

# COVID-19 – How chief audit executives are responding in the next

Survey results

June 2020



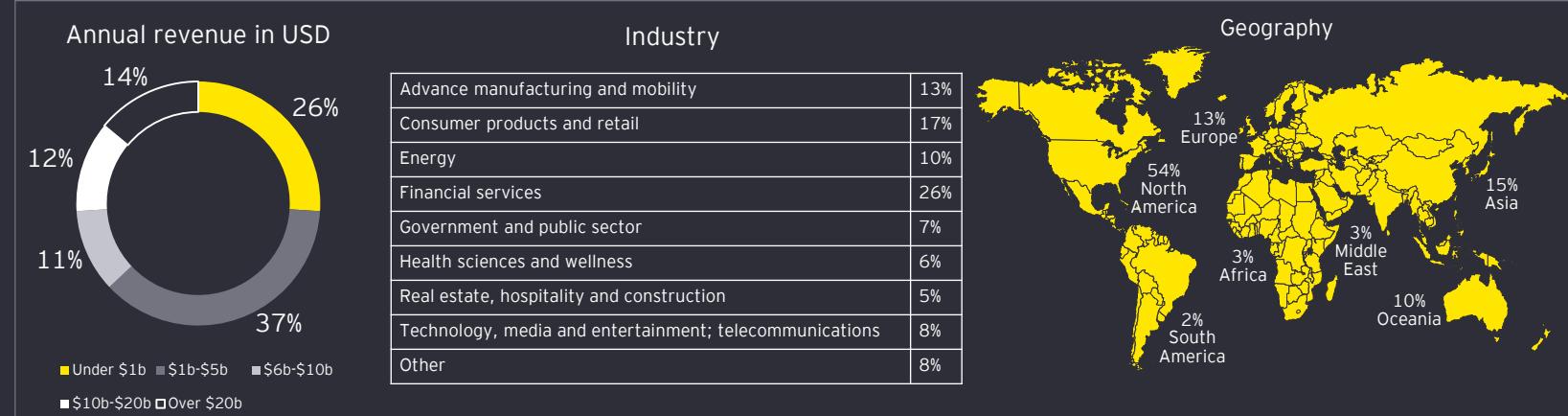
# Executive summary

As a follow up to the EY COVID-19 – How are chief audit executives responding in the now? survey conducted in April 2020, 373 chief audit executives or equivalents were asked how their internal audit (IA) function is responding to impacts from COVID-19 in the “next.”

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

The survey was conducted from May 14 through June 1, 2020.

**Respondents were asked, “Describe how the tone of your organization has changed over the last month.”**



Stronger  
Determined  
Uncertainty  
Optimistic  
Cautiously optimistic  
Core-focused  
Crisis management  
Change

Innovation  
Cost-focused  
Flexible  
Adaptable  
Challenged  
Resilient  
Employee-focused  
Transformation

Recovery  
Work from home  
Challenged  
Agile  
Challenged  
Reactive

Stable  
Safety  
Collaborative  
Digital  
Cash-focused  
Resilient  
Focused  
Communication

Digital  
Collaborative  
Focused  
Survival  
Anxious

## Key themes

Many lessons have been learned by organizations and IA functions, most commonly that they can work effectively in a remote environment.

IA functions have a better understanding of emerging risks compared to six to eight weeks ago and are adjusting audit plans accordingly.

While some IA functions are involved in the return to work, there is opportunity to play a more direct role.

Disruption has created a need for IA to change its operating model and increase the use of technology to fulfill its mandate.

## What has been the most significant lesson learned by your organization throughout the COVID-19 disruption?

The importance of being adaptable and able to respond to new risks

We now realize the importance of business continuity and resiliency planning

Supply chain weaknesses have been magnified

We can work effectively in a remote environment

The digitalization of processes and the move from manual to automated is key to efficiency and effectiveness

We have learned the extent of our ability to be flexible and adapt as an organization while remaining focused on what matters

Strong communication from leadership and between employees is critical

Technology enhancements were needed to accommodate the entire workforce working remotely

Having strong leadership is more important than ever

There is a lack of governance over work from home policies and certain employees are unable to work remotely

What has been the most significant lesson learned by your **IA function** throughout the COVID-19 disruption?

We can audit almost anything remotely.

IA can help business continuity by providing support to first- and second-line activities during a crisis.

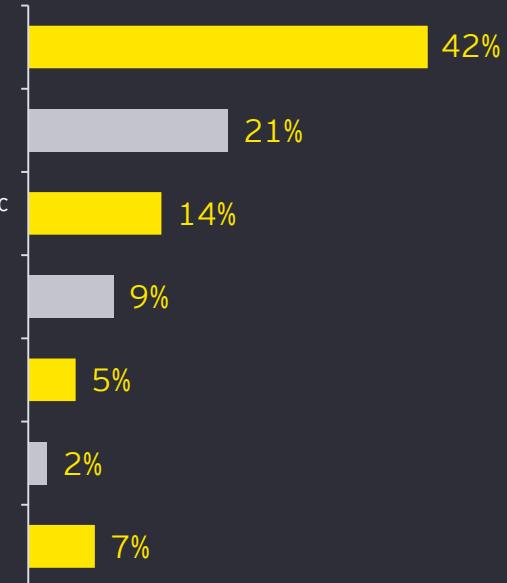
IA has a need for more technology, e.g., robotic process automation (RPA) and analytics.

Our brand with the business is strong.

Our brand with the business needs improvement.

IA does not possess the right skills for auditing emerging risks.

Other (all responses less than 1%).



Nearly half (46%) of respondents indicated that through the COVID-19 disruption, they have learned that IA can audit almost anything remotely. This speaks to the ability of IA professionals to think creatively and leverage technology to perform their work.

Is there an opportunity for IA to help other areas of the business that may be struggling in the current environment by sharing lessons learned and best practices?

# Adjusting the audit plan

## "What are the top emerging or escalating risk areas in your business?"

The chart below shows how the view of risk has changed over the six to eight weeks between our "now" and "next" surveys. For **all** risk areas, the percentage of respondents increased. This indicates that there is now a more thorough understanding of emerging risks related to the COVID-19 disruption across organizations as they have had time to refresh the risk assessment and take stock of how the business has changed over the course of the pandemic.

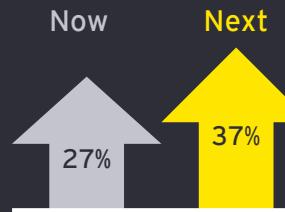
Risk area	This survey	Previous survey	Change
Employee health and well being	76%	49%	+27%
Physical return to work	72%	n/a	+72%
Supply chain and global trade	50%	45%	+5%
Technology and information security	47%	34%	+13%
Liquidity and working capital	44%	34%	+10%
Fraud	39%	6%	+33%
Government and public policy	36%	12%	+24%
Internal controls	35%	11%	+24%
Business continuity	34%	32%	+2%
Customer safety and brand protection	31%	14%	+17%
Financial and investor	31%	13%	+18%
Talent and workforce	26%	12%	+14%
Manual processes	23%	9%	+14%
Insurance and financial recovery	18%	3%	+15%

The top two risks indicate that organizations are most focused on their people right now. But given that only 16% of IA functions have added return to office readiness to the audit plan (as shown on the next page), is there a potential risk gap developing in this area?

Fraud experienced the largest increase and IA functions are responding accordingly, with 28% adding fraud to the audit plan (as shown on the next page).

As covered later in this report, only 37% of respondents indicated that they are providing risk and control advice related to the return to work. As the control environment undergoes significant disruption (e.g., changing control owners, virtual documentation, new processes), it is imperative that IA take a proactive approach in helping the business maintain effective internal controls.

## Audit committee interactions



There has been an increase of about 10% from the last survey in respondents saying **interaction with the audit committee has increased**. This shows that IA functions and audit committees are adapting their approach to communicate more frequently in a rapidly changing risk landscape.

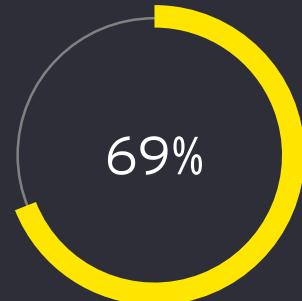


Audit committee concerns remain consistent, with 57% of respondents listing **reprioritizing the audit plan to cover emerging risks** as a top priority of the audit committee followed by **cyber risk at 46%** and **heightened risk to internal control over financial reporting (ICFR) at 40%**.

As shown in the chart to the left, IA functions are more acutely aware of emerging risks related to the pandemic than they were six to eight weeks ago.

With so many emerging risk areas and the main focus of audit committees on maintaining risk coverage, IA functions may need to adapt a more **agile, efficient and digital-enabled** approach to fulfill their mandate.

# Adjusting the audit plan (continued)



of respondents have changed their audit plan by over 10% as a result of the COVID-19 disruption.



The majority of respondents indicated that there had been significant changes to their audit plan as a result of the COVID-19 pandemic. The charts to the right show the types of audits that are commonly being canceled or postponed contrasted with the audits that have been most frequently added to the plan.

The most common audits being canceled or postponed are those that require physical presence and/or travel. Does this leave risk-coverage gaps for locations and operations that have historically been audited via site-visit or physical inspection? Is there an opportunity to use analytics or remote auditing procedures to maintain risk coverage over these areas until travel is possible? How may technology and local business resources be leveraged to assist with remote access?

While IA functions are understandably focusing on emerging risks related to the COVID-19 disruption, IA functions should adopt a flexible and digital-enabled approach to allow all high-risk areas to continue to receive appropriate attention.

What audits are being canceled and/or postponed due to changes in your audit plan?



- ▶ Audits requiring physical presence and/or travel
- ▶ Lower-risk audits
- ▶ Audits of areas heavily impacted by the COVID-19 pandemic
- ▶ Reviews of projects that have been delayed and/or canceled
- ▶ Operational audits
- ▶ Talent and workforce management
- ▶ Compliance audits
- ▶ Process reviews
- ▶ Project management and special reviews
- ▶ Financial audits
- ▶ Business continuity management

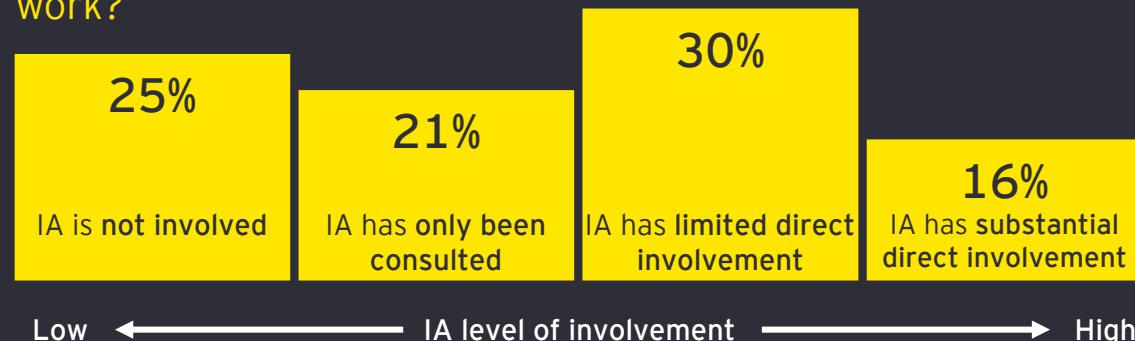
What new audits have been added to your audit plan to cover emerging risks related to the COVID-19 pandemic?



- 30% Cybersecurity
- 30% Crisis management effectiveness
- 28% Fraud
- 20% Technology effectiveness
- 17% Supply chain effectiveness
- 16% Credit risk
- 16% Return to office readiness
- 16% Data privacy
- 15% Liquidity
- 5% Talent retention and/or succession planning
- 4% Insurance

# IA's role in the return to work

Where there are signs of recovery or the business preparing to ramp-up and/or restart, **has IA had a role in the return to work?**



Less than half of IA functions have been directly involved in return to work, but organizations are demonstrating their need for risk management and assurance by continuing to invest in IA.

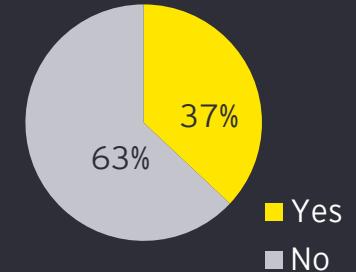
Similar to a new system implementation or business process, the return to work brings new risks and opportunities for improvement that need to be considered prior to go-live. IA should have a seat at the table because it is **well-versed in assessing risk, developing action plans to mitigate risk**, and can provide a **holistic view of risk based on its familiarity with all facets of the business**. Whether it is through participation on an executive committee, performing a return to work readiness assessment or other direct involvement, IA should be a key player in the return to work.

Further supporting IA having a direct role in the restart is the fact that **over 61% of IA functions have not experienced budget cuts** to date as a result of the COVID-19 disruption. This shows that the majority of companies recognize the importance of risk management during these times and that IA is seen as a critical and valued function.

With some companies starting to return people physically to offices, are you providing risk and control advice?

Specific areas where respondents are providing advice:

- Return to work
- Employee safety
- Controls assessment (e.g., control owners, adequate documentation, control design)
- Pandemic response and/or business continuity
- Work from home governance



58%

of respondents are spending more time addressing ad-hoc questions from the business.

This indicates that IA is viewed as a trusted advisor and valued source of knowledge throughout the organization. Responding to inquiries from the business requires time and resources, so it is important that IA tracks the effort associated with responding to these requests. Management and the audit committee should be made aware of the work IA is doing "behind the scenes" to help the business navigate the current crisis.

# How IA is changing

## Use of technology

- We have started a robust data analytics function that will drive the audit fieldwork.
- Our focus is on independent data gathering and requesting access to systems to avoid requests to process owners.
- The monitoring of engagement processes needs to be automated.
- We are developing and/or utilizing technology to allow for physical verification of assets.
- We continue to use emerging technologies to automate and implement continuous auditing.
- We plan to replace Word and/or spreadsheets with a risk, controls and audit tool.

## Execution approach and methodology

- More audits are being executed with a reduced scope and those audits are shorter and more dynamic instead of full end-to-end process reviews.
- We will be re-assessing audit procedures and the level of evidence necessary to achieve the needed assurance given the circumstances under the 'new normal.'

**"Do you see a need or opportunity to change any part of your IA operating model as you go forward?"**



**What are some examples from respondents on how their IA functions are changing?**

## Risk assessment approach

- We are redefining risk in terms of significance to the business as opposed to financial risk and/or size.
- Our business is moving toward a more frequent risk assessment instead of once a year.
- We will increase the use of surveys to reduce the number of meetings given the remote working environment.

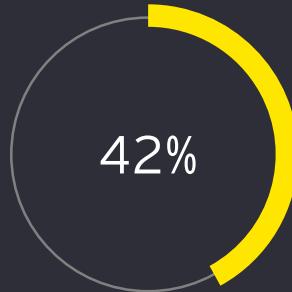
## Skillset of IA team

- We need more expertise in the areas of IT, data analytics and RPA.
- We will identify staff members' development needs, prepare learning maps, and provide coaching and training opportunities as appropriate.
- Our people need to possess an innovative mindset and the ability to think outside the box.

## Interaction with management

- We need more interaction and involvement in what's happening in the business, what risks management is seeing and the actions in place to address those risks.
- We must continue to build strategic partnerships within the business.

# How IA is changing (continued)

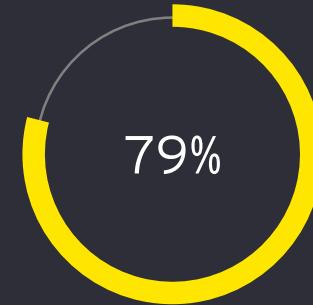


of respondents saw a need and/or opportunity to change the **use of technology** in their IA operating model going forward.

The disruption caused by the COVID-19 pandemic has forced IA functions to think differently about the way they audit and to leverage technology wherever possible to enable audit execution, drive efficiency and decrease disruption to the business.

After the return to work, will IA revert back to traditional audit methods such as on-site visits, sample-based testing and documentation-focused reviews?

Or will this disruption accelerate the transformation of IA functions to a technology-enabled, agile and forward-looking future state?



of respondents saw a need and/or opportunity to change **at least one part** of their IA operating model going forward.

Many of the organizations that IA functions serve are changing drastically. For IA to be seen as a value-added business risk advisor within the organization, it needs to change, adapt and keep up with the pace of change in the business on an on-going basis.

Will CFOs and audit committees be content with an IA function that continues to do business as usual while there are dynamic shifts occurring throughout the organization?

Executives and audit committees should view the pandemic as a watershed moment for evaluating the effectiveness of their IA function and ask the question:

**Are you receiving the optimal service from IA or is it time to make an overarching change to the way that your IA function operates?**



# Summary and contacts

## Survey takeaways and key questions

- ▶ Many lessons have been learned by organizations and IA functions, most commonly that they can work effectively in a remote environment. **Is there an opportunity for IA to help other areas of the business that may be struggling in the current environment by sharing lessons learned and best practices?**
- ▶ IA functions have a better understanding of emerging risks compared to six to eight weeks ago and are adjusting audit plans accordingly. But with so many emerging risk areas and the main focus of audit committees on maintaining risk coverage, IA functions will need to adapt a more agile, efficient and digital-enabled approach to fulfill their mandate. **How will IA adjust its approach to allow all high risk areas to continue to receive appropriate attention while also pivoting to cover new and emerging risks?**
- ▶ While organizations are demonstrating their need for risk management and assurance by continuing to invest in IA, less than half of IA functions have been directly involved in the return to work. **Is there an opportunity for IA to play a more direct role through participation on an executive committee, performing a return to work readiness assessment or other direct involvement?**
- ▶ The disruption caused by the COVID-19 pandemic has forced IA functions to think differently about the way they audit and to leverage technology wherever possible to enable audit execution, drive efficiency and decrease disruption to the business. **Will the disruption from the COVID-19 pandemic accelerate the transformation of IA functions to a technology-enabled, agile and forward-looking future state?**

A different picture of IA is emerging.  
Where are **you** on the journey?



**Amy Brachio**  
EY Global Advisory Risk and Performance Improvement Leader  
  
United States  
+1 612 371 8537  
[amy.brachio@ey.com](mailto:amy.brachio@ey.com)



**Esi Akinosho**  
EY Global Advisory Internal Audit Leader  
  
United States  
+1 713 750 8670  
[esi.akinosho@ey.com](mailto:esi.akinosho@ey.com)



**Lisa Hartkopf**  
EY Americas Internal Audit Leader  
  
United States  
+1 312 879 2226  
[lisa.hartkopf@ey.com](mailto:lisa.hartkopf@ey.com)



**Martin Wiedemann**  
EY EMEIA Internal Audit Leader  
  
Germany  
+49 761 1508 27466  
[martin.wiedemann@de.ey.com](mailto:martin.wiedemann@de.ey.com)



**Julia Langdon**  
EY Asia-Pacific Internal Audit Leader  
  
Australia  
+61 3 8650 7289  
[julia.langdon@au.ey.com](mailto:julia.langdon@au.ey.com)

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