

# COVID-19 KEY IMPLICATIONS FOR BOARDS

Prepared by CPA Australia ESG Centre of Excellence

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Boards and their organisations, regardless of size will need to be proactive in managing the risks and challenges presented by the COVID-19 crisis. A shock of this scale is likely to create quantum shift changes to the post-crisis economic and business landscape.

This briefing is aimed at CPA Australia members who are directors or advisers to boards, who will help organisations reinvent themselves to survive and capitalise on new opportunities that arise.

Possible actions have been considered over three horizons: *respond*, in which an organisation deals with the present situation and manages continuity; *recover*, during which a an organisation learns and emerges stronger; and *reimagine*, where the organisation prepares for and shapes the next normal<sup>1</sup>.

In the table following, we highlight areas that boards and management may focus on as this major public health crisis unfolds and has a rapidly evolving impact on the economy and society. The timings are indicative as organisational priorities will vary and there will in practice be wide variations based on size, complexity and industry characteristics. As an example, we have placed 'pre-emptive capital raising' as a longer term issue, however a number of boards will consider it as part of their medium-term recover phase and others, such as Flight Centre and Oil Search, have already taken action to raise new equity. Similarly, whilst the impact of certain actions may be longer term, the action needed may need to be implemented contemporaneously with actions identified in the respond phase within the table.

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<sup>1</sup> Deloitte: The heart of resilient leadership: Responding to COVID-19.

## SUMMARY TABLE

Area	Respond (Short-term)	Recover (Medium-term)	Reimagine (Long-term)
Strategy	Demonstrate leadership within the team	Consider options to pivot	Question the return to Business as Usual
Product	Consider online sales and service channels	Review supply chain	Review product mix and pricing
Customers	Communicate with customers	Identify key customers or other stakeholders	Identify new customers and opportunities
Operations	Establish crisis team	Consider innovative solutions	Implement automation and technological solutions
People	Invoke new working arrangements to effect social distancing	Identify key person risks	Review HR policies
Risk and Compliance	Execute the Business Continuity Plan	Update the risk register	Review the Risk Management Framework
Technology	Implement Remote Access Systems	Review Cybersecurity Posture	Accelerate Digital Transformation Plans
Performance	Conduct scenario analysis	Update budgets	Build resilience into Revenue Streams
Funding	Identify and Access State and Federal Funding	Negotiate debt facilities and covenants	Pre-emptive capital raising
Cash Flow	Contain expenses and update cash flow forecasts	Cost management	Consider opportunities for capex investment
Marketing	Review stakeholder communications plans	Review Communications Plan	Consider opportunities to increase market share

## RESPOND

Acting quickly to put in place an initial response is critical to ensure some level of operational continuity during uncertainty. Supply chains may be cut, many employees may be worried about their future, customers may need rapid solutions, and financial stresses may lead to going concern fears. Strong leadership is required at this point with communication to customers, employees, suppliers and other key stakeholders. Formation of a crisis management team is highly likely to be necessary with the aim of executing a Business Continuity Plan.

Many organisations have already implemented working from home procedures where possible, using remote access technology to enable staff to operate in isolation.

Boards will have a critical role monitoring the performance of the organisation, carefully reviewing management's scenario analysis, identifying and accessing funding and reviewing updated cashflow forecasts.

The CPA Australia Coronavirus (COVID-19) Portal's Business Advice page has a range of resources to assist organisations prepare for and manage through COVID 19<sup>2</sup>. These include a range of worksheets and checklists designed for SMEs. The AICD also has numerous articles considering the role of boards responding the COVID19 crisis as do many other professional advisory bodies and organisations.

## RECOVER

During the recovery phase, many questions will be asked of the business. Uncertainties will remain but as time goes on, the operating environment will stabilise. The status of supply chains, customer demand and operational capacity will become more predictable to support decision-making for a medium-term strategy.

Exploring options for the business to pivot and create alternative revenue streams is critical.

Boards will continue to play a vital role with continuous monitoring of the financial performance of the organisation, including updated cash flow models and a continued focus on cost management and expenditure. Exploring options for the business to pivot and create alternative revenue streams is critical<sup>3</sup>.

<sup>2</sup> CPA Australia: Coronavirus (COVID-19) Portal-Business Advice - <https://www.cpaaustralia.com.au/coronavirus-covid-19-impact-resources-support/covid-19-business-advice>.

<sup>3</sup> Airbnb announcing a global initiative to house 100,000 health professionals and other first responders, a US on demand car cleaning service now offering sanitising services to properties and facilities and distilleries producing hand sanitisers are some examples of successful pivots.

## REIMAGINE

An external shock of this scale will likely create major changes in the preferences of consumers and all stakeholders including but not limited to how they use technology. The forced move to contactless commerce and interactions may shape a further significant shift in consumer behaviour. For example, the accelerated uptake in a range of online platforms in telehealth, education, entertainment and wellbeing services will be likely to be permanent changes and present further opportunities<sup>4</sup>. The need for greater resilience could change attitudes to supply-chain globalization providing local opportunities. As a result, organisations will need to reinvent themselves to adapt to changing preferences and exploit new opportunities as they evolve.

The use of data analytics and sentiment analysis, an area boards and members advising boards will need to increasingly engage in, will be increasingly important in identifying trends and shifts in preferences.

The return to the new normal will not be uniform across business sectors and markets. Some organisations will have a lower risk appetite while others will struggle with the financial or workforce capacity to take advantage of the unlevel playing field. One thing is certain, many organisations will look to build resilience into all aspects of their business. Digital transformation projects will continue with robotic process automation and artificial intelligence looking to streamline operations, empower employees, engage customers and transform products.

The crisis management team will need to look ahead and proactively explore these reimagine opportunities and boards and their advisers will need to be key players in driving change, facilitating (or overseeing) projects and modelling opportunities for sound growth.

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## ISSUES FOR PARTICULAR ORGANISATIONS

### Listed Companies

It is common for publicly listed companies to issue earnings guidance and it remains necessary for listed companies to meet their ASX continuous disclosure obligations.

<sup>4</sup> The SARS epidemic in 2002-2004, with a similar imperative around social distancing, was the key driver behind the exponential growth of Ali Baba that is now the leading ecommerce retailer throughout Asia.

Global crises, of course, put significant additional pressures on these processes, due to the substantial increase in disclosure required together with the elevation of uncertainty on nearly every aspect of the organisation.

The recently released 4th Edition of the ASX Corporate Governance Principles and Recommendations now places a significant emphasis on the need for instilling a culture of acting lawfully, ethically and responsibly. The recommendations include development an organisation and disclosure of whistle-blower and anti-bribery and corruption policies with material occurrences reported to the board. The shift in the 4th Edition towards an entity's culture and other non-financial value drivers should enhance the free flow of information, both good and bad news, and increase the speed of communication that is vital during this crisis. For example does the organisation have a risk management system to capture incidents like a near miss or actual case of a potential COVID-19 infected person? And do systems provide tracking of all COVID-19 expenses such as technology purchases, additional leave to keep staff in isolation, and customer complaints.

### **Not for Profit (NFP) Organisations**

NFP organisations are typically reliant on donations, funding and other forms of giving to enable their delivery of services. As crises erode disposable income of individuals and strain budgets of corporate and government entities, uncertainty over funding can be a significant issue for these organisations.

Notwithstanding a decade of regulatory change and reduction in block funding, NFPs are often called upon in times of need, to service the needs of those most vulnerable through isolation, health, financial position or other hardship. Many NFPs are approaching breaking point and a new global threat is a challenge for which they are ill-prepared.

Boards and their advisers are reminded of the opportunity to engage with suppliers, funders and regulators to put in place strategies for maintaining operations where possible and managing costs where necessary.

### **Indigenous Corporations**

Organisations registered under the Corporations (Aboriginal and Torres Strait Islander) Act 2006 face similar challenges such as annual reporting, annual general meetings, using technology to hold general, directors and native title meetings. Indigenous Corporations can apply to the register to make changes to their governing rules without convening a general meeting and passing a special resolution for certain amendments.

## FINANCIAL REPORTING IMPLICATIONS

There are a range of reporting issues that boards need to be aware of, such as assessing whether the impacts of COVID-19 are material to the entity and any related required disclosures, and whether to adjust the financial statements for events after the reporting period. Revised cash flow forecasts and scenario analysis will also be critical in an organisation's assessment of, among other things, asset impairment, assessment of the allowance for doubtful debts, the recoverability of deferred tax assets and the ability to continue as a going concern.

Other issues include<sup>5</sup>:

- The valuation of inventories
- Fair value measurements
- Restructuring plans
- Liquidity risk management and financial instrument disclosures

## RELIEF

The Corporations Act was amended on 24 March 2020 via the Coronavirus Economic Response Package Omnibus Act 2020 (Cth) to implement a new safe harbour for directors from personal liability in relation to insolvent trading<sup>6</sup>. The amendments remain in force for six months unless otherwise extended. It is most important to note, however, that directors must not see this amendment as relieving them of their obligations to continue to mitigate the risk of falling into insolvency. Also, it does not alter their continuing obligations to act in good faith, with due diligence in the best interests of the company, including their obligations to creditors and shareholders.

A range of additional measures, including ATO administrative relief, tax-free payments and deferral of loan repayments are available to some organisations<sup>7</sup>.

## CONCLUSION

This briefing is aimed at CPA Australia members who are directors or advisers to boards who are managing the risks and challenges presented by the COVID-19 crisis. We advocate that the actions, and their impact, should be considered over three horizons: *respond*, *recover* and *reimagine*.

Given the scale and breadth of the COVID19 crisis it is clear there is a very important role and clear opportunity for CPA Members who are directors, or who advise boards, to be an integral part of the conversations and transformation that will arise.

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<sup>5</sup> See Deloitte, IFRS in Focus: Accounting considerations in relation to the Coronavirus 2019 Disease for a more detailed discussion of these and other issues.

<sup>6</sup> Corrs Chambers Westgarth: COVID-19 and the suspension of insolvent trading laws: directors potentially still liable on other grounds

<sup>7</sup> CPA Australia: Managing Through COVID-19

# REFERENCES

Further information can be found in the following references:

## CPA Australia Resources

### CPA Australia: Coronavirus (COVID-19) Portal-Business Advice

<https://www.cpaaustralia.com.au/coronavirus-covid-19-impact-resources-support/covid-19-business-advice>

### CPA Australia: Managing Through COVID-19

<https://www.cpaaustralia.com.au/-/media/corporate/allfiles/document/training/covid-19-australian-government-economic-response-2020.pdf>

## Other Resources

### Australian Charities and Not-For-Profits Commission: ACNC compliance during COVID-19

<https://www.acnc.gov.au/raise-concern/regulating-charities/how-we-ensure-charities-meet-their-obligations/acnc-compliance>

### ASIC: 20-068MR Guidelines for meeting upcoming AGM and financial reporting requirements

<https://asic.gov.au/about-asic/news-centre/find-a-media-release/2020-releases/20-068mr-guidelines-for-meeting-upcoming-agm-and-financial-reporting-requirements/>

### BDO: COVID-19 business continuity planning in 5 steps

<https://www.bdo.com.au/en-au/insights/advisory/articles/covid-19-business-continuity-planning-in-5-steps>

### Corrs Chambers Westgarth: COVID-19: what are the key implications for boards and corporate disclosure?

<https://corrs.com.au/insights/covid-19-what-are-the-key-implications-for-boards-and-corporate-disclosure>

### Corrs Chambers Westgarth: COVID-19 and the suspension of insolvent trading laws: directors potentially still liable on other grounds

<https://corrs.com.au/insights/covid-19-and-the-suspension-of-insolvent-trading-laws-directors-potentially-still-liable-on-other-grounds>

### Deloitte, IFRS in Focus: Accounting considerations in relation to the Coronavirus 2019 Disease

<https://www2.deloitte.com/content/dam/Deloitte/xe/Documents/audit/IFRS-in-Focus-COVID19.pdf>

### Deloitte: The heart of resilient leadership: Responding to COVID-19

<https://www2.deloitte.com/global/en/insights/economy/covid-19/heart-of-resilient-leadership-responding-to-covid-19.html>

### DLA Piper: Coronavirus: 10 tips for contract triage

<https://www.dlapiper.com/en/australia/insights/publications/2020/04/coronavirus-10-tips-for-contract-triage/>

### EY: COVID-19 business continuity plan: Five ways to reshape

[https://www.ey.com/en\\_au/transactions/companies-can-reshape-results-and-plan-for-covid-19-recovery](https://www.ey.com/en_au/transactions/companies-can-reshape-results-and-plan-for-covid-19-recovery)

### Perpetual: What does COVID-19 mean for NFP boards and investment governance

<https://www.perpetual.com.au/insights/impact-march-2020-what-does-covid-19-mean-for-nfp-boards-and-investment-governance>

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