

# Your Financial Controls Probably Don't Work Under Today's Conditions

JULY 2020



## Simon Platt

Chair, StoneTurn

splatt@stoneturn.com

Boston: +1 617 570 3710

Washington, DC: +1 202 349 1130

CFOs should revisit their financial controls because the pandemic has created a perfect storm in which mistakes and abuses can go unnoticed even in the best managed organizations, forensic accountants say.

Finance and accounting teams are especially vulnerable because the move to remote work coincides with growing pressure on executives to ensure the survival of their organizations, says Simon Platt, chairman of global advisory firm StoneTurn.

"When you have lots of money from all of the stimulus programs combined with the pressure of trying to survive, you'll see a very enhanced level of corporate fraud and accounting-related issues, whether it's misrepresenting financials, back-dating contracts, or adjustment of numbers," Platt told CFO Dive.

Individuals and companies getting slapped with charges for fraudulently applying for funds under the Paycheck Protection Program (PPP) are already [making the news](#).

"The Securities and Exchange Commission has really been focusing on enforcement actions, and that's probably going to be in its sights going forward two years," said Platt.



## Stephen Martin

Partner, StoneTurn

smartin@stoneturn.com

Denver: +1 303 747 6398

Washington, DC: +1 202 349 1130

Companies receiving assistance will be at the top of the list, he added. “The government has talked about auditing every application for forgiveness over \$2 million.”

## Remote Work Vulnerabilities

For CFOs, a priority should be updating their organization’s risk profile because it’s unlikely it was created with today’s conditions in mind.

“Most risk assessments obviously were not focused on something like a pandemic, but they’re also not as focused from a compliance standpoint on financial controls and weaknesses, thinking those are left to the audit by external audit teams,” said Stephen Martin, a StoneTurn partner.

The move to remote work has heightened weaknesses because of the variability in systems finance staff are using while at the same time finance leaders don’t have the visibility that proximity to team members gives them.

“Many folks who are integral to the control structure are no longer working together or on an established, informal communication system in which groups of people who work together are sitting together,” said Platt. “Now, in many cases, these folk are dispersed. They’re working from kitchen tables, on computers that don’t have the same safeguards. It’s not as if the CFO can walk the hall and say, ‘What’s going on with this receivable, or that payable, or this payroll?’ Your control processes have fundamentally shifted.”

## Risk of Workarounds

Vulnerabilities exist even if you have extensive safeguards built into your technology, whether

server-based or cloud-based, because the threat is likely to come from outside normal processes.

“The ability of people and systems to identify non-routine or unusual transactions is probably diminished because everything is unusual right now,” said Platt. “Even before the pandemic hit, there was a rash of fake emails that purportedly come from the CFO to somebody on staff saying, ‘Do me a favor and shoot me a \$500 gift card for an emergency at a conference’ that bypasses all the systems. So, when you have that disbursement, the guard is down and the possibility of bad actors taking advantage of people working alone is probably heightened.”

“You should be looking for unusual payments to third parties or new vendors, potentially ones in which there’s a difference between who’s doing the work and where the payment is sent,” Martin said.

Another risk is budgetary. With companies in survival mode, funding for compliance makes a tempting target for cuts. When you combine that with restrictions on travel, which affects the ability of audit teams to go on-site and do their work, you risk diminishing your compliance resources when they’re needed the most.

“Companies need to be very cognizant of the restrictions on budgets and what that does to both tests and monitoring internal controls,” said Martin. “That’s something compliance officers aren’t always great at. Probably the number one struggle they have with the compliance program is ongoing monitoring.”

If you have operations in countries outside the United States, be alert to bribery and corruption,

because the pressures the pandemic has caused here are being felt elsewhere, too.

“One of the big things right now is interaction with government officials,” said Martin. “The chances of bribery or corruption happening around the world certainly increases right now given the pressure people feel economically to deliver the result. Government officials may feel more emboldened given the lack of oversight right now or distraction and focus on things like bribery.”



This article was initially published in  
**CFO Dive in July 2020.**  
All rights reserved.

## About the Authors

*Simon Platt co-founded StoneTurn in 2004, and was the firm’s managing partner until 2016, when he was appointed Chair.*

*Simon has led and been involved in many accounting and financial disclosure-related investigations on behalf of Audit and Special Committees of Boards of Directors.*

*Stephen Martin, a Partner with StoneTurn, has more than 20 years of experience in compliance & monitoring, risk assessment, and corporate internal investigations, often in connection with regulatory inquiries.*

## Leaving no stone unturned.

StoneTurn, a global advisory firm, assists companies, their counsel and government agencies on regulatory, risk and compliance issues, investigations and business disputes. We serve our clients from offices across the U.S., U.K. and in Germany, Brazil and South Africa, assisted by a network of senior advisers around the world.



**StoneTurn.com**