COVID-19: Control environment considerations

Due to the "black swan" nature of this pandemic, there is limited precedent as to how COVID-19 will impact organizations' control environments. Many companies are experiencing discrete financial "shocks" and broader day-to-day disruption that are directly challenging their risk, control, and defense models. Below are examples of impacted areas, key questions, and considerations based on early client discussions:



Risk assessment impact

What is the effect of COVID-19 on the organisation's current risk assessment and risk landscape?

- Revisit risk assessments, inclusive of fraud risks, and adjust for potential COVID-19 impact, for example:
 - Revenue, supply chain, technology, and other infrastructure disruption
 - Processes that are reliant on select few resources (e.g., highly technical areas, estimates, and significant judgments) and may require updates to delegation of authority
 - Processes that are highly manual

Considerations

- Areas that are susceptible to fraud (e.g., money movement, insider trading, theft of physical assets)
- Monitor for emerging risks, and as they present themselves incorporate into risk assessment process



Effective allocation of resources

Are resources allocated to the appropriate activities based on current environment? Are sufficient training and onboarding documents provided for individuals to serve as backups?

- Identify and prepare back-up personnel for specific responsibilities, including executing control activities
- Ensure that the back-up personnel identified have the required skills and competency to perform control activities, especially in cases of management review controls.
- Review segregation of duties to ensure continued enforcement
- Confirm that essential positions have current procedural documentation that is suitable for a backup resource
- Consider opportunities for labor arbitrage across geographies to build resilience



Key service organizations reliance

What is the extent of business disruption for key service providers? Do additional oversight procedures need to be established during this period of disruption?

- Contact outsourced service providers to evaluate their ability to continue to operate in accordance with established SLAs / KPIs, including monitoring of their service providers
- Assess what temporary changes outsourced services providers have made to their control environments
- Evaluate the extent to which additional oversight is required
- Consider changes needed to what is currently in- vs. out-sourced based upon changes to your risk assessment
- Formally document where certain decisions have been made to provide temporary relief
- Revisit key documentation with service providers based on learnings gained during the current situation

Linkage to People, Policy, Process and Technology

Linkage to COSO components | More can apply, based on our assessment



Remote access

Have users been appropriately provisioned remote access for their job functions? Have you established mechanisms to continue to monitor the remote control environment?

- Scrutinise user access to assess only required access has been granted
- Consider using password vaults or other methods to ensure administrative accounts can be used in a secure manner if a key individual is not available
- Pre-emptively review power- and super users for restrictions and adequate
- Communicate with the business in order to reduce the volume of system changes requested to critical items only
- Enhance monitoring of corporate network due to remote users insecure home networks
- Leverage certification processes to gain insights on potential control frailties, people changes, and impacted processes in order to risk assess and respond



Execution of controls and monitoring

Have decisions been made about required control modifications? Have you considered the need for enhanced monitoring processes over daily/weekly transaction controls?

- Focus on how reviewers are evidencing review and approval through electronic means (e.g., emails, e-signatures)
- Identify which automated controls are most susceptible to failure, due to COVID-19, or based on historical trends
- Consider alternatives for controls that require physical observation (e.g., use of drones to conduct physical inventories by independent personnel)
- Ensure appropriate monitoring controls exist and are operating effectively to mitigate any risks arising from a failure to operate the automated business controls
- Be cognisant of the possibility that a number of controls that were in place earlier may no longer be effective or may require changes to continue to be effective.

COSO internal control framework components



Control environment



Risk assessment



Control activities



Information and communication



Monitoring

Relevance and impact on other framework components



People



Policy

























































Communication considerations

Have you considered the need for enhanced communications to both internal and external parties?

- Consider reinforcing the importance of control execution (e.g., newsletters, videoconference)
- Encourage control owners to raise their hands and ask for help if they encounter challenges in performing their controls
- Communicate with control owners to emphasise the importance of retaining high-quality documented evidence to support testing programs
- Promote open and on-going communication with key service providers in order to identify the need to alter the current interaction model
- Establish accountability and owners for communicating key issues being dealt with and to provide on-going status
- Consider building enhanced reporting models for reporting within the entity as well as within the group to ensure timely receipt of essential information For example, financial and non-financial reporting metrics / exceptions to drive focus



Preparation for future controls assessments

Have you considered updating your control descriptions or creating alternative controls?

- Create or enhance existing policies and procedures to adapt to COVID-19 impact, inclusive of roles and responsibilities, timelines, and form of relevant
- Evaluate impacted areas for changes to people, process, and technology, and update controls
- Engage with all testing parties (testers and those being tested), including financial statement and service auditors, to understand/communicate expectations
- Raise significant changes to risks and control environment to senior management and boards
- Prepare for the likelihood of remote testing and the need for greater cooperation with both internal and external parties involved in testing
- Consider the use of technologies to support the testing, in particular communication tools and file sharing platforms, to allow testers and business personnel to assess required information
- Prepare a contingency plan in case there are increased levels of findings



Impact on key governance documentation

Have you considered the impact on your key governance documentation?

- Identify what governance documentation would require change and prioritise such changes to best address business needs as well as allow changed control activities
- Consider the impact of such changed governance documentation on the IT systems
- Formally document changes to your business, certain decisions made, and the impact these may have on your governance, risk management and internal controls
- Consider how you plan to revert back to your original governance framework after COVID-19



Use of technology

Have you considered how technology could be best used to perform control activities and the challenges that you could face in this environment?

- Changed roles within IT are carefully managed to ensure that developers do not have access to promote changes to a live environment
- Consider enhanced cyber-risks
- Ensure that the pressure to make changes do not drive the IT personnel to perform inadequate testing before they are allowed to go-live
- Assess the impact of dependency on third party vendors or external service partners in case they may not be able to deliver as expected
- Consider if automated interfaces will be monitored in a timely manner considering absence of some IT personnel

COSO internal control framework components



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Technology



Process

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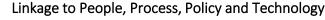














































COVID-19: Control environment resources



Additional resources

For updates on COVID, information on new guidance, and resources available to you, please visit:

- Deloitte COVID-19 homepage: https://www2.deloitte.com/au/en/pages/covid-19/topics/au-combating-covid-19-resilience.html
- The future of controls
 https://www2.deloitte.com/uk/en/pages/risk/articles/controls.html
- Controls Assurance https://www2.deloitte.com/au/en/pages/audit /solutions/specialists-controls-assurance.html
- Control transformation <u>https://www2.deloitte.com/au/en/pages/risk/solutions/control-transformation.html</u>
- Mitigate efforts through controls modernization: https://www2.deloitte.com/us/en/pages/financial-advisory/articles/controls-testing-and-compliance.html

Deloitte contacts

We're here to help. Please reach out to the key contacts below for more information:



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