

10.11.2015

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Auditing as a compulsory measure

Dear Sir or Madam,

Within the business community there are numerous tasks to tackle, and one of those tasks is having to deal with an audit company. SMEs with up to ten employees are entitled to forgo the statutory audit. This opting out for very small companies had been introduced a few years ago, and nowadays it has led to companies of that size not having an auditor anymore.

Tip: By opting out, you reduce costs

However, should your company have more than 10 employees, then you are duty-bound to have an audit. Once you have hired an audit firm, a new chapter has started in your company's history. A third party is now auditing your bookkeeping. As a consequence, the company has to undergo a review and has to take on board suggestions and directives from a third party. The law now allows companies to accept comprehensive service packages by auditing companies (e. g. tax advice, tax declaration, business consultancy, administrative support, etc.). As an additional element of this comprehensive service package, auditing can be included. However, in order to comply with regulations regarding independence, the additional service of auditing requires a separation in personnel terms. Thus, a one-man accountancy firm is unable to offer such a comprehensive package.

Tip: Choose an accountancy firm that can offer you a comprehensive package.

Cases of listed companies that have gone bust have seriously tarnished the reputation of the major players in the auditing sector, and in one case, one of the major players was eventually put out of business. As a reaction to these cases, the framework conditions for auditing have changed, and regulations regarding audits have been severely tightened. On top of that, auditors are now subject to reviews by the Federal Audit Oversight Authority (RAB).

Tip: Actively communicate with your auditor as this can reduce costs.

Not only is an audit firm for SMEs a commissioned company, it also needs to inform the authorities should the board show signs of inactivity. Thus it is recommended that if facing an impending crisis, the audit firm should be informed as soon as possible in order to find solutions. Where once such dealings were amicable, this is now no longer possible.

Tip: If issues arise with an audit firm, seek a second opinion.

Not only can breaches of duty by the audit firm give rise to liability if the Federal Audit Oversight Authority is informed, it can also lead to its licence being revoked, which de facto would amount to a ban from working in the sector. This also applies to alleged breaches of duty. The Federal Audit Oversight Authority is anything but busy. The initial backlog of registration proceedings has disappeared, and now the federal employees need to be kept busy. Thus complaints by shareholders are more than welcome. In turn, the Federal Audit Oversight Authority has become an instrument of company strife.

Caution: Conflicts with minority shareholders can also be fought with the auditors as instruments.

What does an auditor do?

The examination of accounts (audit) includes the following tasks and duties: All assets present and correct, formal completeness of liabilities, fair valuation, complete revenue statement, correct authorisation of expenditures and compliance with statutes and legal requirements.

How is an audit done?

The audit methodology (procedure test taking into consideration internal audit and results assessment) and the audit procedure (inventory audit, impairment test, transaction audit, document check, calculation check, balancing test, transfer review, overall audit, coherence test, assessments and comparisons of figures, critical examination, investigation of files, interviews and inspections) plus the audit scope and selection (complete review or spot checks, direct or indirect audit, progressive or retrograde audit) have to take existing conditions into account and consider their relevance, and they depend on the size of the institution.

Tip: Prepare documentation for the auditor, it helps to reduce costs.

The benefit of an audit

Without a shadow of doubt, an audit is beneficial to the audited company. It contains an attestation and thus documents an orderly audit system. For this reason it can be worth it to have external auditors, even for a small company. This can also be entered into the companies' register, and can thus also be helpful during talks about loans. On the other hand, the price/performance ratio of this service for the actual purposes is rather feeble. The formal requirements have, due to the Federal Audit Oversight Authority, increased considerably.

As a consequence, the financial reporting cannot be evaluated comprehensively and reliably. What is required, in fact, is ticking off the right boxes and documenting this. Major errors in the statement that are outside the auditor's remit fall through.

Tip: Please check the final result thoroughly and critically.

Should you have any questions, the artax team is at your disposal.

Kind regards

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