



COVID-19 and the Audit Committee: Critical Success Factors



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The world has considerably changed due to the coronavirus. COVID-19 is currently having a strong social but also a financial impact on society and enterprises. The Swiss government was required to bridge finance SMEs with the necessary liquidity. What is true for small corporations is not far off for large ones. Stock-listed companies have also been heavily affected by the pandemic and its financial impact. This puts the spotlight on the audit committee – at least ad hoc and temporarily.

A crisis not only requires greater effort but, more importantly, the adoption of new governance processes, a new rhythm, new topics, and different mindsets. Embracing diverse perspectives helps to avoid financial difficulties in the short term and to rethink practices that were previously considered as «the non plus ultra» in the long run. A well-thought-out strategic plan, particularly for the audit committee, is key to have processes in place that are effective and enable the committee to adapt to disruptive and changing conditions. Regarding the audit committee and COVID-19, keywords such as agile, proactive, and forward-looking are of utmost importance more than ever; at least within a short-term perspective. For me, success factors for the implementation of future-oriented and adequate COVID-19-related counteractions by the audit committee include the following:

- **Stakeholder interaction:** Communication is, was and remains key. Intensifying stakeholder interactions reduces uncertainty. Communication within the organisation promotes an exchange between the interfaces of the 1st, 2nd and 3rd line of defence and the executive management. The COVID-19 crisis is forcing the audit committee to adopt a new rhythm and to interact more closely with various stakeholders, including the executive management, all lines of defence, and also the external auditor. The key topics are people's health, business continuity, financing/liquidity, and effective internal controls. The audit committee also acts as an important source of information financial reporting and judgment for the Chairman and the other colleagues in the Board. Such joint efforts enable the stakeholders to actively address COVID-19 incidents. More importantly, they allow everyone to pull together «for the sake of the greater good». This encourages the firm's stakeholders to support any decisions that may follow. Accordingly, (over-)communication in times of crisis is more than welcome.

- **Emphasis on culture:** During crises, consistency plays a crucial role. In the corporate world, notions about «back to the roots» refer to organizational culture. The audit committee should strive to unite culture and «corporate unity» to achieve financial security. By placing culture on centre stage, one may raise awareness among the audit committee, the executive management, and the employees. Reflecting on questions such as «What is our culture?», «How does our culture manifest itself in financial aspects?», and «How does culture help define control and risk processes?» is important but difficult to pursue in a meaningful manner. Yet, if adequately implemented, answering these questions may provide a framework for a quick rebound of the organisation as a whole, leading to a «together we are strong» attitude. In sum, using culture in times of crisis is a challenging task. Since culture is built up over a long period of time, it is a difficult task to implement it on an ad-hoc basis. Nonetheless, if adequately executed, culture and its related characteristics create a beneficial impact that helps reducing financial uncertainty.
- **Reflecting on decisions:** Will previous decisions remain valid after COVID-19? Decisions taken by the audit committee and the Board prior to the crisis may no longer be useful in the aftermath. The basis for decisions may have changed, developed or even completely transformed in the course of the health crisis and the necessary digitisation efforts. The main areas that are affected and need to be checked in more detail are IT, capital expenditures, and stock buybacks. If decisions were made based on assumptions that are no longer up to date, it can lead to many misinterpretations and cause a slew of unwanted consequences.
- **Sparring partner:** «Abnormal» times require special settings. In this case, the audit committee should assume a more prominent role as a sparring partner. In more concrete terms this means that the audit committee shall adopt a more agile and adaptive support approach rather than sticking to its strict role and control responsibility. In particular, the head of the audit committee and the committee's members shall seek a closer exchange with the management (CFO, CRO, CIO, etc.) in order to address business areas strongly affected by COVID-19 and to support the management in areas such as business continuity, financial planning, securing of liquidity, and also very important, the effectiveness of controls. Such an attempt allows the areas of control to be approached more effectively and in a coherent,

systematic manner. One important remark: Adequate support should not violate supervisory functions granted by the Swiss Code of Obligations(!).

- **Anticipation:** Considering the current environment, it is not enough to just «manage» risks. Activities need to go beyond the usual responsibilities and require second- and third-order activities as well. One focus area is cyber risk. Since the onset of the crisis, cyber activities and attacks at company level have increased significantly. It is therefore important to implement adequate risk and control processes in collaboration with the IT department. COVID-19-related circumstances make it more difficult to take the necessary measures since a large part of the employee workforce operates from home. Nevertheless, it is important, without fuss or quibble, to implement adapted control mechanisms accordingly. Yet, the fact that employees are working remotely also has its advantages. People working from home are less likely to be subject to the same control mechanisms. As a result, new or more effective control patterns may arise in the internal audit department. For this very reason, it is necessary to conduct thorough effectiveness checks since innovations may have their pitfalls. Therefore, preventing such pitfalls requires the implementation of financial risk and scenario planning that simultaneously examines temporal and severity effects.

Crises are often given a negative connotation. This is not wrong, but—as with everything else—there are also positive effects to focus on. Digitisation certainly is the primary and most obvious effect that COVID-19 had and still has. However, within the audit committee sphere there are other positive factors to be considered. First, control processes that have long been recognised as being efficient were reviewed. The now—due to COVID-19—proven ability to innovate or adapt control mechanisms to exogenous factors allows the audit committee to extend the application of these mechanisms to other areas in the future. The experience made helps applying similar arrangements to (micro) projects. Second, culture and organisational finance should not be separated. Joint consideration, yet, requires the promotion of corporate culture. Culture is the «tone at the top» and shall be carried into the company accordingly. The audit committee acts as the Board of Director's «extended arm» when it comes to financials and is also responsible for promoting culture that is influenced by hard and soft factors.