

Managing the risk of a ‘bird flu’ pandemic – a Chartered Accountant’s perspective



By Wendy McGuinness

(McGuinness Institute, 2005)
[Chapter 3 Supply and demand challenges]

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International concern about the so-called “bird flu” continues to rise, and a growing number of companies are realising they need to launch their own “pandemic contingency plan”, as reported in the *Financial Times* in October.

Myles Druckman, vice-president of medical assistance at International SOS, a US-based medical consultancy with 6,400 corporate clients, stresses that while companies may have general contingency plans in place, “you have to tailor your responses to a potential pandemic, which are a little different from, say, a bomb ... A pandemic is a phased process and you need to be able to respond differently at different stages.”

In this article I review the current landscape and provide a general context for further thought and discussion. To this end, Chris Peace of Risk Management Ltd has contributed a graphical assessment of the pandemic risk compared with other, national scale risks; and Rachel Farrant, a partner at BDO Spicers, has supplied some responses to key questions about what a pandemic might mean for Chartered Accountants in public practice.

The current landscape

A seminar held at Te Papa in Wellington on 1 November by the New Zealand Society for Risk Management Inc, entitled *Avian influenza (bird flu) – the next pandemic?* (sponsored by MARSH, Solid Energy – Coals of New Zealand, URS New Zealand, Air New Zealand and ACC), drew the big picture. Table 1 outlines seven key observations from the seminar:

The scale of risk due to an influenza pandemic is significant as shown in Figure 1, where the risk levels (after taking into account current controls) of four events are mapped and compared: the influenza pandemic (risk 1), a nuclear-powered ship suffering a radiation leak in Wellington harbour (risk 2), a major earthquake in Wellington (risk 3) and a Boeing 737 crash (risk 4). As can be seen, the current level of control for an influenza pandemic still

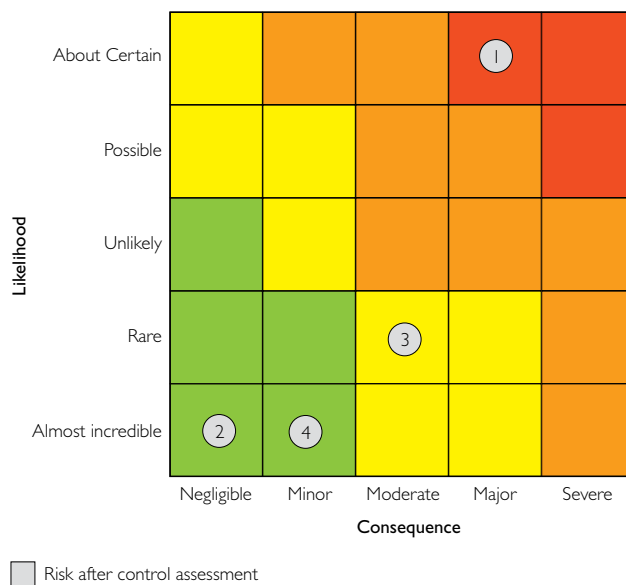
leaves the country exposed to a high level of risk, whereas the other risks are at much more acceptable levels.

As suggested by Druckman, the seminar clearly identified that a phased process was likely, and that each phase would require a different response. Consequently, it is clear businesses, communities and families should plan for:

(i) a potential full border closure until a vaccine is developed.

The period of time between the first outbreak and the development of the appropriate vaccine will be a critical factor in managing the risk. This is currently expected to be in the range of six weeks to six months. Consequently, the longer New Zealand can keep the virus out (i.e. reduce the gap), or ideally, completely prevent the virus entering New Zealand (resulting in the second phase not occurring), the fewer negative effects on human health and the economy.

Figure 1. Controlled Risk Matrix: national scale risks in New Zealand



	Risk	Control Consequence	Control Likelihood	Control Risk
1	Avian influenza – national impacts	Major	Almost certain	Extreme
2	Radiation from nuclear powered ship	Negligible	Almost incredible	Low
3	Earthquake on the Wellington fault	Moderate	Rare	Medium
4	B 737 crash – domestic flight	Minor	Almost incredible	Low

(Source: Risk Management Ltd, November 2005)

(ii) a potential influenza pandemic within New Zealand.

If the pandemic arrives, New Zealand should expect as many as three waves over a six-month period. Each wave of infection should be over in around eight weeks and most sickness will be concentrated in the middle of this period. Hence, in each wave, there may be a number of weeks where it would not be possible to conduct business as usual.

Directors and managers may find it useful to consider in advance how to operate their business if the border is closed, or in the second phase, how they can best maximise the health of their staff and families, maintain the value of their assets (cash, crops, animals, etc) and manage distribution systems, maintain critical infrastructure assets and services and where possible, meet the new needs of the wider community where people will be sick and/or absent.

Planning for these two contingencies will not only soften the blow if a serious influenza does develop, but as an island nation, any actions taken now must significantly improve New Zealand's recovery from a wide range of potential disasters in the future.

A pandemic contingency plan

New Zealand business has, in the past, had to manage significant external risks, notably the 1998 power failure in Auckland. The subsequent inquiry and resulting report, "Auckland Power Supply Failure 1998: The Report of the Ministerial Inquiry into the Auckland Power Supply Failure", discussed the governance and accountability role of public companies' directors. Table Two provides an excerpt.

The power failure not only resulted in a general improvement in risk management but also is perhaps our most recent example of how firms can adapt and respond to such external risks. For example, as noted in Telecom's 1998 Annual Report (p8): "When the power failed in central Auckland, some extraordinary efforts by Telecom helped keep businesses running. Staff and their computers were able to move to premises outside the blacked-out area, often into their own homes, because Telecom provided the essential links to alternative workplaces and started a huge programme of free Call Diversions."

Preparing a pandemic contingency plan is a new concept that raises a number of questions for Chartered Accountancy firms with, as yet, very few answers.

A Chartered Accountant's perspective

Rachel Farrant, a partner at BDO Spicers (Wellington), has some answers to key questions about the potential risks of bird flu and how the resulting impacts could be managed.

1. Has BDO Spicers discussed in detail the potential risk of a pandemic and if so, to what degree is a pandemic contingency plan in place?

A bird flu pandemic has only recently appeared on our radar. We are aware of the October 2005 reports by the Ministry of Economic Development and the Ministry of Health, in particular the Business Continuity Planning Guide. The issue has been raised at a partners meeting and we have discussed the need to review our current contingency plan, but we have not yet completed the process. As we currently have a policy of providing flu vaccines

to all staff, I expect we would continue this practice by offering staff the bird flu vaccine, once it is developed.

In a general sense, a pandemic has consequences for both our firm and our clients, so issues like "key man insurance", wills, succession planning, maintaining accurate contact details, flexible working hours, maximising the health of staff and clients (for example, "if you are sick, stay home", quality hand-washing, minimising shaking hands, maximising availability of tissues), and considering issues surrounding tax deductibility of pandemic expenditure and legal liability, will have to be addressed.

2. Have any issues been raised by staff or clients?

Not to date, although one IT client has discussed buying masks and also, if necessary, the new vaccine. In my view, although a small number of people are worried about the implications, most see the risk in the same context as SARS and Y2K – that is, "crying wolf".

3. After reading the seven key observations in Table I, can you provide your thoughts on the potential implications for staff, clients and the community, under both phases, that is:

P (i) a potential full border closure until a vaccine is developed (from six weeks to possibly as long as six months)

This would impact on international business and staff travel. Obviously staff being trapped overseas is a serious concern. In regard to business services, we have international offices, so I expect we could easily outsource international commitments and offer reciprocal services.

Many of our clients would not initially be affected by closing the border; but businesses operating in the tourist industry and exporters sending goods by air would immediately feel the full effects. Relevant issues would include storage of perishable products, redundancies and subsequent cash flow problems for those with high fixed costs. It may take several weeks for the full effects to ripple through to other parts of the economy but there may be some winners. For example, New Zealand's home-grown produce, lifestyle products and services, and medical and nursing products and services may experience increased turnover. Other entities may also find a little bit of Kiwi ingenuity goes a long way – for example factories previously dependent on imports may either change methods of production or divert resources to other products.

In this phase, I imagine that BDO Spicers will put additional resource effort into preparing for the worst case – the arrival of deadly avian flu in New Zealand. Hence our focus would be two-fold - helping our clients through the initial impacts of a border closure while working to develop long-term strategies and practices to manage the effects of a potential pandemic in New Zealand.

(ii) a potential influenza pandemic within New Zealand

Provided the IT systems are working, I can imagine a scenario similar to the Auckland power crisis in 1998. Current policy at BDO Spicers is that only partners can take files home, but as indicated in 1998, extreme situations call for extreme solutions.

During the power crisis many of the Auckland staff either worked from home or other locations around the city. Importantly, the focus was on urgent tasks rather than what was important in

the long term (i.e. tasks that could be left a few months). Naturally, anything to do with cash was given a high priority.

In a pandemic, government expenditure is likely to be significant while at the same time, the tax take could hit an all-time low. Consequently, reporting requirements, like those of the NZX and Inland Revenue, may need to be more flexible to meet the significant challenges of auditing and verifying information at a time of high absenteeism and travel restrictions.

In addition, creditors, banks and other financial institutions will be challenged by clients unable to pay interest or invoices, and a flexible approach will need to be developed in order for businesses to recover quickly. Some industries will be able to recover more quickly than others and the speed of recovery will depend on which groups are affected. For example, restaurants, gyms and movie theatres should recover very quickly, whereas other sectors may struggle.

For the accounting profession, the closure of PCE1 and PCE2 educational colleges may create a gap in the expertise in the accounting profession that could be felt for a number of years to come. However, this may be easily resolved by emailing assignments.

Further information

Information on the probability of a pandemic and the management of the possible consequences of a pandemic is constantly under review. Those interested should refer to the following websites: in New Zealand, www.med.govt.nz/irdev/econ_dev/pandemic-planning/index.html and www.moh.govt.nz/pandemicinfluenza, and internationally, www.who.int/csr/disease/avian_influenza/en/. For those interested in understanding how New Zealand coped with the 1918 influenza pandemic, check out a book called *Black November*; by Geoffrey W Rice (revised edition 2005, Canterbury University Press), now on sale.

Table One: Seven key observations from the seminar on Avian influenza (bird flu) – the next pandemic?

1. Scientists agree there will be another influenza pandemic but it is not possible to predict when this might occur. There have been three in the last century. Influenza spreads readily from person to person via droplets and aerosols (sneezing) and hand/mouth transmission.
2. The pandemic may or may not be deadly enough to require the closure of the New Zealand border.
3. The key triggers for closure of the New Zealand border currently include:
 - (i) The World Health Organisation (WHO) confirms sustained human-to-human transmission (although WHO does not encourage countries to close their borders as a control procedure)
 - (ii) New Zealand officials strongly suspect human-to-human transmission overseas
 - (iii) Australia and/or Singapore close their borders.

If deadly but not in New Zealand

4. Past experience and mathematical modelling indicate that a partial border closure is unlikely to work. Consequently full border closure is the only solution and this may have to be sustained for many months, until a vaccine is available. Notably, New Zealand residents overseas may be required to stay away, overseas residents may be required to stay (NZ has approximately 200,000 international visitors a month) and will need to be accommodated, and all imports and exports stopped (with the possible exception of essential supplies) for a maximum of six months.

If deadly and in New Zealand

5. There will be isolation of the sick. This will mean the need for timely testing (probably by swabs) to detect the early entry of the virus to NZ, and possibly the timely creation of flu hospitals (i.e. in days/weeks). Options might include quarantine, closure of buildings/areas, a restriction on public gatherings, minimal internal travel and closures of schools and universities. These options may or may not slow the spread of illness. To be successfully implemented, such an approach will require major public support.
6. What is clear is that once bird flu is in New Zealand it will be very difficult to manage because:
 - (i) patients are likely to be contagious 24 hours before symptoms develop – children may be infectious for up to three weeks (hence the proposal to close schools)
 - (ii) some patients may be contagious but never develop symptoms
 - (iii) other individuals may have symptoms but not have the pandemic flu. (If human to human transmission does occur, bird flu symptoms are likely to initially appear similar to today's viruses.)
 - (iv) hospitals are likely to be full (they are currently approximately 90% full) and may neither have the beds nor wish to risk transmission to already unwell patients. Although a range of options are being developed for expanding acute sector capacity, the public may be asked to assist with the care of contagious patients in their own homes.
7. Past pandemics have dissipated over time and it is likely that this one would follow the same pattern. For example, past pandemics did not have Tamiflu, national health emergency plans or laboratories ready to develop, manufacture and distribute vaccines – but we do have a significant risk, which if managed well may not only save lives but also provide an effective and timely management structure to hasten our economic, social and environmental recovery.

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Table 2: Auckland power failure 1998

In the "Auckland Power Supply Failure 1998: The Report of the Ministerial Inquiry into the Auckland Power Supply Failure", the governance and accountability role of public companies in regard to risk management was discussed and is outlined below.

"In public companies directors owe their duty to the company as a whole and not to any individual shareholders, or groups of shareholders. They must take into account the longer-term interests of the company, including the interest of future shareholders, as well as the immediate situation; this requires that directors strive to enhance shareholder wealth in perpetuity rather than maximise short-term benefits to satisfy the particular demands of individual shareholders or classes of shareholders.

"However, since the ongoing prosperity of a company depends to a large extent on its stakeholders being content with its performance and having regard to its future, directors and management must have continuing regard to the interests of stakeholders such as creditors, employees and the community in which it operates. In particular, companies depend on their customers for their revenue and it is essential that they strive to maintain and increase customer satisfaction as far as it is consistent with their other responsibilities ... Because companies vary greatly in size, complexity and ownership structure and the quality and experience of the people involved also vary it is difficult to set out a simple formula for good governance. Certain basic requirements must always be met, however, and there are principles and practices that have been found to be valuable in all or most circumstances.

"One of the most basic requirements is that a company manages its risks. The board is responsible for the stewardship of the company's assets, for its reputation and for arranging its affairs so that its ability to generate profits and to grow is not undermined. The board must satisfy itself that the risks facing the business have been identified and evaluated and that those that are likely to occur, and/or carry the most serious consequences if they do occur, have been adequately dealt with.

"The Australian/New Zealand Standard on Risk Management (AS/NZS 4360:1995) sets out a generic framework for risk assessment. There is no suggestion that a board needs to carry out the detailed process itself, but it has a clear responsibility to decide what process the company should adopt and to ensure that it is implemented properly." ■



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