



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Federal Audit Oversight Authority FAOA

Activity Report 2009



Impressum

Publisher

Federal Audit Oversight Authority FAOA
Bundesgasse 18
P.O. Box 6023
3001 Berne
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Lead

Federal Audit Oversight Authority FAOA

Design and Layout

Moser Graphic Design, Berne

Photography

Clemens Laub, Berne

Printing

Vögeli AG, Langnau i. E.

This activity report is also available in German,
French and Italian.

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Contents

Page		
3		Foreword
6	1	Organization of the FAOA
6	1.1	General
6	1.2	Board of Directors
6	1.3	Executive Board
6	1.4	Auditor
7	1.5	Human resources
7	1.6	Funding
7	1.7	Relations with other authorities
8	2	Licensing
8	2.1	Introduction
8	2.2	Statistics
9	2.3	Licensing procedure
9	2.4	Expiry of transitional provisions
10	2.5	Reporting and disclosure requirements
11	2.6	Module system
11	2.7	Register
12	2.8	Auditing without a licence
12	2.9	Infringement of independence
14	2.10	Quality assurance
15	2.11	Outlook
16	2.12	Renewal of licences for audit firms from 2013
17	3	Oversight
17	3.1	Introduction
17	3.2	Market structure of state-regulated audit firms
19	3.3	Inspections 2009
19	3.3.1	General
20	3.3.2	Follow-up inspections at the three largest audit firms
20	3.3.2.1	Firm review
21	3.3.2.2	File review
23	3.3.3	First inspections of other state-regulated audit firms
24	3.3.4	Agreement of measures and verification of their implementation
25	3.4	Cooperation with other Swiss regulatory authorities and the stock exchanges
25	3.5	Standard-setting
28	3.6	Main areas to be covered by inspections in 2010
29	3.7	Audit quality measures
29	3.8	Proceedings and preliminary fact-finding
30	4	International
30	4.1	Introduction
31	4.2	Relations with the European Union
31	4.3	Relations with the USA
32	4.4	Relations with other countries
33	4.5	International Forum of Independent Audit Regulators
33	4.6	Enactment of Article 8 of the Audit Oversight Act
34	5	Court rulings
34	5.1	Introduction
34	5.2	Educational qualifications
35	5.3	Professional experience
36	5.4	Impeccable reputation
36	5.5	Procedural law issues
39		Appendices
39	1	Abbreviations
40	2	Key financial data
42	3	Special-law licences
43	4	List of state-regulated audit firms

Foreword

Importance of auditing in times of economic uncertainty

For the time being the worst of the long international recession appears to be over and the economic outlook is now generally deemed to be better than it was a year ago. Many positive forces are, however, of a temporary or one-off nature, such as the effect of government economic stimulus programmes and the replenishment of company inventories. Obtaining funding from banks for major investment projects will probably remain difficult and the repercussions of higher unemployment on consumption are probably also yet to materialize. All this indicates that the economy still remains vulnerable to setbacks.

The role of audit firms in times of economic uncertainty is more important than ever. Only where auditors guarantee high quality financial reporting can investors, customers and the authorities make important decisions on a well-founded and adequately informed basis. As many of the effects of the economic crisis will first become apparent in the 2009 year end financial statements, many auditors still have to face the first real test of their professional mettle. While Switzerland scores relatively well by international comparison, auditors are still confronted with many risks here too; the valuation of intangible assets in a time of uncertainty, the growing tendency towards fraud and the issue of going concern being just some examples of audit risks that have generally increased.

Alongside the auditors, directors bear a particularly great responsibility as members of the highest executive and supervisory body of their companies. In the current environment it is in the directors' interest that the separate or consolidated financial statements, as central decision-making instruments, are audited to an impeccable standard.

Difficult economic times are also placing greater demands on regulatory bodies, such as the Federal Audit Oversight Authority FAOA. Only with rigorous licensing and review activities can they ensure the adequacy of audit services during such times.

The costs of an audit are easy to calculate. The benefits, on the other hand, are harder to quantify but also – as described – irreplaceable at a time of crisis. These benefits should be considered more when the question of audit cost is raised in the continuing debate on the new audit legislation.

The FAOA's small and medium-sized audit firm licensing practice

Around 70% of the licences granted to individuals are accounted for by small to medium-sized audit firms. More than 98% of audit firms also fall within the small to medium-sized category.

In assessing licence applications appropriate consideration is given to the particular features of the audit and trustee sectors. For example, according to statutory requirements professional experience must be acquired predominantly in the fields of accounting and auditing (Arts. 4 and 5 of the Audit Oversight Act – AOA [Revisionsaufsichtsgesetz – RAG]). The FAOA requires only 10% to be audit experience, thereby recognizing that, in addition to auditing, traditional trust companies are heavily involved in other fields (e.g. bookkeeping and tax advice).

In hardship cases the FAOA can also recognize professional experience that does not meet statutory requirements (Art. 43, para. 6 AOA). To comply with the legislator's intention and to avoid undermining enforcement of the new statutory licensing conditions, the FAOA must apply this special provision restrictively. Depending on the particular circumstances, evidence of professional experience acquired under supervision is not necessary or a lack of professional experience acquired under supervision may be compensated for by correspondingly longer unsupervised professional experience. If it is difficult to provide evidence of professional experience acquired a relatively long time ago prima facie evidence may also suffice, though it must appear probable that the professional experience has actually been acquired and is not simply claimed to have been.

The hardship clause has been declared to be transitional and can therefore only be applied for a limited time. Now that over two years have passed since the Audit Oversight Act came into force, it may be assumed that all individuals needing a licence because of their earlier activity have filed a licence application with the FAOA. Thus, after the two year transition period, the hardship clause basically no longer applies.

In the great majority of cases to date the FAOA's licensing practice has been confirmed by the Federal Administrative Court. This shows the FAOA to be on the right track.

For businesses in Switzerland subject to mandatory audit there is still an adequate supply of authorized audit firms. In the year under review the number of licences issued rose by 819 to total 10,377 as at 31 December 2009.

Compliance with independence rules unsatisfactory

Statutory and professional independence rules are fundamental to legally compliant audits. Where independence is compromised an audit becomes largely worthless in terms of its statutory and corporate objectives.

In processing licence applications and inspecting state-regulated audit firms it was found once again that independence was not always paid due attention. The FAOA will strive to use its available powers to ensure that independence requirements are met in full.

Outlook

In September 2009 the FAOA received welcome news from the European Commission. The Commission had submitted a proposal for cooperation between EU Member States and Canada, Japan and Switzerland on the exchange of working papers (otherwise known as the «Adequacy Decision»). The proposal is expected to be adopted formally by the EU Commission in the first quarter of 2010. Switzerland therefore stands before a major step forward on international recognition of its audit oversight system. After formal approval the EU Commission will give its Member States the green light to enter into bilateral negotiations with Switzerland on international cooperation. The first bilateral agreements are already expected to be concluded with Switzerland's main EU trading partners in 2010.

As regards the USA, negotiations with the PCAOB regarding cooperation on the supervision of US-listed Swiss companies (joint inspections) are still ongoing.



Once the final examination of licence applications has been completed in the first half of 2010 the FAOA's main activity will be the oversight of state-regulated audit firms. Increased economic risks demand the rigorous application of relevant rules and audit standards. To be able to take decisions appropriate to the economy as a whole the various user-groups within the Swiss capital market must be able to rely on external financial reporting. With this in mind, the FAOA will continue to focus on existing risks and enforce relevant standards in its oversight of state-regulated audit firms.

Overall, the FAOA can look back on a successful year. What it achieved in 2009 was made possible only by the good cooperation of the individuals and firms under supervision and the dedication of its staff. They deserve our warmest thanks.

Berne, 8 February 2010



Hans Peter Walter
Chairman of the Board of Directors



Frank-Oliver Schneider
Executive Director



Frank-Oliver Schneider, Executive Director

1 Organization of the FAOA

1.1 General

The FAOA's function is to ensure the proper provision and quality of audit services (Art. 1, para. 2 AOA).

The organizational structure of the FAOA is outlined in the Audit Oversight Act (cf. Art. 28 et seq. AOA). The FAOA is a public-law institution and a separate legal entity. It is based in Berne and has another office in Zurich, serving as a base for inspections carried out in the Zurich area.

Organizationally the FAOA is attached to the Federal Department of Justice and Police (FDJP) but is a decentralized administrative unit exercising its oversight activities independently. It enjoys the widest possible autonomy in its organization and management but is subject to the oversight of the Federal Council, reporting annually to the Federal Council and the Federal Assembly on its activities. In addition, the legal acts of the FAOA are subject to independent judicial review by the Federal Administrative Court in Berne and the Federal Supreme Court in Lausanne (cf. Section 5).

The FAOA has the following representative bodies: Board of Directors, Executive Board and Auditor.

1.2 Board of Directors

The FAOA's Board of Directors consists of a maximum of five members appointed by the Federal Council for a term of four years. The members of the Board of Directors must be experts in their field and independent of the audit industry. The Federal Council also designates the Chairman and Vice-Chairman and sets the Directors' remuneration.

The Board of Directors is the highest representative body of the FAOA. It is responsible, in particular, for the detailed rules governing the FAOA's internal organization, for the appointment and oversight of the Executive Director, and for issuing regulatory statutes.

The FAOA's Board of Directors currently consists of:

- Hans Peter Walter (Chairman), Dr. h.c., Professor of private and commercial law at the University of Berne;
- Thomas Rufer (Vice-Chairman), Graduate in Business Administration (University of Applied Science) and Swiss Certified Accountant;

- Eugen Haltiner, Dr. oec., Chairman of the Board of Directors of the Swiss Financial Market Supervisory Authority (FINMA);
- Alfred Stettler, PProf. em., Dr rer. pol., Faculty of Business & Economics, University of Lausanne;
- Peter R. Voser, Graduate in Business Administration (University of Applied Science), and CEO of Royal Dutch Shell.

1.3 Executive Board

The Executive Board consists of the Executive Director and the Heads of the Legal & International and Licensing & Support Departments. The Executive Director is the highest executive representative of the FAOA and fulfils all the functions not required by law to be performed by the Board of Directors. The Executive Board is appointed by the Board of Directors. The appointment of the Executive Director also requires the approval of the Federal Council.

The FAOA's Executive Board consists of:

- Frank Schneider (Executive Director and Head of Oversight), Swiss Chartered Accountant;
- Reto Sanwald (Head of Legal & International), Dr. iur., attorney;
- Jürg Bloesch (Head of Licensing & Support), lawyer.

1.4 Auditor

The Swiss Federal Audit Office is responsible for auditing the FAOA under the Audit Office Act of 28 June 1967 (Finanzkontrollgesetz – FKG; SR 614.0). The FAOA's accounts cannot be audited by a private audit firm as the FAOA must be independent of the audit firms it licenses and oversees.

1.5 Human resources

The FAOA's staff consists of people from various specialist areas working together on an inter-disciplinary basis; they have backgrounds in accounting, law and business. At the end of the year under review, the headcount totalled 20.8 full-time equivalents, divided between 23 employees. A further six people were employed by the FAOA on an hourly basis (around 2.0 full-time equivalents).

The FAOA's headcount reached a temporary peak in 2009. Once the final examination of existing provisional licences has been completed during the first half of 2010¹, staff numbers will fall again.

1.6 Funding

The FAOA is financed entirely from the fees and oversight charges levied on licensed individuals and audit firms. No taxpayers' money is used. The FAOA maintains its own accounts outside the Federal budget. This organizational structure permits an independent, target-oriented and cost-efficient oversight of the audit industry that takes full account of the principle of causal responsibility.

The FAOA charges fees for its decisions, inspections and services. To cover oversight costs not covered by fee income an annual oversight charge is levied on

state-regulated audit firms. This is based on budgeted costs for the year and takes account of the economic importance of the state-regulated audit firms. The Federal Council regulates the particulars, the most significant being the fee rates and the amount and apportionment of the oversight charge (cf. Arts. 37 et seq. of the Audit Oversight Ordinance – AOO [Revisionsaufsichtsverordnung – RAV]). Around 52% of the FAOA's budget is financed by the oversight charges levied on state-regulated audit firms².

1.7 Relations with other authorities

The FAOA is obliged by law to cooperate with various other regulatory authorities (cf. Arts. 22 et seq. AOA), most particularly the Swiss Financial Market Supervisory Authority (FINMA) and the Swiss stock exchanges³.

¹ Cf. Sub-sections 2.1 and 2.11.

² A summary of the detailed key financial data may be found in Appendix 2.

³ Cf. Sub-section 3.4.



2 Licensing

2.1 Introduction

As last year, the main focus of the FAOA's licensing activities was the final examination of existing provisional licences. 90% of this work had been completed by the end of 2009. Final decisions had been reached on around 9,000 of the 10,000 or so provisional licences by the year end. The ambitious target of reaching final decisions on all applications by the end of 2009 could not quite be achieved. This was mainly due to two factors. First, the number of new applications – around 800 – was well in excess of expectations, as in the previous year (2008: 1,250 applications). New applications had to be given priority since, unlike the individuals and firms with provisional licences, the new applicants could not provide audit services until the FAOA had decided upon their application. Secondly, increasingly complex questions arose in many cases, especially as regards evidence of professional experience acquired a long time ago and the licensing of foreign applicants. The FAOA expects to be able to reach final decisions on all provisional licence cases by mid-2010.

Following the completion of inspections (cf. Section 3) a further four firms were granted full licences as state-regulated audit firms in the period under review. As at the end of the year six firms had full licences and 22 firms had provisional licences. Nine audit firms originally granted provisional licences as state-regulated audit firms decided to change their type of licence and were licensed as audit experts.

2.2 Statistics

Type of licence	Auditor	Audit expert	Total 31.12.2009	Total 31.12.2008
Individuals	189	438	627	2 612
Sole proprietorships	48	58	106	484
Audit firms	180	499	679	2 078
State-regulated audit firms	0	22	22	35
Total provisional licences	417	1 017	1 434	5 209
Individuals	1 742	4 615	6 357	3 842
Sole proprietorships	293	377	670	189
Audit firms	566	1 344	1 910	316
State-regulated audit firms	0	6	6	2
Total full licences		6 342	8 943	4 349
Total licences	3 018	7 359	10 377	9 558

2.3 Licensing procedure

In 2009 priority was given to reaching final decisions on the licence applications provisionally approved in 2007 and 2008. After focusing initially on fairly clear-cut cases, more and more complex files were subjected to final review. An illustrative example of the latter would be applicants with foreign educational qualifications. The equivalence of their educational qualifications to a recognized Swiss educational qualification is checked first. To assist in this applicants complete and submit a questionnaire from the FAOA's website, which describes their educational qualifications in greater detail. Secondly, the applicant has to provide evidence that their knowledge of Swiss law is as required (since 1 January 2008 this has been possible only by attending an appropriate course⁴). Finally, the requirement of reciprocity with the country of origin must be met. The latter can become a stumbling block, especially in the case of applicants with non-European educational qualifications (cf. the requirements pursuant to Art. 4, para. 2, indent (b) AOA). Examining such files takes more time, especially if additional information about a particular course of education has to be obtained from another country or the issue of reciprocity has to be clarified.

Increasing numbers of files involving applicants with no supervised professional experience and claiming to be hardship cases (cf. Art. 43, para. 6 AOA and Art. 50 AOO) were also subjected to final examination. Depending on the circumstances, providing evidence of professional experience acquired many years ago frequently proved difficult. The FAOA maintained its pragmatic approach, whereby in principle all documents supporting the activity claimed are admissible. If it is difficult to provide evidence of (supervised) professional experience acquired quite some time ago prima facie evidence suffices, provided it appears probable that the professional experience has actually been acquired and is not simply claimed to have been.

The extra time required to deal with late applications tied up considerable resources. While auditors could still audit annual accounts for financial year 2007 without a licence, they were not able to audit 2008 annual accounts unless licensed. A surprisingly large number of auditors apparently did not become

aware of this fact until shortly before their clients' General Meetings. As a result, an average of around 70 licence applications a month were still being filed in 2009, many of which needed to be processed under greater time pressure. In an increasing number of cases a fast-track procedure, involving additional charges, (cf. Art. 40 AOO) was also requested.

In the period under review the FAOA granted an average of around 100 full licences a week, including both the final examination of provisional licences and the appraisal of new applications.

2.4 Expiry of transitional provisions

Two important provisions of the Audit Oversight Act, which had eased transition to the new legislation, expired on 31 August 2009.

The first related to the acquisition of supervised professional experience. Practical experience acquired up to two years after the Audit Oversight Act came into force on 1 September 2007 did not necessarily have to have been acquired under the supervision of a licensed practitioner in order to count as supervised professional experience. To be licensed as an audit expert it was possible for an applicant to have acquired professional experience under the supervision of a person meeting the conditions of the previous Ordinance of 15 June 1992. This related to the professional requirements for «specially qualified» auditors (cf. Art. 43, para. 4 AOA), not to be confused with registration in the Commercial Register as a specially qualified auditor. The latter is based solely on a self-declaration and the filing of appropriate documents, and is generally not conclusive.

To be licensed as an auditor it was possible for an applicant to have acquired professional experience under the supervision of a person holding one of the qualifications listed in Article 4, paragraph 2 of the Audit Oversight Act (cf. Art. 43, para. 5 AOA).

⁴ Appropriate courses are offered by Educaris AG. Further information may be found on its website at www.educaris.ch.

Since 1 September 2009 professional experience can be acquired solely under the supervision of persons who themselves hold the appropriate licence as an audit expert or auditor, or foreign practitioners with comparable qualifications.

Secondly, the so-called «hardship clause» can no longer be used for applications filed on or after 1 September 2009. According to Article 43, paragraph 6 of the Audit Oversight Act, in cases of hardship the FAOA can also recognize professional experience not satisfying statutory requirements where it is evident, based on many years of practical professional experience, that proper audit services have been provided. By inserting this clause, the legislators granted the FAOA the power to avoid inequitable individual decisions which might have arisen due to a strict application of the new Act. Two years (and more) after the new audit law came into force there are basically no longer any hardship cases. If a person could pursue his or her activities for two years without a licence and has not filed a licence application either, it can be assumed that this person does not need a licence and consequently does not constitute a hardship case.

Since 1 September 2009 the granting of licences to audit experts or auditors has therefore been based solely on the standard statutory requirements (Arts. 4 and 5 AOA).

2.5 Reporting and disclosure requirements

The Act prescribes three reporting requirements for licensed individuals and audit firms:

- All licensed individuals and audit firms are obliged to notify the FAOA of any change to any item of information entered in the Register of Auditors (Art. 15, para. 3 AOA). This includes all data sent to the FAOA in connection with the application. The most important case to which this applies is a change of employer involving the amendment or deletion of the electronic link in the personal register entry. But the reporting requirement also applies to the data pertaining to how an individual or firm may be contacted. For instance, changes of address or changes of e-mail address, in particular, must be reported immediately. The FAOA communicates with licensed individuals and firms mainly by e-mail. If the FAOA is not notified of the current e-mail address there is, therefore, a danger that important messages may not be received.
- Furthermore, from the time the application is filed, all individuals and audit firms are obliged to notify the FAOA with the least possible delay of any fact of relevance to the assessment of the licensing conditions (Art. 13, para. 1 AOO). This includes, in particular, the reporting of legal proceedings against an individual or audit firm that have been declared final and absolute or the issuance of certificates of unpaid debt in bankruptcies.
- State-regulated audit firms are subject to a more extensive reporting requirement. They must also report all pending court or administrative offence proceedings and inform the FAOA with the least possible delay, in writing, of all matters that might be of relevance for audit oversight (Art. 14, para. 2 AOA). These include, for example, accepting an engagement as auditor of a public company or a change of lead auditor on any such engagement.

As a matter of general principle the above notifications should reach the FAOA within 10 working days. Breaches of the aforementioned reporting requirements are liable to prosecution. In cases of doubt it is therefore recommended that enquiries be made of the FAOA without delay to establish whether an item of information is reportable or not.

2.6 Module system

Licences granted by the FAOA entitle the holders to provide audit services in accordance with the applicable federal legislation. This is, however, subject to the different rules that apply to special-law licences (cf. Art. 1, para. 3 AOA). Such licences are prescribed where a specialized regulatory authority (e.g. the Swiss Financial Market Supervisory Authority FINMA) oversees the licensing or activities of auditors in particular sectors. In so doing, these special-law licensing authorities work from the main licence granted by the FAOA and demand only that additional special-law licensing conditions are met («modules»). Thus duplication of effort can be avoided and costs reduced for both the applicants and the regulatory authorities involved (cf. Art. 22 AOA, Art. 21 AOO).

Appendix 3 provides a summary overview of the areas for which special-law licences are required. With the coming into force of the FAOA Data Ordinance⁵ on 1 January 2009, the condition for electronic access to the FAOA's basic data was created. Upon application, the special-law regulatory authorities can readily inspect data and documents that the applicant has already sent the FAOA in connection with the main licence.

The harmonization of special-law licences with the FAOA's main licence was completed as far as possible by 1 September 2009, as prescribed by the Federal Council (cf. Art. 52, para. 3 AOO).

2.7 Register

The FAOA maintains an electronic register of all licensed individuals and audit firms which may be downloaded free of charge via its website. Only individuals and audit firms that appear in this Register of Auditors are entitled to provide statutorily prescribed audit services. Auditors may not be registered on the Commercial Register without an FAOA licence. It may be, however, that a firm was entered in the Commercial Register as an auditor before the new legislation came into force and still appears in the Commercial Register as an auditing body despite not having a licence.

In 2010 the FAOA intends to work together with the Federal Commercial Registry Office (FCRO) to reconcile the Register of Auditors with the Commercial Register and thus filter out such companies. This process will establish whether unlicensed, and thus forbidden, audit services have been provided since 1 January 2008 (cf. Sub-section 2.8), and ensure that in future all firms registered as auditors in the Commercial Register have the statutorily prescribed licence.

The FAOA originally planned to undertake this reconciliation work in 2009. However, the large number of audit waiver («opting out») notices received by the local commercial registry offices produced a heavy workload and at the end of 2009 many companies who had given notice to opt out still had an (often unlicensed) auditor registered in the Commercial Register. The reconciliation of the registers is also made more difficult by the different ways data is held by the various Cantons.

The Register of Auditors was altered slightly and made more transparent in the year under review. For instance, as a matter of general principle each type of granted licence is now evident from the Register. For example, if a person was first licensed as an auditor and then, after some time, as an audit expert, the entry as a licensed auditor is deleted and the newly-granted licence as an audit expert entered (together with the licensing date in each case). Third parties can then see at all times from when to when an individual or audit firm had which type of licence.

⁵ Ordinance of the Federal Audit Oversight Authority on Electronic Access to Non-Public Data of 14 November 2008 (FAOA Data Ordinance, DO-FAOA; SR 221.302.32).

2.8 Auditing without a licence

Since the Audit Oversight Act came into force on 1 September 2007, followed by the revised Code of Obligations on 1 January 2008, a licence is necessary in order to provide statutorily prescribed audit services (cf. definition in Art. 2, indent (a) AOA). Providing audit services without the necessary licence is an offence punishable by a term of imprisonment or a fine of up to CHF 1,000,000. The Cantons are responsible for prosecuting breaches of the Act (cf. Art. 40 AOA).

The FAOA is continually receiving reports that individuals or firms have been providing audit services without the necessary licence. Some of these reports come from private sources but many also come from other authorities (e.g. foundation supervisory authorities). The FAOA also comes across indications to the same effect during the course of its own licensing and oversight activities.

If it is suspected that audit services have been provided without the necessary licence the FAOA asks the individual or firm concerned for their comments. If the suspicion is confirmed the party concerned is reported to the competent Cantonal prosecution authorities (Art. 24, para. 3 AOA). Providing audit services without a licence is also taken into account in the FAOA's «fit and proper» test and may result in an application being rejected (if any such is pending or filed subsequently).

Auditing without a licence or with an incorrect licence (e.g. performing an ordinary audit with an auditor's licence) not only has administrative and criminal consequences. An audit carried out by an audit firm without the appropriate licence, and the approval of the annual financial statements concerned, are void in civil law (cf. Art. 731, para. 3 of the Code of Obligations). The audit must be reperformed by an auditor with an appropriate licence and the annual financial statements approved in a legally valid manner. Directors and auditors are liable if they have either intentionally or negligently allowed the annual financial statements to be audited by an unlicensed auditor.

2.9 Infringement of independence

The auditor must be independent and form his audit opinion objectively. The auditor's independence must not be compromised, either actually or seemingly (Arts. 728 and 729 of the Code of Obligations).

The question of independence is not only one of the auditor's inner attitude and strength of character – i.e. their ability to audit with no consideration for their own interests and to do whatever is necessary. Independence is compromised to an even greater degree when it no longer appears to be given. This not only concerns the obvious avoidance of instructions but, far more, the avoidance of less easily recognizable economic, hierarchical or other dependencies. Not only formal contractual client agreements but also other business relationships, creating economic rather than legal interdependencies, may lead to conflicts of interest for the auditor and therefore be incompatible with independence.

The outward appearance of independence is of vital importance to third parties as far as the goal of reliable accounting and auditing is concerned. The audit of a clean set of accounts by a subjectively impartial auditor has no value to third parties if the credibility of the audit, as viewed from outside, is compromised by circumstances which cast doubt on the auditor's independence. In gauging whether third parties may deem independence to be compromised it would be appropriate to consider how the average observer would judge the situation given his or her general life experiences (Federal Council Message of 23 June 2004 on the reform of audit legislation, Federal Gazette 2004 4018).

The objective of the statutory independence rules is, by its nature, the same for both ordinary and limited audits. The provisions for ordinary audits are therefore also relevant to limited audits and serve as guidance (Federal Gazette 2004 4026).

The independence of the auditor in outward appearance is not a new concept; literature and case law confirm that the principle has applied since the last major company law reform of 1991 (cf. Federal Council Message on the reform of company law of 23 February 1983, Federal Gazette 1983 II 845).

The FAOA repeatedly becomes aware of circumstances which constitute a breach of the independence rules in practice. The following list contains those incompatibilities which, in the FAOA's experience, occur most frequently. It is not exhaustive.

- A is a member of the Board of Directors of companies X, Y and Z. Through his own company V he is registered in the Commercial Register as the auditor of X, Y and Z.
- A works (under an employment contract or in an agency relationship) for company X. B is the proprietor of company X. With a view to obtaining a licence from the FAOA, A cites supervised professional experience under B. At the same time A is registered in the Commercial Register as the auditor of X (and any other companies in which B exercises a decision-making function or in which he holds a participating interest).
- A, B and C work together (as their primary occupation) in company X. A is also on the Board of Directors of a number of other companies, exercises another decision-making function or has a significant (and direct) participating interest in them. These companies are each audited by B and C via company Y, to which A «officially» has no connection. However, companies X and Y have the same registered address and the same telephone number.
- The auditing of companies in which relatives exercise a decision-making function or in which relatives have a significant participating interest. Cases encountered include spouse, parents, brother, cousin.
- Mutual auditing: the auditing of firm A by firm B and vice versa readily leads to conflicts of interest and is especially likely to result in audit activities being influenced by non-objective mutual considerations. In appearance at least there is therefore a danger that the two firms will not perform their duties as auditor with the necessary impartiality (Federal Supreme Court Decision 123 III 31 et seq.). Mutual auditing is therefore not permitted.

The FAOA is statutorily obliged to verify that the licensing conditions are met at all times. Individuals have to meet three conditions for being granted a licence: recognized educational qualifications, professional experience – the length of which differs according to the educational qualifications – and an impeccable reputation (cf. Arts. 4 and 5 AOA).

While the first two conditions are clearly defined in the Audit Oversight Act and Ordinance and permanent once obtained, the impeccable reputation requirement or «every assurance of being able to conduct proper audits» (as set out by the Federal Council in Art. 4 AOO) is an indeterminate legal concept liable to change over time. It is up to the FAOA, as the authority applying the law, to develop a practice in this regard. This practice is then subject to independent review by the competent courts.

In a final judgment of 16 July 2008 the Federal Administrative Court ruled that an impeccable reputation and every assurance of being able to conduct proper audits pre-supposed professional competence and proper business conduct. In particular, this includes compliance with the law and audit legislation, of which independence rules, as an indispensable pre-condition to credible auditing, form part. If, in considering licence applications, the FAOA becomes aware that an applicant may have breached audit legislation, it is obliged to clarify the facts of the case and assess whether the applicant still offers every assurance of being able to conduct a proper audit⁶.

Depending on the circumstances, the FAOA issues the party concerned with a written reprimand, does not grant the licence, or withdraws it for a fixed or indefinite period (Art. 17, para. 1 AOA).

⁶ Cf. Also the statement of the Federal Council on Question 09.5398 «Audit Oversight Act and Audit Oversight Authority» from National Councillor Dunant (Swiss People's Party, Basel-Land) of 22 September 2009.

2.10 Quality assurance

The existence of an internal quality assurance system (QAS) is a licensing pre-requisite for all registered audit firms. The content of a QAS is laid down in various professional standards (ISQC 1, ISA 220, Swiss Audit Standard AS 220 etc)⁷. The actual design of a specific QAS cannot simply be taken from a standard, however. The design of a QAS depends on various factors, such as the size of the firm, the complexity of its audit engagements, the risks it faces, the training and experience of its audit staff, and past quality problems. Here regulatory requirements and professional standards cannot replace corporate responsibility; they can only provide a certain framework.

If external quality assurance is carried out by another member of the profession under a self-regulation scheme, this is known as a «peer review». In contrast to neighbouring countries, there is as yet no such external QAS in Switzerland covering all registered audit firms.

In Switzerland a peer review system is currently foreseen only for audit firms with one licence holder (so-called «one-man audit firms»). The introduction of this system was originally planned for 1 September 2010 but in developing the system various questions have arisen which need to be analyzed in depth and may possibly entail amendments to legislation (e.g. Art. 730 (b) of the Code of Obligations). The Federal Council has recently extended the deadline for joining an external QAS by three years, to 31 August 2013. The actual structure of the external QAS is still being devised in detail by the professional associations together with the FAOA. In order to resolve the problem of the peers' independence satisfactorily and to counter the appearance of «self-auditing», it is worth considering whether the competence to appoint the quality control peer should be transferred to an organization that is independent of the profession. In addition, there are many other issues that need to be clarified, such as how peers should be remunerated and the procedure to be followed if the peer uncovers quality failings.

One alternative that needs to be examined is extending the peer review system to all audit firms that carry out ordinary audits. Under this alternative, audit firms that carry out only limited audits would be exempted from a peer review altogether.

In principle, it is in the interests of the professional associations, as part of self-regulation, to provide their members with an external quality assurance review system. This is also recommended by the international professional association, the International Federation of Accountants (IFAC). But a peer review system should also be in the interests of audit firms themselves, as an external review can help to improve the quality of audit services and thus reduce audit risk. Some audit firms are already having their QAS reviewed externally on a voluntary basis.

Since there is currently no nationwide external QAS, or rather any systems that do exist apply only to the current 28 state-regulated audit firms, the importance of internal quality assurance becomes that much greater.

The first review of an audit firm's QAS is conducted when a licence is being granted for the first time. A second, in-depth, review is carried out when the licence comes up for renewal. By way of exception, the QAS of a state-regulated audit firm is subject to an on-site review at least every three years. A further exception concerns so-called one-man audit firms, which are currently exempt from the requirement to operate a full QAS.

When an audit firm is being granted a licence for the first time, or when a provisional licence is undergoing a final examination, the QAS is reviewed by the FAOA by means of a questionnaire. The FAOA checks this questionnaire to see whether the correct professional standard is being applied and the information provided is also checked for general plausibility. The QAS requirements are generally more extensive for firms conducting ordinary audits, since an ordinary audit is more complex, and the educational qualification and professional experience requirements are higher than for a limited audit. Due account is taken of this and the information provided by such firms is examined in depth. This being said, the FAOA cannot perform a comprehensive test of the appropriateness and effectiveness of the QAS purely on the basis of a questionnaire. Effectiveness could be better tested by means of on-site inspections (e.g. of working papers) but the law makes no provision for this and at least some important aspects of the QAS can still be appraised without them.

⁷ See article by Frank Schneider, «Qualitätssicherung in KMU-Unternehmen» (Quality Assurance in SME firms), in: TREX der Treuhandexperte 05/2009.

2.11 Outlook

According to the statutory provisions (Art. 3, para. 2 AOA), audit firms' licences have to be renewed every five years. The five-year period begins from the granting of the full licence. For example, if an audit firm was awarded its provisional licence in December 2007 and its full licence in July 2009 the licence comes up for renewal in July 2014. The FAOA plans to review quality assurance in depth when licences come up for renewal. Depending on the quality of the information already received in the questionnaire, the main areas of FAOA attention will be independence, training and internal monitoring. As regards training, for example, evidence may be required which substantiates that the required training courses in auditing and accounting have been attended. The professional associations have stepped up their efforts on training. This is to be welcomed. But since membership of a professional association is not a licensing criterion, the FAOA will have to carry out its own checks. The intention is to request, on a sample basis, internal reports containing the results of the monitoring process and agreed improvement measures.

In the year ahead the final examination of all provisionally approved applications will be completed. The FAOA expects to have processed all applications by mid-2010. For various reasons delays cannot be ruled out in some individual cases.

This does not apply to state-regulated audit firms with provisionally approved applications. Such firms can be granted a full licence only after the completion of the first inspection by the FAOA and provided the formal and qualitative requirements have been met. The FAOA subjects state-regulated audit firms to a detailed inspection at least every three years (Art. 16, para. 1 AOA). During the course of 2010 all provisionally licensed state-regulated audit firms still to be inspected will undergo a first-time inspection. It is in the nature of things that such inspections take some time. Not all of the audit firms inspected will be granted their licence by the end of 2010. For some state-regulated audit firms, the final examination of their licence applications will therefore not take place until 2011.

Between the completion of the final examination of provisional licences and the forthcoming renewal of audit firms' applications (cf. Sub-section 2.12), the FAOA's licensing activities will shift to monitoring continuous compliance with the licensing conditions. This concerns mainly those audit firms required to comply with Article 6, paragraph 1 of the Audit Oversight Act at all times, also as regards staff mutations.



The licences granted to individuals are basically for an indefinite period. Individuals may also subsequently fail to meet the «every assurance of being able to conduct proper audits» licensing condition but the law only provides for oversight in the case of state-regulated audit firms. The FAOA will therefore not apply a policy of active oversight in the case of individuals. In principle, it will only monitor compliance with licensing conditions and carry out checks if it receives leads or in the case of doubt.

The FAOA will need fewer staff overall than hitherto to fulfil these functions. There are therefore plans to reduce staff numbers in the Licensing and Support Department.

2.12 Renewal of licences for audit firms from 2013

The workload of the Licensing and Support Department will decrease considerably after the final examination of all provisional licences has been completed in mid-2010. Although new licence applications will continue to be filed, the huge rush for licences triggered by the change of system will most likely be over.

Unlike individuals, audit firms are not licensed for an indefinite period but for a period of five years (Art. 3, para. 2 AOA). For this reason, there is likely to be a considerable increase in licence review work again from 2013, when audit firm licences come up for renewal.

On the basis that data is already available and the fact that the licensing conditions have to be observed at all times, the resources required to examine licence renewals for the 3,300 or so firms concerned are likely to be kept within limits. The FAOA will issue guidance on the formalities for renewing licences in due course and will inform the firms involved about the expiry of their licences in good time.

Certain areas will be subjected to an in-depth examination when a licence comes up for renewal from 2013 onwards. For instance, particular attention will

be paid to verifying compliance with the condition that at least one-fifth of the persons involved in the provision of audit services are appropriately licensed (cf. Art. 6, para. 1, indent (b) AOA). The FAOA will check compliance using appropriate measures, such as requesting billings for individual audit assignments and checking these for compliance with statutory requirements.

Finally, quality assurance within the audit firm (cf. Sub-section 2.10) will also be subjected to a more detailed examination when the licence is renewed than when the licence was first granted.

3 Oversight

3.1 Introduction

The economic data published by the State Secretariat for Economic Affairs (SECO) in December 2009 projects a worldwide economic recovery. For the time being at least the severe recession appears to be over. Even so, the international economic outlook for 2010 and probably beyond is by no means clear. The positive forces currently driving the global economy are largely of a temporary nature. The impact of government economic stimulus programmes, in particular, but also the reversal of the inventory cycle will inevitably tail off in the year ahead. In such an uncertain economic environment audited external financial reporting remains of the greatest importance to confidence in the capital market. External financial reporting must be reliable to allow stakeholders to take sound decisions.

In the general economic conditions currently prevailing auditors continue to be faced with a difficult job and increased audit risk. The effects of the economic crisis will be reflected in the 2009 separate and consolidated financial statements, to be audited in 2010. Not only are great demands being made of the auditor as regards the valuation of assets that may be difficult to value (e.g. illiquid financial instruments, intangible assets); but an overall appraisal also has to be made of a business' ability to continue as a going concern. In this context, auditors have to base their judgments on uncertain future developments. Higher risks also exist in the area of fraudulent practices, since the pressure on management to achieve set profit targets or financial ratios (e.g. financial covenants) increases in times of economic difficulty.

The increased competition and fee pressure faced by the auditors of public companies is also a source of concern. Based on the FAOA's observations, state-regulated audit firms do not appear able to pass on the full costs of dealing with higher audit risk and increased regulatory requirements.

The FAOA's Oversight Department commenced operations on 1 April 2008 and is completing its second round of inspections at the large audit firms. The FAOA will fulfil its statutory obligation and carry out a first inspection of all state-regulated audit firms by the end of 2010. The administrative burden on state-regulated audit firms is to be limited to what is strictly necessary, although the amount of time required to conduct an inspection should not be under-estimated.

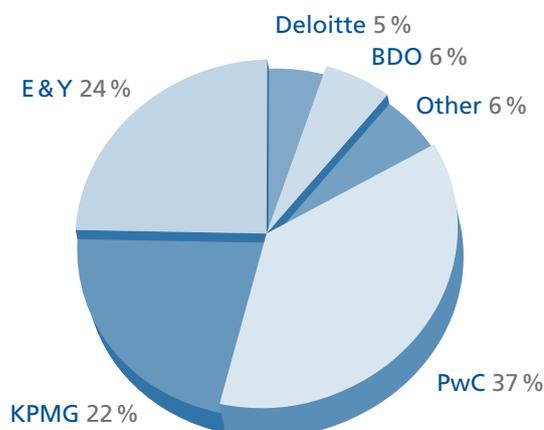
Cooperation and the exchange of information in international forums, first and foremost the International Forum of Independent Audit Regulators (IFIAR), has shown that the oversight activities and related processes of the FAOA stand on a par with the leading oversight authorities in the world. The FAOA adapts its processes to reflect changes in general operating conditions and makes every effort to improve its processes continually.

3.2 Market structure of state-regulated audit firms

Compared to 2008, the market share of the three largest audit firms as regards the audit of public companies (cf. Figure 1) contracted slightly (31.12.2008: 85%; 31.12.2009: 83%).

Figure 1:

Number of public companies audited per state-regulated audit firm as per FAOA Register entry (incl. significant subsidiaries and issuers of listed bonds); total: 498, position as of 08.12.2009



As of 31 December 2009 the three largest audit firms in Switzerland, Ernst & Young AG, KPMG AG and PricewaterhouseCoopers AG, still cover more than 90 percent of the Swiss public company market by market capitalization.

In accordance with its oversight policy the FAOA bases its inspection frequency and strategy on the systemic and risk relevance of the state-regulated audit firms. Inspections have to be carried out annually in the case of the three largest audit firms due to their market coverage. The other state-regulated audit firms are inspected at least once every three years.

As at the end of 2009 the state-regulated audit firms taken together employed a total of around 4,000 employees in the provision of audit services (cf. Figure 2).

Figure 2:

State-regulated audit firms' (SRAF) audit staff:

Number of audit staff (rounded)	All SRAF	Big 3 ⁸
Staff licensed as audit experts	1'500	1'100
Other audit staff	2'500	1'200
Total audit staff	4'000	2'300

As of 31 December 2009 a total of around 5,000 individuals were licensed as audit experts. State-regulated audit firms therefore employ around 30% of all audit experts.

⁸ Ernst & Young AG, KPMG AG, PricewaterhouseCoopers AG



3.3 Inspections 2009

3.3.1 General

During 2009 the FAOA adapted its inspection and reporting processes in the light of its first experiences from the previous year. The changes were intended to reduce administrative costs, both for the audit firms it oversees and for the FAOA itself. For the first time a distinction was drawn between findings which the FAOA considers material («Comment Form points») and other findings («Other Reportable Findings»). Comment Form points are incorporated into the body of the Inspection Report. Other Reportable Findings are also communicated in writing but only to those directly responsible within the company. Only Comment Form points require responses and lead to the definition and subsequent follow-up of required measures for improvement.

In the year under review the number of state-regulated audit firms fell from 37 to 28⁹. Most of the reduction was due to voluntary withdrawals. A further 3 firms were still going through the state-regulated audit firm de-registration process as at 31 December 2009.

15 state-regulated audit firms had been inspected by 31 December 2009, of which 6 had submitted to FAOA regulation voluntarily. By the year end, 6 audit firms had been awarded a full licence upon completion of the inspection process. Because of the nature and number of inspection findings, 4 firms will not be granted a full licence until the measures agreed with the FAOA have been successfully implemented. For 5 of the firms inspected the reporting process was still to be completed as at the year end. In 2010 a further 13, in fact 10 after the de-registration processes currently taking place, inspections are planned and the three-year cycle stipulated by the legislators¹⁰ will therefore be met.

To assess how well state-regulated audit firms are fulfilling the licensing conditions the FAOA is adopting the following approach: If the quality assurance system is deemed to be robust and the quality of the working papers reviewed as part of the file reviews is deemed to be good, the inspected firm will be granted a full licence upon completion of the inspection. If the inspection identifies significant deficiencies in the quality assurance system and/or the file reviews, the FAOA assesses whether the state-regulated audit firm will be able to introduce the necessary measures to improve the quality assurance system within a maximum of 12 months. If the answer is yes, the full licence will be granted once the measures agreed have been fully implemented and reviewed by the FAOA. The provisional

licence will remain in force until the final decision. If the deficiencies are not rectified in a timely or satisfactory manner, the FAOA can withdraw the provisional licence. If rectification of the deficiencies does not appear a realistic proposition at the end of the inspection, the application for a licence as a state-regulated audit firm will be rejected. In this case, a new application for a licence as a state-regulated audit firm cannot be submitted until the deficiencies have been rectified.

Working papers relating to 19 audits were inspected (file review; incl. working papers on consolidated financial statements, holding company and significant subsidiary companies) during 2009 (2008: 23). 31 of the 42 sets of working papers reviewed up to 31 December 2009 related to audit clients of the three largest audit firms.

At the follow-up inspections of the three largest audit firms, the proportion of time spent reviewing internal processes (firm review) fell slightly from the previous year and represented around 40% of the total time spent (2008: 50%). This proportion will decline further in the years ahead and it will therefore be possible to devote more resources to file reviews. With smaller state-regulated audit firms, the time spent on reviewing internal processes is generally less since their relative size and audit engagement profile lead to simpler, more easily understood structures.

⁹ See Appendix 4: List of state-regulated audit firms.

¹⁰ The Oversight Authority subjects state-regulated audit firms to a detailed inspection at least once every three years (Art. 16, para. 1 AOA)

3.3.2 Follow-up inspections at the three largest audit firms

In 2009 the FAOA performed its second inspections at the three largest audit firms.

The FAOA was able to identify further progress made as regards quality assurance systems. Overall, quality is high. The audit firms were cooperative and provided the FAOA with all the information and documents requested.

3.3.2.1 Firm review

As part of the firm review the FAOA examines whether the statutory and professional requirements regarding the quality assurance system have been met.

The FAOA has the following summary comments as to the individual components of the quality assurance system:

a. Assessment of the corporate culture at senior management level («tone at the top»)

The primary responsibility for the quality assurance system rests with the executive bodies of the state-regulated audit firms. By the way it conducts itself and exercises its role-model function, management has a material influence on the attitudes of employees towards quality. Management must communicate with employees and partners clearly, consistently and regularly on quality-related matters. In addition, it must be clear to all that senior management discusses quality-related topics properly at its executive meetings to avoid the risk of devaluing such topics.

On the whole, the FAOA rates the corporate culture at senior management level as good. In one case evidence that quality-related topics are treated properly within the executive bodies needs to be improved.

b. Ethical principles and independence

The FAOA considers that compliance with independence requirements is extremely important to the quality of audit services. It is essential that state-regulated audit firms apply comprehensive controls towards independence and rigorously impose sanctions where breaches occur.

The three largest audit firms implement the statutory and professional independence requirements by means of internal guidelines and instructions, employment contracts, training and codes of conduct. The enforcement and monitoring processes are, in each case, the responsibility of a specially designated partner (e.g. «Ethics Officer/Independence Partner»). Numerous IT systems are used for recording such relevant information as business relationships, personal relationships and financial relationships, and numerous computerized and manual controls are carried out for the purposes of verifying compliance.

The FAOA believes independence procedures at the three largest audit firms to be generally appropriate. However, further improvements are required in the following areas:

- Data contained within the systems applications for monitoring the financial relationships of employees and partners should be managed and checked more rigorously.
- Safeguards concerning the provision of non-audit services to audit clients (e.g. complete separation of personnel) need to be further improved.

Furthermore, the FAOA considers that the relationship between audit fees and other fees at public companies may be problematic, particularly where other fees significantly exceed audit fees over a number of successive periods. In one case the FAOA found that in 2007 and 2008 other fees exceeded audit fees by a factor of around five and four respectively. The FAOA believes that such a fee relationship creates a considerable risk that independence, or at least the appearance of it («independence in appearance»), will be jeopardized.

c. Acceptance and continuance of client relationships and engagements

Audit firms have to implement directives and processes for the acceptance and continuance of client relationships and specific engagements. These are aimed particularly at ensuring that the firm has the necessary skills and resources to perform the engagements and that it fulfils ethical requirements (e.g. independence). The implementation of these requirements is supported by IT-based applications and the quality of data stored in these systems is vitally important.

In the follow-up inspections at the three largest audit firms the FAOA had no findings in this area.

d. Human resources

Auditing is what is known as a «people business». This means that high-quality audit services depend primarily on having employees and partners of integrity who are well educated and well trained. To be able to carry out audits in accordance with the regulatory requirements audit firms have to ensure that they have the necessary directives, processes and human resources in place.

The three largest audit firms' directives and processes relating to human resources (recruitment, performance assessment, promotions, training, accreditation, remuneration etc) are generally appropriate. However, the FAOA found that quality-related factors should be given more weight in determining staff remuneration.

e. Engagement Quality Control Reviewer

Particularly in the case of quoted company audits, the applicable professional standards require the participation of a person responsible for monitoring the progress of audit work in a supporting capacity (known as the Engagement Quality Control Reviewer [EQCR]). The EQCR is generally an experienced partner, who must be independent of the audit team and have the necessary qualifications. In the FAOA's view, the EQCR is a particularly important factor in quality assurance.

The involvement of the EQCR had in general improved, though the FAOA still found that the nature and scope of such monitoring activities was too limited and insufficiently evidenced in the working papers in some cases. Furthermore, the EQCR's review was not always carried out continuously throughout the audit as required, but rather performed shortly before the audit report date.

f. Consultations

Audit firms are required to implement the directives and processes necessary to ensure that consultations are held in complex situations or areas of dispute. The nature, scope and outcome of the consultations must be documented.

In many cases, the decision on whether to enter into consultations is left to the professional judgment of the audit team. As found in the previous year, this latitude was overstretched in some situations. Furthermore, in many cases the audit team held «informal» consultations and contrary to regulatory requirements did not document the nature, scope, date and outcome of such consultations.

g. Internal monitoring

Internal monitoring aims to ensure compliance with quality assurance directives, guidelines and processes. On the one hand this involves the assessment of the internal quality assurance system and, on the other, the periodic assessment of audit service quality. The FAOA sees the effectiveness of internal monitoring as an important basis for determining the scope of its own inspections. Where the FAOA believes that an audit firm's internal monitoring is effective it can reduce its own audit working paper review (file review).

The quality of internal monitoring carried out on a coordinated basis by the large audit networks met statutory and professional requirements.

At one audit firm the results of the internal monitoring produced similar findings to the FAOA's own reviews. At the other firms the nature and number of the findings differed, such that the FAOA could place only limited reliance on the monitoring process. This in turn influences the number of file reviews the FAOA carry out.

The FAOA recommends making greater use of internal reviewers from foreign network firms («non-local reviewers»), since employing such reviewers increases the objectivity of internal monitoring considerably. Compared to the previous year, the FAOA found that greater use is already being made of non-local reviewers.

3.3.2.2 File review

The FAOA selects the working papers it wishes to review (file review) by carrying out a risk analysis and considering other specific factors (e.g. coverage of lead auditors or knowledge gained from prior-year reviews).

In its reviews, the FAOA does not perform an «audit of the audit» but focuses on certain individual risk areas (see Sub-section 3.6).

Generally, the FAOA rates the quality of the work reviewed at the three largest audit firms as good. No serious deficiencies were identified in the year under review. However, certain improvements are necessary in the following areas:

a. Audit of higher risk areas in separate and consolidated financial statements

- Share-based payments (IFRS 2): Adequacy of challenge to the assumptions and methods used for determining the value of share-based payments.
- Business combinations (IFRS 3): Adequacy of audit evidence regarding purchase price allocations and an acquisition disclosed as a post-balance sheet event.
- Performance-related retirement benefit plans (IAS 19/IFRIC 14): Adequacy of audit evidence regarding source data used in accounting for retirement benefit plans and adequacy of audit procedures regarding the recognition of a pension fund asset upon the initial adoption of IFRIC 14.
- Impairment of intangible assets (IAS 36): Adequacy of audit evidence regarding annual impairment tests for acquired goodwill, most particularly as regards the assumptions and estimates used in determining recoverable amounts and as regards the identification and allocation of goodwill to cash generating units.
- Accounting for hedges (IAS 39): Adequacy of audit evidence regarding the use of hedge accounting (e.g. hedging documentation and effectiveness tests either missing or insufficient) and resulting level of audit comfort on the treatment of profits and losses from hedges.

b. Scepticism (ISA 200)

Auditors must plan and perform audits with professional scepticism. They must be aware that the financial statements might contain material misstatements. In some cases this professional scepticism is still insufficiently evidenced in the working papers.

c. Responsibility to consider fraud (ISA 240)

At times of economic difficulty the risk of fraud is generally higher. Various analyses produced by the big audit firms confirm this. The quality of audit procedures concerning potential fraud has generally improved. Overall, however, audit teams need to make further efforts in the following areas:

- Required enquiries of clients must be made on a timely basis and the risks identified covered by appropriate audit procedures.
- Audit procedures unpredictable to the client (surprise effect) must be performed and properly documented.
- Improvements must be made as regards the sampling and substantive testing of journal entries («journal entry testing»). It is not always ensured that testing covers the whole period under audit and the audit procedures adopted, some of which remain manual, are not (always) sufficiently systematic to satisfy the requirements of ISA 240. This is problematic in view of the sometimes very large amount of data and reduces the probability of fraud detection.

d. Re-evaluation of materiality (ISA 320)

Information is material if its omission or misrepresentation may influence the financial decisions taken by readers of the financial statements. The applicable ISA states that, in principle, the auditor should use his or her professional judgment to assess whether items within the financial statements are material. The large audit firms have issued more detailed rules for determining materiality.

The appropriateness of materiality limits and related audit risk assessments, as determined during the planning phase, should be re-evaluated during the course of the audit. This continual re-assessment is especially important if the business's financial situation changes significantly (e.g. operating loss is far greater than anticipated at the planning stage) or the risk of errors remaining undetected increases. In two cases the FAOA found insufficient evidence of a re-evaluation despite the occurrence of material events.

e. Auditing fair-value measurement and disclosures (ISA 545)

In several cases the FAOA found that the auditor did not obtain proper and adequate audit evidence that fair-value measurements and disclosures accorded with applicable accounting standards (e.g. the valuation aspects of IFRS 2, IAS 19, IAS 36, IAS 39). The matters concerned included gaining an adequate understanding of the processes used for determining fair-values, assessing the appropriateness of the choice of method used, and the specific audit procedures performed with respect to the fair-value measurement itself (e.g. audit of significant assumptions, assessment of data consistency).

f. Going concern (ISA 570)

As part of the planning and performance of the audit of financial statements the auditor must assess whether it is justifiable for management to base the financial statements on the going concern assumption. Such audit procedures are especially topical in the current economic crisis.

The FAOA found that adequate attention was generally paid to this subject. In one case, however, the analysis and assessment of the planned cash flows and other projected (12 month) information was unsatisfactory.

g. Using the work of internal and external experts (ISA 610 and 620)

Use of the work of experts is often left to the professional judgment of the audit team. In a few isolated cases the FAOA found that the work of experts was being used too restrictively. In complex relationships (assessment of share-based payments, assessment of major assumptions in the valuation of goodwill or staff retirement benefit plans etc.) the use of experts can significantly enhance audit quality and audit comfort.

Additionally, in some cases the professional competence and objectivity of the external expert was not assessed sufficiently and there was no evidence that the source data used by that expert had been tested.

h. Audit documentation (ISA 230)

Documentation requirements were generally better met than last year. However, in some cases the nature, date, scope and results of audit procedures were insufficiently documented. Further improvement is therefore necessary.

3.3.3 First inspections of other state-regulated audit firms

In connection with the inspection of what are, for Switzerland, mid-tier firms the FAOA had the following negative findings:

Firm review:

- Unsatisfactory scope of internal controls to ensure compliance with independence requirements and unsatisfactory disciplinary measures taken against detected breaches (e.g. registration or sale of securities recorded too late).
- Training on independence requirements run only for entrants but not for existing employees and partners.
- Internal instructions on the implementation of quality standards sometimes inconsistent and not updated for new legislation.
- Swiss firm has too little autonomy vis-à-vis foreign parent company (e.g. responsibilities, storage of documentation).

File review:

- Enquiries on fraud matters inadequate and untimely (ISA 240).
- Insufficient audit evidence regarding a restatement within a set of IFRS consolidated financial statements.
- Insufficient audit evidence that an assessment was carried out regarding the competence and objectivity of experts used and of their source data (ISA 620).

3.3.4 Agreement of measures and verification of their implementation

The initial inspections of the smaller state-regulated audit firms, with few or no public company clients (voluntary submission to regulation), produced mixed results. According to ISQC 1 or SAS 220, quality assurance systems may be less complex under smaller and simpler circumstances. Nevertheless, the FAOA found a sometimes considerable need for remedial action (e.g. lack of, or unclear, guidelines and directives). In some cases existing professional requirements (SAS 220, ISQC 1 and ISA 220) were implemented only in response to an ongoing FAOA inspection, even though these requirements have existed for several years. Further particular problem areas included internal monitoring of audit service quality, which in some cases did not exist or was not of the required standard (e.g. lack of objectivity, professional competence). In most cases the controls for assessing the effectiveness of the internal quality assurance system were also deficient (e.g. lack of controls relating to compliance with independence requirements).

Working paper reviews at the smaller state-regulated audit firms showed, in particular, that greater attention also needs to be paid to audit documentation (SAS 230). For this reason it was not always possible for the FAOA to examine the work of the audit teams to the necessary depth. In addition, significant deficiencies were identified in some individual audit areas as regards compliance with the applicable auditing standards (especially SAS 240, 260, 300, 400, 401 and 600). At firms auditing financial statements prepared in accordance with IFRS or Swiss GAAP ARR¹¹ (Fachempfehlungen zur Rechnungslegung – FER), compliance with certain more complex accounting provisions was either non-existent or insufficient.

To ensure compliance with statutory and professional requirements the FAOA has agreed comprehensive measures with the smaller state-regulated audit firms already inspected. In most cases a (full) licence will not be granted until the necessary measures have been successfully implemented and reviewed by the FAOA.

The manner in which measures agreed between inspected audit firms and the FAOA have been implemented is gratifying and was, overall, comprehensive and timely. In some cases the FAOA also found that the audit firms have voluntarily implemented additional measures. This demonstrates the audit firms' great self-interest in having a properly functioning quality assurance system.

In the year under review the main measures agreed between the FAOA and the audit firms covered such areas as:

- The training of employees and partners in auditing and accounting standards and with regard to independence;
- The strengthening of quality assurance resources (risk management, etc);
- Ensuring the storage of relevant information and documentation in Switzerland;
- The amendment or clarification of internal quality assurance system guidelines and directives;
- The enhancement of internal monitoring measures (e.g. with respect to independence and the monitoring of time spent by lead auditors and Engagement Quality Control Reviewers);
- Additional internal support for lead auditors (coaching);
- The development of guidelines to link partners' remuneration more heavily to audit quality and make this more transparent.

¹¹ ARR: Accounting and Reporting Recommendations.

3.4 Cooperation with other Swiss regulatory authorities and the stock exchanges

As part of the audit oversight of state-regulated audit firms, joint inspections were once again performed with the Swiss Financial Market Supervisory Authority (FINMA) in the year under review. The FAOA covered all firm reviews and the file reviews of public companies outside the banking and insurance sectors, while FINMA covered the file reviews in those sectors. In so doing, duplication of effort was avoided as far as possible, as envisaged by the legislators (Art. 22 AOA).

Cooperation with the SIX Swiss Exchange (SIX) intensified as a result of the increased number of sanctions issued by SIX against the audited statutory and consolidated financial statements of public companies. If an issuer is sanctioned by SIX over its audited separate or consolidated financial statements the FAOA investigates the role of the auditor by carrying out preliminary fact-finding procedures at the audit firm. As of the end of 2009 several fact-finding exercises were still being carried out (cf. Sub-section 3.8). The aim is to investigate whether statutory and professional requirements have been met. As a general rule, this does not involve a further assessment of compliance with accounting rules, this being the responsibility of SIX.

The FAOA also carried out various fact-finding procedures in response to leads provided by the Berne stock exchange (BX Berne eXchange).

3.5 Standard-setting

Article 28, paragraph 2 AOO stipulates that the FAOA determines the auditing standards which state-regulated audit firms have to comply with when auditing public companies. In so doing, the FAOA refers to nationally and internationally accepted standards. If there are no such standards, or if those which do exist are inadequate, the FAOA can issue its own standards or add to or annul existing standards.

The principal body responsible for developing international auditing standards is the International Federation of Accountants (IFAC), which sets the internationally accepted International Standards on Auditing (ISA) through the International Auditing and Assurance Standards Board (IAASB). An independent institution, the Public Interest Oversight Board (PIOB), is responsible for monitoring the IFAC standard-setting process. Through its Ordinance on the Oversight of Audit Firms of 17 March 2008 (OOAF-FAOA; SR 221.302.33), the FAOA has declared the standards approved by the PIOB for auditing separate and consolidated financial statements prepared in accordance with international accounting standards as binding. The individual ISA recognized by the FAOA are specified in FAOA Circular 1/2008 of 17 March 2008.

The FAOA also stipulated in Circular 1/2008 that, for the auditing of separate and consolidated financial statements prepared in accordance with US Generally Accepted Accounting Principles (US GAAP), US Generally Accepted Auditing Standards (US GAAS) and the auditing standards of the Public Company Accounting Oversight Board (PCAOB) are recognized as being equivalent to the ISA standards.

The FAOA has generally adopted the ISA and the US GAAS/PCAOB standards and has neither added to nor annulled them unless Swiss law would require this. In this context it should be noted that for companies having their registered office in Switzerland, even when their separate and consolidated financial statements are prepared in accordance with ISA or US GAAS/PCAOB standards, Swiss Audit Standards (SAS) must always be applied as well in order to comply with Swiss law.

In its Oversight Ordinance, the FAOA stipulated that ordinary audits of separate and consolidated financial statements prepared in accordance with the provisions of the Code of Obligations or the Accounting and Reporting Recommendations (Swiss GAAP ARR) must be audited in accordance with the Swiss Audit Standards (SAS) recognized by the FAOA (Art. 2 OoAF-FAOA).

The SAS are issued by the Swiss Institute of Certified Accountants (Schweizer Treuhand-Kammer). As a member of the IFAC, the Institute has undertaken to implement the pronouncements of the IAASB in Switzerland, provided this is not incompatible with Swiss law. Where the ISA are transposed in equivalent form into the Swiss Audit Standards, the FAOA sees no reason not to recognize them. The FAOA does, however, exercise a certain monitoring function with regard to the «as promptly as possible» aspect of the implementation of the ISA. One of the main causes of delays in implementation is the need to have the standards translated into German and French, a task which is carried out under the lead management of the professional associations in Germany and France. Furthermore, the Swiss Institute of Certified Accountants also follows the decisions of the European Commission on the implementation of the ISA in the European Union¹².

As already mentioned, as a matter of general principle the FAOA has been given authority to develop auditing standards if no standards exist or if those that do are inadequate. The FAOA is reluctant to exercise this right since self-regulation in Switzerland has generally stood the test of time.

In terms of the standard-setting process, the FAOA's activities in 2009 can be summarized as follows:

- Pursuant to Article 728b of the Code of Obligations, the auditor must now submit a comprehensive report to the Board of Directors. Because of this change, the Swiss Institute of Certified Accountants revised and supplemented SAS 260: «Communicating with senior management on the auditing of financial statements». The Institute sees the contents of the comprehensive report as being determined in the first instance by law (Art. 728b of the Code of Obligations) and in the second by SAS 260, but does not prescribe any binding minimum content. For the FAOA to be able to assess, as part of an inspection, whether the comprehensive report meets statutory provisions, the contents of the comprehensive report need to be defined. On 1 July 2009 the FAOA therefore enacted Circular 1/2009 covering the comprehensive audit report to the Board of Directors. While SAS 260 remains

¹² E.g. for the «Clarified ISA»: see in: *Der Schweizer Treuhänder* 09/12: «Schweizer Prüfungsstandards» (Swiss Audit Standards), Issue 2009, Reto Zemp and Christine Csibi.

- binding for all ordinary audits, Circular 1/2009 supplements this for public companies. With Circular 1/2009 the FAOA does not intend to impose a binding framework on auditors. The form of the reports is left to the discretion of the auditor and non-applicable subject-matter does not need to be commented on – i.e. negative confirmations do not necessarily have to be provided. The FAOA believes that the definition of contents it has provided will also benefit the Boards of public companies.
- The Institute revised its auditing standards to account for the audit-related amendments to the Code of Obligations which came into effect on 1 January 2008. The updated edition of the standards (2009 edition) includes these revisions. However, as these were the only revisions made, except for SAS 260 and SAS 700, the SAS 2009 edition still reflects the ISA position as of 30 June 2003. The changes to ISA since 2003, in particular the ISA changes introduced as part of the «Clarity Project», are yet to be incorporated. The revised versions of SAS 260 and SAS 700, governing the comprehensive and summary audit reports, apply to reports dated on or after 1 January 2010. The other audit standards, to which (minor) amendments have been made, apply to audit periods beginning on or after 1 January 2010. The SAS not affected by the amendments to the Code of Obligations remain unchanged and retain their original effective date¹³. The FAOA has been studying the changes to the SAS in depth and plans to revise its Circular 1/2008 on the recognition of auditing standards accordingly.
 - As mentioned, with the exception of SAS 260 and SAS 700, the 2009 edition SAS still reflects the ISA position as at 30 June 2003. The FAOA believes that the SAS should be brought into line with the latest ISA at the earliest possible opportunity. It is understandable that the Institute of Certified Accountants may wish to follow the pace of implementation within the European Union and not want to lead the way but the FAOA has asked the Institute to present a plan and a timetable for implementing the «Clarified ISA» in 2010.
 - During the course of its licensing and inspection activities, the FAOA has found that auditors' internal controls (especially preventative controls) for ensuring compliance with independence rules are in need of improvement. Within its licensing and inspection activities the FAOA will examine compliance with the independence rules closely. One topic that is a regular subject of discussion is the ratio of non-audit fees to audit fees. Regarding economic dependency, the legislator stipulates in Article 11 of the Audit Oversight Act, under the heading «Independence», that the annual fees from audit and other services provided to one company may not exceed 10 percent of the audit firm's total fees. The legislator does not specify further limits. Although the subject of continual discussion, even internationally there are (as yet) no provisions limiting non-audit fees to a certain proportion of audit fees. The FAOA is nonetheless convinced that too great a ratio of non-audit fees to total fees may, in appearance at least, jeopardize independence. The SIX Exchange's Directives concerning Information on Corporate Governance (CGD of 17 April 2002 and 29 March 2006) require the separate disclosure of audit fees and fees for other services. The Corporate Governance Report section of public companies' annual reports provides investors and other interested parties with this information, such that they can form their own opinion. In view of this, the FAOA does not currently intend to issue more specific rules. However, in its inspection activities it will turn its attention to situations in which non-audit fees are higher than audit fees. If, for instance, the ratio exceeds 3:1, the FAOA will consider the possibility that audit activities are being prejudiced.

The following are expected to be topical issues in 2010:

- Although the Stock Exchange Act accords the auditor with important duties as regards public takeover bids there is no corresponding auditing standard. At the suggestion of the Takeover Commission and the FAOA, the Institute of Certified Accountants launched a project to rectify the situation and an auditing standard was drawn up in 2009 specifying the audit procedures to be followed by the auditor in connection with takeover bids. The consultation process was completed in 2009 and the auditing standard is scheduled to be finalized and come into force during the course of 2010.

¹³ For details, see in: *Der Schweizer Treuhänder* 09/12: «Schweizer Prüfungsstandards» (Swiss Audit Standards), Issue 2009, Reto Zemp and Christine Csibi.

3.6 Main areas to be covered by inspections in 2010

– State-regulated audit firms are subject to a number of FAOA reporting obligations (cf. Art. 14, paras. 1 and 2 of the Audit Oversight Act; Art. 30, para. 1 AOO). There are plans to set out these reporting obligations in more detail in Circular 1/2010. The draft of this Circular has been out for public comment since the end of 2009 and is expected to come into force in the second quarter of 2010.

The main areas to be covered as per the Activity Reports for 2006-2007 and 2008 remain relevant. The FAOA will pay particular attention to the following auditing standards in its inspections in 2010:

- Fraud and errors – Auditor's responsibility (ISA 240);
- Auditing of fair values (ISA 545);
- Going concern (ISA 570);
- Use of the work of another auditor (ISA 600).

During firm reviews the audit approach (audit methodology) of the firm concerned will be examined as regards the timely incorporation of the «Clarified Standards (ISA)»¹⁴.

The principal financial reporting-related areas to be covered in 2010 are:

- The audit of business combinations (IFRS 3R/IAS 27R);
- Segmental reporting (IFRS 8 – Operating segments);
- Accounting treatment of revenues arising from complex transactions (IAS 18 – Revenue).

¹⁴ The new standards are «effective for audits of financial statements for periods beginning on or after December 15, 2009».

3.7 Audit quality measures

To assess the quality of audit services provided, during the year under review the FAOA collected data from the four largest firms (Ernst & Young AG, KPMG AG, PricewaterhouseCoopers AG and Deloitte AG). Since no comparative data is available, trend analyses cannot yet be made. Twelve quality measures were collected for the ISQC 1 areas of acceptance and continuance of client relationships, human resources, engagement performance and internal monitoring.

The quality of audit services is measured primarily by the results of internal and external monitoring. While this monitoring is essential it cannot fully cover factors with only a future impact. In this context the measures requested by the FAOA may provide advance information and pointers to trends.

The measures collected¹⁵ reveal substantial differences between the four largest audit firms in certain areas, as shown by the following examples:

- a. The average annual revenues per audit partner of each firm varies from CHF 2.0 million to CHF 4.2 million.
- b. The ratio of audit partners to staff differs only marginally at three of the four firms (between 10.8 to 11.5), but one firm has a ratio of 7.5 – i.e. 7.5 audit staff to each audit partner.
- c. The average annual training hours of managers, senior managers, directors and partners varies between 54 and 95 hours (based on a two-year average).
- d. The use of foreign resources in internal monitoring («non-local reviewers») varies between 32% and 100%.

The quality measures are part of the FAOA's risk monitoring and will be collected from the large audit firms on an annual basis. The FAOA will analyse quality measure trends and take them into consideration in its oversight activities.

3.8 Proceedings and preliminary fact-finding

If it is suspected that statutory obligations have been breached the FAOA embarks upon a preliminary fact-finding investigation. These preliminary fact-finding investigations are generally triggered by leads provided by third parties. The objective of the preliminary fact-finding investigations is to analyse and understand the role of the auditors in the specific situation and in the context of the applicable regulatory provisions.

If the suspicion of breaches of statutory obligations is substantiated, the FAOA initiates administrative law proceedings against the state-regulated audit firm or the individuals concerned.

The FAOA embarked upon six preliminary fact-finding investigations in 2009 (2008: three). Two preliminary fact-finding investigations have already led to administrative law proceedings (2008: none). One related to incorrect reporting on the annual Swiss GAAP ARR financial statements of a public company. Measures were taken against the state-regulated audit firm and costs were awarded against it. In the other, which relates to an infringement of the rotation rules, proceedings were opened against the lead auditor and the state-regulated audit firm but these were yet to be completed as at 31 December 2009. In three of the remaining four preliminary fact-finding investigations no decision had been reached by the year end on whether to proceed further. In the other case the fact-finding investigation resulted in no action being taken by the FAOA.

¹⁵ The measures are sometimes calculated on the basis of unaudited data. In addition, depending on the audit firm, the measures are based on the engagements of all audit clients or only on those of the public companies audited. Furthermore, in some cases simplifications and/or assumptions had to be made. The meaningfulness and comparability of these measures is therefore limited.

4 International

4.1 Introduction

The trend towards greater regionalization, internationalization and globalization among the big audit networks that has been developing for some time strengthened further in 2009. Nationally-dominated local firms geared to their own national markets are increasingly becoming subsidiaries of regionalized groups¹⁶.

Most audit oversight authorities are, by contrast, still primarily national bodies whose powers end at their respective national borders. However, the above-mentioned trend is increasingly forcing audit oversight authorities to expand beyond this national role and to coordinate and harmonize their oversight activities at the international level. Only increased cooperation and mutual recognition can produce an international oversight system that eliminates the disadvantages of a purely national focus¹⁷.

The above applies all the more to Switzerland because its capital market is comparatively small, the Swiss economy is traditionally heavily dependent on exports, and Swiss public companies are often also listed on foreign stock exchanges. Efficient cooperation with foreign audit oversight authorities is therefore of great importance in maintaining the attractiveness of Switzerland as a business location. In 2009 the FAOA opened or continued bilateral negotiations on future cooperation with the audit oversight authorities in the major economic areas (EU, USA and Japan).

From an economic policy perspective, Switzerland's negotiating position is heavily influenced by the fact that it is not a member of the European Union. This has advantages and disadvantages. On the one hand it gives greater independence. The FAOA sees this as an opportunity to represent the interests of Swiss business in a well-directed manner. But on the other Switzerland cannot rely on the support of a powerful negotiating partner and is therefore obliged to define its negotiating positions clearly in order to withstand international pressure.

This also makes it all the more vital for the FAOA to position itself and network on the international stage. An important step in this direction was its hosting of the meeting of the International Forum of Independent Audit Regulators (IFIAR)¹⁸ in Basel in April 2009.

¹⁶ Cf. FAOA Activity Report 2008, p. 29.

¹⁷ Cf. article by Reto Sanwald/Sabine D'Amelio Favez, «Internationale Zusammenarbeit zwischen Revisionsaufsichtsbehörden» (International Cooperation between Audit Oversight Authorities), in: Der Schweizer Treuhänder 2008, pp. 872 et seq.

¹⁸ More details on the IFIAR may be found on its website at www.ifiar.org.



4.2 Relations with the European Union

Negotiations with the European Union are proceeding at two levels. The first is the so-called «equivalence procedure», in which the equivalence of non-EU countries' oversight systems is being assessed¹⁹. The second, the so-called «adequacy procedure», is examining the ability of EU oversight authorities to cooperate with non-EU oversight authorities. Most particularly, the oversight authorities of a non-EU country are regarded as being adequate if they are able to conclude agreements with the oversight authorities of EU Member States on the exchange of working papers and other documents, and if the confidentiality of documents from EU Member States is guaranteed.

On the question of equivalence, the Swiss audit oversight system has been undergoing examination by experts from various EU Member States since the autumn of 2008. The country report on Switzerland was approved by the European Group of Auditors' Oversight Bodies (EGAOB) in the autumn of 2009. The EU Commission is expected to take the final decision on equivalence before 1 July 2010²⁰.

With regard to adequacy, in October 2009 the EU Commission presented a draft under which the oversight authorities of EU Member States are allowed to conclude cooperation agreements with the oversight authorities in Canada, Japan and Switzerland. The formal decision of the EU Council and of the EU Parliament is expected to be taken shortly. Once this is done it will be possible for Switzerland to conclude cooperation agreements with EU oversight authorities.

The consent of the EU Council and of the EU Parliament does not mean that information can actually be exchanged straightaway. The EU decision means only that negotiations between EU oversight authorities and the FAOA can be held. Whether, and under what conditions, information is exchanged will depend on the outcome of the negotiations.

4.3 Relations with the USA

The PCAOB published its ideas on international cooperation in late 2007, in the draft of a so called Policy Statement²¹. Unlike the EU, Japan or Switzerland, the PCAOB's aim is not recognition of a foreign oversight system with equivalent audit and oversight standards (principle of «mutual recognition»), but rather reliance on, and trust in, a foreign oversight authority to monitor compliance with US standards in lieu of the PCAOB (principle of «mutual reliance»). The degree of this trust depends on the quality of the foreign authority. Even if a foreign authority is awarded the status of so-called «full reliance», however, the PCAOB reserves the right, in particular, to accompany the foreign authority's inspections.

Originally, the Swiss audit firms that registered with the PCAOB in 2003 and 2004 were to be inspected by the US regulator within four years²². The PCAOB had thus intended to carry out the first joint inspections with the FAOA in Switzerland in 2008. However, in mid-2009 the PCAOB adopted a rule allowing it to extend the inspection deadlines²³. Accordingly, the inspections which were to have taken place in 2008 were to be carried out in 2009 and, depending on a number of criteria, inspections scheduled for 2009 could be postponed until up to 2011. Foreign audit firms not complying with these deadlines risk being sanctioned by the PCAOB. Possible sanctions range from being included on an exception list (for transparency purposes)²⁴, to, as a worst case, being de-registered²⁵.

¹⁹ Like the Swiss arrangements, the 8th EU Directive (2006/43/EC) adheres to the home country oversight principle, under which the oversight authority of the «home country» – or country in which the audit firm is headquartered – is responsible for the licensing and oversight of such firms provided its oversight system is recognized as equivalent.

²⁰ The EU Commission decided on 29 July 2008 to grant auditors and audit firms from certain non-EU countries a transitional period for their respective audit activities: audit firms from 33 non-EU countries (including audit firms having their registered office in Switzerland) are being allowed to continue their audit activities for Non-EU companies listed on European markets. The transitional period runs until 1 July 2010 and, as mentioned, is intended to enable the EU Commission to come to a final decision on the equivalence of Non-EU oversight systems in the meantime (cf. FAOA Activity Report 2008, p. 30).

²¹ PCAOB Release No. 2007-011, Request for Public Comment on Proposed Policy Statement: Guidance Regarding Implementation of PCAOB Rule 4012, December 5, 2007.

²² PCAOB Rule 4003.

²³ PCAOB Release No. 2009-003, Final Rule Concerning the Timing of Certain Inspections of Non-US Firms, and Other Issues Relating to Inspections of Non-US Firms, June 25, 2009.

²⁴ On 31 July 2009 the PCAOB published a «grey list» of those audit firms which had not been able to be inspected on schedule. Ernst & Young Schweiz appears on this list.

²⁵ Cf. PCAOB Rule 5300 and Final Rule Concerning the Timing of Certain Inspections of Non-US Firms, and Other Issues Relating to Inspections of Non-US Firms (Section V, p. 14).

4.4 Relations with other countries

In March 2008 the FAOA informed the PCAOB that it agreed in principle to joint inspections but for reasons of legal protection final agreement would be subject to the conclusion of a Memorandum of Understanding between the parties, which itself would reflect Swiss law on legal and administrative cooperation. In addition, the inspections would have to be subject to a time limit. The negotiations between the FAOA, FINMA²⁶ and the PCAOB on possible joint inspections in Switzerland began as far back as December 2008. After a second round of negotiations in the spring of 2009 various legal problems were identified which currently make joint inspections in Switzerland impossible. The main problems relate to reciprocity, the lack of a timetable for possible recognition of the FAOA, the confidential treatment of information and the passing-on of information to third-party authorities in the USA. A third round of negotiations was held in Washington in October 2009.

In December 2009 the House Financial Services Committee approved the Investor Protection Act. If the Act were to come into force, it would also include a new administrative assistance provision for the PCAOB which would likely solve the problem of reciprocity in large part. However, it is still not clear whether, when and with what wording this legislative amendment will be passed.

No joint inspections took place in Switzerland in 2009 due to the above issues.

In January 2009 the FAOA hosted a forum of the German-speaking audit oversight authorities (Germany, Austria, Switzerland). The forum, the hosting of which alternates between the three countries, allows for an in-depth exchange of ideas on common problems concerning audit oversight. The FAOA also cooperates closely with the German audit oversight authority regarding training. Joint training meetings were held in Berlin in January 2009 and Berne in July 2009. At these meetings the latest theoretical and practical developments in auditing and accounting were discussed with recognized experts from the EU area.

On 14 September 2009 Japan implemented framework conditions for the oversight of foreign audit firms. The Japanese oversight authority wishes to forgo foreign inspections as far as possible. In return it is demanding detailed information on the activities of the home-country oversight authority²⁷ and is thus interested in concluding a bilateral agreement with Switzerland on the exchange of information. Negotiations are still in the initial phase and will be continued in 2010.

²⁶ Since oversight of auditors of banks is exercised by FINMA and the FAOA jointly, the conclusion of any such agreement requires the participation of FINMA. FINMA is therefore taking part in all negotiations, being concerned in particular with questions of bank customer secrecy.

²⁷ Cf. Public Consultation on «Proposed Basic Guidelines on Information Requirements and Inspection on Foreign Audit Firms etc. by the Certified Public Accountants and Auditing Oversight Board» of 2 October 2009.

4.5 International Forum of Independent Audit Regulators

6 new members joined the International Forum of Independent Audit Regulators (IFIAR) in 2009. It now has 34 member authorities. Steven Maijoor of the Netherlands Authority for the Financial Markets and Paul George of the UK Financial Reporting Council were elected Chairman and Vice-Chairman respectively. The IFIAR also decided to constitute itself as an association under Swiss law and thus give itself a stable legal basis for future development.

The FAOA played an active role in the IFIAR in 2009, most particularly by hosting an IFIAR meeting in Basel in April 2009. In addition to representatives of around 30 member states, the meeting was also attended by representatives of the Financial Stability Board, the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, the Public Interest Oversight Board, the World Bank, IOSCO and the EU Commission as observers. The CEOs of the 6 large international audit networks, namely BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG and PricewaterhouseCoopers, also attended to meet the representatives of the oversight authorities and discuss how the economic crisis was impacting the audit industry.

The FAOA is currently also represented on two IFIAR working groups. The first is the Standards Coordination Working Group; whose objective is to look into the work of the IAASB and provide input based on the experience of the IFIAR members. The second is the International Cooperation Working Group, which endeavours to promote international cooperation between IFIAR members. Membership of these working groups enables the FAOA to identify trends and developments at an early stage and take account of them in its oversight activities.

Finally, the FAOA also took an active role in the IFIAR Inspection Workshop in Stockholm in February 2009; most particularly presenting and moderating a session on «Auditors' responsibility to consider fraud as part of a financial statement audit».

4.6 Enactment of Article 8 of the Audit Oversight Act

In recent years the capital markets have become increasingly internationalized and globalized and many foreign companies make use of the Swiss capital market. The audits of such companies must also be subject to oversight if audit quality is to be assured within the Swiss capital market (see Art. 8 AOA). The auditor of an international group can be covered by a number of audit oversight authorities. To avoid duplication of effort, FAOA licensing and oversight are not required in the following exceptional cases:

- Where the foreign audit firm is subject to oversight from a foreign audit oversight authority recognized by the Federal Council (Art. 8, para. 2 AOA). The Federal Council can rely on recognition granted by other countries or international bodies, and on reciprocal agreements (Art. 10, para. 1 AOO).
- Where a bond is guaranteed by a company audited by a firm which is itself subject to oversight by the FAOA or a foreign audit oversight authority recognized by the Federal Council (Art. 8, para. 3 AOA).

By way of a counter-exception, foreign audit firms which supply audit services to Swiss public companies under Swiss law are in every case subject to FAOA oversight (Art. 10, para. 2 AOO).

Article 8 of the Audit Oversight Act is not yet in force. The FAOA is currently working on a way of implementing this provision, which will be put out for public comment in due course. Enactment is provisionally planned for mid-2011.

5 Court rulings

5.1 Introduction

In 2009 the Federal Administrative Court (FAC) had to rule on a number of appeals lodged against unfavorable licensing decisions made by the FAOA. Some cases are still pending with the FAC. Only in one case did an appellant whose appeal was rejected then go to the Federal Supreme Court (FSC). The rulings of both courts related to the licensing conditions concerning educational qualifications and professional experience and to questions of procedural law. In most cases they confirmed the FAOA's practices. The most important deliberations are set out below. Particular reference is also made to the FAOA's practice concerning the concept of impeccable reputation.

5.2 Educational qualifications

The Audit Oversight Act contains what is currently an exhaustive list of the educational qualifications which allow an individual to be licensed as an audit expert or auditor (Art. 4, para. 2 AOA). As the FAC has already found on a number of occasions, the legislators allowed only those educational qualifications which – when supplemented by an appropriate number of years' professional experience – guarantee high-quality audit services. By reverse logic, this means that educational qualifications not itemized in Article 4, paragraph 2 of the Audit Oversight Act have been deemed by the legislators to be inadequate. In 2008 the FAC declared a number of educational qualifications to be ineligible²⁸.

In 2009 the FAC also confirmed that the title «fiduciario commercialista» awarded by the cantonal government of Canton Ticino was not a recognized educational qualification. The Court noted that this title was an official authorization for pursuing the profession of «fiduciario commercialista» under the Canton of Ticino Act of 18 June 1984 pertaining to the Regulation of the Profession of Trustee but was not evidence of the completion of a relevant course of education pursuant to the Audit Oversight Act²⁹.

²⁸ A federal banking expert diploma (eidg. dipl. Bankfachmann) (FAC Decision No. B-1940/2008 of 10 June 2008); a university degree in political sciences (FAC Decision No. B 3393/2008 of 24 September 2008); an education in business studies (FAC Decision No. B-2807/2008 of 19 August 2008, FAC Decision No. B-5811/2008 of 22 January 2009); or training as a private trustee without a Federal Certificate of Competence (FAC Decision No. B-2486/2008 of 7 October 2008).

²⁹ FAC Decision No. B-5881/2008 of 19 March 2009.



Because of the legislator's clear directives, the FAOA has no power to license individuals with any educational qualifications other than those specified in the Act. The only exception is for individuals whose qualifications were obtained through educational courses under previous legislation that equate to one of the educational courses currently listed in the Act (otherwise known as «grandfathered qualifications»). These individuals include, in particular, those who passed the intermediate accounting expert (Bücherexperte) exam between 1958 and 1986³⁰, the intermediate tax expert (Steuerexperte) exam between 1982 and 1986, the Swiss Trustee Association exam in 1981, 1982 and 1984 and the intermediate bookkeeper exam.

The FAC recognized the last of these educational qualifications to be equivalent to that of certified bookkeeper and consequently also to that of Expert in Finance and Accounting with Federal Certificate of Proficiency³¹. The Court examined whether the lack of a transitional provision concerning the recognition of intermediate exams within the Regulation of 22 March 1971 to the Federal Final Examination for Bookkeepers was intentional. The Court found it difficult to detect any intention on the part of the authors to establish equivalence in the Regulation, as proof of passing the intermediate examination did not confer the same rights as the actual diploma or degree. The Court then examined whether this literal and methodical interpretation is constitutional in terms of the precept of non-discrimination, given that those individuals with the intermediate bookkeeper's exam do not have an educational qualification recognized by the Audit Oversight Act, whereas holders of the federal bookkeeper's diploma do. After comparing the substance of the two titles the Court concluded that they did not differ so significantly that one could be regarded as equivalent to the educational qualifications recognized in the Audit Oversight Act and the other could not. There were therefore no objective grounds not to treat the intermediate bookkeeper's exam and the federal bookkeeper's diploma as equivalent. Such discrimination would infringe the precept of non-discrimination within Article 8 of the Federal Constitution.

5.3 Professional experience

The statutorily prescribed length of professional experience depends on the applicant's educational qualifications and the type of licence being sought. Depending on educational qualifications, the professional experience required to be granted a licence as an audit expert can be up to twelve years (Art. 4, para. 2 AOA), of which at least two-thirds must have been acquired under supervision (Art. 4, para. 4 AOA). To be granted a licence as an auditor, on the other hand, only one year's supervised professional experience is required, irrespective of educational qualifications (Art. 5, para. 1 AOA). In both cases the professional experience must be acquired predominantly in the fields of accounting and auditing accounts (Art. 4, para. 4 and Art. 5, para. 2 AOA).

In a Decision of 27 January 2009³² the FAC confirmed the FAOA's practice. It opined that the adverb «predominantly» gives the FAOA great discretion, which it has used properly by stipulating that this equates to three-quarters of the total professional experience required³³. The Court also confirmed it appropriate to disallow professional experience acquired before commencement of a relevant course of education. It concurs with the FAOA's view that only someone with the necessary theoretical knowledge can apply this in practice and recognize the overall context of the questions and problems faced. Furthermore, since the FAC did not recognize professional experience acquired before commencing a successfully completed course of education, professional experience gained during a course of education is also not recognized if the course is not completed successfully through the passing of a final exam.

³⁰ See in particular FAC Decision No. B-3805/2008 of 4 December 2008 and FAC Decision No. B-1237/2008 of 22 December 2008 relating to the intermediate accounting expert examination for the years 1966 and 1970. This educational qualification is equivalent to being a trustee with Federal Certificate of Proficiency.

³¹ FAC Decision No. B-1554/2009 of 16 June 2009. In this case the defendant was the Federal Office for Professional Education and Technology (OPET). As part of its licensing procedure, the FAOA had asked the appellant to have his title recognized as equivalent by the OPET (see under Sub-section 5.5 on the issue of the lawfulness of this course of action).

³² FAC Decision No. B-5835/2008 of 27 January 2009.

³³ Professional experience acquired under supervision for licensing as an audit expert is therefore equal to half of the total professional experience required by Art. 4, para. 2 of the Audit Oversight Act. If the prescribed professional experience is 5 years (cf. Art. 4, para. 2, indent (b) AOA), professional experience under supervision is therefore 2.5 years ($5 \times \frac{3}{4} \times \frac{2}{3}$). If the professional experience is 12 years (cf. Art. 4, para. 2, indent (c) AOA), professional experience under supervision is 6 years ($12 \times \frac{3}{4} \times \frac{2}{3}$).

5.4 Impeccable reputation

An individual who wishes to be granted a licence as an audit expert or auditor must have an impeccable reputation (Art. 4, para. 1 and Art. 5, para. 1, indent (a) AOA). Article 4, paragraph 1 of the Audit Oversight Ordinance further specifies that the applicant will be granted a licence if he or she has an impeccable reputation and that no other personal circumstances suggest that he or she cannot offer every assurance of being able to conduct proper audits.

In 2009 neither the FAC nor the FSC had to rule on the concept of impeccable reputation. In 2008, however, the FAC confirmed the FAOA's practice which draws, in particular, on the case-law relating to the concept of «every assurance of proper business conduct» within financial market regulation³⁴.

5.5 Procedural law issues

In the process of examining the equivalence of the intermediate bookkeeper's exam and the federal bookkeeper's diploma (cf. Sub-section 5.2 above), the FAOA asked the applicant to apply to the Federal Office for Professional Education and Technology (OPET) for confirmation of equivalence. Upon the negative decision of the latter the applicant lodged an appeal with the FAC against the OPET. Amongst other things, the Court was asked to decide whether the FAOA had the power to rule on equivalence itself, and therefore whether it was right to refer the applicant to the OPET. The FAC came to the conclusion that the FAOA does not have this power and that referring the applicant to the OPET was not a breach of law because the OPET clearly does have the power to decide on equivalence. In the same case the applicant asked the FAC to instruct the FAOA, as a precautionary measure, to grant him a provisional licence and enter him in the Register of Auditors. In an interim decision, the Court decided that it could not accede to this request since the case concerned the equivalence of the intermediate bookkeeper's exam to the federal bookkeeper's diploma and not to licensing by the FAOA³⁵.

Another case taken to the FAC involved the lifting of the suspensory effect of an appeal against the FAOA. The appellant was an applicant who had been granted a provisional, rather than full, licence as an audit expert. In support of his application for

the restoration of the suspensory effect of his appeal, the appellant cited primarily the damage to his reputation. The Court came to the conclusion that the public interest in the proper discharge and quality of audit services, as well as the interests of the audited companies and users of the audit report, took precedence over the personal interests of the applicant³⁶. In a similar case, an audit expert who already held a full licence was found guilty by a civil court of breaching his duties of care as a lead auditor and ordered to pay a considerable sum in damages. The FAC maintained that the FAOA rightly lifted the suspensory effect of the appellant's appeal against the FAOA's decision to withdraw his audit expert licence. The Court further stated that the FAOA acted commensurately, since a more lenient decision would not have ensured the conduct of proper audits until such time as the appeal procedure had been completed. In examining the question of commensurate action, the FAC also took into account the fact that the appellant was still able to perform audit work for his firm under the management of his partner, who did hold an audit expert licence³⁷.

In connection with a decision reconsidered by the FAOA, the FAC also gave its opinion on the question of legal costs. The FAOA had at first rejected a licence application, since the applicant could not prove professional experience acquired under supervision. At the time of the FAOA's decision the practitioner supervising the applicant had only passed the intermediate bookkeeper's exam. The FAC's decision on the equivalence of this educational qualification (see Sub-section 5.2) reached the FAOA one day after its decision to refuse the application. The FAOA thereupon reconsidered its decision and granted the applicant his licence. In the FAC's opinion, the FAOA knew that the EPOT's decision was the subject of a separate appeal procedure. In addition, the appeal against the FAOA's unfavourable decision was the only means open to the appellant to assert his rights, especially with regard to the re-establishment of the suspensory effect of his appeal³⁸. This judgment can be criticized on a number of grounds. First, at the time of the rejection the applicant already held a

³⁴ FAC Decision No. B-2440/2008 of 16 July 2008.

³⁵ FAC Interim Decision No. B-1554/2009 of 19 March 2009.

³⁶ FAC Interim Decision No. B-3219/2009 of 16 June 2009.

³⁷ FAC Interim Decision No. B-7348/2009 of 23 December 2009.

³⁸ FAC Dismissal Ruling No. B-4801/2009 of 6 August 2009.

provisional auditor's licence, allowing him to perform limited audits and, at least potentially, causing damage to the companies he audited and to other users of his audit reports. Secondly, at the time of the rejection he clearly did not fulfil the licensing conditions according to the FAOA's practice. It is not in the public interest that the FAOA suspend every case solely on the grounds that an appeal is in progress, especially as the FAOA cannot predict the timing of appeal decisions. Finally, in this case the applicant lodged his appeal against the FAOA's rejection (of 24 June 2009) on 27 July 2009, even though the period allowed to lodge an appeal had been extended from 15 July to 15 August 2009 (Art. 22a of the Federal Act of 20 December 1968 on the Administrative Procedure; SR 172.012). The applicant, who was aware of the FAC's decision on the equivalence of the intermediate bookkeeper's exam, would have had sufficient time to decide whether an appeal was really necessary or whether the FAOA should be contacted first in order to settle the matter direct. In the latter case the FAOA would have reconsidered its decision straightaway, with no necessity for an appeal procedure, and the process would have been completed earlier than was ultimately the case.

In another reconsidered case, the Court did not order the FAOA to pay the other party's costs³⁹. As part of the licensing procedure, the FAOA had asked the applicant to provide evidence of his professional experience and, in particular, audit reports. The documents submitted were deemed to be inadequate and the licensing application was turned down. During the appeal procedure before the FAC the applicant belatedly filed the audit reports he had been asked for, as a result of which the FAOA reconsidered its decision and awarded the appellant his licence. According to the Court, the applicant would certainly have been able to provide the aforementioned evidence during the licensing procedure. The FAC maintained that the FAOA's rejection and its subsequent reconsideration of this decision had resulted from the actions of the applicant and there were therefore no grounds for awarding him costs.

To conclude, the FSC also opined on its competence as regards appeals against the decisions of the FAC. In Interpretation of Article 83, indent (t) of the Federal Act of 17 June 2005 on the Federal Supreme Court (Federal Supreme Court Act – FSCA; SR 173.110), the FSC refuses to act on appeals against decisions of the FAC where these relate to required educational qualifications and the application of the hardship clause (Art. 43, para. 6 AOA). According to Article 83, indent (t) of the Federal Supreme Court Act, appeals in public-law matters against decisions relating to examination results or other eligibility criteria, especially in the fields of education, training and the exercise of a profession, are inadmissible. This provision applies not only to the results of examinations within the narrow meaning of the word but also to the assessment of a person's physical and intellectual abilities. An appeal in public law is therefore inadmissible if it relates to professional experience, the equivalence of an educational qualification, or the decision as to whether exceptional circumstances justify the granting of a licence even though the standard requirements have not been met (hardship case). In such cases the FAC decides as the court of last instance⁴⁰.

³⁹ FAC Dismissal Ruling No. B-5880/2009 of 8 December 2009.

⁴⁰ FSC Decision 2C_136/2009 of 16 June 2009. See also FSC Decision 2C_288/2009 of 8 May 2009.



Appendices

1 Abbreviations (where used in English)

AOA	Audit Oversight Act of 16 December 2005 (SR 221.302)
AOO	Audit Oversight Ordinance of 22 August 2007 (SR 221.302.3)
EGAOB	European Group of Auditors' Oversight Bodies
EQCR	Engagement Quality Control Reviewer
FAC	Federal Administrative Court
OOAF-FAOA	Ordinance of the Federal Audit Oversight Authority on the Oversight of Audit Firms of 17 March 2008 (SR 221.302.33)
FCRO	Federal Commercial Registry Office
FDJP	Federal Department of Justice and Police
FINMA	Swiss Financial Market Supervisory Authority
FSC	Federal Supreme Court
GAAP	US Generally Accepted Accounting Principles
GAAS	US Generally Accepted Auditing Standards
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
ISA	International Standards on Audit
ISQC	International Standard on Quality Control
OPET	Federal Office for Professional Education and Technology
PCAOB	Public Company Accounting Oversight Board
PIOB	Public Interest Oversight Board
SECO	State Secretariat for Economic Affairs
SEC	U.S. Securities and Exchange Commission
SIX	SIX Swiss Exchange
SME	Small and medium-sized enterprise

2 Key financial data

Income Statement

	2009	2008
Oversight charges	2'877'500	3'010'000
Inspection fees	1'238'690	1'073'000
Licensing fees	922'600	1'336'800
Commissions for internet payments	-49'614	-73'703
Reimbursement of licensing fees	-208'650	-279'350
Unbilled 2009 licensing fees	-738'080	-1'061'440
Release of unbilled 2008 licensing fees	1'508'041	1'242'680
Other income	27'000	12'900
Net revenues	5'577'487	5'260'887
Personnel expense	-4'322'806	-3'330'249
Operating expense	-702'651	-710'643
Depreciation	-153'948	-142'422
Operating profit	398'082	1'077'573
Financial income	95'748	112'647
Financial expense	-	-
Net financial income	95'748	-112'647
Transfer to reserves	-493'830	-1'190'220
Profit / loss	0	0

Remuneration of Board of Directors and Management

	2009	2008
Board of Directors		
Fee: Chairman of the Board of Directors	110	110
Fee: Vice-Chairman of the Board of Directors	75	75
Fees: Other members of the Board of Directors	90	90
Social security contributions	14	16
Total compensation paid to members of the Board of Directors	289	291
Executive Board		
Executive Director's salary	247	240
Other Executive Director's benefits	32	25
Other Executive Board members' salaries	378	358
Other Executive Board members' benefits	35	12
Social security contributions ⁴¹	113	104
Total compensation paid to members of the Executive Board	805	739

⁴¹ Comprises pension/invalidity/income compensation insurance contribution, unemployment insurance contribution, work-related/non-work-related accident insurance contribution, occupational pension savings contribution and risk premium.



3 Special-law licences

A special-law licence, deriving from a main licence granted under the Audit Oversight Act, must be obtained for activities in the following areas (position as of 31 December 2009):

Audits in the field of	Main licence under the Audit Oversight Act: Audit firms	Main licence under the Audit Oversight Act: Lead auditors	Special-law regulatory authority	Additional requirements
Banks ⁴²	State-regulated audit firm	Audit expert	FINMA ⁴³	Art. 26 FMSA ⁴⁴ Art. 3 FMAO ⁴⁵
Securities traders ⁴⁶	State-regulated audit firm	Audit expert	FINMA	Art. 26 FMSA Art. 3 FMAO
Collective investments ⁴⁷	State-regulated audit firm ⁴⁸	Audit expert	FINMA	Art. 26 FMSA Art. 3 FMAO
Insurers ⁴⁹	State-regulated audit firm	Audit expert	FINMA	Art. 26 FMSA Art. 3 FMAO
Anti-money laundering ⁵⁰	Auditor	Auditor	FINMA	Art. 19b AMLA ⁵¹
Central mortgage bond institutions ⁵²	State-regulated audit firm	Audit expert	FINMA	Art. 26 FMSA, Art. 3 FMAO
Pensions companies ⁵³	Audit expert ⁵⁴	Audit expert	(FSIO ⁵⁵)	–
Health insurance companies ⁵⁶	Audit expert	Audit expert	(FOPH ⁵⁷)	–
Casinos ⁵⁸	Audit expert	Audit expert	FCC ⁵⁹	Art. 75 CO ⁶⁰

⁴² Banking Act of 8 November 1934 (Bankengesetz; SR 952.0).

⁴³ Swiss Financial Market Supervisory Authority (FINMA), which commenced operations on 1 January 2009 and unifies the Federal Banking Commission, the Federal Office of Private Insurance and the Anti-Money Laundering Control Authority. (FINMAG; SR 956.1).

⁴⁴ Swiss Financial Market Supervision Act (FINMASA) of 22 June 2007 (Finanzmarktaufsichtsgesetz – FINMAG; SR 956.1). (FINMA-PV; SR 956.161)

⁴⁵ Financial Market Auditing Ordinance (FMAO) of 15 October 2008 (Finanzmarktprüfverordnung – FINMA-PV; SR 956.161).

⁴⁶ Stock Exchange Act (SEA) of 24 March 1995 (Börsen- und Effektenhandelsgesetz – BEHG; SR 954.1).

⁴⁷ Collective Investment Schemes Act (CISA) of 23 June 2006 (Kollektivanlagengesetz – KAG; SR 951.31).

⁴⁸ There are, however, two exceptions: Firstly, audit firms that audit asset managers and representatives of foreign collective investment companies need to be licensed as audit experts. The lead auditor also requires a licence as an audit expert (cf. Art. 5 of the FMAO). Secondly, audit firms that have to prove that they meet the conditions of Art. 2, para. 3 of the CISA for investment companies need to be licensed as auditors (cf. Art. 6 of the FMAO).

⁴⁹ Insurance Supervision Act (ISA) of 17 December 2004 (Versicherungsaufsichtsgesetz – VAG; SR 961.01).

⁵⁰ Anti-Money Laundering Act (AMLA) of 10 October 1997 (Geldwäschereigesetz – GwG; SR 955.0).

⁵¹ Applies only to the auditing of financial intermediaries that are directly subject to supervision by the FMSA. Self-regulatory organizations may define differing conditions for the admission of audit firms for their membership.

⁵² Mortgage Bond Act (MBA) of 25 June 1930 (Pfandbriefgesetz – PfbG; SR 211.423.4).

⁵³ Federal Act of 25 June 1982 relating to Occupational, Survivors' and Disability Pensions (Occupational Pensions Act – OPA) (Berufliche Vorsorgegesetz – BVG; SR 831.40).

⁵⁴ There is, however, one exception: Only audit firms that are licensed as state-regulated audit firms can act as auditors for investment foundations (Art. 33, para. 3 of the Ordinance of 18 April 1984 relating to Occupational, Survivors' and Disability Pensions (Occupational Pensions Ordinance – OPO) (Berufliche Vorsorgeverordnung – BVV2; SR 831.441.1).

⁵⁵ Federal Social Insurance Office (FSIO).

⁵⁶ Federal Act of 18 March 1994 relating to Health Insurance (Health Insurance Act – HIA) (Bundesgesetz über die Krankenversicherung – KVG; SR 832.10).

⁵⁷ Federal Office of Public Health (Bundesamt für Gesundheit).

⁵⁸ Casino Act of 18 December 1998 (Spielbankengesetz – SBG; SR 935.52).

⁵⁹ Federal Casino Commission (Eidg. Spielbankenkommission).

⁶⁰ Casino Ordinance (CO) of 24 September 2004 (Spielbankenverordnung – SBV; SR 935.521).

4 List of state-regulated audit firms

Position as of 31 December 2009

Full licences

500003	PricewaterhouseCoopers AG	Zurich
501403	KPMG AG	Zurich
501401	KPMG Klynveld Peat Marwick Goerdeler SA	Zurich
500646	Ernst & Young AG	Basel
500770	Intercontrol AG	Zurich
500241	Mazars Coresa	Geneva

Provisional licences

500012	T & R AG	Gümligen
500038	Bankrevisions- und Treuhand AG	Zurich
500149	OBT AG	St. Gallen
500168	Mäder + Baumgartner Treuhand AG	Neuhausen
500369	Duchosal Revision Fiscalité Fiduciaire SA	Geneva 12
500420	Deloitte AG	Zurich
500705	BDO Visura AG	Zurich
500424	Multifiduciaire Léman SA	Montreux
500436	Refidar Moore Stephens	Glattbrugg
500498	PKF Wirtschaftsprüfung AG	Zurich
500505	Treuhand- und audit ges. Mattig-Suter	Schwyz
501091	Provida Wirtschaftsprüfung AG	St. Gallen
500762	Balmer-Etienne AG	Lucerne
500786	PKF Certifica SA	Lugano
500842	PEQ GmbH	Zunzgen
500959	BDO Visura International	Zurich
501382	Berney & Associés SA	Geneva
501470	Ferax Treuhand AG	Zurich
501570	Fiduciaire FIDAG SA	Martigny
501839	Grant Thornton AG	Zurich
502142	Engel Copera AG	Bern Liebefeld
502658	Treureva AG	Zurich

