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# Providing assurance in uncertainty

Audit / Tax / Advisory / Risk

# Internal Audit's response during COVID-19

Changes brought on by the COVID-19 crisis have created new priorities and risks for organisations. In all cases this has affected the delivery of the services and operations of the organisation in some form. For some activities have been halted or drastically changed in the short term. For others it has meant operating at full capacity supporting service users and beneficiaries, irrespective of the logistical and potential funding uncertainties.

Many organisations have continued with some or many of their activities, making adaptations as necessary, such as moving to online and remote ways of delivering products and services. Where services are deemed essential, organisations have had to continue to deliver these whilst seeking to manage the risks to staff and those they serve.

***The current uncertainty presents a huge range of challenges to both the organisation and internal audit. It may be tempting for an organisation grappling with the challenges of operating in crisis mode or adapting to new ways of working to deprioritise the assurance process. However, it is precisely that level of uncertainty which drives risk and the need for independent challenge and assurance.***

Internal audit functions have been affected in many different ways. In extreme situations, internal audit teams have completely stopped their normal and planned activity and been seconded to support the second line of defence deal with emergency situations. The critical aspect of this is utilising the right skill sets to support the organisation. More generally, the changes in organisational activities and priorities resulting from the COVID-19 crisis mean that some audits in the internal audit plan may no longer be relevant whilst some new priority areas for internal audit are becoming apparent.

Importantly, where internal audit teams are working to a risk-based audit plan which is periodically refreshed, then many of the functions and processes due to be audited are still in place and the risk-based reasons for the audit are still valid. If the circumstances allow it then by following an adapted audit delivery approach some audits can still go ahead providing valuable insight and assurance.

**In structuring this paper we have set out the following sections:**

**1**  
Refocussing internal audit

**2**  
Case Studies from across the non profit sector

**3**  
Audit delivery

**4**  
Internal Audit risk considerations

# 1. Refocusing internal audit

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In determining the role of internal audit at this time, there are a number of areas to inform the focus of the work:

- In some areas of operations risk profiles have changed drastically, predominantly increasing but in some areas reducing due to activities not taking place (such as development programmes being put on hold due to lockdown or teams being furloughed). As a result internal audit needs to change its focus to the emerging risks.
- New short term audit plans need to be drawn up to include these risks posed by COVID-19. Whilst a number of aspects of the longer term plan may remain, coverage and the plan itself should be focussed on the immediate and medium term horizon.
- Internal Audit should not be afraid to challenge either decisions and/or approaches to risk mitigation. Internal Audit can use the insights gained from its work across the organisation to highlight potential areas of risk for the executive team to consider.
- Internal Audit can support the horizon scanning process by engaging with peers and sector groups to identify what is working and the challenges the organisation is encountering. Also, Internal Audit can act as a filter for information to support management, the Audit Committee and Board.
- There may be a requirement to step into second and even first line functions in order to support other departmental functions. There is a recognition that this is something that can be reassessed in the future. Supporting the updating of risk assessments and business continuity plans in place right now is a key priority.
- It is widely anticipated that there will be an increase in the risk of fraud in a period of economic uncertainty combined with changes in working practice. Internal Audit teams have a critical role in raising awareness, strengthening preventative controls and at times, taking on increased checks on basic functional activities.
- Its potentially a time to temporarily modify the internal audit approach – organisations need to maximise value without the resourcing impact of the full audit process. Adopting an agile approach – potentially with short sharp dipstick reviews and/or substantive testing of payments being processed.

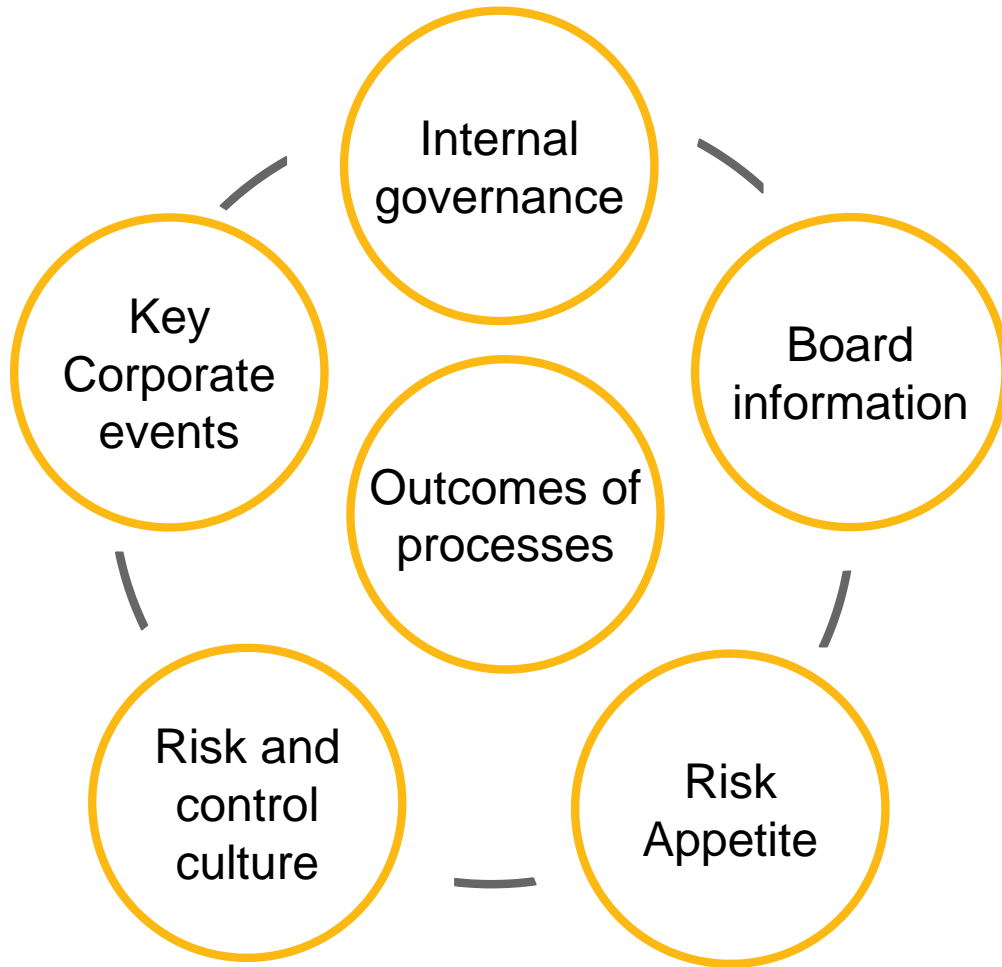
Prioritise

Risk assess

Mitigate

Support

# 1. Refocusing internal audit



The areas in the diagram on the left summarise the scope of internal audit in line with the Institute of Internal Auditors Revised Code of Internal Audit Practice which, whilst developed prior to the crisis, provides a useful framework for focussing internal audit in the current period. In Section 4 we have mapped a number of potential areas stemming from this thinking, with aspects of this considered below:

**Internal Governance** - Organisations will remain in Crisis Response/ BCP mode but one point of focus is to consider any changes to financial/ non financial delegations of authority and how they are applied.

**Key Corporate Events** - There may also be instances where the current control processes and responses need to change – for example, there may be reduced financial thresholds for delegated authority and a need for enhanced due diligence monitoring for key suppliers.

**Board Information** - It is not expected that all decisions will be perfect but there is a need to be able to support the decisions which are/were made, including the data behind them. Assurance regarding the response plans and the trail of key decisions may be beneficial at this time to facilitate Executive and Trustee decision making.

**Outcomes** – what would the outcomes of the processes look like during this period? Will these have changed, and if so what would this look like in terms of data and outputs? For example, if a programme is now being delivered remotely how can success be measured and assured?

**Risk and Control Culture/ Risk Appetite** – assurance regarding how this is being applied, what changes have taken place and any changes in observed behaviours, both now and in an “Return to Office” situation.

## 2. Case Studies - INGOs



### Case Study:

The team is dispersed across a number of countries. Whilst there has been an impact on the team being able to travel the internal audit team is involved with working on the impact and emerging risks that COVID-19 is having on the organisation. The standard audit methodology has essentially been abandoned and replaced with an agile approach focussed on new risks. The internal audit team is also stepping in to support front line functions.



### Case Study:

Internal Audit are reviewing the work of the COVID-19 Response task force, providing assurance advice on controls that would reduce the exposure of fraud and other types of risk. Members of the team are seconding into Finance and Compliance roles to assist in operational activities. Changes in role have been subject to approval of the Audit Committee.

Agile approach

Secondments



### Case Study:

The current internal audit plan has been put to one side, with an emergency three month work plan is under development, thinking about the emerging COVID-19 risks. Programme work has been significantly impacted, which is a key consideration for the emerging plan. There is a wider consideration of higher risk financial programmes and how to obtain assurance in respect of activity. The team are proactively assessing how to utilise data analytics as part of the audit process.



### Case Study:

Internal Audit providing support in changing the approach to delivery models. Internal Audit is currently reviewing the audit plan and considering emerging risks.

Emergency plan

Data analytics

# 2. Case Studies – National Charities



## National Charity

The current internal audit plan is on hold with the team being involved across a number of the areas of the business. A key area of activity has been to take a light and dynamic approach to a monthly review of the BCP and Crisis response.



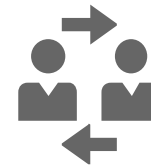
## National Charity

Key area of support from internal audit has been in relation to business continuity, including consideration of remote working and support. This has included a business readiness assessment to prepare a specific COVID-19 risk register. At present there is more of a focus on providing support rather than undertaking audit work.



## National Charity

Internal Audit has been reviewing the fraud risk assessment with the changing control environment, including what has changed and the application of delegation of authority, particularly if a member of staff is unavailable.



## National organisation

Reflecting the challenge to preserve cash, an element of the organisation has been put into 'hibernation' where it cannot operate at full capacity. The audit plan is currently on hold as the internal audit team move to support the organisation. There is a key challenge and consideration in respect of providing support to team members who are working remotely.

Light and dynamic

Business continuity

Fraud risk

Support remote team members

# 3. Audit Delivery during this time

The interim and new ways of working represent a challenge to the more established mode of internal audit delivery. Most internal audit programmes pre crisis were focussed on the most significant risks and challenges to the organisation combined with a rotational audit programme. Notwithstanding considerations around re-prioritisation and allocation of resources, some of these significant risks will have remained and in some cases will have been exacerbated by the current crisis. The critical point is to consider emerging risks and challenges and to be flexible in approach and delivery of the programme.



The key adaptations in audit delivery we propose to adopt include:

➤ **Rethink and re-prioritise** – in line with the earlier points, ensure that the work is focussed in the right areas. Rotational assurance is unlikely to be appropriate, whereas areas which were previously low risk may need to escalate in priority. This may involve internal audit moving from strategic to operational checks, such as sample checking validity of payments in real time.



➤ **Greater flexibility** – there is a need to be more sensitive to the other priorities auditees have at this time. Being more flexible ensures the audit process works for auditees, and reduces the chance that they may request that audits be deferred. In addition, there may be a need to consider both the audit methodology in place and the scoping – this can involve changing the approach and what assurance the audit is providing. At times, adopting an 80/20 rule of assuring the systems which can be assessed with caveats as the assurance being provided.



➤ **More extensive use of technology** – this can include building on the technology already in place such as secure file transfer, utilising video conferencing and screen sharing, as well as adding new technology to support the audit process. There is also a need to be drive to embrace data analytics to focus the testing strategies.



➤ **Phased approach to audits** – depending on access to key staff and evidence, audits can be designed to be conducted in phases, with appropriate reporting for each phase. This allows for the fact that certain procedures and evidence gathering will need to be completed as a separate exercise at a later date. For example, once staff who have been furloughed and return to work or hardcopy documentation stored in the office can be accessed.

➤ **Recognise the interim nature of the period - Following the intensity of the initial crisis response to COVID 19, organisations are beginning to adjust to the interim ways of working and challenges. During this period it is critical to focus on how systems and processes have changed and to recognise that we are still operating in a crisis environment. This is not the “new normal” and the approach to the internal audit should reflect this. Considerations of the systems of control in the new normal will not be realised for at least 6-9 months, with internal audit more effective at providing advice and support as these systems are developed.**

# 4. Internal Audit – Risk consideration

Whilst not exhaustive, we have included perspectives below on areas for non profits and their internal audit teams to consider in emerging risk assessments and agile audit plans. These will also be updated on an ongoing basis.

| Area of Risk consideration         | Points for internal audit to consider  |
|------------------------------------|--|
| <b>Crisis Response/ BCP</b>        | <ul style="list-style-type: none"><li>➤ It is critical that decision making in this period is based on data and that the decision making process is documented. Internal Audit can provide independent assurance regarding the decision making and data used to inform decisions.</li><li>➤ Deploying internal audit resources and mindsets to support changes in the risk assessment as a result of COVID-19.</li><li>➤ Providing light touch and agile assurance regarding the BCP plan and identifying any lessons learnt on an ongoing basis.</li><li>➤ Deploying Internal Audit resources into 1st and 2nd line roles to support key systems and processes.</li></ul>   |
| <b>Managing the risk of change</b> | <ul style="list-style-type: none"><li>➤ Design of interim processes, particularly regarding changes in financial delegations and approvals.</li><li>➤ Scenario and action planning – challenges regarding the data and approach for different potential scenarios and risk profiles.</li><li>➤ Going concern analysis – supporting the identification of principal organisational risks, how these have changed and a number of scenarios with the associated financial impact. This can be used as a basis for informing the analysis of going concern within the FY202-21 Financial statements.</li><li>➤ Thinking about the changes in internal control systems to support the organisation during the “respond – resilience – return – re-invent – reform” cycle, providing assurance and independent challenge regarding any changes in organisational approach and models.</li></ul> |
| <b>Data</b>                        | <ul style="list-style-type: none"><li>➤ Changes in how data is being secured and managed with increased working from home and lack of direct access to files.</li><li>➤ Management of any sensitive personal data (fundraising/high net worth individuals) and how this is being used during the lockdown period.</li><li>➤ The approach to special category data for service users and how this continues to be held securely</li><li>➤ Processes to detect, report and remediate a data breach, including testing the organisational response.</li></ul>   |



# 4. Internal Audit Points of Focus

| Area of Risk consideration | Points for internal audit to consider  |
|----------------------------|--|
| <b>Financial</b>           | <ul style="list-style-type: none"><li>➤ Cash flow forecasting process and how financial modelling has been amended, including changes in income and expenditure.</li><li>➤ Fundraising forecasting and revised assumptions.</li><li>➤ Using data analytics on a continuing basis to identify potential anomalies in financial records – considering timing of transactions and any irregular patterns of payments.</li><li>➤ Identifying payments which are not in accordance with the pattern of organisational activity (travel expenses, procurement, contractor payments).</li><li>➤ Assessment of financial approval processes and any changes given remote working. There is the potential for relaxation in payment controls when distributing monies to beneficiaries which may require additional detective controls to be established.</li></ul>   |
| <b>Third party risk</b>    | <ul style="list-style-type: none"><li>➤ The assessment of third party risk across key services in the short to medium term, including:<ul style="list-style-type: none"><li>○ Enhanced and gateway assurance regarding critical procurement activity, particularly given the potential for increased use of single source procurement activity.</li><li>○ Review of key third parties including service providers and contractors and the potential impact upon operations should they encounter financial distress or staffing challenges. This should include assessment of interim changes to working protocols, short term reassessments of due diligence frameworks and engagement.</li><li>○ Mapping supply chain risks for key areas of service delivery, and/or providing challenge and assurance regarding the process</li></ul></li><li>➤ Given the potential for suppliers to be under increased pressure/ resourcing challenges, internal audit can support contract compliance work, both in terms of financial and ethical sourcing.</li><li>➤ Review of contractual clauses and associated insurance, particularly for scheduled events and activities.</li></ul> |

# 4. Internal Audit Points of Focus

| Area of Risk consideration | Points for internal audit to consider  |
|----------------------------|--|
| <b>Governance</b>          | <ul style="list-style-type: none"><li>➤ How the governance of the organisation is operating, including:<ul style="list-style-type: none"><li>➤ Short term changes to the chain of command</li><li>➤ Application of delegations of authority, including changes in process from remote working</li><li>➤ Operation of key executive and non-executive committees, include support and engagement for meetings and decisions.</li><li>➤ What changes have been implemented, and how changes to processes are subject to review and approval prior to roll out.</li></ul></li><li>➤ How has the strategy adapted to consider a range of scenarios? What data is being presented to support the decision making and is this subject to independent challenge and review?</li><li>➤ Is decision making nimble enough to be able to adapt to the new environment? How can data support this and is there a clear understanding of what data is required to drive value?</li><li>➤ Is there a clear balance between empowerment and accountability?</li></ul> |
| <b>Risk Management</b>     | <ul style="list-style-type: none"><li>➤ How are risks being identified, reported and acted upon?</li><li>➤ Is the risk management process agile enough to drive changes in actions and behaviours?</li><li>➤ Is there a real focus on the risk impact and vulnerabilities? Do the parameters of the risk assessment need to change in this period?</li><li>➤ Has there been sufficient consideration of risk contagion and “domino” effects.</li><li>➤ Is risk appetite understood and should this change in the current period?</li><li>➤ Do Trustees, staff and volunteers understand the risk appetite and what behaviours this should drive?</li></ul>   |

# 4. Internal Audit Points of Focus

| Area of Risk consideration | Points for internal audit to consider  |
|----------------------------|--|
| <b>People</b>              | <ul style="list-style-type: none"> <li>➤ Consideration of staff mental health and wellbeing trackers, how these are utilised and followed up, including assurance that processes are happening.</li> <li>➤ Assessment of how messages are being cascaded across teams by different managers – Internal Audit is often a sounding board and can provide perspectives on the organisation.</li> <li>➤ Assurance regarding roll out of people initiatives and how these can be demonstrated as embedded.</li> <li>➤ The furlough process, its completion and the accuracy of calculations and submissions.</li> <li>➤ Resilience and succession planning – assurance regarding the response process and capacity to backfill key roles – checks upon emergency working protocols and key actions in the event of staff availability.</li> </ul> |
| <b>Technology</b>          | <ul style="list-style-type: none"> <li>➤ Assurance regarding the BCP, its operation and robustness.</li> <li>➤ Maintenance of the VPN, including its security and whether staff can still access data and systems without going through the VPN.</li> <li>➤ Controls regarding user access, including changes for new starters, leavers and volunteers, as well as changes made due to temporary working protocols</li> <li>➤ Controls regarding system upgrades and their timing – do they need to take place and can these take place over VPN?</li> <li>➤ Patch roll out, and ensuring that all staff and volunteers run updates on a regular basis.</li> <li>➤ Checks upon software licensing (to ensure that numbers are accurate with increased remote working).</li> </ul>  |
| <b>Cyber Crime</b>         | <ul style="list-style-type: none"> <li>➤ Given the increase in cyber crime during – particularly in volumes of ‘phishing emails’ – internal audit has a role in raising awareness of the threat.</li> <li>➤ Linked to this there is increased potential for ‘CEO’ fraud (falsified payment requests from an individual purporting to be a senior member of the organisation) – awareness is critical.</li> <li>➤ Controls in place to identify a breach and cyber incident.</li> <li>➤ Checks upon the cyber incident response plan – how is this to be enacted, particularly in a remote working environment.</li> </ul>  |

# 4. Internal Audit Points of Focus

| Area of Risk consideration               | Points for internal audit to consider   |
|--|---|
| <b>Safeguarding</b>                      | <ul style="list-style-type: none"> <li>➤ Changes in safeguarding risk profiles from any limitations/ changes to working practices, either directly or through the supply chain.</li> <li>➤ To provide assurance regarding the follow up of concerns and whistleblowing issues raised, supporting teams directly and/or confirming the processes are operating.</li> <li>➤ To apply data analytics to track any changes in metrics which may indicate potential safeguarding concerns.</li> <li>➤ Are there</li> </ul>   |
| <b>Volunteers / Agency staff</b>         | <ul style="list-style-type: none"> <li>➤ Risks regarding the onboarding process, particularly in social care where additional volunteers/ staff are being onboarded but existing control mechanisms (e.g. DBS checks) may be unavailable or be delayed.</li> <li>➤ How health and safety and safeguarding risks are being managed for new volunteers/ agency staff.</li> <li>➤ Processes to continue to engage with volunteers, particularly those where the organisation provides a wider social role for the volunteer.</li> </ul>  |
| <b>Mode of delivery – move to online</b> | <ul style="list-style-type: none"> <li>➤ Member engagement and interaction, including moving to online models of delivery.</li> <li>➤ Changes in examination and CPD courses, including systems for security of examination papers, quality control, marking and exam release, particularly where the scale of online examination activity is to increase.</li> <li>➤ Member assessment, onboarding and support where teams are operating remotely or have been furloughed, including what services can be provided to furloughed members to support development.</li> </ul>  |
| <b>Communications</b>                    | <ul style="list-style-type: none"> <li>➤ External - Is there a clear strategy and approach to the engagement with external stakeholders, including donors, corporates, supporters and beneficiaries?</li> <li>➤ For Membership organisations – has there been a priority to engage with members, understand their perspectives and drive the right service provision?</li> <li>➤ Internal – how are key messages disseminated, is there a strategy and quality control process? Are all appropriate media being explored with regular feedback and lessons learnt?</li> </ul> |

# Advice and Support

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We work throughout the sector providing a range of outsourced and co-sourced internal audit and risk management services. As part of our engagement and support with the sector we provide a range of breakfast briefings ([which are now available as webinars](#)). We also have a range of sector resources through our non profits COVID-19 Hub, which can be accessed below.



## Join our Internal Audit peer group:

Richard Evans, Head of Risk and Assurance at Crowe, has been hosting a series of virtual peer group sessions with Heads of Internal Audit to share experiences during the COVID-19 pandemic.

If you would like to be added to the group to attend the sessions or discuss how we can support your organisation or internal audit team at this time please email Richard on [Richard.Evans@crowe.co.uk](mailto:Richard.Evans@crowe.co.uk).



# Start the conversation



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