

# «The Board of Directors and Internal Audit – Collaboration & Added Value: How Internal Audit Can Be Used More Effectively»

## 1 Introduction

The increase in corporate scandals<sup>1</sup> has, in recent years, brought the topic of corporate governance into greater focus for both the public and political spheres. Over the past few years, various supervisory authorities, self-regulatory organizations, industry and professional associations have issued guidelines and/or recommendations on corporate governance or have adapted these to current circumstances. For example, Economiesuisse finally approved the revised version of the Swiss Code of Best Practice for Corporate Governance on 14 November 2022. Another example is the Institute of Internal Auditors (IIA), which revised its framework and published it in January 2024. The new IIA standards came into force on 9 January 2025 after a one-year transition period and are binding for members of IIA Switzerland.

Companies, investors and authorities are concerned with the issue of responsible corporate governance, also known as sustainability or corporate social responsibility. The driving force behind this is the desire to be in harmony with one's own corporate values. Impending increases in regulations are also forcing companies to address the issue of responsible corporate governance. And finally, rising stakeholder expectations (employees, investors and others) also force companies to do the right thing.

Internal Audit (IA) is of particular importance in connection with corporate governance and its effectiveness. While the Board of Directors is responsible for monitoring the effectiveness of Internal Audit, IA can support the Board of Directors in its monitoring activities. Essential prerequisites for this are a close co-operation and coordination between these two.

## 2 Background

Within the company, Internal Audit (IA) is an overarching knowledge carrier and can be a valuable sparring partner for both the Board of Directors and the Executive Board. In its auditing function, IA always operates at all levels of the company and sees far more than just the tip of the iceberg. The associated soft factors are important aspects and can have a positive impact on corporate values, corporate culture and the development of managers. Do the various stakeholders recognize that IA offers this central function and if they do, do they use IA accordingly?

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<sup>1</sup> Sources: Die Zusammenarbeit zwischen Interner Revision und Aufsichtsrat - Institut für Mitbestimmung und Unternehmensführung (I.M.U.) in der Hans-Böckler-Stiftung ([imu-boeckler.de](http://imu-boeckler.de)); Analyse von Finews und dem Forschungsbereich Öffentlichkeit und Gesellschaft (FÖG) der Universität Zürich hat die Skandalisierung ökonomischer Akteure in den letzten Jahrzehnten zugenommen;

The constantly increasing demands and expectations placed on companies, for example regarding governance, risk management or ESG, accentuate the role and responsibilities of both the Board of Directors and the Executive Board.

In this context, defining the role and tasks of IA and embedding them in a holistic assurance concept is of central importance. IA must be aligned with the professional standards (the Global Internal Audit Standards) and consider the expectations of the Board of Directors and the Executive Board. Although IA is an independent instrument of the Board of Directors, practice shows that the Executive Board also holds sway over the importance and reputation of IA, the company's self-image and can enable IA to successfully perform its mandate.

Although these differ from company to company, IA is often confronted with the real-life scenarios described below and many more:

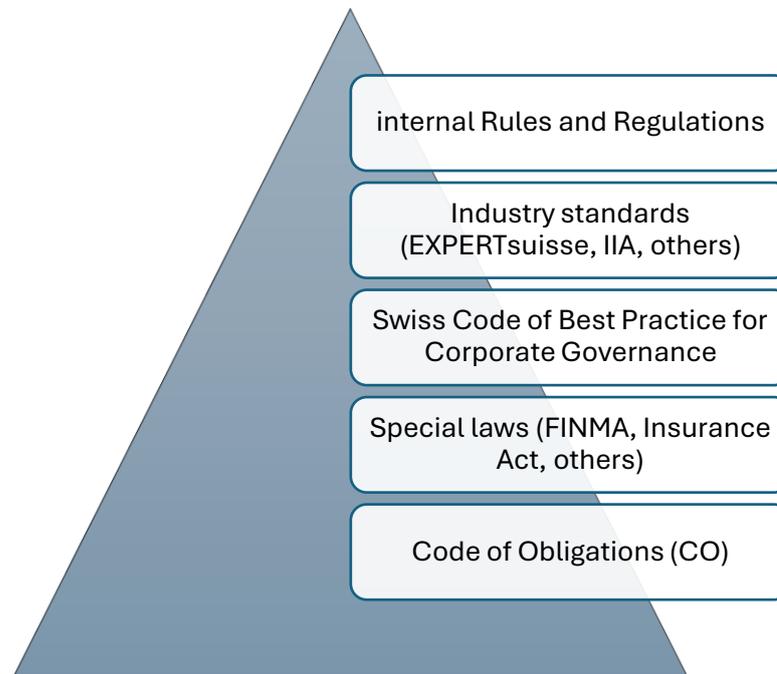
- IA's tenets have been circumscribed clearly in the Internal Audit Charter and approved by the Board. However, the Board of Directors has restricted the relevant mandates regarding value preservation, risk and profits. Simultaneously, IA does not insist on its mandates sufficiently.
- The lack of an assurance concept and an assurance map can lead to monitoring gaps, as well as to overlaps between 2nd line and 3rd line functions.
- Because the IA function is perceived as intrusive and unpleasant (and therefore not 'everybody's darling' at C-level), the Board of Directors therefore assigns it hygiene or housekeeping tasks, such as compliance with internal and external regulations (so-called compliance audits).
- There is an expectation gap between the recipients (e.g. Board of Directors, Executive Board) and the sender (IA) when it comes to IA reports and key messages. Especially if the reports are critical, the discussions usually do not sufficiently demonstrate a need for action regarding measures to be taken.
- Despite its strategic value, IA is often left out of important decisions. Even if IA formally receives all of the necessary minutes and information, the organisation often lacks the awareness to invite IA to important steering committees as a critical and constructive guest.

Even if they are documented in an Audit Charter, the role and tasks are often not properly understood by stakeholders and therefore are not consistently integrated into a holistic assurance concept. As a result, they are not adequately communicated or enforced at all levels of the organisation.

### **3 Duties and Responsibilities of the Board of Directors**

The duties and responsibilities of the Board of Directors are defined in various laws, regulatory requirements and standards. The professional standards for IA further highlight the importance of involving the Board of Directors in the main considerations regarding the organisation of IA. In Europe, we also observe an increasing tendency for Boards of Directors to be held accountable.

## Pyramid of laws and regulations



(Source: compiled by the working group)

Art. 716a para. 1 CO lists the Board of Directors' duties that may not be transferred to other bodies or third parties or 're-delegated' to the General Meeting in order to preserve the basic concept of the public limited company. Concerning non-transferability, the list contained in Art. 716a para. 1 CO is to be regarded as exhaustive.<sup>2</sup>

As a rule, tasks not stated in Art. 716a para. 1 CO may be delegated. As the duties of the Board of Directors are extremely varied in nature, there is a wide scope for delegation despite the generic wording of Art. 716a para. 1 CO<sup>3</sup>. However, the responsibility [for these tasks] remains with the Board of Directors.

While the Executive Board is responsible for implementing the corporate strategy, the Board of Directors monitors it. Regardless to what degree the Chairman of the Board of Directors or members of the Board and the CEO align, the Board of Directors must be able to obtain the necessary information via the internal audit department it has appointed. Furthermore, the Board of Directors' independent monitoring role is supported by an IA function, which also provides assurance that the company's interests and strategy are being implemented. Ideally, IA's mandate is defined in specific IA regulations, which are

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<sup>2</sup> Der Verwaltungsrat, Müller | Lipp | Plüss unter Kapitel 3.1.2 Unübertragbare Pflichten

<sup>3</sup> Der Verwaltungsrat, Müller | Lipp | Plüss unter Kapitel 3.1.3 Übertragbare Pflichten

regularly aligned to the strategy of the IA and that of the company by the Board of Directors or the Audit Committee.

#### **4 Forward-looking Internal Audit**

In a business environment characterized by constant change, innovation, and technological progress - as well as increasing demands and responsibilities placed on Boards - the establishment of a forward-looking Internal Audit (IA) function is essential. In this context, the standards also indicate the direction in which IA is headed. It is up to the supervisory body – i. e., the Board of Directors - to determine whether and to what extent IA should comply with these standards and to define this in IA's internal regulations. To assess the contribution and value added of a forward-looking IA, the following elements are relevant and could be defined in these regulations:

- **Continuous alignment with the evolving needs and challenges of an organization**

IA is required to continuously, promptly and proactively deal with changes within the company and to understand the organisation and its activities. To deal with the applicable regulations, processes and decisions, it must have in-depth knowledge of the company and its environment. As a forward-looking IA, its task is to weigh up the opportunities and risks of decisions made by the Board of Directors and Executive Board and, if necessary, to highlight them. When doing so, Internal Audit should also incorporate quantitative and qualitative factors into the presentation to better recognise their impact and added value.

- **Close communication and interaction with the Board, a strong network and high visibility within the organization**

Effective and constructive cooperation requires the close involvement of various parties (Board of Directors, Executive Board, other internal and external assurance functions) in the planning and monitoring of audit activities. A regular dialogue between IA and the Board of Directors also makes it possible to actively address important issues and risks arising from the company's business environment and market developments. Furthermore, individual points of view and concerns can be discussed at regular one-on-one meetings with members of the Board (Chairman of the Board, the Head of the Audit Committee) and the Executive Board. A forward-looking IA function should not be perceived as a purely tick-the-box exercise, but rather as a valuable support for the Board of Directors that can assess and prepare the information it requires from a neutral perspective.

In addition to their formal meetings, IA should regularly meet with various members of the Board of Directors and the Executive Board for a personal exchange (the frequency depends on the respective function of the persons, size, structure and complexity of the company, etc.).

- **Proactive behaviour with a forward-looking mindset**

IA can play an important role in shaping and promoting a company's corporate culture. On the one hand, this is supported by a proactive approach in defining audit topics, taking into account possible future developments and the needs of various stakeholder groups. On the other hand, a forward-looking view on the part of IA combined with an agile, rolling audit planning helps the Board of Directors and the Executive Board to deal with emerging issues and risks in a timely manner, allowing it to address them early on if necessary. IA also breaks down existing silos, precisely because it operates holistically within the company.

- **Resources**

The Board of Directors must define the resources (specialist staff, skills, competencies, tools, etc.) required to fulfil IA's mandate. Ideally, the required resources are outlined by the Head of IA during the (multi-year or annual) audit planning meeting. If necessary, the procedure is agreed upon.

Depending on the size of the IA function, frameworks are essential for a holistic coordination of the audit focus that align with the corporate strategy, risk management and other assurance functions. Besides that, the Board of Directors should also dispose of an awareness that the IA function must be equipped with adequate competences and resources and that it should have the option to call in external resources if necessary.

Except for some country-specific and/or regulatory requirements, there are no minimum requirements regarding the size and organisation of an IA function. The IIA regularly draws up a benchmarking for various industries as a resource guideline. It is up to the Board of Directors to decide on the number of IA resources and, associated with this, what level of assurance it can expect. Ideally, expectations should align with the assurance concept.

It is also important to define IA's mandate in terms of auditing and advisory activities, in particular, the extent to which the latter is desired by the Board of Directors and the Executive Board. In this context, the description of the role of IA in the audit charter is of central importance.

Finally, it is recommended that the Board of Directors have the effectiveness of its IA and its conformance with the standards reviewed by an external quality reviewer. The standard requires that such a review be carried out at least every 5 years.

- **Supporting a company-wide assurance concept**

Among the key areas that IA should take into account as part of its (audit) activities are strategy, risk management, compliance and internal control frameworks. It knows how to assess their

effectiveness and efficiency and to recognise and highlight potential for improvement in a targeted manner.

By implementing a company-wide assurance concept, IA supports the Board of Directors in its overarching monitoring function. Due to its position within the company, IA is ideally suited to play a leading or at least active role in co-operation with the other assurance functions (such as risk management, compliance, legal, quality management, etc.) in the company, offering added value such as:

- Efficient and effective risk coverage within the organisation;
- Active management of risk management activities and action plans;
- Transparency and coordination between the various assurance functions;
- Reporting to the Board of Directors and the Executive Board in a way that is appropriate for the recipient in the most standardised way possible.

- **Perception as an independent Business Partner / Trusted Advisor**

As IA, we operate at all levels and in all areas of the company. Forward-looking IA is not only perceived as an audit function, but also as a business partner or trusted advisor and often also as a change agent. With its recommendations and independent assessments, IA adds value by highlighting potential for improvement as part of its auditing activities on the one hand and pointing out structural and/or recurring weaknesses from a holistic perspective on the other.

Thanks to its comprehensive expertise and holistic overview of the company, IA is predestined to support or mediate steering committees as a technical expert and/or bridge builder, drawing the attention of those responsible to risks and associated control issues at an early stage. In doing so, IA is deliberately limited to providing information of a procedural, legal and regulatory nature, and does not intervene operationally. The decision-making authority remains with the responsible parties in the company.

## **5 Recommendations / Insights**

The role of a forward-looking IA is to strengthen and support the company in such a way that enables the creation, protection, and preservation of value. This is achieved through proactive and risk-focused action. It also means that in its mandate, IA should consider public interests—such as social, economic, and political components—and current developments when defining its objectives and planning audit activities. However, these objectives can only be achieved through close collaboration and mutual understanding between the Board and IA. The new standards also emphasize the importance of IA's goals and oversight (Standard 12.2: Performance Measurement). As outlined in the background section, both the Board of Directors and the Executive Board significantly promote the importance, reputation, and success of IA in fulfilling its mission.

The following insights are drawn from real-world IA experience. They offer Board members and IA functions possible areas for development toward a forward-looking IA deployment:

- **Continuous alignment with the evolving needs and challenges of an organization**

Increasingly, IA functions are supplementing the traditional audit topics, which are audited with a backward-looking perspective, with complex, newly emerging topics, incorporating them into the audit planning, so the Board of Directors can prioritise these. The IA function identifies topics on an ongoing basis, evaluating them in consideration of the corporate strategy and objectives as well as risk management measures. These may be topics for which a legal basis exists or is being developed, or (technological) developments that will become established in the near future (ESG, artificial intelligence, quantum computing, distributed ledger technology (DLT), etc.). As a rule, IA does not cover these topics with a traditional audit approach; instead, it mostly uses gap analyses or agile audit methods.

Because it continuously and holistically examines the company, its environment, risks and opportunities, IA should review its annual plan, reprioritise its requirements and coordinate these with the Board of Directors every so often. Internal stakeholders must be actively involved in this process so that their views can also be incorporated into the deliberations.

- **Close communication and interaction with the Board, a strong network and high visibility within the organization**

The formal reporting to the Board of Directors is well established in practice. But where there is a need for improvement is in the discussion of risk analyses, (annual / multi-year) audit plans for the next audit period and the willingness to break with familiar planning patterns in order to better address upcoming risks, as well as to assess the maturity of second line functions in view of the assurance concept. Specifically, this involves an in-depth dialogue between the Board of Directors and IA regarding the extent to which the overall assurance concept correlates with the planned audits and significant (current) risks.

A regular bilateral exchange with various members of the Board of Directors, the Executive Board and other managers in the company promotes trust and the perception that the IA function acts proactively, helping the Head of IA react promptly to changing risk situations, new topics, etc. as part of the rolling audit planning.

- **Proactive behaviour with a forward-looking mindset**

IA continuously monitors industry and economic developments with the aim of identifying trends or megatrends at an early stage, assessing their potential impact on the company. Like this risks



or potential opportunities may be recognised and their impact on the strategic direction of the company can be assessed.

IA uses a system to recognise early warning indicators as part of its risk assessment for the company or the audited unit. The resulting findings are used by the Board of Directors to counteract the corresponding risks at an early stage with targeted measures. Early warning indicators can be determined by analysing key figures, the effectiveness of business processes, employee and customer feedback (including whistleblowing) and relevant internal and external data sources. Scenario analyses are also part of an early warning system. Conducting or reviewing scenario analyses helps the Board of Directors to better prepare the company for future developments and, if necessary, to take proactive measures.

- **Resources**

Resource allocation should primarily reflect the company's strategic orientation and business complexity. The Board should consider the type of assurance and/or advisory support it needs to fulfil its role as the governing and supervisory body of a company or group. The staffing and competencies of IA should then be determined based on the Board's expectations and the mandate defined in the Internal Audit Charter.

- **Assurance concept (2nd / 3rd line functions) and key guidelines**

Whether IA is important or not may depend on your perspective. Nonetheless, when implementing IA, the overarching interaction within the organisation and its holistic assurance concept must be considered. The latter could not only show the Board of Directors who monitors which risks, but also where gaps or duplications exist. The efficient use of resources means a coordinated planning of the various assurance functions (e.g. compliance, risk management, IT security, IA, etc.), which can make a significant contribution to the company's success.

- **Perception as a Business Partner / Trusted Advisor**

A forward-looking IA has a broad network within the organisation and is therefore predestined to interact as a business partner and trusted advisor.

Thanks to its in-depth and broad engagement with the company, IA should be actively invited by the Executive Board and specialist departments to act as a sparring partner on steering committees or asked to address new and current issues to contribute a holistic view, identify interfaces and build bridges on an ad hoc basis.

The new standards also give the objectives of IA and their monitoring greater importance (Standard 12.2 Performance measurement). The Head of IA must develop objectives in order to assess the performance of IA. When developing performance targets, audit management must consider the

contributions and expectations of management and the Board. When assessing the performance of the IA, the Head of IA must obtain feedback from the Executive Board and the Board.

## **6 Conclusion**

Close cooperation between the Board of Directors and Internal Audit is an important prerequisite for a well-functioning corporate governance and thus for the long-term and successful going-concern of the company. Both contribute to the success of the company through their joint monitoring activities. While the Board of Directors defines, among other things, the strategic objectives and the framework conditions for business activities, a forward-looking IA supports the Board of Directors in its monitoring activities. For example, it does this by driving and orchestrating an overarching assurance concept and based on a risk and assurance map, pointing out gaps and helping to identify opportunities and new issues early on. It analyses these from a neutral point of view, incorporating the resulting insights into its reports.

This white paper was prepared and aligned by the IIA Switzerland working group of Professional Services Firms. The co-authors Gabriela Federer Wenger, Alessandro Gabriele, Stephan Heinimann and Michael Schneebeli have gathered the opinions of other individuals and Chief Audit Executives and incorporated them in certain areas.

The white paper aims to inform Boards of Directors about the importance of collaboration from the Internal Audit perspective. It highlights that targeted collaboration and clear alignment of expectations can add value and that regular, open dialogue is essential for success.