

COVID-19: HOW STRONG ARE YOUR COMPANY'S INTERNAL CONTROLS?

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The COVID-19 pandemic has led to an unprecedented number of Canadians working remotely. With this shift, an organization's internal controls can become lax either intentionally or unintentionally. Softening employee oversight or granting sweeping authority can result in fraud. It is now more important than ever to keep an eye on your organization's internal controls.

You can start by reviewing your organization's main processes to assess for fraud risk. These processes may include:

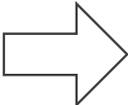
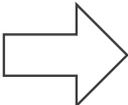
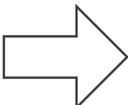
- **Supply Management** – purchases, payables, production, receiving, inventory and R&D
- **Sales and Delivery** – sales, receivables, shipping
- **Human Resources** – payroll, benefits administration
- **Marketing** – digital channels, brand reputation
- **Technology** – IT security, controls, insurance, disaster contingency plans
- **Management** – finance and management

The process may have a control weakness, or it may be that controls have not been formalized and therefore, subject to manipulation. For example, when bonuses are based on the profitability of a division, divisional management may attempt to make the financial statements look healthier by recording expenses on the balance sheet in the prepaid expense category. Further, the COVID-19 crisis may have created risk in control areas that did not previously exist.

With many employees currently working remotely, business processes may have inadvertently changed. It is imperative to review each process to determine if there are any weaknesses in control. Here are some examples of increased risk factors and the potential fraud risk:



IT IS NOW MORE IMPORTANT THAN EVER TO KEEP AN EYE ON YOUR ORGANIZATION'S INTERNAL CONTROLS.

	INTERNAL CONTROL BEFORE COVID-19	IMPACT ON PROCESS DUE TO COVID-19	POTENTIAL FRAUD RISK
Be alert for changes that have resulted in one employee now handling an entire control process with no other employee involved.	 <p>The purchasing agent is responsible to obtain three competitive pricing quotes which are vetted by a second employee.</p>	The second employee no longer performs the oversight process due to working remotely and lack of supervision.	The purchasing agent no longer obtains competitive quotes and begins receiving kickback payments from a supplier for goods purchased.
Be alert for processes that have a control that allows an employee to manually intervene and override the control.	 <p>The purchasing agent is required to obtain a manager's approval for any new vendor entered into the system.</p>	The purchasing manager allows the employee to manually sign-off on the approval without any secondary review when the manager is not available online.	The purchasing agent establishes a fictitious vendor and then submits invoices for payment.
Be alert for processes that have no management oversight.	 <p>Two signatures are required on all cheques with scrutiny of invoices and supporting documentation.</p>	Due to impediments of working in different locations, management no longer reviews the supporting invoices and documentation when signing cheques.	Payments are made to a fictitious company set up by the bookkeeper.



A PROPER REVIEW OF ALL PROCESSES AND CONTROLS WILL IDENTIFY OPPORTUNITIES FOR IMPROVEMENT AND A REDUCTION IN THE RISK OF EMPLOYEE FRAUD OR ERROR.

In normal times, there may be a push to introduce new technology platforms in order to increase efficiencies or to add a digital presence requiring the appropriate processes and controls. With the COVID-19 crisis, your IT team now must also support the organization's technology infrastructure to ensure all of your employees can work remotely. Simultaneously, the risk of cyberattacks is increasing. It is critical to evaluate all technology policies including:

- procedures and controls
- secure passwords/login, malicious emails, and cybersecurity
- insurance
- contingency disaster plans

In these unprecedented times, the risk of fraud is heightened. Management oversight and segregation of duties are fundamental internal control practices that must be implemented and followed while your employees are working remotely. A proper review of all processes and controls will identify opportunities for improvement and a reduction in the risk of employee fraud or error.

Should you require assistance with the review or formalization of your company's processes or controls, please reach out to your advisor or the forensic accounting team at Fuller Landau.

COVID-19 RESOURCES HUB

Visit our [COVID-19 Resources](#) hub for the latest information on Canadian and US government programs as well as helpful resources for business owners, including free webinars.

fullerllp.com/covid-19-resources/



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