



16 September 2011

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Mr James Gunn
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

Dear Mr. Gunn,

Request for Comments – Consultation Paper, Enhancing the Value of Auditor Reporting: Exploring Options for Change

Introduction

The Federal Audit Oversight Authority (FAOA) of Switzerland welcomes the opportunity to comment on the above consultation paper.

The Audit Oversight Ordinance stipulates that the FAOA determines the auditing standards which state-regulated audit firms must comply with when auditing public companies. In so doing, the FAOA refers to nationally and internationally accepted standards. Through its Ordinance on the Oversight of Audit Firms of 17 March 2008, the FAOA declared the ISA to be binding for auditing statutory and consolidated financial statements prepared in accordance with IFRS.

The FAOA participated in the creation of the International Forum of Independent Audit Regulators (IFIAR) and is committed to playing an active role in that forum. Furthermore, the FAOA is represented in the IFIAR Standards Coordination Working Group. The objectives of this Working Group are to share views on relevant projects and to facilitate discussions with relevant bodies, such as IAASB or IESBA, as regards their standards or other matters.

General Comments

The FAOA agrees with the IAASB that the external audit plays an important role in supporting the quality of financial reporting around the world, and in communications with users. In the jurisdiction of the FAOA the majority of audit reports contain clean opinions. These audit opinions may reflect an auditor's overall conclusion but in the FAOA's view the informative value of these reports could be more useful.

Accordingly, the FAOA appreciates the efforts of the IAASB in enhancing the quality, relevance and value of auditor reporting.

The FAOA believes that audit reports should be improved and enhanced through the inclusion of more information regarding the audit performed. We are aware that the various options for changing the auditor's report, along with any additional requirements, will lead to increased cost. The auditor will be more exposed as a result of the additional information disclosed in the new auditor's report. Also management might need to provide more information to the auditor and those charged with governance might incur greater expense in preparing the corporate governance report. But the FAOA is of the opinion that the benefits to users of the options below will compensate for any additional cost.

The IAASB raised the question as to whether changes are needed with respect to the audit of all types of entities, or only to the audit of listed entities. In the view of the FAOA only option A (*Format and Structure of the Standard Auditor's Report*) should be applied to the audit of all entities. However, options B (*Other Information in Documents Containing Audited Financial Statements*), C (*Auditor Commentary on Matters Significant to Users' Understanding of the Audit or the Audited Financial Statements*), D (*An Enhanced Corporate Governance Reporting Model: Role of Those Charged with Governance Regarding Financial Reporting and the External Audit*), and E (*Other Assurance or Related Services on Information Not Within the Current Scope of the Financial Statement Audit*) should apply only to the audit of listed entities.

FAOA Comments

Section III—Exploring Options for Change

A. Format and Structure of the Standard Auditor's Report

In the view of the FAOA the auditor's opinion paragraph(s) should be highlighted as the auditor's opinion reflects the auditor's overall conclusion on the audit performed. There could, however, be other information relevant to the audit and other matters which warrant disclosure in the auditor's report (see our comments to chapters B to E). All standard paragraphs should be positioned in an appendix, this forming an integral part of the report.

Explanations of Management and Auditor Responsibilities

The FAOA would retain these paragraphs but position them in an appendix to the auditor's report, while highlighting that such information is an integral part of the report.

Use of Technical Language

In the opinion of the FAOA there is no need to change the technical language.

Location of the Auditor's Opinion

The auditor's report needs to communicate clearly the auditor's opinion on the entity's financial statements. After repositioning the responsibilities of management and auditor in an appendix the FAOA would locate the auditor's opinion immediately after the introductory paragraph and the identification of the financial statements.

B. Other Information in Documents Containing Audited Financial Statements

In the view of the FAOA the audit report should include a statement on the auditor's responsibilities regarding other information in documents containing audited financial statements. There should be an explicit statement as to whether the auditor is reporting on the other information.

C. Auditor Commentary on Matters Significant to Users' Understanding of the Audit or the Audited Financial Statements

Increased Use of "Emphasis of Matter" Paragraphs in the Standard Auditor's Report

The FAOA supports the position that the auditor shall help users navigate increasingly complex corporate financial reports by drawing attention to information within the financial statements that the auditor believes is significant to users' understanding of the audited financial statements, such as important disclosures. We are of the opinion that more frequent use of specific paragraphs in the audit report could contribute to the quality of financial reporting by increasing the focus of management and those charged with governance on such matters.

To reduce the risk that the auditor will not form an unequivocal opinion on the financial statements the standards should provide the auditor with clear guidance on how to formulate emphasis of matter paragraphs and on the situations in which they might apply.

Providing Increased Information about the Audit

In paragraph 62 of the consultation paper the IAASB listed examples of information about the audit performed. In principle we believe that the paragraphs are of interest to users of the financial statements but their inclusion may cause certain problems. This applies particularly to those providing information on:

- *Areas giving rise to a risk of material misstatement of the financial statements, as identified by the auditor (critical accounting estimates or areas of measurement uncertainty in the financial statements);*
- *The level of materiality applied by the auditor to perform the audit; and*
- *Areas of significant difficulty encountered during the audit and their resolution.*

In the view of the FAOA additional statements made by auditors may be negated or made less understandable to users of the financial statements if they appear to contradict those of management. The FAOA is further of the opinion that the auditor must take care not to provide information about the entity that has not been disclosed by the entity itself.

While recognizing the above, for "*Areas of significant auditor judgment*" and "*entity's internal controls, including significant internal control deficiencies identified by the auditor during the audit*" the auditor should in our view provide more information. The current ISA 315 does not oblige the auditor to test the entity's internal controls and the FAOA believes that it is still a matter of the professional judgment as to whether the entity's internal controls are relevant to the audit. If the auditor is of the opinion that the audit can be performed more efficiently by

substantive testing alone the auditor is not required to test internal control effectiveness. The FAOA notes that a (new) standard should support the auditor in defining nature and extent of audit procedures to be performed in this area.

Providing Auditor Insights about the Entity or the Quality of its Financial Reporting

We understand the desire for the auditor to share insights and perceptions about the entity or the quality of its financial reporting based on the work performed for the financial statement audit. However, in our opinion the auditor is not responsible, and should not take responsibility, for disclosing information about the entity to users of the entity's audited financial statements. It should be clear that the external audit is an independent function. Furthermore, within our own jurisdiction the auditor is bound by an audit secrecy provision (Revisionsgeheimnis).

D. An Enhanced Corporate Governance Reporting Model: Role of Those Charged with Governance Regarding Financial Reporting and the External Audit

Public listed entities at the SIX Stock Exchange are obliged to report on corporate governance. As part of the financial statements audit, auditors shall consider whether such reports are consistent with the financial statements (ISA 720). We support the option of an enhanced corporate governance reporting model, with the auditor providing a separate assurance report on the reasonableness and completeness of the audit committee report.

E. Other Assurance or Related Services on Information Not Within the Current Scope of the Financial Statement Audit

In the opinion of the FAOA the auditor should be required to provide assurance on other types of subject matter where this is deemed to be of value to the management of the entity as well as to external users, in particular as regards internal controls, financial reporting processes, and key performance indicators.

Yours sincerely,

Frank Schneider

A handwritten signature in black ink, appearing to read 'F. Schneider', written over a diagonal line that extends from the top left towards the bottom right.

Chief Executive Officer