative service provider needs to be used.

IT control implications

Area	Interface and batch processing controls
Considerations	Monitoring of automated interfaces by relevant IT personnel may not occur on a timely basis or may fail to be performed. Manual interfaces may not be operated if IT personnel cannot access the system remotely or are unavailable to do so.
Responses	Establish a clear understanding of which interfaces are most critical and identify which have any form of manual dependency to operate. Consider designing contingency plans for IT personnel, so that key controls can continue to be operated (segregation of duties should be considered as part of this scenario-planning). Identify whether monitoring activities can be spread across a wider population of IT personnel to mitigate risk on a single user or team.
Area	Resilience and remote working
Considerations	Lack of proper infrastructure to support remote working could impact the ability of people to log on to applications and services. Remote working facilities may be overwhelmed or operate intermittently. Employees may seek to work around existing security protocols and controls to keep the business operating efficiently, which could impact the confidentiality of information and result in the leakage of secure data. Reduction in force issues with IT support if companies have to reduce workforce due to profitability/going concern issues. Increase in hacker activity to try to exploit the crisis.
Responses	Prepare plans for the operation of essential IT controls outside of peak working hours (such as using offshore locations). Establish that appropriate security technologies, such as VPNs, support all critical applications and services, including, at a minimum, those that impact financial reporting. Communicate with employees to remind them of the existence of training materials, where they can go for support and not to circumvent security protocols. Establish correct and complete security configuration for any new hardware or software installed to support an increase in remote access. Enhance monitoring of corporate network due to remote user's insecure home networks.

Internal control framework and governance

Area	Scoping
Considerations	Anticipated business performance measures used to scope the business may end up being significantly different from actual business performance measures, resulting in last-minute changes to the scope.
Responses	Perform up-front scenario analysis on the ICFR scoping to identify the likelihood of out-of- scope location, business units, or company codes being brought into scope. Prepare a shortlist of areas that are most at risk and hold contingency planning meetings with those areas to determine their ICFR-readiness capability.
Area	Risk assessment
Considerations	Organizations may fail to revisit risk assessment, inclusive of fraud risks, and instead rely on risk assessments performed prior to the COVID-19 outbreak. These may therefore fail to take into account: • Material changes to the financial reporting process or changes in the business • One or more new risks that are qualitatively significant *(e.g., risk of a material volume of credit notes being issued)* • Pre-existing risks that may be heightened as a result of COVID-19 impacts *(e.g., inventory obsolescence, credit risk of customers)* Organizations may fail to continue ongoing monitoring to identify emerging risks and, as risks present themselves, incorporate them into the risk assessment process. The ability to perform controls may be challenged as a result of illness, loss of connectivity due to remote work from home, or a reduction in workforce.
Responses	Perform a top-down risk assessment to identify what may change or has already changed. Evaluate impacted areas for changes to people, process, and technology, and update controls accordingly. Seek bottom-up feedback from the business to challenge the reassessment of risk. Document the revised risk assessment and conclusions reached as to where changes in processes and controls will be needed. Create or enhance existing policies and procedures to adapt to COVID-19 impact, inclusive of roles and responsibilities, timelines, and form of relevant artifacts. Communicate the results of any changes to process and control owners. Encourage control owners to raise their hands and ask for help if they encounter challenges in performing their controls. Establish a plan for cross-training of controls with careful consideration of appropriate authority and competency to perform the control activities (consider appropriate segregation of duties as well). Consider the impact of COVID-19 on entity level controls. Engage with auditors, including financial statement and service. Raise significant changes to risks and control environment to boards.

Internal control framework and governance

Area	Monitoring
Considerations	Existing monitoring activities may fail to cover any newly implemented controls.
	Potential inability to access sites to perform observations will impact management's ability to execute controls.
	Potential distractions resulting from being focused on COVID-19 response may result in not executing normal monitoring of controls oversight.
Responses	Consider monitoring activities as part of the design of any new control activities.
	Leverage certification processes *(e.g., 302 sub-certifications)* to gain insights on potential control frailties, people changes, and affected processes in order to risk assess and respond.
	Consider whether changes in monitoring controls, such as site visits by internal audit, are necessary, and how evidence to support management's assessment of ICFR will be obtained.

Area	Deficiency evaluation and concluding activities
Considerations	Insufficient personnel with adequate knowledge and experience available to evaluate an increased number of deficiencies.
	Deficiencies reported later in the year due to challenges with performing audit activities result in less time for management to mitigate or remediate the issues found.
Responses	Review the depth and capability of individuals with internal control responsibilities.
	Establish a "quick response" group that is tasked with evaluating deficiencies and making decisions on the best way forward.
	Consider bringing in short-term project management expertise from elsewhere in the organization to establish good project management practices and to allow those individuals with internal control experience to focus on identifying and implementing solutions.

Area	Communications
Considerations	Failing to prepare for increased frequency and depth of communications to senior management and board members.
Responses	Establish accountable owners to summarize overall status and key issues being dealt with; typically one individual for business controls and another individual for IT controls.

Testing activities

Area	Personnel considerations
Considerations	Organizations may have contingency or succession plans for senior executives, but there might not be contingency plans for internal audit personnel or designated back- ups for control performers.
	Personnel who are key to certain operations of the business may be from external organizations and may not be available. (This could include both personnel who support management's assessment of ICFR or as part of the internal audit function.)
	Process or control owners in the organization may not be available during the planned testing period.
Responses	Perform an up-front review of testing plans, and identify ways in which increased flexibility in testing schedules can be obtained.
	Seek alternative sources for testing individuals; this may require delaying activities that are deemed to be less critical.
	Seek ways to align the different testing groups such that the testing impact on the business personnel is minimized.
	Identify and prepare backup personnel (potentially secondary) for key responsibilities, including executing control activities.
	Confirm that essential positions have current procedural documentation that is suitable for a backup resource.
	Consider opportunities for labour arbitrage across geographies to build resilience.

Area	Testing logistics
Considerations	Measures put in place may mean that typical testing approaches are not feasible and remote testing may need to be performed in the majority of cases.
	This is likely to prove most challenging in areas such as: • Performing walkthroughs of the end-to-end process • Performing operating effectiveness testing for management review controls or controls where evidence that has historically been centralized is now decentralized
	Organizations may have experienced changes in the way controls are executed, with increased reliance on electronic records as a result of lack of access to typical work tools such as printers and scanners. Providing documentary evidence that a control is performed as intended could become a challenge in this environment.
Responses	Establish regular communication between all testing parties (testers and those being tested).
	Agree which technologies will be used to support the testing, in particular which communication tools and file-sharing platforms, and verify that all testing and business personnel can access these.
	Communicate with control owners to emphasize the importance of retaining high-quality evidence about the operating effectiveness of controls to support management's assessment.
	Seek alternative sources of evidence around the performance of a control, such as digital records and documents.
	Consider appropriate controls around electronic sign-offs and workflows.
	Consider the gathering and centralization of documents supporting the execution of controls to cloud platforms.
	Prepare a contingency plan in case increased testing is necessary for the remediation of deficient controls.

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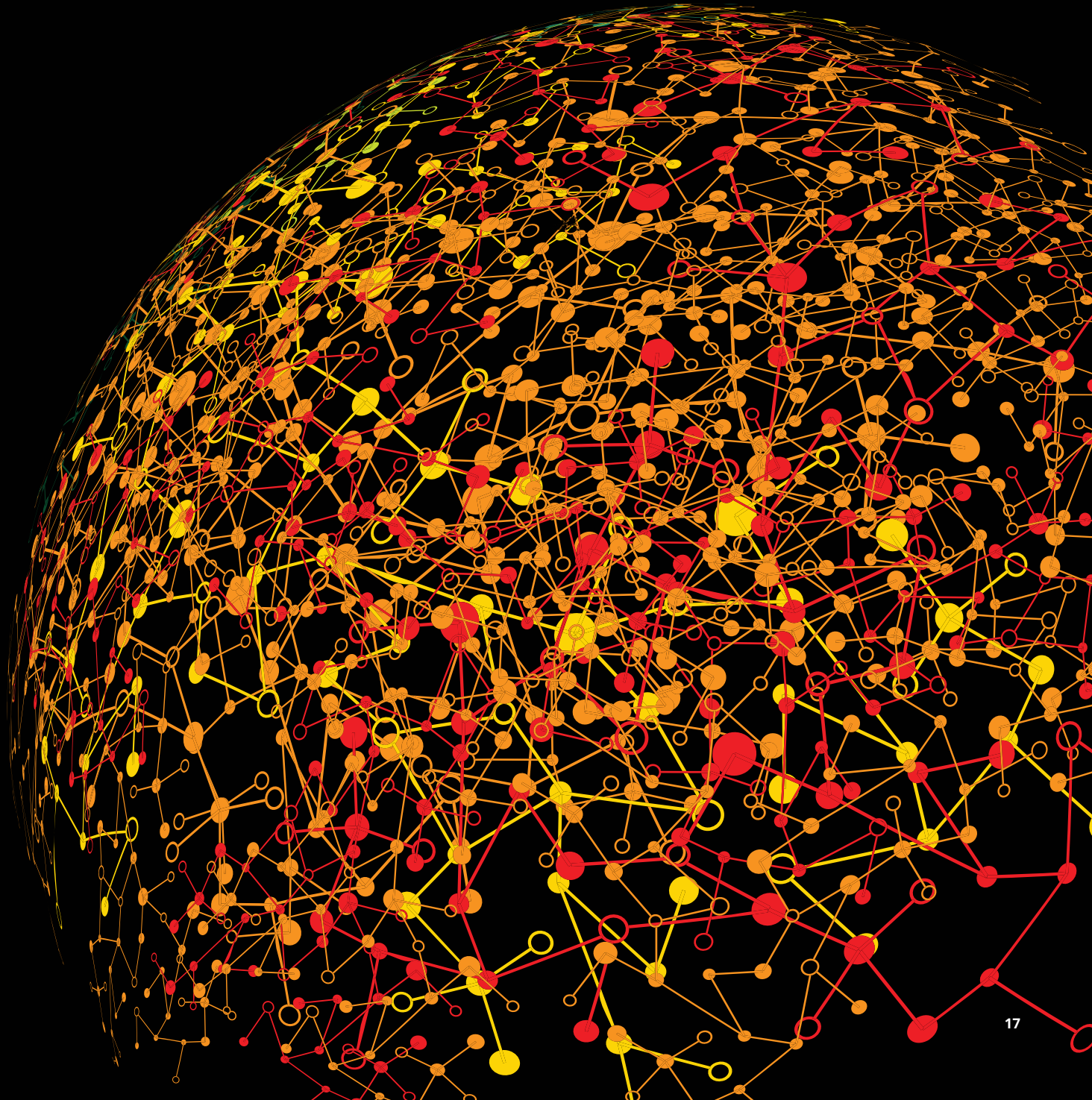**Partner, Risk Advisory**
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