

— TONE — — at the — TOP[®]

Providing senior management, boards of directors, and audit committees with concise information on governance-related topics.

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The Board's Role in an Evolving Internal Audit Plan

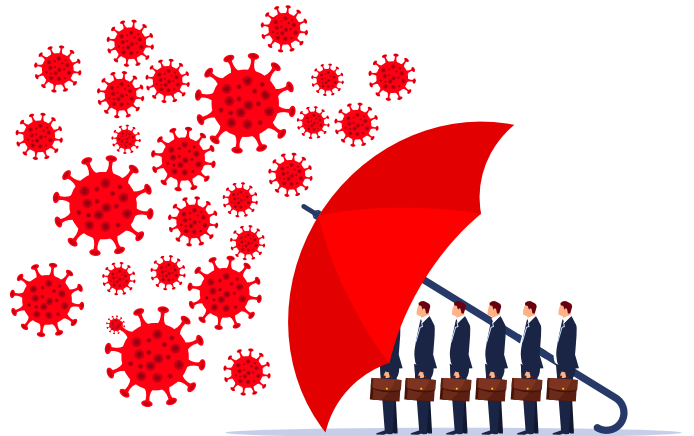
The **COVID-19 pandemic** has forced organizations to focus on crisis management, business continuity, and how best to leverage the latest technology to adapt to rapidly shifting conditions in business and society. Indeed, in less than six months, the pandemic has primed the world to expect, react, and accept change — often radical change — as the new normal.

This clearly will have long-term implications on how businesses operate in an environment where working from home may become the norm. How will cybersecurity considerations expand to cover armies of homebound workers? What are the risks of bringing employees back to the workplace? What will be the impact on organizational culture when office interactions and politics rely more on Blink, Zoom, or Slack than on in-person office dynamics?

Undoubtedly, the pandemic's impact on overall governance will demand serious examination of existing controls and risk management practices. For directors, it demands a recommitment to their stewardship over the development and execution of a flexible and evolving internal audit plan.

A Century Defined by Disruption

Disruption is nothing new for the 21st century. Beginning with the Y2K crisis, there have been significant upheavals in business driven primarily by scandal and technology.



Each in turn led to regulatory reforms such as the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and most recently the alphabet soup of data privacy regulations (GDPR, CCPA, PIPEDA, LGPD) spawned by the digital revolution.

There are commonalities among these regulations. Each was precipitated by crisis, each led to subsequent changes to risk management practices, and each left boards scrambling to decipher what the changes would mean to their roles in the organization.

It remains to be seen what the pandemic's long-term impact on risk management will be, but in the short term, there appears to be a necessary uptick in communication and alignment among boards, executive management, and internal audit. A June [survey](#) of North American chief audit executives (CAEs) conducted by The IIA's Audit Executive Center found most expect updates of internal audit risk assessments and audit plans to become more frequent in the future.

About The IIA

The Institute of Internal Auditors Inc. (IIA) is a global professional association with more than 200,000 members in more than 170 countries and territories. The IIA serves as the internal audit profession's chief advocate, international standard-setter, and principal researcher and educator.

The IIA

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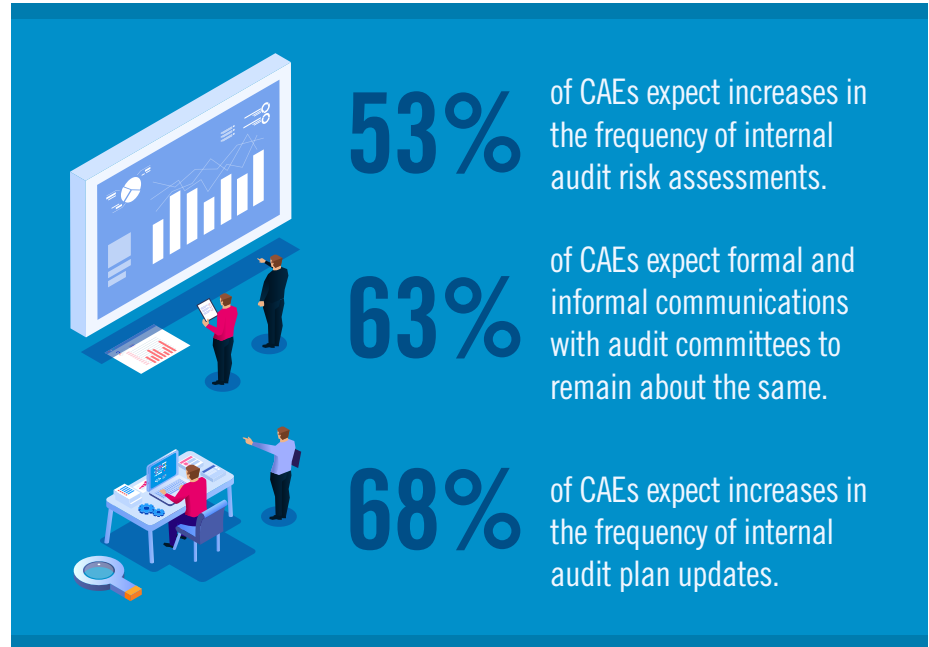
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Part of the reasoning behind this increased frequency is the sudden and unforeseen nature of COVID-19's emergence and spread — a global pandemic was not prominently noted on risk assessments generally. Not surprisingly, nearly one-third of survey respondents in hard-hit, consumer-facing industries such as retail, food, and travel expect to significantly increase the frequency of risk assessments.

But more frequent risk assessments will be of little benefit if organizations are not prepared to quickly adapt audit plans to reflect updated evaluations.



Source: AEC Knowledge Brief, COVID-19: Longer-Term Impact on Internal Audit

QUESTIONS FOR DIRECTORS

Risk assessments and auditing plans in a post-COVID-19 environment will likely be very different. Directors' roles in supporting development of an effective and responsive audit plan must account for changes in the speed of emerging risks, the disruptive impact of technology, and the ability of internal audit to provide effective independent assurance. Boards must be willing to ask hard questions of executive management, internal audit, and themselves to assess not only the efficacy of risk management over emerging and disruptive risks, but also whether conditions within the organization are primed to support risk management efforts:

- » What is executive management's strategy to address emerging and disruptive risks?
- » How does executive management involve internal audit in assessing emerging risks?
- » Is internal audit positioned to provide continuous risk assessment?
- » How is internal audit leveraging technology (data analytics, robotic process automation, artificial intelligence) to support continuous risk assessment?
- » Does internal audit have a process to periodically review and update audit plans to reflect updated risk assessments?
- » How does the board support flexibility and timeliness in audit plans?
- » Does the board proactively promote communication with internal audit?
- » How does the board support a mindset of continuous improvement in risk response?



Fortunately, the CAE survey found that internal audit professionals exhibited significant flexibility in changing their audit plans as part of pandemic responses. In every industry, a minimum of 6 in 10 respondents said they expect to increase the frequency of audit plan updates. Educational services (74%) and consumer-facing industries (72%) led all industries in the percentage of CAEs expecting more frequent audit plan updates.

Unfortunately, a majority of respondents (63%) said they expect formal and informal communications with audit committees to remain about the same, while only 34% said they expect some level of increased communications.

Pre-COVID-19 Expectations

In a pre-COVID-19 world, board members already were looking at the impacts of disruptive risks on risk management. KPMG's 2019 Audit Committee Pulse Survey found nearly 6 in 10 audit committee members globally felt internal audit could maximize its value by maintaining flexibility in its audit plans to be more responsive to changing business and risk conditions. Slightly more than half of respondents said internal audit could focus its audit plan on other key areas of risk and related controls.

Q In your opinion, what steps can internal audit take to maximize its value to the organization? (Select all that apply)

	Total	ASPAC	US/Canada	Europe	Latin America	Middle East	US	Japan	Canada	Brazil
	%	%	%	%	%	%	%	%	%	%
Maintain flexibility in audit plan to adjust to changing business and risk conditions	57%	54%	57%	60%	58%	52%	66%	54%	45%	51%
Focus audit plan on other key areas of risk (e.g., cyber security, and key operational and technology risks) and related controls	52%	35%	56%	59%	65%	60%	65%	11%	42%	67%
Focus audit plan on effectiveness of company's risk management processes generally	49%	47%	45%	51%	57%	52%	52%	35%	34%	58%
Improve talent and expertise in internal audit organization	44%	64%	31%	40%	37%	45%	36%	80%	24%	27%
Add culture considerations to existing audits or conduct a stand-alone culture audit	29%	24%	23%	33%	37%	39%	24%	22%	21%	41%
Other	2%	1%	2%	2%	<1%	4%	1%	1%	2%	1%
Company does not have an internal audit function	9%	2%	22%	9%	4%	6%	13%	2%	34%	7%
n	1305	376	353	276	221	77	205	185	146	119

Multiple Responses Allowed

Source: KPMG 2019 Audit Committee Pulse Survey, *Keeping pace with disruptive risk and digital transformation*

NEXT STEPS FOR DIRECTORS

There have been numerous publications that offer sound advice to support directors' oversight of independent assurance over risk management. The IIA, in collaboration with the International Federation of Accountants, published [Six Recommendations for Audit Committees Operating in the "New Normal."](#) The recommendations provide a solid base on which directors can build their oversight in a post-COVID-19 world.

Stay Informed. Audit committees must have a clear-eyed view and understanding of risk areas, and internal audit should support this by providing timely risk assessments. In a post-COVID-19 world, those assessments will be more frequent and possibly continuous.

Communicate and Collaborate. Audit committees have a wide and growing set of oversight responsibilities, so alignment with priorities of the governing body is critical. Internal audit's enterprisewide perspective can help audit committees remain aligned with the priorities of the governing body and help them stay informed on issues requiring attention.

Leverage Available Expertise. Keeping fully informed about senior management's responses to risks, new and old, is a fundamental and challenging task for audit committees and boards generally. Internal audit is one of several areas of expertise upon which boards rely on to manage that oversight. Internal audit must provide independent and objective assurance and advice not just on how well the C-suite is managing existing risks, but also on management's ability to anticipate and manage future risks.

Promote Continuous Improvement. Effective risk management must account for changing circumstances and evolving risks. Nurturing a mindset that looks to continually improve risk response in ways that encourage innovation and value creation will become the "new normal" for successful organizations. Directors must support and nurture this mindset, and internal audit should provide audit committees and boards with assurance, advice, and insights that support a mindset of continuous improvement.

Think Holistically. The COVID-19 crisis is pushing organizations to evolve their thinking and improve planning, operations, and reporting. This makes the work of internal audit particularly important, as it must provide audit committees and boards with a comprehensive view of risk management and overall governance. That increasingly includes issues involving sustainability, culture, technology, ethics, and value creation and preservation.

Embrace Technology. The pandemic has forced a revolution in remote working that is likely to remain part of the post-COVID-19 world. At all levels, organizations will have to adapt processes to account for distance and isolation, and they will have to rely on technology to get it done. This is particularly true for the work of internal audit. Boards should support this revolution in work processes and technology and ensure internal audit risk assessments and plans reflect this new reality.



The 2019 survey results foreshadowed the ultimate need for internal audit to step up in response to the COVID-19 crisis. The top answers from the KPMG survey also reflect the growing realization that internal audit must be positioned to provide assurance over emerging risks.

Data from both the pre- and post-pandemic surveys reflect positive growth in alignment between directors and internal audit leaders on this issue. They appear to be positioned to make risk assessments and audit plans more flexible and focused on emerging risk conditions, not just traditional areas of assurance such as financial reporting and compliance.

However, it is troubling that CAEs do not expect to see more frequent communications with their audit committees as a result of the pandemic, which may reflect a reluctance by internal audit leaders to proactively push for change.



Quick Poll Question

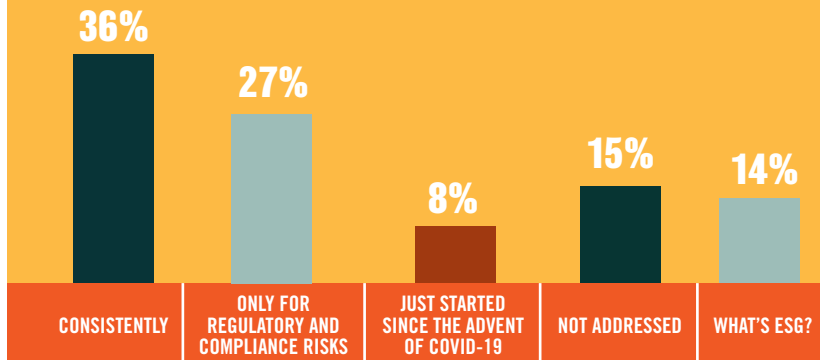
Has your board requested more frequent audit plan updates since the onset of the COVID-19 pandemic?

- Yes
- No
- Unsure

Visit www.theiia.org/toner to answer the question and learn how others are responding.

QUICK POLL RESULTS

How are ESG issues being addressed as part of your organization's risk management discussions?



Source: Tone at the Top June 2020 survey.

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