

Considerations for Internal Audit

COVID 19
March 2020



Overview



Background

The ongoing COVID-19 situation presents a substantial challenge for business, Governments and the community. We are likely to see an impact over many months on many many business stakeholders including employees, customers, suppliers and other stakeholders such as regulators. As internal auditors, we need to demonstrate our agility and respond accordingly, recognising that the response will be different for each organisation.



What does this mean for internal audit?

Internal Audit has an important role to play in ensuring that organisations can maintain a strong system of internal control during this period of change and uncertainty. For most organisations, the existing program of Internal Audit work has been designed to focus on key areas of risk and the system of internal controls under a Business as Usual (BAU) scenario.

Changes to working practices and organisation arrangements in response to COVID-19, introduce a range of new or enhanced risk areas and have the potential to substantially disrupt the existing system of internal controls. This creates a need for Internal Audit functions to show agility to better enable continuity of service through remote working, minimising the impact and maximising the value of Internal Audit activity on management and teams across the organisation. Internal Audit must stand with the business to provide the support it needs to deliver its services in a safe, secure and trusted way.

Immediate actions

- ✓ Ensure the continued safety and care of your team (including regular communication)
- ✓ Revisit the FY20 plan (re-prioritise, add, defer, cancel)
- ✓ Maintain regular contact with your key stakeholders (Chair, C-suite)
- ✓ Provide the required support to the business to respond to current events
- ✓ Consider the impact on FY21 Internal Audit planning



These are challenging times for many of our organisations. Internal Audit have spoken about 'agility' and 'value add' for a long time. Our businesses need that now more than ever. This is our opportunity.

Jason Agnoletto
National Leader, Internal Audit

What should internal audit be focused on?

Protect the business and manage risk

Risk	Internal Audit response
 <p>Changes to the control environment arising from activation of BCP arrangements Management and governance structures</p>	<ul style="list-style-type: none">• Process and control mapping of business critical functions: Map key processes and controls under a BAU scenario and the impact of potential changes to these controls under various contingency scenarios. For example, this could consider: impact of changes to management roles and structures on delegations of authority; changes to system access and change controls to enable flexible work arrangements leading to potentially incompatible combinations of access rights; unavailability or changed operation of physical controls (e.g. hard copy signatures as part of review and approval control, loss of direct management oversight).• Review of BCP arrangements: Critical analysis of BCP plans for weaknesses and unidentified impacts specific to COVID-19 (supply chain, staff availability, customer demand). This could include simulation of various contingency scenarios to ‘stress test’ continuity plans and assess impact on associated process and controls.
 <p>New or elevated cyber security risks Increased use of remote working arrangements</p>	<ul style="list-style-type: none">• Remote worker readiness assessment: Review organisational readiness for staff and other workers to continue operations from locations outside of office sites. Consider clarity and consistency of technology protocols and communications to staff.• Access and communication readiness: Consider suitable capacity of remote technology, IT support and self-service arrangements, secure remote access via VPN, communications and capacity.• Incident monitoring and response: Support ongoing governance arrangements remain in place (security monitoring) with appropriate investigation and action performed as issues are identified.
 <p>Privacy & Data Protection Potential exposure of customer personal information</p>	<ul style="list-style-type: none">• Revisiting data breach policy and practices: Restricting teams (incl third parties) with remote access to personal information on an ‘as needs’ basis and reiterating privacy obligations for employees, especially during business continuity invocation.• Understanding OAIC guidance issued on COVID-19: Click here
 <p>Fraud Lapse of key fraud controls and management attention</p>	<ul style="list-style-type: none">• Core processes impacted, the potential for fraud and the indicators to look for: Consider how data analytics (some of the tools in use by Internal Audit or Risk) can be used to look for these indicators and investigate real time. Additionally, as long term staff are forced to work from home and change their normal routine, this may uncover long running fraud practices. Therefore an increased need for urgent investigation and remediation will be required.

What should internal audit be focused on?

Protect the business and manage risk (cont'd.)

Risk	Internal Audit response
 <p>Compliance & Regulatory requirements Maintain compliance and plan for potential interim changes</p>	<ul style="list-style-type: none">• Continue to meet compliance/regulatory requirements: Ensure the business is meeting regulatory obligations. Regulatory and/ or compliance-related reviews should continue to be prioritised within the plan where applicable, unless clear direction is provided by regulatory bodies.• Be cognisant of potential regulatory/government enforced changes due to COVID-19: Continue open lines of communication with relevant regulators and ensure that where changes are required, that Internal Audit monitors implementation risks due to stress on BAU and implications on the workforce (e.g. working remotely). Internal Audit could play a role by providing its resources and skills to the business or are involved in a consultative manner during the implementation.
 <p>Transparency & Employee management Protect employees during uncertainty</p>	<ul style="list-style-type: none">• Honouring employees' entitlements: Underpayment of staff remains a hot topic across a number of industries. As organisations make choices about their workforce in the time of crisis, it is critical that employees have access to entitlements and are treated with fairness. Internal Audit could focus on reviewing organisations' governance frameworks and processes related to employee entitlement policies in changing times (e.g. additional/special leave management, accuracy of wages, robustness of underlying systems that support one-off choices implemented by organisations, etc).
 <p>Risk Culture Consider impact on risk culture across the organisation</p>	<ul style="list-style-type: none">• Behavioural impacts of COVID-19: Employees will be facing challenges with their day-to-day tasks and decision making due to personal stress; pressure on increased demand or downturn; implications of rapid implementation of a remote workforce; potential acceptance of mistakes and oversight in the current environment; and prioritisation of 'critical activities' impacting compliance, control requirements, customer and/or regulatory obligations. This may have a direct impact on compliance with internal policies and practices, which heightens the risk faced by organisations in key areas as highlighted in this document.

What should internal audit be focused on?

Support the business to deliver

Opportunity	Internal Audit response
 <p>Strain on BAU functions Reduction in workforce and competing priorities</p>	<ul style="list-style-type: none">• Compliance with deadlines: Assess process and controls to manage compliance with legislative and contractual timeframes and/or client service KPIs for regulatory reporting, and legislated customer service obligations.• Project health checks: Review of projects to assess the impact of COVID-19, checking contingency arrangements on the critical path for project delivery and assessing the ability of third parties to deliver as per their contract. Internal Audit could also assist in project prioritisation linked to strategy and value creation.
 <p>New or elevated workplace health and safety IR risks associated with increased use of remote working</p>	<ul style="list-style-type: none">• WHS remote worker readiness assessment: Assess the clarity of policies, procedures and effectiveness of communications relating to employee wellbeing and safe working arrangements from an employee perspective.• Employer obligations for remote working: Assess processes and controls to manage impact of increased remote working arrangements and compliance with employment obligations.
 <p>Supply Chain Visibility and efficiency of the supply chain</p>	<ul style="list-style-type: none">• The robustness of the supply chain is key: From the sourcing of raw material to distributing product to clients in local markets. A deep understanding of the supply chain and the risks presented by your third parties will help respond today and improve them for tomorrow.• Understand and prepare: Accessing critical supply chain data across all tiers to properly assess the potential risk and opportunities to enable the business to take advantage. Where applicable, prepare to set up a temporary inventory recovery and evaluation process and pursue alternative sourcing strategies.
 <p>Cash & Funding Resilience Consider short, medium and long term funding</p>	<ul style="list-style-type: none">• Cash and liquidity should be front of mind: Short, medium and long term funding requirements can be impacted. It is important to support management through the re-prioritisation of spending and financial obligations, as well as consider what opportunities are there to accelerate cash collection/generation. The skills of Internal Audit professionals can support the business in this area, while the business deals with continuity.
 <p>Third Party Continuity of supply from third party service providers</p>	<ul style="list-style-type: none">• Review arrangements with third party service providers: Assess risks associated with outsourced arrangements and the robustness of third party controls (e.g. third party business continuity, integrity of reporting, service delivery KPIs, etc). Where organisations are significantly dependent on third parties to deliver core services, consider a 'fit-for-purpose' assurance program over key risks and controls associated with the delivery of services by a third party.



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