Do closed offices open up your organization to risk?

Audit objectives and related risks to consider in the work-from-home environment

The better the question. The better the answer. The better the world works.
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Key objectives

- Provide an overview of how “work from home” (WFH) has impacted the emerging risk landscape and evolved how organizations are thinking about risk management

- Review emerging risks considerations, including the impact of COVID-19

- Share perspective on audit objectives and risk considerations related to the WFH environment

- Focus on WFH as a component of business resiliency as well as an opportunity to build trust with key stakeholders
WFH: what are the top risk areas for organizations to address?

Ernst & Young LLP (EY) recently conducted a survey of 373 chief audit executives (CAEs) or equivalents to understand how internal audit (IA) functions were responding to impacts from COVID-19 in the “next.”

When asked: “What has been the most significant lesson learned by your IA function throughout the COVID-19 disruption?” more than 42% of participants responded: “We can audit almost anything remotely.” While this indicates that IA functions have been able to thrive in the WFH environment, there are also risks that should be considered as organizations face a prolonged period of work from home.

Organizations may need to reassess their approaches and controls related to addressing workforce management, people culture and performance management risks. With employees being so drastically affected by the pandemic in their personal and professional lives, it is critical that organizations give adequate focus to their workforce.

According to an April survey of 933 privacy professionals conducted jointly by Ernst & Young LLP and the International Association of Privacy Professionals:

- Issues related to employee remote work, employee health monitoring and COVID-19 data sharing are the top challenges privacy professionals are facing during the COVID-19.
- Nearly half of organizations (45%) have adopted a new technology or contracted with a new vendor to enable remote work due to COVID-19.
- Among respondents who have adopted new WFH technology, around 60% have either skipped or expedited a privacy or security review.

As organizations continue to operate in a remote working environment, there are a number of other emerging or heightened risk areas that should be considered. In this document, we have highlighted audit objectives and illustrative risks for organizations to consider in the following areas:

- Collaboration tools
- Control environment
- Employee health and safety
- Financial reporting and accounting
- Fraud
- Human resources (culture, performance management, workforce management)
- Information and communication
- IT (control environment, cybersecurity and performance)
- Return to work preparedness

44% of people now working from home say their mental health has declined since COVID-19.
(Source: Qualtrics survey, March/April 2020)

30% of CAEs added a cybersecurity audit to their IA plan to cover emerging risks related to the COVID-19 pandemic.
(Source: EY CAE survey, June 2020)
WFH audit objectives and related risks

<table>
<thead>
<tr>
<th>Scope</th>
<th>Audit objective and related risks</th>
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<tbody>
<tr>
<td><strong>Collaboration tools</strong></td>
<td><strong>Objective:</strong> Evaluate the risks related to increased usage of new and existing collaboration tools by employees in the remote working environment.</td>
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<td><strong>Risks to be addressed:</strong></td>
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<tr>
<td></td>
<td>► Remote access tools and resources have been quickly deployed but have not been properly tested or secured.</td>
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<td>► Misconfigured applications are allowing company information to be exposed.</td>
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<td>► Threat actors are taking advantage of remote workforce situations.</td>
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<td>► The organization fails to adopt and train its employees on new tools that enable collaboration.</td>
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<td><strong>Control environment</strong></td>
<td><strong>Objective:</strong> Evaluate changes within the control environment resulting from the remote working environment.</td>
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<td><strong>Risks to be addressed:</strong></td>
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<td></td>
<td>► Control override may occur both appropriately and inappropriately to enable a remote control environment and/or remote period close.</td>
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<td>► Deviations from standard processes and controls are not documented and approved.</td>
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<td>► Certain controls cannot be executed remotely or are overlooked in the remote working environment.</td>
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<td>► Sufficient evidence to support control execution is not retained.</td>
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<td>► Controls may be susceptible to management override when executed remotely or under changing business conditions.</td>
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<td><strong>Data privacy</strong></td>
<td><strong>Objective:</strong> Determine whether the organization has appropriate policies and procedures in place to govern data privacy in the WFH environment.</td>
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<td><strong>Risks to be addressed:</strong></td>
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<tr>
<td></td>
<td>► The organization does not have processes and controls in place to protect confidential employee data and protected health information that may be obtained through screening or productivity/health monitoring.</td>
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<td>► Sensitive or regulated data accessed by employees or vendors outside of the office is not protected appropriately based on leading practice and/or regulations.</td>
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<td>► Rapid implementation of new technologies that have not been thoroughly assessed results in increased privacy violations.</td>
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WFH audit objectives and related risks (continued)

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<tr>
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| Employee health and safety   | **Objective:** Determine whether adequate policies and procedures are in place to address employee health and safety risks in the WFH environment.  
**Risks to be addressed:**  
► Organizations have not considered how and where employees may be exposed to COVID-19 (at work or outside of work) and have not communicated expectations should symptoms occur.  
► Organizations do not provide a holistic health and wellness package to employees (including contractors), which could increase the risk of severe illness or health conditions that might impede their ability to positively contribute.  
► Funding opportunities (e.g., CARES act, FEMA and other grant opportunities) to support health and safety procedures and infrastructure are not being identified and retained. |
| Financial reporting and accounting | **Objective:** Evaluate the ability of the organization to execute financial reporting and accounting processes in the remote working environment.  
**Risks to be addressed:**  
► The SOX certification and CEO/CFO attestation processes are not designed and executed to account for disruption to the control environment.  
► The increased focus on remote close activities and related controls may dissipate as it becomes the “new normal.”  
► Disruption caused by COVID-19, such as remote working, may impact the organization’s ability to meet financial reporting and filing requirements.  
► Team members or entities do not obtain the required insight obtained through casual conversations or are unavailable at required times (e.g., due to WFH or social distancing requirements).  
► Financial records (including non-electronic) and systems are not available/accessible/stable.  
► The organization does not use analytics throughout the remote close process, resulting in areas of risk and potential errors being overlooked. |
| Fraud                        | **Objective:** Obtain an understanding of the processes most susceptible to fraud in the remote working environment and the controls in place to mitigate fraud risks.  
**Risks to be addressed:**  
► Staff reductions, mass remote working and/or management distraction increases opportunities for unethical behavior as financial controls fail or are bypassed.  
► Employee burn-out, fear of job loss and/or poor tone at the top provides rationale for employees to commit fraud in an unstable business environment.  
► Pressure to achieve performance metrics targets, to meet investor or analyst expectations and/or to gain additional financial security in the economic downturn increases incentives to commit fraud.  
► Increases in false sickness claims associated with employees who do not want to physically return to the office may lead to receiving additional workers’ compensation benefits, which they may not be entitled to. |
WFH audit objectives and related risks (continued)

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| **Human resources - culture** | Objective: Evaluate the effect of a long-term WFH environment on the employee culture within the organization.  
Risks to be addressed:  
► Employees are unable to strike appropriate work/life balance, resulting in undue emotional and psychological effects and decreased productivity and performance.  
► Employees who continue to work from home become increasingly isolated from those in the workplace, resulting in lack of teamwork, stagnated relationship building, reduced feeling of belonging, less diversity in perspective and decreased innovation.  
► Technology and processes are not adequately leveraged to enable productivity and connectivity.  
► Ways of working do not evolve to account for changes accelerated by the pandemic (e.g., flexible work arrangements, remote working, dress code, stringent policies) impacting the organization’s ability to attract and retain strong talent.  
► The current environment has negatively affected the organization’s ability to achieve its Diversity and Inclusion initiatives and goals. |
| **Human resources - workforce management** | Objective: Evaluate the effects of the WFH environment on the organization’s workforce management processes.  
Risks to be addressed:  
► The organization fails to challenge and evolve traditional ways of working, resulting in increased inefficiencies and a competitive disadvantage from those who were more agile and able to adapt.  
► The organization is not prepared for prolonged demand for WFH from employees.  
► The organization does not capitalize on the opportunity to increase the effectiveness of roles, such as data analytics positions, which may operate more efficiently in a remote working environment by bringing them back into the workplace unnecessarily.  
► Remote employees are unable to obtain real-time access to supervisors for input on time-sensitive matters, resulting in potential customer-facing issues and delays in the execution of business processes.  
► Jobs that could be automated become overlooked because they continue to resided outside the workplace. Activities that require human involvement and are value-added are inadvertently eliminated with the automation of related jobs.  
► A remote workforce decreases the ability to collaborate and facilitate sessions designed to develop solutions to complex problems (e.g., design thinking workshops), potentially resulting in a negative impact to product quality.  
► The organization faces increased talent gaps and hiring challenges especially in high-demand areas such as CARES grant compliance and industries such as health care and life sciences.  
► Employees change work locations (e.g., relocate to another state/country for childcare support) and do not inform the organization, resulting in inaccurate income/payroll tax reporting and payments. |
WFH audit objectives and related risks (continued)

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<td><strong>Human resources - performance management</strong></td>
<td>Objective: Evaluate the effects of a long-term WFH environment on the organization’s performance management processes.</td>
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<td>Risks to be addressed:</td>
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<td></td>
<td>► Productivity</td>
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<td>► The organization does not have monitoring processes in place to assess employee productivity, resulting in decreased output from some employees and an increased workload on others.</td>
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<td>► Time and attendance protocols do not incorporate COVID-19-related workforce constraints and changes. Productivity measures and metrics are not reassessed.</td>
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<td>► Reviews and compensation</td>
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<td>► The organization does not have the appropriate performance management framework in place to monitor the right activities or employee contributions of the remote workforce, resulting in inaccurate evaluations of remote employees.</td>
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<td>► Annual performance metrics established prior to the COVID-19 crisis are no longer appropriate for year-end performance reviews.</td>
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<td>► An unwarranted perception develops among employees in the workplace that remote employees are contributing less, resulting in biases in performance evaluations and unfair compensation practices.</td>
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<td>► Onboarding/offboarding</td>
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<td>► Risk of ineffective employee onboarding and training increases with more employees working from home and limitations on group trainings.</td>
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<td>► The organization does not adequately obtain knowledge and insight from employees leaving the organization.</td>
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<td>► Training and development</td>
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<td>► Employees’ ability to access required development and training to meet job or certification requirements are not available.</td>
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<td>► Employees working remotely may receive less coaching and mentoring, resulting in decelerated professional development and lost productivity over time.</td>
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| Information and communication     | **Objective:** Evaluate the ability of the organization to inform and communicate with employees in the WFH environment.  
**Risks to be addressed:**  
► Inadequate communication channels exist to share crisis-related updates with employees resulting in an uninformed workforce and decreased employee trust.  
► There are a lack of communication channels for employees to raise concerns (e.g., layoffs, lost income, the economy), which negatively affects the ability of management to understand and address employee needs and obtain insight into employee concerns such as fraud, discrimination or violations of company policies. |
| IT - control environment          | **Objective:** Evaluate the organization's understanding of and response to the effects of remote working on the IT control environment.  
**Risks to be addressed:**  
► Fast-tracking of system changes from development to testing to production resulting from the pandemic could lead to a breakdown in the change management process due to employees working remotely, overrides by approving through emails/calls vs. the standard change management ticketing process, unauthorized approvers not on the approver list and testing shortcuts.  
► Systems that go-live or are upgraded during the pandemic by a reduced and/or reconfigured IT department in a remote working environment may be subject to an increase in the risks relating to the system not functioning correctly, the system not being implemented in a well-controlled environment, weaknesses or gaps in control documentation, data converted inaccurately, lack of adherence to Software Development Life Cycle (SDLC) methodology or user access not being granted/approved correctly.  
► There is a lack of education or training provided to end-users over policies and procedures regarding remote working protocols, leading to inappropriate use of the company’s technology, exposure of proprietary or sensitive data/information and control deficiencies.  
► An increase in “emergency” activities in IT and the request for elevated privileges due to unavailability of key personnel and other competing priorities may lead to a greater risk of control failures due to errors and delays in review of activity logs. |
WFH audit objectives and related risks (continued)

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| **IT – cybersecurity** | **Objective:** Evaluate the cybersecurity program to determine whether it is sufficient to address increased cyber risks in the remote working environment.  
**Risks to be addressed:**  
► As changes are made to enable a productive and safe remote workforce, there is increased risk that solutions deployed do not address an organization’s cybersecurity and privacy-related compliance requirements (e.g., PCI, HIPPA, CCPA).  
► With the shift to remote work, existing cybersecurity controls may not adequately address the new ways of working (e.g., video conferencing, cloud-enabled collaboration) and sufficiently protect key technologies and data.  
► As critical vendors and suppliers shift to remote work, there is an increased risk that their cybersecurity controls do not adequately support remote work and therefore impact the secure operation of an organization’s key processes.  
► When rapidly digitizing business processes to address the pandemic environment (e.g., enabling online ordering), there is an increased risk that new processes and technologies are introduced to the market without a thorough evaluation of their cybersecurity or privacy impacts. |
| **IT – performance** | **Objective:** Assess whether IT infrastructure and resources are sufficient to handle increased activity and issues resulting from the remote working environment.  
**Risks to be addressed:**  
► Connectivity and technology-related issues and delays in issue resolution result in inability of employees to deliver on key areas of responsibility in a timely manner, ultimately impacting business performance.  
► Due to remote workforce concerns, availability of key personnel and other competing priorities, the ability to detect job scheduling abends or issues may lead to incomplete or erroneous data impacting business transactions and processing and potentially jeopardize the ability to rely on related controls.  
► Increased activity and data flow could lead to additional errors in transmittal of data between systems, leading to additional effort needed to monitor/validate errors and resolve data issues.  
► Increased reliance on IT systems and infrastructure by a remote work force may negatively impact server capacity and up-time and affect the ability of the business to function through disruptions. |
| **Return to work preparedness** | **Objective:** Review the organization’s return to work plan to determine whether it addresses key risks associated with the return to work process.  
**Risks to be addressed:**  
► Company policies have not been modified to address the increased risk factors of returning to work post-COVID-19 and communicated to all relevant stakeholders, resulting in a fragmented and potentially dangerous return to work process.  
► The return to work plan does not appropriately factor in governmental, legal and insurance requirements and guidance, leading to regulatory non-compliance, fines or legal action. |
How can the WFH environment drive transformation?

For many companies, it seems that working remotely and digitally happened almost overnight at the onset of the pandemic. Agile working and teaming came together on the fly as companies worked to respond to the ever-expanding crisis, often overwhelming calendars and demanding new ways of work. However, transformational companies that implement technology at speed, innovate at scale and put humans at the center of their strategy and decision-making were in a better position to weather the crisis than those slow to adapt to change.

While this document has focused mainly on the downside risks faced by organizations in the WFH environment, it is important to also consider **upside risks that may offer benefits to the businesses and opportunities to transform**. Examples include:

- The implementation of enterprise-wide collaboration tools fosters a culture of knowledge-sharing and better communication across the business.
- The need to operate controls in the remote environment drives control rationalization opportunities.
- A renewed focus on employee health, culture, inclusiveness and productivity increases overall employee satisfaction and the ability to attract and retain new talent.
- The remote work environment drives process improvements and more efficient procedures that remain through the return to physical work.
- Data and digital technologies are leveraged to drive efficiency and insights.
- Changes in the business and market conditions create new opportunities to capitalize on competitive advantages and increase market share.
- Reimagining how IA interacts with the business to generate positive impact on the internal control environment, bring insights, and focus on forward-looking risk management without being tied to onsite audits.

### Upside risks

- Risks that offer benefits.
- Risks significant to the organization’s ability to execute its business strategy and achieve its objectives.

### Outside risks

- Actions of existing and emerging competitors.
- Geopolitical and economic megatrends.
- Demographic and environmental megatrends.

### Downside risks

- Information security and cybercrime (also an outside risk).
- Employee fraud, and regulatory compliance.
- Enterprise resiliency - technology and business continuity.
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