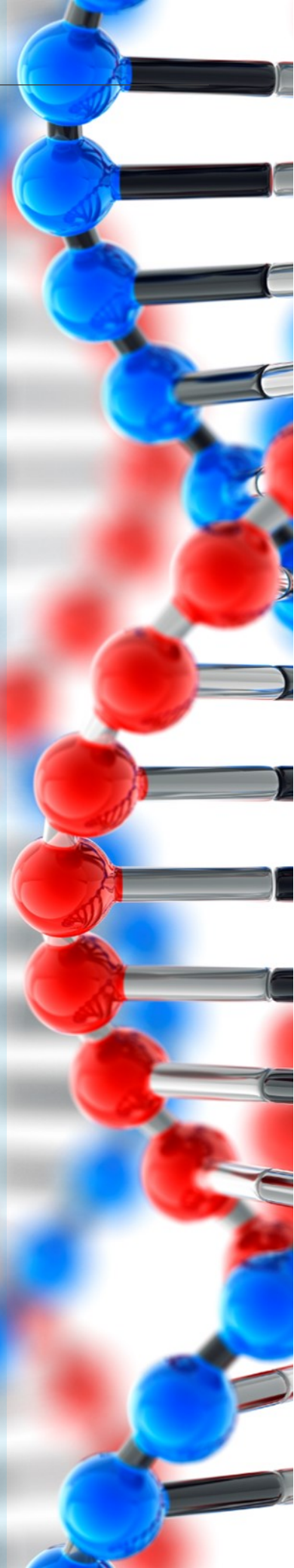




CORONAVIRUS (COVID-19) IMPACT AND RISK RESPONSE GUIDE

CONTENTS

| | |
|--|----|
| About this guide..... | 3 |
| Introduction..... | 4 |
| Epidemic prompts corporate disclosure..... | 5 |
| Impact and risk response..... | 7 |
| Top ten questions for your management team.... | 13 |
| About BDO | 14 |
| Sources | 15 |



ABOUT THIS GUIDE

This guide aims to provide insights into the relevant impacts of COVID-19. It gives general risk response guidance for companies to consider when deploying business continuity planning (BCP) measures to combat the epidemic and, more importantly, to maintain the agility to overcome the difficulties faced.

We understand that a single set of procedures or responses might not fit all organisations or each company's individual situation. We recommend that you contact your consultants for specific advice.



Damon Greber

Director and Head of Risk Advisory
BDO in Jersey

INTRODUCTION

Based on the World Health Organisation's declaration that COVID-19 is a public health emergency of international concern, now is the time to prepare your business for Coronavirus (COVID-19). Simple precautions and planning can make a big difference.

The UK Chief Medical Officers have raised the risk to the UK from low to moderate, so while the exact scale of the impact of the outbreak is uncertain, action now will help protect your employees and your business.

The Channel Islands as of 11 March 2020

Closer to home, the Governments of Jersey and Guernsey have both confirmed their first case of COVID-19. The Islands' health authorities continue to monitor the situation closely, regularly updating businesses and the public. Some public events are also starting to be impacted.

Public Health regulations have been changed making COVID-19 a 'notifiable disease'. A major public health awareness campaign is currently underway by the Governments of Jersey and Guernsey to inform Islanders about COVID-19. States Members are being briefed by health officials on Jersey and Guernsey's response to the COVID-19 outbreak.

Organisational readiness

It naturally follows that organisations will need to ensure that the wellbeing of their employees and families are of paramount importance, whilst also safeguarding their business. This is especially relevant for small and medium-sized businesses that may not have the resources of a large corporate organisation to support them.

The World Health Organisation has published guidance for getting your business ready in case COVID-19 arrives in your community.

As it is still unknown how long the epidemic may last, we recommend that companies carry out a thorough assessment of the risks and potential impact of the epidemic and implement swift responses to mitigate any business disruption.

EPIDEMIC PROMPTS CORPORATE DISCLOSURE

Since the outbreak of the Coronavirus, the impacts on businesses have progressively been unveiled. Some of these impacts include interruptions to the supply chain, labour shortages and the failure to meet revenue targets. Without doubt, investors and regulators are concerned about the outbreak's effects on business performance. To meet their information needs, they require adequate disclosure of interruptions to business and the mitigating measures that are implemented, and quantification of the impact of the consequences.



In the UK, on 18 February 2020, the Financial Reporting Council (FRC) published guidance for companies on disclosing risks and other reporting consequences arising from the emergence and spread of the Coronavirus. The FRC also advised companies to carefully consider what disclosures they might need to include in their year-end accounts; this advice will be especially relevant for companies that either operate in or have close trading associations with China. The extent of the risk and the degree to which it might crystallise depends on each company's specific business circumstances. For example, companies with extensive operations or manufacturing activities in China may face staff shortages and production delays. Besides, companies that do not have a presence in China but have significant trading links or global supply chains that are dependent on Chinese-manufactured goods will need to consider their disclosures if their businesses faces possible disruption.

Even if not directly regulated, organisations should still consider the level of disclosure that might be appropriate for its shareholders and investors. The impact on revenue and profitability figures should be estimated and any finance providers kept up to date with the potential impact on agreed covenants. Current disclosure rules focus on financial obligations and events that reflect financial distress. COVID-19 can potentially cause financial distress, but is not in and of itself financial distress. We will see reporting in this respect evolve and many firms may follow the leaders in their peer group as to the extent and type of reporting that is deemed necessary.



IMPACT AND RISK RESPONSE

In the face of the epidemic, business managers are taking precautionary measures and busy working around the clock to formulate action plans to mitigate risks and their impact on business operations, while at the same time meeting the needs of their customers and other stakeholders. It is too early to assess the ultimate consequences on businesses, as the situation is still evolving. There are also signs that the disease is spreading across the world, as other countries have imported the virus and confirmed cases of infection.



Impact on sustainability



Impact on contract compliance



Impact on supply chain



Impact on health and safety



Impact on technology

Impact on sustainability

Although the impact of the Coronavirus on businesses may not be catastrophic at this point of time, the companies concerned may experience a certain level of business disruption. For instance, companies in the hospitality and retail industries may see a sharp decline in the number of customers as people minimise their movement and avoid international travel.

Organisations may also be forced to cease operations for an extended period of time or operate below capacity due to the impact on their workforce, customers or suppliers.

These issues may affect companies' sustainability due to such factors as falling revenue, reduced financial liquidity and the going concerns of key business partners.

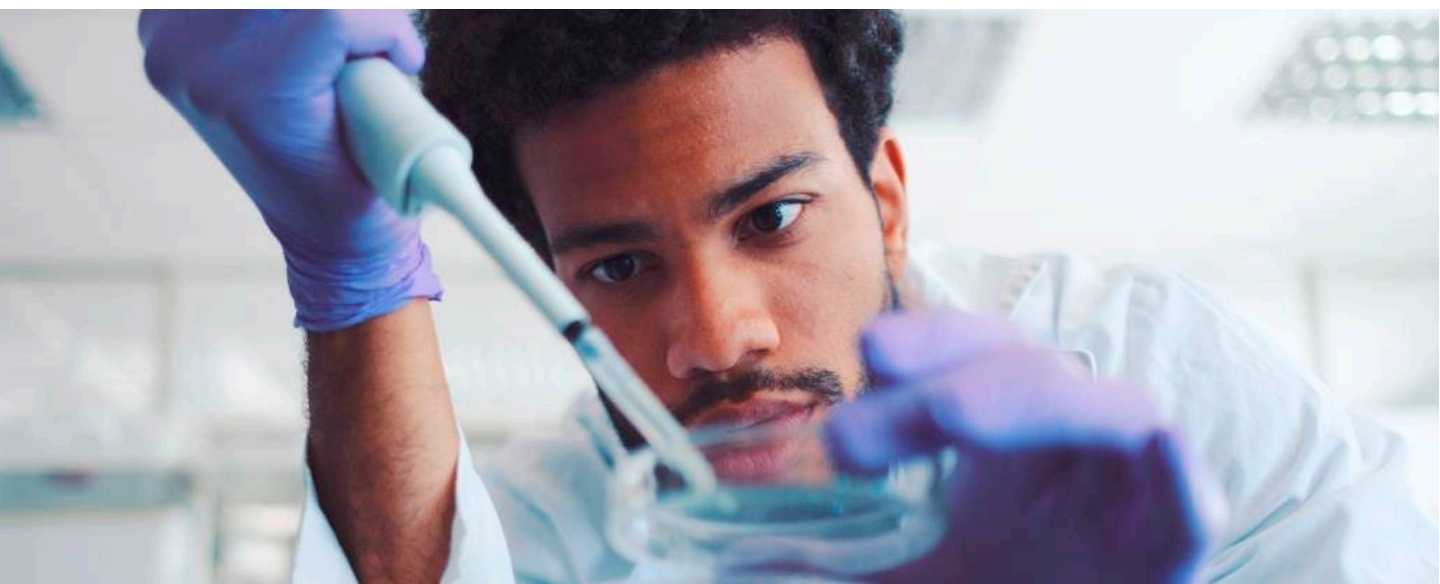


Risk response

It is difficult to assess whether the epidemic will end soon or continue for a prolonged period. Cash is king: the critical element in any time of uncertainty is to ensure that the company's liquidity position can be maintained and to buy time for the company to recover.

We recommend that the company management establishes a taskforce to monitor the level of impact on the business and, periodically and as needed, to report to the board on the status of the key performance indicators for critical business units. Companies may also consider the following actions, among others:

- Conduct a thorough risk assessment of business operations, taking a holistic approach across the globe rather than focusing on certain regions, to assess the level of possible interruption and formulate measures to mitigate potential impacts.
- Review the pace of expenditure in relation to the company's expansion plans and existing development projects (if any), and slow down the cash burn rate.
- Re-prioritise the allocation of resources to unaffected business lines.
- Explore and identify business transformation opportunities and models to reduce over-reliance on existing business segments.
- Identify measures for controlling budgets and making cost savings, such as assessing the possibility of outsourcing certain business processes in a cost-effective way.
- Explore opportunities for collaboration with new strategic business partners for new market development and to meet customers' needs.
- Identify alternative solutions if forced to suspend operations at the business premises.



Impact on contract compliance

Companies may not be able to manage all the Coronavirus-related issues resulting from business interruptions, whether they are caused by third-party default or within the company, and some may be unable to meet their contractual obligations because of supply-chain interruptions or unforeseen events beyond the company's control hindering its performance.



Risk response

We recommend that companies consult their legal advisors and review their contracts to determine what, if any, rights and remedies they have as a result of the delayed performance of contracts.

Companies should also take (and document) reasonable steps to mitigate the impact of the Coronavirus as evidence for defence. If companies cannot fulfil their contractual obligations, they may need to quantify the amount of financial damage and the impact on their long-term business relationships.

Companies should review their existing insurance policies to find out whether any losses they incur relating to the Coronavirus can be covered under existing terms or whether they need to adjust their cover for maximum protection.



Impact on supply chain

Governments around the world have begun to take measures that limit the movement of goods and people between their borders and Chinese borders. As China is the factory of the world, it seems impossible to imagine a scenario in which the supply chain is not affected or disrupted.

As the Channel Islands are heavily dependent on the Financial Services industry, supply chain impact is more likely to manifest itself with restricted service from suppliers. Whilst most will have contingency measures, usual turnaround times may be impacted and any significant period end peaks that require full resource availability may also be impacted. Additionally, availability of hardware (For example, laptops, mobile phones, servers, backup tapes) may be impacted, particularly for larger organisations that have pre-approved hardware configurations.



Risk response

If a company is aware of a risk of disruption in its supply chains, it should take the following steps, among others, to mitigate the potential consequences of any disruption:

- Understand the behaviour of disruptive models applied to the supply chain and establish the time point at which such disruption is located.
- Consider re-prioritising work to respond to market impacts associated with the threat, if in retail or hospitality, increase safety stock levels and stockpile essential supplies and resources.
- Pre-qualify alternative domestic or international suppliers and outsourced vendors in case primary suppliers can no longer provide support.
- Formulate contingency measures, give first response and anticipate possible failures in the supply chain.
- Assess if suppliers have documented plans for business unit continuity and information technology disaster recovery, including for critical business.
- Take into consideration the absence of a large number of critical staff over an extended period.
- Estimate the recovery time for the supplier's "mission-critical" business processes.
- Develop actions for business recovery. For example, finding and approving new suppliers, delaying time critical work, engaging with clients to reprioritise service delivery.



Impact on health and safety

The Coronavirus is an infectious disease. Gathering employees together at the workplace may put them at risk of exposure to the virus. The epidemic is making it challenging for companies to strike a balance between continually maintaining productivity and efficiency and providing a safe working environment for their employees.

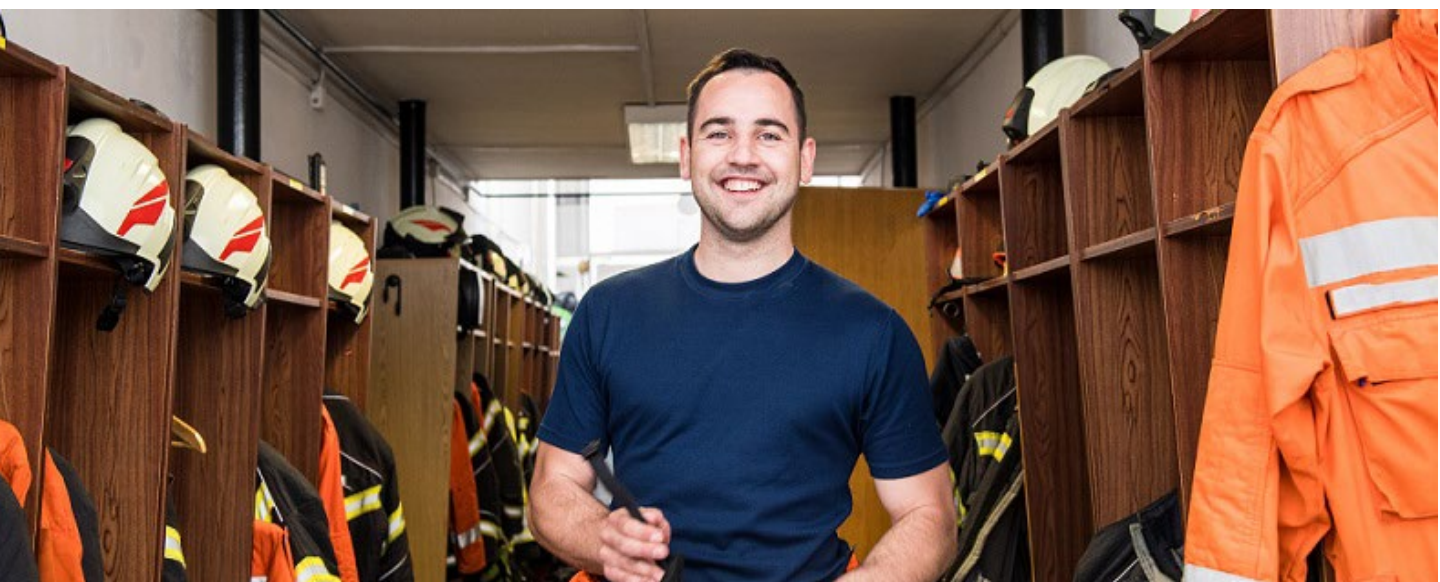
In any case, the early adoption of adequate preventive measures and maintaining an effective communicable illness policy can help ensure a safe work environment for employees, customers and clients.



Risk response

To protect employee and customer safety while minimising adverse economic impacts on the business, companies may consider the following actions, among others:

- Remind employees about the importance of maintaining personal hygiene at all times in the workplace.
- Establish a quick process to identify who will take charge at operational locations (and overseas locations) to oversee a crisis management plan and local employees.
- Disseminate information on precautions to stop the spread of the virus.
- Constantly update on records of travel, and monitor employees' exposure to the source of the Coronavirus.
- Adjust seating arrangements in the workplace so that a safe distance can be maintained between employees.
- Review and evaluate home office working policies and capabilities.
- Provide sufficient and accessible infection control supplies.
- Establish procedures for regular body temperature checks for employees and visitors, and ensure these are followed.
- Comply with all compulsory reporting and quarantine requirements announced by the health authorities.
- Report on and monitor sick leave and symptoms.
- Anticipate fear, anxiety, rumours and misinformation among employees and plan communications accordingly.
- Develop a platform or communication channel (e.g. hotline) to communicate information about the pandemic inside and outside the organisation.



Impact on technology

The outbreak of the Coronavirus has caused significant disruption to many businesses. As such, many companies have activated contingency and business continuity measures and have allowed employees to work from home to limit the spread of the virus. These employees are connecting to the company's networks remotely.

At the same time, with the popularity of smartphones and instant messaging applications, employees can communicate with colleagues, customers and vendors via mobile applications.



Risk response

In general, it is important to ensure that network connections are secure and mitigate the data protection risk associated with communicating through mobile applications. Companies may consider the following responses, among others:

- Assess if the security settings for remote connections and secured individual access mechanisms are in place.
- Adopt multi-factor authentication for employees who are logging into the company network.
- Review communications and information technology infrastructures as needed to support employee telecommuting and remote customer access.
- Enhance user awareness of cyber-attacks and alerts on these.
- Monitor the use of unauthorised computers (especially for companies that have adopted a Bring Your Own Device policy) and their access to the network.
- Review the data backup policy and the frequency and adequacy of backup practices.
- Review the appropriateness of using social media and instant messaging applications for business purposes. Minimise or even prohibit the transfer of confidential and business-related files over social media applications.
- Communication over instant messaging applications should always involve at least two relevant key employees in order to avoid loss of correspondence for future reference.



TOP TEN QUESTIONS FOR YOUR SENIOR MANAGEMENT TEAM

A well-developed plan will allow your organisation to respond to the impact of COVID-19 efficiently and effectively. The following questions can assist your organisation in considering how you prepare for these impacts.

1. Do you have a developed and tested plan of what to do if someone becomes ill with suspected COVID-19 at one of your workplaces?
2. Have you prepared and promoted regular 'remote working' across your organisation?
3. Has your plan considered fully utilising technology to reduce the need for face to face interactions during a set period, and if so, what is the assessment for how long you can operate in this way?
4. Do you have the right technologies in-place to enable remote working such as Microsoft 365?
5. How are you managing the risks of clients and sensitive documentation that still needs to be accessed whilst working offsite?
6. Have you developed and tested a contingency and business continuity plan for an outbreak in the communities where your business operates?
7. Do you have confidence that your plan has been sufficiently tested covering those key areas of people, process and technology?
8. Does the plan address how to keep your business running even if a significant number of employees, contractors and suppliers cannot come to your place of business?
9. Have you identified the critical activities that your organisation carries out which must continue during a pandemic and identified your key person dependencies and minimum staffing requirements, and do you know how long this will be sustainable?
10. Have you chosen your location, will you split resource between the main office and your contingency site, do you have a contingency site to segregate the risk and in such instances where your office may need to close for a deep clean?

Conclusion

The World Health Organisation has now declared a pandemic status and there are already examples in neighbouring countries where governments are introducing strict measures that warrant use of effective business continuity planning to minimise the potential impact on their operations.

To best monitor the risk to an organisation, early preparation and readiness is key to ensure your plan can be activated at a moment's notice to counter what is a very fluid situation. It is imperative that your organisation, when developing a response, consider a review of plans to reflect and respond to current detailed health advice issued by the World Health Organisation and Government.

ABOUT BDO

BDO Global

BDO is the world's fifth largest global accounting and advisory network. BDO's global organisation extends across 167 countries and territories, with 88,120 professionals working out of 1,809 offices. BDO endeavours to deliver truly exceptional client service through a tailored solutions approach, while partnering with our employees and clients globally.

BDO in Jersey

BDO in Jersey, as part of the international BDO network, has committed to provide our clients with exceptional service. BDO currently has over 280 staff delivering comprehensive business services.

Our multi-disciplinary capability enables a holistic approach to be taken when working with our clients as their trusted advisor, through all stages of the business lifecycle.

Our directors lead the delivery of services to our clients and are closely involved with them on an ongoing basis. These services include:

- Assurance
- Tax
- Advisory
- Technology
- Digital
- Business Services & Outsourcing

BDO Risk Advisory Services

Risk management and internal audit have always been the cornerstones of good corporate governance. Increased regulation, greater public scrutiny and increased globalisation have placed reliance on the Board, the Audit Committee and executives to oversee the effectiveness of risk management, financial operations and internal control systems. For large and small businesses alike, our Risk Advisory Service (RAS) Team has assisted companies in delivering enhanced corporate governance practices, including evaluating the performance of the internal audit function – from conducting a thorough assessment of risk across the organisation, to designing strategic internal audit programmes, to reporting findings to management, the Board and other stakeholders.

As well as identifying issues, we work with management to ensure that tailored solutions and appropriate controls are in place. At BDO, our RAS team is comprised of a group of dedicated and experienced professionals, enabling us to provide a wide variety of professional services including:

- Outsourced or co-sourced internal audit services
- IT security and digital services advisory
- Business Continuity advisory
- Regulatory & Compliance advisory
- Transformation & Change services
- Corporate governance training
- Automation governance frameworks
- Data Privacy services

SOURCES:

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BDO Risk Advisory Leaders

If you have any questions, comments or suggestions, please contact us. To learn more about BDO Risk Advisory Services, please visit www.bdo.je/en-gb/services/advisory/risk-and-advisory-services



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