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# **The Board and the Audit Function - Closing the Gap**

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# The Board and the Audit Function – Closing the Gap

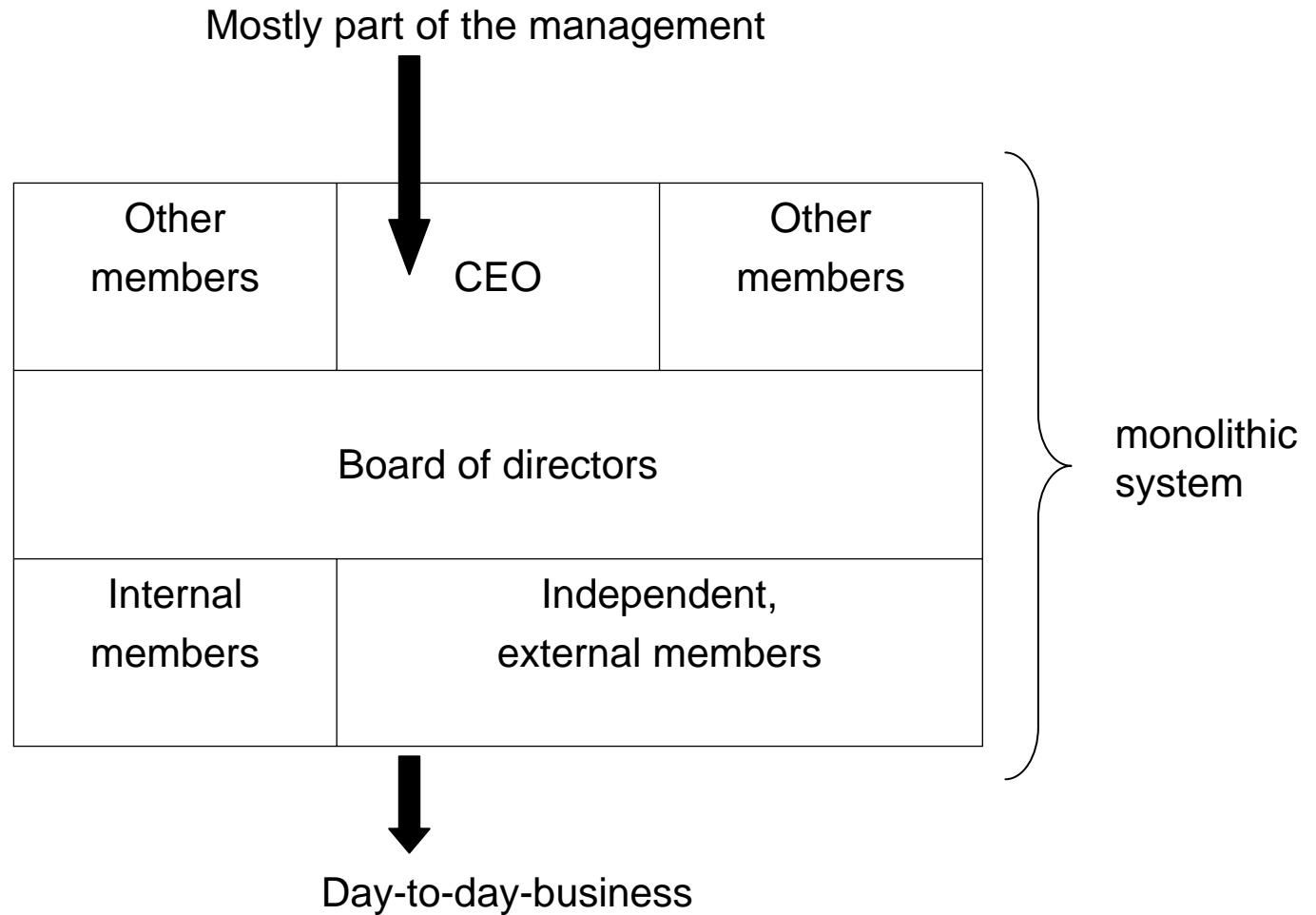
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# 1. Introduction

## Corporate Governance

Basic rules that strengthen the supervision and day-to-day-management of a company.

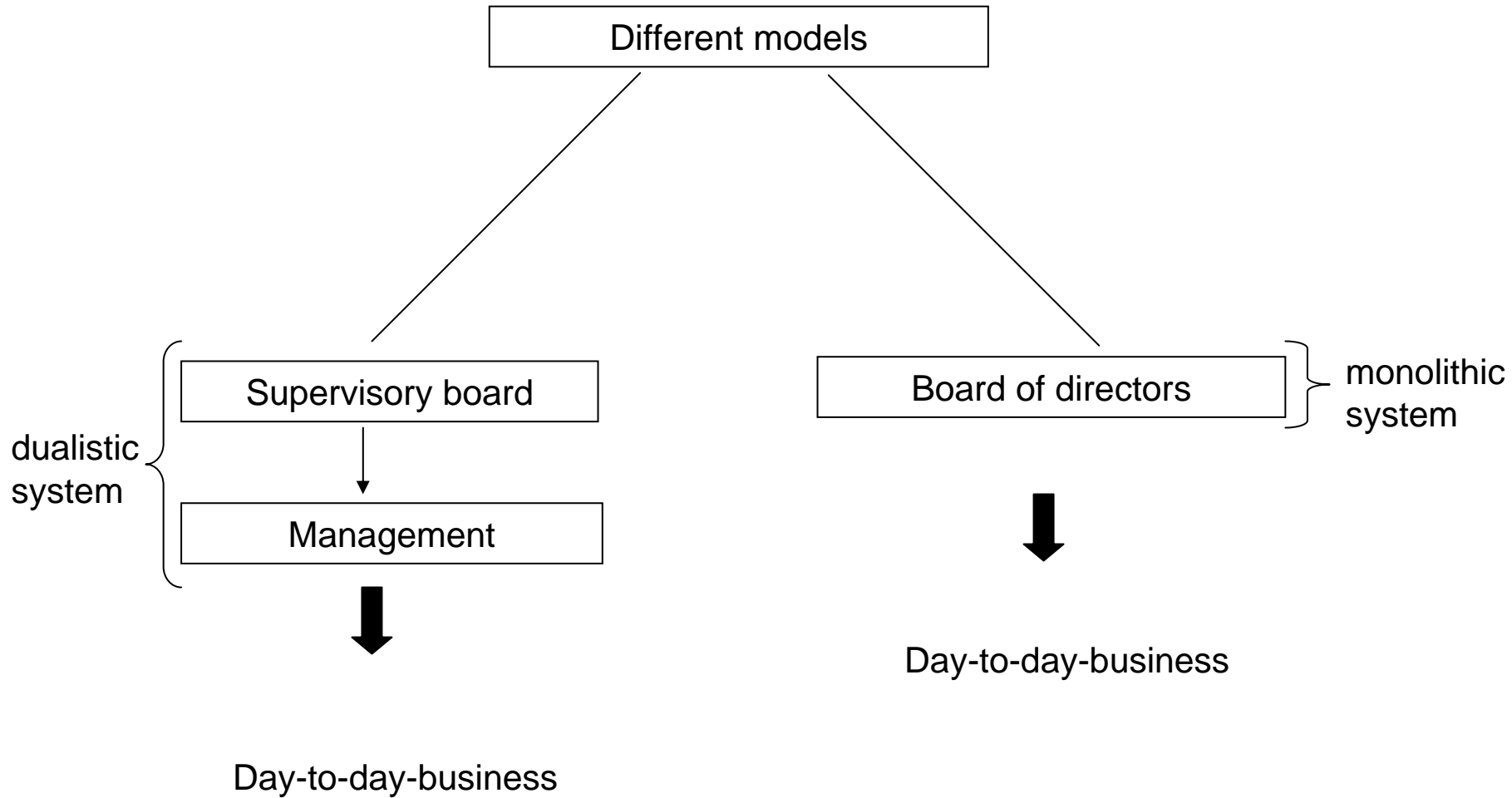
## 2.1 US- Board- System



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- No staff members in the board of directors
- Meetings often 6 times per year
- Guidelines foreseen by the NYSE:
  - Audit committee ⇒ supervision of internal accounting and external auditors
  - Compensation committee ⇒ responsible for top management salaries
  - Nomination committee ⇒ responsible for selecting board members
  - Other
- Well-balanced information structure within the board of directors

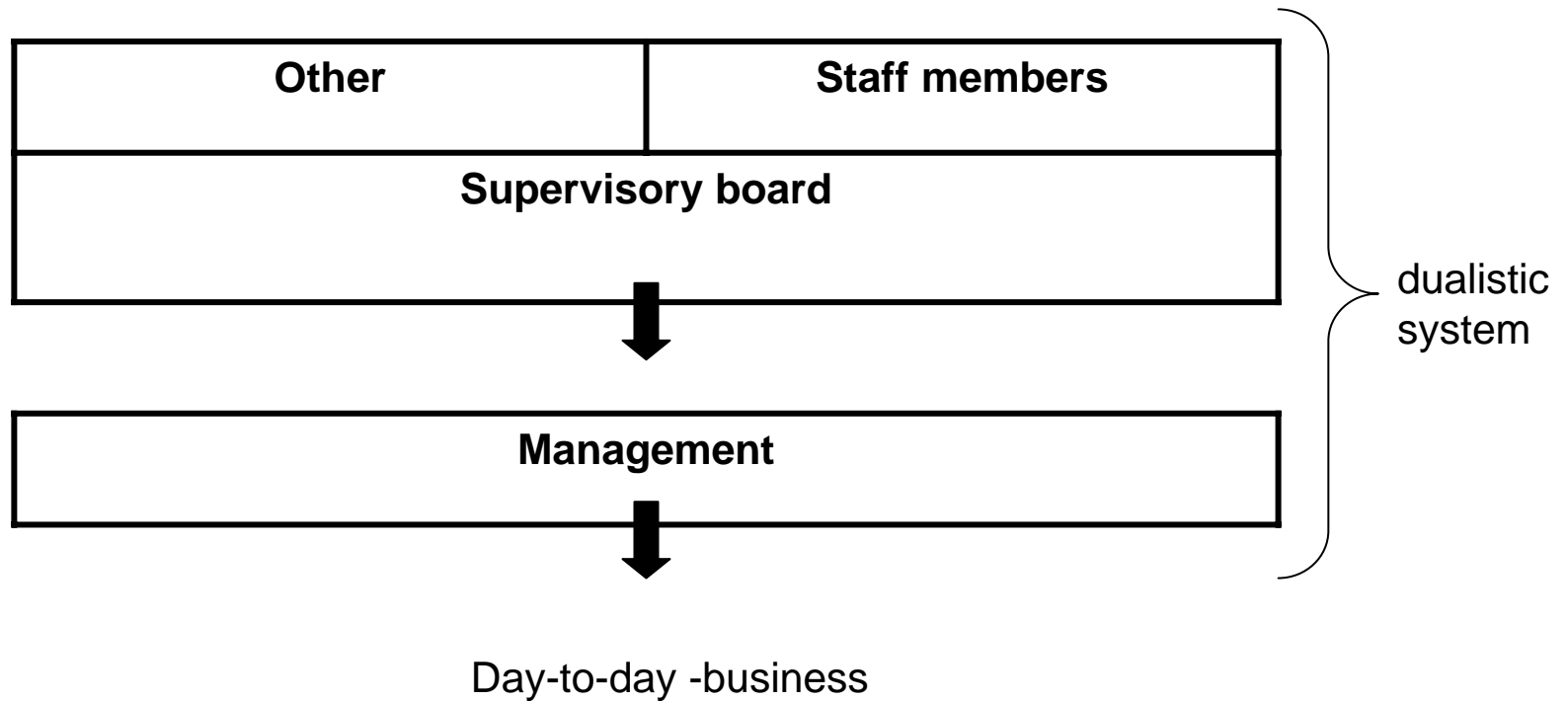
## 2.2 Societas Europea (SE)



## 2.2 Societas Europea (SE)

- Possible legal form since 8. October 2004
- Different causes for this legal form, i.e. fusion, Holding SE for European subsidiaries and other
- Annual accounts could be set up and established by the board of directors
- No regulations concerning audit; governed by national rules

## 2.3 German Aktiengesellschaft

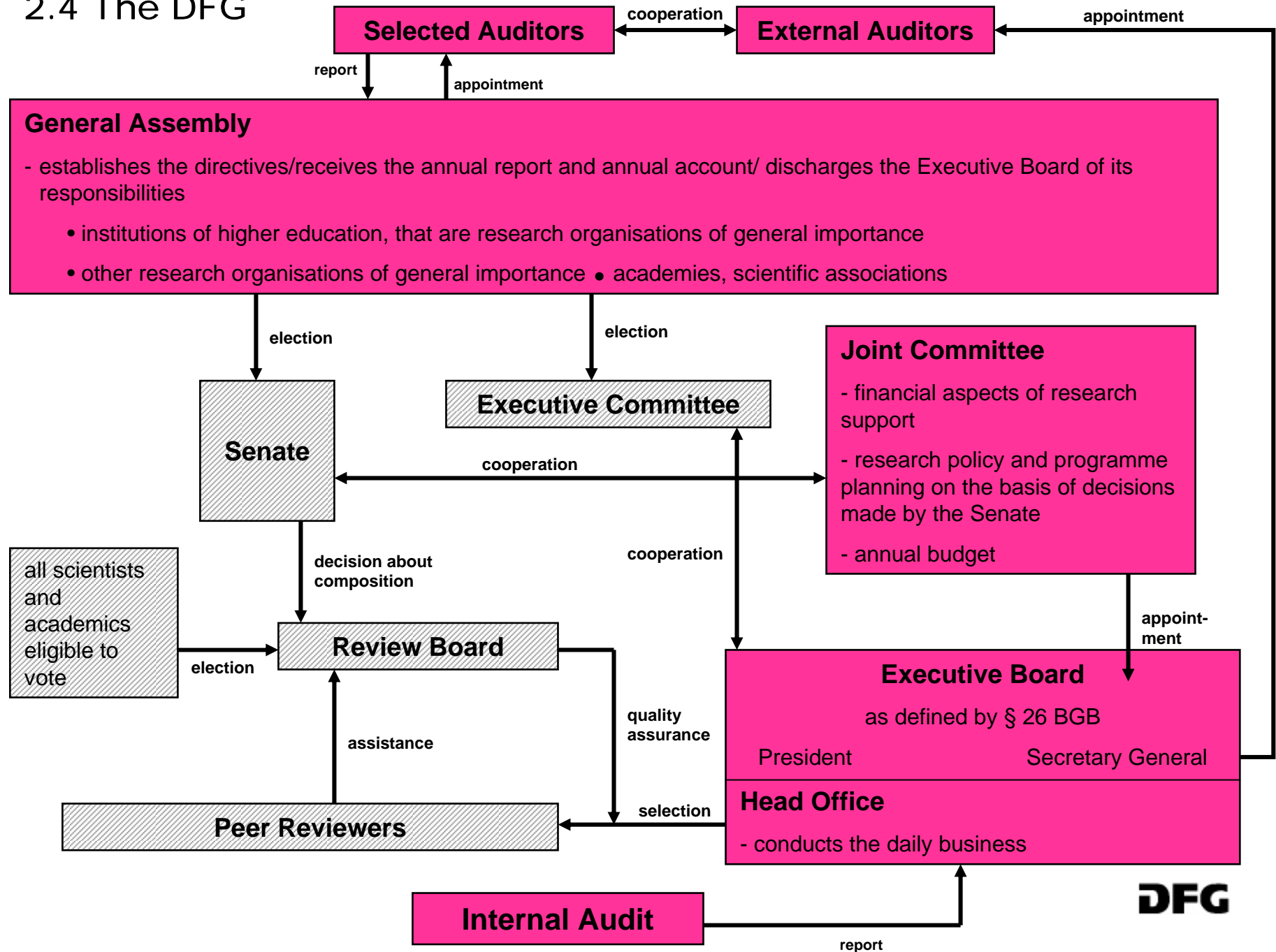




## 2.3 German Aktiengesellschaft

- No identity between CEO and head of supervisory board
- Meeting of supervisory board at least 1-2 times per year
- Large companies: participation of staff members in the supervisory board
- Problem: often lack of information in the supervisory board
- Different types of integration of the internal audit
  - Internal audit assigned to management
  - Internal audit assigned to supervisory board
- No regulations concerning audit committee

## 2.4 The DFG



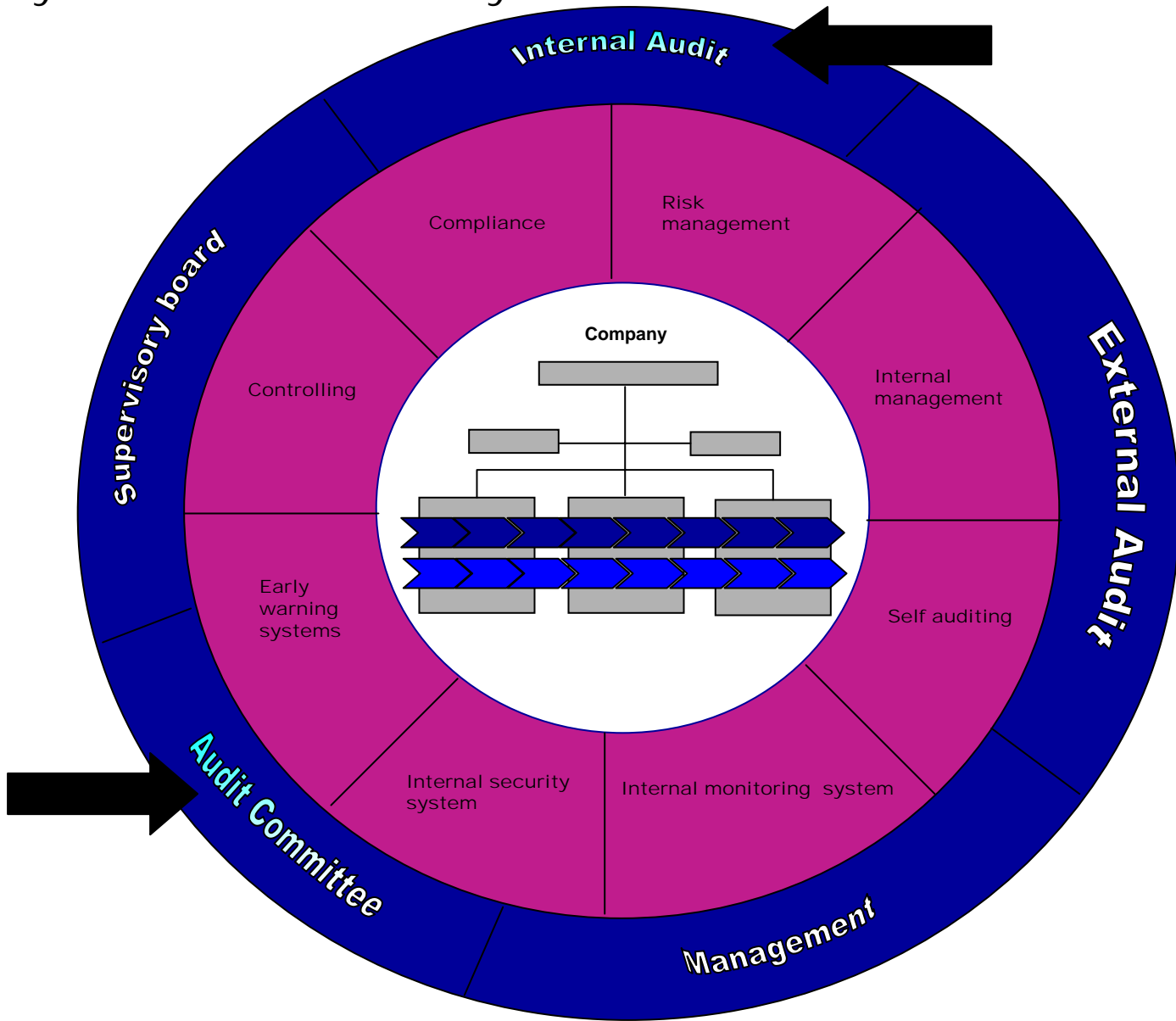
## 2.4 The DFG

- No supervisory board
- Joint Committee is responsible for financial aspects of research support and the annual budget
- No audit committee; external auditors, who
  - check the internal audit
  - verify the final accounts with respect to the discharge of the Executive Board by the General Assembly
- Selected auditors; they report to the General Assembly
- Internal auditing section, reports to the Executive Board
- “multidimensional system“

## Conclusion

- Information structure in a monolithic system is more transparent than in a dualistic or “multidimensional system“
- In the context of corporate governance partly less transparent information structure

# The System of Surveillancy

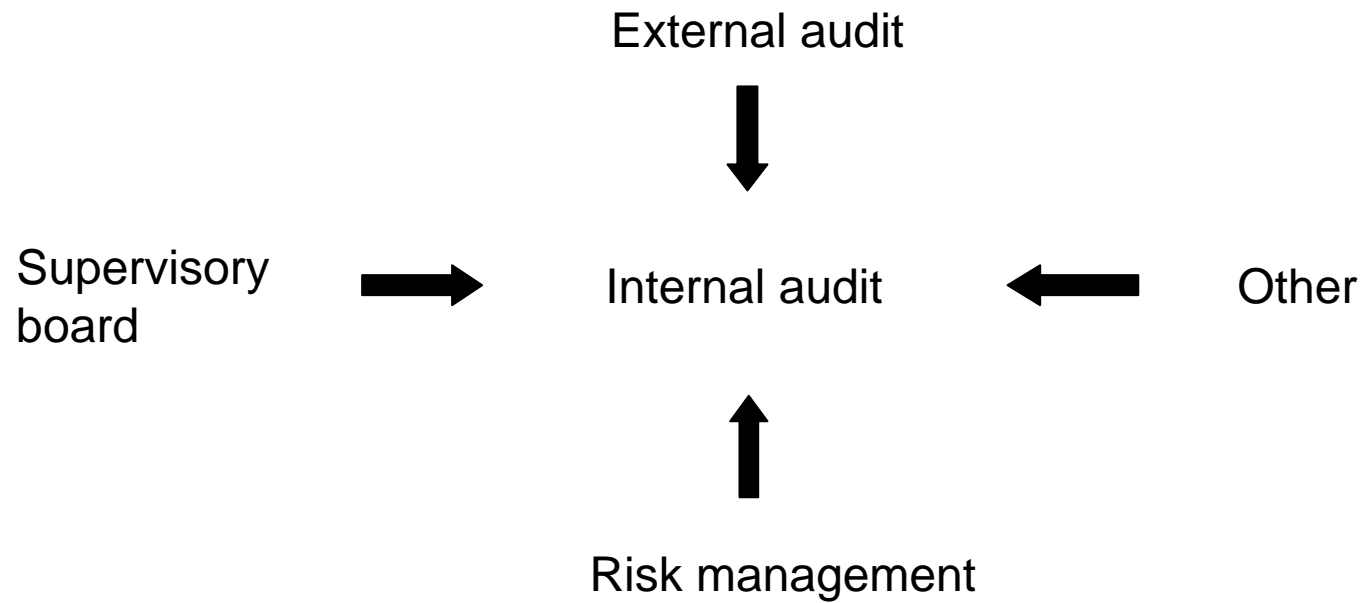


### 3. Internal Audit and Audit Committee – Closing the Gap

#### Definition of Audit Committee:

An Audit Committee is a management circle, that allows substantial decisions and discussions with the participation of management, internal audit and external audit.

# Internal Audit and Its Competitive Threat



## Thesis:

- Regarding changes in the environment, one should note that internal audit can't give all necessary information for the management and supervisory board.
- Well organized audit committees could disburden the supervisory board.
- Internal audit should keep in mind that it plays a central role in this function.



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