

# Audit Committees Monitor Control Functions, Risk Committees Provide Oversight of a Strategic Function

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There has been much discussion in boardrooms of late about the subject of risk management. No doubt these discussions have been prompted by SEC Rule 33-9089 and the recently passed Dodd-Frank legislation. From a purely risk management perspective, the new SEC requirement for disclosure about the board's role in risk oversight, which is applicable to all publicly traded companies, and the Dodd-Frank requirement mandating a new board level Risk Committee, which is applicable to a relatively few companies, might not seem to be related.

However, when considered together they have the potential to produce a new model for risk management governance. We will briefly explore the primary function of the audit committee, which is to monitor the control functions vs. the risk committee which is to provide oversight of a strategic function.

To test this hypothesis, corporate websites were searched to determine how many Fortune 100 companies had posted both Audit and Risk Committee charters. All 100 companies have an Audit Committee Charters, but only twelve also have a separate Risk Committee Charter posted on-line. Other companies may have a board-level risk committee charter, but it was not posted on-line. In comparing the audit committee charters with the risk committee charters of the twelve publicly traded companies, we noted distinct differences in the charters' purpose, duties, and responsibilities. As an example, we compared the Audit Committee charter and the Finance and Risk Policy Committee charter of General Motors (GM) and noted the key differences.

## **Audit vs. and Finance and Risk Policy Committee Charters at GM**

"The purpose of the Audit Committee is to assist the GM Board of Directors in its oversight of the integrity of GM's financial statements, GM's compliance with legal and regulatory requirements, the qualifications and independence of the external auditors and the performance of GM's internal audit staff and external auditors."

The Finance and Risk Policy Committee's mandate complements the Audit Committee, but is different. "The purpose of the Finance and Risk Policy Committee (the "Committee") of the Board of Directors (the "Board") of General Motors Company ("GM" or the "Company") in its oversight of the Company's: (1) financial policies, strategies and capital structure and make such reports and recommendations to the Board as it deems advisable; and (2) risk management strategies and policies, including overseeing management of market, credit liquidity and funding risks ("risks")."

## **Risk Management of each Committee**

Among the Audit Committee's responsibilities in the area of risk management include:

- "Review management's assessment of legal and regulatory risks identified in GM's compliance programs."
- "Discuss policies regarding risk assessment and risk management. Such discussions should include GM's major financial and accounting risk exposure and action taken to mitigate these risks."

Among the Finance and Risk Policy Committee's responsibilities in the area of risk management:

- "Review with management the Company's risk appetite and risk tolerance, the ways in which risk is measured on an aggregate, company-wide basis, and the setting of aggregate and individual risk limits (quantitative and qualitative, as appropriate) and the actions taken if those limits are exceeded;
- Review with management the categories of risk the Company faces, including any risk concentrations and risk interrelationships, as well as the likelihood of occurrence and the potential impact of those risks and mitigating measures."

There are a variety of approaches that a Board can take to administer its risk oversight responsibilities. In some cases, the audit committee is the mechanism through which that oversight responsibility is being handled. As more

companies form Risk Committees, the responsibility for risk oversight will undoubtedly shift from the audit committee or other committees. Each board committee has distinct responsibilities. While there is clearly some overlap in committee roles, the control and verification function of an Audit Committee differs greatly from the role of a properly formed Risk Committee which brings a strategic perspective to the discussion of risk.

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