

Audit of compliance management systems RUAG

Key facts

In May and June 2016, the Swiss Federal Audit Office (SFAO) audited RUAG's compliance management system (CMS). The audit centred on the questions of whether the system is the right one to ensure conformity with requirements in the corporation and whether it is effective with regard to combating corruption. The focus was on the interests from the point of view of the owner, i.e. the Confederation. The overall conclusion reached by the SFAO is that the risk for the Confederation resulting from possible cases of corruption and violations of international regulations must be reduced.

CMS on the right path, but needs a higher degree of maturity

RUAG has made progress over the past three years in establishing the CMS. The organisation of compliance has been improved considerably with the hiring of a compliance officer (CO) and the establishment of a compliance board (CB). Overall, the CMS should become a stronger management tool of the board of directors and the Audit Committee (AC), a status it currently does not enjoy. The present culture is therefore still capable of development. RUAG recognises that employees' awareness with regard to compliance can be increased only through a clear commitment from management and permanent training. In view of the corporation's size and international orientation, the compliance function must be developed further. The aim must be to integrate the matter into decentralised units and processes so that compliance is widely practised.

The SFAO also found that the CB, which is comprised of RUAG senior managers, is not able to fully perform the tasks assigned to it. The approval of agency contracts, which involve high risks of corruption, are delegated to the CO. This leads to a critical accumulation of functions. The compliance function should generally not be integrated into operations as this would compromise its supervisory task. Furthermore, the CO pursues a revenue-related bonus scheme, which results in a potential conflict of interests. The SFAO therefore suggests making line and senior management more responsible and integrating compliance checks into internal control systems too.

RUAG has a code of conduct that is a key management tool of the board of directors and covers fundamental matters. Training on this code was provided last year for the first time via e-learning. The efforts in this area to sustainably strengthen the compliance culture for selected employees will continue. There is already a whistle-blower hotline, but the number of reports is still low. It is advisable to make the hotline more widely known through appropriate communication. Lastly, there is a need for action with regard to the body of directives, which should be further completed and developed. A project for this purpose was already initiated prior to the audit.

Compliance and reputational risks identified, but not reduced enough

As part of the corporation-wide risk management, compliance risks have been fully identified. Apart from some measures in the evaluation of critical agency business, however, these risks are still being given too little consideration. The SFAO believes that the risk resulting from corruption is considerable for RUAG. The same applies for possible circumvention of Swiss export restrictions. In the past, these risks were not always carefully reduced enough abroad and in the case of acquisitions.



In addition, the processes of new companies were integrated into the corporation late or not at all in two cases examined. This gives rise to the risk that Swiss requirements, e.g. in terms of export restrictions, become known at a late stage or not at all and that the corporation exercises a relatively small amount of control. At one of the locations abroad visited by the SFAO, no adequate precautions were taken in order to curb the considerable risk of corruption there. Furthermore, RUAG has very little influence in the case of a significant minority holding to ensure that the corresponding directives are applied to the RUAG standards.

Other business partners and important suppliers and clients should always be checked systematically for risks nowadays. RUAG has already committed to this, but its implementation has not yet been adequately tackled. The same applies for employees, particularly those in sensitive positions, whose reputation should be systematically checked as part of the recruitment process.

RUAG questioned whether there is adequate legal basis for this audit in its statement. The SFAO maintains that

- in accordance Article 8 letter e of the Federal Audit Office Act (FAOA), companies in which the Confederation has a holding of over 50% of the share capital are subject to financial supervision by the SFAO,
- RUAG is not included in the exceptions listed under Article 19 of the FAOA, and
- there are no special rules for RUAG in the sense of an "explicit statutory provision" as set out in Article 19 paragraph 2 of the FAOA.

Original text in German