



2015



Activity Report 2015

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Foreword

2015 marked the final year of the strategy period 2012–2015. The goals set for this period were realised to the greatest extent possible. The FAOA is recognised as a prominent player by all stakeholders with an interest in audit. Where it has met significant deficiencies in its oversight activities it has ensured their elimination. In severe cases of misconduct appropriate sanctions have been imposed.

In the reporting year the board of directors of the FAOA defined new strategic goals for the four-year period 2016–2019 and these were approved by the Federal Council in December 2015. In individual areas the existing strategy was amended. The FAOA is thus, newly expected to promote the concentration of all audit licensing and special licensing under itself to simplify contact between the applicants¹ and the Federal Administration. In addition, the public should receive more information over enforcement proceedings. The FAOA will report annually to the Federal Council on the realisation of the ten strategic goals.

State-regulated audit firms

The market for the audit firms permitted to audit public interest entities (PIE) is characterised by stagnant or even falling fees. In most cases audit firms counter this situation with efficiency programmes (e.g. outsourcing of work). In this environment the FAOA will continue to be called upon to ensure that statutory audit services are of appropriate quality. The primary oversight instrument for this is a risk-orientated sample-based inspection. On the part of the audited company, a professional and competent audit committee is an additional important factor to ensure audit quality. The FAOA took several initiatives to strengthen the positive influence of the audit committee on audit quality. Alongside preparing a guide and intensifying contact with PIE audit committees, it adopted an amendment to Circular No. 1/2009. The requirement on auditors to provide broader infor-

mation to the board of the audited entity will further strengthen the audit committee.

Since 1 January 2015 the FAOA has been the exclusive point of contact as regards to the licensing and oversight of individuals and legal entities auditing under financial markets law. The amendments to the Audit Oversight Act and the Audit Oversight Ordinance associated with the bundling submission, have led to the elimination of duplication and to efficiency gains for regulatory audit firms. In addition, the pooling of staff and expertise will lead to further professionalism of audit oversight in the future.

The second pillar fulfils an important role in the social security system. The approximately 1,800 Swiss pension funds disclosed total assets of over CHF 700 billion as at the end of 2014. The high level of public interest in the pension fund area is indisputable. The same is true of the fact that funds face major challenges as a result of long-term low interest rates and the related investment crisis. For this reason the FAOA believes it is appropriate for the auditors of pensions funds to be subject to state oversight. Alongside special licensing based on basic licensing, the risk-based oversight of the auditors of larger pension funds would be an important step towards greater second pillar protection. The FAOA will promote this strategic direction and seek discussions with the various second pillar stakeholders.

Limited audit

In the reporting year the FAOA campaigned for a uniform standard for the limited audit. The agreement of the two professional associations, EXPERTsuisse and TreuhandSuisse, to the revised standard, as published on 14 October 2015, is therefore welcome. To the contrary, attempts of parliamentarians associated with one of the professional associations to reduce current independence requirements are not supported. The FAOA regards these attempts as harmful to

the product «limited audit». It would be preferable if the professional associations would coordinate their positions more strongly and take appropriate account of the interests of all audit stakeholders.

As communicated last year, in 2016 the Federal Council will have to decide whether the reliefs currently applying to one-man audit firms that solely perform limited audits should be extended further after 1 September 2016 (Art. 49 para. 2 AOO). As discussed with the professional bodies, the FAOA supports the thought of discontinuing this relief. Discontinuance would result in every audit firm having to have an internal quality assurance system commensurate with its size and complexity.

¹ Gender-neutral terms have been used for reasons of simplification. They apply equally to both genders.

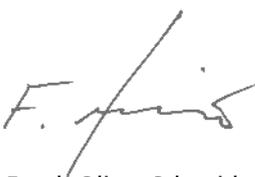
The FAOA has another challenging year behind it and has been kept very busy by the transfer of responsibilities in the financial market area. In this connection we would like to thank all FAOA staff sincerely for their devotion and constant endeavour towards meeting common goals.

On 25 November 2015 the Federal Council confirmed a further four year term of office for the existing FAOA board members. Wanda Eriksen-Grundbacher was elected to the board for Renato Fassbind, who resigned at the end of 2015. We would like to take this opportunity to give our sincere thanks to Renato Fassbind for his services.

Berne, 25 January 2016



Thomas Rufer
Chairman of the Board of Directors



Frank-Oliver Schneider
Chief Executive Officer



Frank-Oliver Schneider, Chief Executive Officer and Thomas Rufer, Chairman of the Board of Directors

Key activities 2015

Oversight

Alongside performing the financial audit inspections that have been carried out since 2008, with an experienced team of financial market specialists the FAOA inspected regulatory audits performed under financial market laws for the first time. In addition, a joint inspection with the US PCAOB was performed at a large audit firm.

Legal and international

A number of important court rulings were delivered in the reporting year. Of particular note is that the long time practice of the FAOA with respect to independence was upheld by the courts. Despite contrary opinions from individual industry representatives, auditor independence requirements are basically the same for the ordinary and limited audit.

Licensing

Audit firms must renew their licences every five years. After the wave of licence renewal applications in the previous two years, the reporting year was characterised by a return to normality. The processing of licence applications in the financial market area is noteworthy. Special licences granted during the year by FINMA were re-assessed and converted into FAOA licences where licensing conditions were met.

Third party information

In the reporting year the FAOA received 35 (prior year 31) third party notifications of possible violations of law or professional law. Eligible and credible notifications lead to FAOA fact-finding. Independence breaches and auditing without a proper licence or type of licence were again reported. Five proceedings have so far been initiated as a result of reporting year notifications. It should also be highlighted that the Federal Administrative Court explicitly confirmed the authority of the FAOA to use (also anonymous) third party notifications in a recent ruling.

Regulatory developments

Current projects

Extra-territorial jurisdiction of the FAOA (bonds)

The Federal Council has yet to implement the extra-territorial jurisdiction of the FAOA with respect to the auditors of foreign bond issuers. In its dispatch of 1 July 2015 it instructed the Federal Assembly to reduce oversight in this area moderately. Details can be found in the section «Extra-territorial jurisdiction of the FAOA (bonds)».

Federal Financial Services Act (FFSA) and Financial Institutions Act (FinIA)

On 4 November 2015 the Federal Council adopted the dispatch regarding FFSA and FinIA. The uniformed Act FinIA will regulate the oversight of all financial service providers providing any form of asset management. The following Federal Council proposals are of particular interest to the audit industry:

- Asset managers and trustees will be supervised by the newly-created Oversight Authority (OA) (Art. 57 f. D-FinIA in conjunction with Art. 43 f. D-FINMASA). By contrast, qualified asset managers², fund management companies and investment firms will be supervised by FINMA. The latter are to appoint an FAOA-licensed regulatory audit firm to perform the regulatory audit (Art. 59 para. 1 letter a D-FinIA in conjunction with Art. 9a AOA). One of the prerequisites is that a state-regulated audit firm licence is held (Art. 9 f. AOA). In addition, the statutory and consolidated financial statements are subject to ordinary audit (Art. 59 para. 1 letter b D-FinIA). The other asset managers and trustees are to appoint an OA-licensed regulatory audit firm to perform the regulatory audit (Art. 58 D-FinIA). The regulatory audit firm licence presupposes that a basic FAOA auditor licence is held (Art. 43 para. 2 D-FINMASA in conjunction with Art. 6 AOA). The same applies to the regulatory au-

ditor-in-charge. The statutory audit follows the CO criteria (Art. 727 f. CO). The frequency of the regulatory audit can be determined by the OA, respectively FINMA (Art. 58 para. 2 and Art. 59 para. 2 D-FinIA, in each case between one and four years).

- State-regulated audit firms will now be licensed for an unlimited period (Art. 7 para. 3 D-AOA).
- Self-regulatory organisations (SRO) in the AMLA area will be recognised by FINMA if, amongst other things, they ensure that the regulatory auditors and regulatory auditors-in-charge appointed by them to perform testing meet statutory licensing conditions (Art. 24 para. 1 letter d in conjunction with Art 24a D-AMLA). As there will be no financial intermediaries under the direct supervision of FINMA (DSFI) in the future, (they must join a recognised SRO within one year of FinIA coming into force, Art. 42 para. 1 D-AMLA), the licences granted by the FAOA to regulatory audit firms and regulatory auditors-in-charge of such DSFI under current law will be cancelled (Art. 9a para. 4 and 5 E-AOA). The regulation of relevant licensing conditions will be transferred to AMLA. A basic prerequisite remains that the regulatory audit firm and regulatory auditor-in-charge hold an FAOA auditor licence. For the final year before FinIA comes into force DSFI regulatory audits remain under FAOA oversight (dispatch regarding Art.42 D-AMLA).

The FFSA creates uniform competition rules to improve customer protection. The Act includes rules for all financial services providers with respect to the provision of financial services and the offer of financial instruments. The law has no direct consequences for the audit industry.

Revision of company law

On 28 November 2014 the Federal Council sent an updated preliminary draft of the Revision of company law for consultation, which lasted until 15 March 2015. The elements of the submission relevant to audit were set out in the last Activity Report³. In the meantime, on 4 December 2015, the Federal Council decided on further actions based upon the results of the consultation. In substance, the following changes resulted⁴:

- The mandatory audit requirement with respect to the repayment of capital reserves, particularly of premium, will not be incorporated in the submission (Art. 671 para. 3 PD-CO). In the consultation the criticism was made that this was not reflective of the liberal rulings of the Federal Court and therefore went too far as a general obligation.

² A qualified asset manager is one whose business it is to manage assets on behalf of, and for the account of, collective investment schemes or pension funds (Art. 20 para. 1 D-FinIA). There are various exceptions to this definition (Art. 20 para. 2 D-FinIA).

³ FAOA Activity Report 2014, pp. 9f.

⁴ Source: Poggio/Zihler, Weiterer Meilenstein in der Aktienrechtsrevision, Der Bundesrat nimmt die Vernehmlassungsergebnisse zur Kenntnis und beschliesst das weitere Vorgehen, EXPERTfocus 2016, 8 f.

- Abolishment of the book value consolidation will be waived. Per the preliminary draft, companies required to prepare consolidated financial statements would have had to prepare these under a recognised standard of accounting («true and fair view» principle). At the same time, however, the thresholds for total assets, revenue and staff numbers would have been significantly increased, from 20/40/250 to 40/80/500 (Art. 963a para. 1 section 1 in conjunction with Art. 963b para. 3 and 4 PD-CO). According to consultation submissions there is still a certain need for book value consolidation in practice. In addition, further changes were seen as hasty, given that the thresholds had only been amended at the end of 2012.
- Finally the Federal Council instructed the Federal Office of Justice and Police to clarify legislative measures required with respect to, and the international development of, audit and audit oversight law. The respective reports are to be presented to the Federal Council in Autumn 2017 for information purposes and for the determination of further action. In giving this instruction, the Federal Council aims to create a sound foundation for the possible re-design, liberalisation or tightening of the audit and/or the audit oversight law.

The communication is expected at the end of 2016.

Completed projects

Extra-territorial responsibility of the FAOA (shares)

On 1 October 2015 the Federal Council implemented part of the extra-territorial jurisdiction of the FAOA. The auditors of foreign companies with shares listed on a Swiss stock exchange are affected. Details can be found in the section «Extra-territorial jurisdiction of the FAOA (shares)».

Circulars 1/2009 and 1/2015

On 21 December 2015 the FAOA amended one circular and adopted a new one. Appropriate consultation with the affected parties took place between 19 October and 1 December 2015.

Circular No. 1/2009 regulates the content of the comprehensive report of the auditor to the board of directors (Art. 728b para. 1 CO). Certain points in the circular were supplemented to support the work of audit committees. As a form of interim standard, the new Circular No. 1/2015 details how so-called «key audit matters» are to be reported in the auditor's report to the general meeting of shareholders for public companies (Art. 728b para. 2 CO). The amended Circular No. 1/2009 applies to the audit of statutory and consolidated financial statements for financial years that began on or after 1 January 2015. Circular No. 1/2015 comes into force on 15 December 2016 but can be applied earlier.

Financial Market Infrastructure Act (FMIA)

On 19 June 2015 the Federal Assembly adopted the FMIA, which sets a new basis for the regulation of the financial market infrastructure and the duties of financial market participants with respect to securities and derivatives trading. The law came into force on 1 January 2016. The following points are of particular interest to the audit industry:

- Financial market infrastructures and finance groups must appoint an FAOA-licensed regulatory auditor to perform a regulatory audit (Art. 84 FMIA in conjunction with Art. 9a para. 1 AOA and Art. 24 FINMASA). Financial market infrastructures are stock exchanges, multilateral trading systems, central counterparties, central depositories, transaction repositories and payment systems (Art. 2 letter a FMIA). Two or more entities, of

which (a) at least one is an active financial market infrastructure (see above), that (b) are primarily active in the finance area, (c) form a single economic entity or for which, due to other circumstances, it can be assumed that one or more of the entities under individual oversight is legally obliged, or in practice compelled, to support group entities, qualify as finance groups (Art. 15 para. 2 FMIA). As mentioned, the regulatory audit firm and regulatory auditor-in-charge require a special FAOA licence but, as for the audit of public tender offers, this factually equates to the licence to audit banks, stock exchanges, securities traders and central mortgage bond institutions (Art. 11a para. 1 letter a revised AOO).

- As part of the statutory audit, the statutory auditor (Art. 727 f. CO) audits counterparty compliance with FMIA provisions. The audit methodology follows the type of statutory and group audit (long-form report on the Financial Market Infrastructure Ordinance of 25 November 2015, regarding Art. 114 FMIO). At entities subject to FINMA oversight the audit follows financial market legislation. This is subject to divergent provisions relating to the oversight and supervision of occupational retirement, survivors' and disability pension plans (Art. 116 FMIA). The statutory auditor is now required to audit compliance with the following obligations:
 - Trades in derivatives that are not handled through a trading centre (OTC derivative trades) must be cleared through a FINMA-approved or recognised central counterparty (Art. 97 f. FMIA).
 - Derivative trades must be reported to a FINMA-approved or recognised transaction repository (Art. 103 f. FMIA).
 - Operational and counterparty risks of OTC derivative trades not cleared through a FINMA-approved or recognised central coun-

terparty must be recorded, monitored and minimised (Art. 107 f. FMIA).

- Certain derivatives must be traded through a FINMA-approved or recognised trading centre or through an approved or recognised operator of an organised trading system (Art. 112 f. FMIA).

Federal law on the implementation of the FATF recommendations amended in 2012

On 12 December 2014 the Federal Councillors adopted the amendment of the pronouncement on combating money laundering to bring it into line with the recommendations of the Financial Action Task Force (FATF), as revised in 2012. Amongst other things, this now provides that individuals and legal entities who deal in goods and thereby accept cash (so-called traders, Art. 2 para. 1 letter b AMLA) do not have formal financial intermediary status but still have a duty of care under AMLA if they accept more than CHF 100,000 in cash as part of a trade (Art. 8a AMLA). Traders must further engage an auditor to check that these duties have been fulfilled. Licensed auditors (Art. 5 AOA) or audit firms with the same licence (Art. 6 AOA) can be engaged as auditors provided they have the necessary technical expertise and experience (Art. 15 paras. 1 and 2 AMLA). The new law came into force on 1 January 2016. The ordinance (Anti-Money Laundering Ordinance, AMLO) clarifies the following details:

- First, traders must appoint an auditor even if they have opted-out of the limited audit. The appointment is made by the highest management and administrative body and not the general meeting of shareholders (Art. 22 AMLO).
- Secondly, the law requires no special licence, either from the FAOA (audit of DSFI) or from an SRO (audit of member financial intermediaries). The auditor must nevertheless

have the necessary technical expertise and experience (Art. 15 para. 2 AMLA). Whoever holds one of the above-mentioned AMLA licences at least has the necessary technical expertise and experience (cf. in addition AMLA long-form report of 11 November 2015, p. 12). It may not be easy to provide this evidence without a licence.

- Thirdly, it was clarified that only an audit firm can be appointed as auditor and not a (mere) individual. An individual who wishes to audit traders independently must at least register a sole proprietorship in the commercial register (Art. 8 para. 1 AOO; cf. in addition AMLA long-form report of 11 November 2015, p. 12).

Supervision of Health Insurance Act

On 26 September 2014 the Federal Councillors adopted the Supervision of Health Insurance Act (SHIA). In the appendix to the SHIA it is clarified that the FAOA and the other Swiss oversight authorities (and no longer just «special law» oversight authorities) must provide all information and transfer all documentation to each other as is necessary for the enforcement of the respective law (Art. 22 para. 1 AOA in the new version)⁵. This specification came into force on 1 January 2016.

⁵ FAOA Activity Report 2014, p 11.

Financial Audit

Introduction

As a general rule, the FAOA inspects state-regulated audit firms once every three years or annually if they audit more than 50 PIE. As a result of the AOA revision of 1 January 2015, all five large audit firms are now inspected annually. This was previously the case only for the «Big 3» audit firms. The exact scope of the annual inspections is defined on the basis of a detailed risk analysis. A five year inspection cycle applies to state-regulated audit firms that audit only financial intermediaries under the direct supervision of FINMA (so-called DSFI).

As at the end of 2015 a total of 33 audit firms held a state-regulated audit firm licence, permitting the holder to audit a PIE. Eight of these firms are permitted to audit only DSFI, as well as non-PIE companies. Overall, the market structure was unchanged compared to the prior year. The «Big3» audit firms, PwC, EY and KPMG continue to audit the vast majority of public companies and other PIE.

During 2015 the existing FAOA inspection software was replaced with a web-based application to improve efficiency. Both the new and old software include standardised instructions for the planning, execution, reporting, documentation and decentralised review of the entire inspection. The standardised FAOA inspection procedures are matched to those of European partner authorities on an on-going basis and harmonised where possible (so-called Common Audit Inspection Methodology).

2015 inspections

Since the enactment of the AOA the FAOA has completed a total of 77 inspections. Of these, nine inspections were performed in the reporting year⁶. One of these inspections was performed jointly with the PCAOB (so-called joint inspection). In the course of the nine inspections the financial statements of 19 companies were the subject of file reviews.

The selection of audit engagements for FAOA inspection is risk-based. The market capitalisation of public companies is one important selection criterion. By 31 December 2015, 18 of the 20 SMI companies had been subject to an FAOA file review. Through its file reviews of these companies the FAOA has inspected audit work covering around 75 percent of the total market capitalisation of the Swiss stock exchanges. For the two global systemically important banks (G-SIBs) of Switzerland, UBS AG and Credit Suisse Group AG, aspects of the quality of the financial audit are assessed by way of an annual file review since 2013.

In addition to market capitalisation, the FAOA considers other criteria when selecting audit engagements for inspection, such as a major change in audit fees or a change of auditor. A further criterion is a PIE modified audit report.

⁶ The inspection fieldwork was completed at a further two of the largest five audit firms. Since the findings process is still at an early stage these are not covered by the Activity Report 2015.

Figure 1
Overview of FAOA inspections and Comment Form findings 2008–2015

Categories	Largest five audit firms		Other		Total	
	01.04.2008 – 31.12.2015	of wich 2015	01.04.2008 – 31.12.2015	of wich 2015	01.04.2008 – 31.12.2015	of wich 2015
Number of inspections	34	5	43	4	77	9
Comment Form Findings Firm Review	124	5	173	4	297	9
Comment Form Findings File Review	356	43	270	15	626	58
Number of inspected files ⁷	106	15	42	4	148	19

Firm Review

There was a pleasing reduction in the number of findings compared to prior years. This is due to the relative consistency of ISQC 1 requirements and the increased awareness of those responsible for quality. The average number of firm review findings per inspection at the five largest and at the smaller audit firms was the same in the reporting year. It should be noted in this regard that the quality assurance systems of the smaller audit firms are less complex than those of the five largest audit firms due to their simpler circumstances.

Several partners are borrowed from foreign network firms to serve global Swiss audit clients. These partners sign the audit reports in the name of the Swiss firm as auditor-in-charge. The affected Swiss firms must supervise the effectiveness of the quality assurance system over these borrowed partners independently. In one individual case, the firm’s own quality assurance system provided insufficient monitoring of a foreign network firm partner. For example, the Swiss firm was insufficiently involved in the performance evaluation of the borrowed partner.

An FAOA follow-up inspection of letterbox company audit procedures in the reporting year showed that the internal methodologies are now appropriate at all five large audit firms.

File Review

19 (prior year 18) file reviews were conducted and completed in 2015. The nine inspections resulted in a total of 58 findings. The number of findings per file review thereby increased from 2.7 to 3.1 compared to prior year. In the case of file reviews, audit quality depends heavily upon the partners and staff involved, as well as the external environment. Audit firms should hence put more focus on the consistency of audit quality.

In accordance with the requirements of Circular No. 1/2010⁸, those audit engagements for which the ratio of audit fees to other fees exceeds 1:1 in a business year are to be reported per 30 June. The other services provided, together with the independence safeguards put in place when necessary, are to be disclosed for the reportable engagements. As per 30 June 2015 the FAOA had received 12 reports (prior year 15 reports), which were critically assessed and, depending on the situation, taken account of in the respective file review strategy.

The 2015 file review findings for the largest five audit firms and the smaller audit firms are shown by category in Figures 2 and 3⁹.

⁷ In each file review the FAOA selects the working papers relating to the audit of the consolidated financial statements (including holding company) and the audit of a significant subsidiary.

⁸ FAOA Circular 1/2010 of 31 March 2010 (Circular 1/2010) on the reporting of state-regulated audit firms to the oversight authorities, section 22 letter b.

⁹ For comparability purposes the findings in Figures 2 and 3 that relate to Swiss Auditing Standards or US auditing standards have been allocated to the identical or comparable ISA. The various other findings include findings relating to ISA 200, 210, 260, 550–570, 610 and 700.

Figure 2

Type and number of findings from the 2015 file reviews at the five largest audit firms (total 43 Findings)



In the reporting year the FAOA identified the most findings in the areas of «using the work of others», «risk assessment and related response» and «estimates». The most common findings within the «using the work of others» category were in the areas of group audit (ISA 600) and using the work of internal auditors (ISA 610). Reference is made in this regard to sections «Component coverage» and «Using the work of internal auditors».

Insufficient professional scepticism and the failure to identify and respond to risks of material misstatement are often the cause of deficiencies, respectively FAOA findings. If the audit team fails to identify risks of material missta-

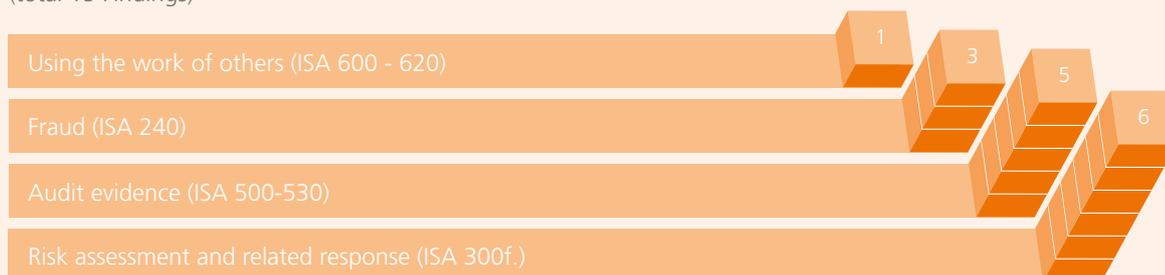
tement appropriately during the planning phase the quality of its responses to those risks cannot be sufficient. The informative value of the resulting audit evidence is limited as a result.

If the auditor intends to rely upon the effectiveness of general IT and application controls these controls must be tested adequately. If not, the auditor cannot rely upon systems-generated documents that, in turn, serve as the basis for the audit of different audit areas. In part, however, reliance was placed on IT and application controls without sufficient testing. It was further neglected to assess the risk of unauthorised access to data and functions in some cases.

FAOA findings with respect to the audit of estimates relate primarily to the positions goodwill and other intangible assets. Contrary to auditing standard requirements, several engagement teams obtained insufficient appropriate audit evidence to assess the estimates and assumptions of management. This also includes, for example, making a critical assessment of prior year business plan assumptions.

Figure 3

Type and number of findings from the 2015 file reviews at the smaller audit firms (total 15 Findings)



At the smaller audit firms findings were often made with respect to the identification and response (audit procedures) to risks of material misstatement.

IFIAR survey

IFIAR published the results of a broad-based survey on 3 March 2015¹⁰. 29 IFIAR members took part in the survey. This is already the third survey of this type, identifying common findings at the six largest global audit firms¹¹ on an anonymous basis. The survey concentrates, in particular, on file review findings at PIE and systemically important financial institutions. IFIAR uses the survey in global-level negotiations with the six large audit firms. The negotiations aim to agree on measures to improve audit quality.

Analysis of FAOA findings to those of other oversight authorities shows similarities in, amongst others, the following areas:

- Recoverability of fair-valued assets
- Internal controls
- Revenue recognition
- Group audits
- Identification and response to risks of material misstatement

IFIAR members continue to believe that the global audit networks and local audit firms must make greater coordinated efforts to permanently eliminate recurring deficiencies in the above-mentioned areas. The importance of the root cause analysis, from which appropriate and sustainable measures can be derived, was emphasised in this respect.

Points of focus for 2015 inspections

The FAOA published its points of focus for the 2015 financial audit inspections in the 2014 Activity Report and examined these in detail in the reporting year¹²:

- Compensation reports of public companies¹³
- Component coverage (SAS¹⁴/ISA 600.26-29)
- Using the work of internal auditors (SAS/ISA 610)

The FAOA assessed the internal guidelines of the five largest audit firms with respect to the inspection focus areas and tested their application on a sample basis.

Compensation reports of public companies

«The people and the cantons» approved the popular initiative «gegen die Abzockerei» (so-called «Minder-Initiative») on 3 March 2013. Article 95 of the Federal Constitution, on professional activities in the private sector, was expanded as a result of the initiative. The Federal Council subsequently issued the ordinance against exorbitant compensation at public companies (VegüV), which came into force on 1 January 2014. The transitional provisions of the VegüV provide staggered deadlines for the implementation of particular elements. Except for the amendment to employment contracts established under previous law (deadline 1 January 2016), all provisions had to be fully implemented by the 2015 general meeting of shareholders. The VegüV provisions apply to all limited companies with shares quoted on a domestic or foreign stock exchange. These companies were consequently first required to prepare a compensation report for financial years beginning on or after 1 January 2014. The VegüV requires the auditor to test whether the quantitative elements of the compensation report, relating to the provisions of Art. 14 and Art. 16 on compensation, loans and credit,

comply with the law and the VegüV.

Alongside assessing the internal VegüV audit guidelines of the five largest audit firms the FAOA selected and assessed nine compensation report audits from various industries.

The audit firms took the issue up early, preparing related internal guidelines, training materials and audit programmes and supplying them to staff. The audit programmes were comprehensively designed, are in compliance with the provisions of VegüV and also take into account issues from EXPERTsuisse's questions and answers on the audit of the compensation report¹⁵.

¹⁰ www.ifiar.org > IFIAR Global Survey of Inspection Findings

¹¹ BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative and PricewaterhouseCoopers International Limited.

¹² For the results of the Regulatory Audit 2015 points of focus see section «Regulatory Audit».

¹³ Ordinance against exorbitant compensation at public companies, VegüV, SR 221.331.

¹⁴ Swiss Auditing Standards (SAS), EXPERTsuisse, Zurich 2013.

¹⁵ EXPERTsuisse, «Ausgewählte Fragen und Antworten bei der Prüfung von Vergütungsberichten in Übereinstimmung mit der VegüV» of 18 December 2013 (last amended 18 August 2015).

In most cases engagement teams prepared a separate audit plan for the audit of the compensation report. Engagement teams only dispensed with a separate audit plan in the case of simple compensation reports. In addition, separate materiality thresholds were set, differing from those used for the financial statements audit. Three of five audit firms set percentage ranges or maximum thresholds for this purpose, alongside general guidelines. At the other two audit firms engagement teams generally looked to the Q&A of EXPERTsuisse for guidance. The materiality guidelines provided in the audit programs vary and are generally based on a range of 1–5 percent. The benchmark used was either the total or average compensation of all board and management members, the highest compensation amount for an individual board or management member or a mixture of these alternatives. The use of ranges and different benchmarks led to varied materiality amounts.

The FAOA noted that the audit of the compensation report was generally carried out using substantive audit procedures (SAS/ISA 330.4). This resulted mainly from the absence or limited nature of formal controls in the compensation report preparation process and efficiency considerations. The nature and extent of substantive audit procedures were sufficient and the audit evidence obtained was appropriate.

In all cases the audit report followed the standard report of EXPERTsuisse. The report is limited to a confirmation as to the application of Article 14 to 16 VegüV, an assessment of the appropriateness of the valuation methods used for the elements of compensation and an assessment of the overall presentation of the compensation report.

From the assessment of the compensation report audits it is clear that audit firms attached significant importance to them in the reporting year. The audits were performed by experienced engagement team members, as a rule manager grade and above.

In addition, the auditor-in-charge was more heavily involved due to data sensitivity and the complexity associated with a «first-time audit».

The FAOA had no negative findings in relation to the audit of the compensation report under VegüV. The high quality of the audit may result, on the one hand, from the «first time audit» effect and, on the other, from the greater involvement of experienced auditors in the audit.

Component coverage

A component is an entity or business activity for which group or component management prepares financial information that should be included in the group financial statements (SAS/ISA 600.9 letter a). The determination of the nature, timing and extent of audit procedures at the individual components depends mainly on the significance of those components to the group financial statements. A component is significant if it is of individual financial significance to the group or if, due to its specific nature or circumstances, it is likely to include significant risks of material misstatement of the group financial statements (SAS/ISA 600.9 letter m).

The requirements of the auditing standards are further defined in the individual audit methodologies of the large audit firms. For the determination of individually financially significant components, the applicable auditing standard mentions 15% of a chosen benchmark as an example threshold (SAS/ISA 600.A5). The five largest audit firms have adopted this example as a guideline in their audit methodologies. In doing so, two audit firms prescribe specific thresholds. The first assumes 15% as a basis but this can be amended according to the professional judgement of the engagement team. At the second firm the percentage used must be explained if above 15% of the chosen benchmark and may not exceed 20%.

The audit methodologies of the five

largest audit firms further require the full scope audit of individually financially significant components. For components significant due to their nature or circumstances the auditor can choose between a full scope audit, the audit of specific account balances, classes of transactions or disclosures, or the performance of specified audit procedures. For non-significant components the group engagement team performs analytical procedures at group level (SAS/ISA 600.26 f.).

The FAOA considers the audit methodology scoping guidelines of the audit firms to be appropriate overall.

In the reporting year, the FAOA analysed the component-coverage of group audits (scoping). For the ten¹⁶ files inspected the type of audit used was examined (cf. Figure 4). This shows the proportion of components covered by full scope audit («FSA»),

by the audit of specific account balances, classes of transactions or disclosures («SSA»; specific scope audit) and by specified audit procedures («SAP»). The latter are audit procedures specified to address likely risks of material misstatement within the consolidated financial statements. The audit assurance obtained is generally less than that obtained from specific scope audit procedures.

Figure 4

Percentage coverage of group-level benchmark amounts by type of audit work

Coverage (in %)									
File	Revenue			Profit before tax			Total assets		
	FSA ¹⁷	SSA ¹⁸	SAP ¹⁹	FSA	SSA	SAP	FS A	SS A	SA P
1	94	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2	68	n/a	n/a	n/a	n/a	n/a	77	n/a	n/a
3	78	8	n/a	n/a	n/a	n/a	83	4	n/a
4	66			n/a	n/a	n/a	75		
5	n/a	n/a	n/a	43	4	n/a	86	4	n/a
6	77	14	6	78	14	6	76	17	5
7	98	n/a	n/a	89	n/a	n/a	99	n/a	n/a
8	79	n/a	n/a	98	n/a	n/a	72	17	n/a
9	100	n/a	n/a	100	n/a	n/a	100	n/a	n/a
10	57	n/a	8	50	n/a	4	70	n/a	11

It is apparent from Figure 4 that full scope audits provide the majority of benchmark coverage. Where insufficient coverage was obtained, engagement teams compensated for this appropriately with the audit of specific account balances and specified audit procedures at components. Component financial statement line items were also audited due to them being of higher risk. Despite this, in three cases (file selections 2, 4 and 10) non-significant components accounted for a comparatively large proportion of group income statement line items. In file 9 coverage for all benchmarks was approaching 100% but the group auditor relied on the opinions of sub-group component auditors. The group auditor

failed to obtain sufficient audit evidence as regards scoping at the respective components. The FAOA is of the clear opinion that the greater the proportion of a group accounted for by non-significant components is, the more necessity there is to perform robust group-level analytical procedures over such components. In cases of lower coverage the effectiveness of group-wide controls is also of greater importance.

¹⁶ The inspections at two of the five largest audit firms were not finalised as at the end of the reporting year. The results of six selected files are therefore not included in the Figure.

¹⁷ Full-scope audit.

¹⁸ Specific scope audit.

¹⁹ Specified audit procedures.

In determining significant compo-

nents engagement teams commonly used the three benchmarks; revenue, profit before tax and total assets. In one case profit before tax and total assets was used. In a further four cases revenue, respectively revenue together with total assets, was used. Although revenue can be an appropriate benchmark, in some cases the FAOA regarded its selection as unsatisfactory as the audited entities disclosed profit before tax, and not revenue, as a key performance indicator in their annual reports.

The determination of significant components is already made in the audit planning phase and is generally based on interim closings as a consequence. It is therefore necessary to reassess the determination at the balance sheet date. The FAOA had no notable findings in this regard. Only in one inspected file did the engagement team fail to perform such a reassessment despite changes to the organisational structure of the audited group.

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Audit of components by network firms

In their audit methodologies the five largest audit firms have established minimum amounts for own network firm participation in the audit (cf. Figure 5). Consolidated gross revenue or total group assets are used for the calculation:

Where the required amounts are not

Figure 5

Internal requirements for the participation of own network firms in the audit

Firm A	Firm B	Firm C	Firm D	Firm E
50 %	60 %	70 %	50 %	80 %

achieved formal approval from the risk management function of the firm is required to accept or continue the engagement. The threshold at the five largest audit firms is between 50 % and 80 %. The lower own network participation in the audit is, the more time the group auditor requires with respect to the direction, supervision and review of non-network component auditors.

In all files inspected by the FAOA appropriate own network participation was achieved and consequently the FAOA had no findings in this area. It is nevertheless surprising that the internal guidelines of the large audit firms differ so widely from one another.

Using the work of internal auditors

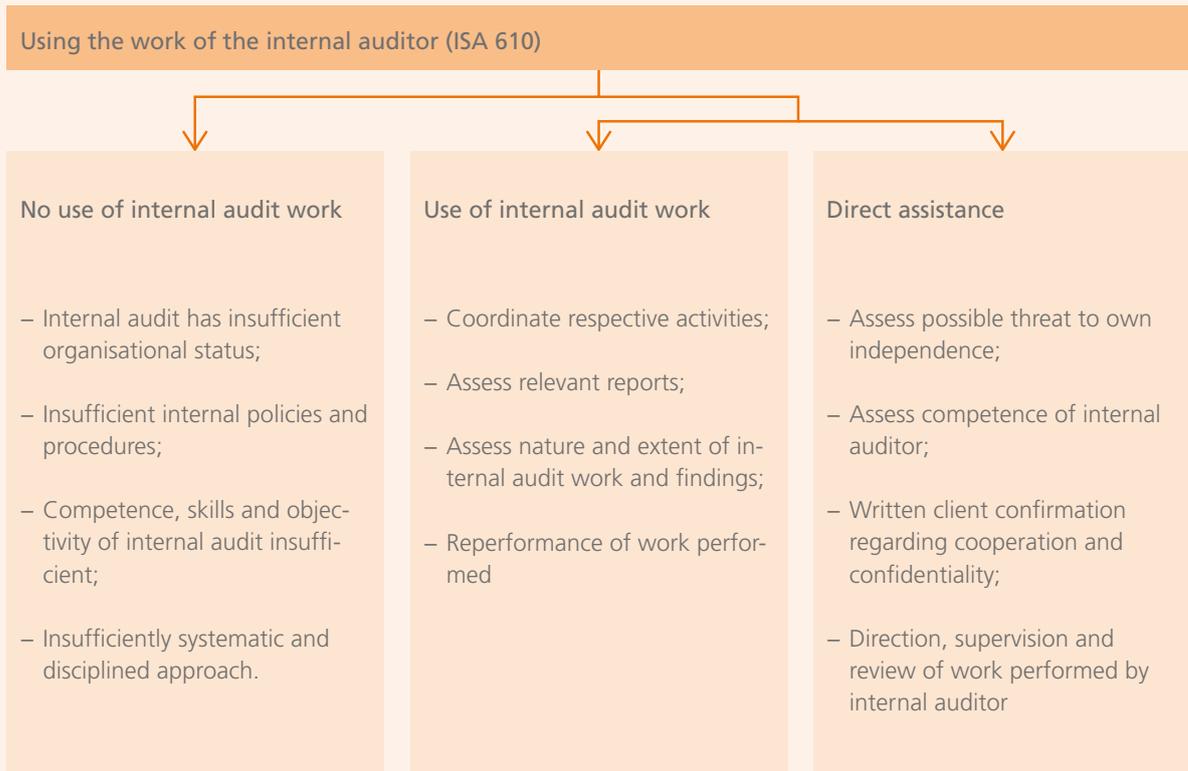
The IAASB comprehensively amended the auditing standard ISA 610 (revised), «Using the work of internal auditors», for the audit of financial statements ending on or after 15 December 2013. In the new version (ISA 610 revised 2013), alongside the use of certain internal audit work, direct assistance is addressed explicitly for the first time. Under direct assistance internal audit performs external audit work under the direction, supervision and review of the external auditor. In the case of direct assistance the internal auditor must be sufficiently competent to perform the external audit work. In addition, in providing direct assistance the internal auditor may not perform work requiring significant audit judgement.

The FAOA is critical of direct assistance as a matter of principle²⁰. The independence of the internal auditor towards his employer is inherently limited given that he is in an employee/employer relationship with him. Internal audit also has different audit methodology and documentation requirements. Further, internal audit is not covered by the quality assurance system of the audit firm (monitoring of training etc.).

²⁰ Comment of the FAOA of 10 November 2010 on the drafts of ISA 610 and ISA 315 (www.rab-asr.ch > Oversight > Opinions of the FAOA).

If the entity has an internal audit function the auditor makes inquiries of appropriate internal audit staff and assesses the nature of internal audit's responsibilities, how it fits into the entity's organisational structure and its activities with respect to financial reporting (ISA 240.19, 315.6 letter a and 23). The auditor then has the following choices:

Figure 6
External auditor options with respect to internal audit



Fundamental to using the work of internal audit is the evaluation of its competence and objectivity (ISA 610.15). Whether, and to what extent, the auditor can rely on the work of the internal auditor depends on this.

Irrespective of the nature and extent to which the work of internal audit is used, responsibility for the external audit remains solely with the external auditor. This also applies in cases where internal auditors provide direct assistance. The external auditor must always be sufficiently involved in the audit. The greater level of professional judgement and risk of misstatement in the audit and the less objective and

competent internal audit is, the greater the involvement of the external auditor should be.

As part of the current year inspections the FAOA assessed, amongst other things, the implementation of ISA 610 requirements within the audit methodologies of the five largest audit firms. In addition, specific application was inspected as part of the file reviews.

The audit methodologies of the audit firms conform to the requirements of the auditing standards (ISA 610 revised 2013). Using the work of internal audit is permitted in both the controls and substantive testing areas. Further, the methodologies prescribe the nature and extent of permitted audit work. If reliance is placed on internal audit work the methodologies requi-

re the reperformance of a sample of audit work. The direct assistance of internal audit is also allowed by the methodologies. Specific audit procedures, particularly in audit areas subject to greater judgement, are explicitly forbidden. The FAOA selected ten files from the three of the five largest audit firms²¹ to assess the application of the audit methodologies..

Figure 7

Use of the work of internal audit in the audit of the financial statements

Use of the work of internal audit in the financial statements audit	Number of file reviews
Inquiries of internal audit with respect to the assessment of risk and the internal control environment	10
Reliance on the work of internal audit	1
Direct assistance	0

Proceedings and preliminary fact-finding

In addition to routine inspections, event-driven preliminary fact-finding and proceedings are also conducted at state-regulated audit firms. In doing so the FAOA considers, in particular, plausible information from third parties. In the reporting year the FAOA received three notifications from third parties relating to the work of state-regulated audit firms.

Since inspection activities began in 2008, 24 proceedings have been conducted as part of the FAOA's oversight of state-regulated audit firms:

- Seven proceedings concerned audit firms. In four of these cases the FAOA identified breaches of independence requirements. In two cases measures agreed with the FAOA after its first inspection were not implemented or not implemented in a timely manner. In one case the statutory reporting requirement was not met.

- 17 proceedings concerned FAOA-licensed individuals. 11 of these involved breaches of independence requirements. In six cases the FAOA sanctioned the auditor-in-charge for not exercising proper duty of care.

Audit Quality Indicators

Internationally, the importance of audit quality indicators (AQI) is increasing. In the US the PCAOB and the Center for Audit Quality (CAQ) have started projects²² aimed at better measuring audit quality using performance indicators. These performance indicators will be made available to audit committees and other interest groups. South East Asian oversight authorities are discussing similar projects. The six largest UK audit firms have mutually agreed to publish five performance indicators in their transparency reports, as from 2014. An audit firm in the US²³ voluntarily disclosed twelve performance indicators in a publication²⁴.

This worldwide trend encourages the FAOA to continue to collect AQI from the five largest state-regulated audit firms. The FAOA uses these performance indicators for trend analysis and the timely identification of factors that may impact audit quality. In addition, the performance indicators are used for risk assessment and inspection planning.

²¹ The inspections at two of the five largest audit firms were not finalised as at the end of the reporting year. The results from six selected files are therefore not included in the table.

²² PCAOB Concept Release on Audit Quality Indicators, 2015-005, 1 July 2015.

²³ www.pwc.com (U.S. site) > services > audit-assurance > publications > auditing.

²⁴ www.fee.be > publications > 03/12/2015 > FEE shows significant differences in developments of audit quality.

Over the past seven years the FAOA has collected a total of twelve performance indicators (cf. Figure 8). Various performance indicators were revised and further developed last year to improve their informative value and comparability.

Figure 8

Comparison of selected performance indicators relating to the audit function of the five largest state-regulated audit firms

Audit quality indicator	2012		2013		2014		2015	
	from	to	from	to	from	to	from	to
Average annual revenue per audit partner in CHF mio.	1.4	4.1	1.6	4.3	1.7	4.2	1.9	4.5
Ratio of other fees to audit fees								
- SMI companies	n.a	n.a	n.a	n.a	0.1	0.4	0.2	0.4
- Public companies ex-SMI	n.a	n.a	n.a	n.a	0.1	0.3	0.1	0.4
Number of staff per partner	7.6	11.9	6.8	13.5	7.1	14.0	7.2	15.8
Staff turnover in %	16	28	12	26	13	26	13	25
Average number of EQCR hours								
- SMI companies	n.a	n.a	n.a	n.a	39	151	37	115
- Public companies ex-SMI	n.a	n.a	n.a	n.a	7	18	6	17
Average number of auditor-in-charge hours								
- SMI companies	n.a	n.a	n.a	n.a	270	719	227	746
- Public companies ex-SMI	n.a	n.a	n.a	n.a	69	112	85	110
Number of foreign shared service centre hours as a % of overall hours at public companies	n.a.	n.a.	n.a.	n.a.	0	5	0	8
Number of consultations per public company audit	n.a.	n.a.	n.a.	n.a.	0	0.4	0	0.3

– Over the last years the average annual revenue per partner at the audit firm with the lowest average has increased. Another audit firm has shown the highest average annual revenue per partner over the last three years. This has increased further compared to prior year due to a fall in the number of partners. Revenue per partner at the remain-

ing three audit firms decreased slightly. This performance indicator is affected by the size, or rather fee volume, of the audited companies and on the staff to partner ratio. The audit firms with the lowest, respectively highest, revenue per partner consequently have the lowest, respectively highest, number of staff per partner. The average re-

venues per partner have tended to rise over the last four years.

– The FAOA regards the ratio of other fees to audit fees at public company audit clients to be a risk factor with respect to independence. This performance indicator was also calculated separately for SMI companies in the reporting and prior year.

For both SMI and other public companies the range for this performance indicator has changed only marginally compared to the prior year. However, the range shows major differences between the audit firms. Three audit firms show a higher amount for SMI companies as for other public companies. One of these audit firms showed the highest amount for SMI companies in both the reporting and prior year.

- Although the range for staff turnover changed only slightly compared to the prior year the highest level of staff turnover has rotated amongst two audit firms since 2011. At two audit firms the turnover rate decreased compared to the prior year. One audit firm has shown the lowest staff turnover since the performance indicators were first collected.
- The use of an EQCR at public companies is mandatory. However, there is a significant difference between audit firms in the average number of EQCR hours per public company. As a rule, the larger the audited engagements the higher the proportion of EQCR hours. Further, the average number of EQCR hours at SMI companies is several times that at other public companies. The FAOA regards the number of EQCR hours at smaller public companies to still be too low in some cases.
- There is a significant difference between audit firms in the average number of auditor-in-charge hours at SMI companies and this has grown further in the reporting year. For other public companies the difference decreased compared to the prior year as the number of hours increased at the firm with the lowest amounts. The average number of auditor-in-charge hours is subject to annual fluctuations and is dependent upon engagement-specific circumstances.
- Foreign «Shared Service Centre» (SSC) hours as a percentage of the total audit engagement hours vary greatly by audit firm. As before,

two of the five large audit firms currently deploy foreign SSC. The involvement of domestic SSC was not taken account of in this performance indicator.

- The proportion of formal consultations to audited public companies is similar at three audit firms. At these firms around three formal consultations are made per ten public companies. At another firm the proportion is less than 0.1. The FAOA believes that consultation on complex questions increases audit quality.

Cooperation with other Swiss authorities and stock exchanges

To avoid duplication the FAOA coordinates its oversight activities with oversight authorities established under special law and with the stock exchange.

The SIX Exchange Regulation (SER) is responsible for ensuring that companies listed on the SIX Swiss Exchange comply with accounting standards. The FAOA and SER coordinate their activities to avoid duplication. The FAOA assesses the audit activities of audit firms. SER, on the other hand, assesses issuer's compliance with their responsibilities under the listing regulations. The focus of FAOA examinations is upon auditor compliance with legal and professional requirements, and not directly upon compliance with accounting standards. In the reporting year one notification was received from SER that was of relevance to the FAOA. Should the FAOA find material breaches of accounting standards during its inspections it notifies the responsible exchange. In the reporting year there were no such notifications.

The FAOA additionally has periodic contact with the Supervisory Commission for Occupational Pension Schemes. The interaction is focussed on the discussion of regulatory developments, audit-related questions, as well as the preliminary fact finding and proceedings of the FAOA in the pension fund area.

With regard to communication with FINMA reference is made to the section «Regulatory Audit».

Standard-setting

The continued development of international and national auditing standards is an important element in improving audit quality. The FAOA works in international working groups and develops responses to drafts of new or revised standards in collaboration with other oversight authorities. The FAOA issues its own auditing standards only in exceptional cases.

FAOA Circulars

In the wake of national and international developments, certain points within Circular No. 1/2009 of 19 June 2009 were clarified or supplemented. In particular, the amendments enable audit committees of boards to fulfil their duties more effectively. With the amended Circular 1/2009 the committees will receive information that will put them in a better position to assess and critically question important auditor judgements. The Circular clarifies the information required of the auditor with respect to the scoping of branches and subsidiaries, especially in connection with the audit of consolidated financial statements. With this the codification follows standard practice.

The FAOA has found that state-regulated audit firms differ widely in their methodological approach to the determination of materiality. This not unproblematic given that it relates to the implementation of the same auditing standards and materiality is a key factor in the audit process. In other legal jurisdictions (e.g. England) materiality is disclosed in the auditor's report to the general meeting of shareholders. In Switzerland this is currently not the case based on the legislative framework. It is, however, useful for the board of directors or the audit committee of the audited entity to have targeted information.

For this reason Circular No. 1/2009 requires the comprehensive report to the board to contain explanations as to the determination of overall and performance materiality at the planning stage and as to any adjustments made to these during the course of the audit.

Under the revised Circular No. 1/2009 audit committees will additionally be informed of the nature and scope of material work outsourced to shared service centres (or delivery centres). Without this information it is not possible for the audit committee to critically question the nature and extent of delegated work.

Circular No. 1/2009 further requires that as part of the comprehensive report state-regulated audit firms comment on individual FAOA file review findings. This does not apply to FAOA regulatory audit or firm review findings.

In the reporting year the FAOA also issued Circular No. 1/2015. The disclosure of key audit matters provides the recipients of public company audit reports, particularly shareholders, with a better understanding of the work of the auditor and, to some extent, with the chance to assess this work. The key audit matters also allow conclusions to be drawn as to potentially problematic items within the entity and consolidated financial statements. The new Circular No. 1/2015 is an interim standard issued in agreement with the professional associations. As soon as the official translations are available and national professional law (SAS) has declared the key audit matter provisions to be applicable, Circular No. 1/2015 will be annulled, most likely at the end of 2018.

Swiss Auditing Standards

Companies preparing financial statements under Swiss GAAP FER usually have them audited exclusively under SAS. Companies preparing their financial statements under international standards (e.g. IFRS) must always be audited under SAS in addition to the

relevant international auditing standard (ISA, PCAOB). In this context the FAOA continues to support the timely transfer of ISA into SAS. Differences currently exist between ISA and SAS as regards unadopted changes to ISA 315 and ISA 610 (internal audit). Further, differences exist as regards to the audit report and the audit of notes disclosures (ISA 700, 701, 720). Differences with respect to the new audit report are eliminated by Circular No. 1/2015 (see above) however.

International standards

As a result of collaboration with the international working groups of the EAIG and IFIAR the FAOA submitted the following comment letters on various IESBA and IAASB proposals:

- Comment letters were submitted to the IESBA in February and March 2015 on the changes planned to improve the structure of the Code of Ethics «Improving the Structure of the Code of Ethics for Professional Accountants». As a consequence, the IESBA is currently revising the structure of the Code and clarifying certain terms and mechanisms.
- Comment letters were submitted in August and September 2015 on planned changes relating to the conduct of the auditor in the case of non-compliance with the law and other regulations «Responding to Non-Compliance with Laws and Regulations». The planned changes also affect various other ISA (particularly ISA 250). A corresponding comment letter was submitted to the IAASB in November 2015 together with IFIAR.

with respect to a proper standard-setting process. Even though the ISA are not yet mandatory in the EU they are already applied in most EU countries.

Various developments in the EU audit market are relevant from a standard-setting viewpoint. First are the member state measures to implement the audit market reform. Here it is still open as to whether and, if so, when the EU Commission will declare ISA to be mandatory for audits in the EU. This is currently being examined by the Commission, amongst other things

Following close interaction with IFLAR the IAASB developed a draft of a discussion paper on improving audit quality. The discussion paper covers the focus areas audit quality, group audits, audits of financial institutions and professional scepticism. From the perspective of the oversight authorities, other important topics, e.g. determination of materiality, currently remain excluded however.

The thematic inspection of «letter-box» public company audits carried out by the FAOA at the three largest audit firms last year²⁵ was dealt with by the IAASB in its Staff Audit Practice Alert of August 2015²⁶. The IAASB considered the comments of the FAOA, together with those of the UK and Dutch oversight authorities²⁷. As the IAASB has recognised the growing importance of group audits it is currently preparing a draft of a discussion paper that will detail possible solutions. Like the FAOA²⁸ the IAASB emphasises that the responsibility of the auditor-in-charge for the direction, supervision and performance of the engagement can neither be transferred nor delegated. The requirements of «Quality control for an audit of financial statements» (ISA 220) apply to all audits. In particular this covers the responsibility of the auditor-in-charge in the following areas:

- Overall audit quality (ISA 220.8);
- Appropriateness of conclusions drawn in the acceptance and continuance process (ISA 220.12);
- Direction, supervision and performance of the audit engagement in accordance with professional, legal and regulatory standards (ISA 220.15);
- Performance of working paper review procedures in accordance with the firm's policies and procedures (ISA 220.16);
- Review of the audit documentation and discussions with the engagement team to be satisfied that sufficient appropriate audit evidence has

been obtained to support the conclusions reached and for the auditor's report to be issued (ISA 220.17).

Points of focus for 2016 inspections

As communicated in its newsletter of December 2015, the FAOA will focus on the following points in its regular 2016 inspections:

Financial audit

- Audit of income tax positions in the income statement and balance sheet (ISA 540/IAS 12)
- Audit of the cash flow statement (ISA 500/IAS 7)
- Audit of earnings per share in complex cases (ISA 500/IAS 33)

Regulatory audit

- Audit of compliance with risk management and risk control requirements (Art. 12 BankO, Art. 7 LiqO, Art. 12a CISO)
- Audit of compliance with AMLA requirements; particularly high risk transactions (Art. 12 to Art. 19 AM-LA-FINMA)
- Using the work of the internal auditor and involvement of external experts (Art. 5 para. 2 and 3 FINMAO, as well as FINMA Circular 2013/3 margin notes 48 and 49).

Particular attention will be paid as to whether there is evidence that appropriate professional scepticism was applied in performing the above audit procedures.

Further points of focus arise from the individual analysis of specific circumstances and relate to the application of auditing or accounting standards.

Cooperation with audit committees

Similar to the FAOA, the audit committee must assess and critically question the quality of the auditor's work. Given this similarity of interests the FAOA has intensified its contact with audit committees over the last two years. For example, as part of the inspections of state-regulated audit firms interviews are regularly held with the audit committee chairmen of PIE companies. The aim is to gain a better picture of the cooperation between the auditor and the audit committee. In addition, the FAOA issued a guide for audit committees²⁹. Importantly, the FAOA has repeatedly criticised the lack of professional scepticism of individual auditors in prior years. The FAOA hopes that professional cooperation between auditor and audit committee will lead to increased professional scepticism by the auditor towards management, particularly if the audit committee creates an environment in which the auditor can question management in an appropriately critical manner.

To be able to assess and question the work of the external auditor adequately it is imperative that the audit committee is composed appropriately. The Swiss Code contains relevant recommendations in this regard. The Code suggests that a qualified financial expert is required only in complex cases.

²⁵ Certain Swiss public companies only have a registered office in Switzerland and those responsible for the supervision and management of the group, as well as its accounting function, are abroad.

²⁶ www.ifac.org > publications-resources > staff-audit-practice-alert

²⁷ UK Financial Reporting Council's Audit Quality Inspection's Annual Report 2013/2014, Netherlands Authority for Financial Markets Results of the inspection of the quality of statutory audits at the Big 4 audit firms, 25 September 2014.

²⁸ www.rab-asr.ch > Oversight > Information of the FAOA

²⁹ www.rab-asr.ch > Oversight > Information of the FAOA > Information for audit committees

The FAOA, to the contrary, is of the opinion that at least one member of the audit committee should also always be a qualified financial expert.

The audit committee should actively manage the process for electing or re-electing the auditor. The full board is responsible for making the election proposal to the general meeting of shareholders in each case. As a rule, active management of the selection process by the audit committee increases the independence of the auditor towards the management of the audited entity. If an entity decides to change auditor it is advisable to put the engagement out to public tender. In this regard, it is important that clear assessment criteria are developed for the election of the auditor. Besides quantitative elements, measurable qualitative elements in particular should be given reasonable weight, respectively be taken account of. Qualitative criteria may, for example, include the following elements:

- Industry experience of the audit team;
- Auditor-in-charge and EQCR hours in relation to total audit hours;
- Extent of specialist involvement (forensic specialists, IT specialists, tax specialists, actuaries, IFRS specialists etc.);
- Accounting experience of team members (e.g. IFRS or Swiss GAAP FER experience);
- Manner in which subsidiaries and branches are covered (audit method, coverage by network firms etc.);
- Summarised results from the external quality control inspections of oversight authorities.

There is intense competition amongst audit firms. From the perspective of the oversight authorities competition within the audit industry is welcome. However, competition should not be based solely on the price of audit services. It is far more desirable for the

competition for audit appointments to be based mainly on service quality. Competition based on service quality is only possible, however, if the audit committee has the information relevant to its decision. The audit committee can assess the quality of work through its own experience in interacting with the auditor and, where applicable, through the available findings of the oversight authorities who review the auditor's working papers.

The audit committee should assure itself that the auditor is independent. The FAOA recommends that audit committees define clear internal rules to limit the non-audit services provided by the external auditor. Besides having a fee threshold, above which non-audit services require the express authorisation of the audit committee, having an absolute percentage limit for non-audit services in relation to the audit fee is also useful. In Switzerland there is no absolute limit to permitted non-audit services as, for example, provided for by the EU (70%). However, in 2013 the FAOA introduced a reporting requirement. Audit engagements must be reported if the ratio of other fees to audit fees reported in the annual report of an audited PIE exceeds 1:1 in a financial year. The reports are used by the FAOA as a basis for examining the permissibility of the non-audit services. However, the duty to report to the FAOA is not to be confused with an absolute permissible limit.

The mandatory rotation of the lead auditor after seven years reduces the risks that might arise from excessive personal familiarity between the auditor and the audited entity. In Switzerland there is no additional audit firm rotation requirement as such. In the EU, however, rotation requirements for audit firms auditing public companies have recently been introduced. Even if the EU requirements will rarely have a direct impact in Switzerland, it is likely that many PIE companies will change auditor more often in the interests of best practice.

The FAOA is critical of the EU audit firm rotation requirements. It appears more sensible for the audit committee to review the appropriateness of the external auditor's term of office periodically. This review should take place on a recurring basis and lead intermittently to the audit being put out to tender. It is also preferable for the remuneration of the auditor to be assessed and set by the audit committee and not management. This encourages the independence of the auditor towards the management of the audited entity. The active participation of the audit committee is important in this process.

It is undoubtedly important to audit quality for there to be appropriate communication and a good exchange of information between the audit committee and the auditor. It is common today for regular exchanges to take place between the audit committee or its chairman and the auditor. The extent of these exchanges depends on the complexity and risks of the entity and questions related to these. There should be periodic private meetings between the audit committee and the external auditor which management does not attend. This allows the audit committee to form an independent picture of the work and associated judgemental decisions of management. In addition to this, periodical meetings between the chairman and the auditor-in-charge are common and worthwhile. The auditor normally has considerable accounting and auditing know-how. Even so, in terms of «checks and balances» it is important that the audit committee regularly questions the work of the auditor.

Besides reporting to the general meeting of shareholders, state-regulated auditors are also required to prepare a comprehensive report to the board. The content of the report first follows the law and secondly professional standards. FAOA Circular No. 1/2009 specifies minimum mandatory requirements regarding the report which go beyond the recommendations of the profession (see section «Standard setting» above). The FAOA requirements ensure, amongst other things, that the audit committee has the information it needs to carry out its duties.

Regulatory Audit

Introduction

The bundling submission amendments to the AOA and AOO have been in force since 1 January 2015. Since then, the oversight authority of the FAOA has included all financial and regulatory audit services provided to PIE.

Unaffected by the bundling submission, regulatory audit firms and regulatory auditors-in-charge play a decisive role in the Swiss dualistic financial market supervision system. As the extended arm of FINMA they perform the regulatory audits of those supervised by FINMA. Their audit responsibilities go beyond those of the statutory auditor. Regulatory audit firms and regulatory auditors-in-charge must therefore fulfill demanding licensing requirements.

With the transfer of responsibility for the oversight of regulatory audit firms and regulatory auditors-in-charge to the FAOA, the organisational structure of the FAOA was extended to include a regulatory audit department. The organisational separation of financial and regulatory audit mirrors the fundamental separation of financial and regulatory audit engagements at audited clients. Despite the formal separation of financial and regulatory audit, duplication is minimised as far as possible. Through key account management it is ensured that each state-regulated audit firm has one main FAOA point of contact.

Cooperation with FINMA

The regulatory audit requirements of FINMA, under financial market laws, are closely related to financial audit principles and standards. FINMA therefore sets the regulatory audit standards for regulatory audit firms. These are to be complied with while performing regulatory audit services.

FINMA is furthermore responsible for the interpretation of the special accounting standards within financial market laws that apply to the statutory and consolidated financial statements of banks, securities traders and collective investment schemes. In this regard, FINMA issues relevant circulars, if required. In connection with the regulatory audit, FINMA has additionally issued its own requirements concerning incompatible activities.

Prior to an FAOA inspection there is an informal exchange with FINMA. The information needed by the FAOA for file selection and for performing the file reviews is exchanged. The FAOA informs FINMA of the results of the firm and file reviews by providing a copy of the final inspection report, which includes the comment forms relating to the regulatory audit.

2015 inspections

Eight regulatory audit firms were inspected in 2015, including:

- The five that are subject to an annual inspection cycle because they audit more than 50 PIE,
- one of five audit firms that is subject to inspection at least once every three years, and
- two of a total of eight pure DSFI regulatory audit firms that are inspected at least once every five years.

Audit quality at the eight firms inspected in 2015 was assessed on the basis of 18 file reviews. The following categories of financial market companies were selected:

- Eight banks, including two systemically relevant banks, three cantonal banks, a foreign-controlled bank and two further banks,
- a securities trader,
- two insurers,
- an asset manager,
- a deposit bank,
- a fund manager, as well as the collective investment scheme administered by the manager,
- four DSFI.

Figure 9

Overview of FAOA inspections and Comment Form findings 2015

Categories	Five largest audit firms	Other	Total
Number of inspections	3 ³⁰	3	6
Comment Form Findings Firm Review Regulatory Audit	3	6	9
Comment Form Findings File Review Regulatory Audit	21	18	39
Number of inspected files	9 ³¹	5	14

Firm Review

In 2015 eight inspections were performed, of which six were completed. The firm reviews resulted in a total of nine comment form findings, including two findings on quality assurance systems whose design was insufficient for the regulatory audit. The other comment form findings related to various deficiencies in firm-wide quality assurance controls, for example, controls over the monitoring of audit and training hours of the regulatory auditor-in-charge.

There are more comment form findings per firm review at the smaller regulatory audit firms. Although the quality assurance systems of the smaller regulatory audit firms are generally less complex, based on client structures, they are confronted by challenges in the following principal areas:

- Transparency as to the performance of key controls and the formalisation of those controls;
- On-going update of the quality assurance system and controls for changes in regulatory requirements.

File Review

In 2015, 18 inspections were performed, 14 of which were completed. As in the financial audit area, audit quality is heavily dependent on the engagement team members. Their technical knowledge of regulatory requirements is particularly important.

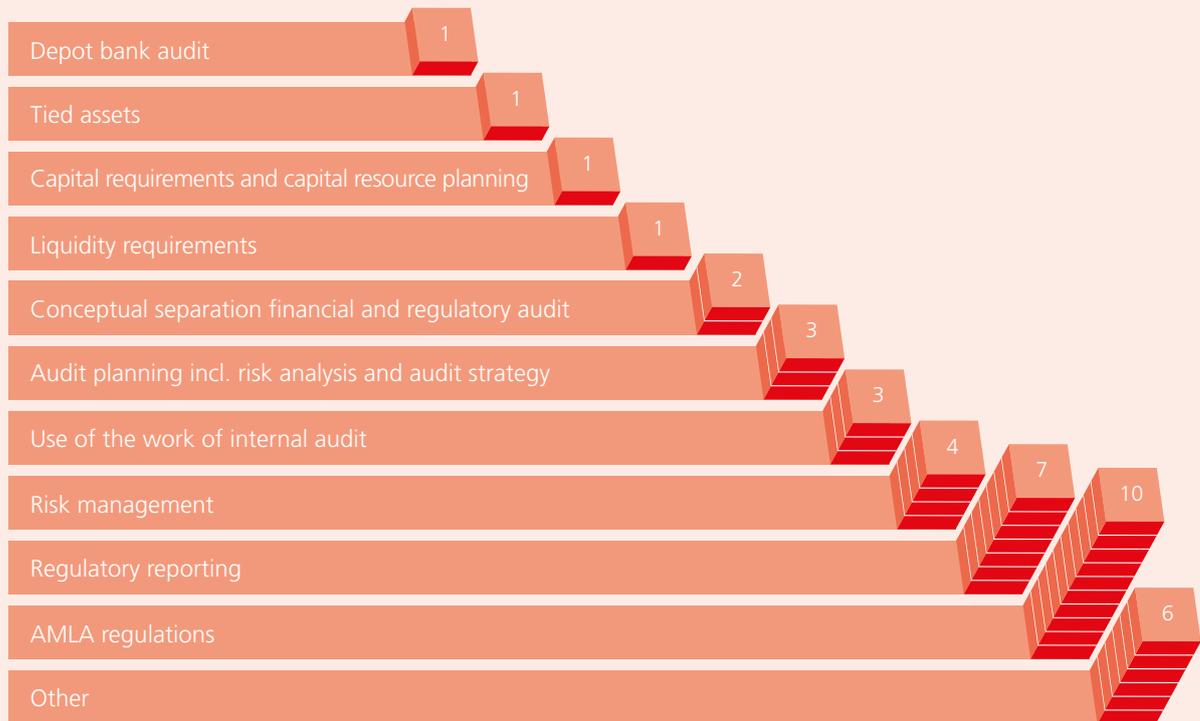
To ensure audit quality, regulatory audit firms should, on the one hand, focus on the consistency of audit quality across audit engagements of different size, complexity, risk and type of financial market licence. On the other, on-going regulatory education and training must be provided to the partners involved and monitored adequately.

Figures 10 and 11 analyse the 2015 file review findings according to audit area and cause:

³⁰ The inspection fieldwork was completed at a further two of the largest five audit firms. Since the findings process is still at an early stage these are not covered by the Activity Report 2015.

³¹ The inspection fieldwork was completed with respect to a further four file reviews. Since the findings process is still at an early stage these have not been covered by the Activity Report 2015.

Figure 10
Number of 2015 regulatory audit file review comment form findings by audit area (39 findings)



The FAOA identified the most comment form findings with respect to compliance with AMLA regulations (c.f. Figure 10 and the section «2015 points of focus» for further details).

In carrying out its oversight activities FINMA must be able to rely on the quality of regulatory reporting. Seven of the 39 findings related to regulatory reporting deficiencies. These related to five regulatory audit engagements of varying size and financial market licence type and audited by four different regulatory audit firms. The main reason for the large number of findings is that FINMA determined in its regulatory audit standards that materiality considerations are irrelevant to the regulatory audit and especially to reporting.

Figure 11

Causes of 2015 regulatory audit file review comment form findings



The main cause of comment form findings was the failure to obtain sufficient appropriate audit evidence or to show sufficient professional scepticism in planning and performing the audit³². In many cases this resulted in inadequate regulatory reporting to FINMA.

2015 points of focus

The points of focus for 2015 were communicated in the 2014 Activity Report:

Using the work of internal auditors and involvement of an auditor's expert (e.g. actuary)

It was evident in many file reviews that, contrary to the requirements of FINMA Circular 2013/3 Testing (margin note 48), the auditor failed to perform a critical assessment of the work of the internal auditor where this was relied upon, or such an assessment was not comprehensible.

Reliance upon the work of internal audit for the same audit area in two consecutive years (margin note 49 of FINMA Circular 2013/3) and the direct assistance of internal audit (margin note 44.8 of FINMA Circular 2013/3) led to reportable findings.

Additionally, with respect to the effectiveness of internal control systems (ICS) deficiencies were found in the use and assessment of third party audit reports on outsourced systems and functions (e.g. ISAE 3402 ITGC reports not covering the whole audit period).

Audit of compliance with investment regulations at insurance companies and collective investment schemes

In individual cases deficiencies in audit approach were evident in as much as the auditor failed to ensure that the design and operation of controls had been effective throughout the whole audit period. Appropriate coverage for the whole year was confirmed in the regulatory reporting however.

In certain cases a lack of professional scepticism was found towards the key controls that ensure sustained compliance with investment regulations. Furthermore, in some cases there was no evidence as to the effectiveness of controls.

Audit of compliance with AMLA regulations

In the AMLA audit, deficiencies were most particularly found as regards intransparent sample selection. Such selections should reduce sampling risk to an acceptably low level (margin

note 42 of FINMA Circular 2013/3). In certain cases the same sampling deficiency was also found as regards credit assessments.

Furthermore, particularly with regard to the audit of technical installations for monitoring higher risk transactions or identifying higher-risk business relationships through automatic matching of names (e.g. phonetic) to relevant databases, the FAOA found that insufficient appropriate audit evidence was obtained or insufficient professional scepticism applied.

Points of focus for 2016 inspections

The 2016 points of focus for the regulatory audit area are listed in the financial audit chapter.

³² Margin notes 36 and 41 of FINMA Circular 2013/3

International

Introduction

The FAOA strives for effective and efficient cooperation with its foreign partner authorities. In this the protection of investors and the avoidance of duplication are central. In 2015 administrative assistance was again provided in a large number of cases. Due to the listing of Swiss entities in the US and the presence of US groups in Switzerland, cooperation with the US remains intensive. At the same time, the number of cross-border issues relating to EU member states is still significant³³.

Extra-territorial scope of the AOA Extra-territorial jurisdiction of the FAOA (shares)

The AOA most particularly serves to protect investors in the Swiss capital market. As foreign entities are also active in this market the law also has an extra-territorial impact. Auditors of foreign companies that have shares quoted on a Swiss stock exchange or outstanding Swiss bonds (whether quoted or not), and auditors of material subsidiaries of the above-mentioned companies, are subject to the jurisdiction of Swiss audit oversight. To avoid duplication, there is no licensing and oversight of foreign audit firms if they are subject to oversight from a foreign audit oversight authority recognised by the Federal Council or if the outstanding bonds are guaranteed by a company whose auditor is subject to audit oversight by a recognised oversight authority (Art. 8 AOA).

On 1 July 2015 the Federal Council implemented part of the above-mentioned extra-territorial jurisdiction of the FAOA (Art. 8 para. 1 letter a and para. 2 AOA). As a result, the AOA has also applied to the auditors of foreign companies with Swiss quoted shares since 1 October 2015. The auditors of material subsidiaries of foreign issuers are not captured by this (cf. in addition section Extra-territorial jurisdiction of the FAOA (bonds)).

Oversight of foreign audit firms will be delegated to the oversight authorities of their country of domicile as far as possible. This pre-supposes, however, recognition of equivalence by the Federal Council (Art. 8 para. 2 AOA). The latter does not mean that the foreign oversight system is identical to the Swiss oversight system; far more decisive is whether it has the significant functional elements necessary to ensure that the audit services provided are of sufficient quality. Against this background the Federal Council has recognised 32 foreign audit oversight authorities as equivalent (cf. page 48).

Audit firms supervised by foreign audit oversight authorities whose equivalence has been recognised must nevertheless declare themselves to the FAOA. The declaration serves to ensure that the exemption from Swiss licensing and oversight is not unjustly claimed. The declaration form can be downloaded from the FAOA homepage. Affected audit firms had until 1 January 2016 to fill in the declaration form. The FAOA has published a list of all exempted audit firms on its homepage.

Non-exempted auditors of foreign companies have to obtain a state-regulated audit firm licence since 1 October 2015. A licence is granted if legal licensing conditions (cf. Art. 9 AOA), or their equivalent, are met and there is assurance that legal provision of information and reporting requirements, as well the requirement for the FAOA to have access for inspections, will be fulfilled (Art. 9a AOO). If only equivalent licensing conditions are met the licence of the foreign audit firm is restricted to the provision of audit services to foreign companies with Swiss quoted shares. Statutory audit services for Swiss companies are therefore not permitted. One foreign audit firm was licensed by the FAOA as at 31 December 2015 (Deloitte & Co S.A., domiciled in Buenos Aires/Argentina, Reg. Nr. 600,001).

Extra-territorial jurisdiction of the FAOA (bonds)

In defining the extra-territorial jurisdiction of the FAOA (Art. 8 AOA) in 2005, the legislator assumed that the oversight of foreign auditors could be largely delegated to the oversight authorities in the auditors' countries of domicile (cf. in addition section «Extra-territorial jurisdiction of the FAOA (shares)»). Based on the experience of prior years it is apparent, however, that this is not always possible. There is either no oversight authority in the auditor's home country or only one that cannot be recognised as equivalent. The licensing and oversight of foreign audit firms by the Swiss oversight authority can, however, have consequences for the attractiveness of the Swiss capital market. It is in the interest of the financial centre to minimise these but without adversely affecting investor protection.

For this reason the Federal Council decided to moderately reduce the extra-territorial jurisdiction of the oversight authority. To this end, on 1 July 2016, it adopted a dispatch to change audit oversight law (BBl 2015 5717). The dispatch provides for FAOA oversight to be limited to the issuers of listed bonds. This removes the oversight obligation with respect to unlisted bonds (Art. 8 para. 1 letter b AOA). Likewise, oversight of the auditors of so-called material subsidiaries would also be waived (and this for foreign issuers of both shares and bonds, Art. 8 para. 1 letter c and d AOA). In addition, the possibilities for exempting foreign audit firms from Swiss oversight should be broadened while maintaining investor protection. Thus in all cases investors must be informed clearly if an auditor is not under state oversight (Art. 8 para. 3 letter b and para. 5 D-AOA).

³³ At the end of 2015 there are 19 (2014: 22) inquiries or requests for administrative assistance pending. Of these 12 are from member states of the EU and EEA, 6 from the USA. One inquiry came from another country.

Bilateral cooperation

Relations with the European Union

Cooperation with the EU is in a state of flux. On 3 April 2014 the EU adopted the so-called EU audit reform in response to the role of auditors in the financial and economic crisis. The new regulations come into force directly in mid-2016 (ordinance³⁴), respectively must be implemented within national law by the EU member states (directive³⁵) by that date. The reform could affect the international administrative assistance of the FAOA in various ways:

- First, the reform package leads to new modalities for the administrative assistance provided by the audit oversight authorities of EU member states. It will be necessary to check whether bilateral cooperation agreements concluded under the old law remain valid under the new law.
- The implementation of the EU reform will lead to reorganisations and restructurings at various European audit oversight authorities. This could also impact future cooperation between the FAOA and these authorities.
- Through the reform various working groups that previously functioned on a rather informal basis will be restructured to become formal EU committees. It is unclear whether the FAOA will retain its observer status in these committees.

The reform basically has no impact on the so-called «adequacy decision» of the EU of 5 February 2010 and EU recognition of the equivalence of the Swiss oversight system on 19 January 2011. The FAOA therefore continues to have the opportunity to conclude cooperation agreements with EU member states.

State-regulated audit firms domiciled in Switzerland have the possibility, in particular, to register with EU audit oversight authorities. An overview of the state-regulated audit firms registered in the EU is given on page 50.

Cross-border registrations occasionally give rise to legal questions to be resolved with the involvement of the FAOA.

Cooperation with the USA

On 4 April 2011 the FAOA and FINMA agreed a Statement of Protocol (SoP; equivalent to an MoU) with the PCAOB for cooperation in the oversight of audit firms. The SoP allowed for the transfer of confidential information between the respective parties and the performance of joint inspections. As part of the first inspection cycle from 2011 to 2013 each of the five largest Swiss audit firms were jointly inspected once by the FAOA and PCAOB. The PCAOB has finalised all the corresponding inspection reports:

- Report of 25 March 2014 on the inspection of PricewaterhouseCoopers AG in 2011
- Report of 26 June 2014 on the inspection of Deloitte AG in June 2012
- Report of 24 November 2014 on the inspection of Ernst & Young AG in 2011
- Report of 24 November 2014 on the inspection of BDO Visura International AG in 2012
- Report of 9 April 2015 on the inspection of KPMG AG in 2013

The inspection reports of the PCAOB comprise of four parts: Part I («Inspection procedures and certain observations»), Part II («Detailed discussion of inspection results»), Part III («Post inspection procedures») and Part IV («Response of the firm to draft inspection report»). Parts I and IV are published on the homepage of the PCAOB once the report is finalised³⁶. The audit firm subsequently has a deadline of twelve months to propose specific remedial measures to address the identified deficiencies. If sufficient measures are not taken within this period Part II is also published³⁷. This

deadline passed for four Swiss audit firms in 2015. In all cases the PCAOB concluded that sufficient measures had been taken.

Since 2014 the PCAOB has been performing a second inspection cycle based on the SoP extended as of 4 April 2014. One Swiss audit firm was jointly inspected by the FAOA and PCAOB in 2015. Cooperation between the FAOA and the PCAOB continued to develop positively during this time. On the one hand, the PCAOB has cooperated more closely with the FAOA. On the other, procedural flows between the authorities could be accelerated.

Multilateral cooperation

IFIAR

IFIAR is an important platform for the FAOA to discuss current audit oversight challenges and corresponding solutions in an international context. Currently, the presidency is held by the Dutch audit oversight authority (AFM) and the vice-presidency by the Canadian audit oversight authority (CPAB). The Chief Executive Officer of the FAOA acts as IFIAR Treasurer.

IFIAR was founded on 15 September 2006 and currently has around 50 independent audit oversight authorities. The topics dealt with by IFIAR since its foundation have broadened continuously.

³⁴ Regulation No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (OJ L158 of 27 May 2014, p. 77 f.)

³⁵ Directive 2014/56/EU of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts (OJ L158 of 27 May 2014, p. 196 f.)

³⁶ www.pcaob.org > Inspections > Reports

³⁷ The FAOA, on the other hand, does not publish inspection reports but rather presents the results of its work in its annual Activity Report in an aggregated and anonymised form.

In response to these developments IFIAR decided on 15 September 2015 to implement a new organisational structure. In particular, a board will be created to implement the strategic decisions of members. The new structure will professionalise and speed up IFIAR working and decision-making processes.

In 2015 IFIAR held a plenary meeting in Taipei and an interim meeting in Tokyo. The FAOA further involved itself in IFIAR debates at the following levels:

- Enforcement Working Group (EWG): The aim of the EWG is to exchange experiences gained in sanctioning breaches of standards by auditors and audit firms. A one day workshop on specific law enforcement questions was held on the occasion of the plenary meeting in Taipei. Additionally, on 28 April 2015 the working group published a report on the various enforcement instruments within the legal jurisdictions of IFIAR members.
- International Cooperation Working Group (ICWG): As a member of this working group the FAOA is contributing most particularly to the preparation of the IFIAR Multilateral Memorandum of Understanding (cf. IFIAR MMoU). Following agreement amongst IFIAR members on the wording of the MMoU, the ICWG is responsible for assessing the applicants for membership.
- Inspection Workshop Working Group (IWWG): The multi-day annual inspection workshops provide training for inspectors on the one side. On the other, regular exchanges take place between the inspectors of the oversight authorities represented. Current audit and audit market developments are covered. The FAOA took part in this year's workshop in London and contributed to the discussion with presentations.

- Standards Coordination Working Group (SCWG): This working group monitors the standard-setting of the international profession and provides the respective standard setters with the practical experiences IFIAR members have had in applying and enforcing existing standards (cf. additional details under «Standard setting» above).

IFIAR Multilateral Memorandum of Understanding (MMoU)

The MMoU approved by IFIAR members on 30 June 2015 represents an important step for international cooperation. After negotiations lasting two years IFIAR members agreed on a wording. The aim of the MMoU is to promote the exchange of information in the areas of licensing, oversight, inspections and disciplinary investigations, subject to respective pertinent national laws.

In terms of content, the MMoU is comparable with the bilateral MoU of the FAOA: In the MMoU the authorities provide assurance of mutual cooperation in the audit oversight area. The modalities of cooperation are defined based on the classical principles of administrative assistance (particularly confidentiality principles, the speciality rule and the so-called «long arm» with respect to onward sharing abroad). The MMoU should be seen as a framework, representing the lowest common denominator of all IFIAR members and allowing parties to deviate from it in a particular bilateral relationship. Even if additional agreements will most likely be found in bilateral relationships, the MMoU should make the negotiation of cooperation agreements easier. As it deals with around 90 percent of «classic» administrative assistance issues, negotiations between authorities will focus on the most important matters and thus be significantly shortened.

Participation in the MMoU is limited to IFIAR members. Signature will follow an assessment by the ICWG (cf. section IFIAR), in which the administrative assistance dispositif of the entry candidate is examined thoroughly.

If the FAOA cannot cooperate with another IFIAR member for legal reasons it may refuse administrative assistance. Provided the assessments prove positive, individual members will be able to sign the MMoU at IFIAR's plenary meeting in Istanbul in April 2016.

EAIG

Since 2011 the FAOA has taken part in the meetings of the European Audit Inspection Group (EAIG), a body of oversight authorities from EU member states. As part of its work, the EAIG analyses anonymised findings from the inspections of member audit oversight authorities and performs root cause analyses of identified deficiencies. Amongst other things, the results form the basis for discussions with standard setters and representatives of the audit firm networks. In addition, current developments in the audit and in the organisation of audit firms are discussed.

An inspection programme (so-called Common Audit Inspection Methodology, CAIM) for the assessment of quality assurance systems under ISQC 1 was prepared together with other regulators in 2014 and first used in 2015. Since 2015 further inspection programmes on particular topics relevant to file reviews have been developed. FAOA implementation will take place gradually over the coming years. These inspection programmes will unify the inspection approach of the participating oversight authorities, which will also make it easier to compare findings. Such a coordinated approach is particularly needed for the oversight of global audit networks. Jointly with other EAIG members, the FAOA has also submitted written comments on regulatory proposals of the IAASB and IESBA.

As Switzerland is not a member of the EU the FAOA only has an observer status at the EAIG. The future participation of the FAOA in the EAIG depends on the future institutional development of the EAIG, which is heavily influenced by the new EU law (cf. section «Relations with the European Union»).

Colleges of Supervisors

The affiliation of various national audit network members at the European-level already led to the formation of «Colleges of Supervisors» from the regulatory side several years ago. Participating oversight authorities coordinate particular oversight activities within these colleges. Having initially exchanged process-related information within these bodies, the trend now is towards the exchange of findings from national inspections. As the FAOA cannot exchange confidential information about domestic inspections to the same extent as EU member states, it has had to give up its collaboration in these colleges. Furthermore, the nature and extent of the FAOA's further participation in the Colleges is also dependent upon the implementation of the new EU law (cf. section «Relations with the European Union»).

Licensing

Introduction

Following the licensing renewal wave of 2014, with over 2,000 audit firm licences expiring, the number of expiring licences still stood at around 750 in the reporting year.

In 2015 the number of new licence applications from both individuals and audit firms was slightly down compared to prior years.

Statistics

Licences

The FAOA first issued licences for individuals and legal entities in 2007. Since then the number of licensed individuals has increased year-on-year. This trend also continued in 2015. Despite numerous cancellations due to retirement, waivers, deaths and licence withdrawals, the number of licensed individuals increased by a further 267 compared to the prior year (cf. Figure 12). The number of individuals with a definitive licence has therefore increased continually from around 6,300 to more than 8,900 since 2007 and the start of licence issuance.

Figure 12

Licensed individuals and audit firms as at 31 December 2015³⁸

Type of licence	Auditor	Audit expert	Total at 31.12.2015	Total at 31.12.2014
Individuals	2,481	6,446	8,927	8,660
Sole proprietorships	261	299	560	622
Audit firms	811	1,609	2,420	2,512
State-regulated audit firms	–	33	33	23
Total licences	3,553	8,387	11,940	11,817

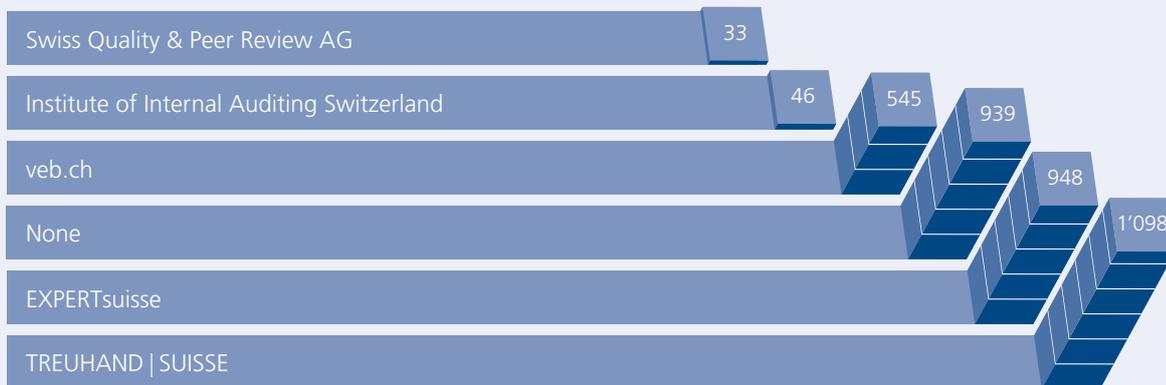
Following the first ever reduction in the number of licensed audit firms last year, the number of audit firms licensed by the FAOA fell again this year. The reduction in sole proprietorship and audit firm licences is largely due to the waiving of licence renewals. By contrast, the number of state-regulated audit firms (33) increased markedly compared to the prior year (23). This increase is primarily due to the fact that audit firms carrying out so-called DSFI audits have required a state-regulated audit firm licence since 1 January 2016.

Membership of professional associations

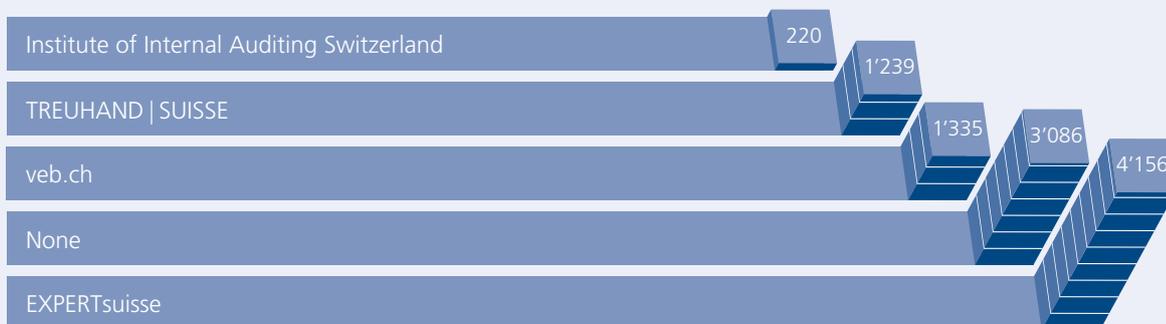
Membership of a professional association is not a licensing requirement for either individuals or legal entities. Although recorded by the FAOA, this criterion is therefore not considered in checking licensing conditions. Nevertheless, it can be assumed that voluntary membership of a professional association has a positive effect on audit quality. Professional association memberships are thus welcomed by the FAOA. In 2012 there were still 1,426

FAOA-licensed audit firms that did not belong to a professional association. In the meantime, only 939 licensed audit firms are still without a professional association membership (cf. Figure 13). This means that around 70 percent of licensed audit firms are registered as firm members with at least one professional association.

³⁸ All numbers refer to legally binding completed proceedings. Pending appeals have not been included. The determining factor is therefore the status of the licensing process as per the end of 2015.

Figure 13Professional association memberships³⁹ of licensed audit firms by 31 December 2015

Over the last year there have been only small changes with regard to the professional association memberships of licensed individuals. Around a third of all licensed individuals still do not belong to one of the professional associations.

Figure 14Professional association memberships⁴⁰ of licensed individuals by 31 December 2015

³⁹ Including multiple answers from audit firms with multiple professional association memberships.

⁴⁰ Including multiple answers from individuals with multiple professional association memberships.

Performance of audits

State-regulated audit firms perform around 24% of all limited and ordinary audits in Switzerland (cf. Figure 16). For ordinary audits the proportion is, however, much greater. That being said, only slightly more than 13% of all audited entities have op-

ted for an ordinary audit of their financial statements. Although 554 audit firms provide ordinary audits, a 78% majority of all ordinary audits are performed by the 33 state-regulated audit firms. More than two thirds of all audit firms with an audit expert licence provide no ordinary audit services.

Figure 15
Frequency of ordinary audits (Status: 31 December 2015)

Number of audit firms	2015	2014
1 to 5 ordinary audits:	377	398
6 to 10 ordinary audits:	91	101
11 or more ordinary audits:	86	87
Total number of audit firms performing ordinary audits:	554	586

Figure 16
Total number of limited (LA) and ordinary (OA) audits performed⁴¹ (Status: 31 December 2015)

Licence type	Number LA	Number OA	2015	2014
State-regulated audit firms	15,178	10,744	25,922	26,324
Other licensed audit firms	78,589	3,105	81,694	82,852
Total audits performed	93,767	13,849	107,616	109,176

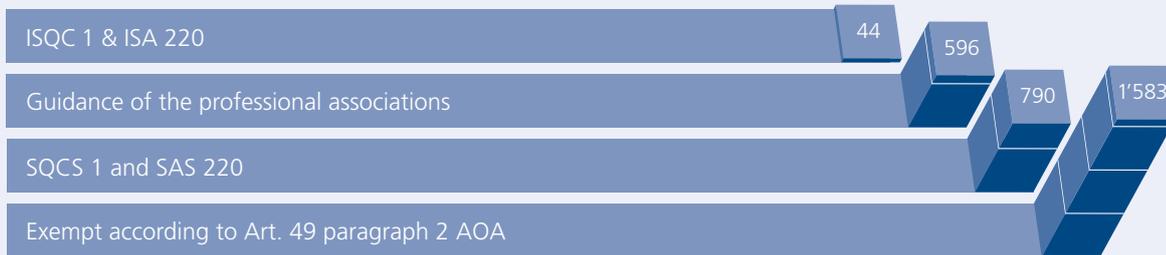
Internal quality assurance

The internal quality assurance standard applied by audit firms is disclosed by way of self-declaration in the FAOA register of auditors and surveyed annually by the FAOA.

⁴¹ All numbers are derived from on-line self-declarations by the audit firms.

Figure 17

Audit firm declarations as to applied standard of internal quality assurance (Status 31 December 2015)



The number of audit firms using SQCS 1 and SAS 220 increased by 44 compared to last year (prior year 746). It should thereby be noted that audit firms performing ordinary audits have been required to use quality assurance standard SQCS 1/SAS 220 or a higher standard since 15 December 2013. More frequently, however, SQCS 1/SAS 220 is also used voluntarily. It is also pleasing that references are no longer made to the obsolete quality assurance standard SAS 220. The picture is marred by the fact that more than half of all audit firms still have no complete internal quality assurance system. However, the planned elimination of reliefs for small firms would improve this situation (cf. below).

Relief for small firms

In 2016 the Federal Council will have to decide whether the reliefs currently applying to one-man audit firms performing only limited audits should be continued beyond 1 September 2016 (Art. 49 para. 2 AOO). Discontinuance would result in every audit firm having to have an internal quality assurance system commensurate with its size and complexity. Discontinuance would further mean that the FAOA could inspect compliance with training requirements uniformly at all audit firms. This control over training is currently only possible at firms with a quality assurance system.

Assessment of quality assurance questionnaires

The FAOA checks the requirements for a quality assurance system upon initial licensing, as well as every five years upon licence renewal. The formal quality assurance check is based primarily on a questionnaire.

Analysis of the questionnaires shows that sufficient attention is generally paid to the quality assurance system. In isolated cases potential for improvement was found in the following areas:

- Internal training: Some audit firms have inadequate internal controls over training. It is overlooked that an internal control is also necessary where controls from professional associations exist, as the controls of the professional associations are primarily quantitative not qualitative in nature.
- Independence: This is sometimes only assessed as part of the acceptance and continuance process. However, declarations of independence are also to be requested from all audit firm employees on an annual basis.
- Internal monitoring: In isolated instances SQCS 1 internal monitoring reports are insufficiently firm-specific and in isolated cases do not cover all areas of the firm. Further, it is not specified that all auditors-in-charge must be covered by internal monitoring at least once every three years.

Transfer of FINMA licences

Based on the AOO, the FAOA issues a total of four types of licences to state-regulated audit firms, respectively regulatory audit firms, and auditors-in-charge auditing under financial market law:

- Audit of banks, stock exchanges, securities traders and central mortgage bond institutions;
- Audit of insurance companies;
- Audit of fund managers, investment funds, open-ended investment schemes (SICAV), limited partnerships for collective investment schemes, investment companies with fixed capital (SICAF), asset managers of collective investment schemes, as well as representatives of foreign collective investment schemes;
- Audit of financial intermediaries under the direct supervision of FINMA (DSFI).

The licence of a regulatory audit firm or regulatory auditor-in-charge generally permits the performance of a regulatory audit only in the regulatory area for which the licence was issued, if the competence and skills to carry out the engagement exist. Separation of the individual regulatory areas allows account to be taken of respective industry characteristics and the particularities of audit performance and reporting in each category.

Under the transitional provisions of the AOA (Art. 43a para. 1 AOA) regulatory audit firms and regulatory auditors-in-charge may perform audits under financial market laws until 31 December 2015, provided they held the relevant FINMA special licence at the time of the transfer of the oversight authority to the FAOA on 1 January 2015.

Since 1 January 2016 all individuals and legal entities performing audits under financial market laws require an FAOA licence. Under the transitional provisions of the AOA and AOO FINMA licences have lapsed, or rather are no longer valid.

Licensing of regulatory audit firms

At the beginning of 2015 the FAOA determined which regulatory audit firms complied with licensing conditions, based on information supplied by FINMA in December 2014. Compliant audit firms received the

relevant licence during the course of 2015. No licence application subject to fees needed to be submitted, only a confirmation that no activities had been undertaken requiring approval under financial market laws. Compliance with this condition will be a matter covered by future inspections.

Two firms abstained from submitting such a confirmation and therefore could not be licensed by the FAOA.

Regulatory audit firms that had previously audited only financial intermediaries, directly supervised by FINMA (DSFI), received the status of a state-regulated audit firm with certain specific reliefs. These DSFI regulatory audit firms are still not permitted to audit public companies. This form of state-regulated audit licence relates solely to the audit of DSFI.

A total of 18 regulatory audit firms were licensed to audit under final market laws as of 1 January 2016.

Figure 18

Regulatory audit firms according to licence type (Status: 31 December 2015)

Licence type	Number
Audits under the Banking Act (BankA), the Stock Exchanges and Securities Trading Act (SESTA) and Mortgage Bonds Act (MBA) / audits under the Collective Investment Schemes Act (CISA) / audits under the Insurance Supervision Act (InsSA) / audits of DSFI	6
Audits under BankA, SESTA and MBA / audits under CISA / audits of DSFI	1
Audits under CISA/audits of DSFI	1
Audits under CISA	1
Audits under InsSA	1
Audits of DSFI	8
Total regulatory audit firms	18

Licensing of regulatory auditors-in-charge

Supported by the information received from FINMA, it was also possible to determine which regulatory auditors-in-charge met the work experience (Art. 11d to 11g para. 1 letter a AOO) and audit hours (Art. 11d to 11g para. 1 letter b AOO) requirements.

It was not possible to perform an advance check of compliance with training hours' requirements (Art. 11d to 11g para. 1 letter c AOO). These conditions first had to be met on 1 January 2016.

Regulatory auditors-in-charge fulfilling work experience and audit hours' requirements received the relevant FAOA licence during the course of 2015 without a licence application, subject to fees. Individuals not meeting the licensing conditions of

an area (e.g. DSFI) were accordingly informed and had the possibility to submit a licence application, subject to fees and documentary evidence, of compliance with licensing conditions. Only a few individuals made use of this possibility.

As of 1 January 2016 a total of 212 regulatory auditors-in-charge, with a total of 312 licences, were licensed under financial market laws:

Figure 19

Regulatory auditors-in-charge according to licence type (Status: 31 December 2015)

Licence type	Number of regulatory auditors-in-charge
Audits under BankA, SESTA and MBA / audits under CISA / audits of DSFI	31
Audits under BankA, SESTA and MBA / audits under CISA	28
Audits under BankA, SESTA and MBA / audits under InsSA	1
Audits under BankA, SESTA and MBA / audits of DSFI	6
Audits under BankA, SESTA and MBA	59
Audits under CISA / audits of DSFI	3
Audits under InsSA	39
Audits under CISA	20
Audits of DSFI	25
Total licences	212

Licence type	Number of licences
Audits under BankA, SESTA and MBA	125
Audits under CISA	82
Audits under InsSA	40
Audits of DSFI	65
Total licences	312

Licence renewal

To continue to provide statutory audit services, all licensed audit firms must renew their licences every five years. Having managed over 1,500 renewal applications last year, the FAOA checked 541 licence renewal applications in the reporting year (cf. Figure 20).

Statistics

749 audit firms were due to renew their licences in 2015. As in the previous year, a large proportion of audit firms waived renewal at the end of the five year licence term. Around a sixth (16%) of affected firms notified the FAOA of their licence renewal waiver. These audit firms were deleted from the FAOA register of

auditors upon expiry of the existing licence term. A further 7% of audit firms subject to licence renewal did not submit any documentation to the FAOA despite repeated requests. These audit firms were also deleted from the register of auditors upon expiry of the existing licence. Additionally, 4% of audit firms subject to licence renewal applied to be deleted from the register of auditors before

expiry of the five year licence. Upon receipt of the relevant withdrawal form, these firms were also deleted from the public register.

Figure 20
Number of licence renewals granted in 2015

Licence type	Auditor	Audit expert	Total 2015	Total 2014
Sole proprietorships	35	40	75	287
Audit firms	165	293	458	1,275
State-regulated audit firms	0	8	8	3
Total licence renewals	200	341	541	1,565

Auditor independence
Independence for the limited audit in general

For both the ordinary (Art. 728 para. 1 CO) and limited (Art. 729 para. 1 CO) audit, the law requires the auditor to be independent and to reach an objective audit opinion. In both cases independence may not be impaired, either in fact or appearance.

The law grants two exceptions to the benefit of the limited audit: First, it is permissible in principle to provide accounting assistance and other services to the audited entity; if there is a risk of self auditing, however, suitable organisational and staffing arrangements must be made to ensure that a reliable audit takes place (Art. 729 para. 2 CO). Secondly, there is no requirement for the auditor-in-charge to rotate after seven years (Art. 730a para. 2 CO). Conversely, this means that the matters incompatible with independence mentioned in the law (Art. 728 para. 2 CO) apply to both the ordinary and limited audit. Since the enactment of the law in 2008 the practice of the

FAOA follows these requirements.

Nevertheless, the opinion was occasionally encountered that the legislator had wanted to provide for very general, and not only selective, relief for limited audits as regards independence. In the absence of a legal basis, however, there is no place for further exceptions alongside the above-mentioned scenarios; there is no evidence in the documentation (dispatch, parliamentary consultation) of a general «more generous» definition of independence for the limited audit⁴².

In 2015 this question was again dealt with under case law and again the conclusion was reached that the previous practice of the FAOA was in conformity with the law⁴³. In the process the FAC also considered the recent above-mentioned expressions of opinion and came to the conclusion that they represented only the personal views of the authors. Matters incompatible with independence for the ordinary audit are therefore also important for the limited audit to avoid the appearance of obvious bias.

There is thus no reason to deviate from «established case law», according to which auditor independence requirements are basically the same for the ordinary and limited audit⁴⁴.

⁴² Cf. in addition the statements made in the Activity Report 2014, 34 f.

⁴³ Cf. FSC Ruling No. 2C_125/2015 of 1 June 2015 (E. 4.2: «not fundamentally different»), as well as FAC Rulings No. B-4868/2014 of 8 October 2015 (E. 5.5: «basically the same») and No. B-2632/2014 of 15 December 2015 (E. 3.2.1: «basically no difference»).

⁴⁴ Cf. FAC Ruling No. B-4868/2014 of 8 October 2015, E. 5.5.

FAQ on accounting assistance

On 21 August 2015, in conjunction with the new edition of the Standard on the Limited Audit, the FAOA published a revised version of its FAQ of 18 July 2011 on auditor independence in the limited audit. This considers the question as to the degree to which a limited audit auditor can provide accounting or other services without coming into conflict with the law. In particular, the possibility of mandate-specific separation is new. Since the FAOA basically has no regulatory competence in the limited audit area, the FAQ expresses only the professional opinion of the FAOA.

FAOA independence

The FAOA attaches great importance to auditor independence. It is therefore valid to evaluate the extent to which the FAOA itself is independent, particularly in relation to the industry it oversees. An independence inspection by the Parliamentary Control of the Administration Office (PCAO) of a total of 16 oversight and regulatory authorities within the de-centralised Federal Government showed the FAOA, with 27 out of 30 points, to be the most independent of the inspected authorities. The PCAO recommends, however, that Federal Council approval of the FAOA board of directors' nomination for Chief Executive Officer and of the board's proposed strategic goals is reviewed⁴⁵.

⁴⁵ www.parlament.ch > organs > the committees > supervisory committee > to read the reports one needs to change language (DE, FR, IT)



Board of Directors of the FAOA.

Enforcement and court rulings

Enforcement

In the reporting year 11 applications were rejected (prior year: five). Five individuals withdrew their applications or licences during ongoing proceedings (prior year: seven). One application was not proceeded with due to incomplete documentation (prior year: none). Additionally, 14 licence withdrawals were imposed (prior year: 21) and 34 reprimands issued (prior year: none). The number of reprimands has increased, on the one hand, because the FAOA has had the possibility to reprimand audit firms and individuals that are not state-regulated since 1 January 2015. On the other, most reprimands relate to deficiencies identified in renewing the licences of audit firms that are not state-regulated. As licence renewal takes place only every five years far fewer reprimands are expected in 2016.

Court rulings

The federal courts (Federal Administrative Court (FAC), Federal Criminal Court (FCC) and Federal Supreme Court (FSC)) again addressed FAOA practice, and in particular the withdrawal of licences from auditors and audit experts. A complete list of all rulings is given on page 51. The rulings mentioned below are of note.

According to the FAC⁴⁶ the withdrawal of an auditor's licence for two years is proportionate where the auditor, as auditor-in-charge of a group, respectively various subsidiaries, on the one hand regularly attended board meetings and represented a board member at those meetings and, on the other, represented a significant shareholder (23.63 % of shares) at board meetings and at the general meeting of shareholders, as well as acting as chairman at an extraordinary meeting.

The auditor-in-charge was, at least in appearance, acting as a board member, and thus in a decision-making role, and had a close business relationship with a director and a major shareholder of the audited company. The court concluded that the same would apply if the shareholders of the audited company agreed to the independence violation. It is also irrelevant that the board member and major shareholder provided clear instructions to the auditor-in-charge in the power of proxy as regards his representation. Upon appeal against this ruling the FSC⁴⁷ confirmed the independence breach. It concluded, however, that this had occurred on only one mandate and that the illegal situation had been corrected at the initiative of the auditor-in-charge and before the intervention of the FAOA. The court therefore came to the conclusion that under these special circumstances licence withdrawal without prior warning was not permissible⁴⁸.

In another case the FSC⁴⁹ dealt with the failure to exercise proper duty of care in the audit of the consolidated financial statements of a listed company. The auditor-in-charge had overlooked the fact that the value of a loan and profit for the year had been overstated, respectively understated, by CHF 14 million. The court found that the so-called «20 % rule» (Art. 6 para. 1 letter b AOA) applied to the audit firm and not to specific audit services and therefore could not be held against the auditor-in-charge. Conversely, the latter is responsible for audit quality on the audit engagement (Art. 18 AOA), although this did not presuppose a natural or adequate causality between his conduct and the mistakes of a member of his audit team. The FSC confirmed the ruling of the FAC and thus also the FAOA reprimand of the auditor-in-charge.

⁴⁶ FAC Ruling No. B-1826/2013 of 7 January 2015.

⁴⁷ FSC Ruling No. 2C_125/2015 of 1 June 2015.

⁴⁸ The FAOA applied to the FSC for a review of this ruling as it believed it was based on an incorrect assessment of the facts. In particular, the breaches referred to did not only occur on one engagement but 13 audit engagements and the auditor-in-charge restored a lawful situation only after, and not before, FAOA intervention. In a ruling of 30 July 2015 the FSC rejected the application for review.

⁴⁹ FSC Ruling No. 2C_163/2014 of 15 January 2015 (instituted on appeal against FAC Ruling No. B-3736/2012 of 7 January 2014, cf. in addition the statements made in FAOA Activity Report 2014, p. 36).

The FAC⁵⁰ also dealt with the legal nature of an auditor's report issued by a licensed auditor on the capital reduction of a limited company. Contrary to the appellant, the court found that the audit report (entitled «Report of the Auditor», referring to Art. 732, para. 2 CO, with a confirmation as to licensing and independence compliance, and furnishing an audit opinion) was to be taken as such under the law. With respect to the legal nature of an audit report any ambiguities are thus to the detriment of the author of the report. The appellant had had the chance to note explicitly that the report in question was not an audit report under the law. As this did not happen the auditor-in-charge with an auditor licence had issued an audit report for which an audit expert licence would have been required.

Finally, the FAC⁵¹ ruled on the question as to whether anonymous third party notifications of possible independence breaches could be used against a licensed audit expert. The court ruled that such usage was legal even if licensed auditors or audit experts were not under FAOA oversight. The legal basis for this came from the statutory duty of the FAOA and the possibility, mentioned within the law, of withdrawing a licence or issuing a reprimand. An explicit legal basis is not required. The statements of the court on independence in the limited audit are set out in the licensing chapter.

⁵⁰ FAC Ruling No. B-437/2014 of 18 September 2015.

⁵¹ FAC Ruling No. B-4868/2014 of 8 October 2015.



The Executive Board of the FAOA.

Organisation of the FAOA

Legal form	Public-law institution with separate legal identity	
Incorporation within the government administration	Independent unit within the decentralised government administration, organisationally attached to the Federal Department of Justice and Police (FDJP)	
Registered office	Berne	
Representative bodies of the FAOA	Board of Directors	<p>Thomas Rufer (Chairman), Graduate in Business Administration and Swiss Certified Accountant</p> <p>Sabine Kilgus (Vice-Chairman), PD Dr., lawyer</p> <p>Renato Fassbind, Dr., US CPA (to 31 December 2015)</p> <p>Wanda Eriksen-Grundbacher, Swiss Certified Accountant and US CPA (from 1 January 2016)</p> <p>Conrad Meyer, Prof., Dr.</p> <p>Daniel Oyon, Prof., Dr.</p>
	Executive Board	<p>Frank Schneider, Chief Executive Officer, Executive MBA ZFH, Swiss Certified Accountant</p> <p>Reto Sanwald, Deputy to Chief Executive Officer, Head of Legal & International, Dr. iur., attorney</p> <p>Martin Hürzeler, Head of Financial Audit, Graduate in Business Administration and Swiss Certified Accountant</p> <p>Heinz Meier, Head of Regulatory Audit, Swiss Certified Accountant</p> <p>Sébastien Derada, Head of Licensing</p>
	Auditor	Swiss Federal Audit Office (SFAO)
Number of staff	30 staff members, representing 26 full-time equivalents (as of 31.12.2015). At the end of the prior year 30 staff members, representing 24 full-time equivalents, were employed by the FAOA.	
Funding	The FAOA finances itself entirely from the fees and oversight charges levied on licensed individuals and audit firms under oversight. No taxpayers' money is used.	
Legal function	To ensure the proper provision and quality of audit services.	
Responsibilities	Appraisal of licence applications, oversight of the auditors of PIE and rendering of international administrative assistance in the audit oversight area.	
Independence/Oversight	The FAOA performs its oversight activities independently but is subject to the oversight of the Federal Council. It reports annually to the Federal Council and the Federal Assembly on its activities.	

Index of abbreviations

AHVO	Old-Age and Survivors' Insurance Ordinance (AHV Ordinance) of 31 October 1947 (SR 831.101) AICPA American Institute of Certified Public Accountants
AMLA	Anti-Money Laundering Act of 10 October 1997 (SR 955.0)
AMLO	Money Laundering Ordinance of 11 November 2015 (SR 955.01)
AOA	Audit Oversight Act of 15 December 2005 (SR 221.302)
AOO	Audit Oversight Ordinance of 22 August 2007 (SR 221.302.3)
BankO	Banks and Savings Banks Ordinance of 30 April 2014 (SR 952.02)
BBI	Federal Gazette
CAIM	Common Audit Inspection Methodology
CaO	Casino Ordinance of 24 September 2004 (SR 935.521)
CISA	Collective Investment Schemes Act of 23 June 2006 (SR 951.31)
CISO	Collective Investment Schemes Ordinance of 22 November 2006 (SR 951.311)
CO	Swiss Code of Obligation of 30 March 1911 (SR 220)
D-AOA	Draft amendments of 1 July 2015 and 4 November 2015 to the Audit Oversight Act
D-FFSA	Draft Federal Financial Services Act of 4 November 2015
D-FinIA	Draft Financial Institutions Act (FinIA) of 4 November 2015
D-FSA	Draft amendment of 4 November 2015 to the Financial Supervision Act
DSFI	Directly supervised financial intermediary (supervised by FINMA)
EAIG	European Audit Inspection Group
EEA	European Economic Area
EQCR	Engagement Quality Control Reviewer
EU	European Union
EWG	Enforcement Working Group
FAC	Federal Administrative Court (St. Gallen)
FATF	Financial Action Task Force
FCC	Federal Casino Commission
FDJP	Federal Department of Justice and Police
FINMA	Federal Financial Market Supervisory Authority
FINMASA	Financial Market Supervision Act of 22 June 2007 (SR 956.1)
FINMAO	Financial Market Auditing Ordinance of 15 October 2008 (SR 956.161)
FMIA	Financial Market Infrastructure Act of 19 June 2015 (SR 958.1)
FMIO	Financial Market Infrastructure Ordinance of 25 November 2015 (SR 958.11)
FOPH	Federal Office of Public Health
FSC	Federal Supreme Court (Lausanne)
FSIO	Federal Social Insurance Office, Switzerland
G-SIBs	Global Systemically Important Banks
G-SIFIs	Global Systemically Important Financial Institutions
G-SIIs	Global Systemically Important Insurers
IAASB	Global Systemically Important Insurers
ICS	Internal control system
ICWG	International Cooperation Working Group

IESBA	International Ethics Standards Board for Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
ISAE	International Standard on Assurance Engagements
ISQC 1	International Standard on Quality Control 1
IWWG	Inspection Workshop Working Group
MMoU	Multilateral Memorandum of Understanding
MoU	Memorandum of Understanding
OA	Oversight Authority
OPSC	Occupational Pension Supervisory Commission
OTC	Over-the-Counter, off-market trading by financial market participants
PCAO	Parliamentary Control of the Administration Office
PCAOB	US Public Company Accounting Oversight Board
SAS	Swiss Auditing Standards of EXPERTsuisse
SCWG	Standards Coordination Working Group
SER	SIX Exchange Regulation
SHIA	Supervision of Health Insurance Act of 26 September 2014 (SR 832.12)
SMI	Swiss Market Index
SoP	Statement of Protocol
SQCS 1	Swiss Quality Control Standard 1
SR	Official Compendium of Swiss Federal Law
SRO	Self-regulatory organisation
SSC	Shared Service Center
VegüV	Ordinance against exorbitant compensation at public companies of 20 November 2013 (SR 221.331)

Additional Swiss audit licences

Particularly for audit activities in the areas shown below, a special licence of the FAOA or a special-law licence of another authority is required, based on a basic licence under the AOA. In some audit areas a basic FAOA licence is sufficient (status: 01.01.2016).

Financial / regulatory audit in the area of	Basic licence under the AOA: Audit firm	Basic licence under the AOA: Auditor-in-charge	Responsible for special or special-law licence	Additional requirements
Banks / financial market structures ⁵² / finance groups / securities traders / public tender offers / central mortgage bond institutions	State-regulated audit firm	Audit expert	FAOA	Art. 9a AOA, Art. 11a f. AOO
Collective investment schemes ⁵³	State-regulated audit firm	Audit expert	FAOA	Art. 9a AOA, Art. 11a f. AOO
Insurance	State-regulated audit firm	Audit expert	FAOA	Art. 9a AOA, Art. 11a f. AOO
Financial intermediaries (anti-money laundering)	Auditor (state-regulated audit firm) ⁵⁴	Auditor	FAOA/SRO ⁵⁵	Art. 9a AOA Art. 11a f. AOO and Art. 24 AMLA
Pension schemes	Audit expert ⁵⁶	Audit expert	(OPSC)	–
Health insurance schemes	Audit expert	Audit expert	(FOPH)	–
Casinos	Audit expert	Audit expert	FCC	Art. 75 CaO
AHV Swiss Compensation Office audits	Audit expert	Audit expert	FSIO	Art. 165 AHVO

⁵² Comprising stock exchanges, multilateral trading systems, central counterparties, central depositories, transaction repositories and payment systems.

⁵³ Comprising fund managers, investment funds, open-ended investment schemes (SICAV), limited partnerships for collective investment schemes, investment companies with fixed capital (SICAF), asset managers and managers of collective investment schemes, as well as representatives of foreign collective investment schemes.

⁵⁴ In principle the licensed audit firm need only meet the requirements for an audit firm licensed as an auditor but if it also audits a financial intermediary supervised directly by FINMA (DSFI) under the provisions of AMLA it must have the status of a state-regulated audit firm.

⁵⁵ The FAOA is responsible for the licence to audit a DSFI. The licence to audit a financial intermediary that is a member of an SRO is the responsibility of the respective SRO (Art. 11a AOO).

⁵⁶ There is one exception: Only audit firms that hold a state-regulated audit firm licence can act as the auditor of investment foundations (Art. 9 of the Ordinance of 22 June 2011 relating to investment foundations, ASV; SR 831.403.2).

State-regulated audit firms

Status: 31 December 2015

No. FAOA	company/name	Location
500003	PricewaterhouseCoopers AG	Zürich
500012	T + R AG	Gümligen
500038	Grant Thornton Bankrevision AG	Zürich
500149	OBT AG	St. Gallen
500241	MAZARS SA	Vernier
500420	Deloitte AG	Zürich
500436	REFIDAR MOORE STEPHENS AG	Glattbrugg
500498	PKF Wirtschaftsprüfung AG	Zürich
500505	Treuhand- und Revisionsgesellschaft Mattig-Suter und Partner	Schwyz
500646	Ernst & Young AG	Basel
500705	BDO AG	Zürich
500762	Balmer-Etienne AG	Luzern
500959	BDO Visura International AG	Zürich
501091	Provida Wirtschaftsprüfung AG	St. Gallen
501382	Berney & Associés SA Société Fiduciaire	Genève
501403	KPMG AG	Zürich
501470	Ferax Treuhand AG	Zürich
501570	Fiduciaire FIDAG SA	Martigny
501839	Grant Thornton AG	Zürich
502658	Treureva AG	Zürich
504689	SWA Swiss Auditors AG	Pfäffikon
504736	PKF CERTIFICA SA	Lugano
504792	Asset Management Audit & Compliance SA	Genève
505046	MOORE STEPHENS EXPERT (ZURICH) AG	Zürich
505062	AML Revisions AG *	Zürich
505065	TEBOR Treuhand AG *	Zug
505070	VQF Audit AG *	Zug
505073	Multifiduciaire Léman SA *	Montreux
505077	CF Compagnie fiduciaire de révision sa *	Genève
505078	Interfida SA *	Chiasso
505081	MOORE STEPHENS REFIDAR SA *	Genève
505093	RFC – Révision Fiscalité Conseils SA *	Satigny
600001	Deloitte & Co. S.A.	Buenos Aires

* Licensed only for the audit of financial intermediaries supervised directly by FINMA.

Recognition of foreign authorities

Status: 31 December 2015

The Federal Council has recognised the following foreign audit oversight authorities as equivalent:

Country	Authority
Belgium	Chambre de renvoi et de mise en état (CRME/KVI)
Bulgaria	Commission for Public Oversight of Statutory Auditors (CPOSA)
Denmark	Danish Business Authority (DBA) incl., Danish Supervisory Authority on Audit (DSAA) and Danish Disciplinary Board on Auditors (DDBA)
Germany	German Audit Oversight Commission (GAOC)
Finland	Auditing Board of the Central Chamber of Commerce (AB3C)
France	French High Council for Statutory Auditors (H3C)
Great Britain	Financial Reporting Council (FRC)
Ireland	Irish Auditing & Accounting Supervisory Authority (IAASA)
Iceland	Public Auditors Oversight Board (PAOB)
Italy	Commissione Nazionale per le Società e la Borsa (CONSOB)
Japan	Certified Public Accountants and Auditing Oversight Board (CPAFOB)
Canada	Canadian Public Accountability Board (CPAB)
Croatia	Croatian Audit Public Oversight Committee
Latvia	Ministry of Finance, Department of Taxes Administration and Accounting Policy, Audit Oversight Commission
Liechtenstein	Financial Market Authority (FMA)
Lithuania	Authority of Audit and Accounting (AAA)
Luxembourg	Commission de Surveillance du Secteur Financier (CSSF)
Malta	Ministry of Finance, The Economy & Investment
Netherlands	Netherlands Authority For the Financial Markets (AFM)
Norway	The Financial Supervisory Authority of Norway
Austria	Qualitätskontrollbehörde für Abschlussprüfer und Prüfungsgesellschaften (QKB)
Poland	Audit Oversight Commission (AOC)
Portugal	Conselho Nacional de Supervisao de Auditoria (CNSA)
Rumania	Consiliul Pentru Supravegherea În Interes Public A Profesiei Contabile (CSIPPC)
Sweden	Supervisory Board of Public Accountants
Slovenia	Agency for Public Oversight of Auditing
Slovakia	Úrad pre dohľad nad výkonom auditu (UDVA)
Spain	Accounting and Auditing Institute (ICAC)
South Africa	Independent Regulatory Board for Auditors (IRBA)
Czech Republic	Audit Public Oversight Council
Hungary	Auditors' Public Oversight Committee
USA	Public Company Accounting Oversight Board (PCAOB)

Cooperation with foreign authorities

Status: 31 December 2015

Country	Authority	Agreement
Germany	German Audit Oversight Commission (GAOC)	Absichtserklärung (2012)
Finland	Auditing Board of the Central Chamber of Commerce (AB3C)	Memorandum of Understanding (2014)
France	French High Council for Statutory Auditors (H3C)	Protocole de coopération (2013)
Canada	Canadian Public Accountability Board (CPAB)	Memorandum of Understanding, 2014
Liechtenstein	Financial Market Authority (FMA)	Absichtserklärung (2013)
Luxembourg	Commission de Surveillance du Secteur Financier (CSSF)	Memorandum of Understanding (2013)
Netherlands	Netherlands Authority for the Financial Markets (AFM)	Memorandum of Understanding (2012)
USA	Public Company Accounting Oversight Board (PCAOB)	Statement of Protocol (2011) Addendum (2014)
Great Britain	Financial Reporting Council (FRC)	Memorandum of Understanding (2014)

Swiss audit firms in the EU⁵⁷

Status: 31 December 2015

Country	Registered Swiss audit firm
Germany (German Audit Oversight Commission)	As a result of the MoU between Germany and Switzerland there is no registration obligation in Germany.
Great Britain (Professional Oversight Board, FRC)	Deloitte AG, Ernst & Young AG, KPMG AG, PwC AG (4)
Finland (The Auditing Board of the Central Chamber of Commerce of Finland)	Ernst & Young AG, KPMG AG (2)
France (French High Council for Statutory Auditors)	Ernst & Young AG, KPMG AG, PwC AG (3)
Ireland (Irish Auditing & Accounting Supervisory Authority)	Ernst & Young AG, KPMG AG, PwC AG (3)
Italy Commissione Nazionale per le Società e la Borsa (CONSOB)	Ernst & Young AG, KPMG AG, PwC AG (3)
Liechtenstein (Financial Market Authority FMA)	(21) ⁵⁸
Luxembourg (Commission de Surveillance du Secteur Financier)	Deloitte AG, Ernst & Young AG, KPMG AG, PwC AG (4)
Netherlands (Netherlands Authority for the Financial Markets)	Ernst & Young AG (1)
Norway (The Financial Supervisory Authority of Norway)	PwC AG (1)
Spain (Accounting and Auditing Institute ICAC)	PwC AG (1)
Sweden (Swedish Supervisory Board of Public Accountants)	Ernst & Young AG, KPMG AG, PwC AG (3)

⁵⁷ Source: Notification to the FAOA from the audit firms. It should be remembered that it is a requirement to report registrations with foreign oversight authorities to the FAOA (margin note 22 letter c section 1 of Circular 1/2010 of 31 March 2010 on reporting by state-regulated audit firms to the FAOA). No distinction is drawn between provisional and definitive registration. The authority of Swiss audit firms to provide statutory audit services in these countries is decisive.

⁵⁸ Allemann, Zinsli & Partner AG, Bankrevisions- und Treuhand AG, BDO AG, Buchhaltungs- und Revisions AG, Curator Revision AG, Ernst & Young AG, Fiduciaria Biaggini S.A., Haussmann & Partner, Haussmann Revision AG, KPMG AG, Lie Audit GmbH, Mittner + Partner, Treuhand Beratung Revision Kommanditgesellschaft, Ostschweizerische Revisionsgesellschaft AG, Ostschweizerische Treuhand-Gesellschaft AG, PricewaterhouseCoopers AG, Revigroup Lugano SA, Revion Treuhand AG, RRT AG Treuhand und Revision, TEAG Treuhandbüro Eggenberger AG, WPS Revision AG and Wälti Treuhand und Revisionen AG.

Court rulings 2015

Status: 31 December 2015

The following is a complete list of the 2015 rulings of the federal courts relating to the FAOA. The rulings appear in chronological order, with a short note on the subject matter dealt with and on the conclusion of the court.

- FAC Ruling No. B-1826/2013 of 7 January 2015: Breach of independence. Regular attendance and representation of a board member at board meetings of numerous group subsidiaries by the auditor-in-charge. In addition, representation of a major shareholder (23.63% of shares) at general meetings and exercise of chairman role at an extraordinary meeting of the audited company. Licence withdrawal for two years. Dismissal of appeal.
- FSC Ruling No. 2C_125/2015 of 1 June 2015: Breach of independence. Appeal against FAC Ruling No. B-1826/2013 of 7 January 2015 (cf. above). Partial acceptance of appeal on the basis that breach of law affected only one mandate and the illegal situation had been corrected at the initiative of the auditor-in-charge and before the intervention of the FAOA. Against this background it would have been proportionate to issue a warning of licence withdrawal⁵⁹.
- FSC Ruling No. 2C_63/2015 of 10 June 2015: No account taken of professional experience gained prior to commencement of recognised training in a hardship case (Art. 43 para. 6 AOA). Appeal not entertained.
- FCC Ruling No. BB.2015.30 of 24 June 2015: Refusal of FAOA to notify the public prosecutor of Bern-Mittelland of the identity of a «whistleblower». Acceptance of the application of the public prosecutor for disclosure of identity on the basis that, in the case in question, the investigations of the public prosecutor into a possible breach of bank client confidentiality take precedence over the interest of the whistleblower in remaining anonymous.
- FAC Ruling No. B-1577/2015 of 17 August 2015: Insufficient audit procedures in the audit of the financial statements of a pension foundation (lack of attention to legal, regulatory and professional law requirements, as well as insufficient audit strategy and professional scepticism). Licence withdrawal for five years. Rejection of appeal. Not yet legally binding.
- FAC Ruling No. B-437/2014 of 18 September 2015: Audit report on a capital reduction (Art. 732 para. 2 CO) by a licensed auditor and not a licensed audit expert as required. Licence withdrawal for two years. Rejection of appeal.
- FAC Ruling No. B-4868/2014 of 8 October 2015: Breach of independence. Audit of two companies over many years despite close business relationship between the auditor-in-charge and a board member of the audited companies. Licence withdrawal for two years. Rejection of appeal. Not yet legally binding.
- FAC Ruling No. B-3224/2013 of 23 November 2015: Regulatory audit firm licence to perform audits under AMLA and CISA withdrawn by FINMA due to the failure of the audit firm to exercise due care and the breach of the confidence relationship. Proceedings transferred due to FAOA oversight of regulatory auditors from 1 January 2015. Rejection of appeal. Not yet legally binding.
- FAC Ruling No. B-2632/2014 of 15 December 2015: Breach of independence. Audit of companies over many years despite close business relationship between the auditor-in-charge and a board member of the audited companies. In addition, mutual auditing. Licence withdrawal for two years. Rejection of appeal. Not yet legally binding.
- FSC Ruling No. 2C_163/2014 of 15 January 2015: Failure of auditor-in-charge to exercise due care in the audit of the consolidated financial statements of a listed company (CHF 14 million over valuation of a loan, respectively understatement of profit for the year, without appropriate auditor-in-charge finding). Reprimand of the auditor-in-charge. Dismissal of appeal.
- FAC Ruling No. B-4540/2013 of 23 March 2015: Audit of an unregistered voluntary employer-sponsored welfare fund by a licensed auditor despite audit expert licensing requirement. Licence withdrawal for one year. Appeal accepted on basis that breach of law insufficiently grave to warrant licence withdrawal.

⁵⁹ The FAOA applied to the FSC for a review of this decision as it believed it was based on an incorrect assessment of the facts. In a decision of 30 July 2015 the FSC rejected the application for review (FSC Decision No. 2F_13/2015).

Financial statements of the FAOA

Balance sheet

(in CHF)

	Note	31.12.2015	31.12.2014
Cash at bank and in hand	4	6,080,801	6,531,504
Receivables	5	180,002	244,597
Work-in-progress	6	861,000	251,000
Prepayments	7	72,254	64,836
Current assets		7,194,057	7,091,937
Investments	8	221,058	259,039
Tangible fixed assets	9	306,246	408,113
Intangible fixed assets	10	127,424	89,987
Non-current assets		654,728	757,139
Total assets		7,848,785	7,849,076
Short term liabilities relating to services		80,470	119,317
Liabilities to state-regulated audit firms	11	84,677	80,109
Social security liabilities		123,278	122,492
Short-term provisions	12	199,809	182,800
Accruals	13	312,931	325,278
Accrued licensing fees	14	807,260	720,260
Current liabilities		1,608,425	1,550,256
Accrued licensing fees	14	1,440,360	1,798,820
Non-current liabilities		1,440,360	1,798,820
Reserves	15	4,800,000	4,500,000
Equity		4,800,000	4,500,000
Total liabilities		7,848,785	7,849,076

Income statement

(in CHF)

	Note	01.01.2015 –31.12.2015	01.01.2014 –31.12.2014
Oversight charges	16	3,515,324	2,999,891
Inspection fees	17	1,903,902	1,278,863
Licensing fees	18	1,129,428	1,206,664
Other income	19	120,220	492,233
Net revenue		6,668,874	5,977,651
Personnel expense	20	- 5,389,606	-4,968,967
Operating expense	21	- 799,576	- 788,852
Depreciation and amortisation	9, 10	- 179,565	-234,764
Operating profit		300,127	- 14,932
Financial income		329	15,646
Financial expense		-456	- 714
Financial result		-127	14,932
Transfer to reserves	15	- 300,000	
Profit/loss		-	-

Cash flow statement

(in CHF)

	Note	01.01.2015 – 31.12.2015	01.01.2014 – 31.12.2014
Transfer to reserves		300,000	
Depreciation of fixed assets	9, 10	179,565	234,764
Increase/(decrease) in accrued licensing fees (long-term)	14	-358,460	996,140
(Increase)/decrease in receivables*	5	64,595	-24,619
(Increase)/decrease in work-in-progress	6	-610,000	-98,000
(Increase)/decrease in prepayments	7	-7,418	9,734
Increase/(decrease) in liabilities		-34,279	62,526
Increase/(decrease) in social security liabilities		786	12,985
Increase/(decrease) in short-term provisions	12	17,009	-20,200
Increase/(decrease) in accruals	13	-12,347	41,468
Increase/(decrease) in accrued licensing fees (short-term)	14	87,000	289,420
Net cash flows from operating activities		-373,549	1,504,218
Acquisition of investments*	8	-17,019	-55
Disposal of investments	8	55,000	
Acquisition of tangible fixed assets	9	-23,903	-72,191
Acquisition of intangible fixed assets*	10	-91,232	-59,298
Net cash flows from investing activities		-77,154	-131,544
Change in cash and cash in hand		-450,703	1,372,674
Cash and cash in hand at the start of the year	4	6,531,504	5,158,830
Cash and cash in hand at year-end	4	6,080,801	6,531,504

*Due to the realignment of an on-going IT project in 2014, intangible assets of CHF 55,000 and CHF 165,000 were re-classified to recei-

vables and investments respectively in the prior year (cf. Notes 8 and 10). Since these re-classifications are non-cash items they are not re-

flected in the cash flow statement (comparatives).

Change in equity

	01.01.2015 – 31.12.2015	01.01.2014 – 31.12.2014
Opening balance as of 1.1.	4,500,000	4,500,000
Transfer to reserves	300,000	0
Balance as of 31.12.	4,800,000	4,500,000

Notes to the 2015 financial statements

1. Operating activities

The FAOA is a public-law institution of the Federal Government and has its registered office in Berne. It serves as a licensing body and administers a public register of the individuals and firms who provide audit services as defined by the AOA. Further, it oversees audit firms who provide audit services to public interest entities.

The FAOA conducts its oversight independently, organises itself, and finances itself entirely from the fees paid by licensed individuals and firms and the charges paid by state-regulated firms. The FAOA maintains its own accounts.

Since 1 September 2012 the FAOA has exercised oversight over the financial audits of listed banks, insurance companies and collective investment schemes. In addition, since 1 January 2015 the FAOA has had sole oversight authority over audit firms. This applies both to the financial and regulatory audit.

As at 31 December 2015 the FAOA employed 30 employees, representing 26 full-time equivalents. At the end of the prior year 30 employees, representing 24 full-time equivalents, worked at the FAOA.

2. Accounting policies

a. Introduction

These financial statements of the FAOA are prepared having regard to the requirements of the International Public Sector Accounting Standards (IPSAS) and in accordance with Article 957 f. of the Swiss Civil Code (Art. 35 para. 2 AOA). The accounting policies of the FAOA differ from the IPSAS in the pensions area:

IPSAS 25 requires pension costs to be expensed in the period in which a «current obligation» arises. IPSAS also requires comprehensive disclosure of employee benefit plans in the notes. In these financial statements the employer and risk contributions paid to the FAOA employee benefit plans are expensed. The surpluses and deficits that might arise from an actuarial valuation are not accounted for. The FAOA commissioned its first actuarial valuation as per 31 December 2015. The net pension liability calculated by Aon Schweiz AG is not accounted for as foreseen in IPSAS 25 but is rather disclosed as a contingent liability (cf. Note 22).

These financial statements are entity financial statements for the financial year comprising calendar year 2015 with a balance sheet date of 31 December 2015 (including comparatives). The reporting currency is Swiss francs (CHF).

Unless otherwise stated, assets and liabilities are valued at historical or production cost, which is normally the nominal value. Expenses and revenues are booked in the period in which they occur.

The amounts stated in the financial statements are rounded to the nearest Swiss franc and can therefore include immaterial rounding differences.

b. Cash at bank and in hand

Cash at bank and in hand comprises petty cash, current accounts at financial institutions and an investment account at the Federal Finance Administration (FFA). Under Art. 36 para. 1 AOA the FAOA is obliged to deposit excess funds with the Federal Government.

The amounts are stated at nominal value.

c. Receivables relating to services

Receivables are stated at nominal value after allowance for possible impairments.

d. Work-in-progress

Work-in-progress relating to inspections is valued using the applicable daily rates per Art. 39 para. 2 AOO.

e. Tangible fixed assets

Tangible fixed assets are accounted for at cost less required write-downs. Depreciation is calculated on a linear basis over the expected useful life of the asset.

Asset category	Useful life (years)
Furniture and furnishings	10
Office equipment, IT equipment (hardware)	3
Fixtures and fittings	10

The residual value, useful life and method of depreciation of a tangible fixed asset is checked at each balance sheet date and adjusted if appropriate.

Where the book value of a tangible fixed asset exceeds the estimated recoverable amount of that asset the difference is booked to the income statement as an impairment charge.

Tangible fixed assets disposed of are written-off at book value. Revenue arising upon the disposal of tangible fixed assets is disclosed separately in the income statement.

f. Intangible fixed assets

Intangible fixed assets are accounted for at purchase or production cost, less required write-downs. Amortisation is calculated on a linear basis over the expected useful life of the asset.

Asset category	Useful life (years)
Licensing register software	5
Other software	3

The residual value, useful life and method of amortisation of an intangible fixed asset is checked at each balance sheet date and adjusted if appropriate.

Where the book value of an intangible fixed asset exceeds the estimated recoverable amount of that asset the difference is booked to the income statement as an impairment charge.

Self-generated goodwill cannot be capitalised.

g. Investments

Investments are accounted for at market value.

h. Taxes

The FAOA is exempt from all federal, cantonal and municipal taxes.

i. Provisions

Provisions include, in particular, short-term liabilities relating to personnel expense.

j. Leasing

Operating leases which cannot be terminated within one year are disclosed in the notes to the financial statements.

k. Equity

The FAOA accumulates reserves necessary for the exercise of its oversight activities up to a maximum of an annual budget (Art. 35 para. 3 AOA). The accumulation of the reserve takes place over a period of 5 years and is periodically adjusted for changes in the annual budget. The FAOA received no donated capital upon foundation.

l. Revenues (fees and oversight charges)

The FAOA charges fees for its orders, inspections and services and levies an oversight charge upon state-regulated audit firms to cover any costs not covered by the fees (Art. 21 AOA). The fees and oversight charges are stipulated in detail in Art. 37 f. AOO.

Fee income for the licensing of audit firms is accrued over a period of 5 years (including licence renewals). Fee income for the licensing of individuals is taken directly to income. Fee reimbursements are charged directly to income.

Oversight charges are booked to income in full upon invoicing.

m. Financial result

The financial result comprises interest income and interest expense. Interest is booked on an accrual basis. The FAOA holds no derivative financial instruments and does not hedge.

n. Collateral on behalf of third party liabilities

The FAOA has provided no collateral for third party liabilities (Art. 959c para. 2 section 8 CO).

o. Collateral for own liabilities

The FAOA has provided no collateral for its own liabilities (Art. 959c para. 2 section 9 CO).

3. Estimation uncertainty

The preparation of financial statements according to generally accepted accounting principles requires the use of estimates and assumptions. These affect the stated amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the balance sheet date, as well as the stated revenues and expenses. Although these estimates are made to the best of knowledge, having due regard for current events and possible future FAOA measures, actual results could differ from the amounts estimated.

Explanatory information on individual financial statement items

4. Cash and cash in hand

(in CHF)

	2015	2014
Cash in hand	992	548
Postfinance account	679,563	629,861
Investment account at Federal Finance Administration FFA	5,400,246	5,901,095
Total cash and cash in hand	6,080,801	6,531,504

5. Receivables

	2015	2014
Licence fee receivables	63,400	98,244
Yellowpay receivables	52,389	48,488
Other receivables	64,213	97,865
Total receivables relating to services	180,002	244,597

As in the prior year, no bad debt provision was established as the FAOA has never suffered a bad debt loss.

6. Work-in-progress

	2015	2014
Work-in-progress	861,000	251,000
Total work-in-progress	861,000	251,000

Work-in-progress comprises inspection fees yet to be invoiced. The increase is due primarily to an increase in the number of on-going inspections and inspections of the new Regu-

latory Audit department that are yet to be invoiced.

7. Prepayments

	2015	2014
Prepayments	72,254	64,836
Total prepayments	72,254	64,836

Prepayments are payments made in advance for expenses of the following year, such as rent, travel costs and Swiss Federal Railways season tickets.

8. Investments

In connection with the rent of offices the FAOA has two tenant deposit accounts to the total amount of CHF 111,058. In addition, there is a long-term receivable of CHF 110,000 (prior year CHF 165,000) relating to the termination of an IT project (2014).

9. Tangible fixed assets

(in CHF)

	Furniture and furnishings	Office equipment, IT equipment (hardware)	Fixtures and fittings	2015	2014
Acquisition costs					
Opening balance	393,576	181,387	336,410	911,373	880,582
Acquisitions	14,856	9,047		23,903	72,191
Disposals		–			-41,400
Closing balance	408,432	190,434	336,410	935,276	911,373
Depreciation					
Opening balance	-240,235	-118,573	-144,452	-503,260	-421,400
Acquisitions	-40,843	-51,286	-33,641	-125,770	-123,260
Disposals					41,400
Closing balance	-281,078	-169,859	-178,093	-629,030	-503,260
Net book value	127,354	20,575	158,317	306,246	408,113

At the balance sheet date there was no indication that tangible fixed assets were impaired.

There are currently no tangible fixed assets that are restricted, subject to rights of disposal or pledged.

The 2015 increase of CHF 14,856 in the acquisition cost of furniture and furnishings relates primarily to the purchase of new office furniture for Zurich staff. The increase of CHF 9,047 in office equipment and IT equipment (hardware) relates pri-

marily to the purchase of laptops and monitors.

10. Intangible fixed assets

	Software register and administration	Other software	2015	2014	
Acquisition costs					
Opening balance		445,892	126,949	572,841	815,943
Acquisitions		39,837	51,395	91,232	59,298
Disposals		–	-9,961	-9,961	-302,400
Closing balance		485,729	168,383	654,112	572,841
Amortisation					
Opening balance		-364,170	-118,684	-482,854	-453,750
Acquisitions		-28,398	-25,397	-53,795	-111,504
Disposals			9,961	9,961	82,400
Closing balance		-392,568	-134,120	-526,688	-482,854
Net book value		93,161	34,263	127,424	89,987

There are currently no intangible fixed assets that are restricted, subject to rights of disposal or pledged.

The increase of CHF 39,837 in the acquisition cost of software register and administration is attributable particu-

larly to system changes in connection with the registration and licensing of foreign audit firms under Art. 8 AOA (auditors of foreign issuers listed in Switzerland).

The increase of CHF 51,395 in the acquisition cost of other software is due to costs incurred with respect to a new web presence and the replacement of audit software.

11. Liabilities to state-regulated audit firms

The FAOA levies an annual oversight charge upon state-regulated audit firms (see Note 2 letter I). An on account amount is charged at the beginning of the year. Unused on account amounts are refunded

to the state-regulated audit firms in the following year. The amount of CHF 84,677 (prior year CHF 80,109) will be credited to the state-regulated audit firms in 2016.

12. Short-term provisions

(in CHF)

	2015	2014
Personnel expense liabilities	193,809	172,800
Provision for compensation	6,000	10,000
Total short-term provisions	199,809	182,800

Holiday, accrued flexible working hours and overtime entitlements are calculated and accrued as at 31 December based on individual employment terms. As at the end of 2015 a reserve for long service awards was established for the first time.

A provision for compensation was established in connection with FAOA orders that have been appealed against by those affected.

13. Accruals

	2015	2014
Various accruals	312,931	325,278
Total accruals	312,931	325,278

Accruals primarily relate to personnel expense accruals and accruals for the cost of the Activity Report 2015.

14. Accrued licensing fees

	2015	2014
Accrued licensing fees (short-term)	807,260	720,260
Accrued licensing fees (long-term)	1,440,360	1,798,820
Total Abgrenzung von Zulassungsgebühren	2,247,620	2,519,080

Fee income from the licensing of audit firms is accrued over a period of 5 years.

15. Reserves

(in CHF)

	2015	2014
Reserves	4,800,000	4,500,000
Total Reserves	4,800,000	4,500,000

The FAOA accumulates a reserve for the exercise of its oversight activities up to a maximum amount of an annual budget (Art. 35 para. 3 AOA). In the reporting year the reserve was increased in connection with the as-

sumption of additional responsibilities from FINMA (bundling), respectively the related increase in the 2015 FAOA budget.

16. Oversight charges

The increase in oversight charges is due to the broadening of the FAOA's responsibilities as of 1 January 2015 (cf. Note 1 «Operating activities» and Note 2.I «Accounting policies»). The surplus of CHF 84,677 (prior year CHF 80,109) was offset against oversight charges. This amount will be credited to the state-regulated audit firms in 2016 (cf. Note 11).

17. Inspection fees

The increase in inspection fees is due to the first-time inspections of the Regulatory Audit department in connection with the FAOA's assumption of responsibilities in the regulatory audit area (cf. Note 1 «Operating activities»).

18. Licensing fees

	2015	2014
Licensing fees individuals	367,300	430,500
Licensing fees audit firms	561,000	2,145,500
Commission on internet payments	-30,082	-35,826
Reimbursement of licensing fees	-40,250	-47,950
Accrual of licensing fees	-448,800	-1,716,400
Release of accrued licensing fees from prior years	720,260	430,840
Total licensing fees	1,129,428	1,206,664

Audit firm licences are limited to a period of five years. The decrease in audit firm licence fees is due to the large number of licence renewal applications in the prior year.

19. Other income

Other income includes, in particular, income from an FAOA seminar in Locarno and income from FAOA proceedings (legal costs). Prior year income includes income from the loan of two staff members to FINMA (2014: CHF 388,562). In the reporting year there were no such loans.

20. Personnel expense

(in CHF)

	2015	2014
Staff compensation and Board member fees	4,102,556	3,884,808
Employer contributions	874,156	797,100
Other personnel expense	300,550	240,749
Third party personnel costs	112,344	46,310
Total personnel expense	5,389,606	4,968,967

The increase in personnel expense is due to the new Regulatory Audit department, as off 1st January 2015 (cf. Note 1).

In the reporting year third party personnel costs primarily includes external translation service charges (CHF 68,253) and consultancy fees (IT).

Employer contributions comprise payments relating to national insurance (state pension, invalidity, income compensation) occupational pension schemes, work-related accident insurance and daily sickness allowance insurance. They include a contribution of CHF 25,000 (prior year CHF 25,000) made to the employer contribution reserve of the FAOA pension fund.

21. Operating expense

	2015	2014
Accommodation	196,422	196,422
Administrative expense	134,777	142,762
IT expense	301,884	312,026
Other operating expense	166,493	137,642
Total operating expense	799,576	788,852

22. Contingencies

At the balance sheet date there were no pending or threatened claims for damages.

In relation to employee pensions, the FAOA commissioned for the first time an actuarial report from Aon Schweiz AG as at 31 December 2015. The report discloses a net pension liability of CHF 7.0 million as at 31 December 2015.

23. Operating leases (off-balance sheet)

(in CHF)

	2015	2014
Minimum payments within one year	10,740	10,740
Minimum payments in years 2 to 6	10,740	21,480

Operating leases comprise off-balance sheet liabilities relating to a contract for Triumph-Adler multi-purpose equipment. The current contract has a total term of 6 years (1.1.2012 – 1.1.2018).

The FAOA has not entered into any finance leases which would be on the balance sheet.

24. Related party transactions

a. Definition of term «related parties»

Related parties are entities or individuals who can influence the FAOA or be influenced by the FAOA. The following groups are defined as related:

- The Federal Administration, within the meaning of Art. 6 Government and Administration Organisation Ordinance (RVOV; SR 172.010.1)
- Swisscom, Post, Swiss Federal Railways
- Members of the Board of Directors
- Members of the Executive Board

All transactions with related individuals and entities were entered into on the basis of normal customer, respectively supplier, relationships and strictly on arm's length terms.

b. Particular relationship with the Federal Government

The FAOA is a public-law institution of the Federal Government with separate legal identity (Art. 28 para. 2 AOA) and part of the de-centralised Federal Administration. The Federal Government can influence the FAOA in many ways:

- The AOA is a federal law enacted by the Federal Councillors. The AOO and other regulations are enacted by the Federal Council.
- The Federal Council elects the Board of Directors, appoints the Chairman and Vice-Chairman and determines compensation. It can also dismiss the members of the Board of Directors for significant reasons (Art. 30 paras. 3, 5 and 6 AOA).
- The Federal Council approves the creation and termination of the employment contract with the Chief Executive Officer (Art. 30a letter g AOA).
- The Federal Council approves the affiliation agreement with PUBLICA (Art. 30a letter e AOA).
- The Federal Council approves the strategic goals and checks on an annual basis whether they have been met (Art. 30a letter b and Art. 38 para. 2 letter f AOA).
- The Federal Council approves the financial statements and discharges the Board of Directors of its responsibilities (Art. 30a letter m and Art. 38 para. 2 letter g AOA).

– As auditor of the FAOA, the Swiss Federal Audit Office audits the oversight authority in accordance with the CO (Art. 32 para. 2 AOA) and the Federal Auditing Act.

– The FAOA is required to invest excess funds with the Federal Government at market interest rates (Art. 36 para. 1 AOA).

If required for liquidity reasons, the Federal Government grants the FAOA loans at market interest rates (Art. 36 para. 2 AOA). The FAOA is exempt from all federal, cantonal and municipal taxes (Art. 37 AOA).

Remuneration of the Board of Directors and Management

In CHF thousands

Board of Directors	2015	2014
Fees of Chairman	75	75
Fees of Vice-Chairman	38	38
Fees of other members	52	52
Social security contributions ¹	9	0
Total compensation of the members of the Board of Directors	174	165
Chief Executive Officer and Executive Board	2015	2014
Salary of Chief Executive Officer	260	256
Other benefits of Chief Executive Officer ²	44	40
Salaries of other members	719	526
Other benefits of other members	73	74
Social security contributions ³	226	159
Total compensation of the members of the Executive Board	1,322	1,055

In the reporting year individual, performance-related salary increases were granted. No general inflation adjustment was made.

The increase in salaries for the other members of the Executive Board is due to the integration of a new department (Regulatory Audit) and the related expansion of the Executive Board.

25. Events after the balance sheet date

No events have occurred since the balance sheet date of 31 December 2015 that impact the informational value of the 2015 financial statements.

¹ Comprises pension/invalidity/income compensation insurance contribution and unemployment insurance contribution.

² Includes additional taxable benefits such as bonuses and non-mandatory child allowances.

³ Comprises pension/invalidity/income compensation insurance contribution, unemployment insurance contribution, work-related/non-work-related accident insurance contribution, occupational pension savings contribution and risk premium.



***Report of the statutory auditor
on the limited statutory examination
to the Board of Directors of the
Federal Audit Oversight Authority for the attention
of the Federal Council***

As statutory auditor according to art. 32 of the Auditor Oversight Act (SR 221.302), we have examined the financial statements (balance sheet, income statement, cash flow statement, statement of changes in equity, and notes) of the Federal Audit Oversight Authority (FAOA) for the financial year ended 31 December 2015.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to perform a limited statutory examination on these financial statements. The Swiss Federal Audit Office is independent according to the Swiss Federal Audit Office Act (SR 614.0).

We conducted our examination in accordance with the Swiss Standard on the Limited Statutory Examination. This standard requires that we plan and perform a limited statutory examination to identify material misstatements in the financial statements. A limited statutory examination consists primarily of inquiries of company personnel and analytical procedures as well as detailed tests of company documents as considered necessary in the circumstances. However, the testing of operational processes and the internal control system, as well as inquiries and further testing procedures to detect fraud or other legal violations, are not within the scope of this examination.

Based on our limited statutory examination, nothing has come to our attention that causes us to believe that the financial statements do not comply with Swiss laws.

Bern, 22 February 2016

SWISS FEDERAL AUDIT OFFICE

Hans-Rudolf Wagner
Licensed Audit Expert

Peter Küpfer
Licensed Audit Expert

Enclosure:

Financial statements, consisting of balance sheet, income statement, cash flow statement, statement of change in capital and reserves and notes



Impressum

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