![BerryDunn logo]

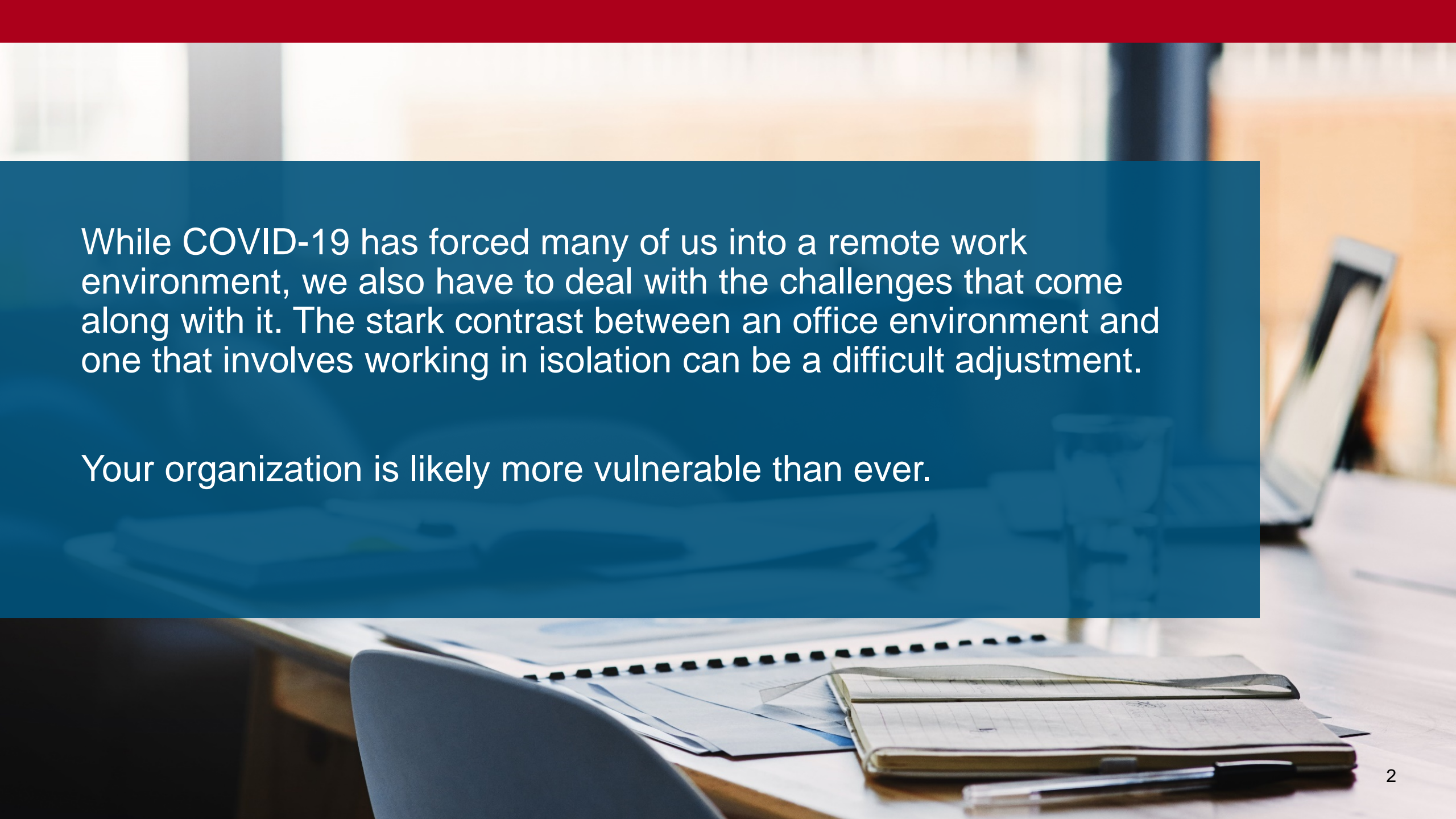# Maintaining internal controls in a virtual environment

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While COVID-19 has forced many of us into a remote work environment, we also have to deal with the challenges that come along with it. The stark contrast between an office environment and one that involves working in isolation can be a difficult adjustment.

Your organization is likely more vulnerable than ever.

1 **ESTABLISH A REMOTE CONTROL ENVIRONMENT**

Exercising appropriate tone at the top and establishing appropriate oversight with a remote workforce.

2 **UPDATE RISK ASSESSMENTS**

Updating risk assessments is critical to understanding how to adapt during a time of unprecedented change.

3 **REDESIGN AND UPDATE CONTROL ACTIVITIES**

Internal controls that were appropriately designed may prove to be operating ineffectively in this environment.
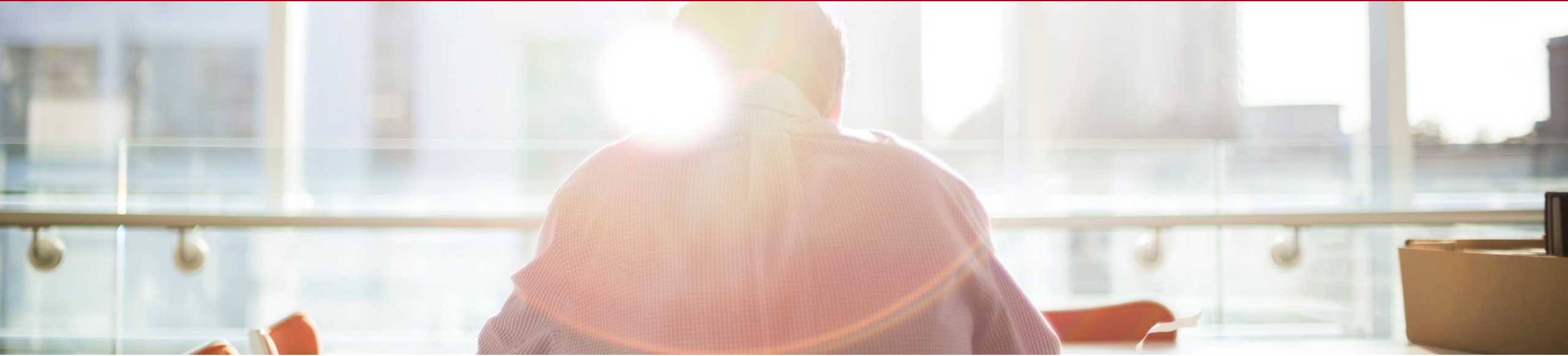
4 **CONSIDER PERMANENT CHANGES**

Use this opportunity to revise processes and internal controls to have a long-lasting impact on your organization.

5 **REMOTE AUDIT CONSIDERATIONS**

What you can expect in a remote audit and how to best prepare.

Polling question

Overview
ESTABLISHING A REMOTE CONTROL ENVIRONMENT

Ethics and governance policies play an important role in setting clear expectations about workplace behaviors.

However, a workforce is much more apt to follow a leadership team's example rather than a policy.

Organization leaders need to think sensibly about building and sustaining a remote control environment with a focus on governance, culture, controls and procedures.

CONSISTENT COMMUNICATION WITH YOUR TEAM

- Send out emails and schedule video meetings to entire department and on a one-on-one basis.
- Department-wide emails should stress the importance of communication, quality work, and accountability.
- One-on-one meetings should be used to check in with employees to ensure their work needs are being met.

Employees will most likely have suggestions to improve their new work environment, incorporating these suggestions can improve communication amongst team members.

THE POWER OF VIDEO

- Videoconferencing provides a great opportunity to stay connected. Virtual happy hours, trivia, and game nights are all possible.
- Town hall-type meetings can also be explored. Your leadership team can hold open discussions regarding office status updates, technological considerations, and discuss challenges of remote working.

Employees are going to have anxiety about the current situation. These meetings can help put employees at ease and lead to a more productive and fun work environment.
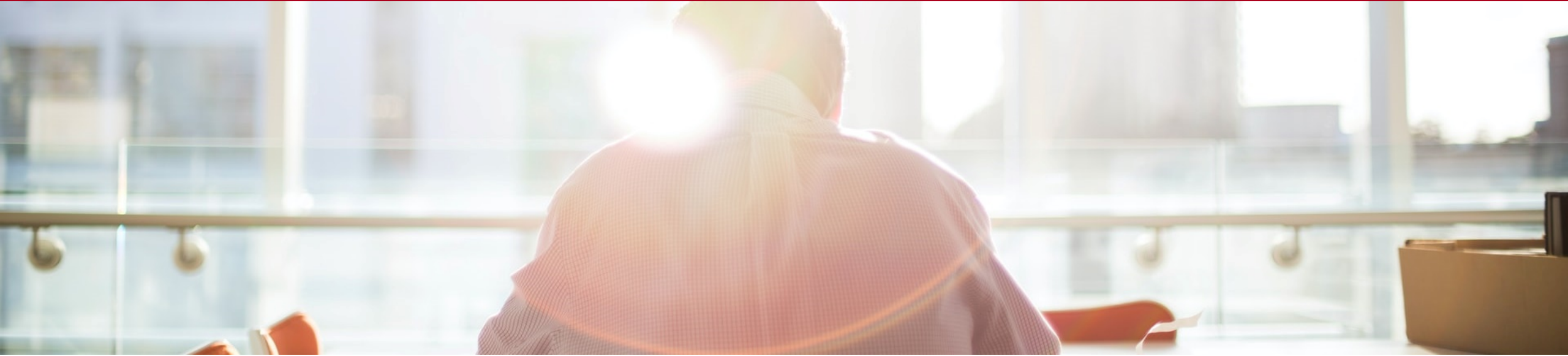
Polling question

AN UPDATED RISK ASSESSMENT FOR YOUR ORGANIZATION WILL LIKELY BE NEEDED

- Internal control environments have changed rapidly.
- There is potential for higher risk of fraud - internally and externally.
- Those responsible for designing internal controls (control owners) should help reassess your organization's environment.
- It is possible there are unintended changes to processes that have occurred.

Using a risk-based approach, organizations can identify key financial statement transaction cycles that are more susceptible to misstatement to develop an informed and efficient approach to update internal control procedures.

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CONSIDER MAPPING FINANCIAL STATEMENT TRANSACTION CYCLE RISKS on a heat map that considers the extent to which risks are mitigated or reduced by internal controls or other risk response strategies

Benefits:
- A visual, big picture, holistic view to share while making strategic decisions
- Improved management of risks and governance of risk management process
- Increased focus on risk appetite or tolerance
- More precision in the risk assessment process
- Identification of gaps in risk management and control process
- Greater integration of risk management across the organization

Source: Risk assessment for mid-sized companies: tools for developing a tailored approach to risk management. Scott McKay, AICPA

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CONSIDER MAPPING FINANCIAL STATEMENT TRANSACTION CYCLE RISKS on a heat map that considers the extent to which risks are mitigated or reduced by internal controls or other risk response strategies

Questions to consider:
- How much risk are we willing to accept?
- What constitutes a material risk to our Organization?
- What is the range of acceptable variance from our key performance and operating metrics?
- How will we define our terms to evaluate the likelihood and impact of risk events to map our potential risk events?

Source: Risk assessment for mid-sized companies: tools for developing a tailored approach to risk management. Scott McKay, AICPA

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RISK ASSESMMENT IMPLEMENTATION

ACTIONS TO TAKE

✓ Use risk self-assessment workshops to take advantage of the insights of managers

✓ Get consensus on risk tolerances – acceptable levels of missing targets

✓ Clarify terms used to establish probability estimates

✓ Establish participants' understanding of the effectiveness of controls and other risk responses used in the organization

ACTIONS TO AVOID

✗ Don't rely on surveys to capture initial thoughts about risks

✗ Avoid getting stuck in root cause analysis

✗ Forgetting to quantify risks in terms of potential financial impact on the organization

✗ Forgetting to consider the state of controls and other risk management practices in place in the organization

Source: Risk assessment for mid-sized companies: tools for developing a tailored approach to risk management. Scott McKay, AICPA.

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CONTROL ACTIVITIES

Accounts payable and cash disbursements

HR and payroll
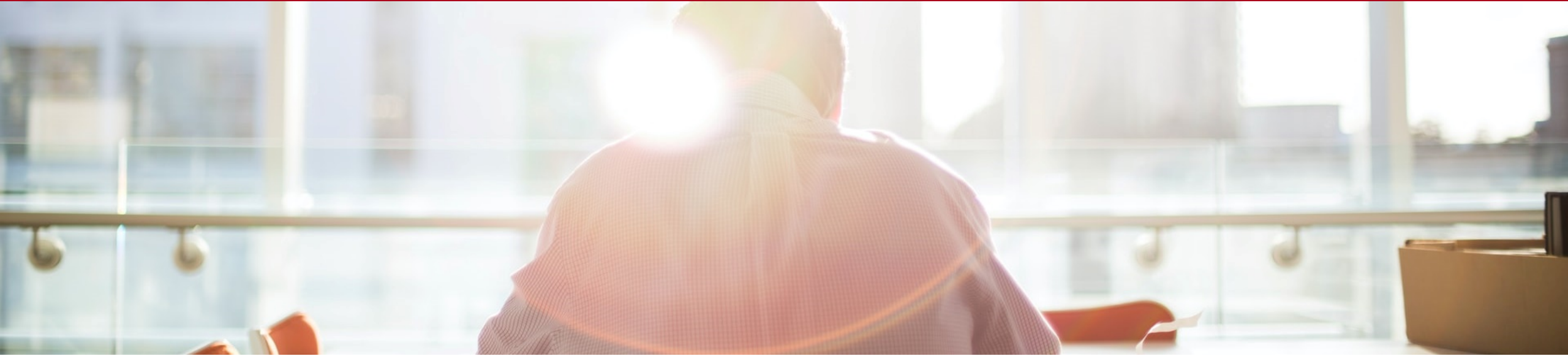
Accounts receivable and cash receipts

Digital sign-offs

Month end close

Polling question

CHALLENGES IN MAINTAINING SEGREGATION OF DUTIES

- Definition – prohibits the assignment of responsibility to one person for the acquisition of assets, their custody, and the related record keeping.
- It is possible processes have inadvertently changed, exposing certain internal controls to ineffectiveness.
- Maintaining segregation of duties should be a top priority for control owners and is something that should be constantly assessed.

Example: Employee responsible for reviewing AR write-offs is now working an alternative work schedule due to personal obligations. This employee does not have the ability to write-off AR; therefore, segregation of duties has never been an issue. An employee within the AR department has agreed to take some of the employee's responsibilities and is now reviewing some of the AR write-offs, which has put this employee in a position to review some of their own changes.

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CHALLENGES IN REMOTE AP AND CASH DISBURSEMENT CYCLES

- The accounts payable and cash disbursement process will most likely be upended as a result of your new remote environment.
- Bills received through the mail will need to be scanned to the accounts payable clerk for entry into the accounting system.
- Check signing may also prove to be a challenge as blank check stock may be inaccessible.
- Assessing your accruals for goods and services received but not invoiced may be a much larger undertaking.

Seek opportunities for controls to evolve, to confirm that they aren't bypassed. Do not abandon a control because of a remote-work environment, but develop ways to leverage technology to enhance the control. Are there virtual capabilities that can be utilized?

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AP AND CASH DISBURSEMENTS

BEFORE		AFTER
Review, authorization, and signing of checks and electronic payments completed in the office.	⇒	Email approvals may suffice when multiple signers are needed to approve high dollar disbursements.
Open the mail for invoices received and upload throughout the week.	⇒	Some offices have designated certain personnel responsible for checking mail on a weekly basis and scanning invoices to approvers.
Accruals for goods/services received but not invoiced consistent period over period and year over year.	⇒	Request electronic invoices from all or frequently used vendors to ensure that all invoices are being captured. Increase analytics for expense accounts.

CHALLENGES IN REMOTE HR AND PAYROLL FUNCTIONS

- Forms documenting the rates of pay, position, termination, change in schedule, pay information, schedule, location, and demographic information tend to be maintained in a physical HR employee file.
- Due to the CARES Act, employee payroll information and changes to the existing employee files may be happening more frequently.
- Employee time entry that is approved by their supervisor maintained on printed time sheets.
- Retaining reconciliations to payroll sub-ledgers.

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HR AND PAYROLL FUNCTIONS

BEFORE	AFTER
Access to data and/or transaction files is maintained in an employee file with HR.	Consider having a designated personnel responsible for filing and updating the employee files or maintain the employee's files electronically in a secure location.
Time entry by the employee and the review by their supervisor printed and signed off.	Consider additional time entry features in your Accounting or Payroll web portals or utilize email approvals.
Printed payroll registers are reviewed after processing, reconciled to control totals, and approved.	Maintain digital copies and electronic or email approval of the payroll register.

CHALLENGES IN REMOTE AR AND CASH RECEIPT CYCLES

- Collection efforts may be slowed as payors are also experiencing rapid change.
- Payments received through the mail will need to be scanned to the accounts receivable clerk for entry into the accounting system.

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CASH RECEIPT AND AR CONTROLS

BEFORE	AFTER
Authorize write-offs of delinquent accounts.	Define the appropriate group to review write-offs of delinquent accounts in an email chain – print these to PDF and retain.
An employee was responsible for opening mail and forwarding the checks to an employee who could enter Manual checks were for the collection of AR.	For cash receipts, consider requesting electronic payments and/or designate an individual to open mail and have them forward scanned copies of checks received to the department responsible for on a weekly basis.

CHALLENGES OF SIGN-OFF PROCEDURES

- Paper signatures are still prevalent in some form or fashion at most organizations.
- Be cautious about the integrity of an employee's initials simply typed onto a digital document, as any employee can perform this task.

Consider using Docusign, Adobe E-signatures, or existing accounting software

Did you know? A digital signature is a mathematical system for verifying the authenticity of digital messages or documents. A valid digital signature gives a recipient strong reason to believe that the message was created by a known sender (authentication), and that the message was not altered in transit (integrity).

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DIGITAL SIGN-OFFS

- **Digital signatures** - require an employee to enter credentials prior to signing, enhance the integrity of a sign-off and are often time stamped.

- **GL software** – consider your existing software – does it have audit trail or review considerations that you were not previously using

- **Adobe E-Sign** – track reviews and edits for PDFs and can provide encrypted digital signatures.

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Overview
FINANCIAL CLOSE

As we move to a remote environment, it's important to maintain a normal financial close cycle. You may have an existing electronic process - but it'll be more difficult than ever to monitor your team's efficiency, while maintaining the necessary oversight and review on a timely basis.

The financial close process has been resistant to change, but moving to a more automated and accurate financial close has countless benefits. A recent Accounting Today article put it perfectly: *While other accounting functions have applied technology to streamline and automate recurring tasks, the monthly close process has remained mired in inefficiencies.*

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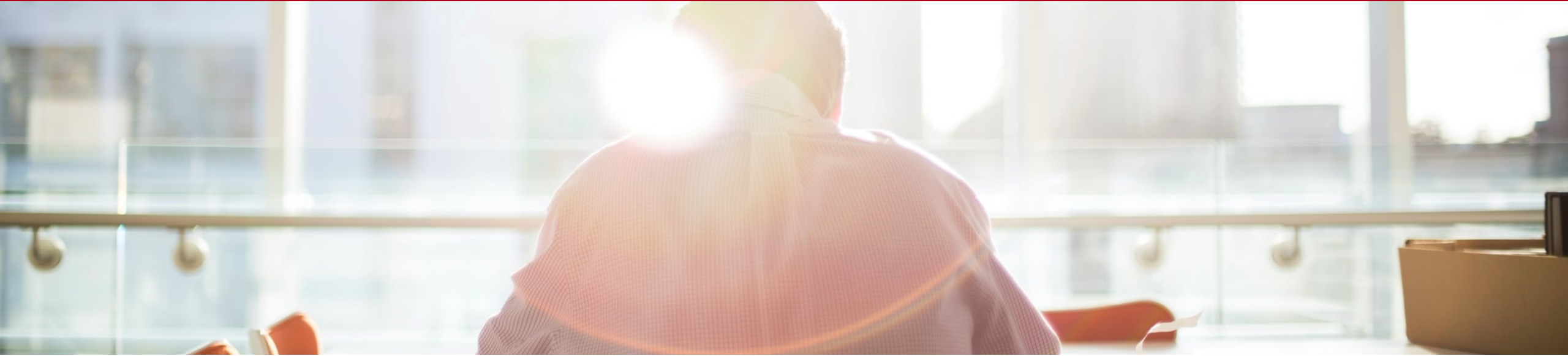
Polling question

MONTHLY CLOSE PROCESS IS MAINTAINED VIA AN EXCEL CHECKLIST OR ONLY INFORMALLY DOCUMENTED

- Consider implementing a digital month-end close.

- Map out timeline for month-end activities.

- Consider the use of technology such as Microsoft Teams.

- Close management software solutions exist that integrate with your existing accounting software.

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MONITORING your internal control environment is of the utmost importance given these significant changes

- Frequent conversations should be had with control owners to ensure changes to processes do not render controls ineffective.
- Identified gaps in internal controls should be addressed proactively.

Provide control owners with the opportunity to discuss changes to control processes with Finance or Risk Management so such departments can consider the impact of changes on internal control. This also gives these departments the opportunity to cover any resulting gaps.

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TIMELY REVIEW

- Given the circumstances, it is reasonable to expect that preparation and review may take longer than under normal circumstances.
- Even if additional time is granted for the preparation and review of documents, you should consider the implications this has on the transaction class as a whole.
- The longer it takes to complete a control, the greater the consequences may be if you identify an error.

Identify issues quickly, to avoid consequences later.

Example: The impact of an incorrect change to an estimate such as the bad debt allowance can be substantial if not identified timely.

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CONSIDER PERMANENT CHANGES

- Once the remote workplace requirements end, the effects of working in such an environment will not.

- There are many benefits and efficiencies to be found in working remotely.

- Take this opportunity to revise processes and internal controls to be "remote workplace" compatible.

- Being forced to work remotely may be the perfect excuse to move paper processes into a digital format.

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WHAT TO EXPECT IN A REMOTE AUDIT

More meetings (but hopefully less interruption)

"Physical" observations

Travel restrictions

Access to books and records

Gaining an understanding of internal control

External account confirmations

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Questions?

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