

INTERNAL AUDIT AMIDST COVID-19

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Introduction

“It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change” - the words by Charles Darwin aptly summarises the process of evolution. The same is equally applicable to businesses as well. We need to quickly adapt to changes not only to survive but also to evolve and grow.

The world is currently reeling under Covid 19 pandemic. The global disease has impacted over five million individuals and continues to increase with every passing day. As individuals, organisation and countries continues to assess the impact inflicted by the pandemic, and adapt to it, Internal Audit function have a very critical role in identifying new risk on the business, assessing its impact and help management in mitigating the risk.

Objective

The article outlines views on changes in Internal audit function, due to changes in business model, emerging areas of risk, role of internal auditor and key challenges for internal audit functions with probable solutions.

Role of Internal Auditor in Covid 19

The Covid 19 pandemic has impacted the way organisations and individuals carry out the business. With social distancing becoming part and parcel of the life, organisations are moving towards increased work from home models for employees and have adapted new operating model to continue business.

These exceptional situations require refreshed Internal Audit Approach to adapt the changes in business environment. As internal auditors we cannot simply insist on existing audit plans for businesses. It is quite probable that existing internal audit plans do not add value to the organisations especially in short term.

How to Adapt Internal Audit Approach?

Internal auditors shall assess the operational impacts being faced by organisations and understand new control environments they are operating under. This shall help the auditors to adjust the audit plan accordingly and provide valuable contributions to organisation on most critical areas.

Further, internal auditors should assess the emerging risk with changes in business model and prepare risk mitigation plans with management. Also, internal audit function shall be realigned to cover new identified areas of risk.

Internal audit function shall assess the effectiveness of new internal controls and provide assurance to the management that the controls are operating effectively.

Emerging areas of risk to be considered by Internal Auditor

With a continuous increase in impact due to Covid 19, management and other stakeholders, shall need assurance that organisations have been able to adapt to the unprecedented challenges brought on by Covid 19. Internal Auditor can help the management by assessing and managing the following immediate key risk areas

1. Governance, communication, and reporting

Governance, communication and reporting amongst employees, management and other stakeholders play a key role in assessing and managing new and existing risks.

Internal auditors shall ensure that clear responsibilities have been defined for board of directors, audit committees, risk management committees, key managerial personnel, and other employees.

Further, internal auditors shall check that timely and relevant information is being received by the management and centralised and timely messages are being sent from management to employees.

2. Changes in Control Environment

To cope up with the Covid 19 challenges, management and other stakeholders shall ensure that organisation's internal control environment have been able to quickly adapt to new operational models.

Due to recent business development such as work from home, flexible working hours, low employee availability, internal controls such as segregation of duties may be compromised.

Internal auditor shall consider the following while providing assurance to the management-

- a. Whether key controls have been defined for primary processes and whether the same is effective?
- b. Should additional controls be considered with regards to organisation exposure to internal and external factors?
- c. Ensure that key controls such as minimum level of segregation of duty, evidence of management review and approvals are in place.
- d. Internal auditor shall ensure whether additional training, support and management oversight checks and controls has been defined.

3. Operational Risk

Operational risk refers to risk an organisation faces in day to day operations. Internal auditor shall ensure that organisations have put effective measures to mitigate the following operational risk being faced amidst Covid 19

a. Customer behaviour

It is likely that the change in customer behaviour towards consumption patterns might result in lower sales for the organisation, thus impacting the revenues and cash flow of the entity. The change in customer behaviour may even result in existential crisis of the organisations.

Internal auditor shall ensure that the company has adopted a clear communication plan for customers, including vulnerable customers.

Further internal auditors shall evaluate, customer engagement activities being done by management, if any.

b. Supply chain management

Assessing supply chain management is one of the most critical areas in business operations. Under supply chain, entities are usually dependent on other entities or business partners for smooth functioning.

The auditor shall ascertain the business partners or third party which may be most severely impacted and check whether management has made any alternate arrangements.

Further, the auditor shall ensure that organisation have planned for availability for stock and other resources in accordance with the change in demand requirements.

c. Working capital and liquidity

The complete economical lockdown imposed by the governments across the economies has resulted in depreciation of liquidity available with the companies. Further change in business models and customer behaviour may negatively impact the cash flow management.

Internal auditor shall understand the working capital requirements of the organisations basis scenario planning assumptions and forecasted cashflow. Further internal auditor shall ensure that the management has done it all to access the fiscal support provided by the government and it understands the long-term implications of the same.

d. Compliance with contractual terms

Compliance with existing contractual terms might prove as a hurdle for organisations already striving to sustain the business.

Internal auditor shall assist the management in identifying clauses such as force majeure, notice provisions, liquidated damages, insurance, termination rights etc. to provide relief during these difficult times.

Further, internal auditor shall also evaluate clauses that could have negative impact on business operations.

4. Human Capital

Human resources are the most valuable asset of any organisation. With social distancing and self-isolation becoming new normal, it is the now an additional responsibility of the management to provide safe working environment for all its employees, especially for front end employees dealing with customers at large. Further there is increased risk to mental and physical well-being of employees working from home.

Internal auditor shall check the steps taken by management to

- a. Be in touch with the employees working remotely from home
- b. Track the time and activities they are doing
- c. Control measures taken for safety of employees

Further, internal auditors shall verify whether the new ways of working have been considered by HR and performance management processes for annual performance review and designing training modules.

5. Business Continuity Plans

Business continuity plans or disaster recovery plan play key role in reviving business operations post emergencies and crisis.

Internal auditor shall evaluate the impact of Covid 19 on the existing business continuity and disaster management plans of the entity. Further internal auditor shall assess whether there are any gaps in the Business Continuity or Disaster Recovery Plans and impact of those gaps in tackling current situation.

Internal auditor shall also verify the arrangements put forth by the management for the recovery phase and how they shall meet the demands once the lockdown and other restrictions are lifted.

Internal audit can assist the management in

- a. Identifying single point of failure if any
- b. Developing and testing appropriate scenarios to restore business operations
- c. Considering management assessment and contingency plans of key outside service providers.

6. Cyber and IT General Controls

Cybersecurity and enhanced IT general controls is essential as more employees are working remotely because of the Covid-19. Teleworking/ Working from Home comes with the added responsibility of taking the appropriate steps to protect the organization's data while being connected online.

Internal audit shall assess the effectiveness of following IT related controls

- a. Review of remote access controls for data and assets security
- b. Identification and response to cyber threats and malicious activities
- c. Sufficiency and appropriateness of licenses to cover greater use of tools, technology, and software to support remote working
- d. Monitoring the increased use of collaboration tools and other SaaS software.

Immediate, Subsequent and Later for Internal Audit amidst Covid 19

While organisations are usually focused on their immediate risk and challenges, internal auditor shall help organisations in thinking beyond the immediate risks. This shall help the business to adapt to the new normal incited upon due to pandemic.

Internal auditors may carry out following activities immediately, in short term and long term

1. Immediate areas of action for Internal Auditors

Under immediate action plan, internal auditors shall repurpose the resources to directly support the organisations and management in identifying key threats and vulnerabilities in handling the crisis.

Internal auditor may focus on below key areas

- a. Business continuity planning
- b. Cyber security
- c. Supply chain management
- d. Safety of employees and customers
- e. Technology effectiveness
- f. Working capital management

2. Subsequent areas

Under subsequent or short terms actions, internal auditor may focus on cost recovery and reduction in business disruptions by focussing on following areas.

- a. Procurement to Pay
 - b. Order to Cash
 - c. Human Resources
 - d. Cash Management
 - e. Warehouse and logistics
 - f. Statutory compliances
3. Later steps

Once the business is back on track, internal auditors shall design the internal audit functions based on new updated risk and better enabled by technology and skilled resources. The internal auditor may focus on following

- a. Data driven; technology enabled audits
- b. Updated risk assessment
- c. Dynamic audit approach.

Challenges for Internal Auditors during Covid 19

Some of the key challenges that could be faced by internal audit organisations working remotely are as follows

1. Recalibration of audit approach towards agility and coverage of risk
2. Continued delivery of on-going assurance activities without disrupting critical operational areas
3. Maintenance of corporate presence while working remotely
4. Monitoring efficiency of IA staff and keeping them motivated
5. Reliability of evidence provided for internal audit

Conclusion

In the face of unparalleled challenges and rapid changes in external and business environment, resulting due to Covid 19, internal audit functions are very well positioned to play a key role in response to Covid 19.

Internal auditors can help the organisations accept changes and reduce risk posed by Covid 19 to business operations with their good organisational knowledge and highly relevant skills.