



The FAOA in brief

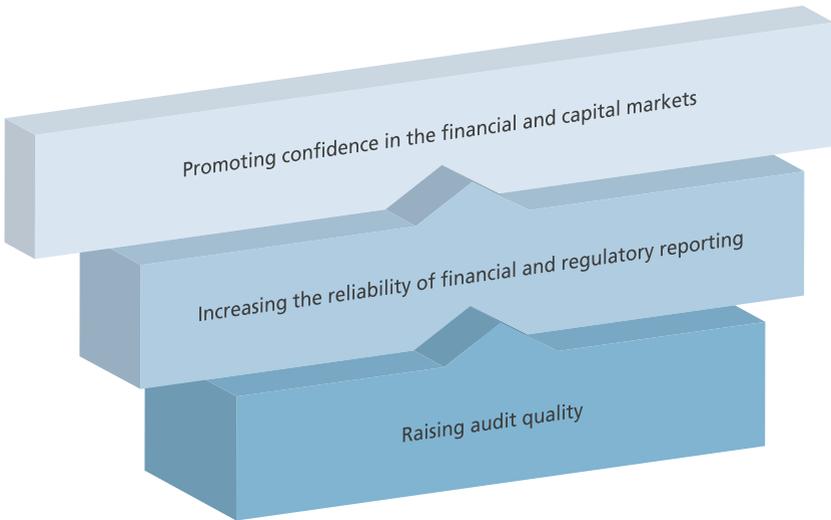
Strengthening confidence in the financial and capital markets

The financial and capital markets are critical to the functioning of the economy and businesses are among the main players within it. Businesses are accountable for their activities to investors, employees, the authorities and other stakeholders. Financial reporting is an appropriate and established means of accomplishing this.

All companies above a certain size are required to have their financial statements audited. In making decisions, investors and other stakeholders rely on the input of auditors to ensure high-quality financial reporting. Against this backdrop, the FAOA is responsible for ensuring that auditors act independently and exercise the necessary professional scepticism to deliver audits of the highest quality.

In the context of regulatory audits, the FAOA must assess whether audits are conducted in accordance with FINMA rules. In conducting regulatory audits, external auditors effectively act as an extension of FINMA and are a key instrument of financial market regulation. Regulatory audits differ from financial audits and address broader organisational and regulatory aspects.

The FAOA licensing system ensures that financial and regulatory audits are only provided by properly qualified professionals and firms with appropriate organisational structures. With the substantive supervision of firms under state oversight, the FAOA further helps improve the quality of financial and regulatory audits for public interest entities.



In performing its function, the FAOA aims to ensure that it is perceived as an independent, professional, credible audit oversight authority by the public, the profession, audit committees, investors and other authorities.

Tasks of the FAOA

Licensing	
<p>The FAOA serves as a licensing body and maintains a public register of individuals and firms that provide financial and regulatory audit services as defined in the Audit Oversight Act (AOA) and financial market legislation. Individuals are licensed for an unlimited period and audit firms for a period of five years.</p>	
Tasks performed by the FAOA	Tasks not performed by the FAOA
<ul style="list-style-type: none">– It maintains an electronic licensing register and makes the information publicly available free of charge.– In the case of individuals, it assesses, for example, the education, professional experience and good standing of the person concerned.– In the case of audit firms, it assesses additional organisational requirements, for example, the requirement for an adequate quality assurance system.– It grants special licences in connection with regulatory audit services provided under financial market legislation.– It issues a timely reminder to firms before a licence expires.– It may withdraw a licence if the licensing conditions are no longer met.– It may conduct investigations into violations and report offences.	<ul style="list-style-type: none">– It does not update entries in the register. Registered individuals and audit firms are responsible for keeping entries up to date.– It only assesses the formal requirements for licensing, but does not assess the substantive criteria in any depth.– As a matter of principle, it does not issue its own quality assurance guidelines but requires compliance with recognised standards (e.g. EXPERTsuisse and TreuhandSuisse).– It does not monitor compliance with licensing conditions on an ongoing basis, but will take action in the event of doubt or on the basis of information from third parties.

Oversight activity

The FAOA oversees all audit firms that provide financial or regulatory audit services to public interest entities, as well as audit firms that have opted to submit to FAOA oversight voluntarily. Public interest entities are public companies in accordance with Article 727 paragraph 1

section 1 of the Code of Obligations (CO), as well as banks, insurance companies, collective investment schemes etc. which are subject to financial market legislation.

Tasks performed by the FAOA

- On an annual basis it inspects the state-regulated audit firms with more than 50 public interest entities.
- It inspects the remaining state-regulated audit firms at least once every 3 years and firms that audit only financial intermediaries directly subordinated to FINMA (DSFIs) every 5 years.
- It carries out both «firm review» and «file review» inspections. «Firm reviews»: Focus is primarily on licensing conditions, procedures relating to auditor independence and quality assurance systems. «File reviews»: Inspection of working papers relating to the audit of public interest entities and contact with members of audit committees.
- On an annual basis it reviews specific aspects of the audit of the two largest Swiss banks.
- It may impose sanctions against audit firms or their employees.
- It lays down the standards applying to state-regulated audit firms with reference to nationally and internationally recognised standards.
- It also takes preventative measures, for example, publications, presentations and seminars.

Tasks not performed by the FAOA

- In carrying out its inspections it focuses primarily on risk, rather than adopting a broad-based approach.
- It does not ensure the quality of the financial reporting of public interest entities directly but rather indirectly, by assessing state-regulated audit firm quality.
- It does not publish findings from inspections but submits these in writing to the respective state-regulated audit firms. However, it publishes an annual Activity Report summarising its findings.
- It does not inspect audit firms that do not provide financial or regulatory audit services to public interest entities, or that have not opted-in voluntarily to FAOA oversight.
- Only financial and regulatory audit services required by law are under its oversight. Other services, such as legal and tax advice, fall outside the scope of its activities.

National and international cooperation

The FAOA provides administrative and judicial assistance within Switzerland to regulatory bodies specifically designated by law, stock exchanges and criminal prosecution authorities. It also cooperates with a range of stakeholders who are working to improve the quality of audit reports and annual financial statements.

The fragmentation of audit oversight across nation states is out of step with the globalisation of capital, services and goods markets. International cooperation is thus essential to any effective system of audit oversight. As a result, the FAOA sees cooperation and networking at an international level as a key responsibility.

Tasks performed by the FAOA

- It provides administrative and judicial assistance to regulatory bodies specifically designated by law, stock exchanges and criminal prosecution authorities.
- It engages in ongoing dialogue with other national authorities, (e.g. FINMA, the Oversight Authority for Occupational Benefits Insurance) and supervisory bodies (e.g. SIX Exchange Regulation).
- It is also in constant dialogue with regulatory bodies in other countries to ensure the effective and efficient monitoring of global audit networks.
- It enters into cooperation agreements with regulatory bodies in other countries (e.g. Germany, France and the UK).
- It has agreed a Statement of Protocol to facilitate cooperation with the US Public Company Accounting Oversight Board (PCAOB).
- It is a member of the International Forum of Independent Audit Regulators (IFIAR).

Tasks not performed by the FAOA

- As an independent institution, it does not take instructions from other authorities with regard to the exercise of its licensing and oversight activities. However, under appeal any FAOA decisions may be reviewed by an independent court of law.

The FAOA in brief

The FAOA commenced operations in September 2007 following a series of accounting scandals and corporate collapses which impacted the economy and demonstrated the need for credible auditing. It was necessary to rectify a number of gaps and shortcomings in current legislation, some of which were significant. This ultimately led to the amendment of the Swiss Code of Obligations and the creation of the AOA. On 1 January 2015 all the oversight powers of FINMA with respect to auditors and regulatory auditors were transferred to the FAOA (bundling of audit firm supervision).

The FAOA is responsible for ensuring the proper performance and quality of audit services (financial and regulatory audits under financial market legislation). It reviews licence applications submitted by individuals and firms providing financial and regulatory audit services and supervises the auditors of public interest entities. It provides national and international administrative assistance in matters relating to audit oversight. The FAOA also cooperates with national regulatory bodies specifically designated by law, stock exchanges, criminal prosecution authorities, civil courts and other stakeholders.

The FAOA is primarily a legal authority that enforces the auditor independence, quality assurance and auditing standards laid down by the profession and by FINMA.

The FAOA is an institution under public law with separate legal personality. It is an independent unit within the decentralised Federal Administration and is attached to the Swiss Federal Department of Justice and Police (FDJP) for administrative purposes. The FAOA performs its oversight activities independently but is subject to the oversight of the Federal Council. It reports annually to the Federal Council and the Federal Assembly on its activities. The annual Activity Reports are available to the general public.

The FAOA is funded exclusively through the fees and oversight charges levied on licensed individuals and audit firms under oversight. No taxpayers' money is used. The FAOA maintains its own accounts outside the federal budget.

The FAOA has its registered office at Bundesgasse 18 in Berne. It also has premises in Zurich.

The governing bodies of the FAOA are the Board of Directors, Executive Board and the Auditor.

The FAOA has the following divisions:



Financial Audit

Regulatory Audit

Legal &
International

Licensing

Further information is available at www.rab-asr.ch.

International

International administrative assistance

The globalisation of capital, goods and services markets makes it essential to cooperate with supervisory bodies and public authorities outside Switzerland with a view to establishing an international oversight system that eliminates the disadvantages of a purely national focus. Thereby, international administrative assistance stands in an area of tension between sovereign rights on the one hand and economic and political realities on the other.

Overseeing the auditors of international public interest entities poses the greatest challenge. If major subsidiaries of Swiss public interest entities are located abroad and audited by local member firms of the audit networks, the quality of those audits must also form part of the overall assessment of the FAOA.

Assurance may be achieved by various means, for example, by cooperating with local oversight authorities. The FAOA has already entered into various agreements to this effect with oversight authorities in other countries. The most intense cooperation is with the USA due to the listing of Swiss companies in the USA and the presence of US corporations in Switzerland. Arrangements have been in place since 2011 to facilitate cooperation between the FAOA and the PCAOB.

The EU Commission adopted a decision in 2011 recognising the equivalence of the FAOA audit oversight system. As a result of this decision, the oversight authorities of EU Member States can now place full reliance on the audit oversight activities of the FAOA. The FAOA has entered into cooperation agreements with the audit oversight authorities of Member States to govern the specific arrangements. Such agreements are in effect, for example, with Germany, the Netherlands, France, the UK, Finland, Luxembourg and Canada. The FAOA is currently in negotiations with other countries.

The FAOA is working towards full mutual recognition with a view to implementing the princi-

ple of «home oversight». It aims to achieve the broadest possible recognition of FAOA oversight activities abroad. It also seeks to avoid duplication for the state-regulated audit firms through effective and efficient cooperation with partner authorities outside Switzerland.

International organisations

The international exchange of experience and transfer of knowledge are also crucial to the FAOA. To that end, the FAOA is an active member of IFIAR. IFIAR provides an important stage for interaction with other oversight authorities, facilitating discussion of various oversight strategies and their implementation in an international context.



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

+41 31 560 22 22
info@rab-asr.ch
www.rab-asr.ch