

# Cross-border reviews during the global pandemic

China markets briefing for risk, legal  
and compliance professionals

Since the start of the COVID-19 pandemic, countries around the world have put in place social distancing measures and restrictions on domestic and international travel. While we are seeing these measures being relaxed in many countries, China continues to have strong border restrictions. This has changed the way we work, especially for the internal audit and compliance teams ( “IA & compliance professionals”) of multinational companies (“MNCs”). For them, remote audits, compliance reviews and investigations have become more common, particularly in relation to Chinese subsidiaries, joint ventures and business partners.

Travel restrictions have created challenges for HQ and regional IA & compliance professionals without a team in China. In particular, MNCs with a lean presence in China (e.g. the local business predominately operates as a sales office, or the back office was scaled back due to cost cutting) may encounter more challenges, as they are likely to have less in-country governance and segregation of duty which can give rise to issues going undetected for longer. Under this backdrop, this article seeks to highlight some of the challenges faced by MNCs we are seeing on the ground in China.

## Challenges faced by the IA & compliance professionals

Many IA & compliance professionals are used to travelling around the region to conduct on-site audits and reviews. Because of the importance of the market and significance of the risks, China has always been on the travel list. However these days are now gone, with **on-site audits being replaced by remote reviews** – online interviews, virtual process walkthroughs, reviewing documents electronically, etc.

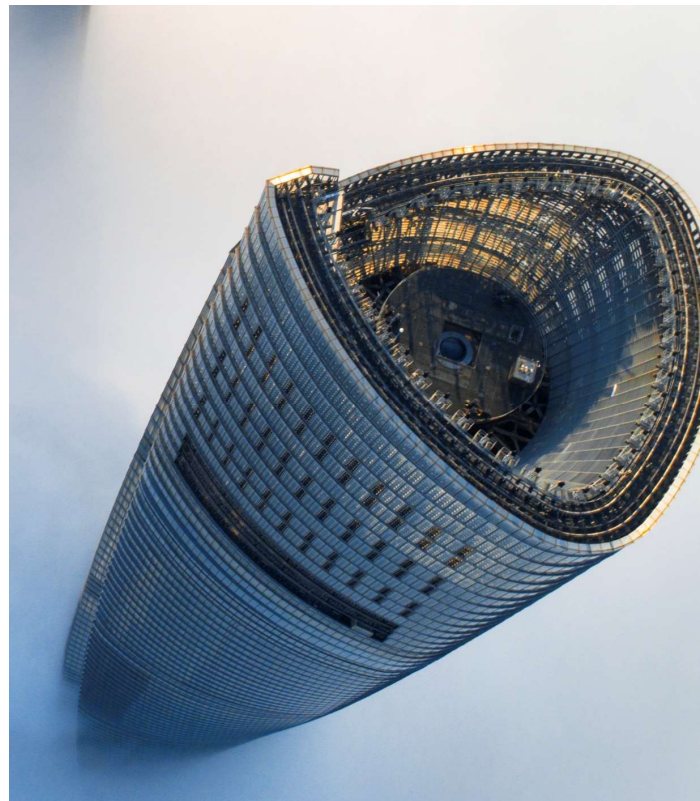
While many tasks can indeed be performed over the Internet, questions have been raised about the **effectiveness** of such remote reviews. It can be more difficult to get answers to questions, and to gauge the mindset and ascertain the attitude of local management. Are they “walking the talk”? How is the tone at the top? What is the mood in the office like?

**Language issues** are also exacerbated when communicating across the additional barrier of a screen. Being able to “show and tell” is that much harder.

Especially in **forensic audits and internal investigations**, factors such as presenting evidence and controlling the “interview room” also need to be considered. It is not unheard of for interviewees to simply log off from online interviews when they do not wish to cooperate.

Remote reviews are also hampered by **lack of physical access to documents**.

Auditors can only review scans of what documents they are provided with. In nefarious situations, local management may hold back documents. However, oftentimes, they may come across as unresponsive or uncooperative to requests simply due to communication barriers.



Additional challenges come from the **China Data Security Law and Personal Information Protection Law** that were enacted in late 2021, which restrict the cross-border transfer of personal data.



## What is being done to address these challenges?

To avoid losing visibility into the China business, and more importantly, to ensure timely detection of potential control, fraud or other compliance issues, many MNCs have started **recruiting or increasing in-country IA & compliance personnel**, or are **co-sourcing with professional firms in China** to conduct reviews.

Experienced, in-country resources are able to provide physical presence for the reviews and to address the above challenges. Using their “**local lens**”, they can identify and assess **country-specific issues**, help to explain and contextualise information requests, and make reviews more **effective** and **efficient**.

We are also seeing more and more companies enhancing or revamping their **whistle-blower programmes** (in part due to increasing expectations from regulators to improve control frameworks and governance). Having an effective whistle-blower programme - including a robust triage and follow-up action plan - supports early detection and response to potential issues.

There has also been increased interest in **third party risk management** solutions that allow HQ and the regional office to better understand the profile of local business partners, and help compliance mitigate potential fraud, collusion and other compliance risks.







## Conclusion

China remains an important if not key market for many MNCs for business expansion and investment. With no end to cross-border travel restrictions immediately in sight, MNCs should consider recruiting IA & compliance professionals locally or to retain in-country professional resources to assist with reviews and monitoring activities. It is also important for MNCs to continue to enhance controls and technology, such as whistle-blower programmes and third party risk management solutions.

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