

Corporate culture and trust are essential success factors during the crisis

Interview with Regula Wallimann, chair of the audit committees of the Adecco Group and Straumann Group

Regula Wallimann is an independent board member and chairs the audit committees of several listed companies in Switzerland. The abrupt changes that upended the global economy and capital markets this year are having a major impact on both their work as well as corporate governance in general. But even if a company suddenly finds itself faced with tough questions concerning sales trends, growth forecasts or how to keep supply chains intact, an optimistic attitude as well as a candid, transparent approach – not only with respect to accounting but also in dealings with the people who make up the company – can help it make the right decisions. In an interview with Prof. Reto Eberle, Regula Wallimann talks about her audit committee experiences during this exceptional year and why she views the crisis as a major opportunity.

Reto Eberle: To date, what have been the audit committee's biggest challenges during the coronavirus crisis?

Regula Wallimann: In my role as chair of the audit committee of a company with a strong presence on the Asian market, my fellow board members and I had to deal with questions about sales trends and what the slump in Asia will mean financially for the company as a whole, right at the onset of the coronavirus crisis. We always discussed these issues within the audit committee first, before they were addressed by the full board of directors. Many of them then took on greater importance to the audit committee as Europe went into lockdown. These took top priority: first and foremost was the health of our employees. Business continuity management came second: how could we ensure that the business can continue as a going concern? Next, we had to look at liquidity and financial planning. To what extent



is it possible to or even imperative that we adjust costs? Can investment projects be postponed without harming the business going forward? Another vital aspect is accounts receivable management: How can we ensure that outstanding claims are settled, particularly as sales plummet and in the tense situation in which many of our customers find themselves? Added to that are questions related to the value chain and supplier relationships, such as: given the changed supply situation and declining sales, what are we still capable of producing or what do we still want to produce? The audit committee was suddenly bombarded with a flurry of questions with far-reaching impacts that had never really been discussed in such detail or intensity.

The issues and decisions you mentioned have a direct impact on financial reporting. What had to be taken into consideration on that front?

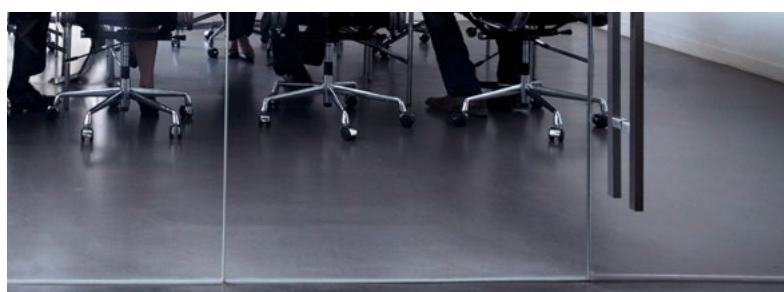
Once the first signs of a sales slump began to appear, we started coming up with a variety of different scenarios. Senior management presented us with three potential scenarios: one that was optimistic, one that was realistic and one that was cautious. The board of directors discussed these scenarios with senior management and finally decided which of the three was most likely and used that as the basis for further planning. Other topics included the distribution of dividends and share buybacks. Payments that had already been planned were called into question due to the ever-changing nature of the situation, in part to safeguard liquidity. In the end, decisions like these require that we carefully weigh the company's responsibilities, risks and different expectations for the future. When it comes to issues like these, the audit committee plays a preparatory role and serves in an advisory capacity. Ultimately, however, it's up to the board of directors as a whole to decide how to proceed.

My impression in the wake of the financial crisis of 2007–2008 was that enterprises had become much more aware of the importance of farsighted liquidity management. Has that had any noticeably positive impact during the current crisis?

While I can't really make any across-the-board assessments, liquidity planning is firmly embedded within the organizations of which I am a part and that has helped us raise funds during the current crisis. It wasn't always easy, since previously planned bond issues, for example, ended up being at an inopportune point in time when conditions on the market were deteriorating. If the environment and the capital and money markets undergo fundamental changes from one moment to the next, it helps to have an established system for liquidity planning. Added to that are geopolitical uncertainties, which at that time included the US presidential election and several countries' poor coronavirus crisis management. Together, all these factors have made it much more difficult and more expensive to raise fresh capital. By increasing committed lines of credit, banks are giving companies more flexibility for liquidity procurement. Since these lines of credit can be drawn on at any time, they give the companies quick access to the liquid funds they require. However, easier access to funds doesn't detract from the importance of farsighted liquidity planning.

That sounds like extra work. Has this had an impact on the frequency of audit committee and BoD meetings?

Yes. Meetings are held much more frequently, both at the audit committee level as well as that of the full board of directors. I also conducted more one-on-one discussions with key individuals from the company. Suddenly, we urgently had to focus on issues like taxes, for example. Since several



countries were offering the option of postponing tax payments, I had to discuss this aspect of liquidity planning bilaterally with the head of tax. The quarterly financial statements were also due at the height of the lockdown in late March, and they needed to be discussed with respect to the scenarios I mentioned earlier. At the very latest when it came time for the half-year reports, the question of value adjustments arose. Do we have intangible assets on our balance sheet or inventories requiring reassessment due to uncertainties in our plans? And, of course, when growth forecasts need to be corrected like they have been this year, that impacts our underlying cash flow calculations as well.

Are reliable forecasts even possible under these special circumstances?

That's a good question. The value adjustments certainly reflect an expectation of diminished future growth, but how should we account for the prevailing uncertainties in our books? How and what will be communicated to the capital market in times like these? transparently presenting all government aid requested and received by a company within the scope of the country's COVID-19 measures is yet another challenge. Depending on the financial accounting standard used, different rules apply as to how these subsidies are to be presented in the consolidated financial statements. These requirements still offer a bit of leeway, though. I always say the more transparent, the better. In my opinion, the effects arising as a result of the coronavirus crisis should not be eliminated in the income statement or presented separately, rather they should form part of the (operating) result.

During this time, which factors were most pivotal to the work of the audit committee?

Whenever the audit committee procedures and data preparation processes for financial reporting were well organized and robust, that was hugely advantageous. This was the case in the organizations of which I am a part. If the

procedures and responsibilities are fine-tuned, increasing the frequency of meetings as needed, without throwing the system out of whack, is relatively simple. I also became acutely aware of the fact that auditors aren't merely controllers, rather they play a vital and highly appreciated role as sparring partners, particularly in difficult situations.

The wellbeing of people within the company is another important factor for me. That means our corporate culture and the foundation of trust that establishes the basis for our interactions with one another are essential and relevant factors that help determine just how successfully we will tackle the crisis. Only if senior management and the board of directors have been embracing an open culture of communication based on trust during more "normal" times, is it possible to put this kind of openness into practice in a crisis, something which could very well be pivotal to a company's survival. The remote work situation in particular makes staying in touch with employees vitally important for us to get a feel for their mood and motivation. What's more, it's crucial that members of the board of directors and its committees be available and agile during the crisis. And last but not least, there's the importance of positive thinking during the crisis, which will help us view it as an opportunity. One prerequisite for that, though, is effective communication with all internal and external stakeholders.

You mentioned auditors and their role as a sparring partner. Were there any other ways that this crisis has impacted your cooperation with auditors?

Yes, of course. Planning for the external audit didn't exactly follow the usual pattern. Here, too, I consciously sought dialog and openly addressed the (new) risks. The 2019 financial statements were prepared without a hitch because, in my companies, we close the books on the previous year fairly early on in the calendar year. One major disruption to the usual audit process in the current year, for example, is that travel restrictions are making on-site visits to international offices nearly impossible. These trips aren't happening this year. The work done by internal audit has changed substantially as well. In light of that, I discussed the plans with the head of internal audit and adapted them accordingly. Here, too, we had to switch from on-site visits to remote audits. Plus, we had to identify any new risks that have arisen as a result of the special circumstances, including those arising in connection with remote work. Are there additional IT risks? Are all the ICS controls still effective?

But we also see some advantages in this new world of "remote audit work". The work can be done much more efficiently and with much less travel, something some employees appreciate. While audits carried out via video conference never would have



been accepted in the past, they have now become a fixed component of day-to-day work. When recruiting employees for internal audit, this opens up entirely new target groups that had previously been a bit put off by the supposed necessity of those business trips.

Which insights from the crisis will remain relevant going forward?

We'll definitely still make increased use of video conferencing. Nevertheless, personal meetings and informal discussions will remain important. We need a good blend of different types and formats of meetings and communication. Switching to purely virtual channels causes too much interpersonal contact to be lost. Besides communication-related insights, we've also learned to avoid over-dependence on a few critically important customers or suppliers. With respect to global supply chains, for example, we'll be relying increasingly on local suppliers again or broadening the value chain network to ensure that we can fall back on alternatives for production. The sales side should also be more broadly diversified so it can cushion massive disruptions like this more effectively in the future. But the year was also a lesson in risk management. Not all events are foreseeable, and it may well be that certain risks were recklessly overlooked, such as the likelihood of a global pandemic.

But every crisis is also an opportunity! If we manage to creatively shift customer acquisition and business development to online channels, for example, we can gain customers and market share even in a fundamental crisis like this. That also includes knowing where competitors might be experiencing problems and be unable to deliver; then you also have to be in the right place at the right time. We'll also be seeing more activity on the M&A market as well. Right now, there are a few good opportunities out there to give companies hit hard by the pandemic a boost and add them into your own portfolio.



Prof. Dr. Reto Eberle

Partner, Member of the Board Leadership Center
KPMG Switzerland

+41 58 249 42 43
reberle@kpmg.com

About Regula Wallimann

Degree in business administration (lic.oec. HSG) from the University of St. Gallen and a Certified Public Accountant in both Switzerland and the USA

Regula Wallimann has been working as a self-employed, independent financial advisor and board member since 2017. She serves as Chair of the Audit Committee of both the Adecco Group and the Straumann Group and is a member of the Board of Directors of Helvetia Insurance. She is also a member of the Supervisory Board of the Institute of Accounting, Control and Auditing ACA-HSG at the University of St. Gallen. She learned her trade during her 24 years as an auditor at KPMG.

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