GLOBAL PERSPECTIVES & INSIGHTS

Internal Audit in a Post-COVID World

PART 1: Talent Management

PART 2: Supply Chain

PART 3: Redefining the Resilient Organization

The Institute of Internal Auditors

PART 1

Talent Management

About the Experts

Eric Wilson, CIA, CISA

Eric Wilson is the Director of Internal Audit and CAE for Gulfport Energy, overseeing all aspects of the company's audit work and identifying and fostering opportunities for internal audit to consult across the organization. Prior to joining Gulfport Energy, Eric held multiple leadership positions at Chesapeake Energy, including a multi-year rotation through Chesapeake's commodity marketing group. Eric was responsible for overseeing and enhancing the group's operational and financial planning processes, compliance activities, and technology capabilities. He also led internal audit and consulting teams for various domestic and international companies in a wide range of industries, including energy, commercial real estate, and healthcare, among others.

Eric has served on The Institute of Internal Auditors (IIA) Professional Knowledge, Advocacy, and Content Advisory boards; and he is a member of the Board of Governors for The IIA Oklahoma City Chapter. He also is an elected member of the University of Oklahoma's Steed School of Accounting Board of Advisors. In addition to holding Certified Internal Auditor (CIA) and Certified Information Systems Auditor (CISA) certifications, Eric has attained his Lean Six Sigma Black Belt.

Uday Gulvadi, CIA, CPA, CAMS, CISA

Uday Gulvadi is a Director in the Disputes, Compliance, and Investigations group at Stout. He also co-leads Stout's Regulatory Compliance and Financial Crimes practice. Uday is a recognized industry leader and a board member and past president of The Institute of Internal Auditors (IIA) New York Chapter. He is a frequent speaker at national and international conferences, workshops, and professional events and has authored thought leadership publications in anti-money laundering, financial crimes compliance and sanctions, governance, regulatory compliance, internal audit, enterprise risk, and information technology risks and controls. Uday has led board and C-suite compliance training and workshops for international banks.

Uday has held partner and director positions within the internal audit and risk management practices at leading national and regional accounting and advisory firms. He specializes in advising boards, audit committees, and senior management on varied compliance, governance, and enterprise risk matters. His clients range from some of the world's largest banks and financial institutions to smaller financial services companies. He is a member of The IIA, the Association of Certified Anti-Money Laundering Specialists, and the Information Systems Audit and Control Association (ISACA).

Paula Tye, CIA, CCSA, CRMA

Paula Tye is AVP Model Audit Rule (SOX) Compliance Manager at American Fidelity Corporation, where she is responsible for managing the Model Audit Rule (MAR) readiness action plan, developing cross-organizational communication plans, and serving as a subject matter expert on system developments and control planning with senior management. She previously worked in internal audit for the City of Oklahoma City.

Paula has served on The Institute of Internal Auditors (IIA) North American Board Chapter Relations Committee and as a Southern District representative. She serves on the Board of Governors and is a past president of The IIA Oklahoma City Chapter. She has instructed IIA courses on various subjects, including audit risk approach, internal controls, audit communications, and other audit skills.

Introduction

Redefining work

After more than 30 months, the COVID-19 pandemic lingers in varying intensity around the world, and it continues to test organizations and governments on myriad levels. Its impacts add unwanted complexity to vexing risks, from managing climate change and supply-chain disruptions to cybersecurity and a looming global recession. Yet its greatest impact may be on how citizens of the world view work.

Whether manifesting as waves of unprecedented resignations around the world beginning in early 2021 (the Great Resignation), a fundamental rejection of societal pressures to overwork in China's tang ping (lie flat) movement, or the current near-universal expectation of work-from-home options from job seekers, the pandemic has dramatically changed the social contract between employees and employers.

This Global Knowledge Brief, the first of three to examine the pandemic's longer-term impact on risk, looks at talent management in a post-COVID environment. What emerges is a picture of employers struggling to define a new equilibrium that embraces work-life flexibility to attract and retain top talent while maintaining productivity, resilience, and innovation in a rapidly changing world. This will invariably impact internal auditors, both in maintaining effective internal audit functions and delivering high-quality assurance and advisory services over this changing risk area.

Planning for the Future

Flexibility is key to work-life balance

The world was thrown into isolation in early 2020 as COVID-19 spread its deadly influence. Organizations of all sizes and from all sectors scrambled to find ways to maintain productivity with distributed workforces. While the pandemic had a devastating impact on the global economy — akin to or greater than The Great Depression — the consensus is that most industries fared remarkably well in adapting to the disruption by leveraging technology while recognizing and adapting to heightened or altered risks. Critical to that success was a workforce that embraced working from home.

As the pandemic's devastating impacts began to wane with isolation, development and distribution of effective vaccines, and the passage of time, employers eagerly sought a return to normality by bringing employees back to the office. However, determining just how — and how soon — to bring workers back has created considerable consternation, as survey after survey shows many employees are seeking flexibility from their employers, which includes working from home some or all of the time. This desire for a hybrid work option should not be viewed as synonymous with flexibility. Indeed, human resources experts say work-from-home options are just part of the growing demands from a workforce that is seeking greater understanding and support from their employers for a healthy work-life balance.

What's more, employees are willing to back up those demands by walking away from positions that require working from the office in favor of hybrid or work-from-home options. A survey by McKinsey & Company of workers in North America, Europe, and Australia found that 71% of those who said they preferred hybrid work are likely to look for such opportunities elsewhere if they are not offered by their current employer. The findings are even starker for organizations seeking to add diversity to their workforce. The McKinsey survey found:

- Younger employees (18-34) were 59% more likely to leave than older ones (55-64).
- Black employees were 14% more likely to leave than their White peers.
- LGBTQ+ employees were 24% more likely to leave than their heterosexual colleagues.
- Employees with disabilities were 14% more likely to leave.
- Women were about 10% more likely to leave than men.[1]

Additional surveys support the notion that the 9-to-5, Monday-through-Friday office routine is quickly becoming a relic.

IT software company Ivanti surveyed 4,510 office workers, and 1,609 IT professionals across the United States, Europe, and Australia for The 2022 Everywhere Workplace Report. It found that nearly 9 out of 10 (87%) survey respondents do not want to work from the office full-time, 42% indicated that they prefer a hybrid model that splits time between home and office, and just 13% want to work from the office full-time.[2]

1. McKinsey & Company, Hybrid work: Making it fit with your diversity, equity and inclusion strategy, B. Dowling, D. Goldstein, M. Park, H. Price, April 2022.
2. Ivanti, The 2022 Everywhere Workplace Report, 2022.

Internal Audit Mirrors Survey Findings

Overcoming attrition is a priority

The experiences of three internal audit leaders interviewed for this report support many of the attitudes and findings reflected in these surveys.

Paula Tye, SOX process manager at American Fidelity, said her company tried a variety of options to find the right balance on who should return to the office, including an initial misguided push to bring everyone back to pre-COVID work schedules. “There was rather a quiet mutiny here on that,” she said.

In contrast, Oklahoma City-based Gulfport Energy Corporation embraced its distributed workforce. Gulfport CAE Eric Wilson said the company has gone to a hybrid model that requires approximately half the company to be in the office at any given time. Indeed, the company has moved to a new location that can accommodate no more than 60% of its workforce.

> **“I thought we were very generous. Obviously not in the current market we’re in.”**
>
> **— Paula Tye,**
> **SOX Process Manager,**
> **American Fidelity**

Uday Gulvadi, a director at global investment bank and advisory firm Stout, said his firm has gone to a “work your way” model where employees have the option to work from fully remote to fully in the office. The only limitation is that Stout expects employees to live within a commutable distance should they need to come into the office for a client meeting or other face-to-face gathering.

Gulvadi, whose comments reflect his personal views and not necessarily those of Stout’s, noted work-from-home also expands the potential labor pool for companies willing to allow workers to work fully remotely.

“At Stout, we now have access to people in many locations we didn’t have access to before. We are increasingly able to tap into new markets,” he said. “Organizations can now tap into people they wouldn’t necessarily have been able to attract such as working mothers, or people with other family responsibilities.”

These internal audit leaders each expressed concerns about how evolving employee demands for workplace flexibility could impact their organizations’ ability to recruit and retain top talent.

Tye’s employer noted sudden pockets of higher-than-average attrition in certain areas of her company. She said people have left American Fidelity, despite it being a well-established company with a history of generous employee benefits, including at one time a traditional pension program and a current 401(k) program. Exacerbating that attrition was a regional challenge for American Fidelity, which is based in Oklahoma City.

“We’re in Oklahoma, and there’s the oil industry, and the oil people will pay more to retain their talent,” Tye said. They’ll give very rich benefits, and you can’t compete with that. I had a position open for probably about six to nine months, and I couldn’t compete from what we were paying. I thought we were very generous. Obviously not in the current market we’re in.”

Fierce competition for talent and finding the right fit for the organization are not the only obstacles to staffing effective internal audit functions. There is a fundamental shift in mindset among younger workers about what every potential employer should offer them, and it’s not just about compensation.

"If companies think that they are going to be able to go back to status quo pre-pandemic . . . there is an entire generation of people who are coming into the workforce right now you're just not going to be able to get through the door to work with you," said Gulfport's Wilson.

Wilson said he participates in mock interviews for business master's candidates at several local universities. He has noted that representatives of companies that insist on workers coming to the office full time quickly realize that approach is unsustainable.

"You see the people who are representatives of those businesses walk out of those mock interviews with almost a light-bulb moment of, 'We can't continue to operate this way because we are never going to get these employees we want to have.'"

300%

According to job site ZipRecruiter, listings specified as "remote" draw three times the number of applicants.

Recognizing this shift is critical to an organization's future, Wilson said. "We're definitely going to see a divergence of mentalities for companies; that divergence may well be the make-or-break decision on whether a company makes it or not."

Gulvadi's experience at Stout provides an example of how attitudes can change.

Technology and Talent

Adding urgency to a familiar challenge

Numerous surveys and studies have noted the pandemic helped accelerate adoption of technology to increase efficiency and productivity. That adds a level of complexity to the post-COVID talent management risk. Organizations that fall behind in terms of technology will struggle to bring in top talent.

Wilson teaches several business intelligence courses at the University of Oklahoma, which include lessons on how to build dashboards using software applications, such as Power BI.

“Every time I teach that class there are students who come up and ask me, ‘There are companies that operate without this? How do they even operate?’ Then I imagine those students graduating and going to work for companies that don’t have that. The frustration they are going to feel working for a company that is far behind from a technology, reporting, and automation standpoint is going to be significant,” Wilson said.

Students are extraordinarily savvy when it comes to technology, he continued. “They know what to ask to get a good insight into how a company operates with tech and automation. If you can’t answer that, your top talent is not going to be interested in working for you.”

The same observation applies to internal audit functions that have yet to fully embrace technology. Wilson said leading practitioners have noted that automation won’t put internal audit out of business, but it will put the internal auditor who doesn’t use automation out of business.

“As a profession, there is no longer a need to sit and stare at Excel spreadsheets and go cell by cell and tick things out,” Wilson said.

Internal audit functions should be focusing instead on automating source systems to manage routine and repetitive chores, which then provides the opportunity to step back and identify potential roadblocks to the organization achieving its goals, Wilson said.

“The roadblock is not that we have the wrong number in cell A7 of some form. The roadblock is that we have some strategic or operational fault in what we are doing, and we need to go and identify and tackle that,” he said.

The value of greater understanding of technology is manifesting clearly in the high turnover in financial services, where FinTech — the growing field where technology and innovation are altering delivery of traditional financial services — is drawing new and experienced workers. FinTech includes artificial intelligence, blockchain, cloud computing, and leveraging big data.

Gulvadi noted this provides a significant opportunity to invest in staff development, which in turn can help with talent management.

“The best bet companies have is upskilling or re-skilling some of their people, whether it is digital technology or data analytics,” he said. “I’m seeing a lot more emphasis on learning opportunities in that space. I have seen people sponsoring employees to take these courses on cybersecurity or blockchain.”

Diversity, Equity, and Inclusion

Flexibility includes corporate culture, DEI

As organizations battle to adapt to changing worker demands on work-life balance and meeting new challenges and opportunities offered by technology, a third component to talent management in a post-COVID environment lies in what the organization looks like. Diversity, equity, and inclusion presents a significant opportunity to attract and retain top talent.

A recently published white paper from the Internal Audit Foundation, The Institute of Internal Auditors (IIA), and Deloitte, Diversity, Equity, and Inclusion (DEI) 101: Internal Audit's Invaluable Role in Creating a Sense of Belonging at Work, argues that internal audit has not only an opportunity, but an obligation to foster a DEI culture, starting with its own functions. The white paper, the first of a three-part series, states organizations that already had DEI programs before the pandemic "largely recognized they needed to do more — not only to attract talent but also to empower their current employees to be their authentic selves at work."[3]

While DEI and its goals relating to creating inclusive and equitable work environments can be complex, even disruptive, the benefits are evident. A pre-pandemic study conducted by BetterUp in 2019 cited in the white paper found that increased workplace belonging can lead to an estimated 56% increase in job performance, 50% reduction in turnover risk, and 75% decrease in employee sick days.[4]

What's more, a strong DEI program is a draw for younger talent. Gulvadi, who is on Stout's DEI campus recruiting pillar, said a good proportion of job candidates he speaks with inquire about DEI efforts at the company.

"And people want to see not just platitudes, or something written on a piece of paper; they're actually asking about some of the initiatives," he said.

"We're definitely seeing change in the diversity of people we hire," Gulvadi added. "And similarly, for many of the larger clients I work with, that has been a significant point of attracting new talent. The ones that have been able to demonstrate stronger DEI initiatives have been able to attract a number of good people from diverse backgrounds."

A growing body of research reflects that DEI and work-life balance increasingly are viewed as inseparable from corporate culture. As noted in the introduction to The 2022 Global Talent Trends report from LinkedIn Talent Solutions, "Gone are the days when companies could lead with perks — think ping-pong tables and endless snacks — designed to make the office a home away from home. Today, forward-thinking organizations are working with employees to make home an office away from office."[5]

The report, titled The Reinvention of Company Culture, also makes the case that organizations must evolve their cultures if they hope to compete in today's fierce job market:

"For companies to attract, retain, and grow the talent that will bring them sustained success, they need to fine-tune — or overhaul — their culture to meet the expectations of professionals to be seen as human beings first."[6]

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3. The Internal Audit Foundation, The IIA, Deloitte, Diversity, Equity, and Inclusion (DEI) 101: Internal Audit's Invaluable Role in Creating a Sense of Belonging at Work," 2022.
4. BetterUp, "The Value of Belonging at Work: New Frontiers for Inclusion in 2021 and Beyond," pg. 11.
5. LinkedIn Talent Solutions, 2022 Global Talent Trends: The Reinvention of Company Culture, 2022.
6. Ibid.

The elevation of company culture as a significant component for attracting and retaining top talent is widespread, according to LinkedIn research. Globally, 40% of job candidates consider company culture a top priority when picking a job. This ranges from a high of 50% in the Netherlands to 29% in Mexico.[7]

"Workers are now reevaluating what matters most to them in the wake of the COVID-19 pandemic, prompting employers to focus on the well-being and personal satisfaction of their employees. Companies are adjusting their policies to ensure that employees feel cared about as human beings, not just as workers, making flexible work arrangements permanent, investing in wellness programs, and boosting their diversity and inclusion efforts. Employers and employees are building a new, more dynamic relationship based on trust and empathy."[8]

7. Ibid.
8. Ibid.

Conclusion

There is ample evidence that reflects how the employee/employer dynamic is evolving to become more flexible and human-focused in the wake of the COVID-19 pandemic. This includes considerations on the use of technology as well as diversity, equity, and inclusion. From Wilson's perspective, this presents an opportunity for internal audit's evolution.

"I think that the internal audit profession has been riding the crest of a wave," he said. "What's happened over the last couple years has forced us to make a decision of which way we're going. I think that's a really good thing, but it also has injected a lot of confusion and anxiety and angst into internal audit functions."

Knowing how best to support their organizations with assurance and advisory services is challenging for practitioners, particularly as talent management in a post-COVID environment continues to evolve. The DEI 101 white paper offers a list of actions internal audit can take within the DEI realm:

ASSURANCE PROVIDER

- Assess the current state of DEI within an organization through the three spheres of influence in workforce, marketplace, and society (i.e., human resource audits, third-party management audits, policy and procedure reviews, and regulatory compliance reviews).
- Use quantitative and qualitative approaches to enrich audits by adding DEI considerations into the existing audit plan.
- Confirm that management has established effective processes to attract, recruit, hire, and retain diverse candidates.
- Audit the accuracy of DEI statistics provided to the board, regulators, or external parties.
- Perform "pulse checks" on whether or not the organization is achieving its stated DEI goals.
- Work with human resources professionals to better understand how equity objectives are measured across the business and whether reward practices or programs introduce elements of business risk/bias that should be further investigated.

TRUSTED ADVISOR

- Incorporate DEI risks into audit programs, reporting on potential impacts to the organization.
- Assist management in analyzing talent processes (recruiting, retention activities, etc.) to identify vulnerabilities to cognitive biases and potentially adverse impacts on specific workforce demographics.
- Determine if DEI objectives across multiple business units, functions, or merger and acquisition (M&A) targets are aligned with the overarching DEI goals of the enterprise.
- Provide a perspective on DEI progress to management and the board.

AGENT IN CHARGE

- Identify DEI behaviors that inspire the organization and can be tracked for progress.
- Propose changes to promote, support, and activate DEI.
- Assist management in identifying and remediating the root causes of inequitable programs or processes.
- Initiate cross-functional partnerships and external alliances through the leadership of the chief audit executive (CAE).
- "Walk the talk" by modeling DEI leading practices within the internal audit department.[9]

Of course, a robust approach to assurance over DEI efforts is just one component. Internal auditors must be prepared to support the evolution of talent management within their functions and organizations on various factors that influence this risk area.

9. The Internal Audit Foundation, The IIA, Deloitte, Diversity, Equity, and Inclusion (DEI) 101: Internal Audit's Invaluable Role in Creating a Sense of Belonging at Work," 2022.

PART 2

Supply Chain

About the Experts

Angelos Binis

Angelos Binis was formally the executive head of the Hellenic National Transparency Authority. In 2015, he worked as a policy analyst at the OECD in the Public Sector Integrity Division focusing on advancing the work on internal control and audit, as well as anti-corruption and anti-fraud. He has been involved in various projects in Europe, Latin America, Asia, and the MENA region to establish, review, and implement internal control and anti-fraud frameworks, internal audit policies and tools, as well as public integrity strategies and processes. He has also drafted or contributed to several OECD reports and official publications.

Mark Maraccini

Mark Maraccini is a partner at Crowe Horwath LLP (Crowe) who specializes in regulatory compliance for governmental and not-for-profit entities. He has over 17 years' experience with government, higher education, not-for-profit (NFP) audits, attestation services and other consulting projects. Over his career, he has worked with hundreds of governmental entities to complete risk assessments, finding mitigation, compliance audits and audit readiness assessments in accordance with AICPA and Governmental Auditing Standards.

Introduction

A lingering post-COVID challenge

The COVID-19 pandemic that has ravaged the global economy for nearly three years has been a test for organizations in the public and private sector alike. According to a late 2020 survey by Ernst & Young LLP (EY US), 72% of companies experienced a negative effect on their supply chains, with 57% of them reporting serious disruptions. Even more concerning, of the companies surveyed, only 2% said their supply chains were fully prepared for the pandemic.[10]

Even though the worst of the COVID-19 pandemic has largely waned with the creation and distribution of effective vaccines, leading to the subsequent relaxation of many of the most stringent COVID-19 protocols, the global supply chain has arguably proven to be the area most resistant to recovery. Indeed, in certain industries such as automotive — think shortages of critical parts such as semiconductors — disruptions are expected to linger well into 2023 and beyond.

Challenges persist, but the internal audit community now has enough available hindsight to analyze what went right in the responses to the global supply chain crisis, what went wrong, and what actions organizations can take to help address any vulnerabilities the pandemic exposed. Part 2 of this Global Knowledge Brief series, "Internal Audit in a Post-COVID World," will offer some insight into what such actions might be, and how the role of internal audit in supply chain risk management might evolve.

10. Sean Harapko, "How COVID-19 Impacted Supply Chains and What Comes Next," EY, February 18, 2021, https://www.ey.com/en_us/supply-chain/how-covid-19-impacted-supply-chains-and-what-comes-next.

The Supply Chain Risk

An overview of a vast risk

A risk in focus?

While the pandemic may have taken many companies around the world by surprise, the risks associated with supply chains did not. In "OnRisk 2022: A Guide To Understanding, Aligning, and Optimizing Risk," a report published by The IIA that measures alignment among stakeholders in organizational governance (the board, executive management, and chief audit executives or CAEs), supply chain disruption was one of the listed risks that saw close alignment in regards to personal knowledge and organizational capability. Of the stakeholders surveyed, more than half saw supply chain disruption as a highly relevant risk to their organizations (57% of board members, 53% of C-suite members, and 43% of CAEs).[11]

However, even if the relevance of supply chain risk is widely recognized, how it manifests within individual organizations can vary significantly. Part of what makes the risk so relevant across industries is that it overlaps so many other risk areas. Indeed, cybersecurity; supplier and other third-party relationships; geopolitics; financial risks; volatility in regulatory environments; and environmental, social, and governance (ESG) risks can all contribute to supply chain risk. Elements of all of these can be seen in the supply chain crisis that defined the pandemic for so many businesses.

"Supply chain disruption was very evident when the COVID-19 pandemic began and worsened as it wore on," said Mike Varney, governance risk compliance partner at Crowe, in an interview with *Internal Auditor*. "The initial challenges were related to the transportation of goods and labor pressures. [Then], as the world moved through the pandemic, suppliers began rationing raw materials, either because they could not meet production demands or because they did not have access to their raw materials. Due to this scarcity — along with labor pressures from inflationary wage forces and the unavailability of workers [due to layoffs and stringent COVID-related safety protocols] — price increases were seen across the supply chain."[12]

Supply chain risk is so vast and interconnected, it can easily lead to an inefficient level of focus from organizational assurance functions, which in turn can impact the communication of the risk to key stakeholders. Such was the case during the height of the COVID-19 pandemic as the supply chain crisis deepened with each passing month, at times reflecting poorly on nearly all organizational departments, including internal audit.

"Organizational objectives of financial growth, customer satisfaction, and an unblemished reputation could not be met as products could not be manufactured as promised, customer interaction was limited, and goods were not delivered on time," according to "Are We Speaking the Same Language? An Integrated Approach to Supply Chain Risk Management," a white paper published jointly by the Internal Audit Foundation and Grant Thornton. "Executives began to question the efficacy, efficiency, and value of corporate functions such as risk management, compliance, and internal audit, as they watched the business take a sharp downturn. Leadership in organizations has noted that those functions — and others — did not speak a common language, thus requiring considerable discussion and rework for everyone to get 'on the same page.'"[13]

11. "OnRisk 2022: A Guide to Understanding, Aligning, and Optimizing Risk," The IIA, 2021, https://web.theiia.org/cn/atxbg/OnRisk_2022.
12. Mike Varney, Sharon Lindstrom, "Supply Chain Woes," June 6, 2022, https://internalauditor.theiia.org/en/articles/2022/june/supply-chain-woes/.
13. "Are We Speaking the Same Language? An Integrated Approach to Supply Chain Risk Management," Internal Audit Foundation, Grant Thornton, 2022, https://www.theiia.org/en/content/research/foundation/2022/an-internal-audit-foundation--grant-thornton-report-are-we-speaking-the-same-language-an-integrated-approach-to-supply-chain-risk-management/.

A changing, and complicating, regulatory environment

Complicating the picture further were regulatory factors impacting global supply chains during this time. The introduction in the midst of the pandemic of regulations designed to hold organizations accountable for supply chains, in some cases, amplified the challenges. For example, the Act on Corporate Due Diligence in Supply Chains, passed by Germany's Bundestag in June 2021, which will require companies of a certain size (at least 3,000 in January 2023 and 1,000 by January 2024) to be subject to due diligence within their supply chains for the protection of human rights and the environment, is one such action.[14]

"There is a growing cost for regulatory compliance within supply chains in the post-pandemic world," said Angelos Binis, former executive head of the Hellenic National Transparency Authority. For instance, he said, the EU is making great efforts to analyze the root causes of the mass migration of refugees from Syria, Afghanistan, Venezuela, Eritrea, and other countries to Europe in recent years, which has resulted in greater scrutiny to hold supply chains accountable for human rights-related violations. "Such issues are pushing countries to implement policies that compliance functions can use as benchmarks until action from the EU or other such entity is finalized," he said.

With so many individual countries having separate regulatory standards, said Binis, legal functions are required to work with procurement functions and assurance providers to make sure due diligence is done throughout the supply chain to comply with any applicable regulations or laws. "To avoid fines and retain company goodwill," he said, "it can be a delicate balance, especially in a pandemic when resources to invest into compliance-related functions are limited."

Regulatory complications, as significant as they are, pale in comparison to evolving geopolitical risks. The most prominent of these is the conflict in Ukraine, which is having a profound impact on many countries' access to oil and wheat. Looking further out, many are closely watching the rising trade tensions between the U.S. and China. The world's second largest economy is still operating under a "zero-COVID" policy that is bringing many key supplier hubs to a near standstill, and it is increasingly aggressively posturing toward a possible invasion of Taiwan — whose robust chipmaking sector is responsible for as much as 66% of the world's supply of semiconductors.[15]

14. "Germany: New Law Obligates Companies to Establish Due Diligence Procedures in Global Supply Chains to Safeguard Human Rights and the Environment," Library of Congress, July 22, 2021, https://www.loc.gov/item/global-legal-monitor/2021-08-17/germany-new-law-obligates-companies-to-establish-due-diligence-procedures-in-global-supply-chains-to-safeguard-human-rights-and-the-environment/.
15. Hideaki Ryugen, "Taiwan's Share of Contract Chipmaking to Hit 66% This Year: Report," Nikkei Asia, April 25, 2022, https://asia.nikkei.com/Business/Tech/Semiconductors/Taiwan-s-share-of-contract-chipmaking-to-hit-66-this-year-report.

A Place for Internal Audit

Adapting to what the risk landscape demands

A sink or swim environment

The COVID-19 pandemic, for all of its tragedy, was not without its silver linings. From the perspective of organizations, the generational "black swan" event acted as the ultimate "stress test" of their business resiliency plans. And even in areas where these plans were found wanting, the pandemic acted as a prime motivator to prompt rapid, meaningful, ultimately positive change because the stakes were too high to consider otherwise.

The supply chain is one such area. In a November 2021 survey of senior supply chain executives by McKinsey & Co., 95% of respondents reported that they had formal supply chain risk management processes, an all-time high for the annual survey. Additionally, 92% of senior supply chain executives across industries and geographies said they improved their resilience through physical changes to their supply chain footprints between 2020 and 2021. When this same question was asked in McKinsey's 2020 survey, just over 75% of respondents said the same, indicating the pandemic pushed organizations to respond to the risk environment — one way or another.[16]

How exactly these organizations responded depended largely on industry, organization size, market demand, the maturity of their supply chain risk management capabilities, and other factors. For example, according to the same McKinsey survey, 60% of respondents in the healthcare industry said they had regionalized their supply chains, while 33% moved production closer to end markets.

By contrast, only 22% of automotive, aerospace, and defense players, who are more reliant on established supplier inventories of parts, components, and semiconductors from critical supplier hubs such as Taiwan and China, had regionalized production. Instead, these companies, as well as companies with little-to-no risk management experience, opted to invest in new software tools, technologies, and data analytics systems for more proactive monitoring of supplier risks. This was particularly effective in improving the visibility of Tier 1 suppliers (which typically provide inventory such as smart components), while improvements still need to be made going forward regarding Tier 2 (chip assemblies) and Tier 3 (semiconductors); 48% of companies surveyed said they had visibility of Tier 1, compared to just 21% for Tier 2 and 2% for Tier 3.

The incorporation of data analytics also opens previously inaccessible opportunities for strategic supply chain planning in the face of unplanned disruptions, said Varney. "Companies can review strategic suppliers to minimize the risk of falling into single-supplier bottlenecks, prioritize incoming purchases to optimize flow, and in certain instances allocate inventory to strategically supply designated regions," he said.[17]

An agile internal audit role

In a healthier environment, organizations would likely prefer to take a more deliberate, measured approach to implementing such strategies and technologies into their supply chains. The COVID-19 pandemic, however, has not provided such a smooth runway, prompting them to rely instead on the coordination of their various departments to make these transitions

16. "How COVID-19 Is Reshaping Supply Chains," McKinsey & Company, November 23, 2021, https://www.mckinsey.com/business-functions/operations/our-insights/how-covid-19-is-reshaping-supply-chains.
17. Ibid.

as seamless and insulated from risk as possible. As the key assurance provider against risk in the organization, internal audit has played a central role in this movement.

To play this role, however, internal audit has had to adapt to the "sink or swim" environment just as their organizations have. Often, that means scrapping certain elements of set longer-term audit plan processes in favor of a more agile, priority-based approach, said Mark Maraccini, public sector internal audit lead partner at Crowe. "You want internal audit to be agile, to be fluid," he said. "We had to get out of the mindset of creating dense, 60-page audit reports that may be thorough but arrive too late to provide any actual benefit to organizations. Instead, what I would want in leadership is area current state assessments. This allows our observations and recommendations to leadership to be as fast paced as operational changes in the organization including supply chain disruptions where we have this current situation in our supply chains. I want internal audit to say, 'Here is what we have, here is where we want to pivot or improve, and here are the risks.' And after the change is made, I would then want to collect data and conduct interviews to understand what has changed, how we're doing, and how all this impacts our risk mitigation and control structure."

Adopting such an agile approach is not something to fear, said Varney. It represents an opportunity. "Any new plan or policy represents a potential area for internal audit to provide assurance. For instance, if a company enhances its logistics capacity through a dedicated or private fleet, internal audit can provide perspectives on whether these new processes are designed and operating to deliver on intended objectives — while managing the relevant risk of new processes or partners."[18]

If these opportunities are missed, Varney added, the consequences for the perceived value of internal audit in the eyes of leaders could be damaged. "Internal audit has to act now, or risk losing relevance to stakeholders," he said.[19]

Internal audit integration

If there has been one lesson to take from the COVID-19 pandemic regarding supply chain resilience against disruption — and one lesson organizations can take to heart moving into a post-COVID world — it is that supply chain management is not restricted to a series of activities and adhered-to protocols. Rather, supply chain management is the result of, as the Internal Audit Foundation and Grant Thornton white paper suggests, "integrated functions and roles that work together toward an objective: achieving supply chain resiliency and performance goals." In other words, supply chain management is an "ecosystem."

Internal audit is one such function and with its unique view of risk across the organization, it can provide invaluable support toward achieving shared goals. The Internal Audit Foundation and Grant Thornton white paper created a five-step approach toward organizationwide integration of departments to build supply chain resilience, all of which align with the key tasks of the internal audit function:

1. Identify and define supply chain risks and segment them into risk categories that represent the largest risk exposures to business objectives.
2. Quantify the probability and impact with an eye on interrelationships between risks and failure modes and effect analysis outcomes.
3. Analyze scenarios to test ranges of risk outcomes, develop response plans, and consider control effectiveness.
4. Document the responses and distribute the resulting plans.
5. Regularly revisit the plans, test controls, and refine program life cycle elements, as needed.[20]

18. Ibid.
19. Ibid.
20. Ibid.

According to the white paper, current organization satisfaction regarding each step varies wildly. For example, while 55% of survey respondents said they were satisfied or very satisfied with their organization's ability to assess financial risk impacts or prioritize risks, only 36% said the same for their organization's ability to regularly revisit, test, re-test, and refine plans as needed. Clearly, while progress toward organizationwide integration appears to be positive, there is more to be done — and more internal audit can do in the coming years and beyond.

Conclusion

The impact of looming technologies

While many are eager to speak of COVID-19 in the past tense, it is far from over. In July 2022, for example, more than a year and a half after the introduction of various COVID-19 vaccines, China implemented a lockdown of nearly one million people in a suburb of Wuhan following the discovery of four new cases.[21] The longer such actions persist, the more it becomes likely that living with COVID-19 will become the "new normal" as it becomes endemic in society.

So it must be for internal audit, as it has always been. The risk environment organizations operate in never ceases evolving, expanding, and becoming more complex. This is not the end, but only the beginning.

While this may sound daunting and imply many more challenges — known and unknown — for internal auditors in the years ahead, the good news is that auditors need not move into the post-COVID world blind and ignorant. Many trends, such as the increasing focus internationally on holding global supply chains more accountable regarding ESG issues such as human rights and environmental sustainability, took root long before COVID-19, and will continue long after.

The global supply chains' embrace of technology, particularly automation systems and tools, is another trend that predates COVID-19 — although the labor shortages spurred by COVID-19, associated safety protocols, and the subsequent "Great Resignation" seen across many sectors have certainly accelerated the transition.

"A material risk on the horizon that is not garnering as much attention [as it should] is the automation of supply chains," said Varney. The rise in automation will coincide with a significant increase in cyber risk, while also creating further technology inequalities, which intertwine with income and wealth inequalities, he said. "Long term, this will be the future. Now is a good time to evaluate future investments in automation and analytics to deal with the challenging labor environment, as well as develop focused, scenario-based action plans for business continuity and resiliency in an automated world," he said.[22]

21 . Yaroslav Lukov, "Covid in China: Million in Lockdown in Wuhan After Four Cases," July 28, 2022, https://www.bbc.com/news/world-asia-china-62322484.
22. Ibid.

PART 3

Redefining the Resilient Organization

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.[23] 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.

23. 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.[24]

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?”

24. 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.[25] 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.

25. 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.

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