



Directors Forum

Publication No. 5

COVID-19: Key considerations for Directors

September 2020

About the Directors Forum

To support the MloD in building more effective Boards and to promote good corporate governance, the Directors Forum (the Forum) was set up in 2012, in collaboration with PricewaterhouseCoopers (PwC) Mauritius. The Forum acts as an Advisory Council and Technical Committee to the MloD.

Its objectives are to:

- Identify issues which are of most concern to directors,
- produce position documents and, through consultation with Government and regulators, contribute to policy development,
- be the voice for governance and directors' issues in Mauritius,
- develop guidance on governance issues in Mauritius.



The current Position Paper was drafted by a sub-committee composed of Aisha Timol, Aruna Radhakeesoon, Linda Mamet, Michael Ho Wan Kau, Georges Leung Shing, Pierre Dinan, Aroona Jagurnath and Nafeeza Mulung.

Collectively, the Forum is made up of members who are respected local directors and professionals with backgrounds in law, economics, finance and accounting, corporate and securities regulation, business and academia, private and public sector:

- Linda Mamet (*Chairperson*)
- Mahomed Aniff (Mamed) Baboo
- Prabha Chinien
- Pierre Dinan
- George Dumbell
- Michael Ho Wan Kau
- Aroona Jagurnath (*Secretary*)
- Georges Leung Shing
- Catherine McIlraith
- Giandev Moteea
- Nafeeza Mulung (*MloD Coordinator*)
- Aruna Radhakeesoon
- Kevin Teeroovengadum
- Aisha Timol

Position Paper series

Previous Position Papers produced by the Forum are listed below and can be accessed at www.miod.mu and pwc.com/mu.

Paper 1:

Best Practice Guidelines for the Appointment of Directors
(September 2012)

Paper 2:

An Ethics Guide for Boards
(December 2013)

Paper 3:

Engaging with Shareholders – A Guide for Boards
(September 2014)

Paper 4:

Board Evaluation
(November 2019)

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1 Executive Summary

The objective of this paper is to guide Mauritian Boards to identify the key Board responsibilities that should be given special considerations during and after the COVID-19 pandemic.

These include: strategic leadership; financial oversight; human resources and remuneration; IT infrastructure and skills; risk oversight; external auditors and communication.

The Paper also describes the enhanced roles of members of the top management, the Board and its Committee members during and after the COVID-19 crisis.



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2 Introduction

The COVID-19 pandemic has spread at an alarming pace, infecting millions of people, and drastically halting economic activities around the world as a result of lockdown measures imposed by most governments. Mauritius is no exception.

Contracting demands for goods and services, disrupted supply chains, rising inflation and unemployment rates, and depreciation of the local currency, are some of the impacts felt by the Mauritius economy.

These have resulted in Mauritian organizations undoubtedly juggling with a number of unprecedented challenges and risks.

Clearly, the Board of Directors (the Board) is required to remodel the ways in which roles and responsibilities are executed to provide direction to its organization during this critical situation, whilst ensuring the maintenance of good Corporate Governance practices.



This paper aims to provide guidance for Directors and the Board in these challenging times.

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3 Key considerations for the Board

3.1. Strategic Leadership

The COVID-19 pandemic arose as a black swan event, i.e. a totally unexpected one which is unlikely to vanish as quickly as first thought. The Board now needs sustained efforts to ride this very serious wave with a high probability of long-term negative impacts. The Directors are required to consider how to build improved resilience in the evolving risk environment.

In the Strategic Leadership and Planning of the organization, the Board Members need to:

- anticipate emerging threats and opportunities;
- challenge their own and other assumptions;
- interpret evolving patterns impacting the organization;
- align with stakeholders via communication;
- have the courage of their convictions and adopt robust decision processes; and
- learn from both successful and unsuccessful outcomes.



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3 Key considerations for the Board (continued)

3.2. Financial Oversight

Financial oversight is an important Board duty, carried out with the proactive relevant information provided by Management. In exercising its oversight responsibilities, the Board may need to consider the following key aspects:



Financial Impacts

Review the short-, medium- and long-term financial impacts of COVID-19 on the organization against its budget/forecast and take remedial actions if its financial position is not strong enough.



Liquidity

Assess whether the organization's liquidity position during the pandemic would be able to meet its current and long-term obligations. Additionally, there may be a need to review the lines of credit and look for financing options, both in local and foreign currency.



Dividends

The dividend policy may have to be re-considered in the light of future financial requirements and the overall economic environment.



Capital

The adequacy of capital should be periodically assessed.



Financial service providers

Consider the assistance programmes, public/private and local/international, in which the organization may participate and benefit from.

More importantly, International Accounting Standard (IAS 1) requires the Board to make an assessment of an entity's ability to continue as a going concern, taking into account all available information about the future. The Board must therefore consider whether, due to the pandemic, material uncertainties exist that may cast significant doubt on the entity's ability to remain as a going concern. The events or conditions identified to cast such doubt and the measures taken to deal with them must be adequately disclosed in the financial statements.

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3 Key considerations for the Board (continued)

3.2. Financial Oversight (continued)

Extensions which were given for deadlines for submission of financial statements or summary

The Registrar of Companies (RoC), the Financial Services Commission (FSC) and the Stock Exchange of Mauritius (SEM) extended the deadlines for the filing of documents as well as for the publication of financial statements of listed companies.

- The RoC has given a two-months extension after the confinement (19 March to 31 May 2020) for filing of financial statements or summary and other financial documents.
- The FSC has given a 90-day extension for the filling of annual reports and financial statements.
- The SEM has extended to 30 June 2020 the deadline for the publication of financial statements by listed companies, for the period ended 31 December 2019.



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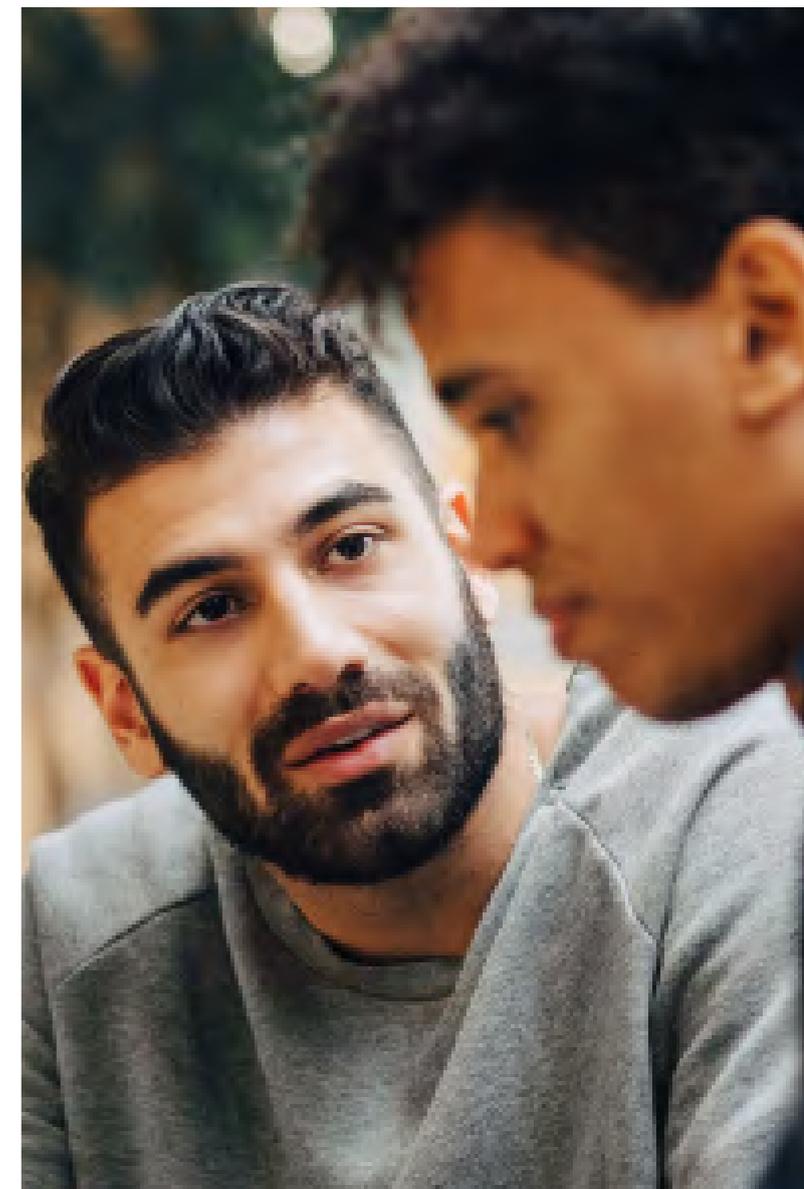
Key considerations for the Board (continued)

3.3. Human Resources and Remuneration

The COVID-19 pandemic has reinforced the need for the Board to ensure succession planning for each senior management and other key positions to ensure business continuity. In several organizations, the Board has clearly adopted a cost-cutting strategy, which includes employees being laid off or accepting cuts in salaries and fringe benefits.

A balance must be maintained between such cuts and retaining valuable talent within the organization after considering the conditions imposed to benefit from assistance programmes.

The Remuneration and Nomination Committee, responsible for assessing the need for remuneration cuts at Board and top Management level to support the organization's financial position, should ensure that the salaries and fringe benefits remain adequate to retain Executives and attract new ones.



In addition, the Board needs to show **empathy** with Management to help cope with all the diverse challenges being faced during the crisis.

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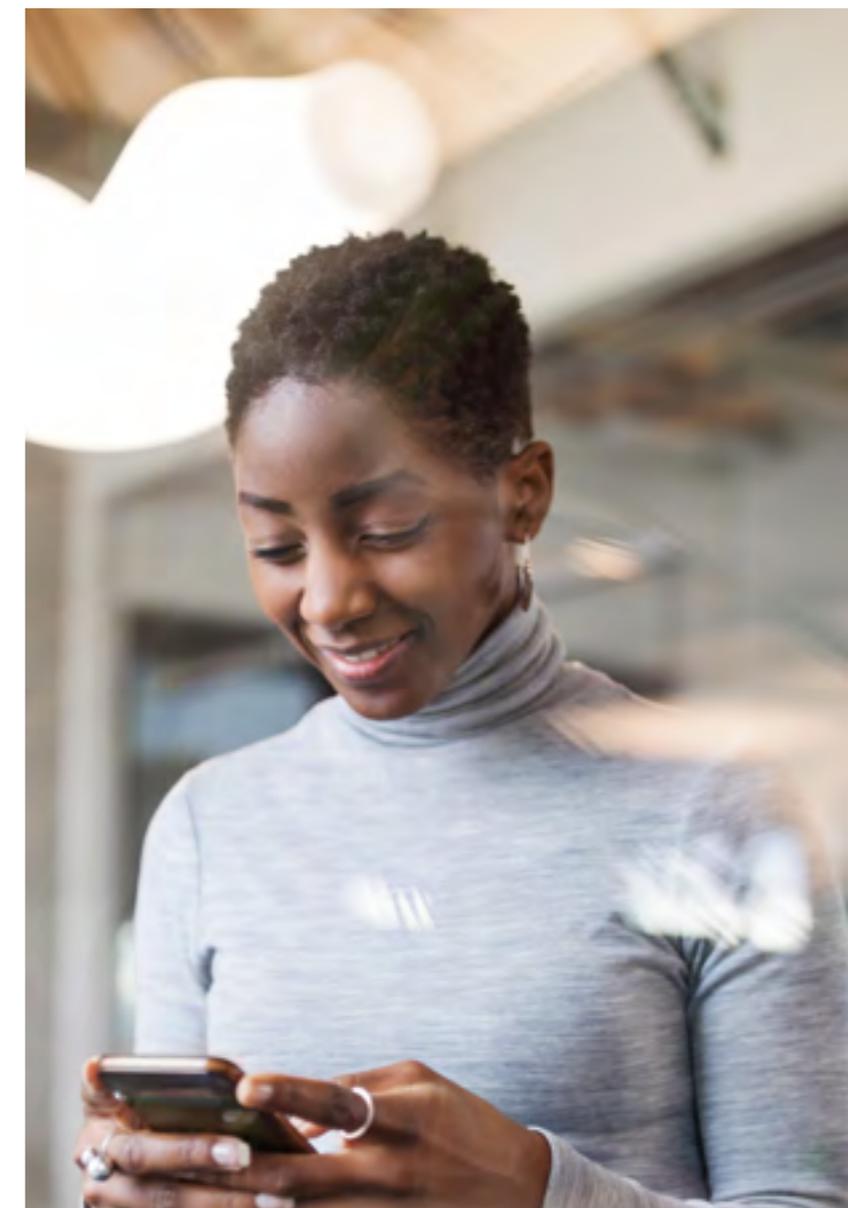
Key considerations for the Board (continued)

3.4. IT Infrastructure and Skills

During the COVID-19 crisis, the Board and Management have realized the need to step up the digitalization of significant parts of the organization to protect employees and customers and to ensure business continuity.

As a result, the following IT issues may need to be considered:

- What is the resilience capability of the existing technology infrastructure?
- Can the infrastructure support extensive remote access demands?
- Can the infrastructure enable employees to work from home seamlessly?
- How to secure and maintain the systems and data?
- Are the resources sufficiently robust to withstand any cyber-attack?
- Is the cyber insurance coverage adequate?



The Board members need, more than ever before, to be comfortable with **digital technology** including e-Board-packs, online platforms and digital signatures.

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3 Key considerations for the Board (continued)

3.5. Risk Oversight

As a result of the COVID-19 crisis, the existing risks that have been heightened include health and safety of employees, financial, business travel, IT-security, interruptions in supply chains and reduced air flight capacity due to closed frontiers. It is crucial for the Board to understand and oversee the risks and to allocate sufficient time to the analysis of the risk matrix.

The Audit and Risk Committee (ARC) would need to reassess the risks for communication to the Board after the conduct by the Internal Auditor of an in-depth assessment of the full range of immediate and other risks being faced by the organization. The ARC is also responsible for reviewing and updating the Enterprise Risk Management Framework, Business Continuity/Contingency plans and insurance coverage.

The ARC must also ensure that internal controls are adequately reassessed and complied with since there is a heightened risk of bypassing internal controls during the COVID-19 crisis.



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Key considerations for the Board (continued)

3.6. External Audit

Increased interaction of the ARC and the Board with the External Auditors will be required to discuss the impact of the pandemic and new transactions being contemplated which may affect not only the classification, recognition and measurement of financial statements line items but also the future results, financial positions and financial ratios.

The most obvious impact on the financial statements is the impairment of financial assets, such as loans and receivables, and non-financial assets, such as goodwill, property, plant and equipment, intangible assets and inventories. Other areas that should be reviewed are:

- fair values of assets and liabilities – disclosures on valuation measurement techniques and sensitivity analysis;
- the timing of recognition of Government assistance or reimbursement thereof;
- deferred tax assets – will there be future taxable profits to recover them;
- retirement benefit obligations - changes in the discount rate or expected future increases in salaries;
- borrowings – new terms may have to be recognized;
- lease concessions – accounting impact;
- revenue estimates - measurement of variable considerations;
- hedge accounting - whether forecast transactions are still highly probable, or no longer highly probable but still expected to occur or no longer expected to occur. A proportion of the hedging reserve may need to be recycled to profit or loss; and
- covenant breaches - may result in reclassification of borrowings to current if not rectified or waived before the end of the reporting period.

Finally, the External Auditors will also report on such material uncertainty as may have been identified by the Board when fulfilling their financial oversight responsibilities mentioned in previous paragraph 3.2. The Directors are encouraged to discuss with their Auditors the manner of reporting on their organization remaining a going concern.

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4 Communication

There is a need for the board to ensure that the organization has an effective communication structure and policy in place for dealing internally and externally with COVID-19 related issues.

4.1. Communication within the Board

In line with the National Code of Corporate Governance 2016 (the Code) and the Financial Services Act 2018, the Board may carry out meetings via means of audio, or audio and visual, communication by which all the members participating and constituting a quorum can simultaneously hear each other throughout the meeting.

4.2. Communication with Committees and Management

During the COVID-19 crisis, the Board must consider consistent engagement with its Committees as well as with Management in between regularly scheduled Board and Committee meetings. Communication channels should be put in place for the reporting of material events in a timely manner to enable both the Board and Management to respond rapidly and assertively.

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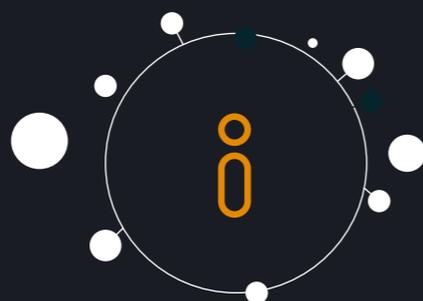
4 Communication (continued)

4.3. Communication with shareholders and other stakeholders

Given the current pandemic, it is crucial for the organization to inform and respond to the shareholders and other stakeholders in a meaningful manner. This encompasses addressing their concerns or any misinformation they might have, while also ensuring that the Board is open and transparent in its communication.

The Board, with the support of the Management team, may need to prepare strategic messages for stakeholders on the impact of the pandemic on the operations. These could also elaborate on the steps being taken to reduce risks, the liquidity status of the organization, and the processes being put in place to rebound after the crisis.

To enhance the confidence of shareholders, public disclosure could be used as an opportunity for more engagement. Communication with them could provide a transparent assessment while avoiding unrealistic expectations.



Extension of deadline for the Annual Meeting of Shareholders

The Annual Meeting may now be held nine months within the balance sheet date, or such further period as the Registrar of Companies determines and is no longer required to be within the fifteen months following the previous Annual Meeting.

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5 Enhanced roles of Board Members and key persons



Interactive:
Tap or click on
the icons to read



Chairperson



Secretary



CEO



Independent
Director



CFO



5.1. Chairperson

The pandemic is seriously challenging the leadership of both the Chairperson and the Chief Executive Officer (the CEO). More than ever, the posts should be occupied by two separate individuals, as required by the Code, to enable the Chairperson to effectively challenge Management decisions on the future vision and strategy of the organization, and, when so required, act as a soundboard to Management.

Whilst more regular interactions with the CEO are encouraged for support and guidance, the Chairperson must know when to step in to help Management and also when not to interfere. He/she should refrain from getting involved in the operations and executive decision-taking. There needs to be the right balance in this involvement.

More and more, Chairpersons are being called upon to communicate with shareholders, employees and the authorities, in an attempt to offer reassurance that the organization is being properly steered.

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5 Enhanced roles of Board Members and key persons (continued)



5.2. Secretary

The Secretary to the Board (the Secretary) has been ‘perpetually on call’ during the pandemic, convening at short notice virtual Board/Sub-committee/Management crisis meetings, whilst experimenting with virtual shareholders’ meetings. Acting as a ‘conduit’ between the Board and Management, in these uncertain times, the Secretary must demonstrate greater resilience, agility and creativity to ensure that the Directors are adequately equipped to discharge their duties at Board meetings.

During the pandemic, the Secretary will be required to communicate in a timely manner any legislative changes to the Directors and Management, and also matters which may need the Directors’ and Officers’ liability insurance cover to be reviewed. He/she will have to pay particular attention to the contents of the documents for virtual meetings to enable them be more productive.

The Secretary will be hugely solicited by the Directors, Executives and other stakeholders during these uncertain times; knowing where and to whom to channel such queries promptly will be important.

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5 Enhanced Roles of Board Members and key persons (continued)



5.3. Chief Executive Officer (CEO)

The challenges faced by the CEO have increased geometrically due to the pandemic. The foremost challenge is the health and safety of the employees who need to be provided with a safe working environment. Another priority remains the maintenance of livelihoods.

The CEO should thus keep in focus the sustainability of the organization which, if impacted too heavily by the lockdown and prevailing adverse economic conditions, would result in increased risks of pay cuts and redundancies. Then, there is the urgent need to have IT platforms which are boundary-less and secure, in order to facilitate efficient work-from-home modes of functioning.

The numerous operating constraints include strained supply chains, liquidity concerns, financial strains, absenteeism, which must all be tackled proactively and efficiently.



5.4. Independent Director

During these exceptional times, the role of the Independent Director as watchdog has amplified and a revitalised contribution is called for to protect the organization through potential economic distress.

The Independent Directors, guardians of governance, should not hesitate to challenge Management on strategic dimensions, whilst ensuring that adequate policies and guidelines are put in place or are reinforced to protect the various stakeholders.

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5.5. Chief Financial Officer (CFO)

In many organizations, the CFO has been crucial in leading the business through the COVID-19 crisis. Even more frequent collaboration has been required across the various functions to assess liquidity while conserving cash.

As the organization will not necessarily be able to return to usual financial management, the financial plans and processes require review and re-imagination. The CFO is now expected to be quicker and more flexible in forecasting and planning, and the function could include the following critical areas:

- setting various business scenarios;
- introducing flexibility in preparing forecasts;
- implementing “contingent resourcing”;
- refining reporting on performance;
- fast-tracking decision making; and
- obtaining the commitment of Management and the Board for bold strategic decisions with their constant support.

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6 Conclusion

Based on McKinsey & Company's article in June 2020 on 'Coronavirus: 15 emerging themes for Boards and executive teams', the Board may need to take the responsibility to coach and support the Executive team, while also being open to handling disagreements comfortably.

It is up to the Board to:

- build resilience to achieve goals and aspirations following the pandemic;
- take cognizance of the sentiments of all stakeholders and ensure good communication channels are in place;
- build stronger relationships and maintain close and regular contact with Financial Service providers, regulators and the Government;
- keep up-to-date with the financial position of the organization and evaluate projected financial scenarios, on an ongoing basis and in light of rapidly changing situations;
- keep track of existing risks not associated with COVID-19; and
- face reality and identify areas that need special attention.

More than ever, it is important for the Directors to recognize their roles and responsibilities and adopt good governance practices to be able to deal with current and future challenges. ■

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7 Useful Links and References

Useful Links

Corporate and Business Registration Department > Home Documents

<http://companies.govmu.org/English/Pages/HomeDocuments.aspx>

The COVID-19 (Miscellaneous Provisions) Bill (No. 1 of 2020)

<http://mauritiusassembly.govmu.org/English/bills/Documents/intro/2020/bill012020.pdf>

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