



Controls Post COVID-19

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Adapting Controls for COVID-19:

How current are your risk assessments?

While its impact may differ between industries, the consequences of COVID-19 for business across the globe have been considerable.

An obvious impact has been the enforced shift in working patterns, to remote working, splitting of teams, and business operations where human contact has to be controlled carefully.

As COVID-19-induced ways of working now feel more normal, it raises the question whether businesses will ever return to working as they did before the pandemic. Many businesses that did not embrace working from home previously have had to find solutions to keep their business operational. Despite having had to adapt quickly, many businesses have seen benefits of the new ways of working, such as increased productivity. Businesses may therefore see this as an opportunity to do things differently, for example, cutting operational costs of

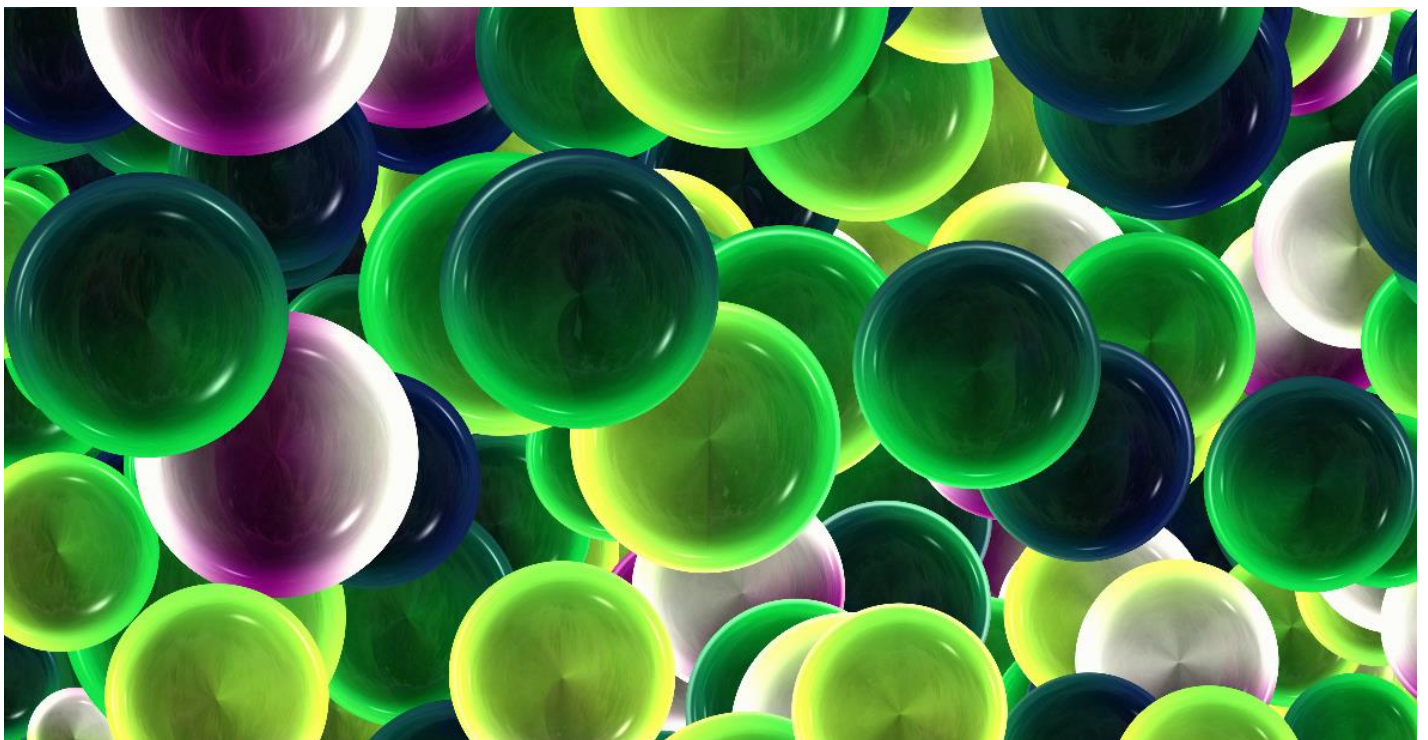
expensive real estate and hence their employees are likely to retain some level of flexibility to work remotely even when it is no longer necessitated by COVID-19 restrictions.

Many businesses that until COVID-19 had not invested sufficiently in technology have had to take rapid steps to maintain the viability of their business, for example by moving operations online rather than solely maintaining a traditional 'physical shopfront'. This enforced change may have the positive effect in the long term of making these businesses more competitive, but in the short term, it adds to the cost base and increases the complexity of business operations.

As businesses adapt to the new ways of working, a point fast comes when it becomes necessary to think about how and when the control environment should be reviewed and adjusted. In the short term,

the need to change operating procedures may have been given priority over the implementation of appropriate controls; but companies should not delay an assessment of whether their controls remain appropriate.

In the immediate term, a high-level assessment can be made to establish which key controls should be retained, which should be changed, and whether any new controls should be introduced. For example if onboarding processes for suppliers were streamlined during the pandemic to maintain the supply chain, a company can in the medium term implement enhanced monitoring of new third party relationships to ensure the onboarded parties do not pose an unacceptable risk for the business.

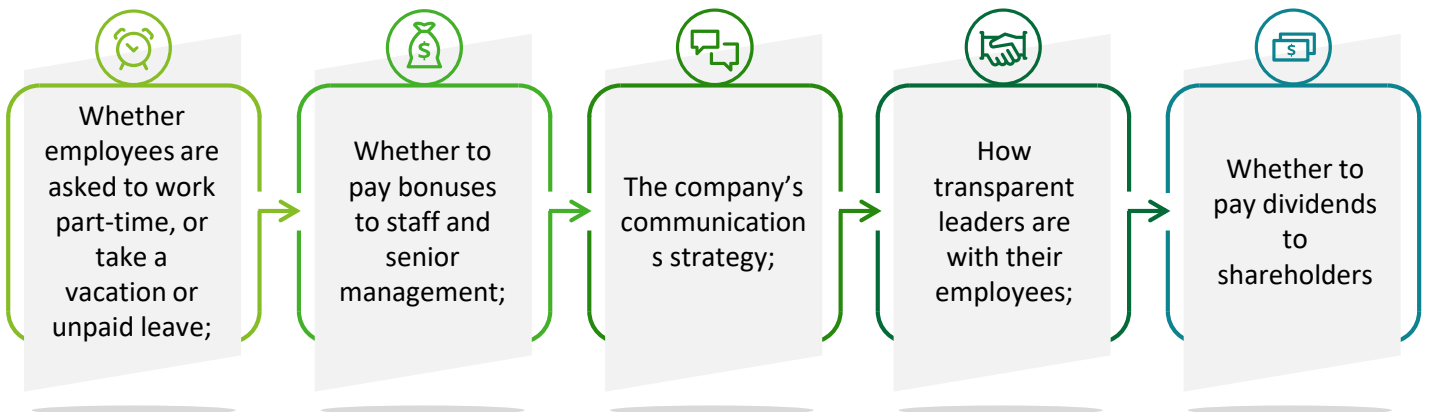


Behavioural responses and pressure to deliver results

In the wake of COVID-19 first wave and now in the midst of the second wave, companies should be considering the behavioural responses within their company to those changes and the possible implications for the effectiveness of the control environment.

Leadership impact

The ways in which the board and senior management dealt with the impact of the first wave of COVID-19 on their business may influence the attitudes and behaviour of their employees and other stakeholders. Attitudes may be affected, for example, by decisions about:



For example, decisions by business leaders may have a positive or negative impact on how employees feel they have been treated, their loyalty, and how concerned they are about the future viability of the business.

Performance reporting and pressure to deliver results

Business leaders are under pressure to report on the performance of their business – under pressure from the stock market, shareholders, banks and other stakeholders such as the government.

Internally, business units and departments will report in line with their KPIs, but targets may have been amended to reflect the impact of COVID-19. (Alternatively, original targets may have been retained, even if they are no longer realistic).

Externally, financial statements need to be published; stock markets updated; and lenders informed about leverage, liquidity, and the company's ability to meet debt repayment schedules. There is likely

to be increased scrutiny from external auditors to ensure that they obtain sufficient appropriate audit evidence to allow them to conclude on the appropriateness of management's use of the going concern basis for preparing the financial statements and to conclude whether there is a material uncertainty relating to going concern.

There may also be pressure to meet performance targets that were set before COVID-19, or even (depending on the industry) to outperform previous forecasts.

In some cases, businesses or particular business units may see the impact of COVID-19 as an opportunity to mask already poor

performance. If the business has been affected negatively by COVID-19, other pre-existing issues may be included in the financial results so that the business takes 'one big hit' against performance and reported profitability. For example, a company may:

- Write off bad debts that had not previously been written off; or
- Recognise stock wastage that had not previously been recognised.

Controls that no longer operate as effectively as they did

At the same time existing controls, processes and business-as-usual monitoring mechanisms may no longer operate effectively.

“Speak Up” lines may no longer be used to the same extent or with the same motivation. If employees feel they have been poorly treated, or disenfranchised by the decisions made by the company, will they be as likely to report instances of wrongdoing or misconduct? Conversely, individuals may be more inclined to report perceived wrongdoing, by pointing the finger at someone else in an effort to protect their own job. Even if employees are inclined to report misconduct, are they still in a position to witness such behaviour? Overheard conversations at the coffee machine will be a thing of

the past and; therefore, incidents that may previously have been reported by a whistle-blower may simply not be seen.

Risks can sometimes be managed by different departments, which may operate in silos, not always communicating with those responsible for other risks. Even if this was the case pre-COVID-19, the problem is likely to be accentuated as teams work remotely and communication channels do not operate as they did before.

There has been a shift in responsibilities as people are asked to focus on operational changes; therefore, there is a risk that some controls will either be given less priority or missed altogether.

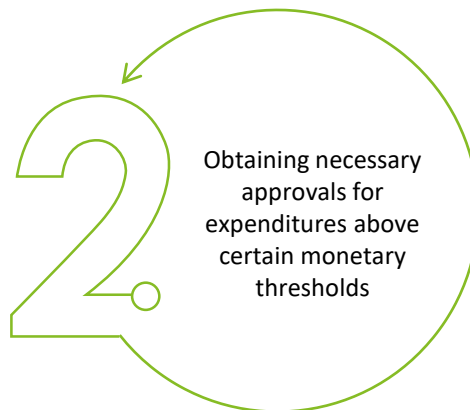
There is a risk that some employees will

take advantage of loopholes or gaps in controls, especially where employees are not subject to physical oversight as they are now working from home.

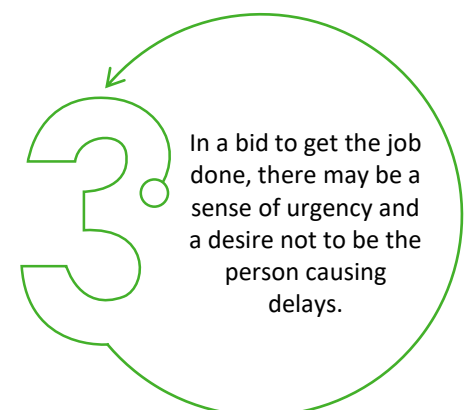
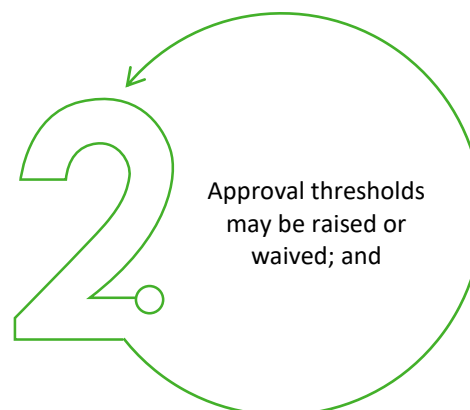
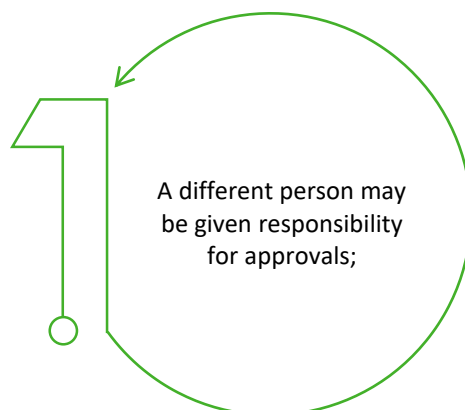
Ensuring appropriate segregation of duties may be difficult where the work force is physically separated. Not all employees working remotely may have access to systems at the same time.



Some controls that are easy to apply in the office may not be feasible when employees are working from home; for example



In order to keep the business functioning certain workarounds may have been allowed, for example



Controls that no longer operate as effectively as they did (contd')

In circumstances such as these, the 'four eyes principle' of control oversight may not be applied as robustly.

Practical work arounds, which were necessary to keep the business operational at the outset of the COVID-19 crisis may become accepted practice as employees become accustomed to them, and they may not end once the work situation returns to 'normal'.

Threats from outside the business may be overlooked, as fraudsters seek to take advantage of a disrupted and distracted workforce, for example by sending a fictitious email from a

supplier requesting a change of payment details, or an email from the CFO requesting an immediate payment to be made.

Controls surrounding transactions with trusted creditors and debtors may need to be adapted if their business has suffered as a result of COVID-19 and they have become less solvent. Complacency with established relationships may lead to unexpected losses.

For companies that already monitor fraud risks proactively, using data analytics and AI, there may be a need

to reconsider transactions identified as outliers or as higher risk. The usual patterns of business against which these predictive models were calibrated may have changed, for example, people are now potentially working outside office hours because they need to work flexibly, but previously this may have been identified as a red flag. Internal Audit or Compliance may find it difficult to identify which transactions are in fact high risk and which are false positives.



So what can you do to adjust your control environment to the 'new normal'?

Simply assuming that established controls and procedures will continue to address the risks faced by the business may be short-sighted and lead to problems in the medium to long term. Instead, we suggest that companies should now reassess their entire governance, risk and control frameworks.

As in other areas of risk management, we would advise companies to follow a risk-based approach and identify the processes that bear the highest risks following adjusted working patterns, in order to prioritise the analysis of controls:

Carry out a comprehensive risk assessment based on current and emerging risks in the new ways of working;



Review the effectiveness of the governance framework to ensure that reporting lines are still appropriate;



Assess the controls that were relaxed during the crisis and determine whether they should be reinstated, or whether alternative controls are now required;



Monitor changing guidelines or requirements from regulators that may affect the frequency or level of detail in reporting submissions;



Ensure that Internal Audit testing plans are adjusted to focus on key risk areas in the new working environment, for example by performing retrospective reviews covering the period of the crisis in order to identify any significant control weaknesses or failures which may have occurred unnoticed; and



Review processes and procedures to ensure that any changes made have been adequately documented, such as changed reporting lines and authorization limits. Process maps may need to be updated to reflect the adjusted control environment.





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