



**Theme: In pursuit of continuous improvement of Internal Audit functions**

## **Internal Audit Quality Assurance Seminar**

- ☐ **Impact of the Pandemic on Internal Audit Functions**
- ☐ **Remote working and impact on the quality of Internal Audit Functions & Processes**

**by:**

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**Virtual Seminar**

**Uphold public interest**

**Credibility**

**Professionalism**

**Accountability**

# Presentation Agenda



- ❑ Background to Covid-19 Pandemic in Kenya
- ❑ How are Internal Audit and Pandemics linked?
- ❑ Internal Audit Response to pandemic Risk
- ❑ Covid-19 Impacts on Internal Auditing
- ❑ Remote Auditing Challenges
- ❑ How Internal Auditors should respond to Remote Auditing
- ❑ Conclusion

# Background to Covid-19 Pandemic in Kenya.



- ❑ The Ministry of Health confirmed the 1<sup>st</sup> case of Coronavirus disease (COVID-19) case in Nairobi on 12th March 2021 since the beginning of the outbreak in China in December 2019. ***The following measures were spelt out by MOH amongst others;***
- ❑ **Maintain a distance of at least 1 meter (5 feet) between yourself and anyone who is coughing or sneezing.**

# Background to Covid-19 Pandemic in Kenya.



- ❑ **On 15th March 2020, His Excellency, the President directed as follows:**
- ❑ Travel from any countries with any case of Corona virus was restricted.
- ❑ **Government and businesses encourage to have people work from home; except essential services.**
- ❑ Travel restrictions outside the country unless absolutely necessary and no travel to **disease Epicenter countries/counties.**
- ❑ **Currently, there is a lockdown around 13 counties within the Lakes Region in addition to curfew restrictions.**
- ❑ *The Internal Audit Activity (IAA) was not declared as an essential service which means it had to plan on how they will carry on with the work with minimal disruption while complying with the MOH protocols.*

# Global IIA Surveys on impact of Covid-19 on Internal Audit Functions



- ❑ ***A survey done by Global Institute of Internal Auditors in which they surveyed 1572 internal auditors from 95 countries presents the following key findings;***
- ❑ ***Almost 4 in 10 internal audit functions experienced initial budget decreases due to covid 19.***
- ❑ ***About 2 in 10 experienced internal audit staffing/outourcing cutbacks due to covid 19 pandemic.***
- ❑ ***More than a quarter of respondents did not agree that organizations were appropriately involving internal audit in discussions about Covid-19 risk.***

# Global IIA Surveys on impact of Covid-19 on Internal Audit Functions



- ❑ **About 6 in 10** said their functions updated audit plans, identified emerging risks and reviewed risk assessments due to Covid-19.
- ❑ **About 5 in 10** cancelled audit engagements and 4 in 10 added new audit engagements.
- ❑ In response to Covid-19, almost **one quarter re-directed** audit staff to do non-audit work.
- ❑ *Worldwide, audit focus increased the most for health & safety*

**Read more and download:-Covid 19:The Initial impact on internal audit worldwide at:**

**<https://www.theiia.org/globalknowledge>**

# How are Internal Audit and Pandemics linked?



**Internal Audit can play a vital role in pandemics from two perspectives.**

**Firstly by:**

- Auditing the organization's business continuity, crisis management and pandemic preparedness.
- Auditing the organization's cash management practices to assure there is a cash reserves policy and minimum cash holding limit in place to see the organization through an unexpected crisis.

**Secondly by:**

- When an unforeseen crisis such as a pandemic occurs, provide immediate internal audit services to the mitigation, and then later to the return to business-as usual effort.

# Pre-pandemic – auditing business continuity and pandemic preparedness



- ❑ Business continuity management is invariably a topic to be considered for inclusion and should be audited regularly. *It is important to ensure crisis management and pandemic planning are included in the audit scope.*
- ❑ Ensure that planned changes to business practices during a pandemic would actually work in practice, *for example whether ICT system and broadband capacity can realistically cope with a dramatic increase in staff working from home.*
- ❑ *Business Impact Analysis should be challenged by internal audit to assure the right systems would continue to be accessible and the defined maximum acceptable outages are realistic.*



# Pre-pandemic – auditing business continuity and pandemic preparedness



- ❑ Internal Audit can be involved as an observer to scenario tests and contribute improvement suggestions. Testing of various disaster scenarios should periodically occur, including for pandemics.
- ❑ Management actions to remediate business continuity shortcomings identified by audits and routine scenario testing should be rigorously followed-up, and regular reports made to the senior management and the audit committee.

# When a pandemic occurs



- ❑ The COVID–19 pandemic has all the ingredients to send many organisations to the wall and various implications thus employees may lose their jobs, with the community experiencing diminished services and rationing of goods.
- ❑ When a crisis unfolds, organisations *need to have access to sufficient cash to survive.*
- ❑ How long can the *organisation pay its employees, rent, leases and other regular payments?*
- ❑ What action needs to be taken to ‘sure-up’ its liquidity? At what stage would the regulator, financial institution, suppliers and other stakeholders need to be *informed if the ‘going concern’ test is coming close to the wire?*

# Post-Pandemic – when the pandemic is controlled



- ❑ There are likely to be many tasks internal audit could perform after the crisis has passed.
- ❑ **Specific Examples** may include *return to work planning, post-crisis reviews and reports, integrity (probity) activities for pre- and post-crisis procurement activities, work health and safety assessments for a potentially traumatized workforce, performing reconciliations and assessing process control strength.*

# **Impacts on Internal Audit Function**

# Impacts on Risk Assessments



- ❑ ***Risk assessment - Ad Hoc audits***
- ❑ Risks are changing, new risks may arise.
- ❑ Some of these the 1<sup>st</sup> and 2<sup>nd</sup> LoD will see, some maybe not
- ❑ Make an inventory of changes in risks and control environment
- ❑ Assess the additional measures/compensating controls taken by management.
- ❑ Schedule Adhoc engagements

# Impact on Audit Work Plan



- ☐ Stakeholders, including the Audit Committee, may consider us as less important in the given circumstances
- ☐ Audit clients: We have to give some breathing space
- ☐ Audit plan needs to be flexible –report changes to the Audit Committee
- ☐ Add Ad Hoc audits based in changing risks & controls
- ☐ Postpone audits not possible because physical presence required.
- ☐ Suspend audits with limited urgency or lower priority in case of stress with the auditee (illness, extra workload, ..) or staff shortage
- ☐ Change the audit approach to real-time auditing/controls monitoring, e.g., through Data Analytics and Continuous Auditing
- ☐ Be sensitive to push back from audit clients
- ☐ Be sensitivity while bringing negative messages.....
- ☐ Be reasonable in follow-up monitoring.....
- ☐ And.....maybe step out of auditing when the situation gets worse.....

## Impact on resources



- Resources plan needs to adjusted and report changes to Audit Committee
- Illness may impact available resources
- Potential loss of productivity ( *staff may have to go take care of the other infected family members*)
- Slowing down of recruitment and on-boarding
- Insourcing no longer fully practical, much lower than budgeted

# Impact on staff & wellbeing



- ☐ Keep good track of staff being sick, or unable to work
  - ✓ *stay in contact*
  - ✓ *Review audit team capabilities and facilities*
- ☐ Make sure everybody has a laptop and internet connectivity
- ☐ Home office should be healthy
- ☐ Availability of audit workflow tool and other tools
- ☐ Promote online trainings
- ☐ Increase communication within the team
- ☐ Find ways to keep up morale (and maybe measure)
- ☐ Avoid too many hours of tele-conferencing
- ☐ Just randomly call staff to catch-up



# **Internal Audit Response to the Pandemic Risk**

# Suspend work on the Internal Audit Plan



**There are two reasons for this.....**

- *Firstly*, at the time of a crisis the internal audit plan formulated months or years previously is unlikely to be front-of-mind or even seen as important by the AC or Senior management thus organization survival would be the paramount consideration.
- *Secondly*, the organization would be best served by internal audit stepping back temporarily and giving business units breathing space to get on dealing with the crisis.

## Identify high risk—high priority issues



- ❑ Facilitate a risk workshop to help management determine the most pressing issues that need to be addressed.
- ❑ Examples include ***contact centre capacity, customer complaints, current & liquidity ratio management, sufficiency of cash resources, debtor & creditor management, likely financial projections, supply chain certainty and alternatives, red tape reduction, critical compliance obligations and staff well-being.***

# Tell management you're there to help



- Make management aware the internal audit team is available to help.
- Examples may include *frontline customer-facing roles to fill gaps, forward planning assistance, transaction processing roles, or preparing revised policies or procedures to suit the changed environment.*

# Take an active business continuity role



- Enacting a crisis management plan or business continuity plan requires people and there are never enough to go around.
- Non-core business activities such as internal audit can provide people to fill gaps or perform specific roles to aid remediation and the recovery effort.

## Become a real-time control adviser



- Internal audit can become an active and agile participant in organization continuity and recovery actions by providing real-time advisory and control services.
- Examples might include *recovery committee membership, recovery roles, and real-time oversight of recovery efforts to ensure they remain focused and controlled.*

## Become a control monitor



- ❑ In times of crisis, controls can often slip or need to be circumvented. Management may be so focused on recovery efforts that it is simply not possible to keep controls operating effectively at the time of a crisis.
- ❑ Internal audit can provide a monitoring service to pick up the slack.

# Take off your Internal Audit hat



- ❑ Help the business with whatever needs to be done, even if that means ***stepping into roles and tasks that take away internal audit independence.***
- ❑ Whatever it is, Internal Auditors should be able to reasonably fulfil the task. Should IA be required to audit an activity after the crisis has passed that they worked on, that can be done at ‘arm’s length’, perhaps by an independent service provider or perhaps other members of the internal audit team.



***“In the Face of the Coronavirus, Internal Auditors Must Do More Than Don Masks”***  
***Richard Chambers***



## Provide alternative services



- ❑ With the internal audit plan off the table, there is a real opportunity for internal audit to provide services that directly support the recovery effort.
- ❑ This might be advisory services such as *providing advice, or facilitating brain-storming sessions to seek options and solutions to the myriad of crisis-related problems facing the organization.*

# New audit area's which could be planned



- Review contingency plans/pandemic plans & business continuity plan
- Review the preparation of Standard Operating Procedures (SOP) for new processes
  - ✓ *Work from home policy*
  - ✓ *SOP for social distancing*
- Quick review of new systems & process – example guidelines for newly activated online banking facility/digital signature
- Evaluate design of new/ amended controls prior to implementation of the same
- Special audit of transactions undertaken during lockdown period/procurements
- Cyber security framework and management
- Supply chain management-third party business continuity plans
- Safety of employees & customers
- Work from home technology effectiveness
- Working capital management

# Informing the Audit Committee & Senior Mgt



- ☐ The AC Chair and the chief executive officer need to be informed promptly of internal audit's pandemic-related activities to *demonstrate what internal audit is doing to assist the organization and to confirm their agreement with what internal audit is doing.*
- ☐ Resulting impacts on the internal audit plan should also be explained.

## Staff Isolation



- ❑ It may be necessary for some or all internal audit staff to be isolated from the rest of the workforce to prevent them being affected by the disease, to help them recover from the illness, to aid their family members, or to reduce spread of the disease.
- ❑ During the pandemic, it is an opportunity for IA to update *internal audit policies, manuals & audit templates/programs, conduct relevant research, undertake environmental analysis, complete on-line training or study for a certification.*
- ❑ CAE and other leaders should maintain meaningful communication and support to the isolated internal auditors, so that they remain connected, even while physically isolated.



# **Challenges for Internal Auditors during Covid-19**

# Various challenges.....



- Planning
- Execution challenges
- Audit evidence
- Review & monitoring
- Assignment closing
- Meeting client expectations
- Team Expectations

## Points to ponder.....



- Time Management
- Outstation Audits
- No access to physical documents
- Compliance with auditing standards
- Data security and client confidentiality
- Teams

# Challenges in planning-Mitigations



- ☐ Re-schedule & prioritize the audits. Focus on critical areas for survival & success of an entity and regularity requirement
- ☐ Collaborate with the key stakeholders to understand new risks & how to use the best IA support.
- ☐ Understand the status & availability of electronic documentation
- ☐ Consider IT infrastructure for remote work



# Challenges in Execution-Mitigations



- ☐ Need to reduce turnaround time
  - ✓ *Small areas and quick response*
  - ✓ *Precise and simple reports*
- ☐ Provide real time inputs for quick decision making
- ☐ Actionable inputs
- ☐ Evaluate controls in place to ensure statutory compliances
- ☐ Time management

# Challenges in execution-Mitigations



- ☐ Out of box solutions for difficulties faced due to lockdown
  - ✓ *Alternate audit steps*
  - ✓ *Segregate between critical and non-critical items*
  - ✓ *Discuss with management – how are they presently controlling these items*
- ☐ Additional care to be taken while auditing transactions during lockdown
- ☐ Appropriate scope limitations may be added while closing internal audit reports.

# Audit evidence & documentation-Mitigations



- Set guidelines for filing system to avoid duplicate files
- Re-define access rights
- Call recording, minutes of discussion
- Maintain tracker sheets – pending information, documents & queries
- Soft copy files to organised in the same way as hard copy files
- Ensure back-up and updation of anti-virus

## Review & monitoring-mitigations



- ☐ Set clear directions and define scope correctly
- ☐ Daily update & review of junior's work
- ☐ Fixed schedules for internal review and monitoring
- ☐ Daily time sheet review
- ☐ Periodic calls & status update to client

# Overcome team related challenges-Mitigations



- ☐ Motivate the team to ensure high morale during these difficult times
  - ✓ *Virtual tea break*
  - ✓ *Online games*
  - ✓ *Town hall sessions*
- ☐ Share success stories across the organization
- ☐ Appreciation from seniors for good work

# Challenges of Remote auditing



- ☐ First-hand observations cannot be replaced.
- ☐ Building rapport with audit clients is constrained.
- ☐ The lack of in-person interaction opens opportunities for fraud.
- ☐ Its not clear how long lockdown/Covid-19 Pandemic will last.
- ☐ Many IA units have advised others on the need for BCPs but have none themselves. *This is an important gap that needs to be filled drawing on the lessons of the COVID-19 pandemic.*
- ☐ Financial systems are not integrated, and information is disconnected thus need greater IT bandwidth to cope with remote working.
- ☐ Limited resources i.e., poor connection, lack of resources and high cost of data.

# Challenges of Remote Auditing



- ❑ Difficulties of obtaining evidence as a result of the lack of access to the necessary tools— most traditional audits are based on documents.
- ❑ Public sector was not ready/prepared for this pandemic. *This has resulted into crisis management instead of risk management.*
- ❑ Communication software/platforms may not meet corporate security standards
- ❑ Need to report in a different way because management will not have time to review old style audit reports
- ❑ Need to find innovative ways of reporting to managers who are busier than ever and working in crisis mode. *Perhaps dashboards/heat maps and highly summarized information.*



## **Next Steps for Internal Audit Functions**

**(How should Internal Audit approach Remote Auditing?)**



## Plan: re-assess the priorities within your internal audit planning



- ☐ Reassess priorities as emerged risks, associated with the current situation, have to be taken into account
- ☐ Perform stakeholder's alignment

# Prepare: Invest sufficient time in preparing for the audit and clarifying the new process



- Check availability of audit clients
- Evaluate tools for document sharing, video conferencing, etc.
- Focus on practical use and security-they are in line with the required security and confidentiality guidelines and that they are easily accessible to the audit clients.
- Planning of the Audit- keep to the duration of remote audits concisely by limiting the scope to key risks.
- Clarify new process-remote audit approach should be clearly explained to the audit clients, as well as the differences with face-to-face audits.

# Execute: optimize use of available tools during execution of the audit



- The execution phase of a remote audit is quite similar to that of a traditional audit with the *main differences being that video conferencing will replace the interviews and documentation needs to be transferred through a document sharing platform*
- Limit attendees in virtual meetings
- Optimal use of technology
- Gather sufficient evidence on file.
- Alignment with the audit client-Schedule recurring short meetings (e.g., daily or once every other day) to discuss the status of the audit but also to capture any worries or concerns.

# Report: re-visit the reporting protocols



- **Focus should be on key risks** rather than overloading them with lower risk findings. *Internal audit team should acknowledge that management has potentially limited capacity to remediate these issues on short notice.*
- **Validation of Findings:** Each observation needs to be discussed and validated with the audit client before finalizing the report. This is important because the use of video conferences may lead to misunderstandings between participants. Any feedback received should be incorporated in the report
- **Documentation of new process:** It is important to capture the extent to which different tools were used during the remote audit and whether they were effective or not in achieving the audit objectives. *If for any reason, some processes could not be audited remotely, this should be mentioned too.*



# Practical experiences from conducting Remote Audits

No.	Common Challenges	Suggested Mitigants
1.0	Delay in receiving information, which was harder to fast track remotely	<ul style="list-style-type: none"><li>• Send out the information request well in advance of the audit and commence upon attaining a pre-defined level of collection.</li><li>• Develop and share daily status update on the level of information received with process owners</li><li>• Obtain read-only access to the ERP system</li><li>• Set-up shared folders for large documents which exceed email limits.</li></ul>
2.0	Inadequate team collaboration	<ul style="list-style-type: none"><li>• Schedule audit team meetings prior to audit commencement to communicate and agree on scope &amp; as expectations</li><li>• Conduct periodic team update meetings using Microsoft Teams</li><li>• Demonstrate concern for the welfare of team members and have periodic virtual team hangouts</li></ul>



# Practical experiences from conducting remote audits

No.	Common Challenges	Suggested Mitigants
3.0	Communication difficulties with process owners, particularly with obtaining clarifications and feedback.	<ul style="list-style-type: none"><li>• Periodic status update notifying process owners of findings, audit progress and challenges</li><li>• Schedule online calls with process owners to review and validate observations raised.</li></ul>
4.0	Unavailability of key process owners or audit support staff	<ul style="list-style-type: none"><li>▪ Agree with the senior Management on the need to adequately staff the audited units and obtain their full support.</li><li>▪ Agree timelines with process owners on when information should be provided based on their current capacity.</li></ul>

# Practical experiences from conducting remote audits



No.	Common Challenges	Suggested Mitigants
5.0	Information security	<ul style="list-style-type: none"><li>▪ Limit ERP access rights granted to the audit team to read-only access</li><li>▪ Prohibit use of personal email accounts to receive or send out audit information.</li><li>▪ Use a secure virtual private network (VPN) to receive or transmit information via email or shared drive.</li></ul>
6.0	Integrity of audit evidences obtained.	<ul style="list-style-type: none"><li>• Solicit tone at the top in ensuring that all process owners are informed of the implication of tampering with audit evidences to deter them from doing such.</li><li>• Obtain information from only credible sources, taking into consideration <i>provider's independence, objectivity, etc.</i></li><li>• Corroborate and conduct multi-level confirmation with additional and independent departments for high risk or suspected instances.</li></ul>



# Practical experiences from conducting remote audits

No.	Common Challenges	Suggested Mitigants
7.0	Overrun of pre-agreed audit timeline	<ul style="list-style-type: none"><li>▪ Re-assess the audit scope considering current realities</li><li>▪ Pro-actively engage with process owners and senior management on audit challenges.</li><li>▪ Leverage data and analytics in fast tracking reviews</li></ul>
8.0	Insufficient data	<ul style="list-style-type: none"><li>• The company needs to provide adequate data for the auditors to cater for the increased usage during the remote audit.</li><li>• Subscription to a good internet company is a must.</li></ul>



# Remote auditing tools



Objectives	Sample Tools
Video conferencing	Skype for business, Zoom, Teams, Cisco WebEx, etc.
Document sharing	Official email, Secured shared drives, , Dropbox business, Confluence, Files.com
Online voting	Poll everywhere, Slido, eBallot, Microsoft forms, Microsoft teams quick poll, menti.com
Data and analytics	PowerBI, ACL, IDEA
Audit management	Teammate, Galvanize AuditBond, LogicManager, Audit 360

# Some practical tips for heads of internal audit



- Heads of internal audit have a key leadership role in supporting their staff during these difficult times.
- Strong leadership and communication skills are needed.
- Staff will be facing different challenges: for example, *the auditor who cannot rely on the use of his home computer because this is being shared by all the family; or the auditor who lives alone and is being starved of social contact.*

# Some practical tips for heads of internal audit

- Make sure everybody has a laptop
- Set up procedures for working from home and train staff
- Set up a plan for regular remote communications
- Ensure sufficient VPN access
- Support all your auditors to get and stay home.
- Maintain social distance for staff who need to be in the office
- Be involved in the crisis management calls of the wider organization.
- Define the internal audit business continuity plan arrangements.
- Consider impact on the audit plan.
- Perform ongoing audits remotely if possible.
- Postpone ongoing audits in areas that are under stress.
- Assess new audit assignments based on current priorities.
- Extend due dates for corrective actions based on new risks/priorities
- Do not stress audit clients with “unsatisfactory” reports in keys areas.
- Help the business (1st & 2nd line of defense) when possible and needed
- Ensure safety of staff.

During extended teleworking, you keep staff morale high by....



video Personal team work calls coffee contact online  
meetings time Daily skype frequent en regular  
Communication

# Conclusion



- ❑ IAs can help the organisations accept changes & reduce risk posed by Covid 19 to business operations with their **good organizational knowledge and highly relevant skills.**
- ❑ IAFs are encouraged to embrace a more agile & risk-based approach which comprises *more targeted/risk-based planning, shorter, sharper internal audit reviews, increased collaboration among audit clients as well as concise and timely reporting of observations.*
- ❑ Tasks can be performed virtually and need not wait for normal operations to resume. **Aspects of on-going monitoring and periodic internal assessments can be performed.**

# Conclusion

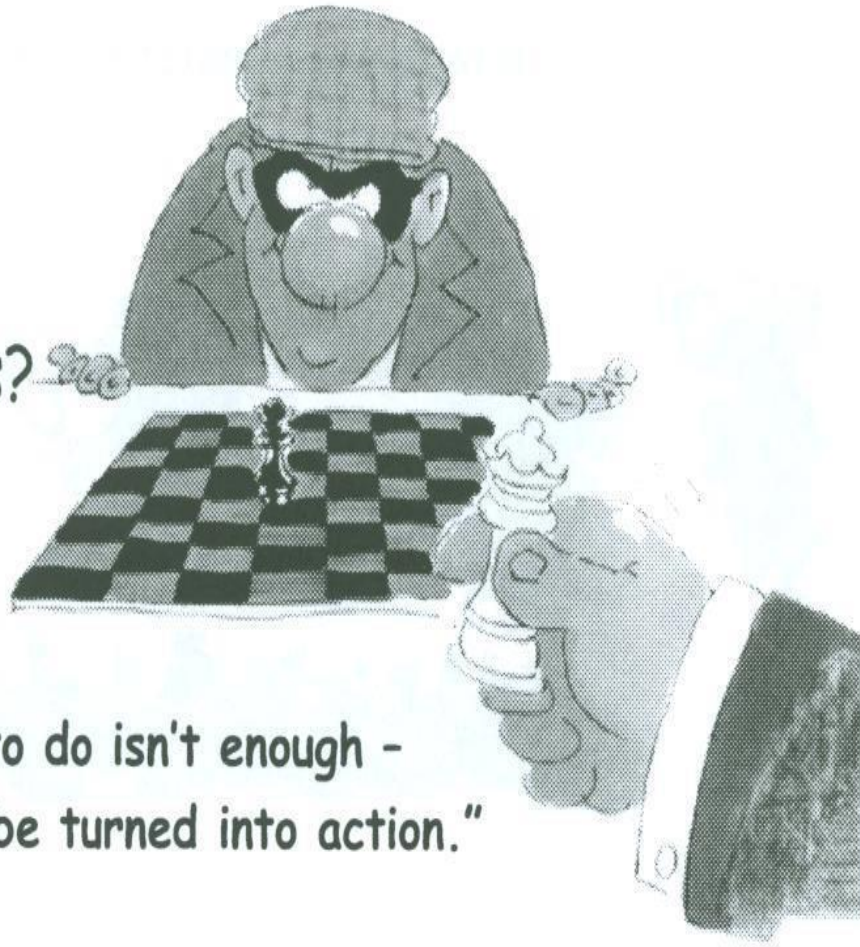


- ❑ IA performance during crisis situations is an important topic for review in future external assessments.
- ❑ It is also important to set-up the remote audit process (as well as the related tools) as thoroughly as possible with long term success in mind, thinking not only in terms of weeks or months, but also years.
- ❑ It is worthwhile investing in relevant tools and technology to better support this process.



YOUR MOVE...

Questions?  
Comments?  
Observations?



"Knowing 'what' to do isn't enough -  
knowledge must be turned into action."

