

# Internal Audit

Maintaining trust through COVID-19  
disruption

23 April 2020 | Public Sector Webinar



The Institute of  
Internal Auditors  
Kenya

**EY**

Building a better  
working world

# 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)**  
Victoria Angwenyi (IIA Kenya Chairperson)  
Willis Okwacho (IIA Kenya Board Member)
- 6 Q&A**

Platform

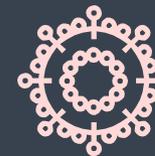
Microsoft Teams Meeting

Date

23<sup>rd</sup> April 2020

Thursday

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](mailto:celestine.munda@ke.ey.com)



**Robert Nyamu**

Advisory Partner - East Africa

Email: [Robert.Nyamu@ke.ey.com](mailto:Robert.Nyamu@ke.ey.com)



**Rosalind Muriithi**

Vice Chairperson, Institute of Internal Auditors (Kenya Chapter)

Email: [rkaburu2001@gmail.com](mailto:rkaburu2001@gmail.com)



**Willis Okwacho**

Board Member, Institute of Internal Auditors (Kenya Chapter)

Email: [willis.okwacho@gmail.com](mailto:willis.okwacho@gmail.com)



The Institute of  
Internal Auditors  
Kenya



# 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

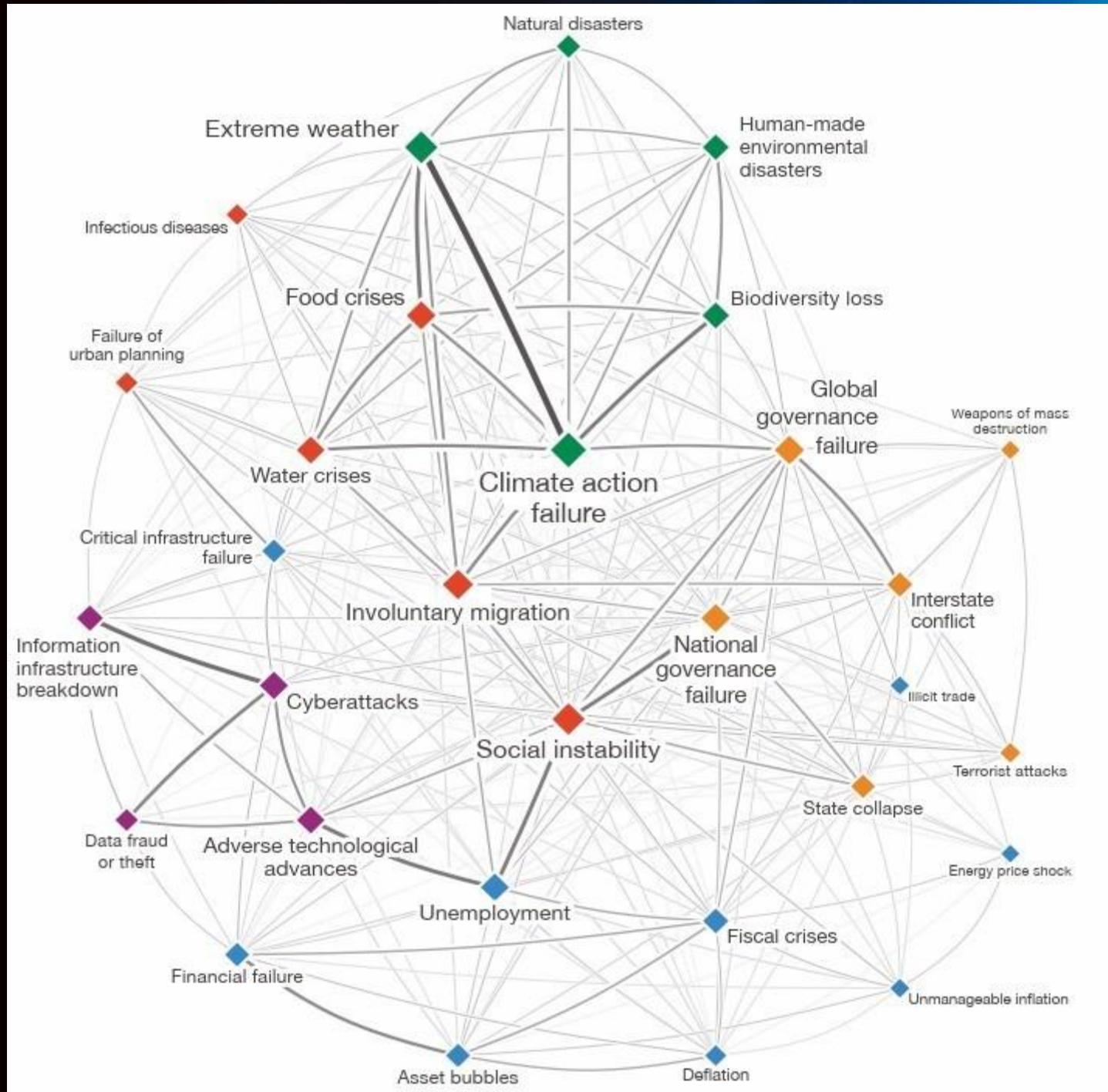
---



## 2 Global and Regional Outlook of Covid-19

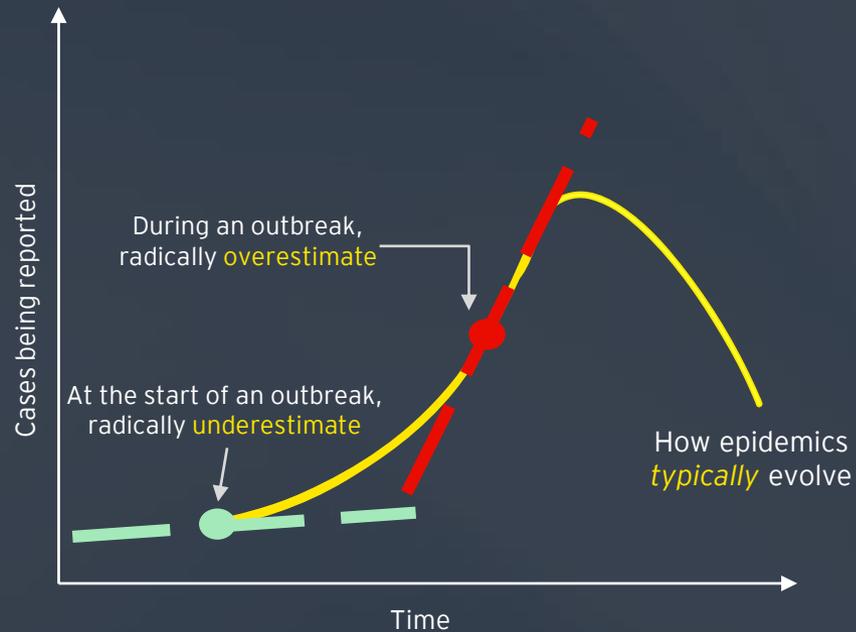
Celestine Munda (EY)

# 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



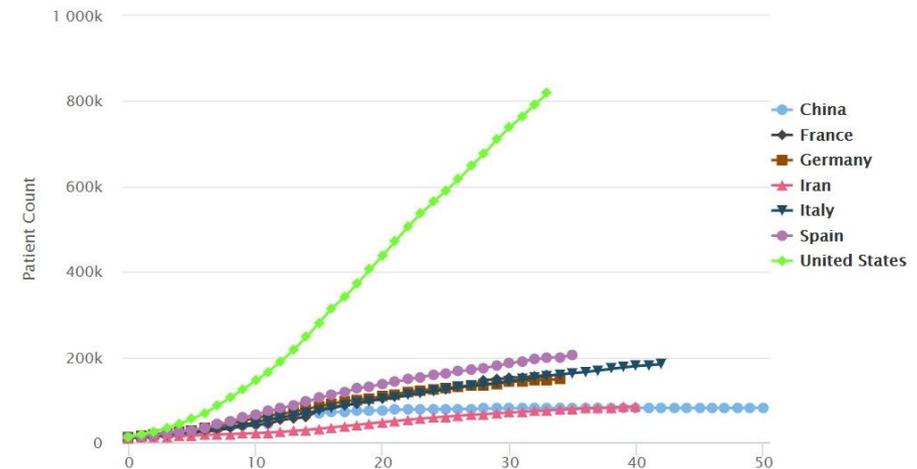
- ▶ The **scale** of a pandemic is unlike natural disasters or other crises that cover a limited area and whose economic costs can be quickly estimated.
- ▶ People have **cognitive biases** that make them radically underestimate an epidemic's path at the start of an outbreak and overestimate its path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

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

As of 22 April 2020

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

### Cumulative number of cases, by number of days since 10,000 cases



Source: Worldometer - [www.worldometers.info](http://www.worldometers.info)

- ▶ 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

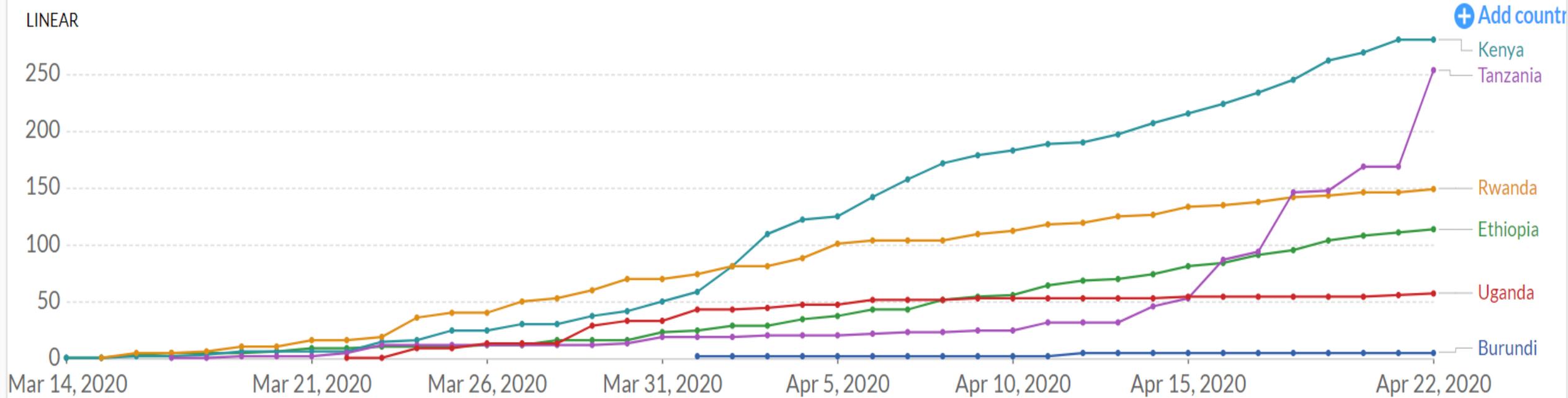
# With the current state of affairs, it is difficult to predict COVID-19's path and its impact on governments - East Africa Outlook



## Total 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 22nd April, 11:30 (London time)

OurWorldInData.org/coronavirus • CC BY

▶ Mar 14, 2020

Apr 22, 2020

# 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

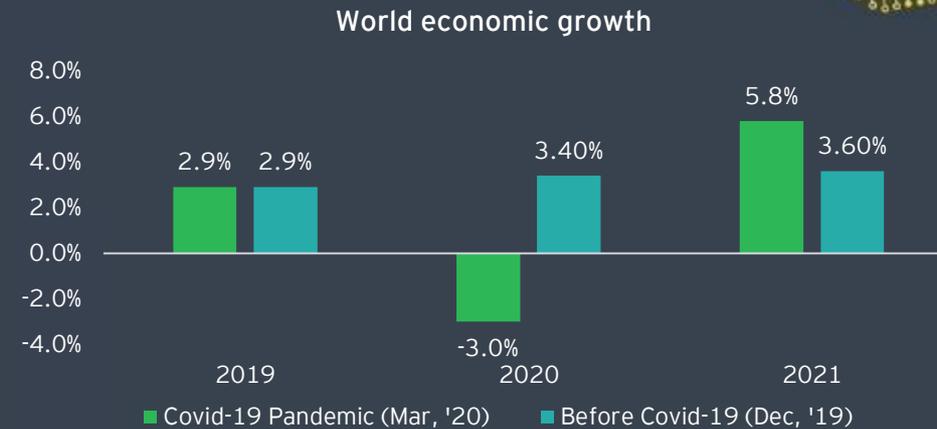
**Political Factors.** Will the world be able to forge a multilateral response to the crisis?

Sources: World Bank. 2019. *Global Waves of Debt: Causes and Consequences*; OECD *Long-Term Interest Rates*, U.S. Congressional Research Service.

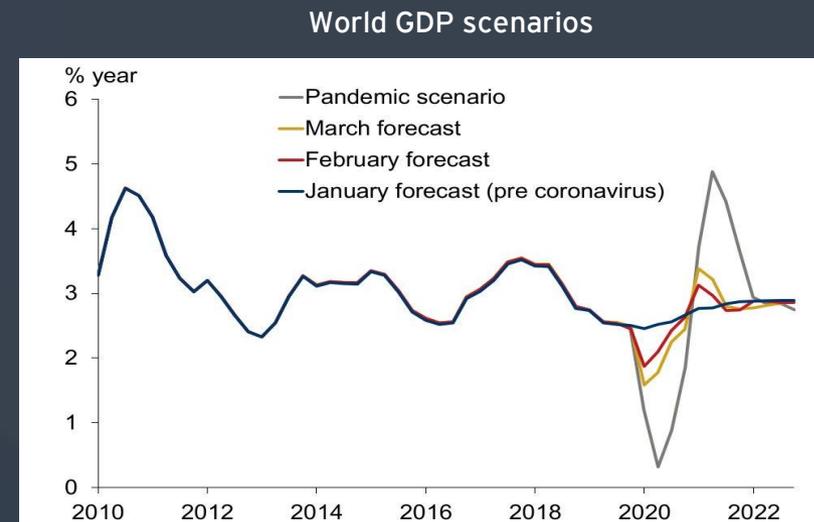
# COVID-19 has a growing impact on the global economy



- ▶ 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

# COVID-19 is set to further weaken growth of the Kenya 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, 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

# 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



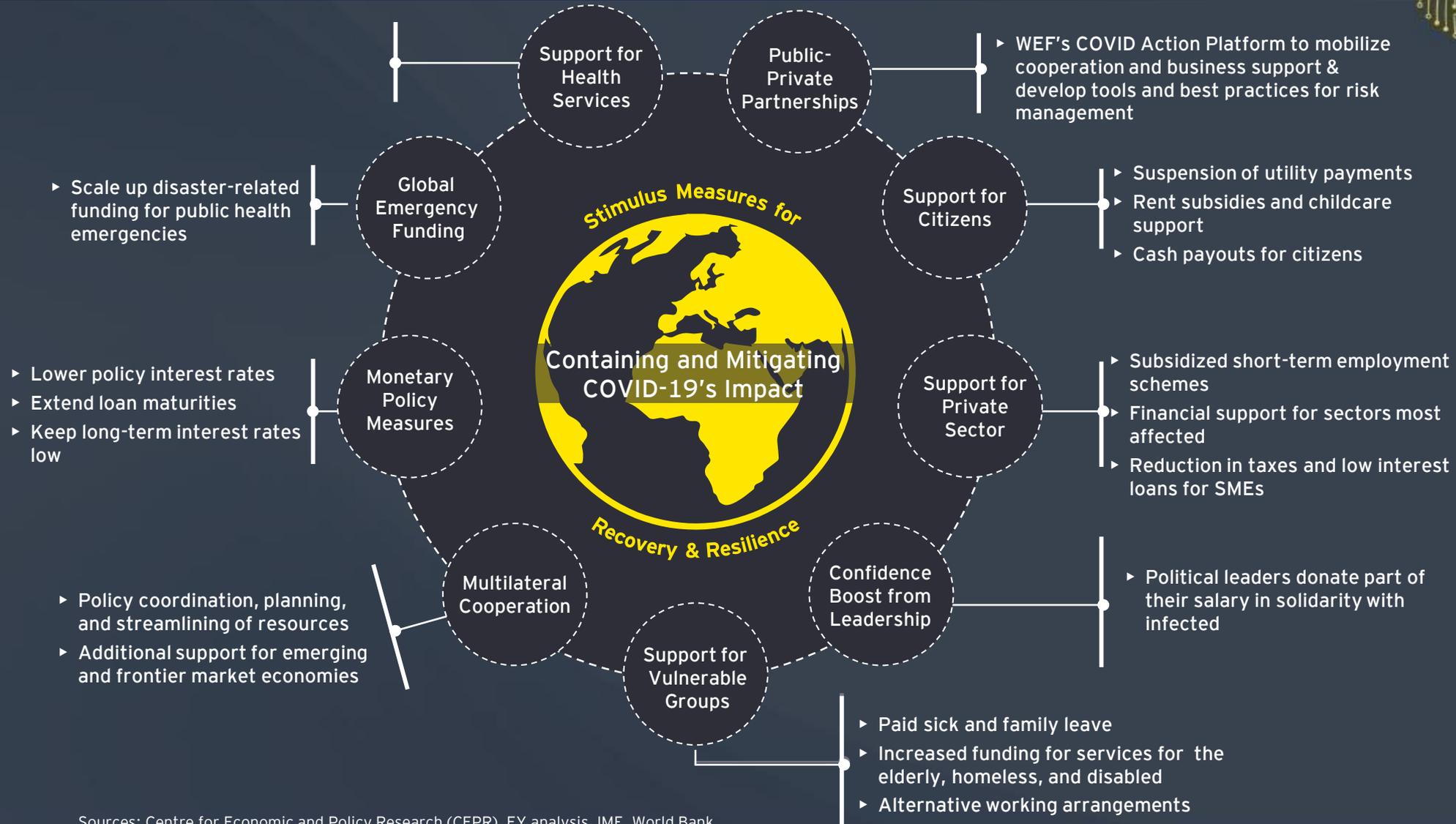
- ▶ Delays in the supply of equipment, parts and consumables may impact productivity.
- ▶ Decline in copper demand as China accounts for over half of the world's copper demand.

## 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

# Governments have several policy levers available for recovery



Sources: Centre for Economic and Policy Research (CEPR), EY analysis, IMF, World Bank

# Some of the measures already taken by Government of Kenya

## Containment measures

- ▶ Social distancing
- ▶ Closure of most non-essential social spaces to gatherings including education institutions
- ▶ Encouragement of teleworking where possible
- ▶ Suspension of international flights (with the exception of cargo flights)
- ▶ Imposition of a 14-day quarantine for those recently returning from abroad
- ▶ Establishment of isolation facilities
- ▶ Limitations on public transportation passenger capacity
- ▶ Containment of movements in 4 areas - Nairobi Metropolitan Area, Kwale, Mombasa and Kilifi Counties

## Fiscal and policy measures

### 1. Fiscal

- a) Earmarked Ksh40 billion (0.4 percent of GDP) for additional health expenditure, including enhanced surveillance, laboratory services, isolation units, equipment, supplies, and communication; social protection and cash transfers; food relief.
- b) A package of tax measures to alleviate the economic impact of the pandemic;
- c) Expediting payments of existing obligations to maintain cash flow for businesses during the crisis

### 2. Monetary and macro-financial

- a) Lowering of Central Bank policy rate and banks' reserve ratio

### 3. Other responses

- a) Establishment of the COVID-19 Emergency Response Fund to mobilize resources for emergency response towards containing the spread, effect and impact of COVID-19 pandemic.
- b) Establishment of COVID-19 ICT advisory committee with the mandate of coordinating ICT specific responses of the COVID-19

# 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.

## Covid-19 responses that the IA need to keep an eye on ...

Governments are responding quickly to manage COVID - 19 disruptions with the primary focus being to flatten the infection curve thus reduce fatalities and overall economic impact. These responses are creating new risks that the IA will need to contend with. Some of the responses in Kenya include:-

- ▶ Establishment of the COVID-19 Emergency Response Fund to mobilize resources for emergency response towards containing the spread, effect and impact of COVID-19 pandemic.
- ▶ Establishment of COVID-19 ICT advisory committee with the mandate of coordinating ICT specific responses of the COVID-19
- ▶ Recruitment of additional health workers to support in the management of the spread of COVID-19 through UHC kitty
- ▶ Accelerated procurement of PPEs and essential drugs to contain Corona virus disease
- ▶ Tax measures to alleviate increase disposable income to Kenyans
- ▶ Cash transfers to the elderly, orphans and other vulnerable members of the society to cushion them from the adverse economic effects of the COVID-19 pandemic
- ▶ Fast tracked settlement of verified pending bills to improve liquidity in the economy and ensure businesses remain afloat

## IA will need to address the emerging risks...

**IA has a real opportunity to support both the National Government and County Governments in managing the emerging risks such as:-**

- ▶ Single sourcing and accelerated procurement for COVID-19 related PPEs, essential medicines and establishment of quarantine centres outside the PPDA, both at the National Government level and County Governments
- ▶ Emergency Funds/Committees with no control frameworks in place in light of their urgency
- ▶ Emergency recruitment of additional health workers at both levels of governments outside the public service recruitment protocols
- ▶ Management of the large number of Covid-19 related PPEs and related essential medicines at designated public institutions - KEMRI, KEMSA, Quarantine Centers etc
- ▶ Risks related to cash transfers by the Ministry of Labour and Social Protection to the elderly, orphans and other vulnerable members
- ▶ Rapid settlement of pending bills to meet the timelines as per Presidential Order
- ▶ Weak control environment emanating from working from home directives coupled with poor infrastructure to support offsite monitoring of controls

# 3. Maintaining trust in Internal Audit through Covid-19



## Now

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

- ▶ Internal control and assurance around COVID-19 related responses, projects and funds
- ▶ Project management support on supply chains in collaboration with Ministry of Health at both levels of governments
- ▶ Internal review and assurance of the technology supporting COVID-19 tracking within the Ministry of Health
- ▶ Advisory role in cash transfer and other social support programs to the vulnerable communities
- ▶ Internal review and assurance on COVID-19 related inventory such as PPEs and essential drugs

## Next

Continue IA work with some focus on high risk areas through remote auditing and performing analytics based Procedures

- ▶ Fast track procurement reviews in light of heightened single sourcing and accelerated procurement processes in the public sector for COVID-19 related procurements in line with PPDA.
- ▶ Internal review and assurance of the various stimulus packages by Ministry of Finance to SMEs and various vulnerable groups to ensure they are above board.
- ▶ Support accelerated audits/reviews and processing of pending bills due to the SMEs, suppliers and service providers who risk collapse if the government does not release funds to them in the immediate term.

## 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

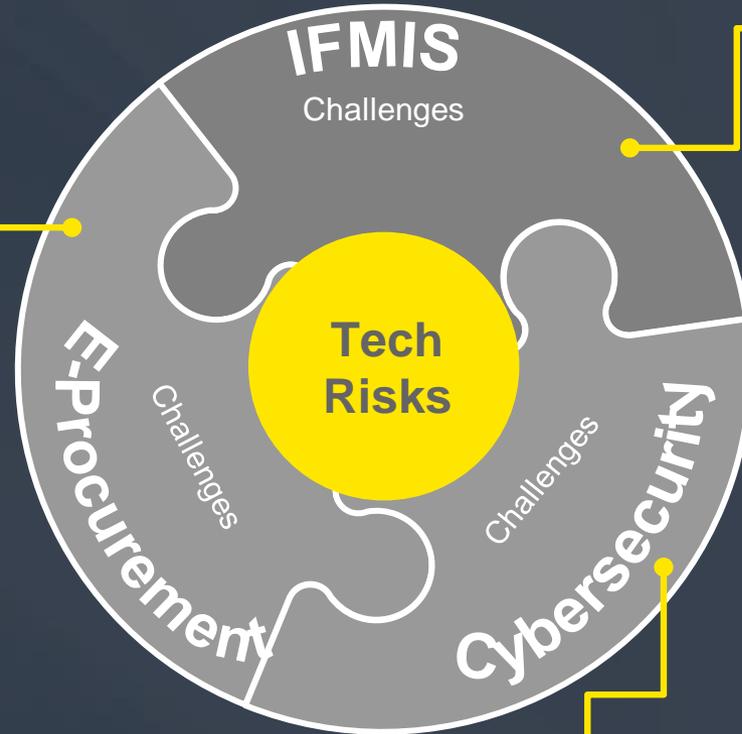
- ▶ Updated risk assessment
- ▶ Dynamic audit approach
- ▶ Data driven, technology enabled audit approach
- ▶ IA as a business advisor
- ▶ Support in review and assurance to the education sector at both levels of government in terms of deployment of virtual learning modules in the form of review of curricula, procurement of learning infrastructure and materials, funding to learning institutions and teachers



### 4 Managing cyber security threat during Covid-19 disruption

Robert Nyamu (EY)

# Technology Related Challenges and Risks



## e-Procurement

- ▶ Submission of physical bid documents and pre-bid meetings affected. Some departments are moving to e-submissions and video-conferencing for meetings however some public procurement regulations haven't been revised for e-submissions and e-meetings
- ▶ Some Countries with live e-procurement solutions are operating
- ▶ Most governments have halted/cancelled/ extended procurements due to the submission challenges
- ▶ Budgeting and Budget absorption processes for PFM in IFMIS will be delayed

## IFMIS

- ▶ Despite provisions for online submissions, some government departments are still using desktops instead of laptops, leading to delays as staff can't work on desktops from home
- ▶ Inadequate Infrastructure – Connectivity, Access, Power
- ▶ Some IFMIS components are configured to only work within government facilities and networks. Accessing the system from home is a challenge
- ▶ Some IFMIS systems aren't optimized for web access and therefore users working remotely are affected
- ▶ Planned Expenditure against budget may not be done on IFMIS on time due to the lockdown, affecting the entire budgeting cycle

## Cybersecurity

- ▶ Government networks are a target for cyber threats
- ▶ Online collaboration tools on the rise, therefore need for proper security configuration of the tools and SOPs to manage Cyber risks
- ▶ Third Party Support affected due to travel restrictions where support is not provided locally
- ▶ Where there is decentralized security management, a unified approach is a challenge
- ▶ Migration to Cloud is still low in government and hence managing IT operations and cyber threats centrally is a challenge

# 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, governments and organizations are on the rise.
- ▶ It is expected that this cyberactivity will result in medium and longer term impacts for governments and organizations, as threat actors bury themselves deep within networks and take advantage of time and freedom to move undetected.
- ▶ With staff shortages, governments and organizations 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 functions stay the course and maintain extra vigilance in monitoring and reacting to cybersecurity risk.

## Cybersecurity can adapt to uncertainty...

Governments and 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.
- ▶ 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 governments both at National and County levels 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 3<sup>rd</sup> 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 - transformed cybersecurity functions in governments optimized to enable 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 (Risk advisory Partner, Moderator)

#### Panellists

- Rosalind Muriithi - Vice Chairperson, IIA Kenya Chapter
- Willis Okwacho - Board Member, IIA Kenya Chapter
- Robert Nyamu - Technology Partner, EY

# 5. Panel Session



## Panellists



**Celestine Munda**

Advisory Partner - East Africa

Email: [celestine.munda@ke.ey.com](mailto:celestine.munda@ke.ey.com)



**Robert Nyamu**

Advisory Partner - East Africa

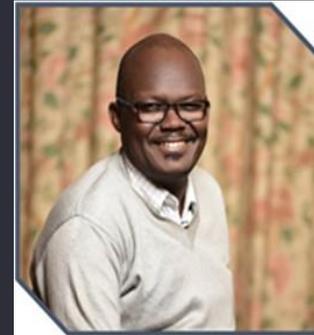
Email: [Robert.Nyamu@ke.ey.com](mailto:Robert.Nyamu@ke.ey.com)



**Rosalind Muriithi**

Vice Chairperson, Institute of Internal Auditors (Kenya Chapter)

Email: [rkaburu2001@gmail.com](mailto:rkaburu2001@gmail.com)



**Willis Okwacho**

Board Member, Institute of Internal Auditors (Kenya Chapter)

Email: [willis.okwacho@gmail.com](mailto:willis.okwacho@gmail.com)

# Internal Audit

## Maintaining trust through COVID-19 disruption

---



### 6 Questions & Answers

Samuel Njenga (CEO IIA Kenya Chapter)