

COVID-19: Providing Assurance in the “New Normal”

A reformed approach to internal audit

December 2020

Throughout the COVID-19 period, businesses have been fighting to maintain viability, enabling remote processing and working (often requiring control concessions) and largely been focused on external threats. Having moved to the Resilience phase of the COVID-19 response, only now are Internal Audit (IA) teams learning to cope with providing assurance during the Recovery phase and the expectations of the “New Normal”. We have identified three **Growing Risk Factors** as well as some **Key IA Planning Considerations in the New Normal** that should be included in IA risk assessment and audit planning.

In the second part of this thought leadership paper, we are discussing potential changes required to the **Internal Audit approach in the New Normal** as well as possible broader implications to **IA Governance, Competences and Systems**.



Growing Risk Factors



Despite regulators having relaxed certain reporting requirements and deadlines (e.g. submission of tax returns) in response to disruption caused by COVID-19, obligations imposed on organisations remain. Thus, focus on compliance on regulatory requirements remains highly relevant.

In particular, businesses are expected to comply with regulations (including industry-specific regulations), behave ethically, and implement robust control systems and compliance mechanisms.

treat customers fairly



show a duty of care to employees



maintain data privacy

communicate honestly and accurately



promote and enforce the regulations to be followed

In order to maintain sufficient internal control over key aspects of compliance, it is vital to understand all critical obligations and adhere to them as changes occur. To support management, IA might want to:

- Evaluate the implications of changes to the regulations affecting their business and assess measures in place to comply with them (e.g. virtual sales relaxations, digital sandbox schemes);
- Not assume everything has altered and carefully assess what has, and what hasn't when scoping audits; and
- Remind people how and when to report regulatory issues, challenges and near-misses internally.

Compliance will be especially important if your company is seeking government support.

Understanding the terms of this support, and having the controls in place to abide by them, could prove critical.



Growing Risk Factors (continued)



Regulatory compliance

To survive this dynamic environment, management has placed heavy emphasis on implementing business, resource and technological changes, thereby increasing the likelihood of:

- deviation from exiting checks and controls on key processes (aka Control Concessions)
- less rigorous monitoring of control framework breaches
- reduced control over assets such as inventory, equipment, software and data
- untrained or unqualified people executing key controls



Fraud

As a result, organisations may not be able to properly safeguard against fraud and theft. Meanwhile, significant financial pressures on organisations and individuals may lead to:

- misconduct by employees for personal financial gain
- manipulation of financial results to comply with covenants or obtain government support
- bypassing of trade and transaction controls, or forging of the necessary approvals
- non-execution of approved transactions for personal or professional gain
- processing of fraudulent claims for personal gain, or to benefit a known party



Performance and reporting



Regulatory compliance

During the implementation of extensive changes, management's basic responsibilities may easily be undermined, such as monitoring, measuring and reporting on the financial and operational health of the organisation, which are crucial not just during the crisis, but also as we emerge from it.

To properly manage expectations from investors, lenders, regulators and customers, management should manage and report on the underlying performance of the business appropriately.



Fraud

It will therefore be more important than ever for IA to provide assurance on accurate, complete and valid records of areas such as:

- revenues, liquidity and cash-flow
- incoming and outgoing orders, invoices issued, Direct Debit payments received, product despatched and cash collected
- inventory received, what can and can't be sold in the current climate, the obsolescence implications, and the impact on your financial position
- contractual obligations with customers and suppliers
- failures to notify relevant stakeholders of investment guideline breaches
- employees' responses to compliance attestations



Performance and reporting



Key IA Planning Considerations in the New Normal

In addition to the emerging risks described above, IA may consider incorporating the following topics into their audit plan to ensure robust internal controls are in place to deal with significant changes resulting from their organisation's response to COVID-19:

- **Liquidity risk** – Cash flow forecasting and working capital management, how this feeds into regulatory reporting scenarios. Link into business planning/re-forecasting.
- **Governance over remote working** – Cyber risk/remote working security risks, MI, staff wellbeing, communications.
- **Vulnerable customers** – How dealing with them has evolved in the context of COVID-19. Should companies be doing anything differently, what guidance has been given to staff, assessing forbearance measures such as payment holidays etc.
- **Probity of financial controls** – How do controls operate when people start to work from home; are they still effective/fit for purpose or does the business need to put additional measures in place.
- **Business continuity/crisis management** – How is it working now that companies are in continuity phase; communication plans internally and with customers, dealing with incidents like number of VPNs, IT equipment, segregating important/critical staff, maintaining operational processes with customers.
- **Digital sales process** – Online sales platform. How to enhance customer experience while ensuring privacy protection.



IA approach to auditing in the New Normal

As abovementioned, through the crisis, governance, processes and controls have changed significantly and these changes –and leanings from them –will require more traditional IA and testing approaches to be adapted in order to continue to provide relevant insights and value to the organisation.

The five-step process below is a possible approach:

01



Define and prioritise the **critical controls** required to reduce fraud, compliance, and performance and reporting risks

02



Identify who has **responsibility for monitoring** new critical controls arising from the “new normal” (e.g. work-from-home arrangement)

03



Assess the impact of **changes** on internal controls

Review the changes made to the business during the heat of the pandemic. Were any important priorities neglected in the race to maintain viability? Have you strayed from your regulatory obligations? If so, where and how far? Where ‘Control Concessions’ have been granted, is a governance process in place to (re-) assess them regularly?

04



Identify and leverage on **lessons learnt** from the crisis to **further improve** the internal control system

Leading businesses don’t just return to the previous status quo. IA can help to identify changes that will continue to make your business more resilient in the future, and embed them into your internal control environment.

05



Identify and evaluate the **emerging risks** in the aftermath

Consider the threats to enterprise resilience as economic activity resumes. How quickly will demand bounce back? How will you restore your supply chain to meet changing demand patterns? How accurately can you forecast cash flow?

IA can support management to understand this new risk backdrop; assess whether your internal controls are suited to it; make the right adjustments; and monitor the situation as it evolves.



IA Governance, Competences and Technology in the New Normal

Further compounded by new post-COVID-19 limitations inflicted on it from the outside (i.e. travel bans, reduced travel possibilities, economic downturns and recessions) and the inside (i.e. reduced staff availability, furloughs, home office, production slow-downs, decreasing sales, imposed cost-saving programs, unbalanced governance and control frameworks, etc.), IA function often finds it difficult to fully grasp complexity and make recommendations that truly add value to businesses. The challenge is to obtain the right balance between providing **assurance** over governance and controls while simultaneously trying to **make an impact** with hands-on recommendations and best-practice comparisons with peers.

In particular, many IA functions are grappling with the following aspects and questions:

- **Relevance:** how much added value should or must IA provide to qualify for execution in times like these?
- **Impact:** which audits on the strategic audit plan will impact the organisation in times of continuing change and extreme economic uncertainty?
- **Feasibility:** how can audits be executed effectively and efficiently if on-site visits are no longer possible?
- **Complexity:** how should IA respond when applicable audit procedures are either limited (i.e. videoconference) or more sophisticated in the execution than in previous reviews (i.e. data analytics, process mining etc.)?
- **Know-how:** is the current staff structure (including skill sets and know-how) enough to address these challenges and provide satisfactory results?

IA Governance, Competences and Technology in the New Normal (continued)

Therefore, CAEs should assess if their teams have the required skills to make sure that audits will continue to have the same or even higher impact as before – despite the more complex and challenging audit environment. Also, when rethinking their organisational structure and technology applied, CAEs might find it helpful to reflect on the following pointers:



Revisit Organisational Structure

- Adjust the structure of the staffing pyramid and change the ratio of experienced vs. unexperienced auditors to a more senior share to address increasing value delivery sought.
- Intentionally reduce overall staffing to accommodate for a smaller number of audits (i.e. reduction of overall audit volume).
- Reassign senior staff to more audit execution tasks (i.e. delivery) and fewer review and supervisory duties.
- Consider sourcing outside services for subject matter expertise on specific topics (for instance, to include process excellence, best practice, benchmarking and peer review expertise).
- Use local service providers for on-site support as long as international travelling continues to be unfeasible.



Enhancing Auditors' skills

- Enhance critical thinking when processing information (i.e. gathering, validating, analysing or evaluating, interpreting data, and finally, deriving a conclusion).
- Apply deductive reasoning based on logic and the understanding of clearly defined preconditions (i.e. internal Segregation of Duty (SoD) rules/standards, documented procedures and guidelines/policies like Delegation of Authority or expenses, control requirements based on Internal Control System, etc.).
- Inductive reasoning based on objective interpretation of evidence supplied (i.e. signatures, initials, dates, etc.), as well as own experience (i.e. knowledge of best practice).
- Resilience in order to be able to cope with multiple, parallel activities while focusing on key matters and maintaining the connection to the auditees.



Adopting Additional Technology

- Site reconnaissance: virtual site visits using local staff to film/transmit video and audio information back to the audit manager at headquarter
- SoD violations: retrieve security and SoD violation errors and alerts from Group IT reports or assess governance, risk and compliance (GRC)
- Historical patterns: use historical data to compute and assess potential patterns in the company's chronological development
- SharePoint: use online sharing tools to enable direct access to specific folders and information (therefore eliminating data or document requests)
- Data analytics (DA): use advance DA options, including process mining, correlation analysis and exception/anomaly seeking

Contact us



Alva Lee

Partner, Risk Consulting
KPMG China
T: +852 2143 8764
E: alva.lee@kpmg.com



Jens Kessler

Director
KPMG China
T: +852 2143 8584
E: jens.kessler@kpmg.com



Gianfran Liu

Associate Director, Risk Consulting
KPMG China
T: +852 2847 5164
E: gianfran.liu@kpmg.com



Jee Eu Tan

Associate Director, Risk Consulting
KPMG China
T: +852 2847 5182
E: jeeu.tan@kpmg.com

kpmg.com/cn

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2020 KPMG Advisory (Hong Kong) Limited, a Hong Kong limited liability company and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited ("KPMG International"), a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.