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Foreword

The realisation of the 2016 to 2019 strategy approved by the Federal Council went largely according to plan in the reporting year. The implementation of the new IT platform on 1 July 2018 was an important step in the realisation of the current strategy. Communication with audit stakeholders was also further developed. In November 2018 the FAOA held a workshop specifically aimed at public interest entity (PIE) directors and investors for the first time.

State-regulated audit firms

The past year was marked by various cases that occupied public attention in Switzerland as well as abroad. In the reporting year the ad hoc inspection of the irregularities of the «PostBus Switzerland Ltd./KPMG» case was particularly demanding for the Federal Audit Oversight Authority (FAOA). The related fact-finding was wide-ranging and required significant resources.

Not every one of these cases is an audit scandal however. Discussion around the above-mentioned abuses sometimes fails to recognise that the auditor is not responsible for overseeing the management of audited entities (so-called expectation gap). This is far more the responsibility of the board. Too little attention is also paid to the fact that the audit of statutory or consolidated financial statements is based, amongst other things, on risk assessment, controls testing and sampling and that materiality thresholds are used. Further, auditing standards do not require the auditor to search systematically for fraud. An audit by an auditor is therefore not comparable to a forensic investigation.

In the current environment the FAOA continues to perform its supervisory activities at the 29 state-regulated audit firms according to risk-based principles and focuses upon measures and sanctions that will permanently improve audit quality. Alongside the resolute punishment of violations, preventative measures are also especially effective. These include ongoing contact with the directors of audited entities, or rather their audit committees. The latter have a major influence on the work of the auditor and contribute greatly to the auditor being able to audit with independence and professional scepticism.

The FAOA continues to believe that the definition of a PIE (public companies and financial institutions) is too narrow. Large pension schemes and state-affiliated businesses that are evidently of public interest should also qualify as PIE and thus be audited by a state-regulated audit firm. The FAOA will continue to work towards this goal.

Small and medium-sized entities

The introduction of the requirement for all audit firms to maintain a quality assurance system as from 1 October 2017 led to a fall in the number of licensed audit firms. Firms that perform few audits have waived their licences. Other audit firms have merged. Nevertheless, the FAOA assumes that the number of audit firms of around 2,500 (prior year: around 2,600) will stabilise after the transitional phase.

The FAOA cannot judge with certainty how quality has developed within

small and medium-sized entity (SME) audit firms. The supervisory activities of the FAOA are concentrated on the large firms who audit PIE (ordinary audit). A certain «control» takes place in conjunction with the licence renewal applications of SME audit firms. The FAOA focuses here on compliance with training requirements and internal monitoring. File reviews are only carried out in whistleblower cases.

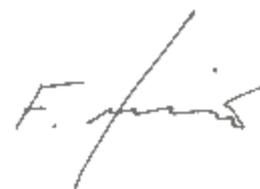
Thanks to the FAOA staff

We would like to thank the staff of the FAOA for their enduring commitment over the past year. Besides the implementation of a new IT system, the ad hoc inspections of last year were a challenge not to be underestimated.

Berne, february 1st 2019



Wanda Eriksen
Chairman of the Board of Directors



Frank-Oliver Schneider
Chief Executive Officer

9,403

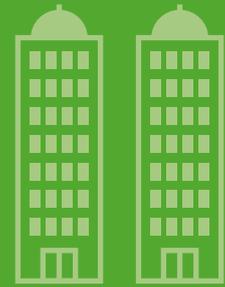


Number of licenced individuals



29

Number of state-regulated audit firms



2,466

Number of licensed audit firms

12



Number of enforcement proceedings

PwC AG
Ernst & Young AG
KPMG AG
Deloitte AG
BDO AG



12²⁰¹⁸ 15²⁰¹⁷

Number of inspections FA / RA

26



employees (FTE)



86,375

Number of limited audits



13 Number of reprimands



11,828

Number of ordinary audits

13 Number of licence withdrawals

CHF 6.87 Mio.

Total FAOA expenditure



Key activities 2018

Financial and Regulatory Audit

In 2018 the five large audit firms were again inspected by the FAOA in accordance with the current oversight concept. In two cases these were joint inspections with the US PCAOB.

A special feature of the reporting year, as mentioned in the foreword, was the ad hoc inspection of the «Post-Bus Switzerland Ltd./KPMG» case. The FAOA completed its inspection of the audit services provided by KPMG Ltd. to PostBus Switzerland Ltd. in November 2018. Appropriate measures have now been taken by KPMG to remediate the deficiencies, some of which were grave. The FAOA has opened enforcement proceedings against two individuals.

Legal and international

The position of the FAOA was substantively supported by the relevant legal proceedings of the reporting

year. The courts did, however, reduce the licence withdrawal period in some cases. Also noteworthy is the landmark Federal Supreme Court ruling that the FAOA may withhold a licence until the respective individual complies with the duty to cooperate and supplies requested audit documentation.

Licensing

Audit firms are legally required to renew their licences every five years. Around 240 (prior year around 70) licence renewals were granted in the reporting year.

All audit firms have been required to maintain an internal quality assurance system as from 1 October 2017. As at 1 January 2018 around 70 audit firms had yet to implement such a system. The FAOA was correspondingly busy clearing these cases at the start of the year.

Third party notifications

The number of third party notifications increased substantially compared to prior year. The FAOA received 64 (prior year: 51) notifications of possible violations of law or professional law in the reporting year. Of these, 30 (prior year: 28) related to the work of state-regulated audit firms. Eligible and credible notifications lead to FAOA fact-finding. Two proceedings have been initiated to date as a result of notifications received in the reporting year



Board of Directors: Viktor Balli, Sabine Kilgus, Wanda Eriksen, Conrad Meyer and Daniel Oyon

Regulatory developments

Current projects

Expert mission on legislative action required with respect to audit law

On 8 November 2017 the Federal Council took note of the report of experts Peter Ochsner and Daniel Suter and decided to have seven recommendations examined further by the Federal Department of Justice and Police (FDJP) and other federal bodies (including the FAOA) as to the need for action¹. The lead lies with the Federal Office of Justice (FOJ). Few related activities took place in the reporting year.

Postulate Ettlín

With the postulate «Keine neue Soft-Regulierung durch die Oberaufsichtskommission Berufliche Vorsorge», State Councillor Erich Ettlín (CVP/OW) commissioned the Federal Council to examine whether the Occupational Pension Supervisory Commission (OPSC) should be instructed not to issue any directive on auditing requirements. Reference is thereby made to the directive «Qualitätssicherung in der Revision», published by the OPSC on 20 October 2016. The initiative is to prevent duplication between the OPSC and the FAOA. Developing audit quality in the pension scheme sector is also to be examined. The initiative was referred from the Council of States on 6 December 2016.

The Federal Council report of 30 November 2018 is based on the legal opinion of Prof. Dr. Thomas Gächter of 12 July 2017 (University of Zurich) and concludes: The FAOA has sole responsibility for audit licensing and oversight. Action is required as regards pension fund audits but this is to be addressed by legislation, not OPSC directives. The specific action required is to be further clarified by the FOJ, the FAOA, the Federal Social Insurance Office (FSIO) and the OPSC (see above regarding expert mission Ochsner/Suter).

Further information can be found in the chapter «Pension scheme audits».

FinIA and FinSA

The Federal Assembly adopted the Financial Institutions Act (FinIA) and the Financial Services Act (FinSA) on 15 June 2018². The implementation law, comprising the Financial Institutions Ordinance (FinIO), the Financial Services Ordinance (FinSO) and the Supervisory Organisation Ordinance (SOO), was published on 24 October 2018 and is under consultation until 6 February 2019. The laws and ordinances shall come into force on 1 January 2020.

The following points are to be noted from an audit perspective:

- Asset managers and trustees will now be overseen formally by the Federal Financial Market Supervisory Authority (FINMA) and on an ongoing basis by newly-created oversight authorities (OA). These can act at the same time as self-regulatory organisations (SRO) under the Anti-Money Laundering Act (AMLA). An OA can inspect supervised entities themselves or engage an audit firm to do so. Where an audit firm is engaged the OA licenses and supervises the audit firm and its auditor-in-charge. The respective audit licensing conditions correspond with those of the FAOA regulatory audit licence (banks, insurers, collective investment schemes). Licences are withdrawn by FINMA rather than the OA. It will be seen after the consultation whether the implementation law provisions are already mature.
- State-regulated audit firm licenses will now be indefinite, not limited to five years. This is logical as they are subject to on-going FAOA oversight, unlike other audit firms.
- In the future there will be no FINMA-directly supervised financial intermediaries (DSFI); thus the FAOA DSFI special audit licence also lapses. Audit firm and auditor-in-charge licensing conditions are now regulated by the Anti-Money Laundering Ordinance of the Federal Council (AMLO) and correspond to those of the DSFI licence.

– AMLA SRO must provide administrative assistance to the FAOA. There is no direct basis for administrative assistance between the OA and the FAOA. Administrative assistance is, however, possible between the OA and FINMA on the one hand and between FINMA and the FAOA on the other. Should the OA find grave audit deficiencies, it is expected that they would inform FINMA and FINMA would, in turn, inform the FAOA.

– With respect to the 1 January 2019 amendment of FINMA Circular No. 2013/3, «Auditing», the period for fulfilling required audit hours after initial licensing increases from four to six years across the board. The reasonableness of applying the same period in each case is to be examined further given the differing inspection cycles.

Amendment of company law

On 23 November 2016 the Federal Council adopted the dispatch to the Federal Assembly on the amendment of the Code of Obligations (CO). The dispatch was discussed once by the National Council (15 June 2018) and the Council of States (11 December 2018). The following points are noteworthy from an audit perspective in comparing the Federal Council draft³ and the National Council version:

- Interim dividends can now be paid without an audit of the respective interim financial statements. This is subject to the consent of all shareholders, however.
- A company without a statutory auditor due to waiver must subject its last financial statements to a limited audit prior to general meeting

¹ See FAOA Annual Report 2017 (page 8 f.).

² The voting submissions are published in the Federal Gazette (FinIA: BB 2018 3557; FinSA: BB 2018 3615). See FAOA Annual Report 2017 (page 7).

³ The draft is published in the Federal Gazette (BB 2017 399). A summary of audit-relevant points can be found in the FAOA Annual Report 2016, page 8 f.

approval in the event of a capital loss. It is now clarified that in such a case the board must appoint the licensed auditor. It is no longer explicitly mentioned that the board and auditor must act in due haste.

- It is clarified that the licensed auditor must also be appointed by the board in the event of founded concerns about over-indebtedness.
- With respect to the deadline for possible rectification and court notification of over-indebtedness (also by the auditor), the National Council deviates from the Federal Council draft: Amongst other things, court notification is not required if there is a reasonable expectation that the over-indebtedness will be rectified within a short and, under the circumstances, reasonable time, the company can be rescued and the interests of creditors will not be jeopardised further. The clear, but inflexible, 90-day deadline of the Federal Council draft is thereby waived.
- In the future the limited audit can also be waived where company statutes allow interim dividends and a capital band.
- Contrary to the Federal Council proposal, the joint and several liability of the board and the auditor towards external parties is not abolished.

On 11 December 2018 the Council of States resolved to return the submission to the Council of States' Legal Affairs Committee for further deliberation. No statement can be made at the moment as to enactment.

Equal pay audit

On 5 July 2017 the Federal Council decided to enforce constitutional equal pay with additional state measures in the Gender Equality Act (GEA). It requires employers with 50 or more employees to conduct a pay analysis every four years and have this audited by an external body. The audit can be performed by an audit firm

licensed under the Audit Oversight Act (AOA), a recognised equal pay expert, a women's organisation or a union. The audit firm need not necessarily be the auditor of the company.

The GEA was adopted on 14 December 2018 after a lengthy process of resolving differences between the Councils. In contrast to the Federal Council draft, it was resolved, in particular, that the equal pay audit is required only for employers with 100 or more employees at the start of the year, excluding apprentices. The requirement ends once equal pay compliance is demonstrated.

No information can be given at the moment as to enactment.

Motion Hadorn

With the motion «Paradise Papers. Wirtschaftsprüfung und Beratung trennen», National Councillor Philipp Hadorn (SP/SO) invites the Federal Council to legislate such that financial and regulatory audit firms may be licensed only if they do not carry out tax advisory business at the same time. The argument is that financial and regulatory audit should be at the heart of audit firm activity. If the audit is combined with tax advice there is a risk that the focus of these activities will shift.

On 21 February 2018 the Federal Council applied for the motion to be rejected. It believes that the current dispositive is sufficient to meet the concerns of the motion's author:

- Auditor independence requirements were strengthened and refined in 2008. The self-auditing ban for ordinary audits precludes the auditor from providing tax advice if this may lead to the auditor auditing his own work. In particular, advising on high-risk tax optimisation structures is forbidden if these could materially impact the financial statements of the audited entity and thus be subject to audit by the auditor. The FAOA inspects compliance with this rule at PIE. There are less independence requirements for limited audits.

- Additionally, separating audit and tax advisory services is not an effective means of combating the tax evasion constructs of the «Paradise Papers». Switzerland has recently established specific legal bases for international communication, by way of automatic exchange of information (AEI) regarding financial accounts, spontaneous information exchange (SIE) under rulings, as well as Country-by-Country-Reporting (CbCR), to combat tax evasion, tax avoidance and tax fraud effectively.

The motion has yet to be considered by the National Assembly.

AMLA amendment

On 1 June 2018 the Federal Council opened consultation on the AMLA amendment. The submission takes account of the most important recommendations of the 2016 fourth country report on Switzerland by the Financial Action Task Force (FATF) and will heighten the integrity of the financial centre. The following points are of interest from an audit industry perspective:

- Private individuals and corporate bodies who perform specific third party commercial services for companies and the trusts (mainly in the formation, management and administration areas), are considered «advisors» and are subject to specific new duties of care under AMLA. As this advisory activity forms part of trust business, it can be assumed that FAOA-licensed audit firms are also affected by the new regulation. To ensure the effectiveness of the new provisions an audit requirement is foreseen. Advisors, like «traders» under current law, must therefore have their duty of care compliance audited by an audit firm.
- It is now specified that the audit cannot be performed by «mere» FAOA-licensed individual; an audit firm holding at least an auditor licence must be engaged. It need not be the auditor of the company.

– If the auditor detects advisor violations of the AMLA duties of care, it notifies the Federal Department of Finance (FDF). By contrast, auditors of traders notify the Money Laundering Reporting Office Switzerland (MROS).

The consultation lasted until 21 September 2018. Enactment is expected during 2020.

Completed projects

Parliamentary initiative Schneeberger

With the parliamentary initiative «KMU-taugliche Lösung sichern. Eingeschränkte Revision zum Schutz unserer KMU verwesentlichen» of 29 June 2015, National Councillor Daniela Schneeberger (FDP/BL; concurrently Central President of TREUHAND | SU-ISSE) proposed a significant relaxation of legal requirements over the limited audit in the areas of independence, one-off audit services, audit report recommendation to approve the financial statements, duty to notify, documentation and liability⁴.

On 4 May 2017 the National Council voted 98 to 72 with 3 abstentions for the initiative, against the proposal of the advisory National Council Legal Affairs Committee. The Council of States conversely voted 21 to 19 (no abstentions) against. The initiative is therefore dealt with

Federal Law on Gaming

On 29 September 2017 the Federal Assembly adopted the new Federal Law on Gaming⁵. A referendum was launched against it. In the referendum of 10 June 2018, however, the people and cantons voted for the Law. The related ordinance was under consultation from 2 March to 15 June 2018.

The Federal Council adopted the ordinance on 7 November 2018. It is noteworthy that the auditor performs a regulatory audit of the casinos on behalf of the Federal Casino Commission (FCC) and submits an annual explanatory report to the FCC, in a similar way as with financial institutions

and pension schemes. The FCC can determine the minimum contents of the report.

The law and ordinance came into force on 1 January 2019.

Fintech

On 15 June 2018, as part of the FinIA and FinSA submissions (see above), the Federal Assembly adopted provisions for innovation funding within banking law. A newly-created licensing category allows companies that are not banks to accept investment deposits from the public of up to 100 million Swiss francs («fintech»). The FDF undertook consultation on the ordinance from 21 June to 21 September 2018 in order to enact the provisions early, which also occurred on 1 January 2019. In the audit area the following points are worth mentioning:

- Fintech companies are accounted for under the CO, not BankA or FINMA provisions.
- Fintech companies must subject their statutory and, if applicable, consolidated financial statements to a limited or ordinary audit, dependent on size. The audit cannot be waived even if the CO would allow it. The impact of a limited audit of statutory and consolidated financial statements on regulatory audit methodology is unclear (see below).
- Fintech companies will be subject to regulatory audit by an audit firm. A new regulatory audit licence will be created by the FAOA. The licence requires that at least 20% of required professional experience hours have been spent on fintech companies or IT audit. The other hours can also be obtained from bank or collective investment scheme audits. The 20% clause only comes into force after two years as no fintech companies theoretically existed at the time the provisions came into force.

Hadorn question

With the question, «Werden Interessenkonflikte in und durch Prüfungsgesellschaften wirksam durchgesetzt?»

of 30 May 2018, National Councillor Philipp Hadorn (SP/SO) noted the criticism made of audit firms abroad (e.g. UK). He also asked the Federal Council how the FAOA enforces the self-auditing ban.

On 4 June 2018 the Federal Council answered that the CO explicitly stipulates that the auditor must be independent and must form his opinion objectively. This covers all forms of conflict of interest, explicitly also the self-auditing ban. However, the FAOA can enforce the ban proactively only at the (as at year-end 2017) 31 state-regulated audit firms. At the other 2,635 licensed audit firms the FAOA can only act where there are suspicious circumstances and only if the violation is serious enough to prevent a licensing condition from being met. The FAOA does not maintain rolling statistics as to the number of conflicts of interest found but acts decisively against violations. From 2011 to 2014 it sanctioned 59 independence breaches (reprimand or licence withdrawal). The question is therefore settled.

⁴ More detailed information can be found in the FAOA Annual Report 2016 (page 9) and 2017 (page 7 f.).

⁵ More detailed information can be found in the FAOA Annual Report 2017 (page 8).



Financial Audit

Introduction

The international market is dominated by the Big 4 audit firms, Deloitte, EY, KPMG and PwC. The situation is similar in Switzerland⁶. The five largest audit firms continue to audit the vast majority of public companies and other PIE. Due to their significance they are inspected annually by the FAOA.

A total of 29 audit and regulatory audit firms held a state-regulated audit firm licence at the end of 2018 (prior year 31). Six firms may audit only DSFI and non-PIE. Two firms are foreign audit firms inspected by the FAOA under Article 8 AOA.

The FAOA began the first financial audit inspections of state-regulated audit firms in the spring of 2008. The FAOA conducts its inspections in three-year cycles (2008–2010, 2011–2013, 2014–2016). FAOA inspection activities over the last ten years or so suggest that audit quality has tended to improve. The average number of findings per firm review during the three cycles was 6.6, 2.4 and 1.4. In 2017 and 2018 it was 1.0 and 1.25. At file level, the average number of findings per cycle was 6.4, 2.8 and 2.6. In 2017 and 2018 it was 1.6 and 1.86.

A finding requires in-depth root cause analysis by the audit firm and the development of robust measures based on this. The FAOA inspects the implementation of these the following year.

2018 inspections

Firm und File Review

The FAOA has completed a total of 117 inspections since the enactment of the AOA. Of these, twelve were completed in the reporting year⁷. Two of these were performed jointly (so-called «joint inspections») with the US Public Company Accounting Oversight Board (PCAOB). The financial statements of 22 companies were the subject of file reviews as part of the twelve inspections. Amongst them were two so-called «ad-hoc» inspections that the FAOA performed as a result of third party notifications.

The selection of audit engagements for inspection is generally risk-based in accordance with the oversight concept. The market capitalisation of audited public companies is an important selection criterion. All 20 Swiss Market Index (SMI) companies had been subject to a first-cycle FAOA file review by the end of

2016. In the reporting year the FAOA selected three SMI companies. As in prior years, the Swiss banks systematically important from a global perspective (G-SIBs), UBS AG and Credit Suisse Group AG, are subject to an annual file review given their importance.

In addition to market capitalisation, the FAOA considers other criteria when selecting audit engagements for inspection, such as a major change in audit fees, audit report modifications or a change of auditor.

Figure 1
Overview of FAOA inspections and findings 2017 and 2018

Categories	Largest five audit firms		Other		Total	
	2017	2018	2017	2018	2017	2018
Number of inspections	6	8	9	4	15	12
Comment Form Findings Firm Review	6	13	9	2	15	15
Comment Form Feststellungen File Review	28	36	18	5	46	41
Number of inspected files ⁸	20	19	8	3	28	22

⁶ See Swiss Audit Monitor 2018 of the Professor for Auditing and Internal Control at the University of Zurich.

⁷ The inspection fieldwork was completed at another of the largest five audit firms. Since the findings process is still at an early stage

these are not covered by the FAOA Annual Report 2018.

⁸ In each file review the FAOA selects the working papers that relate to the audit of the consolidated financial statements (including holding company) and the audit of a significant subsidiary.

Firm Review

The FAOA had an average of 1.25 findings per firm review inspection (prior year 1.0). The largest number of findings arose in the categories «ethical requirements», «engagement performance» and «other».

With respect to ethical requirements, the FAOA found deficiencies with respect to the process for accepting non-audit service engagements at audit clients. For example, not all engagements were approved by the auditor-in-charge. Independence compliance processes with respect to financial interests were also only partially effective. In one case important independence decisions were made by network firms rather than the licence holder.

As regards engagement performance, the FAOA had a particular finding relating to fraud risk inquiries

of management, the board and others within the entity, as well as journal entry testing. Two other findings related to Key Audit Matters (KAM) and covered deficiencies on three files. A further finding concerned an inappropriately designed consultation process that had led to various inadequate consultations.

The category «Other» includes a finding concerning a measure that was only partially implemented. A further issue was inadequate data protection when outsourcing audit procedures to foreign shared service centres. The Federal Privacy Law (FPL) forbids the transfer of personal data abroad if this could seriously harm the character of the persons concerned. Two other findings arose from insufficient auditor reporting to the board. This related to imprecise statements regarding FAOA file review findings⁹.

As in the prior year, quality assurance systems are robust overall. Each audit firm must ensure the design and effectiveness of the quality assurance system using appropriate measures.

Figure 2

Type and number of 2018 firm review findings (total 15 findings)



File Review

22 (prior year: 28) file reviews were performed in the reporting year. They resulted in 41 findings. The number of findings per file (1.86) is comparable with prior year (1.64). File-level audit quality continues to depend heavily on the partners and staff involved, as well as the

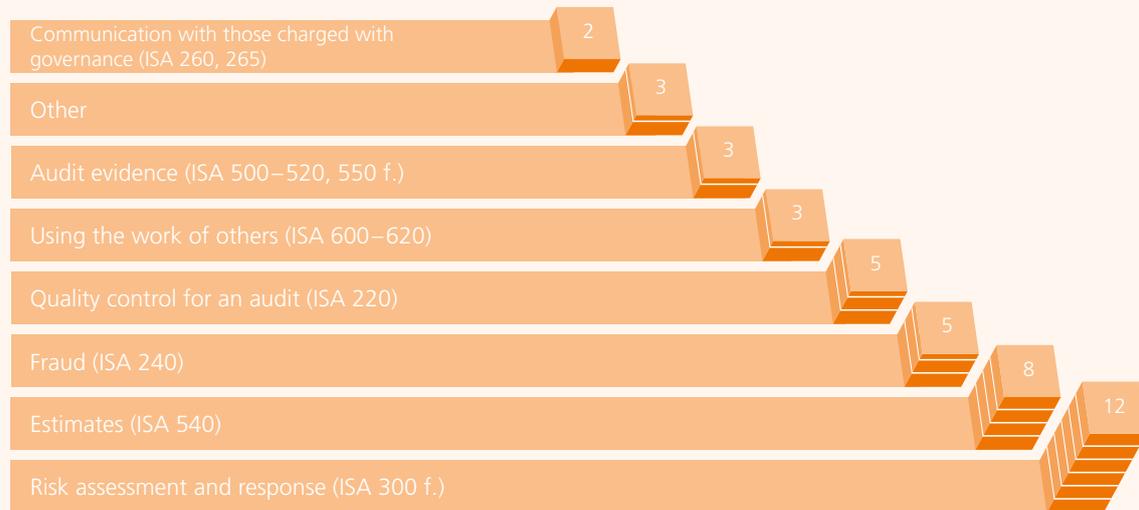
external environment. Audit firms should thus continue to focus on audit quality consistency.

The 2018 file review findings are shown by category in the figure below¹⁰.

⁹ Margin note 7 letter e FAOA Circular 1/2009.

¹⁰ For comparability purposes findings that relate to Swiss Auditing Standards (SAS) or US auditing standards have been allocated to the identical or comparable International Standard on Auditing (ISA).

Figure 3
Type and number of 2018 file review findings (41 Findings)



In the reporting year the FAOA had the most findings in the categories «risk assessment and response», «estimates», «fraud» and «quality control for an audit».

«Risk assessment and response» is fundamental to the audit team ensuring that the financial statements are free from material misstatement. In many cases, however, the FAOA found insufficient interaction between controls testing, substantive analytical review and detailed substantive testing. The audit teams relied on audit procedures that were not performed, or not completely. The scope of other planned audit procedures was therefore insufficient and alternative procedures should have been designed. In some cases, audit teams also gained an insufficient understanding of processes (including controls) relating to significant accounts. As a consequence, inappropriate audit procedures were designed. Further, as in prior years, deficiencies were found in the audit of IT and application controls. If the audit team wishes to rely on these controls they must be tested. Otherwise the audit team cannot rely on data generated using these systems. Other deficiencies were found in the determination of materiality. In one case materiality was significantly increased from the prior

year although qualitative risks had increased. In another case, the considerations behind using the gross profit benchmark were not evidenced.

The findings relating to the audit of «estimates» revolved primarily around account items such as goodwill, concessions, investment properties, power stations and network systems, as well as provisions and sales. The audit teams obtained insufficient audit evidence to assess management’s estimates and assumptions. In particular, prior year business plan assumptions have to be assessed critically. Management information also has to be tested using alternative audit procedures. With respect to goodwill, management’s cash generating unit determination was insufficiently questioned in some cases. Regarding other indefinite life intangible assets, management processes for identifying impairment indicators were repeatedly not tested. The audit of estimates requires particular professional scepticism since such estimates are open to fraudulent manipulation.

The responsibilities of the audit team with respect to «fraud» are defined in a dedicated auditing standard. At the planning stage a determination has to be made as to how and where the financial statements are susceptible to

material misstatement due to fraud. In one case the audit team made this assessment at the completion rather than planning stage. The standard also requires the testing of journal entries and period-end adjustments irrespective of the audit team’s assessment of the risk of management override of controls. If it is not necessary to select journal entries for the whole reporting period at least those at the end must be selected. The FAOA found many cases in which audit teams did not consider the specific characteristics of fraudulent journal entries in making the selection. Further, fraud inquiries were not made of the appropriate people or not made at all.

With respect to the category «quality control for an audit», it was found repeatedly that non-audit services existed in respect of which the audit team had not appropriately assessed compliance with independence requirements. In one particularly grave case the audit firm implemented an IT system at a client which was significant to the preparation of the financial statements. This gave rise to an independence breach upon the later acceptance of the client as an audit client. In another case the audit team failed to consult as regards the non-adjustment of comparatives.

IFIAR survey on inspection results

On 8 March 2018 the International Forum of Independent Audit Regulators (IFIAR) published the results of a broad-based survey¹¹. 42 IFIAR members took part in the survey. This was already the sixth survey of this type, identifying common findings at the six largest global audit firms¹² on an anonymous basis. The survey focused particularly on file review findings at PIE and systemically important financial institutions. IFIAR negotiates with the six largest audit networks at a global level based on the survey. The goal is to agree on measures to improve audit quality.

Analysis of the file review findings of the FAOA and those of other oversight authorities shows comparability in the following areas in particular:

- Assessment and response to risks of material misstatement
- Estimates
- Fraud
- Quality control for an audit
- Using the work of others (group audits and using the work of an expert)

IFIAR members believe that the global audit networks and local audit firms must eliminate recurring deficiencies permanently. In 2015 IFIAR reached an agreement with the six largest audit firms to meet this goal. This stipulates that after four years, i.e. by 2019, the number of PIE with one file review finding or more will reduce from 39% to 29% (around 25% reduction). According to the current survey the number has now fallen to 30%.

Points of focus for 2018 inspections

The FAOA inspections produced the following findings with respect to the 2018 points of focus:

Point of focus 2018 No. 1: Group audits

Information is exchanged across country, cultural and language borders in a consolidation closing. The greater the scope of cross-border audit work, the more challenging managing the audit generally is.

The group auditor must address the resulting risks appropriately, particularly as regards full-scope audits. The group auditor is required, amongst other things, to take part in planning meetings, to review audit planning and risk assessments and to review audit work performed. Reviews are performed most notably through direct access to component auditor working papers out of Switzerland or by way of on-site visit. On-site visits were performed at the foreign full-scope components of SMI companies. Around 60% of full-scope audit work at SMI companies is performed abroad. Interestingly, around a third of full-scope components are in countries that still have no recognised oversight authority.

Pleasingly, the FAOA had no group audit findings concerning full scope components in the reporting year. The FAOA did, however, have findings with respect to non-significant components. In some cases, group-wide controls testing and analytical review procedures were insufficient. It should be noted that the larger the share of a group that non-significant components have, the more robust group-level analytical review procedures must be. In another group audit the consolidation process was not audited appropriately and an error in the disclosure of foreign exchange differences arising from an acquisition was consequently not identified.

Point of focus 2018 No. 2: Audit sampling

Substantive testing sample sizes are dependent upon numerous factors. These particularly include risk assumptions, the effectiveness of and reliance upon controls, the audit of key items or other audit procedures. The five large audit firms have each defined their own audit sampling requirements within their internal audit methodologies.

The FAOA assessed compliance with internal and external controls and substantive testing sampling requirements in its reporting year file reviews. There were findings on four files.

As in the prior year, the FAOA found that the approach in determining sample size and the subsequent sample selection was not always evidenced appropriately. It was not ensured that the sample was drawn from the appropriate population and that all selected controls were performed in the period under audit. It was also found that, on the one hand, control frequency was incorrectly defined and, on the other, that the chosen sample size for this control frequency was too small. In many cases insufficient evidence was obtained as to control effectiveness during the period from the interim audit to the balance sheet date.

Whether controls testing is performed or not, the use of an appropriate sample size in substantive testing is key. Despite the use of statistical sampling methods in some cases, the audit methodologies of the various audit networks do not prescribe the same sample sizes for either controls or substantive testing. This, and the fact that other sampling requirements are not appropriately followed in all cases, leads to recurring file review findings.

Point of focus 2018 No. 3: Employee benefits

The FAOA focused on the audit of new opportunities for risk sharing between employer and employee.¹³ It was seen that risk sharing is currently used at few public companies.

Audit teams at four of the five largest audit firms use standardised pensions audit programmes. Staff received appropriate training on IAS 19, including risk sharing. The audit firms also employ pensions specialists who support the audit teams where

¹¹ www.ifiar.org > Activities > Inspection Survey

¹² BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative and PricewaterhouseCoopers International Limited.

¹³ See position paper «Risk Sharing – Eigenschaften Schweizer Vorsorgepläne im Rahmen der Bilanzierung nach IAS 19», EXPERTsuisse, 20 December 2016.

necessary. Surprisingly, there are no mandatory consultations on this subject. At one firm audit teams were, however, explicitly required to have pensions specialists perform specific audit procedures in the audit of 2017 financial statements.

The FAOA inspected compliance with the requirements as part of seven file reviews. Encouragingly, no findings resulted.

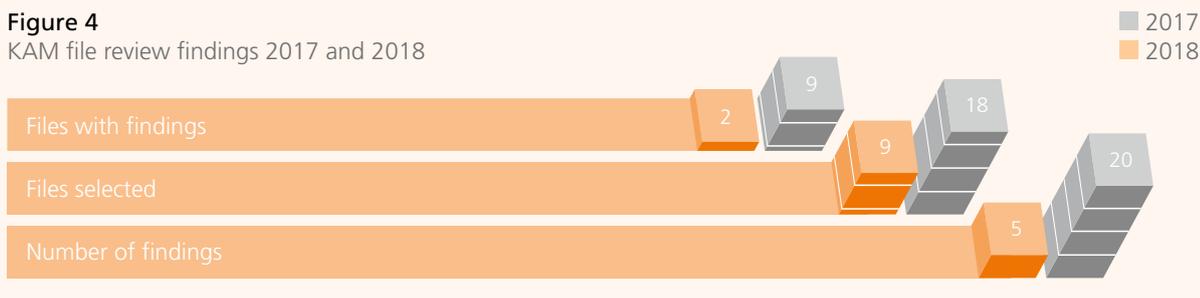
Prior year point of focus 2017:

Key Audit Matters

In the prior year the FAOA determined compliance with ISA 701, respectively FAOA Circular 1/2015, to be a point of focus at the five largest audit firms. 18 Files¹⁴ were inspected. As a result, the FAOA had 20 findings from nine file reviews. Based on the relatively large number of findings in the prior year and the fact that the new audit report is significant to stakeholders, the FAOA decided to inspect compliance with requirements again in the current year. It was checked whether the audit procedures described in the KAM were those carried out and whether the disclosed KAM were complete. Compliance was tested for nine files. Also in the second year of application, this resulted in five findings from two files.

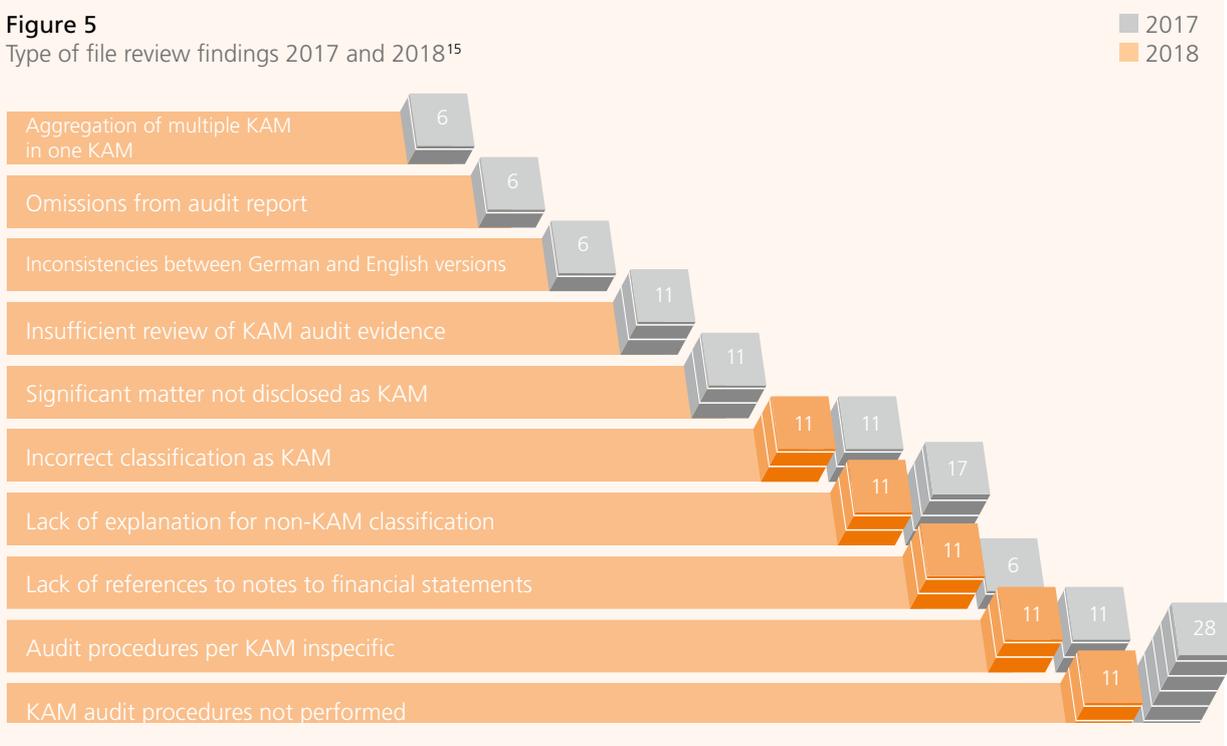
¹⁴ Eight file reviews and twelve findings from two of the largest five audit firms were not included in the FAOA Annual Report 2017 as the findings process was still at an early stage at that time.

Figure 4
KAM file review findings 2017 and 2018



There was a reduction in the number of files with findings compared to the prior year. The number is still too high however.

Figure 5
Type of file review findings 2017 and 2018¹⁵



In the reporting year the FAOA found in one file review that not all the audit procedures described in the audit report KAM were actually performed, that the KAM audit procedures were not properly described and that the KAM did not refer to information in the notes to the consolidated financial statements.

For a matter requiring substantial audit effort evidence is required as to whether it is a KAM or not. In another file review the FAOA did not find the

reasoning required. As a consequence, the FAOA could not determine whether the audit report KAM were complete. On the same file a matter was disclosed in a KAM although it was not significant.

The FAOA found no cases in which the audit report KAM were obviously incomplete. The FAOA also found no deficiencies in its review of the evidence supporting the KAM.

The audit report is an important source of information for stakeholders. The FAOA therefore expects it to be correctly prepared. The FAOA will also examine KAM and the respective underlying audit work in future file reviews.

The FAOA welcomes voluntary disclosure of materiality and scoping in the audit report. This provides investors and other stakeholders with important information to better assess the scope of audit procedures.

¹⁵ Presented as percentages to enhance comparability between the two years.

Root cause analysis and measures

Audit firms receive a draft report from the FAOA following completion of inspection fieldwork with a request to develop a root cause analysis and measures. It should be noted that responsibility for the root cause analysis and related measures for file-level findings lays primarily with audit firm management and not the engagement team concerned. The FAOA then evaluates the potential root causes as well as the appropriateness of the proposed measures. The measures and deadlines agreed with the audit firm are included in the FAOA inspection report. The measures are implemented within one year and the implementation is assessed by the FAOA the year after.

The five largest audit firms have developed their root cause analysis processes further with the help of their global networks. The networks have developed mandatory requirements and practice aids with respect to the preparation of a root cause analysis. Root cause analyses are prepared for findings from internal quality performance reviews and external firm and file reviews based on these. Identification of positive root causes on files with no findings varies. The root cause analysis is prepared in each case by those responsible for quality and risk management at the audit firm. The criteria used by the firms for analysing findings differ. Depending on the audit firm, individual findings, general subject areas, auditing standards or a combination of these are considered alongside a general analysis. The results of the root cause analyses lead to planned measures that are normally reported to the global networks. The implementation of the measures is, however, monitored locally.

The measures agreed with the audit firms remediate the identified deficiencies. Firm-level measures are normally implemented on a one-off basis as they relate to process and practice aid changes, primarily resulting from recurring file review findings. By contrast, measures relating to file-level

findings are generally of a recurring nature. The FAOA rates the audit quality of each file reviewed.

The positive development noted in the area of root cause analysis and the measures proposed by audit firms is important. Only sound root cause analysis can lead to a lasting reduction in recurring internally and externally identified deficiencies.

Preliminary fact-finding and proceedings

Alongside routine inspections, event-driven preliminary fact-finding and proceedings are also conducted at state-regulated audit firms. Particular account is taken of credible third party notifications. In the reporting year 15 third party notifications relating to the work of state-regulated audit firms were received. Nine of these led to preliminary fact-finding or ad hoc inspections in the reporting year. Proceedings were opened against two auditors-in-charge at state-regulated audit firms.

Audit quality indicators

FAOA audit quality indicators

The FAOA collects twelve audit quality indicators (AQI) from the five largest audit firms.¹⁶ It uses these primarily to analyse trends and for risk assessment and inspection planning.

¹⁶ The FAOA does not substantively test the amounts reported by the audit firms.

Figure 6

Comparison of selected AQI relating to the audit function of the five largest audit firms

AQI	2015		2016		2017		2018	
	from	to	from	to	from	to	from	to
Annual revenue per audit partner in CHF million	1.9	4.5	1.8	4.2	2.0	4.1	2.1	4.4
Ratio of non-audit fees to audit fees¹⁷								
– SMI companies	0.2	0.2	0.2	0.2	0.1	0.3	0.1	0.2
– Non-SMI public companies	0.0	0.4	0.0	0.2	0.0	0.3	0.0	0.3
Number of staff per partner	7.2	15.8	7.4	15.3	8.2	15.8	9.5	14.3
Training hours	53	80	54	77	52	84	49	85
Staff turnover in %	13	25	12	27	12	29	13	31
Average number of EQCR¹⁸ hours								
– SMI companies	37	115	25	116	43	182	51	224
– Non-SMI public companies	6	17	8	17	8	16	9	19
Average number of auditor-in-charge hours								
– SMI companies	227	746	351	700	478	733	562	757
– Non-SMI public companies	71	110	75	113	74	114	77	125
Number of foreign shared service centre hours as a percentage of overall hours at public companies	0	8	0	7	0	10	0	13
Number of consultations per public company audit	0.0	0.3	0.1	0.4	0.0	1.0	0.2	1.1

The annual revenue per partner increased compared to the prior year at all but one audit firm. The firm with the lowest number of staff per partner also had the lowest revenue per partner.

The FAOA sees the ratio of non-audit to audit fees at PIE audit clients as a risk factor. The higher the ratio, the greater the risk of a conflict of interest for the audit firm. The upper end of the range fell for SMI companies. The limit set by European Union (EU) legislation is a three-year average of 0.7. The EU limit is clearly not exceeded overall. Nonetheless, during the reporting year the FAOA received seven notifications of engagements with a ratio of more than 1:0 (prior year: ten). None were SMI companies.

Continuing professional education to enhance the skills and capabilities of auditors is fundamental to safeguarding audit quality. The AQI training hours have been determined based on the requirements of EXPERTsuisse but exclude self-study

hours. One audit firm has shown the highest amount since 2014. Another has shown the lowest amount since 2016.

The business model of an audit firm requires a certain level of staff turnover. However, too high a turnover rate can impair audit quality, since a firm may not have enough capable staff with the necessary competence and professional knowledge. Turnover rates differ greatly across the audit firms. One audit firm has shown the highest staff turnover three times since 2015. In the reporting year the amount was over 30%. This very high threshold was exceeded for the first time for any firm since data was collected. Another firm has constantly shown the lowest fluctuation rate since this AQI was first collected.

An EQCR¹⁹ must be deployed at public companies. The respective EQCR average hourly amounts vary across audit firms. The larger the audited engagements of the firm are, the higher the average generally is. Familiarisation time incurred as a result of changing the EQCR or acquiring

an SMI engagement can also lead to relatively large amounts. Since 2014 the same firm has shown the highest amount for SMI companies. At another firm, which had shown the lowest amounts each year to 2017, the amount for SMI companies doubled.

The average number of auditor-in-charge hours fluctuates each year and depends on engagement-specific circumstances. The same audit firm has shown the highest amount for SMI companies since 2014. The average number of auditor-in-charge hours at SMI companies is several times that at other public companies.

The number of audit firms deploying foreign shared service centres increased from three to four in the reporting year. Across all firms the extent of audit work outsourced abroad increased by between six and 85% compared to prior year.

¹⁷ Certain prior year amounts have been corrected.

¹⁸ Engagement Quality Control Reviewer.

¹⁹ Engagement Quality Control Reviewer.

The number of consultations developed differently at the audit firms. At one firm the number of consultations per audited public company decreased by four-fifths of the prior year amount. This huge decrease is attributable to a high comparative amount. In the prior year consultation requirements associated with the, then new, KAM²⁰ requirements had had a significant impact on the AQI. At a second firm the number of consultations nearly doubled. This related particularly to International Auditing Standard (IAS) 19 questions. At a further firm formal consultations were carried out again in contrast to the prior year. At the other two firms the number of consultations remained practically unchanged compared to prior year.

AQI of the five largest audit firms

Alongside the AQI collected by the FAOA, three of the five largest audit firms use other AQI of their own. These internal AQI generally follow the requirements of the respective global networks and are also reported to them. The design of the AQI differs in terms of number, type and balance between quantitative and qualitative characteristics. Two firms have a comprehensive process for collecting, evaluating and monitoring internal AQI. Results, changes and trends are assessed quantitatively and qualitatively. At one firm less AQI are monitored by comparison and the assessment is primarily qualitative, not quantitative.

At the other two firms there is still no sign that the networks are making efforts to introduce such AQI. While they therefore have no specific AQI designated as such, they do effectively recognise individual elements of audit quality measurement. The FAOA believes that internal AQI can help in the early identification of positive and negative quality trends and, with the use of appropriate measures, improve audit quality.

Audit committees use AQI to measure audit quality only in isolated cases. It is to be hoped that the use of

AQI as an additional information tool will spread further. The issue is not the meaningfulness of individual AQI but rather better dialogue with auditors around audit quality.

Cooperation with stock exchanges

The FAOA coordinates its oversight activities with the SIX Swiss Exchange (SIX) to avoid duplication. The FAOA focuses upon evaluating auditor compliance with legal and professional standards and not accounting standards directly. The Swiss Exchange Regulation (SER) is responsible for ensuring that SIX-quoted companies comply with accounting standards. As such, it assesses issuers' compliance with their responsibilities under the listing regulations. If the FAOA finds material breaches of accounting standards during its inspections it notifies the responsible exchange in writing. There were two such notifications in the reporting year.

Cooperation with audit committees

Awareness that qualified and independent audit committees have a major influence on audit quality has increased over the last few years. Like the FAOA, audit committees must assess and question the quality of audit work. Given this similarity of interests, the FAOA has intensified its contact with audit committees continually over recent years and already issued a guide with non-mandatory recommendations a few years ago.

On 2 November 2018 the FAOA held its first workshop for PIE directors and investors. The half day event took place in Zurich and met with great interest. Alongside best practices in dealing with auditors, the workshop aimed to present participants with current trends and developments. Informative academic and practitioner presentations by Prof. Dr. Reto Eberle (University of Zurich), Prof. Dr. Roland Müller (University of St. Gallen), Son-

ja Stirnimann (fraud specialist), as well as presentations by FAOA representatives (Wanda Eriksen, Niels Biemond) were supplemented by a roundtable discussion with the presenters.

The conclusion of the event was that an independent and professional audit committee encourages professional scepticism in the auditor and contributes generally to improved audit quality. For their part, the investor representatives present had worked most especially to achieve more informative public company audit reports (KAM).

Standard setting

Swiss Auditing Standards

Companies preparing financial statements under the Swiss Accounting and Reporting Recommendations (Swiss GAAP FER) usually have their consolidated and statutory financial statements audited exclusively under Swiss Auditing Standards (SAS). Companies preparing their financial statements under international standards (e.g. International Financial Reporting Standards (IFRS), United States Generally Accepted Accounting Principles (US GAAP) must always be audited under SAS in addition to the relevant international auditing standard (ISA, PCAOB) (FAOA Circular No. 1/2008). Differences currently exist between ISA and SAS as regards unadopted changes to around ten auditing standards.²¹ In connection with the extended audit report, FAOA Circular No. 1/2015 rendered the relevant new standard ISA 701 applicable to, amongst other things, statutory and consolidated financial statements prepared under CO and Swiss GAAP FER. The Circular will lapse as soon as ISA 701 is transferred to SAS. The FAOA continues to support the timely transfer of ISA to SAS.

International Standards

Cooperation with IFIAR resulted in the submission of the following comments on various International

²⁰ Key Audit Matters.

Ethics Standards Board for Accountants (IESBA) and International Auditing and Assurance Standards Board (IAASB) proposals:

- In July 2018 IFIAR submitted a comment letter to the IESBA on its draft, «Proposed Strategy and Work Plan, 2019–2013».
- In October 2018 IFIAR submitted a comment letter to the IAASB on the draft ISA 315 (revised), «Identifying and Assessing the Risks of Material Misstatement».

Further, in February 2018 the FAOA responded positively to the questions raised by the IOSCO²² Monitoring Group Consultation, «Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest». The proposed measures should improve the development of IAS in terms of responsibilities and monitoring, respectively make the process more independent of the profession.

Each of these comments is published on the FAOA website.

Points of focus for 2019 inspections

The FAOA has selected the following points of focus for the 2019 routine inspections of state-regulated audit firms:

- Evaluation of corporate culture
- Evaluation of the use of «Data Analytics» in audit planning and execution
- Evaluation of the audit of revenue from contracts with customers (IFRS 15)
- Evaluation of the audit of goodwill impairment testing (IAS 36)

Further points of focus arise from the individual analysis of specific circumstances and relate to the application of relevant auditing or accounting standards.

New technologies

Mass data analysis (data analytics) is a growing trend that has deeply impacted the audit. Even though analytical tools are applied differently by the individual audit firms, the increased use of such technologies is very clear to the FAOA. Journal entry testing is already usually performed using analytical tools. On certain files audit teams have used data analytics to support or replace substantive testing procedures. The FAOA is taking this development into account and will assess the use of data analytics in audit planning and execution as a 2019 point of focus. The focus will be on the use of tools, the testing of source data and the results of the analytics. The FAOA will further assess how data protection and security is ensured and what quality controls have been implemented in this area.

In the draft revised ISA 315, «Identifying and assessing the risk of material misstatement», the IAASB addresses the use of data analytics tools and techniques for the first time but refers to the fact that other standards, such as ISA 520, «Analytical procedures», and ISA 530, «Audit sampling», need to be amended. The significance of information technology (IT) to the audit is also emphasised. The new standard applies to the audit of financial statements covering periods beginning on or after 15 December 2020.

Blockchain technologies are at an early stage of development. Triggered by the spread of a virtual currency (Bitcoin) they are being applied increasingly in many areas. A block chain is a chain of decentrally-distributed blocks. Information such as monetary units, securities, ownership or fundamental rights, and transactions such as the transfer of rights, can be administered in a block. Manipulation should be impossible as each new block contains the encrypted information of the previous block as well as a timestamp and the chain is distributed across the internet. In public blockchains decentralisation, transparency and openness are par-

amount but require the guarantee of data integrity and network security. In closed blockchains participants know each other but data is not publicly available. Notwithstanding the basis of trust, it is essential that the validity and integrity of information is guaranteed.

Blockchain technology is likely to change the design of audit procedures for various financial statement line items in the near future. Before blockchain data flows unchecked into the financial statements, the source, participant group, security mechanisms and transaction verification of the blockchain must be questioned critically. IT risks, including general IT controls and cyber security in the blockchain environment, must thus be considered. The four largest audit firms are addressing the subject of blockchain and cyber security intensely. One of the five largest audit firms has already announced the use of a «blockchain analyser» for auditing blockchain transactions.

The FDF has launched a working group on blockchain and initial coin offerings (ICOs)^{23 24}. With the involvement of the FOJ and FINMA the working group has evaluated the civil law and regulatory issues arising from this technology. The working group does not expect fundamental changes to the financial market as this is generally seen as technology-neutral. It does, however, see changes in certain areas to be meaningful. This

²¹ ISA 250, 260, 315, 570, 610, 700, 701, 705, 706 und 720.

²² International Organization of Securities Commission.

²³ Financing through cryptocurrencies instead of flotation.

²⁴ [www.admin.ch > Dokumentation > Medienmitteilung \(limit period to 31.08.2018; www.admin.ch/gov/de/start/dokumentation/medienmitteilungen.msg-id-72001.html\)](http://www.admin.ch/gov/de/start/dokumentation/medienmitteilungen.msg-id-72001.html).

also applies to civil law matters²⁵. In March 2018 the UK Chancellor launched a working group including HM Treasury, the Financial Conduct Authority and the Bank of England²⁶. This «Cryptoasset Taskforce» sees the potential of this new technology but also large risks (use of cryptoassets for illegal purposes, potential future threats to financial stability etc.). In the accounting standards area, the IFRS Interpretations Committee is investigating the impact of cryptocurrencies, blockchain and ICOs on IFRS accounting²⁷. The extent to which cryptocurrencies and ICOs can be booked and valued under the current standards or whether standards should be amended will be investigated.

The FAOA is following these developments closely and expects audit teams to treat the output from the new tools and technologies with professional scepticism.

²⁵ www.admin.ch > Dokumentation > Medienmitteilungen > Medienmitteilungen des Bundesrats > Bundesrat will Rahmenbedingungen für Blockchain/DLT weiter verbessern, 14 December 2018 (www.admin.ch/gov/de/start/dokumentation/medienmitteilungen/bundesrat.msg-id-73398.html).

²⁶ www.fca.org.uk > News > News stories (www.fca.org.uk/news/news-stories/cryptoasset-taskforce-publishes-report-uk-approach-cryptoassets).

²⁷ www.ifrs.org > News and events > Meeting and Events diary > [2018] [September] [IFRS Interpretations Committee] > Cryptocurrencies.

Regulatory Audit

Introduction

As the extended arm of FINMA, regulatory audit firms and regulatory auditors-in-charge play an important role in the Swiss dual financial market supervision system. They perform the regulatory audit of those supervised by FINMA, which differs substantially from the CO audit of the statutory auditor.

In 2018 FINMA partially amended their Circular «Auditing», making the concept of the regulatory audit more risk-based and forming the basis for greater effectiveness and efficiency. The changes were proposed only

shortly after the amendment of the Circular in 2013 and the enactment of the bundling initiative in 2015. The changes came into force on 1 January 2019.

The regulatory audit market has changed little in recent years. The big three regulatory audit firms, PwC, EY and KPMG continue to perform the vast majority of regulatory audits, though the FAOA sees great competition between regulatory audit providers for tendered audits.

17 regulatory audit firms held a licence to audit under financial market legislation at the end of 2018.

In 2018 a regulatory audit firm previously licensed to audit under the Banking Act (BankA), the Financial Market Infrastructure Act (FMIA), the Stock Exchanges and Securities Trading Act (SESTA) and the Mortgage Bonds Act (MBA), was granted a licence to audit under the Collective Investment Schemes Act (CISA). Another firm that was licensed to audit DSFI was merged and subsequently dissolved.

Figure 7

Regulatory audit firms according to licence type

Licence type	Number at 31.12. 2017	Number at 31.12. 2018	Number at 31.12. 2019	Number at 31.12. 2020
Audits under BankA, FMIA, SESTA and MBA/ audits under CISA/audits under the Insurance Supervision Act (InsSA)/audits of DSFI	5	5	6	6
Audits under BankA, FMIA, SESTA and MBA/audits under CISA/audits under InsSA	1	1	–	–
Audits under BankA, FMIA, SESTA and MBA/audits under CISA/ audits of DSFI	1	1	1	1
Audits under BankA, FMIA, SESTA and MBA/audits under CISA	1	–	–	–
Audits under BankA, FMIA, SESTA and MBA	–	1	1	–
Audits under CISA/audits of DSFI	1	1	1	1
Audits under CISA	1	1	1	1
Audits under InsSA	1	1	1	1
Audits of DSFI	6	7	8	8
Total regulatory audit firms	17	18	19	18

The trend of prior years continued in the reporting year. The number of FINMA-supervised institutions fell further. The CISA area was an exception, with an increase in the number of collective investment schemes under Swiss law. The significant reduction in DSFI should be seen against the background of the planned

implementation of the FinIA, under which the DSFI status will lapse in 2020.

The following table shows the number of institutions audited by regulatory auditors licensed under financial market legislation as at the end of 2018.

Figure 8
Number of supervised institutions by regulatory area

Regulatory area	Number of supervised	2018	2017	2016	2015
Banks	Banks and securities traders (without Raiffeisen banks ²⁸)	296	299	312	346
	Insurance companies	200	205	207	214
Insurers	Insurance groups	6	6	6	6
	Fund managers	48	45	44	43
CISA	Agents	86	92	94	94
	Asset managers	213	217	206	178
	Swiss collective investment schemes	1,727	1,641	1,551	1,542
DSFI	Directly supervised financial intermediaries	135	163	199	227

2018 inspections

In calendar year 2018 nine²⁹ (prior year nine) regulatory audit firms were inspected, thereof

- five subject to annual inspection cycle as they audit more than 50 PIE,
- two of six regulatory audit firms subject to inspection at least every three years, and

- two of six pure DSFI regulatory audit firms subject to inspection every five years.

Audit quality at the nine regulatory audit firms covered in 2018 was inspected by means of 17 file reviews. The following categories of financial market companies were selected:

- nine banks, comprising one systematically relevant bank, two cantonal

banks, as well as six medium-sized and small banks,

- two securities traders,
- one insurer,
- one fund management company,
- four DSFI.

Figure 9
Overview of completed FAOA regulatory audit inspections and findings 2017 and 2018

Categories	Five largest regulatory audit firms		Other		Total	
	2018	2017	2018	2017	2018	2017
Number of inspections	5	5	4	4	9	9
Comment Form Findings Firm Review Regulatory Audit	6	3	1	1	7	4
Comment Form Findings File Review Regulatory Audit	38	19	16	9	54	28
Number of inspected files	12	8	4	4	17	12

²⁸ Additional 246 cooperatively-organised Raiffeisen banks

²⁹ Two audit firms at which the inspection fieldwork was completed are excluded from this annual report as the findings process is still at an early stage. Conversely, inspections that were still to be completed last year are included.

Firm Review

Nine inspections were performed in 2018. Seven of these are already complete. The 2018 firm reviews, and prior year inspections excluded from the FAOA Annual Report 2017, resulted in a total of seven findings, including four on adherence with professional practice and training hour requirements. The remaining three findings cover deficiencies concerning the quality assurance system and licencing conditions.

The FAOA identified an average of 0.8 findings per firm review, an increase of 0.3 over prior year. This was due to there being more findings on the required number of professional practice and training hours required of the regulatory auditor-in-charge and on regulatory audit monitoring.

Both are FAOA focus areas to which great importance continues to be attached. Monitoring is a key element of an effective quality assurance system.

File Review

17 file reviews were performed in 2018. Eleven have been completed. As for financial audit, the quality of the regulatory audit depends heavily on the engagement team members. Their knowledge of regulatory requirements is especially important.

To ensure audit quality regulatory audit firms must focus on audit quality consistency across audit engagements of different size, complexity, risk and financial market licence type. Ongoing regulatory training must also be given to those involved and adequately monitored.

The following figures analyse, by audit area and basis, findings from the 16 file reviews completed in 2018 or performed in 2017 but excluded from the FAOA Annual Report 2017:

Figure 10

Number of regulatory audit file review Comment Form findings by audit area (54 findings)

AMLA regulations	27
Risk management	9
Capital requirements and solvency	8
Regulatory impacts of accounting	4
Internal control system, incl. IT, internal audit and outsourcing	2
Other	4

The most common findings related to audit procedures on compliance with AMLA regulations. Of these 27 findings, 22 were in the regulatory category DSFI. They also accounted in the main for the increase in findings in 2018. FINMA provided the FAOA with more notifications of deficient audit quality in this area last year.

The number of findings per file review (3.4) has increased significantly compared to prior year (2.3) but DSFI findings again dominate in relative and absolute terms. Compliance with AMLA regulations is among the key inspection focus areas. The DSFI audit on behalf of FINMA will lapse upon FinSA coming into force.

As in prior years, a large number of findings arose in the areas of risk management, capital requirements for banks and insurer solvency.

Figure 11
Bases for 2018 regulatory audit file review findings

Insufficient audit evidence	37
Insufficient audit evidence in conjunction with insufficient professional scepticism	5
Deficient regulatory reporting in conjunction with insufficient audit evidence	5
Quality assurance and violations of auditor duty of care	4
Other	3

The main cause of findings continues to be insufficient professional scepticism in performing the audit. Insufficient audit procedures related, for example, to audit sampling, the scope of consolidated supervision and the audit of the risk management area. Cases were also found of reporting to FINMA that did not reflect the actual audit procedures performed. Other findings related to general violations of the duty of care.

2018 points of focus

The FAOA published its points of focus for the 2018 regulatory audit inspections in its Annual Report 2017 and examined these in detail in the reporting year. The following points resulted:

Quality and extent of regulatory audit internal monitoring

The FAOA obtained considerable information on the quality and extent of regulatory audit internal monitoring. The evaluation of it presents a mixed picture. Major differences are apparent amongst the five largest audit firms as well as between them and the small regulatory audit firms. The spectrum ranges from very finely developed monitoring processes to minimalistic approaches.

Audit of compliance with AMLA requirements, particularly business relationships and high risk transactions and the identification of politically exposed persons (PEP), as well as the application of AMLA, AMLO, AMLO-FINMA and the Swiss Banks' Code of Conduct with regard to the exercise of due diligence (CDB) 16.

The main deficiencies were again seen in the design and execution of sample testing:

- purpose of test and population characteristics not accounted for in sample design;
- completeness of population insufficiently tested;
- majority of samples strictly at FINMA-minimum levels;
- Risk-based samples for CDB 16 deficient as regards inclusion of complex and high-risk structures;
- Audit procedures and conclusions not transparent;
- Insufficient critical assessment of identified errors.

Sample testing is appropriate for auditing business relationships and higher risk transactions. However, the quality of the testing was insufficient in many cases. Further, too little attention was paid to compliance with AMLA requirements by foreign group companies in the context of consolidated supervision.

Application of current applicable FINMA minimum audit requirements or minimum audit procedures

For various audit areas FINMA sets out its minimum audit requirements in audit programmes for completion by the regulatory auditor. As in the prior year, serious deficiencies were found in cases where the regulatory auditor took the completed pro-

gramme to be sufficient, without further audit evidence being available or produced. The argument of the respective regulatory audit teams that the FINMA programme, or parts thereof, provided sufficient audit evidence is not in line with FAOA expectations. In addition, the minimum audit procedures required by FINMA were not performed or replaced with other appropriate audit procedures.

Root cause analysis and measures

The regulatory audit process for analysing root causes and determining measures is basically the same as for financial audit. The 2018 findings demonstrate, in particular, the critical importance of measures to improve professional scepticism.

Insufficient professional scepticism can have many causes. These include excessive trust in client statements and documents; insufficient communication and instruction within the regulatory audit team; insufficient industry and technical knowledge; time and fee pressure; and dangerous «operational blindness» through long-term involvement in the engagement.

The recurring lack of professional scepticism has resulted deficiencies being found by the FAOA from the planning of audit procedures to audit evidence gathering and FINMA reporting, the latter being misleading as a consequence.

The variety of root causes accordingly led to the definition of differing measures: Revision of practice aids, audit

programmes and checklists; intensification of transparent reviews at the appropriate auditor-in-charge, EQCR and manager level; involvement of industry and technical specialists in the audit; improvement and revision of training concepts; improvement of monitoring and coaching of the auditor-charge by internal and external partners.

Anti-Money Laundering Act

Regulatory framework

AMLA applies to financial intermediaries and regulates anti-money laundering, the fight against the financing of terrorism and the exercise of due care by finance companies. The legal framework is supplemented by the AMLO, AMLO-FINMA and CDB 16 regulations.

In 2018 FINMA published the revised AMLO-FINMA that comes into force on 1 January 2020. The revisions stem primarily from the FATF report on Switzerland and cover the regular inspection of beneficial owner information, the regular update of client information, specification of examples of higher-risk business relationship criteria, as well as the implementation of requirements regarding compliance with basic AMLA principles at group level. In 2018, following the AMLO-FINMA revision, the Swiss Bankers Association (SBA) published the revised Agreement on the Swiss Banks' Code of Conduct with regard to the Exercise of Due Diligence (CDB 20) that will also come into force on 1 January 2020. In the meantime, the currently-in-force AMLO-FINMA has been supplemented by the provisions of the fintech submission. Fintech companies are subject to similar regulations as DSFI. However, there are no audit procedure methodologies, particularly in the area of identification requirements.

Oversight authority expectations and effects on regulatory audit services

FINMA always informs audit firms of its minimum audit requirements in

advance. These show FINMA expectations as to the extent of audit procedures in the AMLA area to be high.

Financial intermediaries must adjust their internal control instruments and methods regularly to account for regulatory changes and to recognise money laundering risks appropriately. In particular, IT solutions that facilitate more efficient and targeted internal controls are used increasingly today. Regulatory audit firms must therefore adapt their audit methodologies, combining controls and substantive testing, accordingly. Risk-based audit procedures allow firms to meet the new challenges and high audit quality expectations. This could be through the introduction of audit procedures based on data analytics for example.

Cooperation with FINMA

There is intense interaction between the FAOA and FINMA and this takes place at all levels of seniority at the respective authorities. The interaction particularly takes place as part of the file reviews of FINMA-supervised entities. The risk-based selection of regulatory audit engagements and file review focus areas requires an ongoing formal and informal information exchange between the two authorities. FINMA informs the FAOA where it has firm suspicions of deficient auditing. Conversely, the FAOA informs FINMA of the results of the firm and file reviews by providing the final inspection report, as well as the Comment Forms and Other Reportable Findings relating to the regulatory and financial audits of FINMA-supervised entities.

Through this cooperation the FAOA achieves transparency towards FINMA and supports it in carrying out its supervisory activities. The interaction also serves to keep administrative effort as low as possible for both authorities and for the regulatory audit firms.

Points of focus for 2019 inspections

The FAOA has selected the following 2019 points of focus in the regulatory audit area:

- Audit of risk management
- Audit of the internal organisation and internal controls system (incl. IT)
- Audit of compliance with AMLA requirements

International

General

To improve investor protection and avoid duplication of effort, the FAOA continues to strive for efficient and effective cooperation with foreign audit oversight authorities.

The number of administrative assistance cases increased slightly compared to prior year³⁰. Cooperation with the USA remains intense given the number of Swiss companies quoted in the US and the presence of US companies in Switzerland. Cooperation with EU and European Economic Area (EEA) members is also not insignificant, particularly with neighbouring countries.

Extra-territorial scope of the AOA

The role of the FAOA is to protect investors in the Swiss capital market. Where foreign companies are active in the market, by way of share or bond quotations on the Swiss exchanges, the AOA develops an extra-territorial effect (Art. 8 AOA). To avoid multiple oversight by different authorities, however, there are exceptions to the requirement for FAOA licensing and supervision.

On 1 October 2017 the FAOA issued the so-called Disclosure Ordinance (SR 221.302.34; DO), as the revised Art. 8 para. 3 letter b AOA³¹ came into force. It sets out market information modalities for cases in which the auditor of a Swiss-quoted bond issuer is not subject to foreign state oversight or the foreign state oversight is not recognised as equivalent by the FAOA³².

Essentially the DO is applied through the Swiss Exchange (SIX) being required to state explicitly and visibly on its website that the auditor of the issuer is not under the oversight of a foreign audit oversight authority recognised as equivalent by the Federal Council. SIX currently shows whether the AOA is fulfilled or not under the rubric³³ «Bond Details».

Relations with the European Union

Further Memorandum of Understanding (MoU)

During the reporting year the FAOA began negotiations towards signing an MoU with another audit oversight authority from an EU member state.

Consequences of the UK leaving the EU (Brexit)

The FAOA and the UK audit oversight authority (Financial Reporting Council, FRC) have been considering whether the 2014 MoU between the two authorities could be affected by the potential departure of the UK from the EU in March 2019.

The FRC does not believe Brexit will affect current cooperation or the above MoU. Absent unforeseen changes, the UK audit oversight system should also remain recognised as equivalent. This is, however, a provisional assessment. The key criterion will be the wording of UK regulations applying after Brexit.

Cooperation with the USA

Joint Inspections

In the second year of the third cycle (2017–2019) of joint inspections between the FAOA and the PCAOB two of the seven PCAOB-registered Swiss audit firms were jointly inspected. Cooperation is based on the Statement of Protocol (SoP; equivalent to an MoU), that the FAOA and initially FINMA concluded with the PCAOB in 2011 and that was extended indefinitely in 2014.

Cooperation by way of joint inspections and information exchange continues to work efficiently. Now under a completely new Board, the PCAOB will also strive for successful cooperation between the two authorities in the future.

PCAOB Regulatory Institute

This year's two-day, «PCAOB International Institute on Audit Regulation», event focussed, on the one hand, on the subject of audit firm governance

and quality control and, on the other, on technological developments and their impact on the audit. The FAOA took an active part in the event.

Relations with other states and organisations

In February 2018 the FAOA accepted an invitation of the State Secretariat for International Financial Matters (SIF) and met a delegation of experts from Kazakhstan, who were accompanying their finance minister. During this technical meeting questions from the Kazakhstan delegation regarding the Swiss audit oversight system were discussed.

In May 2018 the FAOA took part in a conference of German-speaking audit oversight authorities (Germany, Austria, Liechtenstein and Switzerland) in Liechtenstein. Within the framework of this intermittently-held exchange, representatives from above authorities discuss the oversight issues and challenges that affect them particularly given their geographical and legal proximity.

Multilateral Organisations

IFIAR

The annual IFIAR plenary meeting was held in Ottawa (Canada) in April 2018 and marked the close of the first operational year under the new management structure, with a Board and Secretariat. The FAOA took part in all Board meetings as a member.

³⁰ In 2018 the FAOA received 18 (2017: 15) applications for administrative assistance. Of these, ten came from EU audit oversight authorities, five from the USA and three from other countries. The FAOA made one request for administrative assistance from an EU oversight authority.

³¹ Further details can be found in the FAOA Annual Report 2017.

³² The audit oversight authorities recognised under Art. 8 para. 2 AOA are cited in Appendix 2 of the AOO.

³³ www.six-group.com/exchanges/bonds/issuers/issuer_list_en.html (see standing data)

As IFIAR Vice-Chair, the FAOA CEO worked closely with the IFIAR Chair and Secretariat. He also coordinated the activities of the six IFIAR working groups.

The FAOA continued to be active in various ways in several of these working groups:

- Enforcement Working Group (EWG): The FAOA has been chairing this working group for a four-year term since May 2018. The group aims to exchange experiences with enforcement proceedings and legal sanctions undertaken with respect to auditor and audit firm non-compliance. In December the group published a report concerning the various enforcement measures used in the legal systems of IFIAR members. This was based on a comprehensive survey completed by all IFIAR members.
- Global Audit Quality Working Group (GAQ WG): The FAOA joined this working group in April 2018. The group leads the ongoing IFIAR dialogue with the large international audit network members of the Global Public Policy Committee (GPPC). Two meetings with representatives of these networks took place during the reporting year. The dialogue focused on audit firm measures for achieving lasting improvement in global audit quality.
- Inspection Workshop Working Group (IWWG): This working group provides IFIAR-member inspectors with a forum for exchanging ideas and discussing current financial audit oversight questions. The FAOA made a number of contributions to the workshop on inspections of audit firms that the group held in Colombo (Sri Lanka) in February 2018.
- International Cooperation Working Group (ICWG): This working group aims to improve the conditions for cooperation and information exchange between IFIAR members.

In April 2018 the Dutch audit oversight authority Autoriteit Financiële Markten (AFM) was appointed to chair the group for four years. In the reporting year the working group received additional applications to join the MMoU, which allows confidential exchange of information among its signatories in the areas of licensing, oversight, inspections and disciplinary proceedings.

As a member of the IFIAR Board and various IFIAR working groups the FAOA was invited to represent IFIAR in giving a key note speech at the workshop, «Advancing Audit Quality Assurance Systems: Trends and Opportunities», which was organised by the Centre for Financial Reporting Reform/World Bank Group and took place in Vienna (Austria) in April 2018. Participants were given an overview of the organisation and new structure of IFIAR, the joining criteria and the activities of the IWWG (see above).

Finally, as Vice-Chair of IFIAR, the FAOA CEO took part in the September 2018 Basel meeting of the Financial Stability Board, Standing Committee on Supervisory and Regulatory Cooperation (FSB SRC) and presented a summary of the current evolution of IFIAR activities of IFIAR.

CEAOB

The Committee of European Audit Oversight Bodies (CEAOB) is the EU coordination body for the national audit oversight authorities of its member states.

The FAOA continues to have observer status in the «Inspections» sub-group (CEAOB Inspections Sub-group, ISG), that is responsible for the exchange of information and technical knowledge and for inspection methodology best practice. In this capacity the FAOA took part in two meetings in the reporting year:

- Porto (Portugal) in June: The meeting agenda included a dialogue with KPMG und Mazars, discussion of common inspection results

in the member states, the update of certain aspects of the Common Audit Inspection Methodology (CAIM) and the presentation of various methodological approaches used within inspections³⁴.

- Vienna (Austria) in November: Among other topics, the meeting focused on the cooperation of ISG members with participants of the ESMA European Enforcers Coordinated Sessions, on the preparation of the next Market Monitoring Report and on a dialogue with European representatives of PricewaterhouseCoopers³⁵.

Transmittal of information from private parties to foreign authorities

On 4 December 2018 the Federal Supreme Court (FSC) made a ruling that is also of interest to the audit oversight area³⁶: In connection with the tax dispute between Switzerland and the US, a Swiss-domiciled asset management company had its customer relationships inspected. The inspection revealed that the company had a certain number of customers who may not have been paying US taxes appropriately. The company therefore made a self-declaration to the US Department of Justice. The company's chairman travelled to the US regarding a Non Prosecution Agreement and had a lawyer give the US Justice Department – without authorisation under Art. 271 para 1 Criminal Code (CC) – a USB-Stick with 109 of his company's client files. He had previously obtained two legal opinions on the legality of this action. Based on a FINMA criminal complaint, the Office of the Attorney General

³⁴ For further information see the following link: ec.europa.eu/info/sites/info/files/180605-ceaob-subgroups-inspections-summary_en.pdf.

³⁵ For further information see the following link: ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/181221-ceaob-subgroups-inspections-summary_en.pdf

³⁶ FSC Ruling No. 6B_804/2018 of 4 December 2018.

of Switzerland (OAG) imposed a conditional fine and penalty on the chairman for unlawful activities actions on behalf of a foreign state (Art. 271 para 1 CC). The Federal Criminal Court (FCC) acquitted the chairman, however, due to the lack of wilful intent, respectively an unavoidable mistake of law. On appeal by the OAG the FSC overruled the acquittal and sent the judgement back to the FCC for re-appraisal.

In its ruling the FSC noted³⁷, that if a perpetrator doubts the lawfulness of his actions he should obtain further information from the responsible authorities and a binding legal opinion. If differing (non-binding) legal advice is obtained from a legal advisor or lawyer, the perpetrator can only rely on this advice if it considers all the circumstances, as subsequently perpetrated, and takes account of all legal aspects that the perpetrator should also be aware of. On contentious legal questions, the perpetrator cannot rely offhand on the advice that is most favourable to him. In the case in question the opinions were inadequate, being incomplete and not solidly argued. The chairman, a qualified lawyer, should not have relied on this inconclusive legal advice. He could only hope that his action was not criminal, which meant a mistake of law would have been avoidable.

This ruling from the banking oversight area demonstrates that the transmittal of (non-publicly available) information, data or documents by private parties to a foreign authority without appropriate permission from the responsible Swiss authority still carries a high risk of being considered criminal (Art. 271 CC).

Applied to audit oversight, it is recommendable to contact the FAOA before transmitting data to foreign audit oversight authorities. Depending on the circumstances, the FAOA can take the administrative assistance route or otherwise advise on the correct approach.

By contrast, using a private legal opinion instead of regulator advice carries great risks. Aside from the fact that an opinion rarely removes all legal doubt, the fact that a legal opinion has been commissioned and analysed raises sufficient indicators of legal wrongdoing. Given this, only in exceptional cases could a person exonerate himself by arguing that he was not aware his action was a punishable offence.

³⁷ Hereto and to the following FSC Ruling No. 6B_804/2018 of 4 December 2018, E. 3.2 f., including further references cited.

Licensing

Introduction

Audit firm licences are limited to five years. Audit firms wishing to continue providing statutory audit services must submit a licence renewal application to the FAOA prior to licence expiry. For those audit firms already granted an FAOA licence in 2008 the second renewal was due in 2018. Almost 400 audit firms were subject to licence renewal in 2018. At the same time, a further 50 initial audit firm licence applications were submitted. Together with a total of approximately 450 applications from individuals for an initial licence or licence category change, the FAOA

processed around 900 licence and licence renewal applications in the reporting year.

again due to numerous licence renewal waivers from audit firms up for renewal. Around 15% of such firms waived their licence renewals.

Statistics

Licences

Over the last few years the number of licensed individuals has stabilised at a high level of around 9,400. The number of licensed audit firms slightly decreased. This reduction results, on the one hand, from the requirement on all audit firms to maintain an internal quality assurance system from 1 October 2017. On the other, the reduction is once

Figure 12

Licensed individuals and audit firms as at 31 December 2018³⁸

Type of licence	Auditor	Audit expert	Total as of 31.12.2018	Total as of 31.12.2017
Individuals	2,570	6,833	9,403	9,206
Audit firms	803	1,663	2,466	2,604
State-regulated audit firms	–	21	21	22
DSFI-only state-regulated audit firms	–	6	6	7
Foreign state-regulated audit firms	–	2	2	2
Total licences	3,373	8,525	11,898	11,841

Membership of professional associations

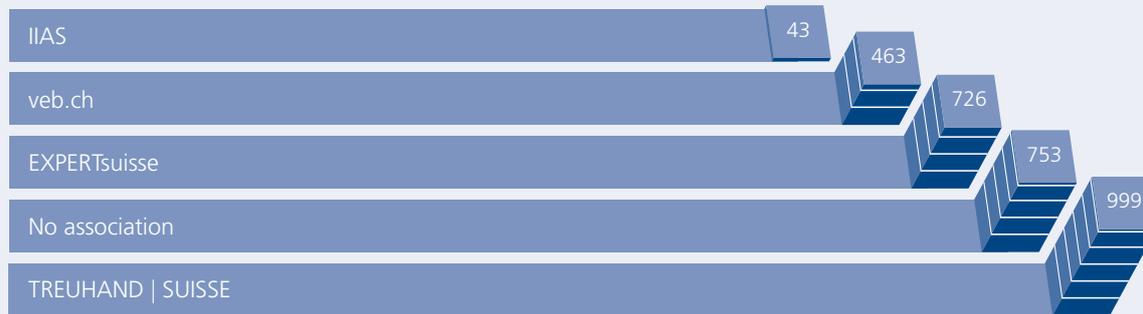
Audit firms and individuals can declare their professional association membership(s) in the public register of the FAOA. This applies only to ordinary members³⁹ who fulfil the requirements of the professional associations completely. Passive and junior memberships are not ordinary memberships and may not be declared as memberships of a relevant professional association in the public register. In 2018 the FAOA made further efforts to clear the public register of falsely declared or expired professional association memberships.

³⁸ All numbers refer to legally binding completed proceedings. Pending appeals have not been included.

³⁹ Ordinary members are the individual expert members and member firms of EXPERTSuisse or the individual members and member firms of TREUHAND | SUISSE.

Figure 13

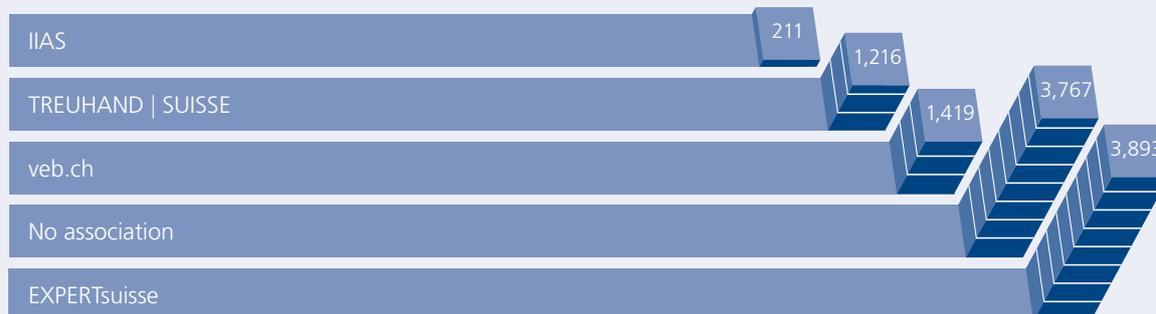
Professional association memberships⁴⁰ of licensed audit firms as of 31 December 2018



These efforts have led to a reduction in the number of professional association memberships declared in the public register, particularly for individuals. Even so, the great majority of both licensed individuals and licensed audit firms still have at least one professional membership.

Figure 14

Professional association memberships⁴¹ of licensed individuals as of 31 December 2018



Number of audits

An audit firm licensed as an audit expert may provide both limited and ordinary audit services. Only around a quarter of audit expert firms have made use of this option and performed ordinary audits in recent years.

⁴⁰ Including multiple answers from individual audit firms with multiple professional association memberships.

⁴¹ Including multiple answers from individuals with multiple professional association memberships.

Figure 15Frequency of ordinary audits (Status: 31 December 2018)⁴²

Number of audit firms	2018	2017
1 to 5 ordinary audits	325	338
6 to 10 ordinary audits	71	74
11 or more ordinary audits	78	78
Total number of audit firms performing ordinary audits	474	490

The number of audit firms with ordinary audit engagements declined slightly in both the reporting and prior year. A slight trend has also emerged of ordinary audit engagements moving from audit expert firms to state-regulated audit firms.

Figure 16Total number of limited (LA) and ordinary (OA) audits performed (Status: 31 December 2018)⁴³

Licence type	Number LA	Number OA	2018	2017
State-regulated audit firms	15,115	9,232	24,347	24,310
Other licensed audit firms	71,260	2,596	73,856	74,944
Total audits performed	86,375	11,828	98,203	99,254

Applied internal quality assurance standards

The number of quality assurance standards in use rose sharply to the end of 2017 after the requirement for all audit firms to maintain an internal quality assurance system came into force on 1 October 2017. The FAOA

reminded audit firms who had not implemented a quality assurance system in accordance with the new legal provisions to do so immediately.

Figure 17

Audit firm declarations as to applied standard of internal quality assurance (as at 31 December 2018)



⁴² Information based on audit firm self-declarations.

⁴³ Information based on audit firm self-declarations.

Internal quality assurance

All audit firms have had to maintain an internal quality assurance system as from 1 October 2017 at the latest. The audit firm itself retains corporate responsibility for the specific implementation, application and proper usage of the quality assurance handbook. As part of initial licensing the FAOA performs a purely formal assessment of the handbook. During the licence renewal there is generally no detailed inspection of the handbook. As part of the licence renewal process the FAOA performs spot checks on controls over continuing education, compliance with rotation requirements at audit firms performing ordinary audits and the preparation of the annual monitoring report.

The most notable general insights and findings from the assessment of documentation submitted as part of licence renewal were as follows:

Controls over continuing professional education

Controls over continuing professional education: As part of their internal quality assurance systems (Art. 6 para. 1 letter d AOA and Art. 9 Audit Oversight Ordinance (AOO)) audit firms must ensure that staff have the professional knowledge required to meet legal requirements with due care. This particularly includes measures to ensure adequate continuing professional education. The legislator did not issue requirements as to the extent and content of the training. EXPERTsuisse and TREUHAND | SUISSE have each defined the type and extent of member training in their regulations. The FAOA views the requirements of both professional associations as equivalent. If an audit firm uses appropriate measures to meet the requirements of either EXPERTsuisse or TREUHAND | SUISSE with regard to the type and extent of training, the FAOA regards the legal requirements as basically being met. This also applies to audit firms who do not belong to either of the two large professional associations. Their own training regulations must at least

meet the requirements of EXPERTsuisse or TREUHAND | SUISSE.

A recurring finding during licence renewal is that although training requirements were met the internal controls over training are not documented. It has also often been found that small practices in particular do not, or not fully, meet continuing professional education requirements. The FAOA may take measures in such cases depending on the degree of non-compliance. These could lead to anything from a future training plan through to a reprimand or non-renewal of a licence.

Rotation requirements

The maximum term for an auditor-in-charge of an ordinary audit engagement is seven years. A former auditor-in-charge can only be re-assigned to the engagement after a cooling-off period of three years. The initial observations and conclusions of the FAOA are that rotation requirements are respected and met. Only the documentation of rotation lists could be improved in some cases.

Monitoring reports

All audit firms – irrespective of their quality assurance standard – are required to prepare an annual monitoring report. The person responsible for the monitoring report must not be involved in the audits covered or act as the EQCR on them. He must also be appropriately qualified, respectively licensed. In the smallest practices that have only one person with the necessary licence the monitoring report must be prepared by an external person. A common monitoring report deficiency is that only one firm or file review was performed. It is also often found that only a checklist is used, without clear statements on findings, measures and improvement suggestions. Only occasionally is a monitoring report not prepared or not prepared with the required regularity. Positively, many audit firms have recognised that the annual monitoring report has to be tailored to the specific circumstances of the firm. Overall, monitoring is valued

as a means to improve internal processes continually and thus minimise liability risks.

Licence renewal

Introduction

At the end of their five-year validity period audit firm licences expire automatically. Six months before expiry the FAOA asks the concerned audit firms to submit renewal documentation. As an alternative to submitting the necessary documentation audit firms can waive licence renewal and no longer provide statutory audit services after the expiry of their current licence.

Licence renewal statistics

238 audit firm licences were renewed in the reporting year. The licences of 233 firms were renewed seamlessly. In the case of only five audit firms, which did not meet quorum or internal quality assurance system requirements at the time of renewal, was there a licensing gap until the requirements had been met again and the firm had been re-entered in the FAOA public register. In 108 cases licences were waived with immediate effect before expiry or, at the latest, during the renewal process. A large proportion of these cases were sole proprietorships. Numerous sole proprietorships have waived their audit firm licences since the requirement to maintain an internal quality assurance system came into force on 1 October 2017. 64 audit firms confirmed their licence renewal waiver to the FAOA upon being asked to submit renewal documentation.

Figure 18

Number of licence renewals granted in 2018

Licence type	Auditor	Audit expert	Total 2018	Total 2017
Audit firms	56	179	235	68
State-regulated audit firms	–	3	3	1
Total licence renewals	56	182	238	69

Special licences

Licensed audit experts with appropriate professional experience and evidence of relevant audit hours can apply for a special licence under Art. 11a AOO. Special licences remain valid only if the auditor has the nec-

essary number of audit hours and when these can be quantitatively and as well as qualitatively evidenced to the FAOA with appropriate documentation.

Figure 19

Regulatory auditors-in-charge by special licence type (status as at 31 December 2018)

Licence type	Total regulatory auditors-in-charge as of 31.12.2018	Total regulatory auditors-in-charge as of 31.12.2017
Audits under BankA, SESTA and MBA	114	115
Audits under CISA	74	77
Audits under InsSA	32	34
Audits of DSFI	29	34
Total licences	249	260

Figure 19 shows the number of auditors-in-charge by special licence type. 189 individuals have one or more special licence. The number of licensed auditors-in-charge fell slightly compared to the prior year but remains at a similar level.

Enforcement and court rulings

Enforcement

Statistics 2018

In the reporting year four licence applications were rejected (prior year: four). 23 individuals and firms withdrew their applications or waived their licences during ongoing proceedings (prior year: eleven). All applications could be proceeded with (prior year: two not proceeded with).

In addition, 13 licence withdrawals were imposed (prior year: 13) and 13 reprimands issued (prior year: 15). No criminal charges were filed (prior year: one).

Statistics 2015–2018

Following on from prior disclosures⁴⁴, statistics for the enforcement activities of the FAOA from 2015–2018 are shown below⁴⁵. The

column «Trend» shows whether there were more (↑), less (↓) or the same (→) number of cases in the respective category as in 2011–2014.

Audit firms			2015–2018		
Type of order	Deficiency	Case category	Number	%	Trend
Non-receipt of application	Duty to cooperate		1	2	↓
Application rejected	Duty to cooperate	Incomplete application	2	4	↓
	Quality assurance system	–	0	0	↑
	Quorum not achieved	Non-compliance with Art. 6 AOA	0	0	↓
Rejection as audit expert, but licensed as auditor	Quorum not achieved	Non-compliance with Art. 6 AOA	0	0	↓
Licence withdrawal	Quorum not achieved	Non-compliance with Art. 6 AOA	3	16	↓
	Quality assurance system	Non-compliance with Art. 9 AOO	8	6	↑
Written reprimand	Quorum not achieved	Non-compliance with Art. 6 AOA	14	28	↑
	Quality assurance system	Non-compliance with Art. 9 AOO	20	40	↑
	Quality assurance system	Breach of independence	1	2	↓
	Duty to notify	–	1	2	→
	Deficient or non-timely implementation of agreed remedial measures	–	0	0	↓
Total orders against audit firms			50	100	
Overall total of proceedings with negative outcome			147		

⁴⁴ See statistics 2007–2010 (FAOA Activity Report 2010, page 10 f.) and 2011–2014 (FAOA Activity Report 2014, page 37 f.).

⁴⁵ The statistics include proceedings completed in the first instance. The amounts do not agree entirely with earlier annual reports due to methodological improvements.

Individuals			2015–2018		
Type of order	Deficiency	Case category	Number	%	Trend
Application not proceeded with	Duty to cooperate	No documentation submitted	3	3	↓
Application rejected	Duty to cooperate	Incomplete application	1	1	↓
	Inland education	No qualification under Art. 4 para. 2 letters a–c AOA	3	3	↓
		Professional experience	Insufficient supervised professional experience	9	9
	Insufficient length of professional experience		4	4	↓
	Lack of professional experience in audit		0	0	↓
	Reputation	Breach of independence	0	0	↓
		Convictions under civil or criminal law	0	0	↓
		Auditing without a licence	0	0	↓
		Financial situation	0	0	↓
		Deficient audit	0	0	→
		Incompetence	0	0	→
	Foreign education	No qualification under Art. 4 para. 2 letter d AOA	1	1	↓
		Lack of reciprocity	1	1	↓
		Lack of knowledge of Swiss law	1	1	↓
	Special licence requirements	Continuing professional education hours	1	1	↑
Regulatory audit hours		0	0	→	
Rejection as audit expert, but licensed as auditor	Professional experience	Insufficient professional experience	0	0	↓
Licence withdrawal	Reputation	Breach of independence	19	20	↓
		Convictions under civil or criminal law	7	7	↑
		Auditing without a licence	5	5	↓
		Financial situation	1	1	→
		Deficient audit	7	7	↑
		Incompetence	0	0	↓
	Special licence requirements	Continuing professional education hours	1	1	↑
		Regulatory audit hours	0	0	→
Written reprimand	Reputation	Breach of independence	9	9	↓
		Auditing without a licence	15	15	↑
		Deficient audit	3	3	↓
		Convictions under civil or criminal law	2	2	↑
	Special licence requirements	Continuing professional education hours	3	3	↑
		Regulatory audit hours	1	1	→
Total orders against individuals			97	100	

Comparison of the three time periods, 2007–2010, 2011–2014 and 2015–2018, shows that the number of enforcement proceedings first fell by 38% from 308 (2007–2010) to 191 (2011–2014) and then by another 30% to 147.

The first fall of 38% may have been due to various transitional questions related to the change of legal regime becoming less relevant in the second period from 2011–2014. By contrast, the recent fall of 30% may indicate further professionalisation within the industry. It should be noted, however, that enforcement cases have tended to become more complex and time-consuming than in the two earlier statistical periods.

From 2015–2018 state-regulated audit firm inspections gave rise to 21 enforcement proceedings (2011–2014: 20; 2007–2010: 3).

The 79 state-regulated audit firm inspections and 150 inspected engagements from 2015–2018 resulted in eight written reprimands and one licence withdrawal. In a further five cases proceedings were ceased after the individuals concerned voluntarily waived their licences. No measures were taken in six cases. In other words, around 13% of all inspections resulted in an enforcement measure.

Court rulings

In 2018 the federal courts (Federal Supreme Court (FSC) and the Federal Administrative Court (FAC)) ruled on six appeals against FAOA orders. For duty of care violations that had resulted in licence withdrawal the decision of the FAOA was upheld in each case. In three cases the FAC reduced the withdrawal period but two of these rulings are not yet legally binding.

A complete list of all reporting year federal rulings is given in Appendix 6. New or significant deliberations from these rulings are noted by cat-

egory below. The FAOA summarises other 2018 audit-related rulings that may be of interest in the section «Other rulings of interest».

Independence

Issuing an audit report on a company or foundation when directors of the holding company of the audit firm are directors or trustees of the audited company or foundation breaches independence⁴⁶. The FAC considered that the auditor-in-charge could and should have known that his employer was under the same management as the holding company given various indicators (each with the same registered office at the same address, letterbox of the holding company in the same building; commercial register information). He had therefore violated his duty of care⁴⁷, respectively breached independence requirements⁴⁸.

A legally-binding civil or criminal judgement for duty or care violation is not a pre-requisite for sanctioning under administrative law under Art. 17 AOA⁴⁹.

Criminal convictions

The FAC considers that a conviction entered in the criminal register for tax evasion and forgery of documents provides sufficient grounds for questioning the trustworthiness of an auditor⁵⁰. The areas of book-keeping, accounting and taxes are usually relevant to the tasks of the auditor. It follows that the systematic fraudulent misstatement of balance sheets and income statements by way of fictitious invoices (of around 3.8 million Swiss francs) and related criminal convictions could be seen as violations in a key audit area, respectively a serious breach of fundamental audit law principles⁵¹. The withdrawal of the auditor licence for three years therefore complies with the principle of proportionality⁵².

Duty to provide information

The FSC considers that a licence can be withdrawn for an indefinite period if the licence holder refuses to provide an authority with requested

documents, thereby not meeting the duty to provide information⁵³. The court thus upheld the FAC ruling⁵⁴ that had been appealed against. Without licence holder cooperation the oversight authority cannot determine definitively whether a notified accusation is justified and thus cannot ensure that licensing conditions continue to be met⁵⁵.

Audit without a sole proprietorship licence

With respect to audits performed by an auditor-in-charge whose sole proprietorship is not appropriately licensed, the FAC specified that registration of the sole proprietor in a cantonal attorney's register was no compensation for licensing and entry in the FAOA public register; both the licensing conditions and the responsible authority being different⁵⁶.

Procedural law questions

The FAC also had several interesting procedural law deliberations. All those involved in a proceeding have the right to access all file of the case. It is not necessary that they can actually influence the decision. Access to documents can therefore not be denied on the grounds that they are not pivotal to the outcome

⁴⁶ FAC Ruling No. B-3409/2016 of 26 March 2018, E. 3.3.4.

⁴⁷ FAC Ruling No. B-3409/2016 of 26 March 2018, E. 4.2.1.

⁴⁸ Art. 728 para. 2 no. 1 and 3 as well as para. 3 CO in conjunction with Art. 728 para. 6 CO.

⁴⁹ FAC Ruling No. B-3409/2016 of 26 March 2018, E. 2.2.2.

⁵⁰ FAC Ruling No. B-3549/2017 of 26 April 2018, E. 2.4.1.

⁵¹ FAC Ruling No. B-3549/2017 of 26 April 2018, E. 2.6.1.

⁵² FAC Ruling No. B-3549/2017 of 26 April 2018, E. 3.4.

⁵³ Art. 15a AOA

⁵⁴ FAC Ruling No. B-6138/2016 of 28 December 2017.

⁵⁵ FSC Ruling No. 2C_131/2018 of 18 June 2018, E. 3.4.

⁵⁶ FAC Ruling No. B-3972/2016 of 5 June 2018, E. 3.2.5.2.

of the proceedings. File access can, however, be denied where there is an overwhelming confidentiality interest⁵⁷. In deciding whether the appellant may learn of the identity of the informant, the fact that this would not be important to the outcome of the proceedings can be considered in weighing up the balance of interests⁵⁸. In addition, the denunciation forms provided by the FAOA on its website are valid for third parties⁵⁹.

Other rulings of interest

Cantonal Court of Fribourg ruling of 5 February 2018

The Cantonal Court of Fribourg⁶⁰ considered whether a general meeting of a private limited liability company (LLC) can reject a motion of three minority equity holders to carry out a limited audit. The LLC had previously opted-out of a limited audit (Art. 727a para. 2 CO⁶¹, Opting-out).

The court ruled that as soon as an equity holder demands the reinstatement of the limited audit the general meeting is obliged to appoint an auditor. Equity holders have an individual right to a limited audit, the exercise of which cannot be precluded nor impeded by the statutes. As soon as a single equity holder demands that a limited audit be carried out, the required unanimity for opting-out does not exist and the limited audit is automatically reinstated: In other words, the general meeting need not vote on the reinstatement of the limited audit but rather appoint an auditor directly. Therefore, in the case in question no vote should have even taken place on the reinstatement of the limited audit. The fact that the resolution in question was passed meant that a legal mandatory right had been withdrawn. The resolution of the general meeting is therefore void (Art. 706b CO).

The court also decided that a timely motion would reinstate the limited audit for the financial statements of the year just ended. The court felt that if the audit were only to take effect as

from the following financial year and there were to be sudden or unexpected problems the financial statements of the financial year just ended would not be subject to audit and the opting-out would lose its essence.

FSC ruling of 9 February 2018

In this ruling the FSC⁶² clarified whether the Commercial Register Office (CRO) can require a renewal of the «opting-out» declaration at all times and unconditionally (Art. 62 para. 4 Commercial Register Ordinance⁶³). The CRO had required such a declaration renewal, in particular with the latest financial statements attached, after being informed by the debt enforcement and bankruptcy authorities that the company in question had liquidity problems.

The court considered that renewal of the «opting-out» declaration presupposes a change in the opting-out conditions. This results from the supposition in Art. 727a para. 4 CO that the limited audit opt-out also applies to subsequent years. The CRO must therefore have information suggesting that the conditions for the limited audit opt-out are no longer met. This is not the case with over-indebtedness or liquidity problems.

FSC ruling of 4 December 2018

See commentary under «International», «Transmittal of information from private parties to foreign authorities»⁶⁴.

⁵⁷ FAC Ruling No. B-3972/2016 of 5 June 2018, E. 2.3.1.

⁵⁸ FAC Ruling No. B-3972/2016 of Tuesday, 5 June 2018, E. 2.3.2, and Interim FAC Ruling No. B-2332/2018 of 19 June 2018.

⁵⁹ FAC Ruling No. B-3409/2016 of 26 March 2018, E. 2.3.2.

⁶⁰ Ruling of the Cantonal Court of Fribourg No. 101 2017 66 of 5 February 2018.

⁶¹ CO, SR 220.

⁶² FSC Ruling No. 4A_589/2017 of 9 February 2018.

⁶³ Commercial Register Ordinance, SR 221.411.

⁶⁴ FSC Ruling No. 6B_804/2018 of 4 December 2018.

Pension scheme audits

Heightened public interest

Pension scheme auditors play an important role in the pension oversight system. As part of the financial audit the auditor ensures that financial reporting is in line with relevant standards. This gives various stakeholder groups (insureds, trustees and oversight authorities) a reliable insight into the financial situation and provides important bases for decisions.

The auditor also fulfils a whole range of additional important duties comparable to those relating to the regulatory audit under financial market legislation. This indirect oversight of pension schemes by the auditor provides an important contribution to their stability and trustworthiness. At the same time, it creates corresponding expectations of a high quality audit. The pension scheme audit is therefore of great public interest⁶⁵.

No institutional oversight

In contrast to the above-mentioned financial market area, pension scheme auditors are not subject to continual FAOA oversight. The only exception is the audit of investment foundations, for which a state-regulated audit firm licence is required. The FAOA can therefore only inspect audit quality at other pension schemes in suspicious cases and when assessing whether individuals guarantee proper audit services.

Duty of care violations

Notwithstanding the above, serious violations of the appropriate duty of care are often found when assessing the guarantee of proper audit services. In two cases enforcement proceedings were opened against an individual:

- The auditor of a collective foundation did not identify or take exception to numerous violations of laws and regulations: The auditor did not audit compliance with legal provisions concerning related party transactions; business loans were made although they were not permissible assets; an unauthorised

company was engaged as asset manager; the collective foundation did not maintain an internal control system commensurate with its size and complexity; liquid funds and units in unit trusts were incorrectly disclosed and incorrect or incomplete information was given in the notes to the respective financial statements as regards property valuation; and, although properties under construction of the collective foundation were material to the financial statements in each case, the auditor obtained no audit evidence as to their existence and valuation.

- In another case a pension scheme auditor breached independence because the brother of the auditor-in-charge had a decision-making role in key areas of the audited scheme. In addition: It was not noted that the audited financial statements were not in compliance with Swiss GAAP FER 26 in numerous important areas; in each case the audit working papers were limited to only a few pages, most particularly omitting audit planning, a documented understanding of the audited scheme and a risk assessment; the auditor did not note nor take exception to the fact that the pension scheme did not maintain an internal control system commensurate with its size and complexity; and, although a major part of the schemes assets comprised of mortgage loans, building loans and leasing finance to participating employers, the auditor did not audit related party transactions.

In six further cases the respective preliminary investigations were pending at the end of the reporting year.

Need for legislative action

Considering the above, the FAOA believes that a question remains as to whether the legal requirements applying to pension scheme auditors and auditors-in-charge are sufficient. Whereas a PIE (e.g. insurance company) auditor-in-charge and regulatory auditor must meet practical ex-

perience and training requirements, pension scheme auditors require no relevant experience. There is also no periodic inspection of audit quality.

The sometimes grave pension scheme audit duty of care violations noted by the FAOA and OPSC in recent years suggest that improvement is required in this area⁶⁶. The Federal Council comes to the same conclusion in its report of 30 November 2018 regarding postulate Ettlín (see «Regulatory Developments, Current Projects» above). As it is doubtful that the OPSC directive BV W-03/2016, «Qualitätssicherung in der Revision nach BVG», would be legally enforceable if challenged, the law should be clarified as soon as possible.

⁶⁵ See FSC Ruling No. 2C_860/2015 of 14 March 2016, E. 5.3.

⁶⁶ See OPSC Activity Report 2017, page 15.

Organisation of the FAOA

Legal form	Public-law institution with separate legal identity	
Incorporation within the government administration	Independent unit within the decentralised government administration, organisationally attached to the Federal Department of Justice and Police (FDJP)	
Registered office	Berne	
Representative bodies of the FAOA	Board of Directors	<p>Wanda Eriksen, Masters in Accounting Science, Swiss Certified Accountant, US CPA (Chairman)</p> <p>Sabine Kilgus PD Dr., lawyer (Vice-Chairman)</p> <p>Conrad Meyer, Prof., Dr.</p> <p>Daniel Oyon, Prof., Dr.</p> <p>Viktor Balli, Chemical Engineer ETH/Economist HSG</p>
	Executive Board	<p>Frank Schneider, Chief Executive Officer, Executive MBA ZFH, Swiss Certified Accountant</p> <p>Reto Sanwald, Deputy to Chief Executive Officer, Head of Legal & International, Dr. iur., Attorney at law, Executive MBA HSG</p> <p>Martin Hürzeler, Head of Financial Audit, Graduate in Business Administration, Swiss Certified Accountant</p> <p>Heinz Meier, Head of Regulatory Audit, Swiss Certified Accountant</p> <p>Sébastien Derada, Head of Licensing (to 31.12.2018)</p>
	Auditor	Swiss Federal Audit Office (SFAO)
Number of staff	At 31 December 2018 32 staff members, representing 26.4 full-time equivalents, were employed by the FAOA.	
Funding	The FAOA finances itself entirely from the fees and oversight charges levied on licensed individuals and audit firms under oversight. No taxpayers' money is used.	
Legal function	To ensure the proper provision and quality of audit and regulatory audit services.	
Responsibilities	Appraisal of licence applications, oversight of the auditors of PIE and rendering of international administrative assistance in the audit oversight area.	
Independence/Oversight	The FAOA performs its oversight activities independently but is subject to the oversight of the Federal Council. It reports annually to the Federal Council and the Federal Assembly on its activities.	

Index of abbreviations

AEI	Automatic exchange of information
AHVO	Old-Age and Survivors' Insurance Ordinance (AHV Ordinance) of 31 October 1947
AMLA	Anti-Money Laundering Act of 10 October 1997
AMLO	Anti-Money Laundering Ordinance of 11 November 2015 (SR 955.01)
AMLO-FINMA	Anti-Money Laundering Ordinance-FINMA of 3 June 2015
AOA	Audit Oversight Act of 16 December 2005
AOO	Audit Oversight Ordinance of 22 August 2007
BankA	Banks and Savings Banks Act of 8 November 1934
BB	Federal Gazette
CAIM	Common Audit Inspection Methodology
CaO	Casino Ordinance of 24 September 2004
CbCR	Country-by-Country-Reporting
CDB 16	Swiss Banks' Code of Conduct with regard to the exercise of due diligence
CISA	Collective Investment Schemes Act of 23 June 2006
CO	Code of Obligations of 30 March 1911
CRO	Commercial Register Ordinance of 17 October 2007
DSFI	Directly supervised financial intermediary (supervised by FINMA)
EEA	European Economic Area
EQCR	Engagement Quality Control Reviewer
EU	European Union
EWG	Enforcement Working Group
FAC	Federal Administrative Court (St. Gallen)
FAOA	Federal Audit Oversight Authority
FATF	Financial Action Task Force
FCC	Federal Casino Commission
FDF	Federal Department of Finance
FGA	Federal Gaming Act
FinIA	Financial Institutions Act of 15 June 2018
FinIO	Financial Institutions Ordinance
FINMA	Federal Financial Market Supervisory Authority
FinSA	Financial Services Act of 15 June 2018
FinSO	Financial Services Ordinance
FJPD	Federal Department of Justice and Police
FMIA	Financial Market Infrastructure Act of 19 June 2015
FMSA	Financial Market Supervision Act of 22 June 2007
FOJ	Federal Office of Justice
FOPH	Federal Office of Public Health
FPL	Federal Privacy Law
FSC	Federal Supreme Court (Lausanne)
FSIO	Federal Social Insurance Office
GAQ	Global Audit Quality

GEA	Gender Equality Act
GPPC	Global Public Policy Committee
G-SIBs	Global Systemically Important Banks
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
ICO	Initial coin offering
ICWG	International Cooperation Working Group
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
IFO	Investment Foundation Ordinance of 10 and 22 June 2011
IFRS	International Financial Reporting Standards
IIAS	Institute of Internal Auditing Switzerland
InsSA	Insurance Supervision Act of 17 December 2004
IOSCO	International Organization of Securities Commission
ISA	International Standards on Auditing
ISAE	International Standards on Assurance Engagements
ISQC 1	International Standard on Quality Control 1
IWWG	Inspection Workshop Working Group
KAM	Key audit matter
MBA	Mortgage Bonds Act of 25 June 1930
MMoU	Multilateral Memorandum of Understanding
MoU	Memorandum of Understanding
MROS	Money Laundering Reporting Office Switzerland
OA	Oversight authority
OPA	Occupational Pensions Act of 25 June 1982
OPSC	Occupational Pension Supervisory Commission
PCAOB	Public Company Accounting Oversight Board
PEP	Politically exposed person
SAS	Swiss Auditing Standards of EXPERTsuisse
SBA	Swiss Bankers Association
SER	SIX Exchange Regulation
SESTA	Stock Exchange and Securities Trading Act of 24 March 1995
SICAV	Open-ended investment schemes
SIX	SIX Swiss Exchange
SMI	Swiss Market Index
SoP	Statement of protocol
SQS 1	Swiss Quality Control Standard 1
SR	Official Compendium of Swiss Federal Law
SRO	Self-regulatory organisation
US-GAAP	United States Generally Accepted Accounting Principles



Additional Swiss audit licences

For audit activities in the following areas in particular, a special licence of the FAOA or a special-law licence of another authority is required, based on a basic licence under the AOA. In some audit areas a basic FAOA licence is sufficient. The table does not purport to be exhaustive (status: 31.12.2018).

Financial/regulatory audit in the area of	Basic licence under the AOA: Audit firm	Basic licence under the AOA: Auditor-in-charge	Responsible for special/special-law licence	Additional requirements
Banks/financial market structures ⁶⁷ /finance groups/securities traders/public tender offers/central mortgage bond institutions	State-regulated audit firm	Audit expert	FAOA	Art. 9a AOA, Art. 11a f. AOO
Collective investment schemes ⁶⁸	State-regulated audit firm	Audit expert	FAOA	Art. 9a AOA, Art. 11a f. AOO
Insurers	State-regulated audit firm	Audit expert	FAOA	Art. 9a AOA, Art. 11a f. AOO
Financial intermediaries (anti-money laundering)	Auditor (State-regulated audit firm) ⁶⁹	Auditor	FAOA/SRO ⁷⁰	Art. 9a AOA, Art. 11a f. AOO and Art. 24 AMLA
Fintech companies ⁷¹	State-regulated audit firm	Audit expert	FAOA	Art. 9a AOA, Art. 11a f. AOO
Pension schemes	Audit expert ⁷²	Audit expert	(OPSC)	–
Health insurers	Audit expert	Audit expert	(FOPH)	–
Casinos	Audit expert	Audit expert	FCC	Art. 75 CaO
Swiss Compensation Office audits	Audit expert	Audit expert	FSIO	Art. 165 AHVO

⁶⁷ Comprising stock exchanges, multilateral trading systems, central counterparties, central depositories, transaction repositories and payment systems.

⁶⁸ Comprising fund managers, investment funds, open-ended investment schemes (SICAV), limited partnerships for collective investment schemes, investment companies with fixed capital (SICAF), asset managers of collective investment schemes, as well as representatives of foreign collective investment schemes.

⁶⁹ In principle, the licensed audit firm need only meet the requirements for an audit firm licensed as an auditor but if it also audits a financial intermediary supervised directly by FINMA (DSFI) under the provisions of AMLA it must have the status of a state-regulated audit firm.

⁷⁰ The FAOA is responsible for the licence to audit DSFI. The licence to audit financial intermediaries that are members of an SRO is the responsibility of the respective SRO (Art. 11a AOO).

⁷¹ See definition under the Banking Act (Art. 1b BankA).

⁷² There is one exception: Only audit firms that hold a state-regulated audit firm licence can act as the auditor of investment foundations (Art. 9 of the Ordinance of 22 June 2011 relating to investment foundations, IFO; SR 831.403.2).

State-regulated audit firms

Status: 31 December 2018

No. FAOA	company/name	Location
500003	PricewaterhouseCoopers AG	Zürich
500012	T + R AG	Gümligen
500038	Grant Thornton Bankrevision AG	Zürich
500149	OBT AG	St. Gallen
500241	MAZARS SA	Vernier
500420	Deloitte AG	Zürich
500498	PKF Wirtschaftsprüfung AG	Zürich
500505	Treuhand- und Revisionsgesellschaft Mattig-Suter und Partner	Schwyz
500646	Ernst & Young AG	Basel
500705	BDO AG	Zürich
500762	Balmer-Etienne AG	Luzern
501382	Berney & Associés SA	Genève
501403	KPMG AG	Zürich
501470	Ferax Treuhand AG	Zürich
501570	Fiduciaire FIDAG SA	Martigny
501839	Grant Thornton AG	Zürich
502658	Treureva AG	Zürich
504689	SWA Swiss Auditors AG	Pfäffikon
504736	PKF CERTIFICA SA	Lugano
504792	ASMA Asset Management Audit & Compliance SA	Genève
505046	MOORE STEPHENS EXPERT (ZURICH) AG	Zürich
505062	AML Revisions AG*	Zürich
505077	CF Compagnie fiduciaire de révision sa*	Genève
505081	MOORE STEPHENS REFIDAR SA*	Genève
505093	RFC – Révision Fiscalité Conseils SA*	Satigny
505106	Révisions LBA Romandie Sàrl *	Montreux
505113	GFC Audit & Compliance SA*	Carouge
600001	Deloitte & Co. S.A.	Buenos Aires
600002	Kost Forer Gabbay & Kasierer	Tel Aviv

* Licensed only for the audit of DSFI.

Cooperation with foreign authorities

Status: 31 December 2018

Bilateral agreements

Country	Authority	Agreement
Germany	Audit Oversight Commission (AOC)	MoU (2012)
Finland	Finnish Patent and Registration Office (PRH)	MoU (2014)
France	High Council for Statutory Auditors (H3C)	Cooperation Protocol (2013)
Great Britain	Financial Reporting Council (FRC)	MoU (2014)
Ireland	Auditing & Accounting Supervisory Authority (IAASA)	MoU (2016)
Canada	Canadian Public Accountability Board (CPAB)	MoU (2014)
Liechtenstein	Financial Market Authority (FMA)	MoU (2013)
Luxembourg	Commission de Surveillance du Secteur Financier (CSSF)	MoU (2013)
Netherlands	Netherlands Authority for the Financial Markets (AFM)	MoU (2012)
USA	Public Company Accounting Oversight Board (PCAOB)	SoP (2011) Addendum (2014)

Multilateral agreements

The following list does not include countries, respectively authorities, with whom a bilateral agreement (see above) exists.

Country	Authority	Agreement
Australia	Australia Securities and Investments Commission (ASIC)	IFIAR MMoU (2017)
Brazil	Securities and Exchange Commission of Brazil (CVM)	IFIAR MMoU (2017)
Dubai	Dubai Financial Services Authority (DFSA)	IFIAR MMoU (2017)
Gibraltar	Gibraltar Financial Services Commission (GFSC)	IFIAR MMoU (2017)
Japan	Financial Services Agency/Certified Public Accountants & Auditing Oversight Board (FSA/CPAFOB)	IFIAR MMoU (2017)
Cayman Islands	Auditors Oversight Authority (AOA)	IFIAR MMoU (2017)
Lithuania	The Authority of Audit, Accounting, Property Valuation and Insolvency Management under the Ministry of Finance of the Republic of Lithuania (AAAPVIM)	IFIAR MMoU (2017)
Malaysia	Audit Oversight Board Malaysia	IFIAR MMoU (2017)
New Zealand	Financial Markets Authority (FMA)	IFIAR MMoU (2017)
Slovakia	Auditing Oversight Authority	IFIAR MMoU (2017)
South Korea	Financial Services Commission/Financial Supervisory Service (FSC/FSS)	IFIAR MMoU (2017)
Taiwan (Chinese Taipei)	Financial Supervisory Commission (FSC)	IFIAR MMoU (2017)
Czech Republic	Public Audit Oversight Board (PAOB)	IFIAR MMoU (2017)
Turkey	Public Oversight, Accounting and Auditing Standards Authority (POA)	IFIAR MMoU (2017)

Court rulings 2018

Status: 31 December 2018

The following is a complete list of the 2018 rulings of the federal courts relating to the FAOA. The rulings are in chronological order, with a short note on the subject matter and on the conclusion of the court.

- FAC Ruling No. B-3409/2016 of 26 March 2018: Breach of independence. Audit of company and foundation accounts although directors of the holding company of the audit firm were also directors or trustees of the audited companies and foundations. Withdrawal of auditor licence for two years. Appeal partially upheld and withdrawal period reduced to 18 months. Ruling legally binding.
- FAC Ruling No. B-2057/2018 of 23 April 2018: Concept of an order. An FAOA e-mail explaining why the conditions for recognising professional experience were not met and that the licence application was therefore likely to be rejected is not a contestable order. Rejection of appeal. Ruling legally binding.
- FAC Ruling No. B-3549/2017 of 26 April 2018: Criminal conviction relating to tax evasion and forgery of documents. Licence holder had issued fictitious invoices of many million Swiss francs to book as expenses in the income statement of his company. Licence withdrawal for three years. Rejection of appeal. Ruling legally binding.
- FAC Ruling No. B-3972/2016 of 5 June 2018: Breach of independence and duty to register the sole proprietorship in the commercial register. Audit of the accounts of a foundation despite close business relationship of the auditor-in-charge with the president of the trustees of the audited foundation. Issuance of an audit report without registration of the (therefore unlicensed) sole proprietorship in the commercial register. Withdrawal of audit expert licence for two years. Appeal partially upheld and withdrawal period reduced to one year. Ruling not yet legally binding.
- FSC Ruling No. 2C_131/2018 of 18 June 2018: Breach of duty to provide information. Withdrawal of audit expert licence until the duty is met and first-instance review of the documentation made. Confirmation of FAC Ruling No. B-6138/2016 of 28 December 2017.
- FAC Ruling No. B-6227/2016 of 18 June 2018: Insufficient audit procedures and lack of required auditor-in-charge and sole proprietorship licences. Numerous deficiencies in the working papers relating to the limited audit of a company in two consecutive years. Issuance of numerous ordinary audit reports despite the auditor-in-charge only having an auditor licence. Issuance of audit reports without the licensing of the auditing sole proprietorship. Withdrawal of auditor licence for four years. Appeal partially upheld and withdrawal period reduced to two years. Ruling not yet legally binding.
- FAC Interim Ruling No. B-2332/2018 of 19 June 2018: Language of proceedings and identity of informant. Continuance of proceedings in German after having begun in French provided the previous instance could still submit statements in French. The private interest of the informant and the public interest of the first instance to afford the informant certain confidentiality take precedence over the interest of the appellant in disclosing the identity of the informant, particularly as this is not relevant to the outcome of the proceedings.

Financial statements of the FAOA

(only available in German, French; none available in English)

Report of the statutory auditor

(only available in German, French ; none available in English)

