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The audit committee

A practical guide for audit committee members on the requirements and responsibilities of the audit committee

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Preface

Dear reader,

In this publication, we summarise the current legal, regulatory and *de facto* provisions as well as the daily routine of the audit committee. In the process, we shine a light on a variety of aspects concerning the audit committee in all of the economic sectors relevant to Switzerland, from industrial undertakings to financial institutions.

The audit committee is primarily a feature of publicly traded companies, banks and insurance companies. It is subject to high public expectations and is faced with a correspondingly wide range of responsibilities. This publication is intended to convey practical knowledge (best practice) concerning the formation and the activities of the audit committee, which, in our opinion, has stood the test of time. Although our statements tie in with the legal structure of a joint-stock company, they can also be applied (at least in part) to companies wearing a different 'legal hat'.

In the following, we first describe the background of an audit committee. We then discuss in more detail its regulatory foundation (audit committee charter), its composition and its duties. We also discuss the audit committee's meetings, transparency vis-à-vis other standing committees of the board of directors, efficiency reviews and liability.

The demands on members of the audit committee are generally high and continue to grow. Advanced training and regular reviews of the audit committee's functions are therefore other key elements of our holistic look at this subject.

We trust you will find this an interesting and informative read. We look forward to a lively dialogue with you.

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Leader of the Assurance service line	Leader of Quality & Regulatory

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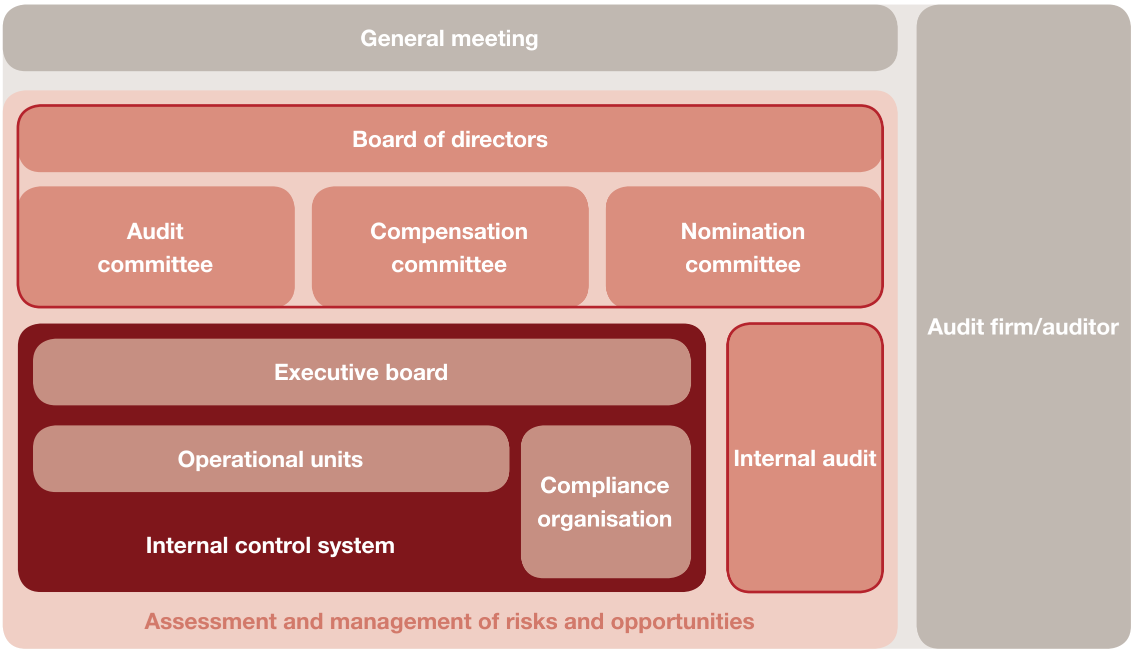
A Fundamentals

1 Management structure of a company

The management structure of economically significant Swiss companies with respect to financial reporting is outlined below (cf. Fig. 1).

Fig. 1: The management structure of a company with respect to financial reporting.



This publication focuses on the audit committee, a committee of the board of directors that oversees a company's audits. Among the standing committees of the board of directors, we distinguish between those of industrial undertakings, for which no legal requirements exist, and companies to which special supervisory and regulatory provisions apply. This second group comprises, in particular, banks and insurance companies as well as publicly traded companies.

2 Development of standing committees of the board of directors

2.1 Industrial undertakings

In July 2002, *economiesuisse*, the umbrella organisation of Swiss companies, issued the 'Swiss Code of Best Practice for Corporate Governance' ('Swiss Code', for short). Since then, companies have been setting up their audit committees. The members of the audit committee are important contact persons for an external auditor, in addition to the executive board and the internal audit department.

The Swiss Code applies to Swiss public companies and serves as a recommendation ('soft law').[1] Accordingly, the board of directors sets up standing committees from among its members which carry out in-depth analyses of specific factual or personnel matters and report to the whole board in preparation for its resolutions or for the exercise of its supervisory function.[2] The Swiss Code specifies three committees:

- The **audit committee**
- The **compensation committee** – This committee submits to the board for approval the principles for the compensation to be paid to the members of the board of directors and to the executive board
- The **nomination committee**[3] – This committee defines the principles for the election or re-election of candidates to the board of directors and prepares their selection accordingly[4]

2.2 Banks

In principle, the rules of Swiss corporate law apply to the governing bodies of banks. Regulatory law for banks imposes additional conditions pertaining to the board of directors as a whole and to the audit committee. The major supplementary rules are based on the Banking Act as well as the Banking Ordinance and can be found in the following publications of the Swiss Financial Market Supervisory Authority FINMA (*Eidgenössische Finanzmarktaufsicht FINMA*):[5]

- Circular 2008/24 'Supervision and internal control – banks'
- Frequently asked questions (FAQ) 'Board of directors of banks and securities dealers'

Some of these rules are set up according to the principle of 'comply or explain'. This means that a bank does not have to comply with certain rules as long as it justifies this stance in its annual report.[6]

1 Cf. *economiesuisse* (2014), p. 6. Even economically significant companies or organisations that are not listed on the stock exchange (including those operating under a different legal form to a public limited company) can gather appropriate guiding concepts from the Swiss Code.

2 Cf. *economiesuisse* (2014), p. 13.

3 Of course, other standing committees of the board of directors are conceivable too, for example, a technology committee or a research committee.

4 Cf. *economiesuisse* (2014), p. 14.

5 Federal Act on Banks and Savings Banks (Banking Act, BankA), SR 952.0, and Ordinance on Banks and Savings Banks (Banking Ordinance, BankO), SR 952.02.

6 Cf. for example Swiss Financial Market Supervisory Authority FINMA, Circular 2008/24, margin no. 37, if no audit committee is set up.

Members of the board of directors of banks cannot hold positions on the executive board at the same time.[7] The board must comprise at least three members.[8] The board of directors may set up committees to assist it and may assign tasks to individual members. In order to facilitate a sensible division of labour, it can form standing committees consisting of at least two persons chosen from among its members if the body as a whole has at least five members. Mixed committees consisting of members of the board of directors and members of the executive board are not permitted.[9]

A bank must set up an audit committee if at least one of the following criteria applies:
- The balance sheet total (total assets) is greater than CHF 5 billion
- The deposit volume is greater than CHF 10 billion
- The required equity capital according to the Capital Adequacy Ordinance (CAO) is greater than CHF 200 million
- The shares are listed

If a bank does not have an audit committee, the board of directors must charge one or two independent members of the board with the task of performing the duties of an audit committee. These persons, just like the members of an audit committee, must be knowledgeable and experienced in finance and accounting and they must be familiar with the activities of the internal and external auditors. The chairman of the board of directors should not be asked to perform the tasks of the audit committee; however, if a bank should decide against this requirement, it must justify the decision in the annual report (cf. Section C.5, Independence).[10]

2.3 Fund management/asset management of collective capital investment funds

In the case of fund management or asset management companies subject to the Swiss Act on Collective Capital Investment Schemes ('CISA institutes'), there are only a few special rules on corporate governance that deviate from the general provisions of the Swiss Code of Obligations (CO).[11] Many fund management companies are part of a financial group or a financial conglomerate monitored at parent company level (holding company) according to the Swiss law on companies limited by shares.[12]

Asset management companies of collective capital investment funds are frequently smaller market participants that do not have a corporate structure. They only have a few members on their boards of directors and therefore do not delegate tasks to committees.[13]

[7] Article 8(2) BankO. The Federal Council approved a complete revision of the Banking Ordinance on 30 April 2014, which took effect on 1 January 2015, together with the revised provisions of the Banking Act on dormant assets. With the complete revision of the Banking Ordinance, the new accounting law as well as the provision on dormant assets, which was passed by Parliament on 22 March 2013, is being implemented. Furthermore, formal and editorial revisions were made to the Banking Ordinance. The provision relating to senior management is in article 11(2) of the revised version.

[8] Article 8(1) BankO (article 11(1) after the revision).

[9] FINMA, Circular 2008/24, margin no. 28 and FAQ, p. 4, no. 9.

[10] FINMA, Circular 2008/24, margin nos. 30, 32–40.

[11] Federal Act on Collective Capital Investment Schemes (Collective Investment Schemes Act, CISA), SR 951.31. In practice, the forms of companies referred to as CISA institutions are fund managers, asset managers of collective capital investment schemes (*kollektive Kapitalanlagen, kKa*), representatives of foreign collective capital investment schemes, SICAVs (a form of investment company with variable capital), and the general partner of a limited partnership for collective capital investments. Concerning the definition of corporate governance, cf. *economiesuisse* (2014), p. 6.

[12] Financial groups are two or more undertakings that form an economic unit, whereby at least one of the undertakings is a bank or a securities broker. A financial conglomerate is a financial group whereby at least one member of the group is an insurance company of considerable economic significance (article 3c of the Federal Act on Banks and Savings Banks) (Banking Act, BankA), SR 952.0.

[13] In Switzerland, asset managers of collective capital investment funds are organised as part of a bank or as part of an insurance company or as independent small and medium-sized enterprises (SME).

In addition to the monitoring tasks assigned to it under the law on companies limited by shares, the board of directors of a supervised CISA institute must also be well informed about its supervisory duties. According to FINMA rules, members of the board of directors of supervised CISA institutes are required to have the relevant expertise in asset management, to be aware of the risks and to have practical experience in the fields of risk management and compliance. The board of directors must be composed of at least three members, most of whom will not carry out operational activities in the CISA institute. At least a third of the members of the board of directors must be independent of the CISA institute.[14]

Only CISA institutes whose boards of directors and executive board are of good standing can be granted approval. In addition, the board members as well as the members of the executive board must offer guarantees of proper business conduct and have the necessary technical knowledge.[15]

The regulations on fund management/asset management companies contained in the CISA are expected to be transferred to the Financial Institutions Act (FinIA) applicable from 1 January 2017.

A distinction has to be made between the CISA institutes and the assets under management, which in practice are usually organised as asset pools that do not have legal character or personnel and which are regulated by the CISA.

Listed investment companies not regulated by the CISA and not subject to supervision by FINMA are treated separately. These companies have to comply with the rules that apply to publicly traded companies.

2.4 Insurance companies

Insurance companies are not only subject to the provisions of the corporate law, but also to the regulatory requirements relevant for audit committees. On the one hand, the general requirements regarding the guarantee of proper business conduct, which also apply to members of the board of directors, must be complied with.[16] On the other hand, further rules can be found in the following FINMA Circulars:

- 2008/32 'Corporate governance – insurers'
- 2008/35 'Internal audit – insurers'
- 2008/27 'Organisation – insurance groups'

Benchmark information and information about the FINMA code of practice also emerge from its observations on Swiss Qualitative Assessments.[17]

Persons who hold senior executive, supervisory and control and management responsibilities must be of good standing and offer guarantees of proper business conduct. For this purpose, the curricula vitae/resumes of new board of directors members must be submitted to FINMA.[18]

[14] Cf. FINMA, Newsletter 34 (2012), 'Asset Manager of Collective Investment Schemes – Markets', p. 6.

[15] Cf. article 14 CISA and articles 10–12a of the Ordinance on Collective Investment Schemes (Collective Investment Schemes Ordinance, CISO), SR 951.311.

[16] Cf. article 14 of the Federal Act on the Oversight of Insurance Companies (Insurance Oversight Act, IOA), SR 961.01, and articles 12–14 of the Ordinance on the Oversight of Private Insurance Companies (Insurance Oversight Ordinance, IOO), SR 961.011.

[17] In FINMA Newsletter 46 (2013), FINMA publishes observations from the second Swiss Qualitative Assessment (SAQ II) and in FINMA Newsletter 5 (2010), FINMA publishes findings from the first Swiss Qualtitative Assessment.

[18] Cf. article 12(2) and article 14(2) of the IOO (Implementing Regulation).

The regulations do not require the formation of audit committees (or other committees of the board of directors). The board of directors decides on the formation and structure of the committees within the framework of its organisational competence. Depending on the size and the complexity of an undertaking, it may or may not be appropriate to establish an audit committee. Insurance companies regularly inform internal and external stakeholders about their corporate governance. This would also include the formation of an audit committee. Such a committee can also be used to ensure cooperation with the internal audit department.[19]

Swiss Qualitative Assessments have resulted in the following findings and recommendations:
- The number of insurance companies with committees is increasing and audit committees are the most frequently represented
- Committee governance is still insufficient, in particular with respect to structure, regulation and efficiency
- Organisational documents (organisational regulations and charters) are frequently inadequate or inexistent
- Some insurance companies stipulate their own conditions for the formation of committees, for example, that the majority of members must have finance and accounting experience[20]
- Risk, compensation and nomination committees are the most prevalent standing committees of the board of directors apart from audit committees
- The chairs of audit committees spend an average of 18 days a year in the exercise of their office, which they consider to be a sufficient amount of time
- Independent, external members of the board of directors are frequently appointed to chair the standing committees of the board of directors
- Evaluations of standing committees of the board of directors are not yet very widespread[21]

Insurance groups are made up of two or more companies that form an economic unit, or which are under common control. The group has to comprise at least one insurance company and has to operate primarily in the insurance sector.[22] Insurance conglomerates are insurance groups that have at least one member that is a bank or a securities broker of considerable economic importance.[23]

[19] FINMA, Circular 2008/32, margin nos. 10 and 38, and Circular 2008/35, margin no. 11.

[20] The first four findings and recommendations are a constituent part of the annex to FINMA Newsletter 5 (2010).

[21] The second four findings and recommendations are a constituent part of the annex to FINMA Newsletter 46 (2013).

[22] Cf. article 64 IOA.

[23] Cf. article 72 IOA.

Insurance groups and insurance conglomerates must submit an outline of their organisational, control and senior management structure at group management level to FINMA.[24] Any changes to one of these three areas must be reported within 14 days of taking effect.[25] The senior management structure includes the board of directors as well as senior management staff at group management level. The structure, tasks and responsibilities are defined within the framework of the articles of association, the organisational regulations, the division of competences and the code of conduct. In particular, the following must be submitted:

- Management organisation chart
- Name, commencement of position, curriculum vitae and description of the responsibilities of the members of senior management as well as of the members of the next lower leadership level
- Organisational regulations

The organisational regulations must include, among others, information on the committees of the board of directors. This should include descriptions of at least their composition and organisation, their tasks and responsibilities, as well as of the nature of the reports submitted by the committees to the full board of directors.[26]

2.5 Publicly traded undertakings

The requirements of the Directive on Information relating to Corporate Governance (Directive Corporate Governance, DCG) must be satisfied by issuers who meet one of the two following criteria:

- Equity securities listed on the SIX Swiss Exchange and headquartered in Switzerland
- Headquartered abroad and equity securities listed on the SIX Swiss Exchange but not listed in the home country

The DCG requires that companies disclose information on the division of tasks and the functioning of the board of directors, the membership structure, the work performed by all committees of the board of directors and their tasks, as well as the division of competences. This set of regulations is based on the principle of 'comply or explain'. This means that a company may refrain from disclosing certain information, but a publicly traded company must justify such non-disclosure separately and in detail in its annual report.[27] Neither the Swiss Code nor the DCG require that the board of directors work with standing committees.

In addition to the duty to provide information on corporate governance, publicly traded undertakings are subject to other obligations, which are monitored by SIX Exchange Regulation:[28]

- **Regular reporting obligations:** These are intended to ensure that technical and administrative information on a company's listed securities is made available to the stock exchange and market participants in good time and in a suitable form. This involves, for example, information on changes to the auditing body or the compensation model, the date of the next general meeting, financial reports and the capital structure.
- **Ad hoc publicity:** The obligation to provide information within the framework of ad hoc publicity applies to price-sensitive facts unknown to the public that occur within the scope of activity of a publicly traded company. The purpose of this provision is to supply current and potential market participants with information in a non-discriminatory manner, thereby ensuring transparency and the equal treatment of investors.

[24] Cf. article 191(2) or article 204 IOO.

[25] FINMA, Circular 2008/27, margin no. 2.

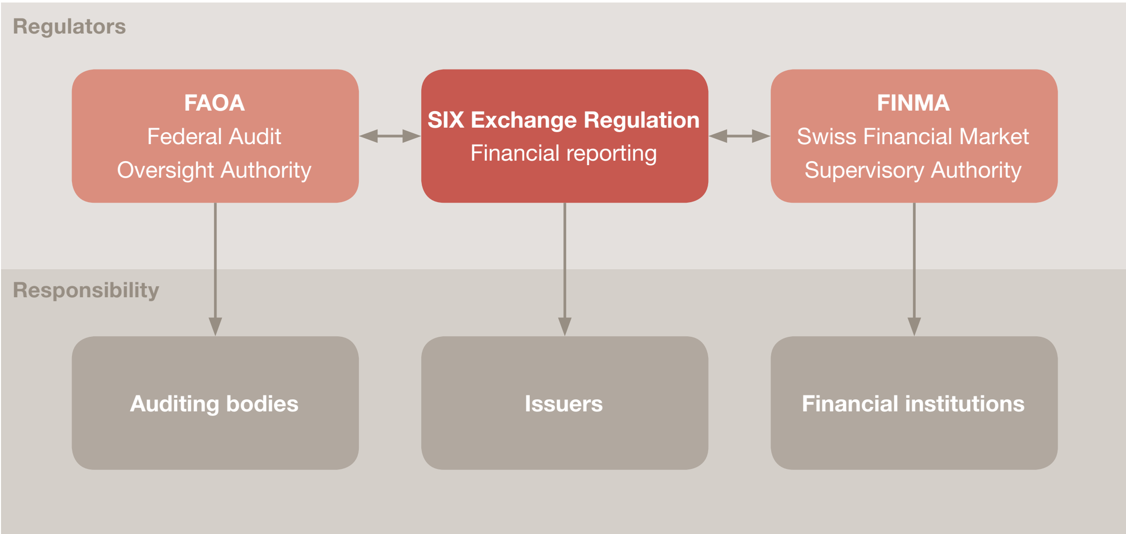
[26] FINMA, Circular 2008/27, margin nos. 7–11.

[27] Cf. articles 3 and 7 of the Directive on Information relating to Corporate Governance (Directive Corporate Governance, DCG) as well as point 3.4 of the annex to the DCG.

[28] Cf. www.six-exchange-regulation.com.

- **Disclosure of shareholdings:** A person or group subject to the reporting obligations may exceed or fall below certain thresholds of voting rights in a listed company headquartered in Switzerland (or a company domiciled abroad that has its main listing in Switzerland). In both cases, the person or group must submit a written disclosure notice to the issuer and the stock exchange within four trading days after the duty of disclosure arises.[29]
- **Management transactions:** The rules on the disclosure of management transactions demand that issuers report the transactions of the members of the board of directors and the executive board with their own equity securities. Convertible and purchase rights for a company's own shares as well as financial instruments whose price depends significantly on the issuer's equity securities must likewise be reported.
- **Financial reporting:** The Listing Rules and the Directive on Financial Reporting (DFR) demand that issuers comply with accounting standards that convey a 'true and fair view' of the financial position, the results of operations and the cash flows. Auditors examine the financial reporting and SIX Exchange Regulation has a monitoring role regarding compliance with the accounting standards (cf. Fig. 2).[30]

Fig. 2: Monitoring activities of various regulators.[31]



[29] Cf. article 20 of the Federal Act on Stock Exchanges and Securities Trading (Stock Exchange Act, SESTA), SR 954.1. The thresholds are 3, 5, 10, 15, 20, 25, 33⅓, 50 or 66⅔ percent of voting rights.

[30] Cf. articles 49–51 of the Listing Rules with the fundamental requirements concerning financial reporting as well as the Directive on Financial Reporting (Directive Financial Reporting, DFR) with the recognised accounting standards (IFRS, US GAAP and Swiss GAAP FER).

[31] Cf. www.six-exchange-regulation.com.

3 Advantages and disadvantages

Shifting individual tasks to the audit committee has certain advantages as it:
- Reduces the burden on the full board of directors
- Enables prompt, targeted and intensive discussion of respective topics
- Concentrates specialist knowledge

On the one hand, the information imbalance between the executive board and the board of directors is reduced by forming standing committees. On the other, the complexity of the work performed by the board of directors increases. There is a risk, of course, that the other board members may not keep themselves sufficiently informed of the standing committees' activities or they are not kept sufficiently informed. Nonetheless, as far as the work of the audit committee is concerned, the responsibility remains with the full board of directors.[32]

4 Compliance

When we speak of 'compliance', we mean adhering to applicable standards such as laws, ordinances, international standards and internal regulations, including codes of conduct or general terms and conditions. It is no longer possible to imagine the world of everyday business without compliance – and compliance expresses itself in many different ways.

For example, employees must comply with their company's code of conduct and may only accept gifts or invitations beyond a certain limit if the person responsible for monitoring compliance gives the necessary approval. Employees disregarding this code of behaviour face penalties, which may well include termination of employment. Infringements of laws may lead to hefty fines, as may be the case with prohibited agreements to form cartel arrangements. Violating the ban on the use of child labour (for instance, when sourcing products from abroad) may cause enormous damage to a company's image.

Nowadays, customers of industrial undertakings prefer products manufactured from renewable resources or produced sustainably. Compliance with the corresponding requirements is monitored at different levels. This can be done by the customer, by the production company and its employees or by industry associations or supervisory authorities. Sustainability issues are addressed more and more frequently within companies in relation to compliance, through the internal control system (ICS), by reports to superiors or personnel officers, or by means of a whistle-blower hotline.

[32] Cf. article 716a of the Swiss Code of Obligations CO, SR 220, on the non-transferable and inalienable responsibilities of the board of directors.

5 Federal Audit Oversight Authority

The Federal Audit Oversight Authority (FAOA) began its supervisory activities in the autumn of 2007. The FAOA regulates the licencing of auditors and their supervision.[33]

The nature of the auditing process varies depending on whether a company has a) bonds outstanding or b) shares listed on a stock exchange and whether it contributes at least 20 percent of its assets or revenue to the consolidated accounts of such a company (all together 'public companies'), and depending on its size. To be allowed to carry out an audit, the auditing body needs to be licenced by the FAOA (cf. Fig. 3).

Fig. 3: Type of company, type of audit and necessary licence.[34]

Type of company	Type of audit	Necessary licence
Public companies	Ordinary audit	Government-supervised audit firm
Companies which exceed two of the following thresholds in two subsequent financial years: a. Balance sheet total of CHF 20 million b. Revenue of CHF 40 million c. 250 full-time positions on an annual average	Ordinary audit	Audit firm (licenced audit expert)
Companies which do not exceed the above size criteria	Limited statutory examination	Natural persons (licenced auditor or licenced audit expert) Sole proprietorship where only the proprietor provides audit services (licenced auditor or licenced audit expert)

The FAOA examines the government-supervised audit firms in the context of its supervisory duties by reviewing the accuracy of the documents to obtain authorisation as a licenced auditor and the quality assurance system (firm review) and by evaluating the processing of audit mandates (file review).[35]

[33] According to the 2013 annual report of FINMA, p. 104, it remains unclear when FINMA's supervision of audit firms in the area of auditing and the supervisory review performed by the FAOA, which have been separate to date, will be combined.

[34] Cf. articles 727–727a CO regarding the type of company and the nature of the audit.

[35] Cf. www.revisionsaufsichtsbehoerde.ch.

6 Regulations outside Switzerland

6.1 Audit committees in the USA

In the USA, capital market-oriented companies must have an audit committee. The US Securities and Exchange Commission (SEC) declared itself in favour of setting up audit committees in its 1972 release 'Standing Audit Committee Composed of Outside Directors'.[36] The 2002 Sarbanes-Oxley Act (SOX) and the associated establishment of the American supervisory authority of audit firms, the Public Company Accounting Oversight Board (PCAOB), created additional regulations.[37] These also apply to foreign companies listed on US stock exchanges.

However, the management structure of a US company differs considerably from the management structure of Swiss companies, especially in the following points:

- Monistic system: fusion of executive board and control in the board of directors
- Individual responsibility of each member of the board of directors
- Direct responsibility for the selection, fee arrangement and monitoring of the auditor
- Requirements concerning each member of the audit committee[38]

6.2 European regulations

Based on a 2011 Green Paper issued by the European Commission, and after numerous adjustments were made to the original concept, the EU Parliament decided on 3 April 2014 to initiate an audit reform. The EU Council accepted the draft of a directive on 14 April 2014.[39] According to this, public interest companies (companies listed on the stock exchange, banks, insurance companies and companies yet to be determined as such by a member state) must appoint an audit committee. The audit is carried out according to the International Standards on Auditing issued by the International Auditing and Assurance Standards Board (IAASB). Furthermore, supervisory authorities of audit firms have to be set up.

[36] Cf. US Securities and Exchange Commission (1972) and Securities Act Release No. 5237 of 23 March 1972.

[37] Cf. pcaobus.org/information/pages/auditcommitteemembers.aspx.

[38] Cf. Institute of Internal Auditors, PricewaterhouseCoopers (2011).

[39] Cf. press release by the Council of the European Union of 14 April 2014 and European Commission (2011 A).

7 Our recommendation

For your board of directors to be able to perform efficiently its functions relating to financial reporting, it needs the support of an audit committee. Such a committee can discuss in sufficient depth the complexity of business transactions, the frequency with which financial data are published (each quarter in the case of major listed companies) and the scope of financial reporting.

We also recommend that you not only consult the report on the individual and the consolidated financial statements filed by the audit committee for the resolutions of the board of directors, but also the opinion of the lead auditor.

B Audit committee charter

1 Introduction

The tasks performed by an audit committee are many and varied. A possible outline of these multiple tasks is shown below (cf. Fig. 4):

Fig. 4: The varied tasks of an audit committee.

Lastly, successful corporate governance is distinguished by the fact that the structure of a company's managing bodies reflects the specific features of the company. Therefore, there's no such thing as an 'off the peg' audit committee that is equally applicable to all companies. The following questions arise when setting up an audit committee:

- Which tasks, competences and responsibilities should the audit committee take on?
- Which members of the board of directors are best suited for the audit committee? What factors should be taken into account when staffing the audit committee?

- How frequently should meetings be held?
- What kind of information is required? Which information channels are available for this?
- What form should cooperation with the full board of directors take?
- How is the performance of the audit committee to be measured?

The board of directors is solely responsible for setting up and arranging the audit committee. In other words, the general meeting does not have a say in the matter. At banks, the chair of the board of directors should not be a member of the audit committee at the same time. If the bank, however, does decide that the chair should be part of this committee, it must justify this decision in its annual report.[40]

2 Responsibilities, composition and internal order

The responsibilities, composition and internal order of an audit committee are defined in an audit committee charter, which is either integrated in the bylaws of the board of directors or adopted as separate bylaws. As such, audit committee charters refer to the stipulations of the board of directors and can vary greatly in terms of their level of comprehensiveness.

With regard to internal order, the audit committee may determine the substance of its charter independently. In principle, however, it is reasonable for the board of directors to decide on the bylaws of the audit committee as well as on all subsequent amendments in order to ensure a high level of acceptance within the organisation and the correct functioning of its committee.

3 Content

The scope and the significance of audit committee charters vary widely. Considering current practice, such bylaws usually include the following provisions:
- Definition of tasks
- Sources of information and information procurement (including the right to request information from employees, to initiate investigations, etc.)
- Reporting to the board of directors
- Preparing meetings
- Taking decisions
- Differentiating the monitoring responsibilities of the audit committee from the responsibilities of the executive board

The description of responsibilities must indicate to what extent the audit committee acts in a preparatory capacity and in which cases it acts definitively on behalf of the board of directors.

[40] FINMA, FAQ, p. 4, no. 9 and Circular 2008/24, margin no. 30.

Having analysed the 30 companies that make up the Swiss Leader Index (SLI), we conclude that they describe the responsibilities of their audit committees in basically similar ways:[41]

- Ensuring the operation of the ICS, including the assessment and management of risks and opportunities
- External audit firm: reviewing, communicating, specifying the audit plan, proposing re-election/replacement/nomination
- Reviewing and discussing the results of internal and external audits
- Supervising potential findings in the above areas and taking related measures
- Making proposals to approve the quarterly, semi-annual and annual financial statements to the full board of directors

4 Resolutions and updates

The audit committee charter and any amendments to it are adopted by a simple majority. A company should periodically review these bylaws and adjust them as needed, taking into account current developments in particular.

[41] Cf. www.six-swiss-exchange.com: The SLI Swiss Leader Index consists of the shares of the Swiss Market Index (SMI) and the ten largest stocks of the SMI Mid (SMIM, the mid-cap security of the Swiss stock market) which are not already represented in the blue chip SMI index (SMI). It therefore includes the 30 largest and most liquid securities on the Swiss stock market.

5 Our recommendation

The board of directors decides on the establishment of an audit committee. The responsibilities and the substantive arrangements of the audit committee should be adjusted to meet the needs of the company. Since the assessment and management of risks and opportunities (cf. Section D.2, Assessment and management of risks and opportunities) as well as compliance (cf. Section D.4, Compliance) are becoming increasingly important, more and more boards of directors are broadening the responsibilities of their audit committees to take this into account. We note that three SLI companies have incorporated the term ‘compliance’ and one SLI company has incorporated the term ‘risk’ in the audit committee’s name. Even if such designations are not adopted, to some extent audit committees carry out activities in these areas.

Statements on the responsibilities, composition and internal order of the audit committee are included in the bylaws of the board of directors and/or in a separate audit committee charter. These should be issued by the full board of directors and not just by the audit committee itself. The description of responsibilities must make it clear whether the audit committee acts in a preparatory capacity or as the decision-making body on behalf of the board of directors. You should periodically review the bylaws of your audit committee and revise them as necessary.

In addition, audit committees of companies with special supervisory and regulatory provisions should periodically check whether they comply with the requirements of the relevant panels and authorities.

C Requirements for members of the audit committee

1 Introduction

Only members of the board of directors can be members of the audit committee. In general, the board of directors elects audit committee members by a simple majority. The number of audit committee members depends on the size of the company and the composition of the full board of directors. According to our analysis, with few exceptions, the audit committees of SLI companies have three to six members (four being the average). The chair is appointed either by the board of directors or by the audit committee itself.

2 Requirements profile for members of the audit committee

In order to fulfil the duties of care imposed by law on the board of directors, its members must have a basic understanding of all normal business transactions.[42] Therefore, the board of directors – and thus the audit committee – should be made up of persons who are able to form independent opinions based on a critical exchange of ideas with the executive board.

The Swiss Code recommends that boards of directors of publicly traded companies set up standing committees from among its members based on their competences and depending on the specific circumstances of the company and the number of members of the board of directors. These committees analyse specific areas and report to the board of directors to help it prepare resolutions and perform its supervisory activities. The Swiss Code also advises that the majority of the members of the audit committee, including the chair, should be experienced in finance and accounting. Consequently, the members should be aware of the basics of the applied accounting standards, the ICS, the assessment and management of risks and opportunities, compliance, internal audit and cooperation with the auditor. The audit committee also consists of non-executive and independent members of the board of directors.[43] According to our analysis, the majority of companies are now following these recommendations.

The board of directors also needs to be aware of the requirements it demands regarding the professional qualifications of the members of the audit committee in general and of the chair in particular. To this end, the boards of directors of publicly traded companies set up a nomination committee in line with the recommendations of the Swiss Code.[44] This nomination committee develops a staffing profile for the board of directors and its standing committees which has to be taken into account in the election of members to the board of directors as well as in succession planning.

[42] These are the non-transferable and inalienable responsibilities as per article 716a CO.

[43] Cf. *economiesuisse* (2014), nos. 12, 22 and 23. According to no. 14, 'independent' means non-executive members of the board of directors who have never been a member of the executive board or who were a member of the executive board more than three years ago and who do not maintain any or only relatively minor business relationships with the company.

[44] Cf. *economiesuisse* (2014), nos. 12–14, 22 and 26.

FINMA specifies that members of the board of directors of a bank (and thus the members of the audit committee) must be of good standing. Each member of the board and the board of directors as a whole must have sufficient leadership skills, the necessary specialised knowledge as well as experience in the banking and finance sector. In addition to the core business, the board of directors must also be able to represent other key areas, such as finance and accounting, risk management, controlling and compliance. All members of audit committees of banks, banking groups or banking conglomerates and securities dealers (according to the Federal Act on Stock Exchanges and Securities Trading, SESTA) must have a thorough knowledge of and experience in finance and accounting and they must be familiar with the activities of the internal and the external auditors.[45] This is normally the case if the members of the audit committee have been involved professionally in accounting and/or auditing or have performed such work, for example, as (former or current):

- Analysts
- Long-standing members of audit committees
- Auditors
- Tax consultants

The composition of the board of directors of an insurance company must be such that it can execute the senior management, organisation and supervisory activities of the company. In addition to being available for adequate periods of time, general expertise and strategic insurance knowledge is required to enable the board of directors to understand and evaluate the company's business, processes and risks.[46]

In conformity with the SEC's requirements and in accordance with SOX, a financial expert having the following characteristics is required to be a member of the audit committee:

- Understanding of Generally Accepted Accounting Principles (GAAP or US GAAP in the US) and an understanding of companies' financial statements
- Ability to evaluate the application of these principles to estimates, accruals and provisions
- Experience in preparing, auditing, analysing or assessing companies' financial statements
- Understanding of the ICS and the process of preparing the financial statements
- Knowledge of the responsibilities and functions of an audit committee

The financial expert must prove his/her expertise by means of certain professional activities. The audit committee, in turn, must disclose whether one of its members is a financial expert.[47]

[45] FINMA, FAQ, p. 1, no. 2 and Circular 2008/24, margin nos. 38–40.

[46] Cf. article 12 para. 1 IOO [Implementing Regulation].

[47] Sarbanes-Oxley Act, sections 406 and 407, and US Securities and Exchange Commission (2007), Parts 228, 229 and 249.

3 Advanced training

The board of directors ensures that newly elected members are introduced properly and, if necessary, that they get further training in matters related to their responsibilities.[48] The members of the board of directors are themselves responsible for the instruction and training measures that help them to fulfil their responsibilities. The company should support them in their efforts. In practice, the continuous training of audit committee members is of critical importance because of the high complexity and the dynamics of the issues they deal with (for example, developments in accounting standards or changes to the basic tax conditions, which should be discussed at least once a year or on a case-by-case basis). Internal and external experts are called in frequently as consultants.

Apart from the fields of accounting, auditing, the ICS, assessment and management of risks and opportunities, compliance and internal audit, industry-related topics and corporate governance as well as other regulatory developments may be further training topics. The audit committee can consult the results of its self-assessment to help it plan the topics for further training (cf. Section G, Efficiency review).

4 Independence of members of the audit committee

In addition to professional qualifications, the objectivity and independence of the members of the board of directors are often the subject matter of regulations. Beyond the recommendations of the Swiss Code and the FINMA regulations, the board of directors can define further independence criteria adapted to the basic conditions.

The recommendations of the Swiss Code contain special independence rules for standing committee members. For example, the Code suggests that for certain committees most of its members should be independent. Non-executive members of the board of directors who have never been on the executive board or who were on the executive board more than three years ago and who do not maintain any or only relatively minor business relationships with the company are considered independent.[49] This condition is designed to prevent conflicts of interest. If one person belongs to several different boards of directors, that person's independence must be examined carefully case by case.

The Banking Ordinance prohibits members of the board of directors of banks from being on the same institution's executive board at the same time.[50] FINMA specifies that, with regard to the monitoring and internal control of banks, at least one third of the members of the board of directors must meet the independence criteria. A member of the board of directors is considered independent if said member:
- Is not currently or has not been employed by the institution in a different capacity within the last two years
- Has not worked for the institution's auditors as the lead auditor for the institution within the last two years
- Does not maintain any business relationship with the institution which could lead to a conflict of interest by its nature or scope
- Is not a qualified shareholder of the institution and does not represent a qualified shareholder[51]

48 Cf. *economiesuisse* (2014), no. 13.

49 Cf. *economiesuisse* (2014), no. 14.

50 Cf. article 8 para. 2 BankO and article 11(2) after the total revision.

51 Cf. article 3 para. 2 lit. c^{bis} BankA and article 10 para. 2 lit. d SESTA.

Members of cantons, municipalities and other cantonal or municipal public institutions posted or elected to the board of directors of cantonal or municipal banks are considered independent if:

- They are not members of the cantonal or municipal government or administration or of another cantonal or municipal public corporation
- They do not receive instructions from their electoral body concerning their activity as a member of the board of directors

The requirements for the independence of the members of the board of directors do not apply to directly and indirectly held subsidiary banks and securities dealers or to financial conglomerates dominated by banks or securities dealers.[52]

As regards the composition of the audit committee of banks, FINMA specifies that most of the members should meet the above independence criteria. If this is not the case, this circumstance must be justified by the bank in its annual report.[53]

As far as the composition of the board of directors of insurance companies is concerned, FINMA requires members to put in order their personal and business situation to avoid conflicts of interest with the company as far as possible.[54] The same person may not hold the positions of chair of the board of directors and chief executive officer.[55]

FINMA watches over the practices of members of the board of directors. These should be organised in such a way that the board of directors can perform in full its obligation to supervise the executive board independently, while ensuring the necessary division between supervisory and operational activities. In particular, a member of a group's executive management should not simultaneously serve on the board of directors of a subsidiary. Additionally, excessive concentrations of power should be avoided wherever possible, for example, when the chair of the board of directors is concurrently the chair of an important standing committee of the board of directors or when one person presides over several committees.[56]

5 Number of mandates

All members of the board of directors must ensure they allow sufficient time to fulfil their mandates as members of the board of directors. This is particularly true for members of the audit committee. The burden placed on their time is greater than for ordinary members of the board of directors, i.e., those who do not hold chairs or who do not have committee membership responsibilities.

The law does not explicitly establish or limit the maximum number of mandates for members of the board of directors. The Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (ERCO) requires that the articles of association of publicly traded companies comprise provisions regarding the number of admissible activities carried out by members of the board of directors and executive boards in the upper management or administrative bodies.[57] This concerns activities in legal entities (companies) not controlled by the company or in legal entities that do not control the company. Thus, there is a quantitative formal limitation regarding board of directors mandates for members of the audit committees of publicly traded Swiss companies. However, the crucial factor is not necessarily the number of mandates, but whether members have sufficient time available to fulfil their mandates with the diligence required by law.

52 FINMA, Circular 2008/24, margin nos. 6, 19, 20–27.

53 FINMA, Circular 2008/24, margin no. 19.

54 FINMA, Circular 2008/32, margin no. 10.

55 Cf. article 13(1) IOO.

56 Cf. FINMA Newsletter 46 (2013), in particular the annex.

57 Cf. article 12 of the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (ERCO), SR 221.331.

An analysis of the annual reports and corporate governance reports of SLI companies shows that about three out of four companies have already implemented these new provisions regarding their articles of association. The mean value of the maximum number of mandates for members of boards of directors or executive boards is ten for unaffiliated companies and four for publicly traded companies. On average, the chair of an audit committee undertakes activities and mandates in three additional legal entities not controlled by the company. Frequently, there are restrictions on the number of additional board of directors mandates that members of the audit committee may accept.

6 New members

It is particularly important for the efficiency of an audit committee for new members to be integrated as quickly as possible. Ideally, the company should be able to provide new audit committee members with the following documents:

- General information on the industry
- The articles of association and bylaws of the board of directors as well as of the standing committees, where applicable
- The most recent annual report
- Interim reports for the last four quarters/two half-years
- Minutes of last year's meetings of the board of directors and the audit committee
- Written documentation about the planned activities and meeting dates of the audit committee
- Key reports presented to the audit committee within the last year by the executive board, the external auditor and internal audit
- Audit planning by internal audit for the current year
- The results of the most recent self-assessment of the audit committee and the board of directors

A new member appointed to the board of directors for the first time should initially become acquainted with the corresponding rights and obligations as well as how the board of directors functions. The new member must also gain an overview of the company's business activities and its structure. Moreover, special preparation may also be helpful with regard to membership of the audit committee. Many companies therefore offer new committee members the support of internal and external experts. This publication aims to help you become acquainted with these new tasks.

7 Remuneration

The effort involved in committee work should be adequately remunerated, either as a fixed payment or based on participation at meetings. Most SLI companies disclose the remuneration paid to the chair or to committee members.

According to the DCG and the ERCO, a company must disclose in a separate report the basis for and the individual elements of the remuneration and of any participation programmes for members of the board of directors, as well as the responsibilities and procedures for determining them (cf. Section D.6, Remuneration report).[58] SLI companies usually remunerate audit committee work by paying an additional fixed amount.

[58] DCG, Annex, Section 5, as well as article 14 ERCO.

8 Our recommendation

The members of the audit committee must have the basic knowledge required to carry out their responsibilities appropriately. The board of directors and the chairs of audit committees would be well advised to choose their members based on a clear requirements profile. You should make sure that all audit committee members undergo regular advanced training. If you're planning a new appointment to the audit committee, you should provide the designated person with all the important information required. Special preparation may be useful – for instance, advanced training provided by internal or external specialists. Make sure that the audit committee has enough time to carry out its activities and that you determine the appropriate remuneration for the work involved.

D Functions of the audit committee

1 Introduction

With the exception of banks and, in some cases, insurance companies, Swiss firms are free to organise the responsibilities of their own audit committee. In the following, we look at the functions of an audit committee in an industrial undertaking, i.e., without the corresponding statutory and regulatory requirements, and those of a regulated bank or insurance company.

2 Functions

2.1 Industrial undertakings

The board of directors is free to organise its standing committees to monitor the work of the executive board. The executive board must provide the board of directors and/or its committees with appropriate information.

The Swiss Code describes the areas of activity of an audit committee as follows:[59]
"The Audit Committee should form its own opinion of the quality of the internal and external audit, the internal control system and the annual financial statements.
- *The Audit Committee should form an impression of the effectiveness of the external audit (the audit body), the internal audit, and their collaboration.*
- *The Audit Committee should also assess the effectiveness of the internal control system, including risk management, and should form an impression of the state of compliance within the company.*
- *The Audit Committee should critically review the single-entity and consolidated financial accounts as well as the interim financial statements intended for publication. It should discuss the latter with the Chief Financial Officer and the head of the internal audit, and separately, should the occasion warrant, with the head of the external audit.*
- *The Audit Committee should decide whether the single-entity and consolidated financial accounts can be recommended to the Board of Directors for presentation to the General Shareholders' Meeting.*
- *The Audit Committee should assess the performance and the fees charged by the external auditors and ascertain their independence. It should examine the compatibility of the auditing responsibilities with any consulting mandates."*

The functions of the audit committee also include special topics concerning the company's business or financial situation (for example, its ability to continue as a going concern) as well as the evaluation of reports on other issues such as sustainability, corporate governance or remuneration.

[59] Cf. *economiesuisse* (2014), p. 14.

2.2 Banks

The audit committee of a bank must perform the following functions:[60]

a. Monitoring and assessing the integrity of financial statements
- Critically analyses the financial statements (individual financial statements and consolidated financial statements, where applicable, annual financial statements and published interim financial statements) as well as their preparation in accordance with the accounting principles used. This includes, in particular, assessing the measurement of the material balance sheet items and off-balance sheet items
- Discusses the financial statements and the quality of the relevant accounting processes with the member of the executive board responsible for finance and accounting, the lead auditor and the head of internal audit
- Reports to the board of directors on monitoring and assessing the integrity of the financial statements. In addition, issues a recommendation as to whether the financial statements can be submitted to the general meeting. The final decision on this lies with the full board of directors

b. Monitoring and assessing the ICS relating to financial reporting
- Monitors and assesses whether the ICS relating to financial reporting is adequate and effective
- Ascertains whether the ICS relating to financial reporting is adapted appropriately to any significant changes in the bank's risk profile

c. Monitoring and assessing the effectiveness of the audit firm as well as its collaboration with the internal audit department
- Assesses the risk analysis of the external auditor and the supervisory audit strategy on an annual basis. In addition, evaluates significant changes in the institution's risk profile
- Critically analyses the regulatory audit report and the comprehensive report[61]
- Discusses these reports with the lead auditor or the lead auditors
- Ascertains whether deficiencies have been corrected and the recommendations made by the audit firm have been implemented
- Evaluates the performance of and the fees paid to the audit firm and assesses its independence
- Evaluates the collaboration of the audit firm and the internal audit department

d. Evaluating the work of the ICS and of the internal audit department beyond financial reporting
- Evaluates the effectiveness of the ICS beyond the area of financial reporting. This includes the compliance function and risk control, unless such an evaluation is conducted by any other standing committee(s) of the board of directors
- Gathers information on the audit results of the internal audit department and has regular contact with the head of the internal audit department, even if the internal audit department reports to the full board of directors or another standing committee of the board of directors

[60] FINMA, Circular 2008/24, margin nos. 42–53.

[61] Cf. FINMA, Circular 2013/3 'Auditing': the comprehensive report is issued in accordance with article 728 b para. 2 CO.

2.3 Insurance companies

The tasks of insurance companies' audit committees are defined frequently as part of the functions of the internal audit department.[62]

The internal audit is carried out on behalf of the board of directors or the audit committee. The main findings of such an audit must be reported appropriately and promptly in writing to the board of directors or the audit committee; serious deficiencies must be reported immediately. The internal auditor reports to the full board of directors as well as to the audit committee at least once a year. The board of directors or the audit committee should discuss these reports and submit them to the audit firm. Suitable processes should be in place to ensure that recommendations are acted on and that all necessary measures are initiated within an appropriate time.[63]

FINMA recommends that the board of directors and, in particular, the audit committee diligently consider the observations and recommendations made by the external and the internal auditors relating to the ICS and periodically examine the abilities and the performance of the financial functions and of financial controlling and accounting.[64]

3 Preparation or independent decision-making

The board of directors may assign the preparation and the execution of its decisions as well as the monitoring of transactions to its standing committees or to individual members. In doing so, it must ensure appropriate reporting to its members.[65]

Thus, the board of directors may assign tasks that are either preparatory in nature or that lead to independent decision-making by the audit committee. Nevertheless, the resolution submitted to the general meeting to approve the annual financial statements and the consolidated financial statements remains a matter for the full board of directors.

4 Cooperation with other committees

The activities carried out by the audit committee may touch on the work done by other standing committees of the board of directors. In these cases, the board of directors has to coordinate the scope of the duties of each committee as best it can.

Publicly traded companies must elect a compensation committee, issue a report on the remuneration of members of the board of directors and have it audited by the external auditor.[66] The compensation committee is responsible for the structure and the amount of compensation as well as for drafting the remuneration report. The audit committee is responsible for having it audited by the external auditor. These responsibilities cannot be assigned without there being some overlap. In practice, therefore, some people may serve on both of these standing committees or joint meetings may be held at which documents are exchanged.

[62] FINMA, Circular 2008/35.

[63] FINMA, Circular 2008/35, margin nos. 8–20.

[64] Cf. FINMA Newsletter 5 (2010), in particular the supplement.

[65] Cf. article 716a para. 2 CO.

[66] Cf. articles 5, 7 and 17 ERCO.

5 Sustainability report

Sustainability reports are becoming increasingly important and, to some extent, they affect investment decisions. This type of reporting is becoming ever more closely linked to financial reporting and companies are harmonising their report publishing dates. The process used for sustainability reporting is comparable to that of financial reporting. Certain companies include both reports in their annual report.[67]

However, considerably more striking changes could result from the 'Integrated Reporting' initiative. Under this heading, the International Integrated Reporting Council, a group of experts composed of representatives from well-known companies and associations, is developing new approaches for company reporting. The starting point for these considerations is the fact that the physical and financial assets disclosed in reporting currently reflect only to a limited extent the market capitalisation of companies.

The International Integrated Reporting Council published a first discussion paper in September 2011 and issued the 'International <IR> Framework' in December 2013, and 'Assurance on <IR>' in July 2014.[68] This initiative is indicative of how important it is for audit committees to monitor closely all developments involving corporate reporting and to review regularly whether a company's value is being communicated properly.

6 Remuneration report[69]

The ERCO applies to joint-stock companies domiciled in Switzerland whose shares are listed on a stock exchange in Switzerland or abroad. These companies must issue a remuneration report for the first time for the financial year starting on or after 1 January 2014. The remuneration report must also contain the comparable figures for the previous year.[70] It replaces only the information contained in the notes to the financial statements, whereby severance payments are no longer allowed and certain additions (signing-on bonuses, additional amounts for members of the executive board) and redrafts have been made.[71]

[67] The Global Reporting Initiative GRI (2013) recommends the use of auditors' assurance in its guidelines on sustainability reporting, G4. On the other hand, it also makes it clear that these are not a prerequisite for being allowed to publish a sustainability report in accordance with G4 (cf. p. 85).

[68] Cf. www.theiirc.org.

[69] Cf. Swiss Institute (2013 B) and ERCO in particular articles 1, 13 para. 1, 14–17, 19, 31 para. 1.

[70] Because article 13 para. 2 ERCO refers to article 958d para. 2 CO.

[71] Cf. article 663b^{bis} CO.

As before, the time when the remunerations are recorded in the annual financial statements is relevant in terms of the obligation to disclose.[72] This means, basically, that the accrual principle applies. However, the accounting law and the law on companies limited by shares do not comment on how, for example, share-based remunerations with special terms and conditions should be recorded in the annual financial statements. Therefore, a practice has evolved for disclosing remunerations paid to the board of directors and the executive board that offers largely appropriate solutions for the remuneration report.[73] The ERCO requires an audit and a separate report (formulated as a 'positive assurance') on whether the remuneration report complies with the law and the ERCO.[74] This concerns historical financial information. Reporting is therefore carried out in accordance with the requirements of the Swiss Auditing Standards. Since the auditors issue a separate report, they must obtain written declarations from the board of directors.[75]

Pursuant to the ERCO, the remuneration report contains explicit quantitative information on remunerations. The auditors merely examine whether this information on remunerations, loans and credits complies with the legal requirements and with the ERCO. If the remuneration report contains further information (for example, a description of the methods used to determine compensation and descriptions of participation programmes, information on the remuneration policy and remuneration structure, etc.), these are to be clearly separated from the quantitative information.[76] Such additional information is not subject to examination by the auditor.[77]

The compensation committee takes care of the structure and the amount of remuneration as well as the contents of the remuneration report, whereas overall responsibility remains a matter for the full board of directors. The compensation committee collaborates closely with the audit committee and the auditor as regards the audit of the remuneration report.

7 Responsibilities and team composition

The range of responsibilities assigned to the audit committee influences the requirements imposed on the members of the committee (cf. Section C, 2. Requirements profile for members of the audit committee).

[72] Cf. Federal Office of Justice (2013 B), chapter 3.7.2.

[73] Cf. Swiss Institute (2014) pp. 85–90 and the legal literature. The practice of disclosure under the ERCO, however, is still to evolve.

[74] Since article 17 ERCO refers to article 728b CO.

[75] Cf. Swiss Institute (2013 A), PS 805 Audits of individual financial statements, accounts or items, and PS 580 Written declarations.

[76] Cf. Federal Office of Justice (2013 A), section 2.7.

[77] Note, however, Swiss Institute (2013 A), PS 720. The auditor's duties in connection with other information in documents which contain the audited financial statements. According to this, the additional information contained in the remuneration report must be checked to verify that the information is consistent with the information to be audited.

8 Our recommendation

As a decision-maker in a Swiss company, you would be well advised to examine the responsibilities of your audit committee each year and adjust them to any changes in the basic conditions as necessary. It seems important to us in this connection that the members of your audit committee undergo regular advanced training and perform critical self-assessments (cf. Appendix 1 on the self-assessment of the performance of the audit committee and Appendix 2 on the self-assessment of the performance of the board of directors and of the audit committee of banks).

D.1 Accounting and the accounting process

1 Introduction

One of the most important activities of the audit committee consists in monitoring the company's financial reporting. The board of directors has several different responsibilities which are non-transferable and inalienable.[78] In accounting, these are:
- Organising the accounting system, financial control and financial planning, if this is necessary for managing the company
- Preparing the annual report (annual financial statements, i.e., individual financial statements and consolidated financial statements)
- Informing the court in cases of over-indebtedness

To boost efficiency, the board of directors delegates certain types of work to the audit committee. However, responsibility for these areas remains with the full board of directors. Other reports issued by the company (such as the sustainability report, the remuneration report, integrated reporting, etc.) do not necessarily fall within the scope of duties of the audit committee.

2 Annual report

Prior to publication, the annual report must be reviewed by the external auditors and within the company (cf. Fig. 5).

Fig. 5: Process and competences for the preparation of the annual report.

Process step	Competence
1. Preparing the annual report	Executive board involving the audit committee
2. External audit	Auditor
3. Internal examination	Audit committee
4. Approval for publication	Full board of directors
5. Acceptance of annual report	General meeting

The annual report must be presented to the competent body for approval within six months of the end of the financial year (within four months for publicly traded companies). For a joint-stock company, the competent body is the general meeting.[79] The chair of the highest managing or administrative body and the person responsible internally for accounting must sign this report.[80]

[78] Cf. article 716a CO.

[79] Cf. article 699 CO and article 10 DFR.

[80] Cf. article 958 para. 3 CO.

The audit committee examines the annual report before presenting it to the full board of directors for approval. On the one hand, the audit committee checks whether the annual report complies with the statutory regulations, with the articles of association and with the accounting standards used (verification of legality). On the other hand, the audit committee must assess whether the accounting decisions are expedient (verification of expediency). Overall, the committee should examine the reliability and completeness of the financial information submitted. One focal point is usually a check of the relevance and the continuity of the accounting methods used. The review should be oriented towards the risks and the materiality of incorrect accounting.

The annual financial statements (individual financial statements) consist of the balance sheet, the income statement and the notes. In addition, a company that is subject to an ordinary audit must issue a cash flow statement and a management report. Supplementary information must be provided in the notes to the financial statements. Companies that are part of a group can refrain from providing this additional information unless qualified minorities request it. Publicly traded companies are obligated to prepare individual financial statements according to a recognised accounting standard. These include Swiss GAAP FER, IFRS (as adopted by IASB), IFRS for SMEs, US GAAP and IPSAS.[81] This obligation does not apply if consolidated financial statements are prepared according to a recognised accounting standard. A qualified minority in a subsidiary could nonetheless request individual financial statements prepared according to a recognised accounting standard for the company in which it holds a participating interest.[82]

The board of directors submits a proposal for the appropriation of available earnings to the general meeting. Such a proposal is not a formal part of the annual financial statements. Even so, the audit committee will also assess this proposal from its point of view, factoring in the issues of liquidity and conformity with the articles of association, in addition to the aspect of corporate policy expediency. The board of directors can then present a final proposal based on the work undertaken by the audit committee.

If a company controls one or more companies subject to financial reporting, it must present annual consolidated financial statements for the entire group in the annual report.[83]

A company may refrain from issuing the consolidated financial statements if it, together with the controlled companies, does not exceed two of the three following thresholds in two subsequent financial years:
- Balance sheet total of CHF 20 million
- Revenues of CHF 40 million
- 250 full-time positions on an annual average[84]

A company does not need to present consolidated financial statements if it is controlled by an enterprise whose consolidated financial statements are prepared according to Swiss or equivalent foreign regulations and they have been subject to an ordinary audit. However, consolidated financial statements must be issued if this is necessary to obtain the most reliable evaluation of the economic situation or if requested by a qualified minority.[85]

81 Cf. article 961d, 962 para. 1 CO and Ordinance on Recognised Accounting Standards (ORAS), SR 221.432.

82 Cf. article 962 paras. 2–3 CO.

83 Cf. article 963 CO.

84 Cf. article 963a para. 1 no. 1 CO.

85 Cf. article 963a para. 1 no. 2 and para. 2 CO.

Undertakings listed on a stock exchange must prepare the consolidated financial statements according to a recognised accounting standard if required by the stock exchange.[86] Companies listed on the SIX Swiss Exchange and which have their head office in Switzerland must prepare their financial statements according to IFRS. US GAAP or Swiss GAAP FER are permitted in specific stock-exchange segments (cf. Fig. 6).[87] Issuers that do not have their head office in Switzerland can also use the accounting standard of their home country ('home standard') if this is accepted by the stock exchange. Currently, EU-IFRS and Japanese GAAP are the standards referred to in the Annex to the Directive on Financial Reporting of the Swiss stock exchange.[88]

Fig. 6: Accounting standards recognised by the Directive on Financial Reporting of the Swiss stock exchange.[89]

	IFRS	US GAAP	Swiss GAAP FER
Issuers of ownership rights:			
Main standard	x	x	
Standard for investment companies	x	x	
Standard for real estate companies	x		x
Domestic standard	x	x	x
Issuers of debt securities only	x	x	x

3 Internal examination

In the course of the internal examination, the audit committee summarises its evaluation in the form of recommendations to the board of directors. Once the audit committee has concluded the preparatory examination, the chair of the audit committee informs the full board of directors of the results in a meeting, during which the individual and consolidated financial statements are approved. At this meeting, the board of directors must be informed in sufficient detail to allow it to come to its own conclusion. Although the board of directors, as the approving body, and the audit committee have the auditor's reports at their disposal, both bodies must be able to form an opinion independently.

The internal examination and subsequent reports are used by the board of directors as the basis for approving the individual and consolidated financial statements.

86 Article 963b CO.

87 Article 6 para. 1 and para. 2–5 DFR. For banks and securities dealers, the accounting standard in accordance with the Banking Act is permitted at the level of the domestic standard. For collective capital investment schemes, the rules of the relevant special statutory regulations apply.

88 Article 8 DFR and Annex 1.

89 Cf. www.six-exchange-regulation.com.

4 Areas of focus of the examination

In the internal examination, the audit committee should examine both the consistency of the financial statements in themselves as well as the annual report as a whole. The focal points can include:

- Risks to the development and the continued existence of the company
- Risk reporting
- Fundamental accounting principles concerning assets or debts, such as:
  - intangible assets
  - purchase price allocation within the context of business acquisitions
  - deferred taxes
  - appropriate definition of cash-generating units (CGUs)
- Exercising discretionary accounting and measurement options such as:
  - capitalisation of development costs
  - measurement of securities holdings
- Utilisation of discretionary powers such as:
  - provisions for bad debts
  - (pension) provisions
  - impairment of goodwill
  - forecasts of operating performance, including risk reporting
- Evaluation of special transactions, for example:
  - consolidation of special purpose entities
  - sale and lease-back transactions
  - sale and buy-back transactions
  - sale of receivables portfolios
  - hedging
  - transactions with related parties
- Other special transactions such as:
  - business acquisitions
  - restructuring
  - equity transactions
- Accrual accounting, such as:
  - timely revenue and income recognition for large-scale projects or bulk business
- Cash flow statement
- Implementation of new/modified accounting provisions
- Priorities for the semi-annual and annual financial statements[90]

5 Interim reporting

Issuers of equity securities listed on the SIX Swiss Exchange are obligated to publish semi-annual financial statements. They must publish these statements no later than three months after the balance sheet date. The publication of quarterly financial statements is voluntary. Quarterly financial statements, if published, are subject to the same requirements as those that apply to semi-annual financial statements.[91]

Interim reporting can be carried out in accordance with IAS 34 (for IFRS users), whilst Swiss GAAP FER users can apply Swiss GAAP FER 31 (which replaced Swiss GAAP FER 12 as of the 2015 financial year). Companies that prepare their financial statements in accordance with US GAAP may apply the Accounting Standards Codification Topic 270 of the Financial Accounting Standards Board (FASB). In each case, users of US GAAP must also publish condensed balance sheets, cash flow statements and statements of shareholders' equity.[92]

[90] Cf. regular communication by the SIX Exchange Regulation; retrievable at www.six-exchange-regulation.com.

[91] Cf. article 50 Listing Rules and article 11 DFR.

[92] Cf. article 9 DFR.

Note that more comprehensive requirements apply to interim reporting for investment and real estate companies.[93]

Companies not listed on a stock exchange do not have to issue interim financial statements. A company will have to issue interim financial statements and submit them for review to the licensed auditor only if there are reasonable grounds for concern regarding over-indebtedness.[94]

IAS 34 regulates the distinctive features of interim reporting for IFRS users. Accordingly, the condensed financial statements must contain all the components of the consolidated financial statements in accordance with IFRS, although in an abbreviated form:
- A condensed balance sheet (financial position)
- A condensed profit and loss account
- A condensed statement of comprehensive income
- A condensed statement of changes in equity
- A condensed cash flow statement
- Selected explanatory notes

In interim reporting, the company must report at least any important events that took place during the reporting period and their effects on the condensed financial statements. This includes seasonality, changes to accounting and valuation methods as well as changes to estimates. When preparing the interim financial statements, it is assumed that the reader is familiar with the annual financial statements.[95]

Interim reporting does not have to be subject to an audit or to a review. The Swiss Code suggests that the audit committee also critically examines the interim financial statements intended for publication and discusses them with the person responsible for financial reporting and with the auditor.[96] A note is usually added to the interim financial statements as to whether the underlying figures have been reviewed or not. An external audit or a review notwithstanding, the SIX Exchange Regulation also examines interim financial statements based on random samples from within the scope of its authority, paying particular attention to the list of 'priorities for semi-annual and annual financial statements'.[97]

6 Interim notifications

In addition to voluntary disclosure of quarterly reports, ad hoc publicity is relevant. This primarily concerns unpublished facts pertinent to prices of the listed equity securities, such as:[98]
- Financial figures
- Changes in the members of the board of directors and the executive board
- Mergers
- Takeovers
- Demergers
- Restructuring
- Changes in equity
- Purchase offers
- Significant changes/drops in profits, profit warnings
- Financial restructuring

93 Cf. articles 14 and 17 DFR.

94 Cf. article 725 para. 2 CO.

95 Cf. International Accounting Standards Board (2014), IAS 34.

96 Cf. *economiesuisse* (2014), no. 24.

97 Cf. www.six-exchange-regulation.com.

98 Cf. www.six-exchange-regulation.com.

There is no definitive list of situations pertinent to ad hoc publicity. The audit committee (together with the executive board) must therefore ask itself early on whether a transaction or a change has to be disclosed as part of ad hoc publicity. The board of directors needs clearly defined processes for such situations.[99]

7 Monitoring of interim reporting

The audit committee of publicly traded companies is expected to take a critical look at semi-annual financial statements and any quarterly financial reports before they are published. It is of crucial importance for the audit committee to check and monitor interim reports, above all with regard to plausibility, precisely because there is no obligation to examine them or have them reviewed by an external auditor. Furthermore, the audit committee should scrutinise extraordinary developments and check interim reports for risky accounting issues. The audit committee should discuss the results of this critical inspection with the board of directors during a meeting or a teleconference. If individual accounting documents were subjected to a review or to an audit, the audit committee can draw on such results.

8 Accounting process

The monitoring function of the board of directors and thus of the audit committee concerns not only the financial reports but also the accounting process.[100] The accounting process encompasses all procedures and functions used to record events which are pertinent to accounting, and to prepare, adopt and publish financial statements in a timely manner.

The accounting process consists of several sub-processes. These include, for example, asset accounting, payroll accounting, the consolidation procedures and the process of compiling the notes and the information for the management report. The data processing techniques used in accounting are also part of the accounting process.

The financial reporting process and the ICS relating to financial reporting are closely interlinked. The latter is integrated into the process to ensure proper accounting. Because of this, it seems reasonable for the audit committee to combine the monitoring of the financial reporting process and the ICS related to this process. The committee has to monitor the lawfulness and the expediency of the financial reporting process. For this reason, it should have the core elements of the financial reporting process (across the group) explained to it at reasonable intervals. This also applies to significant changes in the process, such as moving the accounting system to a new data processing technique. As part of its monitoring activities, the audit committee is able to rely for the most part on the work done by the auditor because the auditor also deals with the financial reporting process as part of the audit required by law. (For more on monitoring the financial reporting-related ICS, see Section D.3, Internal control system).

Since the audit committee monitors the compliance of the company's financial reporting, the executive board must also inform it if financial reporting is reviewed by a regulator (for example, by SIX Exchange Regulation). The audit committee and the auditor should be involved early on in the event of any inquiries being made by the regulator.

[99] Cf. *economiesuisse* (2014), no. 18.

[100] Cf. article 716a CO.

9 Our recommendation

The audit committee monitors both the legality as well as the expediency of the financial reporting and of the financial reporting process. However, the board of directors cannot transfer the responsibility for examining and adopting the annual financial statements and the consolidated financial statements to the audit committee. The audit committee acts exclusively in a preparatory capacity. The audit of the financial reporting should also include examining the proposal for the appropriation of available earnings.

Further, the audit committee monitors the semi-annual and, where applicable, the quarterly financial reports before publication as well as other reports published by the board of directors as part of financial reporting. The audit committee should have the key components of the financial reporting process explained to it by the company at regular intervals in order to form an adequate opinion. The audit committee must discuss any significant changes in the process with the full board of directors.

We would advise companies to establish close links between the scrutiny of the financial reporting process and the monitoring of the ICS related to financial reporting. When carrying out its monitoring responsibilities for the individual and consolidated financial statements, the financial reporting process and the ICS related to financial reporting, the audit committee can rely in large part on the audit performed by the statutory auditors.

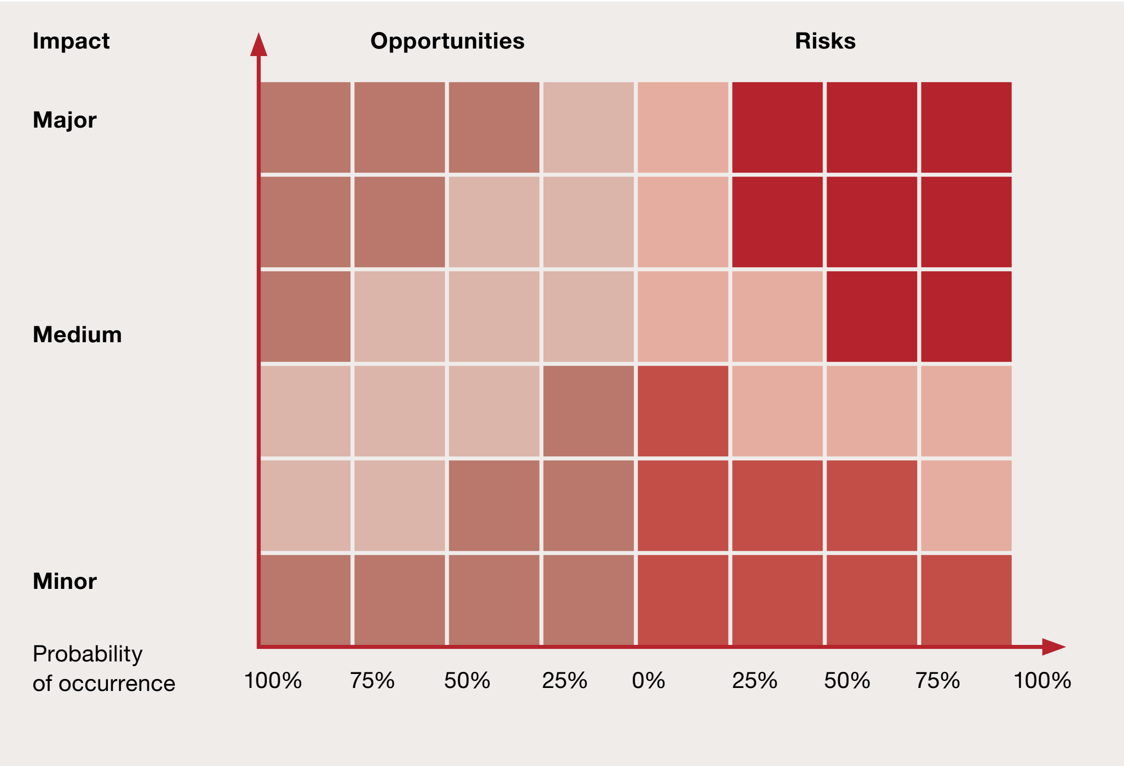
D.2 Assessment and management of risks and opportunities

1 Introduction

According to the Swiss Code, the audit committee assesses the efficiency of the ICS, including risk management. This comprises an examination of the organisational rules and measures to detect and to handle risks and opportunities arising from the business activities.[101]

A business risk arises from significant situations, events, circumstances, measures or omissions that can have a lasting negative effect on a company's ability to achieve its objectives and to implement its strategies. A business risk can also result from setting unreasonable objectives and strategies.[102] In our view, besides the interpretation of negative aspects, the assessment should also take account of positive aspects; therefore, the assessment and management of risks also includes the assessment and management of opportunities (cf. Fig. 7).

Fig. 7: Risks and opportunities that affect a company.[103]



[101] Cf. Institute of Public Auditors in Germany (IDW) (2014), Auditing standard 340, Auditing the early risk detection system in accordance with section 317 para. 4 of the German Commercial Code (HGB), margin no. 4.

[102] Cf. Swiss Institute (2013 A), PS 315 Identification and assessment of the risks arising from material misrepresentations from understanding the unit and its environment, margin no. 4b.

[103] Cf. Kartscher/Rossi/Suter (2013), p. 76.

The company assesses which financial or operational risks and opportunities it faces, the likelihood of these risks and opportunities occurring as well as the potential impact, and presents its assessment in a matrix. Such an approach allows the company to determine how it wishes to handle the risks and opportunities. The opportunities in the upper left corner of the matrix (Fig. 7) are promising, while the risks in the upper right corner of the matrix demand special attention.

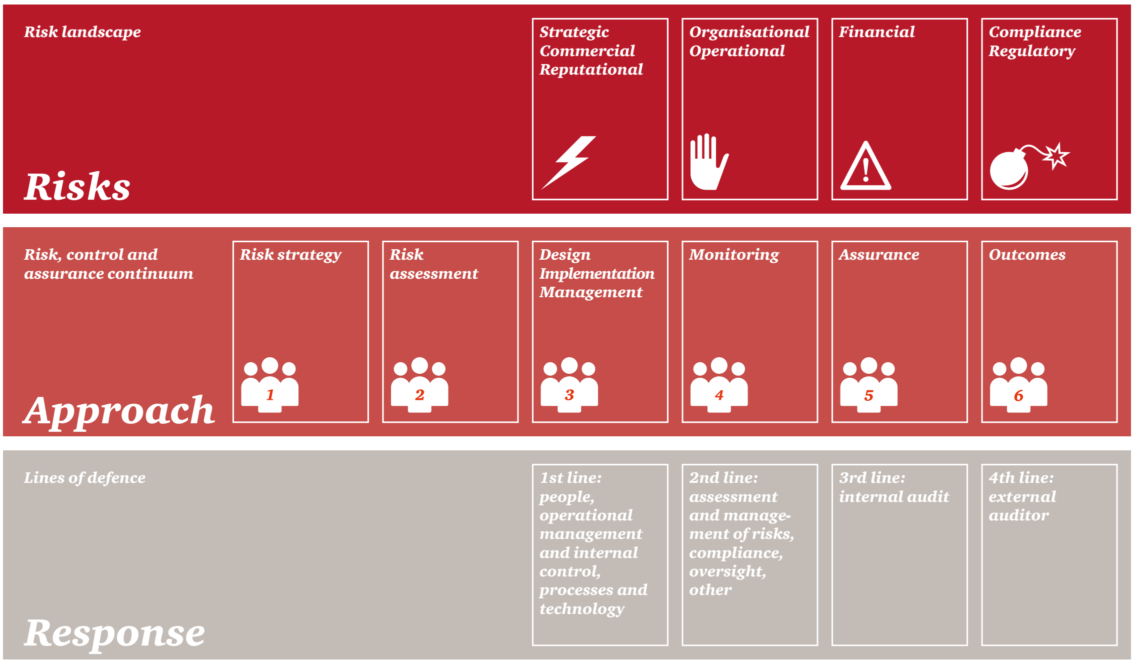
The company should use the assessment and rating of risks and opportunities to derive measures to monitor them. These include, for example, not running the risk (risk prevention), setting up internal controls to allow risks to be identified in good time and the impact to be alleviated (risk mitigation) or taking out insurance against risks (risk transfer). The company has to accept all other risks. When we speak of the ICS, we mean all measures instigated by management to ensure the smooth running of operational processes. Controls are performed upstream or downstream or as part of a process. They should prevent or detect errors, protect assets or ensure compliance with laws and regulations.[104]

From our point of view, companies should pay more attention to the areas of information technology (IT) and economic crime. Both are highly complex issues, but often there is a lack of appropriate expertise when it comes to monitoring them.

Risks such as suspected embezzlement, deliberate falsifications of individual financial statements and consolidated financial statements and hostile takeover attempts constitute crises and are rare.

PwC's 'Assurance Framework' is a useful tool to identify risks systematically (cf. Fig. 8).

Fig. 8: The PwC Assurance Framework.



[104] Cf. Committee of Sponsoring Organizations of the Treadway Commission (1992), Executive Summary.

Risks are classified as strategic, organisational, financial and regulatory. Subsequently, they are evaluated and handled appropriately. In addition, risks identified are subject to at least one of the four lines of defence (cf. Section D.5, 2. Configuration of internal audit).

2 Risk and opportunity assessment system

A system for the assessment of risks and opportunities includes measures to:
- Identify risks and opportunities
- Analyse and evaluate risks and opportunities
- Control risks and opportunities
- Communicate risks and opportunities
- Monitor compliance of the system

The executive board is responsible for handling risks and opportunities and for setting up and maintaining an appropriate system. The audit committee monitors whether the executive board fulfils its duties in this respect. It reports regularly, comprehensively and in a timely manner on the subject.

3 Monitoring

The audit committee should not limit its monitoring of risk assessment and risk control to purely financial reporting-related issues. It should be briefed regularly on the group-wide risk and opportunity profile and any changes to it.

In this context, the audit committee must check whether the system has identified the risks and opportunities that have arisen and whether measures have been developed (first level). In addition, it must examine whether these measures have been implemented (second level) and whether they can either augment the opportunities or reduce the risks (third level).[105]

If an event occurs which was not recorded by the system, this could lead the company to question the effectiveness of its assessment and management of risks and opportunities.

Risk and opportunities affect the entire company. Therefore, the audit committee should regularly inform the board of directors of its findings and, when necessary, share its experiences with other members of the board of directors.

4 Risk and opportunity assessment and the audit

In monitoring risks, the audit committee can rely on the auditor's findings insofar as the auditor is concerned also with risks within the framework of audit planning.[106] The auditor informs the audit committee of those risks considered crucial for certain items included in the individual and consolidated financial statements. Apart from identifying the risks, the auditor describes the measures the executive board can take and how the risks identified were examined during the audit.

[105] Cf. External and Internal Monitoring of Enterprises study group of the Schmalenbach-Gesellschaft für Betriebswirtschaft e.V. (2011).

[106] Cf. Swiss Institute (2013 A), PS 315.

5 Our recommendation

You need to prepare and regulate for crises and run regular internal tests on how to deal with them. The inherent risks and opportunities as well as the effectiveness of your company's capacity to deal with them will significantly affect your room for manoeuvre and scope for development. Therefore, one of your core tasks as a member of the audit committee is to assess and manage risks and opportunities. For this purpose, you should regularly inform the board of directors about your latest insights and exchange information with the members of the board.

You will be better able to assess the relevance of the topic and the effectiveness of your efforts if you ask yourself the following control questions:

- What are the company's main business risks and opportunities, and how are they taken on?
- What risk and opportunity appetite seems appropriate for the company (including with regard to equity and, if applicable, broken down by segment)?
- How is the risk and opportunity appetite communicated within the company as a prerequisite for the assessment and management of the risks and opportunities?
- Does the actual risk and opportunity situation correspond to the chosen risk and opportunity strategy?
- Are the measures taken to manage risks and opportunities effective?
- Do the individual elements of the risk and opportunity assessment and management system appear appropriate?
- How does the executive board ensure that the risk and opportunity assessment and management system is actually effective?
- How well is the assessment and management of risks and opportunities embedded in the management control system?

Further, we would advise you to keep an eye on the areas of IT and economic crime. Both topics are very complex and they require specialist expertise and practical experience – qualities that audit committee members do not necessarily have in each case.

D.3 Internal control system (ICS)

1 Introduction

With the adoption of the Sarbanes-Oxley Act, the ICS has become the focus of attention worldwide. Section 404 of SOX places high demands on companies listed on US stock exchanges with respect to the formalisation and documentation of their ICS. These requirements are reflected in the 1992 framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which states that the executive board, the board of directors and the auditor must examine and confirm the effectiveness of the ICS related to financial reporting. These requirements also apply to companies domiciled outside the US (Foreign Private Issuers, FPIs).

Since 2008, the ICS has also been regulated in Switzerland. Legislation has mandated the auditor to review whether an ICS exists and to consider it when carrying out the audit and determining the scope of the audit. Like SOX, this requirement targets the internal controls relating to financial reporting. The board of directors is not obligated to establish an ICS, but it is responsible for organising the accounting system.[107]

In principle, the board of directors does not have to confine itself to monitoring the ICS relating to the preparation of the financial reporting. The ICS should focus on the processes arising from the assessment and management of risks and opportunities. In this respect, it is not a priority whether such risks and opportunities are viewed against the background of financial reporting. In addition, the board of directors is responsible for defining the organisation and for the ultimate supervision of the persons entrusted with the company's management – mainly in terms of compliance with the laws, articles of association, regulations and directives.[108] If the committee under supervision leads a group, the oversight should also extend to the group management. Accordingly, monitoring of the ICS is also organised to cover the entire group.[109]

The EU audit reform of 3 April and 14 April 2014 requires the following:
"Without prejudice to the responsibility of the members of the administrative, management or supervisory bodies, or of other members who are appointed by the general meeting of shareholders of the audited entity, the audit committee shall monitor the effectiveness of the undertaking's internal quality control and risk management systems and, where applicable, its internal audit, regarding the financial reporting of the audited entity, without breaching its independence."[110]

[107] Cf. article 728a para. 1 no. 3 and para. 2 CO and article 716a para. 1 no. 3 CO.

[108] Cf. article 716a para. 1 nos. 2 and 5 CO.

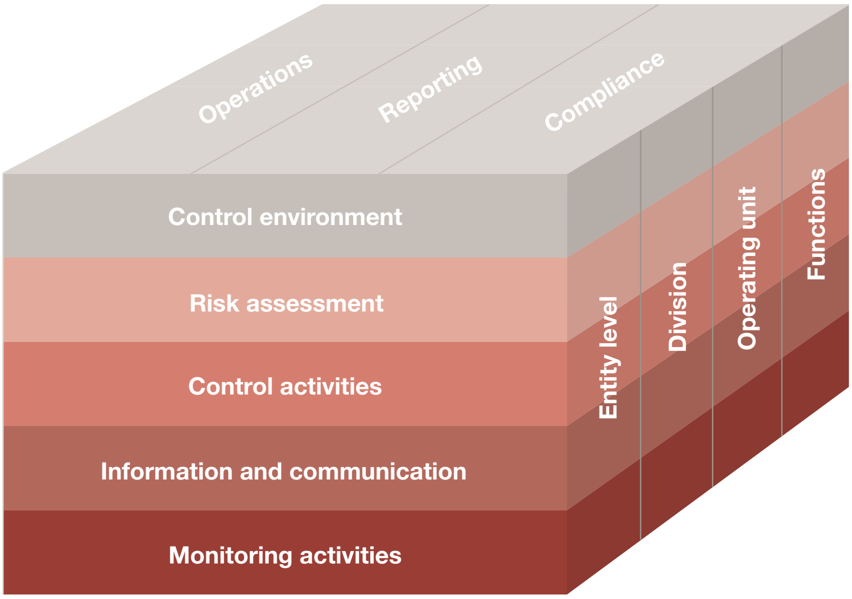
[109] Cf. External Group Accounting/External and Internal Monitoring of Enterprises study group of the Schmalenbach-Gesellschaft für Betriebswirtschaft e.V. (2009).

[110] Cf. article 39 no. 6 lit. c European Commission (2014 A).

2 Components of an internal control system

The components of an ICS can be depicted as follows (cf. Fig. 9).

Fig. 9: Components of the internal control system.[111]



The COSO framework published in 1992 has had to be updated to take into account the changes in the technological and regulatory framework as well as expectations. Primarily, the changes were the following:

- Expanding the scope of reporting beyond mere financial information; for example, to encompass risk reporting, the quality of operations, corporate social responsibility, etc.[112]
- Linking of risk, performance and remuneration

[111] Cf. Committee of Sponsoring Organizations of the Treadway Commission/The Association of Accountants and Financial Professionals in Business (2013): The 2013 COSO Framework & SOX Compliance: One approach to an effective transition.

[112] Corporate social responsibility (CSR) is the voluntary contribution to sustainable development made by the private sector, taking into account the interests of its stakeholders. Three dimensions are included: economy, environment and society. In industrialised countries, at least, compliance with the laws is not of primary importance in CSR but rather the voluntary commitments made by companies. Cf. www.seco.admin.ch.

- Greater emphasis on corporate governance, including the specifications of requirements issued by various committees, the alignment of the business model, the organisation of risk assessment and risk management for operating activities, the ICS and internal audit
- Focus of the ICS on succession planning and talent management
- Considering outsourced service providers and other third parties in the ICS
- Making the ICS more flexible and increasing its adaptability to changes in the business; for example, changes to processes, functions, structures, IT, shared service centres, the scope of business, etc.

With the help of the updated COSO framework, companies can optimise their ICS and adjust it to meet today's requirements. Furthermore, the five COSO sectors (cf. Fig. 9) are associated with 17 principles (cf. Fig. 10) and, thus, an ICS is effective if it satisfies these principles.

Fig. 10: The 17 COSO principles.[113]

Control environment
1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

Risk assessment
6. Specifies suitable objectives
7. Identifies and analyses risk
8. Assesses fraud risk
9. Identifies and analyses significant change

Control activities
10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

Information and communication
13. Uses relevant information
14. Communicates internally
15. Communicates externally

Monitoring
16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies

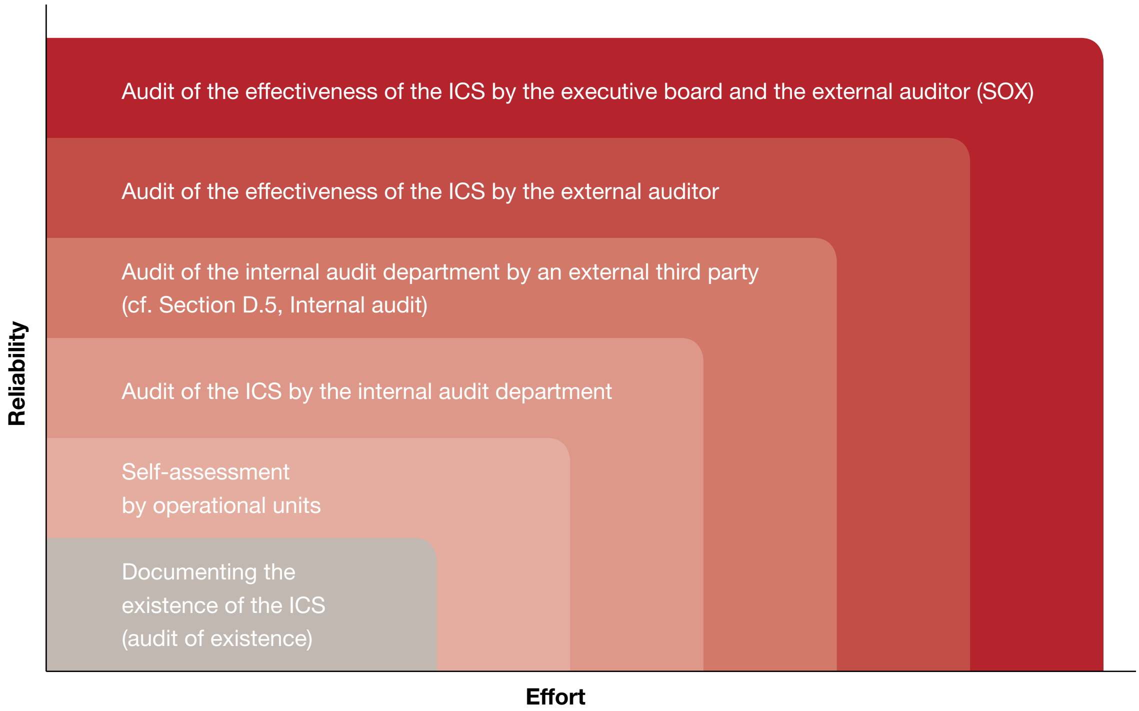
[113] Cf. Committee of Sponsoring Organizations of the Treadway Commission (2013).

3 Aspects of monitoring

The scope of the system and its organisation depend largely on the size of the company and its business areas. The audit committee should ask for a presentation of the ICS of the company for it to be able to assess the efficiency and the appropriateness of the system. The audit committee should be concerned with all elements of the ICS (cf. Figs. 8 and 9) and ensure that the system actually functions. In doing so, it should not forget that it is the responsibility of the executive board to ensure the effectiveness of the ICS. To establish whether a system is well documented and communicated, the executive board can rely, for instance, on self-assessments by employees, the audits carried out by the internal audit department or the audits carried out by external third parties. The measures should be subject to a standard process to maintain sustainably the effectiveness of the ICS. The audit committee should also familiarise itself with these measures.

The audit committee can infer the effectiveness of the ICS from several activities (cf. Fig. 11).

Fig. 11: Activities for assessing the effectiveness of the internal control system.



The audit committee would be well advised to study the overall system at certain intervals. These intervals will depend on the speed with which the company's internal processes change or have to be changed. In practice, the audit committee should examine the ICS at least once a year. If key elements of the ICS are reorganised, the audit committee should have such changes explained to it in good time.

In monitoring the ICS related to the financial reporting, the audit committee relies on the work done by the executive board, the various functions within the company, the internal audit department and the external auditor. The auditor will likewise have to treat the ICS as part of his/her audit. On the one hand, the auditor will check for the existence of an ICS and, on the other hand, the auditor considers it when performing and determining the scope of the audit.[114]

However, an unqualified audit opinion on the individual financial statements or consolidated financial statements does not allow any conclusions to be drawn as to the effectiveness of the ICS relating to financial reporting. For example, the audit firm may refrain from examining the effectiveness of the ICS because it has a more efficient method of conducting an audit of correctness. It is also conceivable that even the structure of the ICS has significant weaknesses that call into question its effectiveness. The auditor would have to report on such deficiencies, however. The components of the ICS not related to financial reporting are not part of the audit.

4 Uniform systems approach

The widespread impact of the ICS illustrates that it shares many points of contact with risk assessment and risk management, the compliance management system (CMS) and the internal audit department. Accordingly, companies are increasingly aiming to integrate the various system components in practice. The audit committee should make certain that these different systems are based on a uniform approach and that they are aligned with each other. In some cases, it will even combine the monitoring of individual systems if there are significant overlaps between them. The audit committee needs to watch carefully the interaction between the systems, even if the board of directors transfers to the audit committee the responsibility to monitor only the financial reporting-related part of the system or only individual systems (i.e., if the board of directors retains responsibility or delegates the corresponding tasks to other committees).

[114] Cf. article 728a para. 1 no. 3 and para. 2 CO.

5 Our recommendation

Swiss law requires auditors to include the ICS in their audit of your company. The intention is to strengthen the internal control relating to financial reporting. Although your board of directors is not obligated to set up an ICS, doing so provides you with a robust control and management tool. Moreover, your board of directors retains responsibility for the configuration of accounting/financial reporting.

When monitoring the ICS, we advise you to consider the following:

- Does the ICS span all of the key business processes?
- What is the influence on the ICS of an understanding of the values, corporate culture and leadership style?
- What are the key control tasks performed by the ICS?
- What are the key risks the ICS must counter?
- Which key controls does the ICS include? Are they effective and efficient?
- Has the ICS been explained clearly to employees?
- Is the ICS adequately linked to risk assessment and risk management, the measures taken to ensure compliance and the internal audit department?
- How are malicious actions or economic crime being prevented?
- How do the company and third parties exercise their responsibility for the ICS?
- What happens in cases of discrepancies?
- What measures are taken to ensure that the ICS is actually effective?

D.4 Compliance

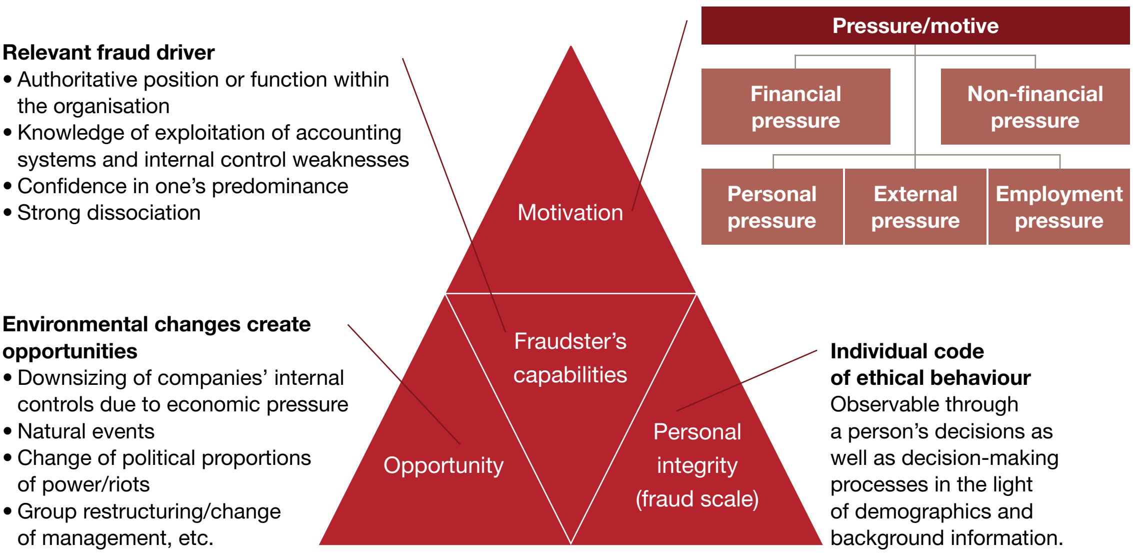
1 Introduction

According to the PwC studies 'Global Economic Crime Survey 2014' and 'Economic Crime: A Swiss Perspective', 37 percent of all companies surveyed (globally and in Switzerland) claimed that economic crime (fraud) affected them.[115] This includes criminal offences such as embezzlement, procurement offences, fraud, bribery, cybercrime, deliberate misstatements in bookkeeping or financial reporting, industrial espionage or product piracy. Such criminal offences are frequently covered up by deliberate breaches of the accounting principles. The perpetrators might not book items, might realise profits prematurely or might disclose non-existing assets in the balance sheet. Sometimes, however, the deliberate disregard of accounting standards does not predicate another criminal offence.

Seventy-one percent of the Swiss companies surveyed reported that the extent of their losses was less than USD 1 million, whereas 16 percent had losses of less than USD 5 million and the remaining 13 percent reported losses of up to USD 100 million. Furthermore, the companies surveyed are worried about the potential negative effects on their employees (19 percent) or their reputation (16 percent).[116]

Forty-seven percent of all cases of economic crime are committed by 41–50-year-old men (76 percent) with a college degree (41 percent).[117] Fig. 12 shows the key factors influencing white-collar crime behaviour.

Fig. 12: The drivers of white-collar crime.[118]



The new pyramid model of fraud

[115] Cf. PricewaterhouseCoopers (2014 A and B).

[116] Cf. PricewaterhouseCoopers (2014 B), p. 9.

[117] Cf. PricewaterhouseCoopers (2014 B), p. 20.

[118] Cf. Kassem/Higson (2012).

2 Dealing with compliance matters

Some companies maintain a CMS to avoid losses due to economic crime. However, a CMS should not just prevent economic crime. It should be set up so as to take into consideration that a complex regulatory framework applies to the company – especially for publicly listed companies with international operations. State authorities are becoming increasingly more insistent when it comes to enforcing regulatory requirements. Moreover, shareholders and other stakeholders expect companies to comply with these requirements. The growing importance of compliance is seen in the fact that corporate liability can translate into criminal proceedings against individuals and the associated punishable offence of neglecting to set up preventative measures in or by a company.[119] The use of a CMS does not exempt the company from punishment, but this is taken into account when assessing the penalty or calculating the fine.

3 Components of a CMS

A CMS includes all the principles and measures a company undertakes to ensure that the conduct of its legal representatives and employees complies with the law and with the regulations. These may cover, for example, issues such as money laundering, data protection or corruption. A German auditing standard defines the required elements of a CMS as follows:[120]

- **Compliance culture:** The compliance culture lays the foundation for the appropriateness and effectiveness of a CMS. It is characterised by the basic attitudes and behaviour of the executive board as well as by the role of the board of directors ('tone at the top'). The compliance culture influences the importance employees ascribe to compliance with the rules and, thus, their willingness to behave accordingly.
- **Compliance objectives:** The legal representatives specify the objectives for the CMS based on the general business objectives as well as an analysis and prioritisation of the rules relevant to the company. This includes, in particular, the determination of the key areas and rules. The compliance objectives constitute the basis for the assessment of compliance risks.
- **Compliance risks:** Compliance risks may lead to infringements of the rules and, thus, to misconduct. They are determined with regard to the compliance objectives. For this purpose, management systematically implements a procedure to identify and report risks. As part of this, they analyse compliance risks in terms of the probability of occurrence and the potential consequences.
- **Compliance programme:** Based on the assessment of the compliance risks, the company introduces principles and measures designed to limit such risks and prevent infringements. The compliance programme also includes the measures to be taken in the event of infringements. For a CMS to work independently of any one individual, the compliance programme has to be well documented.
- **Compliance organisation:** The executive board regulates the roles and tasks as well as the operational and organisational structure of the CMS as part of the business organisation. In addition, it provides the resources necessary for an effective CMS.
- **Compliance communication:** The employees and, if necessary, the third parties concerned are kept informed about the compliance programme as well as the definition of roles and responsibilities. This allows all parties involved to understand their duties and perform them properly. The company specifies how to report compliance risks as well as indications of potential and identified irregularities to the competent authorities (for instance, the legal representatives and, when necessary, the board of directors).

[119] Cf. article 102 of the Swiss Criminal Procedure Code, SR 311.0.

[120] Cf. Institute of Public Auditors in Germany IDW (2014), Audit standard 980, Principles of proper audits of compliance management systems.

4 Aspects of monitoring

The audit committee should obtain regular reports on the entity-wide (group-wide) CMS and its development. In practice, this reporting takes place at least once a year. In this respect, the persons responsible can draw on the elements of the CMS described above and the procedure to monitor the ICS. In order to obtain the highest possible assurance about the effectiveness of a CMS, more and more boards of directors are requesting external audits. The analysis of mass data from accounting is also considered an efficient measure for monitoring the effectiveness of a CMS. Such analysis is conducted to identify and follow up on unusual indicators.

The company must ensure that the audit committee learns of significant or suspected cases of compliance violations. This raises awareness of compliance among the organisational units, increasing employees' trust in the system and encouraging them to report suspicious cases more frequently. The audit committee must monitor how the compliance organisation investigates infringements with the support of the legal department and the internal audit department.

If there are grounds for concern that members of the executive board are involved in such infringements, the audit committee may be obligated to take its own measures to investigate them and to limit the damage. The audit committee should also ensure that significant compliance violations are punished. When monitoring the CMS, it is crucial to consider the special risk of manipulation at management level given that the systems to prevent illegal behaviour are particularly susceptible to being circumvented by members of management.

The members of the audit committee should also focus on certain business situations and signs of economic crime, in particular:
- Unusual transactions, especially towards the end of the financial year or with related parties
- Long-term debts outstanding
- High credit note amounts, especially at the beginning of a financial year
- Significant last-minute corrections to financial statements
- Persistent discussions on the materiality of corrections to financial statements
- Activities abroad where there is no corresponding market
- Consultancy agreements for opaque services
- Unreasonable time pressure
- Refusal to provide information

5 Economic crime and auditing

When monitoring a CMS and the risks of economic crime, the audit committee should take into consideration that the statutory audit does not aim to uncover all types of economic crime or even examine the CMS. Instead, the audit aims to identify with sufficient certainty any errors and violations of the laws or the articles of association which have a material impact on the presentation of the company's financial position, the results of operations and the cash flows. Uncovering the deliberate misappropriation of assets requires a different audit approach. Nonetheless, in specifying the audit requirements, the auditors ensure the audit takes into account the importance of the risks of white-collar crime. For instance, special audit provisions apply to credit institutions with respect to money laundering.[121]

[121] Cf. FINMA, Circular 2013/3.

6 Our recommendation

As a member of the board of directors or the executive board, the onus is on you: compliance cannot be implemented without the proper ‘tone at the top’. It can only be encouraged by setting an example. You would be well advised therefore to ask the following questions, among others, when the audit committee (or another committee entrusted with this task) is monitoring compliance:

- With regard to your corporate strategy as well as to the assessment and management of risks, what are the key regulatory requirements you must comply with?
- How are suspected breaches of these requirements analysed and what are the consequences of an infringement?
- Are the processes involved promptly amended?
- What organisational structure, standards, instructions or codes of conduct does your company use to ensure compliance is implemented?
- Has your company identified the key compliance positions and have trustworthy employees been appointed to these positions?
- Have you embedded effective and efficient controls in the operational business?
- How are the requirements and importance of compliance and your company’s expectations in this regard communicated internally and externally?
- How are the employees and the contact to report suspected cases of non-compliance trained in the requirements and the functioning of the compliance programme?
- How do you ensure that your company follows up on and clarifies any findings indicating infringements?
- How frequently is your audit committee updated on the compliance programme?
- How do the executive board and the audit committee learn of reported infringements?
- How and how often does your company monitor the functioning of and adherence to the system?

D.5 Internal audit

1 Introduction

In the course of the discussion about the appropriate management and control of companies, the internal audit department has grown in significance in recent years. In Switzerland, internal audit has become established as an integral part of large-scale enterprises in particular, and it is seen as a valuable management tool for the board of directors and the audit committee.[122]

With the exception of banks, insurance companies and securities dealers, Swiss companies are not required by law to maintain an internal audit department.[123] The Swiss Code, however, expressly recommends setting one up.[124]

In principle, the scope, resources and functioning of internal audit depend on the size, the industry and the risk profile of the company as well as the complexity of its business activities. The standards of the Institute of Internal Auditors (IIA), which are summarised in a unified and internationally recognised framework, provide guidelines for the configuration of internal audit.[125]

2 Configuration of internal audit

In accordance with the IIA, the internal audit department provides independent, objective audit and consultancy services designed to give a competitive edge and improve business processes. It supports the company in achieving its objectives by using a systematic and targeted approach to assess and help improve the effectiveness of governance, risk and opportunity assessment, risk and opportunity management and internal controls.[126]

The organisational independence of internal audit is crucial to its effectiveness. In principle, it should report to a higher authority than that of the business units to be audited. If the company's management takes into account the legal framework in Switzerland concerning the configuration of top management, it should preferably put internal audit directly under the control of the board of directors or the audit committee. Thus, the Swiss Code recommends that the internal audit department should report to the audit committee or, if necessary, to the chair of the board of directors.[127]

[122] Cf. Ruud/Friebe (2013), p. 3.

[123] Cf. article 9 para. 4 BankO, article 27 para. 1 IOA and article 20 para. 2 SESTO.

[124] Cf. *economiesuisse* (2014), no. 20.

[125] Cf. na.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx.

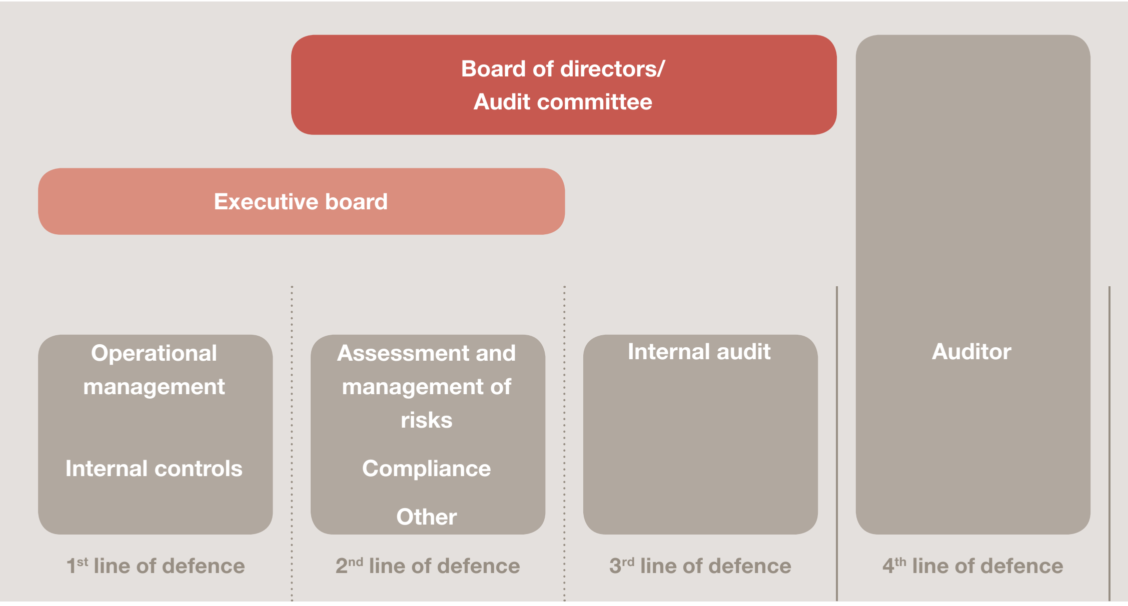
[126] Cf. Institute of Internal Auditors (2013), Definition of internal audit, p. 5.

[127] Cf. Ruud/Friebe (2013), p. 33, and economiesuisse (2014), no. 20; see also FINMA Circular 2008/24, margin no. 60.

The organisational position in the company and the tasks, duties and powers of internal audit are set down in the company bylaws.

Given its independence within a company, the internal audit department is part of the *third line of defence* (cf. Fig. 13). It assists the board of directors and the audit committee by performing an independent assessment of the appropriateness and effectiveness of the governance, risk and opportunity assessment, risk and opportunity management and the internal control system. Operational management is the *first line of defence*, responsible for the identification, assessment and handling of risks and opportunities. It is controlled and monitored by specialised functions (cf. Fig. 1) that are part of the *second line of defence*. Typically, such functions are permanent and usually they report to the executive board.[128] The external auditor constitutes the *fourth line of defence* (cf. Section D.6, Audit firm/auditor).[129]

Fig. 13: The four lines of defence model.[130]



[128] Cf. PwC, Internal Audit in Brief, September 2013, and among others, Friebe (2012), p. 102–104.

[129] Other authors and publications summarise internal and external auditors as a single line of defence and refer to the 'three lines of defence' model.

[130] Cf. European Confederation of Institutes of Internal Auditing ECIIA/Federation of European Risk Management Associations FERMA (2010), p. 9–10.

The activities of internal audit can comprise the following:[131]

- Auditing the financial position and cash situation as well as the reliability of the accounting and the information derived from this (financial auditing)
- Auditing the quality, security, regularity, cost effectiveness and functionality of the structures, processes and systems, including the internal control system (operational auditing)
- Auditing the management services with regard to the organisation's strategy and purpose and the implementation of business policy guidelines (management auditing)
- Auditing the governance structures, the processes applied for the assessment and management of risks and opportunities as well as the compliance programme
- Assessing projects, structures and processes as well as the corresponding advisory services of the organisation (internal consulting)

The assessments carried out by internal auditors are summarised in an audit plan, which may span one or several years. Internal audit requires unrestricted information access rights in order to perform its duties.

3 Monitoring aspects

Internal audit's tasks are comprehensive and span the entire undertaking. The board of directors or the audit committee monitors internal audit and its development by means of regular reports. In this context, the persons responsible need to address the independence of the internal audit department, its resources as well as any restrictions regarding its area of application or the audit scope. If the audit committee finds internal audit is not set up or functioning properly, it will have to make the appropriate changes.[132]

In accordance with the IIA, the audit committee approves all decisions regarding the performance of the head of internal audit as well as his/her remuneration and any adjustments to it. The audit committee or the board of directors is also responsible for hiring and dismissing the head of internal audit.[133]

The audit committee should also receive a report on the results of the work conducted by internal audit. In a growing number of companies, the chair or a member of the audit committee has one-on-one meetings with the head of internal audit at regular intervals.

[131] Cf. German Institute of Internal Auditors (DIIR): Audit standard no. 3, paragraph 3.2, available at www.diir.de.

[132] For more remarks on this subject, cf. Böckli (2005).

[133] Cf. Institute for Internal Auditors (2013), IIA standard 1110 and Böckli (2005), p. 27.

Lastly, the audit committee should address the annual internal audit plan. The head of internal audit submits the defined audit priorities and the annual plan to its superior authority for approval at the given time.[134] It should be borne in mind that unexpected results and developments require adjustments to the approved plan or that internal audit carry out special audits upon request by the executive board and at the behest of the board of directors or the audit committee.

When monitoring internal audit, the audit committee can, for example, consider the following questions:

- Do internal audit's activities cover all of the company's activities?
- Is internal audit's independence assured? What measures have been taken to ensure that neither the area of application nor the audit scope is limited?
- Does internal audit have sufficient resources and appropriately qualified employees to perform its functions and, if necessary, carry out special audits at short notice?
- Is there a standardised, risk-oriented planning process and is it appropriate? Is the annual plan submitted to the audit committee for review and approval?
- Do the reports issued by internal audit comply with the principles of completeness, truth, clarity and impartiality?
- Are there exchanges of information between internal audit and the external auditor, and are their activities coordinated?
- What importance is given to internal audit's work in the company?
- Does internal audit contribute to resolving deficiencies? How does it monitor improvements and how does it check progress?
- How is internal audit's effectiveness ensured?

4 Internal audit and the year-end audit

Internal audit is not subject to the year-end audit. However, the external auditor needs to take into account the activities of internal audit and the consequences of such for its own audit activities. In addition, the auditor must examine the work done by internal audit with regard to its appropriateness and decide whether to refer to it (as is customary in practice). The need to coordinate the year-end audit and the internal audit to avoid duplications and to increase efficiency has become greater in recent years due to increasing cost pressures. It is possible for the auditor to include the work done by internal audit, especially when examining the internal control system.[135]

[134] Cf. Böckli (2005), p. 27, and Ruud/Friebe (2013), p. 35.

[135] Cf. Swiss Institute (2013 A), PS 610 Internal audit – effect on statutory audits and PS 890, Verification of the existence of the internal control system.

According to the International Standards on Auditing and the Swiss Auditing Standards, there are essentially two approaches:[136]

- The first option provides that the auditor and internal audit discuss the starting situation and the company's risks as part of audit planning. Afterwards, both parties set their respective audit priorities. The auditor must also clarify whether and how internal audit's results can be used and whether the auditor is required to perform additional audit procedures. Such cooperation can be wide-ranging according to the auditing standards. Thus, among others, the auditor may integrate members of internal audit into the audit team, provided they work on-site under the lead of the external audit.
- The second option is for internal audit to act as an independent team and to perform its own audit of, for example, an ICS process. For the external auditor, the question arises of whether it can rely on the documentation of internal audit and whether it is still required to perform additional audit procedures in this area. This will be the case especially when the external auditor classifies the risks relating to the audited process as high and the controls as complex, or if the controls are assessed as inefficient.

As part of its monitoring activities, the audit committee takes care to avoid duplicate work and to ensure synergies between internal audit and the auditor. At regular intervals, the audit committee forms an opinion of the dialogue between the two parties.

FINMA specifies that the audit firm is responsible for the audit of a bank. Within the scope of its audit, the audit firm may draw on the findings of internal audit, provided the examination conducted by internal audit constitutes an adequate basis for the audit firm's activities. Reliance on such findings must be disclosed in the audit report, which has to detail the areas in which internal audit has conducted a review, along with the scope and the outcomes of these reviews. The audit firm assesses internal audit's examinations with respect to their quality and usefulness. The external auditor may not rely on the work conducted in a specific audit field by internal audit in two consecutive audit cycles.[137]

[136] Cf. International Auditing and Assurance Standards Board (2013), International Standard on Auditing ISA 610 (revised), Using the Work of Internal Auditors, Swiss Institute (2013 A), PS 610, and Gerber/Stebler (2014).

[137] Cf. FINMA, Circular 2013/3, margin nos. 47–49.

5 Our recommendation

The audit committee needs to monitor the effectiveness of internal audit. To this end, you should have the key elements of the internal audit explained to you at regular intervals by the person responsible. This is the only way for you to assess whether the system is effective. Make sure you are kept informed in the audit committee of any significant changes in and the results of the internal audits. We also recommend that the audit committee take a first look at the audit plan of the internal audit department.

D.6 Audit firm/auditor

1 Introduction

The audit committee uses the auditor's results in its core activities, such as monitoring financial reporting or the management and control systems. This makes intensive cooperation necessary.

Further tasks arise for the audit committee from the statutory audit. According to the Swiss Code, the audit committee undertakes the monitoring of the audit, especially with respect to the independence of the auditor, any additional services provided and the fee arrangement.[138]

2 Scope and objective of the year-end audit

The content of the year-end audit is defined by the CO as follows:
The auditor examines whether
- *the individual financial statements and, if applicable, the consolidated financial statements comply with the statutory provisions, the articles of association and the chosen financial reporting standards;*
- *the motion made by the board of directors to the general meeting on the appropriation of available earnings complies with the statutory provisions and the articles of association;*
- *an internal control system exists.*

The auditor takes account of the internal control system when carrying out the audit and in determining the extent of the audit. The management of the board of directors is not the subject matter of the audit carried out by the auditor.[139]

Besides the aspects of the financial audit for banks and securities dealers, insurance companies and license holders regulated by the CISA, FINMA has issued requirements for the corresponding regulatory audit.[140]

3 Selecting the audit firm

The general meeting appoints the statutory auditor of the individual financial statements and the consolidated financial statements (cf. Fig. 3). The board of directors must submit a proposal for this appointment. The audit committee assesses the performance and the remuneration of the external auditors and makes certain of the auditor's independence.[141] Therefore, the audit committee usually submits a proposal on the choice of auditor to the full board of directors.

Companies that are part of a financial group or insurance group supervised by FINMA or that belong to a financial or insurance conglomerate supervised by FINMA have to appoint the same audit firm as the other companies in the group or conglomerate.[142]

[138] Cf. *economiesuisse* (2014), p. 14.
[139] Cf. article 728a CO.
[140] Cf. FINMA, Circular 2013/3.
[141] Cf. article 698 CO, article 716a para. 1 no. 6 CO and *economiesuisse* (2014), p. 14.
[142] Cf. article 7 FMAO-FINMA (Financial Market Audit Ordinance).

4 Commissioning

After the appointment is made, the board of directors issues an audit mandate to the auditor. In practice, this is also a responsibility of the audit committee. The fee is agreed at the same time as the mandate. In this respect, the audit committee should ensure the remuneration is appropriate in relation to the planned audit services.

In addition, the audit committee must agree with the auditor on the audit focus areas that go beyond the statutory minimum requirements of the audit. In this case, it may be useful to establish a multi-year plan with the auditor to ensure even coverage of the audit focus areas.

5 Independence of the auditor

The statutory auditor must be independent.[143] The requirement in Switzerland is to rotate the lead auditor of an ordinary audit after seven years.[144] Furthermore, additional strict rules apply to audits of public companies, regardless of whether the entity's securities are allowed to be traded on the capital market.[145]

The auditor ensures compliance with these requirements. Since the auditor's independence is critical, the audit committee also has to concern itself with this. It defines which audit and non-audit services may be rendered. Frequently, services rendered by the auditors, which are permissible within the legal definition of independence, are not acceptable on the grounds of internal corporate policy.

In some firms, both the company as well as the auditor simultaneously review each mandate with the aim of assuring independence (cf. Fig. 14).

In the banking sector, FINMA prohibits a number of non-audit services that an auditor would be allowed to provide to an industrial firm.[146] The auditor of a public company (cf. Section A.5, Federal Audit Oversight Authority) should update its clients regularly about the fees for non-audit services.

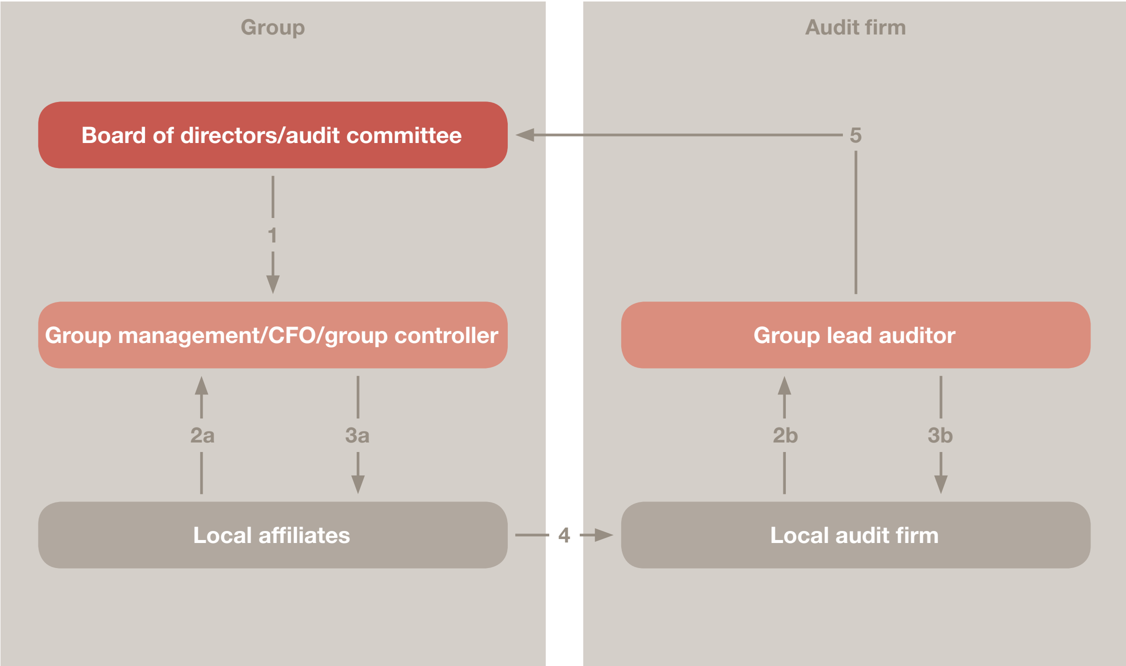
[143] Cf. article 728 CO concerning the ordinary audit and article 729 CO concerning the limited statutory examination as well as Swiss Institute (2007).

[144] Cf. article 730a para. 2 CO.

[145] Cf. article 11 of the Federal Act on the Licencing and Oversight of Auditors (Auditor Oversight Act, AOA), SR 221.302.

[146] FINMA, Circular 2013/4, Audit firms and lead auditors, margin nos. 32–38.

Fig. 14: Best practice example of a group approval process for non-audit services.[147]



1 The board of directors delegates the review of individual services rendered by the audit firm (e.g., to the CFO or the group controller).

2a The local affiliate requires a service to be rendered by the audit firm and seeks approval from group management.

2b In parallel with the local affiliate, the local audit firm asks the group lead auditor to approve the potential client mandate.

3a Group management approves the local affiliate's request if it concludes the independence of the external auditor is assured.

3b The group lead auditor approves the local audit firm's request if he/she concludes the independence of the audit is assured.

4 The local affiliate engages the local audit firm to render the service.

5 The group lead auditor reports to the board of directors. Where the US audit oversight authority PCAOB is the responsible authority, the board of directors must approve in advance any contracts for tax and consultancy services.

At the audit firm, the lead auditor is required to examine and approve in advance all contracts by local offices of the same audit firm. The parallel review process in the company reflects best practice. This provides the board of directors with a two-pronged approach to ensure the independence of the external auditor.

[147] Cf. Rossi (2014).

The external auditor's oversight duties are assured by means of the following reporting obligations:[148]
- The audit firm confirms in writing its independence in a separate section of the audit report
- The auditor informs the board of directors or the audit committee of any circumstances that lead to a conflict of interest and of services provided in addition to the audit services

A reform is under way in the EU that aims to strengthen the independence of auditors.[149] On 14 April 2014, the EU Council of Ministers passed a new directive and a new ordinance for the audit of public interest entities. EU member countries have to implement the new provisions in their national laws. Publicly traded enterprises, banks and insurance companies are considered to be public interest entities.

In addition to the limitations promulgated by the International Ethics Standards Board for Accountants, the EU's audit reform prohibits certain non-audit services.[150] The EU will prohibit the provision of tax advisory services, payroll accounting, assessment services and legal and other consultancy services. The ban does not affect all non-audit services; some will continue to be permitted.

In addition to prohibiting certain non-audit services, a financial limit is envisaged according to which the fees for non-audit services may not amount to more than 70 percent of the average audit fee over the last three years.[151] Like the PCAOB, the EU would also like to stipulate that the audit committee must pre-approve non-audit services before the audit firm is engaged to provide such services. It is likely that the EU's proposed financial limit of non-audit services representing no more than 70 percent of the audit fee is already largely complied with in practice.

In its guidelines for exercising voting rights, Ethos, a Geneva-based foundation with asset management activities, recommends no longer choosing an audit firm if the fees paid by the company for non-audit services are greater than the fees paid for the audit, unless there are solid reasons for this. Furthermore, the fees for non-audit services should amount to no more than half of the fees paid for the audits over a period of three years.[152]

The Federal Audit Oversight Authority expects the ratio between auditing and non-auditing services to be in balance. In other words, the scope of non-audit services should be no larger than the scope of audit services.[153] As mentioned above, FINMA prohibits a number of non-audit services in the banking sector that auditors are permitted to provide to industrial firms.[154]

148 Cf. article 728b CO concerning the ordinary audit and article 729b CO concerning the limited statutory examination.

149 On this subject, see also Rossi (2014).

150 International Ethics Standards Board for Accountants (2014), Section 290 and article 5 European Commission (2014 B).

151 Cf. article 4 European Commission (2014 B).

152 Cf. Ethos Foundation (2014).

153 Cf. Federal Audit Oversight Authority (FAOA) (2014).

154 FINMA, Circular 2013/4, margin nos. 32–38.

6 Audit result

The comprehensive audit report is the key element of an auditor's reporting to the audit committee (and to the board of directors). This report contains the findings on financial reporting, the internal control system as well as the execution and the result of the audit.[155] Each member of the board of directors receives a copy of the auditor's report.

Furthermore, the auditor attends the closing meetings of the audit committee and (we recommend) the closing meetings of the board of directors. After reviewing the auditor's report, these meetings provide an opportunity to clarify issues and enlarge upon key aspects. For this purpose, these bodies should schedule sufficient time to discuss the individual financial statements and the consolidated financial statements.

During such a meeting, the auditor reports on the following key topics presented in the report:[156]
- Results of the audit, including deficiencies of the ICS relating to financial reporting
- Risks arising from audit planning, such as, for example, management's estimates of the impairment of assets or the amount of provisions, as well as the corresponding work performed by the auditor and his/her assessment
- Assessment of the individual and consolidated financial statements as a whole with respect to their conformity with the chosen accounting principles, the law and the articles of association
- Any restrictions, for example, on the valuation of items included in the individual financial statements or on the ability to continue as a going concern
- Any discrepancies with the executive board concerning the assessment of individual accounting and valuation issues
- Any services rendered beyond the audit, in particular services which could affect independence
- The results of the audit of the remuneration report[157]

Today, many chairs of audit committees also conduct one-on-one discussions with the auditor to ensure a thorough exchange of information before, during or after the audit. The audit committee as a whole may also hold direct discussions with the auditor to get an assessment independent of the executive board.

[155] Cf. article 728b CO concerning the ordinary audit. For a limited statutory examination, the law merely calls for a summary report to the attention of the general meeting (article 729b CO).

[156] Cf. FAOA (2009).

[157] Cf. article 17 ERCO.

7 Interim reporting

Sometimes, publicly traded companies subject their interim reporting to review. Such a review does not represent a comprehensive audit. If a written audit result is required, the reviewer formulates it in negative terms (unlike the year-end audit but like the limited statutory examination). Hence, the reviewer states that no findings have been made which would lead to questioning whether the financial statements do not comply with the applied accounting standards in all material aspects. The interim reporting statement is limited because the depth of the examination is lower than for a year-end audit.

8 Meeting attendance

Today, it is customary at publicly traded companies for the auditor to attend all audit committee meetings. He can leverage the knowledge derived from the audit to assist the audit committee in performing its supervisory tasks. In any case, this applies for meetings in which interim reports, special financial reporting issues, the financial reporting process or the ICS relating to financial reporting are on the agenda.

9 In-depth periodic assessment

In-depth assessments have been suggested as an alternative to audit firm rotation by the Canadian audit oversight authority and the association of Canadian accountants. These assessments comprise a consideration of the auditor's independence, impartiality, quality and transparency of communication, the exercise of professional scepticism, thoughts on the response to suggestions for improvement as well as the composition, continuity, expertise and industry knowledge of the audit team.[158] In addition, the audit committee should examine, among others, the following issues:

- Is there a risk that the members of the audit committee and of the audit team are too familiar? If so, what measures can be taken to avoid this risk?
- Does the external audit team exercise adequate professional scepticism? What indications and experience allow for the conclusion that professional scepticism really is adequate?
- How did the audit firm react to regular assessments by the audit committee in the past? What measures has the audit firm initiated to improve its audit quality, where necessary?
- Does the audit firm understand business change being driven by the client and any change that it has a hand in fashioning? Does it consult experts with appropriate industry and technical expertise to assess such change?

If the in-depth periodic assessment of the external audit firm shows that the audit committee is dissatisfied with its performance, an open discussion should be the next step. If these discussions fail to produce satisfactory solutions, the full board of directors should be involved and it should be clarified whether a change of external auditor is indicated.

[158] Canadian Public Accountability Board and Chartered Professional Accountants Canada (2013 A and 2013 B).

10 Our recommendation

To help you in your tasks, we provide two questionnaires in the Appendix as the basis for an assessment. The questionnaires differ in terms of their depth and level of detail. In addition to the regular assessment (cf. Appendix 3 on the assessment of audit services), we recommend that you carry out in-depth periodic reviews (cf. Appendix 4 on the in-depth periodic review of audit services) at longer intervals (e.g., every five years). This is a more promising and more cost-effective option than putting the audit mandate out for tender. It gives you an opportunity to make improvements, too.

The two questionnaires mentioned above will help you make a comprehensive assessment of your auditor, both at local level as well as at divisional and group levels. The questionnaires have been designed to be used by everyone involved in the audit. This includes the local head of finance, divisional or departmental finance management, group finance management, the audit committee and others.

In PwC's audit plans, we summarise the expectations our clients have of us. We are always keen to hear whether clients agree with our self-assessment or whether they have any further requests.

Your audit committee should stipulate the ratio of the audit fees in relation to the non-audit services fees. The auditor of a public company (cf. Section A.5, Federal Audit Oversight Authority) helps clients monitor this ratio by regularly providing an overview of fee levels.

E Meetings

1 Meeting preparation

Meeting agendas usually cover a wide range of topics. It is therefore necessary to be well prepared in order to make them as efficient as possible. For this purpose, the audit committee members should have all documents pertinent to the meeting made available to them in good time. As with the board of directors, it is not always easy in practice to choose when to send the documents. On the one hand, enough time should be allowed to prepare for the meeting and, on the other hand, the information must be as up to date and complete as possible. It is sometimes necessary therefore to update the information even on the day of the meeting. However, distributing hand-outs prepared shortly before the start of a meeting should be avoided. The person in charge of sending the documents must take appropriate measures to ensure the confidentiality of the information, especially if documents are sent by e-mail.

It is also crucial to coordinate the meeting date with the committee members and with external participants. The chair of the audit committee should take charge of the preparations. Today, large enterprises have specialists looking after the organisation of the executive board and the board of directors meetings and the general meeting, who take care of the preliminary and follow-up work. Their job description is comparable to that of the corporate secretary or company secretary in the US and the UK.

2 Invitations

The chair of the audit committee convenes the audit committee meetings. The invitation states the place and time of each meeting. The scheduled agenda items and the relevant documents are sent to the committee members along with the invitation.

The form and timing of the invitation are set out in the audit committee charter or the charter of the board of directors and it is usually issued in writing. To make the meeting efficient, the documents should preferably contain all of the key facts and a summary, if necessary.

The audit committee should set the dates of its ordinary meetings as early as possible. Timely planning ensures that the audit committee covers all relevant topics throughout the year. If circumstances change, the annual plan can always be adjusted.

In practice, listed companies schedule their audit committee meetings that have financial reports on the agenda shortly before the reports are due to be published. There is little time between preparing and publishing the interim reports. The challenge is to make sure the audit committee receives the reports early enough to still have an influence on them. However, it is not enough merely to submit a draft version of a report to the audit committee just before publishing it.

3 Frequency of meetings

The frequency of audit committee meetings is not specified by law, the DCG or the Swiss Code. Instead, the frequency of meetings depends on the company's situation. Thus, the audit committee convenes more frequently if the company is in crisis than in economically successful years. In 2013, the audit committee of SLI companies held meetings six times a year on average; the auditors were present at five of these meetings. In publicly traded companies, the preparatory meeting of the audit committee and the decision-making meeting of the board of directors are usually held in quick succession.

The annual frequency of meetings alone only allows limited conclusions to be drawn as to the intensity of the audit committee's work. The requirement that the audit committee has sufficient time to carry out its tasks is more important because this is the only way for it to attend to the relevant issues with the necessary breadth and depth. Sometimes a conference call is enough; however, other topics require longer, face-to-face meetings.

4 Attendance of members of the board of directors and the executive board

The CFO and sometimes the CEO regularly attend the meetings of the audit committee. The audit committee can invite other members of the executive board. It is precisely the small size of the audit committee that allows more detailed descriptions of issues and more in-depth discussions with committee members. This would be less easy to do at a full board of directors meeting. This is one reason why the chair of the board of directors regularly attends audit committee meetings in some companies.

In practice, there are instances where the audit committee wishes to conduct part of a meeting without the presence of members of the executive board but with the auditor in attendance (so-called 'private sessions').

The chair of the audit committee informs the meetings of the full board of directors about the substance and the results of the committee's work.

5 Employee participation

In principle, persons who are not members of the board of directors or members of the executive board do not attend audit committee meetings. However, the audit committee is free to ask individual employees for information on specific issues. The following are eligible in this respect:
- Head of internal audit
- Head of accounting
- Head of controlling
- Head of risk management
- Head of legal
- Head of tax
- Compliance officer

Reports from employees outside the executive board are used to enhance the audit committee's information. Nonetheless, the areas the audit committee has to monitor remain the main tasks of the executive board.

6 Participation of auditors and experts

When the audit committee discusses the individual financial statements and the consolidated financial statements, it is mandatory for the auditor to attend the meetings and to be available to answer questions. It is appropriate that the auditor is also invited to the other audit committee meetings because it allows him to inform the parties concerned better and more comprehensively. This is particularly true of dates on which the audit committee discusses the financial reports issued during the year, special financial reporting issues, the financial reporting process, the ICS relating to financial reporting, the internal control system relating to accounting or the assessment and management system for risks and opportunities. Exchanging information between the audit committee and the auditor at an early stage is also important in the context of planning. In addition, the audit committee can invite other experts (lawyers, for example) to attend meetings at which specific topics will be discussed.

7 Chairing meetings and the meeting culture

The chair of the audit committee chairs the meetings. The chair must allow sufficient discussion time for the individual agenda items so that all committee members can express their views. The chair should involve all members in the discussion. An open discussion culture is fundamental to the work performed by the audit committee. The audit committee's self-assessment can provide basic ideas of how to further improve the meeting culture. The audit committee usually passes resolutions by a simple majority of votes.

8 Meeting minutes

The meetings and resolutions of the audit committee are recorded in the meeting minutes. This document must contain at least the following information:

- Location
- Date
- Names of attendees
- Agenda items
- Key content of the discussions
- Resolutions

Depending on the means of collaboration with the full board of directors, resolutions can be divided up into 'recommendations' (e.g., a recommendation to set up an internal audit department), 'requests' (e.g., for approval of the individual and the consolidated financial statements) and 'independent resolutions' (e.g., assigning a specific job to internal audit). The committee's chair must sign the minutes. In some cases, the minutes of the audit committee meetings are made available automatically to all members of the board of directors to allow them to gain an impression of the audit committee's activities and findings.

9 Audit committee's report to the full board of directors

The chair of the audit committee must inform the board of directors about the audit committee meeting, i.e., its assessments and recommendations, during the meeting of the board of directors immediately following the audit committee meeting (at the latest). In practice, there is constant discussion of the scope of such reporting in order to prevent information asymmetry between the audit committee and the full board of directors. It is not possible to give a definitive answer to this question. Instead, the members of the board of directors must agree on the appropriate scope by balancing their obligation to uphold overall responsibility against achieving the objective of higher efficiency.

10 Our recommendation

As the chair or a member of an audit committee, you should schedule your committee meetings early on. The number and duration of the meetings must be sufficient to allow you to discuss all of the issues at hand. Suitably comprehensive meeting documents, put at your disposal in good time, will make your work much easier. The CFO should regularly attend the meetings of the audit committee as a key discussion partner. Senior staff, such as the head of the legal department, can also provide you with valuable information. We also recommend that you allow your auditor as well as internal audit to attend all the audit committee meetings. The auditor should also be present when the full board of directors approves the individual financial statements and the consolidated financial statements.

It makes sense for the chair of the board of directors to attend as a guest those meetings that discuss the individual financial statements and the consolidated financial statements. This will help provide more in-depth information. In addition, the minutes of the audit committee meetings should be distributed regularly to the members of the full board of directors.

F Transparency

1 Introduction

The tasks the audit committee has to perform relate to the major topics pertaining to corporate governance. Shareholders and other stakeholders are therefore interested in information on the organisation and activities of the audit committee.

2 Audit committee reporting

The audit committee is under no obligation to communicate its activities to the public. However, information about the audit committee enters indirectly into other parts of a company's business reporting. This information can be found in the:

- Report by the board of directors to the general meeting
- The corporate governance report

3 Report by the board of directors to the general meeting

The board of directors reports to the general meeting once a year. In addition to the traditional elements of financial reporting (e.g., consolidated financial statements, individual financial statements and the proposal for the appropriation of available earnings), this report also includes the corporate governance report and a remuneration report. Further reporting relates, for example, to corporate social responsibility or sustainability.

4 Corporate governance report

According to the DCG, listed companies must report annually on their corporate governance. Since the audit committee provides an essential contribution to increasing the efficiency of monitoring within the company, it also frequently assesses such corporate governance reports.

According to the SESTA, the Regulatory Board of SIX Swiss Exchange stipulates the information that has to be published to allow investors to assess the nature of the securities and the quality of the issuer. In this respect, it takes into account internationally recognised standards.[159] This information includes details of management and control at the highest corporate level of the issuer. The information requested from a listed company in Switzerland is listed in detail in the DCG in the Appendix. The DCG requests information on the following:
- Group structure and shareholders
- Capital structure
- Board of directors
- Executive board
- Compensation, shareholdings and loans
- Shareholders' participation rights
- Change of control and defensive measures
- Auditors
- Information policy

The corporate governance report usually refers to various places of publication. Companies subject to the ERCO must now disclose the compensation of members of the board of directors and the executive board in a separate remuneration report and no longer in the notes to the annual financial statements.[160]

5 Investors' requests

More and more frequently, international institutional investors in particular want to exchange information directly with the board of directors. Such exchanges are expected to cover topics such as appointments to the board of directors and its activities or the selection and compensation of executive board members. Although these topics do not necessarily concern the audit committee, it might be conceivable for investors to contact the chair of an audit committee to obtain information, for example, concerning accounting errors or bribery allegations. Given the need to ensure the equal treatment of all shareholders, any such direct discussions must be treated with due caution.[161]

[159] Article 8 SESTA.

[160] Cf. article 6 DCG and article 13 ERCO.

[161] Cf. article 717 CO on the duty of care and duty of loyalty.

6 Our recommendation

In recent years, the audit committee has grown in importance as part of corporate governance. As a result, the transparency requirements for the audit committee have also increased. In this respect, the report by the board of directors to the general meeting is critical and your audit committee should prepare the part of the report that provides information about the audit committee's activities.

G Efficiency review

1 Introduction

As part of its self-assessment, every year the board of directors reviews its own performance record and those of its committees.[162] In addition, it should assess overall performance compared with the performance targets.[163] In the US, the New York Stock Exchange expressly requires audit committees to conduct an annual performance evaluation.[164]

2 Methods

The board of directors has considerable creative leeway in conducting its efficiency reviews. It can use various techniques individually or in combination, such as open discussions in a plenary assembly, discussions with individual members or by the systematic use of forms, such as checklists with appropriate assessment criteria.

If the board of directors carries out a questionnaire-based survey, it should provide comment fields for personal notes. By doing so, the board of directors gives the respondents the opportunity to express themselves freely. Such questionnaires may be supplemented or replaced by interviews.

In addition to interviewing the members of the board of directors, it is useful to include the executive board in such surveys – or, at least, the chief executive officer and the chief financial officer. In this way, their assessments of the cooperation with the board of directors and the audit committee can be taken into account.

When planning an efficiency review, it should be borne in mind that it takes time for improvements to materialise. Considering the frequency of board of directors and audit committee meetings, this may take more than a year. In many companies, however, it has become common practice to conduct an efficiency review of the board of directors each year. In any case, it is important to evaluate fully the board of directors' work within a medium-term timeframe, at least. To this end, an organisation can develop a problem-oriented, period-based evaluation plan that covers the entire field of activity of the board of directors over several years.

[162] Cf. *economiesuisse* (2014), p. 11.

[163] Cf. European Union (2005), no. 8.

[164] Cf. New York Stock Exchange, Corporate Governance, Section 303A.07 (b) (ii).

3 Performance as an auditing criterion

The evaluation of the board of directors should assess the efficiency of the committee as a whole. Thus, the evaluation is not confined to checking compliance with requirements or issuing recommendations. Instead, the focus is on whether the audit committee's work (within the authorised scope) is organised in such a way that the board of directors is able to carry out its tasks efficiently and in the best manner possible, given the specific circumstances of the company. The following aspects may be subject to scrutiny:
- Does the size of the audit committee allow it to handle topics soundly and in detail?
- Do all members of the audit committee possess the necessary qualifications to fulfil their functions in the best possible way?
- Is sufficient importance assigned to individual tasks? Is the quality of the work adequate?
- How well does the committee interact with the auditor?
- How good is the meeting documentation (completeness, scope, readability, information content, timeliness)?
- Is the number of meetings adequate?
- Are meeting dates announced well in advance?
- Is there enough time to address critical issues during the meetings?

Further questions may relate to the audit committee members and their conduct; for example, meeting attendance, involvement, preparation, specific expertise, objectivity, independence, openness, critical faculties, reliability or discretion.

4 Handling the review results

The board of directors analyses and discusses the results of the efficiency review at one of its meetings, in an audit committee meeting or in individual conversations. If the evaluation is of the audit committee only, the persons responsible should at least discuss the results with the board of directors or its chair. If there are shortcomings, appropriate action must be taken and suggestions should be implemented. It is conceivable, for example, that requirements profiles for new members may emerge in the course of the audit committee's work. The board of directors should consider these when making future appointment decisions.

5 Our recommendation

We would advise you to extend the efficiency review of the board of directors to include its composition, organisation and working method as a group (cf. Appendix 5 on the self-assessment of the performance of the board of directors or Appendix 2 on the self-assessment of the performance of the board of directors and of the audit committee of banks). In this respect, you should assess both the competence and the performance of individual members of the board of directors (cf. Appendix 6 on the self-assessment of the individual performance of a member of the board of directors) as well as the competence and the performance of the standing committees. For assistance in this regard, please refer to Appendix 1 on the self-assessment of the performance of the audit committee, Appendix 2 on the self-assessment of the performance of the board of directors and of the audit committee of banks and Appendix 7 on the self-assessment of the performance of the compensation committee.

H Liability

1 Introduction[165]

If a member of the company's audit committee unlawfully and culpably commits an act that causes harm to a shareholder, creditor or third party, he or she shall be obliged to compensate the respective party for the damage caused. However, the organisation is also vicariously liable for the behaviour of the members of its governing bodies. It can seek recourse against the latter, where necessary.

2 Scope of liability

According to the law on companies limited by shares, accountability represents a personal responsibility of the audit committee members. They are liable for any damages that may be attributed to a breach of the obligations under the law on companies limited by shares for which the body in question is to blame. The persons responsible are liable only for their own behaviour. The law on companies limited by shares does not foresee collective liability of all members of the board of directors and the executive board for a breach of the obligations committed by individual members.

3 Duty of care

Although the burden of proof basically is in their favour, during a liability lawsuit the audit committee members have to demonstrate the care they have exercised. Within the scope of counter-evidence, this applies, in particular, to the members of the board of directors responsible for delegating a task. Therefore, it is important that members of the audit committee conscientiously document their activities.

4 Exemption from, intensification of and limitation of liability

The law on companies limited by shares provides exemption from liability, under certain conditions, for members of the full board of directors who delegate, as authorised, the performance of a task to another governing officer. If a member of the board of directors invokes this exemption, it may imply an intensification of the accountability of other members of the board of directors to whom certain tasks were delegated, for example as audit committee members.

Liability may be limited by non-assertion and indemnification agreements, a discharge and – as a last resort – resignation from office.

The audit committee's liability risks can be minimised by taking out directors and officers liability insurance (D&O insurance).

[165] Articles 752–760 CO.

5 Our recommendation

In principle, the company is always liable for the culpable conduct of a member of the audit committee vis-à-vis third parties. The company can seek recourse, where necessary. If this happens, you will need to prove that you have not neglected your duties and have not committed any unlawful acts. For this reason, it is very important for you to document your work for the audit committee. The board of directors has to ensure the audit committee performs its tasks properly so that, for its part, it is not susceptible to liability risks. You can also reduce liability risks by taking out directors and officers liability insurance.

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List of abbreviations

AOA	Federal Act on the Licencing and Oversight of Auditors (Bundesgesetz über die Zulassung und Beaufsichtigung der Revisorinnen und Revisoren; Revisionsaufsichtsgesetz)
BankA	Federal Act on Banks and Savings Banks (Bundesgesetz über die Banken und Sparkassen; Bankengesetz)
BankO	Ordinance on Banks and Savings Banks (Verordnung über die Banken und Sparkassen; Bankenverordnung)
CAO	Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Traders (Verordnung über die Eigenmittel und Risikoverteilung für Banken und Effektenhändler; Eigenmittelverordnung)
CEO	Chief executive officer
Cf.	Refer to
CFO	Chief financial officer
CHF	Swiss francs
CISA	Federal Act on Collective Capital Investment Schemes (Bundesgesetz über die kollektiven Kapitalanlagen; Kollektivanlagengesetz)
CMS	Compliance management system
CO	Swiss Code of Obligations (Schweizer Obligationenrecht)
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DCG	Directive Corporate Governance (Richtlinie Corporate Governance)
DFR	Directive on Financial Reporting (Richtlinie betreffend Rechnungslegung)
ERCO	Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften; VegüV)
EU	European Union
EU-IFRS	International Financial Reporting Standards applicable in the EU
FAOA	Federal Audit Oversight Authority (Eidgenössische Revisionsaufsichtsbehörde; RAB)
FAQ	Frequently asked questions

Fig.	Figure
FINMA	Swiss Financial Market Supervisory Authority (Eidgenössische Finanzmarktaufsicht)
FPI	Foreign Private Issues
GAAP	Generally Accepted Accounting Principles
GRI	Global Reporting Initiative
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
ICS	Internal control system
IDW	Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland e.V.)
IFRS	International Financial Reporting Standards
IFRS for SMEs	International Financial Reporting Standards for Small and Medium-Sized Entities
IIA	Institute of Internal Auditors
IOA	Federal Act on the Oversight of Insurance Companies (Bundesgesetz betreffend die Aufsicht über Versicherungsunternehmen; Versicherungsaufsichtsgesetz)
IOO	Ordinance on the Oversight of Private Insurance Companies (Verordnung über die Beaufsichtigung von privaten Versicherungsunternehmen, Aufsichtsverordnung)
IPSAS	International Public Sector Accounting Standards
IT	Information technology
no.	Number
p.	Page
para.	Paragraph
PCAOB	Public Company Accounting Oversight Board
PS	Auditing standard (Prüfungsstandard)
SEC	Securities and Exchange Commission
SESTA	Federal Act on Stock Exchanges and Securities Trading (Bundesgesetz über die Börsen und den Effektenhandel; Börsengesetz)

SESTO	Ordinance on Stock Exchanges and Securities Trading (Verordnung über die Börsen und den Effektenhandel; Börsenverordnung)
SICAF	Investment company with fixed capital
SICAV	Investment company with variable capital
SIX	SIX Swiss Exchange, the largest independent Swiss stock exchange
SLI	Swiss Leader Index
SMI	Swiss Market Index
SOX	Sarbanes-Oxley Act of 2002
Swiss Code	Swiss Code of Best Practice for Corporate Governance
Swiss GAAP FER	Swiss Generally Accepted Accounting Principles, Accounting and Reporting Recommendations
USD	United States dollars
US GAAP	United States Generally Accepted Accounting Principles

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Appendices

Appendix 1

Self-assessment of the performance of the audit committee

Collective performance – does your audit committee measure up?
To assess its effectiveness, the audit committee should review what it has accomplished and whether it has fulfilled its responsibilities.

This questionnaire can give you a starting point in evaluating the performance and effectiveness of the audit committee. Follow-up questions are encouraged and the committee should plan for further action as appropriate. The results of the evaluation should be discussed with the board. Among the topics to consider are the composition of the committee, meetings, activities and relationships with auditors and the executive board.

Questionnaire
The following questionnaire is provided for your use in assessing your audit committee's performance. You may find it useful to rate the extent to which your committee complies with each statement, on a scale where 5 = outstanding (or yes, if applicable), 3 = satisfactory and 1 = unsatisfactory (or no, if applicable). If the practice is not being followed or if the rating is below what you consider acceptable, space is provided to note steps your committee should take to raise performance. You might also want to use it to record any personal actions you wish to take.

Your audit committee ...	*Rating*					
Charter, roles and responsibilities	1	2	3	4	5	N/A
1. ... operates pursuant to a written charter and assesses its charter annually, suggesting required updates to the board for its approval. *Comments/measures:*	☐	☐	☐	☐	☐	☐
2. ... has a clear understanding of the roles and responsibilities of the committee as a whole and of its individual members. *Comments/measures:*	☐	☐	☐	☐	☐	☐
3. ... ensures that it obtains the information required to carry out all the responsibilities outlined in its charter. *Comments/measures:*	☐	☐	☐	☐	☐	☐
4. ... operates in an atmosphere of openness and trust, where members feel free to speak their minds and pursue issues to a conclusion. *Comments/measures:*	☐	☐	☐	☐	☐	☐
5. ... reports regularly on its activities, key issues and major recommendations to the board of directors. *Comments/measures:*	☐	☐	☐	☐	☐	☐

Your audit committee ...	*Rating*					
Committee composition	1	2	3	4	5	N/A
6. ... is the right size, bringing requisite knowledge, abilities and skills to the table.	☐	☐	☐	☐	☐	☐
Comments/measures:						
7. ... has at least one member who possesses the requisite level of financial reporting knowledge or acquires such knowledge soon after joining the committee.	☐	☐	☐	☐	☐	☐
Comments/measures:						
8. ... is satisfied it has a sufficiently independent voice and is always ready to challenge the executive board constructively.	☐	☐	☐	☐	☐	☐
Comments/measures:						

Meetings	1	2	3	4	5	N/A
9. ... holds a sufficient number of meetings, scheduled at appropriate points to address its responsibilities in a timely manner.	☐	☐	☐	☐	☐	☐
Comments/measures:						
10. ... plans meetings of adequate length to allow the committee to accomplish its agenda, with time to discuss issues fully.	☐	☐	☐	☐	☐	☐
Comments/measures:						
11. ... holds meetings that are effective, getting advance buy-in on the agenda and distributing the right amount of quality advance material in a timely manner, which members review before meetings.	☐	☐	☐	☐	☐	☐
Comments/measures:						
12. ... makes sure the right individuals attend, particularly those with meaningful input on agenda items.	☐	☐	☐	☐	☐	☐
Comments/measures:						

Interaction with executive board and auditors	1	2	3	4	5	N/A
13. ... maintains a productive relationship with the executive board, maintaining open lines of communication and an ongoing dialogue.	☐	☐	☐	☐	☐	☐
Comments/measures:						
14. ... reviews internal audit plans, ensuring appropriate internal audit coverage of key control systems and the proper degree of coordination of work with external auditors.	☐	☐	☐	☐	☐	☐
Comments/measures:						

Your audit committee …	*Rating*					
Interaction with executive board and auditors	1	2	3	4	5	N/A
15. … reviews the external audit scope and approach, ensuring members understand and are satisfied with the extent of audit work anticipated and the level of assurance obtained.	☐	☐	☐	☐	☐	☐
Comments/measures:						
16. … builds constructive professional relationships with both internal and external auditors, putting them at their ease when bringing up sensitive issues.	☐	☐	☐	☐	☐	☐
Comments/measures:						
17. … discusses the performance of auditors, encouraging candid discussions with them based on clear criteria, including further improvements, in order to be in a position to recommend the auditors for re-election.	☐	☐	☐	☐	☐	☐
Comments/measures:						

Financial statements	1	2	3	4	5	N/A
18. … discusses with the executive board and the external auditors any significant accounting and reporting issues during the period as well as any potential SIX Comment Letters, and concurs with their resolution.	☐	☐	☐	☐	☐	☐
Comments/measures:						
19. … challenges areas involving management judgment, significant accounting accruals, provisions or other estimates that have a material impact on the financial statements.	☐	☐	☐	☐	☐	☐
Comments/measures:						
20. … discusses the audit results with the external auditors and considers management's handling of proposed audit adjustments.	☐	☐	☐	☐	☐	☐
Comments/measures:						
21. … oversees the periodic financial reporting process and reviews interim and annual financial statements in order to be in a position to recommend to the board of directors the release of these financial statements.	☐	☐	☐	☐	☐	☐
Comments/measures:						

Risk, control and compliance	1	2	3	4	5	N/A
22. … clearly understands, and agrees with the board of directors, the scope of the oversight responsibility in the areas of internal controls, including fraud and compliance with laws and regulations.	☐	☐	☐	☐	☐	☐
Comments/measures:						

Your audit committee ...	*Rating*					
Risk, control and compliance	1	2	3	4	5	N/A
23. ... discusses the audit results with the external auditor, assesses how the executive board handles the weaknesses identified and the recommendations made by the external auditor.	☐	☐	☐	☐	☐	☐
Comments/measures:						
24. ... gains an understanding of the extent of controls testing by internal and external auditors, and considers whether internal control recommendations made by internal and external auditors have been implemented by the executive board.	☐	☐	☐	☐	☐	☐
Comments/measures:						
25. ... has sufficient time and resources to carry out the responsibilities delegated to it by the board of directors.	☐	☐	☐	☐	☐	☐
Comments/measures:						

Evaluation and future	1	2	3	4	5	N/A
26. ... regularly evaluates the performance of the committee as a whole and its individual members, and takes decisive corrective action, if necessary.	☐	☐	☐	☐	☐	☐
Comments/measures:						
27. ... considers whether there are emerging issues that will demand its attention going forward and is proactive in positioning itself to deal with them.	☐	☐	☐	☐	☐	☐
Comments/measures:						

Personal information

Last name/first name:

Function:

Company:

Date:

pwc

Appendix 2

Self-assessment of the performance of the board of directors and of the audit committee of banks

Collective performance – how well is your board of directors doing? How would you rate your audit committee?

In order to measure its own efficiency, the board of directors should assess what it has attained and whether it has properly assumed its responsibilities.

This questionnaire will provide you with the basis for an annual, written assessment of the board's performance and efficiency with regard to achieving its goals and objectives in line with the stipulation in margin no. 17 of the FINMA circular 08/24 'Supervision and internal control'. It clearly focuses on the tasks defined in the circular. Depending on the institution, certain tasks may be delegated to specific committees (e.g. compensation, risk management, nominations); however, the ultimate responsibility lies with the full board of directors at all times.

Questionnaire

This questionnaire serves to measure the performance of your board of directors and, should your company have one, of your audit committee. You may find it useful to rate the extent to which your board complies with each statement, on a scale where 5 = all of the time/fully satisfactory, 4 = most of the time/above average, 3 = some of the time/average, 2 = occasionally/below average, 1 = hardly ever/poor. If the practice is not being followed or if the rating is below what you consider acceptable, space is provided to note steps your board should take to raise performance. You might also want to use it to record any personal actions you wish to take.

Your board of directors …	*Rating*					
Articles of association, roles and responsibilities	1	2	3	4	5	N/A
1. … works according to written articles of association or a written organisational or investment policy which is re-approved regularly. These documents are reviewed regularly and, if necessary, adjusted (e.g. in the case of legal amendments).	☐	☐	☐	☐	☐	☐
Comments/measures:						
2. … has a clear understanding of the role and responsibilities of the board as a whole and of its individual members.	☐	☐	☐	☐	☐	☐
Comments/measures:						
3. … fulfils the requirements for technical expertise, experience and availability (margin no. 17 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						
4. … disposes of the necessary resources (information and time) to perform the tasks stipulated in the articles of association or policies.	☐	☐	☐	☐	☐	☐
Comments/measures:						
5. … fulfils the independence requirements as per margin no. 18 of FINMA circular 08/24 'Supervision and internal control'.	☐	☐	☐	☐	☐	☐
Comments/measures:						

Your board of directors …	*Rating*					
Articles of association, roles and responsibilities	1	2	3	4	5	N/A
6. … creates an agreeable and confidence-inspiring atmosphere in which members can freely state their opinions and follow up on issues.						
Comments/measures:						
7. … is confident that it is independent and is ready to provide the executive board with constructive criticism at all times.						
Comments/measures:						

Responsibility for the institution's strategy	1	2	3	4	5	N/A
8. … regularly discusses and defines strategic objectives, reviews how they are being realised on the basis of predefined parameters and, if goals are not being met, implements mitigating measures.						
Comments/measures:						
9. … prepares and approves clear objectives for the executive board (quantitative and qualitative) and reviews how these are being attained on a yearly and a long-term basis.						
Comments/measures:						
10. … regularly discusses and defines the basic principles of the institution's strategies for communication and risk management, nominations and compensation. The board of directors acts according to the current code of conduct.						
Comments/measures:						

Meetings	1	2	3	4	5	N/A
11. … calls a sufficient number of meetings in good time for it to fulfil its tasks in a timely manner.						
Comments/measures:						
12. … plans meetings that are sufficiently long to allow the board to go through the agenda and adequately discuss the individual items.						
Comments/measures:						
13. … conducts meetings in a systematic manner and the agenda is approved prior to the meeting. Members are sent high-quality preparatory documents in good time so that they are able to read these prior to the meeting.						
Comments/measures:						
14. … ensures that appropriate persons are invited to the meeting and, above all, those who have important contributions to make to specific items on the agenda.						
Comments/measures:						

Your board of directors …	*Rating*					
Meetings	1	2	3	4	5	N/A
15. … ensures that the minutes correctly reflect the meeting's discussions and resolutions, and that they state the actions to be taken and any follow-up needed.	☐	☐	☐	☐	☐	☐
Comments/measures:						
Delegating tasks to committees (e.g. audit committee)	1	2	3	4	5	N/A
16. … defines the tasks and competences to be delegated to committees or individuals, as well as the relevant duties of informing, coordinating and reporting to the board of directors (margin no. 31 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						
17. … ensures that the board's committees are of an adequate size and that their members have the necessary expertise, abilities and characteristics to handle the duties assigned to them by the board of directors.	☐	☐	☐	☐	☐	☐
Comments/measures:						
18. … regularly receives committee reports describing their activities; the board of directors handles questions that may arise and implements recommendations by taking the necessary decisions and measures.	☐	☐	☐	☐	☐	☐
Comments/measures:						
19. … ensures that the implementation of recommendations and instructions made by the board's committees is regularly reviewed.	☐	☐	☐	☐	☐	☐
Comments/measures:						
20. … organises an audit committee if at least one of the criteria listed (total assets, safe-custody volume, etc.) in margin nos. 33–36 FINMA circular 08/24 'Supervision and internal control' is fulfilled.	☐	☐	☐	☐	☐	☐
Comments/measures:						
The audit committee's tasks (If there is no audit committee, these tasks must be assumed by the full board of directors or a designated individual)	1	2	3	4	5	N/A
21. … supervises and assesses the accuracy of the financial statements (margin nos. 42–44 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						
22. … supervises and assesses the internal controls applied to the financial statements (margin nos. 45–46 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						

Your board of directors …	*Rating*					
The audit committee's tasks	1	2	3	4	5	N/A
23. … supervises and assesses the effectiveness of the external auditors and how they work with the institution's internal audit (margin nos. 47–51 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						
24. … supervises and assesses the internal controls applied to aspects other than the financial statements and the performance of the institution's internal audit (margin nos. 52–53 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						
Interaction with management	1	2	3	4	5	N/A
25. … maintains a productive relationship with the executive board, ensuring that open communication and ongoing dialogues take place.	☐	☐	☐	☐	☐	☐
Comments/measures:						
26. … ensures that the executive board provides data sets that the board of directors may need to execute its tasks as per the articles of association or policies in a timely and comprehensive manner.	☐	☐	☐	☐	☐	☐
Comments/measures:						
Interaction with the external auditors (Provided these tasks have not been assumed by the audit committee)	1	2	3	4	5	N/A
27. … disposes of an internal audit function that reports directly to the board of directors, the audit committee or another board committee (margin no. 15 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						
28. … supervises and assesses internal audit's efficiency. The board of directors regularly assesses whether it disposes of the necessary resources and competences to meet the independence and objectivity requirements in order to perform adequately its controlling function. It also ensures that internal audit complies with the SIIA standards. These tasks may also be delegated to the audit committee (margin no. 16 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						
29. … supervises internal audit plans, ensures that internal audit covers the most important controls appropriately and that there is an adequate degree of coordination between the internal and external auditors.	☐	☐	☐	☐	☐	☐
Comments/measures:						
30. … regularly reviews internal audit's reports and ensures that management's measures proposed or taken in response to the recommendations in the reports are adequate.	☐	☐	☐	☐	☐	☐
Comments/measures:						

Your board of directors …			*Rating*			
Interaction with the external auditors	1	2	3	4	5	N/A
31. … receives and reviews the annual/quarterly reports by the head of internal audit and ensures that management's proposed measures in response to the recommendations in the reports are adequate.	☐	☐	☐	☐	☐	☐
Comments/measures:						
32. … receives and reviews (at least once every six months) a status report on the weaknesses identified by the internal and the external auditors. This report also states what progress has been made in implementing recommendations for improvements. In doing so, the board of directors ensures that the measures taken or recommended are adequate and timely.	☐	☐	☐	☐	☐	☐
Comments/measures:						
33. … reviews the scope of the external audit. It ensures that the members of the audit team understand the scope of the work to be undertaken and are in agreement with it and the recommended level of audit comfort.	☐	☐	☐	☐	☐	☐
Comments/measures:						
34. … discusses the external auditor's reports in the presence of the lead auditor (especially concerning sensitive points relating to measures in regard to weaknesses and any related recommendations).	☐	☐	☐	☐	☐	☐
Comments/measures:						
35. … includes the audit committee's recommendations in its decisions.	☐	☐	☐	☐	☐	☐
Comments/measures:						
Financial statements (Provided these tasks have not been assumed by the audit committee)	1	2	3	4	5	N/A
36. … prepares the interim and year-end financial statements in a timely manner.	☐	☐	☐	☐	☐	☐
Comments/measures:						
37. … critically analyses the financial statements, i.e. the stand-alone and, if applicable, the consolidated financial statements and whether preparation of the statements was actually undertaken in line with the applicable accounting standards. Specifically, the board of directors assesses the valuation of material balance sheet and off-balance sheet items (margin no. 42 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						
38. … discusses the financial statements and the quality of the underlying accounting process with the member(s) of the executive board responsible for finance and accounting, with the lead auditor and with the head of internal audit (margin no. 43 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						

Your board of directors …	*Rating*					
Financial statements	1	2	3	4	5	N/A
39. … supervises and assesses whether the internal controls applied to the financial statements are adequate and effective (margin no. 45 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						
40. … critically assesses the executive board's decisions, significant accounting issues and issues related to provisions or other estimates which could have a material impact on the financial statements.	☐	☐	☐	☐	☐	☐
Comments/measures:						
41. … includes the audit committee's recommendations in its decisions.	☐	☐	☐	☐	☐	☐
Comments/measures:						
Supervision and internal control (including issues related to compliance and risk control)	1	2	3	4	5	N/A
42. … is responsible for the regulation, creation, maintenance, supervision and regular review of adequate internal controls (margin no. 9 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						
43. … ensures that the institution records, mitigates and controls all material risks. The systematic risk analysis is to be documented (margin no. 10 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						
44. … presents its assessment of the adequacy and effectiveness of the institution's internal controls with the executive board (margin no. 11 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						
45. … sends the executive board a task list to ensure that employees at all levels of the hierarchy assume and understand their responsibilities and tasks in the context of internal controls (margin no. 12 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						
46. … ensures that no employees at any level succumb to the pressure to attain goals by circumventing controls. The board of directors ensures that the incentives offered do not tempt any employees to neglect the internal controls (margin no. 13 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						
47. … ensures that conflicts of interest are handled correctly. If, on isolated occasions, a conflict of interest cannot be avoided, the institution takes measures to remedy the situation (margin no. 14 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						

Your board of directors …						*Rating*
Supervision and internal control	1	2	3	4	5	N/A
48. … ensures that the executive board actually implements the measures ordered by the board of directors in regard to the application, maintenance and regular review of the internal controls (margin no. 80 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						
49. … ensures that the executive board periodically informs the board of the effectiveness of the internal controls, and if significant weaknesses appear, it informs both the board of directors and internal audit (margin no. 85 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						
50. … ensures that the executive board recommends and implements adequate counter-measures for any identified weaknesses.	☐	☐	☐	☐	☐	☐
Comments/measures:						
51. … ensures that the compliance function's tasks, responsibilities and reporting duties are regulated in a policy document, which must be approved either by the executive board or the board of directors (margin no. 107 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						
52. … ensures that the risk control function's tasks, responsibilities and reporting duties are regulated in a policy document, which must be approved either by the executive board or the board of directors (margin no. 121 of FINMA circular 08/24 'Supervision and internal control').	☐	☐	☐	☐	☐	☐
Comments/measures:						
53. …receives and reviews the compliance and risk control reports stipulated in margin nos. 112 and 125 of FINMA circular 08/24 'Supervision and internal control'. If necessary, the board of directors takes the corrective measures and ensures that the recommended improvements are implemented.	☐	☐	☐	☐	☐	☐
Comments/measures:						
Self-assessment and going forward	1	2	3	4	5	N/A
54. … assesses its own performance at least once a year in writing (margin no. 17 of FINMA circular 08/24 'Supervision and internal control') and takes any necessary corrective measures.	☐	☐	☐	☐	☐	☐
Comments/measures:						
55. … identifies any issues that could become problematic in the future and proactively addresses these.	☐	☐	☐	☐	☐	☐
Comments/measures:						

Personal information

Last name, first name:

Function:

Company:

Date:

Appendix 3

Assessment of audit services

Measurement of PwC's performance

The following questionnaire is provided for use in assessing PwC's (your auditor's) performance. The questionnaire is designed to measure the auditor at all levels that might be relevant in your organisation: local level, divisional level, group level, etc. Accordingly, the questionnaire may be used by all participants in surveys such as: local finance management, divisional finance management, group finance management, audit committees, etc.

Questionnaire

You may find it useful to rate the extent to which your auditor fulfils the issues raised in the questionnaire, on a scale where 5 = outstanding (or yes, if applicable), 3 = satisfactory and 1 = unsatisfactory (or no, if applicable). If the practice is not being followed or if the rating is below what you consider acceptable, space is provided to note steps your auditor should take to raise performance.

	Rating					
Quality	1	2	3	4	5	N/A
1. Overall quality of audit services provided by PwC.	☐	☐	☐	☐	☐	☐
Comments/measures:						
People	1	2	3	4	5	N/A
2. Technical knowledge and qualifications of the team.	☐	☐	☐	☐	☐	☐
Comments/measures:						
3. Courage of the PwC team to defend its audit conclusions despite the executive board holding a different view.	☐	☐	☐	☐	☐	☐
Comments/measures:						
4. Continuity and succession planning of the PwC service team.	☐	☐	☐	☐	☐	☐
Comments/measures:						
Meeting your objectives	1	2	3	4	5	N/A
5. Client service objectives were agreed in advance of undertaking the work.	☐	☐	☐	☐	☐	☐
Comments/measures:						
6. Delivered service was consistent with the understanding/expectations.	☐	☐	☐	☐	☐	☐
Comments/measures:						

	Rating					
Meeting your objectives	1	2	3	4	5	N/A
7. Value of the services provided.	☐	☐	☐	☐	☐	☐

Comments/measures:

8. Agreed deadlines are met.	☐	☐	☐	☐	☐	☐

Comments/measures:

Knowledge of your business and industry	1	2	3	4	5	N/A
9. Understood important issues relevant to your business.	☐	☐	☐	☐	☐	☐

Comments/measures:

10. Provided timely information on industry issues or trends.	☐	☐	☐	☐	☐	☐

Comments/measures:

11. Proactively offered ideas and quality advice.	☐	☐	☐	☐	☐	☐

Comments/measures:

Communication	1	2	3	4	5	N/A
12. Communicated clearly at appropriate levels in your organisation.	☐	☐	☐	☐	☐	☐

Comments/measures:

13. Listened well to what you had to say.	☐	☐	☐	☐	☐	☐

Comments/measures:

Services	1	2	3	4	5	N/A
14. Were the PwC audit services better, the same or worse this year than in the past?	☐	☐	☐	☐	☐	☐

Comments/measures:

15. How likely are you to use PwC audit services in the future?	☐	☐	☐	☐	☐	☐

Comments/measures:

Services	Rating 1	2	3	4	5	N/A
16. How likely are you to recommend PwC to a business colleague?	☐	☐	☐	☐	☐	☐
Comments/measures:						
17. How could PwC improve the quality of its services?	☐	☐	☐	☐	☐	☐
Comments/measures:						
18. Are there any unresolved problems with this specific engagement?	☐	☐	☐	☐	☐	☐
Comments/measures:						
19. What did PwC do particularly well that should be continued?	☐	☐	☐	☐	☐	☐
Comments/measures:						

Personal information

Last name/first name:

Function:

Company:

Date:

Appendix 4

In-depth periodic assessment of audit services

In-depth measurement of PwC's performance
The following detailed questionnaire serves to help you assess PwC's (your auditor's) performance. The audit committee can use this questionnaire to assess the auditor at all levels that might be relevant in your organisation, including the local level in domestic and foreign group companies as well as at the divisional level and group level. This detailed assessment considers the quality of the audit services rendered to you, your PwC team, the achievement of your goals and expectations, PwC's knowledge of your business and industry, PwC's professional working relationship with you, PwC's communication and service delivery.

This in-depth assessment furnishes additional information to the audit committee not covered by the regular assessments (see the 'Assessment of audit services' questionnaire). The audit committee thus obtains a comprehensive overview of the PwC audit service which also enables you to perform a comparison with previous years. This provides valuable support to fulfil the audit committee's tasks while enhancing the quality of PwC's work and ensuring transparency on PwC's activities. If the results of this detailed assessment do not meet the audit committee's satisfaction, PwC would welcome a frank discussion. If such a discussion does not lead to a satisfactory outcome, the board of directors should be consulted to clarify whether it is advisable to change the external auditor.

Questionnaire
The questionnaire is designed to measure the audit services of your PwC team. You may wish to rate the extent to which the PwC team fulfils each criteria on a scale of 1 to 5 where rating: 5 = always/outstanding, 4 = mostly/above average, 3 = sometimes/satisfactory, 2 = rarely/below average, 1 = almost never/unsatisfactory. If you do not wish to use the scale, you can use the space provided to list steps that the PwC team should take to enhance its audit service. You may also add any steps that the audit committee itself wishes to take.

Key criteria for an efficient audit	*Rating*					
Overall evaluation of PwC's audit services and industry knowledge	1	2	3	4	5	N/A
1. How likely are you to use PwC's audit services in future?	☐	☐	☐	☐	☐	☐
Comments/measures:						
2. How likely are you to recommend PwC to a business colleague?	☐	☐	☐	☐	☐	☐
Comments/measures:						
3. Development of the PwC team's performance since the last comprehensive assessment.	☐	☐	☐	☐	☐	☐
Comments/measures:						
4. PwC team's understanding of important issues relevant to your business.	☐	☐	☐	☐	☐	☐
Comments/measures:						
5. Providing information on regulatory aspects and changes in accounting standards.	☐	☐	☐	☐	☐	☐
Comments/measures:						

6. Providing information on industry aspects and trends.	☐	☐	☐	☐	☐	☐

Comments/measures:

7. Proactively offering ideas and high-quality advice.	☐	☐	☐	☐	☐	☐

Comments/measures:

PwC team	1	2	3	4	5	N/A
8. Expertise and qualifications of the PwC team.	☐	☐	☐	☐	☐	☐

Comments/measures:

9. Availability of the lead auditor to the executive board/audit committee.	☐	☐	☐	☐	☐	☐

Comments/measures:

10. Consistent succession planning in the PwC team.	☐	☐	☐	☐	☐	☐

Comments/measures:

11. Substantial impact on team performance due to a significant fluctuation in the PwC team since the last comprehensive assessment.	☐	☐	☐	☐	☐	☐

Comments/measures:

12. Consideration of business, industry, reporting and fraud risks in the (multi-year) audit plan.	☐	☐	☐	☐	☐	☐

Comments/measures:

13. Effectiveness and efficiency of the audit processes, taking your organisation into account.	☐	☐	☐	☐	☐	☐

Comments/measures:

Achievement of your goals and expectations	1	2	3	4	5	N/A
14. Objectives of services agreed in advance.	☐	☐	☐	☐	☐	☐

Comments/measures:

15. Services rendered as per the agreements/expectations.	☐	☐	☐	☐	☐	☐

Comments/measures:

16. Benefit of the services provided by PwC.	☐	☐	☐	☐	☐	☐

Comments/measures:

17. Ability to meet agreed deadlines.	☐	☐	☐	☐	☐	☐

Comments/measures:

18. Audit fee in relation to the size, complexity and risk of your business.	☐	☐	☐	☐	☐	☐

Comments/measures:

Professional business relationship	1	2	3	4	5	N/A
19. Degree of professional objectivity, integrity and independence during the present/since the last engagement.	☐	☐	☐	☐	☐	☐

Comments/measures:

20. Reconciliation of possible differences between the executive board (or internal auditor) and the PwC audit team.	☐	☐	☐	☐	☐	☐

Comments/measures:

21. Ability of the PwC team to respond to suggestions for improvement made by your organisation.	☐	☐	☐	☐	☐	☐

Comments/measures:

22. Professional scepticism and handling of difficult situations.	☐	☐	☐	☐	☐	☐

Comments/measures:

23. Determination of your PwC team to defend its audit results despite differences of opinion with the executive board.	☐	☐	☐	☐	☐	☐

Comments/measures:

Communication	1	2	3	4	5	N/A
24. Clear written and verbal communication by the PwC team at the appropriate levels (audit committee, executive board and board of directors) of your business.	☐	☐	☐	☐	☐	☐

Comments/measures:

25. Ability of your PwC team to listen.	☐	☐	☐	☐	☐	☐

Comments/measures:

	1	2	3	4	5	N/A
26. Information on the collaboration with the executive board. *Comments/measures:*	☐	☐	☐	☐	☐	☐
27. Monitoring of foreign auditors. *Comments/measures:*	☐	☐	☐	☐	☐	☐
28. Results of the PwC external or internal quality assessment of the audit services for your company. *Comments/measures:*	☐	☐	☐	☐	☐	☐

Services	1	2	3	4	5	N/A
29. How has the annual assessment changed since the last comprehensive assessment? *Comments/measures:*	☐	☐	☐	☐	☐	☐
30. Information on additional services in Switzerland and overseas as well as any related questions concerning independence. *Comments/measures:*	☐	☐	☐	☐	☐	☐
31. How could PwC improve the quality of its audit services/additional services? *Comments/measures:*	☐	☐	☐	☐	☐	☐
32. Do you have unanswered questions about the audit services/additional services? *Comments/measures:*	☐	☐	☐	☐	☐	☐
33. What did PwC do particularly well that should be maintained in future? *Comments/measures:*	☐	☐	☐	☐	☐	☐

Personal information

Last name/first name:

Function:

Company:

Date:

Appendix 5

Self-assessment of the performance of the board of directors

Collective performance – does your board measure up?
One of the recommendations contained in the economiesuisse 'Swiss Code of Best Practice for Corporate Governance' is for the board to review and assess its effectiveness annually.

We firmly believe that most benefit is to be gained from an in-depth review of all areas of board activity, preferably facilitated by a third party to ensure that open and frank views are obtained. This review should encompass both the board's conduct and its processes.

This questionnaire has been devised to enable you to assess the effectiveness of your board. It may also serve as an aide-memoire for planning and conducting/participating in your board meetings. Follow-up questions are encouraged and the board should plan for further action as appropriate. The results of the evaluation can form the basis for discussions.

Questionnaire
The following questionnaire is provided for your use in assessing your board's performance. You may find it useful to rate the extent to which your board complies with each statement, on a scale where 5 = all of the time/fully satisfactory, 4 = most of the time/above average, 3 = some of the time/average, 2 = occasionally/below average, 1 = hardly ever/poor. If the practice is not being followed or if the rating is below what you consider acceptable, space is provided to note steps your board should take to raise performance. You might also want to use it to record any personal actions you wish to take.

Practice	*Rating*					
	1	2	3	4	5	N/A
Setting strategy All board members support and debate the company's strategy and values, enabling them to set the tone at the top. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Strategy All board members have a clear understanding of the company's core business, its strategic direction and the financial and human resources necessary to meet its objectives. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Board performance The board sets itself objectives and measures its performance against them on an annual basis. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Managing board meetings and discussions Board meetings encourage a high quality of debate with robust and probing discussions. *Comments/measures:*	☐	☐	☐	☐	☐	☐

Practice	Rating					
	1	2	3	4	5	N/A
Managing internal board relationships Board members make decisions objectively and collaboratively in the best interests of the company and feel collectively responsible for achieving organisational success. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Managing the board's relationships with others The board communicates effectively with all of the company's stakeholders and seeks their feedback. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Board members' own skills Board members recognise the role which they and each of their colleagues are expected to play and have the appropriate skills and experience for that role. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Reaction to events The board responds positively and constructively to events in order to enable effective decisions and their implementation, and to encourage transparency. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Chairman The chairman's leadership style and tone promotes effective decision-making and constructive debate, and ensures that the board works as a team. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Chairman and CEO relationship The chairman and the chief executive work well together and their different skills and experience complement each other. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Attendance and contribution at meetings All board members attend and actively contribute at meetings. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Open channels of communication The board has open channels of communication with the executive board and others, and is properly briefed. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Risk and control frameworks The board's approach to reviewing risk in the organisation is open and questioning, and looks to learn lessons from events, rather than apportion blame. *Comments/measures:*	☐	☐	☐	☐	☐	☐

Processes	*Rating*					
	1	2	3	4	5	N/A

Composition

The board is the right size and has the best mix of skills to ensure its optimum effectiveness.

☐ ☐ ☐ ☐ ☐ ☐

Comments/measures:

Terms of reference

The terms of reference for the board are appropriate, with clearly-defined roles and responsibilities, ensuring that the right issues are being addressed.

☐ ☐ ☐ ☐ ☐ ☐

Comments/measures:

Committees of the board

The board's committees are properly constituted, perform their delegated roles and report back clearly and fully to the board.

☐ ☐ ☐ ☐ ☐ ☐

Comments/measures:

Company secretary

The company secretary acts as an appropriate conduit for the provision of information to the board and as support to the chairman and the non-executive directors.

☐ ☐ ☐ ☐ ☐ ☐

Comments/measures:

Executive directors

The contribution of the executive directors, as members of the board rather than as senior executives, is effective.

☐ ☐ ☐ ☐ ☐ ☐

Comments/measures:

Non-executive directors

The non-executive directors contribute effectively to the development of strategy and the monitoring of the performance of the executive board, providing both support and challenge.

☐ ☐ ☐ ☐ ☐ ☐

Comments/measures:

Meetings and administration

The board meets sufficiently often, and with information of appropriate quality and detail, so that agenda items can be properly covered in the time allocated.

☐ ☐ ☐ ☐ ☐ ☐

Comments/measures:

Timeliness of information

Information is received in sufficient time to allow for proper consideration, with scope for additional briefing if necessary.

☐ ☐ ☐ ☐ ☐ ☐

Comments/measures:

Agenda items

The board's agenda covers all matters of importance to the company, is prioritised and includes the consideration of corporate reputation, its enhancement and the risks surrounding it.

☐ ☐ ☐ ☐ ☐ ☐

Comments/measures:

Processes	*Rating*					
	1	2	3	4	5	N/A
Annual general meeting The company makes best use of its annual general meeting. *Comments/measures:*	☐	☐	☐	☐	☐	☐
External stakeholders The board has defined its external stakeholders and ensures that the company has the right level of contact with them. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Risk management The board uses an active and well-structured process to manage risk, taking account of the company's activities and the breadth of functions across the business. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Induction and advanced training Board members receive proper induction on appointment and ongoing advanced training is available to meet individual development needs. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Succession planning There is appropriate succession planning for key board members and the executive board. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Performance evaluation Board members are individually subject to an annual performance evaluation that measures their contribution and commitment. *Comments/measures:*	☐	☐	☐	☐	☐	☐

Personal information

Last name/first name:

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Date:

Appendix 6

Self-assessment of the individual performance of a member of the board of directors

Personal performance – does the director measure up?

One of the recommendations contained in the economiesuisse 'Swiss Code of Best Practice for Corporate Governance' is for the board to carry out an annual evaluation of individual directors.

This questionnaire has been put together to give an indication of the principal areas that a director's effectiveness review should cover. Whilst use of this tool by the individual nominated to perform the review, or in a self-assessment capacity, will provide helpful information, additional value may be gained by distributing the tool more widely to obtain the views of others (e.g. fellow directors, management and others with whom the director interacts).

Questionnaire

The following questionnaire is provided for use in assessing a director's personal performance. You may find it useful to rate the extent to which he/she complies with each statement, on a scale where 5 = all of the time/fully satisfactory, 4 = most of the time/above average, 3 = some of the time/average, 2 = occasionally/below average, 1 = hardly ever/poor. If the practice is not being followed or if the rating is below what is considered acceptable, space is provided to note steps the director should take to raise performance. You might also want to use it to record any personal actions you wish to take.

Practice	*Rating*					
	1	2	3	4	5	N/A
Setting strategy The director has a clear understanding of the company's core business and participates in setting its strategic aims. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Enabling performance The director assists in ensuring that the necessary financial and human resources are available for the company to meet its objectives. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Setting and applying values The director supports the company's standards and values, enabling him/her to contribute to setting the tone at the top. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Demonstrating courage and integrity The director is prepared to stand firm, challenge constructively and to lead by example on ethical matters. *Comments/measures:*	☐	☐	☐	☐	☐	☐

Practice	Rating					
	1	2	3	4	5	N/A
Attendance at board meetings The director regularly attends meetings. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Appropriate preparation The director prepares appropriately in advance of meetings. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Active participation The director actively participates in robust and probing discussions during and between board meetings. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Engagement of executive directors The director clearly works in the best interests of the company leaving his or her functional responsibilities 'at the door'. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Personal accountability The director demonstrates that he/she feels personally responsible for promoting the success of the business. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Risk and control frameworks The director's approach to reviewing risk in the organisation is open and questioning. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Reaction to bad news The director responds positively and constructively to bad news, thus encouraging open and transparent communications. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Understanding of individual contribution The director recognises the role which he/she and each of his/her colleagues is expected to play. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Director's skills The director has the appropriate skills and experience for the role. *Comments/measures:*	☐	☐	☐	☐	☐	☐

Practice	Rating					
	1	2	3	4	5	N/A
Understanding of the business The director makes an effort to get to know the business. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Sufficient time for the role The director has sufficient time to devote to the role. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Flexibility The director anticipates and embraces change, and reinforces the positive aspects of change to others. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Personal impact The director communicates with impact, seeking to understand others' points of view and negotiating/influencing as appropriate. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Demonstrating business acumen The director makes sound decisions and exercises good judgement in debating board agenda items. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Professional development The director takes responsibility for his/her ongoing professional development. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Managing relationships with the executive board The director ensures channels of communication with the executive board and others are kept open as appropriate. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Managing relationships with others externally The director is open to contact from major shareholders and other stakeholders as appropriate to his/her role on the board. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Liaison with the company secretary The director utilises the support of the company secretary as appropriate. *Comments/measures:*	☐	☐	☐	☐	☐	☐

Personal information

Last name/first name: ....

Function: ....

Company: ....

Date: ....

Appendix 7

Self-assessment of the performance of the compensation committee

Collective performance – does your committee measure up?
To assess its effectiveness, the committee should review what it has accomplished and whether it has fulfilled its responsibilities.

This questionnaire has been devised to enable you to assess the effectiveness of your compensation committee. It may also serve as an aide-memoire for planning and conducting/participating in your compensation committee meetings. The questions are split between those which focus on the compensation committee's conduct and those which look at its processes. Follow-up questions are encouraged and the committee should plan for further action as appropriate. The results of the evaluation should be discussed with the board.

Questionnaire
The following questionnaire is provided for your use in assessing your compensation committee's performance. You may find it useful to rate the extent to which your committee complies with each statement, on a scale where 5 = all of the time/fully satisfactory, 4 = most of the time/above average, 3 = some of the time/average, 2 = occasionally/below average, 1 = hardly ever/poor. If the practice is not being followed or if the rating is below what you consider acceptable, space is provided to note steps your committee should take to raise performance. You might also want to use it to record any personal actions you wish to take.

Your compensation committee ...	*Rating*					
Charter, roles and responsibilities	1	2	3	4	5	N/A
Understanding of core business objectives All compensation committee members have a good understanding of the group's business objectives and group-wide reward programmes, and utilise this understanding during committee discussions on remuneration policy. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Assessment of possible outcomes of decisions The compensation committee understands in detail all aspects of the executive directors' and executive board members' remuneration packages and assesses the possible future outcomes of decisions. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Appreciation of potential risks The compensation committee considers the behavioural impact on the executive board and other employees arising from policies and their implementation. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Approach to individual executive's performance objectives and performance assessment In considering specific awards, the compensation committee understands the basis of the assessment of the performance of executive board members and is prepared to deal with the remuneration aspects of any performance that is below expectations. *Comments/measures:*	☐	☐	☐	☐	☐	☐

Your compensation committee ...	*Rating*					
Charter, roles and responsibilities	1	2	3	4	5	N/A
Quality of interaction with the executive board The compensation committee retains the initiative in setting remuneration policy and structures, and listens to, but also challenges, proposals put forward by the executive board. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Focus on various investor perspectives The compensation committee consults with shareholders and anticipates reactions to changes in remuneration policy, and is aware of the sentiments of the group's shareholders and other stakeholders with respect to executive board member's remuneration. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Rigour of debate Meetings of the compensation committee are conducted in such a way as to encourage robust and probing debate. All members contribute proactively. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Willingness to take unpopular decisions The compensation committee is prepared to make unpopular decisions and deliver 'bad news' to the executive board, if this is considered to be necessary in the light of group or individual performance, or is appropriate in the context of current best practice. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Quality of chairmanship The chairman of the compensation committee promotes effective and efficient meetings, and encourages involvement by all members, both within the formal meetings and informally. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Clear terms of reference There are clear terms of reference for the compensation committee that define the committee's role in relation to the board as a whole. They are available to shareholders and other interested parties and the compensation committee adheres to these. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Members with appropriate skills and experience Members of the compensation committee are individuals with an appropriate range of experience and skills including a working knowledge of remuneration structures commonly applied in similar groups and of the current corporate governance framework applicable to the group. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Ongoing briefing and knowledge update Each member of the compensation committee has committed to undertake regular personal development to update his or her skills and knowledge. *Comments/measures:*	☐	☐	☐	☐	☐	☐

Your compensation committee …	*Rating*					
Charter, roles and responsibilities	1	2	3	4	5	N/A
Structured and appropriate annual agenda A structured annual agenda exists setting out the timing of critical decisions and the processes to be undertaken to enable compensation committee members to make such decisions. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Regular, appropriately timed and well-attended meetings A sufficient number of meetings, of adequate length, are held to allow the compensation committee to fully discharge its duties. All compensation committee members are in attendance at all meetings. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Access to relevant, concise and timely information The members of the compensation committee are provided with complete but concise information sufficiently in advance of each meeting to allow them to assimilate the key issues for debate and decision-making. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Restrictions on non-member invitees to compensation committee meetings Executive board and other non-members are invited to attend compensation committee meetings to provide information or to make presentations on relevant topics but do not attend as a matter of course. No member of the executive board is present when his or her remuneration is being discussed. *Comments/measures:*	☐	☐	☐	☐	☐	☐
Assumption of responsibility for content of the published compensation report The compensation committee takes full responsibility for the content of the published compensation report and proactively drives the decisions on the disclosures contained therein. The chairman of the compensation committee attends the annual general meeting to answer questions relating to directors' and executive board members' remuneration. *Comments/measures:*	☐	☐	☐	☐	☐	☐

Personal information

Last name/first name:

Function:

Company:

Date: