



GLOBAL KNOWLEDGE BRIEF

Internal Audit in a Post-COVID World

Part 3: Redefining the Resilient Organization



The Institute of
Internal Auditors

Contents

Introduction	4
Redefining the Resilient Organization	4
Game Changer	5
How Organizations Are Adapting Their Approach to Resilience	5
Supporting the Makeover	7
How Internal Auditors Can Help Lead in Creating Resilience	7
Internal Audit Makeover	9
A More Resilient Audit Function	9
Conclusion	11
The Resilience Imperative	11



About the Experts

Hassan Khayal, CIA, CRMA, CFE

Hassan NK Khayal is an Internal Audit Manager based in Dubai. Hassan was featured by The Institute of Internal Auditors (IIA) as one of the top 15 under 30 global Emerging Leaders. Hassan is a CIA, CRMA, and a CFE. Hassan holds a BBA, an MBA, and a certificate in Middle Eastern Studies, along with professional certifications in Robotic Process Automation (RPA), Data Analytics, Internet of Things (IoT), Quality Management, Health and Safety, Environmental Management, and Risk Management.

Sajay Rai, CPA, CISSP, CISM

Sajay Rai is President and CEO at Securely Yours LLC in Bloomfield Hills, Michigan. Previously, Sajay served as National Leader of the Ernst & Young LLP Information Security and Business Continuity practice and as Executive for IBM's Business Continuity and Contingency consulting practice. Sajay has more than 30 years of experience in IT, specializing in information security, privacy, cybersecurity, business continuity, disaster recovery, IT audit, and information risk.



Introduction

Redefining the Resilient Organization

According to a quote often attributed to Charles Darwin, “It is not the strongest or the most intelligent who will survive but those who can best manage change.” That’s certainly been true of businesses over the last two-plus years — the COVID-19 pandemic was a litmus test like none other for organizational resilience.

It revealed just how woefully unprepared many organizations were for an event of this magnitude. From the smallest shops on Main Street, to the Goliath financial firms on Wall Street, to tech companies in Silicon Valley, the simultaneous disruption of supply chains, the labor supply, and the global economy threatened their ability to continue in business. Indeed, as businesses look toward a “post-COVID” state, the word *resilience* has already become this decade’s *value add*. Resilience — the ability of an organization to adapt and even prosper in a maelstrom like COVID-19 — is now a top priority.

Should it be?

COVID-19 has often been compared to the Spanish flu pandemic, which occurred more than 100 years ago. Dedicating organizational resources to soften the impact of such a seemingly rare event might seem like overkill to some. But according to a study published in the *Proceedings of the National Academy of Sciences*, the probability of experiencing a pandemic during one’s lifetime is approximately 38% — a number the researchers note may double in coming decades.¹ Those kinds of odds may not exactly be considered slim by many standards. And of course, viruses are far from the only disasters that can disrupt businesses on a widespread scale: extreme weather, earthquakes, solar radiation that scrambles electronic communications, financial market collapse, and political and social unrest, just to name a few, can also wreak havoc on many levels.

For internal auditors, the pandemic serves as a concrete reminder of how vulnerable organizations can be — even if they’re performing well under normal circumstances. It shows how quickly conditions can change under the weight of a severe event, and how important it is to factor that into risk assessments.

This Global Knowledge Brief, the last in a series of three that examine risks in a post-COVID 19 environment, offers a careful review of lessons learned that may help internal auditors prepare for the next major disruption. Looking closely at three broad areas of consideration, in particular, yields practical insight:

- What are the attributes of a resilient organization?
- How can internal auditors help lead their organizations toward greater resilience?
- How can internal audit increase the resilience of the audit function itself?

With the benefit of actionable steps distilled from each of these areas, auditors can better equip themselves to help address potential challenges. Understanding how to enhance resilience is essential as organizations confront large-scale disruptions that seem to occur at an increasing cadence.

1. Proceedings of the National Academy of Sciences, *Intensity and Frequency of Extreme Novel Epidemics*, PNAS Vol. 118, No. 35, 2021.



Game Changer

How Organizations Are Adapting Their Approach to Resilience

While audits have traditionally been conducted in the rearview, internal auditors and the organizations they serve are now increasingly looking forward, searching the horizon for potential threats and helping formulate contingency plans. The experiences of the COVID-19 period have shown that organizational resilience is as much about thinking ahead as it is about responding to a crisis.

A resilient business culture plays a critical role in performing well during a crisis. Conversations with audit professionals reveal an emphasis on planning — even for conditions judged to be unlikely — and increased attention to several other areas they believe are critical to resilience.

Cash Is King

Hassan Khayal, an internal audit manager for an organization based in the United Arab Emirates, says the pandemic prompted a much greater emphasis on cash flow at his organization. “Cash flow used to be a given — it was something the organization was comfortable with,” he says. “Now it’s a primary consideration that has changed the culture.”

Khayal says that company managers, for example, now give much more consideration to procurement policies before spending money, as evidenced by the documentation and controls that internal audit reviews organizationwide. More broadly, he sees cash flow as a key component of resilience. “Organizations that were cash rich breezed through the pandemic, while those that may have had successful operations but were not cash rich — they suffered,” he says. “Others may have had the liquidity to survive, but they could have thrived had they kept a closer eye on cash flow.”

Securing Supply Chains

Having more than one vendor, understanding how that vendor’s ability to perform might be challenged by a catastrophic event, and having a plan to mitigate that risk are key to resilience.

“I think the biggest eye opener to me was that many companies were heavily reliant on vendors, and when COVID hit, they didn’t realize that they couldn’t count on those vendors,” says Sajay Rai, president and CEO of cybersecurity and compliance services provider Securely Yours LLC in Bloomfield Hills, Michigan. Rai points out that, because the vendors themselves also got hit hard by COVID-19, many couldn’t supply the level of service their customers depended on. Organizations that had grown to rely on these vendors’ products or services were now short on inputs.

“That created a huge gap in the availability of resources within the organizations,” Rai says. “The lessons learned were to either negotiate better or have a contingency plan.”



Communicate and Collaborate

A resilient business is one with a clear mission and well-defined priorities that are understood across the whole organization. Indeed, solving problems like the ones posed by COVID-19 requires an entitywide approach that enlists all levels and departments.

For example, Khayal says communication across his organization increased during the pandemic, with greater transparency around strategic initiatives. “Our communication was made a lot more effective across the board,” he explains. “It involved top-to-bottom communication from senior management to middle management to lower management, letting everyone know what’s going on and where the company is heading.”

Prior to COVID-19, the organization’s business strategy was considered confidential, and only top management was privy to the plan. Now, Khayal says, frontline employees have a clear view of the strategy, which enhances their ability to respond to a crisis. “Especially when there are multiple sources of disruption, people can become disoriented, and this allows us to align around clear goals,” he adds.

An Adaptable Workforce

In a 2021 Deloitte survey, [Building the Resilient Organization](#), 54% of C-level executives said an adaptable workforce is critical to future success. That’s significantly more than those who cited expertise and proficiency or having values that align with the organization.²

Implementing hiring practices that focus on adaptability, in addition to expertise, is a critical first step. Instead of staffing with inflexible experts, organizations should seek people who are agile and capable of living with ambiguity, and whose personalities are flexible enough to change directions quickly.

Connecting With Tech Budgets

Less than a quarter of the executives Deloitte surveyed said that their organizations possessed the technology they needed to support remote work before the pandemic struck. Cloud platforms, videoconferencing, and cybersecurity were all at the top of the list of needed capabilities.

While having military-grade communications and security may be on every organizational leader’s wish list, the ability to fund — and sustain — the technology that enables it may not be within everyone’s reach.

“Some companies did IT better because they had a pandemic plan, but the majority of them didn’t — most just reacted,” Rai says. “They did it because they had to. Now they need to judge whether they have the appropriate budgets or not. Can they sustain the budget required to support the changes they have made?”

2. Deloitte, [Building the Resilient Organization: 2021 Deloitte Global Resilience Report](#), 2021.



Supporting the Makeover

How Internal Auditors Can Help Lead in Creating Resilience

Across industries and geographic locations, withstanding the impact of COVID-19 has involved rapid adaptation and innovative solutions. Future crises will require the same effort. To help ensure continued resilience, internal audit needs to understand the impact of COVID-19 on business operations and across the organization's risk universe. Auditors need to be bold in looking ahead to help identify and prepare for future risks.

Factor Resilience Into Engagements

For many audit functions, resilience might now be baked into every engagement from the beginning. Approaching each audit with an eye toward the area's agility, and its ability to function through adversity, may be a natural outgrowth of the pandemic for some — and something for others to consider. Rai has even gone a step further by conducting a dedicated resilience audit.

"We did an audit last year where the whole topic was COVID-19 resilience and whether the organization was prepared and reacted well," he explains. "We looked at all of the people, the processes, the technology. We looked at how they had planned, that they have documents, that they executed properly, and what changes they needed to make."

Laser Focus on Technology

The pandemic made most organizations more reliant on technology, which can increase both operational and security risks — and that may prompt the need for more technology audits. What is the reliability of the organization's remote working platforms? What about the security and reliability of cloud storage? How is the organization managing risks associated with allowing remote workers to bring their own tech into the network?

Rai questions, however, whether expertise is sufficient to meet these challenges. "I think internal auditors may be ignoring the need for more technology audits because of a lack of skills within their department to conduct them," he says. This argues for changing audit hiring criteria to include advanced technology skills, he adds.

Review Pandemic Policy Changes

One immediate priority for auditors is to review changes to standing policies that were made during the pandemic to ensure those changes don't themselves pose a risk. For organizations that truncated or skipped past policies as a way to deal with the crisis, some of those changes may be working and worth continuing. But especially in the areas of technology and hiring, shortcuts can be dangerous. That could apply, for example, to neglected vulnerability patches or altered firewall rules without appropriate change management, Rai says — areas that internal audit can assess.

Rai points to similar concerns about human resources practices. "Organizations may have bypassed drug testing and background checks in the rush to fill positions," he says. Due diligence regarding employment verification may also have been neglected or excessively streamlined. Internal auditors should vet those changes, he adds, and assess whether they may have created any risks.

Recalibrate Risk Assessments

Risks that might not have raised major concerns pre-pandemic may now warrant more attention. As Khayal explains, the pandemic changed his internal audit function's perspective on risk, prompting modifications on how it's assessed.



“One thing we did that made us more resilient is to tone down our appetite for risk,” he says. “As internal auditors, we adjusted how we gauge risk. What would have been low or medium is now rated high or disastrous.”

In addition, now that businesses have seen the shattering consequences of a worldwide disruption, risk management is much more on the minds of organizational leaders and boards — and that has brought increased focus on the importance of looking at where exposures may lie. “Risk is now much more concrete, rather than just theoretical,” Khayal says, “so risk assessments have become much more important for us.”

Pre-act, Don't React

The pandemic made many organizations consider the consequences of being caught flat-footed at the onset of a crisis. Invariably, some came to develop a new appreciation for the value of proactive preparation and being ready at all times — not just when faced with challenging circumstances.

At Khayal's organization, internal audit applies that thinking to reviews of cash flow. “When we're reviewing financials, if we notice a place where there's a higher cost than expected, we focus on that,” he says. “How can we minimize cost and have minimum waste so that we are always ready? That way the organization doesn't have to trim fat carelessly once we're already in an emergency.”



Internal Audit Makeover

A More Resilient Audit Function

Of course, internal auditors shouldn't limit their focus on resilience only to client engagements — they must also turn their attention inward. To help lead the way toward a more resilient organization, practitioners need to ensure the audit function is itself resilient — that it has the habits, skills, and expertise to meet the moment. Best practices that served auditors well in the past decade may no longer be “best.” Look at everything with fresh eyes, asking, “Does this practice or policy make the organization more sound?” “How does it protect us when changes inevitably occur, whether they're gradual, such as staff attrition, or sudden, such as a pandemic?”

Effective internal auditors are not sitting back and waiting for the world to “stabilize.” They're proactively changing how they think about their function and how they perform their work.

Reduce Reaction Time

Khayal explains how his group is performing fewer large-scale audits in favor of “burst” audits that have shorter duration and more limited scope.

“We became a lot more agile in the sense that we focus more on operational risk reviews rather than full-fledged audits,” he says. “We could perform a small burst review over a different function every week.”

These burst audits get actionable information back to the first line faster. As clients face change that demands a quick reaction, internal audit can provide an expedited assessment with minimal lead time to aid decision-making.

Incorporate Tech Tools

Analytics found its way into the auditor's toolbox during the pandemic — for those that didn't already have it — as staff shortages caused many businesses to seek out tech tools that could help.

“In a sense, they were almost forced into it,” Rai says. “Lack of resources caused changes in auditing, and some of those changes were good. I see organizations now saying, ‘We're going to include data analytics permanently in every audit we do,’ which I think is good news.”

New tools and new techniques will mean a learning curve for many auditors. It's crucial to use this time as the pandemic eases to train before the next emergency. That involves learning how to incorporate data analytics, and other technology such as automation and artificial intelligence, into audit workflows.

Leverage Relationships

One positive outgrowth of the pandemic is that, in many cases, it brought about a sense of common purpose. It helped unify teams, encourage greater entitywide collaboration, and promote synergy. For internal auditing especially, which historically has faced headwinds in building client relationships, this presents a major opportunity.

“The pandemic made better relationships with audit subjects — we're all in this together,” Khayal notes. “It put us all through one situation that we are sharing together so there is more of a sense of collaboration. That has helped internal audit become more resilient and more agile in the sense that now the audit clients come to us with requests to audit or do a risk review over a certain activity they feel may not be going as well as it should.” This can also help practitioners get an earlier view of areas where difficulties might arise in the future.



Elevate Presentations

According to research co-published by the Internal Audit Foundation and Protiviti, board-level and C-suite presentations from internal audit should include information about the organization's resilience initiatives, or shortcomings.³ Auditors should have an open and frank dialogue with management and the board about what information they would like to have and how they would like it presented. This could start with a simple set of questions for those stakeholders, such as, "What aspects of resilience are you most concerned about? How would you like to receive information about those areas?"

The increasing use of data analytics also argues for auditors to be skilled in using data visualization tools. Most practitioners already know how to present information, but sharing that information in a compelling visual format helps ensure it's clearly understood and then acted upon.

3. Internal Audit Foundation, Protiviti, *Are We Ready? It's Time for Internal Audit to Focus on Resilience Amid Extreme Change*, 2021.



Conclusion

The Resilience Imperative

The COVID-19 pandemic was a watershed event for the world and for individual organizations. It challenged long-held assumptions about how people work together and how business should be conducted. There's no going back to "pre-COVID" assumptions or practices, there's only moving on, embracing change, and adapting with pandemic lessons in mind.

To remain relevant in the eyes of stakeholders and provide optimal value, internal auditors need to squarely face the future and attack the new reality with the skills and diligence they mastered before the crisis, while adding some new competencies in technology and communication along the way.

While their role in early stages of the pandemic in helping businesses survive was no doubt essential, internal auditors are by no means merely the "clean-up crew" that surveys the damage after an accident has taken place. They should instead position themselves front and center in helping create a vision for the future of their organizations — and their own profession — to ensure its fulfillment, serving as an essential guidepost on the road to resilience.



About The IIA

The Institute of Internal Auditors (IIA) is an international professional association that serves more than 218,000 global members and has awarded 180,000 Certified Internal Auditor (CIA) certifications worldwide. Established in 1941, The IIA is recognized as the internal audit profession's leader in standards, certification, education, research, and technical guidance throughout the world. For more information, visit theiia.org.

Disclaimer

The IIA publishes this document for informational and educational purposes. This material is not intended to provide definitive answers to specific individual circumstances and as such is only intended to be used as a guide. The IIA recommends seeking independent expert advice relating directly to any specific situation. The IIA accepts no responsibility for anyone placing sole reliance on this material.

Copyright

Copyright © 2022 The Institute of Internal Auditors, Inc. All rights reserved. For permission to reproduce, please contact copyright@theiia.org.

September 2022



The Institute of
Internal Auditors

Global Headquarters

The Institute of Internal Auditors
1035 Greenwood Blvd., Suite 401
Lake Mary, FL 32746, USA
Phone: +1-407-937-1111
Fax: +1-407-937-1101