

Internal Audit

Maintaining trust through COVID-19
disruption

22 April 2020 | Private Sector Webinar



The Institute of
Internal Auditors
Kenya



Internal Audit

Maintaining trust through COVID-19 disruption



Agenda

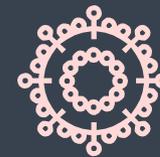
- 1 Introduction to Webinar**
Samuel Njenga (CEO IIA Kenya Chapter)
- 2 Global and Regional Outlook of Covid-19**
Celestine Munda (EY)
- 3 Maintaining trust in Internal Audit through Covid-19**
Celestine Munda (EY)
- 4 Managing cyber security threat during Covid-19 disruption**
Robert Nyamu (EY)
- 5 Panel Session (Celestine Munda - Moderator)**
Charles Langat (KCB Group Plc)
Denish Osodo (Safaricom Plc)
- 6 Q&A**

Platform

Microsoft Teams Meeting

Date

22nd April 2020
Wednesday
4:00 p.m. to 5:30 p.m.



COVID-19
Coronavirus Disease 2019

Internal Audit

Maintaining trust through COVID-19 disruption



Panellists



Celestine Munda

Advisory Partner - East Africa

Email: celestine.munda@ke.ey.com



Robert Nyamu

Advisory Partner - East Africa

Email: Robert.Nyamu@ke.ey.com



Denish Osodo

Director, Internal Audit, Safaricom Plc

Email: DOsodo@Safaricom.co.ke



Charles Langat

Director, Internal Audit, KCB Group Plc

Email: cklangat@kcbgroup.com



The Institute of
Internal Auditors
Kenya



Building a better
working world



Internal Audit

Maintaining trust through COVID-19 disruption



1

Introduction to Webinar

Samuel Njenga (CEO IIA Kenya Chapter)

Internal Audit

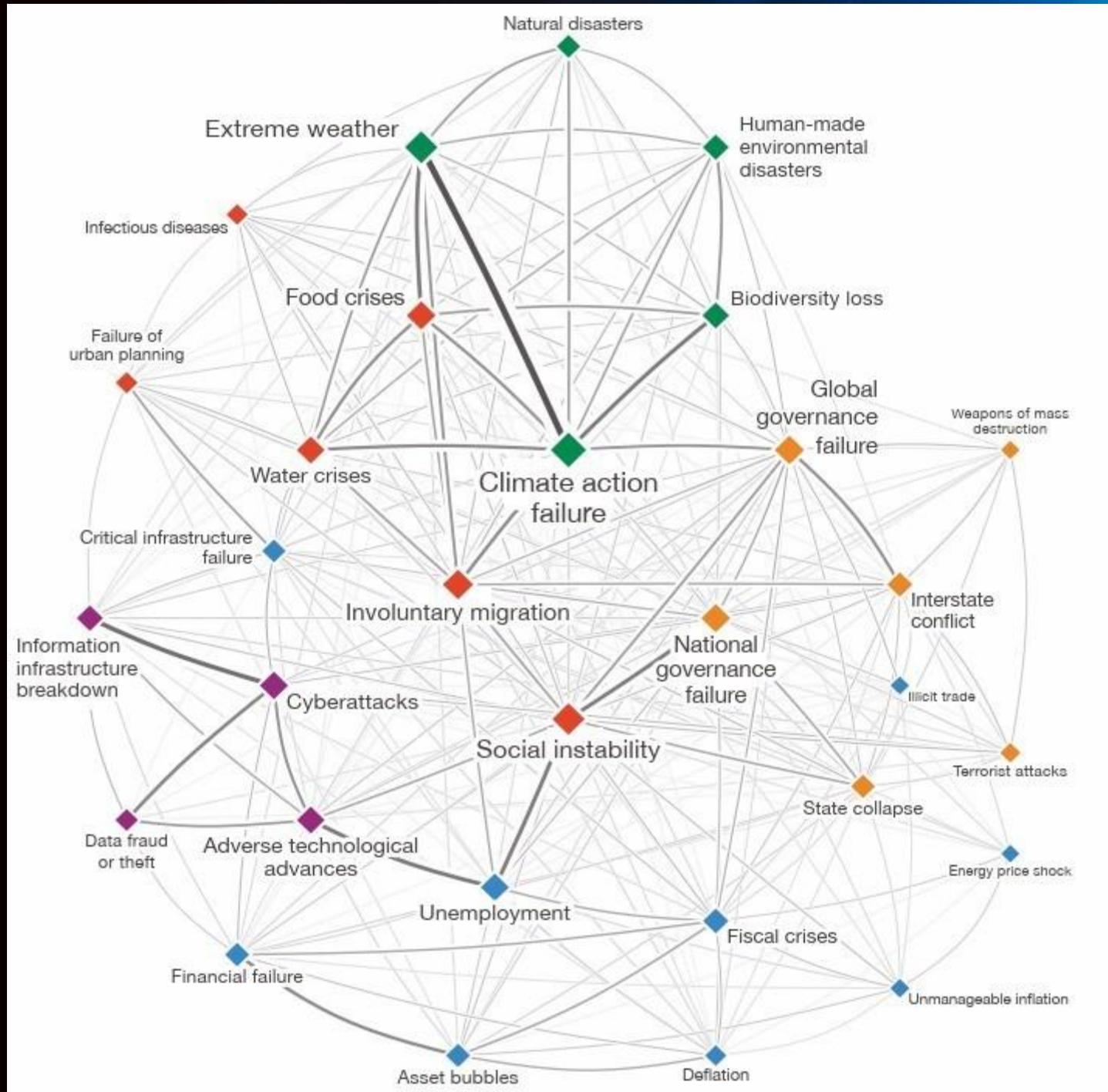
Maintaining trust through COVID-19 disruption



2 Global and Regional Outlook of Covid-19

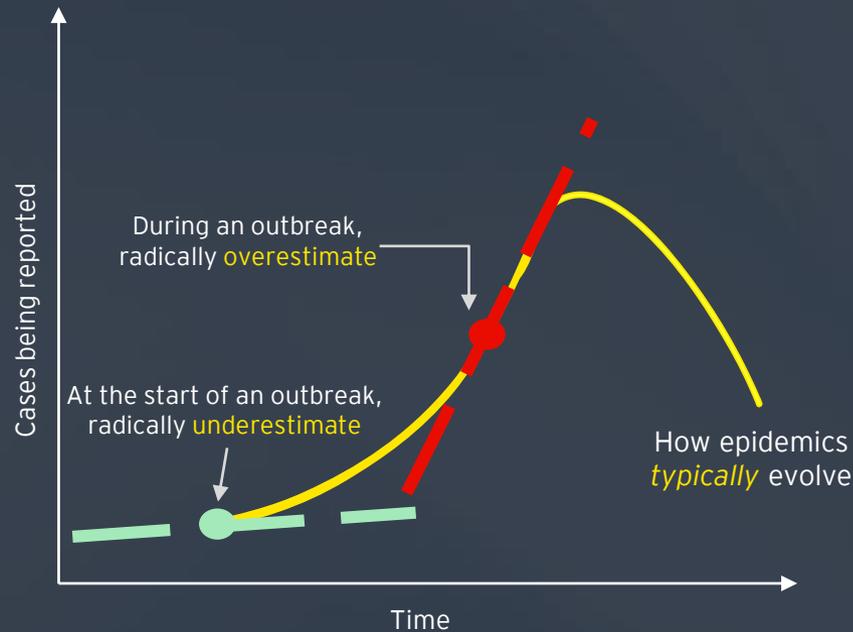
Celestine Munda (EY)

Global Risks Interconnections Map, 2020



Source: World Economic Forum - Global Risks Report, 2020

With the current state of affairs, it is difficult to predict COVID-19's path and its impact on governments - global outlook

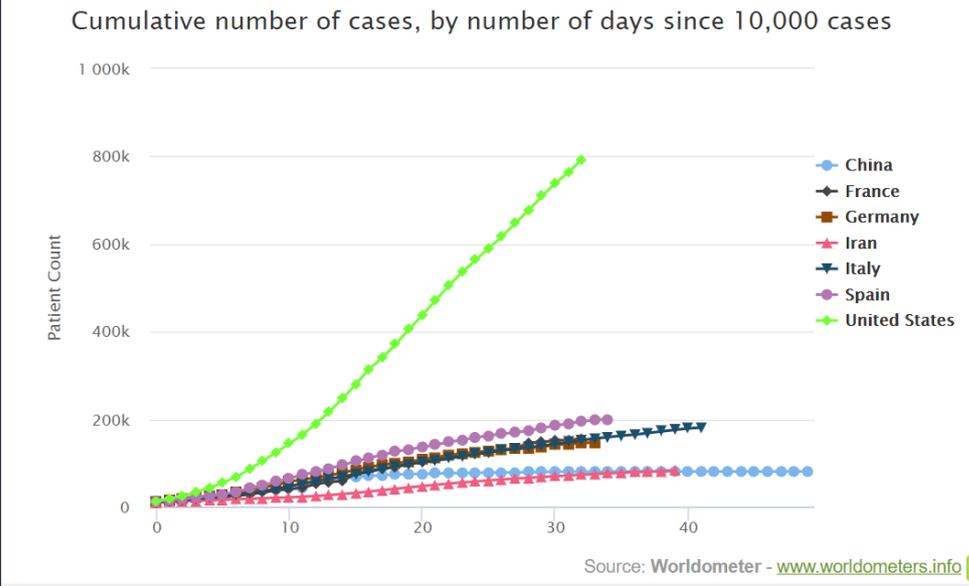


- ▶ The **scale** of a pandemic is unlike natural disasters or other crises that cover a limited area and whose economic costs can be quickly estimated.
- ▶ People have **cognitive biases** that make them radically underestimate an epidemic's path at the start of an outbreak and overestimate its path during it.

Source: Adapted from Baldwin, Richard et al, *Economics in the Time of COVID-19*.

As of 21 April 2020

Cumulative number of cases (by number of days since 10,000 cases)



- ▶ Governments have been adopting **containment measures**, ranging from strict quarantine to predictive analytics, with varying levels of success.
- ▶ Understanding the pandemic's progression is crucial for determining the type of **long-term strategy** governments will need to adopt.

Source: worldometer

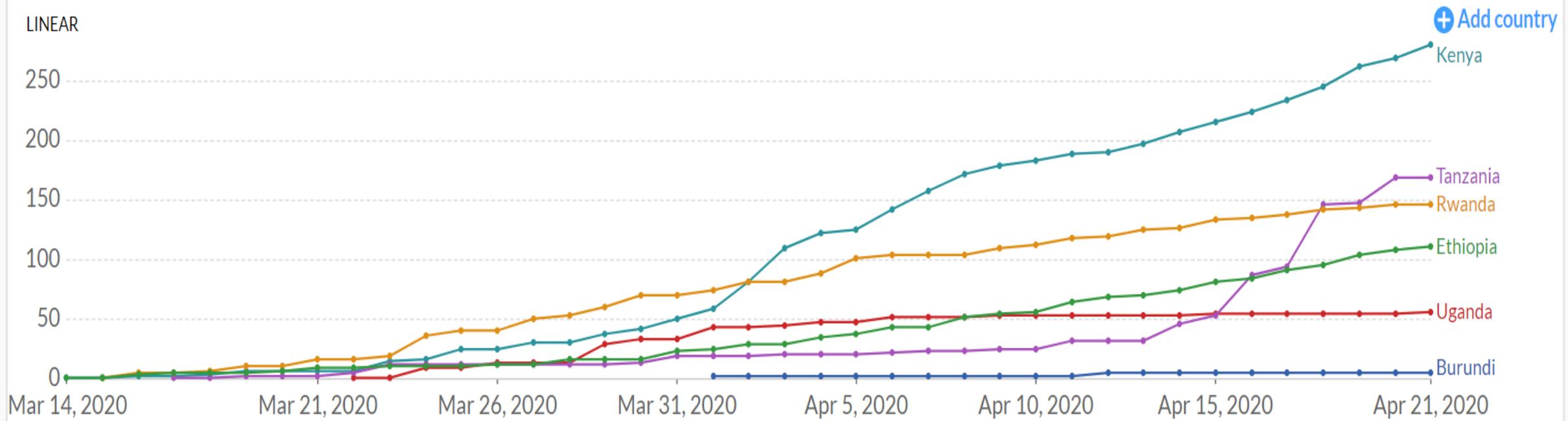
With the current state of affairs, it is difficult to predict COVID-19's path and its impact on governments - East Africa Outlook



Confirmed COVID-19 cases

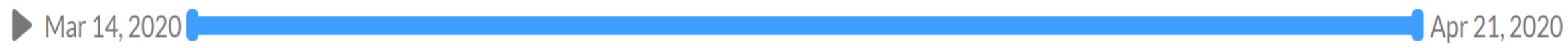
The number of confirmed cases is lower than the number of total cases. The main reason for this is limited testing.

Our World in Data

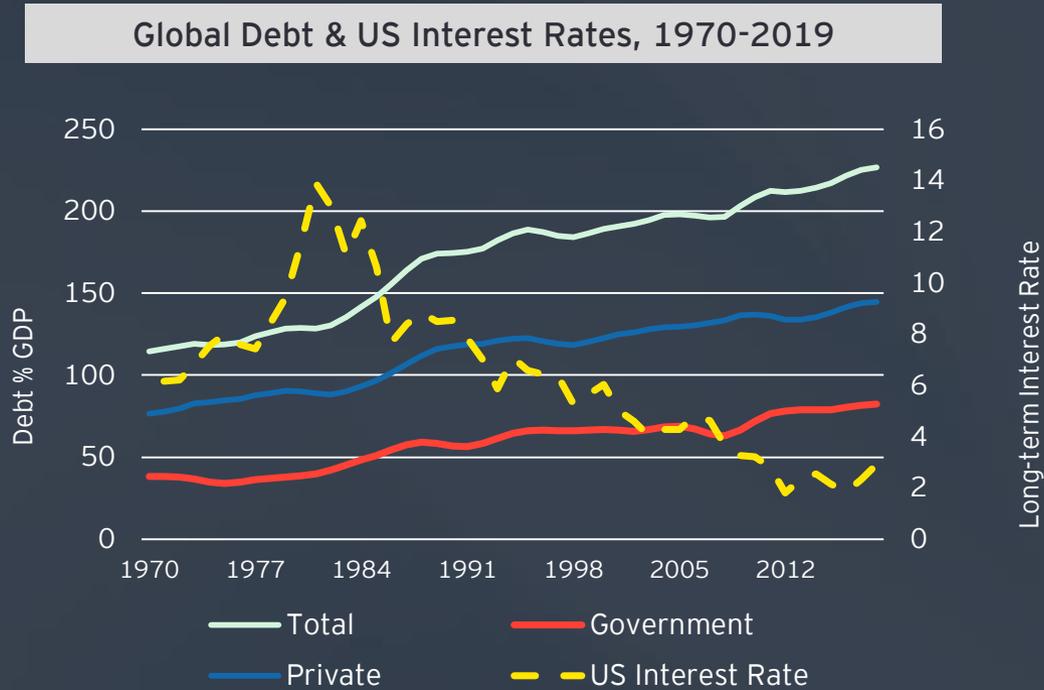


Source: European CDC - Situation Update Worldwide - Last updated 21st April, 11:45 (London time)

OurWorldInData.org/coronavirus • CC BY



High debt levels and low interest rates constrain fiscal options, which increases uncertainty in making economic projections



- ▶ The rapid rise of global debt limits the room available for fiscal stimulus measures
- ▶ Low policy and long-term interest rates make further policy rate cuts difficult

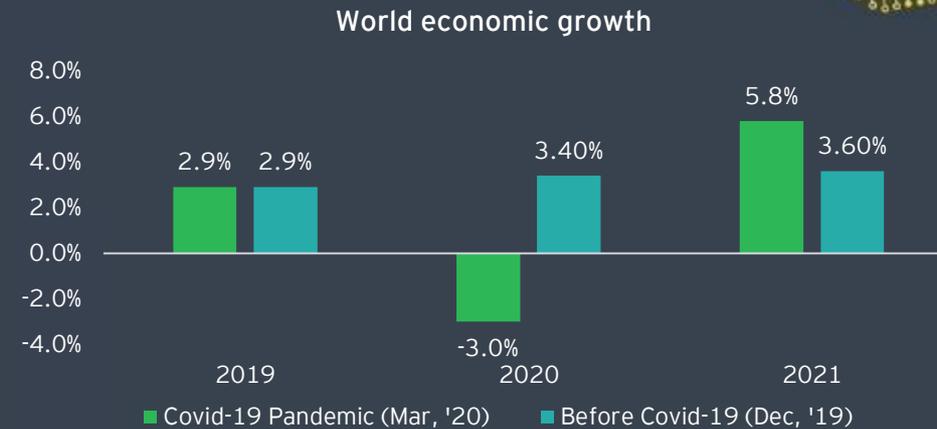
Uncertainty in Forecasting Economic Effects

- 1 Epidemiological Factors.** What will be the propagation pattern of the disease and how many people will become infected?
- 2 Labor Mobility Factors.** How long are travel bans in place? How extensive are quarantine and exclusion restrictions? How many people can work remotely?
- 3 Business Liquidity Factors.** How many businesses are able to sustain long-term disruption?
- 4 Debt & Interest Rate Factors.** How do existing fiscal constraints impact how governments can formulate new stimulus measures?
- 5 Political Factors.** Will the world be able to forge a multilateral response to the crisis?

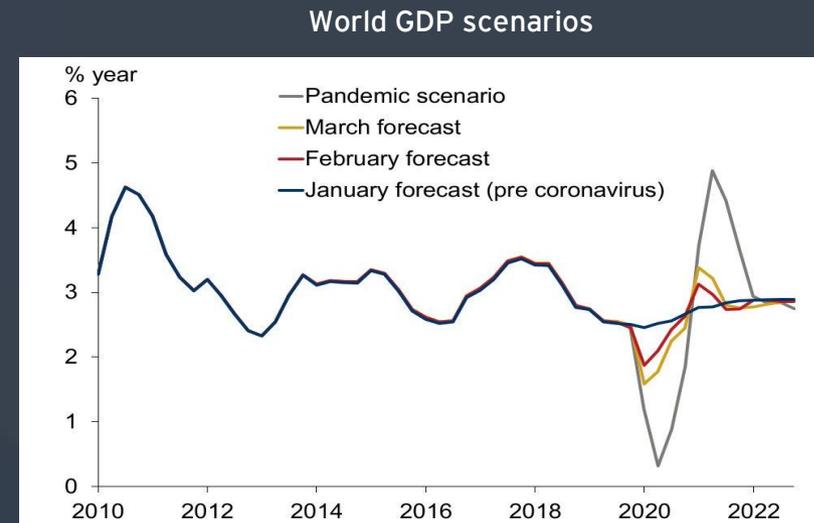
COVID-19 has a growing impact on the global economy



- ▶ The outbreak is moving rapidly which makes quantifying the economic impact complex and has given rise to uncertainty over the economic outlook.
- ▶ Observed developments over the past weeks have considerably increased the likelihood that the **global economy is moving towards a recession** as COVID-19 cases continue to increase worldwide.
- ▶ Consensus GDP growth forecast scenarios:
 - ▶ Low scenario: 2% drop from pre COVID-19 forecast
 - ▶ Mild scenario: 4% drop from pre COVID-19 forecast
 - ▶ High scenario: 8% drop from pre COVID-19 forecast
- ▶ Key markets across the globe have lost 20-50% of their value year-to-date.
- ▶ Unemployment will rise, the International Labour Organization (ILO) estimates job losses of around 25 million worldwide
- ▶ History suggests that economies tend to recover quickly after major once-off shocks. Currently, Oxford Economics expects considerable rebound in the H2 of 2020 after a dreadful first half.



Source: IMF



Source: Oxford Economics

Global supply chains, financial markets and international tourism have been significantly impacted



Tourism



- ▶ Given the low margin environment the aviation industry has always operated in - travel restrictions placed will have a significant negative impact on the industry.
- ▶ Travel and tourism impacts are likely to affect many service industries that benefit from tourist activities.

Construction



- ▶ Construction work disruptions due to limited supplies of key materials and equipment.
- ▶ Planned projects, particularly in commercial and industrial buildings sector may be delayed or cancelled.

Energy



- ▶ Impact on the solar power industry due to supply chain disruptions.
- ▶ Lower power demand from the industrial and commercial sector particularly in China.

Manufacturing



- ▶ Global supply chains have been disrupted given China's role as an intermediate goods producer.
- ▶ Lead time disruptions and suspension of production activities by companies leading to weakness in manufacturing.

Banking



- ▶ Opportunity for banks to cement customer relations especially with small businesses e.g. through payment holidays
- ▶ Pivotal role as a channel for economic stimulus packages
- ▶ Reduction of interest rates by central banks resulting in increased lending.

Retail



- ▶ Panic-buying of household and essential personal care items on the rise.
- ▶ Reduced spending on clothing, footwear and home products.
- ▶ Positive impact for online retail as consumers practice 'social distancing'.

Mining



- ▶ Delays in the supply of equipment, parts and consumables may impact productivity.
- ▶ Decline in copper demand as China accounts for over half of the world's copper demand.

Technology & communication

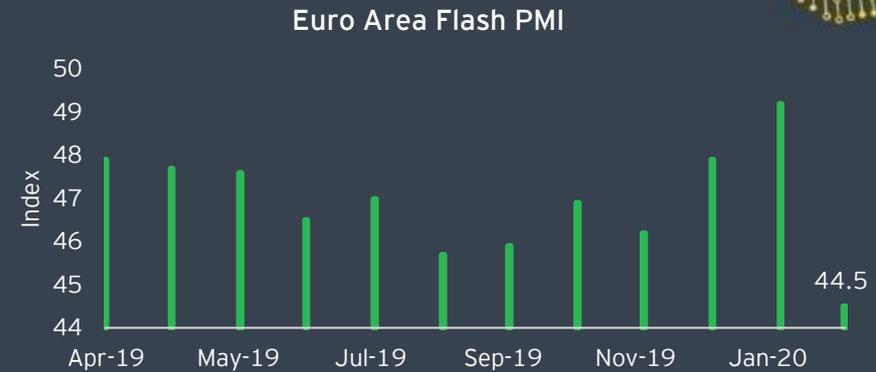


- ▶ Positive impact on collaboration and unified communication platforms
- ▶ Minimal impact on the telecom infrastructure supply chain
- ▶ Slow-down in infrastructure roll-outs related to 5G and other upgrades
- ▶ Reduction in demand for consumer devices

Economic data is starting to show this impact



Source: US Department of Labor



Source: IHS Markit



Source: National Bureau of Statistics of China



Source: General Administration of Customs

- ▶ While China's economy is beginning to show signs of a recovery as the lockdown, and thus supply constraints, have eased. However, this is unlikely to be sustained, as demand from abroad will be weak.

COVID-19 is set to further weaken growth of the Kenya and East Africa economy



IMF forecasts

	2019	2020	2021
World	2.9%	-3.0%	5.8%
EM's	3.7%	-1.0%	6.6%
SSA	3.1%	-1.6%	4.1%
RSA	0.2%	-5.8%	4.0%
Kenya	5.6%	1.0%	6.1%
Uganda	4.9%	3.5%	4.3%
Rwanda	10.1%	3.5%	6.7%
Tanzania	6.3%	2.0%	4.6%

Source: World Economic Outlook, April 2020, IMF

- ▶ The induced business disruptions of COVID-19 for Kenya are vast as the UK, European Union and China are the country's largest trading partner for both exports and imports.
- ▶ As the virus spreads throughout the globe, a slow down in Kenya's economic activities is inevitable.
- ▶ **Trade will be severely impacted** by the outbreak in 2020 with growth prospects of industries such as tourism, transport and services likely to be hit hardest.
- ▶ **Reduced demand for the country's exports of agricultural produce** will adversely impact the agricultural sector.
- ▶ The CBK forecasts Kenya GDP to contract to 3.4% in 2020 from 6.2% pre-COVID-19. Reflecting a low to mid scenario.
 - ▶ Low scenario: 2% drop from pre COVID-19 forecast
 - ▶ Mild scenario: 4% drop from pre COVID-19 forecast
 - ▶ High scenario: 8% drop from pre COVID-19 forecast

The Resilient Enterprise: leading through uncertainty and complexity



Internal Audit

Maintaining trust through COVID-19 disruption



3 Maintaining trust in Internal Audit through Covid-19

Celestine Munda (EY)

3. Maintaining trust in Internal Audit through Covid-19



As governments and companies attempt to contain COVID-19 by restricting travel, public gatherings and mandating work from home, audits planned through site visits or in-person interactions cannot be executed as planned. However, Internal Audit (IA) must stay-the-course to address the risks that matter most even if the path is adjusted.

IA is adapting to uncertainty...

We are hearing from clients that they are quickly adapting to the uncertainty by:-

- ▶ Conducting dynamic risk assessments and reprioritizing audit activities
- ▶ Introducing flexibility into audit procedures through collaboration tools and remote working
- ▶ Increasing reliance on technology by converting field audits to desktop, analytics-based reviews
- ▶ Leveraging third parties to provide technology support, in-country resources in affected areas and subject matter resources for emerging risk areas
- ▶ Acting in an advisory capacity on initiatives such as business continuity activation and crisis response committees
- ▶ Redeploying audit team members to support critical business continuity efforts
- ▶ Leveraging location-based company resources to provide evidence (e.g. photos by warehouse personnel) in lieu of on-site audit procedures

Can IA enable business continuity?

IA has a real opportunity to collaborate with the business and enable continuity:

- ▶ Considering the knowledge that IA resources have of the business, have you considered repurposing your resources for a period to enhance crisis response procedures?
- ▶ Do you have a seat at the high table and the expertise to provide real-time risk advice through crisis management?
- ▶ Are you helping your organization assess exposure to emerging risks, such as, customer and employee safety, cyber security, supply chain, business continuity, working capital and internal controls over financial reporting (ICFR) stress?
- ▶ Have you revisited your risk assessment and planned audit procedures? Where audits have been deferred, do you have plans to maintain risk coverage?
- ▶ Do you have the technology infrastructure and tools to support remote audit activities?
- ▶ How do you plan to supplement your resources to address new ways of working and evolving risks?
- ▶ Are you leveraging any downtime to enhance the IA function (e.g. online training and developing analytics)?

3. Maintaining trust in Internal Audit through Covid-19



Now

Repurpose IA resources to directly support the business in identifying vulnerabilities and provide real-time risk advisory services to crisis response

- ▶ Crisis management
- ▶ Business continuity planning
- ▶ Work from home capability
- ▶ Cyber
- ▶ Technology effectiveness
- ▶ Employee well-being
- ▶ Customer safety
- ▶ Supply chain effectiveness
- ▶ Working capital management
- ▶ Brand protection

Next

Continue IA work with some focus on cost recovery and the least disruption to the business, through remote auditing and performing analytics based Procedures

- ▶ Cash management
- ▶ Vendor audits
- ▶ Capital expenditure and projects
- ▶ Procure to pay
- ▶ Order to cash
- ▶ Payroll
- ▶ Financial statements close process
- ▶ PPE depreciation

Beyond

Operate a new normal - a transformed IA function focused on the risks that matter, better enabled by technology and resources with deeper business Skills

- ▶ Updated risk assessment
- ▶ Dynamic audit approach
- ▶ Data driven, technology enabled audit approach
- ▶ IA as a business advisor
- ▶ Higher impact audits



4

Managing cyber security threat during Covid-19 disruption

Robert Nyamu (EY)

4. Managing cyber security threat during Covid-19 disruption



COVID-19 Cybersecurity context

- ▶ Threat actors are taking advantage of the uncertainty and change associated with the rapidly developing COVID-19 outbreak. Of note, phishing and social engineering attacks targeted at newly teleworking employees and organizations are on the rise.
- ▶ It is expected that this cyberactivity will result in medium and longer term impacts for organizations, as threat actors bury themselves deep within networks and take advantage of time and freedom to move undetected.
- ▶ With staff shortages, companies are employing alternative methods to maintain cybersecurity operations, including a greater reliance on co-sourcing and outsourcing. This trend is expected to continue and expand as workforce deficits expand.
- ▶ It is critical that essential cybersecurity and privacy functions stay the course and maintain extra vigilance in monitoring and reacting to cybersecurity risk.

Cybersecurity can adapt to uncertainty...

Organizations can quickly adapt to the uncertainty by:

- ▶ Conducting rapid risk assessments and reprioritizing cybersecurity projects.
- ▶ Leveraging third parties to provide staff augmentation and subject matter resources for emerging cyber risk areas.
- ▶ Pre-installing and configuring laptops, tablets and encrypted drives for employees to use while working from home.
- ▶ Developing simple teleworking policies and procedures as well as rolling out virtual security awareness training for employees new to remote working.
- ▶ Redeploying cybersecurity personnel to man round the clock help desk units, enabling teleworkers with technology support and expertise on subjects like VPN use or securing personal devices.
- ▶ Review of data breach insurance and similar policies.
- ▶ Ensuring an adequate bench exists to manage cybersecurity incidents.

4. Managing cyber security threat during Covid-19 disruption



Now

Allocate cybersecurity resources to support the business in enabling remote working

- ▶ Policies and procedures
- ▶ Cybersecurity awareness training
- ▶ Cybersecurity packages to support personal and/or reconfigured laptops and tablets to support at home work
- ▶ Updated endpoint protection technology
- ▶ Revised monitoring capabilities
- ▶ Ever more vigilant vulnerability management
- ▶ Secure collaboration platforms
- ▶ Co-sourcing/ outsourcing key functions; third-party sourcing for staff augmentation and subject matter expertise

Next

Start planning for the future - continued enablement of remote working, cost control, dependence on 3rd party sourcing

- ▶ Updated risk assessment
- ▶ Cybersecurity strategy and roadmap re-assessment and re-alignment
- ▶ Updated collaboration capabilities
- ▶ Aggressive analysis of moving more workloads to the cloud in view of performance benefits
- ▶ Updated patching and upgrade strategy
- ▶ Revised sourcing strategies and agreements

Beyond

- ▶ Operate a new normal - a transformed cybersecurity function optimized to enable a new business reality
- ▶ Cybersecurity as a business advisor and transformation enabler
- ▶ Re-aligned cybersecurity strategy and roadmap
- ▶ Re-aligned security governance, management and operational structure
- ▶ Revised risk assessment methodology to reflect revised operational requirements
- ▶ New KPI and KRI for business stakeholders to reflect cybersecurity performance in this new world

Internal Audit

Maintaining trust through COVID-19 disruption



5

Panel Session

Celestine Munda (Moderator)

Panellists

- Charles Langat - KCB Group Plc
- Denish Osodo - Safaricom Plc
- Celestine Munda - EY

5. Panel Session

Panellists



Celestine Munda

Advisory Partner - East Africa

Email: celestine.munda@ke.ey.com



Robert Nyamu

Advisory Partner - East Africa

Email: Robert.Nyamu@ke.ey.com



Denish Osodo

Director, Internal Audit, Safaricom Plc

Email: DOsodo@Safaricom.co.ke



Charles Langat

Director, Internal Audit, KCB Group Plc

Email: cklangat@kcbgroup.com



Internal Audit

Maintaining trust through COVID-19 disruption



6

Questions & Answers

Samuel Njenga (CEO IIA Kenya Chapter)

