

# Audit committee focus: thinking outside the box when leveraging internal audit

September 2020



In today's fast-changing environment, the risks organizations face remain highly fluid. In the boardroom, gaining comfort that appropriate oversight, capabilities, and controls are in place to mitigate risks may at times feel challenging given the limited view corporate directors have of day-to-day operations. But that's when leveraging internal audit (IA) can help audit committees in their vital oversight role.

Increasingly, audit committees lean heavily on internal audit for assurance and insight on risks well beyond the traditional scope of operational audits and financial controls—and they should. The risks on internal audit's plan should be tied to the company's strategic focus. Often, the audit committee will gain perspective on company-wide risks and mitigating activities through an enterprise risk management process. Even if that process addresses all strategic risks, internal audit can play a value-added role by providing assurance over the capabilities and controls in the most critical risk areas, as well as insights into whether risk mitigation activities are operating consistently across the organization.

We've heard from leading internal audit groups and have compiled a list of ten areas where internal audit is expanding their work. As audit committees look ahead to 2021, these are areas they should be discussing with internal audit. If internal audit is not providing assurance over these risks, the audit committee should be asking why. For each area, we briefly describe the risk and provide examples of the related internal audit areas of focus. For some internal audit groups that have historically focused on financial controls compliance or traditional operational audits, this may be a stretch. But this is one of the ways leading functions are getting ahead and audit committees are effectively executing their oversight responsibilities—thinking outside the box.



## Organizational culture, values, and compliance

Increased social and regulatory pressure on organizations to “do the right thing” amidst increasing financial pressure, is driving companies to take many steps, including examining diversity, equality, and inclusion policies and practices. This is all happening on top of the focus many stakeholders have had in the last few years on corporate culture and its importance to the organization.

### Example areas of internal audit focus

- Effectiveness of the compliance program considering new guidance from the US Department of Justice and with a deeper focus on the state of the risk and compliance culture
- Key reporting indicators of company culture
- Assessment of culture as part of routine internal audits
- Review of the organization’s process and controls related to diversity and inclusion metrics and reporting



## Enterprise resiliency

Unforeseen events such as natural disasters, pandemics/epidemics, and geopolitical instability are on the rise. Meanwhile, businesses are not allowed any downtime so being able to respond and to do so well, is critical.

### Example areas of internal audit focus

- Sufficiency of business continuity plans and processes
- Review of crisis plans post-event



## Health and safety

The COVID-19 pandemic greatly heightened focus on business cleanliness, safety, and return-to-the-workplace protocols. Companies have been forced to create policy from disaggregated return-to-work guidelines and, in doing so, comply with health and safety regulations that vary significantly across the US and country to country. Many employees also have their own concerns about returning to the workplace, creating the need for transparent, well-communicated policies that take into account employee feedback and that allow for accommodations for specific circumstances, if needed.

### Example areas of internal audit focus

- Sufficiency of return to the workplace plans, including the process undertaken to create and vet the policy as well as compliance with any applicable regulations
- Assessment of health and safety protocols
- Process for monitoring and reporting of ethics and compliance hotline activity related to health and safety claims



## Environmental, social, governance (ESG), and sustainability

ESG disclosures are increasingly being used by institutional investors to inform investment portfolio decisions and capital access risk, and are an increased area of focus among shareholder activists. Consumers, employees, and other stakeholders are highly sensitive to corporate responsibility practices affecting their buying and employment decisions. And yet, for most companies ESG disclosures are not subject to the same rigor related to policies, procedures, or internal controls as other data that the company is providing to investors.

### Example areas of internal audit focus

- Information the organization needs to oversee the company's ESG strategies and risks (compared with expectations, recognized framework, etc.)
- Governance and operating model in place to navigate the evolving ESG disclosure trends
- Processes and controls in place to ensure the accuracy, completeness, and consistency of reporting



## Brand management

Rapid communication and the growing adoption of social media platforms raise the risk that a company's reputation can be damaged before it is even aware of an issue. Companies must continuously monitor a variety of public and private data sources (e.g., third-party risk registers, news articles) to identify and manage emerging risks.

### Example areas of internal audit focus

- Management's processes for monitoring and responding to content on social media and its impact on reputation
- The organization's policies around employee use of social media



## Transformation adoption and technology

COVID-19 shutdowns caused many companies to accelerate their pace of workforce-related and digital transformation, including adoption of agile technology, which increases risk to the control environment, people, talent, and culture.

### Example areas of internal audit focus

- Processes for identifying and implementing transformation and technology initiatives
- Digital program governance, including the defined strategy, value drivers and opportunity identification, roles and responsibilities, and the calculation and monitoring of return on investment (ROI) for digital investments
- Metrics/reporting on transformation initiatives



## Human capital and talent management

A competitive market for the best talent remains, and employees are increasingly comfortable with frequent job change. Concurrently, the shift to remote work has heightened personal stress, and made work-life balance difficult for many employees. Employee wellness and retention are areas of increased risk. Organizations have to balance these concerns for employee well-being with the need for workforce productivity. For many, this means finding new ways of monitoring and measuring productivity in a remote environment.

### Example areas of internal audit focus

- Mechanisms to monitor and obtain feedback on programs focused on employee satisfaction and well-being
- Processes to measure workforce productivity
- The company's recruitment and retention programs



## Cybersecurity and data protection

Organizations rapidly transitioned to a remote workforce when COVID-19 shutdowns occurred, often without adequate IT infrastructure and processes in place. This created potential vulnerabilities to cyberattacks and data privacy breaches at a time when demand for greater control over personal data, and the impact of privacy laws and regulations are growing. (Read [here](#) for more insights on risks and risk drivers related to cyberattacks and fraud.)

### Example areas of internal audit focus

- Cybersecurity procedures and controls and the related technology implications for a remote workforce
- Controls over personal data



## Data governance

Digital transformation and the more pervasive use of data require a data governance maturity not yet reached in some organizations. The ROI from emerging technologies, such as robotic process automation and machine learning, is dependent on the quality of data those technologies process.

### Example areas of internal audit focus

- Data governance controls over emerging technology
- Management's processes related to data governance in the context of the organization's digital transformation



## Third-party and supplier management

Increased reliance on third parties to manage critical processes, the need for both diverse and localized suppliers to ensure business continuity, pressure to reduce cost, and increased customer and regulator scrutiny all increase the risk inherent in third-party and supplier management.

### Example areas of internal audit focus

- Management's process for monitoring risks related to its third-party and supplier network
- Controls throughout the third-party lifecycle (contract negotiations, due diligence, ongoing monitoring, planning, terminations)

For more insight, refer to *Getting the most out of internal audit: How can the audit committee help maximize the value of internal audit?*

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