COVID-19: Corporate governance best practices to tide over the ongoing crisis

Corporate Governance may lose its position as a priority area during a crisis, particularly at a time when the underlying assumption of a firm as going concern is at risk. In recent times, lack of effective corporate governance has come to the fore in India. Companies from across the sectors understand that the case for tighter governance can no longer be brushed under the carpet or merely treated as a ’check-in-the-box’ exercise.

Risk implications due to COVID-19

A crisis of the magnitude of the Coronavirus disease is not merely a health and well-being issue, but also an operational and financial one that can lead to disruptions with a long-term impact. For example, an organisation that does not accurately and transparently review its financial forecasts and earnings disclosure in light of the uncertainty of the current environment, may end up with disproportionate actual earnings. This can raise doubts on the ability of the company’s senior management and its board to preempt the risks. Additionally, this could erode shareholder value, may have a regulatory implication, or worse, an outright risk of reputation.

Expectation from the senior management

Organisations’ boards and senior management must be clear about their roles during a crisis. Fiduciary obligations for Directors require them to exercise their powers and perform their duties with extreme caution that is reasonable in relevant circumstances. Directors and officers must, as a bare minimum, proactively acquire and maintain relevant knowledge, actively monitor the organisation’s affairs and contribute to an independent and critical evaluation of the matters for which they are responsible.
Here is how business leaders can HALT and consider the below actions focusing on their corporate governance priorities

Keep the board engaged and informed

• It is important to note that board has a key role to play in these uncertain times. Actions of the senior management as guided by its board members will largely define the resilience of any organisation coming out of this.
• For starters, holding a virtual board meeting at the earliest followed by weekly check-ins will help the organisation receive the oversight and strategic support it will require.
• Further, there should also be a discussion amongst board members regarding emergency succession/contingency plans, in case any member of the senior management or the board is infected by COVID-19, including related disclosures to the employee, regulatory agencies, and shareholders.

Click here to read Grant Thornton’s guide and listen to the podcast on audit committee focus areas.

Keep critical functions going

• As organisations manage operations remotely, critical control functions should continue operating. Organisations must ensure that key control activities are performed and non-key monitoring controls are invoked where necessary.
• Critical support functions such as IT should operate undeterred as the entire workforce will have to switch to remote working enabled largely by technology.
• Contracts for key vendors/third parties should be reviewed and key provisions should be assessed such as force majeure, governing law and data protection, to ascertain impact these might have on critical functions.

Click here to read Grant Thornton’s guide on the advantages of remote site auditing from a business continuity perspective.

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**Tackling cyber risks**

- Companies need to tackle cyber risks right from the boardroom to the end-point. It is important to tackle risks associated to data protection, which used to be fairly secured when accessed from the office environment.
- With the new normal, it makes sense to look at relevant controls and tighten them for all access to data from remote locations. Companies serving a large number of clients should ensure adequate controls are applied or refined on all third-party management risks.
- To keep the brand reputation and financial loss impact at zero or minimum, companies should enforce and revisit their cyber threat intelligence strategies to help keep cyber-attacks at bay. Emphasis on high security awareness levels of employees should be of paramount importance – especially those who use audio and video collaboration tools to access environments and data remotely.

Click here to read Grant Thornton’s guide on mitigating cyber risks during crisis.

**Meet statutory obligations**

- Staying abreast of relaxations provided by government and monitoring the financial close reporting that will most likely happen remotely.
- Senior management and the board need to identify protocols that ensure complete integrity and transparency in managing external reporting and continued performance of internal controls, while ensuring safety of data.

Click here to read Grant Thornton’s guide on financial reporting considerations.

To help you assess the impact of COVID-19 on your financial statements, please click here to use our COVID-19: Financial reporting impact assessment tool.

**Manage shifts in supply chain**

- Companies largely rely on ‘outsourcing’ to execute their business strategies. In current times, organisations are scrambling for alternatives or new suppliers, leading to the entire third-party risk assessment process fast-tracked to ensure continuity.
- During these times, organisations must consider risks posed by such third-party vendors and the extended supply chain in areas of disreputable or restricted entities, bribery and corruption risk such as customs risk at borders and potential risks relating to violation of human rights by suppliers and vendors.
- A risk-based due diligence will be key to manage and mitigate such risks.

Click here to read Grant Thornton’s guide on revisiting your supply chain strategy.

**Working capital management**

- Assessing short-term requirements of cash and sources available such as lines of credit, accounts receivable financing, customer advances etc.
- Essentially, understanding the company’s short-term liquidity needs and working with management to secure liquidity requirements.

Click here to read Grant Thornton’s guide on effectively deploying and monitoring working capital.

**Recalibrate risk assessment**

- Companies need to immediately revisit their risk assessments and identify risks that may have been previously considered managed, but are now potentially high-risk. For example, movement and handling of cash (remember cash is more important than profit during these times), delayed or no delivery of raw material, short closed contracts due to force majeure, loss of critical personnel, among others are all potential high risks now.

Click here to read Grant Thornton’s guide on revisiting your supply chain strategy.
Challenge existing BCP/DR provisions

- While organisations would have implemented strong business continuity and disaster recovery plans and procedures by now, it is necessary to revisit those procedures to see how they fit into today’s volatile and uncertain scenario.
- Depending on the stage of the ongoing COVID-19 crisis, companies should also align the enforcement of those controls to each stage and ownership of each control area to the task forces formed. Furthermore, documentation should be completed in the form of updated Statement of Purpose (policy) based on various advisories released by regulatory authorities, functionaries and ministries, as well as global advisories related to the pandemic.

Communication with internal and external stakeholders

- The board will have to assume a directional role in these times of crisis by working with the management to first ensure safety of the organisation’s employees and circulate transparent communication among all stakeholders including the government, regulators, shareholders and employees.
- Additionally, organisations must plan to send out periodic communication to let employees know that whistleblower channels are open and active and encourage employees to report concerns, potential misconduct and related internal control weaknesses without the fear of retaliation.

Anticipate change in fraud risk factors

- Employees, including individuals in financial reporting oversight roles, could be bribed during turbulent times to engage in potential misconduct. This could result in potential earnings mis-management in order to mask the true financial position of an enterprise, diverting funds to keep group companies afloat and leveraging price-sensitive information for potential personal gain.
- Additionally, employees may take advantage of government incentive schemes designed for COVID-19 to provide false and misleading statements – both individuals crossing the line to protect their jobs and/or a misguided attempt to assist the organisations during tough times.
- Senior management and the board therefore need to be on the lookout for change in incentives/pressures and related opportunities that might give rise to potential fraudulent behaviour. Having a strong tone at the top, including the risk of fraud as a standing agenda item in discussions with the board, and spreading awareness on the risk of fraud is likely to prevent any resultant losses.

Look for the silver lining

- Often a crisis gives rise to new ideas and innovative solutions and the senior management should consider forming a cross-functional team to fast-track efforts to identify any resulting opportunities.
- In times of crisis, there are often opportunities to pursue transactions that may fundamentally reshape a company’s trajectory. The board and senior management need to keep an open mind to such discussions.

All of this could end in a couple of months or go on for an indefinite period. This crisis has provided most organisations with a reality check – discussions about creating a governance-based index are fast gaining momentum in many parts of the world. Investors will soon ask questions such as:

- Did the Board prioritise crisis management?
- Was a business continuity and disaster recovery plan established, tested and executed?
- Is there a robust succession plan?

All organisations should make hard choices and the key to tide over this crisis is in governance mechanisms around how those decisions and choices are made. In such times, can Corporate Governance be the game changer?

Click here to download Grant Thornton’s corporate governance report and survey conducted in association with CII.
Grant Thornton’s Risk advisory team can help organisations maintain the effectiveness of their processes and controls and provide a one-stop solution for their risk and process-related needs.