Foreword

The global pandemic of COVID-19 has caused major disruption and businesses have been impacted globally. There are a series of challenges in conducting business during such a global health crisis. *COVID-19 - Now, Next and Beyond for enterprises* has been specifically collated to help Chief Risk Officers, Internal Audit heads and Chief Compliance Officers identify, calibrate, manage and stress-test risks associated with the pandemic as well as aid Governance, Risk and Compliance functions during this uncertain time.

This document also incorporates inputs from Mr. D Sundaram, an independent director and board member, who shares his point of view on key takeaways for organizations from a board governance perspective.

From a risk management perspective, some critical areas of focus for the organization are- financial risk, regulatory environment and compliance considerations, business resilience, contract and third-party associated risks and internal controls and assurance.

This document has been authored by subject matter experts in risk advisory and reveals some interesting findings based on a series of poll questions, with an intent to trigger meaningful conversations with businesses and clients.

"The rapid pace of disruption and emerging risks, demand a new way of thinking. Organizations must seize this opportunity to think through Now, Next and Beyond considerations in order to reinforce trust, create value and opportunities. #TrustbyDesign"
As risk professionals, many of us might have often come across the debate on the impact of an unknown event which has a very low probability on the ‘x-axis’ and a very high probability on the ‘y-axis’. COVID-19 is that unknown which has arrived at a global and unprecedented scale. Lot of facts, estimates and projections have been in public domain regarding it’s impact on livelihood, economic scenarios, decline in output, consumption, income, employment as well as inflationary impact.

Mr. D Sundaram
Some key considerations for organizations in the wake of COVID-19 are:

1. Re-define work from home protocols to ensure data security, data privacy, collective conversation, collaboration with team members and work alone time.

2. Need for sharper definition on meetings, punctuality, productive use of time, etc.

3. Re-assessment of commercial, real estate spaces to run efficient operations. e.g. downsize office space, hot-seat arrangements, redesign or have new physical configuration etc.

4. Re-evaluate the requirements and purpose for travel for work.

An extract from a speech by Mr. D. Sundaram (Independent Director and Board member)
People

- Focus on safety, health and well-being of employees
- Using WFH to upgrade employee skills (online courses, etc.)
- Succession planning at various levels to account for an unfortunate temporary incapacitation at any level

Cash

- CFO, CRO's, treasurer’s and controllers need to focus on cash flow and not take comfort in just the P&L account
- Need of the hour is short-horizon detailed plans

Cost structure

- Needs examination for evaluation of benefits, risk redundancy
- In particular, supply chain structures and sourcing strategies have to be scrutinised
- Alternate country vendors, localization, new markets, etc. will be very critical going forward

Operational structure

- Demand scenario is a major risk in the revival of operations
- Scenario planning is crucial - with focus on markets and distribution scenario

Compliances

- Critical compliance requirement will have to be identified and attended to
- It is important to prioritize and do appropriate sequencing
- Regularly reporting to the board on these critical compliances will be important

Accounting and Audit considerations

1. From a governance perspective it is important for controllers, audit committee members and management that new processes for account closure, reporting of results and financial/operational controls are agreed through a proper documentation
2. Revenue recognition measure, inventory control, provisioning, forex transactions etc. may all be executed through a combination of physical and digital controls
3. Internal auditors and statutory auditors must work closely and increase their symbiosis. Processes and remote data analysis can be jointly agreed with the management

Near-term survival for longer-term prosperity

An extract from a speech by Mr. D. Sundaram
(Independent Director and Board member)
Financial risk

What are some of the critical financial risks arising out of COVID-19 that can impact organizations?
The COVID-19 outbreak has disrupted global supply chains. With interest rates in the global markets hitting rock-bottom, high volatility in currency and commodity markets, stressed cash flows giving rise to imminent liquidity crunches, governments are desperately trying to revive the supply side to be able to absorb the demand-driven shock.

It is imperative for CFOs and Treasurer’s to identify and assess the impact on various levers and plan their response appropriately.

In these circumstances, corporates need an itemized checklist to plan their immediate response effectively. There are some key impact areas that corporate treasurers would have to navigate through in the coming days.

### Risk mitigation actions

#### Cash and liquidity
- Recalibrate cash flow forecasts
- Leverage analytics for scenario building
- Reassess payment priorities
- Institute cash governance framework
- Review group-wide banking relationship
- Evaluate tax efficient structures to unlock intra-group liquidity

### Investments management
- Increased credit risks
- Increased liquidity risk due to lack of investor appetite
- Investment asset class and exposure limits challenged under the current management risk appetite and business environment
- Mark to market risk of investment portfolio

### Funding and working capital management
- Reassess customer credit risk
- Actively monitor the covenants on existing facilities
- Engage with financial institutions

### Financial risk management
- Perform grossing and netting of recalibrated foreign currency exposures
- Leverage analytics for risk scenarios analysis and decision-making
- Identify opportunities - synthetic hedges
- Embed currency and commodity price tolerance clauses in contracts
- Re-evaluate low cost hedging structures
- Enhancing risk management policy
- Adopt hedge accounting to avoid volatility in P&L
- Explore regulatory relaxations, wherever applicable
Regulatory risk

"Have you tracked all the regulatory changes and incentives which would be applicable to your organisation and have you taken measures to manage these changes and avail benefits of the stimulus packages?"
COVID-19 is currently disrupting business operations around the globe. Building confidence and trust in business to respond to regulatory and contractual requirements will be a critical differentiator as corporations respond to and arise from global disruption.

**Call to action**

**Now**

- Track various regulatory notifications and announcements resulting into:
  - New compliance obligations
  - Change in existing obligations
  - Stimulus to protect business
- Issue revised policies in line with the company’s strategy, philosophy and mandatory requirements
- Assess business impact of short-term measures announced through regulatory changes
- Manage communication with various stakeholders in line with the changing regulatory requirements considering provisions of the existing laws
- Analysing the scenario from regulatory perspective to understand the mid-term and long-term impact of the pandemic
- Identify all the stimuli announced by central/ state governments

**Next**

- Assess impact of trade and pricing restrictions placed by various regulators and its impact on the supply chain and business strategy
- Manage events of clients and vendors invoking their rights under the contract
- Assess regulatory/compliance implications of the key decisions to be taken with respect to employees
  - Pay cuts/ lay off/ retrenchment
  - Rescinding job offers
  - Termination of temporary staff

**Beyond**

- Manage events of investors invoking security and corporate law provisions or material adverse conditions of the agreements
- Manage events of the financial institutions invoking insolvency and other banking regulations for recoveries
- Revise policies/processes/systems to administer/avail stimuli
- Transform the testing operating model based on review of compliance governance, and process and infrastructure effectiveness to deal with current pandemic situation and assist organizations in plugging gaps in their compliance programs
- Operate a new normal - a transformed compliance function focused on real time monitoring and response, better enabled by technology and resources with deeper business and regulatory skills:
  - Revamped compliance governance and compliance risk monitoring framework
  - Automate compliance management and monitoring
  - Manage compliance program by providing ongoing support

**Only 26%**

of the participants feel confident that their organizations are updated on all compliance notifications and balance believe that there is more work to be done.

**COVID-19** is currently disrupting business operations around the globe. Building confidence and trust in business to respond to regulatory and contractual requirements will be a critical differentiator as corporations respond to and arise from global disruption.
Business resilience

“Do you believe you had a structured resilience and crisis response plan in place and a structured crisis team that swung into action, at the onset of the crisis?”
Call to action

**Now**
- With outbreak of COVID-19, most organizations are struggling to leverage their existing recovery strategies to ensure continuity of their operations:
  - Enabling crisis management team/ task force to calmly manage short term impacts and counter measures
- Revise business operation model
  - Team isolation
  - Enabling BYOD to enable access to critical infrastructure
  - Work from home for all employees
- Enabling pandemic response to protect health of its employees
- Communicating clear and positive messages to employees, external agencies including customers
- Scenario planning and analysis

**Beyond**
- Leveraging existing investments in BCM and extend the value of non-routine leadership capabilities to new areas of risk
- Simulating scenario building to identify risks pertaining to implemented recovery strategy and plans including stress testing

**Next**
Incorporate the learnings from existing crisis to identify the areas which need to be re-assessed for criticality. With pro-longed crisis, some of the non-critical activities have become mission critical:
- Making necessary arrangements and plans for returning to normalcy
- Developing a holistic, engaging approach for organization-wide efforts to build, test and improve mechanisms protecting against known and unknown risks.

Whilst authorities grapple with balancing containment measures against the cost of social and economic disruption, the immediate need for businesses is to rapidly assess and respond to the company-specific impacts of COVID-19 to business continuity and long-term viability.

More than 2/3rds of the participants have responded that there is a need to create a structured crisis management policy and team in their organizations, which doesn’t exist right now.
What percentage of contracts in your organization are traceable, digitized and monitored for fulfilment?
Contract and third-party is the bedrock of key analysis and actions that functions need to undertake. Cutting across various functions in the organization (such as supply chain, IT, HR, marketing), it is a critical focus area for all organizations to focus on, in the immediate future.

Lack of visibility into third parties and contracts is one of the biggest challenges faced by organizations today.

Typically, any large or global organization would have thousands of contracts active at any point of time. Since contracts are not digitally available, this has added to the difficulties of organizations during this pandemic situation - in assessing their exposure, managing risks and complying with contractual obligations or requirements.

With recent globalization and changing business models, third parties pose serious risk of disruption that can result in significant loss of revenue and non-availability of critical services. It is important for organizations to focus on these areas immediately and take urgent action.

### Call to action

#### Now

- Conduct risk assessment of third parties and contracts - identify and prioritize contracts and/or obligations where there is a risk of non-performance due to pandemic
- Establish a task force to prepare appropriate response and perform heightened monitoring of these initiatives

#### Next

- Discover contracts across the organization and make it digitally accessible to businesses and functions to drive value and insights
- Program to ensure liquidity and find opportunities to reduce cost - accelerate collection, timely invoicing, spend prioritization, contract review and renegotiation

#### Beyond

- Refine third party program, risks and perform ongoing monitoring
- Roll out consistent contract compliance framework across organization
- End to end contract lifecycle management (digitized to the extent possible)
Do you agree that with technology, analytics and RPA coming into play, internal audit is moving more and more into a virtual IA model?
As governments and companies attempt to contain COVID-19 by restricting travel, public gatherings and mandating work from home, audits planned through site visits or in-person interactions cannot be executed as planned. However, internal audit must stay-the-course to address the risks that matter most even if the path is adjusted. Business stakeholders are looking at IA functions to provide them with insights and assurance in these difficult times, with renewed/innovative delivery methods.

Control professionals and assurance providers have the dual responsibility of supporting management and businesses in managing this crisis and ensuring that they discharge their responsibility of providing adequate assurance to the stakeholders in a control environment.

Call to action

**Now**
- Identify key risks that need enhanced monitoring (covering ERM, compliance, IFC, etc.)
- Revisit your control framework by applying ESSA principles (eliminate, simplify, standardise, automate). Target 60-70% control automation
- Explore set up of control self assessment to reduce load on testing

**Beyond**
- Move towards automated testing of controls by use of analytics and robotics
- Explore setting up of control shared services for centralised testing and monitoring of controls
- Enable machine learning for evolution of testing logic
- Reconsider the staffing of controls functions to include digital FTEs

Audit and controls functions have a great opportunity to move to a virtual working model, importance of which is amplified in the current pandemic scenario. With businesses adopting technology and automation, digital audit FTEs would be the new normal for control functions.

An overwhelming 3/4ths of participants believe that internal audit (IA) in the new future will move more and more to a virtual model by leveraging technology, analytics and RPA. As this emerges as a new normal, controls and audit functions will need to start their transformation journeys to stay relevant to the stakeholders and keep providing value.
# COVID-19 thought leadership listing

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<td>COVID-19 FSRM response</td>
<td>Hemal Shah \ <a href="mailto:H.Shah@in.ey.com">H.Shah@in.ey.com</a></td>
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<td>2</td>
<td>COVID-19 Treasurer’s role</td>
<td>Hemal Shah \ <a href="mailto:H.Shah@in.ey.com">H.Shah@in.ey.com</a></td>
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<td>3</td>
<td>COVID-19 Cyber Resilience</td>
<td>Jignesh Singh \ <a href="mailto:Jaspreet.Singh@in.ey.com">Jaspreet.Singh@in.ey.com</a></td>
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<td>4</td>
<td>COVID-19 Regulatory risk</td>
<td>Jignesh Thakkar \ <a href="mailto:Jignesh.Thakkar@in.ey.com">Jignesh.Thakkar@in.ey.com</a></td>
</tr>
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<td>5</td>
<td>COVID-19 Compliance survey questionnaire</td>
<td>Jignesh Thakkar \ <a href="mailto:Jignesh.Thakkar@in.ey.com">Jignesh.Thakkar@in.ey.com</a></td>
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<td>6</td>
<td>COVID-19 Contracts &amp; third-party</td>
<td>Gaurav Sharma \ <a href="mailto:Gaurav.Sharma@in.ey.com">Gaurav.Sharma@in.ey.com</a></td>
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<td>7</td>
<td>COVID-19 Impact on board governance</td>
<td>Vishal Ruia \ <a href="mailto:Vishal.Ruia@in.ey.com">Vishal.Ruia@in.ey.com</a></td>
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<td>8</td>
<td>COVID-19 Internal Audit impact</td>
<td>Vishal Ruia \ <a href="mailto:Vishal.Ruia@in.ey.com">Vishal.Ruia@in.ey.com</a></td>
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<td>9</td>
<td>Response to COVID-19- ICFR (India)</td>
<td>Vishal Ruia \ <a href="mailto:Vishal.Ruia@in.ey.com">Vishal.Ruia@in.ey.com</a></td>
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<td>10</td>
<td>EY Protect- Smart approach to access risk monitoring</td>
<td>Rohit Limaye \ <a href="mailto:Rohit.Limaye@in.ey.com">Rohit.Limaye@in.ey.com</a></td>
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<td>11</td>
<td>Program Risk Management- Reviving construction sites post lockdown</td>
<td>Avishek Banerjee \ <a href="mailto:Avishek.Banerjee@in.ey.com">Avishek.Banerjee@in.ey.com</a></td>
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<td>a.</td>
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For more information on these documents and/ or if you require a soft copy, please reach out to Kaashika Bhalla (Kaashika.Bhalla@in.ey.com)

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For more information and insights on how we are helping clients navigate through these difficult times, please connect with:

Rohit Mathur  
Risk Advisory Leader  
+91 9811021996  
Rohit.Mathur@in.ey.com

Rohit Mathur  
Risk Advisory Leader  
+91 9811021996  
Rohit.Mathur@in.ey.com

Jaspreet Singh  
Partner, Cyber and Resilience  
+91 9818325518  
Jaspreet.Singh@in.ey.com

Sudhakar Rajendran  
Risk Transformation Leader  
+91 9845450785  
Sudhakar.R@in.ey.com

Sudhakar Rajendran  
Risk Transformation Leader  
+91 9845450785  
Sudhakar.R@in.ey.com

Gaurav Sharma  
Associate Partner, Third Party Risk  
+91 9958622557  
Gaurav.Sharma@in.ey.com

Vishal Ruia  
Partner, Risk Management  
+91 9867386308  
Vishal.Ruia@in.ey.com

Vishal Ruia  
Partner, Risk Management  
+91 9867386308  
Vishal.Ruia@in.ey.com

Hemal Shah  
Partner, Corporate Treasury  
+91 9820508315  
H.Shah@in.ey.com

Hemal Shah  
Partner, Corporate Treasury  
+91 9820508315  
H.Shah@in.ey.com

Jignesh Thakkar  
Partner, Compliance Management  
+91 9820530921  
Jignesh.Thakkar@in.ey.com

Jignesh Thakkar  
Partner, Compliance Management  
+91 9820530921  
Jignesh.Thakkar@in.ey.com
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