Remote Audit During and Beyond Covid-19

Presented by:
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Agenda

- Impact of Covid-19
- Remote Auditing
- Role of Audit Committee
- Potential Risk of Fraud During Pandemic Time
- Q & A
Impact of Covid-19
Covid-19 is, first and foremost, a global humanitarian challenge.

Thousands of health professionals are heroically battling the virus, putting their own lives at risk. Government and industry are working together to understand and address the challenge, support victims and their families and communities, and search for treatment and vaccine.

Companies around the world need to act promptly.

Senior leaders need to understand the Covid-19 situation and how it may unfold, and take steps to protect their employees, customers, supply chains, and financial results.

Source: McKinsey
How Covid-19 is Changing The World?

- Economy Slow Down
- We will travel again, but it will be different
- Learning will learn from Covid-19

- The office will be re-invented
- People will move less to chase job
- The future of retail is online and contactless
Remote Working is here to stay

"Remote working is here to stay and business will take a hybrid approach. This mean that near term technical tech-spend will slow and be replaced by investments that includes “new budget currently with HR and facilities”

Source: Gartner
Remote Auditing
Remote Audit

Remote Audits are paperless, electronic audits that are conducted without face-to-face interaction between auditor and auditee. All data is exchanged in electronic format such as MS Word, MS Excel, PDF, XML, Text Files, EDI files etc.

Benefits

• Restoration of much needed sense of normalcy
• Cost savings and efficiency – Travelling, Lodging and Boarding expenses, cost of storage of physical records
• An expanded pool of available auditors
• Expanded coverage
• Expanded use of specialists
• Improved performance with data analysis
• Working papers & evidence can be linked with audit report
• No auditing standards, rules or regulations that prevent use of paperless auditing systems

Limitations

• First hand observations can’t be replaced
• Virtual Audit makes it hard to build rapport with auditee
• The lack of in-person interaction opens other opportunities for fraud
Understanding The Challenge

Maintaining Quality Standards
Testing New Assurance Methods
Overcoming Physical Barriers

Understanding The Client Perspective
Ensuring Data Security
The Challenges of Managing a Team Remotely

- Lack of access to managerial support
- Lack of mutual knowledge
- Lack of social opportunities
- Working from home

Source: Michal Ramoes
Meeting The Challenges of Remote Auditing

- Establish a cadence of communication
- Get tactical
- Coordination
- Don’t overlook training and guidance on new communication technologies
- Structure, intentionability and leadership

Source: Michal Ramoes
Re-engineering The Audit Process

Internal Control Testing
- Auditing Standards require auditors to gain an understanding of Internal Controls and testing to determine whether controls are adequately designed & effective.
- If employees are working from home, organization’s control environment and risks may have changed from prior periods.

Inventory Observations
- Auditors usually visit the actual facilities to observe physical inventory counting procedures and compare independent test counts to the organization’s accounting records.
- Stay-at-home policies during the pandemic may prevent both external auditors and personnel from conducting physical counts.

Management Enquiries
- Auditors are trained to observe body language and judge the dynamics between co-workers as they interview personal to assess fraud risks.
- When possible it’s best to perform fraud discussion in person.
Investing in Technology

- Internet
- Cloud Based Technology
- File Sharing Platform
- Electronic Work Papers (EWP)

- Collaboration Portals
- Communication Platforms

- ONVIO
- THOMSON REUTERS
- AuditDashboard
- huddle
- INSTANT

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Remote Audit Process

Planning
- Stakeholders planning meeting
- Discussion on the scope, schedule and approach for remote audit
- Information to be shared – how and when?
- Technology to be used (Cameras, Drones, Telepresence etc.)
- Authorization required
- Restricted areas

Document Review
- Prepare and upload documents on a file sharing platform (Share Point, Google Drive, Shared Device)
- Auditee will need time to convert paper records and database storage system into reviewable format (PDF) or input format required for data analytics
- Take notes and write down questions to be asked

Site reconnaissance
- Most challenging aspect of remote auditing
- Use live two way communication technology, including live streaming
- Recorded video and still photographs where Wi-Fi is not available
- During document review, auditor should compile a list of areas of concern: e.g. active facility access points, secure & restricted areas, videos of vehicles and personal screening etc.
Remote Audit Process Cont....

Remote Interviews
- Scheduling video calls with key persons using available technology e.g. Skype, Zoom, Google Hang Outs
- Prepare list of questions to be asked and points where additional information is needed

Closing Meeting
- Same as closing meeting in face-to-face audit
- Should be conducted one two days following remote interviews
- Compile preliminary draft audit findings for discussion in meeting
- Resolve any questions or concerns

Audit Report
- Finalize audit report after considering feedback/answer received on preliminary audit findings in closing meeting
Audit Evidence (SA-500)

**Audit Evidence**

- Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and information obtained from other sources.

- Sufficient and appropriate audit evidence.
Audit Procedures for Obtaining Audit Evidence

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inspection of records or documents</td>
<td>Pull sample of records and trace, verify/match</td>
</tr>
<tr>
<td>Inspection of tangible assets</td>
<td>Physical inventory, walk through, open boxes</td>
</tr>
<tr>
<td>Observation</td>
<td>Sit with workers and observe</td>
</tr>
<tr>
<td>Inquiry</td>
<td>Written or oral interviews</td>
</tr>
<tr>
<td>Confirmation</td>
<td>Verify account balance</td>
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<tr>
<td>Recalculation</td>
<td>Exact and recalculate figures to verify</td>
</tr>
<tr>
<td>Re-performance</td>
<td>Re-perform procedures to verify</td>
</tr>
<tr>
<td>Analytical procedures</td>
<td>Scanning and statistics</td>
</tr>
</tbody>
</table>

Source: Appelbaum and Nehmer

Note: Audit Procedures (SA – 500) prescribes similar audit procedures for obtaining audit evidence.
Audit Evidence (SA-500)

Audit Evidence

• An emergent need has been felt for quite sometime for auditing standards to recognize the use of “automated tools and techniques” (Audit Data Analytics (ADA), Artificial Intelligence (AI), Machine Learning (ML), Robotic Process Automation (RPA), and Remote Observation Tools) which are being used for planning or performing the audit.

• AICPA has issued a new standard on Audit Evidence (AU-C 500) which recognize the use of “automated tools and techniques” in audit.

• IAASB has issued Project Update on Revision of ISA 500 in September 2020.

• SA 500 “Audit Evidence”, which was issued over a decade ago, doesn’t recognize emerging technologies and tools used by auditors in collection of audit evidence.
Companies (Auditor’s Report) Order, 2016 (CARO)

Para 3 (ii) whether physical verification of inventory has been conducted at reasonable intervals by the management and whether any material discrepancies were noticed and if so, whether they have been properly dealt with in the books of account;
“If you can not count the inventory for whatever reasons physically, I would be worried about that. History tells us that when the auditor is not able to observe and count inventory bad things happen.”

Lynn E. Turner, Ex-Chief Accountant, Securities Exchange Commission
Lapses in basic on-site checks have led to major fraud cases

ZZZZ Best Co.

Crazy Eddie

MiniScribe Corp.

Ann Taylor
Inventory Verification During Covid-19

Roll Forward and Roll Back
- Inventory verification after travel restrictions are over
- Additional testing on sales & purchase subsequent to the close of FY

Video Observation
- Is it permissible under auditing standards not to do physical verification of inventory?
- Live streaming of inventory verification being carried out by auditee staff with location tracking information
- Recorded video will have authenticity issues for being used as audit evidence
- Challenges involved in evaluating physical condition of inventory

Additional Supporting Evidence
- Using image recognition software
- Inventory price-testing to address valuation assertion and also provide some evidence on quantity in stocks

Source: Deniz Appelbaum & Miklos A Vasarhelyi
Inventory Verification During Covid-19 Cont....

**Image Recognition Software**
- The App count things of the object in picture with touch of a button
- Provide customized CSV files relevant for the business

**Real-time Inventory Verification Using RFID Tags**
- Using RFID Tags, inventory audit can be conducted on real-time basis via a handheld device, which connects to a server.
- Limitation : RFID Tags may not tag everything
Evaluation of Property, Plant & Equipment

Live Video Streams
- Live streaming provide auditor with a real-time view of the site, activity or document
- Evaluation of physical condition of Property, Plant & Equipment
- Verifying the content of box could be done through AFV process

Drones
- Fit into audit procedures used to collect & gather evidence
- Provide evidence of existence and valuation assertion in certain circumstances
- Assist in difficult-to-reach places like roof tops, agriculture farms etc

Source: Deniz Appelbaum & Robert A Nehmer
Audit Risk Assessment During Covid-19

Fair Value
- Securities market and pricing significantly affected by lock down
- Guidelines issued by Accounting bodies regarding valuations
- Critical review of disclosures on valuations
- Due consideration of market volatility and lack of liquidity

Going Concern
- Impact of Broad shut down of economy
- Review of debt level, alternative source of revenues, strategic plan, cash flows before and after pandemic

Subsequent events
- Events that provide evidence of conditions that existed at the date of Balance Sheet
- Events that provide information about events that did not exist at the date of the balance sheet but arose after that date
- Impact on financial statements

Source: Deniz Appelbaum & Miklos A Vasarhelyi
Guidance on Auditing During Covid-19 & Remote Audits

REMOTE AUDITING FOR COVID-19 AND BEYOND

Short-term and long-term implications

By Roy Litzenberg, CFEA, and Carrie F. Ramirez, CIA, CMIIW, CDGP
Role of Audit Committee
Role of Audit Committee

Stay informed
Communicate and collaborate
Leverage available expertise
Promote continuous improvement
Think holistically
Embrace technology

“Audit committees must be vigilant, agile, disciplined, and engaged. That will allow them a timely and coherent understanding of the continuously evolving operating environment and exhibit confidence in their reporting, disclosures, and conformance with regulatory, legislative, and ethical expectations.”

Richard Chambers

Source: The Institute of Internal Auditors
Audit Committee Perspective: Understanding Related Risks

Questions to discuss with auditors

➢ Will additional time be needed to get the audit work done remotely? What complexity does working remotely add to the audit?
➢ Will working remotely affect productivity of audit engagement team members? If so, does the audit plan need to be updated, and do fees need to be revisited?
➢ Has remote work affected the company’s ICFR? If so:
  ✓ Is the auditor including new controls in their assessment, or evaluating changes to existing ones?
  ✓ Has the auditor identified any concerns with respect to segregation of duties?
➢ If a review of the issuer’s interim financial information has been completed already, are there any lessons learned that can be applied to the year-end audit?
➢ Are there any technology enhancements or collaborative tools that should be considered to support longer-term remote work?

Cont.

Source: PCAOB

Increased risks associated with remote work
Potential Risk of Fraud During Pandemic Time
The Fraud Triangle

Motivation behind the crime: economic downturn and entity viability, employee job safety

Internal control changes and breakdown

Only helping entity survive, I will payback when things become normal
Fraud In The Wake of Covid-19

Source: ACFE
Top 5 Fraud Schemes Due To The Corona Virus

“This pandemic has created an unprecedented situation for countries, organizations and individuals around the world”, said Doris. As anti-fraud professionals, our members have seen fraud spike after natural disasters and in recession before, but the amount of fraud we can expect to see in the coming months and years as a result of Covid-19 is truly staggering.

Source: ACFE
Internal Controls to Reduce Fraud Losses

Robust Code of Conduct

Strong Internal Audit Department

Management Certification of Financial Statements

Management Reviews of Internal Controls, Processes, Accounts and Transactions

Source: ACFE
What you can do now?

- Update your current operations
- Review code of conduct
- IT Hardening
- Proactive monitoring of financial trends
- Assess and promote culture
- Review for control weakness
- Fraud risk assessment
- Reallocate resources
- Fraud hotline
- Surprise audits
Questions

“No matter how complex things are, basically everything is simple.”
THANK YOU
Vinod Kashyap
Email: vinod.Kashyap@nextgenknowledge.com