

Deloitte.



Audit illuminated

Swiss Audit Transparency Report 2017

Our purpose defines us

We serve our clients with quality and distinction.

Making a measurable and attributable impact.

We inspire our people to deliver value.

Mentoring and developing future leaders and colleagues for life.

We contribute to society.

Building confidence and trust, upholding integrity and supporting the community.

We are one of the leaders in the profession.

Challenging ourselves to deliver innovative ideas that reflect unique capabilities.

We're focused on illuminating what a high quality audit looks like – raising the bar on client experience and service. We believe in making an impact that matters and aspire with assurance.

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Introduction

Being transparent about our commitment to audit quality is very much in the public interest and underpins our approach to this Swiss Audit Transparency Report.

We are delighted to introduce you to our Audit Transparency Report 2017 for Switzerland. The purpose of this report is to provide you with insights into the culture, vision and direction of Deloitte Audit in Switzerland. The Audit Transparency Report is an important element of our communication with our clients, their investors, Board members and management, regulators and other stakeholders.

Aspire with assurance

At Deloitte, our objective is to be the market leader that delivers unique value to our clients, their investors, other stakeholders and the public in general. We are issuing this report on a voluntary basis in order to fulfil our public interest role in the Swiss capital markets in a transparent and constructive way.

We are focused on illuminating what a high quality audit looks like – raising the bar on client experience and service. From our perspective, attaining high audit quality allows our dialogue with the Board members and management of our clients to be more robust, insightful and better focused on key risks.

The evolving landscape

It is an exciting and dynamic time to be part of the audit profession. The recent auditor report changes will assist in addressing expectation gaps by reporting on key audit matters and related audit responses – providing further opportunity for in-depth discussions with Board members and management on key matters.

In addition, we believe audit is evolving and we are investing heavily in the audit of the future. We have embarked on an ambitious path to elevate the value proposition of the independent audit and we are mobilising globally to achieve our goals. We use data analytics to increase our effectiveness and are exploring ways to further leverage technology as part of our commitment to quality.

Investment in people

We also continue to invest in our people; as an example, we invested significantly in learning and development and aim to provide a supporting environment for professional learning. During the last financial year, close to 100 people were hired in the Audit & Assurance service line and we also welcomed four new partners.

With all of this, we are well positioned to take on the challenges and opportunities that lie ahead, and to strive in our quest to make an impact that matters.

This transparency report demonstrates our commitment to audit quality and the culture of integrity, professional excellence and accountability that underpins our organisation.

Thank you for your interest.



Simon Owen

CEO

Deloitte AG



David Barnes

Chairman

Deloitte AG



Thierry Aubertin

Managing Partner, Audit & Assurance

Deloitte AG

01

Legal structure and governance

Our focus on delivering high quality audits is built on a solid foundation of strong leadership and governance structures.

1. Legal structure and governance

Deloitte is the brand under which more than 245,000 dedicated professionals in more than 150 countries collaborate to provide services to selected clients.

All Deloitte firms are members of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”). Each DTTL member firm provides services in particular geographic areas and is subject to the laws and professional regulations of the particular country or countries in which it operates. Each DTTL member firm is structured in accordance with national laws, regulations, customary practice, and other factors, and may secure the provision of professional services in its territory through subsidiaries, affiliates, and other related entities.

In Switzerland, Deloitte is a leading audit and risk advisory company that offers industry specific services in the field of audit & assurance, consulting, financial advisory, risk advisory and tax & legal. With over 1,800 employees at the six locations of Basel, Bern, Geneva, Lausanne, Lugano and Zürich (head office), Deloitte works with organisations and institutions of every legal status and size from all economic sectors.

Deloitte AG and Deloitte Consulting AG are subsidiaries of Deloitte LLP, the United Kingdom affiliate of Deloitte NWE LLP, a member firm of DTTL. While audit & assurance, risk advisory, financial advisory and tax & legal services are offered via Deloitte AG, the consulting services are provided by Deloitte Consulting AG.

Being part of the Deloitte global network brings us a number of great assets and a huge potential to leverage processes, systems, know-how and resources.

Deloitte North West Europe

Since 1 June 2017, the Belgian, Danish, Dutch, Finnish, Icelandic, Norwegian, Swedish, Swiss and UK Deloitte member firms have combined to create a single entity: Deloitte North West Europe (Deloitte NWE). Deloitte North West Europe brings together the experience, expertise and insights of approximately 30,000 people. In addition, this move will enable further investments in the region to enhance seamless, borderless service to clients, to boost innovation and to create the best development opportunities for our people.

Punit Renjen, Deloitte Global CEO, commented: “Our strategy is to deliver services to clients as one seamless global organisation. In addition to expanding our capabilities, expertise and insights, our increased scale will enable us to accelerate investments in the types of innovations that transform and advance our clients’ business.”





1. Governance structure of Deloitte AG

The leadership and management of the firm are underpinned by strong governance structures, including a quality and risk function that provides oversight of the Audit & Assurance practice.

The main activities of Deloitte Switzerland are the provision of audit & assurance, risk advisory, tax & legal, consulting and financial advisory services. We operate an integrated business model: each of our businesses applies a common set of procedures and policies and, where appropriate, each has developed additional and bespoke policies and guidance to reflect the specific requirements of its business offerings.

Roles and responsibilities	Membership
<p>The Board of Directors of Deloitte AG</p> <p>The Board of Directors determines the long-term strategies, the organisation and monitors operative business management in accordance with the non-transferable and inalienable duties according to Art. 716a Swiss Code of Obligations (SCO). The Board of Directors is responsible for the organisational structure of the firm, its risk assessment and the financial governance. All members of the Board of Directors meet at least four times a year in order to fulfil their role.</p>	<p>The Board of Directors consists of the Chairman, the Chief Executive Officer and three additional partners.</p>
<p>The Swiss Management Committee of Deloitte AG</p> <p>The Swiss Management Committee is leading and managing the firm's day-to-day operational business. It is also responsible for implementing the strategy and the policies determined by the Board of Directors. Furthermore, the Swiss Management Committee has the responsibility for planning the firm's future development and has the authority to manage the day-to-day operations.</p>	<p>The Swiss Management Committee consists of partners appointed by the Board of Directors and is lead by the Chief Executive Officer.</p> <p>Each member of the Swiss Management Committee has specific responsibilities with an emphasis on the group work to lead the firm. Besides this, each member of the Swiss Management Committee is active in the market and serves our client base.</p>
<p>The Audit & Assurance Executive</p> <p>The Audit & Assurance Executive defines the strategy for the Audit & Assurance services. Its members are responsible for implementing the Audit & Assurance Strategy and leading the operations within the service line. Audit quality, innovation and talent management are at the top of the agenda of the Audit & Assurance Executive in accordance with the firm-wide objectives to be the undisputed leader in the Swiss Market.</p>	<p>The Audit & Assurance Executive Members are appointed by the Managing Partner of the Audit & Assurance service line. Each member has a specific management function within the Group (e.g. Innovation, Talent, Operations, Quality) in addition to his/her client facing role.</p>



2. Role of the Board of Directors

We set clear roles and responsibilities for our Board of Directors and bring our most senior and skilled people together in our Board to lead Deloitte Switzerland.

Through our role as an audit & assurance business, we see ourselves as an entity of public interest and aim to act accordingly with regards to compliance and transparency.

It is widely recognised that the role of the Board of Directors in the oversight of a firm's strategy, financial steering and risk management is not as straightforward as it may have been some years ago. With an increased scope of activities, heightened risks resulting from the challenging business environment, complex changes in the economy and legislation, the role of the Board of Directors is not one to be underestimated.

The Board of Directors acts as the strategic leadership and governing body of Deloitte AG. The following areas are of strategic importance to the governance of our firm and are consequently top priorities of the Board of Directors.

Internal control

In maintaining a sound system of internal control and risk management and in reviewing its effectiveness, the firm uses best practice methods and guidelines.

The Management Committee's assessment of the potential risks to the achievement of the firm's strategy and to maintaining its reputation is set out in an Enterprise Risk Framework (ERF).

The effectiveness of the firm's system of internal control was reviewed by the Board of Directors including all of the activities noted above and, based on discussions held and the evidence provided, the Board of Directors has concluded that no significant failings or weaknesses exist, which would require disclosure. Although actions arise from both internal reviews and external inspections, these are not of such significance that they undermine the system of internal control in place, rather they represent actions which we believe will further strengthen the system of internal control.

On the basis of the reviews carried out, the Board of Directors is satisfied that the firm's system of internal control is operating effectively.

Quality Management

The firm's Reputation & Risk Leader plays a vital role in ensuring quality is at the heart of all we do and that risk is appropriately managed. In addition to the other matters set out above the Board of Directors considered reports from the firm's National Professional Practice Director on:

- any decisions taken by the firm's Management Committee that could materially affect the firm's risk position; and
- the results of the firm's portfolio risk review, claims, investigations, reputational issues and risk financing.

The firm's service line Managing Partners and Quality & Risk Partners are responsible for the management of quality and risk in each service line.

In order to better understand the current and future challenges faced by Board of Directors, we have talked to a number of Board Members of Swiss companies. We have also launched our [Swiss Centre for Corporate Governance](#) as a support to Board Members.

Role of Audit Committees in achieving high audit and financial reporting quality

We believe audit committees play an important role in enhancing audit quality and supporting a high level of transparency and integrity in financial reporting by:

- Challenging whether the company has appropriately skilled personnel responsible for financial reporting and a culture that values quality and transparency
- Having the requisite skill mix and thorough understanding of the business model to be able to critically evaluate information, anticipate and manage risks, and engage in frank and open dialogue with the auditor
- Challenging the appropriateness of the accounting judgements exercised by management in preparing the financial statements and making disclosures in financial reports
- Understanding the cause of observations and findings from the auditor and ensure appropriate measures are taken
- Setting audit fees that support the delivery of a quality audit
- Considering the independence and effectiveness of the external audit process.

Deloitte Switzerland has developed an **Audit Committee Effectiveness Framework**, which is accessible on request.



02

Independence and ethics

We expect all our employees to act with integrity and to maintain their independence in accordance with the firm's independence policies.

2. Independence and ethics



1. Independence

Our commitment to independence and objectivity is the essence of our brand and the foundation on which we have built our reputation for integrity and quality.

We are living and doing business in a world that is constantly globalising and changing, which brings a wide range of opportunities but also new challenges. The level of compliance requirements to safeguard our profession and the high level of assurance we bring to our clients and their investors is increasing significantly. At Deloitte, we seek to go beyond merely complying.

That is why we continue to invest heavily in our people, systems and processes to ensure the independence and objectivity of our firm, our professionals and our engagement teams, and to avoid conflicts of interest in all our engagements.

Our engagement take-on, continuance and compliance processes, as well as our audit appointment and client database tools, comprise solutions to address the complexity of global regulatory requirements.

The tools are designed to ensure that we do not engage in certain transactions or relationships with restricted entities. Access to globally aligned and integrated systems (as described on the next page) is a valuable element of being part of the Deloitte global network.

Raising awareness

In addition to our systems and processes, we continue to increase awareness and improve education, particularly in the area of personal independence, in the following ways:

- 

Tailored communications to individuals for whom the restrictions on their connections have changed due to an audit client's restructuring or due to promotions to higher grades with enhanced responsibilities.
- 

Training of all partners and colleagues on the new independence rules and the impact on individuals.
- 

Giving support to retiring partners by explaining the independence considerations following retirement.
- 

Enhanced onboarding process for lateral hire partners, providing one-to-one consultations.

We want to lead the profession and act as role models.

Our tools to support our firm-wide and individual independence



Conflict check system

Identifies and manages potential conflicts in respect of proposed engagements, business and financial relationships. The conflict check system automatically searches the Restricted Entities Database to identify whether any of the relevant entities are restricted. Where they are, the conflict check response will require consultation to confirm that the proposed relationship will not impair independence. Such confirmation and approval must be obtained prior to each client acceptance.



Restricted entities database

Records comprehensive details on every entity for which we are required to maintain independence ('restricted entities'), allowing partners and colleagues to check independence requirements for such restricted entities.



Annual returns

Obtains confirmation from partners, professionals and support staff on an annual basis, that they are not engaged in any restricted transactions or business relationships. Annual returns also covers the learning hours invested in our talent base.



Personal connections system

Enables us to monitor the financial interests of all partners and client-facing staff from assistant manager grade and above. Individuals are required to record their own, and their immediate family members', financial interests.



Inspection and testing

In depth assessment of the financial holdings of all partners and directors and a randomly selected sample of manager grades and below. Inspection & testing is carried out each year by a dedicated team using third party documentary.



Business relationships monitoring system

Records all business relationships and alliances of the firm. A dedicated team independently reviews any proposed business relationship to identify potential threats to independence and may decline the proposed relationship or prescribe safeguards to address any threat to independence, as required.



External appointments

To ensure we undertake the right level of due diligence with regards to potential external appointments, we have an application and review process, which requires pre-approval by both the Managing Partner and or Swiss Quality & Risk Management (Swiss QRM).

2. Ethics

Acting with integrity underpins all aspects of work at Deloitte and the role of leadership in setting ‘tone at the top’ remains the dominant theme in the delivery of our ethics programme.

Our Ethics Code is well received by our clients and colleagues alike. Our Management Committee and Board support firm-wide programmes to encourage our people to discuss ethical concerns as they arise. Our Ethics Officer is part of the firm’s leadership and promotes discussions about specific messaging and reinforcing the firm’s expectations around role-model behaviour at all levels. In addition, the Ethics Officer actively supported the launch of the firm’s pioneering Respect & Inclusion programme, to ensure that our people thrive, develop and succeed based on their talent, regardless of ethnicity, gender, sexual orientation, or any other dimension that can be used to differentiate people from one another.

We do not tolerate ethical misbehaviour at any level.

Primary principles and consultation

Our ethics programme is based on these primary principles:



The Ethics Officer is available for consultation where conversations take place on a strictly confidential basis. All matters raised in good faith are investigated seriously and independently. In addition to that, a confidential “speak-up telephone service” is operated by an independent third-party, which can be accessed by our employees of all levels.

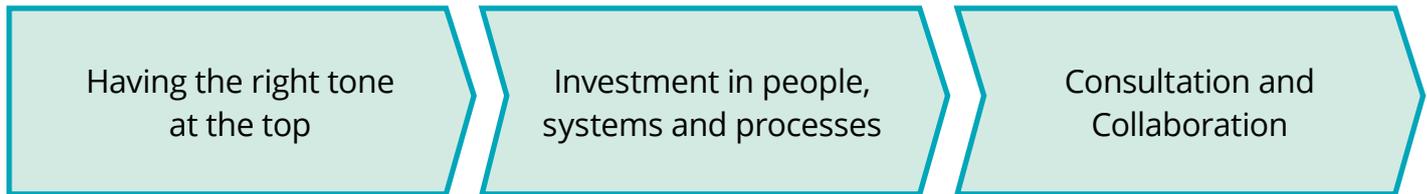
03

Commitment to audit quality

Our commitment to audit quality is paramount.

3. Commitment to audit quality

In this section, we set out how we deliver high quality audits, building on our culture of ethics and integrity, and on the recognition that quality is our number one priority. This is driven by:



We outline below the steps we have taken to embed quality as an integral part of our talent model; the investment we have made to consistently deliver quality in our engagements; and the ways in which we respond to challenges from clients, regulators, investors and our employees in Switzerland.



1. Having the right tone at the top

Our leadership is committed to ensuring high quality work and has established a culture of ethics and integrity, both of which are unconditional.

Both the reputation and success of our firm are dependent upon each and every individual's behaviour and understanding of integrity, our emphasis on personal brand and on the importance of consultation to facilitate sound decision-making.

Our focus on performing a high quality audit is embedded throughout our practice, through our day-to-day policies and methodologies. Our structures, processes and strategies put quality, professionalism and integrity at the heart of every decision we take.

Swiss Audit Quality Board

We established our Audit Quality Board (AQB) in 2015, comprising partners and other senior personnel from across our audit practice. Its remit is to:

- Develop and govern activities that will achieve sustainable improvements in audit quality;
- Implement changes across the audit practice; and
- Respond to audit quality issues raised by regulators and stakeholders, including the Federal Audit Oversight Authority (FAOA), Financial Market Supervisory Authority (FINMA) or the Public Company Accounting Oversight Board (PCAOB).

The AQB meets on a bi-monthly basis and actions driven by the AQB during the year are as follows:

- Response to external and internal inspections;
- Strategic responses to the underlying causes of inspection findings;
- Further enhancement of the content and delivery of our learning curriculum;
- Identification of priorities and creation of an annual formal Audit Quality Plan; and
- The overseeing of ongoing changes to our enhanced audit methodology and their technological implementation.

Additionally, ideas and thoughts for further improving audit quality and promoting innovation from all around the audit practice are being collected, prioritised and kept track of at the regular AQB meetings.



2. Investment in enhanced systems and audit innovation

Enhanced Audit methodology

The Deloitte Audit Approach Manual (“DAAM”) is designed centrally by our global team (to which all member firms contribute) and is tailored by Deloitte Switzerland to comply with Swiss professional standards, legal and regulatory requirements.

During the last year we have significantly enhanced our audit methodology. This enhanced methodology puts an increased focus on a more robust risk assessment, internal controls testing and the use of analytics. These enhancements were rolled out during regular training sessions in 2016 and the messages are being refreshed through update training sessions.

Our methodology is built into an audit approach application, providing a clear framework of procedures and policies. This also gives our audit partners and colleagues the tools to help them to assess risks and make robust audit judgements with regular partner involvement right from the outset of the engagement.

In addition to investment in leading-edge systems and processes, we also invest in our people. See section 5.

Audit innovation

When it comes to innovation, there’s saying and there’s doing. Deloitte does. We make a concerted and continuous investment in developing breakthrough technologies, fresh approaches and new, disruptive perspectives to reshape the audit. You can already see the results today: automation that speeds and improves routine tasks, analytics that yield a deeper and more insightful view into the data, and artificial intelligence that enhances human discovery and problem-solving. Among others, we have introduced and rolled-out innovative tools and platforms in Switzerland, which are described in section 6 of this report.

The new auditor's report

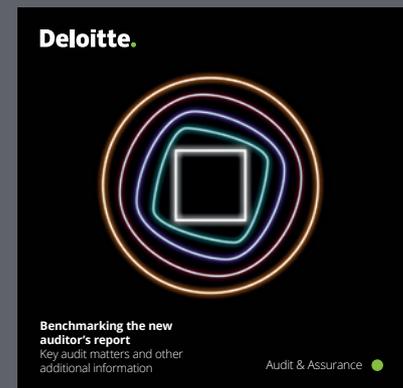
Business has become more complex over the last few years, and financial reporting has had to evolve to take into account the increased judgement, estimates, and uncertainty underlying financial statements. The auditor's report, the key deliverable of the audit process, has until recently been a standard pass/fail report. Now investors and other users of financial statements are demanding additional information, transparency and insight that relates specifically to the audited entity.

The International Auditing and Assurance Standards Board (IAASB) released new and amended International Standards on Auditing (ISAs), which had a significant effect on the auditor's report, such as the reporting of so called Key Audit Matters. Following up on these international developments, Deloitte Switzerland chaired a working group at EXPERTsuisse, dealing with the implementation of the enhanced auditor's report and respective templates for the Swiss audit market.

Following a five-year International Auditing and Assurance Standards Board (IAASB) project, auditors of listed entities had to apply the new standards for audits of financial statements for periods ending on or after December 15, 2016 for the first time.

We were very excited to see how these changes have been implemented in practice and have analysed a sample of recently published annual reports of listed companies in Switzerland. Our analysis showed that the implementation of the new auditor's report and the reporting of key audit matters differs significantly across the sample. While for example the average number of key audit matters is three, the range of reported key audit matters ranges from one to seven. The most frequent topics reported as key audit matters are in the area of goodwill (intangible assets), taxation and revenue recognition. Some of the audit firms, together with their clients even decided to go beyond what is required from the standards and disclosed voluntary additional information. Learn more on the application of the new auditors report on our website: www.deloitte.com/ch/new-auditors-report

The IAASB released new and amended International Standards on Auditing (ISAs), which had a significant effect on the auditor's report.





3. Consultation and collaboration

Deloitte Switzerland benefits from having close global links within the Deloitte network. We serve many global clients and focus on providing consistent quality audits across audit engagements in Switzerland and our international network.

The Deloitte network has adopted several measures to drive quality improvements across the world. The participation and contribution of Deloitte Switzerland in these projects include:

- The production of an annual Audit Quality Plan, which details its response to the Audit Quality framework and measures progress against this;
- The analysis undertaken on the findings from internal reviews and external inspections, to determine the underlying causes behind them;
- Benchmarking audit quality indicators (AQI) against the Deloitte international network;
- The performance of a series of “health checks” (reviews of live engagements) using the findings from inspections and diagnostic tools;
- The roll-out of audit milestones to support engagement teams in their project management responsibilities; and

- Monitoring of audit key performance indicators via innovative and leading-edge technology.

The Deloitte Network established the Global Center of Excellence for Audit Quality (GCoE) in 2015, with a focus on driving enhanced audit quality on global systemically important financial institutions and PCAOB engagements. The aim is to instil best practices from firms with extensive experience and expertise in PCAOB audits into other network firms by providing support based on their knowledge and lessons learned. The EMEA managing director of this Centre of Excellence works closely with our PCAOB Audit Quality and Risk Management team.

The global network has nine International Financial Reporting Standards (IFRS) Centres of Excellence to provide our audit professionals with swift and consistent responses to IFRS technical queries.

We are aware of our obligation to deliver audits in compliance with professional and regulatory standards. We are committed to doing more than simply meeting these requirements.

Consultation and involvement of specialists and experts

We involve specialists throughout our audit work. Involved specialists, including tax, IT, actuarial and valuations experts, receive annual training as they are part of the extended audit teams and work directly within our audit systems. **While each partner is empowered to make appropriate decisions for their engagements, we encourage our engagement teams to consult, whenever they need additional information, perspectives or specialised knowledge.** There are a number of consultation desks in place in Switzerland covering a broad range of areas, such as accounting, complex financial instruments or legal issues.

Engagement quality control review

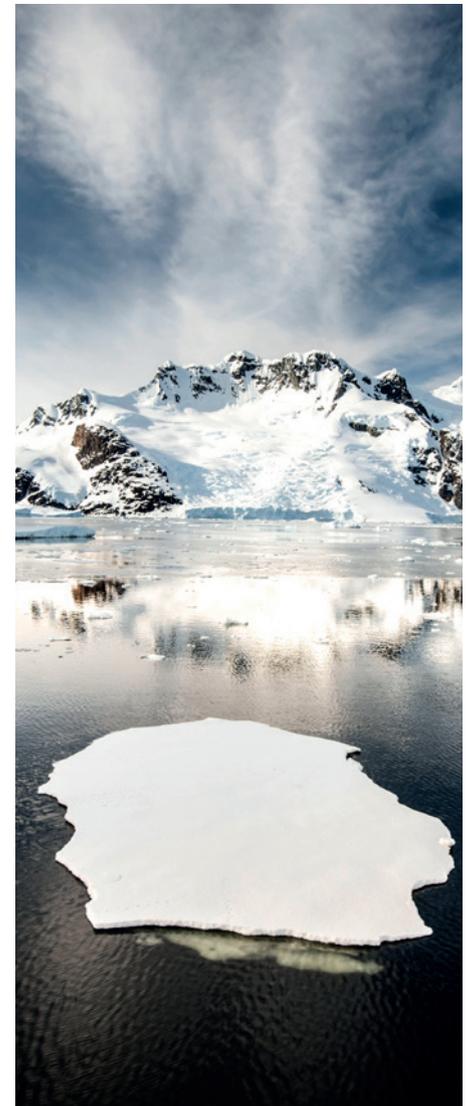
All of our audit files have to meet the highest expectations regarding quality and compliance. As a measure to ensure this high level of quality, all audit files undergo a number of independent reviews depending on their nature.

A Professional Standards Review (PSR) supports our high standards of professional scepticism and audit quality by providing independent challenge on each of our audit engagements.

For public interest entities and engagements with an increased risk banding, an independent Engagement Quality Control Reviewer (EQCR), together with the engagement partner, has responsibility for the whole EQCR process of an engagement, including the involvement of PSR. The EQCR role is performed by a group of highly experienced senior audit personnel.

This includes the review of the proposed wording of the deliverable (e.g. audit opinion) to assess its appropriateness, accuracy and consistency of our reporting among the practice.

All engagements, where the team is considering issuing a modified audit opinion, are subject to an additional level of independent review.



Our new name and refreshed identity

Our new “Audit & Assurance” name combined with our refreshed brand identity enables us to showcase that Audit is about much more than just the numbers.

Those numbers tell a story.
Of accomplishments and aspirations.
Of projects completed and new plans laid. Audit for Deloitte fuels advancement by demonstrating how things are – and then asking, how can they be made better? Audit shows where you stand and helps inform your next step.

We provide the assurance that future visions are built on strong foundations, that they’re informed by relevant insights and guided by sound decisions. In all we do, we illuminate the what, how, and why of change so you’re always ready to act ahead



Driving the impact of Audit with a continually expanding range of skills, experience, and insight.

04

Internal quality reviews and external inspections

In this section we describe how audit quality is monitored at Deloitte Switzerland, both internally and externally.

4. Internal quality reviews and external inspections

Practice review

The purpose of the practice review, our internal review process, is to determine whether we have complied, in all material respects, with the professional standards and the policies contained in the Deloitte Policies Manual and Audit Approach Manual, as well as the applicable professional standards and regulatory and legal requirements.

In 2015 we began a three year process to transform the way we conduct and measure our internal quality review process. The aim of the transformation is to bring a level of rigour and scrutiny to our internal quality reviews that matches the level of an external regulatory inspection.

Engagements are selected across our audit business portfolio, with the files then subject to review by independent professionals. We focus on selecting reviewers who have relevant industry experience and who are capable of bringing robust independent challenge. Reviewers are given thorough inspection training by the leaders of our central inspection team.

Our monitoring procedures complement our policies and tools we have in place to drive audit quality, enabling us to continually improve.

At the end of each review, the findings are moderated centrally by a moderation panel. This moderation panel applies a regulatory lens from our library of inspection findings to ensure that findings are classified consistently. The moderation panel determines the rating for each file review and we adopt a similar rating approach to our regulators, with engagements being classified as Compliant, Improvement Required or Non-Compliant.

The practice review covers all partners, signing directors and other responsible individuals at least every second year and is subject to oversight by an independent partner from another member firm within the Deloitte network.

The results of the practice review are communicated to the Board of Directors, the Swiss Audit & Assurance Executive, the Swiss Reputation & Risk Leader and the Audit Quality Board. In addition, the results are reported to the Management Committee and Board, and to the DTTL Audit & Assurance Executive.

During the year, we also perform mid-year assessments and health-checks on live engagements, in line with the themes arising from both internal reviews and external inspections. The purpose of these assessments is to consider how engagement teams have addressed the key messages from the previous year's improvement topics. We use the results to determine whether the steps already taken have been effective and, if not, what we can do to drive further improvements.

External inspections

Given the important role of auditors in the financial markets, our profession and Deloitte are subject to external oversight and inspections by regulatory bodies. Deloitte recognises the important role the Federal Audit Oversight Authority (FAOA) plays in Switzerland in promoting high-quality external audits of financial reports.

The FAOA undertakes independent inspections of the overall quality of the auditing function in Switzerland. Deloitte's policies and processes supporting audit quality were reviewed, as were a sample of individual audits, including financial and regulatory audits from different industries. We consider that the FAOA's report provides a balanced view of the focus and results of its inspections and is an accurate reflection of our efforts to improve audit quality across our practice. We have developed, or are developing, actions and programmes to address the findings detailed in their report.

We recognise the important role of regulators. We share a common goal of achieving high-quality financial reporting.

Regulatory Audits in financial markets

Financial markets and the respective intermediaries in Switzerland are regulated and supervised by FINMA as an independent governmental supervisor. Audit firms serve to extend FINMA's reach and at Deloitte we are proud of the role we have, as a regulated audit firm, making a significant contribution to achieving this responsibility. We are undertaking a variety of regulatory auditing tasks. As the basis for our regulatory audits, we provide FINMA with an annual risk analysis on each supervised institution audited by us. As part of this risk analysis, we present a forward-looking view of the audited institution's risk profile. This directly influences the annual audit strategy, highlighting which areas of risk ought to be audited and to what extent (either audit or critical assessment scope). We follow a rotation principle with the objective of covering each area of risk within a specific period (usually three years). Examples of areas of risk include anti-money laundering, compliance, credit, market, suitability or capital adequacy risks.

Based on our audit procedures, we then issue a regulatory audit report every year, within four months of the client's year-end. When specifically requested by FINMA we also perform supplementary audits. This allows us the opportunity to conduct more-focused audits on specific topics and to issue special reports in relation to FINMA specifications, which vary according to the size and activities of the institution.

The regulatory environment is constantly evolving, with requirements becoming increasingly more complex every year. This is why risk focused audits are critically important. As auditors, we must also evolve through the application of new technologies. These new technologies are creating a shift in the required profile of an auditor. Skills such as data extraction and analysis, and experience of cutting edge technologies are becoming essential. This is why we have such a focus on the development of the latest analytical tools, as outlined in section 6. These tools are becoming increasingly important in the field of regulatory audits, and represent a significant part of our investment in the audit of tomorrow.

05

Talent

Our firm's commitment to talent and quality means investing both in our people and in the resources they have available.

5. Talent

We believe that our people's experience is a fundamental part of the experience we are able to create for our clients. Applying groundbreaking tools and convention-breaking thinking, we enrich every engagement with an unrivalled diversity of talent, skills, experience, and insight.

Recruitment

Our attraction and selection methodology is designed to recruit highly talented, well-rounded team members with strong technical capabilities and who demonstrate exceptional client service, business acumen and innovative thinking. By the year end (31 May 2017), close to 100 people were hired in the Audit & Assurance service line and we also welcomed four new audit partners. We maintain the high calibre of the people within our audit & assurance practice through a rigorous recruitment process, including skills assessments and competency-based interviews.

Learning programmes

Our approach to continuing professional development and growth is based around specific learning programmes, including regular audit, accounting and industry-specific training to keep all of our professionals at the forefront of new developments and regulations. We are committed to supporting our employees

to obtain relevant qualifications, such as becoming qualified as Swiss Certified Public Accountants (Swiss CPA). We invest significantly in training and aim to provide a supportive environment for professional learning, which resulted in a pass rate of 85% in the 2017 Swiss CPA final exams. 17 people were newly qualified and are now transforming their gained knowledge into value added to our clients. All qualified audit professionals are required to attend our Audit Summer School (3-5 days/ employee), a residential course covering audit, accounting and other matters such as ethics, audit tools, project management and leadership skills.

Since last summer, we have adopted the new mandatory global audit & assurance learning curriculum for all levels, to promote consistency with other Deloitte member firms. Our integration within our international network brings many advantages, such as access to Deloitte University (campuses in Europe and the US) and participation in a wide range of international training. We have also been introducing a parallel curriculum designed for our professionals working on PCAOB engagements. We will continue to supplement these courses with Swiss specific learning topics and courses (e.g. financial markets regulation).

Mobility

We audit and advise international groups, and serving clients in every market is business as usual. That means delivering the right team with the right skills wherever our clients operate. Some of our best professionals have moved to another country – sometimes for weeks, months, or a few years – to support a specific client or to develop specific competences. We have colleagues going overseas to capitalise on opportunities or transfer skills, while others simply wanted to work in another culture, found an opportunity, and have moved to their country of choice. In addition, we also welcome experienced professionals in Switzerland to complement the existing skill set of our teams and to best serve our clients.

"I wanted to broaden my horizons and was able to land the perfect secondment opportunity at the Deloitte UK IFRS Centre of Excellence. Working in an international environment and gaining experience abroad broadened my mind and personal skills. This secondment also gave me the chance to massively enhance my IFRS technical accounting skills, which I will use to the benefit of Deloitte Switzerland and our clients upon my return."

**Nadine Kusche, Senior Manager,
Seconded in the Deloitte UK IFRS
Centre of Excellence**

Our new approach to performance & development

In 2016 we introduced a new approach to performance & development, with greater emphasis placed on ensuring meaningful, frequent conversations about our talent's performance and development throughout the year. Our new approach is widely regarded as market leading.

The new approach is designed to build a culture of constant growth and opportunities for our people. By moving from an annual discussion on performance rating to frequent, future focused conversations our people benefit from strength-based real-time feedback about their performance and development.

Partners and colleagues are having regular check-ins with their team leader, and also have the opportunity to have conversations about their career with a coach. With team leaders people agree dynamic role priorities as part of the regular check-in conversations. Coaches help our people to effectively navigate their career over time and look at a broader, more long-term view.

We see doing the right thing as fundamental to everything we do.



Check-ins

Frequent, future-focused conversations between a team member and team leader about work priorities and outcomes, strengths performance and development



Talent review

Quarterly, future-focused leadership conversations about the growth and development of our people and our business in the near and long-term



Pulse survey

Issued by team leaders completed by team members, ten questions that provide confidential insights into proven predictors of team performance and engagement



Coaching

Coaching provides team members with access to support that can help them view their careers holistically and develop accordingly. Every team member will have the opportunity to speak to a coach



Performance snapshot

A team leader's assessment of a team member's performance at a given point in time, based on their day-to-day experience of working with the team member

06

Our view on innovation and the audit of the future

We believe audit is evolving and we are investing heavily in the audit of the future.

6. Our view on innovation and the audit of the future

Advancements in technology and evolving markets are driving dramatic changes in business – which means audit, too, must evolve.

Deloitte is proud to be at the forefront of this innovation and transformation, finding smarter ways to execute an audit that benefit companies, their investors, and markets overall.

Our innovations in advanced analytics, next-generation applications, and transformed audit execution give our clients:

- Greater insight into financial & internal control risks and strategic challenges
- Increased automation to significantly reduce manual data collection and processing
- Improved connectivity and communication
- Increased transparency

We have embarked on an ambitious path to elevate the value proposition of the independent audit and we are mobilising globally to achieve our goals. The audit of the future encompasses several technologies and tools such as data analytics, artificial intelligence, machine

learning. In investing in these new technologies we aim at increasing the quality and efficiency of our audits but we are also bringing a new dimension to our audit, bringing more insights to our clients.



The audit of the future is built under the following dimensions:

- **Audit technology.** Our audit platform is a trusted source for documenting our audits, accessing leading tools, innovative technologies and driving greater collaboration.
- **Methodology.** Through a systematic approach and fact based risk assessment, we drive smarter and more effective audits.
- **Monitoring and measurement.** A focus on being nimble and agile through an increasingly robust monitoring program.
- **Analytics for all.** By infusing a data-driven and insightful approach, our analytics brings concepts and solutions to life.
- **People.** We develop auditors for today and tomorrow, building advanced skills and critical thinking for the future.
- **Internal controls.** We gain a deep understanding of our clients through a deeper understanding of internal controls.

Audit Innovation

Where others describe the power of innovation, Deloitte demonstrates it. We automate more routine tasks, speeding up the audit process while promoting ever-higher quality and shifting the emphasis to higher-order questions. We apply analytical tools that reveal more insightful answers.

It is key to our strategy that we continue to innovate for improving the quality and efficiency of our audits alongside the developments in our clients' environment. In order to mirror developments in how finance functions of international corporates globalise and establish shared service centres worldwide, we launched a programme in 2016 regarding the collaboration with our audit Centre of Excellence in India (USI), which is now used and accessed by the Swiss Audit & Assurance service line, under the provision of client consent and data privacy regulations. These hubs give audit

teams access to a pool of highly skilled professionals with deep experience and knowledge in a particular audit area, industry, process, or tool. In addition to increased effectiveness, our clients benefit from the leading practices and insights these professionals have developed while honing their specialties.

Over the last years, we have analysed the investments our clients made in their ERP systems and the evolution of their organisation. We have also used our best consultants to understand the trends in terms of new technologies. With this knowledge and insights we have started an ongoing journey where we challenge and review our audit approach to leverage as much as possible these new technologies and trends.

We have also invested heavily in our Audit analytics capabilities, Illumia, to focus on quality and efficiency of our audit approach.

Illumia is used at all stages of our audit. For example, we are able to screen an entire population of data from our clients in order to identify risk patterns and define our audit approach accordingly. This is key when we perform our risk assessment procedures, but also enables us to address some audit testing centrally rather than in several locations.

All of our audit work is performed around the three platforms that we have developed (Magnia, Cognia and Illumia). This contributes to the improvement of quality, efficiency and benefits the context of year-end audit.

Deloitte Magnia

At Deloitte, quality comes through in our results, and at every point along the way. This commitment is supported by the tools we use, such as Deloitte Magnia, our advanced global audit delivery platform. Supporting our methodology, Magnia allows us to deliver a comprehensive, streamlined and consistent audit across the globe.

Deloitte Cognia

As our audit staff work with our clients, they are able to draw upon Deloitte Cognia, a single collaborative global repository of innovative auditing tools and leading practices. This platform enables us to continually drive consistency, high quality, and impact throughout the audit.

Deloitte Illumia

Our ability to drive innovation into all we do is demonstrated by our analytics platform. With Deloitte Illumia, we are able to see deep into the conduct and operations of our clients' businesses. This powerful analytical lens both enhances the quality and accuracy of our audit, and brings more valuable insights to our clients.

Illumia is helping us to move from an old fashioned and labour intensive work to a smarter, more effective and efficient approach to testing.

In addition to Audit Analytics, we continue to invest in next-generation applications that define the leading edge of audit innovation, leveraging automated workflows, artificial intelligence, and cognitive technologies to streamline audit delivery and provide greater transparency throughout the process. These powerful applications enable our auditors to shift their efforts from executing manual processes to generating valuable insights.

For example, we have developed Argus, a contract reading tool, that leverages cognitive technologies such as advanced machine learning and natural language processing to quickly process, highlight, and extract key information from electronic documents – to focus on what matters most. Argus helps our professionals with meaningful insights, including a summary of key analytics across an entire population of documents.

If we invest heavily in new technologies, we also invest in our people. The audit of the future is delivered with different profiles than those required for traditional audits and we are managing the required transformation of our people through training and investment. For example, our data specialists are equipped with cutting-edge analytics and

visualisation solutions as well as deep expertise in data science and advanced analytics. These critical members of our audit teams analyse large data sets and big data to uncover and communicate hidden patterns, linkages, and anomalies.

We are also training our professionals to use advanced analytics and visualisation techniques to interpret large data sets and present findings in a clear and compelling way.

Meanwhile, our dedicated audit innovation team is drawing on the resources and best thinking from across Deloitte's multidisciplinary organisation – collaborating with developers, designers, consultants, data scientists, and strategists – to create new tools and technologies that help drive audit quality, transparency, and insight.

A culture of Innovation

At Deloitte, innovation is not a one-time event. It's part of our DNA – something we do every single day.

We have a track record of developing and investing in successful innovations, from cutting-edge research and technology-enabled tools to profession – leading talent initiatives, state-of-the-art collaboration centres, and acquisitions of pioneering companies such as Ubermind (now Deloitte Digital), Monitor (Monitor Deloitte), and LRA Worldwide (LRA by Deloitte).

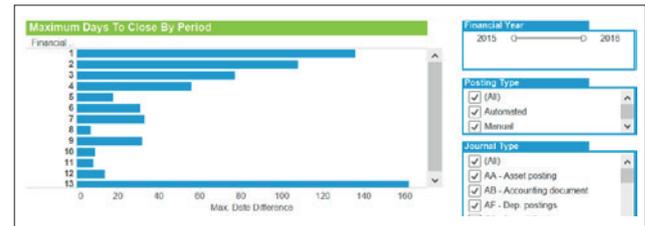


Within the following boxes, examples of how we use innovative technologies are further explained.



Diagnostic analysis is used as an audit tool, where we are holding up a mirror to data and saying this is what it looks like. In practice, Audit Analytics allows us to get a detailed understanding in different audit sub phases. For one Private Banking client, we used data analysis and visualisation to perform a client risk profiling with client risk ratings per relationship manager and per region (e.g. region, branch, credit risk rating) to identify trends, outliers and insights.

The analysis and visualisation generated significant efficiencies in our testing of relevant controls to identify and focus on e.g. principal countries without risk profiles, client relationship managers with a large proportion of accounts without a completed risk profile or investment risk profiles exceeding the completed risk profile capacity or risk tolerance as determined by the Bank.



Deloitte's integrated analytics application helps to identify audit and business-related insights which can be shared with management and those charged with governance, delivering a higher value audit experience to our clients.

For example, the **Speed Of Close interactive data explorer** is a benchmarking tool providing statistical information regarding the timeliness of the financial close for each entity within a group, with a breakdown on each relevant GL account.

We can compare the results by entity and by business cycle, in the light of best practices.

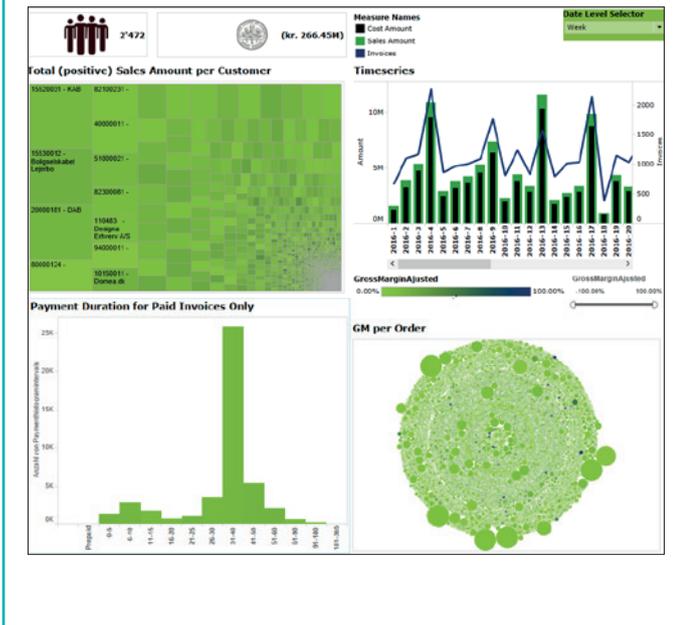
This information helps to improve the quality of the financial information produced and avoid delay in the consolidated closing.

Our innovations in advanced analytics, next-generation applications, and transformed audit execution give our clients greater insight into financial and internal control risks and strategic challenges. It also increases automation to significantly reduce manual data collection and processing, improve connectivity and communication and increase transparency.

As an example, for all customers of an entity or a group, we can analyse a large range of data, such as number of customers, total of sales, sales per customer, payment duration for paid invoices, gross margin per order and other relevant KPIs for the financial audit and as insights for management.

We are delivering the audit of the future – today. Deloitte’s investments in innovation are transforming the way we execute audits, enabling us to enhance the quality of our audit, streamline our effort to focus on important business risks, and deliver more valuable insights.

Customer Insights



Blockchain & Audit

Blockchain is said to be the technology that will disrupt the accounting and audit profession. We expect the way we audit to be changed significantly and so will the skills needed for auditors in the future. This technology has the potential to revolutionise how financial and non-financial transactions are recorded, stored and attributed to an ownership; allowing the futuristic idea of triple accounting with a real time audit approach based on technological and robotised pattern.

All these innovations might bring up the question about our role as auditors in this new world. Robotics, automation, blockchain, predictive analytics, big data and further innovative developments will definitely change our role as auditors and will lead to a lot of efficiencies and transparency. We see audits covering a by far higher percentage of business transactions on a real time basis, while reducing professional judgement needs due to predefined business patterns.

New challenges and risks will arise and professional scepticism will remain a strong part of accounting, financial reporting and hence audit. Things like statistical sampling of business transactions will be significantly reduced, accounting complexities simplified, while the need for understanding of IT systems and programming skills of analytical machines will grow in importance. Our focus on risk and risk-based audit will also be affected by blockchain ecosystems.

Adoption of blockchain and other innovative ideas within business processes will definitely not result in a complete absence of the auditors, but even strengthen the need for an independent audit function and skilled auditors will retain their fundamental value and importance. To some extent the auditor might even be part of the ecosystem of the integrated blockchain.

07

Our view on audit rotation
in Switzerland

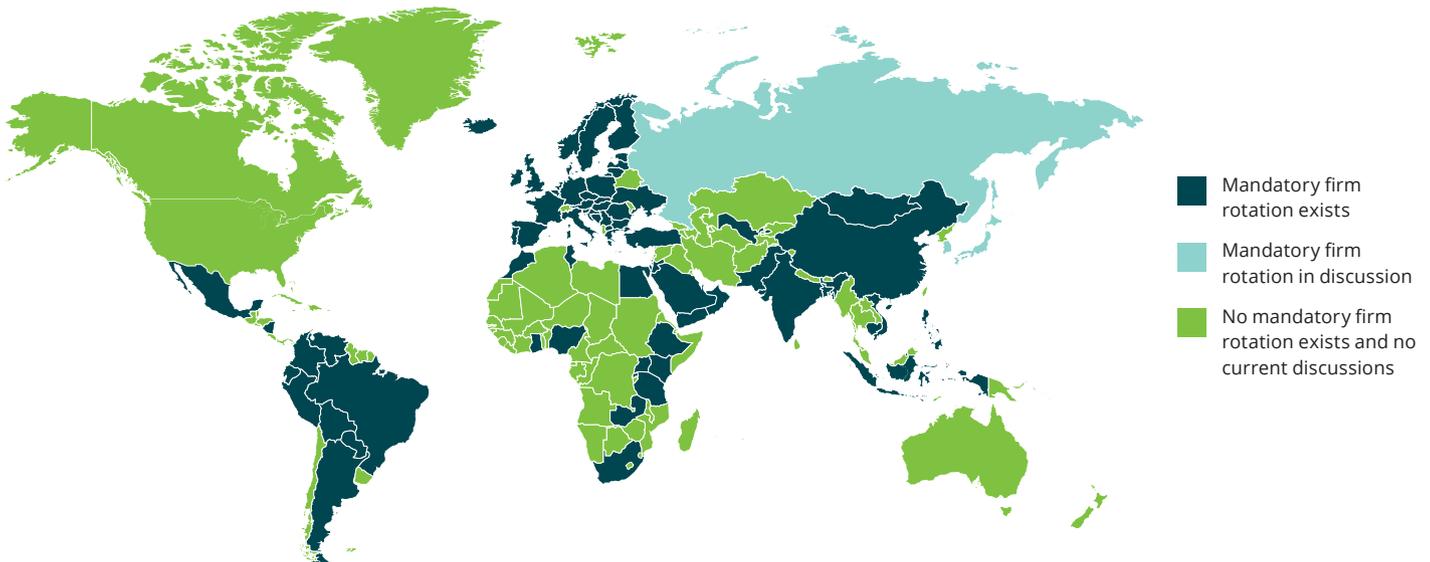
Our view on audit rotation in Switzerland

Within the European Union, audit market report is bringing mandatory firm rotation (for public interest entities) and other changes to companies in countries surrounding Switzerland. This is a development we actively engage in as a professional services firm. More frequent changes of audit firms are becoming a new reality. It will be the normal course of business for those charged with governance to think about changing and to regularly assess the services received from their auditors. Even if there are no plans to

introduce mandatory audit firm rotation in Switzerland, it is the responsibility of the Board and audit committee to assess the need for a change in audit firm. After a period of little rotation in Switzerland, we are already starting to observe a trend towards more frequent tendering activities and audit firm rotation. This indicates that even in the absence of mandatory audit firm rotation requirements, Swiss firms are moving in the same direction as firms in other regulatory environments. We are absolutely convinced that this

will significantly impact the Swiss audit market and will positively contribute to an increased level of competition and with that of audit quality.

Companies subject to rotation requirements may see challenges arising from transitioning their auditor on a more regular basis. However, we are working hard to outweigh potential transitioning challenges with the benefits of bringing a new perspective and value adding insights to their business where we are appointed as auditor.



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Notes

Notes



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