

**RISK – 2020**

# RISK MANAGEMENT

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## TOPICS TO BE COVERED

Repurposing The Role Of Internal Audit

Proactive Risk Management And Challenges To Navigate Before  
The Profession i.e. Emerging Risk



## REPURPOSING THE ROLE OF INTERNAL AUDIT

- ❑ Internal Auditor (IA) to monitor critical transactions during lockdown:
  - Master Data Changes/ Logs of changes to system
  - Sensitive access given to individuals
  - Incident Monitoring
  - Service Level Agreement(SLA) for critical vendors
  - Emergency procurement during lockdown and identify risk, mitigate the same

## HOW CAN IA HELP THE ORGANISATION LOOK FORWARD?

- Providing an independent, objective voice to the management for decision making
- Evaluating the design of new and/or amended controls prior to implementation as a result of a changing work environment
- Although the lockdown has ended in few parts of the country; but there still exists the risk of asymptomatic patients
- Standard Operating procedure (SOP) can be prepared for Work to be resumed after lockdown and ensure monitoring the same



## FACTORS FOR AGILE INTERNAL AUDITOR:

Today in this VUCA world; auditors should be abreast with the latest amendments issued by the regulators and implement / modify the existing management controls accordingly across various functions of the organisation.

### Few examples are mentioned below:

- Updating of Internal Control Financial Reporting (ICFR) as on 31<sup>st</sup> March 2020 and additional controls needs to be evaluated for Work from Home Policy (WFH) as it would become the next set of Business as usual for the organisation.
- Availment of various benefits received from govt./companies like PF contribution scheme for 3 months, TVS motors announces warranty extension and service support due between March and April up to 30<sup>th</sup> June 2020 thereby need to reassess the provision for warranty in books of accounts and various consideration to be taken into account.

# IMPACT OF COVID-19

THE IMPACT OF COVID-19 OUTBREAK WILL BE DISPROPORTIONATE – WHILE SOME SECTORS WILL BE SEVERELY IMPACTED, SOME WILL SEE A POSITIVE IMPACT

## Key actions points for business continuity

Renegotiate interest rate and terms, cut down costs

Gems & Jewellery

Entertainment

Hospitality

Transport

Livestock

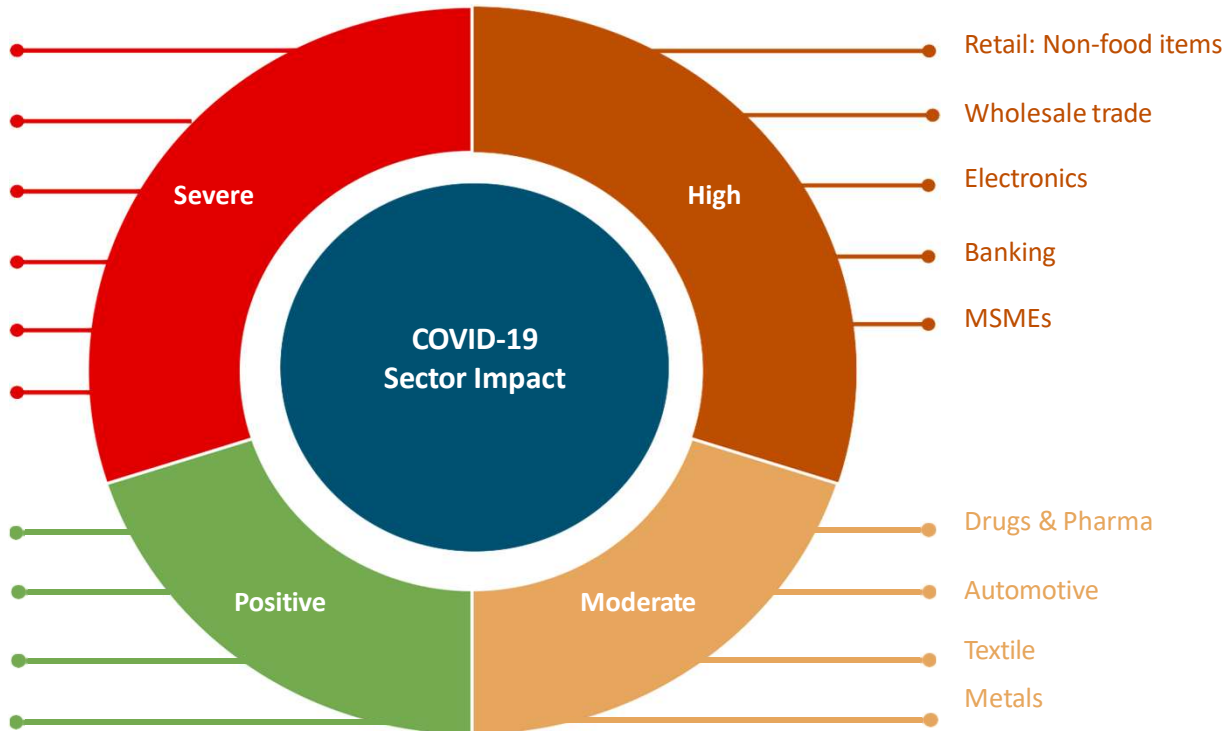
Tourism

Remote working applications

Over-the-Top Media service

Online gaming

E-education



Manage credit terms with customers, facilitate remote working and flexible production

Stabilize supply chain and inventory management



## EMERGING RISK AREAS FOR INTERNAL AUDIT TO CONSIDER

### Risks which the organisation should consider based on the industry verticals:



Financial risks: From Low returns to rising debt



Cyber Security risk



Third party risk



Compliance / Regulatory burden



Digitalisation and business model disruption



Business Continuity Management



Geopolitical instability & the macro



Human capital: The organisation of the future

# FINANCIAL RISK





## FINANCIAL RISK

### **Financial risks: From low returns to rising debt:**

The nature of financial risk greatly depends on the sector, business model in question and managing various stakeholder expectations is very difficult to forecast. Eg. Working capital management, revenue forecast, credit risk etc.

### **Examples:**

- Various company closed its operations due to COVID-19, due to non-availability of the funds
- IPL has been cancelled till infinite due to these unprecedented events thereby leading to a loss. Insurance against the pandemic like one taken by the All England Lawn Tennis Club for the Wimbledon tournament would have reduced the impact of loss.

## FINANCIAL RISK

### Questions for internal audit:

1. Is there sufficient evidence to support that working capital is being managed as effectively as possible in order to free up financial resources for various expenditure?
2. How mature is the company's financial risk management and is there a need for an assurance to be provided on the efficiency of the financial controls?
3. Whether the organization has taken into consideration of various government incentives/ scheme/ subsidies to provide fiscal support and also whether the organization has considered the long term implications of that support (for example repayment of loans)?

## IMPACT ON VALUATION DUE TO COVID-19

**Half of Nifty 50 stocks are trading at single digit valuations**

(Source: Bloomberg, Quint, April 2020)

**Over 50 stocks with a Mcap of INR 10,000Cr trade below 2008 P/E**

(Source: Moneycontrol, April 2020)

**At 20 years low and single digit PEs, these stocks are worth a look**

(Source: Economictimes.com, March 2020)

**80% of Nifty stocks hit 52 week low**

(Source: Moneycontrol, March 2020)

# CYBER SECURITY

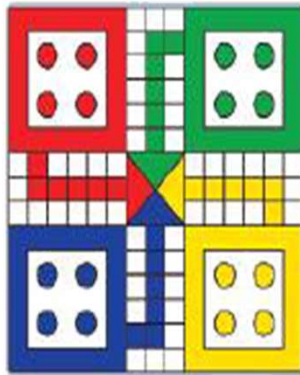


# INDIANS SPENDING 3HRS 48MINS ON SMARTPHONE DAILY IN LOCKDOWN

In Week 3 of coronavirus disruptions in India, smartphone usage increased by **12.5%**

**44%** ↑ **GAMING**

From an average of 2hrs 31mins in pre-COVID-19 days, the time spent on gaming increased to 3hrs 38mins. While action games continue to enjoy high engagement, social gaming apps have gained popularity as well, with Ludo King dethroning PubG in terms of users per week



Source: BARC and Nielsen's report on Crisis Consumption for the March 28-April 3 period. All data in comparison to pre-COVID period (January 13-February 2) and in minutes spent per person per week.

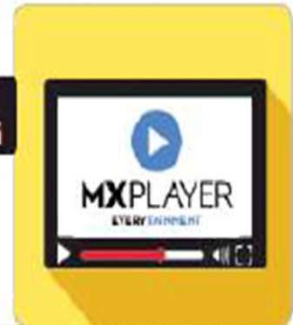
From an average of 3hrs 33mins, the time spent on various OTT platforms increased to 3hrs 59mins. Video streaming apps like MX Player also saw a 52% increase in time spent on movies and 32% increase in time spent on original series



**41%** ↑ **NEWS APPS**

People on average spent 39mins more on news apps in Week 3 of COVID-19 disruptions

**12%** ↑ **VIDEO STREAMING**



**44%** ↑ **SOCIAL NETWORKING**

From an average of 3hrs 13mins, the time spent on social networking sites per week increased to 4hrs 39mins



**41%** ↑ **CHATTING**

From an average of 3hrs 45mins in pre-COVID-19 days, the time spent on chatting increased to 5hrs 17mins

## CYBER SECURITY RISK

### **Cybersecurity : Rising Expectations of Internal Audit:**

Cyber security was undoubtedly the perennial risk of the modern era but the current scenario of COVID-19 has also led to increased risk which the IT professionals have to take into consideration. This risk examines whether organizations are sufficiently prepared to manage cyber threats that could cause disruption, financial and reputational harm.

## CYBER SECURITY RISK

1

A large e-commerce company recently roped in cybersecurity experts after an **unexpected spike in its app downloads** during the lockdown period but **didn't convert into any customer engagement**


It found that these were not real customers **but bots** and could have resulted in **revenue loss on account of advertising fraud** — forcing a company to pay websites carrying its advertisements based on the number of clicks they attract



## CYBER SECURITY RISK

2

Aarogya Setu is not all that Healthy for a **Person's Privacy**. Since the purpose of the app and **who will access the data are not clearly stated**, privacy groups such as the Internet Freedom Foundation (IFF) are raising alarm over its compliance with the globally held privacy standards, while also recommending privacy prescriptions for these technology based interventions. Source: ET as on April 2020



- In China, they determine who can step out of home. In South Korea, intrusive tracing has revealed not only patients' identity but also their extramarital affairs and other secrets. That's why the West is limiting itself to Bluetooth-based tracing. However, even a Bluetooth-only app that links your contact-tracing codes to your phone's IP address will give away your identity
- The bigger fear is, what will happen to this data after the pandemic is over? If the virus keeps coming back in waves for two years, will phone surveillance become a part of our lives? Normal? Will there ever be a return to privacy after that?



## CYBER SECURITY RISK

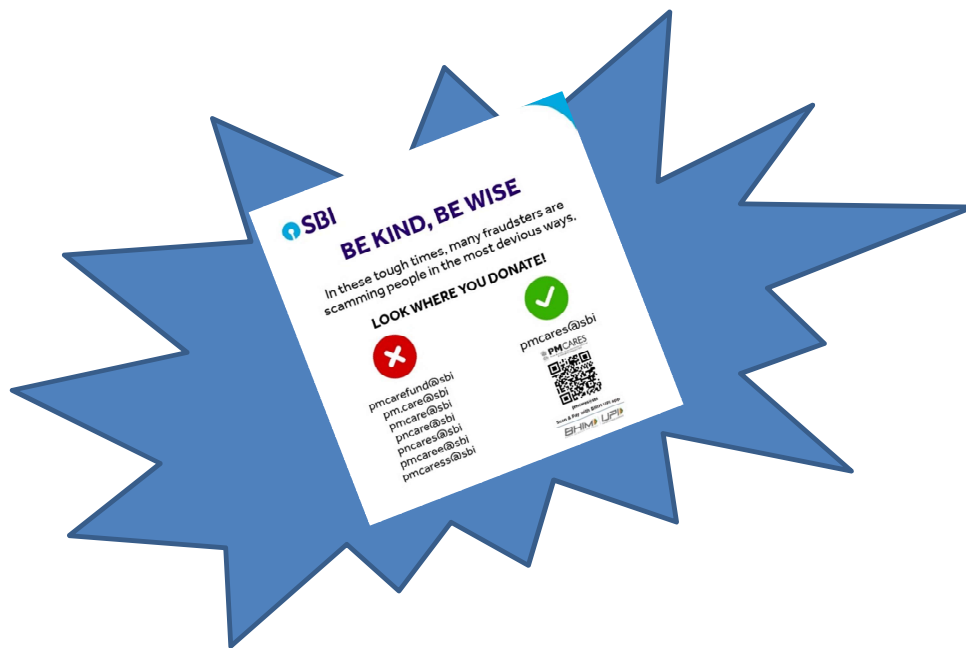
- Privacy and cyber security experts, however, said the app can only be used for contact tracing and does not indicate whether a person is a carrier of the virus or not
- Further Telcos, DoT in Sync with States to Track Patients. But officials clarified that only location details of calls were being used for the purpose, which may have raised concerns around privacy and state surveillance. Privacy experts, however, said such sharing still triggers concerns around data privacy since no permission has been sought from subscribers

## CYBER SECURITY RISK

### 3. Identity Theft :

As PM Narendra Modi sought public donations to tackle the pandemic under the specially created PM CARES fund, more than a dozen similar-sounding UPI IDs cropped up, luring people to donate there

The fake IDs included pmcares@pnb, pmcares@hdfcbank, pmcare@yesbank, pmcare@ybl, pmcare@upi, pmcare@sbi and pmcare@icici. The issue was sorted out, but not before the intervention of the home ministry, CERTin—the country’s security watchdog—and private experts which is punishable under the sec 66C of the IT Act,2000.



4 Identify Fake vis-à-vis REAL:

**Claim**

« Back

**Govt may slash pension to employees to by 30%**

**Reality**

The claim is totally **FAKE** and baseless.  
Government is doing no such thing  
Government is doing no such thing  
Please don't fall for **Rumours!**

**#PIBFactCheck**

To check if any Central Govt. related Policy/Schemes is a Fact or not.

Contact Us @PIBFactCheck 8799711259 /PIBFactCheck pibfactcheck@gmail.com

## CYBER SECURITY RISK

### Questions for internal audit:

1. Are there enough evidence to support that the organisation has got the basics covered?  
These basics include malware detection, patch updates, staff awareness training, insurance coverage and access rights management.
2. Is the organization aware of the changing profile of its cyber risks given the changing nature of its operations, particularly as the company digitalizes?

# THIRD PARTY RISK



## THIRD PARTY RISK

### **Third Party Risk:**

Increasing reliance on third parties by various organization for various services especially for Finance, IT, payroll etc. demands greater oversight and improved processes monitoring. Due to COVID-19 extra precaution needs to be considered by the organization w.r.t Cyber security and access of data for the clients; since the infrastructure is different for office and work from home model (WFH)

### **Examples:**

1. Finance function
2. IT Support function
3. Data Security: Cloud server

## THIRD PARTY RISK

### Questions for internal audit:

1. How do third parties manage data and data security risk? Are these controls up to the same standards as the organisation's own controls as per the policies?
2. Does the business review the appropriateness of its outsourcing programme i.e. 4<sup>th</sup> party? Is it confident that the cost benefits outweigh any additional risks associated with outsourcing?
3. Whether additional controls due to WFH and audit trail are available? since majority of the contracts with the clients include audit rights, can in-house internal audit team do continuous monitoring ?

# COMPLIANCE / REGULATORY RISK

A hand in a dark blue suit jacket is holding a glowing white hexagonal icon. Inside the hexagon, there are several interlocking gears of various sizes and the word "REGULATION" in bold, white, uppercase letters. The background is a blurred image of a person in a suit, overlaid with a grid of semi-transparent white hexagonal icons. Some of these icons contain silhouettes of people, while others contain gears.

**REGULATION**



## COMPLIANCE /REGULATORY RISK

### **COMPLIANCE OF REGULATORY BURDEN :**

A variety of regulatory directives are issued during the lock down period by both the Govt. i.e. Central and State - majority of these are the extension of the due date for various laws. This risk examines the challenges the organizations face in a dynamic and volatile regulatory environment like Insolvency cases cannot be filed due to COVID-19 etc. If IA can help the organization by bucketing regulatory requirement into immediate, short term and medium term by considering the penalty provisions for various laws

## STAYING ABREAST WITH GOVT. GUIDELINES

Presently, company's geographical footprint whether domestic or international should be updated with various guidelines as mentioned below:

- a. Central govt. guidelines
- b. State govt. guidelines
- c. Guidelines for general public
- d. Guidelines for workplace and employers
- e. Applying for Pass during the lockdown
- f. Guidelines for investor, example:
  - 1) SEBI 22<sup>nd</sup> April 2020 - released a consultation paper to seek comments/views from all stakeholders on pricing of Preferential Issues and exemption from making an open offer for acquisitions in listed companies having Stressed Assets and
  - 2) 23<sup>rd</sup> April 2020 - notified an amendment in SEBI (Buy-back of Securities) Regulations, 2018 for ease of fund raising by listed companies

## COMPLIANCE /REGULATORY RISK

### Example: Banking Sector: Change in the Software

#### 1. Section 194N – TDS on cash withdrawal – w.e.f. 01.07.2020

The provision has been substituted to provide that the threshold limit of 100 Lacs will reduce to 20 Lacs in case where the person withdrawing the cash has not filed his / its Return in time prescribed under section 139(1) during the three years preceding the relevant previous year.

The TDS rates in such case will be as under:

Cash Withdrawal	TDS Rate
Upto 20 Lacs	Nil
Above 20 Lacs but upto 1 Crore	2%
Above 1 Crore	5%

From the above change in the provision, bank has to modify their software for capturing this data and record.

## COMPLIANCE /REGULATORY RISK

### **E-invoicing:**

- E- invoice was supposed to be implemented from 1st April, 2020 but vide Notification No. 13/2020-Central Tax dated 21st March, 2020 the same has been deferred to be implemented from 1st October, 2020
- Taxpayers with turnover of Rs. 500 Crores and above in the previous financial year are enabled to login in this portal.
- The notification specifies applicability of E-invoicing to registered persons whose aggregate turnover in FY exceeds Rs. 100 Crores.
- As of now, trial version of e-invoicing is available on [www.einvoice1-trial.nic.in](http://www.einvoice1-trial.nic.in)

## COMPLIANCE /REGULATORY RISK

### Questions for internal audit:

1. Is the organisation responsive and taking a sufficiently forward- looking approach to regulatory changes (e.g. does it keep a regulatory implementation calendar?) and does it follow a risk- based approach to compliance?
2. Has the organisation learned lessons from past regulatory breaches to ensure they are not repeated? Does the business look at past compliance breaches by direct competitors and companies in adjacent sectors in order to avoid making the same mistakes?

## DIGITALISATION AND BUSINESS MODEL RISK



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### Digitalisation and Business Model disruption:

Organizations face significant disruption driven by the accelerating pace of technology and the growing ease of mass data collection. Consider traditional versus born-digital business models. This risk examines organizations' abilities to leverage data and new technology to thrive in the fourth industrial revolution. *"Technology is the great enabler of business model disruption."* which becomes more important in the wake of COVID-19.

### Examples:

1. Doctor App for consultation, thereby disruption/impact to general practice
2. BookMyShow has been impacted due to lockdown
3. Rentals from the offices could be disturbed due to Work From Home (WFH)
4. Share Mobility : Go Kruze

## DIGITALISATION AND BUSINESS MODEL RISK

### Questions for internal audit:

1. Does management know how the business and its sector could be disrupted and does senior management have a strategy in place to pre-empt or respond to this threat?
2. How is digitalisation affecting the internal control environment and are new technologies implemented with a risk-control mind-set?



A man in a dark suit and red tie is pointing his right hand towards a digital interface. The interface features a central dark blue hexagon with the text 'business continuity' in white. To the left and right of this central hexagon are several other hexagons, each containing a white icon: a presentation board, a bar chart with an upward arrow, a person silhouette, a globe, a pie chart, and an organizational chart. The background is a blurred office setting.

**business  
continuity**

Adobe Stock

## BUSINESS CONTINUITY MANAGEMENT

### **Business Continuity:**

Organizations face significant existential challenges, from natural disasters like novel COVID-19 etc. to reputational scandals and succession planning. This risk examines organizations' abilities to prepare, react, respond, and recover from the large scale lockdown for more than a month in India and affecting 200+ countries at the same time which had never happened before

### **Examples :**

1. In BPM industries generally Client protocol are mentioned that disallows transfer to a work-from-home mode.
2. Internet connectivity issues due to Work from Home model (WFH)
3. Non- available of IT infrastructure support during remote working

## BUSINESS CONTINUITY MANAGEMENT

### Questions for internal audit:

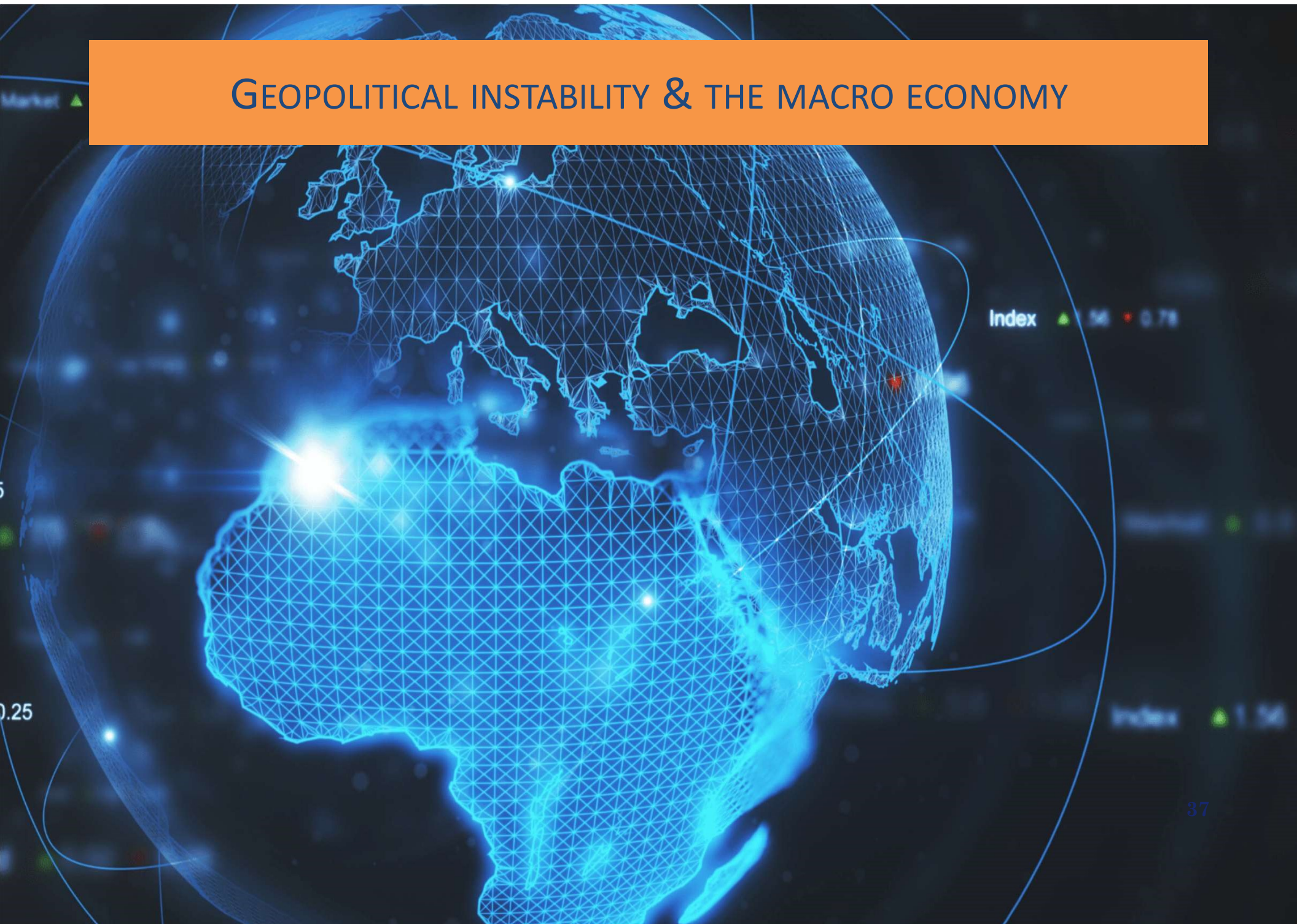
1. Is there a comprehensive BCP in place to be followed in such unprecedented event of incidents occurring? Has the BCP been tested?
2. Who is accountable in various business continuity situations — and are these managers aware of their responsibilities and accountability?
3. Does the business have an adequate Public Relations (PR) communications damage control strategy in place in the event of an undesirable incident occurring?

## BUSINESS CONTINUITY MANAGEMENT

### **Auditor can review below mentions function:**

- HR - Employee safety/ Support Measures including sanitization measures, review insurance agreements, review staffing plans etc.
- IT - Remote working by updating antivirus on all devices, review additional access requirement etc.
- Operations- Review the sales strategy including price, discount during current and post lock down period, tie up with the rental office space like we work, realign logistics/supply chain including safety from contamination etc..

# GEOPOLITICAL INSTABILITY & THE MACRO ECONOMY



## GEOPOLITICAL INSTABILITY & THE MACRO ECONOMY

### Geopolitical instability & the macro economy:

Political risk has loomed large in the wake of COVID-19 thereby the companies have to view the geographic location for business. Since then the political landscape has polarised further. *“Politics and the economy are intrinsically linked and this has become especially apparent in recent years.”*

### Examples:

- US Threatens to Block China Telecom from American Mkt: Cites legal and security risks, leaves final decision to Federal Communications Commission.
- US lawmakers have called for a “pandemic tariff ” on Chinese goods

## GEOPOLITICAL INSTABILITY & THE MACRO ECONOMY

### **Questions for internal audit:**

1. Is the business aware of how political risk affects it and its unique operational footprint?
2. Does the business have a monitoring system in place to identify the development of slow and fast political and economic risks and the need for action?
3. Are contingency plans and insurance policies in place in the event of third-party/supply chain insolvencies?

# HUMAN CAPITAL





# HUMAN CAPITAL

## **Human capital: The future of organisation :**

Due to COVID-19, HR has to balance both expectations of the management along with the employees. HR has to navigate organisations along new business model during these scenario along with availability of required skills within short span of time like providing relevant software engineers ,programmers etc.

## **Examples:**

- Employees don't turn back to the organisation due to Health and Safety issues
- No digitalisation of recruitment and on-job Training and learning development (TL&D) programme to the employees
- Non- Reviewing of the policies so as to facilitate Work from Home(WFH) etc.
- No Resource planning for the employees based on the hotspot location of the employees

# HUMAN CAPITAL

## Questions for internal audit:

1. How effective are the organization's recruitment, talent development and career progression initiatives?
2. Are the business's recruitment efforts addressing any skills gaps? Is the business hiring the right talent and is it attractive enough to meet its medium to long-term strategic goals?
3. What is the likely impact of automation and other Digitalization on the workforce, and is the business ensuring it has the skills required to enable that technology?

THANK YOU !

SEND YOUR FEEDBACK ON:

[cabhavinmparekh@gmail.com](mailto:cabhavinmparekh@gmail.com)