

Succeeding amid change and uncertainty: Action plans for audit committees

Protecting brand and reputation

Few things are as valuable and potentially fragile as an organization's brand. Reputations built over years may be destroyed in an instant, often by events outside the organization's control.

Protecting something the organization cannot control is a challenge. Fortunately, brands are not always negatively affected by honest mistakes. Organizations that react swiftly and ethically to correct mistakes usually protect the value of their brand, and may even enhance it. However, organizations that hide problems to fix them quietly – even when acting in good faith – may be penalized for a lack of transparency that creates the perception of having something to hide.

Managing the manageable

In a world dominated by social media, organizations are under greater scrutiny from more directions than ever before. Since that's unlikely to diminish, it's best for organizations to act transparently while taking steps to ensure their actions will stand up to the most critical scrutiny.

Organizations should not view brand management separately from other business activities. Instead, it should be considered an integral part of everyone's job since everyone in the organization contributes to its brand or reputation. Together with the full board and the governance committee, audit committees should ensure that the organization maintains appropriate mechanisms to protect its brand and reputation.

A well articulated Code of Conduct is the foundation for the ethical behaviour of the organization and its employees, partners and other stakeholders. The Code should set out what constitutes appropriate and inappropriate behaviour with clear instructions on how employees should deal with difficult situations and where to go for help.

"Tone at the Top" is also important since employees model their behaviour on that of management. Management must, therefore, act with integrity and make it clear that there will be zero tolerance for improper behaviour by anyone in any position.

Organizations that act ethically and transparently are more likely to retain stakeholder support and withstand attacks on their brand and reputation during difficult times. Reducing staff, closing plants, or outsourcing non-core tasks may be financially necessary decisions, but they may have significant negative impacts for employees, customers, suppliers, business partners and the broader community. Organizations seen to ineffectively address these people impacts often suffer reputational damage, which may lead to significantly higher longer-term costs.

Positive actions, such as a merger or acquisition, launch of a new product or service, or entry into a new market, can also affect an organization's brand, either positively or negatively. Organizations need to fully understand the benefits and potential pitfalls associated with these actions to identify any hidden problems. When entering new markets, for example, organizations need to understand their business, environmental, social, legal, political and fiscal environments. When partnering with others, organizations should ensure that their core values are shared by the partner organization and its employees, suppliers and customers.



Audit committee action plan...

- Ensure the appropriate risk governance/management practices are in place when expanding into new products, markets, geographies or working with new partners.
- Ensure that the organization's Code of Conduct, Whistleblower program and other programs are regularly reviewed to ensure they are functioning effectively and continue to reflect the current operating environment and practices.
- Engage the independent auditor in a thoughtful annual discussion about the organization's fraud risk.
- Ensure that a robust crisis management plan, including communication strategy, is in place.



Controlling the unexpected

Unexpected events – an accident or environmental problem – may damage the reputations of the organizations that are the victim of those events.

A clearly articulated crisis management plan enables organizations to respond to a negative event quickly and effectively – something that is difficult when decisions must be made under stress and anxiety. Crisis management plans must be developed in advance of any problem and should clearly describe:

- Who within the organization and outside it should be contacted when a problem occurs.
- Who will be the organization's designated spokesperson, and the media and other stakeholders to which the spokesperson will communicate.



Fraud and corruption

Few events can shake investor confidence and damage an organization's reputation more than revelations that the organization has been a victim of fraud, bribery or other corruption. The audit committee should ensure the organization is proactive in protecting itself by:

- Undertaking a comprehensive, regularly updated assessment of fraud and corruption risks.
- Ensuring accountability for managing fraud risk in their area of responsibility is an explicit element in managers' performance assessments and compensation.
- Maintaining an ethical Tone at the Top, Code of Conduct and Whistleblowing procedures.
- Maintaining good relationships with regulators, to retain their support if the company has to investigate suspected wrongdoing.
- Predetermining the investigative resources and protocols, including legal and forensic resources in each jurisdiction of operations, to be utilized to quickly investigate potential frauds.

In a crisis, information is often incomplete, which often spawns rumours. Trying to control what is said by others is usually not only a waste of the organization's resources; efforts to refute critics may also be viewed as a cover-up strategy. Instead, organizations should focus on the information they communicate. A good crisis communications plan helps ensure that the actions the organization takes to respond to the event are seen as being genuine and transparent.

No organization can manage everything that may affect it and its reputation. However, organizations with high ethical standards that act transparently and in good faith will be the most successful at protecting the value of their brand.



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