



# Internal audit's impact in a time of crisis

Following the great interest and engagement generated by the webinar we held on April 29, 2020 with Liz Sandwith, chief professional practices adviser, Chartered IIA, and Tom Ryan, senior solutions consultant, Galvanize, on internal audit's impact in a time of crisis, we have now compiled and answered the 50+ questions we received from the audience. You can watch the recording of the webinar and download the slides here:

<https://info.wegalvanize.com/internal-audit-agile-webinar.html>

## Questions

## Answers

### Best practices

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| <p><b>1</b> Once an organisation has adopted automated controls and these are working well in informing control owners, what enhancements would be most productive for the third line?</p>   | <p><b>TR:  </b> Assuming that second/first line functions now have the capability in your organisation to monitor control effectiveness continuously, audit should focus on strategic risk and ensuring the system of internal control is well designed and treating this strategic risk. The specific enhancement then, for audit, would be the ability of a large internal control framework to inform in real time where the audit team's time would be most valuable for advisory and process assurance.</p>                       |
| <p><b>2</b> What about the risks associated with these (i.e., document sharing with personal data/changing the culture of an organisation)?</p>  | <p><b>TR:  </b> Many organisations are already shifting to cloud storage for both collaboration of documents and operational data. We expect the speed of this change will now increase. For example, many organisations already use Office 365 for cloud document storage and sharing. Another example is many organisations already using flexible storage within Amazon Web Services to house a unified data lake.</p>  |
| <p><b>3</b> You mentioned more frequency in risk assessments in the organisation, how would you suggest amending the audit universe in order to carry this out?</p>  | <p><b>TR:  </b> The audit universe should be aligned to strategic objectives with a mapping to which key entities or key activities/process will enable to achievement of an objective. A risk assessment should take place in this context instead of focusing on hundreds of entities and collating risk information about operational matters.</p>  |
| <p><b>4</b> What do you suggest for a medium organisation—should they assign separate risk champions for each of their business functions for risk assessment and monitoring? How are they going to use a more advanced digital risk workshop dashboard?</p> | <p><b>TR:  </b> The risk assessments should focus on higher levels of risk—strategic rather than operational. The aim here is to ensure we understand where the aggregation of strategic is within the organisation rather than trying to aggregate hundreds of operational risk assessments. With that in mind, the assessors should be senior decision-makers who are able to take action to treat a strategic risk. The process can be simplified by ensuring the platform chosen is as easy to use and accessible as possible.</p> |



## Questions

## Answers

## Best practices

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| <b>5</b> | For an outsourced internal audit function with multiple clients, how would you suggest providing real-time updates on audits/risks (i.e., the storyboard approach) to a wide client base across different sectors? | <b>TR:  </b> This situation is a good example of where audit needs to place more reliance on data-driven auditing techniques and perhaps a greater reliance on the work of others. I suspect your audit resources will never be capable of delivering enough manual assurance to all of your different clients. Therefore, consider the five-step process discussed within the webinar and implement for each client. |
| <b>6</b> | What "standard" audit approaches should change now in response to this situation?  | <b>TR:  </b> We believe there will be an acceleration of the adoption of agile audit techniques. A specific area we have discussed with customers is the topic "knowing when to stop auditing". This will involve: stopping when a desired level of assurance is met, presenting simple and objective indicators for audit assurance, and delivering assurance in real time in ways top leaders can consume.          |

## Best practices: Communication with stakeholders

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| <b>7</b> | I've found the audit committee and executive team very supportive of changes to the IA plan and approach—is this similar to what others are experiencing?                           | <b>LS:  </b> Conversations with HIAs at the Chartered IIA's weekly HIA Virtual Forum supports what you have found. Although, in some instances, if internal audit's relationship with the audit committee and executive management was previously poor or weak, then building those relationships in a time of crisis and seeking engagement will that much more challenging. |
| <b>8</b> | How do we assist management to improve their understanding of the volatility of changes with regards to risk, especially if they are too optimistic about the return to "normalcy"? | <b>LS:  </b> We need to share with management internal audit's assessment of the effectiveness of the crisis management plan, the new and emerging risks identified by internal audit, and ask them how they propose to address these challenges, as well as how internal audit can support the organisation to return to a "new normal".                                     |

## Best practices: Digitalisation

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| <b>9</b>  | We have issues getting info from clients as most info is hardcopy—what can we propose to the client in the "new normal"?   | <b>TR:  </b> Consider requesting the information via a digital method (e.g., Excel documents shared via a secure file sharing service like Box). Data analytics tools can use Excel as the data input format.  |
| <b>10</b> | As an organisation, how should we plan, handle, and deal with the daily emerging risks emanating from the effects COVID-19 that seem to be arising daily, in an environment where there are no automated tools to assist in this area? | <b>TR:  </b> I encourage you to check out the resources available in our COVID-19 Internal Audit Success Kit, which include a video of our COVID-19 Toolkit: <a href="https://info.wegalvanize.com/COVID-Audit-Success-Kit.html">https://info.wegalvanize.com/COVID-Audit-Success-Kit.html</a> |



## Questions

## Answers

## Best practices: Digitalisation

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| <p><b>11</b> Are we going away at all from traditional sampling of paper documents? Is it possible?</p>   | <p><b>TR:</b>   Yes, data analytics tools can instead test 100% of the data population.</p>   |
| <p><b>12</b> In some markets where internal control activities are largely manual (as opposed to automated), what's your view of the impact on real-time analysis of risk and reporting? Is it possible to use analytics to evaluate control effectiveness?</p>   | <p><b>TR:</b>   Real-time assurance is still possible in this situation. Audit will need to place more reliance on feedback from control performers and control owners, instead of data. For example, consider asking control performers on a scheduled basis to report on control successes and failures. Audit can focus on areas where an increase in failure is highlighted, much like we would do in an analytics-driven world.</p>        |
| <p><b>13</b> What about fraud risks due to possible weaker controls?</p>  | <p><b>TR:</b>   This issue could be mitigated by ensuring strong and fast detective controls are enforced. A good example of this is the fraud detection robot discussed in the webinar.</p>  |
| <p><b>14</b> Are you suggesting we create control plans for all areas of the business?</p>  | <p><b>TR:</b>   We often see effective internal audit leaders advising and pushing their organisations to adopt technology to enable a central control repository and undertake ongoing assessments of control performance. You are correct that audit should not be righting the control plans, but we often find that strong audit teams enable the digitisation of control plans for the benefit of assurance of the whole organisation.</p> |
| <p><b>15</b> In these times, there are more people working from home and fewer employees within the active workforce. A lot of controls have been relaxed to ensure efficiency in business processes. With this weakened control environment, shouldn't internal audit be focused on more in business and detecting anomalies through more substantive methods?</p> | <p><b>TR:</b>   Yes, this is a good example of where the use of the fraud detection robot and machine learning techniques discussed in the webinar can help.</p>  |

## The profession

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| <p><b>16</b> How can we move beyond the "here and now" with COVID-19, do we have the appetite for risk that's evolving in the wider geopolitical sphere (e.g., protracted economic downturn, trade wars, threat of cyber crime for businesses with an international presence)? Are audit committees and chief audit executives exploring these risks so that the next pandemic or global crisis will not cripple our ability to operate remotely as well?</p> | <p><b>LS:</b>   A really good question focused around learning the lessons from COVID-19 in terms of crisis management and preparing for the future. There is some thinking that indicates COVID-19 is a training day and the challenges around climate change are going to be far more challenging. Internal audit needs to contribute to lessons learnt, provide assurance on the rigour of the crisis management plan when those lessons have been included, and perhaps recommend the need to undertake BCP/crisis management testing.</p> |
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## Questions

## Answers

## Profession

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| <p><b>17</b> What are your thoughts on communicating the need for committees to “carry on” and adapt? It feels too many are using these times as an excuse not to carry out checks.</p>                               | <p><b>LS:</b>   As noted further on in question 22, there aren't unreasonable expectations that governance committees will carry on and adapt.</p>  |
| <p><b>18</b> What advice would you give where IA has been furloughed, along with most of the workforce, and therefore it isn't the case we can be used as a willing pair of hands against using the real experts.</p> | <p><b>LS:</b>   Furloughing internal audit is certainly a new issue, but it's reassuring that it's occurring along with the majority of staff, rather than only internal audit being furloughed. When internal audit (and the organisation) return from furlough, there will be a need for internal audit to undertake an assessment of risk, understand the challenges the organisation is facing (e.g., loss of revenue, reduced revenue moving forward, and cost reduction opportunities), along with assurance on the effectiveness of risk management and the crisis management plan. Thereafter a revised, refreshed plan for the remainder of 2020-21 will be required, along with an understanding of what exactly the audit committee and senior management are seeking from internal audit.</p>   |
| <p><b>19</b> You spoke about rolling up the sleeves and helping out—to what extent exactly?</p>   | <p><b>LS:</b>   Often internal auditors are employees of the organisation they work for and it's not unreasonable for the organisation to expect its people to support it during such exceptional circumstances. In the UK there are examples of internal auditors being asked to work on the first line, perhaps in call centres or in the Health Service as porters, etc. There are also examples of internal audit working in the second line, supporting and collaborating with the risk and compliance functions. There are even examples of internal auditors supporting the finance team in building processes for new products, government grants, etc., providing real-time assurance for which there won't be any internal audit report. However, it's always worth ensuring that your audit committee chair is aware of what's being asked of internal audit and supports short-term role changes.</p> |
| <p><b>20</b> How does the IIA (or anyone) come up with a framework/scope of what a risk-based audit will look like when covering a furloughed control environment?</p>  | <p><b>LS:</b>   The Chartered IIA has technical guidance regarding risk-based internal audit and our colleagues are about to issue guidance in relation to risk-based planning, but—as far as I'm aware—as yet no one has issued specifics in relation to furloughing the control environment. (Not sure I have really understood the question. Please reach out to me on LinkedIn if that would help.)</p>   |



## Questions

## Answers

## Profession

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| <p><b>21</b> As a powerful professional body, should the IIA lobby government for more transparency in their COVID-19 lockdown exit strategy? (Uncertainty and irrational fear isn't helpful.)</p>  | <p><b>LS:</b>   The Chartered IIA provides feedback to governments and regulators when appropriate and as part of consultations.</p>   |
| <p><b>22</b> My audit committee has stopped meeting and deferred all business to the board, which meets every two weeks. I'm not comfortable with this approach—although we are an NHS Board and business has changed dramatically. Is this appropriate?</p>                            | <p><b>LS:</b>   The consistent message from regulators is that while they may have reduced or delayed supervisory/inspection visits, they're expecting that organisations will comply with regulations, including governance, and if there are any deviations, the regulators expect to be informed. The audit committee is a sub-committee of the board, with the virtual technology available, there is no reason why it shouldn't meet virtually. There is a concern of a blurring of the lines between the board and audit committee, if such an approach is maintained.</p>   |
| <p><b>23</b> We are an education provider and have ceased all plan delivery to focus the IA team on risk activities. Is there any advice on dealing with how this will undoubtedly impact the audit opinion I have to provide at the end of the year (Aug)?</p>                         | <p><b>LS:</b>   This is a common challenge for those internal audit functions that are required to (or chose to) provide an annual internal audit opinion. You need to make it clear the work you have done and the work not completed as per the approved internal audit plan. The opinion needs to be clear that it is scope-limited because of COVID-19, and the following audits containing key business risks have not been included due to the pandemic and the resource implications. For the work done, you can still provide an opinion, even if it is only 80% of the plan.</p>  |
| <p><b>24</b> We aren't planning to rate our next set of audits as it would be unfair to potentially give poor ratings for anything that may have gone wrong over the last few weeks when actually everyone has been working very hard. But how will this impact our annual opinion?</p> | <p><b>LS:</b>   This is an interesting question. I agree we need to recognise that during these exceptional circumstances, everyone has been working hard to deal with day-to-day activities, but that in such circumstances it may have been necessary to lapse controls within a business process. I would suggest that if we find such instances during an audit, we need to call out what we have found, seek to understand the reason for the omission, record the findings and management's response in the report, so there is transparency and assurance from the audit. Perhaps an innovative way to approach this at annual opinion time would be to split your opinion into two parts. Part one would be the findings highlighted during COVID-19, along with your opinion as to the appropriateness of the actions taken and the impacts/consequences. Part two would be the actions/findings post-COVID-19, when some degree of normalcy might have returned.</p> |



## Questions

## Answers

## Profession: Independence

**25** Could I get your views on the following? A lot of the points you have highlighted about the role of internal audit under this new working environment would seem to be more aligned with the more traditional second line functions where these exist in businesses (risk and compliance). Therefore, aren't we running the risk that we're opening ourselves to challenge regarding our independence? Or more importantly, challenge around why our planning hadn't picked up on these key areas ahead of this happening (e.g., previous financial crisis as opposed to looking at these post the event again)?

**LS:** | The question is correct in highlighting challenging times and the needs of the organisation for support from internal audit in several different lines of defence. In some instances, the requirement might be because members of the compliance or risk teams have been impacted by loss of resources due to COVID-19 illness, bereavement, child care/vulnerable family care. If internal audit is asked to work in both first and second lines, it's likely its independence (and perhaps objectivity) may be compromised. It's worth seeking support and guidance from your audit committee chair as to the course of action being either requested or proposed. Taking the audit committee with you is fundamental for the future when people look back and perhaps challenge decisions made. Regarding objectivity, if internal auditors have been involved in first line work, then it's essential that when they return to audit the same area in the future, they make it clear in the audit report the length of time they worked in this business area and the impact(s) this had on the level of assurance provided by the audit. It's sensible to note that perhaps planning should have highlighted some of the challenges, but the global financial crisis was nothing compared to the total economic and humanitarian impact COVID-19 has had. However, the lessons learned from COVID-19 need to be captured and built into future planning scenarios and stress-testing of financial and people scenarios.

## Profession: Is IA an "essential" function?

**26** What is your view of companies furloughing internal audit teams?

**LS:** | A difficult question to answer. Hopefully, the decision to furlough internal audit was made because the organisation furloughed all its staff. If only the internal audit function was furloughed, there is a need to understand why and seek clarity on the role of the chair of the audit committee in that decision. Personally, as you might expect, I'm disappointed to hear that organisations are furloughing internal audit functions—it shows a lack of appreciation of the value internal audit delivers, but also perhaps this is a moment for internal audit to reflect and explore what it can do differently and how it can raise its profile within the organisation.

**27** The proportion of downsizing internal audit is not proportionate and IA is seen as an unnecessary function. What would you say on this?

**LS:** | It's too soon to say if there will be any downsizing of internal audit; however, it's not unreasonable to anticipate that if an organisation downsizes them all, part of that organisation may also be required to downsize.



## Questions

## Answers

## Profession: Is IA an “essential” function?

**28** Will organisations cut their audit budgets and audit staff to drive down their costs to save money?

**LS: |** That is an unknown but perhaps it’s a plan B internal auditors need to consider. A counter to this would be to look at where the organisation can reduce costs and perhaps suggest changes to the budget process, to travel expenses, and suppliers. What can internal audit do to mitigate the costs of the function by increased added value (e.g., work with the business on the lessons learnt project and ensure the lessons are reflected in policies and procedures especially in the crisis management plan/business continuity plan, and suggesting areas of cost reduction)?

**29** My team has been identified as “non-essential” by our public sector organisation. What are the best ways to raise the profile of IA within the organisation/with senior management during this crisis?

**LS: |** It’s difficult to understand the concept that internal audit has been identified as “non-essential” in such a challenging time. Perhaps initially you need to speak to your audit committee chair and seek support from them. However, it’s becoming clear that in the pandemic scenario we find ourselves in, functions within an organisation that aren’t front-line may be deemed “non-essential”. Part of the reason for this classification might be to reduce the salary bill and furlough the function/team. If you are working remotely, it’s worth exploring within the team what your organisation’s way of dealing with the pandemic has revealed about its governance, risk, and control management? What are the new and emerging risks facing your organisation? What have you as internal audit learnt from other internal auditors across sectors in how they are dealing with the pandemic? Put together a comprehensive plan for the next three, six, and 12-18 months. The HIA at GMC has produced a document that may be helpful:  
<https://www.iaa.org.uk/media/1691143/business-continuity-thinking-next-steps.pdf>

## Profession: Should IA get into continuous monitoring/auditing?

**30** Isn’t most of this real-time monitoring a second line function? Shouldn’t IA be focused on looking at this monitoring and making sure these are accurate?

**TR: |** Absolutely, but we often see that internal audit teams need to be the driver behind the adoption of this methodology. We often see internal audit leaders adopting continuous auditing as the first step in a plan to transfer ownership to the first line to enable faster adoption of continuous monitoring. Audit sometimes must be the driver in reluctant or less mature organisations.

**31** Could you expand on continuous auditing and what the first line should be doing?

**TR: |** We often see internal audit leaders adopting continuous auditing as the first step in a plan to transfer ownership to the first line to enable faster adoption of continuous monitoring. Audit sometimes need to be the driver in reluctant or less mature organisations.



## Questions

## Answers

## Profession: The future of internal audit

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| <b>32</b> | Liz, it sounds like you are advocating that this is the way forward on online working? As stated, working hours have increased and there is a large feeling of isolation. If these factors are impacting individuals, would the audit work now be impacted as well?   | <b>LS:</b>   Remote working is challenging for all, not just internal auditors, but it's becoming clear that organisations who would never have approved remote working are now seeing its value (i.e., reduced heating, lighting, and office space costs). Recently, the CEO of Barclays Bank questioned the value of having an office in Canary Wharf with 7,000 staff and speculated that it might never be full again. There is a need for balance—perhaps three days remote working and two days in the office. (Balance is important for, as you suggest, the social interaction.) |
| <b>33</b> | Will the IIA consider a requirement for all auditors to evidence the learning and application of digital skills (e.g., technology and data) as part of annual CPD reporting?  | <b>LS:</b>   The IIA has a competency framework that includes improvement and innovation, along with business acumen. As the profession moves forward through the 2020 decade, it will be faced with digitalisation, AI, robotics, etc., so internal audit will need to understand these technologies to enable it to deliver robust assurance.  |
| <b>34</b> | In the future, do you think there will be more local divergence/non-conformance with the PSIAS/standards to enable flexible auditing? There are a lot of standards, some of which might not add that much value as we move to streamline processes to be more timely. | <b>LS:</b>   The importance of the IPPF and the Standards, including both IIA and PSIAS, are key in acting as the foundation on which we build. We need to understand the Standards so we know when we are deviating from them and the impact(s)/consequences of that deviation.   |
| <b>35</b> | How do you see the role of the chair of the audit committee under this pandemic with the variation in audit plans, move to front lines and downsizing of teams?   | <b>LS:</b>   The role of the chair of the audit committee is fundamental in supporting internal audit, but also in fulfilling its role as a sub-committee of the board, which focuses on risk management, internal control, and governance. Liaising as it does with both internal and external auditors.  |
| <b>36</b> | Would you say the use of CAATS is the way to go in terms of conducting our audits?  | <b>LS:</b>   The use of data analytics is very much a tool used by internal audit functions to enable them to form an opinion around the design and operational effectiveness of internal control. It and CAATS are the only tools, but they are tools used by internal auditors.  |

## Technology

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| <b>37</b> | What RPA software do you recommend and see used widely by internal audit teams?   | <b>TR:</b>   ACL Robotics is the solution Galvanize offers.   |
| <b>38</b> | How will audit teams currently not utilising technology or data be motivated to do so—as without it they are only executing half the job? | <b>TR:</b>   Emerging risk apparent in digital trends and the adoption of increasingly complex specialised IT systems in other parts of the organisation may be a big driver. |
| <b>39</b> | With so many software solutions, how can we select the right one?   | <b>TR:</b>   Focus on the objectives you are trying to achieve, communicate these to vendors, and request demonstrations in line with these objectives.                       |





## Questions

## Answers

## Technology

40	Real-time reporting is great, but what about getting access to the data from the business and legacy data/data across multiple systems? Do you think the reporting would be accurate?	TR:   Galvanize has a past webinar on getting access to data. Best-practice data analytics techniques also have mechanisms for checking data integrity and accuracy. <a href="https://info.wegalvanize.com/getting-access-to-data-webinar.html">https://info.wegalvanize.com/getting-access-to-data-webinar.html</a>
41	How can Galvanize automation tools be integrated into other audit tools like TeamMate?	TR:   Galvanize tools like ACL Robotics can integrate with Teammate or other audit management software. Galvanize also offers an audit management product of its own, called AuditBond.
42	In your experience, how easy would these automation steps be in organisations where there are often varied data sources and databases?	TR:   This is the reality in many organisations. Data analytics tools are good at combining and normalising data from different sources. Modern technology, like ACL Robotics, has also massively reduced the effort of connecting to different data sources through ready-built connectors, and out-of-the-box universal connection mechanisms that don't require IT spend for API development.
43	Liz talked about online software available to conduct face-to-face meetings, etc. What are lower cost options—as cost efficiencies will be paramount now in any organisation.	TR:   Zoom and Google both offer free options.