Risk culture as the (most) important element of corporate integrity

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Interview with Sonja Stirnimann, entrepreneur and board member

Sonja Stirnimann is an expert in corporate integrity, holds an Executive MBA in Financial Services & Insurance, an IMD Director Diploma and a Sustainability & ESG Designation and Certification (GCB.D) diploma. She is also a Swiss Certified Public Accountant, Certified Fraud Examiner and Business Mediator. Her membership of various boards of directors contributes to her broad experience in the areas of governance, risk, corporate compliance and finance. In a conversation with Prof. Dr. Reto Eberle, Sonja Stirnimann discusses the role of corporate culture in fraud prevention along with other current topics.

Prof. Dr. Reto Eberle: *You are a member of various boards of directors. What is it that makes working on an audit committee so fascinating?*

Sonja Stirnimann: The interesting thing is dealing with different personalities. The interaction between management, internal and external auditors and employees is very varied and rewarding. Each function and every individual contribute different perspectives and have their own ideas about how they can contribute to the company's success.

"It's no use to me having an auditor who doesn't dare to ask critical questions."

The topics covered by an audit committee are extremely diverse: financial reporting, ICS, data protection, cybersecurity, sustainability and related audits, internal audit or perhaps also corporate culture. Which topics are particularly important and where do you see the greatest need for action?
All the topics you mentioned are certainly important. Some have been around for years, others are new. Priorities differ from company to company and depend, among other things, on the maturity level of an organization. Every board of directors must ask itself "What do we need and what topics must we address to take our company to the next level, expand our competitive advantage and also protect ourselves from risks?" Some have been dealing with the issue of cybersecurity for a long time and are well positioned, while others still feel that it is not their concern and not something that will affect them. The audit committee is responsible for preparing many of the topics you mentioned, decisions are then taken by the full board of directors.

Isn't there a risk of overload for the audit committee? What can be done to counter this potentially excessive burden?
As the board, you must be able to set priorities for the company. What are the risks and how do you deal with them? What is relevant for the company, and what could jeopardize its survival? What could keep the company from implementing its strategy? If you try to give equal weight to all issues, you will inevitably overwhelm your resources. A good board of directors is characterized by the fact that it repeatedly asks itself: "What should we be doing for our company?" and not just what is everyone else doing. That is not to say that you should not learn from others, especially across industries.

One of the hot topics at the moment is how to deal with fraud. Auditing standards are currently being adapted to strengthen the auditor's professional skepticism and improve communication within the board of directors. Will this really help to reduce the expectation gap regarding the role and function of the auditor?
The crux of the matter is not inadequate standards, but how they are implemented. If auditors properly implement the existing requirements and maintain professional skepticism, there is no need to revise the auditing standards. The problem is that some auditors still sometimes treat fraud issues shabbily. They do not want to jeopardize their client relationship and are not critical enough. As a board member, I have intervened with an auditor in this regard. At an event held by the Federal Audit Oversight Authority (FAOA) some time ago, I gave a presentation on this topic in which I examined the three-way relationship between the authorities/supervision, internal and external auditors and the board of directors. However, judging by the FAOA's annual report, there still appears to be room for improvement in this regard.

Questions about abuse and fraud arise not only in the area of financial reporting. Non-financial reporting and corresponding audits are gaining in importance. Suddenly, sustainability goals and criteria are being included in bonus calculations. But this again creates incentives for improper exertion of influence.
This is certainly becoming an issue. The Association of Certified Fraud Examiners' (ACFE) fraud tree, which sets out all the fraud patterns, is being expanded accordingly and new patterns are being added. Here, too, it is important to talk about these different patterns as a way to raise employee awareness. Equally important in this context is training for internal and external auditors.

Are companies and readers of these reports aware of this? Do companies have the fraud potential of sustainability topics on their radars?
The topics of white-collar crime, fraud and non-compliance are still often taboo subjects. Many people still believe that these issues only affect others, never their own company and certainly not employees from their own company. However, the more we address such incidents and also share examples from other companies, the more we can translate abstract ideas into practical everyday scenarios and learn from them for our own company. Corporate culture plays an often-underestimated but crucial role in this regard. Especially during the pandemic years, we learned that anything and everything is possible at any time.

"The goal should be to strengthen the Swiss financial center in such a way that credibility and attractiveness increase again."

We have already discussed the latest developments in the area of sustainability. Now the topic has arrived in the boardroom due to new legal requirements. Who on the board is responsible for this topic? Is it the audit committee? Is there a need for a separate ESG committee?
Based on my observations, it is too early to identify best practice because we are still at the beginning of the development. Sustainability is a strategic pillar and the responsibility of the entire board of directors. Whether this is assigned to different phases in different committees depends on the individual organization and its level of maturity in this regard. For example, if the company already has a strategy committee, the impact of sustainability on strategy can be discussed there. Reporting is then more likely to be the responsibility of the audit committee, since it is a matter of reliable processes and controls. Again, there is no right or wrong, but it is up to each board of directors to decide on the right approach for their company. As an auditor, I am in favor of having the same committee be responsible for auditing both financial and non-financial reporting.

With its Green Deal, Europe has taken on a pioneering role. The goals set for becoming the first climate-neutral continent are extremely ambitious and implementing them comes with major implications for the economy. The Federal Council has now proposed adopting European rules and also requiring medium-sized, non-listed companies to report on sustainability in accordance with European standards, ESRS, and have these reports audited. Will the business community welcome this proposal?

My first reaction was: How do costs and benefits compare here? And what would be the real advantage for us as a company if we had to implement this? The changes are huge, especially with the thresholds being lowered. If I have understood correctly, around three hundred companies would be subject to the regulation under the current solution. This would increase tenfold afterwards. This will be almost impossible for SMEs to manage.

You work as an advisor and board member primarily in the financial industry. The challenges already discussed, such as fraud and sustainability, also affect the financial industry. What are some of the additional specific or unique challenges facing the industry right now?

There are, of course, many individual issues in the different organizations. In my view, corporate integrity as part of good corporate governance remains the key to sustainable business success. If we weaken entrepreneurship through overregulation, everyone loses, no matter what industry. The goal should be to strengthen the Swiss financial center in such a way that credibility and attractiveness increase again, because both have suffered greatly in recent years. Furthermore, topics related to artificial intelligence are highly topical at present. How do algorithms support work and how do they influence the relationship between customers and the bank (given that customers are performing an ever-greater share of the processes themselves)?

In a presentation about financial crisis management, the new CEO of FINMA said that the weaknesses in the system are clearly rooted in risk culture and governance.
I absolutely agree and I think that weaknesses in risk culture and governance pose a major threat in any industry. The question is whether a regulator has the appropriate means and knowledge to get a grip on the issues. To do this, supervisory authorities must identify the relevant red flags and recognize them early enough to be able to react promptly and, if necessary, impose sanctions.

We have talked a lot about the importance of corporate and risk culture. In order to develop and manage culture in a targeted way, it must be possible to measure it. In your opinion and experience, is this even possible?
I am convinced that all of us – regardless of our function in a company – influence corporate culture. Both consciously and unconsciously. In this respect, we all drive it. As for measurability, I certainly see some indicators that show us where we stand. As a board member, I also use these in my personal due diligence. For me, corporate integrity as part of good corporate governance is, and remains, the key to sustainable business success – and that goes for any industry.

Thank you very much for this interesting and insightful conversation!

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