



Audit Committees

COVID-19

Spotlight on Critical Controls

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COVID-19 Impact on the control environment

The speed and breadth of the unfolding COVID-19 crisis—dramatically impacting lives and healthcare systems, disrupting business operations and supply chains, slowing markets, and now posing the risk of a global recession—is putting nearly every facet of business to the test. Not since the financial crisis of 2008/9 have crisis response plans, business continuity and resilience, cash flow, scenario planning, and corporate leadership come under such intense pressure. How businesses are reacting and operating in this environment has a significant impact on the control environment relied upon by the Audit Committee.

Critical control continuity

Prior to COVID-19, many organisations didn't have an internal audit program of critical control monitoring. Even where such a program does already exist, the changing risk profile presented by COVID-19 has required them to be re-evaluated.

Internal audit teams should be mobilised quickly to identify critical controls, then perform a targeted and timely evaluation of their performance so as to report to management and the Audit Committee. Some examples of what might warrant testing include:

Positioning	People	Process
1 Cash and capital management including cash flow monitoring, forecasting, budgeting, etc.	4 Workflow management including dependencies, workforce reassignment, succession planning etc.	7 Supply chain interruptions including supply security and continuity, key vendor identification and management
2 Technology including core system accessibility, cybersecurity change controls, etc.	5 Segregation of duties with consideration of fraud risks and clarity of delegations	8 Core financial controls including vendor masterfile, accounts payable & receivable, credit cards, journals, reconciliations etc.
3 Asset management including capacity and availability planning and critical maintenance	6 Payroll including master data controls, employee on/offboarding, EBA compliance, time and attendance, leave management	9 Regulatory and licencing requirements including continuous disclosures, licence compliance, privacy, etc

KPMG's publication providing practical steps for implementation during COVID-19 can be found [here](#).

The perfect fraud and corruption storm

Occupational fraud and corruption occur when there is opportunity, motive and rationalisation. COVID-19 is putting a level of financial and psychological stress on people that we have not observed for generations. This stress, combined with other external drivers, results in an increased motivation to engage in conduct that the individual might in different times resist. Examples of opportunity, motive and rationalisation arising in the COVID-19 environment may include:

MOTIVE	OPPORTUNITY	RATIONALISATION
<ul style="list-style-type: none">- Intense financial hardship due to loss of family income- Noble cause: "I need to do this or the company won't survive"	<ul style="list-style-type: none">- Abuse of control "workarounds" due to sudden changes in business processes- Segregation failure due to work force reduction or remote working	<ul style="list-style-type: none">- "I've given so much to the company, in times like this I need something back"- "I can't pay my bills yet the boss is still getting rich. That's not fair"

In a survey of mostly ASX200 companies conducted during April 2020¹, seven percent of executives said they had already seen fraudulent or corrupt behaviour that they would attribute to COVID-19 working conditions. Further, an overwhelming 83 percent believed their organisation was vulnerable to fraud taking place now, with employees being regarded as the most likely source (ahead of suppliers and contractors).

¹ <https://home.kpmg/au/en/home/insights/2020/04/coronavirus-covid-19-fraud-survey.html>

Internal Audit response

Internal Audit plans should already be agile and adapt during the year as the risk profile of the organisation changes. COVID-19's impact on the risk universe has amplified the need for such review so that focus may be pivoted to the critical controls, the efficacy of the response and business resilience activities and heightened fraud and corruption risk. Whilst there might be an inclination to reduce internal audit activity so as not to further burden management, given the potential impact of COVID-19 on the control environment, it is better to reconsider the approach to internal audit activity rather than ceasing activity.

Continuous Auditing, Continuous Monitoring

Taking into consideration the heightened fraud and corruption risk as well as the increased risk of error, presented by stressed resources, now more than ever should data analytics be utilised to either constantly monitor transactions (where systems allow) or if this is not possible, then to perform scans on a regular basis. This will enable any inappropriate transactions to be quickly identified and addressed.

Agile internal auditing

The concept of agile internal audits is not new, however, COVID-19 has accelerated the conversation as the agile approach is perfect for an environment of rapid change where answers are needed quickly and resources are short.

Attribute	Traditional Internal Audit	Agile Internal Audit	Agile Manifesto Element
Planning	Rigorously planned activities and a set master Internal Audit Plan	Activities are quick, iterative (sprints) and incremental	Flexible and dynamic Internal Audit Planning as a result of continuous risk monitoring
Communication	Ad-hoc communication, typically during finalisation of fieldwork and reporting	Frequent comms (e.g. daily meetings and auditees involved throughout)	Short iterations aid timely adjustments for an audit
Reporting	One report, provided on completion of the audit, and often with laborious review process	Smaller 'summaries' provided throughout project with focus on value and visualisation	Value creation by focusing the (Agile) result
Documentation/ Working Papers	Significant, comprehensive and thorough to ensure work is defendable, often reviewed at completion of project	Rationalised and value based. 80/20 rule – 20% accounts for 80% of results. Reviewed throughout project	Continuous optimisation on the method by welcoming change
Auditee/sponsor relationship	Arms length	Collaborative relationship, with auditee ownership and agreement throughout	Collaboration and multidisciplinary teams as a basis for added value

A key component of agile internal auditing is the use of data analytics techniques. In many cases this may be all that the internal audit entails, as the analytics may indicate that controls are operating as intended and as such the audit can end there and attention can be redirected.

Perhaps the biggest benefit of this approach is the ability to deliver briefer, timelier reporting with less words and more visuals. Reports should be the culmination of observations which have already been shared and agreed with management and many of the actions are likely to have been completed already. In a time of COVID-19 disruption, such timely and succinct information is the order of the day in preference to long detailed "glossy reports".

Critical control & internal audit considerations for audit committees

Audit Committees have an important role to play in ensuring good governance over organisations activities during this COVID-19 disruption. While the financial risk and impact posed by COVID-19 is of understandably high concern, organisations must continue to focus on non-financial risks and compliance during this period. Some of the key non-financial questions and considerations for Audit Committees amid the COVID-19 disruption include:

Risk

- Have we reviewed risk appetites and key risk indicators to identify what is non-negotiable and what can be relaxed?
- Are key business decisions supported by risk assessments/ risk-informed decision making?

Compliance & Regulation

- Are there fit for purpose processes to ensure our compliance obligations are being met and non-compliances are recorded, remediated and reported to the right level?
- Are we taking advantage of any appropriate exemptions and extensions being offered by regulators?

Supply chain

- Have we reviewed key third parties to identify potential risk exposure (e.g. vendor concentration) to the business including through customers, lenders, suppliers, joint venture parties?
- Do we have comfort in relation to the accuracy of contractor invoices and supply?

Technology

- Have resourcing changes and remote working environments had an adverse impact on core controls and heightened the risk of fraud and/or cyber incidents?
- What is Internal Audit's perspective of the capability of the IT function and IT systems to cope with the new operating environment?

Business Continuity & Response

- Are regular audits or assessments of the business continuity plan, disaster recovery plan and testing thereof being conducted and reported to senior management and the Audit Committee?
- Are there benchmarks and checks on progress as crisis management and mitigation continue?

Internal Audit

- Has the frequency of communication (either formal or informal) between Chief Audit Executives and the Audit Committee chair increased?
- Is deployment of Internal Audit resources to the front line going to impact independence in the future (self-review risk)?
- What real time advice and comfort is Internal Audit providing and what are the "must do" activities that Internal Audit needs to keep performing to provide comfort during COVID-19?



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