CONTINUING THE CONVERSATION

FAQs from the AEC Webinar: Social Distancing and Internal Audit

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Introduction

Harold Silverman, managing director of CAE services; and Tim Berichon, director of CAE services, continue their discussion of several questions raised during the recent members-only webinar, “Social Distancing and Internal Audit: Strategies for Auditing in a Time of Crisis.”

Risks and audit plans

Should internal audit activities reconsider their risk assessments in light of the COVID-19 pandemic?

Yes, it is time to rethink your assessment and whether the risks you considered important before the pandemic remain so relative to the new risks that have emerged. Your old plan is likely now outdated, and it would be wise to not just push through with it and hope for the best.

It is unlikely that many chief audit executives (CAEs) accurately predicted the impact of the pandemic and its velocity in their current risk assessments. CAEs should review their risk assessments and determine what is now urgent, relevant, and valuable. They should also communicate with their audit committee, as well as with other key stakeholders, to ensure all parties are properly aligned regarding any updates to the assessment.

Prioritize your risks. If something is not high risk and urgent, it is hard to justify spending resources on it right now.

Should internal audit activities adjust their audit plans based on the COVID-19 pandemic?

It is highly unlikely that the audit plan approved for this year is the right plan for the current environment. Therefore, everyone should be reconsidering their approved plan. You may decide not to change it, but you should at least reconsider it. When the risk environment changes, the risk assessment must be updated to reflect it. Then, when the risk assessment changes, the audit plan must be adjusted.

The length of the audit plan is another element that should be considered. Because of the rapidly changing risks associated with the pandemic, an annual audit plan approved months ago is likely not appropriate in today’s crisis. Organizations should consider six-month audit plans for more flexibility, or even consider three-month rolling plans that can be revised frequently.

One option is to develop two audit plans — one for during the pandemic, and one for when business begins to recover. The latter can take into account the backlog of audit work, as well as the new risks associated with
coming out of quarantine. Be explicit with your audit committee about what you are doing and establish new norms about getting those plans approved. Establish communication plans and a fast-track approval process with your audit committee. Keep your audit committee informed so you are not second-guessed later.

What new or enhanced risks do organizations face because of the COVID-19 pandemic?
Given that the situation is rapidly evolving, this is not an all-inclusive list. Cybersecurity risks from fraudsters trying to take advantage of workers who are now at home certainly should be considered. Other immediate risks include interruption to business and supply; talent management and succession; loss of brand and reputation value, which will depend on enterprise goodwill gained or lost based on the organization’s crisis response; maintenance of liquidity; resistance to change; and disruptions to the control environment. As the economy begins to recover, possible risks to consider include regulatory changes and ongoing sustainability.

Independence and objectivity

How should internal audit activities balance the need to maintain their independence and objectivity with the need to help their organization in this time of crisis?
Independence and objectivity are the cornerstones of our work. This said, in a time of crisis internal audit may be asked to perform duties outside of its charter. When this happens, a CAE should first see if the team has the competencies to do this additional work. The CAE also should balance the additional work against the work internal audit is currently doing, carefully considering how each task might benefit the organization. If the decision is made to take on the work, the CAE should discuss it with organization’s audit committee and ensure all parties are properly aligned. In addition, the CAE should be prepared to explain the impact of this additional work when the situation returns to normal.

Independence does not stop internal audit from helping. However, any perceived conflicts will need to be properly managed the next time assurance is provided on that activity. For example, an internal audit department can always look for outside audit assistance later if there is a conflict. A point to remember, although internal audit may be taking on different duties, its organizational independence and reporting lines remain the same. To reiterate, internal audit should always be in proper alignment with the audit committee through regular discussions.

Seat at the table

What recommendations do you have for internal audit activities who believe they are not being properly included in their organizations’ crisis management efforts?
If you have not been included previously, look for opportunities to show that you can add value right now to the organization. Look for specific areas where you can fill in the gaps, even if it is outside the scope of your charter. Importantly, when the business environment returns to the “new normal,” look at your prior exclusion as a lesson learned and review what could have been done to prevent it.
Internal audit management

What are some leading practices for staying connected as an internal audit team while practicing social distancing?

Internal audit teams are usually tight-knit groups, with people working very closely. That camaraderie is hard to maintain when working remotely. Leverage technology as much as possible using tools available in the organization and/or audit management applications. Virtual chat rooms and instant messaging can help during the workday. Virtual happy hours are a way to bring people together after work hours. The current situation also might be an opportunity to look at new technologies.

In addition to staying connected as a team, remember to stay connected across the organization. A strong, relevant internal audit department functions successfully through these connections and can stay relevant as its organization navigates the COVID-19 pandemic.

The views expressed by the authors reflect their personal views based on their experience as CAEs. Their views may differ from policies and official statements of The Institute of Internal Auditors and its committees.