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Foreword

The year just gone was the final one in the 2016–2019 strategy period, during which the hard work of our employees enabled the strategic objectives for the past four years to be achieved. Launching the new IT platform was an important yet challenging step. It has allowed the FAOA to drive forward the digitalisation of its internal processes and its dialogue with supervised entities and applicants on an ongoing basis.

The new strategic objectives for the next four-year period (2020–2023) were formulated during the reporting year and approved by the Federal Council on 6 December 2019. As the FAOA's statutory duties had not changed, its fundamental focus is being maintained. However, there will be adjustments in a number of areas. For instance, it is expected that the FAOA will lend greater support to the technological developments currently under way and will take them increasingly into account in its oversight of the industry. The issues of corporate governance and culture in the audit firms supervised will also be accorded greater significance in future.

State-regulated audit firms

Following an eventful 2018, featuring various complex and time-consuming ad hoc inspections, the FAOA reached somewhat calmer waters in the reporting year and was able to devote more of its attention to annual inspections once again. These mainly addressed specific issues such as corporate culture and new accounting and reporting regulations in financial audit during the reporting

year. Regulatory audit, meanwhile, focused on audits associated with preventing money laundering, risk management and internal organisation during 2019. Overall, the results of the inspections undertaken indicate a pleasing trend, namely that the number of findings has continued to fall slightly in general. Nevertheless, the audit firms need to make a major effort to eliminate recurring deficiencies in the long term. The board of directors or audit committee of the firm being audited has a key role to play in the continued improvement of audit quality as it is responsible for commissioning audit services and evaluating them periodically. In this context, the FAOA engaged in even closer dialogue with the audit committees and organised activities including a workshop in Zurich in November.

Looking ahead, one task will be to monitor the impact of negative interest rates in Switzerland – the fear being that these are increasingly leading to resources being misallocated. In many asset classes, we are seeing purchase prices whose logic is not immediately obvious. In particular, some very high sums of money are being invested to acquire companies in the current climate, something that can lead to overinflated goodwill on the balance sheet. In this environment, critical scrutiny by the statutory auditor is key to the credibility of financial reporting.

SME audit firms

Some 1,000 licence renewal applications from audit firms were processed in the past year. This «wave»

of applications began to ebb again in late 2019, with only 400 or so such requests expected in 2020. The ongoing processing of renewal applications has indicated that quality assurance requirements are not being implemented consistently across the board. In particular, shortcomings in the training of audit staff and internal monitoring meant that the FAOA was unable to renew some licences without gaps. The benefits of a well-functioning QA system cannot be underestimated and, ultimately, are a form of self-defence for the audit firms: a QA system safeguards and improves the quality of audit services, facilitates more efficient standardised procedures by having clear internal specifications, and reduces liability risks.

Third-party notifications

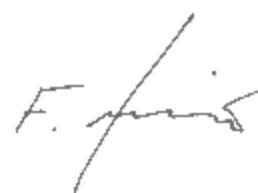
The number of third-party notifications fell sharply year on year. A total of 39 (prior year: 64) notifications of potential breaches of the law or the regulations of the profession were received in the reporting year. Of these, 16 (prior year: 30) related to the work of state-regulated audit firms. It must be borne in mind in this respect that only eligible and credible notifications prompt fact-finding and, in serious cases, proceedings on the part of the FAOA.

We would like to finish by thanking the staff of the FAOA for all their hard work in 2019. Achieving our strategic objectives for 2016–2019 marks a major milestone that we could not have reached without the unstinting commitment of our employees.

Berne, 28 January 2020



Wanda Eriksen
Chairman of the Board of Directors



Frank-Oliver Schneider
Chief Executive Officer

The FAOA in numbers

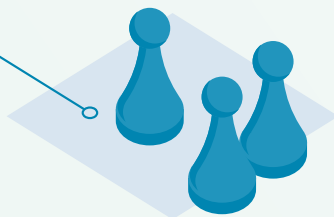
Audit firms inspected annually

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

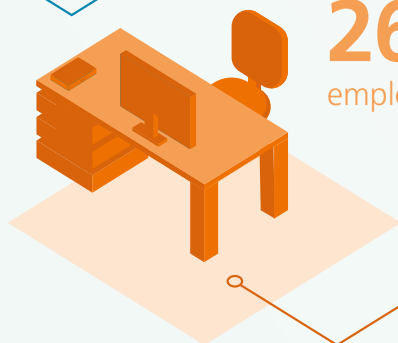
22²⁰¹⁹ **21**²⁰¹⁸
Number of inspections
FA/RA



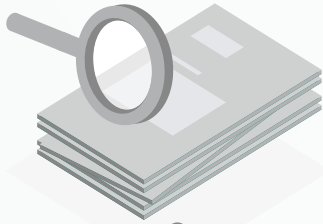
9,664
Number of
licenced individuals



26.4
employees (FTE)



26 Number of state-regulated audit firms



2,144

Number of licensed audit firms



**7.06
Mio.**

Total FAOA
expenditure



Enforcement

4 licence
withdrawals

68 reprimands



Regulatory developments

Current projects

Expert mission on legislative action required with respect to audit law and the «Ettlin» postulate

On 8 November 2017, the Federal Council took note of the report of the experts Peter Ochsner and Daniel Suter and decided to have seven specific recommendations examined further by the Federal Department of Justice and Police (FDJP) and other federal bodies as to the need for action¹. The Federal Office of Justice (FOJ) is leading this inspection. The Federal Council's report of 30 November 2018 on the «Postulate Ettlin» («Keine neue Soft-Regulierung durch die Oberaufsichtskommission Berufliche Vorsorge»; «No new soft regulation by the Occupational Pension Supervisory Commission») also makes reference to this detailed examination².

Initial investigations took place during the reporting year, with more information provided in the «Pension scheme audits» section.

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 bill has now been discussed twice by the National Council (15 June 2018 and 19 December 2019) and once by the Council of States (19 June 2019). The differences of opinion between the two councils have not yet been fully resolved.

The following differences are currently noteworthy from an audit perspective:

- There is now the option to pay interim dividends based on interim financial statements. However, there is still disagreement as to whether the statutory auditor is required to audit these interim financial statements (view held by the National Council and Council of States) or whether this audit can be skipped if all shareholders agree (view held by the National Council).

- As regards handling a capital loss, there is disagreement as to whether the letter of the law is to expressly specify that the board of directors and statutory auditors act «with due haste» (in favour: Federal Council and Council of States; against: National Council). By contrast, the parties agree on how this matter is to be handled in the case of potential over-indebtedness (a very similar scenario).

- Another bone of contention is the waiving of court notification of over-indebtedness (including by the statutory auditor). There are two schools of thought: firstly, there is no need to report over-indebtedness if corresponding subordination agreements are in place (Federal Council and Council of States). However, the National Council also wants to see sound prospects of a restructuring of the debt. Secondly, 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 – but no later than 90 days after presentation of the audited interim financial statements – and if the amount of the over-indebtedness does not increase significantly (Federal Council and Council of States). However, the National Council is keen to abolish the 90-day deadline and stipulate a shorter time period appropriate under the circumstances so that creditors' claims cannot be jeopardised further.

- The Federal Council and Council of States would like to see the joint and several liability of the board of directors and statutory auditor to third parties replaced by a more nuanced interpretation of joint and several liability («differenzierte Solidarität»). This stands in contrast with the National Council, which would keep the joint and several liability unchanged.

AMLA amendment

On 26 June 2019, the Federal Council adopted the dispatch to amend the

Anti-Money Laundering Act (AMLA). The bill is designed to implement the most important recommendations of the fourth country report on Switzerland by the Financial Action Task Force (FATF) in 2016. The following aspects are noteworthy from an audit perspective compared to the 2018 draft for consultation:

- Private individuals and corporate bodies that prepare or conduct business on a commercial basis for third parties relating to setting up, managing and administering companies and trusts are only deemed to be «advisors» if they provide these services in respect of domiciliary companies based in Switzerland or abroad or in respect of trusts. Providing the abovementioned services to (operational) companies based abroad has thus been dropped.

- Advisors are now required to file reports with the Money Laundering Reporting Office Switzerland (MROS) alongside their existing due diligence obligations under the AMLA and their auditing duties.

- Thus an advisor's audit firm will now only be required to report to the MROS if the advisor breaches their abovementioned reporting obligation and there are grounds to suspect that the transaction prepared or executed by the advisor is linked to money laundering or terrorist financing. The obligation originally envisaged to notify the Federal Department of Finance (FDF) has been dropped.

The Federal Assembly is not expected to address the bill until late 2020, which is likely to become law in early 2021 at the earliest.

OASI auditing

Oversight of old age and survivors' insurance (OASI), supplementary benefits, the income compensation allowance and family allowances in the agriculture industry is to be mod-

¹ Cf. FAOA Annual Report 2017 (p. 8 f.).

² Cf. FAOA Annual Report 2018 (p. 7).

ernised by focusing it more squarely on risks, strengthening governance and adapting the requirements made of information systems to the latest technological developments. The Federal Council sent a corresponding preliminary draft for consultation from 5 April to 13 July 2017 and adopted the relevant dispatch on 20 November 2019. Compared with this preliminary draft³, the following elements are relevant from an audit perspective:

- Fund audits and employer monitoring will continue to be carried out. The latter can also be performed by a special department at the compensation fund, an industry organisation of the compensation funds, an insurer or an executive body of a social security provider. Audits by cantonal monitoring bodies have thus been discontinued. Unlike in the preliminary draft and as it is under the current law, a basic auditing licence is required in order to conduct the audit or monitoring. This applies both to the auditor-in-charge and to the audit firm.
- The Federal Council is issuing more detailed specifications about the requirements made of statutory auditors, which are more stringent than is currently the case. The dispatch states that, for example, a minimum number of engagements or hours of audit could be required. A formal examination could also be introduced to demonstrate an auditor's theoretical knowledge of OASI. According to the dispatch, the FAOA will be responsible for granting and revoking these special OASI licences. The Federal Social Insurance Office (FSIO) can notify the FAOA of deficiencies in OASI auditing and can also ask the body that appointed the statutory auditor to dismiss it in justified cases.
- The independence rule is to be elevated from ordinance to act level (cf. Art. 34 of the Occupational Pensions Ordinance (OPO2)). Reference is now to be made to the independence requirements in the

case of regular audits in the CO, although some partial provisions not applicable to OASI are to be exempt.

- The requirement to audit funds is also to be moved from ordinance to act level. Alongside the accounting system and annual financial statements (accounting audit), the statutory auditor is also required to audit the compensation fund's organisational structure, management, information systems, risk management, quality management, internal control system and performance of any other duties delegated to it. This audit corresponds to the regulatory audit on the financial markets and the supervision of the 2nd pillar.
- The Federal Council is entitled to task the FSIO with carrying out the audits and employer monitoring by issuing more detailed specifications.

At this stage, nothing can be said about when the new law might enter into force.

«Control Committee of the Council of States» postulate

With the postulate of 12 November 2019 entitled «Anerkennung der bundesnahen Unternehmen als Gesellschaften des öffentlichen Interesses im Sinne des Revisionsaufsichtsgesetzes» («Recognising federal enterprises as public-interest entities within the meaning of the Audit Oversight Act»), the Control Committee of the Council of States (CC-S) tasked the Federal Council with investigating whether it would be meaningful to amend Art. 2 letter c of the Audit Oversight Act (AOA) such that all federal enterprises would be recognised as «public-interest entities» or would at least be treated as such.

The proposal was prompted by the findings and conclusions in the CC-S's report of 12 November 2019 on the PostBus affair. This stated that certain federal enterprises (Swiss Post, but also SBB and Skyguide) are not

deemed to be «public-interest entities» under the current law because they are neither financial institutions nor listed on a stock exchange. This introduces the risk that the relevant audit will not be performed by the most experienced auditors.

The Federal Council accepted the postulate in a resolution on 15 January 2020.

Completed projects

Equal pay audit

On 21 August 2019, the Federal Council ruled that the amendment to the Gender Equality Act (GEA), designed to better enforce equal pay, will come into force on 1 July 2020. Thus companies with 100 or more employees will have to conduct their first internal pay analysis by the end of June 2021 at the latest. This will have to be reviewed by an independent body and the results communicated to staff. The Federal Assembly has limited the obligation to carry out a pay analysis to twelve years («sunset clause»). Both the amendment to the GEA and the corresponding ordinance will thus lapse automatically on 1 July 2032.

The Federal Council has included the following in its ordinance on reviewing equal pay analyses:

- Licensed auditors who have completed a training course in accordance with Article 4 of the ordinance qualify as auditors-in-charge. The Federal Office for Gender Equality (FOGE) can run its own training course or recognise those offered by third parties. The timing for the act entering into force was chosen so that enough time remains for the relevant training to be done.
- The explanatory report from the Federal Office of Justice dated 21 August 2019 suggests that the task of auditing the pay analysis has to be entrusted to a licensed audit firm, despite the wording of

³ Cf. statements in the FAOA Annual Report 2017 (p. 8).

the ordinance being somewhat unclear. Rather than being obliged to task their statutory auditor with the work, however, the company being audited may use another audit firm licensed under the AOA.

- The explanatory report states that an audit of an equal pay analysis counts as an audit under special law, to which the provisions of audit confidentiality (Art. 730b para. 2 CO) and independence (Art. 728 CO) apply.
- The auditors-in-charge conduct a formal review of the equal pay analysis. The aim of the audit is to establish «negative assurance», i.e. the absence of any indications that the equal pay analysis does not comply with the requirements of the ordinance.

FinIA and FinSA

The Federal Assembly created the Financial Institutions Act (FinIA) and the Financial Services Act (FinSA) on 15 June 2018. The implementation law, comprising the Financial Institutions Ordinance (FinIO) and the Supervisory Organisation Ordinance (SOO), was adopted on 6 November 2019. The acts and ordinances will enter into force on 1 January 2020.

The following aspects of the implementation law are noteworthy from an audit perspective⁴:

- There will no longer be any financial intermediaries subject to direct supervision by FINMA (DSFIs) in the future. Thus the FAOA's special licences for auditing DSFIs will lapse, as will all associated provisions in the implementation law (especially in the AOA).
- Audit firm and auditor-in-charge licensing conditions are now regulated by the Anti-Money Laundering Ordinance of the Federal Council (AMLO) for AMLA self-regulatory organisations (SROs) and by the SOO for the supervisory organisations (SOs) of asset managers and trustees. The licensing conditions correspond to the requirements for obtaining an FAOA licence as a DSFI (under the old law) in terms of their content. The following groups of people can be approved as auditors-in-charge of an SO: (i) licensed auditors who can demonstrate relevant professional experience and sufficient auditing training and continuing professional development (CPD), (ii) licensed auditors of banks, insurers and investment funds, and (iii) licensed audit experts. If an SO also performs the tasks of an AMLA SRO, this also applies to the auditing of AMLA obligations.

Opening the field to «mere» audit experts thus means that FinIA and AMLA audits can now be carried out by people without the relevant background in the financial sector (e.g. those just with an industry background). This is inappropriate for the following reasons: Sector-specific experience is crucial, both in auditing in general and in the fight against money laundering in particular (cf. the provisions of Art. 24a para. 3 letter b AMLA and Art. 43k para. 2 letter b of the Financial Market Supervision Act (FINMASA), which in fact are clearly worded). All financial intermediaries are currently audited by AMLA specialists, including asset managers and trustees. The new implementation law thus waters down the existing law. The auditors, most of whom come from SMEs, are also discriminated against because, unlike audit experts, they have to demonstrate sector-specific experience as well. And, although audit experts tend to have more professional experience, this fact alone is not sufficient to offset this shortcoming. It is hoped that this provision will be rectified again in the future.

set this shortcoming. It is hoped that this provision will be rectified again in the future.

- With respect to the 1 January 2019 amendment of FINMA Circular No. 2013/3, «Auditing», and the associated lengthening of the interval between audits (regime for small banks), the timeframe for auditors-in-charge to work the necessary number of auditing hours after receiving their licence is being extended from four to six years.

The «Hadorn motion»

With his motion «Paradise Papers. Wirtschaftsprüfung und Beratung trennen» («Paradise Papers. Separating audit and advisory»), National Councillor Philipp Hadorn (SP/SO) is inviting 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. On 21 February 2018, the Federal Council applied for the motion to be rejected. The motion was dropped on 19 December 2019 because the Federal Assembly had not completed its deliberations on it within two years.

⁴ For details of the major changes to legislative acts, particularly the AOA, see the FAOA's Annual Report 2018 (p. 7).

Financial Audit

Introduction

The FAOA conducts its inspections in a three-year cycle as a basic principle. The fourth such cycle ended in 2019.

As the figure below illustrates, the quality of the audit services inspected has continued to increase overall: the average number of findings per firm review fell from 6.6 (2008–2010) to

1.2 (2017–2019). The average number of findings per file review also decreased, down from 6.4 (2008–2010) to 1.3 (2017–2019).

Figure 1

Overview showing the average number of findings from firm and file reviews (three-year cycle)

Three-year cycle					
	2008–2010	2011–2013	2014–2016	2017–2019	
Firm Reviews	29	27	34	42	
Findings	191	71	47	49	
Average	6.6	2.6	1.4	1.2	
File Reviews	58	53	62	90	
Findings	370	147	162	113	
Average	6.4	2.8	2.6	1.3	

When considering the number of findings at file level, it must be borne in mind that the points of focus for the audit, which vary from year to year, can have an impact. For example, unlike in previous years, in 2019 thematic reviews were conducted with only one focus area being assessed in each file review.

The Swiss auditing market continues to be dominated by the «big five» audit firms (BDO, Deloitte, EY, KPMG and PwC)⁵. Once again, they audited the vast majority of public companies and other public-interest entities

(PIEs). The FAOA inspects these four audit firms annually on account of their importance. A total of 26 audit and regulatory audit firms held a state-regulated audit firm licence at the end of 2019 (prior year: 29). four firms are only authorised to audit DSFIs and non-PIEs⁶. Two firms are foreign audit firms inspected by the FAOA under Article 8 AOA.

Alongside data analysis, the impact of artificial intelligence and blockchain technologies on the profession is also attracting particularly intensive discussion. The FAOA believes that

these technological developments bring the benefit of added support for the auditor. However, they reach their limits wherever professional discretion remains essential due to their (at least current) lack of cognitive capabilities. The auditor will thus continue to play a key role in areas such as assessing estimates made by the firm being audited.

⁵ See in particular the Swiss Audit Monitor 2019 of the Chair for Auditing and Internal Control at the University of Zurich.

⁶ With the FinIA entering into force on 1 January 2020, the financial intermediaries subject to direct supervision by FINMA (DSFIs) are required to join a self-regulatory organisation. The status of DSFI will thus become obsolete on 1 January 2020.

2019 inspections

Firm and file review

The FAOA conducted 15 inspections during the reporting year⁷, one of which (a «joint inspection») was performed together with the US Public Company Accounting Oversight Board (PCAOB). The financial statements of 40 companies were the subject of file reviews as part of these inspections. They included three ad

hoc inspections 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. Criteria such as a major change in audit fees, deviations from the standard wording in an audit report or a change of auditor are also taken into consider-

ation. In a first cycle, all audits of the 20 companies in the Swiss Market Index (SMI) were subject to an FAOA file review. As in prior years, the Swiss banks systemically important from a global perspective (G-SIBs) – UBS AG and Credit Suisse Group AG – are subject to an annual file review given their importance.

Figure 2
Overview of FAOA inspections and findings 2018 and 2019

Categories	Five largest audit firms		Other		Total	
	2018	2019	2018	2019	2018	2019
Number of inspections	8	4	4	11	12	15
Comment Form Findings Firm Review	13	4	2	14	15	18
Comment Form Findings File Review	36	13	5	13	41	26
Number of inspected files ⁸	19	30	3	10	22	40

Firm reviews

As in the prior year, quality assurance systems are robust overall. The FAOA identified a total of 18 findings at firm level. This gives an average of 1.2 findings (prior year: 1.3) per in-

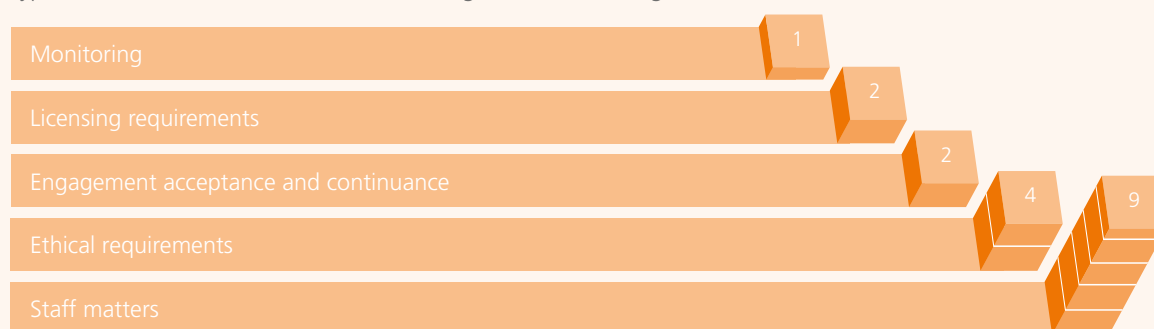
spection from the individual firm reviews. The largest number of findings came in the «Staff matters» and «Ethical requirements» categories.

⁷ The inspection fieldwork for two of the five largest audit firms was completed on site. Since the findings process is still at an early stage, these are not covered by the FAOA Annual Report 2019.

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.

Figure 3

Type and number of 2019 firm review findings (total: 18 findings)



Within the «Staff matters» category, seven findings related to inadequately formulated or implemented CPD processes. A further two findings related to inadequately formulated or implemented performance appraisal processes⁹.

The FAOA identified four findings concerning ethical requirements: two audit firms had inadequate guidelines and measures in place to ensure independence. This related in particular to issues such as complying with the requirements to rotate auditors-in-charge, monitoring annual confirmations of independence and requirements governing the holding of financial assets. One audit firm violated independence rules by owning a stake in companies that it was also appointed to audit. The same firm also agreed to provide non-audit

services without the relevant clarifications regarding independence being sought. Another audit firm violated independence rules by having the same auditor-in-charge sign the audit reports on audits of financial statements for the same company for ten years.

File reviews

File-level audit quality continues to depend heavily on the partners and staff involved as well as the external environment. A total of 40 (prior year: 22) file reviews were performed in the reporting year. The increase in the number of files examined is mainly due to thematic reviews, in which the applicable regulations and standards are only assessed with respect to certain elements of the audit. They enable comparisons within and between audit firms in order to identify

both tried-and-tested processes and areas with common weaknesses. Unlike routine file reviews, topic-specific reviews are deliberately given a more narrow focus and are selected in such a way that they concentrate more closely on individual audit elements or company-wide processes.

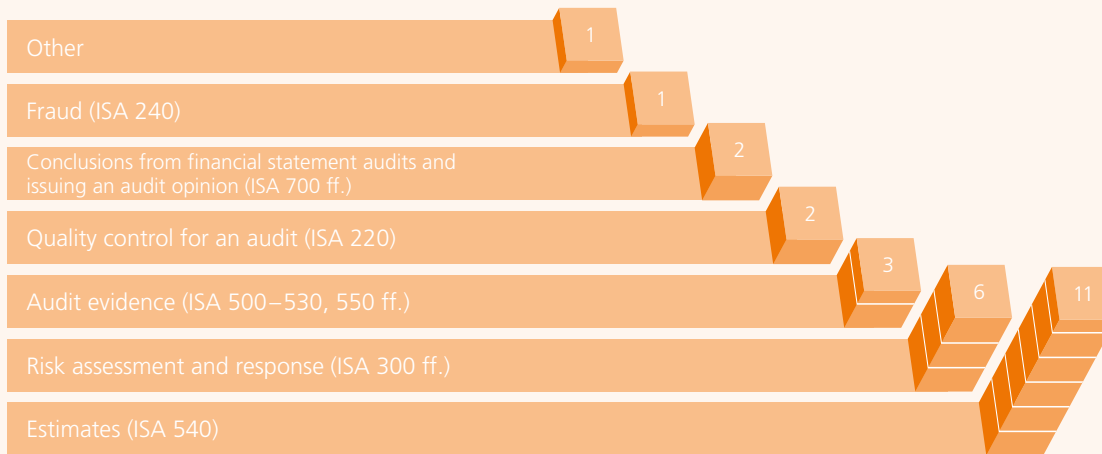
This year's file reviews gave rise to 26 findings in all. In a pleasing development, the number of findings per file review fell significantly year on year (0.7 as against 1.9), mainly because 25 thematic reviews were conducted, covering 28 topics. The number of findings in each thematic review averaged out at 0.3. The figure below illustrates the type and number of findings from the file reviews conducted in 2019¹⁰.

⁹ More details on these two areas are provided below in the descriptions of the main points of focus of the inspections.

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 4

Type and number of 2019 file review findings (total: 26 findings)



In the reporting period the FAOA identified the largest number of findings in the «Estimates», «Risk assessment and response» and «Audit evidence» categories.

Auditing estimates requires particular professional scepticism since such estimates are exposed to increased risk of fraudulent manipulation. The FAOA identified eleven findings relating to the audit of estimates such as goodwill, financial assets, trade receivables and pension provisions. Six of these eleven findings resulted from a particular point of focus, namely assessing the auditing of goodwill impairment tests (cf. the notes explaining the relevant point of focus). With regard to all the findings, the audit teams did not receive adequate audit evidence for assessing management estimates and assumptions.

«Risk assessment and response» is fundamental to the audit team ensuring that the financial statements are free from material misstatement. Four of the six findings identified related to sales, with two of these resulting from the audit's focus on assessing the auditing of revenue from contracts with customers (cf. the notes explaining the relevant point of focus). Other issues concerned trade and mortgage receivables. On this subject, the FAOA is continuing to see insufficient interaction between controls testing,

substantive analytical review and detailed substantive testing. Specifically, the audit teams relied on effective controls implemented by the audited company itself, even though they did not actually audit these controls, either fully or at all. In some cases, assessments provided by the customer were not checked for correctness or completeness either.

Points of focus for 2019 inspections

The FAOA inspections produced the following findings with respect to the 2019 points of focus:

Point of focus 2019 no. 1: Culture at audit firms

US economist Peter Drucker's assertion that «Culture eats strategy for breakfast» highlights the influence that culture has on a company and its achievement of goals. Experience shows that undesirable behaviour is often caused by an inappropriate corporate culture. This is why the quality assurance standards applicable by the audit firms include requirements on culture. Audit firms are expected to promote a culture that espouses the quality of audit work as its supreme objective.

Auditing a set of financial statements is a complex activity that calls for professional discretion at various stages of the process. Professional scepticism has to be maintained through-

out. However, statutory auditors are often faced with time pressure and conflicting priorities. The quality of an audit is thus heavily dependent on the behaviour and decisions of the parties involved in it. The audit firm's system of values and the way in which managers embrace these values (the «tone at the top») has a significant impact on staff behaviour, as do the incentive systems in place. Annual performance appraisals have an important role to play in this. The culture in which statutory auditors operate is also influenced by their environment: factors such as workload, health support, equal opportunities, diversity and bullying.

During the reporting year, the FAOA investigated what measures the five largest firms use to promote a quality-oriented culture, focusing on three levels: design, implementation and monitoring. Figure 5 shows the issues investigated for each level.

Figure 5
Levels and issues investigated

Design	Implementation	Monitoring
What culture is expected to prevail in the company? – Vision – Mission – Purpose statement – Strategy – Values – Principles of behaviour	What measures are intended to help the desired culture be embraced? – Measures to communicate values/principles of behaviour (code of conduct, ethics programmes, etc.) – Management setting an example («tone at the top») – Performance appraisal process (including promotion and pay) – Partner candidature process – Punishing undesirable behaviour – Whistleblowing – External reporting (transparency report, annual report, etc.) – Allocating resources	How is the culture measured? – Staff surveys – Culture audits – Feedback from staff leaving the company – Root cause analysis – Key quality indicators – Governance

The findings resulting from the thematic review are explained below. The «good practices» (tried-and-tested measures) and areas needing improvement¹¹ are listed for each of the three levels investigated.

Designing corporate culture

In terms of design, the FAOA established that all audit firms had identified appropriate values and behavioural requirements. The most

commonly cited value is integrity, followed by cooperation and respect (cf. Figure 6). The FAOA also determined that all the audit firms investigated had included audit quality in their strategy.

¹¹ The areas needing improvement did not result in any Comment Form findings unless otherwise indicated.

Figure 6
Most common values cited by the five largest audit firms



Figure 7
Tried-and-tested measures and areas requiring improvement in designing corporate culture at the five largest audit firms

Tried-and-tested measures	Potential for improvement
One firm recognised and assessed culture, audit quality and the public interest as a business risk.	The purpose statement did not always make it clear that quality is required in order to achieve that purpose.
Three firms put integrity at the top or declared that integrity was more important than all other values. One firm defined independence as a value in its own right.	In the case of one firm, the values defined and how they were worded contained some «consultant-specific» values.
One company identified audit quality as its primary strategic objective.	In their internal principles/communications, three firms either did not indicate that an audit is performed in the public interest or did not do so satisfactorily.
One company consistently stated in its underlying documents/communications that it has an obligation to the general public and that an audit is performed in the public interest.	

Implementing corporate culture

Four of the five largest audit firms have issued a «code of conduct» and accompanying measures (e.g. onboarding programmes for new starters, periodic training, annual confirmations of compliance with the code of conduct and specific internal

and external communications from management) to communicate their values and provide tangible examples of their desired behaviour.

A key requirement of a quality-oriented culture is that management embrace the values expected and

are thus seen as role models. All levels of management have this obligation, not just «top management». The FAOA believes that annual performance appraisal processes are an important measure in implementing a quality culture as they are capable of influencing staff behaviour directly.

Figure 8

Tried-and-tested measures and areas requiring improvement in implementing corporate culture at the five largest audit firms

Tried-and-tested measures	Potential for improvement	
One company identified some 30 quality- and behaviour-related appraisal criteria for assessing the performance of its partners/directors. Next to gathering the results of internal/external assessments, numerous other factors are also measured (e.g. compliance with the acceptance process, final compilation of audit documentation, annual independence confirmation, CPD, and setting targets and appraising performance in a timely manner).	Several firms failed to factor their audit quality/behaviour requirements into their annual performance appraisal processes at all; others only did so inadequately as they made insufficient use of measurement bases ¹² .	
At one firm, good results from external inspections and other contributions (e.g. helping with quality-related projects or roles) counted positively towards the performance appraisal.	The incentive systems in place at most firms are primarily designed to punish undesirable behaviour. At some, positive behaviour (e.g. good results from internal/external inspections or other quality-related contributions) is not sufficiently rewarded. It would be desirable to create an environment in which staff saw quality as an opportunity for them to distinguish themselves within the company rather than primarily as a potential source of punishment.	
Most of the firms used a calculation matrix to calculate part of their variable remuneration component, with the amount of the bonus determined directly by the total score achieved by the partners. Adequate attention was paid to quality and behaviour in particular when appraising overall performance.	When appraising the performance of their most senior executives (CEO, heads of division, etc.), most companies still do not take sufficient account of the quality results achieved by those below them in the hierarchy.	

¹² This resulted in Comment Form findings for two audit firms investigated.

One firm created a position with dedicated resources that focuses exclusively on «management and culture».	All firms stipulate punishments in the event of rule breaches as a basic principle (warnings, financial penalties, termination of employment, etc.). How the severity of a breach is assessed and how the consequences are determined, however, varies considerably from firm to firm. The extent of a disciplinary measure in the form of a reduction in an employee's bonus is designed to have a lasting impact on their behaviour. When assessing the allocation of resources (e.g. assignment of mandates to partners, staffing in quality functions) and monitoring the workload of employees, most companies have identified inadequate criteria (thresholds), the exceeding or falling below which triggers a further need for clarification.
One company assessed every partner's engagement portfolio annually, looking at factors including the degree of their involvement with each engagement. Another firm set limits on the number of staff hours for which a partner could be responsible. If these limits were breached, the results from internal/external inspections and the partner's degree of involvement were analysed more closely.	
One firm included in its rules on punishment examples of gross misconduct that would usually result in the termination of employment, such as breaching the code of conduct.	
One firm imposed more severe punishments for breaching independence rules in that violations would lead to a significant reduction in the employee's variable remuneration component.	

The expectations and applicable requirements, particularly regarding quality of work and desired behaviour, are communicated during the annual process for setting targets. Employees' actual behaviour is assessed at their performance appraisal and corrective action taken where necessary. The results from performance appraisals also feed into the decision-making process for compensation and promotion.

Monitoring corporate culture

«Measuring» culture presents a challenge, as it is something that is born out of people's attitude (inner stance) and thus is not immediately discernible. The first priority when measuring a corporate culture is to gauge whether the values and principles of behaviour (design) are understood by the people who work there. This allows conclusions to be drawn about the effectiveness of the measures taken by the company (implementation).

Staff surveys were a common tool used to evaluate culture, although they varied in terms of content and frequency. Commissioning specialist companies to conduct culture audits was the exception amongst the audit firms.

Figure 9

Tried-and-tested measures and areas requiring improvement in monitoring corporate culture at the five largest audit firms

Tried-and-tested measures	Potential for improvement
One firm instigated a comprehensive culture analysis on the initiative of the network. Amongst other things, it assessed the extent to which the various national subsidiaries and service divisions were culturally heterogeneous.	Besides staff surveys, the investigated firms also have other sources at their disposal that can indicate weaknesses in their corporate culture (records of reasons for staff leaving, whistleblower reports, identified rule breaches, etc.). These sources were in some cases not used enough when measuring culture. Several firms were found not to have considered cultural causes in their root cause analyses of findings from internal/external inspections or not to have made sufficient use of the tools for identifying cultural causes. Three firms have a board of directors exclusively made up of executive members. One firm had someone delegated by the network and not active at local level on its board of directors. Only one of the five firms has an independent, non-executive member.
One firm included «Quality, risk, regulation and compliance» on the agenda of every meeting of its most senior management and supervisory boards.	
One firm responded to unsatisfactory survey findings on cultural topics by including «improving values» in employees' target-setting agreements.	
One firm used a survey to conduct an in-depth study of employees' attitudes towards the leadership role being exercised by company management.	
One firm evaluated the reasons staff gave for leaving the company and included culture and company management as possible reasons in its list. Leavers were also asked about other culture-related matters such as the feedback culture, recognition of performance, career opportunities and trust in company management.	
One firm ran a special annual staff survey on «ethics and integrity», which included questions on issues such as values, the code of conduct, the whistleblower process, ethics CPD and management's leadership style. Another firm surveyed its staff separately about audit quality. The questionnaire covered areas including the feedback culture and error handling, workload and rewarding contributions to audit quality.	
One firm gathers information on various factors that give an indication of how mature its quality-oriented culture is (e.g. staff attitude towards managers' effectiveness as role models) as part of its annual analysis of audit quality indicators.	

During its inspection, the FAOA observed that culture-related issues are regularly discussed by the most senior management and supervisory boards, even if this is not always done under the heading of «culture». In terms of the composition of supervisory boards, it was discovered that only one firm has an independent, non-executive member sitting on its board of directors. The FAOA would welcome the appointment of more independent and non-executive members to strengthen governance.

The measures and systems of values stipulated by the audit firms investigated are fundamentally conducive to promoting a quality-oriented culture in the FAOA's view. However, constant efforts are required to raise auditors' awareness of the fact that they have an obligation to the general public.

**Point of focus 2019 no. 2:
Continuing Professional
Development (CPD)**

The FAOA assessed how CPD was controlled at eleven audit firms during the reporting year¹³. The effectiveness of the CPD control undertaken was found to be insufficient at seven audit firms (64 %) as there was no adequate evidence on file in some cases or the control was either only done on a sample basis not at all. The FAOA also discovered that the minimum requirements for CPD events were not being complied with in individual cases.

Members of the profession have to cultivate and maintain their competence to be able to provide high-quality audit services and strengthen public trust in their profession. The industry associations EXPERTsuisse and TREUHAND | SUISSE set a minimum for CPD of 120 and 96 hours respectively, to be completed within two or three years respectively. EXPERTsuisse allows up to 50 % of these hours to be taken as targeted, systematic self-study, whilst TREUHAND | SUISSE does not specify anything about self-study.

As a basic principle, the FAOA feels that the investments made by the audit firms in training their staff to be appropriate and necessary to maintain a high level of audit quality. Employees at smaller state-regulated audit firms attend more CPD courses run by third parties than their peers at larger firms. The audit firms need to monitor compliance with their obligation to offer CPD, requiring evidence of the individual training activities in the form of meaningful confirmatory statements¹⁴.

The FAOA believes that the control activities, which in some cases are inadequately designed and performed, are jeopardising the firms' efforts to facilitate high-quality CPD for their staff. Given the changes to auditing, accounting and reporting likely to come in the next few years, the FAOA expects the audit firms to raise their monitoring activities to an adequate level.

**Point of focus 2019 no. 3:
Auditing revenue from contracts
with customers**

Companies that prepare their consolidated and annual financial statements in accordance with IFRS are required to apply the provisions of IFRS 15, «Revenue from contracts with customers», for the financial years beginning on or after 1 January 2018. The five largest audit firms held specific staff training on this topic and devised specific audit programmes and guidelines – of varying lengths – to support audit teams.

The FAOA assessed compliance with the requirements of IFRS 15 for ten files¹⁵. The files were selected based on risk considerations, with the FAOA choosing audits of financial statements in which the audit teams considered revenue as per IFRS 15 to be a key audit matter. These ten inspections gave rise to two findings.

In one case, the audit team relied on an accounting and reporting manual from the client that explained the impact of IFRS 15 on the consolidated financial statements. However, the

audit team did not assess any contracts with customers themselves. In another case, the audit team identified the reporting of revenue as per IFRS 15 in the project business as a significant risk. The testing of the operating effectiveness of controls was inadequate and as a consequence the substantive audit procedures performed were insufficient.

Assessing the impact of the new IFRS 15 requires the audit team to conduct a comprehensive analysis of contracts with customers at an early stage and, in the same vein, to get an understanding of the processes and controls for recording the related revenue.

**Point of focus 2019 no. 4:
Auditing goodwill impairment tests**

The valuation of goodwill requires significant accounting estimates from management. Audit teams thus often rate the valuation of goodwill as a significant risk and a key audit matter.

The FAOA assessed this issue at three of the five largest audit firms based on ten files¹⁶. The files were chosen based on risk considerations and taking into account the amount of goodwill, the audit team's risk assessment and the sensitivity disclosures in the issuer's notes. The FAOA focused particularly on whether the audit teams had scrutinised the management's most significant estimates critically.

¹³ The inspection fieldwork for two of the five largest audit firms was completed on site. Since the findings process is still at an early stage, these are not covered by the FAOA Annual Report 2019.

¹⁴ Name of participant, type, length and topic of CPD event, etc.

¹⁵ The inspection fieldwork for two of the five largest audit firms was completed on site. Since the findings process is still at an early stage, these are not covered by the FAOA Annual Report 2019.

¹⁶ The inspection fieldwork for the remaining two of the five largest audit firms was completed on site. Since the findings process is still at an early stage, these are not covered by the FAOA Annual Report 2019.

The ten files selected gave rise to six findings – a high percentage (60%). The share among the three largest audit firms varied considerably.

All findings related to at least two deficiencies in the audit process. One major cause was the failure of the audit teams to adopt an attitude of professional scepticism towards the information received and the management's explanations. This applied in particular to management assumptions on forecast figures and on allocating goodwill to cash-generating units (CGUs). The management

can significantly minimise the risk of goodwill impairment in two ways: by allocating excess goodwill to CGUs with a low impairment risk and by grouping CGUs with a high impairment risk together with other high-performing CGUs and distributing the goodwill across the group of CGUs.

It was pleasing to note that valuation specialists were consulted in all cases bar one. Unsurprisingly, inadequate audit work had been performed on the impairment test model, the discount rate and the perpetual annuity

in this isolated case. The other files revealed deficiencies in how the audit teams had followed up and provided evidence of the work of the specialists. The table below shows the various types of deficiency discovered.

Figure 10

Types of deficiencies discovered in the file reviews selected by the FAOA.

Types of deficiencies	Number of files
Insufficient audit evidence on goodwill allocation	2
Insufficient audit evidence on assumptions of forecast figures	6
Insufficient audit evidence that the management was able to prepare these reliably even after going beyond five forecast years	2
Work done by specialists that was inadequately followed up and evidenced by the audit team	3
Insufficient audit evidence on auditing the completeness of the sensitivity disclosures in the notes	3

Although robust measures were put in place to tackle the findings identified, the FAOA will continue to prioritise this issue in the future.

Point of focus 2019 no. 5:

Using data analytics

The FAOA picked a total of ten audit engagements to assess the use of data analytics to audit consolidated financial statements at the four largest audit firms. The audit teams set out to carry out the substantive audit procedures using data analytics tools in all cases bar one, where the audit evidence would be obtained via «traditional» audit work. The data analysis performed thus served merely as a pilot.

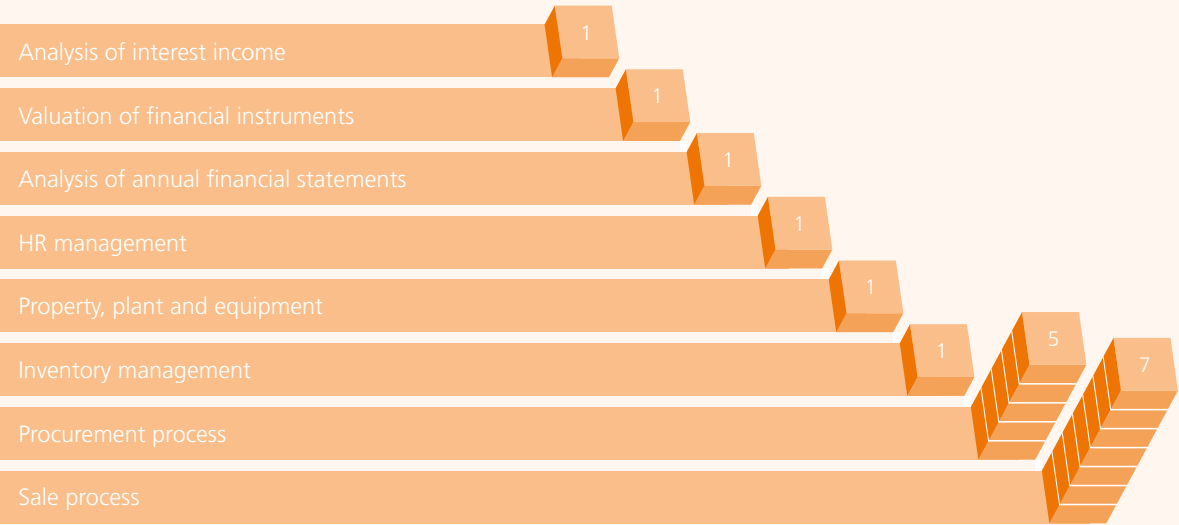
To perform the data analysis, data is first pulled from the corresponding systems. The use of analytics tools

was thus restricted to specific standardised source systems. This was SAP for eight of the engagements selected and Avaloq for a further one. The source system was irrelevant in the remaining case as it was only used to provide details of the financial instruments, on which alternative valuations were then performed. The requisite scripts were developed and tested by the audit firms on a global level. All audit teams used data specialists to extract and prepare the data for the analyses.

The FAOA believes that ensuring correct and complete data is key to an effective analysis. The audit methodologies of the four largest audit firms specify minimum requirements for the size of random samples in line with Swiss Auditing Standards. This is between 16 and 25 if the overarching

IT controls are effective and increases significantly if they are not. In the case of the files selected, it was established that the overarching IT controls were audited and deemed to be effective, with one exception. The audit teams also drew support from input controls such as the separation of functions and tasks rules on competencies and powers. The figure below illustrates the areas that were audited using data analytics in particular for the ten file reviews selected.

Figure 11
Number of files and the areas in which data analyses were performed



One area was used for the data analysis in the case of six of the files and several areas for the remaining four. The sale process was analysed the most, focusing particularly on reconciling sales transactions from ordering, delivery and invoicing through to payment by the customer. For the procurement process, the audit teams analysed discrepancies in quantities and/or prices on purchase orders, delivery notes and supplier invoices in the case of five files. Additional analyses of one-off suppliers or accounts receivable ageing were also conducted.

The IAASB presented the revised auditing standard ISA 315, «Identifying and Assessing the Risks of Material Misstatement»¹⁷ at its Board Meeting in September 2019. The notes on its application make several references to the possibility of using automated tools and procedures in the risk assessment process. Addressing the specific use of these tools and procedures during the whole audit, the IAASB’s Technical Working Group (TWG)¹⁸ drew up a list of FAQs that addresses questions on this issue¹⁹.

The point of focus revealed that the current auditing standards do not place any restrictions on performance of data analytics. The level of expectation surrounding data analytics is high, even though – or perhaps precisely because – it seems to be in its infancy. The financial costs of and time taken up by analytics currently outweigh their benefit, and only limited efficiency gains for an audit could be observed in general. The FAOA welcomes the trend towards data analytics, as it is a way of improving audit quality. This was confirmed by the samples selected, with data analytics supplying significantly better information in the areas to which it was applied.

¹⁷ The IAASB is planning to enforce the standard on audits of financial statements for periods ending on or after 15 December 2021.

¹⁸ www.iaasb.org > Meetings > PAST IAASB MEETINGS > IAASB Board Meeting I New York, USA (September 16 – 20, 2019) > Agenda Item 2 – ISA 315 (Revised).

¹⁹ www.iaasb.org > Meetings > PAST IAASB MEETINGS > IAASB Board Meeting I New York, USA (September 16 – 20, 2019) > Agenda Item_11 – Technology.

Rating, root cause analysis and measures

The FAOA awards one of three ratings in its assessment of quality. Rating 1 is the best rating, and means that no material findings were identified. Rating 2 means that the quality is inadequate in places and thus requires improvement. Rating 3 indicates inadequate quality. A rating of 3 at file level would lead the FAOA to expect the audit firm to take disciplinary action against the individuals responsible. In serious cases, the FAOA can also instigate proceedings against the state-regulated audit firm or against the individuals responsible independently.

Measures must be put in place to rectify the FAOA's findings with lasting effect. These measures are to be based on a root cause analysis by the audit firm. The root cause analysis processes at the five largest audit firms have been further developed with support from the global networks. The networks have formulated binding rules and tools for preparing a root cause analysis in response to both findings from internal monitoring and findings identified by audit oversight authorities (especially the FAOA and the PCAOB). As in the prior year, the identification of positive influences on the quality of files with no findings is not yet being handled in a uniform way. All root cause analyses are drawn up by the competent employees in the audit firms' quality and risk management departments. Different criteria are used to analyse the findings at the audit firms. The results of the root cause analysis feed into plans of measures, which are usually communicated to the firm's global network; the implementation of these plans is then monitored at local level.

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

The findings from the firm reviews led to internal policies, processes, controls and tools being revised or introduced. Measures were also agreed to train staff in the auditing and accounting standards that gave rise to the findings. The measures relating to the findings from the file reviews depended on the issue being assessed. In particular, they concerned changes to the audit approach and audit scope as well as adequate audit evidence in higher-risk areas. In some cases, it was also agreed that the audit firms would assess the issues that gave rise to the findings in the selected files during their internal monitoring.

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, 13 third-party notifications relating to the work of state-regulated audit firms were received. Six of these prompted preliminary fact-finding in the reporting year, which did not lead to any proceedings being opened against auditors-in-charge once they had been completed.

Audit quality indicators

FAOA audit quality indicators

The FAOA collects twelve audit quality indicators (AQI) from the five largest audit firms²⁰. It uses these primarily to analyse trends and for risk assessment and inspection planning.

²⁰ The FAOA does not substantively test the amounts reported by the audit firms.

Figure 12

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

AQI	2016		2017		2018		2019	
	from	to	from	to	from	to	from	to
Annual revenue per audit partner in CHF million	1.8	4.2	2.0	4.1	2.1	4.1	2.2	4.2
Ratio of non-audit fees to audit fees²¹								
– SMI companies	0.2	0.2	0.1	0.3	0.1	0.2	0.1	0.4
– Non-SMI public companies	0.0	0.2	0.0	0.3	0.0	0.3	0.0	0.3
Number of staff per partner	7.4	15.3	8.2	15.8	9.5	14.3	9.7	13.7
Training hours	54	77	52	84	49	85	51	78
Staff turnover in %	12	27	12	29	13	31	15	27
Average number of EQCR²² hours								
– SMI companies	25	116	43	182	51	224	48	167
– Non-SMI public companies	8	17	8	16	9	19	7	21
Average number of auditor-in-charge hours								
– SMI companies	351	700	478	733	562	757	387	897
– Non-SMI public companies	75	113	74	114	77	125	74	135
Number of foreign shared service centre hours as a percentage of overall hours at public companies	0	7	0	10	0	13	0	17
Number of consultations per public company audit	0.1	0.4	0.0	1.0	0.2	1.1	0.2	1.0

The annual revenue per partner rose compared to the prior year at three audit firms. It decreased at one firm due to an increase in the number of partners and remained virtually unchanged at the remaining firm. The audit 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 climbed from 0.2 to 0.4 for SMI companies. The limit set by European Union (EU) legislation is a three-year average of 0.7. The EU limit was thus not exceeded by some considerable margin. Nonetheless, during the reporting year the FAOA received twelve notifications of engagements with a ratio of more than 1:0 (prior year: ten). None were SMI companies.

Continuing professional development to enhance the skills and capabilities of auditors is fundamental to safeguarding audit quality. The AQI

training hours were calculated excluding self-study hours. One audit firm has reported the highest amount every year since 2014. Another has shown the lowest amount every year 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 reported the highest staff turnover four times since 2015. Another has consistently boasted the lowest rate ever since this AQI was first recorded.

An EQCR 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 also often increases the average. Since 2014, the same firm has shown the highest amount for SMI

companies. Another has reported the lowest amount for the past two years.

The average number of auditor-in-charge depends on engagement-specific circumstances. Gaining and losing SMI companies causes this AQI to vary considerably. The average number of auditor-in-charge hours at SMI companies was several times that at other public companies.

Four audit firms outsourced certain audit work to foreign shared service centres. Two of them outsourced more work abroad on average than they did in the prior year. A third saw a fall in this AQI even though the number of its audit engagements with outsourced elements actually rose. This was due to the fact that the percentage of outsourced work on its other audit engagements was comparatively low. The AQI also fell at the fourth audit firm as certain audit work was increasingly outsourced to a shared service centre in Switzerland.

²¹ Certain prior-year amounts have been corrected.

²² Engagement Quality Control Reviewer.

Formal consultations are to be held in response to challenging or disputed circumstances in order to increase audit quality. Three audit firms carried out more consultations per public company audit than they did last year. In one case, this was done in order to boost this quality assurance measure. At two firms, the number of consultations remained practically unchanged compared to the prior year.

AQIs of the five largest audit firms

The FAOA believes that internal AQIs can help in the early identification of positive and negative quality trends and thus, with the use of appropriate measures, improve audit quality. Audit committees are growing ever more aware that AQIs are conducive to measuring the quality of audit work. Nevertheless, the hope remains that the benefit of AQIs as an additional information tool will spread even further. The issue is not the meaningfulness of individual AQIs but rather better dialogue with auditors about the quality of the audit services provided.

Alongside the AQIs collected by the FAOA, the five largest audit firms continue to use other AQIs of their own. At three firms, these internal AQIs follow the requirements of the respective global networks and are also reported to them. The design of the AQIs differs in terms of number, type and balance between quantitative and qualitative characteristics. Three audit firms have processes in place for collecting, evaluating and monitoring internal AQIs. Results, changes and trends are assessed quantitatively and qualitatively. One firm monitors fewer AQIs than its peers and assesses them primarily on a qualitative rather than quantitative basis. The fifth audit firm only records staff-related indicators.

IFIAR survey on inspection results

On 16 May 2019, the International Forum of Independent Audit Regulators (IFIAR) published the results of a broad-based survey²³. 45 IFIAR members took part in the survey. This was already the seventh survey of

this type, identifying common findings at the six largest global audit firms²⁴ on an anonymous basis. The survey focused particularly on file review findings at PIEs and systemically important financial institutions. IFIAR negotiates with the six largest audit networks at a global level based on the survey in order 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 with those of IFIAR. The survey also reveals that, compared with the results from 2014, the number of PIEs with at least one file review finding has fallen from 47 % to 37 %. Although this marks a positive trend, the figure is still too high in IFIAR's view.

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 the number of PIEs with one file review finding or more will reduce from 39 % to 29 % (around 25 % reduction) after four years, i.e. by 2019, based on the results from ten members. The results are expected in the next IFIAR survey (2019). A second initiative has also been agreed between IFIAR and the six largest global audit firms: the number of PIEs with at least one finding is to be reduced by a further 25 % between 2020 and 2023. This will be based on the findings in IFIAR's 2019 survey reported by those members that have voluntarily signed up to this new initiative. The FAOA has decided to take part.

Cooperation with stock exchanges

The FAOA coordinates its oversight activities with SIX Exchange Regulation (SER) to avoid duplication. The FAOA focuses on evaluating auditor compliance with legal and professional standards and not accounting standards directly. SER is responsible

for ensuring that companies listed on the Swiss stock exchange (SIX) 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 was one such notification in the reporting year.

Cooperation with audit committees

Contact with audit committees continued to be maintained in the reporting year. As the bodies responsible for commissioning audits, audit committees have a significant influence on audit quality. Contact with the audit committees is cultivated during inspections, while workshops for them and for investors are also held periodically.

As in the prior year, the FAOA ran a workshop on cooperation between audit committees and auditors in Zurich on 7 November 2019. Alongside good practices for audit committees in dealing with auditors, national and international trends were also analysed. A representative from Novartis reported on her experiences of the cooperation between internal and external audit. The issue of auditor independence was also explored further from the audit committee's perspective. The half-day event ended with a panel debate, during which speakers and investor representatives discussed the many varied expectations placed on the auditor. The conclusion drawn from the event was that active engagement from all stakeholders involved in the audit can make a significant contribution to its quality provided that the audit committee – independently of

²³ www.IFIAR.org > Activities > Inspection Survey.

²⁴ BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative und PricewaterhouseCoopers International Limited.

the management – assesses the auditor against appropriate qualitative criteria.

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 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). In particular, the SAS reflect the ISAs of March 2009. There have been significant changes to around eleven ISA auditing standards²⁵, which have therefore not been adopted by the SAS. In connection with the extended audit report, FAOA Circular No. 1/2015 rendered the relevant standard (ISA 701) applicable in particular to statutory and consolidated financial statements of listed companies prepared under the CO, Swiss GAAP FER or other foreign standards that do not stipulate any disclosures on the key audit matters. The FAOA welcomes the evolution of the ISAs to date as they serve to improve audit quality. In view of the ever-widening gap between the ISAs and the SAS, the FAOA is examining potential scenarios for how it might be closed.

International Standards

Cooperation within IFIAR resulted in the submission of the following comments on various proposals by the International Ethics Standards Board for Accountants (IESBA) and International Auditing and Assurance Standards Board (IAASB):

- In June 2019, IFIAR submitted a comment letter to the IAASB on its draft strategy for 2020–2023 and work plan for 2020–2021.
- In July 2019, IFIAR published a comment letter on the drafts for ISQM 1, «Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements», on ISQM 2, «Engagement Quality Reviews», and on ISA 220 (Revised), «Quality Management for an Audit of Financial Statements».
- In September 2019, IFIAR also submitted a comment letter to the IAASB on the discussion paper entitled «Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs».

All of these comment letters are published on the FAOA's website.

ISQM 1 will replace the International Standard on Quality Control 1 (ISQC 1). The requirements for Engagement Quality Reviews are currently contained in ISQC 1 and the audit standard ISA 200 and will be brought together in ISQM 2 in the future. These standards are expected to enter into force in mid-2020 with an introduction period of at least 18 months. The FAOA welcomes the latest developments on these standards as their implementation is set to further improve overall audit quality. During the reporting year, the FAOA held already discussions with the five largest audit firms on the planned implementation of these standards. There is significant variation amongst these firms in terms of the extent to which they have implemented ISQM 1: one launched the whole of ISQM 1 during the reporting year, while another implemented parts of it. The remaining audit firms are waiting to see what happens at network level and have thus not yet addressed the expected changes in any great detail.

Points of focus for 2020 inspections

The FAOA has selected the following points of focus for the 2020 routine inspections of state-regulated audit firms:

- Evaluation of the audit of leases (IFRS 16)
- Evaluation of the audit of fraud (ISA 240)

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

²⁵ ISA 250, 260, 315, 540, 570, 610, 700, 701, 705, 706 and 720.



Regulatory Audit

Introduction

As the extended arm of FINMA, regulatory audit firms make a key contribution in the common interests of the Swiss dual financial market supervision system. The statutory framework governing regulatory audits under supervisory law differs substantially from the obligations of a statutory auditor under the CO. The expectations shared by the FAOA and FINMA regarding the regulatory audit firms are of key importance in terms of quality and transparent reporting in the interplay between regulators of financial intermediaries in the Swiss financial industry.

Regulatory audit quality continued to improve during the reporting year, with fewer Comment Form findings overall. The FAOA expects regulatory audit firms to meet the increasingly stringent quality requirements and to adopt the necessary professional scepticism when planning and carrying out their audits and relentlessly highlight weaknesses and deficiencies to stakeholders. The introduction of EXPERTsuisse's Swiss audit notice 70 (PH70) with effect from 1 January 2020 is expected to further improve regulatory audit quality. PH70's planned inclusion in FINMA's «Self-regulation as a minimum standard» regulation will also make the regulatory audit specifications more binding on all parties involved.

The amendments to FINMA's «Auditing» Circular entered into force on 1 January 2019. With this partial revision, FINMA intends to make the concept of the regulatory audit more risk-based, increase the effectiveness and efficiency of these audits and reduce overall costs in regulatory audit. The supervised financial intermediaries and the regulatory audit firms commissioned to audit them will first feel the impact of this reform in their regulatory audits during the 2019 financial year. However, the FAOA is keen to ensure that this initiative does not have a disproportionately negative impact on quality due to the increased cost pressure. The

FAOA will be observing the effects of the changes on regulatory audits closely to make sure that the initiative does not dangerously erode quality and is taking action to safeguard the unpredictability of its own inspections.

Licensing trend in regulatory audit

The regulatory audit market has changed little in recent years. The «big three» regulatory audit firms continue to perform the vast majority of regulatory audits, though there is fierce competition between all regulatory audit providers for new audits put out to tender.

A total of 16 regulatory audit firms held a licence to audit under financial market legislation at the end of 2019. Three existing regulatory audit firms obtained an additional licence to audit persons in accordance with Art. 1b BankA (fintechs) in 2019. One regulatory audit firm that had only been licensed to audit DSFIs surrendered its licence.

Figure 13

Regulatory audit firms according to licence type

Licence type	Number at 31 December 2019	Number at 31 December 2018	Number at 31 December 2017	Number at 31 December 2016	Number at 31 December 2015
Audits under BankA, FMIA, SESTA and MBA/audits under CISA/audits under the Insurance Supervision Act (InsSA)/audits of DSFIs	3	5	5	6	6
Audits under BankA, FMIA, SESTA and MBA/audits of Art. 1b BankA/audits under CISA/audits under InsSA/audits of DSFIs	2				
Audits under BankA, FMIA, SESTA and MBA/audits under CISA/audits under InsSA	1	1	1		
Audits under BankA, FMIA, SESTA and MBA/audits under CISA/audits of DSFIs		1	1	1	1
Audits under BankA, FMIA, SESTA and MBA/audits under CISA	1	1			
Audits under BankA, FMIA, SESTA and MBA/audits of Art. 1b BankA/audits under CISA/audits of DSFIs	1				
Audits under BankA, FMIA, SESTA and MBA			1	1	
Audits under CISA/audits of DSFIs	1	1	1	1	1
Audits under CISA	1	1	1	1	1
Audits under InsSA	1	1	1	1	1
audits of DSFIs	4	6	7	8	8
Total regulatory audit firms	15	17	18	19	18

Impact of the FinIA

With the FinIA entering into force on 1 January 2020, the financial intermediaries subject to direct supervision by FINMA (DSFIs) are required to join a self-regulatory organisation. In this FAOA licensing category, these changes to the law also affect private individuals and corporate bodies. The

licences are to be deleted from the FAOA's register by law, and «DSFI» will cease to exist as a category from 1 January 2020.

The following table shows the number of institutions audited by regulatory auditors licensed under financial market legislation as at the end of 2019.

Figure 14

Number of supervised institutions by regulatory area

Regulatory area	Number of supervised	2019	2018	2017	2016	2015
Banks	Banks and securities traders (excluding Raiffeisen banks ²⁶)	291	296	299	312	346
Institutions as per Art. 1b BankA	Innovation funding in the banking sector	0	N/A	N/A	N/A	N/A
Insurers	Insurance companies	198	200	205	207	214
	Insurance groups	6	6	6	6	6
CISA	Fund managers	50	48	45	44	43
	Agents	85	86	92	94	94
	Asset managers	222	213	217	206	178
	Swiss collective investment schemes	1,729	1,727	1,641	1,551	1,542
DSFIs ²⁷	Directly supervised financial intermediaries	70	135	163	199	227

The trend of the past few years continued during the reporting year, with the number of FINMA-supervised institutions falling. CISA audits were an exception, as the number of asset managers rose.

In contrast to the licences granted to regulatory audit firms and regulatory auditors-in-charge, the new legislation on innovation funding in the banking sector did not result in any licensed institutions for FINMA.

²⁶ Plus 229 Raiffeisen banks organised as cooperatives

²⁷ With the entry into force of the FinIA, DSFIs are no longer supervised by FINMA with effect from 1 January 2020.

2019 inspections

In the 2019 calendar year, seven²⁸ (prior year: nine) regulatory audit firms were inspected:

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

Audit quality at the seven regulatory audit firms covered in 2019 was inspected by means of 17 file reviews. The following categories of financial market companies were selected:

- seven banks, comprising two systematically relevant banks and a group of five banks subjected to a thematic review,
- three asset managers,
- three fund management companies, and
- four insurers.

Figure 15

Overview of completed FAOA regulatory inspections and Comment Form Findings 2019

Categories	Five largest regulatory audit firms		Other		Total	
	2019	2018	2019	2018	2019	2018
Number of inspections	5	5	2	4	7	9
Comment Form Findings Firm Review Regulatory Audit	1	6	0	1	1	7
Comment Form Findings File Review Regulatory Audit	25	38	5	16	30	54
Number of inspected files	15	12	2	4	17	16

Firm reviews

Seven inspections were performed in 2019, four of which are already complete. The 2019 firm reviews and the prior-year inspections excluded from the Annual Report 2018 only resulted in one finding, relating to adherence to professional practice and training hour requirements.

Despite the pleasing result, the FAOA continues to regard compliance with training requirements and completing the necessary number of audit hours in the relevant regulatory area as highly important; the corresponding processes and rigorous controls by the regulatory audit firms are essential to ensure transparency during the firm review.

²⁸ Three 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, two inspections that were yet to be completed last year are now included.

File reviews

As with financial audit file reviews, 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 illustrate, by audit area and basis, the findings from the file reviews completed in 2019 or performed in the previous year but excluded from the Annual Report 2018:

Figure 16
Number of regulatory audit file review Comment Form Findings by audit area (30 findings)

AMLA regulations including audit sampling	11
Risk management	7
Business relationships with representative bodies and interested parties	3
Code of conduct	3
Regulatory impacts of accounting	2
Specific actuarial provisions	1
Reliance on the work of others	1
Other	2

The number of findings fell because more than 20 findings from the prior year had related just to DSFIs – no pure DSFI regulatory audit firms were inspected during the reporting year, as this category is to be abolished on 1 January 2020. The most common findings related once again to audit procedures on compliance with AMLA regulations. The FAOA’s inspections will thus continue to focus on this issue. The FAOA also observed an increase in the number of findings relating to regulatory audits of risk management.

Figure 17
Main root causes of Comment Form findings from 2019 regulatory audit file reviews

Insufficient audit evidence	14
Insufficient audit evidence in conjunction with insufficient professional scepticism	11
Insufficient planning and review	4
Other	1

Just as in previous years, inadequate gathering of audit evidence was the most common cause of findings. This often goes hand in hand with a lack of the professional scepticism required to conduct regulatory audits. Inadequate audit evidence related, for example, to audit sampling, the scope of consolidated supervision and the audit of the risk management area. The deficient audit procedures were often not sufficient for positive assurance to be given in the reports submitted to FINMA.

Points of focus for 2019 inspections

The FAOA published its points of focus for the 2019 regulatory audit inspections in its Annual Report 2018 and examined these in detail in the reporting year. The following points resulted:

Audit of risk management

The inspections focusing on risk management confirmed the deficiencies already identified in previous years. These generally involve a combination of insufficient audit procedures and inadequate professional scepticism. In terms of risk reporting, there is a particularly noticeable lack of audit of controls or sufficient sampling in substantive testing regarding central risk data. In many cases, the regulatory auditors do not scrutinise the data provided by the company being audited critically enough or verify that it is accurate and complete.

Audit of the internal organisation and internal control system (including IT)

A great many areas of auditing are linked to the internal organisation and internal control system, as deficiencies identified in controls often indicate weaknesses in the internal control system or even in the internal organisation itself. Deficiencies were identified in audits of the design and operating effectiveness of controls in 2019. Across the board, regulatory audits are focusing too much on substantive testing, often combined with insufficient sample sizes. Strengthening controls-based audit procedures would be more efficient and make more sense in many cases.

Audit of compliance with AMLA requirements

The main weaknesses 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;
- Audit procedures and conclusions not transparent;
- Insufficient critical assessment of identified errors.

Sample testing is a tried-and-tested method for auditing business relationships and higher-risk transactions. In many cases, the audit quality requirements were not met across audit engagements of different size.

Once again, too little attention was paid in 2019 to compliance with AMLA requirements by foreign group companies in the context of consolidated supervision. Furthermore, the quality of the risk analysis at the supervised institutions was not given the necessary critical attention yet again.

Rating, root cause analysis and measures

In regulatory audit, as in financial audit, the quality of audit work is awarded one of three ratings. Rating 1 is the best rating, and means that no material findings were identified. Rating 2 means that the quality is inadequate in places and thus requires improvement. Rating 3 indicates inadequate quality. A rating of 3 at file level would lead the FAOA to expect the regulatory audit firm to take disciplinary action against the individuals responsible.

Regulatory audits under financial market legislation are to be performed with the care of a suitably qualified

professional auditor. In isolated cases, the inadequate quality of the audit work led the FAOA to believe that the measures proposed by the regulatory audit firms were not enough to provide sufficient punishment on the individuals charged with leading the audit. These cases had to be passed on to the FAOA's Enforcement team for further investigation.

The regulatory audit process for analysing root causes and determining measures is basically the same as for financial audit. The 2019 findings demonstrate, in particular, the critical importance of measures to improve the professional scepticism of both the regulatory auditors-in-charge and their audit teams.

Insufficient professional scepticism can have many causes. These include, but are not limited to:

- Excessive trust in client statements and documents;
- A «checklist mentality», simply completing audit programmes without thinking critically;
- Selecting samples without taking a critical, risk-based approach;
- Time and fee pressure;
- Insufficient instruction and monitoring of the regulatory audit teams;
- «Copy and paste» errors without any further critical assessment of any changes;
- Risk of «operational blindness» through long-term involvement in the engagement.

The insufficient professional scepticism seen in some cases has led the FAOA to identify deficiencies from the planning of audit procedures through to audit evidence gathering and FINMA reporting, resulting in an incorrect picture being painted.

The various root causes led to a range of measures being agreed:

- Involving industry, technical and valuation specialists in the audit;
- Revising practice aids, audit programmes and checklists;
- Introducing requirements for selecting and auditing samples for regulatory audit purposes;
- Improving the performance of controls testing, i.e. assessing processes, identifying key controls and testing them;
- Improving and adapting training concepts;
- Coaching and punishing regulatory auditors-in-charge and EQCRs.

Anti-Money Laundering Act

Regulatory framework

The 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 June 2019, the Federal Council adopted the dispatch to amend the AMLA and published the corresponding bill, which includes the most important recommendations of the country report on Switzerland by the Financial Action Task Force (FATF). The following changes are expected:

- Verifying the identity of the beneficial owner: The AMLA is to be amended to underpin the obligation to verify the identity of the beneficial owner with an explicit legal basis.
- Updating client data: The obligation to review the up-to-dateness of client data periodically applies to all business relationships regardless of the risk involved. A risk-based

approach is to be applied to the frequency and scope of this review and to how it is done and how client data are updated, thus leaving it up to financial intermediaries to decide how often they will review their business relationships.

- Modifying the system for filing reports with the MROS: The legal uncertainty regarding the terms «Melderecht» («right to report») and «Meldepflicht» («duty to report») that has prevailed up until now is to be eliminated in an ordinance. The term «begründeter Verdacht» («justified suspicion») is to be explained. The 20-day deadline for the Money Laundering Reporting Office Switzerland (MROS) to process reports of money laundering is to be abolished. In exchange, however, financial intermediaries will be permitted to terminate a business relationship if they have not heard back from the MROS within 40 days of filing a report of money laundering.
- Due diligence obligations for advisors: Advisors are now also to be subject to the AMLA if they prepare and/or provide services on a commercial basis in respect of e.g. setting up, managing, administering or obtaining funds for domiciliary companies and trusts.
- Lowering the threshold for trading in precious metals and precious stones: The threshold for complying with due diligence obligations regarding cash payments relating to trading in precious metals and precious stones is to be cut from CHF 100,000 to CHF 15,000. The standard threshold for complying with due diligence obligations regarding cash payments and over-the-counter transactions is also to be reduced to CHF 15,000 across the board.

Oversight authorities expectations and effects on regulatory audit services

FINMA's regulatory audit requirements have not changed substantially since 2018. The extent of these au-

dit requirements shows that FINMA continues to place high expectations on the scope of the regulatory audit services to be performed under the AMLA.

The FAOA also has exceptionally high expectations of the quality of the regulatory audit services performed to cover these audit requirements imposed by FINMA. FINMA's regulatory audit requirements represent the minimum audit procedures that are to be carried out. Each individual regulatory audit firm is thus responsible for supplementing and/or increasing these requirements as and when appropriate based on the risk profile of each financial intermediary and depending on the circumstances. The FAOA therefore expects the regulatory audit firms to be particularly critical when both planning and carrying out audit procedures and to relentlessly highlight weaknesses and deficiencies in their reports.

Cooperation with FINMA

Through this cooperation, the FAOA creates transparency vis-à-vis 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. The regular dialogue between the FAOA and FINMA is based on the underlying legislation in Art. 28 FINMASA and Art. 22 AOA.

Day to day, it takes place at all levels of seniority and especially in conjunction with the file reviews of FINMA-supervised entities. The risk-based selection of regulatory audit engagements and points of focus for file reviews requires an ongoing formal and informal exchange of information between the two authorities.

The FAOA informs FINMA of the results of its 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 FIN-

MA-supervised entities. Conversely, the FAOA will itself be notified if FINMA has firm suspicions of deficient auditing.

Points of focus for 2020 inspections

The FAOA has selected the following 2020 points of focus in the regulatory audit area:

- Audit of compliance with the provisions of the Federal Act on Combating Money Laundering and Terrorist Financing (AMLA)
- Audit of risk management
- Audit of the internal organisation and internal control system (including IT)

Money laundering issues are continuing to dominate the Swiss and international financial markets. For the institutions involved, this means that there is always the risk of major reputational damage besides draconian punishments and fines.

If a financial market is to work properly, its institutions absolutely have to have a robust risk management system, an appropriate internal organisation and a well-functioning internal control system.

This means that the regulatory audit firms need to accept their responsibility for ensuring that audit work is done properly with due care and attention. The FAOA will therefore be focusing particularly on these issues in 2020.

International

General

The FAOA brought its 2016–2019 strategy period to a successful conclusion from an international perspective. During this time, it signed Memoranda of Understanding with three foreign audit oversight authorities on the subject of cooperation and recognised the equivalence of a further 16 oversight authorities²⁹. The FAOA worked closely with foreign audit oversight authorities and promoted the principle of home-country jurisdiction in oversight matters (strategic objective 8)³⁰.

The FAOA's main goal for the 2020 – 2023 strategy period will be to step up and improve its cooperation with foreign authorities and promote mutual recognition. It will also make an active contribution to developing audit oversight systems in other countries in view of the continued internationalisation of the financial markets and the companies being audited as well as the need to oversee audit firms to an adequate standard worldwide in order to protect investors.

Although the number of administrative assistance cases fell in 2019 compared to the prior year³¹, successfully resolving cross-border matters remains an important issue in the context of globally interconnected markets.

Extra-territorial scope of the AOA

To protect investors on the Swiss capital market and in line with equivalent foreign regulations, the AOA also applies outside Switzerland. The law thus requires foreign audit firms to be overseen by the FAOA if they audit foreign companies that draw on the Swiss capital market (Art. 8 para. 1 AOA). The FAOA thus conducted inspections at two foreign state-regulated audit firms based in Israel and Argentina during the reporting year³².

To avoid multiple oversight by different authorities, however, there are exceptions to the requirement for

FAOA licensing and supervision (Art. 8 para. 2 and 3 AOA). In practice, oversight of foreign audit firms is transferred to the oversight authorities in the countries in which these firms have their registered office as far as possible. SIX Swiss Exchange, the Swiss stock exchange, is responsible for enforcing the Disclosure Ordinance (DO-FAOA). Firms auditing companies under foreign law that are not exempt from the licensing obligation in accordance with Art. 8 para. 2 and 3 AOA must be licensed as state-regulated audit firms by the FAOA.

Relations with the European Union

Further Memoranda of Understanding

The FAOA signed a Memorandum of Understanding (MoU) on cooperation in audit oversight with the Audit Oversight Body of Austria (AOBA) on 3 September 2019 that will further improve investor protection for listed companies. This MoU will also ease the workload of the audit industries in both countries, as there is now no need for audit firms in one country to be licensed in the other in accordance with the principle of home state supervision in oversight matters. The MoU is essentially similar to those that have already been signed with other European audit oversight authorities. It has been published on the FAOA's website³³.

The UK leaving the EU (Brexit)

Even though Brexit has not yet happened, the UK's audit oversight authority (the Financial Reporting Council, FRC) and the FAOA do not believe there will be any impact on the MoU signed between the two oversight authorities or on the equivalence of the FRC's oversight system. However, a definitive answer to this question will only be possible when the British regulations that will apply when the country leaves the EU are known.

In respect of the recognition of equivalent professional qualifications, the Federal Council signed an agreement with the UK in December 2018 that

expresses an intention to uphold the rights that Swiss and UK citizens acquired based on the Swiss-EU agreement on the free movement of persons. If there is a deal, i.e. if the UK leaves the EU based on a withdrawal agreement, the free movement agreement will remain in force between Switzerland and the UK for a transition period. It is not currently known whether a bilateral agreement will be signed between the two countries that guarantees the rights enshrined in the free movement agreement even after Brexit or whether reciprocal rights (Art. 4 para. 2 letter d AOA) will be guaranteed by other means. In Switzerland, the Federal Council is responsible for concluding an agreement of this kind. However, the UK's departure will not have any negative impact on anyone with a UK qualification who also held an FAOA licence prior to Brexit.

Cooperation with the USA

Joint Inspections

The FAOA and the Public Company Accounting Oversight Board (PCAOB) concluded their third cycle of joint inspections by inspecting the last of the «big five» audit firms in Switzerland. Cooperation continues to be based on the Statement of Protocol (SoP; equivalent to an MoU) that was originally signed by the FAOA, FINMA and the PCAOB in 2011 and extended indefinitely between the FAOA and the

²⁹ For more information, cf. the FAOA's Annual Reports 2016–2018.

³⁰ For more information, cf. the strategic objectives for 2016–2019, available (in German) from the FAOA website at www.rab-asr.ch > Die RAB > strategische Ziele.

³¹ In 2019, the FAOA received ten (2018: 18) requests for administrative assistance. Of these, five came from the USA and five from audit oversight authorities in the EU/EFTA. For its part, the FAOA submitted two requests for administrative assistance from an EU/EFTA oversight authority.

³² For more information, cf. the list of «State-regulated audit firms» in the Appendix.

³³ For more information (in German), cf. www.rab-asr.ch > Internationales > Zusammenarbeit > Österreich.

PCAOB in 2014. The FAOA's cooperation with the PCAOB will continue in the form of the fourth inspection cycle, which is planned to start in 2020.

PCAOB Regulatory Institute

The FAOA took part in the annual «PCAOB International Institute on Audit Regulation» event, which this year focused on aligning the regulation of audit oversight to future challenges. Amongst other things, discussions centred around the PCAOB's innovations in its inspection programme, the potential impact of new technologies on audit quality and the development of cross-border regulations.

Relations with other states and organisations

The Japanese audit oversight authorities (the Certified Public Accountants and Auditing Oversight Board and Financial Services Agency)³⁴ recognised the equivalence of Switzerland's audit oversight system on 24 June 2019. Negotiations are still ongoing as regards implementing the principle of home state supervision in oversight matters.

Multilateral organisations

IFIAR

The 19th IFIAR plenary meeting was held in Rhodes (Greece) from 30 April to 2 May 2019³⁵. This year's key theme, «The Evolving World of Audit», saw discussions focus on the future and relevance of audit as an institution. The FAOA's Chief Executive Officer was also elected as Chair of the IFIAR at the conference and will serve a two-year term to April 2021.

The FAOA continued to be involved in the IFIAR's work on several levels during the reporting year:

- Enforcement Working Group (EWG): this working group has been chaired by Switzerland since 2018 and facilitates the exchange of experiences on inspection proceed-

ings and punishments enforced on auditors and audit firms that break the law. The group ran its fourth Enforcement Workshop in June 2019, holding the event separately from the plenary meeting for the first time. The speeches and discussions covered a wide range of topics, including trends and challenges in applying the law, procedural and practical aspects of the various rules of procedure, and the use of new technologies. The FAOA had the honour of hosting 73 participants from 34 different jurisdictions.

- Global Audit Quality Working Group (GAQ WG): this working group is engaged in ongoing dialogue with the six largest international audit networks, all of which are members of the Global Public Policy Committee (GPPC). Two meetings were held during the reporting year, in London and Paris, to discuss issues relating to audit quality on the global stage.
- International Cooperation Working Group (ICWG): this working group focuses on improving cooperation and the exchange of information between IFIAR members. Two new members signed the MMoU in July, bringing the total number of signatory authorities to 24. The FAOA was involved in assessing one of the two applications to join.
- Inspection Workshop Working Group (IWWG): this working group serves to organise an annual inspection workshop that provides inspectors from IFIAR members with a forum for exchanging experiences and discussing topical issues in financial audit oversight. The FAOA made a number of contributions to this year's workshop, which the group held in Paris in February.

The FAOA also sits on the IFIAR Board and is involved in several of its sub-committees.

Finally, the FAOA's Chief Executive Officer took part in the round table discussion organised in Basel by the

Financial Stability Board (FSB) on the topic of external audit and also attended a meeting of the Committee of European Audit Oversight Bodies (CEAOB) in Brussels. In his capacity as IFIAR Chair, he explained the organization's current activities to the audiences at both meetings. The FAOA also had regular contact with the Monitoring Group (MG) and Public Interest Oversight Board (PIOB) due to its chairmanship of IFIAR.

CEAOB

The CEAOB is the EU coordination body for the national audit oversight authorities of its member states. Since 2016, the FAOA has held observer status in the CEAOB Inspections Sub-group (ISG), which is responsible for promoting cooperation between CEAOB members in the field of inspection activities and for improving communication with audit firms.

The FAOA attended two ISG meetings in this capacity:

- Luxembourg in June: the sixth ISG meeting focused on exchanging ideas and opinions with representatives of Deloitte and BDO and on the results of inspections of industrial companies and financial service providers. The Dutch audit oversight authority (Authority for the Financial Markets, AFM) also presented its approach to inspection work³⁶.
- Bucharest in November: the main items on the agenda for the seventh meeting were exchanging ideas and opinions with Ernst & Young and with the standard-setters IAASB and IESBA as well as a discussion on inspection results from the «Retail and Consumer Products» and «Insurance» industries in the mem-

³⁴ For more information, cf. www.fsa.go.jp/cpaob/english/press/20130711.html.

³⁵ For more information, cf. www.ifiar.org/?wpdmdl=9591.

³⁶ For more information, cf. www.ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190620-ceaob-subgroups-inspections-summary_en.pdf.

ber countries. The Romanian audit oversight authority (Authority for Public Oversight of the Statutory Audit Activity, ASPAAS) also talked about its strategy for conducting inspections³⁷.

Transmittal of information by private parties to foreign authorities

The chairman of the board of directors of an asset management company was sentenced by the Office of the Attorney General (OAG) to a conditional fine and a penalty in 2017 on account of having handed the US Department of Justice a USB stick containing client files from his company without the necessary authorisation under Art. 271 para. 1 of the Criminal Code (CC)³⁸. However, he was acquitted by the Federal Criminal Court (FCC). On appeal by the OAG, the Federal Supreme Court (FSC) overruled the acquittal and sent the case back to the FCC for re-appraisal³⁹.

The FCC then issued a new ruling on 2 May 2019⁴⁰, namely that the accused now fulfilled all the criteria for unlawful activities on behalf of a foreign state (Art. 271 CC). The court thus rejected the defence's argument that this case constituted a justifiable and excusable emergency (Art. 17 and 18 CC), as there was no immediate danger to the company in its view. The FCC is also obliged to accept the FSC's assessment of the question of a mistake of law: the accused's intellectual engagement with the incomplete legal opinion commissioned by him meant that he was sufficiently aware for all legal purposes of the illegality of his actions. The chairman of the board of directors was thus found guilty and fined CHF 10,000, the maximum for this form of penalty (Art. 106 CC). The ruling is not yet legally binding.

Even though the FCC's ruling comes from the field of banking oversight, it nevertheless confirms that the transmittal of (non-publicly available) information, data or documents by private parties to a foreign authority without appropriate permission from the competent Swiss authority still carries a high risk of being considered criminal. Applied to audit oversight, therefore, it is advisable to contact the FAOA before transmitting data to foreign audit oversight authorities.

³⁷ For more information, cf. www.ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/191121-ceaob-subgroups-inspections-summary_en.pdf.

³⁸ For more information on this case, see the FAOA's Annual Report 2018 (p. 29).

³⁹ FSC Ruling No. 6B_804/2018 of 4 December 2018.

⁴⁰ FCC Ruling No. SK.2018.71.

Licensing

Introduction

The 2019 reporting year was dominated by the second wave of licence renewal applications from audit firms since the FAOA was created. Over half of the audit firms licensed by the FAOA had been affected by the upcoming expiry of their limited-term licences. Some 1,000 firms successfully renewed their licence for a further five years.

At around 50 and 450 respectively, the number of applications for new licences from audit firms and private individuals has been at a similarly high and thus stable level for a number of years.

Statistics

Licences

One noticeable change year on year has been the fall in the number of audit firms licensed to around 320 (see Figure 18). This is mainly due to firms opting not to renew their licence on expiry. Some 23% of the firms not granted extended licences had confirmed their decision not to seek renewal to the FAOA or had opted not to submit a corresponding licence renewal application. The FAOA suspects that the introduction of standardised quality assurance system regulations in 2017 and the requirements these make in terms of train-

ing and monitoring prompted a fairly high percentage of the audit firms affected to not seek licence renewal in the reporting year.

Figure 18
Licensed individuals and audit firms as at 31 December 2019⁴¹

Licence type	Auditor	Audit expert	Total as of 31.12.2019	Total as of 31.12.2018
Individuals	2,634	7,030	9,664	9,403
Audit firms	657	1,487	2,144	2,466
State-regulated audit firms	–	20	20	21
DSFI-only state-regulated audit firms	–	4	4	6
Foreign state-regulated audit firms	–	2	2	2
Total licences	3,291	8,543	11,834	11,898

Membership of professional associations

Membership of a professional association is voluntary and is not a licensing criterion for either private individuals or audit firms. However, full membership of a professional

association can be declared in the personal online register and thus in the FAOA's public register. Associate or other non-full memberships can not be declared in the FAOA's public register as memberships of a professional association. The FAOA takes a

positive view of memberships, as they promote the exchange of specialist knowledge, targeted professional development and the sharing of insights into changes in the industry. Thus, the FAOA welcomes membership of one or more professional associations.

⁴¹ All figures refer to legally binding completed proceedings. Pending appeals have not been included.

Figure 19
Professional association memberships⁴² of licensed audit firms as of 31 December 2019



One positive aspect from the reporting year is the fall in the number of audit firms not members of any professional association. This dropped by around a quarter year on year from

753 to 556, mainly because a disproportionately high number of the audit firms that had opted not to seek licence renewal were not members of a professional association.

Figure 20
Professional association memberships⁴³ of licensed individuals as of 31 December 2019



Around three-quarters of audit firms and around 60% of private individuals are currently members of at least one professional association.

⁴² Including multiple answers from individual audit firms with multiple professional association memberships.

⁴³ Including multiple answers from individuals with multiple professional association memberships.

Figure 21Frequency of ordinary audits (Status: 31 December 2019)⁴⁴

Number of audit firms	2019	2018
1 to 5 ordinary audits	336	325
6 to 10 ordinary audits	79	71
11 or more ordinary audits	74	78
Total number of audit firms performing ordinary audits	489	474

Number of audits

The number of audit firms with ordinary audit engagements increased slightly year on year. Looking at the figures since 2013, however, there

has been a fall from 649 to the current level of 489. This decline is partly due to the number of licensed audit firms decreasing from around 3,600 to around 2,150. Another likely cause

has been the statutory requirement to rotate the auditor-in-charge at sole-proprietorship audit firms.

Figure 22Total number of limited (LA) and ordinary (OA) audits performed (Status: 31 December 2019)⁴⁵

Licence type	LAs	OAs	2019	2018
State-regulated audit firms	15,605	9,093	24,698	24,347
Other licensed audit firms	67,546	2,649	70,195	73,856
Total audits performed	83,151	11,742	94,893	98,203

As in previous years, the number of total audits performed by licensed audit firms has continued to fall – in this case, by some 3.5% year on year. The reduction in the number of licensed audit firms led to the number of engagements per licensed audit firm increasing by an average of just over four engagements in total in the 2019 calendar year.

two thirds applying the standard SQS 1/SAS 220. The large number of audit firms opting not to seek licence renewal in the reporting year led to an overall fall in the number of audit firms in both categories.

Internal quality assurance standard applied

At the time it was surveyed in late 2018, around a third of audit firms had access to TREUHAND | SUISSE's guidelines for SME audit firms to use as a quality assurance standard, with

⁴⁴ Information based on audit firm self-declarations.

⁴⁵ Information based on audit firm self-declarations.

Figure 23
Audit firm declarations as to applied standard of internal quality assurance (Status: 31 December 2019)



A small number of licensed audit firms still use two or more different quality assurance standards; it is particularly common internationally for the ISQC 1 and ISA 220 standard to be applied alongside SQS 1/SAS 220.

Internal quality assurance

Preparation of an annual monitoring report

Since October 2017, all audit firms – irrespective of the quality assurance standard they apply – have been obliged to have an internal quality assurance system in place and thus to prepare a monitoring report at least annually. During the ongoing licence renewal process for audit firms, the FAOA has observed that the monitoring report is still not being drawn up in isolated cases and that some reveal serious deficiencies.

A good-quality monitoring report gives a detailed description of the monitoring procedures followed and includes both a firm and a file review every year. The findings from any checklists used are compiled in the monitoring report in written form, and corresponding action points and recommendations are devised. To this end, all recurring or other significant deficiencies are recorded in the report alongside the resulting recommendations and measures to eliminate them. The FAOA takes a positive view of monitoring that identifies any errors or weaknesses, as it demonstrates an effective monitoring process.

All auditors-in-charge must be regularly assessed as part of this monitoring process. The monitor undertaking

the file review cannot be someone who was also involved in the audit engagement being assessed or in any quality assurance work accompanying the engagement. If necessary, somebody with the appropriate licence must be brought in from outside for this purpose. This means that, at the smallest audit firms, where only one person holds the necessary licence, the monitoring report has to be drawn up by someone external. It makes sense for the internal or external monitor to have a degree of seniority in terms of their professional experience and in implementing measures resulting from the monitoring report.

The vast majority of licensed audit firms have realised that an appropriate monitoring process brings numerous benefits and ultimately helps them to protect themselves: a quality assurance system safeguards and improves the quality of audit services, enables more efficient, standardised processes through clear internal specifications, reduces liability risks and ensures compliance with the law and the requirements of the profession.

Compliance with Continuing Professional Development (CPD) specifications

When it reviews licence renewal applications from audit firms, the FAOA checks whether the firms’ internal quality assurance system ensures that those of their staff who are licensed with the FAOA are fulfilling their CPD obligations. Compliance with the obligations in accordance with the CPD regulations laid down by EXPERTsuisse and/or TREUHAND | SUISSE (30 hours or four days respectively

of CPD a year on average, excluding self-study) has to be checked at least annually as part of internal CPD monitoring, and this monitoring has to be documented together with corresponding evidence of the CPD undertaken. The obligation to comply with the EXPERTsuisse and/or TREUHAND | SUISSE CPD regulations applies to all licensed individuals, whether or not they are members of an association, and must be checked by their firms as part of their annual internal CPD monitoring. Membership of a professional association, whether for the audit firm itself or the individuals concerned, does not exempt the firm from the obligation to undertake and document internal CPD monitoring.

Time and again, the licence renewal process reveals the finding that only auditors-in-charge meet the CPD requirements in some cases, with all other licensed individuals neglecting their CPD obligations.

Licence renewal

Introduction

Audit firms are prompted to submit a new application six months before the expiry of their existing one, which is valid for five years in the case of audit firms. The FAOA asked over half the audit firms registered in its public register – around 1,350 – to submit the relevant documents to renew their licence during the reporting year.

Licence renewal statistics

As audit firms tend to meet their licensing requirements, their renewal applications can be approved by the FAOA and their licenses renewed on expiry without any gaps. Around 980

audit firms had their expiring licences renewed without interruption during the past calendar year. However, some 45 audit firms had deficiencies of such severity that the FAOA was unable to renew their licence without gaps despite their application having been submitted. The licences of 30 audit firms were successfully renewed after expiry, after they restored compliance with the licensing criteria. The applications from 15 audit firms were still pending at the time the statistics were collected on 31 December 2019. Although their time-limited licence had since expired, they had not yet restored compliance with the licensing criteria.

Figure 24

Number of licence renewals granted in 2019

Licence type	Auditor	Audit expert	Total 2019	Total 2018
Audit firms	222	787	1,009	235
State-regulated audit firms	–	5	5	3
DSFI-only state-regulated audit firms	–	2	2	0
Total licence renewals	222	794	1,016	238

23 % of the audit firms whose licence was up for renewal opted not to seek renewal or submit a licence renewal application. We believe that this disproportionately high percentage of audit firms voluntarily waiving their licences is probably because sole proprietorships are no longer exempt from the obligation to put an internal quality assurance system in place.

Special licences

Ever since the FAOA first started recording figures in 2013, the number of special licences granted to auditors-in-charge had always fallen year on year: whereas more than 310 special licences for auditors-in-charge

were entered in the FAOA's public register in 2015, by 2018 this number had dropped to 249. The main reason behind the first-ever increase in special licence numbers since this statistic was first recorded is the creation of a new category of special licence with effect from 2019 in the form of

the special licence in accordance with Art. 1b BankA (fintechs). Eight auditors-in-charge have so far been granted this new type of licence.

Figure 25

Regulatory auditors-in-charge by special licence type (Status: 31 December 2019)

Licence type	Total regulatory auditors-in-charge as at 31.12.2019	Total regulatory auditors-in-charge as at 31.12.2018
Audits under BankA, SESTA and MBA	116	114
Audits under CISA	68	74
Audits under InsSA	38	32
Audits of DSFIIs	29	29
Audits under Art. 1b BankA (fintechs)	8	0
Total licences	259	249

This special licence in the newly created category «in accordance with Art. 1b BankA (fintechs)» gave rise to three new licences in this area

amongst the regulatory audit firms as well. The number of total special licences currently granted has been stable for many years at around

40 licences ever since the statistic was first recorded in the Annual Report 2015.

Figure 26

Regulatory audit firms by special licence type (Status: 31 December 2019)

Licence type	Total regulatory audit firms as at 31.12.2019	Total regulatory audit firms as at 31.12.2018
Audits under BankA, SESTA and MBA	8	8
Audits under CISA	10	10
Audits under InsSA	7	7
Audits of DSFIIs	11	13
Audits under Art. 1b BankA (fintechs)	3	0
Total licences	39	38

Enforcement and court rulings

Enforcement

A total of two licence applications were rejected in the reporting year (prior year: four). Six individuals and companies withdrew their applications or surrendered their licences during ongoing proceedings (prior year: 23). In addition, four licence withdrawals were imposed (prior year: 13) and 68 reprimands issued (prior year: 13). Finally, two criminal charges were filed due to the suspected provision of audit services without an FAOA licence (prior year: none).

The significant increase in reprimands is due to the large number of licence renewals for (non-state-regulated) audit firms (cf. the introduction to the «Licence» section above). Of the 66 reprimands issued to audit firms (two were issued to private individuals), 44 related to deficiencies in the monitoring process (particularly a lack of monitoring), six to deficiencies in enforcing the firm's own internal regulations on staff CPD, four to deficiencies in both of these areas, and twelve to breaches of statutory quorums at board of directors and/or executive board level. Insofar as the weaknesses identified were rectified, the audit firm in question was given a reprimand and relicensed.

Court rulings

The federal courts ruled on four cases involving FAOA orders in 2019, rejecting three appeals. In one case, although the FSC is upholding the breaches of due diligence obligations identified by the FAOA, it believed a reprimand to be an appropriate punishment rather than licence withdrawal. Significant deliberations from these rulings are noted below.

The Appendix also contains a complete list of rulings issued during the reporting year.

Inadequate audit procedures

Compliance with the technical and other standards of the profession is essential when performing the role

of auditor, and infringements in this regard damage its respectable reputation and erode the assurance of flawless audit work. The relevant standards include Swiss GAAP FER and the SAS. Whether the application of these standards is obligatory or voluntary is immaterial. If the recipients of an audit report are entitled to assume that certain standards are being complied with, then the auditor must comply with them⁴⁶ – all the more so when this compliance is affirmed in the audit report⁴⁷.

Breach of independence

A close business relationship between two individuals is established if, amongst other things, one serves as chairman of the board of directors and the other as a director in one and the same audit firm. If the second person then acts as auditor-in-charge and audits the annual financial statements of a foundation on whose board of trustees the first person sits, he will therefore breach independence regulations⁴⁸. The question of whether a business relationship is compatible with the independence principle has to be assessed based on the general life experience of the average observer. It all comes down to how the situation appears on the surface. Whether the auditor-in-charge views himself as independent is irrelevant⁴⁹.

Proportionality

The threat of licence withdrawal (Art. 17 para. 1 sentence 2 AOA) is a case in law where the principle of proportionality is applied. It ensures that the licence holder is able to take measures to restore compliance with the licensing requirements. A licence may thus only be withdrawn peremptorily if it is no longer possible for its holder to restore compliance with the licensing requirements⁵⁰. If breaches of the principle of independence are only identified in respect of a single audit engagement⁵¹, if they are not particularly serious, if they were rectified before the FAOA instigated proceedings, and if there are no indications that the licence holder will fail to comply with their due diligence obligations in future, withdrawing

their licence without notice would breach the principle of proportionality⁵². A written reprimand, by contrast, would be proportionate⁵³.

Foreign qualification

An applicant with the title (and not the qualification) of a certified accountant under French law («expert-comptable») cannot invoke the EU-Swiss agreement on the free movement of persons⁵⁴ because merely possessing this title does not entitle the holder to provide statutory audit services or exercise the profession of the «commissaire aux comptes» in France⁵⁵. The French-Swiss treaty of 27 April 1948 on the exercising of the professions of «expert-comptable» and «comptable»⁵⁶ does not give rise to any legal entitlements either, as the scope of this agreement does not cover the exercising of the profession of «commissaire aux comptes» in Switzerland or that of licensed audit expert in Switzerland⁵⁷.

⁴⁶ FAC Ruling No. B-7186/2017 of 4 February 2019, E. 3.

⁴⁷ FAC Ruling No. B-7186/2017 of 4 February 2019, E. 4.

⁴⁸ FSC Ruling No. 2C_602/2018 of 16 September 2019, E. 5.4.

⁴⁹ FSC Ruling No. 2C_602/2018 of 16 September 2019, E. 5.2.

⁵⁰ FSC Ruling No. 2C_602/2018 of 16 September 2019, E. 5.5.1.

⁵¹ However, the breach did persist for six years.

⁵² FSC Ruling No. 2C_602/2018 of 16 September 2019, E. 5.5.3.

⁵³ FSC Ruling No. 2C_602/2018 of 16 September 2019, E. 5.5.4.

⁵⁴ Agreement between the Swiss Confederation, of the one part, and the European Community and its Member States, of the other, on the free movement of persons of 21 June 1999 (SR 0.142.112.681).

⁵⁵ FAC Ruling No. B-207/2019 of 16 October 2019, E. 2.1.4 and 2.3.

⁵⁶ SR 0.142.113.496.

⁵⁷ FAC Ruling No. B-207/2019 of 16 October 2019, E. 3.2 and 3.3.

Procedural law questions

If the FAOA presents three arguments to justify its withdrawal of an audit expert licence for four years (including auditing shortcomings that, taken together, are to be regarded as serious)⁵⁸ and the FAC is merely assuming a mix-up between ordinary and limited audits, i.e. moderately severe breaches and a commensurate withdrawal period of two years, then the court has clearly misinterpreted the facts of the case in the FSC's opinion⁵⁹.

A request to unmask the whistleblower in enforcement proceedings must be refused if the sole justification being put forward is that it would help to better understand the whistleblower's motives. This is not an interest that could outweigh the whistleblower's personal interest in preserving their anonymity or the public interest in ensuring the quality of audit work and the independence of the auditor. Neither are the reasons for the FAOA being notified relevant to the question of whether the licence holder still complies with the licensing criteria⁶⁰.

Other rulings of interest

FSC ruling of 3 July 2019⁶¹

This case involved proceedings under administrative criminal law brought by the Federal Tax Administration (FTA) against person or persons unknown on suspicion of avoiding withholding tax.⁶² The statutory auditor of the company owing the tax had provided tax advice as well as auditing its financial statements. The FTA had then asked the auditor to release the documents relating to its tax advice (confirmation of mandate, invoices for services, list containing names of employees involved, and internal files and notes) and to its auditing of the financial statements (audit report and working papers, including internal documents from the company audited). The auditor had refused to do so, asked for the files to be sealed and, in particular, invoked audit confidentiality. The FCC then upheld the FTA's request to unseal the above-

mentioned documents⁶³. Responding to the auditor's appeal, the FSC essentially found sufficient correlation between the documents in question and the administrative criminal proceedings in terms of both time (the auditing work and the circumstances relevant to the proceedings overlapped chronologically) and content (the matter of the tax advice and the nature of the purported criminal offence correspond). It was therefore the appellant's responsibility to prove that the two engagements (auditing and tax advice) related to completely different circumstances than the loan being disputed or to a period of time not relevant to the FTA's investigation. However, this proof was not furnished in this case. The auditor is also not entitled to invoke audit confidentiality in the administrative criminal proceedings to prevent the documents from being unsealed.⁶⁴ This ruling shows how entrusting a statutory auditor with advisory or other non-audit services can have unintended consequences.

FAC ruling of 11 June 2019⁶⁵

In this case, the FAC was required to clarify whether it was responsible for hearing the appeal by an audit firm whose licence was revoked by an AMLA SRO. After examining various doctrines on defining the legal nature of the case,⁶⁶ it concluded that the legal relationship between an SRO and an audit firm is covered by private rather than public law. It therefore did not have the necessary competence to rule on the audit firm's appeal.

FCC ruling of 2 May 2019⁶⁷

Cf. the comments above in the «International/Transmittal of information from private parties to foreign authorities» section.

⁵⁸ 1. Preparing ten audit reports without the requisite personal licence, 2. Preparing two audit reports without the requisite sole proprietorship licence, and 3. Breaches of due diligence obligations during audit work for two consecutive financial years.

⁵⁹ FSC Ruling No. 2C_679/2018 of 23 January 2019.

⁶⁰ FSC Ruling No. 2C_602/2018 of 16 September 2019, E. 3.3.2.

⁶¹ FSC Ruling No. 1B_71/2019 of 3 July 2019.

⁶² The company audited, which had also commissioned tax advice from its statutory auditor, had failed to declare non-cash benefits during the 2011-2015 financial years. During this period, it had granted a loan to a related company at an excessively high interest rate, generating non-cash benefits amounting to CHF 2 million.

⁶³ FCC Ruling No. BE.2018.15 of 14 January 2019.

⁶⁴ The statutory auditor can keep its findings confidential unless it is required by law to disclose them (Art. 730b para. 3 CO).

⁶⁵ FAC Ruling No. B-1645/2019 of 11 June 2019.

⁶⁶ Doctrines of interests, functions, subordination and sanctions, cf. FAC Ruling No. B-1645/2019 of 11 June 2019, E. 6.

⁶⁷ FCC Ruling No. SK.2018.71 of 2 May 2019.

Pension scheme audits

Oversight system for occupational pensions

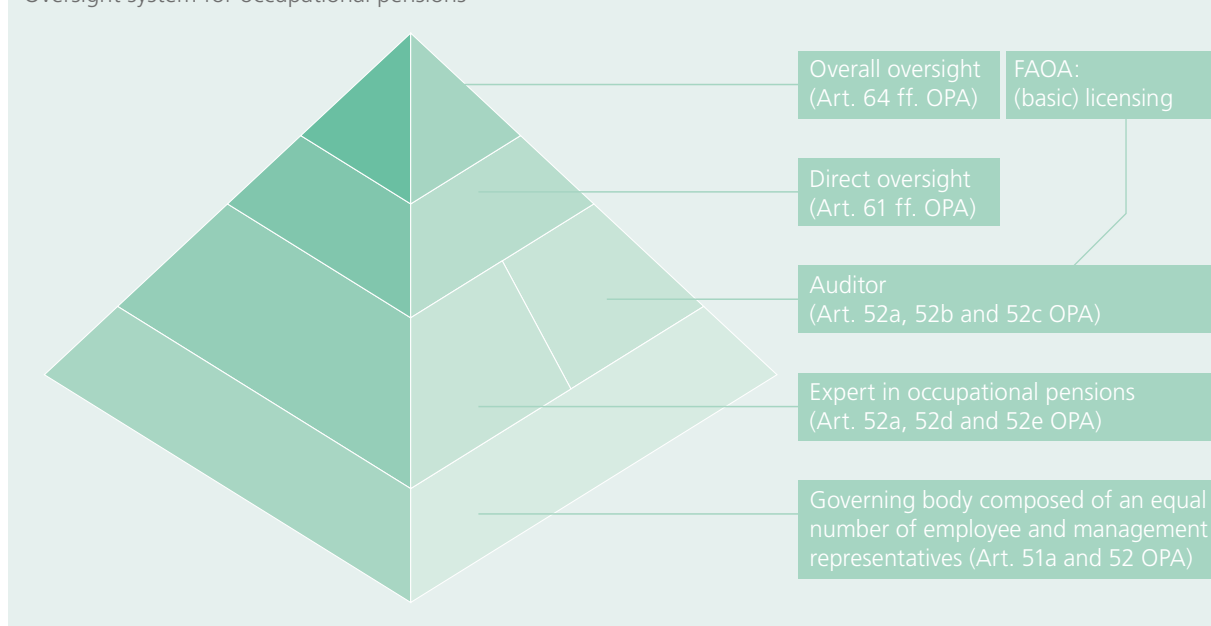
Auditors play an important role in the oversight system for occupational pensions. Underpinning the concept is the pension scheme's governing body, which is composed of an equal number of employee and management representatives and which holds particular responsibility for its strate-

gic and financial management, for determining its organisational structure and for monitoring its business activities. The expert in occupational pensions and the scheme's auditor occupy the second level. The third level is represented by the regional OPA oversight authority, which exercises direct oversight of the pension scheme, while the Occupational Pen-

sion Supervisory Commission (OPSC) exercises overall or system oversight. Although the FAOA is not directly part of this oversight structure, it is responsible for the (basic) licensing of the auditors and of the auditors-in-charge tasked with the audit (cf. Figure 27).

Figure 27

Oversight system for occupational pensions⁶⁸



The expert in occupational pensions investigates periodically whether the pension scheme provides assurance for complying with its obligations and whether its actuarial provisions and those set out in its regulations comply with the statutory requirements in terms of benefits and financing. They also provide the governing body with recommendations on setting the technical interest rate and on the other technical bases.

For its part, the auditor investigates whether the annual financial statements comply with the statutory provisions and those set out in its regulations (audit of financial statements). Its statutory audit mandate also includes other important tasks (Art. 52c OPA), which are comparable to the regulatory audit of financial

institutions and include the following in particular:

- Pension accounts
- Organisational structure, business management and investments
- Ensuring loyalty in asset management
- Use of freely disposable funds and surplus participations from insurance policies
- Measures for restoring full cover in the event of a shortfall
- Information and notifications communicated to the oversight authority responsible for the pension scheme

– Legal transactions with related parties

Not only insureds and pension holders, but also the governing body and the oversight authorities involved rely on obtaining a reliable insight into the pension scheme's financial situation and business management. The auditor thus makes a key contribution to the stability of and trust in the occupational pension system to the benefit of all stakeholders. In this respect, there is significant public interest in ensuring the quality of these audit services⁶⁹.

⁶⁸ Based on DAVID FRAUENFELDER, Berufliche Vorsorge: Bedeutung der Revisionsstelle im Zusammenhang mit der Führung und Kontrolle einer Vorsorgeeinrichtung, in: TREX 2017, 24 ff., 24.

⁶⁹ Cf. FSC Ruling No. 2C_860/2015 of 14 March 2016, E. 5.3.

Assessing audit quality

The auditors of pension schemes are not subject to oversight by the FAOA. The only exception is the auditing bodies of investment foundations (currently 59)⁷⁰. As a basic principle, therefore, the FAOA only assesses audit quality for pension schemes

if there are suspicious circumstances and when assessing whether auditors-in-charge are guaranteeing proper audit services. In the 30 OPA investigations since 2013, the FAOA identified inadequate auditing quality in 19 cases

(cf. Figure 28 below). The remaining 11 cases concerned other infringements such as auditing without the necessary audit expert licence or breaches of the independence principle.

Figure 28
 Case categories for OPA investigations since 2013 (total: 30 investigations)

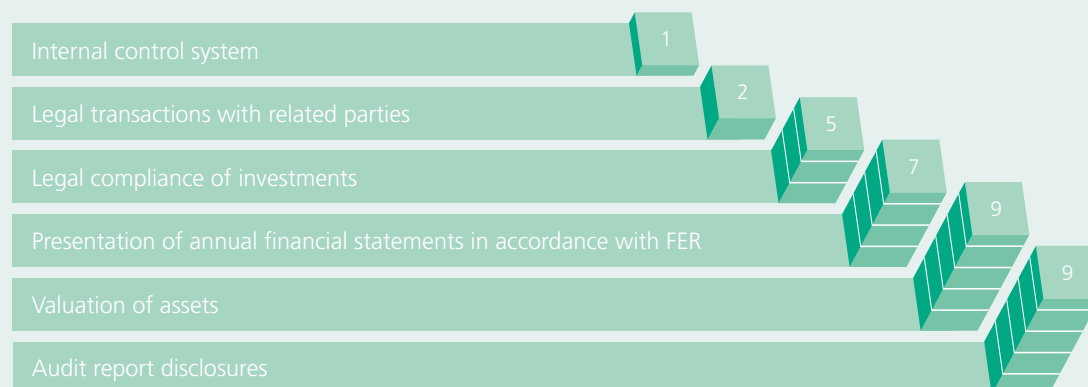


Within the «Inadequate auditing quality» category, the FAOA's most common finding was that the valuation of assets (loans, funds, equity interests, mortgages, etc.) had not been audited in enough detail. This was followed by formal shortcomings in the audit report, which significantly compromises the usefulness of the

audit certificate for the abovementioned stakeholders, such as the absence of any confirmation regarding pension accounts or a recommendation on whether to approve the annual financial statements. Whether the scheme's investments, ICS, presentation of its annual financial statements in accordance with

Swiss GAAP FER 26 and legal transactions with related parties complied with the law and the scheme's own regulations was also not audited in sufficient detail in many cases (cf. Figure 29 below).

⁷⁰ OPSC information at www.oak-bv.admin.ch/de/beaufsichtigte/anlagestiftungen(retrieved on 3 January 2020).

Figure 29Number of audit errors in the «Inadequate auditing quality» category (total: 33 findings)⁷¹

The FAOA dealt with a total of eleven OPA cases in the reporting year, six of which are still ongoing. The files relate to smaller pension schemes in the main. In one case, the FAOA withdrew the licence of the competent auditor-in-charge for two years (the corresponding order is to be issued in early 2020). In another case, the FAOA dropped proceedings after the individual concerned voluntarily waived their licence. In three cases, the breaches were of minor importance, meaning there was not sufficient justification to open proceedings.

Need for action

The FAOA still believes it appropriate to subject the auditors of pension schemes to state oversight⁷². As well as a special licence for the audit firms and their auditors-in-charge that builds on the basic licence, the risk-oriented oversight of the auditing bodies of larger pension schemes at least would give 2nd pillar insureds and pension holders significantly greater protection.

The Federal Council has asked the FJPD to work with the FOJ, the FAOA, the OPSC and the FSIO to conduct a detailed investigation into the extent to which the legislator needs to act in this matter⁷³.

⁷¹ At least one shortcoming in auditing was identified in each of the 19 cases. Several shortcomings were identified in some engagements.

⁷² Cf. previous comments in the FAOA's Annual Reports 2016 (p. 46), 2017 (p. 40) and 2018 (p. 39).

⁷³ Cf. the section «Regulatory developments/ Current projects/Expert mission on legislative» action required with respect to audit law and the «Ettlin» postulate above.

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	Wanda Eriksen, Masters in Accounting Science, Swiss Certified Accountant, US CPA (Chairman) Sabine Kilgus, PD Dr., lawyer (Vice-Chairman) Conrad Meyer, Prof., Dr. Daniel Oyon, Prof., Dr. Viktor Balli, Chemical Engineer ETH/Economist HSG
	Executive Board	Frank Schneider, Chief Executive Officer, Executive MBA ZFH, Swiss Certified Accountant Reto Sanwald, Deputy to Chief Executive Officer, Head of Legal & International, Dr. iur., Attorney at law, Executive MBA HSG Martin Hürzeler, Head of Financial Audit, Graduate in Business Administration, Swiss Certified Accountant Heinz Meier, Head of Regulatory Audit, Swiss Certified Accountant
	Auditor	Swiss Federal Audit Office (SFAO)
Number of staff	As at 31 December 2019, 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 PIEs 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.	
Conflicts of interest	The Board of Directors makes the necessary organisational arrangements to prevent conflicts of interest, both for itself and for employees. The FAOA's Code of Conduct is published on its website.	

Index of abbreviations

OASI	Old age and survivors' insurance
AHVO	Old-Age and Survivors' Insurance Ordinance (AHV Ordinance) of 31 October 1947
SOO	Ordinance on Supervisory Organisations in Financial Market Supervision (Supervisory Organisation Ordinance, SOO; SR 956.134)
SO	Supervisory organisation
IFO	Investment Foundation Ordinance of 10 and 22 June 2011
BankA	Banks and Savings Banks Act of 8 November 1934
SESTA	Stock Exchange and Securities Trading Act of 24 March 1995
DO-FAOA	Federal Audit Oversight Authority on Disclosing the Lack of Oversight of Audit Firms Engaged by Foreign Bond Issuers (SR 221.302.34)
FSC	Federal Supreme Court (Lausanne)
FOJ	Federal Office of Justice
FCC	Federal Criminal Court (Bellinzona)
FSIO	Federal Social Insurance Office
OPA	Occupational Pensions Act of 25 June 1982
FAC	Federal Administrative Court (St. Gallen)
CEAOB	Committee of European Audit Oversight Bodies
CGU	Cash-generating units
DSFI	Directly supervised financial intermediary (supervised by FINMA)
FDF	Federal Department of Finance
FJPD	Federal Department of Justice and Police
EQCR	Engagement Quality Control Reviewer
FTA	Federal Tax Administration
EU	European Union
EWG	Enforcement Working Group
FATF	Financial Action Task Force
FinSA	Financial Services Act of 15 June 2018 (SR 950.1)
FinSO	Financial Services Ordinance of 6 November 2019 (SR 950.11)
FMIA	Financial Market Infrastructure Act of 19 June 2015
FinIA	Financial Institutions Act of 15 June 2018 (SR 954.1)
FinIO	Financial Institutions Ordinance of 6 November 2019
FINMA	Federal Financial Market Supervisory Authority
FINMASA	Financial Market Supervision Act of 22 June 2007
FSB	Financial Stability Board
GAFI	Groupe d'action financière
GEA	Gender Equality Act
GAQ	Global Audit Quality
GPPC	Global Public Policy Committee
CC-S	Control Committee of the Council of States
G-SIBs	Global Systemically Important Banks
AMLA	Anti-Money Laundering Act of 10 October 1997
AMLO	Anti-Money Laundering Ordinance of 11 November 2015

AMLO-FINMA	FINMA Anti-Money Laundering Ordinance of 3 June 2015
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
ICWG	International Cooperation Working Group
IESBA	International Ethics Standards Board for Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
ICS	Internal control system
ISA	International Standards on Audit
ISG	Inspection Sub-group
ISQC 1	International Standard on Quality Control 1
IWWG	Inspection Workshop Working Group
CISA	Collective Investment Schemes Act of 23 June 2006
MoU	Memorandum of Understanding
MMoU	Multilateral Memorandum of Understanding
MROS	Money Laundering Reporting Office Switzerland
OPSC	Occupational Pension Supervisory Commission
CO	Code of Obligations of 30 March 1911
PCAOB	US Public Company Accounting Oversight Board
MBA	Mortgage Bond Act of 25 June 1930
PIOB	Public Interest Oversight Board
SAS	Swiss Auditing Standards of EXPERTsuisse
QA	Quality assurance
SQS 1	Swiss Quality Control Standard 1
FAOA	Federal Audit Oversight Authority
AOA	Audit Oversight Act of 16 December 2005
AOO	Audit Oversight Ordinance of 22 August 2007
SER	SIX Exchange Regulation
SICAV	Open-ended investment schemes
SIX	SIX Swiss Exchange
SMI	Swiss Market Index
SoP	Statement of Protocol
SRO	Self-regulatory organisation
CC	Criminal Code
US-GAAP	United States Generally Accepted Accounting Principles
InsSA	Insurance Supervision Act of 17 December 2004

Additional Swiss audit licences

Audit activities in the following areas in particular require a special licence from the FAOA or a licence under special law from another authority

based on a basic licence under the AOA. A basic FAOA licence will suffice in some audit areas.⁷⁴ The table makes no claim to be complete (Sta-

tus as of 31 December 2019, taking account of the entry into force of the Financial Institutions Act (FinIA) on 1 January 2020).

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 ⁷⁵ , finance groups and public tender offers/ securities traders/ central mortgage bond institutions	State-regulated audit firm	Audit expert	FAOA	Art. 9a AOA, Art. 11a ff. AOO
Fintech companies ⁷⁶	State-regulated audit firm	Audit expert	FAOA	Art. 9a AOA, Art. 11a ff. AOO
Insurers	State-regulated audit firm	Audit expert	FAOA	Art. 9a AOA, Art. 11a ff. AOO
Collective investment schemes ⁷⁷	State-regulated audit firm	Audit expert	FAOA	Art. 9a AOA, Art. 11a ff. AOO
Financial intermediaries (anti-money laundering)	Auditor	Auditor	SRO	Art. 24a AMLA, Art. 22a ff. AMLO
Asset managers and trustees	Auditor	Auditor	SO	Art. 43k FINMASA, Art. 13 f. SOO
OASI	Audit expert	Audit expert	FSIO	Art. 165 AHVO

⁷⁴ This applies to regulatory audits of casinos and pension schemes in particular.

⁷⁵ Comprising stock exchanges, multilateral trading systems, central counterparties, central depositories, transaction repositories and payment systems.

⁷⁶ Cf. the definition in the Banking Act (Art. 1b BankA).

⁷⁷ Comprising fund managers, investment funds, open-ended investment schemes (SICAVs), limited partnerships for collective investment schemes, investment companies with fixed capital (SICAFs), asset managers of collective investment schemes and representatives of foreign collective investment schemes.

State-regulated audit firms

Data correct as of 31 December 2019

No. FAOA	Company/name	Location
500003	PricewaterhouseCoopers AG	Zurich
500012	T + R AG	Gümligen
500038	Grant Thornton AG	Zurich
500149	OBT AG	St. Gallen
500241	MAZARS SA	Vernier
500420	Deloitte AG	Zurich
500498	PKF Wirtschaftsprüfung AG	Zurich
500505	Treuhand- und Revisionsgesellschaft Mattig-Suter und Partner	Schwyz
500646	Ernst & Young AG	Basel
500705	BDO AG	Zurich
500762	Balmer-Etienne AG	Lucerne
501382	Berney Associés Audit SA	Geneva
501403	KPMG AG	Zurich
501470	Ferax Treuhand AG	Zurich
501570	Fiduciaire FIDAG SA	Martigny
502658	Treureva AG	Zurich
504689	SWA Swiss Auditors AG	Pfäffikon
504736	PKF CERTIFICA SA	Lugano
504792	ASMA Asset Management Audit & Compliance SA	Geneva
505046	MOORE STEPHENS EXPERT (ZURICH) AG	Zurich
505062	AML Revisions AG*	Zurich
505077	CF Compagnie fiduciaire de révision sa*	Geneva
505081	MOORE STEPHENS REFIDAR SA*	Geneva
505106	Révisions LBA Romandie Sàrl *	Montreux
600001	Deloitte Co. S.A.	Buenos Aires
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* Only licensed to audit DSFIs.

Cooperation with foreign authorities

Status: 31 December 2019

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)
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	Authority for the Financial Markets (AFM)	MoU (2012)
Austria	Audit Oversight Body of Austria (AOBA)	MoU (2019)
UK	Financial Reporting Council (FRC)	MoU (2014)
USA	Public Company Accounting Oversight Board (PCAOB)	Statement of Protocol, 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 Multilateral Memorandum of Understanding (2017)
Brazil	Securities and Exchange Commission of Brazil (CVM)	IFIAR Multilateral Memorandum of Understanding (2017)
Dubai	Dubai Financial Services Authority (DFSA)	IFIAR Multilateral Memorandum of Understanding (2017)
Gibraltar	Gibraltar Financial Services Commission (GFSC)	IFIAR Multilateral Memorandum of Understanding (2017)
Japan	Financial Services Agency/Certified Public Accountants & Auditing Oversight Board (FSA/CPA AOB)	IFIAR Multilateral Memorandum of Understanding (2017)
Cayman Islands	Auditors Oversight Authority (AOA)	IFIAR Multilateral Memorandum of Understanding (2017)
Lithuania	The Authority of Audit, Accounting, Property Valuation and Insolvency Management under the Ministry of Finance of the Republic of Lithuania (AAAPVIM)	IFIAR Multilateral Memorandum of Understanding (2017)
Malaysia	Audit Oversight Board Malaysia	IFIAR Multilateral Memorandum of Understanding (2017)
New Zealand	Financial Markets Authority (FMA)	IFIAR Multilateral Memorandum of Understanding (2017)
Norway	Financial Supervisory Authority (FSA)	IFIAR Multilateral Memorandum of Understanding (2019)
Poland	Audit Oversight Commission (AOC)	IFIAR Multilateral Memorandum of Understanding (2019)

Slovakia	Auditing Oversight Authority	IFIAR Multilateral Memorandum of Understanding (2017)
South Korea	Financial Services Commission/Financial Supervisory Service (FSC/FSS)	IFIAR Multilateral Memorandum of Understanding (2017)
Taiwan	Financial Supervisory Commission (FSC)	IFIAR Multilateral Memorandum of Understanding (2017)
Czech Republic	Public Audit Oversight Board (RVDA)	IFIAR Multilateral Memorandum of Understanding (2017)
Turkey	Public Oversight, Accounting and Auditing Standards Authority (POA)	IFIAR Multilateral Memorandum of Understanding (2017)

Court rulings 2019

Status: 31 December 2019

The following is a complete list of the 2019 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 reached by the court.

- FSC Ruling No. 2C_679/2018 of 23 January 2019: inadequate audit work during a limited audit for two consecutive financial years. Issuing numerous audit reports on ordinary audits based on a personal auditor's licence. Issuing audit reports without a sole proprietorship licence. Withdrawal of auditor licence for four years. Withdrawal period reduced to two years by the FAC. FAOA's appeal to the FSC upheld due to the facts of the case evidently being misconstrued; case passed back to the FAC for a new ruling. Ruling not yet legally binding.
- FSC Ruling No. 2C_602/2018 of 16 September 2019: Breach of the regulations governing independence and auditing without a licence for the sole proprietorship (not entered in the commercial register). Auditing the annual financial statements of a foundation where close business links existed between the auditor-in-charge and the chairman of the board of trustees. Withdrawal of audit expert licence for two years. Withdrawal period reduced to one year by the FAC⁷⁹. Licence holder's appeal upheld by the FSC and replaced with written reprimand.
- FAC Ruling No. B-207/2019 of 16 October 2019: Application for an audit expert licence rejected due to lack of reciprocal rights in the person's home country. The French qualification «expert-comptable» does not entitle the holder to perform statutory audit services in France, which are the preserve of the «commissaires aux comptes». Based on the EU-Swiss agreement on the free movement of persons, therefore, there is no entitlement to a Swiss licence either. Appeal rejected by the FAC. Ruling not yet legally binding.
- FAC Ruling No. B-7186/2017 of 4 February 2019: inadequate audit work during an ordinary audit. Deficiencies relating to equity interests and intragroup liabilities, opening balance sheet, consolidated financial statements, materiality, fraud, going-concern principle, related-party transactions, presence of an internal control system (ICS), lawsuits and claims. Withdrawal of audit expert licence for four years. Rejection of appeal. Ruling legally binding.
- FSC Ruling No. 6B_90/2019 of 7 August 2019: Criminal conviction of a former audit expert due to exploitation of knowledge of confidential facts («insider trading» under previous legislation) and breach of duty to cooperate with the FAOA, comprising a conditional fine of CHF 68,800 and a penalty of CHF 5,000. Confirmation of FCC ruling⁷⁸, which is based on a criminal complaint filed by the FAOA with the Office of the Attorney General. Ruling legally binding.

⁷⁸ FCC Ruling No. SK.2018.26 of 9 August 2018.

⁷⁹ FAC Ruling No. B-3972/2016 of 5 June 2018.

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)