



Covid-19: Adapting to the "new normal"

A customized Internal Audit approach

KPMG Lower Gulf Limited

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Throughout the Covid-19 outbreak, entities have been fighting to maintain efficiency, enabling remote working (often requiring enhanced controls) with a main focus on external threats. The UAE is one of the first countries to respond and adapt swiftly to the Covid-19 outbreak, moving its economy smoothly in to a recovery phase. This has put greater pressure on Internal Audit (IA) functions to cope with the rapid change in operations and provide assurance during an entity's recovery phase and set new expectations for the future. We have identified three **growing risk** factors as well as some **key IA planning considerations in the new normal** that should be included in IA risk assessment and audit planning.

In this publication, we discuss potential changes required to the **internal audit approach in the new normal** as well as possible broader implications to **IA governance, competences and systems**.

Growing risk factors



Regulatory compliance

Given the rapid changes in the economic environment due to the Covid-19 outbreak, regulatory bodies have issued more laws and regulations that helped stabilize the economy and support businesses in facing the impacts from the outbreak. Thus, focus on compliance and regulatory requirements remains highly relevant and important to help in adapting to the new normal.

In particular, businesses are expected to comply with regulations (including industry-specific regulations), behave ethically, and implement robust control systems and compliance mechanisms.

In order to maintain sufficient internal controls over key aspects of compliance, it is vital to stay updated on key regulatory changes and adapt to them in a smooth and swift manner. IA's role in this process would be to:

- Evaluate the implications of changes to the regulations affecting the business's operations and recommend adequate measures to comply with them;
- Check to see if audit scope areas are customized and redefined wherever regulations have impacted operations; and
- Provide continuous education to employees on the official channels of reporting any compliance or regulatory issues, challenges and seek advice.



Fraud

In light of the current developments and circumstances, decision makers are required to make critical and rapid decisions to navigate unforeseen changes. This may increase the likelihood of:

- Deviation from existing controls on key processes
- Less rigorous monitoring of control framework breaches
- Reduced control over assets such as inventory, equipment, software and data
- Untrained or unqualified people executing key controls

As a result, possibilities of fraud and theft would increase. This would be as a consequence of significant financial pressures on organizations and individuals leading to:

- Misconduct by employees for personal financial gain
- Manipulation of financial results to comply with covenants
- Bypassing transaction controls, or forging of the necessary approvals
- Non-execution of approved transactions for personal or professional gain
- Processing of fraudulent claims for personal gain, or to benefit a known party



Performance and Reporting

Given the rapid changes in business operations since the Covid-19 outbreak, management's oversight and monitoring may be overlooked. Hence, more emphasis have been put on frequent reporting to management on financial and operational health of the organization. Reporting has been crucial both during the crisis and as entities recover from it.

In addition to this, and due to the uncertainty felt by investors, lenders, regulators and customers, a greater weight has been put on transparency and appropriate and timely reporting on the business performance.

Therefore, IA will have a greater role in providing assurance on the accuracy, completeness and adequacy of reporting in areas such as:

- Revenue, liquidity and cash-flow
- Procurement reports, invoices issued, products dispatched, and cash collected
- Inventory received, turnover, and impact on financial position
- Contractual obligations with customers and suppliers
- Failures to notify relevant stakeholders of investment guideline breaches
- Employees' responses to compliance attestations

Key IA considerations

IA may consider incorporating the following areas into their audit plan so that robust internal controls are implemented that may help mitigate the risks that may arise from the rapid changes in their entities as a result of the Covid-19 outbreak:



IA approach to auditing in the new normal

Through the crisis, governance, processes and controls have changed significantly and these changes will require the traditional internal audit approach to be adapted in order to continue to provide relevant insights and value to the organization. The five-step process below is our recommended approach for IA during the new normal:



1. Define and **prioritize the critical controls required to reduce compliance, fraud and performance and reporting risks**



2. Identify who has **responsibility for monitoring new critical controls arising from the “new normal”**



3. **Assess the impact of changes on internal controls.**

Review the changes made to the business during the pandemic. Were any important priorities neglected in the race to maintain viability? Have you drifted from your regulatory obligations? If so, where and how far? Where ‘control concessions’ have been granted, is a governance process in place to re-assess them regularly?



4. Identify and leverage on **lessons learnt from the crisis to **further improve the internal control system.****

Leading businesses don’t just return to the previous status quo. Internal Audit can help to identify changes that will continue to make your business more resilient in the future and embed them into your internal control environment.

Internal Audit can support management to understand this new risk backdrop; assess whether your internal controls are suited to it; make the right adjustments; and monitor the situation as it evolves.



5. Identify and evaluate the emerging risks in the aftermath.

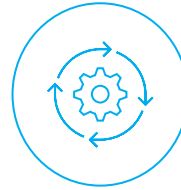
Consider the threats to enterprise resilience as economic activity resumes. How quickly will demand bounce back? How will you restore your supply chain to meet changing demand patterns? How accurately can you forecast cash flow?

Internal Audit can support management to understand this new risk backdrop; assess whether your internal controls are suitable to make the right adjustments; and monitor the situation as it evolves.

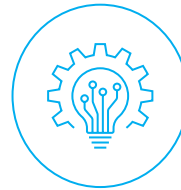
IA governance, competences and technology in the new normal

Internal Audit Functions have been inflicted by new post Covid-19 limitations both externally (i.e. travel bans, reduced travel possibilities, economic downturns and recessions) and internally (i.e. reduced staff availability, absences, production slow-downs, etc.). Accordingly, the IA function may obtain the right balance between providing assurance over governance and controls while simultaneously trying to make an impact with hands-on recommendations and best-practice comparisons with peers and leading entities in the industry.

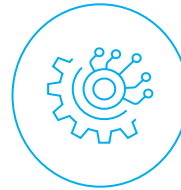
In particular, many IA functions might be struggling with the following aspects and questions:



Impact: which audits on the strategic audit plan will impact the organization in times of continuing change and extreme economic uncertainty?



Feasibility: how can audits be executed effectively and efficiently if on-site visits are no longer possible?



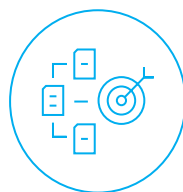
Know-how: is the current staff structure (including skill sets and know-how) enough to address these challenges and provide satisfactory results?



Complexity: how should IA respond when applicable audit procedures are either limited (i.e. videoconference) or more sophisticated in the execution than in previous reviews (i.e. data analytics, process mining etc.)?

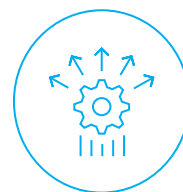


Therefore, Chief Audit Executives (CAE) may assess if their teams have the required skills to make sure that audits will continue to have the same or even higher impact as before – despite the more complex and challenging audit environment. In addition to this, the following key pointers are likely to support CAEs when looking into their organization structure:



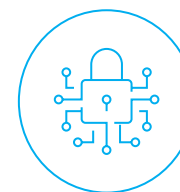
Revisit organizational structure

- Adjust the structure of the staffing pyramid and change the ratio of experienced vs. unexperienced auditors to a more senior share to address increasing value delivery sought.
- Consider sourcing outside services for subject matter expertise on specific topics (for instance, to include process excellence, best practice, benchmarking and peer review expertise).



Enhancing auditors' skills

- Enhance critical thinking when processing information (i.e. gathering, validating, analyzing or evaluating, interpreting data and deriving a conclusion).
- Apply deductive reasoning based on logic and the understanding of clearly defined preconditions (i.e. internal Segregation of Duty (SoD) rules, documented policies and procedures, Delegation of Authority).
- Apply inductive reasoning based on objective interpretation of evidence supplied (i.e. signatures, initials, dates, etc.), as well as own experience (i.e. knowledge of best practice).
- Resilience in order to be able to cope with multiple, parallel activities while focusing on key matters and maintaining the connection to the auditees.



Adopting Additional Technology

- **Site investigation:** virtual site visits using local staff to film video and audio information back to the audit manager.
- **SoD violations:** retrieve security and SoD violation errors and alerts from Group IT reports.
- **Historical patterns:** use historical data to compute and assess potential patterns in the company's chronological development.
- **SharePoint:** use online sharing tools to enable direct access to specific folders and information (therefore eliminating data or document requests).
- **Data analytics (DA):** use advance DA options, including process mining, correlation analysis and exceptions seeking.



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