

Restoring Lives

By Keith Bernard. Assisted by Megali Nanayakkara.

KPMG is a leading provider of audit, tax and advisory services in the world. Aidan Walsh, partner from the U.S. firm of KPMG was in Sri Lanka to open a housing project initiated by the company in the aftermath of the tsunami. Business Today spoke to him on the progress of future housing projects and scholarship programs in the devastated areas as well as the impact of globalization on the world economy and the role outsourcing plays within it.



I understand you are here on a humanitarian mission. Would you mind sharing with us a little more detail about the purpose of your visit?

I'm here with a lot of mixed emotions. If it hadn't been for the tsunami 12 months ago, the people who I work with in the United States would not have focused on Sri Lanka as a place to donate funds. We have about 18 thousand people working for KPMG and they collected just over a million dollars. We decided to split the money between the countries that had been most affected by the tsunami. In my role as Head of International for the US firm, I'm familiar with Sri Lanka and what occurred to me was that the number of deaths proportionate to its population was significantly greater in Sri Lanka than the other affected countries.

The other reason was that I wanted to get as much of the funds as possible to where it should be used. I believe that if we gave it to one or more of the big charitable organizations, some of it- maybe too much of it- would be swallowed up by administrative and other expenses. So I called Rajan (Asirwatham), who is the Head of our firm here and asked him what to do and he said that he would talk to his KPMG partners and get back to me. When he did, he recommended two things. One was that we should fund some educational scholarships for the children of the affected families. Twohe said 'lets build a village'. It's a long story to get to exactly how I came to be here today but the reason I'm here is to go to the Matara District and formally dedicate that village. We were able to build forty homes on land, which was donated to us by the chief priest of Katugoda Rajamaha Viharaya. One of the people there who lived 30 meters off the beach had lost his mother and other relations. He had lost his house and other possessions and what's more he had a baby who was just 5 months old. Being able to be a part of assisting people like that felt so good.

Are you working on more villages in Sri Lanka?

We are planning for 4 or 5 villages. The next one that we are building is very close to where that train was destroyed, just a few 100 yards from there. We plan on building 50 houses and 25 of them are going to be as a_ result of donations from KPMG United Kingdom- it should be ready in 6 to 8 weeks time. There were two other KPMG donations; one from Germany and one from our international headquarters. One or more of the villages will be built on the east coast. What I found fascinating was to see on a drive down one of the roads in Sri Lanka, a sign saying 'KPMG village -300 meters'. We did not ask for it to be called KPMG village, but it is.

Where did the money come from?

We have a foundation in the US firm, which contributes most of its money towards education and universities in the United States. But it also uses some of its money to help our own people in times of crisis within the United States. This year , we have had a lot- too many- of them because of hurricanes, but this is the first time that we have ever been able to provide money contributed by the people of the firm to assist in an overwhelming event that took place outside the United States. The people of the US are just like the people of the rest of the world. It's all about humanity to man- not inhumanity. But, Sri Lanka is the only one of the four countries where we can see the results of the money that we collected. We cannot

do it anywhere else. If we had to give it to bigger organizations, we would not have been able to say that KPMG money went to do this or that in Aceh or Phuket or Phi Phi or any of the other affected areas- only in Sri Lanka can we see concrete- literally results. What I want to do now is take photos and videos of what happened today and show them to the people of my firm so that they know exactly where their money went. The other irony is that, after Hurricane Katrina devastated New Orleans, one of the first countries to offer aid was Sri Lanka. It was huge headline on television and the media- CNN and other newspapers in the US- that a small country such as Sri Lanka was one of the first to offer its help to New Orleans.

Is it true that you personally have strong affection towards Sri Lanka?

I put more of an effort into trying to find something concrete to do with the funds for Sri Lanka than I did with the other countries. It was made easier for me because our firm here is not only very good- it is a part of the indigenous fabric of the country, and because Sri Lanka is a relatively small country, our firm here and its people are closer and therefore more involved in what happened. Aceh is a long way from Jakarta and therefore our office would find it very difficult to have the same input and oversight of the funds compared with Sri Lanka. I should mention that my mother used to live here. That, combined with the time I've spent here, made me want to focus on making sure that the money was used correctly. In addition to the village, we have provided funds for about 35 students to help them through their university level and high school level education.

Could you be more specific about how you've been helping these students with their education and also the process of selecting beneficiaries?

The total amount of money we provided to Sri Lanka is about two hundred and fifty thousand dollars and fifty thousand of that was for scholarships. There is a foundation set up by Rajan in our firm here to make decisions as to how that money gets distributed. We have stipulated that it must be used for kids who lost their parents and/ or were seriously affected by the tsunami. Rajan and his partners here who run the foundation are the ones who set the conditions and make the decisions about the disbursement. If there is some advice they need then they will call us but it is not at all necessary for the US firm to be involved in those decisions. We have total trust that the firm here will make the right decisions. It's a much in their interest as it is in everybody else's. We don't even need anybody to know that it was the US firm, or the people of the US firm that did it; it's just important that the funds are used in the right way no matter who provides them.

We have reached the first anniversary of the tsunami disaster, to what extent have you completed the projects undertaken by you and by when do you hope to complete the initial work done in this country?

The first one is complete. It would have been opened a few weeks ago if not for the elections in Sri Lanka. One of the things I did not want to have KPMG perceived as being allied to one or the other political parties and, to me at any rate, that was a possibility if the official opening or dedication were held during the election process. We wanted it to be absolutely clean of any politics whatsoever and so we delayed the official opening until today. We could have done it a few weeks ago but my travel schedule did not allow it. The next one will be done in about 6 to 8 weeks. When I was travelling down Galle Road I saw sign posts naming other projects; I am not naming them, but I understand that the underwriters of some of these projects have stated what they plan on doing, but it's disappointing that, in many cases, nothing has started- they have not even cleared the land, let alone done anything else. So I think that we've done pretty well in terms of achieving our objectives. The second project has been delayed for the past 6 weeks because of rain. The ground was sodden, but today I noted that they have got most of it cleared and the roads marked out. 50 different contractors have signed their contracts. The contractors are all local and one contractor each has been appointed to work on each house. So, if each house takes about six weeks then all 50 houses should be done in approximately six weeks. I hope to come here for the opening of that project as well.

You mentioned some of the funds from for your support here is from UK & Germany. How is the assistance structured and delivered?

We, that is, the US firm's foundation, contributed just over a million dollars in total, of which US\$250,000 went to Sri Lanka. I think the process began to snow ball after the US and Sri Lankan KPMG firms recognized that it would be an excellent idea for them to build villages as well. So it kind of grew from there. What I see as being so great is that 100% of the funds will go to where they are being directed.

Another aspect was that we did not have to buy the land in Matara because it was donated by the priest from Katugoda. We gave out 5 or 6 deeds today to some families, so I presume they will now have free title to their new homes. There is a list of people earmarked for the second project and if they are not housed somewhere else by the time the houses are ready then they will get these houses. There were some great stories that came out of it. One of the people who was involved in the

construction of the homes came to Rajan and said that as a result of him receiving the equivalent of US 4.50 dollars a day- perhaps money he would ordinarily not have access to he could provide milk for his children. So the funds were used not just for building homes but also contributed to the welfare of the people. As I travel around the world I see a lot of poverty in various places, India and Bangladesh in particular. Sri Lanka, I think is relatively well off compared to some of those other countries. But nobody can ever prepare themselves for a disaster like the tsunami that occurred.

Will you be continuing as a corporate entity to serve the people of Sri Lanka?

I hope it will not be necessary. It was a one off thing for me and I hope a disaster like this never happens again. My job is not to do what I was doing today at the opening. My job is to look after the interest of KPMG United States and those of our clients, and to strengthen our relationships throughout the KPMG world, which means that I do a lot of traveling- especially in Asia and the Middle East. So I would not see myself continuing with a role related to tsunami funds except as necessary.

You are one of the largest accounting and consulting firms in the world. Is CSR a part of the way you do business at KPMG?

Absolutely. As I said this is part of man's humanity to man. We have made a number of promises to ourselves and one is a promise of professionalism. We want our employees to say that this is a great place to work. We want our employees to say that the partners of the firm or in other words the owners of the firm are good people to work for and are not just totally focused on where the next dollar comes from. We want them to feel good about what they do and how they help the rest of the world. Acting with integrity, and with decency to the rest of the world is one of our core values.

Your real role - what are your corporate responsibilities?

To describe what I do- anything that involves the US firm on one side of the equation and the rest of the world on the other, could potentially come across my desk. I sit on the board of our Middle East and South Asia firms, on the Advisory Council for KPMG India, on the oversight board of KPMG Korea, and the oversight board for Indonesia. My focus is totally on what's happening internationally in

KPMG. If there are resource issues, quality issues, service issues, billing issues or a client is having problems with us, my job is to resolve them. I guess the reason I have the job is because of my familiarity with, and understanding of international cultures. I tend not to make bad mistakes in terms of how I behave in Japan or how I behave in the Arab world, or in other Islamic countries. I'm Irish and the Irish never had an empire- although we were part of the British Empire up until 1921, when we left it. We became a republic in 1947 but, without being in the British Commonwealth, we retained a very special relationship with Great Britain. We never had an empire in the true sense of the word although maybe we now have a subliminal one- via our procreational activities. The population of Ireland is about four million- five and a half if you include Northern Ireland, which is a part of the United Kingdom. but there are about 40 million of us in America. In Australia, where the population is 19-20 million, many, if not most of them have Irish heritage in them somewhere as a result of having so many of their forbears shipped out of Ireland as convicts way back in the early days of Australia. But, as I've said, we have never had an empire and we have never been a threat to anyone so people tend to trust us.

"We have made a number of promises to ourselves and one is a promise of professionalism."

What factors help you in doing the job that you do and where do you get your experience?

I was born in Asia and have lived in three countries in Asia. I then lived and worked in six countries in Europe, and thereafter was sent to the United States. At that time I was with the Irish government's industrial development agency and its objective was to get foreign direct investments into Ireland. That was in the early 70s. I went to the US for three years and was still there seven years later. And I made what you might say was a big mistake at that time in terms of my decision. I decided that the Irish economy would probably not be able to support my two children when they left university. But, little did I know then that the Irish economy would go on to become the Celtic tiger of Europe- the fastest growing economy there- it still is. So was probably wrong but I don't regret making that decision. I've enjoyed working in the United States and I owe it a lot. I guess its my understanding of other peoples' point of view, understanding of other cultures and being able to adapt to them, that makes me able to do the job that I have.

Are you at KPMG because of your background in international business?

It's purely through international business. I also became Chairman of the British American Chamber of Commerce in New York and, I guess because I managed not to make a mess of it, Her Majesty, Queen Elizabeth, bestowed me with an OBE -so here I am, an Irishman that got invited to Buckingham palace!

From an international perspective how would you describe KPMG in terms of size?

From an international perspective we are one of the 'Big Four' accounting firms with worldwide revenues of close to 16 billion dollars. In the US, the accounting firm that is next nearest to us in size, would be about one third of our size. The Big Four used to be the Big Five until Arthur Andersen disintegrated a few years ago. None of us wanted to see that because, in spite of what people think, industry in general and our profession do thrive on competition. And if you lose a firm the size of Andersen, then the element of competition is significantly diminished. Due to the fault of a few partners and staff, 100,000 people lost their jobs and that's just not the right consequence of those faults. And recently, in the United States, on appeal, the prior decision of the courts which had originally delivered a guilty verdict on Andersen, was reversed. But it was too late -100,000 people had already lost their jobs, and in many cases, their savings and pensions.

How do you manage such a huge organization right around the world with so many people - people who come from diverse cultures?

Arthur Andersen was the only one of the then Big Five that had a global partnership - in other words, it was basically one firm worldwide. The rest of us, with varying types of structures, consisting of member firms in each country. In our case, we have strong national indigenous practices that are homegrown and that were built up by the people that live in those countries - our Sri Lankan firm which has a huge presence here, is a prime example. But each member firm, when they join KPMG, signs on to a consistent and common set of core values, quality standards and work habits. A client in Germany knows that if he or she goes to Sri Lanka, Japan or the US, or any other country where KPMG has a practice, they will get a KPMG level of service that is consistent right across the country boundaries. How do we do that? Well, I suppose you could say that we, where it is necessary, force them! The only part that is voluntary is the first part, which is their agreement to be a member firm. But if you sign up to become a member firm there are certain things you sign up to

undertake. Every one of our firms go through regular quality reviews and if they fall short of what is expected, then they are required to improve. If they don't improve in the period in which they are given to do so then they should not be members of KPMG. We have to be, and are, very strict on this. The accounting firm's role is to assist in maintaining the integrity of the capital markets. It means that the company in which you may hold shares must be examined by an independent entity and a report prepared for you. And if the process that went into the preparation and content of that report is not upto stringent standards of integrity and professionalism, then you can't believe in it. And if those standards were not set at an extraordinarily high level, then the integrity of the capital markets of the world would be totally destroyed.

Globalisation has changed the world and today, business is conducted across geographic boundaries and time zones seamlessly. Outsourcing has become part of business strategy and this has reached the accounting and consulting business as well. How do you view this development?

I think the main thrust of the question is on globalization. To me it is an absolute opportunity. Without globalization we will not be able to spread the wealth around the world. The fact that we have demonstrations and other incidents when the WTO or the GS goes to a world city for their meetings, I think, is a travesty. We need a much greater level of globalization because, I won't say that it brings everybody up to the same level, but it does offer opportunity to the countries that are at a lower level of economic development to, at least, start emerging towards the level of the others. When looking at the accounting profession, there are countries that must be more accepting of what the large firms can bring to them.

Unfortunately there are a number of countries in this world that make it very difficult for the Big4 to operate. One of those countries is not too far from Sri Lanka- the professional institutions in that country have established barriers to the Big4 who operate there. They are afraid that the Big4 by virtue of their size, and the standards they impose may take clients away from indigenous firms this, notwithstanding the fact that the Big4 employ thousands of their nationals. The Big4 have to be seen to be abiding by absolutely every rule that exists there including, for example, the prohibition of advertising of any kind.

Despite these rules and barriers, our firm in that country is doing well with double digit growth- the spin-off from this activity by the Big4 is that the smaller firms must, and are raising their own standards, albeit slowly. But, if we can deliver the

same level of professional service that we provide in other countries, in that country, then the beneficiaries are going to be the clients that we have and their investors- we can widen and deepen the scope of our services, provide a huge depth of global experience and training, and strengthen the confidence that stockholders are going to have in each of these clients.

Looking at Sri Lanka, I think you do yourself a disservice because you don't know how good you have it here. You have one of the most wonderful countries. I drove 100 miles down south to Galle today and saw the beaches – the scenery that you have down there is unmatched anywhere in the world. I've heard that your east coast is even more beautiful. I honestly believe that, with development of your infrastructure which will attract global hotel chains and others, and provided that you control such expansion properly and appropriately, it will enable you to have a wonderful tourist industry.

Earlier, we had briefly touched on the violence that erupts here from time to time. If I approach that aspect from a pure investment point of view, many big companies are already operating in places that are more dangerous than here. How unsafe and uncomfortable do you feel walking down the streets of Colombo? You don't. Now, how safe and comfortable did people feel when they were investigating Ireland as a place to invest? There was the media coverage of the violence in Northern Ireland to contend with, and bear in mind that the border with Northern Ireland is only 60 miles from Ireland's capital city-Dublin. Belfast, the capital of Northern Ireland is 101 miles from Dublin. So, being that close to the outbursts of violent activity in Northern Ireland- in some cases sustained- did anybody feel unsafe in Ireland (Republic), and yes, there were isolated instances of violence in the Republic? The answer is, not really. Today, here in Sri Lanka, you have the truce in place- and I really do hope and pray that it holds firm- you are still going to have the odd incident that occurs. But in general, there is no reason why you in Sri Lanka, by virtue of the benefits of globalization, should not have a tremendous tourist industry. There is no reason why you in Sri Lanka should not be able to attract a huge amount of foreign direct investments. But first of all, you have to get the message out there as to who you are, where you are, and how good it feels to be here. I think that's something that needs to be focused on.

Another dimension of globalization is that American companies are outsourcing to other countries. How can you perceive that in terms of a business opportunity and can Sri Lanka be used as an outsourcing center?

The way of the world and the way that economies operate is that one finds the place where one can manufacture at the cheapest rate and, at the same time, the most efficient and productive manner. Wherever that place is, be it for the manufacturing sector, or be it for service industry, it's going to attract both in droves. Right now India is that place and it may change to China. My understanding is that your literacy rate is around 90%- one of the highest in the world. It seems to me that it is another factor in the opportunity presented to Sri Lanka in terms of becoming an outsourcing centre for big companies around the world. With regard to outsourcing of, for example, 'back-office' type operations, I have no doubt that it can be done here. You have quality people here who are very highly educated; they speak perfect English – in many cases better than we speak it! They only lack, perhaps, the management techniques and operational experience necessary to run large scale entities – but this is something that can be remedied over time so it's certainly very possible. I understand that you produce many accountants or professionals that cannot find a job here and one of the questions I have been asked is, could they be employed somewhere else in the world. The quick answer is 'of course' but that is until you start looking at the practicalities and the practicality of using your people in the US as they graduate from your universities is a difficult one, mainly because it is so tough to obtain a work visa at that level. But once they have a few of years of experience under their belt, then certainly it can be done. But getting back to the matter of opportunities for Sri Lanka- as I said before, you have to get the message out there, and here is where I become somewhat critical. If there is one big weakness that I perceive, it is that Sri Lanka has not achieved its rightful place in the world. You have a 90% literacy rate and fantastically educated people, but not enough people know about you. You have to get the message out there somehow and it's just not happening. What I think could be done is to get some Sri Lankan professionals or Sri Lankans who have already emigrated and have achieved success overseas, and organize them into a cadre or entity and use them as your conduit. The key here is to always use experience- experienced professionals. Using civil servants is not the way to go. You want people who have been through the mill, who know and understand business, who won't take 'no' for an answer and, -who are experts in marketing. With that kind of organization and with their loyalty to their home country, I think it could be a great recipe for success.

At this minute, even as we speak, billions of dollars are moving around the world and very large levels of trading and transactions are taking place across the borders. How does an international firm such as KPMG ensure

that its systems, plans, and practices are properly implemented and strictly adhered to?

If we go back to what happened at a place like Enron and WorldCom where the auditors failed in their professional duties- they forgot that they were supposed to be professionals and instead, for various reasons, focused solely on driving their revenue. But, they, and others, paid a huge price in the end, including the loss of life savings for thousands of people. So when looking at the changes that resulted from this behavior- in terms of the Big 4, we have changed radically in the last 4 to 5 years. We have all strengthened and enhanced our approach to our responsibilities as professionals; we have established strong Departments of Professional Practice populated by our most technically experienced partners and professionals to ensure that we comply with the principles and rules of our profession and the regulatory bodies. When an accounting issue comes up, these are the experts, and they issue an opinion that becomes an edict and woe betide you if you ignore that edict. In our firm, ignore it and you won't be with us for very long. As I said before, we are there to assist and maintain the integrity of the capital markets. And in terms of being CPA's or chartered accountants or whatever is the nomenclature in the individual countries- part of what you do is to make sure your integrity is as high as it can possibly be. Having said that, is everybody going to adhere to that objective? Unfortunately, you're always going to get some people who believe they can get around it. We experienced it recently in our US firm, and we have paid the price. The partners who were involved are no longer in our firm. We have exited certain services that we previously provided, and have emerged from those issues in a much stronger position than ever were before. We have instituted even more stringent quality control features, enhanced our risk management processes and client acceptance procedures, and are now much quicker than we were before to resign from a client if that client disagrees with our findings that we believe are correct.

Does managing an international 'people centred' practice or profession such as yours, cause great anxiety?

We monitor what goes on, on a day-to-day basis. We have a group in our headquarters based in Amsterdam, which spends all its time driving the firm forward and examining everything that is happening- ensuring that we maintain the standards. Part of what I do in my travels is exactly that. If a client has an issue in a certain country, then I will move to transfer the appropriate capability to that country to train the professionals there and, if necessary, to provide the service

there until such time that our firm there is able to do it without direct oversight.

Do you carry out background reviews before accepting a client?

Absolutely. We have a set of very vigorous client acceptance procedures. And if we have a problem with a client who's being intransigent and won't do what we believe is the right thing to do, then we will walk away from that client- even though we will have to forgo fees and revenues. If the entity was previously a client of another firm we will investigate as to why they separated. And we will keep checking the background until we are satisfied that we want that entity as a client.

Even our top people are screened before they are hired. In fact, in many of our firms we do a very rigorous check on everybody we hire. Before we make anybody into a partner we will do similarly in order to make sure that everything that person says about him/herself is actually true.

As a profession you are vulnerable to the risk of being sued- are you insured against such a risk?

We have a system of professional indemnity insurance, which all our member firms are required to fund. For some reason or other, whenever something goes wrong, for example if a fraud has been perpetrated in a client's operations, then the tendency is to blame the accounting firm and so, we get sued to remedy the loss. People believe we have deep pockets but actually we don't and the only way we can exist is by having insurance.

The damages claimed are very high. I would say that the only other profession that comes anywhere near what we have to pay will probably be the medical profession. If you look at some of the amounts accounting firms pay out- they are huge. In fact there was one instance in the UK, where a client of Ernst & Young sued them for about US\$4 billion for alleged losses it sustained in a sale situation. In the end - a two and half year process - the claim was struck out. But you can imagine the legal costs involved in defending yourselves against that kind of suit. So yes, we all carry professional indemnity insurance (with very high deductibles).



In the present global paradox do you think the independent role of the company is still valid as its difficult to always know who is related to

whom?

In most cases it will be very clear to us as to who is related to whom. In terms of maintaining our independence, that is one of the most critical pieces of the way we operate. Each year, every single partner has to sign an affidavit that they have maintained their independence. We are prohibited from holding stock in our clients. Each week a list showing new prohibited securities is sent to every body in the firm. When we get a new client and if any of our people (or their immediate family) hold stock in that client, they are required to dispose of that stock within five days. Each year we audit our people to ensure that they are in compliance with our independent policies. Another example is the outstanding balance on a credit card from a bank that is a client — there are stated limits as to what you are permitted to have outstanding on that credit card each month – failure to pay it down to that limit is deemed to impair our independence. So, anything that gives the perception of impairing our independence we will clamp down on very quickly. Each year we require our people to undertake independence training. If you fail to complete it, you will not remain with us.

As an international company how would you describe the structure of ownership?

In most countries we are organized as partnerships. In one or two countries, because of local laws, it may not be a partnership – it may have more of a corporate structure. But, as partners, it means that we all have our own capital invested in our firm, and so, our capital and our other assets are at risk. But it is very simple to find out how we are organized. Our UK firm in particular publishes an annual report. Our US firm provides some general financial information, but nowhere near to the same extent as the UK firm.

Within such a structure, who becomes the owners of the company?

Each member firm is a separate and independent legal entity, and each describes itself as such. The owners of the business in Sri Lanka are the partners in the Sri Lankan firm. No other firm of KPMG has a financial interest in the Sri Lankan firm. Likewise the US firm is owned by the partners in the US and only by the partners in the US- nobody else. So, within each country, the firm is owned by the partners in that particular country. In some of the newer countries that we are in, an initial investment may have been made by our Global HQ to facilitate the start-up. But the partners of each country firm own it internally.

In case of a lawsuit, who fits the bill- is it KPMG international or is it the local partners?

The local partners do. However, if it is a major corporation, and if there's a problem in a country outside the home country, for example if the issue arises in Sri Lanka where the firm is smaller than other firms in KPMG, the claimant will most likely try and sue the US firm, or the UK firm, or the German firm or wherever the deepest pockets are perceived to be. That's just a fact of life, and it happens all the time. We find ourselves continually having to defend ourselves in legal actions or issues that have arisen in another country. But in general, wherever the issue has occurred is where that legal action will take place. KPMG international is a Swiss cooperative and provides no services to clients, and has no assets – it is a purely headquarters type of operation.

