

IIA INDONESIA:

HOW INTERNAL AUDIT CAN TURN THE
COVID-19 PANDEMIC INTO A USEFUL
“POST-EVENT” ANALYSIS TO
RECOMMEND LESSONS LEARNED

Mark Harrison, President ACIIA | 22 July 2020

Sententia
Consulting

OVERVIEW

Introductions

Part 1: Impact of COVID-19 and
Lessons Learned

Questions and Answers

Part 2: Role for Internal Audit

Lessons Learned Activities
Following COVID-19

Questions and Answers



MARK HARRISON

Introduction



MY PANDEMIC

IMPACT OF COVID-19



Health



Economic

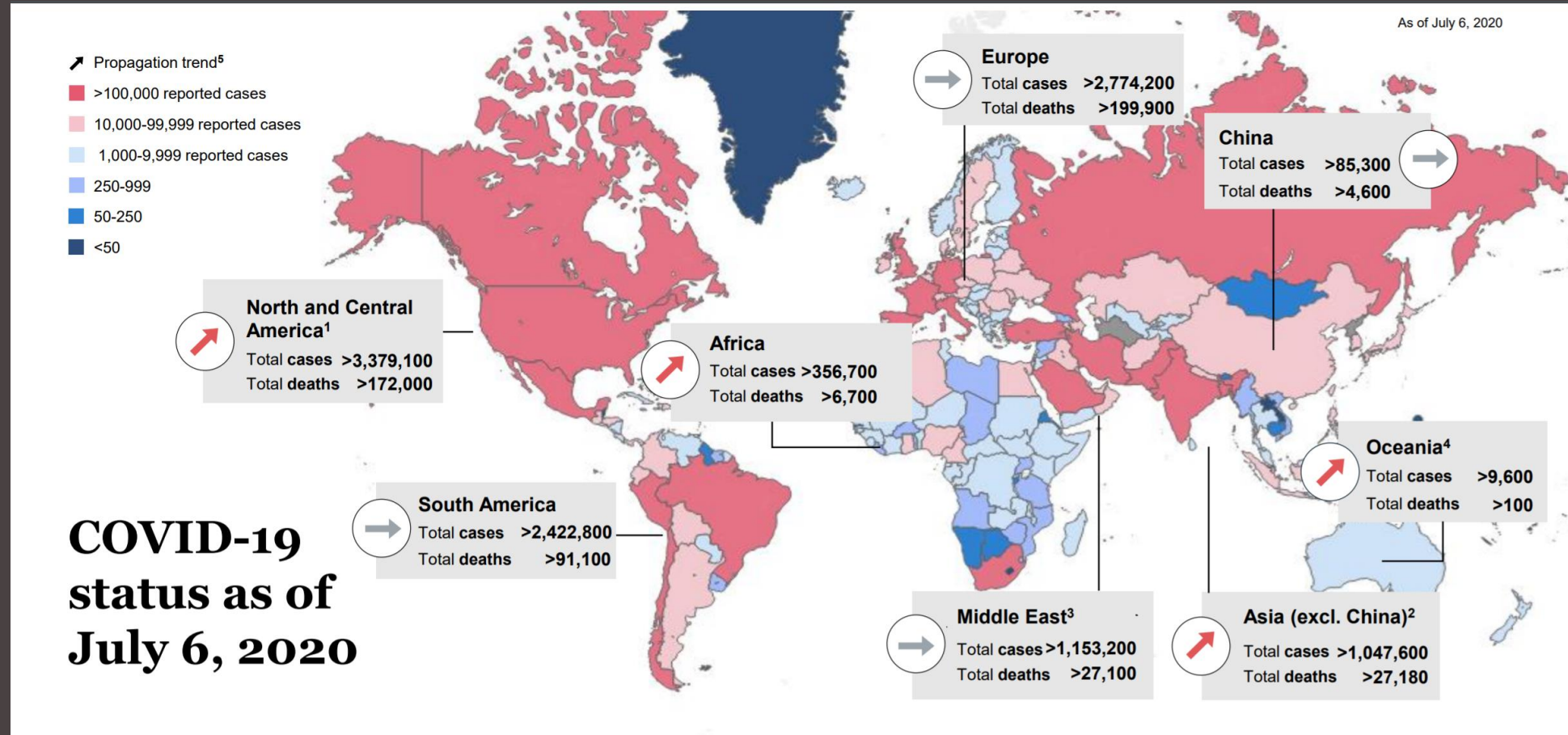


Social



Business

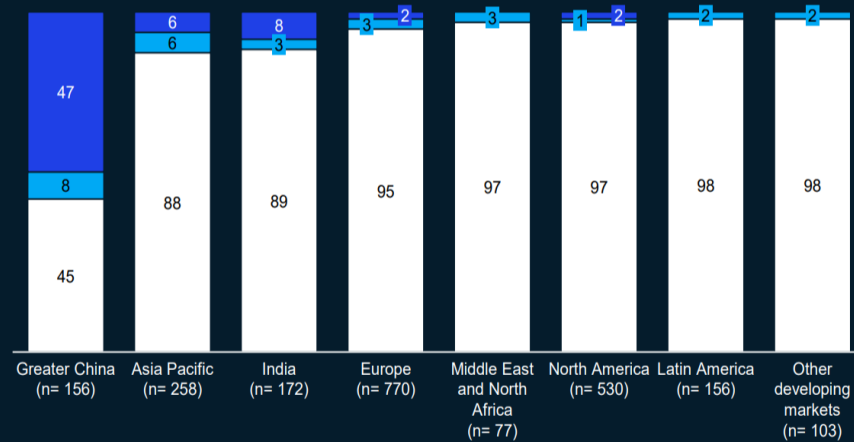
HEALTH IMPACT



ECONOMIC IMPACT

■ Better ■ No change ■ Worse

Current economic conditions in respondents' countries, compared with 6 months ago, % of respondents

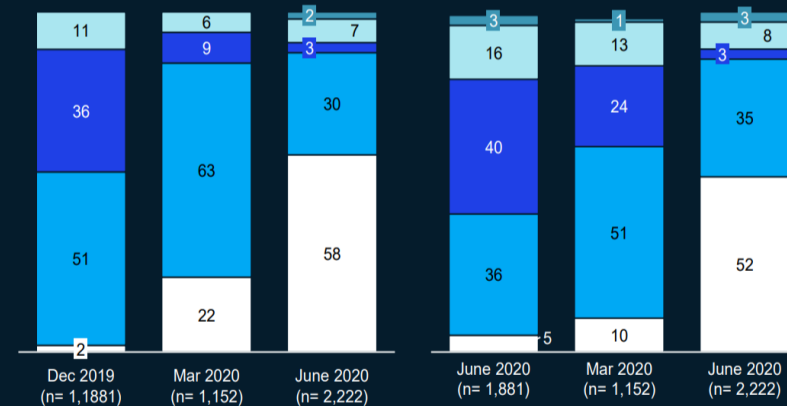


■ Substantially better ■ Moderately better ■ No change ■ Moderately worse ■ Substantially worse

Current economic conditions, compared with 6 months ago, % of respondents

Global economy

Respondents' countries



SOCIAL IMPACT



Homelessness



Loneliness &
Social Inclusion



People with
Disability



Digital
Inclusion



Home Learning



Indigenous
financial impact



Ageing and
social isolation

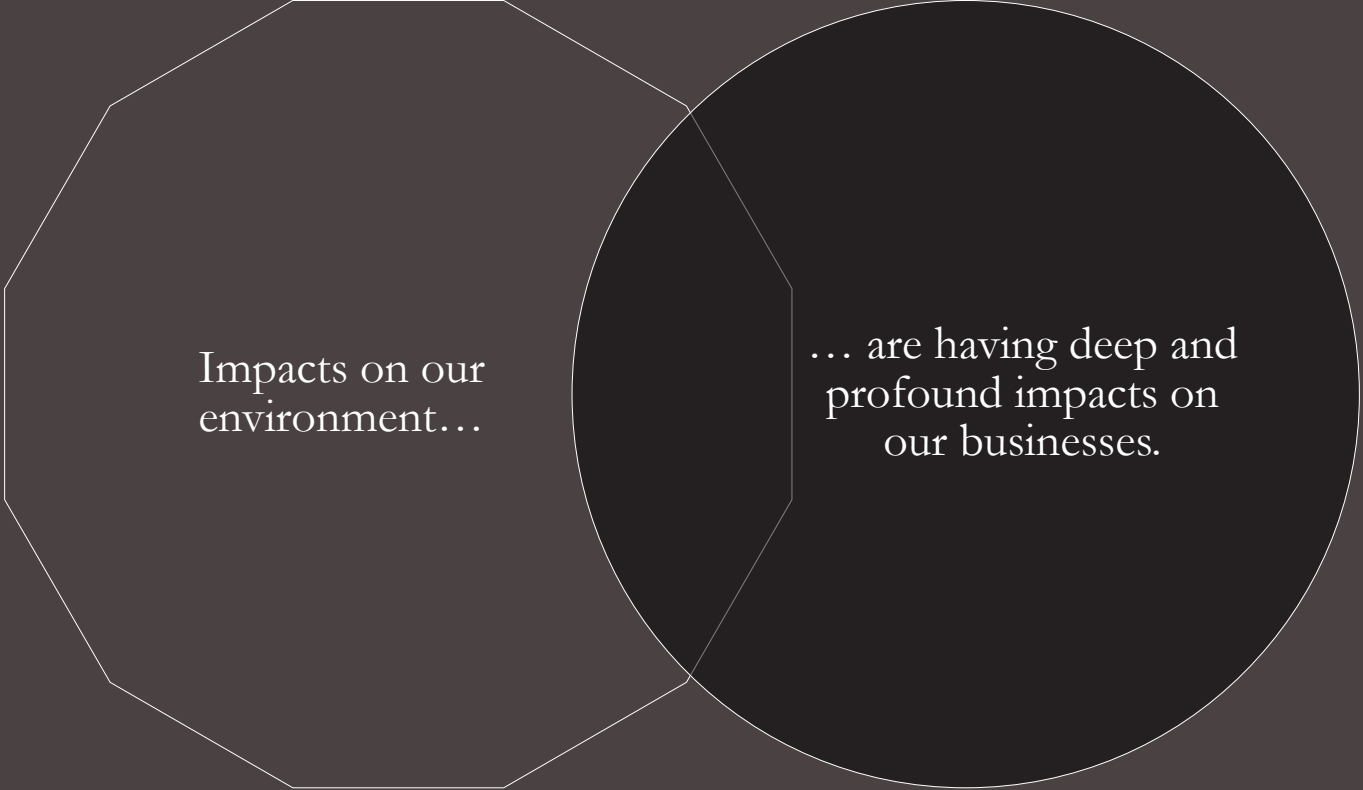


Youth
unemployment



Financial
wellbeing

WHAT DOES THIS MEAN FOR OUR COMPANIES



STRATEGY

Most commentators are predicting a period of unpredictable and possibly muted economic recovery with new competitive threats and opportunities, and quite possibly a decade of the **Never Normal**, a new era defined by fast changing shifts in cultural norms, societal values and behaviors, such as increased demand for responsible business practices and renewed brand purpose.

- For many organisations, the strategy for the future must be different to the past.
- Successful organisations have been able to re-invent themselves in the short-term.
- REALLY successful organisations are already looking at (or have embarked on) re-invention.
- All business strategies are up for grabs. For some the change in end-point may not be significant, but the agility and resilience and the approach to get there will inevitably differ.
- An important question, for organisations that are reconsidering or redesigning their business strategies, is how they are going about that. Is it collaborative? Is it risk-aware? Is it reasonably controlled?

CUSTOMERS

The global COVID-19 pandemic has forever changed our experiences—as customers, employees, citizens, humans—and our attitudes and behaviors are changing as a result. Companies will need to consider the impact of these changes on the way we design, communicate, build and run the experiences that people need and want. More than ever, TRUST will be a competitive differentiator.

- Contact with customers has changed and will probably stay changed. (What does that mean for our contact centres.)
- The crisis is fundamentally changing what and how customers buy – which is linking to the strategy consideration.
- Digital transactions and digital engagement are more important than ever – and organisations that are embracing this are coming back faster.
- Different engagement models with customers will impact workforces – and the need for workforce to be nimble.
- Introduction of new “phy-gital” experiences.
- Different engagement models require different data to monitor effectiveness.

WORKFORCE

Organisations globally are experiencing unprecedented workforce disruption, such as the urgent need to shift to a remote workforce to protect and empower employees, serve customers and to establish business continuity. Agile workforce strategies is critical to keeping the global economy viable and helping people and their families survive financially now and in the future.

- Protecting health and safety of staff will mean different facilities requirements.
- Workforce modelling methodologies are outdated and will need to be replaced by iterative, scenario-based approaches, which emphasise elasticity in workforce skilling and resourcing.
- Skills requirement changes will drive necessary changes in workforce. Consideration of accelerated learning solutions to avoid change in people to achieve change in skills. (This needs to be carefully risk managed.)
- Creating shared workforce resilience means embracing vulnerability and encouraging open sharing about what's hard and uncomfortable.

OPERATIONS

With the COVID-19 crisis, fundamental changes in consumer behavior, supply chains, and routes to market are knocking companies off balance. Responding to the pandemic has underscored the need for leaders to accelerate the adoption of agile ways of working and value chain transformation to help outmaneuver uncertainty.

- Supply chain exposures with unprecedented demand and freight/routes to market damaged with border closures have challenged (especially if limited diversity of supply or market). Some Governments have assisted, but organisations have to help themselves.
- More connected ecosystems of partners locally and globally is a common response.
- In an increasingly connected business world and society, demand-driven disruption will be more rapid (and potentially more pronounced). This requires agility in operational decision making – which requires organizational structure change and timely access to the “right” data to support decisions.
- Continuity planning is more important than ever.

FINANCE

Immediate action is needed to address short-term liquidity challenges, but also to solve for costs and profitability and generate funding to invest in new opportunities, including M&A. Many CEOs are faced with plummeting sales and revenue and increased costs.

Interventions to adapt may require investments in key technologies, processes and people. For some, liquidity has become a matter of survival.

- Necessary responses are wide and varied:
 - Centralised control of all liquidity decisions.
 - Optimisation of working capital.
 - Reconsideration of capital expenditure decisions to focus on shorter-term gain.
 - Reset organizational cost baseline.
 - Variabilising costs where possible.
 - Drive culture and behaviour change re: costs.
 - Rapid response to changes in customer demand (even if inconsistent with historic core focus)
 - Considering changing competitive landscape.
 - Reinvest cost savings where possible with growth focus.

TECHNOLOGY

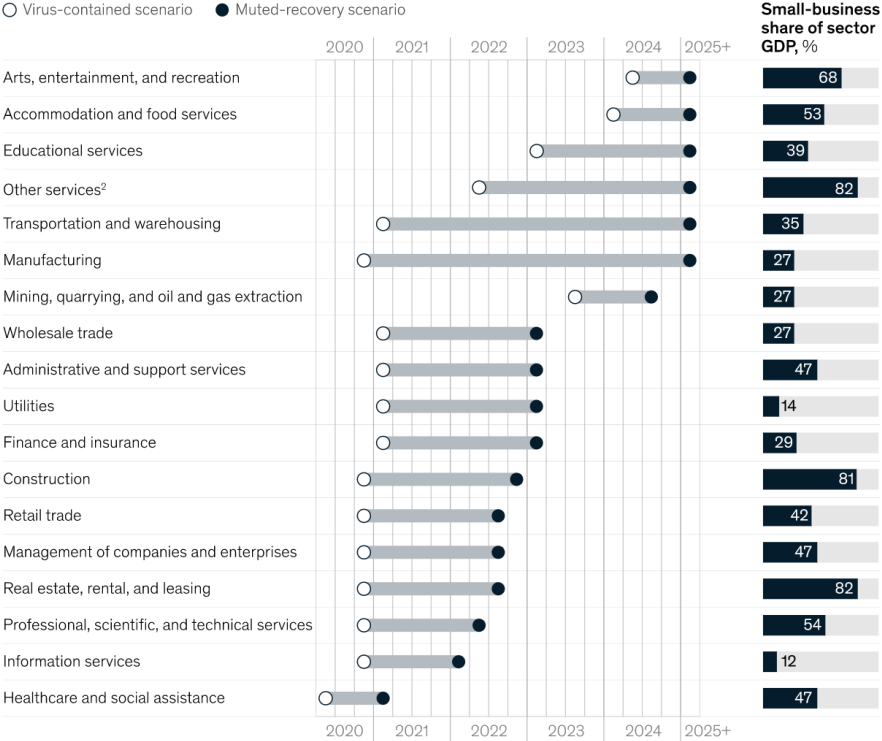
Even before COVID-19, many organizations faced considerable IT challenges. Now, COVID-19 is pushing companies to rapidly operate in new ways and IT is being tested as never before.

- How have organisations responded to the need for an elastic digital workplace.
- Hyper-automation – changed systems, optimized workforces, skilled-up staffing to handle digital environment.
- Architecture and performance engineering as systems are used in a vastly different way.
- Cloud acceleration and optimization to avoid challenges of mobility and increase agility.
- Service continuity – of course.
- Cybersecurity risks increase in a pandemic environment.

THIS IS NOT A SHORT-TERM IMPACT

In a muted recovery, it could take more than five years for the most affected sectors to get back to 2019-level contributions to GDP.

Estimated time to recover to pre-COVID-19 sector GDP¹



LESSONS LEARNED FROM COVID-19



One,
Not working at
the speed of the
customer



Two,
Not having a
globalized market
mindset



Three,
Not identifying
the right platform,
data, technology



Four,
Not building an
augmented
workforce strategy



Five,
Not thinking
about the future in
a different way





“This is the litmus test of our ability to deal with a crisis and emergency. This is the time for us to demonstrate our adaptability, resilience, responsiveness and relevance.”

- Jin Liquin, President, Asian Infrastructure Investment Bank

QUESTIONS AND ANSWERS

ON AIR

A woman with blonde hair in a bun, wearing a blue turtleneck sweater, is looking down at a laptop. She is holding a pen in her right hand. In the background, there is a whiteboard with a diagram and a window with a view of a city. The overall scene is a professional office environment.

ROLE FOR INTERNAL AUDIT

A woman with long, wavy red hair is looking down at a tablet computer she is holding. She is wearing a dark blue patterned top. The background is a blurred city street at night with warm bokeh lights from buildings and streetlights. The overall lighting is soft and focused on the woman.

DEFINITION

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

INTERNAL AUDIT ROLES DURING THE PANDEMIC



Adviser



Key controls monitoring



Capture crisis response



Deployed into the business



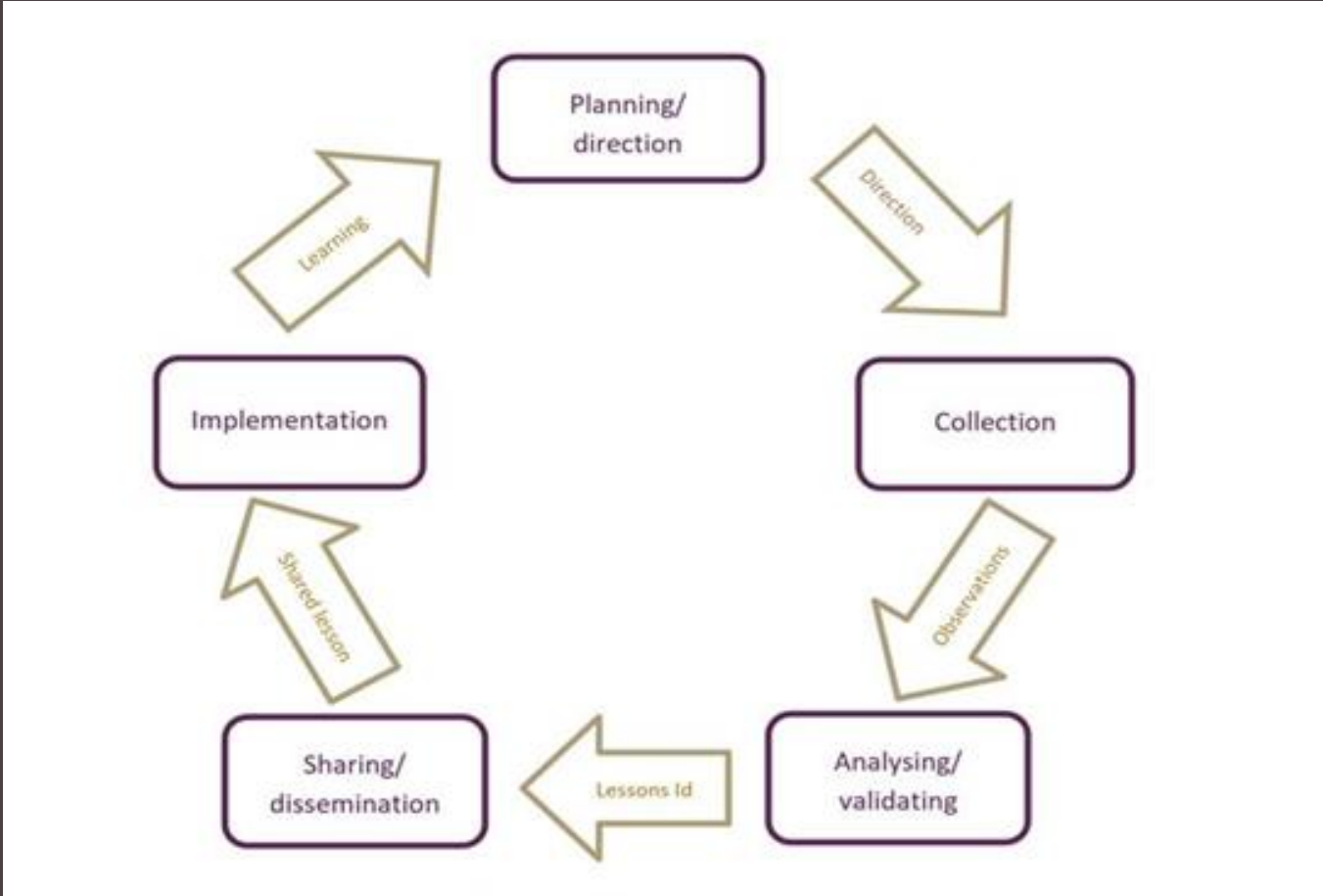
Activity suspended



Business-as-usual



LESSONS LEARNED CYCLE



CHALLENGES IN LESSONS LEARNED



Does the organisation have a learning environment – without that it is difficult to gain traction.



Do not need to act on every single lesson – focus on a few for action (the ones that will bring the most value).



Ensuring accountability for acting on the lessons.



Ensuring lessons are genuinely embedded. (Many of the lessons of previous pandemics have been forgotten).



Data collection needs to be structured.



Typically work best when a combination of top-down and bottom-up.

FOCUS FOR A POST-CRISIS REVIEW



Documentation
of the response



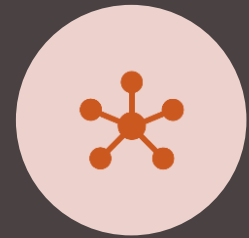
Technical
investigation of
the cause



Quantification/
explanation of
the impact



Assessment of
the effectiveness
of the response



Enhance
organisational
resilience

NORMATIVE MODEL – BETTER PRACTICE RESPONSE PRINCIPLES



Strong, active organisation leadership with the right capacity, capability, engagement and focus.



Clear governance arrangements which take effect early and are applied consistently



Clarity of roles and expectations for direction from, and information to, the Board



Timely and robust documentation of key decisions and actions taken to ensure transparency and accountability



Relevant (principles-based) planning (preparedness, operational response, risk) in place and understood to guide the organisational response



Redundancy in key roles in case of infection or requirement for a break



Timely implementation of non-medical risk mitigation strategies to reduce infection and maintain business continuity

NORMATIVE MODEL – BETTER PRACTICE RESPONSE PRINCIPLES



Supply chains are reinforced to support access to necessary equipment, materials reliably through the pandemic



Nimble and adaptive leadership approach with continuous sensing and response



Reliable access to relevant and timely environmental and operational information and data to support decision making



Create capable capacity that leads key disciplines essential to the response



Creative and collaborative yet disciplined (and risk-aware) problem solving - quickly



Internal and external communication that is clear, disciplined, frank, consistent, timely and empathetic – educate, ameliorate fears, engender trust and enable people to remain connected



Relevant policy changes are made and published on a timely basis (privacy, hygiene, leave, amongst others)

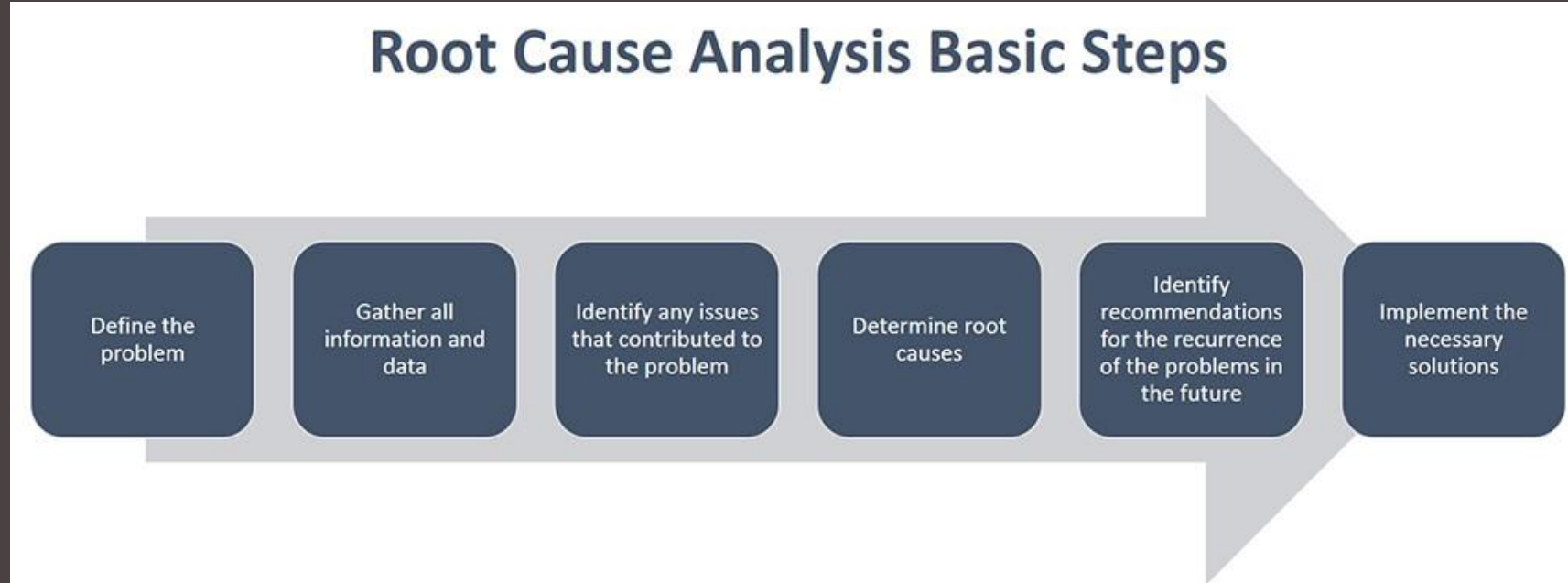
DOCUMENTATION OF RESPONSE

Typically the documentation of key decisions and response features is poor – as the focus is more on survival and less on accountability and transparency. This is particularly valuable for Government organisations given the accountability structures that exist in Government. For publicly listed companies and regulated entities, this documentation can be important in case of future inquiries.

- Extensive body of work – requires engagement with all parts of the business.
- Typically involves extensive data and documentation that needs to be catalogued
- Often needs documentation and presentation across different lenses (structure, geography, response component, or against the normative model). This can be tricky and repetitive.
- Requires care to ensure documentation is evidence-based on not a “re-creation of history”.
- Documentation may be relied upon later in inquiries or legal matters.

TECHNICAL INVESTIGATION OF CAUSE

An investigation of cause will most likely be of greatest value if impact on the organisation is disproportionately higher than for similar or related organisations. The approach to a “root cause analysis” is well-practiced and well-documented.



QUANTIFICATION/EXPLANATION OF IMPACT

While most business leaders will be well-across the impacts of the pandemic, there will be instances where leadership is so deep in the tactical response, that they cannot see the longer-term and strategic impact. It is in these instances that Internal Audit can add value in this regard.

- This is not a “typical” internal audit output. It will likely more take the form of an issues paper or discussion paper, and any recommendations will be likely be high level.
- To have credibility, this sort of deliverable will need to have high level sponsorship and be informed by a high degree of experience and organisational input and respect.
- There can be a number of approaches for this, all of which draw on the impacts discussion earlier in this presentation.
- Optional delivery models:
 - Research document to prompt discussion
 - Issues paper that documents Internal Audit view
 - Facilitated Executive workshop

ASSESSMENT OF EFFECTIVENESS OF RESPONSE

COVID-19 was an experience no living business executive has lived through, and no organisation had a “perfect” response to the pandemic. The WHO has stated there will be future “waves” of COVID-19 and pandemics will be more regular in the future. To understand what lessons can be learned in the midst of a pandemic will allow immediate impacts to be lessened.

- This is a “typical” structured lessons learned project, which assesses the actions taken against a normative model such as the one presented earlier in this presentation.
- Assessments should be cognisant of the circumstances in which actions were made – in order to be sympathetic and realistic.
- Independent assessments should be augmented by feedback from managers and leaders on their observations of lessons learned.
- For value to be realized from this work, the “challenges” that organisations face in undertaking lessons learned exercises need to be addressed.

ENHANCE ORGANISATIONAL RESILIENCE

Organisational resilience is “the ability of an organisation to anticipate, prepare for, respond and adapt to incremental change and sudden disruptions in order to survive and prosper.” It reaches beyond risk management towards a more holistic view of business health and success.

This term has been in the business lexicon for some time, but has been brought to life by the pandemic.

- All of the approaches to lessons learned discussed on previous pages can have a positive impact on organisational resilience.
- An engagement that brings learnings from the broader analysis of impacts on business, as well as the experiences facing the organisation, and takes both a historical perspective as well as a forward-looking perspective will have the greatest potential impact on organizational resilience.



TIPS FOR PANDEMIC LESSONS LEARNED

- ◆ Ensure the project has leadership sponsorship
- ◆ Bring in expertise as required to ensure capability and credibility
- ◆ Be clear on the value you are proposing to add
- ◆ Be practical – theoretical constructs will not be seen as helpful
- ◆ Be sympathetic and balanced
- ◆ Focus as much on positioning the organisation for the future, as commenting on the past
- ◆ In conduct and reporting, be conscious of the operating environment



Organisations are exhausted, but still are hungry for value from Internal Audit as the pandemic drags on. Importantly, organisations need our objective, informed advice.

CALL TO
ACTION

QUESTIONS AND ANSWERS

ON AIR

THANK YOU



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