



**SIX RECOMMENDATIONS FOR AUDIT COMMITTEES
OPERATING IN THE “NEW NORMAL”**



A Statement by the CEOs of IFAC and The IIA

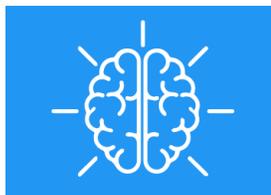
The global impact of the coronavirus COVID-19 is transforming the needs and expectations of stakeholder groups and creating radically new conditions in which organizations must think, plan, and operate. And, as organizations evolve to adapt to the “new normal,” so too must the structures and processes of governance that sustain them.

In periods of heightened and sustained uncertainty, the contribution of audit committees to governance is particularly important. Audit committees are established where appropriate as an extension of the oversight exercised by governing bodies to ensure integrity, transparency, and accountability. By providing independent scrutiny of internal and external audit and the finance and accounting function, the audit committee increases its ability to deliver credible and reliable information used as the basis for decision-making. This ensures senior management, the governing body, and external stakeholders receive objective assurance and insight on critical aspects of organizational activity, including risk management, performance, reporting risks and related controls, and other key management processes.

Risk arises from uncertainty. As recent events have made all too clear, external conditions can be volatile and impacts can be sudden and devastating. Audit committees must be able to prioritize and deal with new threats and vulnerabilities while continuing to monitor and address familiar risks. In responding to new and heightened risks in areas such as fraud, cybersecurity, health and safety, operations, solvency, and business continuity, care is needed to ensure the continuing integrity of the control environment as interim arrangements, work arounds, and other measures are being implemented. Audit committees must be vigilant, agile, disciplined, and engaged. That will allow them a timely and coherent understanding of the continuously evolving operating environment and exhibit confidence in their reporting, disclosures, and conformance with regulatory, legislative, and ethical expectations.

We call upon audit committees to anticipate and respond energetically to the conditions created by COVID-19 by considering these six recommendations designed to optimize their crucial role in governance, oversight, and long-term value creation. In many respects, these are not new expectations but represent principles of heightened significance for all organizations for the foreseeable future.

1. **Stay informed:** Maintain a timely and clear understanding of the continuously-evolving operating environment and how it may impact organizational objectives and performance.



Audit committees need to establish and maintain a firm understanding on all areas of vulnerability, from strategic objectives to routine operations. Reliable monitoring and horizon-scanning processes, covering familiar as well as new and emerging risks, and rapid communication techniques are essential.

2. **Communicate and collaborate:** Adopt a multi-disciplinary approach to exercising oversight of internal and external audit and reporting through dynamic communication and collaboration.



Audit committees have a wide span of oversight responsibilities, including controls over financial and nonfinancial reporting, adoption of appropriate accounting and measurement policies, the appointment and activities of external auditors, and the planning and execution of internal audit. It is crucial to be aligned with the priorities of the governing body and to ensure full and timely disclosure on issues requiring the governing body's attention. Interaction with other committees, especially those focusing on risk, ethics, remuneration, strategy and business planning, is an important means of expanding expertise, sharing insights, and strengthening coherence. Dynamic communication and engagement enhances transparency to internal and external stakeholders.

3. Leverage available expertise: Seek qualified and reliable assurance and advice on management evaluations of, and responses to, the organization’s continuously evolving risks and risk profile.



For audit committees to maintain rigorous scrutiny of management’s responses to familiar as well as new and emerging risks, they must have access to a rich selection of expertise and informed opinion. They should leverage attestations from the CFO and finance function, those with specialized responsibilities for aspects of managing risk, and other representatives of management, placing particular reliance on the independent and objective assurance and advice of internal auditors and external auditors.

4. Promote continuous improvement: Encourage innovation and change to address vulnerabilities and to build resilience, strengthening the pursuit of value creation



Effective risk management practices address the likelihood, impact, resilience, and ability to respond to changing circumstances. As risk exposures evolve, so too must risk responses, and these should be designed to enable successful risk-taking and decision-making rather than stifle progress and innovation. In some areas, controls can be reduced or eliminated to avoid inefficiencies and to optimize performance. Audit committees can encourage senior management and the governing body to seek continuous improvement by presenting opportunities identified through audit.

5. Think holistically: Adopt a broad perspective of the organization and its environment across both financial and nonfinancial goals, considering interconnectivity with other organizations, internal and external interdependencies, and the central importance of people.



The COVID-19 crisis demonstrates how organizations are interconnected with each other, their external environment, and the shared pool of finite resources – including people – on which they all depend. The sustainability and future success of organizations depend on a fundamental shift in thinking to effectively inform planning, operations, and reporting. The audit committee is well placed to:

- Influence the thinking and behavior of the governing body.
- Monitor and evaluate financial, social, and environmental impacts, and opportunities for long-term value creation.
- Support value creation and preservation for stakeholders using financial and nonfinancial performance, value, and risk metrics.
- Assess the connectivity and consistency between information in financial statements and other disclosures, and provide oversight of broader corporate reporting.

6. Embrace technology: Optimize the performance of the audit committee through the use of technology and flexible working practices.



Remote working is likely to remain a significant aspect of organizations for the foreseeable future. Auditors operating remotely will evaluate remote processes and deliver their reports to audit committees through virtual meetings rather than in person. Committees can exploit technological solutions to maximize these interactions, but they still must work hard to build open and trusting relationships. Technology is a great enabler of flexibility and access and should be used intelligently to boost efficiency and effectiveness, though committees must remember the value of human interaction.

Adoption of these recommendations may require a strengthening and refining of governance arrangements, including greater clarity of the respective roles of the governing body and its sub-committees, management, and internal and external audit. It may also lead to enhancements in the maturity of risk management and internal control activities.

The impact of COVID-19 will likely be felt for years, with most organizations continuing to experience varying levels of uncertainty. No one can accurately predict what the future holds, but audit committees can best serve their organizations and stakeholders through vigilance, adaptability, and the full use of the resources and information available to them.

In helping to create this document, IFAC and The IIA would like to thank the members of a virtual global audit committee round table for generously contributing their time and expertise. A related paper from this group can be found by [clicking here](#).



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