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Annual Report 2017

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Foreword

The FAOA began its operating activities with the opening of the public licence register on 1 September 2007. On the occasion of its tenth anniversary the FAOA asked various stakeholders to present their views on the audit. Besides an introductory retrospective review from Thomas Rufer, the jubilee supplement features interesting contributions from George R. Botic, Claudius B. Modesti, Helen A. Munter (PCAOB), Prof. Dr. Reto Eberle (University of Zürich/EXPERTsuisse), Christian Nussbaumer (TREUHAND | SUISSE), Gabrielle Rudolf von Rohr, Walter Seif, Dr. Olga Valek (IIAS) and Dr. Dominique Biedermann (Ethos).

Aside from looking back over the past decade, the FAOA last year developed specific thoughts for the future and established a vision. A core element of the vision is that the FAOA works for the relevance and reliability of the audit, since a reliable audit is central to the reputation and success of the Swiss capital and financial markets. Further underlying the vision is the conviction that audit will also have great significance in a future digitalised world.

Quality assurance system

Since the autumn of 2017, following a decision of the Federal Council, all audit firms have had to maintain a quality assurance system in accordance with professional association requirements. At the end of the year, however, around 70 audit firms had no quality assurance system according to information in the FAOA register. This is astounding as such a system offers many advantages, not least self-protection for the firm: A quality assurance system safeguards and promotes audit quality, facilitates efficient and standardised processes through clear internal rules, reduces liability risks and ensures compliance with legal and professional requirements. Professional law has therefore required internal quality assurance for years. It would be preferable if

the firms concerned would operate a quality assurance system, tailored to their size and complexity, of their own persuasion. Otherwise the FAOA is required to enforce the legal rules. Should a quality assurance system not be implemented this will inevitably lead to licence withdrawal.

Extended audit report to the annual general meeting

The publication in 2017 of the first audit reports to the annual general meeting to contain key audit matters represents an important step towards greater transparency regarding auditors' work. The «point of focus» inspections of these reports by the FAOA produced generally positive results. Some of the audit reports contained additional voluntary information on the determination of materiality and scoping. This is to be welcomed. There is room for improvement in the specific description of relevant facts. It is to be avoided that the new audit opinions are seen as meaningless standard reports (boiler plate). This would be harmful to the capital market as a whole but particularly also to the profession. The FAOA recommends audit firms, together with the audited issuers, to further develop the audit report to achieve maximum user benefit.

Digitalisation

Audit digitalisation is no longer a far-off dream but reality. In 2017 the FAOA could inspect the application of new data analytics techniques for the first time. The FAOA believes that these technological advances will change the face of audit greatly in the coming years. This should be seen as a chance for the audit industry to improve the quality, relevance and benefits of the audit. The risks around new technologies are not to be underestimated and IT-supported audit results are always to be treated with professional scepticism.

Expert report on legislative action required with respect to audit law

On 8 November 2017 the Federal Council took note of the expert report of Peter Ochsner and Daniel Suter on the need for legislative action with respect to audit and audit oversight law. The report concludes that no fundamental action is required. However, the Federal Council wishes to have seven recommendations clarified and so optimise the current legal framework, if appropriate. The question as to whether pension scheme auditors should be subject to special licensing and oversight (see below, «Pension scheme audits») is particularly significant.

Changes in the FAOA board of directors

On 15 November 2017 the Federal Council appointed Viktor Balli to the FAOA board of directors. He follows the long-time chairman Thomas Rufer, who stepped down at the end of 2017. At the same time the Federal Council designated Wanda Eriksen-Grundbacher as the new FAOA Chairman.

IFIAR

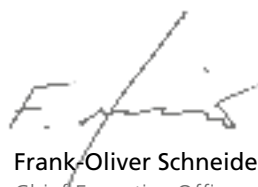
The FAOA has been a member of the International Forum of Independent Audit Regulators (IFIAR), an association of 52 independent audit oversight authorities, since 2007. IFIAR was comprehensively reorganised in 2017. Governance was strengthened with a newly-established board and a permanent office in Tokyo (Japan). The FAOA has been represented on the board since 2017, with Frank Schneider as vice-chairman. IFIAR remains of great value to the FAOA. The benefits include direct contact with global audit networks, inspection and enforcement training and knowledge sharing as regards both the market environment and practical experiences in independent audit oversight.

In closing, we would like to thank the staff of the FAOA for their outstanding dedication in the reporting year. They were challenged on many fronts. Besides two complex inspections with the US PCAOB, preparations for a new IT platform required great commitment.

Berne, 31 January 2018



Thomas Rufer
Chairman of the Board of Directors
(to 31. December 2017)



Frank-Oliver Schneider
Chief Executive Officer



Wanda Eriksen-Grundbacher
Chairman of the Board of Directors
(from 1. January 2018)



Key activities 2017

Financial and Regulatory Audit

As in the prior year the five large audit firms were subject to annual inspection. Of these, two were joint inspections with the US PCAOB.

Particularly noteworthy in the reporting year was the completion of the inspection of selected aspects of the audit of the statutory and consolidated financial statements of FIFA. The FAOA performed an ad hoc inspection at KPMG AG that was independent of the routine annual inspection.

Generally, audit deficiencies found during the course of inspections are not rectified using state remedies but rather with measures agreed with the audit firm concerned. Nevertheless, two reprimands were issued at state-regulated audit firms for qualified duty of care violations. In another case the individual concerned pre-empted the anticipated licence withdrawal through a voluntary licence cancellation.

Legal and international

Almost all pertinent legal proceedings of the reporting year supported the position of the FAOA. Worth mentioning is the landmark FAC ruling under which the FAOA may also consider violations of foreign law when assessing the guarantee of proper audit services.

In the international area, on 6 April 2017 the FAOA and 21 other IFIAR members completed a Multilateral Memorandum of Understanding (MMoU) on the mutual exchange of information. This strengthens the oversight of public company auditors. The MMoU is a framework agreement; depending on the circumstances a short bilateral Memorandum of Understanding (MoU) is required to apply it in practice. Existing MoU take precedence over the MMoU.

In addition, since 1 October 2017 the AOA has been in-force completely for the first time, following amendment

of the extra-territorial responsibilities of the FAOA (Art. 8 AOA). An additional 16 foreign audit oversight authorities were recognised as equivalent (total 48) within the framework of the related implementation law.

Licensing

Audit firms must renew their licences every five years by law. Relatively few licence renewal applications were submitted in the reporting year. The next great renewal wave is expected to start in 2018. The number of new licence applications from both firms and individuals in the reporting year was similar to that of the prior period.

In 2017 various measures were initiated to clean up the register. First, older individuals and those not professionally active were asked if they wished to keep their licences. Secondly, information regarding professional association memberships was checked, with the cooperation of the relevant professional associations. Both actions resulted in a large number of voluntary licence cancellations.

As from 1 October 2017 all audit firms have been required to operate an internal quality assurance system. The fact that many audit firms had not complied, or only after multiple reminders, led to significant extra work for the FAOA in the final quarter of the reporting year. Many audit firms with no, or only a few, audits take the opportunity to voluntarily cancel their licences.

Third party notifications

The number of third party notifications did not change compared to the prior year. The FAOA received 36 (prior year: 36) notifications of possible violations of law or professional law in the reporting year. Of these, 13 (prior year: 10) relate to the work of state-regulated audit firms. Eligible and credible notifications lead to FAOA fact-finding. Two proceedings (prior year: none) have been initiated

to date as a result of notifications received in the reporting year.

Notifications in the regulatory audit area are now also registered. The FAOA received an additional 15 notifications from other authorities in this area.

Regulatory developments

Current projects

Expert mission on legislative action required with respect to audit law

Against the background of the results of consultation on the ongoing amendment to company law (see below), on 4 December 2015 the Federal Council instructed the Federal Department of Justice and Police (FDJP) to obtain clarification on the legislative action required with respect to, and the international developments of, audit and audit oversight law.

The experts retained by the FDJP, Peter Ochsner and Daniel Suter, asked all significant stakeholder groups for their opinions as to the need for legislative action. The experts concluded that the current audit and audit oversight law is considered satisfactory by the general public and that no major overhaul is required. However, in their report of 20 July 2017 they listed recommendations as to how the current legal framework could be optimised.

The Federal Council took note of the report on 8 November 2017 and decided to have the following recommendations of the FDJP and other government bodies (including the FAOA) clarified further:

- Audit of the cooperative register: Cooperatives that do not issue shares and in which members neither have a financial interest nor rights to compensation on liquidation also have to have their cooperative register audited. It is to be clarified whether this audit should be waived or maintained in light of FATF or Global Forum guidelines.
- Audit of the internal control system (ICS): It is to be clarified whether the auditor of a quoted company should audit not only the existence of the ICS but also its effectiveness. It is also to be clarified whether the audit of the mere existence of the ICS at the other companies subject to ordinary audit can be lifted.
- Financial statements of cooperatives under a recognised standard:

Cooperatives with more than 2,000 members are currently considered large cooperatives. They prepare an additional set of financial statements under a recognised accounting standard and subject these to ordinary audit. It is to be clarified whether other measurements of size would better reflect economic significance and whether the requirement should be included in accounting law, as at present, or in audit law.

- Public interest entities (PIE) in the collective investment scheme area: It is to be clarified whether the PIE definition in this area¹ extends further than that under comparable provisions of other European financial centres and, if so, whether this is factually justified.
- Audit fee per audited company threshold: Current law forbids state-regulated audit firms from generating more than ten per cent of total fees from one audited company. It is to be clarified whether it is necessary to bring the threshold into line with the 15 per cent used in international professional law.
- Criminal liability for false audit report statements: It is currently a criminal offence to make incorrect statements about, or not to disclose, significant matters. It is to be clarified whether this should apply only to serious offences and then only if negligence is not minor.
- Licensing and oversight of the pension scheme auditor: There is currently no special licence or oversight for auditors of pension schemes. It is to be clarified whether this is appropriate and, if not, whether the FAOA should be solely responsible or whether a solution similar to that in the AHV area should be sought.

Should the need for legislative action be confirmed, this could be included in any future amendment of audit or audit oversight law.

Parliamentary initiative Schneeberger

With the parliamentary initiative «KMU-taugliche Lösung sichern. Eingeschränkte Revision zum Schutz unserer KMU verwesentlichen» of 29 June 2015, National Councillor Daniela Schneeberger (FDP/BL; concurrently Central President of TREUHAND | SUISSE) proposed a significant de-regulation of legal requirements over the limited audit applicable in the areas of independence, one-off audit services, audit report recommendation to approve the financial statements, duty to notify and documentation and liability².

On 4 May 2017 the National Council voted 98 to 72 with 3 abstentions for the initiative, against the proposal of the advisory National Council Committee for Legal Affairs. The matter is now pending in the second chamber (Council of States), respectively the Committee for Legal Affairs.

The above-mentioned expert report did not recommend measures to de-regulate the limited audit, which has largely proved its worth.

Postulate Ettl

With the postulate «Keine neue Soft-Regulierung durch die Oberaufsichtskommission Berufliche Vorsorge», State Councillor Erich Ettl (CVP/OW) commissioned the Federal Council to examine whether the Occupational Pension Supervisory Commission (OPSC) should be instructed not to issue any directive of a licensing nature to pension scheme auditors. Reference is thereby made to the directive «Qualitätssicherung in der Revision», published on 20 October 2016. This initiative would avert

¹ Comprising fund managers, investment funds, investment companies with variable capital (SICAV), limited partnerships for collective investment companies with variable capital, investment companies with fixed capital (SICAF), asset managers of collective investment schemes, as well as representatives of foreign collective investment schemes.

² More detailed information can be found in the FAOA Annual Report 2016, page 9.

duplication between the OPSC and the FAOA, itself responsible for auditor licensing. Developing quality in the pension scheme audit is also to be examined (e.g. as part of the ongoing expert mission on the need for legislative action with respect to audit law). The initiative was referred from the Council of States on 6 December 2016. Federal Council action is still pending.

Federal Law on Gaming

On 29 September 2017 the Federal Assembly adopted the new Federal Law on Gaming (Gaming Act). The referendum deadline runs to 18 January 2018. The new law replaces the current Gaming Act that will be repealed upon its enactment. The law also contains a number of audit requirements:

- Casinos and the organisers of large scale gaming events must subject their accounts to ordinary audit by an independent auditor. The requirements of company law apply to the auditor and the audit (Art. 727 f. CO (company law)). The organisers of large scale gaming events that are only games of skill can subject their accounts to limited audit depending upon company size but cannot waive the audit. The auditor provides the audit report to the enforcement authority.
- If the auditor finds violations of the law or other irregularities in performing the audit it reports these immediately to the responsible enforcement authority. The Federal Council dispatch states in this regard that the reporting duty goes beyond the duty to report to the board of directors. The auditor is required to report to the relevant enforcement authority if it finds violations of the law or other irregularities, e.g. a violation of the articles of the company. Under the CO the duty to report is only to the board of directors. Compared to the current legal situation the auditor's duty to report is reduced in one aspect. It is

no longer required to report to the criminal enforcement agencies. A criminal offence is not to be reported by the auditor but rather by the oversight authorities.

- On independence, reference is made to the general CO provisions. In addition, audit staff working on a casino audit are barred from playing in the casino.
- Casino auditors must provide the Federal Casino Commission (FCC) with any information and documentation it needs to fulfil its duties. The newly-established inter-cantonal authorities have the same rights to information and documentation as regards the audit of large-scale gaming events.
- The FCC can also award special assignments to the auditor.

Entry into force is expected 1 January 2019.

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

On 4 November 2015 the Federal Council adopted the FFSA and FinIA dispatch. FinIA regulates oversight of all financial service providers providing any form of asset management in one integrated act. The Council of States and the National Council discussed the draft on 14 December 2016 and 13 September 2017 respectively. No differences remain in the following audit-relevant points, such that they will come into force in this form (see detailed description in FAOA Annual Report 2016):

- Asset managers and trustees will be overseen formally by FINMA and on an ongoing basis by newly-created oversight authorities (OA). Unfortunately, the OA do not grant their own licences for audit firms or auditors-in-charge and therefore do not specify licensing requirements. Requirements additional to those of the basic FAOA licence (particularly «adequate organisation», «nec-

essary expertise» and «necessary practical experience») are thus not subject to any objective assessment, at least according to the wording of the law. Legal uncertainty therefore remains as to which audit firms and auditors-in-charge are sufficiently qualified to audit the compliance of asset managers and trustees with their legal responsibilities on behalf of the OA. It is to be hoped that this is not to be interpreted as qualified silence by the legislator and that the OA have the possibility to require a licence and specify licencing criteria, similar to those of the FAOA, in their own regulations.

- State-regulated audit firms will now be licensed for an unlimited period.
- There are no longer to be financial intermediaries directly supervised by FINMA (DSFI); consequently the special FAOA licence for the audit of DSFI lapses.

The following points are still disputed:

- While the Council of States believes that the prosecuting authorities should report proceedings against auditors to the OA responsible for their oversight, the National Council disagrees.
- Within the context of providing easier market access to FinTech companies it is contested whether they should be exempted from the requirement for a (limited) audit where they do not meet the relevant CO thresholds. The Council of States is in favour and the National Council against. A regulatory audit will take place in any event, whereby the Federal Council would be able to ease the licensing requirements of audit firms and auditors-in-charge for this type of audit. The two councils only disagree on where this authority should be embedded from a legal standpoint.

On 3 November 2017 the Economic Commission of the Council of States continued the process of resolving the differences. Due to their magni-

tude the Council of States will first consider the matter in 2018.

The FFSA creates uniform competition rules to improve customer protection. The Act includes rules for all financial services providers with respect to the provision of financial services and the offer of financial instruments. The FFSA is not expected to have direct consequences for the audit industry.

Amendment of company law

On 23 November 2016, the Federal Council adopted the dispatch to parliament on the amendment of the CO³. The dispatch is in the first chamber (National Council). On 4 September 2017 the National Council Committee for Legal Affairs voted 13 to 10, with one abstention, to consider the dispatch. It began its discussions on 6 November and will continue them early in 2018.

Equal pay audit

On 5 July 2017 the Federal Council decided to enforce constitutional equal pay with additional state measures in the Gender Equality Act. It wants to make employers with 50 or more employees conduct a pay analysis every four years and have this audited by an external body. The body can be an FAOA-licensed audit firm, a recognised equal pay expert, a women's organisation or a union. The audit firm need not necessarily be the auditor of the company.

If the equal pay analysis is audited by a licensed audit firm the auditor-in-charge must, beyond having an FAOA licence, fulfil additional training requirements; these will be determined by the Federal Council. The Federal Council dispatch mentions additional training in pay discrimination and statistics.

The audit firm tests only that the pay analysis has been prepared in a formally correct way. This involves formal and standardised process testing and

not substantive testing as to whether there is an equal pay problem at the company; in particular, tests are performed as to whether all employees of the company are included, all pay elements are included, that the standard analysis model of the Federal Council has been used and that the analysis has been prepared within the legally-required timeframe. The audit report forms the basis of information to employees, respectively (for quoted companies) shareholders, on the results of the equal pay analysis.

AHV audit

The oversight of AHV, supplementary benefits, income compensation and family allowances in the agricultural sector is to be modernised. This is to be achieved through greater risk-orientation in oversight, stronger governance and the update of information systems to current technical standards. The Federal Council submitted the relevant preliminary draft for consultation from 5 April to 13 July 2017. Among other things, the preliminary draft envisages the following:

- Cash audits and employer checks will be made as before. Employer checks can also be made by a special department of the compensation fund department, a professional organisation of the compensation funds or SUVA. Any company with an FAOA licence can now perform a cash audit or employer check. Under current law an additional audit expert licence is required, at a minimum.
- The Federal Council issues detailed requirements with respect to auditors that go beyond previous licensing conditions. The explanatory report states, for example, that a minimum number of compensation fund engagements could be required. It is unclear whether the creation of a special licence is foreseen and whether this would be under the responsibility of the FAOA.

– The cash audit requirement will be moved from the ordinance to the legal level. Alongside the book-keeping and accounts (financial audit), the auditor also audits the organisation and management, compliance with management principles, risk management, quality management and the ICS (regulatory audit). The question of quality management and how this is to be audited may be new here.

– The Federal Council can instruct the oversight authorities to issue more detailed requirements concerning the performance of the cash audit. According to the explanatory report, it will be necessary to develop auditing standards for the audit of compensation funds. In the spirit of classic «co-regulation», it would be advisable to develop these standards in cooperation with the audit industry.

– It is also proposed to carry out so called «file reviews», that is, reviews of auditor working papers. Audit firm inspections should be concentrated under the FAOA, according to its own understanding.

– The oversight authority (Federal Department of Social Security) can continue to order supplementary audits as necessary and can now also dismiss the audit firm.

– The above also applies to the audit of IV offices and offices that determine and pay out supplementary benefits.

The preliminary draft includes no proposals with respect to the licensing and oversight of pension scheme auditors. Under the principle of unity of matter, however, this would be a suitable opportunity to address any need for action.

³ The draft is published in the Federal Gazette (BBl 2017 399). A summary of audit-relevant points can be found in the FAOA Annual Report 2016, page 8 f.

Motion Hadorn

With the motion «Paradise Papers. Wirtschaftsprüfung und Beratung trennen», National Councillor Philipp Hadorn (SP/SO) invites the Federal Council to legislate such that financial and regulatory audit firms may only be licensed if they do not carry out tax advisory business at the same time. The initiative is based on the belief that financial and regulatory audit should be at the heart of audit firm activity. If the audit is combined with tax advice there is a risk that the focus of these activities will shift. To date, the Federal Council has not opined on the motion.

Completed projects

Extra-territorial jurisdiction of the FAOA

The FAOA must ensure investor protection. At the same time it must be able to work efficiently and effectively. The Federal Assembly has therefore moderately reduced the responsibility of the FAOA toward foreign audit firms. The Federal Council implemented the relevant legal amendment (Art. 8 AOA) on 1 October 2017. Details can be found under «International, Extra-territorial scope of the AOA».

Quality assurance in sole proprietorships

The transitional period for implementing an internal quality assurance system is over⁴. Further details can be found under «Licensing, Cancellation of special rules for the internal quality assurance system».

⁴ See. FAOA Annual Report 2016, page 10 f regarding the last extension of the transitional period.

Financial Audit

Introduction

The structure of the audit market changed little compared to the prior year. The five largest audit firms continue to audit the vast majority of public companies and other PIE. They are inspected annually by the FAOA as they audit more than 50 PIE.

There is no duty to rotate auditors periodically in Switzerland. However, EU auditor rotation requirements do have an indirect effect. A number of companies put their audits out to tender in the reporting year. The tenders led to a significant fall in audit fee in many cases. The rotations do not appear to have had a marked effect on the existing market structure though.

A total of 31 audit and regulatory audit firms held a state-regulated audit firm licence at the end of 2017 (prior year 32). Seven firms may audit only DSFI and non-PIE. Two firms are foreign audit firms that are inspected by the FAOA under Article 8 AOA.

Audit engagements for which the ratio of non-audit to audit fees exceeds 1:1 in a business year are to be reported annually to the FAOA (Circular No. 1/2010). Details of the non-audit services provided, together with the independence safeguards put in place, are to be provided for the

reportable engagements. The FAOA received ten reports in the reporting year (prior year: four). The increase is surprising as many investor representatives are critical of large contracts for non-audit services being awarded to auditors.

2017 inspections Firm and File Review

The FAOA has completed a total of 105 inspections since the enactment of the AOA. Of these, 15 were performed in the reporting year⁵. Two were performed jointly with the PCAOB (so-called «joint inspection»). The financial statements of 28 companies were the subject of file reviews as part of the 15 inspections. Amongst them were two so-called «ad-hoc» inspections that the FAOA performed as a result of third party notifications.

The selection of audit engagements for FAOA inspection is risk-based. The market capitalisation of audited public companies is one important selection criterion. All 20 SMI companies had been subject to a first-cycle FAOA file review by the end of 2016. In the reporting year the FAOA began the second cycle, selecting three SMI companies. The, from a global perspective, systemically important Swiss banks (G-SIBs), UBS AG and Credit

Suisse Group AG, continue to be subject to annual file review.

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

Figure 1
Overview of FAOA inspections and findings 2008–2017

Categories	Largest five audit firms		Other		Total	
	01.04.2008 – 31.12.2017	Of which 2017	01.04.2008 – 31.12.2017	Of which 2017	01.04.2008 – 31.12.2017	Of which 2017
Number of inspections	45	6	60	9	105	15
Comment Form Findings Firm Review	131	6	187	9	318	15
Comment Form Findings File Review	422	28	307	18	729	46
Number of inspected files ⁶	142	20	59	8	201	28

⁵ The inspection fieldwork was completed at a further two of the largest five audit firms. Since the findings process is still at an early stage these are not covered by the FAOA Annual Report 2017.

⁶ In each file review the FAOA selects the working papers relating to the audit of the consolidated financial statements (including holding company) and the audit of a significant subsidiary.

Firm Review

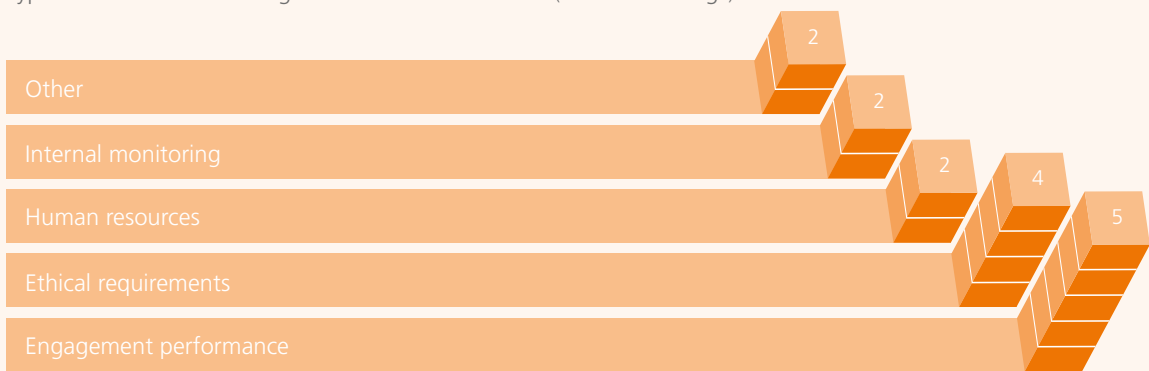
The FAOA had an average of one finding per firm review. The largest number of findings related to «engagement performance» and «ethical requirements». The deficiencies in these areas related particularly to insufficient audit procedure requirements. As regards ethical requirements, the FAOA found deficiencies in the process for accepting contracts for non-audit services at audit clients. Specifically, service descriptions were often not descriptive

enough. The service descriptions given during the acceptance process were also not always the same as the actual services provided.

Overall, quality assurance systems are robust. The relative consistency of ISQC 1 and SQCS 1 requirements may account for this.

Figure 2

Type and number of findings from 2017 firm reviews (total 15 findings)



File Review

A total of 28 (prior year: 25) file reviews were conducted and completed in 2017. These reviews resulted in a total of 46 findings. The number of findings per file review fell pleasingly from 2.3 to 1.6 compared to prior year. A reason for this is that the FAOA changed its criteria for classifying file review findings. Specifically, the likelihood and extent to which the consolidated financial statements could be affected was thoroughly assessed. The largest five audit firms contributed most to the positive development. The

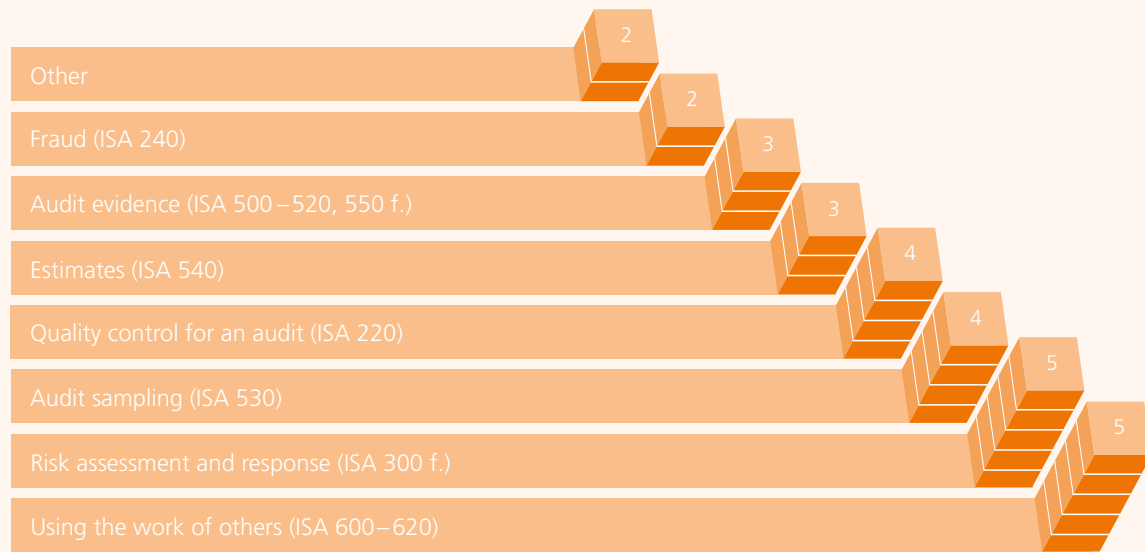
number of findings per file review at those firms fell from 2.4 to 1.4. By contrast, the number of findings per file review at the smaller audit firms rose from 2.1 to 2.3. With respect to file reviews, audit quality is heavily dependent upon the partners and staff involved, as well as the external environment. Audit firms should hence continue to focus on the consistency of audit quality.

2017 file review findings for the five largest and for the smaller audit firms are shown by category in the figures below⁷.

⁷ For comparability purposes findings that relate to Swiss Auditing Standards or US auditing standards have been allocated to the identical or comparable ISA.

Figure 3

Type and number of 2017 file review findings at the five largest audit firms (total 28 Findings)



In the reporting year the FAOA had the most findings in the categories «using the work of others», «risk assessment and response», «audit sampling», and «quality control for an audit».

FAOA findings in the areas «using the work of others» and «quality control for an audit» resulted, in particular, from the inadequate direction and supervision of component auditors by the group auditor. In one case, for example, a component deemed significant based on the risk of material misstatement of the consolidated financial statements was subject only to review procedures. Under the relevant auditing standards such components are to be subject to «specified audit procedures» at a minimum. In another case it was found that the group auditor had obtained insufficient assurance from component auditors over significant accounts. Against this background, robust group auditor procedures over non-significant com-

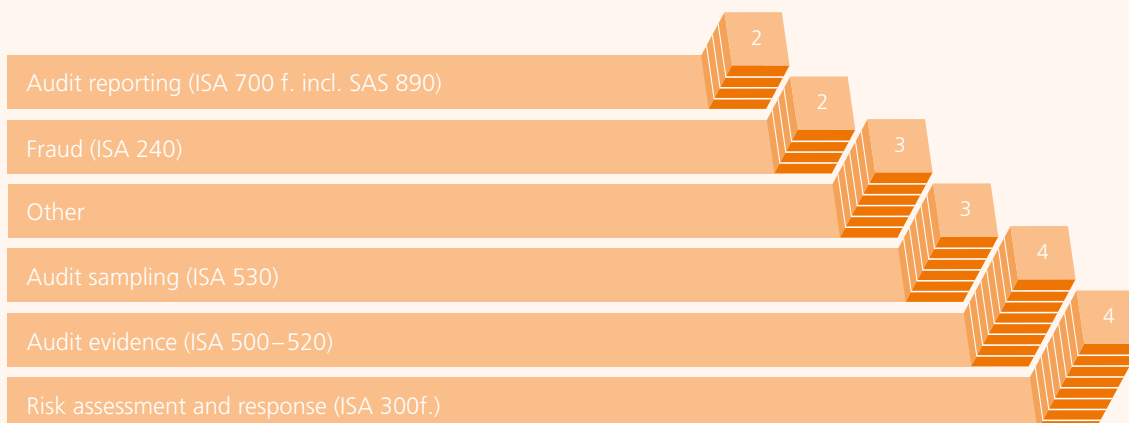
ponents are very important. Examples include auditing the effectiveness of group-wide controls and performing appropriate analytical review. In another case the group auditor did not have enough knowledge of the group and its components to determine the type of audit procedures required. Consequently, the group audit instructions were incomplete and the group auditor was insufficiently informed during the audit. In other cases the auditor-in-charge and EQCR were insufficiently involved as regards significant accounts during the constituent phases of the audit (planning, execution and reporting). In one such case the FAOA further found the objectivity and authority of the EQCR to be insufficient to perform the role. In another case the group auditor failed to establish the roles and responsibilities of specialists responsible for audit procedures regarding valuation and internal controls. The work of the specialist was also insufficiently evaluated by the group auditor.

FAOA findings in the «risk identification and response» category include, most particularly, deficiencies in the audit of IT and application controls. If the auditor wishes to rely on general IT and application controls these controls have to be tested appropriately. Otherwise the audit team cannot rely on the system-generated documents used for auditing the various account balances.

Results relating to audit sampling are discussed under «Points of focus for 2017 inspections».

Figure 4

Type and number of 2017 file review findings at smaller audit firms (total 18 findings)



At the smaller audit firms the most deficiencies were found in the categories «risk identification and response», «audit evidence» and «audit sampling». In many cases insufficient audit evidence resulted from inadequate planning. Results relating to audit sampling can be found under «Points of focus for 2017 inspections». Findings relating to the various other auditing standards are summarised in the «other» category. These include «quality control for an audit» (ISA 220), «estimates» (ISA 540) and «using the work of an auditor's expert» (ISA 620).

The auditor provides the board of directors with a comprehensive report including findings on financial reporting, the internal control system and the execution and results of the audit (Art. 728b para. 1 CO). Circular 1/2009 specifies the content of PIE comprehensive reports. The FAOA amended this Circular in December 2015. Following this amendment state-regulated auditors are also required to comment on FAOA file review findings in the comprehensive report. In the reporting year, and for the first time, the FAOA assessed the comments given in five comprehensive reports. On the positive side, three audit teams complied with the requirements before they came into force. In three cases the FAOA found deficiencies in the comments. The findings were downplayed or not described fully in some cases. The FAOA

will therefore continue to assess the comments made in applying Circular 1/2009.

IFIAR survey on inspection results

On 3 March 2017 IFIAR published the results of a broad-based survey⁸. 36 IFIAR members took part in the survey. This was already the fifth survey of this type, identifying common findings at the six largest global audit firms⁹ on an anonymous basis. The survey focused particularly on file review findings at PIE and systemically important financial institutions. IFIAR negotiates with the six large audit firms at a global level based on the survey. The goal is to agree on measures to improve audit quality.

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

- Estimates
- Audit sampling
- Using the work of others (group audits and using the work of an auditor's expert)
- Identification and response to risks of material misstatement
- Quality control for an audit

IFIAR members believe that the global audit networks and local audit firms must eliminate recurring deficiencies in the above-mentioned areas permanently. In 2015 IFIAR reached an agreement with the six largest audit firms to meet this goal. This stipulates that after four years, i.e. by 2019, the number of PIE with at least one file review finding will reduce from 39 per cent to 29 per cent (reduction around 25 per cent). IFIAR discussed the intermediate status of the planned reduction in the reporting year and assumes it can be made.

Points of focus for 2017 inspections

The FAOA published its points of focus for the 2017 financial audit inspections in the 2016 Annual Report. These were examined in detail in the reporting year, primarily at the five largest audit firms¹⁰.

⁸ www.ifiar.org > Activities > Inspection Survey.

⁹ BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative and PricewaterhouseCoopers International Limited.

¹⁰ For results regarding the points of focus 2017 in the regulatory area see chapter «Regulatory Audit».

Audit sampling

Audit sampling is a complex part of the financial statement audit. This is also shown by the IFIAR survey, which lists audit sampling as the third most common finding¹¹. According to the survey, at least one audit sampling deficiency was found at 17% of audited PIE. The FAOA evaluated audit sampling as part of the 2017 file reviews and seven findings resulted.

In selecting items to test the auditing standards differentiate between three methods; «selecting all items», «selecting specific items» and «audit sampling». Audit sampling can be further split between statistical and non-statistical methods. Risk can only be quantified under a statistical, as opposed to non-statistical, method, allowing the audit team to reach a mathematical-statistical conclusion. Audit sampling aims to obtain sufficient evidence to reach a conclusion over the whole population subject to audit. The five largest audit firms have defined additional audit sampling requirements within their own audit methodologies. Within its file reviews the FAOA assessed compliance with internal and external sampling requirements as regards controls and substantive testing.

Control effectiveness and control deviations are evaluated, respectively found, through controls testing. Testing is generally performed using fixed sample sizes based on control frequency. The FAOA often found that the method for determining sample size and selection was insufficiently evidenced. Specifically, it was not ensured that all items subject to selection were considered and that all selected controls were performed during the audit period. The FAOA further found that sampling methods¹² were sometimes not, or not sufficiently, described and that audit firm random sampling tools and aids were not used in all cases. Controls testing was mostly performed during the interim audit. The audit evidence obtained as to control effectiveness during the remaining period to the

balance sheet date was insufficient in some cases.

The sample sizes used in substantive testing depend upon risk, control effectiveness and other audit procedures performed, such as the audit of key items. The FAOA found that audit firms do not have uniform requirements as regards the calculation of sample sizes and sample selection. Sample size is generally determined using electronic aids and calculation tools and is dependent upon various parameters. In determining sample size at the assertion level some audit teams relied on the effectiveness of controls although these did not cover the risk associated with the particular assertion or were not effective. The substantive testing sample was consequently too small and unrepresentative. With regard to sample selection, the FAOA found that non-statistical sampling methods were used in most cases. This generally led to a lower sample size. Sampling risk was unquantifiable and therefore considerably increased.

Great care is required in planning a dual purpose test¹³. The FAOA found that sample size and selection in dual purpose testing did not comply with the standards. The dual purpose test is to be planned such that both audit objectives are considered separately. In the inspected cases the audit teams based dual-purpose testing on the substantive testing sample. The selection was thus partially risk-based and did not consider the whole population with respect to controls testing. It was also not ensured that the selected sample was relevant for controls testing.

The FAOA sees inadequate planning of sample testing (size and selection), as well as the failure to understand the characteristics of the population and the controls to be audited, as possible causes of the above findings. The partial lack of understanding of external and internal requirements and tools can be listed as further causes. In addition, the planning and audit of sampling was often per-

formed by team members with insufficient experience and without appropriate supervision. The audit firm aids and calculation tools are generally not mandatory and consequently not used consistently. As regards the findings on dual-purpose testing, lack of conceptual understanding can be mentioned as the main cause.

As a result of the findings described above and the significance and complexity of audit sampling, it has also been defined as a point of focus for the 2018 inspections. Most attention will be paid to the planning and design of sampling procedures.

Provisions

Balance sheet and income statement positions relating to provisions are audited in accordance with auditing standards (amongst others, SAS and ISA 540). In so doing, relevant accounting standards¹⁴ are considered. The FAOA evaluated the point of focus «provisions» at various audit firms as part of seven file reviews¹⁵.

Risk assessments were made by audit teams taking into account accounting standards' requirements and the manner in which management identified those business transactions that require the booking or disclosure of estimates in the financial statements. In five cases a significant risk was identified with respect to a particular provision. In cases where consolidated financial statements were prepared there was appropriate communication between group and

¹¹ See www.IFIAR.org > Activities > Inspection Survey.

¹² Random selection, systematical selection, target testing and haphazard selection.

¹³ Simultaneous controls and substantive testing using the same transaction.

¹⁴ IAS 37 «Provisions, contingent liabilities and contingent assets»; Swiss GAAP FER 23 «Provisions»; Accounting regulations for banks, securities brokers, finance groups and conglomerates (RVB).

¹⁵ The inspection reports for two of the five largest audit firms were yet to be finalised at the reporting date and are therefore not included in the evaluation.

component auditors. Disclosure requirements were also met in all cases. Management's involvement of internal or external experts in the estimation process did not necessarily lead to a significant risk assessment. The evaluation of the work of the experts as audit evidence was generally in line with auditing standards.

Companies and audit teams used experts most particularly for complex estimates, such as insurance provisions. In two cases actuaries were involved extensively as audit team members. These actuaries performed both testing of management controls and substantive testing. In these cases the auditor-in-charge is not required to follow auditing standard «using the work of an expert» (SAS, respectively ISA 620) but rather «quality control for an audit» (SAS, respectively ISA 220). In one case the work performed with respect to loss reserves and insurance technical provisions was deficient in various ways. The audit procedures planned and performed with respect to case reserves did not cover the assertions «completeness» and «rights and obligations» sufficiently. In addition, the substantive audit procedures of the actuaries were deficient as regards sample size and selection. Finally, in testing IT-dependent manual controls, the relevant IT general controls were not tested sufficiently.

In determining the KAM the audit teams evaluated matters that had been of particular consideration in the audit. The figure below shows the number of KAM from the audit reports of SIX-quoted companies. The number of KAM within the individual reports varied from zero to seven, while the average was 2.2. This number is influenced by the size and complexity of the company, its type of business and environment and the applicable accounting standards. The number of KAM within the audit reports of companies reporting under Swiss GAAP FER tended to be less than those within the reports of companies reporting under international accounting standards (e.g. IFRS or US GAAP).

First experiences with Key Audit Matters (KAM)

The FAOA assessed compliance with the new auditing standard (ISA 701), respectively FAOA Circular 1/2015, by way of ten file reviews at three of the five largest audit firms¹⁶. These audit engagements cover various industries and accounting standards. The FAOA furthermore analysed the reports of the five largest audit firms for SIX-quoted companies. The FAOA focused on the KAM, the application of the revised auditing standards and the voluntary disclosure of additional information, such as materiality and scoping.

¹⁶ The inspection fieldwork was completed at a further two of the largest five audit firms. Since the findings process is still at an early stage these are not covered by the FAOA Annual Report 2017.

Figure 5

Number of KAM included within audit reports on the 2016 consolidated financial statements¹⁷ of SIX-quoted companies

Number of KAM	SMI		Other companies		Total		Audit firm A		Audit firm B		Audit firm C		Audit firm D		Audit firm E	
	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
0	0	0	2	1	2	1	0	0	2	4	0	0	0	0	0	0
1	2	10	71	37	73	34	43	47	17	30	11	22	0	0	2	26
2	0	0	63	33	63	30	28	31	15	27	15	31	1	11	4	50
3	6	30	42	22	48	23	16	18	15	27	12	24	5	56	0	0
4	8	40	11	6	19	9	3	3	3	5	9	18	3	33	1	12
5	3	15	3	1	6	3	0	0	4	7	1	2	0	0	1	12
6	0	0	1	0	1	0	1	1	0	0	0	0	0	0	0	0
7	1	5	0	0	1	0	0	0	0	0	1	2	0	0	0	0
Total companies	20	100	193	100	213	100	91	100	56	100	49	100	9	100	8	100
Total KAM	74	–	388	–	462	–	165	–	124	–	125	–	29	–	19	–
Average number of KAM	3.7	–	2.0	–	2.2	–	1.8	–	2.2	–	2.6	–	3.2	–	2.4	–

The most commonly reported KAM related to indefinite life intangible assets (including goodwill), revenue recognition, taxes, acquisitions and disposals of shareholdings and inventory. The risk of material misstatement in such accounts is affected by the degree of estimation uncertainty and susceptibility to management bias in any related estimates. Greater risk demands a more in-depth audit.

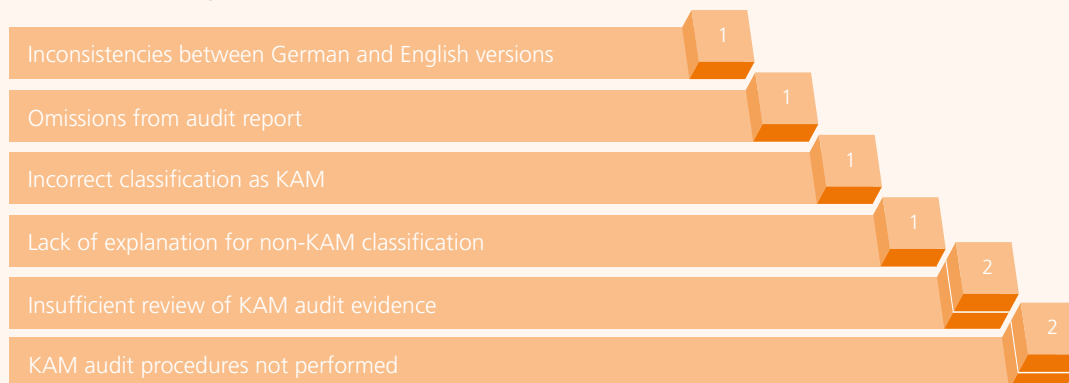
¹⁷ The FAOA evaluated the audit report on the statutory accounts of those companies that did not prepare consolidated financial statements.

Figure 6

The following KAM appeared most frequently in the audit reports of SIX-quoted companies (in per cent)

**Figure 7**

Type and number of 2017 file review findings¹⁸ on the new and revised audit reporting standards at three of the five largest audit firms



In a KAM the audit team is required to describe the reasons why the matter was considered to be of most significance and how it was dealt with in the audit. The KAM also refers to the relevant notes to the financial statements (if any). The working papers must document whether matters requiring special audit consideration are KAM or not. The determination and drafting of KAM is demanding and time-consuming. To support the audit teams the networks therefore provided guidelines and staff training. Mandatory independent review processes were also introduced by the audit firms, particularly as regards the wording of KAM. At two audit firms the reviews were performed during the audit.

The FAOA assessed whether the audit procedures described in the KAM

were actually performed. In two cases this was not completely the case. For example, controls effectiveness testing was described even though the audit approach was not controls-based. One cause of these findings may have been that the focus of the KAM review was the wording rather than the accuracy of content.

Given the significant changes to audit reporting standards, the FAOA would have expected the auditor-in-charge and EQCR to have placed more emphasis on this issue during the audit. The FAOA found two cases in which the review of audit evidence relating to KAM was insufficient.

The audit firms developed specific working papers for their audit teams to document matters requiring special

audit consideration and the reasons why they were classified as KAM or not. The use of the working paper was not mandatory at two audit firms. In addition, the FAOA found one case in which the audit team did not provide reasons why some of the matters communicated to the board of directors were not KAM.

The FAOA had other general findings. In one case the English and German versions of the KAM were not identical. In another case, and contrary to auditing standards, the audit report did not cover auditor independence and responsibilities. In another case

¹⁸ It is to be noted that the FAOA found various deficiencies in four file reviews at one of the five largest audit firms. The results were summarised in one firm-level finding. At one of the other five largest audit firms two deficiencies were found in one file review and summarised in one finding.

the audit team included a KAM on revenue recognition even though this had not required special audit consideration.

The judgemental decisions and estimates of management disclosed in the financial statements generally require special audit consideration. In its file reviews the FAOA evaluated any deviations between the judgemental decisions and estimates of management disclosed in the financial state-

ments and the KAM. The FAOA found that all differences could be explained satisfactorily.

As shown in the figure below, two audit firms voluntarily reported on materiality and scoping to some extent.

Figure 8

Number of audit reports on SIX-quoted companies containing materiality or scoping information, by audit firm (in per cent)¹⁹

Audit firm	Number of published audit reports	Voluntary materiality disclosure	Voluntary scoping disclosure
Audit firm A	91	95 %	94 %
Audit firm B	56	0 %	0 %
Audit firm C	49	0 %	0 %
Audit firm D	9	22 %	22 %
Audit firm E	8	0 %	0 %

Materiality governs audit planning and performance. The lower materiality is, the more comprehensive the audit procedures performed are. Equally with scoping, the higher the component coverage is, generally the higher the level of assurance for the group auditor is. The FAOA believes the higher the proportion of out-of-scope components within a group is, the more robust group-level audit procedures with respect to those components must be. Examples are the audit of group-wide controls and the performance of appropriate analytical procedures.

Excepting the above findings, the FAOA concludes that the new and revised auditing standards on auditor reporting have generally been applied appropriately by audit teams. Further, the FAOA supports the voluntary disclosure of materiality and scoping in the new audit report as this provides important additional information to the users of the financial statements.

Root cause analysis and measures

Audit firms receive a draft report from the FAOA following completion of inspection fieldwork. They are asked to send a root cause analysis, as well as possible measures and deadlines, with respect to the FAOA findings. The FAOA considers the appropriateness of the proposed measures by evaluating potential root causes. The measures and deadlines agreed with the audit firm are included in the FAOA inspection report. The audit firm has one year to implement the agreed measures. In subsequent years the FAOA assesses the implementation.

The root cause analysis processes of the five largest audit firms are still in varying stages of development. In particular, there has generally been little development in identifying the positive factors on files with no findings. It should also be noted that responsibility for the root cause analysis and

related measures for file-level findings lies primarily with audit firm management and not the engagement team concerned. It is expected that audit firms will develop their root cause analysis processes further with the help of their global networks. This is to be welcomed as sound root cause analysis can lead to the permanent elimination of recurring deficiencies.

¹⁹ For companies that do not prepare consolidated financial statements the FAOA assessed the audit reports for the statutory accounts.

Preliminary fact-finding and proceedings

Alongside routine inspections, event-driven preliminary fact-finding and proceedings are also conducted at state-regulated audit firms. Account is taken of plausible third party notifications. In the reporting year 13 third party notifications relating to the work of state-regulated audit firms were received. Seven of these notifications led to preliminary fact-finding but no proceedings were opened against state-regulated audit firms.

Audit quality indicators

FAOA audit quality indicators

The importance of audit quality indicators (AQI) continues to increase internationally. This trend is underlined by various projects. For example, in July 2016 Accountancy Europe published an overview of the AQI of nine different oversight organisations from across the world, including the FAOA²⁰.

For nine years now the FAOA has collected twelve AQI from the five largest audit firms. It uses these primarily to analyse trends and identify factors that may impact audit quality. They are also used for risk assessment and inspection planning.

²⁰ www.accountancyeurope.eu > search for content: «FEE shows significant differences in developments on audit quality».

Figure 9

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

AQI	2014		2015		2016		2017	
	from	to	from	to	from	to	from	to
Annual revenue per audit partner in CHF mio.	1.7	4.2	1.9	4.5	1.8	4.2	2.0	4.1
Ratio of non-audit fees to audit fees								
– SMI companies	0.1	0.4	0.2	0.4	0.2	0.5	0.1	0.4
– Non-SMI public companies ²¹	0.0	0.3	0.1	0.4	0.1	0.2	0.1	0.3
Number of staff per partner	7.1	14.0	7.2	15.8	7.4	15.3	8.2	15.8
Training hours	44	88	53	80	54	77	52	84
Staff turnover in per cent	13	26	13	25	12	27	12	29
Number of EQCR²² hours								
– SMI companies	39	151	37	115	25	116	43	182
– Non-SMI public companies	7	18	6	17	8	17	8	16
Number of auditor-in-charge hours								
– SMI companies	270	719	227	746	351	700	478	733
– Non-SMI public companies	69	112	71	110	75	113	74	114
Number of foreign shared service centre hours as a percentage of overall hours at public companies	0	5	0	8	0	7	0	10
Number of consultations per public company audit	0.0	0.4	0.0	0.3	0.1	0.4	0.0	1.0

- At two audit firms annual revenue per audit partner rose compared to the prior year. Since 2014 the audit firm with the lowest number of staff per partner has also shown the lowest revenue per partner. Likewise, since 2014 the audit firm with the highest number of staff per partner has shown the highest, or second highest, revenue per partner. It follows that there is a close relationship between both performance indicators.
- The FAOA sees the ratio of non-audit to audit fees at PIE audit clients as a risk factor as regards independence. Since 2014 the audit firm with the highest ratio shows a value for SMI companies that is more than double the average for the other audit firms. Likewise, since 2014 another firm shows the lowest value for SMI companies. It should be mentioned in this respect, however, that even the highest average ratio is lower than the

EU limit of 0.7. The notifications made to the FAOA further show that ten non-SMI engagements (prior year four engagements) exceeded the 1:1 threshold and thus exceeded the EU limit.

- Continuing professional education to enhance the skills and capabilities of auditors is fundamental in safeguarding audit quality. The training hours in the performance indicators have been determined based on the requirements of EXPERTsuisse²³, but exclude self-study hours. One audit firm has shown the highest value since 2014, while two other firms have each shown the lowest value in two successive years.
- The staff turnover range increased compared to the prior year. There are major differences between audit firms. One audit firm has shown the highest staff turnover four times since 2010. Two other audit

firms each had the highest percentage of leavers twice. One audit firm has shown the lowest staff turnover since the performance indicators were first collected.

- An EQCR must be deployed at public companies. The average number of EQCR hours per SMI company varies widely. The larger the audited engagements of the audit firm are, the higher the proportion of EQCR hours generally is. Since 2014 the same audit firms show the lowest, respectively highest, value for SMI companies. The average number of EQCR hours at SMI companies is also several times that at other public companies. The average number of hours is subject to annual fluctuations and is affected by engagement-specific factors.

²¹ Two comparatives have been corrected.

²² Engagement Quality Control Reviewer.

²³ Directives on professional training.

- There is a significant difference between audit firms in the average number of auditor-in-charge hours at SMI companies. Here also, the same audit firms have shown the lowest, respectively highest, value for SMI companies. The reasons for the differences are similar those for the average number of EQCR hours per public company. The average number of auditor-in-charge hours at SMI companies is several times that at other public companies.
- Compared to the prior year, three instead of two audit firms deploy foreign shared service centres (SSC). At one audit firm the extent of outsourced audit work (in hours) reduced by 10%, while at another it increased by 57%.
- At one audit firm the number of consultations per audited public company increased by a factor of four compared to the prior year. As a result the range also increased compared to the prior year. The increase is due to the requirement to consult formally on the wording of KAM. One audit firm has been at the bottom of the range of public company consultations for the last four years. In the reporting year this firm performed no consultations. The FAOA believes that formal consultations on difficult or contentious matters improve audit quality.

AQI at the five largest audit firms

The way in which the largest five audit firms use their own AQI was recorded for the first time in the reporting year. Differing AQI were noted at three of these firms. Differences can be seen in the balance between quantitative and qualitative performance indicators, as well as in their number. The other two audit firms do not have explicit AQI and currently no efforts are being made within the networks to introduce them. It should be added, however, that these two audit firms do also have some AQI in effect but do not describe them as such.

Cooperation with stock exchanges

To avoid duplication the FAOA coordinates its oversight activities with SIX. The FAOA focuses upon evaluating auditor compliance with legal and professional standards and not accounting standards directly. The SER is responsible for ensuring that SIX-quoted companies comply with accounting standards as it assesses issuers' compliance with their responsibilities under the listing regulations. Should the FAOA find material breaches of accounting standards during its inspections it notifies the responsible exchange in writing. There were no such notifications in the reporting year.

Cooperation with audit committees

The experience of the FAOA shows, as do empirical studies, that audit committees have a major influence on audit quality, being important audit stakeholders. The FAOA is therefore continuing its contact with audit committee chairmen. Contact forms part of the file reviews at state-regulated audit firms and, since 2016, is normally conducted by way of face-to-face meetings. The communication with audit committees is aimed at gaining a better picture of cooperation between the auditor and the audit committee. Professional cooperation can significantly enhance the professional scepticism of the auditor towards management. This is particularly so where the audit committee creates an environment which makes it easier for the auditor to challenge management.

In the reporting year particular topics such as the new auditor's report and the technical possibilities of data analytics were delved into with the audit committee chairmen. Both topics are being followed with great interest by audit committees and the FAOA.

Standard setting

Swiss Auditing Standards

Companies preparing financial statements under Swiss GAAP FER usually have their consolidated and statutory financial statements audited exclusively under SAS. Companies preparing their financial statements under international standards (e.g. IFRS, US GAAP) must always be audited under SAS (Circular No. 1/2008) in addition to the relevant international auditing standard (ISA, PCAOB). Differences currently exist between ISA and SAS as regards unadopted changes to ISA 250, 260, 315, 570, 610, 700, 705, 706, 720 and the new ISA 701. ISA 701 was rendered applicable, amongst other things, to statutory and consolidated financial statements prepared under CO and Swiss GAAP FER by Circular No. 1/2015. The Circular will lapse as soon as ISA 701 is transferred to SAS. The FAOA continues to support the timely transfer of ISA to SAS.

International Standards

Through its cooperation with IFIAR the FAOA commented on various IESBA and IAASB proposals:

- In May 2017 IFIAR submitted a comment letter to the IESBA on planned changes to the Code of Ethics for Professional Accountants regarding required independence safeguards («Proposed Revisions Pertaining to Safeguards in the Code-Phase 2»).
- In July 2017 IFIAR submitted a comment letter to the IAASB on the draft International Standard on Auditing (ISA 540 (revised) («Auditing Accounting Estimates and Related Disclosures»).
- In July 2017 the FAOA responded to a questionnaire on the IESBA strategy. This questionnaire is the first step in the development of the strategy and work plan for the post-2018 period. In 2018 the IESBA will present its new strategy and work plan for formal public consultation.

Each of the responses is published on the FAOA website.

Points of focus for 2018 inspections

The FAOA has selected the following points of focus for the 2018 routine inspections of state-regulated audit firms:

- Evaluation of audit sampling (including dual-purpose tests) for material audit balances (ISA 530).
- Special considerations-audits of group financial statements, including the work of component auditors (ISA 600).
- Employee benefits, including evaluation of any «risk sharing» (ISA 500, 540/IAS 19).

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

Data Analytics

After having last year reviewed significant audit proposals regarding the type of data analytics offered, the FAOA assessed the use of data analytics in its reporting year file reviews. In most cases the new data analytics' options were used to supplement the regular audit approach. Graphical analyses were used to better understand relationships and assess risks. Analyses were used specifically to identify deviations and exceptions. In many cases journal entry testing was also made more targeted and efficient.

Neither SAS nor ISA address current open questions concerning the use of data analytics tools. In mid-2016 the IAASB commissioned a working group to investigate developments in, and possible applications of, the new technology. The working group is currently evaluating the various comments submitted with respect to

particular questions²⁴. The largest four audit firms have already supplemented their existing audit methodologies with directives. To ensure data integrity, the directives require that the effectiveness of general IT controls is tested for all relevant systems. The directives also require that the completeness and accuracy of the extracted data is assured. If, and to what extent, the auditor must check that the information used for the analyses is also sufficient and appropriate for the purposes of the audit remains open²⁵.

²⁴ www.ifac.org > About IFAC > Publications & Resources > Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics.

²⁵ For example, the following issues are to be clarified: What are the minimum audit procedures that have to be performed to ensure this? Can the auditor also rely on the results of data analytics when the effectiveness of general IT controls cannot be confirmed? What approach is to be followed when the analysis produces a huge number of outliers? Are all of these to be audited or can a sample be taken? How is the sample to be defined?

Regulatory Audit

Introduction

Regulatory audit firms and regulatory auditors-in-charge are the extended arm of FINMA. They perform the regulatory audits of those supervised by FINMA and thereby contribute greatly to financial market supervision. Regulatory audit duties differ substantially from the company law duties of the statutory auditor.

FINMA plans to amend the regulatory audit to improve effectiveness and efficiency. Under the partial amendment of the Circular «Auditing», the

regulatory audit concept becomes more risk-based in design, laying the foundation for greater efficiency. The targeted focusing of audit procedures upon material aspects maintains an appropriate level of protection and enhances the quality of audit assertions. The regulatory audit will be tailored to the risk situation of those under supervision and proactively address their future challenges.

A total of 18 regulatory audit firms (prior year 19) held a licence to audit under financial market legislation at the end of 2017.

Figure 10

Regulatory audit firms according to licence type

Licence type	Number at 31.12.2017	Number at 31.12.2016	Number at 31.12.2015
Audits under the Banking Act (BankA), the Stock Exchanges and Securities Trading Act (SESTA) and Mortgage Bonds Act (MBA)/audits under the Collective Investment Schemes Act (CISA)/audits under the Insurance Supervision Act (InsSA)/audits of DSFI	5	6	6
Audits under BankA, SESTA and MBA/audits under CISA/audits under InsSA	1	–	–
Audits under BankA, SESTA and MBA/audits under CISA/audits of DSFI	1	1	1
Audits under BankA, SESTA and MBA	1	1	–
Audits under CISA/audits of DSFI	1	1	1
Audits under CISA	1	1	1
Audits under InsSA	1	1	1
Audits of DSFI	7	8	8
Total regulatory audit firms	18	19	18

The trend of prior years continued in the reporting year. The number of FINMA-supervised institutions fell. An exception is the CISA area, which saw an increase in the number of supervised asset managers and collective investment schemes under Swiss law. The significant reduction in DSFI contributed to two audit firms giving up their DSFI audit licences during 2017. It should be taken into account that

the licensing category DSFI is expected to lapse with the implementation of FinSA/FinIA.

The following table shows the number of institutes audited by regulatory auditors licensed under financial market legislation as at the end of 2017.

Figure 11

Number of supervised institutions by regulatory area

Regulatory area	Number of supervised	2017	2016	2015
Banks	Banks and securities traders (without Raiffeisen banks ²⁶)	299	312	346
	Insurance companies	205	207	214
Insurers	Insurance groups	6	6	6
	Fund managers	45	44	43
CISA	Agents	92	94	94
	Asset managers	217	206	178
	Swiss collective investment schemes	1,641	1,551	1,542
DSFI	Directly supervised financial intermediaries	163	199	227

2017 inspections

In calendar year 2017, and as in the prior year, nine²⁷ regulatory audit firms were inspected, thereof:

- Five subject to annual inspection cycle as they audit more than 50 PIE.
- Three of six regulatory audit firms subject to inspection at least every three years, and
- One of seven pure DSFI regulatory audit firms subject to inspection every five years.

Audit quality at the nine regulatory audit firms inspected was assessed by means of nine file reviews. The following categories of financial market companies were selected:

- Seven banks, comprising two systematically relevant banks, two cantonal banks, as well as three medium to small banks.
- One asset manager.
- One DSFI.

Figure 12

Overview of completed FAOA regulatory audit inspections and comment form findings 2017

Categories	Five largest regulatory audit firms		Other		Total	
	2017	2016	2017	2016	2017 ²⁸	2016
Number of inspections	5	5	4	4	9	9
Comment Form Findings Firm Review Regulatory Audit	3	3	1	5	4	8
Comment Form Findings File Review Regulatory Audit	19	32	9	13	28	45
Number of inspected files	8	7	4	4	12	11

²⁶ Additional 261 cooperatively-organised Raiffeisen banks

²⁷ Three audit firms at which the inspection fieldwork was completed are excluded from this annual report as the findings process is still at an early stage. Conversely, inspections that were still to be completed in the prior year are included.

Firm Review

Nine inspections were performed in 2017. The 2017 firm reviews, and prior year inspections excluded from the FAOA Annual Report 2016, resulted in a total of four comment form findings, including a violation of legal requirements regarding working paper retention. The remaining three comment form findings cover deficiencies in controls over the monitoring of regulatory audit and training hours of the regulatory auditor-in-charge.

The FAOA places great importance on compliance with training requirements and the fulfilment of required audit hours in the respective oversight area. To confirm this as part of the firm review it is essential that the audit firm has appropriate processes and controls.

File Review

Nine file reviews were performed in 2017. Similar to financial audit, the quality of the regulatory audit depends heavily on the engagement team members.

To ensure audit quality, regulatory audit firms must focus on the consistency of audit quality across audit engagements of different size, complexity, risk and financial market licence type.

The following figures analyse, by audit area and cause, findings from a total of twelve file reviews, being those completed in 2017 and those of the prior year excluded from the FAOA Annual Report 2016:

Figure 13

Number of regulatory audit file review comment form findings by audit area (28 findings in total)

Risk management	7
AMLA regulations	7
Regulatory reporting	5
Quality assurance aspects	4
Internal control system, incl. IT	3
Capital requirements and privileged deposits	2

The most common comment form findings related, as in the prior year, to the audit of risk management and compliance with AMLA regulations.

FINMA must be able to rely on the quality of regulatory audit reporting and planning in carrying out its oversight activities. Five comment form findings were made in this area.

In one case a confirmation was made to FINMA without audit work actually being performed. A large number of

deficiencies were also found in quality assurance. These relate, in particular, to the EQCR and the review activities of the respective superiors and regulatory auditors-in-charge.

Figure 14
Causes of 2017 regulatory audit file review comment form findings

Insufficient audit evidence	7
Insufficient audit evidence in conjunction with insufficient professional scepticism	8
Deficient regulatory reporting in conjunction with insufficient audit evidence	8
Insufficient quality assurance	4
Serious violation of auditor’s duty of care	1

The main cause of findings was insufficient audit evidence. This is often associated with insufficient professional scepticism in performing the audit. Insufficiency of audit evidence concerned, for example, the design and execution of audit sampling and the audit of risk management processes and controls. Cases were also found in which information as to the audit procedures performed did not reflect the audit procedures actually performed.

2017 points of focus

The results of inspection procedures relating to the 2017 points of focus are evaluated below:

Internal organisation and audit procedures relating to the effectiveness of the internal control system

Topics in the audit area «internal organisation, internal control system, IT» are expected to be covered on an incremental basis over six years. A detailed multi-year plan is needed to ensure that all topics are covered by audit procedures over the period as a whole. However, the FAOA has found that this was not considered in various cases.

IT is the key element of the internal control systems of financial services providers. Key services are often outsourced. Regulatory auditors consequently rely on third party audit reports. In many cases deficiencies were found in that the so-called ISAE 3402 reports did not cover the whole

audit period. In addition, no further audit work was performed or the audit work and conclusions of the other auditor were not evaluated sufficiently by the regulatory auditor.

Audit of compliance with AMLA requirements, particularly high risk business relationships and high risk transactions and the identification of PEP

The main deficiencies were again found in sample design and testing:

- Regarding design, the purpose of the test and the characteristics of the population were not considered;
- Sampling risk was not reduced to a reasonable level due to inadequate sample sizes or unrepresentative samples;
- Audit work and conclusions were incomprehensible;
- Errors found were not critically evaluated but rather ignored as «not applicable».

Audit sampling is an effective means of auditing business relationships and high risk transactions. In many cases, and on audit engagements of varying sizes, the conceptual design of the samples was, however, insufficient.

Application of current applicable FINMA minimum audit requirements

FINMA sets minimum audit requirements for various audit areas by means of audit programmes. The FAOA expects the auditor to obtain sufficient audit evidence when completing these audit programmes. The completed FINMA programme alone – as found in several cases – is not sufficient audit evidence.

Root cause analysis and measures

The analysis of root causes and the determination of measures in the regulatory audit area are basically the same as those in the financial audit area.

Many findings in the regulatory audit area relate to insufficient direction and supervision of engagement team members by the regulatory auditor-in-charge. Negative findings also arose in cases where ignorance of regulatory provisions or the misinterpretation of legal requirements led to improper auditing and misleading reporting to FINMA.

The findings show the critical importance of measures to improve the internal quality assurance system and regulatory knowledge. These relate to:

- Intensifying verifiable and appropriate-level reviews by the regulatory auditor-in-charge, EQCR and manager;
- Involving specialists in the audit (e.g. IT audit);

- Improving and adjusting training concepts;
- Updating work tools, audit programmes and checklists.

The required training and audit hours could be verified with few exceptions. In isolated cases training hours did not meet AOO requirements.

Monitoring of training and audit hours

To retain a licence the regulatory auditor-in-charge must meet audit and training hourly requirements. While training hours must be completed annually, a four year period applies to auditing hours. Under the transitional provisions of the AOO (Art. 51a, para 2 AOO) the required auditing hours had to be met as from 1 January 2017, that is, for the period from 1 January 2013 to 31 December 2016.

Regulatory audit firms could choose to confirm the compliance of their regulatory auditors-in-charge themselves. Alternatively, each regulatory auditor-in-charge could confirm compliance personally using appropriate evidence. In the first case, a sample of the hours confirmed is checked by the FAOA during its inspections. The personal confirmations of regulatory auditors-in-charge are checked by the FAOA on an ongoing basis.

Deficiencies were noted particularly in the separate recording of regulatory audit hours. Irrespective of size, some audit firms did not record regulatory and financial audit hours separately. They calculated regulatory audit hours retrospectively using unverifiable ratios. With this approach it is unclear whether the regulatory audit hours were actually spent in regulatory audit. If a regulatory auditor-in-charge determines that he no longer meets the minimum number of training or auditing hours at the reporting date, he may no longer work as regulatory auditor-in-charge on an engagement in the relevant oversight category. The regulatory audit firm must also ensure, as part of quality assurance, that such an individual is no longer deployed on an engagement as regulatory auditor-in-charge.

The following table shows the minimum licensing and licence renewal requirements per category.

Figure 15

Licensing requirements for regulatory auditors-in-charge

Licences	One time		Periodical		
	Professional experience (audit services in CH or abroad, if equivalent)	Regulatory audit hours (in relevant licence area)	Training (in year before licence application and in relevant licence area)	Regulatory audit hours (in last 4 years and in relevant licence area)	Training (per year and in relevant licence area)
Banks, stock exchanges, securities traders, central mortgage bond institutions	8 years	1,500 hours	24 hours	400 hours	24 hours
Insurers	8 years	400 hours	16 hours	100 hours	16 hours
Fund managers, investment funds, etc.(CISA)	8 years	800 hours	16 hours	100 hours	16 hours
Financial intermediaries (DSFI)	5 years	200 hours	4 hours	100 hours	4 hours

Various regulatory auditors-in-charge gave up their licences voluntarily during the year. This related particularly to the CISA and DSFI categories. In one case an audit licence under financial market law had to be withdrawn from a regulatory auditor-in-charge as he did not meet the required annual training hours.

Cooperation with FINMA

The regular exchange between the FAOA and FINMA is based on legal foundations (Art. 28 FINMAG and Art. 22 AOA). The exchange takes place at all seniority levels as part of the file reviews of those supervised by FINMA. The risk-based selection of file review focus areas requires a continuous exchange of information between the FAOA and FINMA. The FAOA informs FINMA of the results of the firm and file reviews by providing a copy of the

final inspection report, as well as the comment forms and other reportable findings relating to the regulatory and financial audits of those supervised by FINMA. The FAOA is thereby transparent towards FINMA and supports it in carrying out its supervisory activities.

Points of focus for 2018 inspections

The FAOA has selected the following points of focus for 2018 in the regulatory audit area:

- Application of current and applicable FINMA audit programmes (inspection points and minimum audit procedures).
- Quality and extent of regulatory audit internal monitoring.
- Audit of compliance with AMLA requirements, particularly business relationships and high risk transactions and the identification of PEP, as well as the application of AMLA, AMLO, AMLO-FINMA and CDB16.



International

General

In 2017 the FAOA recorded an important step towards achieving its strategic goal for the most complete mutual recognition of foreign oversight authorities possible under the principle of so-called home state supervision (goal 8 of the strategy period 2016–19). Supported by an FAOA evaluation, the Federal Council recognised a further 16 authorities as equivalent on 23 August 2017.

There were less administrative assistance cases in the reporting year than in the prior period²⁸. Nevertheless, cooperation with foreign oversight authorities has not become less important because of this, particularly as regards the USA (see below, Cooperation with the USA).

Extra-territorial scope of the AOA Introduction

To protect Swiss capital market investors and in line with comparable foreign regulations, the AOA also has an extra-territorial impact. At the same time, the FAOA must be able to work effectively and efficiently. The Federal Assembly has therefore moderately reduced the responsibility of the FAOA toward foreign audit firms. The new provisions came into force on 1 October 2017.

To avoid the multiple supervision of different authorities, FAOA licensing and oversight of foreign audit firms is subject to the following exceptions: The first (in-force since 2015), covers cases in which the foreign audit firm is supervised by an authority recognised as equivalent by the Federal Council (Art. 8 para. 2 AOA). The second refers to those cases in which an issued bond is guaranteed by a company whose auditor is subject to Swiss or equivalent foreign oversight (Art. 8 para. 3 letter a AOA). The third takes effect when bond investors are explicitly notified that the auditor is not under state oversight (Art. 8 para. 3 letter b AOA).

Amendment of Article 8 AOA

The revision of Article 8 AOA results in the following amendments:

- The law foresees oversight of foreign audit firms where the audited company issues Swiss-quoted bonds (Art. 8 para. 1, letter b AOA). This converges with the European legal framework. Practice showed it to be very time-consuming to identify unquoted bond issuers and their auditors, especially when they are abroad. The expense is unreasonable in proportion to the expected investor protection benefit.
- The list of exemptions for the auditors of Swiss-quoted bond issuers was extended (Art. 8 para. 3 AOA). Besides the above-mentioned case in which the auditor is supervised by a foreign oversight authority recognised by the Federal Council, there are further exceptions: Either the Swiss-quoted bond is guaranteed by a company whose auditor is subject to Swiss or equivalent foreign oversight or investors are informed explicitly of the absence of auditor state oversight (Art. 8 para. 3 letter b and para. 5 AOA). This additional exemption balances Swiss bond market competitiveness, investor protection and effective and efficient audit oversight by the FAOA. Alternatively, the foreign audit firm can apply to the FAOA to be licensed as a state-regulated foreign-domiciled audit firm.
- Finally, oversight of the auditors of foreign significant subsidiaries is waived, both for share and bond issuers (formerly foreseen in Art. 8 para. 1 letter c and d AOA). Here too there is convergence with the European legal framework and the above-mentioned problem of issuer identification applies.

Amendment of AOO

The administrative procedures of the AOO had to be brought into line with the legal changes. The new paragraphs 3 and 4 of Article 9a AOO specify the principle of home state supervision. Consequently, an audit firm that is, or could be, supervised by a foreign oversight authority recognised as equivalent cannot apply for a licence as a state-regulated audit firm in Switzerland (para. 3). If home state supervision becomes possible after licensing in Switzerland the audit firm concerned must inform the FAOA. The FAOA sets a reasonable deadline for home state licensing (para. 4).

Article 10a AOO was repealed. A foreign audit firm supervised by a recognised foreign authority is therefore no longer required to notify the FAOA. Nevertheless equivalent SIX reporting requirements must be met.

Implementation of FAOA Disclosure Ordinance

As mentioned above, the responsibility of the FAOA is limited to the quoted share and bond market. For cases in which the auditor of a foreign issuer of Swiss-quoted bonds is not subject to supervision or equivalent supervision, the FAOA has issued an ordinance as to the procedures for informing the market. Accordingly, investors must be informed of the lack of state supervision within the prospectus and on the SIX website.

Recognition of additional foreign oversight bodies

Under the principle of home state supervision, the oversight of foreign audit firms must be delegated to the country of domicile wherever possible. In 2015, 32 foreign audit over-

²⁸ In 2017 the FAOA received 15 (2016: 29) applications for administrative assistance. Of these, nine came from EU audit oversight authorities and six from the USA. The FAOA made one request for administrative assistance from a foreign oversight authority.

sight authorities were recognised as equivalent by the Federal Council. The Federal Council decision of 23 August 2017 lengthened the list of authorities. At the request of the FAOA a further 16 foreign authorities were recognised (see Appendix 2 of the AOO).

Relations with the European Union

To date the EU Audit Reform that came into force on 17 June 2016 has not necessitated the re-negotiation of existing MoU with EU members. The FAOA will nevertheless continue to follow developments in 2018. In 2017 the FAOA received and approved nine information requests from EU audit oversight authorities.

Cooperation with the USA

The PCAOB began its third inspection cycle of Swiss audit firms in 2017. Two of the five largest Swiss audit firms were subject to joint inspection in the reporting year. Cooperation is based on the Statement of Protocol (SoP; equivalent to an MoU), that the FAOA and FINMA concluded with the PCAOB in 2011 and extended in 2014. The working relationship between the FAOA and the PCAOB continues to be close, facilitating administrative assistance and information exchange.

Relations with other states and organisations

The FAOA took part in a conference of German-speaking audit oversight authorities in May 2017. Within the framework of this intermittently-held exchange, representatives from Germany, Austria, Liechtenstein and Switzerland meet to discuss the oversight issues that affect them particularly given their geographical and legal proximity.

The FAOA further took part in the fourth evaluation cycle of Switzerland

under the Organisation for Economic Cooperation and Development's (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The FAOA answered questions about the audit industry during the site visit of the OECD experts.

Multilateral organisations

IFIAR

Establishment of a permanent office

IFIAR holds an annual plenary meeting, at which more than 100 member representatives discuss the strategy of the organisation, upcoming regulatory issues and challenges facing the auditing profession. On the occasion of the 2017 plenary meeting the newly-established permanent office in Tokyo (Japan) was inaugurated. At the plenary meeting the chief executive officer of the FAOA was also elected vice-chairman of IFIAR for the next two years to 2019. The vice-chairman coordinates the activities of the IFIAR working groups and assists the chairman in his leadership duties.

Further important decisions taken at the 2017 plenary meeting were the appointment of the IFIAR board and of the executive director as head of the permanent office. The IFIAR board is headed by the chairman and vice-chairman. The current members of the board are Abu Dhabi, South Africa, Germany, Australia, Canada, South Korea, France, Japan, Netherlands, Norway, Singapore, Turkey, UK, USA and Switzerland.

MMoU

The MMoU aims to promote the exchange of confidential information among its signatories in the areas of licensing, oversight, inspections and disciplinary investigations, and in accordance with respective national laws. The MMoU also contributes to more efficient and effective regulation and oversight of PIE auditors. The MMoU is a framework agree-

ment: Under certain circumstances a bi-lateral agreement may be necessary. The MMoU has no impact on the bi-lateral agreements that the FAOA has made with foreign audit oversight authorities.

Alongside Switzerland, 21 member authorities from the following countries signed the MMoU at the plenary meeting in April 2017: Australia, Brazil, Cayman Islands, Dubai, France, Gibraltar, Japan, Canada, Liechtenstein, Lithuania, Luxembourg, Malaysia, New Zealand, The Netherlands, Slovakia, South Korea, Taiwan, Czech Republic, Turkey, USA and UK.

Working groups

The FAOA was continually active in selected IFIAR working groups during the reporting year:

- Enforcement Working Group (EWG): This working group dedicates itself to issues relating to the enforcement of applicable standards in individual countries through the use of legal sanctions. In October 2017 the deputy chief executive officer and head of the legal and international affairs department of the FAOA was elected deputy chair of the EWG for a four-year term.
- International Cooperation Working Group (ICWG): This working group is engaged in promoting cooperation and information exchange between IFIAR members to improve audit oversight and audit quality.
- Inspection Workshop Working Group (IWWG): The aim of this working group and the annual workshop is to provide inspectors with a forum for training and exchanging ideas on current audit questions and oversight practices in different countries. The FAOA took part in the 2017 workshop in Athens (Greece).

CEAOB

The Committee of European Audit Oversight Bodies (CEAOB) creates the framework for cooperation between EU national audit oversight bodies.

Since 2016 the FAOA has had observer status in the ISG, the inspection sub-group. The ISG promotes cooperation between CEAOB members as regards inspection activities, as well as improved communication with audit firms and third parties.

The FAOA took part in two ISG meetings in the reporting year:

- Prague (Czech Republic) in June 2017: Amongst other matters, the meeting focused on talks with European representatives from Deloitte, BDO and Grant Thornton, as well as discussions about national inspection results and cooperation with the PCAOB²⁹.
- Dublin (Ireland) in October 2017: Amongst other matters, the meeting focused on talks with European representatives from EY on improving audit quality, and an exchange of ideas on various subjects with IAASB and IESBA representatives. In addition, the ISG agenda for 2018 and 2019, plans for the introduction of two additional task forces and the inspection system of the Greek oversight authority were presented in detail³⁰.

²⁹ For further information see: www.ec.europa.eu/info/sites/info/files/170608-ceaob-subgroups-inspections-summary_en.pdf.

³⁰ For further information see: www.ec.europa.eu/info/sites/info/files/171013-ceaob-subgroups-inspections-summary_en.pdf.

Licensing

Introduction

The number of individuals and audit firms applying for a licence for the first time was similar to last year, at 452 and 56 respectively. In contrast, the number of audit firm licence renewal applications fluctuates greatly each year. In the reporting year only around 70 audit firms applied for a licence renewal.

Statistics

Licences

The number of licensed individuals is almost unchanged from last year. The FAOA took a number of measures that led to the waiver of individuals'

licences: Those without a link to audit firms and those over 85 (years of age) were contacted and professional association membership details were updated. These measures led to the deletion of around 250 individuals from the FAOA public register

The number of licensed audit firms decreased. The reduction in licensed audit firms results particularly from the requirement on all audit firms to implement an internal quality assurance system. Numerous dormant or semi-dormant audit firms, hitherto without a quality assurance system, forewent the implementation of such a system and applied instead to be deleted from the FAOA public register.

Figure 16

Licensed individuals and audit firms as at 31 December 2017³¹

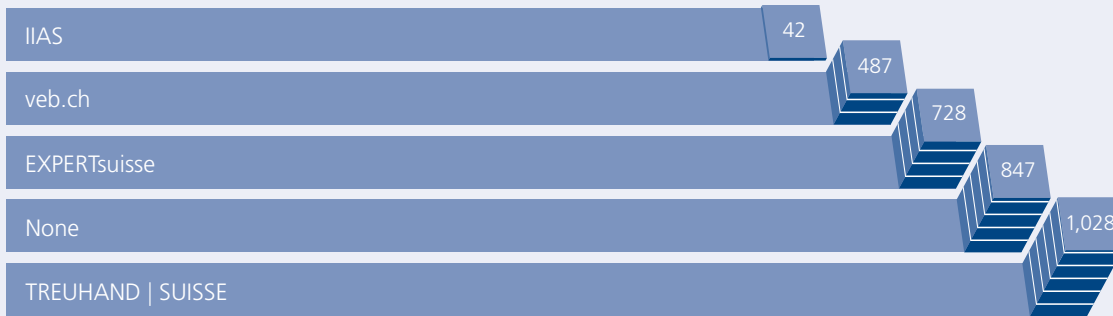
Type of licence	Auditor	Audit expert	Total as at 31.12.2017	Total as at 31.12.2016
Individuals	2,539	6,667	9,206	9,192
Audit firms	884	1,720	2,604	2,915
State-regulated audit firms	–	22	22	22
DSFI-only state-regulated audit firms	–	7	7	8
Foreign state-regulated audit firms	–	2	2	2
Total licences	3,423	8,418	11,841	12,139

Membership of professional associations

Membership of one or more professional associations is not a licensing condition for either individuals or legal entities. Ordinary members of professional associations must, however, disclose an existing association membership in the FAOA public register. Extraordinary memberships, such as passive and junior memberships, have been incorrectly disclosed as ordinary memberships in the past. Various professional associations intervened in the reporting year and reported incorrect declarations. In cooperation with the professional associations, a large number of individuals and audit

firms were requested to correct their professional association memberships in the FAOA public register. This led to a corresponding fall in registered memberships.

³¹ All numbers refer to legally binding completed proceedings. Pending appeals have not been included.

Figure 17Professional association memberships³² of licensed audit firms as at 31 December 2017

The number of licensed audit firm professional association memberships hardly changed from the prior year. Most of the dormant firms who waived their licences in the reporting year were not members of a professional association.

Figure 18Professional association memberships³³ of licensed individuals as at 31 December 2017

Number of audits

In 2013 the FAOA began recording the number of audit firms performing ordinary audits. Data collection was based on licensed audit firm self-declarations. The statistics over the last years show that the number of audit firms performing ordinary audits has fallen parallel with the number of licensed audit firms.

³² Including multiple answers from individual audit firms with multiple professional association memberships.

³³ Including multiple answers from individuals with multiple professional association memberships.

Figure 19
Frequency of ordinary audits (Status: 31 December 2017)³⁴

Number of audit firms	2017	2016
1 to 5 ordinary audits	338	361
6 to 10 ordinary audits	74	83
11 or more ordinary audits	78	78
Total number of audit firms performing ordinary audits	490	522

Figure 20
Total number of limited (LA) and ordinary (OA) audits performed (Status: 31 December 2017)³⁵

Licence type	Number LA	Number OA	2017	2016
State-regulated audit firms	15,160	9,150	24,310	24,943
Other licensed audit firms	72,336	2,608	74,944	78,897
Total audits performed	87,496	11,758	99,254	103,840

The total number of limited and ordinary audits remained relatively constant over the same time period at around 100,000 engagements.

Cancellation of special rules for the internal quality assurance system

Until the 1st of September 2017 audit firms with only one licensed individual were exempt from the requirement to operate an internal quality assurance system. The original transitional period for joining a system under which audit services would be subject to regular peer review, or for implementing an in-house internal quality assurance system, was extended several times over the past years. On August 23rd 2017 the Federal Council decided not to extend the transitional period further. All audit firms are now required to operate an internal quality assurance system. Audit firms with only one licensed individual must retain a second specialist for internal quality assurance. The operation of the internal quality assurance system does not require the specialist to be an employ-

ee. It is appropriate and permissible to involve the specialist selectively and on a freelance basis for specific tasks, such as internal monitoring. Retained external individuals must hold every licence type required by the audit firm to provide its audit services.

The legislator originally foresaw that audit firms performing only limited audits and having only one individual with the necessary licence could join a self-regulatory peer review system. However, this system was not developed by the professional associations over the last ten years. Based on this, and the fact that the value of an effective internal quality assurance system is undisputed in expert circles, the possibility of joining a peer review system was dropped upon the Federal Council decision of 23rd August 2017. All audit firms are thereby required to operate a quality assurance system.

The requirement to disclose the external parties used for quality assurance measures in the FAOA public register thus lapses.

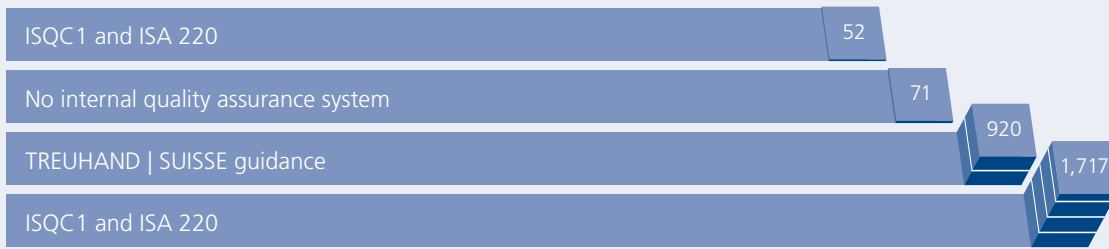
Internal quality assurance

As a result of the requirement to operate an internal quality assurance system the number of audit firms using a quality assurance system under SQCS 1/SAS 220, or the «Anleitung zur Qualitätssicherung bei KMU-Revisionsunternehmen von TREUHAND | SUISSE» (formerly EXPERTSUISSE and TREUHAND | SUISSE), rose from around 1,600 audit firms to more than 2,550.

^{34, 35} Information based on audit firm self-declarations.

Figure 21

Audit firm declarations as to applied standard of internal quality assurance (as at 31 December 2017)



While there were still around 1,200 audit firms without an internal quality assurance system shortly before the introduction of the requirement to operate one, this number reduced continuously to around 70 by the end of the year.

Since the autumn of 2017 the FAOA has not required the submission of a completed quality assurance questionnaire as part of its inspection of

the internal quality assurance system. Instead, a small amount of additional information to evaluate the internal quality assurance system is gathered in a short fact-sheet. The FAOA now requests and evaluates the internal quality assurance manual for first-time licence applications only. For audit firms submitting a licence renewal application the FAOA focuses, risk-based, on individual points. Internal controls over training and the annual

inspection report (including firm and file reviews) are key. Information relating to rotation requirements is also gathered for audit firms performing ordinary audits.

Figure 22

Audit firms without an internal quality assurance system



The number of audit firms without a quality assurance system has fallen consistently over the past years. This shows that many audit firms implemented an appropriate internal quality assurance system despite there being no relevant regulatory requirement.

Licence renewal

In the reporting year, the five-year licences of 100 audit firms were due for renewal. Around two thirds of these firms successfully renewed their licence for a further five years. Around 30 voluntarily waived renewal or applied to be deleted early from the FAOA public register. One, whose licence could not be renewed seamlessly, submitted the relevant documentation after expiry of the existing licence.

Figure 23
Number of licence renewals granted in 2017

Licence type	Auditor	Audit expert	Total 2017	Total 2016
Audit firms	28	40	68	137
State-regulated audit firms	–	1	1	3
Total licence renewals	28	41	69	140

Special licences

Regulatory auditor-in-charge

Based on a basic audit expert licence, licensed individuals with appropriate professional experience and evidence of relevant audit hours can apply for a special licence under Art. 11a AOO. Figure 24 shows the number of individuals by special licence type. Various individuals have a number of special licences simultaneously. 196

individuals have one or more special licence. Apart from DSFI-licensed auditors-in-charge, whose number reduced significantly compared to the prior year, the number of special licenses remained at the prior year level.

Figure 24
Regulatory auditors-in-charge by special licence type (status as at 31 December 2017)

Licence type	Total regulatory auditors-in-charge per 31.12.2017	Total regulatory auditors-in-charge per 31.12.2016
Audits under BankA, SESTA and MBA	115	116
Audits under CISA	77	77
Audits under InsSA	34	36
Audits of DSFI	34	51
Total licences	260	280

Enforcement and court rulings

Enforcement

In the year under review a total of four licence applications were rejected (prior year: five). 11 individuals withdrew their applications or waived their licences during ongoing proceedings (prior year: eight). Two applications were not proceeded with due to incomplete documentation (prior year: three). In addition, 13 licence withdrawals were imposed (prior year: 11), 15 reprimands issued (prior year: seven) and one criminal charge filed (prior year: three).

Court rulings

In 2017 FAOA orders were mainly dealt with by the Federal Administrative Court (FAC). The Federal Supreme Court (FSC) only spoke to one procedural question. A complete list of all rulings made in the reporting year is given in the appendices. New or significant deliberations from these rulings are noted below.

Independence within a group

According to the FAC, it is assumed that if a holding company completely owns an audit firm (having the legal form of a limited company) both companies have a common management, such that independence requirements also apply to the holding company³⁶. Consequently, the sole shareholder and director of the holding company cannot be a director of the audited company. As the auditor-in-charge of an audit firm had audited eleven companies in which the sole shareholder and director of the audit firm's holding company was a director, there also appeared to be a close business relationship between these two individuals, at least in appearance. Finally, there is also economic dependence if the eleven engagements in question make up a quarter of the auditor-in-charge's total engagements³⁷.

According to the FAC, there is also common management between two companies that are formally separate,

at least in appearance, if they operate from the same location with the same office infrastructure, have the same people in their decision-making bodies and share the same employees³⁸. If the auditor-in-charge is the natural son of a director of the audited company there is also a close personal relationship incompatible with independence. This also applies if the father of the auditor-in-charge has already given up his mandate at the time of the financial statement audit. What is decisive is that he was responsible for the audited financial statements as a director. Resigning from the directorship does not change this. Moreover, independence must be guaranteed throughout the whole period of the audit engagement³⁹. Independence is also not guaranteed if the auditor and the audited company operate a common website; this can be seen as joint-marketing⁴⁰. This also applies if the two companies do not operate in the same market⁴¹. Independence is also breached by having collective signing authority at the audited company, as this indicates a decision-making position⁴².

Guarantee of proper audit services

The FAC took the view that in assessing whether a licence holder can guarantee proper audit services, the FAOA may consider a foreign judgement concerning stock exchange market manipulation; the fact that it relates to the same matter does not stand in the way of a second sanction⁴³. Furthermore, the judgement date and not the date of the offence is decisive in making the assessment; all the more so if the licence holder neglects to notify the FAOA of the judgement⁴⁴.

The breach of the legal duty to inform and provide information by a licensed individual (Art. 15a para. 1 letter a AOA) is relevant in assessing the guarantee of proper audit services; on the one hand, because it is a breach of legal order and, on the other, as it raises doubt as to the integrity, conscientiousness and trustworthiness of the defaulting individual⁴⁵. It is therefore

fair to withdraw the licence until the duty to inform and provide information is met and the FAOA has made a first-instance review of the documentation. The individual concerned has the chance to influence the duration of the withdrawal to his benefit by co-operating⁴⁶.

Compliance with quorum requirements for management bodies

The FAC also had to rule on a case concerning compliance with quorum requirements for audit firm management bodies (a legal licensing condition under Art. 6 para. 1 letter a AOA). The court ruled that the name of the body was not decisive but rather whether it actually managed the business (factual body notion). The body therefore includes not only its formally-appointed members but also all who actually participate in company decision-making. The official ranking of (mere) employee, or the lack of an entry in the commercial register, are indicative but not decisive in themselves⁴⁷.

³⁶ Art. 728 para. 6 CO.

³⁷ Art. 728 para. 2 section. 5 CO.

³⁸ FAC Ruling No. B-456/2016 of 19 July 2017, E. 3.4.2.

³⁹ FAC Ruling No. B-456/2016 of 19 July 2017, E. 3.5.3.

⁴⁰ Forbidden under the «Richtlinien zur Unabhängigkeit 2007» of EXPERTSuisse [last amended 1 December 2014], section IV. C.(1).

⁴¹ FAC Ruling No. B-456/2016 of 19 July 2017, E. 3.7.4.

⁴² FAC Ruling No. B-456/2016 of 19 July 2017, E. 3.8.3.

⁴³ FAC Ruling No. B-3069/2016 of 29 March 2017, E. 7.4.

⁴⁴ FAC Ruling No. B-3069/2016 of 29 March 2017, E. 14.3.1.

⁴⁵ FAC Ruling No. B-6138/2016 of 28 December 2017, E. 4.1 (not yet legally binding).

⁴⁶ FAC Ruling No. B-6138/2016 of 28 December 2017, E. 4.2.3 f. (not yet legally binding).

⁴⁷ FAC Ruling No. B-2780/2016 of 19 April 2017, E. 4.1.

FAOA measures system

Regarding a two-year audit expert licence withdrawal, the FAC gave a reminder that the FAOA does not exercise systematic oversight of the audit industry. The mere threat of a withdrawal or reprimand therefore cannot be considered frivolously as a reasonable measure for first-instance unlawful conduct. Otherwise there would be an incentive for a licence holder to (knowingly or negligently) act unlawfully until (possible) detection by the FAOA. If there would then be the threat of only a very light sanction this would be incompatible with the public interest, which is to make high demands on the work of auditors or audit experts to guarantee the quality of their audit services⁴⁸.

The FAC also commented on the reasonableness of measures under Article 17 paragraph 1 AOA⁴⁹. If licensing conditions are not met the FAOA evaluates whether, especially from a reasonableness point of view, to pronounce an (un)limited licence withdrawal (one year minimum). If withdrawal appears unreasonable because order has been restored the FAOA has the threat of licence withdrawal at its disposal. It can combine the threat of withdrawal with a written reprimand.

Procedural law questions

A letter with which the FAOA informs a licence holder of the opening of proceedings regarding proper business conduct cannot be contested due to not having the character of an order⁵⁰. The same applies to a letter in which the FAOA grants a licence holder the right to a legal hearing in connection with proceedings against him⁵¹. Even if this letter could qualify as an interim order, an irreparable disadvantage would have to be proved. According to the FSC, however, the mere opening of a proceeding cannot result in an irreparable disadvantage, otherwise appeals could be made against every opening of proceedings⁵².

The FAC further considered the question as to whether an informant (or his legal representative) has the right to inspect FAOA files relating to proceedings against the licence holder who is the subject of their notification. Having regard to the freedom of information law⁵³, the court ruled that this would first apply if the proceedings were legally binding (which is often not the case)⁵⁴. Access to proceedings files can also not be granted due to data protection law⁵⁵ as the information in the file concerns the licence holder and not the informant or his legal representative⁵⁶. Administration proceedings rules⁵⁷ also deny access to the files, as neither the informant, nor his legal representative, is a party to the proceedings. In particular, neither the informant nor his legal representative is especially affected by the proceedings or can otherwise evidence an interest worthy of protection⁵⁸.

⁴⁸ FAC Ruling No. B-4117/2015 of 16 January 2017, E. 3.2.

⁴⁹ FAC Ruling No. B-2780/2016 of 19 April 2017, E. 7.1.5.

⁵⁰ FSC Ruling No. 2C-167/2016 of 17 March 2017, E. 3.3.3.

⁵¹ FAC Ruling No. B-4726/2016 of 10 April 2017, E. 1.7 and 1.8, confirmed by FSC Ruling No. 2C_516/2017 of 14 September 2017, E. 3.2 and 3.4.

⁵² FSC Ruling No. 2C_167/2016 of 14 September 2017, E. 3.3.3.

⁵³ The Federal Law of 17 December 2004 on Transparency in Administration (BGÖ, SR 152.3)

⁵⁴ FAC Ruling No. A-1675/2016, A-1681/2016 of 12 April 2017, E. 4.3.

⁵⁵ Federal Law of 19 June 1992 on Data Protection (DSG, SR 235.1).

⁵⁶ FAC Ruling No. A-1675/2016, A-1681/2016 of 12 April 2017, E. 5.2.

⁵⁷ Federal Act of 20 December 1968 on Administrative Procedure (VwVG, SR 172.021).

⁵⁸ FAC Ruling No. A-1675/2016, A-1681/2016 of 12 April 2017, E. 6.1

Pension scheme audits

Heightened public interest

Over four million people in Switzerland pay monthly salary contributions to one of around 1,700 pension schemes to insure themselves against old age, death and invalidity risks⁵⁹. Over a million people draw pensions, totalling around CHF 27 billion annually. Pension schemes currently manage national wealth of more than CHF 900 billion.

Auditors play a central role in the oversight system over these enormous sums. There is no doubt that the audit of pension schemes is of great public interest (see also FSC Ruling No. 2C_860/2015 of 14 March 2016, E. 5.3). As part of the financial audit the auditor ensures that financial reporting is in line with relevant standards. This gives various stakeholder groups (insureds, trustees and oversight authorities) a reliable insight into the financial situation of the pension scheme and, at a time of scarce investment opportunities and diminishing yields, creates a reliable basis for making far-reaching decisions.

The auditor furthermore fulfils a whole range of additional important audit duties comparable to those relating to the regulatory audit of financial institutions (most particularly banks and insurers). As in the financial market, the state oversight of pension schemes is delegated to the auditor to a certain extent. However, this delegation requires commensurately high audit quality.

Unlike financial market auditors, pension scheme auditors are not subject to on-going oversight. The only exception is the audit of investment foundations, for which a state-regulated audit firm licence is required. The FAOA can therefore only inspect the quality of pension scheme audit services in suspect cases and, in its licensing authority role, when assessing whether individuals can guarantee proper audit services.

Duty of care violations

Notwithstanding the above, serious violations of the appropriate duty of care are often found when assessing the guarantee of proper audit services. In the reporting year the FAOA was concerned with the following cases in particular:

- In the audit of a pension scheme the auditor violated its duty of care very seriously by not auditing the classification, risk strategy and valuation of invested assets sufficiently. Obvious concentrations of risk were not recognised. In addition, the auditor was unable to reach a conclusion as to whether investments were correctly valued. The auditor also failed to assess the loyalty and competence of the pension fund administrators and audit the internal control system adequately. Based on these duty of care violations, the FAOA withdrew the licence of an individual for a period of five years.
 - In a further case, the FAOA assessed the guarantee of proper audit services with respect to an individual who had initiated unlawful payments to himself from three pension schemes. The individual concerned gave up his licence during the course of the investigations.
 - On 28 December 2016 the FSC partly accepted an appeal by the Swiss National Guarantee Fund against a decision of the Social Insurance Court of Canton Zurich over the duty of trustees of a collective BVG foundation and sent the case back for re-evaluation in the sense of re-deliberation (FSC Ruling 143 V 19). Due to the lack of a causal link, it negated auditor responsibility for the alleged damages. In terms of violating duty of care, however, it is to be noted that the auditor was not critical of the risk strategy when auditing compliance with investment regulations and that the brother of the president of the board of trustees had been the auditor-in-charge.
- As the matter related to business year 2001, over 15 years ago, and despite possible duty of care violations, the FAOA did not find evidence that proper audit services were not guaranteed. The foundation in question had offered three-year contracts with a guaranteed interest rate of 5% on retirement assets. After the coverage ratio fell from 104.7% to below 82% in 2001 the trustees decided on a restructuring plan that, based on the promised yield of 15%, foresaw the transfer of the share portfolio (25% of invested assets) administration to an external trader with unlimited freedom to act. In 2002 the coverage ratio fell further to 71%, at which the Federal Department of Social Security ordered the liquidation of the scheme and the BVG Security Fund was forced to inject CHF 49.9 million.
- On 30 March 2017 the Commercial Criminal Court of Canton Berne sentenced both the former manager of the Carbagas pension scheme and a building contractor to four year prison terms for commercial fraud. In 2007 – 2008 the pension scheme had bought 15 apartment blocks from the building contractor's firm for a total of CHF 42 million. However, according to a later valuation the market value of the properties had only been CHF 31 million. The court considered it proven that the pension scheme had lost around CHF 5.6 million and that the manager had received commission payments of CHF 3.1 million in return for the inflated prices. The ruling was referred to the Supreme Court of Canton Berne (sources: St. Galler Tagblatt, 29 March 2017; Der Bund, 30 March 2017). The FAOA is following the case.
 - Five other cases were pending at the end of the reporting year. The FAOA is following developments related to these matters closely.

⁵⁹ To this and the following: Federal Statistical Office FSO, Die berufliche Vorsorge in der Schweiz, Pensionskassenstatistik 2015.

Need for legislative action

It is obvious that delegating BVG oversight authorities must have some guarantee that the quality of the auditor's work is of the necessary standard. For the FAOA the question therefore arises as to whether the legal requirements toward pension scheme auditors and auditors-in-charge are sufficiently high.

The question also arises whether the current lack of licensing and oversight requirements is foreign to the system: While a PIE auditor within the scope of the special licence framework (particularly as regards insurers, who are certainly comparable to pension schemes) must meet additional practical experience and training requirements and be under oversight, pension scheme auditors basically require no specific experience. There are no periodic inspections of audit quality, as there are for other PIE auditors. As noted, due the lack of oversight authority, the FAOA can only act upon receipt of a plausible third party notification of irregularities. In most cases it is unfortunately then too late and the harm has already been done. Only independent oversight, as already practiced by the FAOA with respect to the auditors of PIE, can improve audit quality sustainably.

It is true that the OPSC issued directive W-03/2016 «Qualitätssicherung in der Revision nach BVG». Under this, from calendar year 2019, the auditor-in-charge of a pension scheme must evidence an annual total of at least 50 billable audit hours in this audit area and four hours of technical training. Even though the FAOA generally welcomes the direction of this directive, it believes that these requirements should be set at the legislative level. Furthermore, the FAOA believes it appropriate for it itself to be responsible for all licences and special licences in the audit industry (see strategic goal no.4 for the period 2016–2019). The bundling of financial and regulatory audit oversight has already demonstrated this. Costs can be saved by both audit firms and government bodies.

Having regard to the expert report Ochsner/Suter on the need for legislative action with respect to audit law, dated 20 July 2017 (see «Regulatory developments, Current projects» above), on 8 November 2017 the Federal Council instructed the FDJP to perform an in-depth analysis. It should hereby be clarified whether the licensing and oversight of pension scheme auditors should be the responsibility of the FAOA or whether a solution similar to that in the AHV area should be sought. Should the need for legislative action be confirmed this could be included in any future amendment of audit or audit oversight law (source: Media release of the Federal Council of 9 November 2017).

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 (to 31.12.17)</p> <p>Wanda Eriksen-Grundbacher, Masters in Accounting Science, Swiss Certified Accountant, US CPA (Chairman from 1.1.2018)</p> <p>Sabine Kilgus (Vice-Chairman), Prof. Dr., lawyer</p> <p>Conrad Meyer, Prof., Dr.</p> <p>Daniel Oyon, Prof., Dr.</p> <p>Viktor Balli, Chemical Engineer ETH/Economist HSG (from 1.1.2018)</p>
	Executive Board	<p>Frank Schneider, Chief Executive Officer, Executive MBA ZFH, Swiss Certified Accountant</p> <p>Reto Sanwald, Deputy to Chief Executive Officer, Head of Legal & International Affairs, Dr. iur., attorney</p> <p>Martin Hürzeler, Head of Financial Audit, Graduate in Business Administration, Swiss Certified Accountant</p> <p>Heinz Meier, Head of Regulatory Audit, Swiss Certified Accountant</p> <p>Sébastien Derada, Head of Licensing</p>
	Auditor	Swiss Federal Audit Office (SFAO)
Number of staff	At 31 December 2017 30 staff members, representing 25.3 full-time equivalents, were employed by the FAOA.	
Funding	The FAOA finances itself entirely from the fees and oversight charges levied on licensed individuals and audit firms under oversight. No taxpayers' money is used.	
Legal function	To ensure the proper provision and quality of audit and regulatory audit services.	
Responsibilities	Appraisal of licence applications, oversight of the auditors of PIE and rendering of international administrative assistance in the audit oversight area.	
Independence/Oversight	The FAOA performs its oversight activities independently but is subject to the oversight of the Federal Council. It reports annually to the Federal Council and the Federal Assembly on its activities.	



Index of abbreviations

AHV	Old-Age and Survivors' Insurance
AHVO	Old-Age and Survivors' Insurance Ordinance of 31 October 1947 (SR 831.101)
AMLA	Anti-Money Laundering Act of 10 October 1997 (SR 955.0)
AMLO	Money Laundering Ordinance of 11 November 2015 (SR 955.01)
AOA	Audit Oversight Act of 16 December 2005 (SR 221.302)
AOO	Audit Oversight Ordinance of 22 August 2007 (SR 221.302.3)
BBI	Federal Gazette
BankA	Banking Act
CAIM	Common Audit Inspection Methodology
CDB 016	Agreement on the Swiss banks' code of conduct with regard to the exercise of due diligence of 1 June 2016
CEAOB	Committee of European Audit Oversight Bodies
CISA	Collective Investment Schemes Act of 23 June 2006 (SR 951.31)
CO	Swiss Code of Obligations of 30 March 1911 (SR 220)
CaO	Casino Ordinance of 24 September 2004 (SR 935.521)
DSFI	Directly supervised financial intermediary (supervised by FINMA)
EEA	European Economic Area
EQCR	Engagement Quality Control Reviewer
EU	European Union
EWG	Enforcement Working Group
FAC	Federal Administrative Court (St. Gallen)
FATF	Financial Action Task Force
FCC	Federal Casino Commission
FDJP	Federal Department of Justice and Police
FEE	Federation of European Accountants (Accountancy Europe since 7 December 2016)
FIFA	Fédération Internationale de Football Association
FINMA	Federal Financial Market Supervisory Authority
FINMAG	Financial Market Supervision Act of 22 June 2007 (SR 956.1)
FOJ	Federal Office of Justice
FOPH	Federal Office of Public Health
FSC	Federal Supreme Court (Lausanne)
FinIA	Financial Institutions Act
FinSA	Financial Services Act
G-SIBs	Global Systemically Important Banks
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
ICS	Internal Control System
ICWG	International Cooperation Working Group
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators

IFRS	International Financial Reporting Standards
IIAS	Institute of Internal Auditing Switzerland
ISA	International Standards on Auditing
ISAE	International Standard on Assurance Engagements
ISQC 1	International Standard on Quality Control 1
IWWG	Inspection Workshop Working Group
InsSA	Insurance Supervision Act
KAM	Key Audit Matter
MBA	Mortgage Bonds Act
MMoU	Multilateral Memorandum of Understanding
MoU	Memorandum of Understanding
OA	Oversight Authority
OPA	Occupational Pensions Act of 25 June 1982 (SR 831.40)
OPSC	Occupational Pension Supervisory Commission
PCAOB	US Public Company Accounting Oversight Board
PEP	Politically Exposed Person
SAS	Swiss Auditing Standards of EXPERTsuisse
SER	SIX Exchange Regulation
SESTA	Securities Trading Act
SICAF	Investment companies with fixed capital
SICAV	Investment companies with variable capital
SIX	SIX Swiss Exchange
SMI	Swiss Market Index
SQCS 1	Swiss Quality Control Standard 1
SR	Official Compendium of Swiss Federal Law
SRO	Self-regulatory organisation
SoP	Statement of Protocol
US-GAAP	United States Generally Accepted Accounting Principles

Additional Swiss audit licences

For audit activities in the following areas in particular, a special licence of the FAOA or a special-law licence of another authority is required, based on a basic licence under the AOA. In some audit areas, a basic FAOA licence is sufficient (status: 31.12.2017).

Financial/regulatory audit in the area of	Basic licence under the AOA: Audit firm	Basic licence under the AOA: Auditor-in-charge	Responsible for special/special-law licence	Additional requirements
Banks/financial market structures ⁶⁰ /finance groups/securities traders/public tender offers/central mortgage bond institutions	State-regulated audit firm	Audit expert	FAOA	Art. 9a AOA, Art. 11a f. AOO
Collective investment schemes ⁶¹	State-regulated audit firm	Audit expert	FAOA	Art. 9a AOA, Art. 11a f. AOO
Insurers	State-regulated audit firm	Audit expert	FAOA	Art. 9a AOA, Art. 11a f. AOO
Financial intermediaries (anti-money laundering)	Auditor (State-regulated audit firm) ⁶²	Auditor	FAOA/SRO ⁶³	Art. 9a AOA, Art. 11a f. AOO and Art. 24 AMLA
Pension schemes	Audit expert ⁶⁴	Audit expert	(OPSC)	–
Health insurers	Audit expert	Audit expert	(FOPH)	–
Casinos	Audit expert	Audit expert	FCC	Art. 75 CaO
Swiss Compensation Office audits	Audit expert	Audit expert	FSIO	Art. 165 AHVO

⁶⁰ Comprising stock exchanges, multilateral trading systems, central counterparties, central depositories, transaction repositories and payment systems.

⁶¹ Comprising fund managers, investment funds, investment companies with variable capital (SICAV), limited partnerships for collective investment schemes, investment companies with fixed capital (SICAF), asset managers of collective investment schemes, as well as representatives of foreign collective investment schemes.

⁶² In principle, the licensed audit firm need only meet the requirements for an audit firm licensed as an auditor but if it also audits a financial intermediary supervised directly by FINMA (DSFI) under the provisions of AMLA it must have the status of a state-regulated audit firm.

⁶³ The FAOA is responsible for the licence to audit DSFI. The licence to audit financial intermediaries that are members of an SRO is the responsibility of the respective SRO (Art. 11a AOO).

⁶⁴ There is one exception: Only audit firms that hold a state-regulated audit firm licence can act as the auditor of investment foundations (Art. 9 of the Ordinance of 22 June 2011 relating to investment foundations, ASV; SR 831.403.2).

State-regulated audit firms

Status: 31 December 2017

No. FAOA	company/name	Location
500003	PricewaterhouseCoopers AG	Zürich
500012	T + R AG	Gümligen
500038	Grant Thornton Bankrevision AG	Zürich
500149	OBT AG	St. Gallen
500241	MAZARS SA	Vernier
500420	Deloitte AG	Zürich
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
501091	Provida Wirtschaftsprüfung AG	St. Gallen
501382	Berney & Associés SA Société Fiduciaire	Genève
501403	KPMG AG	Zürich
501470	Ferax Treuhand AG	Zürich
501570	Fiduciaire FIDAG SA	Martigny
501839	Grant Thornton AG	Zürich
502658	Treureva AG	Zürich
504689	SWA Swiss Auditors AG	Pfäffikon
504736	PKF CERTIFICA SA	Lugano
504792	Asset Management Audit & Compliance SA	Genève
505046	MOORE STEPHENS EXPERT (ZURICH) AG	Zürich
505062	AML Revisions AG*	Zürich
505065	TEBOR Treuhand AG*	Zug
505077	CF Compagnie fiduciaire de révision sa*	Genève
505081	MOORE STEPHENS REFIDAR SA*	Genève
505093	RFC – Révision Fiscalité Conseils SA*	Satigny
505106	Révisions LBA Romandie Sàrl *	Montreux
505113	GFC Audit & Compliance SA*	Carouge
600001	Deloitte & Co. S.A.	Buenos Aires
600002	Kost Forer Gabbay & Kasierer	Tel Aviv

*Licensed only for the audit of DSFI.

Cooperation with foreign authorities

Status: 31 December 2017

Bilateral agreements

Country	Authority/authorities	Agreement
Germany	Audit Oversight Commission (AOC)	MoU (2012)
Finland	Auditing Board of the Central Chamber of Commerce (AB3C)	MoU (2014)
France	High Council for Statutory Auditors (H3C)	Cooperation Protocol (2013)
Great Britain	Financial Reporting Council (FRC)	MoU (2014)
Ireland	Irish Accounting and Auditing Supervisory Authority (IAASA)	MoU (2016)
Canada	Canadian Public Accountability Board (CPAB)	MoU (2014)
Liechtenstein	Financial Market Authority (FMA)	MoU (2013)
Luxembourg	Commission de Surveillance du Secteur Financier (CSSF)	MoU (2013)
Netherlands	Netherlands Authority for the Financial Markets (AFM)	MoU (2012)
USA	Public Company Accounting Oversight Board (PCAOB)	SoP (2011) Addendum (2014)

Multilateral agreements

Country	Authority/authorities	Agreement
Australia	Australia Securities and Investments Commission (ASIC)	IFIAR MMoU (2017)
Brazil	Securities and Exchange Commission of Brazil (CVM)	IFIAR MMoU (2017)
Canada	Canadian Public Accountability Board (CPAB)	IFIAR MMoU (2017)
Cayman Islands	Auditors Oversight Authority (AOA)	IFIAR MMoU (2017)
Dubai	Dubai Financial Services Authority (DFSA)	IFIAR MMoU (2017)
France	Haut Conseil du Commissariat aux Comptes (H3C)	IFIAR MMoU (2017)
Gibraltar	Gibraltar Financial Services Commission (GFSC)	IFIAR MMoU (2017)
Japan	Financial Services Agency / Certified Public Accountants & Auditing Oversight Board (FSA/CPAFOB)	IFIAR MMoU (2017)
Liechtenstein	Financial Market Authority Liechtenstein (FMA)	IFIAR MMoU (2017)
Lithuania	The Authority of Audit, Accounting, Property Valuation and Insolvency Management under the Ministry of Finance of the Republic of Lithuania (AAAPVIM)	IFIAR MMoU (2017)
Luxembourg	Commission de Surveillance du Secteur Financier (CSSF)	IFIAR MMoU (2017)
Malaysia	Audit Oversight Board Malaysia	IFIAR MMoU (2017)
New Zealand	Financial Markets Authority (FMA)	IFIAR MMoU (2017)
Slovakia	Auditing Oversight Authority	IFIAR MMoU (2017)
South Korea	Financial Services Commission/ Financial Supervisory Service (FSC/FSS)	IFIAR MMoU (2017)

The Netherlands	Dutch Authority for the Financial Markets (AFM)	IFIAR MMoU (2017)
Taiwan (Chinese Taipei)	Financial Supervisory Commission (FSC)	IFIAR MMoU (2017)
Czech Republic	Public Audit Oversight Board (RVDA)	IFIAR MMoU (2017)
Turkey	Public Oversight, Accounting and Auditing Standards Authority (POA)	IFIAR MMoU (2017)
United Kingdom	Financial Reporting Council (FRC)	IFIAR MMoU (2017)
United States	Public Company Accounting Oversight Board (PCAOB)	IFIAR MMoU (2017)

Court rulings 2017

Status: 31 December 2017

The following is a complete list of the 2017 rulings of the federal courts relating to the FAOA. The rulings appear in chronological order, with a short note on the subject matter dealt with and on the conclusion of the court.

- FAC Ruling No. B-4117/2015 of 16 January 2017: Breach of independence. Close business relationship with a director of eleven audited companies. Economic dependency. Audit expert licence withdrawal for two years. Rejection of appeal. Ruling legally binding.
- FSC Ruling No. 2C_167/2016 of 17 March 2017: Concept of an order. Appeal cannot be made against an FAOA letter communicating the opening of proceedings due to the lack of a contestable order. Rejection of appeal.
- FAC Ruling No. B-3069/2016 of 29 March 2017: Insufficient guarantee of proper audit services. Foreign conviction for stock exchange market manipulation. Audit expert licence withdrawal for three years. Appeal partially upheld in as much as withdrawal period reduced from three to two years. Ruling legally binding.
- FAC Ruling No. B-4726/2016 of 10 April 2017: Concept of an order. Appeal cannot be made against an FAOA letter communicating the right to a legal hearing due to the lack of a contestable order. Appeal not considered. Confirmation of FAC Ruling No. B-4726/2016 of 10 April 2017.
- FAC Ruling No. B-6138/2016 of 28 December 2017: Breach of duty to inform and provide information. Withdrawal of audit expert licence until the duty is met and first-instance review of the documentation made. Ruling not yet legally binding.
- lack of a contestable order. Appeal not considered. Rejection of appeal by the FSC (see below).
- FAC Ruling No. B-2780/2016 of 18 April 2017: Compliance with management body quorums by an audit firm with the legal form of a GmbH. Breach of rule that the majority of members of the highest management or administrative body must have the necessary licence during two periods of 15, respectively 23 months. Issue of a reprimand. Rejection of appeal. Ruling legally binding.
- FAC Ruling No. B-456/2016 of 19 July 2017: Breach of independence. Breach of independence requirements over six years in four different constellations and with respect to a total of eight engagements (1. Common management of two companies given same registered address, common office infrastructure, same people in decision-making bodies and shared employees; 2. Close family relationship; 3. Operation of a website shared with the audited company; 4. Collective signing authority of the auditor-in-charge at the audited company). Audit expert licence withdrawal for a period of two years. Rejection of appeal. Ruling legally binding.
- FSC Ruling No. 2C_516/2017 of 14 September 2017: Concept of an order. Appeal cannot be made against

Financial statements of the FAOA

(only available in German, French; none available in English)



Reg. no. 1.18330.914.00399.002

**Report of the statutory auditor
on the limited statutory examination**

**to the Board of Directors of the
Federal Audit Oversight Authority for the attention
of the Federal Council**

As statutory auditor according to art. 32 of the Auditor Oversight Act (SR 221.302), we have examined the financial statements (balance sheet, income statement, cash flow statement, statement of change in equity, and notes) of the Federal Audit Oversight Authority (FAOA) for the financial year ended 31 December 2017.

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


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

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

Bern, 5 march 2018

SWISS FEDERAL AUDIT OFFICE


Andreas Meyer
Auditor in Charge
Licensed Audit Expert


Carole Balli
Licensed Audit Expert

Enclosure:

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

