

## Internal Audit considerations in Response to COVID-19

### Navigating Change: an unprecedented challenge

Following the outbreak of coronavirus (COVID-19), organisations, their environments and their ways of working are evolving rapidly and in ways that had not been previously envisioned. This paper outlines Deloitte’s high-level views on key Internal Audit (IA) considerations given the mass scale of business disruption caused by COVID-19.

The third line of defence is uniquely placed to play a key role in the response to the COVID-19 crisis, from a position of good organisational knowledge and with a highly relevant skill-set. As organisations adapt to dealing with the initial impact of COVID-19, IA functions have an important role to play to continue to provide critical Assurance, help Advise management and the Board on the shifting risk and controls landscape, and help Anticipate emerging risks. The plans that organisations are putting in place to contain and respond to the outbreak are likely to be in place for a period of time. As IA, we should be prepared to adjust to this period in a

sustainable way and adapt to this ‘new normal’. Individual country situations differ greatly and are changing rapidly and dramatically, so it is imperative for IA functions to keep abreast of governmental and regulatory announcements, as well as to follow centrally-coordinated organisational responses when devising IA specific work.

As the COVID-19 pandemic continues, Chief Audit Executive (CAE) and Head of Internal Audit (HIA) communities are considering many things and to support such thinking, we have set out a number of key considerations, alongside potential

responses. Considerations are grouped as follows:

- The role of Internal Audit
- Challenges for Internal Audit
- Emerging risk areas for Internal Audit to consider

It is important that Internal Audit is proactive and prepared, while remaining pragmatic, as the situation continues to evolve. As such, the contents in this paper should not be considered comprehensive or definitive. Our intention is to add to these considerations as the environment evolves over the coming weeks.

**1. How does IA re-calibrate its approach to cyclical audit planning and coverage of risk?**

Consider adopting an Agile portfolio management approach, e.g. Agile audit planning. Embrace short-term prioritisation and regular review/updates to the audit plan to mirror the changing pace of risk and assurance needs.

**2. How does IA adjust its coverage to ensure that it takes a pragmatic and balanced consideration of risk?**

The principal aim of IA should be to focus on the things that really matter and to provide an increased level of assurance and deliver insights. Due to the changing risk landscape, it is imperative that IA collaborate with key stakeholders to understand any new and/or elevated risks, and to assess how best to support with the provision of assurance. This should include the Audit Committee where appropriate.

It is also imperative at this time that IA engage with other relevant stakeholders, such as External Audit (where they might be seeking to rely on planned IA work that may be impacted) and regulators where changes to planned IA coverage may be of interest.

**3. How does IA continue to deliver its on-going assurance activities without disrupting critical operational areas at a time of crisis?**

Internal Audit functions should consider:

- a. Remote working to perform the audit, and what, if any, impact remote working has on the assessment of the control environment being considered and practicalities of how the audit will need to be undertaken. During virtual planning meetings, understand the level of electronic documentation available and request evidence as far as possible in advance to allow management time to scan paper documents where necessary.
- b. Identify all key stakeholders per review and understand their availability during planned fieldwork dates. Where possible, schedule time with individuals to undertake remote walkthroughs ('talk-throughs'), progress updates and to discuss emerging findings.

c. Adopt and/or increase the use of new technologies to deliver work, such as Microsoft Teams, Zoom, or Skype for virtual meetings/workshops. Consider recording such interactions to enhance IA evidence (clear in advance with those being recorded and keep in mind country-specific laws).

d. Accelerate the deployment of analytics to deliver IA work remotely, increase coverage, focus on outliers, and reduce business interruption, whilst still providing valuable insights and assurance.

**4. Should IA 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.

**5. How can IA avoid having to deliver a large part of the IA plan later in the year when capacity will be under pressure?**

In support of this, how can IA get more involved now whilst they have time? IA functions should consider:

- a. Whether work can be performed remotely, leveraging technology available to them, and, if necessary, agreeing amended or reduced scopes of work. If face-to-face meetings are required, execute an element of remote work now and have the face-to-face-meetings later when social distancing allows.
- b. Prioritise providing assurance over emerging risk areas (e.g. scenario analysis, liquidity modelling or setting up an intelligence hub to scrape open source data and alert organisations of emerging issues, government policy changes, or changing customer behaviours). Potential new and emerging risk areas are discussed in section 3.

c. Where it is necessary to cancel and/or defer work, discuss with the Board and formally agree with the Audit Committee if IA resources can be re-purposed to support with projects, critical activities or initiatives including the organisation's response to COVID-19. This may include the following:

- i. Supporting the front line – consider the skill-sets available within IA teams such as analytics, project management, finance experience and knowledge of systems and global business operations.
- ii. Preparedness review – review of contingency plans and/or pandemic plans.
- iii. Response review (if mobilised) – an assessment of the organisation's set-up of their response and whether the approach is in line with good practice, covering all key risk areas.
- iv. Scenario planning – review of the organisation's risk exposure against the pandemic curve and help to develop an action plan (e.g. work through decisions in advance).
- v. Rehearsal – facilitating light-touch desktop exercises to sense-check the organisation's approach and work through key incident scenarios.
- vi. Real time reporting – the monitoring of key metrics for processes that are currently under stress.
- vii. Secondments – individuals seconded into first line support to keep critical activities going.

**6. Can IA functions provide an objective voice and real time assurance to teams who need to make decisions quickly? How can IA help the organisation look forward?**

IA functions should consider:

- a. Attending project steering groups and providing an independent, objective voice to help challenge management's thinking on risk.
- b. Critiquing the design of new and/or amended controls prior to implementation as a result of a changing work environment.

c. The need for long and time-consuming reports should be challenged as IA functions can embrace agile reporting mechanisms to deliver insights sooner.

d. Anticipate – IA's risk lens has never been more important as it plays a role in horizon scanning, supplementing the first and second line in identifying potential risk areas arising from the immediate business impact, including financial risks; different working behaviours; remote customer interactions; and a push towards an increased digital environment.

**7. When should IA engage with broader stakeholders including regulators and Audit Committees to be clear on how IA can best add value/agree changes to the IA plan?** Early engagement with both the Audit Committee and other interested stakeholders such as Regulators is imperative to helping IA functions understand their perspectives and key priorities. Early discussions will help teams understand any critical work required, and whether there are any new and/or elevated risks that need incorporating into the annual IA plan. Revised IA areas of focus should be agreed.

**8. Where non-essential IA work is deferred or re-shaped, what impact does this have in terms of the IA function meeting its regulatory/statutory requirements and the ability of CAEs to comment on control environments?** This needs to be guided by the Audit Committee, including the duties of directors in providing the necessary oversight. The level of activity required and whether the type of assurance or approach IA adopt could be adjusted to achieve required mandates. Examples of this would include limited versus reasonable assurance.

It is important to be clear on what has and has not been considered across the year (or indeed within a specific IA review) and to adopt a limitation of scope approach where needed. When reporting, the following should be presented clearly:

- a. Scope, limitations and context.
- b. Important themes and lessons highlighted (e.g. reduced level of control as a result of x, y or z).
- c. Root causes should be clearly reported to allow organisations to emerge stronger.

**9. How might a gap in coverage impact the ability for Audit Committees to meet annual reporting requirements on controls?** In certain sectors, for example, the Public Sector, an annual opinion on controls or the control environment might be required. In such circumstances where IA work may be reduced, it will be important to be clear on what has and has not been considered across the year and to adopt a limitation of scope approach where needed.

However, organisations should keep abreast of regulator's views and commentary as the situation continues to evolve. Whilst regulators such as the Securities and Exchange Commission ("SEC") and the UK Financial Reporting Council ("FRC") have been issuing guidance to companies and external auditors, and we are starting to see some relaxations of existing filing requirements, along with some guidance emerging from regulatory bodies as to how accounting standards should be applied. At this point in time it is difficult to predict what further changes

to financial reporting and accounting requirements may be, particularly given the operational, economic and other impacts of COVID-19 are likely to run on for some time, and what other dispensations may be given.

**10. Can members of the IA function form part of/or support crisis response teams?**

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

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

**1. How should IA functions keep staff motivated and supported whilst working in remote environments?**

It is vital all teams stay connected through these challenging times. IA Leaders should consider implementing measures such as:

- a. Weekly team catch ups – A chance to hear the latest news from across the team, ask questions and share ideas.
- b. Check-ins – Check-in with individual team members to discuss any isolation issues, workloads or any other challenges that may arise.
- c. Daily stand ups – Audit teams to have a short daily call (using video as well as voice). This provides an opportunity for the team to provide a high-level overview of their work and whether they are experiencing any delays in completing tasks.
- d. Virtual coffee sessions – A fun way to help stay connected as a team.
- e. 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.
- f. Success stories – Share success stories and positive events happening across the organisation to help maintain a positive outlook.
- g. 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 Team level. Think of ways to keep things moving where an audit or other activity is business critical and take steps now to ensure a smooth transition.

**2. How can IA continue to maintain corporate presence whilst remote working?** Internal audit functions should consider:

- a. Increasing the number of progress meetings held with key stakeholders across the business. It is imperative teams continue to develop strong relationships with clients built around trust, credibility, efficiency and transparency.

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

**3. How can IA continue to provide assurance to organisations where stakeholders have competing priorities?** Internal audit functions should consider:

- a. Evaluating priorities and identifying critical work – focus on the truly greatest risks.
- b. Reducing the amount of stakeholder input required; instead produce short, sharp advisory pieces and leverage system access and available data to the greatest extent.
- c. Providing more frequent updates in a dynamic environment.

**4. Should IA become more substantive in its approach?** At a time of such exceptional uncertainty, Internal Audit functions need to be pragmatic in gathering evidence of control execution or even absence of documentation and consider alternative means by which key steps and activities can be confirmed.

However, IA functions should remain mindful of the following:

- a. In a time of unprecedented change, with high levels of uncertainty, there will likely be many instances of control override with employees seeking workarounds to existing security protocols and internal controls in order to keep the business operating efficiently.
- b. In such a time of crisis, fraud risks may change 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 employee terminations occur or employees suffer significant personal financial stress.

**5. How does IA respond when asked to help with support work that might challenge their position on independence?** Whilst recognizing (and not losing sight of) IA's primary role to provide independent and

objective assurance, in times of crises, IA should rightfully pitch in to assist the organisation in areas where their expertise might be relevant. To ensure that independence is not impaired, IA could practically look at the following:

- a. Limit their scope to providing advice and not directly involved in implementation.
- b. Use distinct teams to help with the management support work and the ensuing audit.
- c. Defer the audit to a later date by which time, the business has assumed ownership of the specific project.

**6. Does IA need to get better at assessing the reliability of evidence provided to IA?**

The ability to ask for evidence on site has been eliminated, reducing our capability to identify if something doesn't exist. IA functions should consider how much documentation may be created for IA purposes and how reliable that evidence is.

**7. How can IA continue to deliver high quality reviews though remote working?** IA functions should consider:

- a. Increasing budgets available for each review to factor in additional calls and effort for remote working.
- b. Increasing the use of technology capabilities available such as Zoom or Skype for virtual meetings and/or workshops.
- c. Reducing the number of internal audits reviews completed per year to ensure that quality is not compromised.
- 8. What can IA functions do if travel restrictions are restricting our ability to execute overseas work? IA functions should consider:
  - a. Leveraging in country resources or a third party to the extent domestic travel is permissible.
  - b. Whether there is work on the plan in the company's main corporate location or at a Group level that can be pulled forward to replace overseas work and leverage capacity now.




**9. What should IA consider once the crisis has abated?** Internal audit functions should take the opportunity to adopt many of the practices that have proved to work effectively during the crisis as the 'new normal'. Examples being, 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 teams and environmental benefits arising from less travel.

There is also an opportunity to adopt a more flexible and iterative risk assessment and planning process to allow for more flexibility in how to deploy resources in the future.

It is not just IA that will be changed by the COVID-19 experience. We don't expect the business to ever return to the same "BAU" – there will likely 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, reshaping TOM, pushing people to digital channels, dealing with other fundamental and permanent changes to customer behaviour, changes to regulatory approaches and people strategy to name but a few. IA needs to consider these and the impact on their future focus.

 Emerging risk areas for Internal Audit to consider

Risk Area	Areas to consider
<p> <b>User Access Controls</b></p>	<p>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.</p> <p>IA considerations could include:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• The detection of fraud risks and management overrides.</li> </ul>
<p> <b>Finance</b></p>	<p>IA considerations could include:</p> <ul style="list-style-type: none"> <li>• Understanding working capital requirements against scenario planning assumptions and assessing cash flow forecasts.</li> <li>• Has the organisation done all it can to access government provided fiscal support and does it understand the longer term implications of that support (for example repayment of loans)?</li> <li>• Challenging the completeness of management's accounting and reporting impact analysis, particularly in the context of finalising December 2019 year-end financial statements and forthcoming quarterly reporting deadlines.</li> </ul>
<p> <b>Internal Controls</b></p>	<p>IA should understand the changes, both temporary and permanent, being made to the organisation's internal control environment, with a specific focus on the following:</p> <ul style="list-style-type: none"> <li>• Management review controls;</li> <li>• Accounting judgment controls (bad debt provision, inventory provision, impairment of goodwill and intangible assets, fair value of financial and non-financial assets);</li> <li>• Associate or joint venture accounting controls;</li> <li>• Transaction processing controls;</li> <li>• Cash payments controls;</li> <li>• Automated business controls;</li> <li>• Outsource service providers;</li> <li>• Insider Trading concerns;</li> <li>• Key person dependency/Super User access; and</li> <li>• Resilience and remote working.</li> </ul>

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➤ **Cyber**

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. Internal Audit considerations could include:

- 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)?

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➤ **Insurance Cover**

IA considerations could include:

- As kitchens and bedrooms become more permanent home offices, are there increased exposures in insurance liabilities?
- Are health and safety regulations still being complied with?

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➤ **Risk Management**

IA considerations could include:

- Does the organisation have on-going processes in place to continue to meet all of its regulatory responsibilities?
- Does the risk assessment process need to become more agile and adopt more dynamic risk assessment methodologies?

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➤ **Business Continuity**

IA considerations could include:

- Helping organisations understand any single points of failure e.g. processes, employees and technologies.
- Developing and/or testing appropriate scenarios, plans or measures, including war-gaming, to restore business operations (disaster recovery plans).
- Validating and challenging key MI used by management to make decisions on mission-critical activity and challenging and benchmarking management's assumptions regarding the nature, extent, and duration of the situation;
- Challenging management's forecasts of business impact (e.g. going concern, pension scheme accounting, goodwill and intangibles, expected credit losses) noting that Q1 reporting deadlines are approaching and that many organisations have made public promises regarding customer concessions – are these being delivered and is the financial impact estimated appropriately?
- Considering management's assessment, monitoring, and contingency plans of key outsource service providers.

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➤ **Supply Chain**

IA considerations could include:

- Assessing whether sufficient resources, including third parties, are in place to maintain critical activities at sufficient levels.
- Determining how organisations understand and prepare for changes in demand and balancing the availability of both stock and resources accordingly.
- How best to provide assurance over joint ventures, whose owners may have different priorities.

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➤ **Customers**

IA considerations could include:

- Has the organisation adopted a clear communication plan for its customers, including those customers who are particularly vulnerable?
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## ▶ Contracts

IA considerations could include:

- Has the organisation identified, or does IA have access to assist in identifying, key contractual clauses which 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; and
  - Other applicable clauses.

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## ▶ Human Capital

IA considerations could include:

- 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?
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