

Audit of the risk and compliance management

BGRB Holding SA, RUAG MRO Holding SA,
RUAG International Holding SA

Key facts

At the beginning of 2020, RUAG was split into two entities which are owned by the Confederation through a holding company (BGRB Holding AG). RUAG MRO Holding AG (estimated turnover: CHF 660 million) is primarily intended to provide services to the Swiss Armed Forces. RUAG International Holding AG (estimated turnover: CHF 1.23 billion) has taken over the aerospace business and should eventually be privatised in the long term.

In its audit, the Swiss Federal Audit Office (SFAO) found that, contrary to what RUAG had told the Federal Council in December 2018, the group did not have comprehensive risk management before being split. Between 2016 and the end of 2019, no consolidated risk report was presented to the Board of Directors.

Things have since changed. The new entities have each developed a risk management concept and are beginning to implement them. RUAG International has already established a solid normative basis. However, the implementation stages have not yet been fully completed, either in terms of content or granularity. RUAG MRO, which has had to create a management structure to oversee its business units as a spin-off, is not yet on the same level as its sister company in terms of directives, but its detailed and coordinated action plan is convincing. Compliance management is also being implemented in both entities.

The Boards of Directors should set guidelines

The SFAO recommends that both companies strengthen risk management from an operational and, above all, bottom-up perspective. It also recommends that they integrate risk management as a management instrument and thus allow for strategically appropriate integration in the sense of comprehensive enterprise risk management. Finally, both companies should establish a risk overview.

The involvement of the governing bodies is essential. In order to be able to fulfil its control and strategic function, the SFAO recommends that the two Boards of Directors regularly discuss the organisation of risk management in order to define their information needs and establish clear requirements for risk management. These elements, which are very important in a start-up phase, have not been sufficiently taken into account up to now.

In their respective concepts, RUAG MRO and RUAG International both address the topic of risk appetite, tolerance and capacity. There is still no specification in terms of a value or an order of magnitude for the companies' risk tolerance. Once this has been defined, the risk assessment method will have to be adapted accordingly.

Improvements recommended in terms of organisation and processes

To date, RUAG MRO and RUAG International have 2 and 1.9 FTEs, respectively, for central risk management. Although the central organisation is supplemented by a network of risk managers in the units, this ratio seems surprising in view of the fact that the two entities

differ fundamentally in terms of size, business model and international activities. It is too early to make a definitive statement on resource adequacy. In both companies, the framework conditions must be strengthened to guarantee the independence of those involved in the risk management system.

The identification of risks in both entities must take place at all organisational levels. RUAG International is in the process of appointing a committee to consolidate the identified risks and report them to management and the Board of Directors. For its part, RUAG MRO reports a fixed number of main risks from the units and centres. As yet, there are no detailed specifications on how the identification of risks is to be carried out in a harmonised manner. In addition, strategic risks are to be added for both entities.

Risk management is performed at project level. However, this needs to be formalised more at RUAG International. Furthermore, both companies must clearly define the link between this project-level management and central risk management.

One of the SFAO's case studies examined the risks associated with the roof of Halle 3, a hangar in Emmen belonging to RUAG MRO, where the maintenance of the Swiss Armed Forces' F/A-18s is carried out. In the SFAO's view, the risk of the roof collapsing, which was identified in 2019, has not been adequately managed. The SFAO recommends that RUAG MRO immediately carry out a more detailed analysis of the roof structure and, if necessary, adapt the measures taken or introduce new ones.

Compliance management still not fully established

In addition to risk management, the SFAO's audit focused on compliance management. RUAG MRO issued comprehensive directives on this subject shortly before the audit was completed. It is therefore too early to verify implementation. RUAG International also has comprehensive directives, as well as specific directives on the alignment of key initiatives, processes and documents. Work has started on putting the system in place. However, a concept governing the integration of subsidiaries is lacking.

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