



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Federal Audit Oversight Authority FAOA

2014





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Activity Report 2014

Federal Audit Oversight Authority FAOA

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Foreword

The FAOA has the duty to safeguard and foster audit quality within the scope of its licensing and oversight activities. The FAOA thereby protects investors¹ and other users of audit reports (tax authorities, creditors, employees etc.). Furthermore, the work of the FAOA increases the reliability of, and confidence in, financial reporting. In relation to the strategic aims of the FAOA it should be noted, however, that the FAOA is primarily a legal authority that enforces the audit, independence and quality assurance standards developed by the profession.

State-regulated audit firms

The FAOA currently oversees 23 (prior year 22) state-regulated audit firms entitled to audit public companies. On the one hand, two firms were granted new licences. Both of these new licences result from the requirement, effective as from 28 February 2014, that audit firms who audit collective investment schemes hold a basic licence as a state-regulated audit firm. On the other hand, one firm voluntarily withdrew from state oversight.

As in prior years, the majority of state-regulated audit firms report largely stagnant fee income in the audit business area. Generally, only advisory business generates appreciable growth. Long-term there is a risk that the audit industry will become increasingly less attractive in such an environment. This could negatively impact audit quality.

The international audit networks are increasingly struggling with reputational risks arising from their tax advisory businesses. Increased public interest in the tax optimisation practices of large international groups also brings the large audit networks into focus. It should be noted that the FAOA basically has no authority with respect to the advisory businesses of audit firms.

New FAOA responsibilities

Until now oversight of state-regulated auditors and auditors of financial institutions has been shared between the FAOA and FINMA according to their respective duties. With parliament's adoption of the «bundling submission» on 20 June 2014 the FAOA has sole oversight authority over audit firms. This applies both to the financial and regulatory audit. The enabling legislation could be amended on a timely basis by the Federal Council (Ordinance), respectively the FAOA and FINMA (Circulars), such that the FAOA could assume the new oversight responsibilities according to plan as per 1 January 2015. The transitional rules provided ensure that the affected audit firms and auditors-in-charge have sufficient time to adjust to the new situation.

Audit committees of listed companies

The FAOA has a great interest in the functioning of the audit committees of listed companies. An active and responsible perception of the duties of the audit committee has a demonstrably positive impact on the quality of audit services. This corresponds with the experience of the FAOA from its inspection activities.

The «Swiss Code of Best Practice», as revised in 2014, is an important step towards strengthening the audit committee. The extended recommendations on the composition and duties of the audit committee are particularly welcome. It remains questionable, however, whether recommendations developed within a self-regulatory framework will be sufficient to produce a financial centre that is modern and attractive by international standards. Important players such as the EU or the USA go much further and, based on the importance of audit committees and the interest of investors, enact binding and enforceable requirements at the legislative level.

EU Audit Reform

The European Parliament adopted the EU Audit Reform in April 2014. The reform aims to increase transparency and confidence in the audit, eliminate possible conflicts of interest, and foster greater competition in the over-concentrated audit market. The new regulations are also likely to affect the Swiss audit market. They will display extra-territorial properties and will be of particular relevance to Swiss audit firms who audit EU-listed companies or their Swiss subsidiaries. Internationally-orientated companies, respectively their audit committees, will also lean further towards the EU requirements voluntarily.

The FAOA is analysing the EU reform and observing its implementation in the larger EU member states. Strengthening the position and responsibilities of audit committees and extending the audit report to shareholders appears sensible.

The FAOA currently sees no urgent need to take action in relation to the EU restrictions on non-audit fees. It is to be emphasised that the FAOA introduced a more stringent reporting requirement as per 1 January 2014. Thus audit engagements must be reported to the FAOA if the ratio of non-audit to audit fees reported in the annual report of the respective audited public company exceeds 1:1 in a financial year (Circular 1/2010). The FAOA can check compliance with independence requirements in an effective and risk-based way based on this reporting.

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

The FAOA views the EU rotation requirements for auditors of public companies critically. On the one hand, the advantages of rotation, such as those relating to a creeping loss of objectivity, may be eliminated by the disadvantages associated with the acquisition of a mandate by a new auditor (additional costs etc.). On the other, rigid rotation rules should not replace the duty of the board of directors or audit committee to review the audit mandate periodically based on set criteria and, if necessary, recommend a change in auditor to the general meeting of shareholders.

Independence in the limited audit

Independence is the cornerstone of the audit and essential to the confidence of third parties in the auditor's work. Under current court rulings basically the same independence requirements apply to the ordinary and limited audit. The only exceptions relate to accounting assistance (Art. 729 para. 2 CO; so-called dual mandates) and to the rotation of the auditor-in-charge (Art. 730a para. 2 CO).

The FAOA regards the idea of reducing independence requirements for the limited audit as dangerous. This could reduce the credibility of the limited audit and harm the public reputation of the small and medium-sized audit market. Confidence in the audit is more valuable long-term than unilateral protection of the profession. The audit profession and the FAOA should have a common interest in a «quality product limited audit», which sets itself apart from bare bookkeeping and thus adds economic value.

Independence in the ordinary audit

The effect of the statutory rotation requirements for ordinary audits will make itself evident for the first time in 2015. The statutory rotation

term of seven years for the auditor-in-charge has been effective since 1 January 2008 (Art. 51 AOO). As from that time an auditor-in-charge has been able to audit the same audit client for seven consecutive years. Therefore, where the financial year is equivalent to the calendar year, that auditor-in-charge is to be replaced in 2015, after the audit of the 2014 financial statements. It is consequently to be expected that some companies will have to elect another auditor, particularly in the sole practitioner audit firm segment.

Quality assurance systems

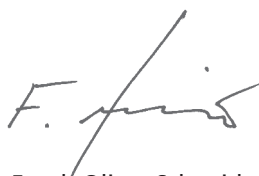
Under the relief that currently applies to sole practitioner audit firms performing only limited audits, around two thirds of all licensed audit firms do not have to prove that they have a quality assurance system by 1 September 2016 (Art. 49 para. 2 AOO). This relief is being re-considered at the moment. The FAOA is currently in discussion with the professional bodies and other interested parties in this regard. In the interest of equality between audit firms this could mean that all audit firms will have to operate an internal quality assurance system as from 1 September 2016. This would also apply to the so-called sole practitioner audit firms with only one licensed individual. As the audit industry now provides possible solutions to sole practitioners the possible abolition of the above-mentioned relief would be welcome.

We thank all FAOA staff for their continuingly high level of commitment and willingness to deal with the tasks ahead in the public interest.

Berne, 27 January 2015



Thomas Rufer
Chairman of the Board of Directors



Frank-Oliver Schneider
Chief Executive Officer



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

Key activities 2014

Oversight of state-regulated audit firms

As regards the oversight of audit firms permitted to audit public companies, the focus was on two joint inspections with the PCAOB. A further ten state-regulated audit firms were inspected in addition to this. Parallel to the inspections internal processes were prepared for the assumption of new responsibilities in the financial markets area (regulatory audit). As from 1 January 2015 the oversight of state-regulated audit firms will be carried out from an organisational perspective by two separate operational areas, financial and regulatory audit.

Licensing

The AOA stipulates that audit firms are licensed for a period of five years. Granted licences expire automatically at the end of these five years. In 2014 the FAOA had around 2,000 licence renewal applications to process. The applications processed in the reporting year represent around 60 % of all licensed audit firms.

The risk-based inspection of internal systems of quality assurance is central to the renewal process, regard being paid to whether the audit firm performs limited and/or ordinary audits. Aside from making a general assessment, the FAOA focuses its checks upon key aspects of independence, training and the internal monitoring of ordinary audits. Licence renewal is primarily used by the legislator to ensure that a licensed audit firm has complied with legal requirements. Alongside this, the inspection of quality assurance systems plays an important role in improving audit quality.

Most expired licences could be renewed seamlessly for a further five years. In a few cases renewal conditions were not met or required documentation was outstanding. No renewal applications were definitively

rejected as the firms in question were able to meet the legal requirements in the meantime. For various reasons (e.g. reorganisation, cooperation with other audit firms, absence of a successor, focus on other business areas) around 15 % of audit firms have voluntarily forgone licence renewal.

Seamless licence renewal is important as a break in licensing can lead to the audit clients of an unlicensed audit firm receiving a direct request from the office of the cantonal commercial register to restore legal order and ensure that the auditor has the relevant FAOA licence.

Court rulings

In the reporting year the Federal Administrative Court and the Federal Supreme Court dealt with FAOA practice in seven and two rulings respectively. The practice of the FAOA was confirmed in all cases. In one case only the point of principle was confirmed by the Federal Administrative Court and a more detailed explanation for the length of a licence withdrawal was demanded.

International cooperation

A Statement of Protocol (SoP) for co-operation in the oversight of audit firms was agreed with the PCAOB in 2011. In particular, the SoP forms the basis for the execution of joint inspections in Switzerland and the USA. The relationship between the two authorities has deepened and developed positively over the past years, such that the SoP could be extended in April of the reporting year.

Three further important Memorandums of Understanding on cooperation in the audit oversight area could be concluded in 2014, namely with Finland, the UK and Canada.

Third party information

In the reporting year the FAOA received 31 (prior year 33) 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 were the most common types of reported violation as in prior years.

Regulatory developments

Current projects

Financial Market Infrastructure Act

With the dispatch on the Financial Market Infrastructure Act (FMIA) of 3 September 2014 the Federal Council sent a submission to parliament which regulates the financial market infrastructure and the obligations of financial market participants with respect to securities and derivatives trading. The following points are of particular interest for the audit industry:

- The financial market infrastructures and finance groups must appoint an FAOA-licensed auditor to perform a regulatory audit (Art. 84 D-FMIA in combination with Art. 9a para. 1 AOA and Art. 24 FINMASA). Financial market infrastructures are stock exchanges, multi-lateral trading systems, central counterparties, central depositories, transaction repositories and payment systems (Art. 2 indent a D-FMIA). Two or more entities, of which at least one is an active financial market infrastructure, that are primarily active in the finance area, 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 D-FMIA).
- The statutory auditor (Art. 727 f. CO) audits whether counterparties have complied with FMIA provisions. 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. 115 D-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. 96 f. D-FMIA).
- Derivative trades must be reported to a FINMA-approved or recognised transaction repository (Art. 103 f. D-FMIA).
- The operational and counterparty risks of OTC derivative trades that are not cleared through a FINMA-approved or recognised central counterparty must be recorded, monitored and minimised (Art. 106 f. D-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. 111 f. D-FMIA).

Financial Institutions Act

The Financial Institutions Act (FinIA) regulates the supervision of all financial services providers providing any form of asset management services in one uniform ordinance. The dispatch is expected to be published in mid-2015. For the audit profession the following Federal Council proposals are of particular interest, leading to further development of the «bundling submission»:

- Asset managers will be supervised for the first time. The Federal Council puts forward two models for discussion: In the first variant asset managers would be supervised by the oversight authority (AO) under the FINMASA. Qualified asset managers², fund management companies, investment companies and banks would, by contrast, be supervised by FINMA. In the event that there is no AO, FINMA would

take on responsibility for supervision (Art. 81 PD-FinIA). In the second variant financial institutions under FinIA would be supervised by FINMA (Art. 82 PD-FinIA). Qualified asset managers, fund management companies, investment companies, banks, finance groups and financial conglomerates must appoint an FAOA-licensed audit firm (Art. 9a para. 1 PD-AOA). The other asset managers must appoint an audit firm with an FAOA auditor licence (Art. 6 in combination with Art. 9a para. 4 PD-AOA) to perform a periodic audit (Art. 83 PD-FinIA). The Federal Council can set milder licensing conditions for audit firms and auditors-in-charge that audit financial intermediaries (Art. 2 para. 3 AMLA) and asset managers (Art. 9a para. 4 PD-AOA). State-regulated audit firms that provide audit services only to asset managers will be inspected by the FAOA every five years. In justified cases the FAOA can extend the inspection cycle (Art. 16 para. 11^{bis} PD-AOA).

- State-regulated audit firms will now be licensed for an unlimited period (Art. 7 para. 3 PD-AOA).
- In the AMLA area organisations which ensure that auditors appointed by them to perform controls are licensed by the FAOA will be recognised as self-regulatory organisations (SRO) (Art. 24 para. 1 indent d PD-AML A in combination with Art. 9a PD-AOA). An SRO under AMLA notifies the FAOA of all irregularities and transfers all documentation concerning an audit firm that is required by the FAOA in fulfilling its duties (Art. 25a PD-AML A).

² A qualified asset manager is one who manages assets on behalf of, and for the account of, collective investment schemes (asset manager collective assets) or manages assets of Swiss pension funds (Art. 21 para. 1 D-FinIA).

Federal Financial Services Act

The Federal Financial Services Act (FFSA) creates uniform competition rules to improve customer protection. The ordinance includes rules for all financial services providers with respect to the provision of financial services and the offer of financial instruments. In addition, it will be made easier for clients to press their claims against financial services providers. Consultation on the preliminary draft took place together with that on FinIA. The dispatch is also expected in mid-2015. The law has no immediate consequences for the audit profession. However, audit firms that perform regulatory audits at asset managers (whether qualified or not) will have to audit compliance with the following duties in particular: Duty to provide information (Art. 7 f. PD-FFSA), duty to assess the suitability and appropriateness of financial services (Art. 10 f. PD-FFSA), duty to document and be held accountable (Art. 15 f. PD-FFSA), duty to be transparent and exercise due care (Art. 17 f. PD-FFSA), organisational duties (Art. 21 f. PD-FFSA) and duties around customer advisors (Art. 28 f. PD-FFSA).

Swiss Civil Code amendment

On 28 November 2014 the Federal Council sent the updated preliminary draft of the Swiss Civil Code amendment for consultation, which lasted until 15 March 2015. From an audit perspective the following are worthy of mention:

- Should the board of directors propose to the general meeting that the currency in which the share capital is denominated be changed, a licensed audit expert must confirm that the share capital is also fully covered after the change (Art. 621 para. 3 section 2 PD-CO).
- The audit of a capital decrease now encompasses not only testing that the claims of creditors can still be met but also whether there is a reasonable concern the company may become insolvent within the next 12 months (Art. 653m para. 3 PD-CO). It is now possible to waive the presence of the audit expert at the general meeting (Art. 653m para. 3 PD-CO).
- In the preliminary draft a so-called «capital band» has been introduced, though this is only permissible if the company has an auditor (Art. 653s para. 1 and 727a para. 2 PD-CO). Should the «base capital» be set below the share capital disclosed in the commercial register, analogous to the audit of a capital decrease, a licensed audit expert must prepare an audit report (Art. 653w para. 1 section 2 PD-CO).
- The repayment of the capital reserve (share premium, profit on share forfeiture, capital contribution) is only permissible where a licensed audit expert, based on the balance sheet, confirms in writing that after the repayment neither the claims of creditors are at risk of not being met nor is there a reasonable concern that the company may become insolvent within the next 12 months. The presence of the audit expert at the general meeting can, however, be waived (Art. 671 para. 3 PD-CO).
- The general meeting can resolve to pay an interim dividend when, amongst other things, the interim balance sheet (which may not be more than six months old) is audited by the auditor before the resolution of the general meeting is passed (Art. 675a para. 2 PD-CO). It follows that interim dividends cannot be paid by companies that have waived the audit (Art. 727a para. 2 PD-CO). The interim balance sheet is subject to the same limited or ordinary audit as the annual financial statements.
- If there are reasonable concerns that the company may become insolvent within the next 12 months the board of directors must, amongst other things, prepare a liquidity plan for the next 12 months. If this shows that there is no risk of insolvency a licensed auditor must test the plausibility of the plan and report to the board. In doing so the auditor must act with due haste (Art. 725 para. 3 and 5 PD-CO). The same procedure applies analogously to the three cases of capital loss (Art. 725a PD-CO) and by reasonable concerns regarding over-indebtedness (Art. 725b PD-CO).
- Properties and participating interests whose actual value has risen above purchase price or production cost can be revalued up to the former amount to eliminate a capital loss or over-indebtedness. However, this is only permissible if a licensed auditor confirms in writing to the general meeting that the legal provisions have been complied with (Art. 725c para. 2 CO, equating to the current Art. 670 CO).
- In independence law it is clarified that provisions concerning independence also apply to companies that are controlled by the audited company or the auditor. The management principle is thereby replaced by the control principle (Art. 728 para. 6 PD-CO).
- The auditors of listed companies now audit whether the remuneration report complies with the law and statutes (Art. 728a para. 1 section 4 PD-CO).
- The general meeting now cannot dismiss the auditor without precondition but only for important reasons (Art. 730a para. 4 PD-CO).
- Individuals with auditor liability who have contributed to a loss through carelessness alone are liable up to the amount that they would

have had to meet in the event of recourse (so-called differentiated joint-liability, Art. 759 para. 2 PD-CO).

- In private limited company law a legislative oversight is eliminated whereby a separate group auditor is to be appointed alongside the auditor (Art. 804 para. 2 section 3 PD-CO).
- The interim balance sheet is generally prepared according to the same principles and standards as the annual financial statements; An inventory count is, however, not required and valuations performed at the last balance sheet date need only be amended for changes in book amounts; though write-offs, provisions and accruals made in the meantime, as well as significant changes in value that are not evident from the books of account do have to be accounted for (Art. 960f PD-CO).
- The book value consolidation is abolished but with this the consolidation thresholds for total assets, revenue and staff numbers are significantly increased, doubling from 20/40/250 to 40/80/500 (Art. 963a para. 1 section 1 in combination with Art. 963b para. 3 and 4 PD-CO).

Completed projects

Bundling submission

The FAOA and FINMA previously shared responsibility for the oversight of state-regulated audit firms and the auditors of financial institutions. This concerns the same audit firms, who perform audits in different industries and with different roles. To avoid unnecessary duplication both authorities were obliged to coordinate their oversight activities.

Several years' practical experience showed that this system had a range of weaknesses that could best be eliminated by consolidating oversight responsibilities within one authority. For this reason, on 28 August 2013 the Federal Council presented to parliament a submission on the «bundling» of oversight authority over audit firms. It was proposed to transfer sole responsibility for the oversight of audit firms to the FAOA. This applies to both the financial audit and the regulatory audit. The National Council adopted the legal submission after a relatively brief discussion with 162 votes to 35 and the Council of States with 40 to one (with one abstention)³. With this the following responsibilities transferred to the FAOA on 1 January 2015:

- Licensing: The FAOA assumes sole responsibility for licensing and now rules on audit firms and auditors-in-charge requiring a special law licence in the financial markets sector. However, this does not apply to the audit firms and auditors-in-charge that audit financial intermediaries where these intermediaries have joined an SRO under AMLA.
- Oversight: The FAOA has sole responsibility for the oversight of audit firms in the financial and regulatory audit areas. This also now applies to the audit work of state-regulated audit firms at banks, stock exchanges, securities traders, insurers, mortgage bond institutions, collective investment schemes and financial intermediaries directly supervised by FINMA. It is irrelevant whether these are public companies or not. The status of «public interest entity» is now decisive.
- Enforcement: As oversight and sanctioning cannot be separated, the responsibility for sanctioning audit firms and auditors-in-charge was also transferred to the FAOA.

The content and standards of the regulatory audit at financial institutions will continue to be determined by FINMA, while the FAOA is responsible for the recognition of financial audit standards.

- International administrative assistance: The FAOA is solely responsible for future international administrative assistance in the audit oversight area. This way a uniform and efficient procedure vis-à-vis foreign oversight authorities can be established. However, requests to the FAOA for administrative assistance cannot be used to obtain information and documentation over financial institutions that could not otherwise be obtained from FINMA. The same applies to joint inspections.

With the concentration of all oversight responsibilities under the FAOA staff resources and technical expertise will also be concentrated in one authority, which will further professionalise oversight over the audit industry. FINMA will gain independence in its dealings with audit firms. This will improve the interchange between the audit firms and FINMA over problems at financial institutions under oversight. Furthermore, duplication can be eliminated and efficiency gains achieved for audit firms.

The impending legislative changes made a series of changes to enabling law necessary. The relevant proposals were the subject of a hearing with affected parties, held from 8 August to 8 September 2014. For practical reasons two hearings took place, one regarding the enabling law of the Federal Council (total amendment of the FINMAO and part amendment of the AOO) and one regarding the enabling law of the FAOA (amendment of OO-FAOA as well as FAOA Circular 1/2007, 1/2008 and 1/2010). The

³ BBI 2014 5113.

amendments at the enabling law level also came into force on 1 January 2015 and include the following significant points:

- Auditing standards for the performance of regulatory audits (Art. 5 FINMAO)
- Incompatibilities with regulatory audits (Art. 7 FINMAO)
- Duty to rotate for auditors-in-charge of regulatory audit engagements (Art. 8 FINMAO)
- Listing of FAOA, respectively SRO, licences for the regulatory audit of banks, stock exchanges, securities traders, mortgage bond centres, insurers, entities regulated under the Collective Investment Schemes Act (CISA) and of financial intermediaries under the direct supervision of FINMA (Art. 11a AOO)
- Clarification of the legal licensing conditions (Art. 11b–11l AOO), including concessions for the licence to audit financial intermediaries under the direct supervision of FINMA (Art. 11i, 11j and 11k AOO)

Supervision of Health Insurance Act

On 26 September 2014 the Federal Councillors adopted the Supervision of Health Insurance Act (KVAG). The new law closes various gaps in health insurance law by introducing improvements in the areas of, amongst others, the financial security and management of health insurers, the responsibilities of the oversight authorities (FOPH) and the penal provisions.

In the appendix to the KVAG it is clarified that the FAOA and the other Swiss oversight authorities must share all information and transfer all documentation to each other as is necessary for the enforcement of the respective law (Art. 22 para. 1 AOA

new 2014 edition). With this the question to be asked in the future is not the less than effective one as to whether an oversight authority can be a «special law oversight authority» (see Art. 22 para. 1 AOA 2005 edition), but rather the more to the point question as to whether the requested information is really needed by the requesting authority to enforce the law. The referendum deadline lasted until 15 January 2015.

Circular 1/2014

An internal quality assurance system is the sum of all measures and standards which ensure that the legal and professional law requirements relating to the provision of audit services are met. The practical importance of the internal quality assurance system is so great that its existence is a licensing condition for audit firms (Art. 6 para. 1 indent a AOA and Art. 9 AOO).

Professional law also stipulates a duty to maintain internal quality assurance. The relevant requirements arise from the standards that the profession develops under self-regulation. In practice it is, however, not always clear which standards apply to which audit services. Circular 1/2014 on internal quality assurance within audit firms creates new legal certainty by clarifying which of the standards applies in which situation, in terms of minimum requirements. No requirements as to the content of quality assurance are created; self-regulation is maintained.

Public consultation on the circular ran from 9 September 2014 to 9 October 2014. The circular came into force on 1 January 2015 but contains a series of transitional provisions.

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

On 12 December 2014 the Federal Councillors approved 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 amended in 2012. It is now stipulated that natural and legal persons who deal in goods and accept cash (so-called traders, Art. 2 para. 1 indent b AMLA) do not have the formal status that financial intermediaries have but still have a duty of care under AMLA if they accept more than CHF 100,000 in cash. This includes the identification of the counterparty, establishing the identity of the beneficial owner and the preparation of documentation. In addition, under qualifying circumstances the background and purpose of the business must be clarified (Art. 8a para. 1 and 2 AMLA). The traders must also engage an auditor to check that these duties have been met. Auditors under Article 5 AOA or audit firms under Article 6 AOA, with the necessary technical expertise and experience (Art. 15 paras. 1 und 2 AMLA), can be engaged as auditor. It is yet to be decided when the regulation will come into force.

The new audit obligation was introduced into the submission at short notice, which may explain the following inconsistencies:

- First, it was overseen that small companies can waive the appointment of an auditor (so-called opting-out, Art. 727a CO). It makes little sense for traders to have to appoint an auditor under CO purely to audit compliance with the above-mentioned duties under AMLA. It was presumably meant that an audit firm would be appointed for this audit.

- Secondly, it is stipulated that a special licence is required for all audits under AMLA, granted either by the FAOA (audit of financial intermediaries directly supervised by FINMA) or an SRO (audit of member financial intermediaries). It is unclear why the new law refers only to necessary technical expertise and experience and not to this licence. Nevertheless, it can be said that whoever holds the above-mentioned licence has the necessary technical expertise and experience.
- Thirdly, it must be clarified that only an audit firm can be appointed as auditor and not a natural person. A natural person that audits independently must at least register a sole proprietorship in the commercial register (Art. 2 indent a AOA

in combination with Art. 8 para. 1 AOO).

It is to be hoped that one or the other point can be defined more precisely at the ordinance level.



Oversight

Introduction

As at the end of 2014, 23 audit firms hold licences as state-regulated audit firms. The market structure of the state-regulated audit firms has changed only insignificantly compared to the prior year. The three largest audit firms in Switzerland – Ernst & Young AG, KPMG AG and PricewaterhouseCoopers AG (Big 3) – continue to audit the vast majority of Swiss quoted public companies, that is, around 85 percent by number or around 97 percent by market capitalisation. The two mid-sized Swiss audit firms – Deloitte AG und BDO AG – together audit around 10 percent of public companies by number or around 3 percent by market capitalisation. Nine state-regulated audit firms audit around 5 percent of public companies by number (market capitalisation 0.2%). An additional nine firms are under FAOA oversight voluntarily or due to special law provisions.

In the reporting year thematic reviews were performed for the first time, covering materiality, the audit of letterbox companies and the use of foreign shared service centres.

As a result of the transfer of oversight authority over the financial audit of listed banks, insurance companies and collective investment schemes, the FAOA has reviewed the quality of audit work at several listed banks and insurance companies since September 2012.

With respect to the «bundling» of oversight and the associated transfer of FINMA's remaining responsibilities to the FAOA (regulatory audit), over the last year the necessary organisational projects were initiated alongside the development of the legislative basis. Thus, both knowledge transfer and the coordination of financial and regulatory audit inspection procedures, are assured. Following the transfer of human resources

from FINMA to the FAOA on 1 January 2015, the implementation of the regulatory audit concept is a primary goal of the FAOA in 2015. The FAOA aims to exercise effective audit firm oversight through efficient processes. To this end, financial audit processes already in place will be adopted as far as possible and tailored to the particularities of the regulatory audit.

2014 inspections

Since the enactment of the AOA the FAOA has completed a total of 68 inspections, of which 12 inspections were performed in the reporting year, two of these being joint inspections with the PCAOB.

The audits of 18 public companies were reviewed (file reviews) during the 12 inspections. Alongside these file reviews, selected individual aspects of a further 23 public company audits were covered as part of thematic reviews.

The FAOA's selection of audit engagements for inspection is generally risk-based. The market capitalisation of public companies is one important selection criterion. 17 of 20 SMI companies had been subject to an FAOA file review by 31 December 2014. Through this alone, the FAOA has already subjected audit work covering around 60 percent of total Swiss market capitalisation to a file review. As from 2013 the quality of the financial audit at the two, from a global perspective, systemically important Swiss Banks (G-SIBs), UBS AG und Credit Suisse Group AG, has been assessed annually by way of a file review.

In addition to market capitalisation, the FAOA considers other criteria, such as a major reduction in audit fees, a change of auditor or auditor-in-charge coverage when selecting audit engagements for review. A modified audit report from a public company is a further criterion.

Figure 1

Overview of FAOA inspections and Comment Form findings 2008–2014

Categories	Big 3		Other		Total	
	01.04.2008 – 31.12.2014	of which 2014	01.04.2008 – 31.12.2014	of which 2014	01.04.2008 – 31.12.2014	of which 2014
Number of inspections	21	3	47	9	68	12
Comment Form Findings Firm Review	66	11	223	21	289	32
Comment Form Findings File Review	274	16	293	31	567	47
Number of inspected files ⁴	81	8	48	10	129	18

The increase in firm review findings at the Big 3 results from the more comprehensive inspection procedures that were performed in this area, two firms being subject to a joint inspection with the PCAOB in 2014. With respect to the file reviews, it is still the case that audit quality depends heavily upon the partners and staff involved, as well as the environment (e.g. cooperation of the audit committee). Audit firms should therefore concentrate on fostering consistency in audit quality through the appropriate measures.

Smaller state-regulated audit firms, whose quality assurance systems had previously been under SAS 220, were required to implement Swiss Quality Control Standard 1 (SQCS 1) by 15 December 2013. The use of the revised Swiss Auditing Standards (SAS) 2013 of the Swiss Institute of Certified Accountants was also obligatory for the first time for the audit of the 2013 financial statements. The implementation of SQCS 1 did not lead to a significantly greater number of findings at the respective audit firms. By contrast, the FAOA noted room for improvement in the first-time use of the revised SAS for the financial statements audit. Significant findings were made in such areas as risk assessment and the determination of a response to identified risks. In particular, the identification of, and response to,

significant risks was insufficient in some cases. Findings concerning the failure of the auditor to obtain sufficient appropriate audit evidence for material financial statement items are common.

Thematic inspections 2014

During the reporting year the FAOA carried out thematic inspections at the Big 3 audit firms for the first time. An FAOA thematic inspection on a subject relevant to oversight includes an evaluation of the adequacy of a firm's internal methodology, rules and guidance. In addition, a sample of audit engagements is selected to test whether the relevant requirements have been met for the chosen focus areas. The procedures carried out by the FAOA during a thematic inspection are limited to specific topics and are not comparable to those of an ordinary file review.

Materiality

Audit firms are required to apply the concept of materiality both in planning and executing the audit. Materiality is a key benchmark in assessing the impact of misstatements and in forming an audit opinion.

Overall Materiality:

Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. To this end the auditor determines a materiality amount (cf. The Conceptual Framework for Financial Reporting issued by the International Accounting Standards Board).

The process of determining overall materiality and performance materiality greatly influences the nature and scope of audit procedures and the assessment of the results of those procedures.

Performance materiality:

Performance materiality is lower than overall materiality. The probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality for the financial statements as a whole is thereby reduced (cf. ISA 320.9).

⁴ In each file review the FAOA selects the working papers that relate to the audit of the consolidated financial statements (including holding company) and the audit of a significant subsidiary. Files covered by the thematic inspections are not included here.

During this year's inspections at the Big 3 the FAOA assessed the materiality methodology used and additionally selected six group audits from various industries and with various levels of earnings. The application of the materiality concept was thus tested in 18 group audits by way of a thematic inspection.

The FAOA found significant differences in the applicable benchmarks and potential ranges:

Figure 2

Materiality benchmarks and ranges for public companies under the methodologies of the Big 3 audit firms

Benchmark	Materiality in %		
	Firm A	Firm B	Firm C
Profit before tax (EBT)	≤5	5–8	3–10
Profit before interest and tax (EBIT)	n.a.	5–8	n.a.
Profit before interest, tax, depreciation and amortisation (EBITDA)	≤2.5	2–3	n.a.
Gross profit	n.a.	1–2	n.a.
Revenue	≤1	0.5–1	0.5–3
Capital and reserves	≤0.5	1–2	n.a.
Total assets	≤1	0.5–1	0.5–3

The methodologies of the Big 3 firms include criteria which support the choice of benchmark. For profit-orientated businesses the benchmark «profit before tax» is normally used and materiality is set within the specified range. Numerous factors thereby influence the decision of the auditor in setting materiality within the range. Generally, high risks of misstatement, complex processes, past errors or high regulatory risks lead to a lower materiality. The auditor's materiality assessment must be documented and consistent with other risk assessment information.

Figure 3
Percentages used for determining performance materiality at the Big 3 audit firms

Basis	Firm A	Firm B	Firm C
Percentage of overall materiality	50–90	50 or 75	to 75

The Big 3 have differing requirements on setting performance materiality. For example, at Firm A formal consultation is required if an amount of 50 % or less is used. Generally professional scepticism is to be applied in determining performance materiality and account is to be taken of past identified errors in setting the percentage.

The FAOA has the following comments on the methodologies of the Big 3 with respect to the determination of overall and performance materiality:

Auditing standards on materiality

The FAOA believes that the methodologies of the Big 3 meet the requirements of national and international auditing standards (SAS/ISA 320 and SAS/ISA 600). However, the determination of overall and performance materiality is to a great degree subject to the professional judgement of the auditor. So, for example, the criteria for selecting benchmarks and setting percentages within the materiality ranges are not binding. This margin of discretion may, on the one hand, be appropriate as the determination of overall and performance materiality has to take business and risk-specific elements into account. On the other, there is a danger that this significant level of discretion will lead to the choice of benchmark and applicable percentage being made in such a way that the highest possible materiality is determined, without taking specific risk factors sufficiently into account.

The FAOA would welcome it if the audit firms would include industry-specific requirements on the determination of materiality within their methodologies.

Significant differences between audit firms

The audit firms have significantly different approaches towards the choice of benchmark and ranges in determining materiality. This is problematic given that the underlying auditing standards are the same and there is a common understanding that materiality is central to planning, audit execution and forming an opinion upon reporting. The following example, in Figure 4, shows the significant differences possible in setting materiality on a group audit.

Figure 4

Illustrative example of the determination of overall materiality at the Big 3 audit firms

Benchmark	in CHF mio.	Overall materiality in CHF mio.		
		Firm A	Firm B	Firm C
Profit before tax	40	≤2	2–3.2	1.2–4
Profit before interest and tax (EBIT)	60	n.a.	3–4.8	n.a.
Profit before interest, tax, depreciation and amortisation (EBITDA)	90	≤2.25	1.8–2.7	n.a.
Gross profit	100	n.a.	1–2	n.a.
Revenue	120	≤1.2	0.6–1.2	0.6–3.6
Capital and reserves	300	≤1.5	3–6	n.a.
Total assets	700	≤7	3.5–7	3.5–21

Overall materiality can therefore be very different even when using the same benchmark. Furthermore, it is evident that the choice of benchmark can have a significant effect on the level of materiality. These significant differences in materiality ultimately have significant effects on the audit. For this reason the FAOA would welcome the disclosure of materiality in the comprehensive report to the board of directors and/or the summary report to the general meeting of shareholders. Such disclosure is particularly useful in understanding the depth and results of the audit or a change in auditor. Since the level of materiality should not vary so greatly between audit firms the FAOA supports the standard setters in re-evaluating their standards on materiality.

Adjustment for one-off items

In principle, it is permissible to take account of one-off items that alter the size of the benchmark. However, the FAOA has found that in some cases recurring expenses (e.g. annually recurring restructuring provisions) are treated as one-off items. Since the adjustment for one-off items can have a significant effect on materiality more assurance should be obtained on the

appropriateness of such adjustments in the future.

Differing requirements for group audits

The methodologies include differing requirements on the determination of component materiality. The relevant standard (SAS/ISA 600) requires only that component materiality is lower than group materiality. This results in significant differences between audit firms in the determination of component materiality, which itself influences the nature and scope of audit work. More detailed auditing standard requirements as to the determination of component materiality would therefore be welcome.

Professional judgement

Since the deliberations made in selecting the benchmark are subject to significant auditor professional judgement they should be documented comprehensively. In cases where the «profit before tax» benchmark was not used the exercise of professional judgement was not always comprehensible. The FAOA was particularly critical of a lack of documentation in

cases where there was no evidence, or doubts existed, that the chosen materiality benchmark was also seen by analysts, other market players or comparable competitors as the relevant benchmark.

Risk and other factors

The determination of materiality should have regard to risk and other factors. Specific risks can arise from the ownership structure, industry, line of business and capital structure of the audited company. With high risk, materiality is set lower accordingly. However, the FAOA has found repeatedly that contrary to the requirements of the auditing standards and firm-internal methodologies, risks have not been appropriately taken account of in determining overall and performance materiality.

Letterbox companies

Certain Swiss public companies have only a registered office in Switzerland, those responsible for the supervision and management of the group, as well as its accounting function, are abroad. Such public companies are referred to below as «letterbox companies».

The standards applying to the group audit (SAS/ISA 220, 230 and 600) also apply to the audit of letterbox companies. The responsibility of the auditor-in-charge for the audit of the consolidated financial statements of letterbox companies, in terms of direction, supervision and performance, cannot be delegated. Firm-internal guidance on the audit of letterbox companies may not evade or soften these requirements⁵.

In the past the FAOA found that in some cases firm-internal requirements on the audit of letterbox companies were insufficient to comply with the above-mentioned standards. Due to the special constellations seen in the audit of letterbox companies – each audit displays differing circumstances and characteristics – the FAOA also found deficiencies during its file reviews of letterbox company audits in prior years. This prompted the FAOA to perform a thematic review in the reporting year.

At the three largest audit firms the FAOA selected a total of five letterbox company audits and assessed the audit methodology and compliance with internal and external requirements for a group audit. The following was found:

- At one firm the planning of letterbox company audits is subject to mandatory consultation, which the FAOA welcomes. Such a policy is conducive to the audit of letterbox companies being uniform and compliant with applicable requirements.

- The «integrated audit team» approach has also proved sensible. In such cases the group engagement team comprises of staff from the network firms of various countries and the group auditor-in-charge does not delegate his or her responsibilities. Due to the de-centralised team structure the time required by the auditor-in-charge for supervision and coordination is in some cases, however, considerable.

- The audit methodology of two audit firms is compliant with the auditing standards. At one firm, by contrast, the FAOA criticises unclear concepts, responsibilities and task allocations within the methodology. These ambiguities lead to the risk that the group auditor is insufficiently involved in the work of the component auditor and does not assume his or her specified responsibilities to the necessary extent. Additionally in this case, the methodology provides for the delegation of non-transferable group auditor responsibilities (e.g. risk assessment, materiality determination, fraud inquiries, consolidation audit).

- Although the auditor-in-charge is responsible for compliance with independence requirements, he or she is not always responsible for approving additional services. This would be necessary, however, to be able to exercise group-wide responsibility for independence consistently.

- In some cases working papers relevant to the group audit are not kept in Switzerland. The audit documentation is thus incomplete and Swiss law documentation requirements are not met.

Regardless of methodologies, the difficulties associated with the audit of letterbox companies ultimately lie in the realisation and perception of the specified tasks and responsibilities

of the group auditor and the group auditor's timely involvement. The reasons behind the presence of each of these companies in Switzerland and consequently also their structures and the division of responsibilities between group and component auditors vary greatly. It is thus essential that these differing requirements are taken account of and that delegation of responsibility for the work of the group auditor is not possible under any circumstances.

Shared Service Centres

At the state-regulated audit firms that outsource audit work to a foreign shared service centre (SSC) the FAOA analysed the applicable processes, controls and type of work outsourced in the reporting year. The proportion of outsourced audit hours to total audit hours is still currently low. The proportion of work outsourced to foreign SSC is below five percent of total audit hours at all audit firms. It is expected, however, that this proportion will increase in the next years.

A foreign SSC is generally an organisation controlled by the relevant audit network that is not licensed as an audit firm in the respective country of domicile. An SSC is not to be confused with a local audit firm that prepares a report covering its audit work and is subject to local audit oversight. The engaged SSC staff are normally seen as being part of the Swiss audit team. The Swiss firm therefore retains full responsibility for the outsourced work, for compliance with Swiss law and for the quality assurance system.

In its analysis the FAOA observed that the following work had been outsourced to foreign SSC:

- Coordination of external confirmation collection (banks, debtors etc.)

⁵ Cf. FAOA FAQ «Prüfung von Briefkastenfirmen».

- Coordination work relating to group audit instructions
- Calculations and reconciliations
- Consistency checks
- Basic sample testing in the assets and revenue areas
- Initial completion of disclosure checklists
- Preparation and archiving of electronic working papers

The FAOA concludes that the quality of audit work outsourced to foreign SSC is as good or slightly better than comparable audit work that has not been outsourced to date. On the one hand, this is because the SSC have specialised in routine work. On the other, additional reviews have been incorporated within the processes. The FAOA sees the current firm-level quality assurance processes as adequate overall. However, SSC compliance with the manifold applicable Swiss laws must be assured through appropriate measures and controls, the effectiveness of which must also be assured on a continuing basis. This responsibility cannot be delegated to other network firms.

If SSC are used for more complex audit work in the future, however, caution is needed. It is to be borne in mind that SSC staff generally do not have an adequate understanding of the audit client's business and also normally have no client contact. Furthermore the use of SSC implies specific risks. These can, for example, be connected with the cultural characteristics of the SSC locations. In addition, an SSC often has a higher staff fluctuation, which can have a negative impact on quality. The FAOA will therefore monitor the development of SSC further and, where necessary, ensure that only suitable work, requiring no professional judgement, is outsourced to SSC.

Regarding the use of the work of SSC the FAOA will, besides the above, also pay appropriate attention to communication with the audit committee. The FAOA believes that the audit committees of public companies should be informed about the nature and extent of significant outsourced work. Without this information the audit committee does not have the opportunity to discharge its responsibility and critically question the nature and extent of work outsourced to an SSC if need be.

In order for the FAOA to be able to monitor the development of SSC further, an audit quality measure relating to the use of foreign SSC was collected for the first time in the year just ended. In the future this will allow the FAOA to check the quality of outsourced work if certain thresholds are exceeded. Since the SSC are generally not subject to external quality assurance in their home country, it is also necessary to evaluate, together with other oversight authorities, the need for local external quality assurance measures.

Proceedings and preliminary fact-finding

In addition to routine inspections, the FAOA also conducts event-driven preliminary fact-finding and proceedings 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 one notification from third parties relating to the work of a state-regulated audit firm. This notification is currently being investigated by the FAOA to ascertain whether proceedings should be started. The notifications referred to in the «Key activities 2014» section all relate to audit firms, respectively individuals, that are not state-regulated.

Since inspection activities began in 2008, 23 proceedings have been

conducted as part of the FAOA's oversight of state-regulated audit firms:

- Seven proceedings were against 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 on a timely basis. In one case the statutory reporting obligation was not met.
- 16 proceedings were against individuals with an FAOA licence. Ten of these cases involved breaches of independence requirements. In six cases the FAOA sanctioned the auditor-in-charge for not exercising proper duty of care.

Audit Quality Measures

Over the last six years the FAOA has collected audit quality measures from the five largest audit firms on specific audit-related areas of the quality assurance system. These allow for trend analyses and the timely identification of factors that may impact audit quality. In addition, the measures are used for risk assessment when planning inspections.

The audit quality measures were further developed in the reporting year to improve their informative value and comparability. The earlier measures were hereby amended. Certain

measures were no longer used due to lack of informative value. The FAOA further integrated new measures relating to the involvement of the auditor-in-charge, the work of foreign SSC and the number of internal consultations performed. In addition, for several measures a distinction was drawn between SMI and other public companies.

Figure 5

Figure 3
Comparison of selected audit quality measures relating to the audit function of the five largest state-regulated audit firms

[illegible]

- The lowest average annual revenue per partner increased slightly. Revenue per partner increased slightly at three audit firms and decreased slightly at two firms. Revenue per partner depends on the size, respectively fees, of the audited companies and on the staff to partner ratio. The audit firm with the highest revenue per partner also has the highest number of staff per partner.
 - The FAOA regards the ratio of additional fees to audit fees at public company audit clients to be a risk indicator with respect to independence. This ratio has changed only marginally compared to the prior year. The ratio is around 0.1 or 0.2 at four firms and at one firm it is higher at 0.4. Furthermore, the ratio at SMI companies is generally lower than at other public companies.
 - Although the range of staff turnover changed only slightly compared to the prior year, the highest levels of staff turnover rotate amongst four audit firms. The lowest staff turnover has been shown by the same audit firm since the key audit measures were first collected.
 - There is a significant difference between audit firms in the average number of EQCR and auditor-in-charge hours per public company. The larger the audit client engagements the higher the proportion of EQCR and auditor-in-charge hours. Further, the average number of EQCR and auditor-in-charge hours incurred at SMI companies exceed those incurred at other companies by several times. Although the allocation of hours, respectively personal resources, generally accords with the risks, the number of EQCR hours incurred is still too low in some cases. This is particularly the case in the audit of smaller public companies.
 - The hours of a foreign SSC as a percentage of the total hours of audit engagements using that SSC varies greatly. Two of the five audit firms currently deploy foreign SSC. The involvement of domestic SSC is not taken account of in this measure.
 - The proportion of formal consultations to audited public companies is similar at three firms. At these firms formal consultations are made around 2.6 times per 10 public companies. With 3.6 consultations the proportion at the fourth firm is significantly larger. There were no formal consultations at the fifth firm. 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.
- In the reporting year two joint inspections were performed with FINMA. Having regard to the respective oversight activities of the FAOA and FINMA and the assumption of particular FINMA oversight responsibilities by the FAOA regular interaction took place.
- 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 issuers' compliance with their responsibilities under the listing regulations. The focus of the FAOA is upon auditor compliance with legal and professional requirements, and not upon compliance with accounting standards. In the reporting year

no notifications were received from SER that were 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 also has periodic contact with the Supervisory Commission for Occupational Pension Schemes. The interaction is focussed on the discussion of regulatory developments and audit related questions in the pension fund area. In addition, there is coordination relating to FAOA proceedings against auditors-in-charge that arise from the unsatisfactory audit of pension funds.

Standard-setting

The continued development of international and national auditing standards is an important element in improving audit quality. The FAOA works towards this in international working groups. This collaboration makes it possible for regulators to interact periodically and to prepare joint responses to drafts of new or revised standards.

FAOA Circulars

For the first time, in accordance with the new requirements of Circular 1/2010 and by a due date of 30 June, audit engagements were to be reported to the FAOA if the ratio between non-audit and audit fees exceeded 1:1 in a business year. For each reportable engagement disclosure was to be made of the additional services provided, together with the safeguards put in place to counter possible breaches of independence. The FAOA had received 15 notifications by 30 June and assessed these critically.

Since 1 January 2014 there has been a requirement to report all new public interest entity audit engagements to the FAOA. The report is due upon election by the responsible body and includes the likely audit fee. In all cases reporting must be timely. Where there has been an early termination or the waiver of audit engagement continuance reasons are to be provided. In the past the FAOA found that state-regulated audit firms did not always provide clear and comprehensive reasons for the termination of the client relationship. However, this is relevant in assessing possible audit quality implications and the acceptance process at the new audit firm.

Swiss Auditing Standards

The new Swiss Auditing Standards (SAS 2013 edition) were to be used for the first time with respect to the audit of statutory and consolidated financial statements that ended on or after 15 December 2013. Likewise, all state-regulated audit firms were to implement SQCS 1 by 15 December 2013. Generally, SQCS 1 was appropriately transferred to the existing quality assurance system at the state-regulated audit firms.

The ISA amendments made in 2013 and 2014 have not yet been adopted in the SAS (ISA 315, 610). Given current standard setting projects, the future timely transfer of ISA to SAS should be strived for. Timely transfer is particularly important with respect to the new audit reporting standards (ISA 700 f.) as these will lead to significant reporting improvements in the view of the FAOA.

International Standards

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

- In April and May 2014 comment letters were submitted on the strategy and workplan of the IAASB for the period 2015 to 2019. The focus placed by the IAASB on subjects such as the professional scepticism of the auditor, group audit and the audit of fair values is welcome. However, recommendations were made by the EAIG and IFIAR to revise the requirements on materiality and the audit of letterbox companies.
- In August 2014 IFIAR submitted a comment letter on the draft of ISA 720, concerning requirements on the audit of other information. The FAOA agrees with the aim of the draft to broaden and more clearly define the requirements and to increase the responsibility of the auditor towards the accuracy of other information. However, ambiguities in the definitions were criticised.
- In October 2014 two further comment letters were submitted on proposed revisions relating to the audit of notes disclosures. The EAIG and IFIAR question whether the proposed audit requirements are sufficient to achieve an effective audit approach towards these disclosures. It was further noted that closer cooperation between the auditing and accounting standard setters was needed to achieve an overall increase in the quality of notes information.

The FAOA commented last year on drafts of revised audit reporting standards. In September 2014 the IAASB adopted the relevant ISAs, which were published in January 2015. The standards are mandatory for the audit of financial statements covering periods that end on or after 15 December 2016 but earlier application is permitted. The FAOA welcomes the proposed changes and a prompt transfer of the new international standards to SAS.

The «Key Audit Matters» that are to form part of public company audit reporting are of outstanding importance. In a separate section the auditor will provide information on issues that, in his or her opinion, were of most significance to the audit of the financial statements. These would particularly include issues involving significant risk and significant professional judgement by the auditor. In addition to this, the audit opinion is henceforth to be presented in the first paragraph of the report and a going concern assessment in a separate paragraph. There will also be a separate paragraph dealing with the audit of other information presented with the financial statements. Auditor materiality is not, however, planned to be disclosed to the general meeting of shareholders.

The following comment letters were submitted on the proposals of the IESBA for revising the Code of Ethics:

- A comment letter on the strategy and workplan of the IESBA was issued jointly with the EAIG in February 2014. This generally supports the proposed approach and focus areas.
- A comment letter on the planned changes regarding non-audit services to audit clients was issued jointly with the EAIG in October 2014. Amongst other things, the changes concern the restrictions on providing additional services to audit clients. These changes are supported.
- In November 2014 the FAOA issued a comment letter on the long-term provision of services to an audit client. The establishment of particular principles is welcome. On the other hand, the FAOA is against an extension of the cooling-off period to five years. The cooling-off periods in force in Switzerland, being three years for the auditor-in-charge and two years for the responsible auditor, are deemed adequate.

Points of focus for 2015 inspections

As part of its regular 2015 inspections the FAOA will focus on the following points and assess them in detail:

Financial audit:

- Audit of the compensation report by the statutory auditor (ordinance of 20 November 2013 against exorbitant compensation at public companies)
- Determination of the type of work (scoping) to be performed on the financial information of components (SAS/ISA 600.26-29)
- Use of the work of internal auditors (SAS/ISA 610)

Regulatory audit:

- Use of the work of internal auditors and involvement of an auditor's expert (e.g. actuary)
- Audit of compliance with investment regulations at insurance companies and collective investment schemes
- Audit of compliance with AMLA regulations

Further points of focus relating to the application of auditing or accounting standards will result from an individual analysis of the specific circumstances.



Thomas Rufer, Chairman of the Board of Directors, FAOA Seminar 2014 in Lausanne

International

Introduction

In 2014 a large number of specific administrative assistance cases were again dealt with. Due to the listing of Swiss entities in the US and the presence of US groups in Switzerland, cooperation with the US remains the most intensive. At the same time, the number of cross-border matters relating to EU member states is still significant⁶. As the principle of «home oversight» has been agreed with the EU and EEA audit oversight authorities, those authorities generally do not carry out oversight activities in Switzerland. Cooperation here focuses on the exchange of oversight-relevant information.

Relations with the European Union

Memorandums of Understanding

Since the so-called «adequacy decision» of 5 February 2010 and EU recognition of the equivalence of the Swiss audit oversight system on 19 January 2011, the audit oversight authorities of EU member states have been able to place reliance on the oversight activities of the FAOA. The scope and conditions of such cooperation must be governed, however, by a cooperation agreement between the FAOA and the audit oversight authority of the respective EU member state. The FAOA has been negotiating continuously with various EU and EEA audit oversight authorities since the equivalence decision.

In 2014 negotiations were successfully completed with two EU oversight authorities. The texts of both Memorandums of Understanding (MoU) were published on the FAOA homepage.

On 5 March 2014 the FAOA concluded an MoU with the Finnish Auditing Board of the Central Chamber of Commerce. With this the oversight activities of both authorities are mu-

tually recognised. Cross-border inspections, such as those required by the PCAOB, are mutually waived.

The MoU agreed with the UK Financial Reporting Council on 18 March 2014 represents the seventh FAOA cooperation agreement with a regulator from the EU/EEA. Cooperation with the UK is of greater importance due to the close economic ties between the UK and Switzerland. The MoU with the UK is comparable with the agreements already concluded with other EU member states. The «principle of home oversight» again gives considerable relief to Swiss audit firms here. However, the possibility of performing inspection activities in the other country is also provided for in exceptional cases.

Registration of Swiss audit firms

State-regulated audit firms domiciled in Switzerland can register with foreign audit oversight authorities. An overview of the state-regulated audit firms registered in the EU is given in the appendices. Cross-border registrations occasionally give rise to legal questions to be resolved together with the FAOA.

Audit market reform

On 3 April 2014 the EU adopted the so-called EU Audit Reform. The new regulations come directly into force in mid-2016 (ordinance), respectively must be implemented within national law by the EU member states (directives). The Reform could impact Switzerland at various levels:

– First, the Reform package will lead to new modalities for administrative assistance provided by the audit oversight bodies of EU member states. It will need to be checked whether cooperation agreements concluded under the old law remain valid under the new law.

– Secondly, the extent to which Swiss audit firms are directly or indirectly affected by the new EU requirements – particularly as regards independence – is open to discussion. The audit of entities domiciled in the EU or Switzerland that qualify as a public interest entity under EU law or the audit of their Swiss subsidiaries come to mind. A further challenge is that individual EU member states have considerable flexibility and can deviate from or define a requirement.

The FAOA will follow the further developments closely and will approach relevant partners should negative developments for Switzerland be seen. The FAOA believes provisions of the EU Audit Reform to strengthen the position and responsibilities of audit committees and broaden the audit report to shareholders to be meaningful.

However, the FAOA currently sees no urgent need for action in Switzerland as regards the EU restrictions on non-audit fees. It should be highlighted that the FAOA introduced a more stringent reporting requirement as per 1 January 2014. Accordingly, audit engagements must be reported to the FAOA if the ratio of non-audit to audit fees disclosed in the annual report of the respective audited public company exceeds 1:1 in a financial year (Circular 1/2010). Based on this reporting the FAOA can check compliance with independence requirements in an effective and risk-based way.

The FAOA views the EU rotation requirements for auditors of public companies critically. On the one hand, the advantages of rotation, such as those relating to a creeping loss of objectivity, may be eliminated by the disadvantages associated with the acquisition of a mandate by a new

⁶ At the end of 2014 there were 22 (2013: 19) requests for administrative assistance pending at the FAOA. Of these 10 were from member states of the EU and EEA, 11 from the USA and one from another country.

auditor (additional costs etc.). On the other, rigid rotation rules should not replace the duty of the board of directors, respectively audit committee, to review the audit mandate periodically based on set criteria and, if need be, recommend a change in auditor to the general meeting of shareholders.

Cooperation with the USA

Statement of Protocol

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 allows 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 had finalised four of the related inspection reports by the end of 2014:

- 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

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») und 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 finalised⁷. After this the audit firm has a dead-

line of twelve months to propose specific remedial measures to address the identified deficiencies. If insufficient measures are available within this period Part II is also published.

By contrast, the FAOA does not publish inspection reports but discloses the results of its work in an aggregated and anonymous form within the respective annual Activity Report.

Extension of SoP and reliance

The SoP was limited to three years and therefore expired on 4 April 2014. Although joint inspections are not unproblematic from a sovereignty perspective, the close economic links between the Swiss and US economies have to be taken into account. The relationship between the two authorities has also deepened and developed positively over the past three years. Consultation with the sector concerned also indicated that a general continuation of existing cooperation would be largely beneficial. On 4 April 2014 the SoP was therefore extended by way of an addendum. The SoP is now open-ended in principle but can be terminated at any time by both parties. The text of the SoP was published on the FAOA homepage.

FINMA is now not a party to the SoP. FINMA was originally included because it still had oversight responsibility for the audit firms' financial audit of financial institutions (also US listed) in 2011. Following the assumption of these and other FINMA responsibilities, as from 1 January 2015 the FAOA is solely responsible for cooperation with the PCAOB. There is therefore no need for FINMA to be further directly involved.

Based on the extended SoP, the PCAOB inspected two Swiss audit firms for the second time. The relationship between the FAOA and the PCAOB has continued to develop positively in the meantime.

Relations with other countries

On 29 September 2014 the FAOA also concluded an MoU on cooperation in the audit oversight area with the Canadian Public Accountability Board. While the MoU is only the second agreement with a regulator outside Europe, its content is comparable to the agreements with the EU oversight authorities. In particular, there are no cross-border inspections. The MoU can be downloaded from the FAOA homepage.

Multilateral Organisations

IFIAR

IFIAR was founded in 2006 and currently has around 50 members. Within the framework of their oversight activities over audit firms of listed entities these cover more than 80 % of global market capitalisation.

The President and Vice-President are from the US PCAOB and the Dutch Authority for the Financial Markets (AFM) respectively. The Chief Executive Officer of the FAOA acts as Treasurer. In 2014 IFIAR held an Inspection Workshop in Kuala Lumpur (March), a plenary meeting in Washington (April) and an interim meeting in Toronto (October).

Amongst each other, but also at joint events with representatives of the so-called «Big 6» of the audit industry and leading investors and academics, the members discussed the benefits of the audit to investors and audit committees, the structure and business model of the Big 6, the risk-based oversight model and forthcoming self-regulatory projects within the profession.

⁷ <http://pcaobus.org/Inspections/Reports/Pages/default.aspx>

IFIAR remains an important platform for the FAOA, enabling contact with other oversight authorities and the discussion of new oversight strategies and their implementation in an international context. In 2014 the FAOA was involved in IFIAR debates at various levels:

- **Enforcement Working Group (EWG):** The aim of this working group is to exchange experiences gained in investigating and sanctioning breaches of standards by auditors and audit firms. In 2014 a questionnaire was developed and evaluated to gain an overview of the various enforcement instruments available in the legal jurisdictions of the IFIAR members. The results are expected to be published in 2015.
- **International Cooperation Working Group (ICWG):** As a member of this working group the FAOA is contributing particularly to the development of a Multi-lateral Memorandum of Understanding (MMoU). The aim of this long-term project is to improve cooperation between audit oversight authorities within IFIAR and to improve the exchange of oversight-relevant information between audit oversight authorities.
- **Inspection Workshop Working Group (IWWG):** Animated exchanges take place between inspectors from the oversight authorities represented at the annual multi-day Inspection Workshops. Current audit technical questions are discussed, which helps to build and refine the inspection activities of the FAOA. The FAOA participated in this year's Inspection Workshop and assisted with several of its own contributions. The FAOA has been a member of the IWWG since the summer of 2014 and helps to organise the workshops.

- **Standards Coordination Working Group (SCWG):** This working group monitors the standard-setting of the international profession and, within its joint comment letters to the IAASB, puts forward the application and compliance experiences oversight authorities have had with the existing standards. In 2014 the working group additionally met with IAASB and IESBA representatives to exchange ideas.

EAIG

Since 2011 the FAOA has taken part in the meetings of the EAIG, a body of oversight authorities from EU member states. As part of its work, the EAIG analyses the anonymised findings from the inspections of member audit oversight authorities and performs root cause analyses of the identified deficiencies. Amongst other things, the results form the basis for discussions with representatives of the IAASB and IESBA and representatives from the audit firm networks. In addition, current trends relating to the audit and the organisation of audit firms are discussed.

In 2014 an inspection programme for the assessment of a quality assurance system under ISQC 1 was developed together with other regulators. This so-called Common Audit Inspection Methodology (CAIM) will unify the inspection approach of the participating oversight authorities, and thus also make it easier to compare findings. Such a coordinated approach is particularly important to the oversight of audit firm 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.

Colleges of Supervisors

The integration of various audit firm network members at the European-level already lead to the formation of «Colleges of Supervisors» from the regulatory side several years ago. Participating oversight authorities coordinate individual oversight activities within these colleges. Common inspection procedures relating to specific elements of the quality assurance system were performed for the first time in 2013 at one audit network. In 2014 the results of these inspection procedures were analysed and assessed as to the possible implications for quality assurance at the respective territory firms.

The structure of the audit firm network concerned changed in 2014. This will have an effect on the work of the College and on the nature of cooperation between the oversight authorities. 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.

Extra-territorial scope of the AOA

To protect investors in the Swiss capital market, and in line with comparable foreign regulations, the AOA also displays certain extra-territorial properties. Foreign audit firms are subject to FAOA oversight if they audit foreign companies that draw on the Swiss capital market. Essentially, this does not apply if the foreign audit firm is already subject to equivalent oversight (Art. 8, para. 2 AOA). However, this system is not yet in force as discussions over cooperation and mutual recognition must first take place with the most significant foreign partner authorities.

Based on past experience it is apparent, however, that the oversight systems of the affected countries are very heterogeneous in design and that Switzerland is unlikely to be able to recognise the oversight authorities

of various countries. It is therefore to be assumed that more foreign audit firms will fall under the direct oversight of the FAOA than was originally anticipated by the legislator. To prevent excessive Swiss stock exchange listing requirements from weakening the competitiveness of the Swiss capital market, a modest de-regulation of the extra-territorial scope ((Art. 8 AOA) was proposed during the 2012/13 consultation on the modernisation of the commercial register, particularly as regards significant subsidiaries and issuers of unlisted bonds. The consultation noted, in particular, that the issuers of equity instruments (in the first instance shares) and bonds should be treated differently.

On 23 October 2013 the Federal Council instructed the Federal Justice and Police Department (FJPD) to prepare a submission on the modernisation of the commercial register ordinance. With a view to revising the extra-territorial scope of the AOA, the FJPD was also mandated to check whether oversight of the auditors of foreign issuers could be effected in a differentiated way (shares and bonds) and whether the scope section which is not subject to revision could be enacted early. The FAOA believes it would be sensible to enact the part of Article 8 AOA applicable to share issuers early. In so doing, investor protection could be strengthened promptly and in a targeted way and initial implementation experiences could be gathered.

Due to the cohesiveness of the subject matter, the FJPD further decided to separate the revision of the AOA from the modernisation of the commercial register ordinance and to pursue it with a separate proposal.

gramme (FSAP) of the IMF. The aim of the FSAP is to assess the financial centre concerned with respect to financial stability and the quality of regulation and oversight. The results of the FSAP were published in spring 2014. As audit forms part of financial market regulation the final report of 3 September 2014⁸ also contains criticism of Swiss audit law:

The IMF believes that independence requirements for Swiss listed companies should be improved in two areas:

- On the one hand, the lack of a legal requirement to establish an audit committee within the board of directors is criticised. Even if self-regulation in this area requires an approach based on the principle of «comply or explain», there is no guarantee that an audit committee actually exists.
- On the other, the complaint is made that the resignation, de-selection and replacement of the auditor is currently not publicised immediately.

The FAOA does not regard the first point of criticism as unjust: The creation of enforceable legal requirements would be welcome given the positive influence an active audit committee has on audit quality and to be in line with developments in the EU and the USA. The current company law revision would provide a good opportunity to take this point up. The FAOA is sceptical on the second point as current requirements regarding the change of auditor appear adequate (commercial register, ad hoc publicity).

IMF FSAP assessment

From May to December 2013 Switzerland went through the so-called Financial Sector Assessment Pro-

⁸ <http://www.imf.org/external/pubs/ft/scr/2014/cr14266.pdf>

Licensing

Introduction

2014 was dominated by the expected wave of licence renewals. Almost 2,000 audit firm licences issued in 2009 with a five year term expired automatically in calendar year 2014. This is equivalent to over 50 % of all FAOA-licensed audit firms. In addition, 550 new applications for first-time licences were submitted by audit firms and individuals.

For the first time the number of licensed sole proprietorships and audit firms was lower than in the prior year, with a reduction of 161 sole partnerships and 181 licensed audit firms. This is largely due to voluntary surrenders received as part of the licence renewal process. With 23 firms (prior year 22) the number of state-regulated audit firms has again risen slightly.

Licences

During the reporting year 395 individuals were licensed for the first time by the FAOA. Around 75 individuals were deleted from the public register due to surrender, death or licence withdrawal by the FAOA. Thereby, the trend of previous years for a slight annual increase in the number of licensed individuals also continued in calendar year 2014.

Figure 6
Licensed individuals and audit firms as at 31 December 2014⁹

Type of licence	Auditor	Audit expert	Total at 31.12.2014	Total at 31.12.2013
Individuals	2,393	6,267	8,660	8,340
Sole proprietorships	298	324	622	783
Audit firms	840	1,672	2,512	2,693
State-regulated audit firms	–	23	23	22
Total licences	3,531	8,286	11,817	11,838

⁹ 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 2014.

Membership of professional associations¹⁰

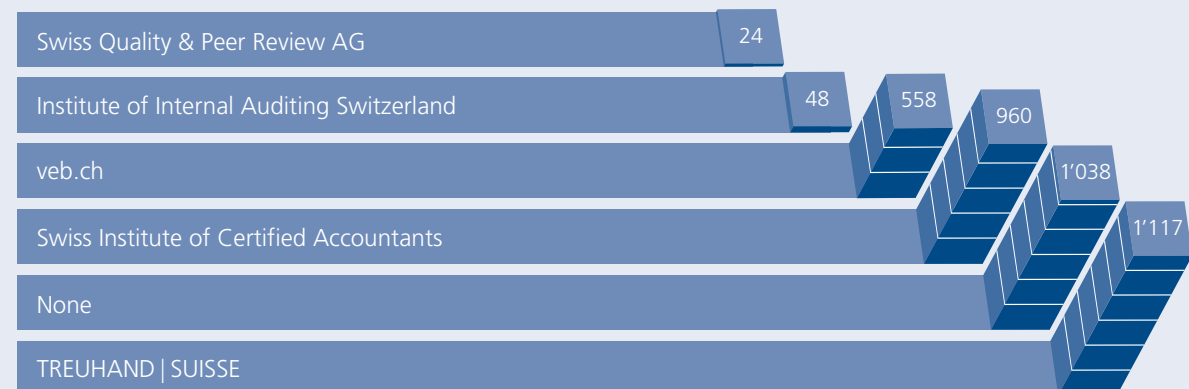
The absolute number of audit firms that are members of a professional association dropped slightly compared to the prior year. This devel-

opment is largely due to the lower number of licensed audit firms compared to the prior year. In percentage terms the proportion of audit firms belonging to at least one professional association has, at 67 percent, slightly increased compared to the prior year

(63 percent). This is because most of the audit firms who did not renew their licences during the licence renewal process were not members of any professional association.

Figure 7

Licensed audit firm memberships of professional associations as at 31 December 2014



The proportion of licensed individuals and licensed audit firms with professional association memberships is practically identical in percentage terms. Two thirds of licensed individuals belong to at least one of the professional associations.

Figure 8

Licensed individuals' memberships of professional associations as at 31 December 2014



¹⁰ All numbers are derived from the self-declarations of the audit firms and individuals.

Applied internal quality assurance standard

The quality assurance standard used by the audit firm is recorded in the online register of auditors by means of self declaration. The FAOA generally checks quality assurance requirements, based on submitted documentation, at the time of initial

licensing and every five years as part of the licence renewal process. The licensing of an audit firm therefore provides no guarantee that quality assurance standards have been applied completely and at all times in everyday work.

Most commonly used is SQCS 1/SAS 220, which became mandatory on 15

December 2013. However, the majority of licensed audit firms currently use Art. 49 para. 2 AOO to exempt themselves from implementing an internal quality assurance standard.

Figure 9
Information from audit firms on the system of internal quality assurance applied (status: 31 December 2014)



Performance of audits

The FAOA has analysed the number of licensed audit firms that performed ordinary audits during the calendar

years 2013 and 2014. It is to be borne in mind though that audit services provided in the calendar year relate to the audit of the financial statements of the prior year.

Figure 10
Frequency of ordinary audits

Number of audit firms	2014	2013
1 to 5 ordinary audits	398	456
6 to 10 ordinary audits	101	102
11 or more ordinary audits	87	91
Total number of audit firms performing ordinary audits	586	649

The statistics in figure 10 show that around seven out of ten audit firms that actually performed ordinary audits in 2014 performed a maximum

of five ordinary audits. Indirectly, the statistics further show that the great majority of the 2,019 licensed audit firms that are registered with the

FAOA as audit experts perform no ordinary audits.

Figure 11

Total number of limited (LA) and ordinary (OA) audits performed¹¹ (status: 31 December 2014)

Licence type	Number LA	Number OA	Total
State-regulated audit firms	14,888	10,043	24,931
Other licensed audit firms	79,593	3,259	82,852
Total audits performed 2014	94'481	13,302	107,783
Total audits performed 2013	90,089	14,068	104,157

From figure 11 it can be seen that a total of 13,302 ordinary audits were performed in 2014. 75 percent of the ordinary audits were performed by state-regulated audit firms.

Internal quality assurance

Introduction

When processing applications for licences that require a quality assurance system, the FAOA checks formal compliance with quality assurance aspects in each case using a questionnaire. The FAOA adopts a risk-based approach and performs detailed checks on questionnaires from audit firms that perform ordinary audits and therefore require a quality assurance system under SQCS 1.

The FAOA believes that audit firms have made significant progress with respect to their quality assurance systems. Overall, a good impression was gained from the assessed quality assurance.

The review of the submitted questionnaires nevertheless produced the following recurring findings:

Independence

With respect to the requirement for periodic staff independence confirmations it was found in some cases that the confirmations were not requested at least once a year, that the group of people required to submit a confirmation was too narrow and that there was no check on compliance with rotation requirements for ordinary audits. Independence requirements address not only audit staff but also, to varying degrees, all staff from all departments and all leadership levels of an audit firm.

The FAOA is also of the opinion that the organisational separation legally required for limited audits with the concurrent provision of accounting assistance is still unsatisfactorily effected in some cases. The organisational separation of accounting assistance and limited audit assumes that separate «audit» and «bookkeeping/trust» departments exist, each having its own operational leadership and signing authorities, and that it is ensured that both departments are independent of each other (e.g. through appropriate organisational regulations).

¹¹ All information is derived from the self-declarations by the audit firms. It should also be noted that currently 96 percent (prior year: 87 percent) of audit firms have entered a relevant value. However, the FAOA assumes that the majority of the remaining audit firms are largely inactive and do not provide audit services.

Training

As a rule the necessary attention is paid to training. In some cases, however, it was pointed out to audit firms that there was no independent internal monitoring of training requirements. Professional associations perform only sample checks on their members, which is no substitute for the responsibility of the firm.

Some audit firms that are not members of professional associations have no training rules of their own. In this regard it is to be remembered that an audit firm is required to ensure, as part of its quality assurance system, that employees have the necessary technical competence to discharge their statutory duties with due care. The Swiss Institute of Certified Accountants and Treuhand | Suisse have defined the nature and extent of training for their members. The FAOA regards the requirements of both

associations as equivalent. Where an audit firm takes suitable measures to ensure that the requirements of either the Swiss Institute of Certified Accountants or Treuhand | Suisse are implemented, the FAOA regards training requirements as having been met. This also applies to audit firms that are not members of the two associations (see also FAOA FAQ of 5 March 2012 – amended 5 November 2013).

Internal monitoring

Audit firms that perform ordinary audits must establish internal monitoring procedures that are designed to provide the audit firm with sufficient assurance that the regulations and measures of the quality assurance system are relevant, adequate and function properly (SQCS 1.48 f.). In isolated cases the FAOA has found that the internal monitoring performed by the audit firm to date only covered engagement

controls (file review). However, internal monitoring should also cover firm processes, and accordingly the general organisation of the practice (firm review). Additionally, the internal rules of the firm with respect to internal monitoring are inadequate in some cases. In a few cases, for example, there are no clear guidelines or requirements regarding engagement selection, the inspection cycle or reviewers. Finally, effective internal monitoring should ensure that not only formal aspects are covered but also substantive ones.

Documentation

In only a few cases the FAOA found that the quality assurance system was not, or not substantially, documented. A licence can only be granted or renewed if legal and professional requirements as to the documentation and transparency of the quality assurance system are met.



Licence renewal

Introduction

Managing the large number of licence renewal applications was a major challenge in 2014. More than half of all FAOA-licensed audit firms were due to renew their five year-term licences.

Statistics

In the reporting year 1,982 audit firm licences, originally granted in 2009, expired at the end of their five year

term. The FAOA had already notified the affected audit firms of the impending licence renewal during the prior year. Around six months prior to the expiry of the existing licence the individual audit firms were contacted again and asked to submit the documentation required for licence renewal to the FAOA within the set deadline. Around 76 % of the contacted audit firms provided the documentation required for licence renewal by the set deadline or provided notification that they would waive their renewal. 18 percent of audit firms responded to the FAOA's

request for the submission of required documentation as a result of a written reminder. Around six percent of audit firms did not submit documentation to the FAOA even after the written reminder.

Figure 12

Number of licence renewals granted in 2014

Licence type	Auditor	Audit expert	Total 2014	Total 2013
Sole proprietorships	133	154	287	110
Audit firms	390	885	1,275	247
State-regulated audit firms	0	3	3	1
Total licence renewals	523	1,042	1,565	358

Licences could be renewed within the deadline for 76 percent of all audit firms subject to licence renewal in 2014. For various reasons – such as cessation of business activities, retirement, firm restructuring or lack of engagements – a further 16 percent of audit firms notified the FAOA that they did not wish to renew their licences. Six percent of firms did not submit any documentation to the FAOA and were therefore deleted from the FAOA public register at the end of the five year-term licence. For only less than two percent of audit firms who submitted at least some documentation was it not possible to renew the licence or not renew it before the expiry of the existing licence due to serious identified deficiencies, such as the lack of quorums or significant quality assurance system defi-

ciencies. Following the rectification of the existing deficiencies the majority of deleted audit firms who were seeking a licence renewal could have their licences renewed retroactively and be entered in the FAOA register.

The waivers and deletions of the licence renewal process lead to an expected reduction of 341 in the total number of audit firms registered with the FAOA at the end of 2014, the new total being 3,157 sole proprietorships and audit firms (including 23 state-regulated audit firms).

Duty to inform and notify

All FAOA licensed individuals and audit firms must notify the FAOA immediately of every matter that is important to the assessment of licensing conditions (Art. 15a AOA). This duty to notify applies until the cancellation of the existing licence. The duty to notify also applies to non-legally binding civil and criminal law judgements and settlements in courts of the first or higher instance, the issuance of loss certificates, professional law proceedings heard before a professional body and audit-related civil and criminal proceedings.

The obligation to notify is normally met if the relevant on-line entry is amended and any documentation submitted to the FAOA within 10 working days. The FAOA checks whether the on-line entries are current based on its own findings and third party notifications. Particularly as regards address and job changes, the FAOA repeatedly finds breaches of the duty to notify. Breaches of the duty to notify are often also seen as a result of business cessations, retirement and death. Individuals and audit firms that breach the duty to notify can be fined (Art. 39 para. 1 indent b AOA). In rare cases – mostly relating to out-of-date role descriptions of individuals within audit firms – incorrect information must be deleted or corrected by way of FAOA order. Such orders carry charges and these are billed in full to the defaulting individuals and audit firms.

Auditor independence

Same norm for the ordinary and limited audit

For both the ordinary (Art. 728 para. 1 CO) and limited audit (Art. 729 para. 1 CO) the law requires the auditor to be independent and to reach an objective audit opinion. In both cases the independence of the auditor may not be impaired either in fact or appearance. To the benefit of the limited audit the law grants two exceptions: 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 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 engagement leader to rotate after seven years (Art. 730a para. 2 CO). Conversely, this means that the seven examples of matters incompatible with independence that are 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. The rulings of the Federal Administrative Courts and the Federal Supreme Court follow the same concept.

In 2014 the opinion was nevertheless occasionally encountered that the legislator had wanted to provide for very general, rather than only selective, relief for limited audits as regards independence or that the old independence rules (Art. 727c CO 1991) still applied, at least in substance. Thus, for example, it should be permissible for an auditor – according to the respective author – to hold up to 10 or 20 percent of the audit client's shares or to generate up to 30 or 60 percent of total fees from one audit client. A further contentious area relates to (impermissible) close links between exponents of the audit firm and representatives of the audited entity¹². All social contacts, including friendships, should be acceptable.

In the absence of a legal foundation, there is no place for further exceptions alongside the above-mentioned scenarios (accounting assistance and auditor-in-charge rotation). There is no evidence in the documentation (submission, parliamentary consultation) of a general «more generous» definition of independence for the limited audit¹³.

The above-mentioned postulates ultimately arise from the dissatisfaction of certain individuals and professional associations with the applicable law and not from basic questions of interpretation that have been «overseen» by all parties in the now seven years that the law has applied.

Actual practice offers little help to the professionals with their new interpretations of independence. It could last years before the courts decide if and how to classify them against established sources of law. This could harm legal certainty considerably. This is all the more true as the postulates significantly contradict the standard on the limited audit (SER), which was developed by the professional associations and declared by them to be binding for their members. It is not beneficial to the importance and credibility of self-regulation for the standard to be questioned by its own exponents.

¹² Cf. in addition, the detailed description of Widmer/Sanwald, «Enge Beziehungen zwischen Revisionsstelle und geprüfem Unternehmen, Abgrenzungsfragen im Bereich der Unabhängigkeit», ST 2014, 1094 f.

¹³ Cf. in addition, the convincing explanations of Christian Haas, expertise of 10 September 2014 on the independence of the limited audit, download from the homepage of the Swiss Institute of Certified Accountants (Publication date 1 December 2014).

Already today, experts (banks, tax authorities etc.) are increasingly drawing no distinction between bookkeeping and the limited audit. The independence of the auditor is, in the public perception at least, the decisive distinguishing feature. Over the long term all participants have an interest in the limited audit being a «quality product», which adds economic value vis-à-vis bare bookkeeping. Reducing the level of independence would have the opposite effect and the distinction between these products would be unnecessarily eroded or even eliminated. This could lead to more audited entities waiving a limited audit or requesting an ordinary audit.

For several years there has been a general increase in the ethical standards expected of those in politics and business. The ideas mentioned above represent a set-back to independence that could harm the credibility of the limited audit and the reputation of the SME audit market. Most people would not understand why an auditor would take a direct stake in the audited entity or why the auditor-in-charge would maintain close friendships with representatives of that entity. The resulting conflicts of interest would be obvious even for the layman. There is therefore a risk that the profession will be accused of being outmoded and uncritical.

maximum of another seven financial statements (Art. 51 AOO) after the enactment.

Consequently, if the financial year is the same as the calendar year and the audit takes place in the first quarter of the following year the same auditor-in-charge may audit the financial statements of 2008 to 2014. The 2015 financial statements must be audited by a new auditor-in-charge. It is recommended that the affected audit firms make the necessary organisational arrangements as early as possible.

Rotation of the auditor-in-charge

The person in charge of an ordinary audit can perform this role for a maximum of seven years. This person can accept the same engagement again only after a break of three years (Art. 730a para. 2 CO). Prior to the enactment of the new audit law the date at which these seven years began was disputed. The Federal Council therefore stipulated in an enabling provision that this is 1 January 2008, the date on which the relevant change to the CO was enacted. The auditor-in-charge can therefore audit a

Enforcement and court rulings

Enforcement

In the reporting year five applications were rejected (prior year: 11). Seven applicants withdrew their applications or licences (prior year: seven). All applications could be proceeded with (prior year: five applications were not proceeded with due to incomplete documentation). Additionally, 21 licence withdrawals were imposed (prior year: 15) but no reprimands issued (prior year: five).

Court rulings

The Federal Administrative Court (FAC) and Federal Supreme Court (FSC) addressed nine FAOA orders. They confirmed the practice of the FAOA in each case. In only one case was the FAOA file returned for re-consideration. In two rulings the FAC criticised deficiencies in audit work. These two rulings and a particularly noteworthy ruling concerning independence are presented in detail below. The other rulings similarly concern breaches of independence or the licensing conditions for training and professional experience. A list of all 2014 rulings is given in the appendices.

In the first case¹⁴, the FAOA had found the auditor-in-charge not to have exercised proper duty of care. He had overlooked the fact that the consolidated financial statements of the public company under audit overstated the value of a loan, and consequently also the loss for the year, by CHF 14 million. The FAC held the issued reprimand to be legal. In so doing the FAC had decided that breaches of ISA and SAS requirements could be sanctioned by the FAOA. This did not, however, apply to the internal directives of the audit firm. Conversely, this means that the auditor-in-charge cannot absolve him or herself by claiming to have followed internal directives if his or her work breaches the requirements of ISA or SAS.

The court also found that the so-called «20 percent rule» (under Art. 6 para. 1 indent b AOA at least one fifth of the individuals providing audit services must be licensed) had been breached significantly. The court presumed that there was a sufficient link between the breach of this requirement and the failure to challenge the over-valuation of the loan and loss. It was also confirmed that the working hours of auditors with foreign qualifications and without a licence (e.g. also due to lack of reciprocity by the home country) qualified as working hours of individuals without a licence.

The second case¹⁵ related to the audit of a pension fund. Based on a working paper review the FAOA had found multiple deficiencies. The auditor-in-charge had opined that the financial statements had been prepared in accordance with the accounting standards Swiss GAAP FER although the standards were not actually followed in all cases. No audit strategy had been prepared or documented for the engagement, the documented audit procedures were deficient and not performed according to statutory and professional requirements. The auditor-in-charge had also performed no procedures with respect to fraud even though he had not received any notes to the financial statements despite multiple requests. He had also failed to perform audit procedures with respect to the investment regulations and to the management and organisation of the pension fund. Related party transactions and the administration costs of the pension fund were also not audited. The FAC concluded that all the listed deficiencies were legitimate and would lead to licence withdrawal. In doing so it also clarified that although FAOA Circular 1/2008, on the recognition of auditing standards by the FAOA, only applied to state-regulated audit firms, this cannot be taken to mean that the SAS do not apply to all auditors and audit firms. The court also concluded, how-

ever, that the FAOA must explain in more depth why a licence withdrawal of five years was justified and not a shorter one. The case was therefore returned to the FAOA for clarification on this point.

The third case¹⁶ related to breach of independence. The auditor had audited the financial statements (ordinary audit) of an entity although a company belonging to the same group as the auditor had provided accounting assistance to the audited entity. The court concluded that the law forbids the provision of services if this creates the risk of self-auditing. This covers accounting assistance in particular but also other activities such as the preparation of financial statements, the development and implementation of financial information systems and internal audit. Providing payroll accounting assistance and preparing and correcting the annual financial statements are deemed specifically to represent impermissible accounting assistance. The activities of the auditor must not lead to the appearance of self-auditing. Appearance alone is sufficient to make a service incompatible with independence. The court also examined the connection between the two companies mentioned above. The question whether two companies belong to the same group or not is to be judged based on the facts through the eyes of an average viewer with general life experience. Therefore, the «group concept» must also be interpreted from the perspective of appearance.

¹⁴ FAC Decision No. B-3736/2012 of 7 January 2014

¹⁵ FAC Decision No. B-6585/2013 of 27 August 2014

¹⁶ FAC decision No. B-5431/2013 of 17 November 2014.

Statistics 2011–2014

Statistics on the proceedings of 2007 to 2010 with negative outcome for the individual or firm concerned were published in the Activity Report 2010. A similar compilation for the period 2011 to 2014 is shown below¹⁷. Compared to the previous period the number of such proceedings has fallen 38 percent, from 308 to 191. This is mainly because there were a series of transitional issues to consider from 2007 to 2010 that no longer play a role or a significant role.

¹⁷ Pending appeals not included. Determining factor is therefore the status of the licensing process within the register of auditors as per 31 December 2014. The analysis was prepared completely anew; due to methodological improvements and error corrections the amounts do not agree completely with earlier Activity Reports.



Sabine D'Amelio, FAOA, FAOA Seminar 2014 in Lausanne

Individuals			2011–2014	
Type of order	Deficiency	Case category	Number	%
Non-receipt of application	Duty to cooperate	No documentation submitted	7	4
Application rejected	Duty to cooperate	Incomplete application	3	2
	Swiss education	Qualification not as per Art. 4 para. 2 indent a–c AOA	3	2
	Professional experience	Insufficient supervised professional experience	11	7
		Insufficient length of professional experience	11	7
		Lack of professional experience in audit	3	2
	Reputation	Breach of independence	2	1
		Convictions under civil or criminal law	1	1
		Auditing without a licence	7	4
		Financial situation	1	1
		Deficient auditing	–	–
		Incompetence	–	–
		Foreign education	Qualification not as per Art. 4 para. 2 indent d AOA	3
	Lack of reciprocity		7	4
	Lack of knowledge of Swiss law		5	3
Rejection as audit expert, but licensed as auditor	Professional experience	Insufficient professional experience, respectively supervised professional experience	9	6
Licence withdrawal	Reputation	Breach of independence	29	18
		Convictions under civil or criminal law	5	3
		Auditing without a licence	9	6
		Financial situation	1	1
		Deficient auditing	3	2
		Incompetence	1	1
Written reprimand	Reputation	Breach of independence	26	16
		Auditing without a licence	7	4
		Deficient auditing	5	3
Total orders against individuals			159	100

Audit firms			2011–2014	
Type of order	Deficiency	Case category	Number	%
Non-receipt of application	Duty to cooperate	–	6	19
Application rejected	Duty to cooperate	Incomplete application	5	16
	Quality assurance system	–	–	–
	Quorum not achieved	Non-compliance with Art. 6 AOA	7	22
Rejection as audit expert, but licensed as auditor	Quorum not achieved	Non-compliance with Art. 6 AOA	1	3
Licence withdrawal	Quorum not achieved	Non-compliance with Art. 6 AOA	8	25
Written reprimand		Breach of independence	2	6
		Breach of duty to notify	1	3
		Deficient or non-timely implementation of remedial actions	2	6
Total orders against audit firms			32	100
Overall total of proceedings with negative outcome			191	

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</p> <p>Conrad Meyer, Prof., Dr.</p> <p>Daniel Oyon, Prof., Dr.</p>
	Executive Board	<p>Frank Schneider, Chief Executive Officer, Swiss Certified Accountant</p> <p>Reto Sanwald, Deputy to Chief Executive Officer, Head of Legal & International, Dr. iur., attorney</p> <p>Pascal Stirnimann, Head of Oversight, Swiss Certified Accountant</p> <p>Sébastien Derada, Head of Licensing & Support</p>
	Auditor	Swiss Federal Audit Office (SFAO)
Number of staff	<p>30 staff members, representing 24 full-time equivalents (as of 31.12.2014). At the end of the prior year 27 staff members, representing 21 full-time equivalents, were employed by the FAOA</p>	
Funding	<p>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. The FAOA maintains its own accounts outside the Federal budget</p>	
Legal function	To ensure the proper provision and quality of audit services	
Responsibilities	Appraisal of licence applications, oversight of the auditors of public interest entities 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

AMLA	Anti-Money Laundering Act of 10 October 1997 (SR 955.0)
AOA	Audit Oversight Act of 15 December 2005 (SR 221.302)
AOO	Audit Oversight Ordinance of 22 August 2007 (SR 221.302.3)
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)
CO	Swiss Code of Obligation of 30 March 1911 (SR 220)
D-	Draft
DSFI	Financial intermediary directly supervised by FINMA
EAIG	European Audit Inspection Group
EQCR	Engagement Quality Control Reviewer
EWG	Enforcement Working Group
FAC	Federal Administrative Court
FCC	Federal Casino Commission
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)
FOPH	Federal Office of Public Health
FSC	Federal Supreme Court
FSIO	Federal Social Insurance Office
G-SIBs	Global Systemically Important Banks
IAASB	International Auditing and Assurance Standards Board
ICWG	International Cooperation Working Group
IESBA	International Ethics Standards Board for Accountants
IFIAR	International Forum of Independent Audit Regulators
ISA	International Standards on Auditing
ISQC 1	International Standard on Quality Control 1
IWWG	Inspection Workshop Working Group
MMoU	Multilateral Memorandum of Understanding
MoU	Memorandum of Understanding
OO-FAOA	Oversight Ordinance FAOA of 17 March 2008 (SR 221.302.33)
OPSC	Occupational Pension Supervisory Committee
PCAOB	Public Company Accounting Oversight Board
PD-	Preliminary draft
SQCS 1	Swiss Quality Control Standard 1 (effective as from 15.12.2013) of the Swiss Institute of Certified Accountants
SAS	Swiss Auditing Standards of the Swiss Institute of Certified Accountants
SCWG	Standards Coordination Working Group
SER	SIX Exchange Regulation
SME	Small and medium-sized enterprises
SMI	Swiss Market Index
SoP	Statement of Protocol
SRO	Self-regulatory organisation
SSC	Shared Service Centre

Additional Swiss audit licences

A special or special-law licence, based on a basic licence under the AOA and respectively issued by either the FAOA or another authority, must be obtained for audit activities in the areas shown below. In some audit areas the basic FAOA licence is sufficient (status: 01.01.2015):

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/stock exchanges/securities traders/central mortgage bond institutions	State-regulated audit firm	Audit expert	FAOA	Art. 9a AOA, Art. 11a f. AOO
Collective investment schemes ¹⁸	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) ¹⁹	Auditor	FAOA/SRO ²⁰	Art. 9a AOA, Art. 11a f. AOO and Art. 24 AMLA
Pension schemes	Audit expert ²¹	Audit expert	(OPSC)	–
Health insurance schemes	Audit expert	Audit expert	(FOPH)	–
Casinos	Audit expert	Audit expert	FCC	Art. 75 CaO
AHV-Swiss Compensation Offices	Audit expert	Audit expert	(FSIO)	–

¹⁸ Includes 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.

¹⁹ Generally, 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.

²⁰ 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).

²¹ However, there is an 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 2014

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	Genève
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	Genève

Cooperation with foreign authorities

Status: 31 December 2014

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

Swiss audit firms in the EU²²

Status: 31 December 2014

Country	Registered Swiss audit firm
Germany (German Audit Oversight Commission, GAOC)	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 (1)
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 (CONSOB)	Ernst & Young AG, KPMG AG, PwC AG (3)
Liechtenstein (Financial Market Authority FMA)	(21) ²³
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)
Spain (Accounting and Auditing Institute ICAC)	PwC AG (1)
Sweden (Swedish Supervisory Board of Public Accountants)	Ernst & Young AG, KPMG AG, PwC AG (3)

²² 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 indent 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 the Swiss audit firms to provide statutory audit services in these countries is decisive.

²³ 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 2014

Status: 31 December 2014

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

- FAC Decision No. B-3736/2012 of 7 January 2014: Failure of auditor-in-charge to exercise due care (CHF 14 million overvaluation of a loan and overstatement of the loss for the year by a public company without objection by the auditor-in-charge). Reprimand of the auditor-in-charge. Dismissal of appeal.
- FSC Decision No. 2C_690/2013 of 24 January 2014: Breach of independence. Audit of the financial statements of a company for which the auditor had provided accounting assistance and performed controlling services. Audit of five companies whose directors included the auditor's employer. Rejection of application for audit expert licence, possibility of re-application one year after the court's decision. Dismissal of appeal.
- FAC Decision No. B-4533/2012 of 27 January 2014: Lack of professional education. Master of Business Administration (MBA) of the Institut Européen d'Administration des Affaires (INSEAD, France) does not qualify as a second level of educational study at a university or technical college (Art. 5 AOO). Rejection of licence application. Dismissal of appeal.
- FAC Decision No. B-2765/2013 of 20 March 2014: Breach of independence. Participation in the audit of the financial statements of six companies as a member of the board of directors and executive board of the audit firm or as auditor-in-charge despite close relationship with a director of the audited companies. Licence withdrawal for two years. Dismissal of appeal.
- FAC Decision No. B-6585/2013 of 27 August 2014: Grave deficiencies in the audit of a pension foundation (breach of legal, regulatory and professional law requirements, lack of audit strategy, insufficient professional scepticism). Licence withdrawal for five years. Deficiencies confirmed but appeal accepted to the extent that the case was returned to the FAOA for additional clarification as to the period of licence withdrawal.
- FAC Decision No. B-6251/2012 of 8 September 2014: Breach of independence. Audit of the financial statements of a foundation over many years, despite a member of the board of directors, respectively executive board, of the audit firm being a board member of the foundation at the same time. Licence withdrawal for two years. Dismissal of appeal.
- FAC Decision No. B-5431/2013 of 17 November 2014: Breach of independence. Risk of self-auditing where one firm audits the financial statements of a company (ordinary audit), the other provides accounting assistance to the audited company and the two firms belong to the same group. The term group is interpreted from a «breach of independence in appearance» point of view. Licence withdrawal for three years. Dismissal of appeal.
- FAC Decision No. B-6834/2013 of 25 November 2014: Professional experience. Use of hardship clause (Art. 43 para. 6 AOA). Professional experience gained prior to commencement of recognised training cannot be taken account of as part of a hardship case. Rejection of application for licence as audit expert. Dismissal of appeal.
- FSC Decision No. Nr. 2C_211/2014 of 4 December 2014: Lack of professional education. Master of Business Administration (MBA; obtained abroad) does not qualify as a second level of educational study at a university or technical college and is therefore not recognised as education under the law. Rejection of licence application. Dismissal of appeal.

Equivalent foreign educational qualifications

Status: 31 December 2014

Country	Equivalent foreign educational qualifications
Germany	Bestellungsurkunde Wirtschaftsprüfer
France	Diplôme Supérieur de Comptabilité et de Gestion (formerly known as: Diplôme d'études supérieures comptables et financières) and Diplôme d'expertise comptable
Great Britain	Chartered/Certified Accountant Memberships bei: ICAEW, ICAS, ICAI, ACCA, AIA + Audit permission
Ireland	Chartered/Certified Accountant Membership of: ICAEW, ICAS, ICAI, ACCA, ICPAI, IIPA + Audit permission
Italy	Dottore commercialista (Ragioniere e perito commerciale; Laurea/Dottore in economia e commercio; Dottore in economia aziendale; Dottore in economia delle istituzioni e dei mercati finanziari; Laurea in economia e professione)
India	Chartered Accountant
Netherlands	Registeraccountant
Norway	Studiet i revisjon (registered auditor, state authorised auditor)
Austria	Bestellungsurkunde Wirtschaftsprüfer
Philippines	Certified Public Accountant (CPA)
Sweden	Approved/Authorised public accountant
Turkey	Certified Public Accountant

Financial statements of the FAOA

Balance sheet

(in CHF)

	Note	31.12.2014	31.12.2013
Cash at bank and in hand	4	6,531,504	5,158,830
Receivables	5	244,597	164,978
Work-in-progress	6	251,000	153,000
Prepayments	7	64,836	74,570
Current assets		7,091,937	5,551,378
Investments	10	259,039	93,984
Tangible fixed assets	8	408,113	459,182
Intangible fixed assets	9	89,987	362,193
Non-current assets		757,139	915,359
Total assets		7,849,076	6,466,737
Short term liabilities relating to services		119,317	90,164
Liabilities to state-regulated audit firms	11	80,109	46,736
Social security liabilities		122,492	109,507
Short-term provisions	12	182,800	203,000
Accruals	13	325,278	283,810
Accrued licensing fees	15	720,260	430,840
Current liabilities		1,550,256	1,164,057
Accrued licensing fees	15	1,798,820	802,680
Non-current liabilities		1,798,820	802,680
Reserves	16	4,500,000	4,500,000
Equity		4,500,000	4,500,000
Total liabilities		7,849,076	6,466,737

Income statement

(in CHF)

	Note	01.01.2014 –31.12.2014	01.01.2013 –31.12.2013
Oversight charges	2 (I)	2,999,891	3,003,264
Inspection fees	2 (I)	1,278,863	1,297,483
Licensing fees	17, 2 (I)	1,206,664	963,241
Other income	18	492,234	337,422
Net revenue		5,977,651	5,601,410
Personnel expense	19	- 4,968,967	-4,595,307
Operating expense	20	- 788,852	- 880,720
Depreciation and amortisation	8, 9	- 234,764	- 142,911
Operating profit		- 14,932	- 17,528
Financial income		15,646	18,049
Financial expense		- 714	- 521
Financial result		14,932	17,528
Profit/loss		–	–

Cash flow statement

(in CHF)

	Note	01.01.2014 – 31.12.2014	01.01.2013 – 31.12.2013
Depreciation of fixed assets	8, 9	234,764	142,911
Increase/(decrease) in accrued licensing fees (long-term)	15	996,140	551,400
(Increase)/decrease in debtors*	5	-24,619	18,106
(Increase)/decrease in work-in-progress	6	-98,000	137,000
(Increase)/decrease in prepayments	7	9,734	-49,904
Increase/(decrease) in liabilities		62,526	-82,878
Increase/(decrease) in social security liabilities		12,985	41,966
Increase/(decrease) in short-term provisions	12	-20,200	-2,000
Increase/(decrease) in accruals	13	41,468	-27,103
Increase/(decrease) in accrued licensing fees (short-term)	15	289,420	61,040
Net cash flows from operating activities		1,504,218	790,538
Acquisition of investments*	10	-56	-98
Acquisition of tangible fixed assets	8	-72,191	-182,053
Acquisition of intangible fixed assets*	9	-59,298	-67,647
Net cash flows from investing activities		-131,545	-249,798
Change in cash and cash in hand		1,372,674	540,740
Cash and cash in hand at the start of the year	4	5,158,830	4,618,090
Cash and cash in hand at year-end	4	6,531,504	5,158,830

*Due to the realignment of a current IT project, intangible assets of CHF 55,000 and CHF 165,000 respec-

tively were re-classified to receivables and investments (see Note 9). Since these re-classifications are

non-cash items they have not been reflected in the cash flow statement.

Change in equity

	01.01.2014 – 31.12.2014	01.01.2013 – 31.12.2013
Opening balance as of 01.01.	4,500,000	4,500,000
Transfer to reserves	0	0
Balance as of 31.12.	4,500,000	4,500,000

Notes to the 2014 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 companies, respectively public interest entities as from 1 January 2015.

The FAOA conducts its oversight independently, organises itself, and finances itself entirely from the fees paid by service users and the charges paid by state-regulated audit firms. The FAOA is autonomous in its organisation and management and 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. Following parliament's adoption of the «bundling submission» on 20 June 2014 the FAOA has had sole oversight authority over audit firms since 1 January 2015. This applies both to the financial and regulatory audit. With respect to this transfer of responsibilities from FINMA, the FAOA recruited additional personnel during 2013, who were lent out to FINMA until the transfer became definitive.

As at 31 December 2014 the FAOA employed 30 employees, representing 24 full-time equivalents. At the end of the prior year 27 employees, representing 21 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), while early adopting 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. IPSAS further requires the periodic preparation of an actuarial valuation. 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.

These financial statements are entity financial statements for the financial year comprising calendar year 2014 with a balance sheet date of 31 December 2014 (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 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 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)

	2014	2013
Cash in hand	548	722
Postfinance account	629,861	772,261
Investment account at Federal Finance Administration FFA	5,901,095	4,385,847
Total cash and cash in hand	6,531,504	5,158,830

5. Receivables

	2014	2013
Licence fee receivables	98,244	53,775
Yellowpay receivables	48,488	69,704
Other receivables	97,865	41,499
Total receivables relating to services	244,597	164,978

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

	2014	2013
Work-in-progress	251,000	153,000
Total work-in-progress	251,000	153,000

Work-in-progress comprises inspection fees yet to be invoiced.

7. Prepayments

	2014	2013
Prepayments	64,836	74,570
Total Prepayments	64,836	74,570

Prepayments are payments made in advance for expenses of the following year.

8. Tangible fixed assets

(in CHF)

	Furniture and furnishings	Office equipment, IT equipment (hardware)	Fixtures and fittings	2014	2013
Acquisition costs					
Opening balance	376,650	179,152	324,780	880,582	698,529
Acquisitions	16,926	43,635	11,630	72,191	182,053
Disposals	–	-41,400	–	-41,400	–
Closing balance	393,576	181,387	336,410	911,373	880,582
Depreciation					
Opening balance	-200,877	-109,712	-110,811	-421,400	-295,219
Acquisitions	-39,358	-50,261	-33,641	-123,260	-126,181
Disposals	–	41,400	–	41,400	–
Closing balance	-240,235	-118,573	-144,452	-503,260	-421,400
Net book value	153,341	62,814	191,958	408,113	459,182

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 increase of CHF 43,635 in office equipment and IT equipment (hardware) relates primarily to the replacement of laptops and monitors.

The increase of CHF 16,926 in the acquisition cost of fixtures and fittings

in 2014 relates to the purchase of office furniture.

9. Intangible fixed assets

	Software register and administration	Other software	2014	2013
Acquisition costs				
Opening balance	688,994	126,949	815,943	748,296
Acquisitions	59,298	–	59,298	67,647
Disposals	-302,400	–	-302,400	–
Closing balance	445,892	126,949	572,841	815,943
Amortisation				
Opening balance	-343,740	-110,010	-453,750	-437,020
Acquisitions	-102,830	-8,674	-111,504	-16,730
Disposals	82,400	–	82,400	–
Closing balance	-364,170	-118,684	-482,854	-453,750
Net book value	81,722	8,265	89,987	362,193

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

The increase of CHF 59,928 in the acquisition cost of software register and administration is attributable to work with respect to the modernisation of the existing system for special licences in connection with the new responsibilities of the FAOA transferred from FINMA.

Due to the realignment of a current IT project capitalised project costs of CHF 302,400 were derecognised. Of

these, CHF 82,400 were written-off to the income statement and CHF 55,000, respectively CHF 165,000, re-classified to receivables and investments.

10. Investments

In connection with the rent of offices the FAOA has two tenant deposit accounts to the total amount of CHF 94,039. In addition, there is a long-term receivable of CHF 165,000 relating to the termination of an IT project (see Note 9).

11. Liabilities to state-regulated audit firms

The FAOA levies an annual oversight charge upon state-regulated audit firms (see section 2. indent 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 80,109 (prior year CHF 46,736) will be credited to the state-regulated audit firms in 2015.

12. Short-term provisions

(in CHF)

	2014	2013
Personnel expense liabilities	172,800	198,000
Provision for compensation	10,000	5,000
Total short-term provisions	182,800	203,000

Holiday, accrued flexible working hours and overtime entitlements are calculated and accrued as at 31 December based on individual employment terms.

A provision for compensation was established in connection with FAOA orders subject to third party appeal (particularly licence application rejections).

13. Accruals

	2014	2013
Various accruals	325,278	283,810
Total accruals	325,278	283,810

Accruals primarily relate to personnel expense and accruals for the cost of the Activity Report 2014.

14. Operating leases (off-balance sheet)

(in CHF)

	2014	2013
Minimum payments within one year	10,740	10,740
Minimum payments in years 2 to 6	21,480	32,220

Operating leases comprise off-balance sheet liabilities relating to a contract with Triumph-Adler for mul-

ti-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.

15. Accrued licensing fees

	2014	2013
Accrued licensing fees (short-term)	720,260	430,840
Accrued licensing fees (long-term)	1,798,820	802,680
Total accrued licensing fees	2,519,080	1,233,520

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

16. Reserves

	2014	2013
Reserves	4,500,000	4,500,000
Total Reserves	4,500,000	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).

17. Licensing fees

	2014	2013
Licensing fees individuals	430,500	422,300
Licensing fees audit firms	2,145,500	1,227,800
Commission on internet payments	-35,826	-33,269
Reimbursement of licensing fees	-47,950	-41,150
Accrual of licensing fees	-1,716,400	-982,240
Release of accrued licensing fees from prior years	430,840	369,800
Total licensing fees	1,206,664	963,241

Audit firm licences are limited to a period of five years. Around two-thirds of FAOA licences granted to audit firms expired in the reporting year. The increase in licence fees is due to the large number of licence renewal applications.

18. Other income

Other income includes, in particular, income from the loan of two staff members to FINMA (reporting year: CHF 388,562, prior year: CHF 210,458). Other income also includes

income from an FAOA seminar in Lausanne (around CHF 35,000) and income from FAOA proceedings (legal costs).

19. Personnel expense

(in CHF)

	2014	2013
Staff compensation and Board member fees	3,884,808	3,461,591
Employer contributions	797,100	732,424
Other personnel expense	240,749	308,852
Third party personnel costs	46,310	92,440
Total personnel expense	4,968,967	4,595,307

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. A contribution of CHF 25,000 (prior year CHF 25,000) made

to the employer contribution reserve of the FAOA pension fund is included.

In the reporting year third party personnel costs primarily includes external translation service charges.

On the one hand, the increase in personnel expense is due to the in-

creased staffing required to process the large number of licence renewal applications from audit firms in 2014. On the other, two employees were lent to FINMA in the reporting year. The related expenses for both of these employees were reimbursed by FINMA (see Note 1 «Operating activities» and Note 18 «Other income»).

20. Operating expense

	2014	2013
Accommodation	196,422	196,422
Minor capital expenditure, fixed asset maintenance and leasing	12,132	13,844
Administrative expense	130,630	106,091
IT expense	312,026	364,944
Other operating expense	137,642	199,419
Total operating expense	788,852	880,720

21. Contingencies

At the balance sheet date there were no contingent liabilities and, in particular, no pending or threatened claims for damages.

22. Related party transactions

a. Definition of term «related parties»

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

- The Federal Administration, within the meaning of Art. 6 Government and Administration Organisation Act (RVOG; 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 indent g AOA).

- The Federal Council approves the affiliation agreement with PUBLICA (Art. 30a indent e AOA).

- The Federal Council approves the strategic goals and checks on an annual basis whether they have been met (Art. 30a indent b and Art. 38 para. 2 indent f AOA).

- The Federal Council approves the financial statements and discharges the Board of Directors of its responsibilities (Art. 30a indent m and Art. 38 para. 2 indent 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 ¹	2014	2013
Fees of Chairman	75	75
Fees of Vice-Chairman	38	38
Fees of other members	52	52
Total compensation of the members of the Board of Directors	165	165
Chief Executive Officer and Executive Board	2014	2013
Salary of Chief Executive Officer	256	253
Other benefits of Chief Executive Officer ²	40	34
Salaries of other members	526	514
Other benefits of other members	74	51
Social security contributions ³	159	157
Total compensation of the members of the Executive Board	1,055	1,009

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

23. Events after the balance sheet date

No events have occurred since the balance sheet date of 31 December 2014 that impact the informational value of the 2014 financial statements.

¹ All social security contributions (employer and employee) are borne by the members of the Board of Directors.

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 in Bern

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 year ended 31 December 2014.

These financial statements are the responsibility of the Management. 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 and regulations.

Bern, 24 February 2015

SWISS FEDERAL AUDIT OFFICE

Walter Risler
Licensed Audit Expert

Peter Küpfer
Licensed Audit Expert

Enclosure:

Financial statements of the FAOA 2014, consisting of balance sheet, income statement, cash flow statement, statement of change in capital and reserves, notes



