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NEWSLETTER

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The Limited Audit: Curse or Blessing?

Dear Ladies and Gentlemen,

In response to the major accounting scandals (including the ENRON case) at the beginning of 2000, the Auditing Oversight Act, (Revisionsaufsichtsgesetz(RAG)), entered into force on 1 September 2007 in Switzerland. For the supervision of auditing firms, the audit oversight authority was created, which aims to prevent such abuses with checks and approval tests.

This bill was hastily approved by Parliament under the pressure of the Sarbanes-Oxley Act in the United States without prior consultation and is tailored primarily to the auditors of listed public companies. Although the Federal Council's message on the law emphasizes SME-friendliness, it points out that, in line with the needs of the practice, advisory services in the area of accounting, financial statements and limited auditing are permitted. This takes into account the fact that many SMEs are unable, for staff or technical reasons, to prepare their own accounts or annual accounts independently and without assistance. However, involving additional consultants would have a significant cost impact which would be significant for small businesses. Assistance and support from the auditors would be more efficient and cheaper. The resulting impairment of the independence of the audit seems justifiable if it is limited to small businesses.

The intention of bureaucratically relieving and easing SMEs was made absurd by the practice of the Audit Oversight Authority of subjecting the limited audit to the strict rules of the ordinary audit. This led to a strong formalization and bureaucratisation even in the limited audit. The clear separation of personnel from audit work and other consulting activities and the obligation to internal quality assurance makes it difficult or impossible to gain market access for one-man businesses and smaller companies. This increases the effort and the costs, without the SMEs being able to recognize anything in return. Therefore, it is not surprising that practically all eligible companies have elected to opt out and have therefore waived a voluntary limited audit.

In our opinion, this is not an optimal solution, as the auditors strengthen the quality of accounting and bring current expertise to the company. Increased risks for the Board of Directors arise as a result of which violations of the law can not be recognized and thereby prevented, for example violations of the Money Laundering Act, the prohibition of deposit refunds and direct partial liquidation in connection with own shares. Often, experience with new issues in accounting is also missing.

Also, the implementation of a four-eye principle is usually not practical, so that the risk of undetected errors and property offenses is increased.

Interesting here is the experience in Sweden, where the audit requirement for SMEs was abolished in 2010, as the audit process was increasingly perceived as an administrative burden. However, evaluating the impact did not prove this reform to be a success, as the costs outweighed the benefits. The audit was rated as valuable for both the SMEs themselves and the public. Firms that opted against the audit showed a smaller growth, profitability did not increase, transparency decreased and accounting errors increased. In addition, the credibility of these companies to suppliers, investors, employees and the Treasury decreased.

Another unsatisfactory solution is the liability issue in Switzerland. The Federal Council's message can only be read as follows: "As far as the responsibility is concerned, the fact that the auditors only check to a limited extent only results in limited claims". In current practice, the difference to the liability in the ordinary audit is only that the tasks are limited in the limited audit, the extent of liability is at least the same. In fact, the division of liability is not based on the extent of the fault, but on economic performance. Unfortunately, the parliamentary initiative of National Councilor Daniela Schneeberger, which provided for substantial improvements in the overall regulation of the limited audit, was narrowly rejected by the Council of States in June 2018. It is only to be hoped that these deficiencies will be remedied in the revision of company law. At least in terms of liability, there is agreement in the auditing industry that adjustments are necessary.

In spite of these adverse circumstances, the artax Group has made the fundamental strategic decision to continue its audit work at the subsidiary BM Swiss Audit, partly because we are convinced of the benefits of the audit for SME companies and, on the other hand, the audit activity has a positive effect on the quality of our accounting services , Also, thanks to the licensing of five auditors, we can offer solutions for SMEs, not from a single source, but from the same group of companies, while respecting the separation of personnel. Another advantage is that auditing is not our main activity, such that we really know the problems of SME companies from our daily work and can therefore find appropriate solutions.

Kind regards
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