



Implications for Audit Committees Arising from COVID-19



The fundamentals of good governance and effective oversight arrangements are all the more important during the COVID-19 crisis, as organizations face significant uncertainty, a rapidly changing risk landscape, and an increased need for transparency and confidence in reported information on its implications.

For audit committees, who are a key component of effective governance, COVID-19 is causing a strategic shift in their roles, with more on their agendas than ever before. But at their core, audit committees play a key role in creating and maintaining a culture and environment that supports the integrity and provision of decision useful information about an organization to its investors and other stakeholders. Transparency is of heightened importance during this time of uncertainty.

Audit committees need to be engaged and informed and receive actionable and timely information from management so they can effectively carry out their oversight role.

To further explore the specific implications for audit committees and their stakeholders arising from COVID-19, IFAC and The Institute of Internal Auditors (IIA) hosted a virtual global audit committee roundtable. Participants included board chairs, audit committee chairs and members, CEOs, and those leading internal audit teams – with representation from Canada, France, Hong Kong, Malaysia, Saudi Arabia, South Africa, Tanzania, Turkey, UK, US, and Zimbabwe.

Key takeaways from the virtual meeting included:

Balancing core responsibilities with emerging priorities

Audit committees are having to be vigilant on an expanding range of issues and review their agendas and priorities in response to COVID-19. But at the same time ensure they can remain firmly focused on their fundamental responsibilities in respect to the oversight of financial reporting and internal controls, which have added complexities arising from the crisis.

Given the level of uncertainty about the economy, fair values, and future earnings of companies over the next 12-18 months, coupled with a shift to remote working, issues top of mind for audit committees include:

- Monitoring impact on profitability, cash flow, capital preservation, and a renewed focus on the strength of the balance sheet, as well as identifying early signs of financial stress, going concern considerations, and other [financial reporting implications](#), such as accounting estimates and events after the reporting period.
- Third-party risk management, scenario planning, awareness of new legislation, and ensuring comprehensive [business continuity](#) thinking that is relevant to the current crisis.
- Monitoring and maintaining an effective internal control environment, taking into account changes as a result of updated policies and procedures, increased cyber security and data privacy issues, and displacement of staff.
- The potential for [heightened risk of fraud](#) due to financial pressures and new operating environments.

Boards are also looking to their audit committees for guidance on a broader set of issues and risks including around people and capacity (keeping people employed and productive, as well as key person dependencies and succession planning), ensuring cost control is not to the detriment of the business and control environment, crisis management and resilience, and disaster recovery plans.

Any additional responsibilities taken on by the audit committee need to be clear and carefully considered to ensure the committee is not overburdened, that it has the right experience and expertise, and that new responsibilities do not detract it from its core oversight responsibilities.

Keeping informed through virtual communication

Audit committees are adapting their way of working to function and fulfill their responsibilities without meeting physically. This means embracing virtual meetings and much more frequent communication, particularly with the board, management, internal auditors, and external auditors.

Audit committees rely on actionable and timely information and analysis to effectively carry out their oversight role otherwise they are “flying blind”. The changing nature of the current crisis requires more frequent updates from management. In some cases, this is occurring on a weekly basis on priority issues.

Ongoing engagement with internal auditors and external auditors is also essential, to deal with emerging issues and uncertainties on an ongoing basis as they arise.

Boards are more engaged in matters discussed by the audit committee, particularly given the complexities of financial reporting issues caused by COVID-19 and the speed of response needed, for example to approve decisions or financial reports. Full discussion and deliberation by the board on key aspects of the audit committee’s work is essential, particularly any significant issues identified that warrant the full board’s attention and involvement.

A multi-disciplinary approach

Participants emphasized the importance of a multi-disciplinary approach to good governance, drawing upon expertise and working closely with others. This requires a clear understanding of the respective responsibilities of different groups, including the board, audit committee, management, internal audit, and external audit. Of importance is for boards to understand what audit committees do and the nature of their engagement with auditors, and their own collective responsibilities in relation to the integrity of reporting and ethical conduct needs to be fully appreciated.

Broadly speaking, the current crisis makes the need for connectivity and collaboration across an organization more pressing. Examples highlighted include:

- The interaction between different committees such as the audit committee and risk committee, particularly in the banking sector, is an important means of expanding expertise and insights, and strengthening collaboration. This can be achieved through crossover in committee membership, or through joint meetings.
- The audit committee may also need to work with other committees of the board, such as those focused on ethics, remuneration, strategy, and business planning.
- In the context of a need for transparency and to ensure more and better analysis and information to help steer the organization, the finance function, internal audit, and IT are increasingly working closely together, sometimes blurring the normal boundaries of what the different functions do and involving accountants and internal auditors stepping beyond their functions and traditional roles.

- Dealing with accounting and reporting issues, and emerging risk areas may require drawing on relevant expertise from auditors and other sources before there can be confidence in the appropriateness of judgments, the completeness of thinking, and the conclusions drawn.
- Audit committees more fully utilizing the potential of internal audit to provide an advisory role (while still maintaining their independence), where needed particularly where they have expertise in much needed areas like data analytics.

Broader reporting and communication

The actions and decisions taken today by companies and their directors in response to COVID-19 will define their reputation and standing in the future. Businesses need to understand and communicate their value propositions to different stakeholders, balancing profit with purpose, and thinking about how the business has, or can have, a social impact and create and preserve value for wider stakeholders.

In the wake of the current crisis, investors are also increasingly asking for more forward-looking information and disclosures. Stakeholders need to understand that boards and their audit committees will be making reasonable judgements in the context and on the basis of information available currently. It is likely that for many companies, judgements were reasonable and supportable at the time, but actual results in the future may differ.

Many organizations report broader information through mandatory and voluntary narrative reporting, but there is [room for improvement](#). To enhance trust and transparency, the audit committee can play a crucial role in respect to broader corporate reporting, overseeing a wider set of business and reporting risks, and assessing the connectivity and consistency between information in the financial statements and other disclosures.