The impact on Internal Control of COVID-19

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The virus impacts the health of people and spreads quickly leading to high levels of hospitalization and mortality.

This requires the introduction of social distancing measures.

... which impact the ability of people to work.

...and lead to major impacts on the economy.

...which require significant economic support and stimulus packages.

This requires a rapid build up of health system.

* Extract from The impact of COVID-19 on the role and activities of internal audit. PEMPAL April 2020
The effectiveness of the public sector response to COVID-19 is THE critical success factor that will determine whether people live or die and how quickly national & global economies recover.

The need for rapid and costly action will put enormous strain on the effectiveness of internal controls and increase the risk of fraud & error.

The Work internal audit units should do to help public sector institutions achieve their goals in tackling the pandemic.

How IA can carry out this work at a time of limited social contact.

Internal control will change during the crisis, where a delicate balance needs to be maintained between operational imperatives and financial control.

Because controls will be applied in a different way the risk exposure will also change.

* Extract from The impact of COVID-19 on the role and activities of internal audit. PEMPAL April 2020
Some of the main Impacts on Internal Control

1. Changes in the way controls operate— the shift to remote working
   - Inability to carry out physical inspections of assets
   - The need for electronic approvals of transactions and stronger segregation of duties
   - Network security concerns and the use of technology to reinforce segregation

2. The rapid introduction of major financial support programs
   - Major and necessary projects that carry a high level of risk of fraud
   - These may require difficult decisions on the balance between risk and efficiency

3. The impact on people
   - The difficulty of maintaining an effective control environment & motivating staff
   - Whether internal Controls meet new health & social distancing standards
   - Psychological impacts of the fear of the virus and of working remotely

4. Changes in risk profiles and risk management
   - The shift to Crisis Management rather than Risk Management
   - The need to review business continuity plans?
Findings from a SIGMA Review of Internal Controls across EU countries April 2020

Where well established, internal controls seem to continue to operate as before the crisis, especially in those countries that have mostly electronic systems in place and have not had to change any specific procedures or processes.

Where less well established, interim solutions have been introduced: physical signatures, for example, have been replaced by e-mail approvals.

The biggest challenge is likely to be the beneficiary authentication and fraud prevention for major financial support programmes. These programmes will be targeted by criminals.

At the third line, Internal Audits are continuing but with little or no face-to-face contact with audited entities. Audit work is being undertaken through videoconferencing and other IT tools. IA staff can access most files and audit materials.

External Audit plans have also been severely impacted by COVID-19.
Discussion

Thanks for listening