The impact of recent global trends

ECIIA
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Introduction about ECIIA

The European Confederation of Institutes of Internal Auditing (ECIIA) is the professional representative body of 34 national institutes of internal audit in the wider geographic area of Europe and the Mediterranean basin. The mission of ECIIA is to be the consolidated voice for the profession of internal auditing in Europe by dealing with the European Union, its Parliament and Commission and any other appropriate institutions of influence. The primary objective is to further the development of corporate governance and internal audit through knowledge sharing, key relationships and regulatory environment oversight.

ABOUT ECIIA INSURANCE COMMITTEE

ECIIA set up an Insurance Committee[1] in 2012 with Chief Audit Executives of the largest European Insurance companies. The mission of the ECIIA Insurance Committee is: "To be the consolidated voice for the profession of Internal Audit in the Insurance sector in Europe by dealing with the Regulators and any other appropriate institutions of influence at European level and to represent and develop the Internal Audit profession as part of good corporate governance across the Insurance Sector in Europe ». ECIIA represents around 47.000 internal auditors and around 12.000 are active in the insurance sector. The paper describes the results of discussions amongst the Committee members and we want to thank the Committee members for their input and James Fisher, Global Head of Audit Practice at AXA and Antonella Loffredo, Audit Manager at Assicurazioni Generali for their collaboration.

1 Stephen Licence (Legal & General) and Committee Chair, Amaury De Warenghien (Axa), Nora Guertler (Generali), Ann-Marie Andtback Beckman (Sampo Group), Martin Studer (Zurich), María Luisa Gordillo Gutierrez (MAPFRE), Andréa Joham (Uniqa Group), Dr Jeannine Bartmann (Allianz Group), Astrid Langeveld-Vos (Achmea).

1

Introduction

The Covid-19 pandemic has been the most significant disruptive event for decades, impacting the political, social and economic environment of insurance companies for years to come. It has been a catalyst for several distinct pre-existing macro trends which are described in the following.

USE OF TECHNOLOGY

Disruption to business also stems from technological advances which enable location-independent working. The Covid-19 pandemic has accelerated almost universally the adoption of technological solutions as coping mechanisms for lockdowns and travel restrictions.

Advances in data analytics and the consequent impact on auditing (as well as on insurance business) are not covered in detail in this paper, since they are covered in the forthcoming ECIIA Guidance Paper on unlocking the value of Internal Audit functions by implementing Data Analytics / Science.

WORKFORCE

With a significant part of employees in remote working from one day to the other and for at least one year, the Covid-19 pandemic has triggered a revolution in the daily life of white-collar workers. Impacts on performance, results, collaboration, teams, leadership, people development and management, professional threats and opportunities are just at the begin-

ning of being understood. A new comprehension is emerging for what diversity and inclusion can really mean, and what the opportunities of a truly diverse and inclusive workforce can bring both to the business and individuals. Beyond equality of opportunity, appreciation is growing for the benefits of having varied frames of reference and different points of view.

ESG, SUSTAINABILITY

Concern is increasing on global environmental and societal conditions, with the role industries play and are expected to play in actively contributing gaining attention.

TOPICS COVERED BY THIS PAPER

This paper addresses the following topics:

Impact of macro trends: on insurance and Internal Audit, focusing on those directly resulting from the Covid-19 pandemic[1];

Reaffirming the Purpose of Internal Audit: Judgement at the Core of Audit Assurance;

Impact of the New Ways of Working: Environment and risks;

Remote Auditing: Opportunities, Audit needs and limits;

Future of Audit Work in the light of process automation and remote working.

1 The specific considerations for Internal Audit resulting from the workforce and climate macro trends are included in a separate paper addressing ESG (Environment, Social, Governance) matters.

2

Impact of macro trends

IMPACT ON THE GLOBAL ENVIRONMENT AND ON INSURANCE COMPANIES

The impact of the Covid-19 pandemic on the global environment of insurance companies includes, inter alia, the following measures and subsequent effects, in a context of a general increase in political instability[2]:

• Lockdowns lasting several months in many countries and returning in waves, complete or partial closure of borders, obstacles to shipping of goods and travel, shift to remote working for a significant part of the population.

• Impacts on urban structures with cities starting to change, affecting also Real Estate.

• Drop in GDP in most countries as a result of contraction in many industries (e.g. aviation, tourism, manufacturing) and increase in insolvencies, with the risk of recession, increase in credit defaults and another financial crisis.

• Massive financial aid package by the EU and measures taken by the ECB to stabilize the economy, and other economic policies introduced outside the EU; subsequent expansion and extension of the low interest rate environment across the globe.

• Increased volatility on global equity markets: dramatic falls on equity markets in March/April 2020 followed by a period of recovery and potential repeats of the cycle as further waves or the economic impact of the pandemic materialize.

• Pressure on insurers from governments, regulators, the consumer protection bodies and public to share the consequential costs of the pandemic and to compensate customers above and beyond contractually agreed limits.

• Calls by the ECB, EIOPA and most European national supervisory authorities for insurers to suspend or defer dividend payments.

The key impacts of the Covid-19 pandemic on the business and risks to insurance companies are as of today[3]:

• Increase in financial risk (incl. impairments of assets) due to market volatility and low interest rates.

• Increase in liquidity risks as well as credit risks.

• Increase in operational risks: IT and security risks (e.g. functionality of IT and corporate processes during lockdown; cyberrisks due to a combination of an increased external threat potential and employees working from home) and Fraud risks.

• Significant increase in financial losses and underwriting risks for corporate business, depending on the portfolio and the underlying terms and conditions (massive increase in claims for business interruption and event cancellation).

• Increase in legal risks and compliance risks (e.g. requests to insurers to share in the consequential costs of the pandemic; legal rulings in the event of unclear or disputed terms in insurance policies).

2 For more details refer to the Joint Committee report on risks and vulnerabilities in the EU financial system (EIOPA, ESMA, EBA)

3 These and further risks are published for example by EIOPA in its Risk Dashboard..

• Increased understanding of the opportunities and benefits of a globally connected workforce and reduced need for corporate real estate.

REACTIONS OF INSURANCE COMPANIES

Most insurance companies have taken the following measures to face the crisis:

• Activation of Business Continuity Plans;

• Shift of large parts of their staff to remote work;

• Significant enhancement of IT infrastructure, network capacities and digital tools;

• Finance: Liquidity and cash management, updates of business plans;

• Underwriting: Review of contract conditions, removal of silent covers (e.g. pandemics, cyber);

• Product: Innovation and/or revamp of insurance products in order to meet clients' needs and protect the company from accumulation of risks;

• Managing the impact on business and operations in various ways (customer services, claims management, impact on underwriting, etc.);

• Steps towards digitalization of distribution activities, claims management and other client interactions points.

Regulators have contributed to the debate on how to help citizens to deal with Covid-19 impacts. EIOPA for instance, in a statement on actions, launched a call to action for insurers and intermediaries to mitigate the impact of Covid-19 on consumers.
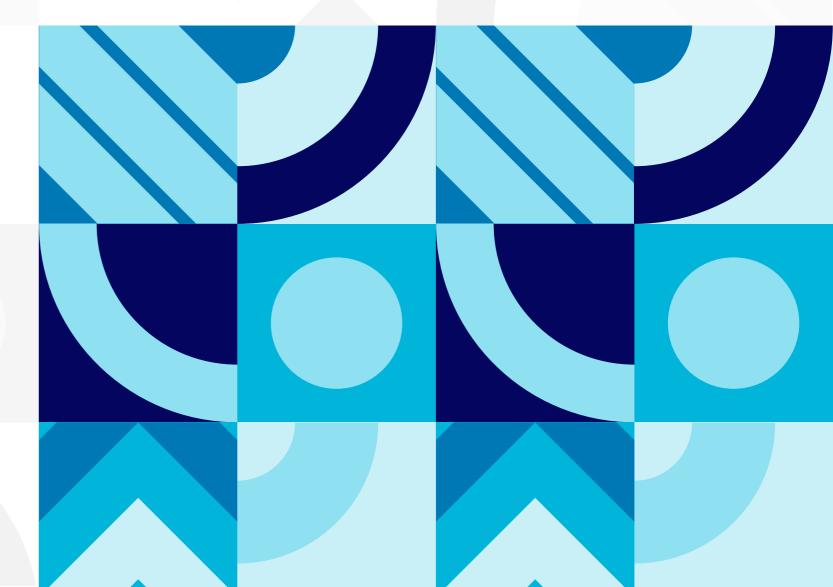
IMMEDIATE REACTIONS OF AUDIT DEPARTMENTS TO THE CRISIS

In view of the crisis and the shift to remote work, many Internal Audit departments have taken one or more of the following ad hoc measures in response to the Spring 2020 lockdowns:

• Updating the audit risk assessment

• Reviewing audit planning and adjustment of plan timeframes

• Presentation to and approval of the Audit Committee of envisaged changes of the audit risk assessment, the audit plan and potentially of audit operations

• Extension of the planned implementation dates of all or some outstanding corrective actions

• Flexibility with the deadlines established for answering draft reports and providing action plans

• Providing temporary support to other business areas during the acute phase of the crisis

Moreover, Internal Audit has experienced the same adoption of remote working as other departments, with a variety of consequences, for instance a resultant further shift towards fo-

cusing on outcomes (quality and productivity) rather than time spend, and heightened focus on communication, team management and support.

3

Reaffirming the Purpose of Internal Audit

The Institute of Internal Auditors (IIA) sets the purpose of internal auditing as: an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes[4].

The IIA has further defined the core principles that Internal Audit should exhibit to be effective in achieving this purpose:

• *Demonstrates integrity*

• *Demonstrates competence and due professional care*

• *Is objective and free from undue influence (independent)*

• *Aligns with the strategies, objectives and risks of the organization*

• *Is appropriately positioned and adequately resourced*

• *Demonstrates quality and continuous improvement*

• *Communicates effectively*

• *Provides risk-based assurance*

• *Is insightful, proactive and future-focused*

• *Promotes organizational improvement*

Moreover, the International Standards for the Professional Practice of Internal Auditing, define the assurance provided by Internal Audit as follows: "Assurance services involve the internal auditor's objective assessment of evidence to provide opinions or conclusions regarding an entity, operation, function, process, system, or other subject matters. The nature and scope of an assurance engagement are determined by the internal auditor". Further insight and requirements on Audit work can be found in the ECIIA Guidance Paper on Internal Audit[5].

In the pandemic context of significant change and accelerating trends, any impact of the situation on Internal Audit's purpose needs to be considered.

Both the purpose and principles hold true and already include forward-looking focus on improving the company's management of risks, whatever these risks may be and their rate of change. In the pandemic situation caused by Covid-19, there is even more need for Internal Audit to provide assurance, to be insightful, proactive and future focused, and to promote organizational improvement. Generally, the core principles have historically been managed "on site" involving a degree of physical proximity with management. Therefore, the specific impacts of the shifts in company operations and the way auditors work resulting from the pandemic, which limit this contact, further strengthen the need for effective communication, and the principle of aligning with strategy, objectives and risks is particularly relevant. To be truly future focused

4 https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Definition-of-Internal-Auditing.aspx

5 https://www.eciia.eu/wp-content/uploads/2019/06/ECIIA-Display-8th-draft.pdf

requires strong relationships with management to have a continuous dialogue, i.e. not limited to individual assignments, planning discussions and committees.

The assurance which Internal Audit provides as the core of their services requires an objective assessment of evidence. In order to align to the company's priorities and risks, and to provide useful, sound assurance, Professional judgement, based on relevant information, remains a key requirement for internal auditors. Although professional judgement can be built on a variety of inputs and sources, the availability and accessibility of relevant information may be affected by the change companies are going through in response to the pandemic situation. The Covid pandemic merely serves to reinforce the importance for Internal Audit to be forward-looking, and that requires regular interaction and deep knowledge which can be limited where staff work excessively remotely. This is explored further in the sections 5 and 6 on Remote Auditing and the Future of Audit Work respectively.

4

Impact of the New Ways of Working

MEDIUM-TERM IMPACT ON THE WORKING ENVIRONMENT

In the lockdown phases of the pandemic, remote working has become standard for white collar workers. Some companies envisage operating wholly through remote work, seeing the benefits of global connections, and using virtual conferencing tools to compensate the loss of physical interaction. With increasing pressure on revenues resulting from the strain placed on economies and populations come new initiatives on reducing business travel, expenses and even company premises. It remains to be seen to what extent the temporarily imposed switch from human contact to a virtual environment will continue once the political restrictions have been lifted. After having experienced significant cost reductions during lockdown phases, many companies will not return to previous levels and instead point at sustainably lower expenses. The temptation to cut travel significantly needs to be tempered with a discretionary need to travel and meet in person. Nonetheless, a degree of remote working is here to stay.

OPPORTUNITIES OF A REMOTE WORKING ENVIRONMENT

The opportunities of a largely remote workforce include that geographical resourcing becomes less important. The skills of a global workforce can be more easily leveraged to optimize resourcing, and indeed hiring, beyond the confines of a particular location (office, country or even continent). This can be beneficial for both long-

and short-term assignments. Obviously, the knowledge of the local situation, regulation and language needs to be ensured.

As for the abovementioned short-term expense reductions for companies as a consequence of large-scale remote working, these need to be balanced against medium-term impacts including the risks mentioned in the section below. At the current stage, this trade-off is difficult to assess, but will become clearer in the following months and years.

RISKS OF AN ENTIRE SHIFT TO REMOTE WORKING

TO STAFF: WELL-BEING, PHYSICAL AND MENTAL HEALTH

Staff that work entirely from home can suffer from increased stress, depending on personal circumstances. Where living alone, the loss of contact and particularly informal interactions, can result in isolation and disconnection, real or perceived. Moreover, during the most severe forms of lockdown such as those seen in Spring 2020, schools and childcare centres were shut resulting in staff juggling work with teaching or looking after children. Although such an extreme situation is unlikely to become permanent, a workforce which is substantially working from home exacerbates the need for flexibility and for employers the need to understand the specific personal circumstances of each member of staff to prevent psychosocial risks.

Without the "convenient" commute to

bracket the working day, the distinction between work and home life can become blurred. Without encouraging staff to switch off, overwork can become as real a risk as managers not realizing that some staff may be underworked, but with a greater personal toll. Inadequate home office environments can compound the effect, particularly where staff had to make the emergency switch over in early 2020. Adequate and healthy home working arrangements, such as providing monitors and chairs, can be managed for longer-term working from home arrangements. However, there will always be limits in some cases, such as not having a dedicated room separate from other household activities.

Clearly, new rules are needed and will require agreement with workers' unions. In the first instance, clarity is needed on what is meant by "Smart working", what this package precisely includes and how this is distinguished from the merely logistical questions of "remote working".

TO ORGANISATIONS: CONFIDENTIALITY AND SECURITY

Without the physical security of the office, confidentiality can be more of a problem, for example when video or phone calls take place either from home or from public places. Moreover, company information is likely to be generated and managed outside the office, which calls into question the boundaries of what constitutes the company, when storing, accessing or managing hard documents occurs in a decentralized way. This concern also applies, in a slightly different way,

in a paperless environment. In most cases, employees do not have a separate office at home which can result in the following unintended consequences:

• *Access by third parties – people not working for the company can access company records and information, even unintentionally, and materials.*

• *Eavesdropping – with people working from home, phone calls and video conferences might be overheard by friends, family members, neighbours and/or staff such as the cleaner.*

• *Unsecure data storage – compounded by the potential increase in use of private storage devices in the absence of proper office infrastructure. For instance, without scanners provided by the company, confidential documents can be stored, possibly temporarily, on mobile phones and uploaded to weakly-protected private cloud storage. Where private cloud services are used, particularly to transfer data, the location of these data is not always managed, and privacy regulations may not be respected. Securing data storage is a matter of IT management and not strictly linked to remote working; nevertheless, the abrupt switch from company premises to private locations has exacerbated this peril.*

• *Insufficiently protected networks – private routers generally provide less secure connections than those managed by professional security staff. However, companies unused to massive remote working or unwilling to accept the cost may not have sufficient technical capacity to support*

systematic use of secure connections such as through Virtual Private Networks (VPN).

• Potential tax, labour law and other regulatory risks – the virtual world blurs borders and what may constitute cross-border operations, sales and working may result in new dimensions to various regulatory frameworks designed when market and entity borders were more enforced.

• Control of employees in critical areas – there are first observations that extensive remote working can present a significant risk for companies in areas where a defined level of control is key, for instance regarding market abuse in fund management activities[6].

Furthermore, the threat from criminal agents has increased during the pandemic as certain groups try to take advantage of the slackened security enjoyed by employees, with an uptick in e.g. phishing attacks and attempts to install malware via cyber-attacks.

IMPACTS OF REMOTE WORKING ON COMPANIES

INFORMATION FLOWS AND DECISION MAKING

The shift to remote working has reinforced the already visible trend to shift part of a company's information flows to virtual communities. In some cases it is not yet clear how and whether they are managed and who should participate. Whilst the classical information flows defined by the company's hierarchical structures

have remained also in times of remote working, informal information flows "at the coffee machine" have been significantly reduced. Casually meeting many people at the same time in the office, also spontaneously, seeing their faces and deciding ad hoc whether to talk to someone has disappeared in a remote world. Participation in information flows happens on invitation, increasing the siloes between different areas of the company and even people in different departments. The "3-minute elevator chat" has become rare. Those in the company who are already strong and well connected are becoming even stronger, others risk being left behind.

Only time will show the impacts of these developments on the quality of decision making, when even leaders might have a less complete view on the overall situation when taking their decisions.

COMPANY CULTURE AND COHESION OF TEAMS

As an impact of remote working, professional interaction is becoming more transaction-based, with a reduction in the relational part. In the short term this has increased productivity in many areas, whereas in the medium and long term, neglecting relationships will take its toll. After almost one year of extensive remote working in place, many companies observe a drop in the engagement of their employees. The risk of a decrease in employees' identification with the company and of their motivation in a remote or hybrid working environment needs to be well understood and managed[7].

Creating and maintaining cohesion

across the workforce is a challenge as the sense of belonging may be impacted while companies adjust to the new ways of working with less physical contact. Even recognizing that a company is more than just its walls, successfully onboarding joiners in a situation where they may not meet their teammates in person for potentially an extended period of time is difficult. The consequences on individual development need to be considered, particularly for junior staff acquiring professional experience. Less cohesion and a weakened company culture will adversely affect a company's sustainable development in many dimensions, e.g. as a consequence of less impactful informal information flows, staff less willing to go the extra mile and difficulties to retain talent.

The already existing trend towards social media driven digital interactions puts companies in an environment of faster changing teams when people group together according to their current topics of interests. In combination with the impact on company culture and the cohesion of "classical" teams described above, this may result in the need to rethink corporate organization in the medium and long term.

LEARNING AND PROFESSIONAL DEVELOPMENT

The new ways of learning and developing professionally have moved trainings from the classroom to virtual platforms. The Covid-19 outbreak has emphasized the potential of digital learning due to the constraints imposed on social distancing, travel and events. Organisations investing or planning to invest in digital learn-

ing tools for upskilling, reskilling and continuous learning, will be better positioned to retain their top talent and create future-ready leaders. However, the benefits of digital learning need to be distinguished from on-the-job learning, observing colleagues and leaders, and the onboarding of new joiners as explored further below. In general, companies need strong training plans in a remote world, in order to consciously compensate the above-mentioned effects.

IMPACT ON PRODUCTIVITY

Some research highlights that remote working does not result in a reduction in productivity. Companies that were already collaborating effectively and working productively before the pandemic have remained productive during lockdowns and other disruptions. Stay-at-home orders freed-up time previously spent commuting and created flexibility in work schedules, enabling many employees to devote additional time to their jobs.

On the other hand, a contributor to the increase in productivity is the tendency to overwork in a lockdown situation. In addition, productivity at home depends on the precise conditions there, which is outside the sphere of influence of an employer. Whilst some employees benefit from a fully-fledged home-office including a quiet and concentrated atmosphere, others will find it difficult to concentrate when sitting at the kitchen table, with their partner doing phone calls in another room and the children requesting the attention they can rightfully expect.

6   Financial Times, February 15, 2021: "Homeworking sparks red flag alerts over market abuse"

7   Il Sole 24 Ore: "Lo Smart Working sta riducendo la capacità di creare innovazione"

Moreover, the productivity levels observed so far also benefit from personal relations established in the past. Therefore, it should be observed attentively how productivity develops over time, when an increasing number of people is working together although they have never met in person. There is certainly a risk of a decline in productivity in the medium and long term, depending on the specific tasks, the duration,   and the conditions of remote working.

IMPACT ON CREATIVITY AND INNOVATION[8]

In a fast-changing environment, creativity and innovation are crucial for companies to survive. Infrequent physical presence in the office reduces the occasions to work together on less formal and more creative activities, i.e. those which create innovation, in different business areas and on different topics. Video calls are often too "cold", too structured, too focused on the content to be discussed and too little on relationships and emotions. Since these phenomena are difficult to measure, at least at short notice, there is a risk of taking them into consideration too late.

IMPACT ON THE INTERNAL CONTROL SYSTEM

It is not easy to assess the comprehensive impact of remote working on the Internal Control System. The underlying trend of digitalization moves many standard controls into technical systems, where the controls themselves can be checked automatically. Such digital processes are working independently of where people are working from. An assessment of their functioning then consists in a "meta-control" verifying that the entire system of controls is working well, which on the one hand can be done remotely, on the other hand it adds value to talk to the people having designed and maintaining it - not only remotely, but also in person.

An increased threat potential from cyberattacks of all types, and the now absolute reliance on IT infrastructure, require a significant reinforcement of the Internal Control System in these areas. Here, as discussed above, remote working contributes to the necessity to reinforce controls and increases the inherent risks regarding the lack of confidentiality and cyber threats.

Finally, how the impact of remote working with its reduction or absence of physical interaction on company culture, learning, and professional development affects internal controls still needs to be assessed. It is likely that threats in these dimensions translate into weaknesses in the Internal Control System and consequently need to be mitigated. In particular, such threats will have a significant impact on control over non-standard or ad hoc decisions, and potentially less on standardised, routine transactions. In general, a response to these enhanced requirements on the Internal Control Systems can consist in reinforcing controls at the basics following a "security by design" logic.

8 Il Sole 24 Ore: "Lo Smart Working sta riducendo la capacità di creare innovazione"

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Remote Auditing

OPPORTUNITIES OF REMOTE WORKING FOR INTERNAL AUDIT

Sophisticated and widely available digital tools are now a reality and enable collaborative working in virtual teams. Remote auditing can offer valuable opportunities to Internal Audit to manage costs more flexibly and reduce its travel expenses and optimize how audit skills are deployed. A better use of skills in the most appropriate ways and areas will lead to a better coverage of the associated risks by audit activities. Some audits, and some parts of audits (such as data-intensive analysis) can be managed without the need for extended physical interaction with auditees. If these audit activities are adequately identified and planned, they can offer increased value-for-investment when being less bound by the time constraints of traditional onsite auditing.

Sustained remote work, with the reduction in commuting and travel times to distant locations, can also represent a significant saving of time, potentially translating into increased efficiency and productivity as explored above. This needs to be balanced with the more difficult and potentially reduced access to information when working mainly remotely.

When the workforce is primarily location-independent and works in a significantly remote environment, communication structures and channels can evolve. However, knowledge of local operating environments (market, customs, competition, language, specific regulatory requirements and expectations) should not be underestimated and balanced against the pur-

suit of technical or soft skills. Since the world is not politically and demographically uniform, location will continue to be a significant differentiator irrespectively of digital connections. Auditors need to be able to factor this into their audit plans and work.

AUDIT NEEDS

MAINTAINING AUDIT EFFECTIVENESS

The effectiveness of Internal Audit and the need to maintain the quality of its work and to unearth root causes is a prerequisite of all further considerations. Since companies change at a quick pace, also Internal Audit needs to adapt to make sure that its approach and techniques remain relevant to produce outcomes in line with audit objectives. On the one hand this means catching the opportunities in times of change, on the other hand recognizing existing limits so that they can be taken into consideration and their impact minimized. Particularly in a situation where spontaneous access to people and information is limited, there is a high risk of not being fully aware of what is happening in the company and hence missing changes in its risk profile.

CHECKING THE INTEGRITY OF INFORMATION

The need to check the integrity of information is not new, but it continues to be relevant despite the shifts to digitalization and working from home. A majority of business processes being managed digitally does not mean that a computer is the only tool needed to audit those processes. There will al-

ways be a need to talk to the operators developing or using the digital tools, which in some cases can be done remotely, in some cases not. Care in testing is still needed to make sure that complete and accurate data is being provided from the source system(s).

UNDERSTANDING STAKEHOLDER NEEDS

Internal Audit should always consider the needs of its stakeholders, whether external, boards and non-executive management, or executive management. It should be considered whether these needs are changing or have evolved during or further to the Covid-19 pandemic, as well as and the resulting changes to business operations and audit work.

DIVERSIFYING SKILLS IN THE AUDIT FUNCTION AND DATA-DRIVEN ASSURANCE

In an increasingly digital world, Internal Audit needs to diversify its skills, hiring IT auditors, data scientists and those coming from related professions. A corresponding shift to data-driven assurance is not the core topic of this document but treated in a different forthcoming ECIIA paper. This trend is less influenced by remote working and hence is more robustly aligned to different working models.

LEARNING ON THE JOB

More than other professions, due to reliance on professional judgement, Internal Audit leverages on on-the-job learning as a primary lever for individual development, particularly for those just starting out. This is because becoming a good auditor requires not only deep knowledge of business

processes and audit techniques, but also of the competencies to demonstrate authority, credibility, and ethical conduct which is essential for valuable internal audit activity. This is not taught in a traditional classroom context but developed through observing others and working together in person. Working in close contact with experienced colleagues enables junior staff to learn the everyday behaviours which lead to successful auditing. Such exposure is curtailed when working solely remotely since all interactions are planned to some extent; there is a limited opportunity to truly shadow someone or observe firsthand working practices.

THE LIMITS OF REMOTE WORKING FOR AUDITORS

GENERAL LIMITATIONS: RELATIONSHIPS, SPONTANEITY AND CONFIDENTIALITY

Working through the pandemic has demonstrated that a switch to full remote auditing is manageable in the short term. However, it relied to an extent on staff already having built relationships and already having a certain amount of knowledge, carried along by momentum. As the initial reference point recedes further into the past, the continuing ability of audit teams to sustain effective auditing in the face of staff turnover in business areas and in audit teams should be regularly examined. New ways of managing durable knowledge and information flows will need to be developed.

Conducting audits relying solely on digital contact can limit audit effectiveness, despite the improvements in video calling technologies which continue to receive regular updates and enhancements to features. It is more difficult to read body language, establish tone, and build rapport and relationships with auditees and the business at large. It is also harder to derive insights that normally result from in-person walkthroughs. A benefit of face-to-face interactions is that they naturally create more opportunities to spend time developing a relationship beyond the immediate engagement, which is important in being a trusted partner to the business. This is because auditors are more likely to spend time on non-work-related conversation at the start or close of face-to-face meetings, whereas "getting straight down to business" is more likely with electronic interactions, as is asking fewer questions. Moreover, face-to-face interactions tend to produce more dialogue and a richer discussion, particularly where the participants do not know each other well as is often the case during audits.

Fluid dialogue, during audits and outside audits, is a key requirement for auditors to exercise reasonable judgement. Over-reliance on data without contextual interaction is inherently limited as the data represents what the company already "knows". Some meetings with the business which are more easily managed in physical proximity, such as delicate audit closing meetings where body language is key, and video can result in people talking over each other. More generally, all meetings needed for assessing and understanding the auditable scope (particularly in considering new or emerging risks and avoiding "blind spots" through missed interactions with senior business management) are more effective in person.

Moreover, where the vast majority of communications across the company are managed through electronic means, the fact that it is possible that any or all might be retained on record may result in more guarded discussions, less spontaneity and important bits of information untold. Taken in combination, this can further impair auditors in building rapport and running effective interviews.

LIMITATIONS OF TECHNOLOGY

Depending on the location of the auditee and technology used, one of the main challenges organizations can run into is logistics. The reliability of network connections may vary by location, which can cause interruptions in interviews and other meetings. Technology challenges can also impede document sharing, for example if auditees have difficulty accessing the VPN to show evidence. Solving network and application issues can be time-consuming and frustrating, especially when employees are working from home. Technical issues will hence result in a loss of productivity, and in worse cases a decrease in reliability of information and therefore in the quality of assurance given by internal audit.

In cases where a company has a low degree of automation, process steps heavily reliant on paper documents and other manual activities can only be transferred to home office to a very limited extent, often with significant losses of efficiency. Moreover, the move can have been made in emergency circumstances potentially disrupting the effectiveness of the process (for example where certain steps reliant on access to documents that are no longer easily available are missed). The same is true for any associated controls: matching paper documents is a logistical challenge where documents can no longer be accessed or are dispersed throughout the homes of various members of staff. For such processes and controls, the impact on the ability of Internal Audit to effectively undertake a review is severe and this follows through to corporate governance and the liabilities of senior management.

IMPACT ON JUDGEMENT AND AUDITABLE AREAS

Overall, the elements auditors rely on to exercise their professional judgement are limited when parties work entirely remotely. The extent of the limitation will depend on the specifics of the company and the scope of business activities.

Specific examples of audit activities that may be limited when conducted remotely are walkthrough test (you only see what you are shown), auditing certain activities (e.g. real estate, facilities management, secure areas such as call centres or trading floors) or on new/unclear processes or involving counterparts with a complex relationship.

IMPACT ON THE ADVISORY ROLE OF AUDIT

Since extensive remote working is increasing the siloes, making personal relationships and informal information flows more difficult and presenting new challenges to stakeholder management, also the Advisory Role of internal audit can be negatively impacted.

6

Future of Audit Work

Despite the changes introduced in reaction to the Covid-19 pandemic, in most cases Internal Audit's activities have resettled. The framework around reporting indicators (e.g. plan progress, business responsiveness to audits and remediation of issues) should not fundamentally change in a remote working environment. That is, although for example the target dates on certain issues may be legitimately changed in order to take into account the crisis or the new emerging priorities, the way those changes are handled should be treated and reported in the normal manner with the legitimacy validated case-by-case rather than applied by default.

Audit plans should continue to be flexed to account for changing circumstances such that it is demonstrably always "the right plan". The degree of that flexing may increase during times of acute change or stress such as those introduced as the effects of the Covid-19 pandemic and related public health policy changes come into force. Nonetheless, it remains important to set and monitor a plan of work to provide a baseline that can be understood and challenged, and to which Internal Audit can be held accountable for its coverage, production and decisions. These decisions may result in enhanced focus on particular areas of the business and less attention on others; the impact of such shifts needs to be transparent and justified such as to be approved by the competent corporate bodies.

Although in times of acute crisis, Internal Auditors should be permitted to support the business on critical activities, once normality (which may be different from the preceding normality) resumes, this should be limited. Independence from operations is a key tenet of Internal Audit which enables objectivity and needs to be preserved; any activity which could create a conflict of interest should be carefully managed and the pandemic does not change this requirement.
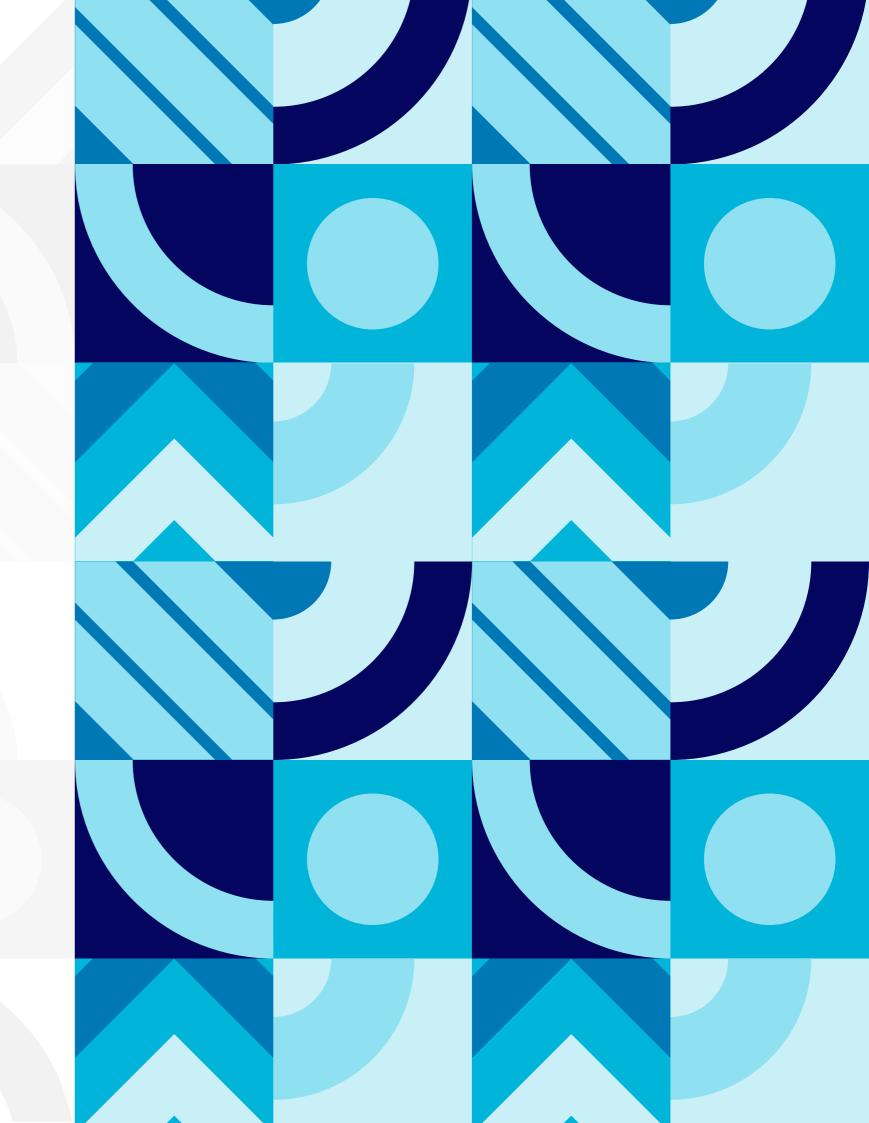
Internal Audit's organizational chart generally reflects business operations or is at least reactive to how business operations evolve. As a result, structural impacts of the changes the business is going through with its own handling of remote working and increases in automation may be greater in the long term.

BUILDING ON THE RIGHT MIX OF PHYSICAL AND REMOTE WORKING

Internal Audit should maximize the opportunities of remote working, but at the same time manage its limits, balancing the remote and the onsite work in order to maintain audit effectiveness. Auditors should make the most of digital tools. As remote working can result in the loss of occasions for small talk or quick checks, digital tools offer a way of "chatting" which can be particularly useful as senior members of staff become used to being contacted in this way as it involves less formality than booking a meeting and preparing an agenda. However, if possible, in order to prevent impoverishing the relationship with the busi-

ness, the main meetings with the business should be managed in person, where possible, to maintain the opportunity for less formal interaction.

Using agile techniques, that have proven beneficial when teams are physically together, can compensate the limitations of fully remote work and are compatible with virtual collaboration. The increased stakeholder engagement and communications (both within and outside Internal Audit) should enable teams to make the most of the flexibilities and opportunities represented by remote work, particularly as companies in general are adapting to remote work at the same time as Internal Audit does. It also means that both audit teams and business stakeholders are better able to manage their time flexibly focusing on the areas of the audit with most value.

Where remote auditing is the chosen approach for an assignment, the audit team should consider making sure that existing data analytics are anticipated so they can complement the remote interviews and identify areas of particular focus during scoping activities. The right investment of effort needs to be considered so that data can be effectively sourced and analyzed in time to contribute to the audit work supporting the conclusions.

7

Conclusion

CONCLUSIONS

It is not easy to predict to which degree remote working will become permanent, either generally or, in particular, for Internal Audit. It is likely that a balanced ("hybrid") model between physical and remote working, possibly with greater geographic dispersion, will prevail in the near future, as companies are beginning to understand the benefits and limits the new working models.

Internal Audit will consequently adapt its way of working to best suit the model deployed by management. Internal Audit should not be pre-empting such changes, instead being sufficiently flexible to accommodate changing circumstances, while remaining closely associated with stakeholders. Precise and timely information is key for auditors, especially for punctual high-quality risk assessments, an approach of prevention and the advisory role. In-person interactions are and will continue to be a key part of audit work and of building fruitful relationships, both needed to provide effective assurance and add value.