

— at the — TONE TOP[®]

Providing senior management, boards of directors, and audit committees with concise information on governance-related topics.

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Keeping the Doors Open

The COVID-19 pandemic has been called the biggest crisis of our lifetime. But it is not simply a crisis. Instead, we are in the midst of cascading waves of crises and risk events. What began as a medical issue transformed into a macroeconomic emergency in a matter of days. It spawned waves of stock market turmoil, labor disputes, supply line disruptions, and massive unemployment. Then the upsurge in cybercrime began. One crisis often leads to another.

These are extraordinary times, and many organizations are learning hard lessons about the importance of business continuity and disaster recovery planning. Unfortunately, they are lessons that many are likely to repeat.

When disaster hits, many organizations discover that they have not prepared adequately. Business directors and executives resolve not to let it happen again. Yet often that resolve weakens before corrective action is taken. In times of crisis, the need for business continuity planning is clear, but executives and directors are often too busy coping with the current disaster to plan for future crises.

After the disaster, when organizations quickly pivot to recovery mode, funds are often limited, and business continuity planning is put off just a little longer. At best, many organizations focus on a single aspect of disaster planning — after a cyberattack, the focus is



on cyber threats; after a pandemic, the focus is on medical threats.

By the time the crisis eases, disaster recovery and business continuity plans may no longer be seen as priorities. In a 2019 survey by ContinuityCentral.com, more than half of respondents stated that the biggest challenge that might hold back their business continuity plans was simply lack of a budget and resources. In other words, when times are good, the urgency to plan for future catastrophes fades away.

That must change. Recent events have demonstrated that disaster recovery and business continuity planning are not luxuries; they are part of the cost of doing business in the modern world. Emerging risks rarely make appointments, and organizations must be ready when they arrive.



About The IIA

The Institute of Internal Auditors Inc. (IIA) is a global professional association with more than 200,000 members in more than 170 countries and territories. The IIA serves as the internal audit profession's chief advocate, international standard-setter, and principal researcher and educator.

The IIA

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The last 12 months have been difficult for virtually all companies in all industries. Beyond the justifiable preoccupation with the pandemic, organizations have had to cope with wars and storms, fires and floods, cyberattacks and bomb threats, "active shooters," and even volcanic eruptions. Sooner or later, there will be another crisis. In many cases, that initial crisis will lead to others, with consequences that are difficult or impossible to predict.

One disaster tends to follow another, and we rarely can predict what the end result might be. The full impact of the pandemic is not yet known, and the damage may be incalculable. But in the midst of all the uncertainty, it's virtually inevitable that additional issues will emerge. Just as seismic aftershocks follow an earthquake, business aftershocks will follow the pandemic.

This is not a time for business as usual. Take the accounting and finance functions, for example. Some might assume that during a business slowdown, the accounting workload would be light. But during a pandemic, every accounting estimate, assumption, budget, and forecast is suspect. With wildly fluctuating consumer demand, fair value measurements must be re-examined. Allowances for expected credit losses need adjustment. Corporate reputations are changing overnight, and non-financial assets such as goodwill must be evaluated. Tax considerations, liquidity risks, compensation changes, derivative and hedging issues, out-of-balance investment portfolios, and innumerable other accounting and finance issues all demand management's immediate attention. It's a situation that would be daunting even without remote working conditions and absences of key personnel.

Many organizations are finding it necessary to slash budgets and financial forecasts. Some companies will inevitably reduce the budgets of non-revenue-producing departments, such as the risk management function or the internal audit department. But these departments are rarely more important than during a crisis. It's a time when a cut to the risk management or internal audit function might trigger even more unforeseen and potentially disastrous consequences.

In a perfect world, everything would run smoothly and controls would never break down. But in the midst of crisis, when the unthinkable happens and everything is changing, the risk management and internal audit functions help to ensure that management has identified the full range of risks — direct and indirect — and is taking appropriate action to address those risks.

Organizations must prepare for the unpredictable and the unthinkable in order to keep the doors open and ease the recovery process, regardless of whether the next big event is a civil, natural, financial, or health-related crisis. There is no such thing as a perfect plan for the future, but having a plan in place is better than not. It is better to foresee without certainty than not to foresee at all.

Management teams should already have expanded their efforts to update plans, to identify emerging risks and assess their potential impact, and to think



through appropriate responses. But in highly stressed conditions, even the best managers are likely to make mistakes or to overlook important details. That's why, in extraordinary times, the internal audit and risk management functions are more essential than ever.

For many, the coming months will continue to be difficult, but these times can serve as a learning experience. Disaster recovery and business continuity planning are never easy. They require business strategies, objectives, and priorities to coordinate with incident response activities, IT disaster recovery objectives, and crisis planning in a wide variety of scenarios. This means dedicating time and resources, with ongoing training, testing, evaluating, and updating. It's a big job. But waiting for a better time to start planning for the future could lead to no future at all. Fate hangs on such moments and decisions.

The world is changing, and the risks are growing. Organizations must ensure that risk management processes are appropriate for changing conditions; that internal audit resources are adequate to meet future challenges; and that comprehensive disaster recovery and business continuity plans are in place. Some were more ready than others to deal with the current pandemic crises, but all can help ensure that organizations are prepared for future catastrophes. In the words of Stewart Stafford, "Remember the five Ps – Prior Preparation Prevents Poor Performance!"



THE DUTY OF CARE

Social isolation can increase the risk of many health problems. A scientific study by Julianne Holt-Lunstad, a research psychologist at Brigham Young University, showed that being disconnected was as dangerous to health as smoking 15 cigarettes a day and was more predictive of early death than the effects of air pollution or physical inactivity. In the study, people who had strong social relationships had a 50 percent higher likelihood of survival than those with weaker social ties. Over longer periods of time, social isolation increases the likelihood of heart disease, depression, dementia, and even death.

Loneliness is not just an issue for those who are not around other people. It can happen even in the middle of a crowd. At work, it often occurs when there are poor social relationships, a lack of sense of belonging, or a feeling of being disconnected or alienated. The result is lower motivation and reduced performance levels.

Fortunately, organizations can help to address this problem. The World Health Organization lists "social support networks" as a determinant of health. Now may be the perfect time to launch a duty-of-care program that helps keep employees feeling connected and prioritizes safety and well-being. Simply providing employee chat rooms, online meetings, and other opportunities for social interaction can help ensure that the workforce is healthier, happier, and more productive.

During a crisis, alternative work arrangements, job security issues, and other factors cause tension in the workplace, regardless of whether that workplace is in the office or dispersed across remote locations. It can help to facilitate regular conversations between management and employees. Many human resources functions are providing managers with guidance on how best to approach sensitive subjects related to the pandemic and other changing conditions. Discussion guides, online training, or even simple e-mail bulletins can help provide updates on rapidly changing crisis situations and advice for how to deal with problems.



Questions for Directors

- How up-to-date are business continuity and disaster recovery plans?
- When was the last time the plans were reviewed by key stakeholders? By the internal auditors? What were the results?
- Has a business impact analysis been performed to determine which processes and systems are most critical?
- When was the last time the organization reviewed its contracts with business resiliency partners?
- What training have employees received on what to do in the event of a natural disaster, terrorist threat, or pandemic? What is the schedule for future training?
- Do communication plans address how employees, vendors, emergency responders, regulators, media, insurance agencies, and others will be kept informed during an emergency?
- How does the information technology function ensure that critical infrastructure components will be available during crisis and business recovery?
- How are data secured and managed in various crisis scenarios?



Quick Poll Question

What is your level of concern about the long-term financial viability of your organization as a result of COVID-19?

- Not at all concerned
- Slightly concerned
- Moderately concerned
- Very concerned
- Extremely concerned
- Not sure/not applicable

Visit www.theiia.org/toner to answer the question and learn how others are responding.

QUICK POLL RESULTS

Does your organization have a formal data governance program?

No, and we have no plans to start one. **16%**

No, but we are planning to start one. **21%**

Yes, we have a program, but it is not mature. **40%**

Yes, we have a mature* program. **13%**

I don't know. It's time to find out. **10%**

* A mature data governance program assigns specific responsibilities, monitors compliance, and reports information regarding data governance to management and the board of directors.



Source: Tone at the Top February 2020 survey.

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