



The Audit Committee's role in Disaster Recovery, Crisis Management and Resilience



This paper looks at the Audit Committee’s role in Disaster Recovery, Crisis Management and Resilience. It considers some of the potential limitations of current risk management, the nature and frequency of corporate crises and the critical role an Audit Committee can provide in the effective governance before, during and after such events.

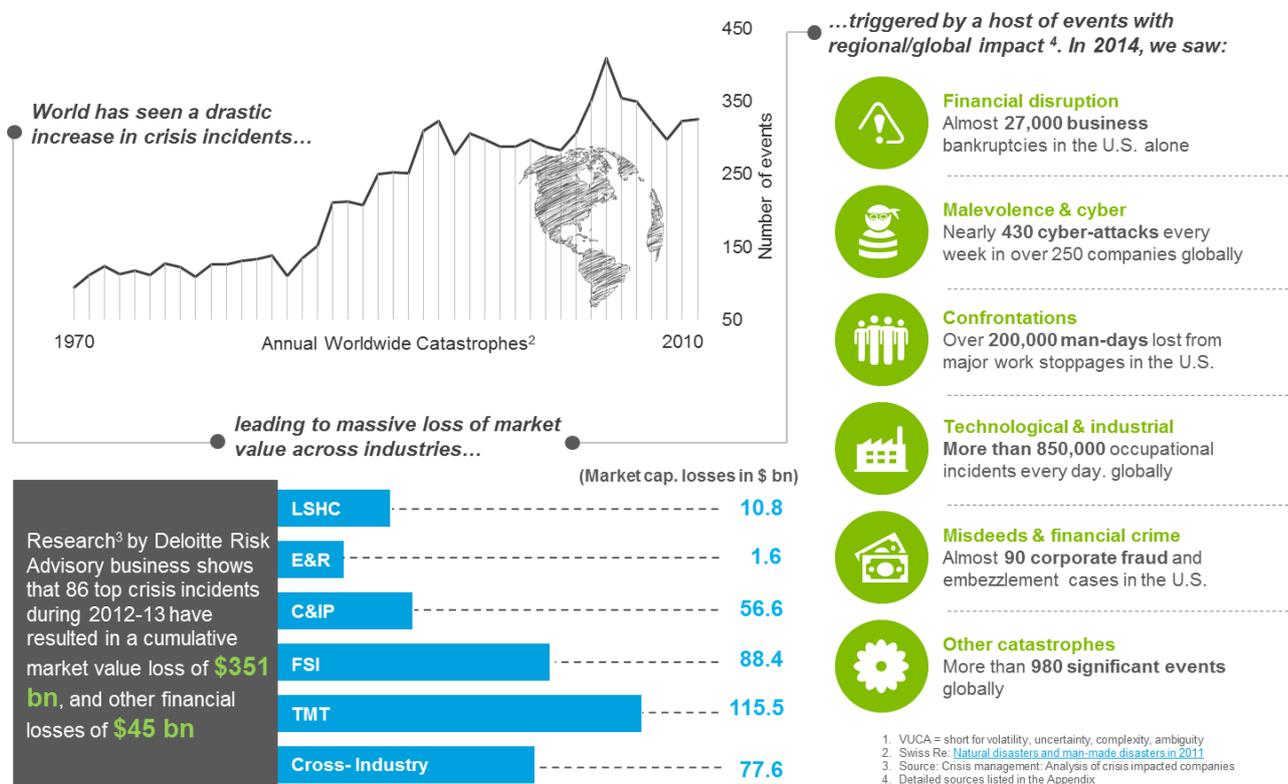
With respect to the Audit Committee’s role in Disaster Recovery, Crisis Management and Resilience, there are three main aspects to consider:

- Its role in seeking assurance over these areas and how it achieves this;
- Its role in supporting the Board in monitoring risk management and internal controls; and
- Its role in respect of the UK Corporate Governance Code, the Principal Risks and longer term Viability Statement.

The relationship between Risk Management, Disaster Recovery, Crisis Management and Resilience

The dynamic, global business environment has led to larger and more frequent crisis events. Risk management processes are often failing to identify or adequately consider an organisation’s readiness to deal with such events.

In part, this is because Disaster Recovery (or business continuity), Crisis Management and Resilience are not always closely integrated with the risk management process or function. As a result they often operate in a narrowly defined context and lack agility in dealing with rapidly emerging risks, leaving organisations exposed to ‘real-world’ events.



Recently, the term Resilience (usually prefixed with other words such as: Operational, Technology or Cyber) has come into increasing use, though often with little clarity or understanding on what is meant by it. At the end of 2014, the British Standards Institution published a new guidance Standard, BS 65000 – Organisational Resilience, which has attempted to define the term and the principles and attributes associated with it. In essence this Standard calls for much closer integration and alignment of Risk Management, Disaster Recovery, Crisis Management and other 'protective disciplines' such as Security.

A key principle of Resilience is the ability to anticipate & assess, protect & control, plan & prepare, and respond & recover in the context of major disruptive or catastrophic risks, whether they are internal or external, known or unknown, in addition to the ability to adapt & reform in the light of longer-term strategic risks such as climate change or changing markets. This provides a more holistic view of the management and mitigation of high impact risks than is commonly adopted.



Developing increased resilience to strategic impact risks or improving 'Risk Resilience' requires risk management, disaster recovery and other disciplines to work together.

The Audit Committee should consider:

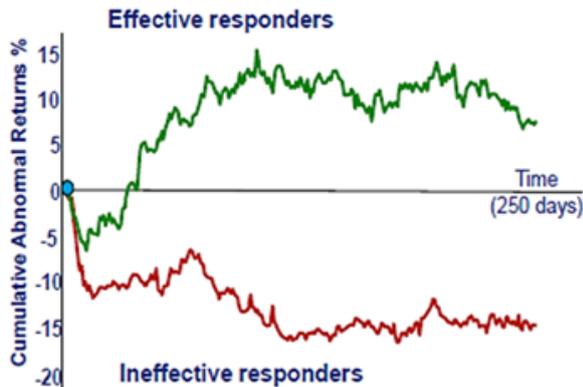
- Whether risk management and other 'risk resilience' related functions are aligned/integrated, and the extent to which 'risk resilience' is being governed and addressed holistically
- How major disruptive or catastrophic risks are identified and assessed, for example, the effectiveness of horizon scanning for external risks, scenario analysis and near-miss reporting, as well

as the organisations willingness to 'think the unthinkable'

- The time horizon over which major disruptive or catastrophic risks are considered
- Whether the scope of risks or scenarios addressed under disaster recovery and crisis management is appropriate
- The robustness of resilience to/planning for major disruption and catastrophic risks (both internally caused and external)
- The extent to which internal audit or external expertise is able/required to provide assurance on the above

Effective Crisis Management is critical now

It is specifically worth considering the importance of effective crisis management in dealing with extraordinary situations, since failure to respond well leads to rapid and prolonged reputational damage/value loss, as illustrated below.



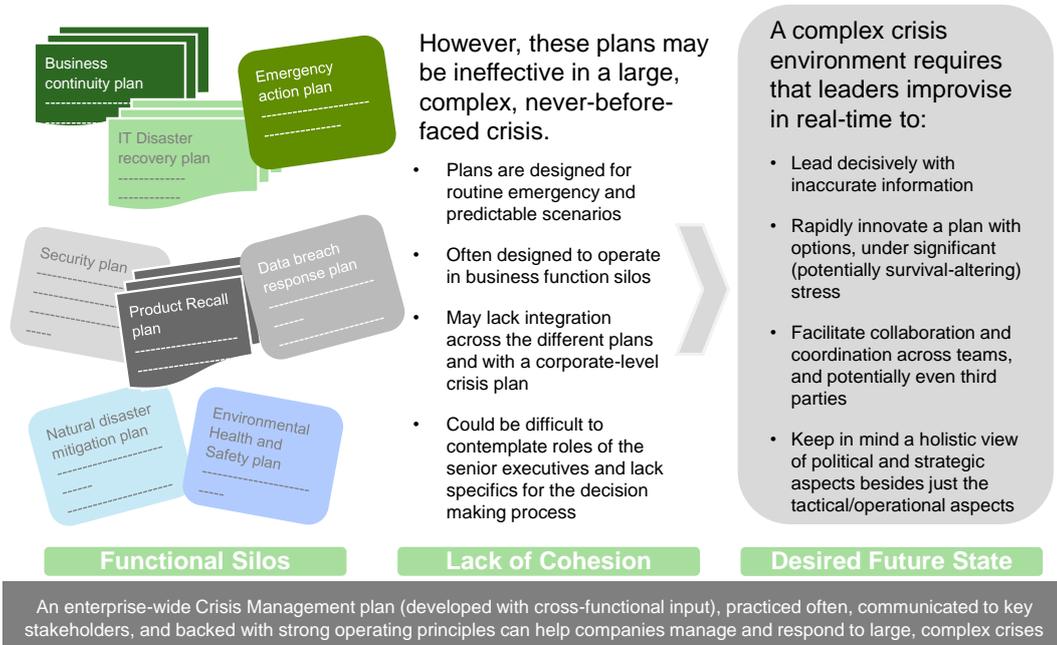
Research from 15 high-profile crises focused on the impact on shareholder value following the crisis

“Reputation Review” (Oxford Metrica and Aon, 2012)

Effective response is about much more than just media, customer and employee communications, vital though these are. It is also about rapidly establishing a highly responsive and adaptive organisation and operating mode, deploying the necessary resources, coordinating effectively across all areas of the business and decision making in a situation which will have a high degree of ambiguity, where there is a lack of information and considerable time pressures.

None of this comes easily, and certainly not without preparation and rehearsal. A well-prepared organisation may have multiple action plans to address the wide range of risks that they face

Crisis communications is a particularly challenging and important area. With the global and pervasive availability of mobile technology, information power has shifted from organisations to consumers. This means in dealing with a crisis, organisations must move with speed, full transparency and empathy. It must communicate at many levels, internally and externally and it should seek to use all channels effectively, including social media.



Executives express confidence in their crisis preparedness

Our own very recent survey (not yet published), conducted by Forbes Insight of over 300 Board members indicates that:

- A solid majority (75%) of board-members surveyed express confidence in their organisations crisis preparedness.
- However, the study also indicated that this confidence is not often backed up by tangible EVIDENCE over what the organisation has actually put in place to be crisis ready.
- Further, there appears to be a significant vulnerability vs planning gap, with many seeing clear vulnerabilities, but far fewer having undertaken robust preparations for them.

These findings, and the points made earlier in this paper, indicate that enhanced governance in this area is necessary. The following sections provide some thoughts on this and the role of the Board and Audit Committee.

The Board and the Audit Committee has two main roles relating to Crisis Management

Under normal business conditions

To ensure that the organisation, including the executive team and Board members are ready to deal with a crisis; the Audit Committee should be seeking this assurance through its oversight of internal audit and related activities on behalf of the Board.

As '**guardians of reputation**' the Audit Committee should ensure that the organisation has a robust crisis communications strategy that engages customers, employees and other stakeholders as part of the organisation's crisis planning and preparations.

During and immediately after crisis

To act in a crisis (often in support of the Executive team, though at times this may include replacing or standing in for key Executives) and to ensure lessons are learnt after the crisis; the Audit Committee members may have

key roles to play as part of the Board or Executive, and the Audit Committee should ensure that independent investigations and reviews post-event are undertaken where appropriate.

The Audit Committee should ask

Under normal business conditions

- Do we have a Crisis Management Plan, with clear roles and responsibilities, and who in the Executive team is responsible for it?
- Have our Executive Management Team been adequately trained and have they taken part in crisis simulation rehearsals; when was the last time they did so?
- Is there a Crisis Plan for the Board and have key Board members taken part in crisis simulation rehearsals?
- Is there a robust crisis communications plan and has this been '*stress tested*' through crisis simulation rehearsals, including the how and by whom?
- What's our perception of the organisation's vulnerabilities and key risks and our confidence in our preparedness to deal with such events should they arise?
- Has our Crisis Management capability been subject to internal audit or external validation?

During and immediately after a crisis

- Is it clear which members of the Board will be responsible for what during a crisis?
- Is the organisation communicating appropriately and transparently to all stakeholders?
- Do we know who we would call upon to support the Board and are arrangements to do this already in place?
- As a matter of course, do we demand an independent review in the wake of a crisis such that lessons may be learned and improvements made in the spirit of full transparency?

FRC and the Updated Code of Practice

The updated code requires a robust assessment of principal risks. This includes:

- Identifying the principal risks, evaluating their likelihood and their impact should they materialise
- Assessing the availability and likely effectiveness of actions they might take, either in advance or when a trigger event occurs, to avoid or reduce the impact
- Be aware of those risks (or combination of risks) that could seriously affect the future performance, solvency or liquidity of the company

It also requires a Viability Statement, which should take account of the organisation's principal risks. This should consider:

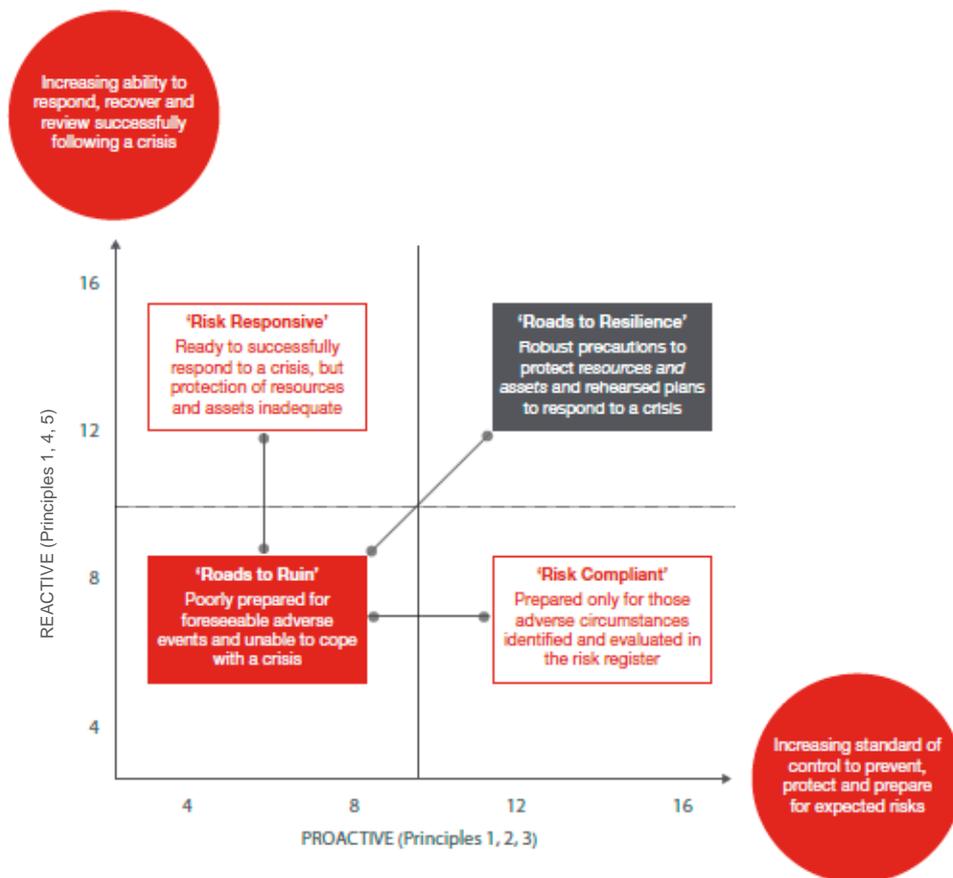
- The timeframe over which such risks should be considered – certainly greater than 12months
- Scenario analysis and modelling of such risks, individually and in aggregate

Many of the points discussed above will contribute to this assessment of Principle Risks and the preparation of the Viability Statement.



In summary

- There is growing acceptance that major disruption and catastrophic risks, often unforeseen, are leaving organisations vulnerable and poorly prepared to respond
- Risk management processes are often failing to either anticipate such risks or ensure the organisation, including the executive management team and the Board, is adequately prepared
- Disaster recovery, crisis management and resilience arrangements have also been found wanting because they have been too narrowly defined and lack agility in dealing with real-world situations
- The pervasive use of mobile technology has dramatically changed the speed at which organisations need to be able to organise and respond to a crisis situation – this is making pre-planning and preparation more essential than ever
- The Audit Committee should seek assurance over the organisation's *Risk Resilience* and *Crisis Readiness*.



“The Changing World of Risk” (AIRMIC, 2015)

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