

Statutory auditors' independence

1) Why is independence so important? It forms the foundation for the credibility and relevance of the audited information and thus the foundation for trust

Auditors operate at the intersection of a three-party relationship: they are engaged by audit clients to audit their annual financial statements, with the aim of providing certainty to the users of the financial statements concerning the accuracy of the information provided.

In assessing the information in the annual financial statements, the professional should be objective, impartial, unbiased and free of conflicts of interest. To ensure this objectivity, the professional must be independent of the audit clients. Independence is thus a key element of auditing and a fundamental principle of our profession.

2) Independence is not an absolute (no one is totally independent)

However, the audit industry has given more thought to how independence can be achieved in practice than virtually any other industry.

3) Differentiation between independence of mind and independence in appearance

Independence is tied to the obligation to maintain objectivity and integrity. It comprises:

- independence of mind, which means a personal mindset that allows to form an opinion, without being influenced by factors that could impair professional judgement, and which allows the individual to act with integrity and objectivity and maintain professional scepticism;
- independence in appearance, which means avoiding situations that are of such significance that a third party would be required to determine whether the integrity, objectivity or professional scepticism of the audit firm or a member of the audit team has been compromised.

4) Ensuring independence when providing audit and advisory services in the SME environment

The Swiss economy demands efficient service provision from industry members; in the SME environment, “single-source services” are particularly desired and the professional judgement of the auditor plays an important role.

Principle of prohibition of self-auditing: auditors may not audit any information if they have participated in its preparation.

Within the scope of limited statutory examinations, assisting in bookkeeping and the provision of other services for the audited company are permitted. If there is a risk of the auditor reviewing their own work, appropriate personnel and organisational measures must be taken to ensure the reliability of the audit. In addition, the circumstances must be disclosed in the audit report.

5) Rotation of the auditor in charge after seven years

Under the law, the auditor in charge must be rotated after seven years to avoid over-familiarity with the client. In the case of ordinary audits, the person who leads the audit may perform the mandate for a maximum period of seven years. They may only resume the same mandate following a break of three years.

For public-interest entities, the mandatory seven-year rotation applies to all responsible auditors as well as to the person responsible for the quality assurance specific to the mandate.

6) Reducing cluster risk and avoiding economic dependence

The annual fees from audit and other services provided to a single company and other companies associated with it by means of common control (groups) must not exceed 10 per cent of the audit firm’s total fees.

The risk of economic dependence on the client primarily arises for the audit firm based on the audit mandate (no more than 10 per cent of the audit firm’s total fees in accordance with Art. 11 of the Auditor Oversight Act, AOA), while the risk of financial dependence as a result of the advisory mandate is significantly lower.

The compatibility of audit and advisory in different audit segments and the existing safeguards are shown in the figure below.

Audit segment	Audit and advisory in different areas	Audit and advisory in the same area
Public companies	<p>Possible in principle, subject to clear legal requirements.</p> <p>Disclosure ensures transparency:</p> <ul style="list-style-type: none"> - The audit firm must- if, in the case of public interest entities, the ratio between audit fees and additional fees during a financial year exceeds the ratio of 1:1 – submit an ad-hoc report to the audit oversight authority. - The company being audited must disclose the scope of the services received in the notes to the annual financial statements. 	Not permitted.
Economically significant companies	<p>Possible in principle, subject to clear legal requirements.</p> <ul style="list-style-type: none"> - The company being audited must disclose the scope of the services received in the notes to the annual financial statements. 	Not permitted.
SMEs	Possible in principle, subject to clear legal requirements.	Permitted, subject to clear personal and organisational separation on behalf of the audit firm; disclosure in the audit report.