



B K KHARE & Co
CHARTERED ACCOUNTANTS

Monthly Newsletter
Risk Advisory
Wednesday, 15 April 2020
Volume 6, Issue 1

Disruption And Internal Audit

“We can ignore reality, but we cannot ignore the consequences of ignoring reality.”
- Ayn Rand



Disruption - Plan For The Unexpected

It is impossible to look at the news on any given day without constant reminders of the risks we face from natural disasters to man-made events like cyber-attack, civil unrest, and terrorism. Risk Management professionals can definitely take their pick of apparent and relatively slow-paced disruptions. It can be self-driving cars, artificial intelligence (AI), the Internet of Things (IoT), Protectionist trade policies and government actions. However, there will be challenges in case of disruptions that are difficult to envisage or to assess their magnitude. Some of these disruptive events may affect not only the respective corporates but also the economy, stakeholders and overall business dynamics. COVID-19 is a glaring example of the same.

Disruptions within the business operations can lead to reduced business profits, additional expenses, and lost revenues. Developing systems to help the company deal with threats and

other events that can disrupt the business and impact its operations negatively demonstrates preparedness and resilience. Clear understanding of risk prevention and operational recovery helps the management and other entities involved in business operations to effectively execute contingency plans and follow workplace precautions. Thus, a business continuity plan/ Disaster Recovery plan is a part of company's risk management planning procedures to prescribe actionable response in the event of disasters and other unfortunate scenarios, if they occur.

Are You Prepared To Address The Disruptions

Sun Tzu, the great Chinese strategist had quoted "If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle." This holds true in all of the disruptive events and corresponding corporate responses as well. It is imperative that corporates should know the disruptive event (enemy) and their own ability (self) to respond to it. This helps corporates to devise appropriate timely, cost effective responses to address the disruption effectively, maintain the stakeholder confidence and improve brand value. →

Internal Auditor And Disruptions

Line managers understand the business operations like back of their hands. They do understand the risks associated with their respective operations. However, Internal Auditors can be of great help to the company as they can see the Big picture comprising of the entire value chain i.e. the process or activities by which a company adds value to an article, including production, marketing, the provision of after-sales service and associated risks in the event of disruption, inter relationship among stakeholders. They can play a proactive role in assessing the likelihood of risks and their impact of the disruptive events. →

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Are You Prepared To Address The Disruptions?

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1. **Defining the likelihood and impact of the disruptive events** – ‘Whatever is measured, gets done’. Thus, the first step in designing apt response to the disruptive events is awareness of the business environment followed by assessment of likelihood and impact of the disruptive events on entire value chain of the company. Also, assessment of corresponding responses of other stakeholders, too, cannot be ignored. This is

inevitable - primarily due to the inter-relationship of actions and reactions of stakeholders. E.g. delayed delivery of raw material, non-availability of workers and managerial staff, non-availability of Servers and relevant critical data for prolonged period, financial problems/ Insolvency of major customers and vendors adversely affecting collection and supplies, government / regulatory orders adversely affecting the cost of services or restricting the market prices.

2. **Depth and spread** – One has to assess whether the action plan cover all the aspects of value chain and impact on the same of various factors or it addresses only the ‘visible’ risks without considering interrelationship of the inter-dependent factors.

E.g.

Single Vendor Dependency: Dependency on single vendor/ service provide, geography, banker, employee, customers can also be catastrophic as disruption at the stakeholder, will adversely affect the fortunes of the company. E.g. Yes Bank is a case in point. Many organisations, companies, charitable trusts have suffered liquidity crunch on account of failure of Yes Bank as restrictions were imposed by RBI on the amount that can be withdrawn from this bank.

Disaster Recovery Plan: The business enterprise operating from a high-risk seismic zone is likely to face disruption in business operations in case of the occurrence of a natural calamity due to its location leading to a loss in business as well reputation of the enterprise. The apt response can be setting up a scalable and economically viable Disaster Recovery (DR) site on Cloud in different seismic zones to ensure business continuity even in the case of a disaster. The solution may include Public Cloud, Cloud Storage, Cloud Firewall and Load Balancer, Physical Firewall and Data Replication Software. Thus, the business enterprise can make provision for required network resources on demand in real time. Shifting from conventional infrastructure intensive CAPEX and OPEX model can lead to significant cost advantages. Ultimately, the enterprise is assured of business continuity and an always available Disaster Recovery IT infrastructure to keep its business-critical applications up and running even in the eventuality of a disaster

3. **Response Time** – Best of the action plans may fail post disruptive events if the plan is activated after unreasonable delay. Here, the delay should be assessed from the perspective of the stakeholders like customers, suppliers, government, employees, etc. Thus, it can be industry specific or stakeholder specific. Corporates who can implement the action plan without loss of time will not only retain their customers but also expand their market share by catering to otherwise loyal customers of other suppliers during the disruptive events. It will also reflect in enhancing the brand value of the company. For e.g.

- In a company without a defined treasury policy, there is a strong likelihood of decisions pertaining to investments in equity, of surplus funds, remaining

concentrated with individuals who may not keep track of stock market conditions and there may not be timely action taken to limit the losses, even when the stock market moves southwards. A delay of a few minutes or hours, also can be catastrophic for the investing company in the absence of an adequate risk mitigation strategy.

- During a prolonged city lockdown in the event of a pandemic, government may allow supply of essential supplies/services even when public transport is suspended. Online grocery suppliers would get all the permissions to operate during the lockdown. However, inability of the foot soldiers i.e. staff to report to supply hubs /depots of the company, may disrupt company's goods/ service delivery operations. Companies who envisage this situation and make suitable arrangements to ensure that their staff can physically reach the offices, shops and customers to carry out operations would be much better placed than other online suppliers who fail to mobilise their human resources.

4. **Comprehensive plan of action** – Disruptive events are also moments of truth for the customers, suppliers and employees. In current times, most of the transactions pertaining to services can be channelized through digital / online platforms. However, if it is not backed by customer care experience to which the customers are used to, they are likely to think about an alternative service provider.

E.g. A customer can access website of Satellite Television Service Provider to recharge the subscription for a month. Post re-charge if he is unable to activate the services and there is absence of customer care staff to respond to the queries either through telephonic calls, emails or through web chats, there is a greater likelihood that the Satellite Television Service provider will earn the revenue for a month without actually providing the services and may lose the customer forever for unattended deficiency of the services apart from possible litigation and negative publicity.

5. **Communication Strategy** – During the disruptive events, constant communication with the stakeholders is extremely important to provide them confidence about continuity of the business and challenges which company plans to address in a time bound manner. The world is not perfect. However, 'surprises' are the last thing that any stakeholder would want to experience from the service provider. In the wake of COVID- 19 companies like UPS and FEDEX have updated their website to appraise the stakeholders about their operations, on how they are supporting the communities through their services and geographical areas of their operations. They have also displayed FAQs on their services, delivery timelines, safety measures for their staff as well as customers. This helps in proactively setting the expectations of the stakeholders and they are more likely to remain associated with such companies in future as well post disruptive events.
6. **Cost effectiveness of the redundancies** - Monetary impact analysis of all possible responses to the disruptive events and resultant problems should be carried out well in

advance. This Cost Benefit Analysis of various options that company can chose from can provides the relevant input for objective decision making by corporate executives in a timely manner across the hierarchy of the company when the need arises. This helps the corporates to respond in the most cost-effective manner.

7. **Real time monitoring of action plan** – Success of the action plan consisting of various remedial measures and their effectiveness cannot be realised unless the response and corresponding results are measured in near real time. This also affords an opportunity for the course correction if some of the action plan fail to achieve the desired objectives.

Internal Auditor And Disruptions

Line managers understand the business operations like back of their hands. They do understand the risks associated with their respective operations. However, Internal Auditors can be of great help to the company as they can see the Big picture comprising of the entire value chain i.e. the process or activities by which a company adds value to an article, including production, marketing, the provision of after-sales service and associated risks in the event of disruption, inter relationship among stakeholders. They can play a proactive role in assessing the likelihood of risks and their impact of the disruptive events.

Before disruption - Collaboration with the stakeholders

- Internal Auditor can play a consultative and collaborative role within the company to carry out risk assessment to ensure that all risks are identified. In identifying and monitoring risks associated with the disruptive events, an Internal Auditor can ensure that their impact is measured and addressed through various risk mitigation and risk transfer techniques that support the operational and financial goals of the organization.
- As specific risks are identified, separate modules within the overall response plan can be created. If company has created a Business Continuity Plan/ Disaster Recovery Plan (BCP/DRP), an auditor can review adequacy of the same and provide recommendation to strengthen it.
- Internal auditors can also carry out stress test through simulation or pilot projects to assess robustness and flexibility of the action plan in the event of disruption. They can also help defining KPIs and SLAs as well as escalation matrix through manual or automated workflows.
- Measurement of timely response within predefined parameters, tone of the communication, identification of ambiguity, if any, failure of chain of command and escalation of the same are some of the other aspects which auditors can constantly monitor. In turn, this helps identifying 'weakest links in the chain' to take appropriate corrective actions.

During the disruption – assist decision makers in objectively monitoring effectiveness of risk mitigation

- Internal Auditors can advise pros and cons of various risk responses / risk mitigation strategies related to business travel, work from home approach, remote access to data to stakeholders, sustainability of critical and support operations at current location or post relocation to other locations, interruptions in value chain, and effectiveness of communication with stakeholders, data security, customer churn, sustainability of vendors, timeliness of statutory compliances, staff safety, protection of physical assets and intangible assets (e.g. reputation, intellectual property and brand)
- Internal Auditor can be tasked with assisting decision makers within the company by objectively monitoring effectiveness of risk mitigation. This can be achieved by

independently monitoring achievement of predefined KPIs for each of the disruptive event at functional and activity level and escalating the exceptions requiring executive managements immediate attention to resolve the unattended issues

- Last but not the least, during disruptive events, management may prioritise speedy decision making over corporate governance. An auditor can help organisations ensure corporate governance without adversely affecting speedy decision making by executive management.

The recent COVID19 pandemic has been an acid test for companies and has demonstrated how well or ill- prepared, as the case maybe, organisations are in terms of Business continuity and Disaster Management readiness. It would no doubt make everyone rethink these plans, in not only making them robust, but also revisiting them fundamentally in terms of design of operations. The pandemic has brought the world economy to a grinding halt and it will be difficult to predict how long it will take to regain economic equilibrium and what fall outs there will be for businesses in general and some segments in particular.