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ABOUT THIS GUIDE

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

We understand that a single set of procedures or responses might not fit all organisations or each individual situation. Please feel free to contact me or your BDO adviser to discuss your specific challenges.

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INTRODUCTION

The outbreak of a new coronavirus disease, now called COVID-19 and sometimes referred to as novel coronavirus or 2019-nCoV, was recently identified. Coronaviruses are a large and diverse family of viruses which cause illnesses such as the common cold, severe acute respiratory syndrome (SARS) and Middle East respiratory syndrome (MERS). Please refer to the Ministry of Health website for detailed information on COVID-19, including symptoms and prevention.

According to the World Health Organization (WHO), the current outbreak of COVID-19 was first reported in Wuhan, China, on 31 December 2019. By early March 2020, the virus had spread to 104 countries, areas or territories, with more than 106,000 confirmed cases (five in New Zealand) and 3,639 deaths. At this point, China accounted for more than 80,000 of all known cases.

The Chinese government has introduced various measures to combat the spread of the coronavirus, including an extension of the national Chinese New Year holiday period and, depending on the situation in each province, some businesses have been asked to delay or defer their employees’ return to work. Public transport suspensions have been implemented along with other widespread travel restrictions affecting rail, road, air, and other travel. Port activity has been significantly disrupted and most public events and mass gatherings have been cancelled. Anyone who may have come in contact with an infected person, is required to self-quarantine themselves for a period of 14 days.

Many businesses in China are experiencing significant disruption as their employees are either unable to resume their duties, or are being asked by their employers not to return to work. For example, a global phone manufacturer closed all of its stores in January - most have yet to reopen. A well-known coffee shop chain has also closed its stores in China, and many shopping malls in the country have closed. Many companies have instructed their employees to work from home in order to limit their exposure as the virus spreads.

For those that have resumed operations, capacity is significantly reduced due to people movement restrictions and production backlogs following the Chinese New Year holiday period.

Given the extent of China’s economic reach and influence, global supply chain disruption has become a major concern for many businesses around the world. Importers and exporters are feeling the pressure – importers due to a shortage of supply coming out of China, and exporters due to disrupted shipping routes and a general constraint on shipping capacity. Simply put, if vessels don’t leave China, they don’t arrive in New Zealand to take our exports back and elsewhere. The unluckiest group are exporters that that rely on China for raw materials.

New Zealand is not immune. Statistics New Zealand estimates that COVID-19 may have cost the country as much as $300m in lost exports during February 2020. Our meat, seafood, and forestry sectors were hardest hit. Retailers are already flagging supply delays, with some lines already stocked-out. The New Zealand stock markets are starting to show symptoms of this pressure – the NZX top-50 index took its largest fall in 16 months on 2 March 2020 – more than 400 points or 3.5%.

As it’s still uncertain how long this outbreak may last, we recommend that businesses carry out a thorough assessment of the risks and potential impact of COVID-19 on their operations, and implement swift responses to limit business disruption.

9 March 2020
OUTBREAK PROMPTS CORPORATE DISCLOSURE

Over the two months since the outbreak of COVID-19, 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 Hong Kong, on 4 February 2020, the Securities and Futures Commission (SFC) and the Stock Exchange of Hong Kong Limited jointly issued a statement (the Joint Statement) to guide listed companies and their auditors on the disclosure of financial information in their announcements of results in view of the travel and other restrictions that have been imposed due to the coronavirus outbreak. The Joint Statement does not provide for any blanket extension or waiver of the deadline or reporting requirements for results announcements.

In the US, on 30 January 2020, the Chairman of the Securities and Exchange Commission (SEC) mentioned in a note that the SEC would provide guidance and other assistance to issuers and other market participants on disclosures related to the current and potential effects of the coronavirus. US-listed companies (including companies based in the US, companies based in China and other companies based outside the US) may have significant operations in China and other jurisdictions that may be affected by the coronavirus. In addition, companies that do not operate in China or in other potentially affected jurisdictions may depend on companies that do have operations in those jurisdictions, including, for example, suppliers, distributors and customers.

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 face possible disruption.
IMPACT AND RISK RESPONSE

In light of the COVID-19 situation, it’s critical that businesses take precautionary action and formulate decisive action plans to mitigate risk. The challenge will be to limit the impact of the virus, while continuing to meet the needs of customers and other stakeholders (who may be affected in their own way).

It is too early to assess the ultimate consequences on businesses, as the situation is still evolving, but preparation and planning may be the difference between success and failure.

- Impact on sustainability
- Impact on contract compliance
- Impact on supply chain
- Impact on health and safety
- Impact on technology
While COVID-19’s impact on industry and trade may not be catastrophic at this point, many businesses are, or may soon, experience some level of business interruption. For example, businesses in the hospitality and retail sectors may see a sharp decline in patronage and footfall as people minimise their movement and avoid international travel (Chinese tourists accounted for 11.5% of all international visitors to New Zealand in 2019).

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, customer base, or supply chain.

If significant and/or prolonged, issues such as these have the potential to question a business’s sustainability - falling revenue, reduced liquidity, and the going concerns of key business partners.

It is difficult to assess whether the COVID-19 outbreak will continue for a prolonged period. Cash is king: the critical element during any time of uncertainty is to ensure that the organisation’s liquidity position can be maintained and buy time to recover.

We recommend that management teams establish working groups to monitor the level of impact on the business and, periodically and as needed, report to the board on the status of key performance indicators for critical business units. Businesses should consider the following actions:

• 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 business’s expansion plans and existing development projects (if any), and consciously slow down the cash burn rate.
• Re-prioritise the allocation of resources to unaffected business lines or areas.
• Maintain regular contact with debtors – they are critical to cash flow and are likely to be facing the same challenges.
• Develop a 13-week cash flow forecast to identify stress points, and where changes are required.
• Explore and identify business transformation opportunities and models to reduce over-reliance on existing business segments and arrangements.
• 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 customer needs.
• Identify alternative solutions if forced to suspend operations at a business premises.
Things do go wrong. It’s highly likely that some businesses may not be able to effectively mitigate all of the risks thrown-up by the COVID-19 outbreak. As a result, some businesses may be unable to meet their contractual obligations because of supply chain interruptions or unforeseen events beyond their control.

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

Businesses should also take (and document) reasonable steps to mitigate the impact of the COVID-19 outbreak as evidence for defence against potential claims. If organisations cannot fulfil their contractual obligations, they may need to quantify the amount of financial damage and the impact on long-term business relationships.

A review of existing insurance policies should be performed to find out whether any losses incurred as a result of the outbreak can be covered under existing terms, or whether an adjustment of cover is required to maximise protection.
Governments around the world have begun to take measures that limit the movement of goods and people between their borders and China. As China is the factory of the world, it seems almost impossible to imagine a scenario in which a business’s supply chain is not affected or disrupted in some way.

For instance, one automobile manufacturer has already announced that it will stop production at a plant in Japan because of the outbreak. A number of phone-manufacturing multinationals have expressed concern about the possible disturbances that may occur in their supply chains because of production halts imposed by the Chinese government as a precautionary measure to prevent the spread of the virus.

If a business is aware of a risk of disruption within its supply chain, it should consider taking the following steps to mitigate the potential consequences of any disruption:

- Consider re-prioritising the production line to respond to market impacts associated with the threat, increase safety stock levels and stockpile essential supplies and resources.
- Prioritise contracts and commitments that are likely to be more achievable given supply chain constraints.
- Take into consideration the absence of a large number of critical staff for an extended period.
- Pre-qualify alternative domestic or international suppliers and outsourced vendors in case primary suppliers can no longer provide support (however be aware that alternate supplier in unaffected locations may still be reliant on Chinese goods within their own supply chain).
- Develop actions for business recovery. For example, finding and approving new suppliers, finding alternative modes of transport, identifying which of those options are available, and selling products on that basis.
- Assess if suppliers have documented plans for business unit continuity and information technology disaster recovery, including for critical business processes.
- Estimate the recovery time for the supplier’s “mission-critical” business processes.
COVID-19 is an infectious disease. Gathering employees together at the workplace may put them at greater risk of exposure. One of the key challenges introduced by the outbreak is an organisation’s ability to strike a balance between continually maintaining productivity and efficiency while providing a safe working environment for its people.

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.

To protect employee and customer safety while minimising adverse economic impacts, businesses should consider the following actions:

- Remind employees about the importance of maintaining personal hygiene and awareness at all times.
- Disseminate information on precautions that should be taken to stop the spread of the virus.
- Identify who will take charge at all business locations (local and international) to oversee crisis management plans and local employees.
- Maintain clear and regular communication with employees and customers. Ensure that organisational policies, expectations, and advice on prevention measures are well known and understood. For customers, ensure that communication is transparent – communicate delivery challenges and concerns early.
- Review travel policies and protocols and update accordingly. For many businesses, the best way to manage people movements will be through the implementation of a special travel policy which should remain in force throughout the period of risk. Limit all non-essential travel and restrict travel to high risk geographies. Consider transits/stopovers as well as personal employee travel.
- Regularly monitor health authority advice as the situation develops. Review and amend policies and communication accordingly - outdated advice poses just as big of a risk as an absence of advice.
- Review and evaluate remote working policies and capabilities with a view of maximising where possible.
- Provide sufficient and accessible infection control supplies (e.g. hand sanitiser and personal protective equipment).
- Comply with all compulsory reporting and quarantine requirements announced by the health authorities.
- Report on and monitor symptoms and sick leave.
- Anticipate fear, anxiety, rumours and misinformation among employees and plan communications accordingly.
The outbreak of COVID-19 has caused significant disruption to many businesses. As such, many organisations have activated contingency and business continuity measures and have allowed employees to work from home to limit the spread of the virus. This involves remote connections to networks and the use/management of potentially sensitive information outside of business premises.

At the same time, with the popularity of smartphones and instant messaging applications, employees increasingly choose to communicate with colleagues, customers and vendors via mobile applications (often outside organisational networks).

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

• Assess if the security settings for remote connections and secured individual access mechanisms are in place and robust.
• Adopt multi-factor authentication for employees who login to business networks remotely.
• Review communications and information technology infrastructures as needed to support employee telecommuting and remote customer access.
• Enhance user awareness of cyber-attacks – provide regular training where necessary.
• Monitor the use of unauthorised computers (especially for businesses that have adopted a ‘Bring Your Own Device’ policy) and their access to organisational networks.
• Review data backup policies and the frequency/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.
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 New Zealand

BDO in New Zealand, as part of the international BDO network, has committed to provide our clients with exceptional service since establishment in 1979.

Our highly qualified professionals conform to the highest international standards in an extensive range of professional services, including:

- Audit & Assurance Services
- Business Services & Outsourcing
- Business Advisory
- Risk Advisory Services
- Specialist Advisory Services
- Tax Services.

BDO Risk Advisory Services

Effective risk management, internal control, and corporate governance are increasingly in the spotlight. Banking disasters, economic hard times, and high profile corporate failures have led to increased scrutiny and pressure to comply with accepted good practice.

When carried out effectively, these crucial disciplines not only prevent disaster, but unlock real value and performance gains. That’s why the most successful organisations are those that manage risk, internal control and governance remarkably well. BDO’s Risk Advisory specialists offer global assurance and advisory services over the quality of risk, internal control, and governance frameworks. We have a dedicated team of specialists which is able to offer support, assurance and advice on the key aspects of effective governance.

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
- Risk management consulting and advice
- Compliance audits
- Regulatory consulting services
- Contract compliance services
- IT security and digital advisory services
- Corporate governance consulting and training.
SOURCES:

BDO Risk Advisory Leaders

If you have any questions, comments, or suggestions, please contact us. Learn more about BDO Risk Advisory Services, please visit our website here.

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