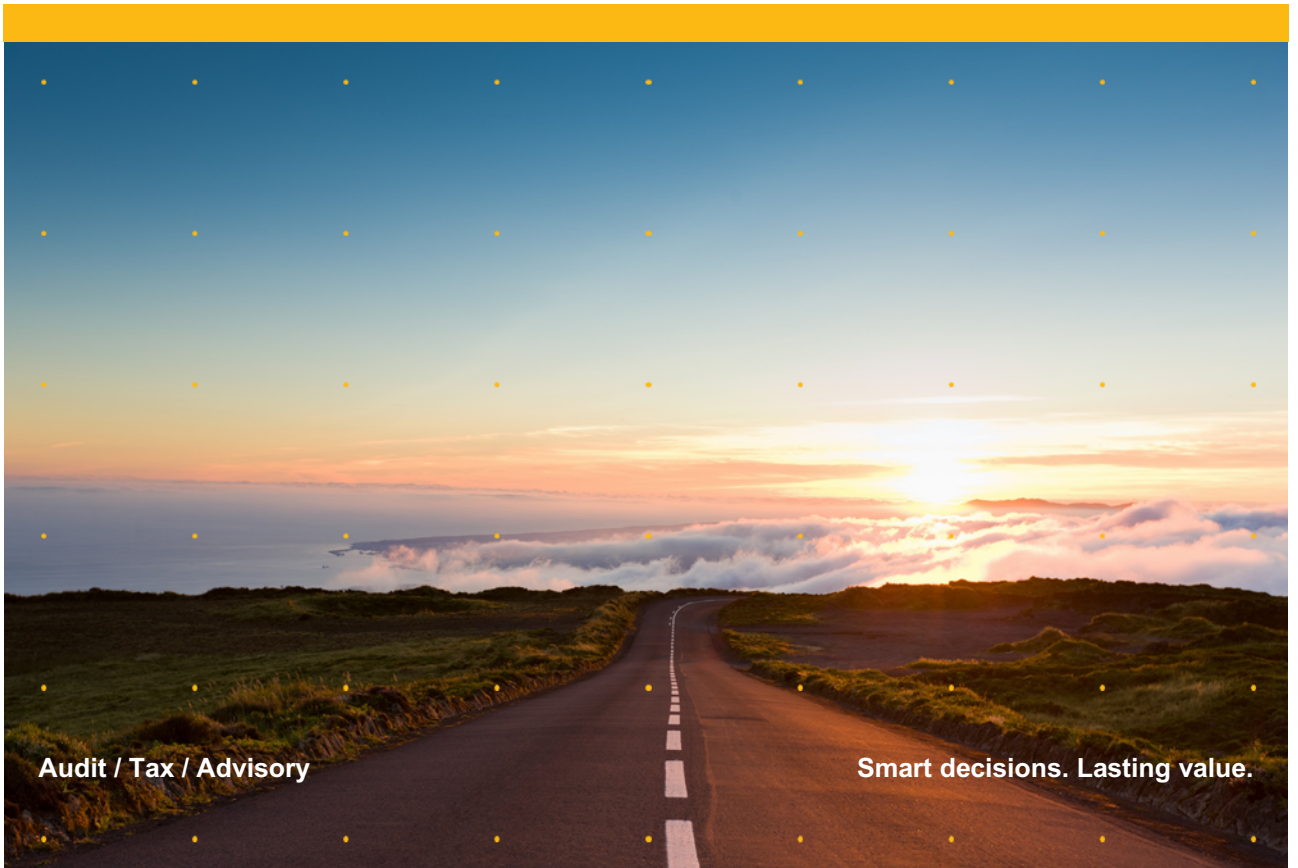




Risk and Crisis Management

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Audit / Tax / Advisory

Smart decisions. Lasting value.

How to manage a crisis and maintain business continuity - Bulletin 5

Today more than ever, those organizations that are not looking carefully at their Risk Management process are destined to disappear in the short term.

The Covid19 health crisis has been a reminder for many organizations that had forgotten to strengthen their internal control systems.

As such, we have prepared for you this issue to provide a broader perspective of risk and crisis management so companies can maintain continuity in their operations.

Identification

It is essential that senior management perform the following:

- **Check-up.** This is a diagnosis of actual business risks. It allows management to visualize which risks need prompt attention.
- **Categorization.** Risks due to their importance must be classified in strategic (i.e. risks that can put at risk the business continuity), financial, reporting and compliance.

Assessment

Once key risks have been identified, the impact need to be assessed in case such risks get materialized.

- **Impact.** Assess identified risks based on their potential economic impact and their probability of occurrence.
- **Priorization.** Prioritize risks according to the probability of impact and occurrence and give the right priority into your business continuity plan.

Response

It is important that organization give certainty on key risks specially in those events that can put at risk the continuity of the operations:

- **Mitigation.** Each identified risk must have its control activity which is supported by a policy as well as a process and control owner who ensures proper mitigation of the risks and the corresponding continuity of the operations.
- **Monitoring.** The process and control owner must supervise on a timely manner proper compliance with his controls to ensure risk factors are not materialized.



The Role of the 3 Lines of Defense Model

The 3 Lines of Defense is a Model that plays a key role in a crisis management towards getting confidence in the business continuity.

The 3 Lines of Defense Model can help organizations to get back their confidence and meet their objectives so business needs and interests can be properly satisfied.

Strengths of the Model:

- It is simple to understand and easy to communicate.
- A solid tool to promptly response to threats and opportunities.
- Offers a base to achieve clarity and efficacy of the activities and resources to manage risks.
- Describe the roles to be performed by each of the functions and owners.
- Provide a helpful approach to analyze the independency, objectivity and assurance.

First Line of Defense

It is integrated by the process and control owners who manage their key risks.

- Control owners must ensure that their key risks are duly and timely mitigated.

Second Line of Defense

It is integrated by the internal control function and those areas that support management such as quality, IT, legal, among others.

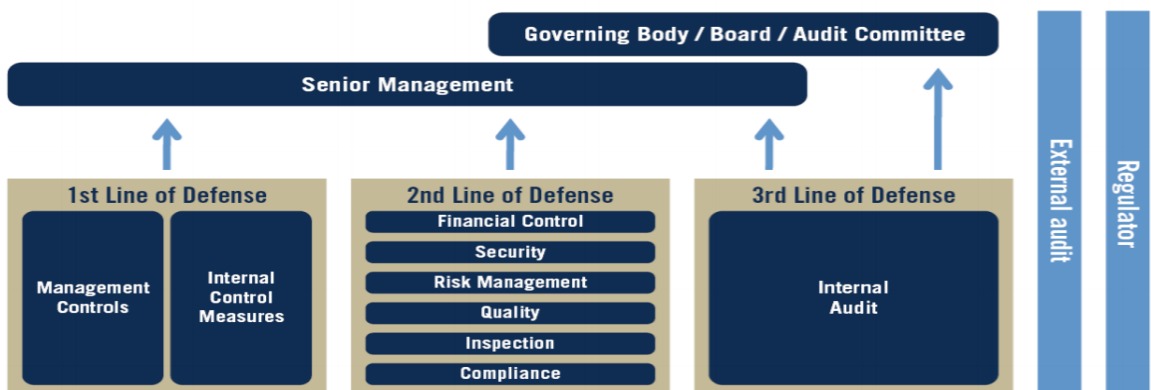
- It must assist first line (process and control owners) in adequately designing the control activities and properly train in such controls to have a proper mitigation of risks.

Third Line of Defense

It is led by the Internal Audit Function that reports to the Audit Committee.

- It must assess the effectiveness of the controls and provide recommendations in order to strengthen processes and controls.

The Three Lines of Defense Model



Source: The Institute of Internal Auditors.

Immediate Actions

In Crowe, we recommend our clients key actions to manage the actual crisis on an effective way in order to maintain the business operations as much as possible.

Immediate Actions

- Identified new risks raised as a result of the actual crisis by performing a risk diagnosis.
- Determine what key decisions must be made by the corporate governance players (i.e. board of directors, committees, among others) to act promptly.
- Plan alternative business and financial sceneries in the event Plan A does not work as intended.
- Realign internal structures for an effective reporting and communication.

Short Term Actions

- Ensure that proper communication channels exist.
- Assure actual and new risks are being mitigated by process and control owners.
- Assess potential impacts of new risks and align the business continuity plan to mitigate such impacts.

Ongoing Actions

- To become digital-oriented. Those organizations that are not digitally transformed based on innovation technology are destined to disappear.
- To automatize processes. To perform routine tasks by technological robots is positioning organizations not only to overcome the competence but also to remain active and as a key player in the market and industry in which they operate.
- To implement best practices around risk management taking into account the 3 Line of Defense Model.
- To create an integrated and agile supply chain management.

With no doubt, an adequate business continuity plan and crisis management can put any organization in a better position to face the risks the actual health crisis is bringing about. As the author Andres Oppenheimer says: Innovate or Die.

Crowe Gossler Team

