COVID-19 – How are chief audit executives responding in the now?

Survey Results

April 2020

Building a better working world

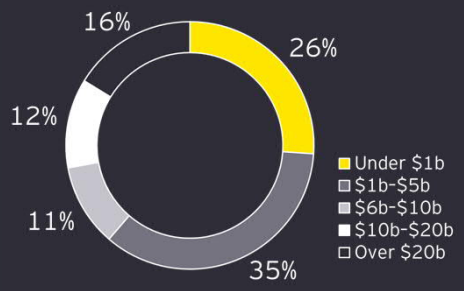
Executive summary

As a follow up to our "Internal Audit: Maintaining trust through COVID-19 disruption" paper released in March 2020, we asked 437 chief audit executives or equivalents how their internal audit function is responding now to impacts from COVID-19.

Respondents represented companies of varying sizes, from multiple industries and located across the globe.

The survey was conducted from 6 April through 23 April 2020.

Annual revenue in USD



Industry

Advance manufacturing and mobility	8%
Consumer products and retail	16%
Energy	15%
Financial services	15%
Government and public sector	7%
Health sciences and wellness	8%
Real estate, hospitality and construction	4%
Technology, media and entertainment, telecommunications	11%
Other	16%

Geography



We asked: what is one word that describes the current tone of your company?



Key themes

Internal audit functions are adapting to disruption by focusing on innovation and taking a dynamic approach.

Key challenges facing internal audit are pushback from the business, access to technology and data, and talent and workforce.

Audit committees (ACs) are focused on reprioritizing audit plans to cover emerging risks related to COVID-19. Increased interactions with the AC present opportunities for internal audit.

Internal audit functions are adapting through innovation and a dynamic approach

We asked: what significant actions have you taken as a result of COVID-19?



As internal audit functions reprioritize the audit plan, consideration should be given to whether internal audit has the right resources, methodology and technology to support the revised risk assessment process.

Does your team have the right skills and training to maximize the return on your investment in technology?

74%

of respondents indicated that technology as a percentage of the overall effort has increased by more than 10%.

Does internal audit have an opportunity to use this disruption as a catalyst to challenge the traditional audit model? By embracing innovation and increasing the use of analytics, internal audit can drive efficiency and decrease disruption to the business.

83%

of respondents cited videoconferencing as an innovative way to deliver the internal audit proposition.

Analytics was next, at **49%**.

A shift to videoconferencing for conducting audits may indicate that audits still are being executed the traditional way, with in-person attendance being replaced by videoconferencing.

Internal audit functions are utilizing downtime for learning and development, transforming methodology and approach, planning future audits and developing analytics.

By training internal audit resources to learn new skills and enhancing methods to be more dynamic and leverage technology, internal audit will be better positioned to deliver on its mandate in the future.

Downtime activities that drive innovation, such as developing analytics or implementing robotic process automation, will transform the way internal audit operates going forward and drive more efficient and impactful audit execution.

Internal audit functions face new challenges as a result of COVID-19

We asked: what challenges are you experiencing in your internal audit function?



of respondents mentioned pushback from the business.



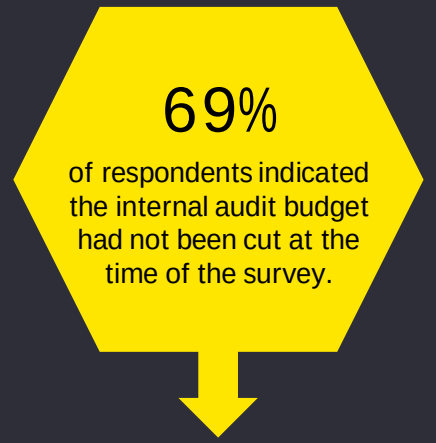
noted a lack of technology or access to data.



listed talent and the work-force as a key challenge for internal audit.

Given the pushback from business, internal audit functions may consider adjusting their approach to lessen the burden on management. For example:

- Conduct short sprints and focus on real-time reporting to provide key insights to management, rather than traditional detailed reporting
- Use analytics to enable remote auditing and continuous monitoring, while decreasing hands-on procedures
- Redeploy resources from internal audit to serve the business in other capacities, as needed



In the event of an extended economic downturn, more internal audit departments may face budget cuts. This will force internal audit to do more with less.

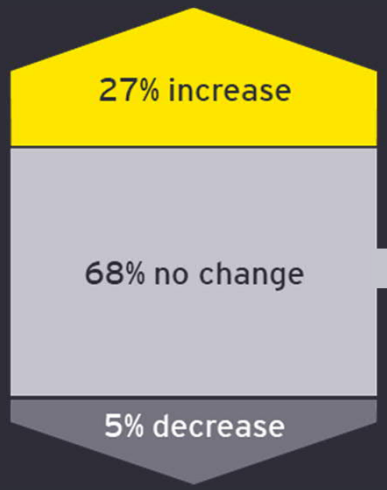
- Are you positioned with the right tools and technology to withstand a reduction in your team size?
- Is there an opportunity to secure or allocate some budget now for the purpose of enhancing the function with the right subject-matter talent, tools and technology to position it well for the future?

As companies face difficult budget decisions, having an internal audit function that is viewed as a trusted advisor by the business will be a key to withstanding tightening budgets and workforce reductions.

- Is your internal audit function perceived by your organization as value-add or just compliance?

AC focus areas and interactions with internal audit are changing

We asked: what has been the impact on the frequency of your AC interactions?



Considering the rapidly changing risk landscape and the unique perspectives and insights that internal audit can provide, a more proactive approach may be required to engage the board and make certain that internal audit has a seat at the table.

Of the respondents, 73% indicated that there has been either no change or a decrease in the frequency of interactions with the AC.

Internal audit functions should seek more frequent touch points with the AC as an opportunity to showcase a dynamic approach, provide objective insights, and increase internal audit's standing as a value-added business risk advisor within the organization.

Top priorities for the AC

1. Reprioritize audit plan to cover emerging risks
2. Cyber risk
3. Heightened risk to internal control over financial reporting
4. Audit schedule changes
5. Disclosure risk

We asked: what are the top emerging or escalating risk areas in your business?

Employee health and well-being	49%
Supply chain and global trade	45%
Technology and information security	34%
Liquidity and working capital	34%
Business continuity	32%
Customer safety and brand protection	14%
Financial and investor	13%
Talent and workforce	12%
Government and public policy	12%
Internal controls	11%
Manual processes	9%
Fraud	6%
Insurance and financial recovery	3%
Other	3%

Is internal audit equipped with the right skill sets and tools to address AC priorities and audit new and emerging risks? Is this a good opportunity for internal audit to team with subject-matter resources in the business to execute on audit activity?

Internal audit as a business advisor: A top priority includes the heightened risk to internal control over financial reporting as processes are executed remotely and change through the return to work. Consider acting in an advisory capacity to the business to address this risk up front. Internal audit possesses the experience to advise control owners about how to execute controls in a remote environment, consider segregation-of-duties issues resulting from workforce reductions or shifting job functions, and anticipate potential control breakdowns.

Summary

In our previous paper, we highlighted actions that internal audit functions should be taking now, next and beyond COVID-19.

Now

Repurpose internal audit resources to directly support the business in identifying vulnerabilities and provide real-time risk advisory services to crisis response

- Crisis management
- Business continuity planning
- Work from home capability
- Cyber
- Technology effectiveness
- Employee well-being
- Customer safety
- Supply chain effectiveness
- Working capital management
- Brand protection

Next

Continue internal audit work with some focus on cost recovery and the least disruption to the business, through remote auditing and performing analytics based procedures

- Cash management
- Vendor audits
- Capital expenditure and projects
- SOX walkthroughs and testing
- Procure to pay
- Order to cash
- Payroll
- FCPA
- T & E

Beyond

Operate a new normal - a transformed internal audit function focused on the risks that matter, better enabled by technology and resources with deeper business skills

- Updated risk assessment
- Dynamic audit approach
- Data driven, technology enabled audits
- Internal audit as a business advisor
- Higher impact audits

Survey takeaways

- The results of the survey indicate that internal audit functions are in varying stages of the now, next and beyond. However, there is a clear desire to take positive strides into the new normal and support their businesses out of the crisis. Internal audit functions are using a dynamic approach to execute their mandate in a time of time of disruption and rapid change, while Audit Committees are encouraging internal audit to reprioritize audit plans to cover emerging risks.
- While internal audit functions may face certain current challenges in executing their current plans, many aspects of the pandemic present them with an opportunity to overcome those challenges and emerge in the ”beyond” stage above. For example, internal audit functions can use any available budget and downtime resources to better leverage data and technology to enhance the internal audit brand, approach and operating model to give better risk insights to the business. Functions can also leverage relationships developed from working alongside the business during the crisis to develop flexible resource structures (offshore, business rotations, guest auditors, third-party resources) that give access to the right subject-matter skills, in the right place, at the right time.
- There is no one size that fits all. That said, all internal audit functions should work with the business to determine and deliver value as defined by their stakeholders and in accordance with their culture.

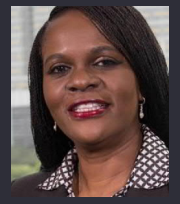
Contacts

For assistance or more information, please contact:



Amy Brachio
Partner/Principal
Global Advisory Risk and Performance Improvement Leader

Minneapolis, MN
+1 612 371 8537
amy.brachio@ey.com



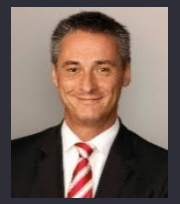
Esi Akinosho
Partner/Principal
Global Advisory Internal Audit Leader

Houston, TX
+1 713 750 8670
esi.akinosho@ey.com



Lisa Hartkopf
Partner/Principal
Americas Internal Audit Leader

Chicago, IL
+1 312 879 2226
lisa.hartkopf@ey.com



Martin Wiedemann
Partner/Principal
EMEIA Internal Audit Leader

Freiburg, Germany
+49 761 1508 27466
martin.wiedemann@de.ey.com



Julia Langdon
Partner/Principal
APAC Internal Audit Leader

Melbourne, Australia
+61 3 8650 7289
julia.langdon@au.ey.com

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com.

© 2020 EYGM Limited.
All Rights Reserved.

EYG no. 002674-20Gbl

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com

