



*Promoting Professionalism in Accountancy*

**INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF  
UGANDA**

**COVID-19 RESPONSE AND RECOVERY: THE  
ROLE OF INTERNAL AUDITORS**

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**Plot 42 Bukoto Street, Kololo, P.O. Box 12464, Kampala, UGANDA**

**Tel. 041-4540125, 031-2262333, 031-2265590, Fax: 041-4540389**

[icpau@icpau.co.ug](mailto:icpau@icpau.co.ug)

[www.icpau.co.ug](http://www.icpau.co.ug)

## **ABOUT ICPAU**

The Institute of Certified Public Accountants of Uganda (ICPAU) is the National Professional Accountancy body in Uganda. The functions of the Institute, as prescribed by the Accountants Act, 2013 are to regulate and maintain the standard of accountancy in Uganda; and to prescribe and regulate the conduct of accountants and practicing accountants in Uganda. ICPAU has over 3,000 registered members and over 8,000 active students going through the Institute's examinations scheme at various levels of completion.

### **Vision**

To be a world class professional accountancy institute

### **Mission**

To develop, promote and regulate the accountancy profession in Uganda and beyond, in public interest

### **Core Values**

- Professional excellence
- Accountability
- Integrity
- Innovation

## DISCLAIMER

This Paper contains general guidance to ICPAU members about the COVID-19 impact on and response by internal auditors.

The Paper is not intended to be comprehensive or to deal with all situations that might be encountered by members due to COVID-19. The information provided in this Paper does not, and is not intended to, constitute legal advice. If in doubt, ICPAU members are advised to seek appropriate legal advice.

Whereas every care has been taken in the preparation of this paper, the ICPAU disclaims any responsibility or liability that may occur, directly or indirectly, as a consequence of the use and application of the Paper.

## TARGET AUDIENCE

ICPAU provides guidance and services to help its members keep up to date with regulatory issues and developments. ICPAU represents professional accountants in Uganda and contributes to public affairs and other matters that impact on the accountancy profession.

The primary audience for this paper is ICPAU members working as internal auditors in industry, business and in the public sector.

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## 1.0 BACKGROUND

The world is currently faced with the Coronavirus Disease (COVID-19) pandemic, a pneumonia-like disease which broke out in the Chinese province of Wuhan and quickly spread globally until it was declared a global pandemic in March 2020. The pandemic has led to loss of millions of lives while organisations continue to be faced with very challenging situations. In fact the challenges have affected a wide range of industries such as aviation and hospitality with their operations being tremendously disrupted.

The COVID-19 pandemic is more than a health crisis, it is also an economic crisis due to the devastating economic impact it has caused world over. Organisations have been affected in varying degrees as they continue to face challenges around working capital, workforce management and the supply chain.

Internal audit as the third line of defence is uniquely placed to play a key role in the response to the COVID-19 crisis, from a position of good organisational knowledge and with a highly relevant skill-set. As organisations adapt to the impact of COVID-19, internal audit functions have an important role to continue to provide critical assurance, help advise management and the Board on the shifting risk and controls landscape and help anticipate emerging risks. It is important that internal audit is proactive and prepared, while remaining pragmatic, as the situation continues to evolve.

## 2.0 EMERGING RISKS DUE TO THE COVID-19 PANDEMIC

The COVID-19 pandemic has created an avalanche of new challenges for businesses which demand rapid responses in an environment that changes by the hour. In these challenging times, internal auditors have both an obligation and an opportunity to help their organisations manage the most critical risks that have either been created or magnified by COVID-19. Internal auditors have the opportunity to help management weigh the risks and opportunities associated with the pandemic to make informed decisions. The following are some of the critical risks that have either been caused or magnified by the pandemic:

### 2.1 User Access Controls

Due to flexible working arrangements and individuals requiring greater access to systems to help cover for employees who are off their duty stations, user access controls may be compromised and conflicts of interest may arise. This increases the organisations' vulnerability to fraud and cyber-attacks in form of phishes and hacking.

### 2.2 Employee Welfare and Remote Working

The backbone of every organisation lies in its people yet the COVID-19 has caused people to be stressed, tired, scared and preoccupied. The health and wellbeing of employees is a high risk area today because of the risks associated with mismanaging employees can have serious health and safety, financial, reputational, operational and legal implications.

Protecting employees' physical and emotional well-being continues to be paramount yet it has become more challenging due to the uncertainties associated with the crisis such as shifting directives on business openings and social distancing guidelines to changes in border controls and travel advisories. This uncertainty means employers have to continually revisit

and adapt their approach for helping to support their employees' health and well-being, especially as the situation continues to evolve.

### **2.3 Cash flow and Liquidity**

Measures to contain the COVID-19 pandemic such as social distancing and country lockdowns create significant constraints causing cash flow and liquidity challenges for many businesses as their operations are disrupted and income streams stopped. Although it can be noted that the effects have been more severe in some industries such as education, aviation, tourism and hospitality whose operations were directly affected by the lockdowns, many organisations in other sectors are earning less revenue resulting in less cash flow, along with delayed receivables collection. Some businesses have been forced to close while others have had to adopt drastic cost cutting measures such as salary reductions and employee terminations which also create a threat of possible litigation from employees.

### **2.4 Cybersecurity**

As a number of organisations adopt remote working and use of third-party software to improve the effectiveness of their employees working from home, employees may inadvertently compromise business security. Since employees are now working with sensitive data in less secure home environments, organisations have registered an increase in cyber-attacks, ranging from phishing attempts that play on people's concerns and desire for information, to more sophisticated attacks on networks, systems, information and data.

While the COVID-19 pandemic has had an immediate impact for the potential for cyber risk exposure, the risk is here to stay as the future work environment is probably going to be a hybrid of office-based and remote work.

### **2.5 Shifting Customer Needs**

The COVID-19 crisis continues to present an alarming health crisis that the world is grappling with. The crisis is also creating significant commercial impacts due to business disruptions. Through this crisis, the way organisations engage and interact with customers is critical. Companies focusing on customer experience stand the best chance of supporting their customers and protecting their business, while also laying the seeds for future growth. The unprecedented situation calls for organisations to understand evolving customer and community needs, and react to them fast.

### **2.6 Operations and Supply Chain Disruptions**

The effects of the COVID-19 crisis are being felt globally in ways that are difficult to model and assess. Global supply chains have been affected by measures instituted to contain the spread of the pandemic such as lockdowns by countries. Many businesses have mounting concerns over depleting stock and fears that they will not meet their contractual obligations on time. Organisations are under pressure to identify alternative suppliers as key suppliers are forced out of business due the pandemic.

### **3.0 THE ROLE OF INTERNAL AUDIT DURING THE COVID-19 CRISIS**

A three phased risk management framework is recommended to help organisations navigate through the COVID-19 crisis, *Respond, Recover and Thrive*, to a post COVID-19 working environment that will look different to today. As organisations navigate each of these phases, internal audit has a role to advise on future risk and control considerations in light of the new landscape, especially as organisations move out respond phase into the medium term state of recover.

#### **3.1 RESPOND PHASE**

This is basically a survival and resolve phase. Many organisations panicked when they were faced with the COVID-19 pandemic. However instead of being worried and defensive, organisations can strategically rely on the internal audit function to help them manoeuvre through the COVID-19 crisis. In the 'Response Phase', there ought to be re-prioritisation and re-focusing of internal audit activity to the risks and processes that really matter such as the following areas:

##### **3.1.1 Immediate involvement and review of the business COVID-19 response**

When the COVID-19 pandemic arose, very few organisations were prepared to deal with a crisis of its magnitude. The audit plans that had been made by many internal audit functions were rendered obsolete as they did not address the risks associated with the crisis. During this time therefore, internal auditors were better off providing support to front line staff in any activity undertaken by their organisations. During this time, internal auditors therefore should consider the skills set available within internal audit teams such as analytics, project management, finance experience and knowledge of systems and global business operations that can be seconded into first line support to keep critical activities going.

##### **3.1.2 Review of the Crisis Management and Business Continuity Plans**

Situations like the COVID-19 Pandemic reinforce the need for well-developed and tested planning. Crisis management and business continuity plans should clearly articulate designed roles, plans for communication and coordination, decision-making protocols and emergency action plans. Management should be reviewing these plans for any gaps. Internal audit can monitor this effort and provide advice where deficiencies exist.

##### **3.1.3 Emerging Risk Assessment**

The COVID-19 pandemic is proving to be a stress event that is testing all businesses' financial, operational and commercial resilience. Almost all businesses have experienced some form of cash and liquidity crunch as they have seen their income streams dry up during the crisis. The pandemic also forced many businesses to adopt remote working which has some risks such as increased susceptibility to fraud and other cybersecurity issues like hacking and phishing as workers access their employers' databases from home environments. There also legal and regulatory risks associated with failure to meet obligations during the crisis. It is the role to any internal audit function to continuously scan the business environment for any risks associated with the COVID-19 pandemic and make recommendations on how these risks can be minimised.

##### **3.1.4 Evaluation of Third-Party Relationships**



Since the pandemic has affected organisations in varying degrees, key suppliers and vendors may need ongoing monitoring. Business case and risk profiles for suppliers may have shifted due to changing business priorities as some have become constrained in the fulfilment of their contractual obligations or forced to close business due to the crisis. Internal auditors should therefore provide assurance on this.

### **3.1.5 Remote working**

The COVID-19 pandemic forced many organisations to either adopt or plan to embrace remote working. With the various measures undertaken to contain the pandemic, many countries were forced to implement lockdowns which left many organisations to only be able to continue operations digitally. The need to move the majority of the workforce to operate remotely occurred rapidly and led to increased cyber risks. It is important now more than ever for internal auditors to provide assurance on the risks associated with the remote workforce such as low productivity due to poor work spaces, lack of human interaction which is likely to impact mental wellbeing as well as increased risk of fraudulent activities due to limited oversight of teams.

## **3.2 RECOVER PHASE**

Having taken drastic and swift actions to respond to the initial crisis, moving to the 'recover phase' poses a more complex set of challenges. Even though this phase presents an opportunity to regenerate, restructure or realign an organisation, it is in this phase that businesses should address the COVID-19 related market and societal shifts that have caused substantial uncertainties or opportunities that need to be navigated and seized.

The focus for internal audit should be coming out of the initial COVID-19 response to be in the following areas which pose new/changing risks and thus require appropriate assurance:

### **3.2.1 Future of work**

The COVID-19 crisis forced many organisations to review their operating models and working practices to adapt to whole-firm remote working. The transition back into the office will create new challenges such as ensuring the physical and mental wellbeing of employees. Internal audit should play a role in providing assurance that work places are COVID secure before reopening and an ongoing role in this assurance thereafter. This will include reviewing the design of controls and the impact of these new practices over time, as transition arrangements evolve.

### **3.2.2 Technology investment**

The COVID-19 crisis created a massive shift in the uptake and reliance of technology on all fronts. Massive technology investment is expected in order to improve both front and back office digital capabilities. Previously committed improvement projects may be expedited while new transformational programmes taken up to support changing ways of working. Internal audit will need to be able to support the sudden growth in technology especially in regard to the risks associated with use of specific technology. Internal auditors will also need to provide assurance over the built-in resilience of the new systems as well as due diligence of new suppliers.

### 3.2.3 Controls redesign

The COVID-19 crisis led many organisations to realise quickly that many of the most critical operational controls will need to be digitised to function with an increased remote workforce. Internal auditors will need to respond to the shift of the control environment from inside typical business locations to various remote locations. Internal auditing will need to refashion itself to embrace more agile auditing. This will require internal auditors to re-think their risk assessment frameworks. It is internal audit's responsibility to evaluate not only the likelihood of new risks during this phase, but to also assess how quickly such challenges may arise and the extent of their duration. Agile auditing will continue to be the best way forward for internal auditors, as organisations adjust to a changed market and social environment.

## 3.3 RENEW PHASE

This is a reimagine and reform phase that is likely to be infused with the lessons being learned during the COVID-19 crisis. It is the stage at which organisations should contemplate what the '*next normal*' could or should look like in the context of the organisation's own landscape and that of the broader industry. Key activities for internal auditors in this phase include:

### 3.3.1 Advising on Future Risks

While organisations are focused on the immediate risks and challenges associated with the COVID-19 Pandemic, internal audit should support organisations in thinking beyond their immediate challenges. This could be to the wider risks that the organisation could face as they adjust to the '*new normal*'. These risks could include cyber, culture, human capital, supply chain, health and safety and reputational threats. Internal auditors should therefore update their capabilities in risk assessment as well as the skills to be able review the changes in risks that may arise. It is important that the organisation actively considers the lessons learnt from the crisis and is better prepared for any future crises.

Internal auditors should support their organisations to leverage automation to expedite key risk management processes and consider cloud-based risk management solutions that allow audit, risk, and compliance functions to quickly assess new and emerging risks, easily visualize the data, and create real-time risk reports.

### 3.3.2 Business Continuity and Disaster Recovery Plans

Many organisations were severely affected by the COVID-19 crisis partially because of the little attention given to business continuity in the past. Internal auditors must therefore ensure that their organisations put up business continuity plans and they should ensure that these plans are comprehensive enough to cover major unanticipated disruptive events, the magnitude of COVID-19. Internal auditors should provide assurance that the basic requirements to normal business operations such as critical operations, personnel requirements, equipment requirements and customer contact mechanisms are adequately covered in these plans.

### 3.3.3 Technology-Enabled

As future-ready professionals, Internal Auditors should help their organisation consider what critical technologies required for the future to help organisation leadership efficiently

create and execute effective response plans to future crises with a similar impact on business operations. For instance rethink workforce operations, building remote-working and collaboration capabilities, implementing cloud-based systems, enabling remote audit capabilities, improving risk and compliance systems, etc.

#### 3.3.4 'Next Normal' Internal Audit

Internal audit leaders lead a strategic evaluation of the Internal Audit function to:

- (a) Assess the internal audit plan and budget to understand if or how the pandemic will impact on resources available to the internal audit function.
- (b) Ensure that audit resources are focused on process and risk areas most important to the business in the post COVID-19 phase.
- (c) Reassess how the audit process and the way internal audit engages with process owners and clients can be made more effective and efficient. In particular consider opportunities to automate processes and aim for end-to-end audit workflow automation.
- (d) Consider the skills mix and also the mix of projects/engagement undertaken, so that internal audit can help the organization improve governance, risk, and control management.

A review of the Internal Audit function to is also necessary to assess quality, identify areas for improvement, and document an improvement plan aligned with the International Professional Practices Framework.

*The next normal calls for a transformed internal audit function that focuses on the risks that matter, is data-driven, is enabled by technology, has resources with deeper business skills, uses updated risk assessment, implements a dynamic audit approach, and delivers higher impact audits.*

## 4.0 CONCLUSION

Any crisis demands the best possible response from any organisation in order to minimise disruptions to organisational business. Therefore as organisations continue to grapple with the effects of the COVID-19 crisis, internal auditors have a vital role to play in guiding their organisation through the pandemic. The success of any internal audit function will depend highly on the degree to which agility can be adopted so as to add real value to organisations in their response to COVID- 19.

Internal Audit leaders need to:

- (a) Guide their teams to keep pace with the rapid changes in the business and control environment
- (b) Help their organisation to address emerging business risks and opportunities so as to thrive in the next normal
- (c) Make better use of data and technology so as to provide better insights and value to the organisation.