



## COVID-19: Effects on the internal control system

Companies are activating their contingency plans in response to the crisis. Established processes are being dynamically adapted to the situation. Some are being shortened, others are stalling, while others still are coming to a complete standstill.

Although the COVID-19 pandemic is one of the biggest challenges facing society and the economy, many companies are still required to provide information about their operations and financial situation in a timely manner. The same applies to the monitoring of the effectiveness of the internal control system (ICS) (Section 107(3) Sentence 2 of the German Stock Corporation Act).

So far, there has been no indication that international watchdogs such as the Securities Exchange Commission (SEC) and the UK Financial Reporting Council (FRC) intend to relax existing requirements for ICSs to any significant extent.

### Ensuring an effective ICS

It is safe to assume that the increase in remote work and other things will bring about major changes in processes and interfaces. This has repercussions for process risks, the suitability of established controls, and ultimately the general effectiveness of the ICS. Support measures for ensuring

a reliable ICS during the COVID crisis may include:

- Revaluation of the scoping and the process risks, e.g., for non-routine processes (issue of hardware, remote work cybersecurity)
- Design and implementation of suitable remote controls
- Modification of responsibilities (deputization rules, etc.)
- Introduction of an alternative form of evidencing performance of remote controls
- Flexible implementation of key controls taking the deadlines of the external auditor into account
- Dialog with shared service centers; if necessary, development of contingency plans for outsourced processes
- Early and continuous coordination with the external auditor

The extent to which a company is affected by changes in the ICS depends to a large extent on the degree of automation and system support of the processes in question. Companies with well-developed control automation will have to cope with different challenges than organizations with mostly manual controls.

### Remote monitoring and reporting

Even with the monitoring and reporting of the ICS, a response is necessary whenever short-term changes in the processes and controls occur. Examples include:

- Increased performance of control tests remotely
- Additional risk-based sampling (e.g., focus on the crisis period starting February 2020; IT risks; accounting judgment, management review, cash payment controls)
- Increased monitoring of alternative control activities
- Establishment of a process for prompt elimination of weak points arising with increasing frequency and identification of any damage incurred
- Adaptation of the ICS (ad hoc) reporting for key stakeholders
- Increased dialog with external stakeholders and the external auditor

### We are happy to assist you:



[crisis-response@deloitte.de](mailto:crisis-response@deloitte.de)

This presentation contains general information only, and none of Deloitte GmbH Wirtschaftsprüfungsgesellschaft or Deloitte Touche Tohmatsu Limited ("DTTL"), any of DTTL's member firms, or any of the foregoing's affiliates (collectively, the "Deloitte Network") are, by means of this presentation, rendering professional advice or services. In particular this presentation cannot be used as a substitute for such professional advice. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this presentation. This presentation is to be treated confidential. Any disclosure to third parties – in whole or in part – is subject to our prior written consent.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/de/UeberUns](http://www.deloitte.com/de/UeberUns) for a more detailed description of DTTL and its member firms.