

Strengthening

INTERNAL CONTROLS IN REMOTE WORKING

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Strengthening Internal Controls in Remote Working

- ▶ COVID-19 has forced many of us to work in remote environment and we must also deal with the challenges that come along with it, as internal controls designed to operate effectively in an office environment may not be ideal when majority of staff working remotely because of the pandemic, controls that were previously put in place may no longer be operating as intended or as effectively as before. When you are in a physical office setting, it is easier to have physical security measures than when you have an employee working from home. Staff reductions or staff taking on new roles due to remote work may cause control gaps that could increase the risk of fraud or misstatement. Due to these significant changes, companies need to re-evaluate their processes and procedures to identify potential weaknesses.

Given below are the key considerations that should be focussed to make Internal controls more robust in remote working: -

A. Re-evaluation of Risks and Control Environment in changed scenario.

It is of utmost importance to first evaluate and re-evaluate the risks prior to assessment of Internal controls in the changed environment where work activities are being carried out remotely. Post re-evaluation of risks, next step is to assessment of existing control environment in response to risk evaluation. Internal controls should be reassessed to check if existing controls are in fact targeting the specific risks before the entity. There could be possibility that controls which proved successful in the past may now result in control gaps considering renewed risk evaluation remote work environment, digital reviews/ approvals, and virtual documentation.

B. Maintain Effective Communication:

Management needs to ensure that tone at the top remains focused on effective internal controls, is extremely critical. A key responsibility of the board is to ensure the organization maintains an adequate approach to risk management. Ethics and governance policy play an important role in setting clear expectation about workplace behaviour but it is much more apt to follow a leadership team's example. Office conversations, even if not entirely work related, those short daily conversation between team leader and staff helped to convey the expectation and mindset of top management. Now working in remote environment is new normal so leadership and department head should make an active effort to maintain communication with the staff.



Management may consider sending out weekly emails or schedule team meetings weekly or scheduling one on one video conference call and phone calls with team members. These communications will help management to improve communication among team members and employees will also give their suggestion to improve their new work environment.

C. Use of Expert's Assistance

Outside experts can assist the organization better understand industry best practices to monitor and assess the effectiveness of internal controls. They can also address complex accounting and auditing questions or assist with reviewing controls related to cybersecurity and privacy risks. It is advisable to use expert's assistance into data mining, data security which will help audit committees, boards of directors and management to perform their oversight functions.

D. Segregation of Duties:

As per company policy, duties are divided among different staff to reduce the risk of error or inappropriate actions. Segregation of duties may become difficult as employees shift to alternative work schedules or have other issues. Maintaining segregation of duties should be a top priority for control owners and is something that should be constantly assessed as circumstances changes. Duties may need to be reassigned among the accounting staff. As changes are made, they should be documented and should be reviewed during a financial statement audit.

E. Authorization and Approval:

The major areas companies should evaluate include internal controls over expenditures, revenue, payroll, and other significant areas including inventory etc. A company should not have one person performing authorization and approval of bank reconciliations, recording journal entries, processing checks, and depositing cash. Companies should utilize their IT consultant or software provider to maximize the capabilities of their accounting system. Many accounting systems now have expenditure approvals incorporated in the workflow, such that clerical staff would input the data and the department head would approve the transaction. For example, the Executive Director may approve payroll after reviewing the payroll prepared by accounting staff.



F. Digital Environment:

Due to pandemic, many companies already moved from a paper to a digital environment, sharing of information should not be an issue for them. However, for those that still operate in a mostly paper environment, performing tasks and sharing information with team members may face difficulty. Those without the capability of scanning and sending documents from home could compromise a specific internal control altogether. Being forced to work remotely may be the perfect excuse to move paper processes into a digital format.

G. Accounting System Access Controls:

Due to change in roles and responsibility on regular basis, Access controls of accounting system facing may face gap in internal control. Management should focus on controlling electronic access to keep unauthorized users out is a must. IT department ensure proper IT and cybersecurity measures in place so that users may be accessing systems from networks outside of the organization.

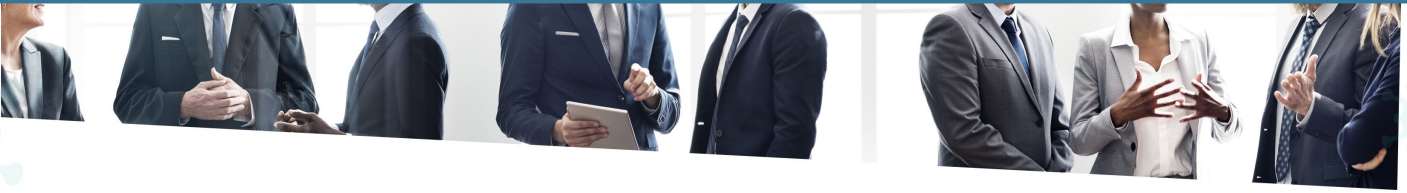
Effects of working in remote workplace will be there even when its requirement end, there are many benefit and efficiencies to be found in working remotely and now people will be more apt to continue to do so. Therefore, let us take this opportunity to revise our processes and internal controls to be “remote workplace” compatible. This will provide a long-lasting impact to your organization far beyond the pandemic.

Case Study: Insurance Industry

We will understand taking example of Covid Impact on the Insurance Industry and how the risks and internal controls were re-evaluated and assessed in the ever-changing impact of pandemic.

To start with, changes would be: -

- Existing audit programs were changed in response to change in the control environment due to change in business environment.
- Re-examination of materiality thresholds to determine in-scope financial statement line items and account balances.
- Cyber risks and controls put in place to secure critical information.
- Change in Entity Level controls framework.
- Emphasize on Whistle blower mechanism and Code of Conduct.
- Completeness and Accuracy of data which were not designed for remote working.



Inevitably, this requires more judgmental approach to certify and test controls to ensure compliance with all relevant financial reporting regulatory requirements. The impact on controls extends beyond the insurer's own operating environment.

Other aspect is impact assessment on TPA's (Third Party Administrators) and their ability to operate controls that insurers rely on.

Finance functions would assess their ability to meet their responsibilities for preparing reliable financial statements, they will need to look for risk indicators, such as subsidiary locations being severely affected, a lack of qualified personnel due to attrition or illness, and facilities and financial reporting hubs going offline or working remotely.

Approach and way ahead:

1. Maintain regular communication with external auditors

There should always be strong communication between the finance team and the external auditors to help identify potential COVID-19 impacts on the audit strategy. Finance can also share any priority areas identified where the internal control environment needs to be enhanced. Certain processes and controls may have a heightened risk profile, such as accounting estimates, impairments, treasury, fair values and hedge accounting, investments, goodwill, asset recoverability and impairment, the claims process and provisions, technical liabilities, the Liability Adequacy Test (LAT), premium recognition in the case of material contract modifications, and significant and unusual transactions. The auditors will also be interested in aspects such as third-party reliance and risk management, segregation of duties, the delegation of authority controls and how the insurer is addressing cyber security threats and the risk of fraud.

Not to forget, liasoning and effective communication with Internal Auditors are also must.

2. Use of technology and review of IT environment

More effective or increased use of technology can enhance the trust in financial controls and reporting, as well as improve efficiency. Insurers may achieve such benefits by

- Automating workflow and internal controls, for example, making wider use of processm automation, analytics, and process-mining.
- Digitizing hard copy documentation
- Claims automation and analytics, fraud management.
- Disease and outbreak modelling.



- Effective IT infrastructure to support remote communications between the insurer and the external auditors.
- Back test IT access rights granted during the rapid transition to a remote working environment.

3. Communication of changes in work schedule

Documenting controls and any changes to controls and processes is important, particularly in relation to key estimates. It is vital that all the various financial statement reviewers – right up to the audit committee – have a proper basis for conducting their review. The combined impact of any control deficiencies – whether due to the temporary failure of controls to operate or changes made to processes – need to be considered in terms of the potential for material weakness and any impact on the year-end financial statements.

In addition, some processes may require a more detailed walkthrough. The testing scope and frequency may adjustments.

Attention should also be given to improving the security of mobile working, as well as any performance or capability issues. For example, to maintain a strong control framework, it may be necessary to increase controls around accessing IT systems and user privilege. Responsibilities may need reallocating to avoid segregation of duties conflicts.

It is possible that there may be delays in receiving external data (e.g., on investments) and internal data (e.g., on policies). Root causes of any delays should be identified, and mitigating actions taken. Finance teams will also need to prioritize areas where significant judgment is required due to a lack of historical data. It will also be necessary to identify and increase controls around any new manual adjustments introduced during the financial review process.





4. Other considerations

- Extend disclosure deadlines to give sufficient time for additional layers of review in time for semi-annual and quarterly reporting.
- Additional controls to mitigate risks related to payments to be ensured where previously a physical signature was required.
- When certain review thresholds have been increased to relieve pressures of high transaction volumes, assess whether the temporary review threshold is still precise enough to detect a material misstatement,
- Impact on the evidence of the control's execution to verify that the modification enables sufficient documentation to maintain regulatory requirements to be ensured.

• **HEAD OFFICE** •

 E-1, 2nd floor Prashant Vihar, Delhi, 110085

• **BRANCH OFFICES** •

 Gurgaon  Mumbai  Bangalore  Chennai
 Ahmedabad  Lucknow

Please get in touch with the undersigned

SFAI.India@akgvg.com