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KPMG's Audit Committee Institute Focus

Next Up for Swiss Audit Committees: Adding Corporate Value

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Swiss audit committees are becoming business partners who contribute to corporate performance, in addition to performing their traditional responsibility of overseeing risk management.

Their role is expanding as the audit committee in Switzerland enters adolescence. Professor Peter Leibfried, director of the Institute for Accounting, Controlling and Auditing at the University of St. Gallen, Switzerland (ACA), says "the core task of minimizing reporting risk also adds value."

Audit committees for Swiss stock-exchange listed companies have been obligatory only since 2002. But now, audit committees have increased responsibilities beyond their initial roles.

"As the workload of the audit committee increases -- and with it the costs required to run one -- Swiss boards have begun to consider how to get more value out of the audit committee without jeopardizing the risk management function that is the audit committee's central role," says Hans-Ulrich Pfyffer, a partner and head of risk management advisory with KPMG in Zurich, and a director of the KPMG Audit Committee Institute in Switzerland.

According to Anton Felder, former board member and president of the audit committee at the Basel-based insurance company National-Versicherungs-Gesellschaft, the audit committee's ability to add value is directly related to its role in oversight of internal controls and of the processes around financial reporting.

In terms of oversight of internal controls, Felder wrote in an essay for KPMG's Swiss Audit Committee Institute's *Recueil de Reflexions pour la cinquième anniversaire de l'ACI (Collection of Essays on the Occasion of the Fifth Anniversary of ACI in Switzerland) in 2008*, "the audit committee acts as a partner of the board, ensuring that the company's operations include the optimum controls of risk, and reviewing ways in which to improve operations in this context.

"This kind of open and constructive collaboration between the audit committee and the board is an effective way for the audit committee to produce added value."

The audit committee can also add value when providing oversight over the financial reporting process, if the relationship between the audit committee, the external audit and management is properly balanced, according to Felder.

Ideally, the audit committee should engage in constructive debate and provide valuable advice to management and auditors alike.

"In terms of the review of financial reporting, the audit committee works with the external auditor in a review of the company's operations according to the principles of accounting," Felder wrote. "Management must justify its claims to the external auditor, and the audit committee should help to resolve any issues that arise

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As Indian audit committees oversee the transition to IFRS, many are consulting management and external auditors to understand the implications of key accounting changes.

US ACI Spotlight

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John Farrell, KPMG's national ERM partner, says ERM oversight responsibility is with the full board, but the conversation often starts with the audit committee.

Thought Leadership

IFRS in Brief

The July issue of IFRS in Brief from KPMG IFRG in the UK focuses on the June meeting of the International Accounting Standards Board, which discussed amendments to the standard on non-current assets held for sale and discontinued operations among many things.

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during this process."

External Auditor-Audit Committee Interaction

Through its work with external auditors, the audit committee can help management justify its claims to the auditor and help resolve issues that arise during the process. At the same time, the company can gather knowledge from the interaction between the audit committee and auditors.

But the big question for Swiss audit committees is how members can accomplish all this in a few meetings a year.

According to Pfyffer, the "type" of persons who sit on the audit committee provides a clue: "We have to differentiate between the 'professional' board members and others," Pfyffer says. "There are a few audit committee members who work as consultants, and have a number of audit committee memberships. They can focus on these responsibilities. Consequently, they seem to have enough time."

However, for non-executive, independent audit committee members who have a high-level position in another company -- including president, CEO or CFO -- their ability to add value in their role on an audit committee comes down to priorities.

"On the one hand, it would make sense to have more 'professional' audit committee members," Pfyffer says. "Nevertheless, those audit committee members who have full-time executive roles do bring a different perspective to the audit committee and in many cases bring with them more recent and relevant financial expertise."

And other board members feel that it's crucial for the audit committee to add value to the business.

"Are audit committee members only necessary to minimize reporting risk for all other members?" Leibfried asks. "Or is the board as a whole convinced that the audit committee members also have sound business experience worth listening to?"

For audit committees to be effective, the board clearly has to be convinced to listen. And that's where the audit committee comes in. "In practice, we see a lot of know-how transferred by audit committee members," Pfyffer says.

The audit committee's close relationship with the internal and external auditors can be an effective way for the board to provide better oversight of the company. "If internal and external audit has a good working relationship, they can point out problem areas to each other, and there can be a division of labor, which increases efficiency," Leibfried says.

He notes that internal and external auditors do not need to visit every subsidiary annually, so an audit committee can ensure auditors communicate who visits which subsidiary each year, and share the insights gathered in visits.

This kind of collaboration has become easier, Pfyffer says, because communication between the audit committee and internal and external auditors has improved significantly since audit committees were made mandatory in 2002.

"Before, the main communication was mainly through the CFO," he says. "Now, direct contacts are established and internal auditors and external auditors are permanent guests in audit committee meetings."

At the same time it is quite common for the chairman of the audit committee to meet regularly with the head of internal audit, Pfyffer says.

Better Awareness and Best Practices

This relationship has improved because of "better awareness of corporate governance, best practice guidelines and third-party organizations where auditors and directors meet on a frequent basis," Pfyffer says. The "Swiss Code of Best Practice for Corporate Governance" is one such guide.

Another aspect of the audit committee's evolving role involves external consultants, which can help the audit committee add value to the company.

"External consultants can support the audit committee directly," Pfyffer says. "But they can also support internal functions such as the internal audit [as co-sourcing partner], risk management or compliance. Sharing of best practices quite often takes place through consultants."

The process of choosing the right external consultants shouldn't be taken lightly, Leibfried says. The right ones can add value to a company.

"They can do this in a number of ways," Leibfried says. "[They can provide] capacity in times when the company has no resources and there is no time to build it up; they can bring in an external perspective that makes the [company finance group] view their work in a different way, and that they can work without becoming tangled up in corporate politics."

Clearly there are numerous ways for audit committees to add value without exceeding or losing sight of its essential mandate: "The audit committee plays an essential role of 'catalyzer' in this process," according to Felder.

Andrew Rosenbaum is a London-based journalist who writes on business and finance.

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