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Annual Report 2020

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Foreword

2020 will go down as a difficult year. The COVID-19 pandemic presented us all with new challenges, and its long-term effects on public health and the economy will keep us occupied for some time yet even after the immediate crisis has been overcome.

The crisis has also left its mark on audit firms and the stakeholders in the auditing industry. The FAOA is engaged in constant dialogue with the audit sector and other authorities in order to analyse any problems that emerge and come up with quick solutions. On a positive note, the crisis is giving auditors the opportunity to prove their worth, because companies' financial figures have to be highly trustworthy in economically uncertain times. Economic decisions must be able to be made based on reliable corporate figures, and it is here that auditing and audit oversight are making a valuable contribution to tackling the crisis.

19 inspections at state-regulated audit firms

The COVID-19 pandemic is also affecting how the FAOA goes about its work. The FAOA has mainly been conducting its inspections remotely since the outbreak of the pandemic in order to protect its own employees and those of state-regulated firms. Interviews are being held via video link, and working papers are being accessed either electronically or via laptops provided by the audit firm. This has proved a positive experience for both sides in the oversight relationship. This form of inspection will remain relevant at least until the pandemic is over, if not beyond.

In financial audit, the FAOA conducted eleven inspections out of a total of 34 audit engagements, focusing on auditing leases (IFRS 16) and potential fraud (ISA 240). The largest number of findings related to risk assessment and response, fraud and estimates. The FAOA is attaching greater importance to analysing the relevant find-

ings from the previous five years so that it can also agree measures with the affected audit firms at firm level. As expected, the use of data analytics tools is becoming increasingly important.

In regulatory audit, eight inspections were performed out of a total of 17 audit engagements, focusing on audit procedures for complying with the provisions of the Act on Combating Money Laundering and Terrorist Financing (AMLA), for risk management and for internal organisation and/or the internal control system (including IT). Most of the findings were identified while auditing compliance with the AMLA (including sampling), with risk management and risk reporting, and with regulatory audit issues prompted by an audit of financial statements (e.g. valuation of properties in real estate funds).

Looking ahead, one task will be to monitor the impact of the COVID-19 pandemic closely. As well as its ramifications for traditional auditing issues (particularly value adjustments, an entity's ability to continue as a going concern and overindebtedness), it will also exacerbate existing risks such as the low-interest-rate environment, fraud, cyber attacks and money laundering.

Some 2,100 SME audit firms hold licenses in Switzerland

While half of audit firm licences were renewed in 2019, with over 1,000 renewals, 2020 was an average year by comparison in line with expectations, with around 370 licences renewed. The trend seen in prior years of a fall in the number of licensed audit firms continued in 2020 (-4.3%). This decline is largely due to audit firms opting not to renew their licence. When processing renewal applications, it became clear that internal quality assurance is not yet being applied consistently across the board, especially with regard to continuing

professional development (CPD) and internal monitoring. A marked shift in the standards being used for internal quality assurance was also observed, with the number of audit firms applying the quality assurance guidelines for SME audit firms falling by around 20% within the space of a year.

Whistleblowing

The number of third-party notifications fell slightly year on year. A total of 37 (prior year: 39) notifications of potential breaches of the law or the regulations of the profession were received in the reporting year. Of these, 14 (prior year: 16) related to the work of state-regulated audit firms. Only creditable notifications result in fact-finding, and only eligible breaches lead the FAOA to bring proceedings under administrative law.

2020: an eventful year for the FAOA

In line with the regulations laid down by the Federal Council and the Federal Office of Public Health (FOPH), most FAOA staff worked from home between mid-March and mid-August 2020, as they have also been doing once again since mid-October. This had no impact on the FAOA's ability to remain fully functional and fulfil its statutory mandate.

2020 was also a difficult year for the FAOA as it lost Frank Schneider, its Chief Executive Officer, on 5 October 2020. News of his death came as a great shock to the Board of Directors and all FAOA staff. The FAOA also received countless letters of condolence, sympathy cards and personal messages, for which it would like to take this opportunity to reiterate its sincere thanks. Following a transitional period, the Board of Directors appointed Dr Reto Sanwald, previously Deputy to the Chief Executive Officer of the FAOA and Head of Legal & International, as the new Chief Executive Officer on 26 November 2020. The Federal Council confirmed this choice on 18 December 2020. Martin

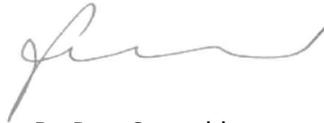
Hürzeler, a Swiss Certified Accountant and Head of Financial Audit, is now Deputy to the Chief Executive Officer.

The year just gone was turbulent and full of challenges for the FAOA. The hard work and dedication shown by staff ensured that the FAOA nevertheless succeeded in fulfilling its mandate with the customary quality and an eye on the future. For this, everyone involved deserves our most heartfelt thanks.

Berne, 29 January 2021



Wanda Eriksen
Chairman of the Board of Directors



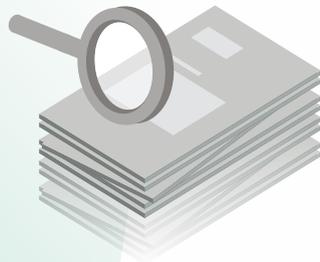
Dr. Reto Sanwald
Chief Executive Officer

THE FAOA IN NUMBERS

23 Number of state-regulated audit firms

Audit firms inspected annually

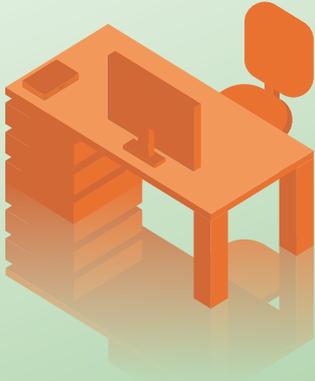
- PwC AG
- Ernst & Young AG
- KPMG AG
- Deloitte AG
- BDO AG





Number of inspections
FA/RA
19 in 2020
22 in 2019

24.5
employees
(FTE)



Enforcement
2 licence
withdrawals
120 reprimands



2,054
Number of
licensed
audit firms



9,896
Number of
licenced
individuals



6.79 Mio.
Total FAOA
expenditure







In memory of Frank Schneider

The untimely loss of Frank Schneider at the age of 51 came as a great shock to the Board of Directors and staff. As Chief Executive Officer of the FAOA, he played a pivotal role in the oversight of the Swiss audit industry for some 14 years.

Frank Schneider passed away unexpectedly on 5 October 2020. The FAOA has lost not only its Chief Executive Officer but also a dear colleague, manager, supporter and friend.

Frank Schneider had been Chief Executive Officer of the FAOA since it was founded in 2006 and shaped the authority's development into the team of around 30 that it is today. He also defended its position in dealings with investors, the audit industry and other authorities and stakeholders with an interest in audit issues. In a third phase, he encouraged greater networking between the FAOA and its foreign partner authorities, particularly in the USA, the EU and Asia.

Frank Schneider was also a recognised and valued partner in discussions at international level for many years. He was appointed Vice Chair of the International Forum of Independent Audit Regulators (IFIAR) in 2017 and had been its Chair since 2019. Before joining the FAOA, the Swiss Certified Accountant worked for several firms in the fiduciary and audit industry and was in charge of the oversight of the accounts prepared by issuers on the Swiss Stock Exchange from 2002 to 2006.

Frank Schneider led the FAOA with a clear eye on future developments and always focused its oversight work on the latest issues, such as those brought about by digitalisation. He will be remembered as a decisive leader and a humorous, warm-hearted colleague and person.

Regulatory developments

Current projects

Expert mission on legislative action required with respect to audit law

On 8 November 2017, the Federal Council took note of the report of 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 action.¹ The Federal Office of Justice (FOJ) is leading this project. The Federal Council's report of 30 November 2018 on the «Ettlin» postulate («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 examination.²

The FOJ conducted various investigations in 2020 and is expected to report on them in 2021. More information can be found in the «Pension scheme audits» section below.

Study entitled «Examining ways of cutting the regulatory costs of limited audits»

The criticism of the cost/benefit ratio and highly formalised nature of limited audits that was expressed in parts of the Ochsner/Suter expert report was seen by the Federal Council as an opportunity to authorise the State Secretariat for Economic Affairs (SECO) to commission a further study from the Zurich University of Applied Sciences (ZHAW). The aim was to examine potential ways of cutting the costs of limited audits in partnership with the audit industry. The study was published in November 2020 and recommends the following measures:

- Increasing the opting-out limit from 10 to 50 full-time equivalents averaged out over the year, which the study estimates could save around 20,000 audits and CHF 159 million in audit fees.
- Enshrining the lower level of assurance in law: the study believes that describing the lower level of

assurance («negative assurance») more explicitly could prevent some auditors from scrutinising too many items in a set of annual financial statements in too much detail. This could lead to a general fall in audit fees.

- Enshrining the looser documentation requirements in law: following a similar line of argument, the study recommends that the documentation requirements, which are less stringent compared to an ordinary audit, be explicitly enshrined in law via the Standard on Limited Audits. This is also likely to lower costs as less time will be spent on documentation and fewer documents could be requested from the company being audited. The study extrapolates that this and the previous measure involving the level of assurance could achieve savings of CHF 30 million.

The FAOA has essentially expressed the following concerns to the leaders of the study and in the following assessment of the paper from a policy perspective:

- Weak empirical basis: although 32% of the SMEs and 32% of the audit firms surveyed felt that the limited audit was too formalised and 37% of SMEs and 33% of audit firms would welcome a less-formalised audit, around two thirds of those questioned are therefore satisfied with the status quo. This suggests there is no need for action. Furthermore, in absolute terms, the dissatisfied third is only based on, respectively, 31 and 18 individual statements by SME representatives and on five and two statements by audit firms. Such a small sample is scientifically dubious, especially given the high probability of an incidental finding. Neither was any consideration given to the fact that SME representatives are not usually able to say whether or not an audit is now being conducted with too many formalities as they lack specialist expertise and do not get to see the working documents. It is also likely that a few respondents

were merely expressing a blanket dislike of the controlling role they perceived the auditor to be playing. The study is thus to be seen as an indicator of general sentiment rather than a representative survey.

- Contradiction between analysis and conclusion: 73% of all SMEs consider the benefit of a limited audit to be between moderate and very high, and only 15% would abolish it entirely. The study therefore concludes that the limited audit has proved its worth and offers a favourable cost/benefit ratio. By increasing the opting-out thresholds by a factor of five, however, the study is proposing effectively to make the limited audit voluntary in many cases. This measure runs contrary to the analysis presented in the report itself and is disproportionate, including in relation to the weak empirical basis already identified. Neither is it clear whether the people surveyed would approve of this far-reaching measure, since what they had actually been asked about was the criticism that limited audits were too formalised.

- On the subject of opting-out, the study largely hides the benefit of limited audits. Here too, it is not least SMEs that benefit from proper accounting, a higher credit rating and preventing insolvencies on the part of their business partners. The study only addresses this issue very superficially. Although the various stakeholders estimate the extent of their lost benefit to be «low to moderate», it is subsequently deemed to be «acceptable» without any detailed analysis. However, studies conducted by Credita in 2012 and the University of St. Gallen in 2020 have statistically proved that companies without an auditor have a lower credit rating and a greater risk of insolvency. It can also rightly be assumed that the mere prospect of a visit from the auditor improves the quality of accounting and financial reporting.

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

² Cf. FAOA Annual Report 2018 (p. 7).

At the very least, it ensures that accounts are kept and annual financial statements prepared in the first place. The significantly higher risks of insolvency and fraud during the COVID-19 pandemic also suggest that the study is drawing the wrong conclusions.

- With regard to the level of assurance and documentation, the savings that these two measures could potentially bring in are difficult to understand. On the one hand, no specific instances of «excessive documentation» or «excessive liability» are analysed; put another way, it is primarily fears rather than verifiable figures that are used to make this point too. On the other hand, the level of assurance or detail in documentation does not necessarily correlate with the audit fee. Even if the degree of audit scrutiny or documentation were excessive, the change in the law being proposed would not necessarily lead to lower audit fees. Rather, it could be expected that auditors' margins would increase slightly.

Furthermore, the lower level of assurance is already being applied explicitly, because an auditor conducting a limited audit is only required to assess whether there are any indications to suggest that the annual financial statements and the board of director's proposal for the appropriation of retained earnings violate the statutory regulations or the articles of association (Art. 729a para. 1 CO; negative assurance). This is common practice and has also been enshrined in the regulations of the profession for many years now. Codifying the level of assurance in more concrete terms is unlikely to be a simple affair, and rewording the law could usher in a new round of problems with interpretation. As we do not know of any court rulings with an adverse impact, the existing legal certainty should not be overturned unnecessarily. In addition, the level of assurance is an abstract principle based on an auditor's discretion. The issue should be addressed through initial training, CPD, edu-

cation and awareness-raising rather than in the law.

The less stringent documentation requirements already apply because, as is well known, they relate to the reduced scope/thoroughness of auditing in a limited audit compared to an ordinary one. What does not need to be audited does not need to be documented either. In the isolated cases where the FAOA gets to see the working papers for limited audits when assessing whether proper audit services are being guaranteed, the documentation in question is more rudimentary than excessive. In addition, the documentation requirements are hard to pin down in concrete terms as they are ultimately also subject to an auditor's discretion, making it unclear what exactly would constitute a tangible simplification. Regulating the matter in detail, such as in a Federal Council ordinance, would throw up more questions of definition and interpretation. Neither can it be overlooked that documentation also serves to protect the auditor, particularly in cases where they are being held responsible for something.

Amendment of company law

The Federal Council adopted the dispatch to amend the Code of Obligations (company law) on 23 November 2016. The Federal Assembly completed its consultations with a final vote on 19 June 2020. The following changes are particularly worthy of mention from an auditing perspective:

- Articles of association now no longer need to contain any regulations on administrative bodies or auditing. If they do not, the statutory provisions apply.
- The requirements for non-cash contributions (their availability and the extent to which they can be reported in the balance sheet, transferred or realised) are to be codified, which is relevant to the auditing of reports on company formations and capital increases. These provisions apply to companies of all legal forms covered by the CO.

- The revised law introduces the concept of the capital range («Kapitalband»). It is compatible with opting out of a limited audit but only if the capital range allows a company's share capital to be increased, not reduced. In all other respects, the provisions governing the securing of claims, interim financial statements and audit confirmation from a licensed audit expert are applicable in the same way to an ordinary capital reduction if the share capital is to be reduced within the capital range.

- The annual general meeting can now resolve to pay an interim dividend if a corresponding set of interim financial statements was audited by the statutory auditor before the meeting passed its resolution. This audit is not required if the company has opted out of (limited) audits anyway or if all shareholders agree to the interim dividend being distributed and paying it will not jeopardise any creditors' claims.

- If the most recent financial statements show that the net total of assets minus liabilities no longer covers half the total produced by adding together the share capital, the capital reserve not repayable to shareholders and the statutory retained earnings reserve, the board of directors shall take measures to eliminate the capital loss. Insofar as required, it shall also take additional measures to rescue the company or ask the annual general meeting to do the same if this falls within its remit. If the company does not have a statutory auditor, the most recent annual financial statements must also undergo a limited audit by a licensed auditor before being approved by the annual general meeting. This auditor shall be appointed by the board of directors. This audit obligation shall not apply if the board of directors requests a moratorium on debt enforcement. The board of directors and the statutory or licensed auditor shall act «with due haste». Based on the dispatch, therefore, this

ties in with the practice developed by the Federal Supreme Court for stays of bankruptcy and insolvency proceedings. Specifically, the board of directors is to be given enough time to come up with restructuring measures and, if necessary, present them to the annual general meeting if there are justified prospects of effective and adequate measures being put in place. If not, however, there is no scope for delays, and the board of directors is required to act without delay as before.

- If there is a justified concern that the company's assets no longer cover its liabilities, the board of directors is required to prepare, without delay, one set of interim financial statements based on going-concern values and another based on liquidation values. There is no need to prepare the latter if the going-concern assumption applies and the interim financial statements based on going-concern values do not reveal any indebtedness. If the going-concern assumption does not apply, a set of interim financial statements based on liquidation values will suffice. The board of directors shall arrange for the interim financial statements to be audited by the statutory auditor or, if there is none, by a licensed auditor that it shall appoint. If the company is overindebted based on both sets of interim financial statements, the board of directors shall notify the court, which will instigate insolvency proceedings or act in accordance with Art. 173a of the Debt Enforcement and Bankruptcy Act (DEBA).

There are two situations in which the court does not need to be notified. The first is if shareholder creditors accept a lower rank than all other creditors in the amount of the excessive debt and defer their claims, provided that this subordination covers both the amount owed and the interest due during the period of indebtedness. The second is if there are justified prospects of the excessive debt being eliminated within a reasonable period of time, but no more than

90 days after presentation of the audited interim financial statements, and of creditors' claims not being put at any additional risk.

If the company does not have a statutory auditor, the licensed auditor shall fulfil the notification obligations of the statutory auditor conducting the limited audit. The board of directors and the statutory or licensed auditor shall likewise act with due haste.

- In order to eliminate a capital loss or excessive debt, plots of land and participating interests whose actual value has increased to above their acquisition or production costs may be written up to this value but no higher. The revaluation amount is to be reported separately under the statutory retained earnings reserve as a revaluation reserve. This write-up is only permitted if the statutory auditor or, if there is none, a licensed auditor, confirms in writing that the statutory provisions have been complied with. The revaluation reserve can only be released by converting it into share or participation capital or via a value adjustment or sale of the assets written up.
- If a company's nominal capital is not denominated in Swiss francs, the exchange rate on the reporting date and the average exchange rate for the year are to be used to determine the thresholds under audit law for total assets and sales revenues respectively.
- In independence law, it is being made clear that independence provisions also apply to undertakings that are controlled by the audited company or the statutory auditor or that control the company or the statutory auditor. The leadership principle (which in some cases was applied merely «by all appearances») is thus being replaced by the clearer control principle.
- The auditor of companies listed on a stock exchange will now verify

whether the remuneration report complies with the statutory regulations and the articles of association.

- The annual general meeting can no longer dismiss the auditor unconditionally and now requires a good reason to do so. The possible reasons must be disclosed in the notes to the annual financial statements, as is the case if the auditor resigns before the end of their term.
- Notwithstanding a corresponding proposal from the Federal Council, the Federal Assembly has declined to abolish the joint and several liability of the board of directors and the auditor to third parties and to introduce a more nuanced interpretation of joint and several liability.
- In limited liability company law, a legislative error is being rectified whereby the annual general meeting is required to appoint a separate group auditor in addition to its statutory auditor. The statutory auditor appointed is to be responsible for auditing both annual and consolidated financial statements.

The changes were not put to a referendum and are expected to enter into force in early 2022.

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. Audit firms are affected by this bill as they often operate in the field of activity described below.

- Private individuals and corporate bodies that prepare or perform the following activities on a commercial basis are now deemed to be «advisors»: setting up, managing and administering domiciliary companies and trusts based in Switzerland and organising the raising of funds; buying or selling companies;

providing an address or premises to serve as a registered office; or performing the role of nominal shareholder for the abovementioned entities.

- Advisors are subject to relevant due diligence obligations under the AMLA and are required to be audited by an audit firm and file reports with the Money Laundering Reporting Office Switzerland (MROS).
- An advisor's audit firm will be required to report to the MROS if the advisor breaches the abovementioned reporting obligation and there are grounds to suspect that the relevant transaction being prepared or carried out is linked to money laundering or terrorist financing.

On 2 March 2020, the National Council resolved not to consider the bill. By contrast, the Council of States decided on 10 September 2020 that it would consult on the bill, opting to strike out the abovementioned obligations for advisors without replacing them. On 15 December 2020, the National Council then resolved to pass the bill back to the committee responsible for the preliminary examination, the Legal Affairs Committee of the National Council (LAC-N), to conduct another detailed reading and find a compromise that would command a majority.

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 modernised 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 draft,³ 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 expert 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.

The bill has not yet been addressed by the two councils.

Revision of the Data Protection Act

The Federal Assembly approved the total revision of the Data Protection Act on 25 September 2020. The annex to the bill also added a new article to the Audit Oversight Act updating the legislation underlying the processing of personal data and data of corporate bodies (new Art. 15b AOA). The referendum period runs until 14 January 2021. The implementation law is still being drafted and is not expected to enter into force until early 2022 at the earliest.

Act Combating Insolvency Abuse

On 26 June 2019, the Federal Council presented the Federal Parliament with its dispatch on the Act Combating Insolvency Abuse. The bill is geared towards preventing the insolvency proceedings of debtors from being abused in order to release them from their obligations by introducing various measures to the Code of Obligations and in debt enforcement, insolvency and criminal law. Two aspects of the bill are relevant from an auditing perspective:

- Firstly, the option to opt out of a limited audit is being restricted in that the opting-out is now only to apply to future financial years. The opting-out must also be reported to the Commercial Registry before the start of the financial year. The very common practice of opting out retrospectively is thus to be outlawed. The press release by the

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

competent Legal Affairs Committee of the Council of States (LAC-S) of 4 September 2020 suggests that the committee intends to delve further into the question of whether the measures being put forward by the Federal Council are sufficient and whether further restrictions on opting out may be required. The work being done in the Federal Assembly thus also runs contrary to the proposals in the ZHAW study discussed above.

- Secondly, the transfer of shares or capital contributions is to be null and void if the company was liquidated and abandoned without first being dissolved, thus banning trading in shell companies («Mantelhandel»).

Federal enterprises as public-interest entities

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 make sense 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.

The Federal Council accepted the postulate in a resolution on 29 January 2020. The Council of States passed the motion on March 11, 2020.

Completed projects

COVID-19 legislation

As mentioned in the Foreword, 2020 was dominated by the COVID-19 pandemic and its economic fallout. The following aspects are worthy of particular mention from an auditing perspective:

- The judicial system and procedural law: during the «first wave» in spring 2020, the Federal Council invoked emergency law to order the suspension of procedural deadlines between 21 March and 19 April 2020. The FAOA did not conduct or continue any licensing, oversight or enforcement procedures during this period without the prior consent of the parties involved. The Federal Council did not extend the measure when it expired. Unlike proceedings under civil and criminal law, the FAOA's proceedings under administrative law are handled more or less exclusively in writing, meaning that there were no problems with interrogating parties and witnesses or the like. Almost all inspections of state-regulated audit firms were conducted remotely
- Overindebtedness: the Federal Council also invoked emergency law during the «first wave» to rule that, contrary to the statutory regulations, boards of directors did not need to report cases of excessive debt to the court (Art. 725 para. 2 CO) between 20 April and 20 October 2020 if the company had not been overindebted on 31 December 2019 and there was the prospect of being able to eliminate the excessive debt by 31 December 2020. The board of directors had to justify and document its decision in writing. Audits of interim financial statements could be skipped, likewise in derogation of the statutory regulations. In addition, contrary to Art. 728c para. 3 and 729c CO, auditors were released from their obligation to notify the court if the board of directors had opted not to file the abovementioned report.

- Status of COVID-19 loans in the event of an accumulated deficit and overindebtedness: the Federal Council passed the COVID-19 Ordinance on Joint and Several Guarantees on 25 March 2020 to supply liquidity to Swiss businesses. In a quick process without any red tape, it gave SMEs access to bank loans guaranteed by the four accredited loan guarantee organisations. In turn, the Swiss government undertook to compensate these organisations for any losses resulting from these guarantees. Until 31 March 2022, these loans will not count as borrowed capital when calculating capital and reserve cover in the event of an accumulated deficit or overindebtedness (Art. 725 para. 1 and 2 CO). This provision has been included, without a time limit, in the Federal Council's bill for an act on joint and several guarantees (see below). The National Council approved this bill on 30 October 2020.
- Act on joint and several guarantees: on 18 September 2020, the Federal Council adopted the dispatch on the COVID-19 Act on Joint and Several Guarantees, which transposes the COVID-19 Ordinance on Joint and Several Guarantees from emergency law into ordinary law. Amongst other things, the new act proposes that auditors also be required to help combat abuse: if the borrower's auditor discovers a breach of one of the lending conditions listed in the bill (e.g. the ban on paying dividends) during a limited or ordinary audit of its annual or consolidated financial statements, the auditor shall set the borrower a reasonable deadline for putting the situation in order. If this is not done by the deadline set, the auditor shall be obliged to notify the competent loan guarantee organisation. On 30 October 2020, the National Council decided on a different solution, which chose not to make a link with the auditor's statutory audit mandate: under this solution, only the loan guarantee organisation is to be entitled at its own discretion

to order an inspection of how a borrower is using its loan. If a borrower does not have a statutory auditor, the loan guarantee organisation may commission a licensed auditor to conduct a COVID-19 audit. If the borrower does have a statutory auditor, it can be tasked with auditing the utilisation of the loan by the organisation guaranteeing it. The licensed auditor shall report the findings of its audit to the loan guarantee organisation and the borrower. After some to-ing and fro-ing between the two councils, a «both/and» solution was adopted: if the borrower's auditor discovers a breach of the specified lending criteria during a limited or ordinary audit of its annual or consolidated financial statements, the auditor shall set the borrower a reasonable deadline for restoring the situation to order. If this is not done by the statutory deadline, the auditor shall be obliged to notify the annual general meeting. Should the board of directors still fail to put the situation in order without delay despite this step being taken, then the auditor shall notify the competent loan guarantee organisation, which can also arrange an inspection of whether the borrower is meeting the specified criteria. If the borrower does not have a statutory auditor, the loan guarantee organisation may commission a licensed auditor to conduct the audit. If a statutory auditor is in place, the loan guarantee organisation may task it with the inspection. The auditor commissioned shall report the findings of its audit to the loan guarantee organisation and the borrower. The new act entered into force on 19 December 2020.

Equal pay audit

The Federal Council enacted the amendment to the Gender Equality Act (GEA), designed to better enforce equal pay, and the Ordinance on Reviewing Equal Pay Analyses 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. A formal audit of the equal pay analysis is to be conducted. 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 following requirements:

- The equal pay analysis was performed by the deadline specified in law.
- Evidence has been supplied that the equal pay analysis was conducted following a scientific and legally compliant method.
- The analysis covered all employees in full.
- The analysis covered all wage and salary components in full.
- The analysis covered the requisite data, including personal and workplace-related characteristics, in full.

Accounting by licensed transport undertakings

The Federal Office of Transport (FOT) has modified its oversight system in the wake of a number of cases relating to the PostBus case. To this end, the Federal Department of the Environment, Transport, Energy and Communications (DETEC) amended the Accounting in Licensed Enterprises Ordinance (ALEO) on 1 May 2020, with retrospective effect from 1 January 2020:

- The FOT will no longer approve the annual financial statements of licensed transport undertakings or infrastructure operators. Instead, companies that receive over CHF 10 million in public subsidies for their regional passenger transport and infrastructure business will be required to arrange an ordinary audit of their annual financial statements from the 2020 financial year onwards. The companies are also now required to make an annual declaration to the FOT confirming that they have complied with the basic principles of subsidy law.

- Companies that receive over CHF 1 million in annual subsidies must also undergo a special «subsidy» audit every year, which they are required to entrust to an audit firm licensed to perform audit work.

The above amendments are to be transposed into a formal act when the Passenger Transport Act (PTA) is next revised.



Financial Audit

Introduction

The Swiss audit market for public-interest entities (PIEs) is dominated by the five largest audit firms: BDO, Deloitte, EY, KPMG and PwC.⁴ They continue to audit the vast majority of public companies and other PIEs. The FAOA inspects these five audit firms annually on account of their importance. A total of 23 audit and regulatory audit firms held a state-regulated audit firm (hereafter «audit firm») licence at the end of 2020 (prior year: 26). Two firms are foreign audit firms inspected by the FAOA on account of the extra-territorial scope of Swiss oversight.

As well as PIEs, the COVID-19 pandemic also had a major impact on audit firms and the FAOA. The FAOA has mainly been conducting remote inspections (firm and file reviews) since the outbreak of the pandemic in order to protect the health of its own employees and those of the audit firms. This requires the audit firms in question to archive their audit documentation digitally for the FAOA to access online or on

laptops. Meetings are also conducted on the FAOA’s digital platform or that of the relevant audit firm. The experience has been entirely positive for both sides, and the statutory mandate can continue to be fulfilled. Remote inspections look set to remain relevant at least until the pandemic is over, if not beyond.

2020 inspections

Overview

The FAOA conducted eleven inspections during the reporting year.⁵ The original plan was for two of these inspections to be carried out together with the PCAOB. However, the COVID-19 pandemic prevented these «joint inspections» from happening.

The audits of the annual and consolidated financial statements of 34 companies were the subject of file reviews as part of these eleven inspections. They included two ad hoc inspections performed as a result of third-party notifications. The selection of audit engagements was generally risk-based in

accordance with the FAOA’s oversight concept. The market capitalisation of audited companies is an important selection criterion. Other criteria include a major change in audit fees, deviations from the standard wording in an audit report or a change of auditor. As in prior years, the Swiss banks systemically important from a global perspective (G-SIBs) – UBS AG and Credit Suisse Group AG – were subject to an annual file review given their importance. Rather than being «second audits», file reviews restrict themselves to items and issues that harbour particular risks in the FAOA’s view.

Figure 1
Overview of FAOA inspections and findings 2019 and 2020

Categories	Five largest audit firms		Other		Total	
	2020	2019	2020	2019	2020	2019
Number of inspections	5	4	6	11	11	15
Comment Form Findings Firm Review	6	4	14	14	20	18
Comment Form Findings File Review	26	13	14	13	40	26
Number of inspected files ⁶	28	30	6	10	34	40

⁴ See in particular the Swiss Audit Monitor 2020 of the Chair for Auditing and Internal Control at the University of Zurich. As Figure 4 illustrates, the five largest audit firms received 99.8% of the audit fees paid by companies in the Swiss Performance Index (SPI).

⁵ 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 2020.

⁶ For a file review, the FAOA generally selects the working papers that relate to the group audit (including the individual financial statements of the parent company) and to a significant subsidiary.

Firm Review

As in the prior year, the quality assurance systems of the audit firms inspected are robust overall.

Figure 2

Trend in the average number of findings from firm reviews since 2016



The average number of findings at all audit firms over the past few years does not reveal a pleasing trend. The figure was lowest in 2016 (0.5) and highest in 2020 (1.8), having ranged between 1.0 and 1.3 in the intervening years. At the five largest audit firms, the lowest and highest values (0.2 and 1.6) came in 2016 and 2018 respectively, having ranged between 1.0 and 1.2 in the other years. When considering these developments, it must be borne in mind that the FAOA inspects the five largest audit firms every year and the smaller au-

dit firms at least every three years. In addition, the number of findings per inspection depends on the FAOA's inspection strategy in each case. Nevertheless, the audit firms need to do more work to reduce this key indicator.

The FAOA identified a total of 20 findings at firm level during the reporting year. This gives an average of 1.8 findings (prior year: 1.2) per inspection from the individual firm reviews. The increase was due mainly to the inspections of two smaller

audit firms, which produced ten findings in all. In addition, the file reviews at three of the five largest audit firms identified five recurring findings, which were also recorded at firm level (cf. the section below on engagement performance).

Figure 3

Type and number of 2020 firm review findings (total: 20 findings)



The largest number of findings came in the «Engagement performance», «Human Resources» and «Ethical requirements» categories:

- The FAOA identified seven findings relating to engagement performance. One involved an inadequate consultation and monitoring process at the audit firm, while another concerned an inadequate process for selecting the Engagement Quality Control Reviewer. In each case, the FAOA analyses whether the file reviews of the individual audit firms identified any recurring findings over the past five years. If so, the FAOA records a finding at firm level, as the measures taken by the audit firm up to that point have not had sufficient impact. The FAOA recorded five such findings at firm level during the reporting year, involving three of the five largest audit firms. Three findings related to fraud audits and one each to audit sampling and the auditing of leases.
- With regard to human resources, three findings concerned inadequately designed or implemented CPD processes. A further two findings resulted from a failure to adequately design or implement processes to evaluate auditor per-

formance. At one audit firm, for example, the rules for weighting annual targets and expectations were unclear. The process for agreeing annual targets and the performance assessment based on these was not implemented at executive board level. At another audit firm, the members of the board of directors were not subject to a performance assessment even though most of them acted as auditors. Neither were any criteria set out for remunerating or promoting staff.

- The FAOA identified three findings at two audit firms that concerned ethical requirements. One audit firm failed to comply with independence requirements by holding a prohibited dual mandate following an acquisition. The same firm carried out the external audit and acted as internal auditor. Furthermore, this firm did not have appropriate guidelines or measures in place to ensure independence, and its monitoring of the confirmations of independence from its individual employees and partners was not effective. Another audit firm’s guidelines and measures on independence were also inadequate. This related to issues such as agreeing to provide non-audit services, complying with rotation requirements

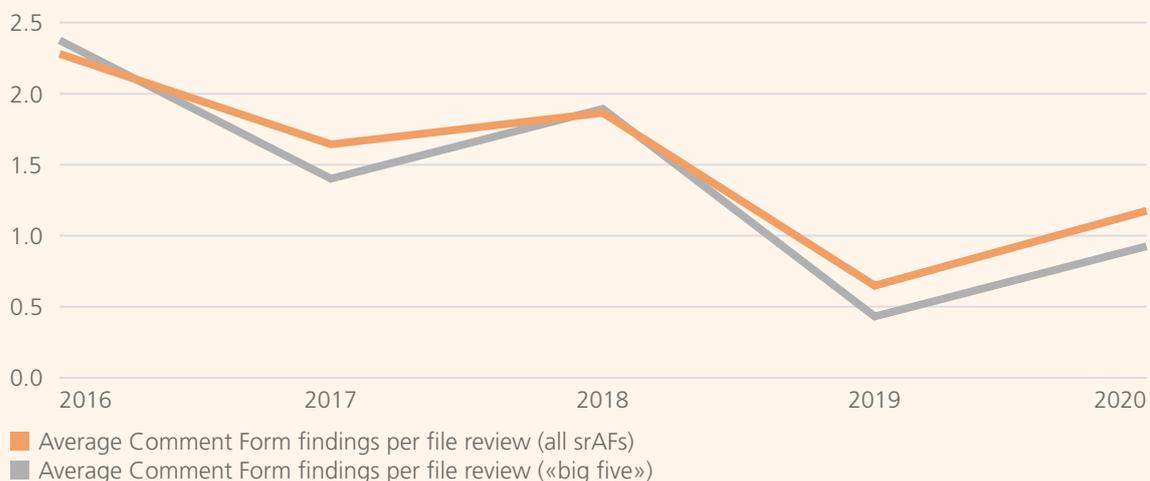
and the annual confirmations of independence. In addition, the fee from audit and other services received from a single audit client exceeded the threshold of 10% of the audit firm’s total fee income.

File Review

File-level audit quality depends heavily on the partners and staff involved as well as the external environment.

Figure 4

Trend in the average number of findings from file reviews since 2016



The average number of Comment Form findings from all audit firms over the past five years has ranged from 0.7 (2019) to 2.3 (2016). Overall the trend is pleasing. The average stood at 1.9 between 2016 and 2018 and has been around 1.0 for the past two years. The situation is similar at the five largest audit firms. However, more work is required to bring this key indicator down.

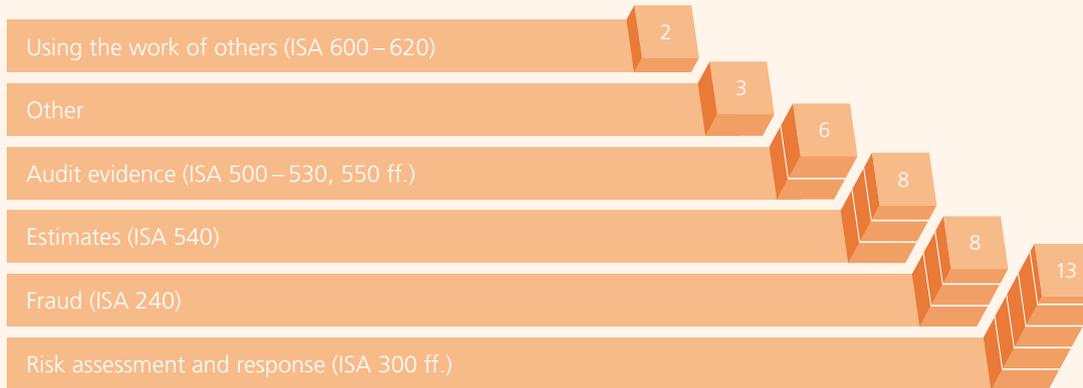
A total of 34 (prior year: 40) file reviews were performed in the reporting year. The change in the number of files examined is mainly due to topic-specific reviews in the prior year, in which the applicable regulations and standards are only assessed

with respect to certain elements of the audit. They enable comparisons within and between audit firms in order to identify both good practices 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 40 findings in all. The number of findings per file review thus increased significantly year on year (1.2 as against 0.7). The rise is due partly to the two ad hoc inspections, which revealed six findings, and partly to the nine findings that emerged from a file review

conducted at each of two smaller audit firms. This figure is much lower at the five largest audit firms (0.9) than at their smaller counterparts (2.3). The figure below illustrates the type and number of findings from the file reviews conducted in 2020.⁷

Figure 5

Type and number of 2020 file review findings (total: 40 findings)



The FAOA identified the largest number of findings in the categories «Risk assessment and response», «Fraud» and «Estimates» during the reporting year:

- The standards for «Risk assessment and response» contain requirements for assessing risks and responding to identified risks. Without a high-quality audit plan, there is a high risk that the subsequent performance of the audit will be inadequate. This means that the conclusions that were drawn for the individual audit items and that form the basis for the audit opinion in the audit report are often not supported by sufficient evidence. Eight

of the thirteen findings in this category related to sales, with the audit teams not obtaining adequate audit evidence of revenue from contracts with customers (IFRS 15), the operating effectiveness of manual controls as well as controls relating the calculation of the percentage of completion in the case of construction contracts. In addition, the last quarter was not included in a sample selected for conducting substantive testing, or it was not possible to gain a sufficient understanding of the invoicing process. Data analysis was inadequate in many cases, particularly in terms of auditing data quality and assessing unusual journal entries (JET). In an

other case, the audit team did not obtain sufficient audit evidence to determine whether a business model involved a principal or agent relationship.⁸ The remaining five findings resulted from inadequate audit procedures on the valuation of goodwill, the existence of gold holdings, the presence and completeness of a pool of segregated assets held as treasury assets, the recognition of a loan under equity

⁷ For comparability purposes, findings that relate to breaches of Swiss or US auditing standards have been allocated to the identical or comparable International Standard on Auditing (ISA).

⁸ Revenues must be reported gross if the company is acting as principal and net if it is acting as an agent.

and liabilities, and the accounting of real estate

- For details of the findings relating to fraud, see the section below on the corresponding point of audit focus.
- Auditing estimates requires particular professional scepticism since estimates are exposed to increased risk of fraudulent manipulation. The FAOA identified eight findings in the audit of accounting estimates relating to property, plant and equipment, goodwill and trademark rights, financial assets, real estate, and actuarial provisions. All the findings involved the audit teams not obtaining sufficient audit evidence to assess the estimates and assumptions made by the management of the audited company.

Points of focus for 2020 inspections

The FAOA inspections produced the following findings with respect to the 2020 points of focus:

Point of focus 2020 no. 1: Evaluation of the audit of leases (IFRS 16)

The IASB implemented IFRS 16 with effect from 1 January 2019 in a bid to make companies' balance sheets more comparable regardless of the type of leases⁹ they enter into. The first-time application of IFRS 16 resulted in many leases being reported in the balance sheet of the lessee companies that had previously only been recorded as expenses. The lease appears in the balance sheet as both a right-of-use asset and a lease liability. The depreciation or amortisation of the right-of-use asset over its useful life and the interest charged on the lease liability are reflected in the income statement. The FAOA obtained additional information in advance from four of the five largest audit firms¹⁰ so that it could estimate the impact on the companies audited and make a risk-based selection for its file reviews. IFRS 16 had a significant impact on the balance sheet of around 43% of the public companies included in this group.

The four audit firms prepared their staff for the challenges involved in auditing IFRS 16 by means of training sessions, internal instructions and extensive, specialised audit programs. They also published several detailed client brochures that provided an introduction to the topic while also explaining specific aspects. The FAOA welcomes the opportunities thus created for investors, boards of directors and other interested parties to address relevant accounting and reporting issues in a targeted way.

The FAOA evaluated the results of two out of the five largest audit firms.¹¹ When the right-of-use asset and corresponding lease liability are valued for the first time, the future lease payments are discounted at the incremental borrowing rate¹² (IBR). Specific criteria need to be borne in mind when calculating the IBR. In three of the files subjected to a topic-specific review on IFRS 16, the companies audited deliberately chose a simplified approach that does not take full account of the criteria required under IFRS. Although the relevant audit teams spotted this, no calculations were done that would have shown that the impact of calculating and applying the interest rate incorrectly clearly had a negligible impact on the balance sheet and income statement. As this involved a conscious departure from IFRS 16 on the part of the companies audited, the misstatement should have been aggregated and analysed. The audit teams also failed to discuss the simplified procedure for calculating and applying the IBR with the management of the companies that they were auditing.

Point of focus 2020 no. 2: Evaluation of the audit of fraud (ISA 240)

Fraud is defined as a deliberate act by one or more persons from amongst the board of directors, the management, the employees or third parties that is designed to obtain an unfair or unlawful advantage by means of deception. Fraud is classified as either fraudulent financial reporting or asset misappropriation. It is abetted by the factors that make up the «fraud

triangle».¹³ The FAOA inspected compliance with the standard for auditing fraud (ISA 240) at three of the five largest audit firms within the scope of thirteen file reviews (including two ad hoc inspections)¹⁴ and identified seven findings. Another finding relating to the same issue was discovered at one smaller audit firm. The issues that gave rise to the most findings by the FAOA were the failure to conduct interviews with the management and members of the board of directors, either adequately or at all, and the inadequate auditing of journal entries. Also inadequate were the audit team's internal discussions on the issue of which items in the annual and consolidated financial statements may be susceptible to material misstatement due to fraud and in what way. In one case, the risk of fraud in the reporting of revenue was neither identified nor rebutted. The FAOA has identified recurring findings in this crucial area at three of the five largest audit firms since 2016, leading it to conclude that the measures taken in the past have not been effective enough and to record three findings

⁹ Operating or finance leases.

¹⁰ No topic-specific file reviews on IFRS 16 were conducted at one audit firm due to risk considerations

¹¹ Although the inspection fieldwork for two of the five largest audit firms was completed on site, these are not covered by the FAOA Annual Report 2020 since the findings process is still at an early stage.

¹² The lessee's incremental borrowing rate is the interest rate that a lessee would have to pay if it were to raise the funds needed for an asset with a value comparable to the right-of-use asset in a similar economic environment, for a similar term and furnishing similar collateral.

¹³ The «fraud triangle» comprises the following three factors: i) the incentive or pressure to commit fraud; ii) the opportunity to commit fraud; iii) the ability of the perpetrator to justify the act to themselves (rationalisation).

¹⁴ The inspection fieldwork for the remaining two 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 2020.

at firm level during the reporting year. Robust measures at firm level were agreed with the audit firms in respect of these findings.

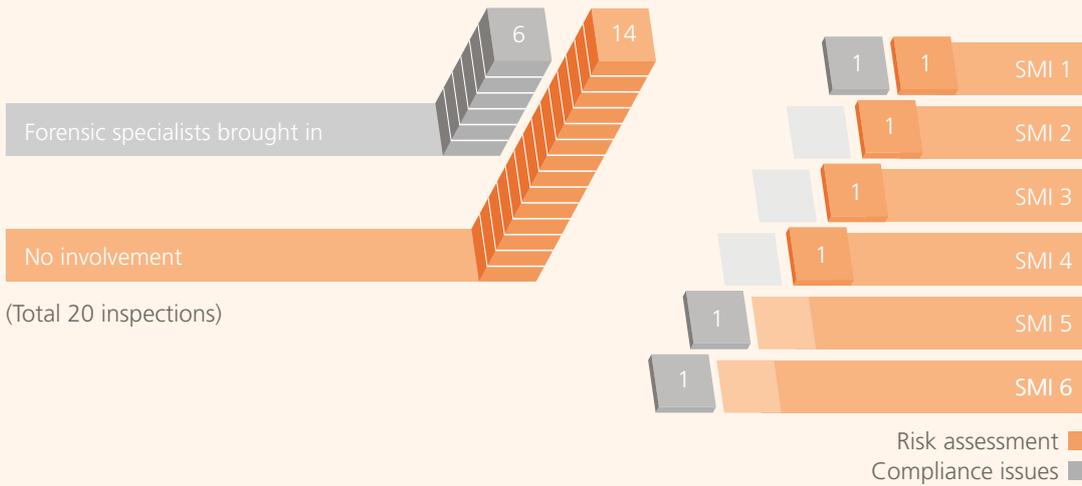
– The figure below illustrates the involvement of fraud experts together with the area concerned in the auditing of SMI companies.

The FAOA evaluated the risk assessment and involvement of fraud experts at the 20 SMI companies in the 2019 financial year. The SMI companies are audited by the four largest audit firms. The FAOA identified the following:

– At 15 companies, the audit team did not identify any risks of material misstatements beyond the standard risks listed in the auditing standard.¹⁵

Figure 6

Involvement of fraud experts and area concerned in the auditing of SMI companies.



Only six audit teams involved fraud experts in their audit work. The expert dealt with risk assessments in four audits and the assessment of compliance issues (e.g. connected with the whistleblower hotline) in three.

¹⁵ Risk of management override of controls and risk of fraud in revenue recognition.

Figure 7

Involvement of fraud experts in the auditing of SME companies by each audit firm (AF), expressed as a percentage



In a pleasing development, one audit firm involved fraud experts in most of its audits. The other three audit firms involved specialists much less often. The FAOA welcomes the use of fraud experts as they can provide effective support to audit teams. The same applies to designing and carrying out audit procedures to address the risks identified. None of the four audit firms mandates the involvement of fraud experts as a criterion in the auditor’s risk assessment. These specialists are often only brought in if fraud is suspected or ascertained.

In September 2020, the IAASB published a discussion paper entitled «Fraud and Going Concern in an Audit of Financial Statements – Expectation Gap» in order to reduce the gap between what the public expect and what the law and the requirements of the profession actually stipulate. The FAOA welcomes this initiative and took part in the consultation as part of the IFIAR’s consolidated statement.

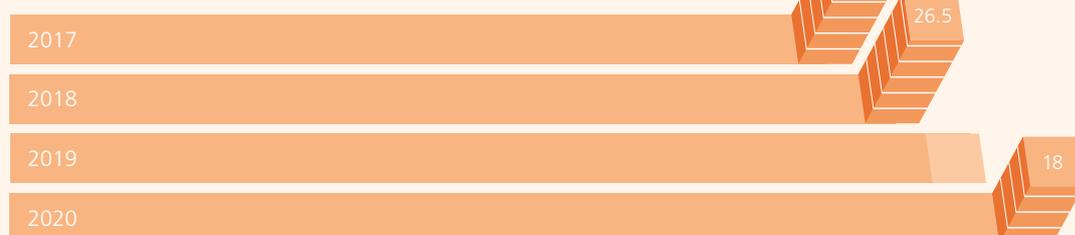
As part of the process, the FAOA identified the following need for improvement: the audit report of listed companies should also (as with key audit matters, or KAMs) disclose the risks of material misstatements due to fraud together with the associated audit procedures. Clearer requirements on the involvement of specialists (e.g. fraud or IT experts) and the auditing of the design and effectiveness of any whistleblower hotline should also be made when auditing listed companies. The public expects the risks of material misstatements in an audited set of financial statements, particularly those caused by fraud, to be identified and addressed through appropriate audit procedures. The FAOA believes that the use of specialists should be increased, especially at companies with more complex business models. Only if fraud risks are identified in the planning phase can they also be tackled adequately during the audit.

Experience with KAMs

Audit reports of listed companies that relate to financial years ending on or after 15 December 2016 contain disclosures of KAMs. This requirement is a major step towards making audits more transparent and easier to understand.

Figure 8

Percentage of inspected file reviews containing KAM-related findings¹⁶



¹⁶ The FAOA conducted topic-specific file reviews in this area in 2019. None of these file reviews revealed any KAM-related findings.

The FAOA has identified ten KAM-related findings at the five largest audit firms since 2017. Eight of these related to the inadequate implementation of the audit procedures stated in the KAMs, which had either not been carried out as disclosed or not done at all. In one KAM, for instance, the testing of the operating effectiveness of controls was described even though there had actually not been any controls testing whatsoever. Happily, the number of KAM-related findings has been declining since 2017.

The following audit procedures may help improve audit quality in this important area. KAMs are to be determined annually, based in particular on the auditor's understanding of the company being audited and its environment. The risks and audit procedures identified are to be described in detail and on a company-specific basis in the KAMs. The group auditor is to obtain written confirmation of each individual KAM-related audit procedure implemented by the component auditors. The group auditor shall also review the implementation of the audit procedures described in the KAMs by inspecting a random sample of the working papers from component auditors concerning key components. The FAOA will continue to devote a certain amount of attention to this issue in the future.

Consultations

The five largest audit firms have set out internal policies and procedures that stipulate a formal consultation. The formal consultation on challenging or disputed matters during the audit is held via the internal specialist department («Professional Practice Department» or «Technical Office»; hereafter «PPD»). Consultations are primarily held on issues relating to accounting and reporting or auditing standards (e.g. in the event of deviations from the standard wording in the audit report). A distinction must be made between formal consultations and consultations within the audit team between the auditor-in-charge and the Engagement Quality Control Reviewer or informal queries from the

audit teams to the PPD regarding an independent assessment or confirmation of a conclusion drawn on an audit matter.

The formal consultation follows a set procedure: the matter and the associated assessment are explained in detail using the tools stipulated as standard, backed up by evidence and confirmed by the PPD in line with the predefined approval process. The independence of the individuals from the PPD who are involved from the company being audited is ensured by means of monitoring by the audit firms, which is carried out annually as well as preventively on a case-by-case basis. Depending on the complexity of the issue being consulted on, a matter may, at some audit firms, be passed on to the national or international PPD for another approval decision. Set escalation steps are applied if opinions differ during the approval process. As well as the obligation to document them in the working papers for the company being audited, consultations are also archived centrally.

The time devoted by the PPD to consultations is not recorded in a uniform manner, although the hours spent in each case are usually charged to the log of hours worked at the company being audited. The number of consultations performed at an audit firm in a financial year depends in particular on the unique complexity and specific circumstances of the individual companies being audited. This is reflected in the assessment of the consultations held at the five largest audit firms as part of their audits of financial statements during the 2019 financial year. The percentage of public companies on which formal consultations were held ranges from 19% to 37%. The number of consultations per company with at least one consultation is between 1.4 and 2.4. Looked at in the round, between 0.3 and 1.1 consultations per public company were held in 2019.

Some audit firms regard the number of consultations as an audit quality indicator and record correspond-

ing key data. The FAOA also backs these efforts and collects the same key data. An analysis of the past five years shows that, although the number of formal consultations held at public companies by the five largest audit firms varies from year to year, a general increase can be observed on average. A growing number of consultations is a sign of a healthy consultation culture at an audit firm. This is a welcome development as it helps to increase audit quality.

Data analysis

As in the prior year, the FAOA also focused on the use of automatic data analyses to audit consolidated financial statements in the reporting year. These were mainly deployed in the audit of revenues, where data analysis was the second most frequently used method behind journal entry testing. The three largest audit firms are now making increased use of data analysis in their audits as a matter of routine. This has led them to expand their training programmes and offer regular training on the underlying methodology and its effective application at all levels. This is important, as some of the data analysis tools are not easy to handle.

The FAOA inspected the use of data analysis on seven file reviews in the reporting year. One positive observation was the fact that the data extraction and processing work was outsourced to data or analytics specialists for all files. The file reviews generated a total of four findings, which related in particular to the auditing of data quality and the assessment of unusual journal entries. The use of data analysis is particularly well suited to routine transactions. The FAOA identified two findings relating to more complex processes, where data analysis was combined – but not coordinated – with conventional methods. Combining conventional techniques with data analysis requires a sound understanding of the business model, processes and data flows at the company being audited. If the data flows highlighted in the analyses do not reflect the audit teams' understanding

of the processes involved, they will not be able to express any accurate expectations of the analysis results.

The importance of automated data analysis is also reflected in the work being done by the standard-setters. In September 2020, the IAASB responded to some frequently asked questions on the use of automated tools and techniques (ATTs) in audits.¹⁷ ATTs allow more precise expectations to be expressed about analysis results, and the growing number and diversity of data sources is offering ever more opportunities for analysis. In particular, the abovementioned publication uses an example to demonstrate how the use of ATTs can benefit both the risk assessment and other substantive audit procedures. To use ATTs in analytical audit procedures, however, the requirements of the «Analytical Procedures» auditing standard (ISA 520) must still be complied with. The IAASB also published

support material on documenting the use of ATT¹⁸ in April 2020, which states that the results of every element tested must be documented. In addition, when conducting analyses using various filters, every version that serves as audit evidence must be retained in the working papers. The IESBA also set up a Technology Working Group (TWG) to study the ethical implications of technological developments,¹⁹ focusing on artificial intelligence, big data and data analyses. The FAOA welcomes the current data analytics trend, as using it can help improve audit quality.

COVID-19

The outbreak of the COVID-19 pandemic is having a major adverse impact on global economic output. In particular, investors and other stakeholders traditionally base their decisions on published financial reports. Most annual and consolidated financial statements with a reporting date

of 31 December 2019 classified the pandemic as a non-adjusting event after the reporting date. Any impact on the financial statements were thus chiefly to be expected in the disclosures made in the notes or with regard to the going-concern question.

The FAOA studied the 2019 consolidated financial statements of all SIX-listed companies, assessing the impact of COVID-19 on audit reports and the notes to the consolidated financial statements.

Figure 9

Disclosure of COVID-19 as an event after the reporting date in the 2019 consolidated financial statements of the SIX-listed companies



¹⁷ www.iaasb.org > «Support and Resources» > «Non-Authoritative Support Materials: Using Automated Tools & Techniques in Performing Audit Procedures».

¹⁸ www.iaasb.org > «Support and Resources» > «Non-Authoritative Support Material: Audit Documentation When Using Automated Tools and Techniques».

¹⁹ www.ethicsboard.org > «Support & Resources» > «IESBA Technology Working Group's Phase 1 Report».

The percentage of audited companies that reported on events after the balance sheet date in connection with COVID-19 in their financial reporting increased month on month as the pandemic worsened. By contrast, the audit reports did not contain any KAMs or Emphasis of Matter paragraphs relating to COVID-19. The FAOA also noted that two sets of consolidated financial statements and the corresponding audit reports disclosed a material uncertainty relating to going concern.

The impact of the pandemic looks set to be much more significant for financial statements as at 31 December 2020. As well as the issues described above, the measurement of assets and the determination of provisions are expected to come under the microscope. The FAOA will focus particularly on these issues in its 2021 inspections.

Root cause analysis and measures

The FAOA awards one of three ratings in its assessment of audit 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 formal proceedings against the 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 developed further with support from the relevant global networks, which have formulated rules and tools for preparing a root cause analysis in response to both findings from internal monitoring and findings identified by audit oversight authorities. The identification of positive influences on the quality of files

without any findings is still 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 FAOA rated the root cause analysis at two audit firms as inadequate, forcing it to make significant changes to the measures that had been derived from this analysis. A further improvement in the otherwise positive trend seen in the past few years with the root cause analysis and the measures proposed by the audit firms is key. Only a sound root cause analysis and robust measures derived from it will bring about a lasting reduction in recurring internal and external findings and thus improve quality.

A shortcoming at firm level will not necessarily be identified from the inspection of the firm's internal quality assurance system but may also result from recurring findings from file reviews. At three of the five largest audit firms, measures were taken in response to recurring findings from the auditing of leases and fraud as well as audit sampling.²⁰ The findings from the firm reviews led to internal processes, controls and tools being revised or introduced. Staff training on the auditing and accounting standards that led to the findings being raised was also agreed and firm-wide audit approaches were improved. The measures relating to the findings from the file reviews depended on the issues that gave rise to them and concerned changes to the audit approach and audit scope as well as adequate audit evidence. In some cases, it was also agreed with the audit firms that they would assess the issues in the selected files that gave rise to the findings in 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. Nine third-party notifications relating to the work of audit firms were received in the reporting year, with four of these prompting preliminary fact-finding. Two sets of proceedings were opened against the auditors-in-charge involved once this fact-finding had been completed.

²⁰ 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 2020.

Audit quality indicators

FAOA audit quality indicators

The FAOA collects twelve audit quality indicators (AQIs) from the five largest audit firms.²¹ It uses these primarily to analyse trends and for risk assessment and inspection planning.

Figure 10

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

AQI	2017		2018		2019		2020	
	from	to	from	to	from	to	from	to
Annual revenue per audit partner in CHF million	2.0	4.1	2.1	4.1	2.2	4.2	2.2	4.1
Ratio of non-audit fees to audit fees²²								
– SMI companies	0.1	0.3	0.1	0.2	0.1	0.4	0.1	0.3
– Non-SMI public companies	0.0	0.3	0.0	0.3	0.0	0.3	0.0	0.2
Number of staff per partner	8.2	15.8	9.5	14.3	9.7	13.7	9.8	13.9
Training hours	52	84	49	85	51	78	49	75
Staff turnover in %	12	29	13	31	15	27	16	33
Average number of EQCR²³ hours								
– SMI companies	43	182	51	224	48	167	38	215
– Non-SMI public companies	8	16	9	19	7	21	8	20
Average number of auditor-in-charge hours								
– SMI companies	478	733	562	757	387	897	410	716
– Non-SMI public companies	74	114	77	125	74	135	80	139
Number of foreign shared service centre hours as a percentage of overall hours at public companies	0	10	0	13	0	17	0	18
Number of consultations per public company audit	0.0	1.0	0.2	1.1	0.2	1.0	0.3	1.1

The annual revenue per partner rose by at least 4% on the prior year at three audit firms. It changed only slightly at the other two audit firms. 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 by 0.1 for both SMI companies and other public companies, rising to 0.3 and 0.2 respectively. The ratio 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 in Switzerland. However, the FAOA received seven notifications of engagements with a ratio of more than 1.0 (prior year: twelve) during the reporting year, although none were SMI companies.

Continuing professional development plays a key role in ensuring audit quality as it is the only way to keep auditors' skills and expertise up to date. The AQI training hours were calculated excluding self-study hours. Training hours at two audit firms increased by more than 5% year on year. At one audit firm, by contrast, which has consistently reported the highest figure since 2014, the num-

ber of hours fell by 16%. Another has shown the lowest amount every year since 2016.

The current business model of an audit firm requires a certain level of staff turnover. However, too high a 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: it increased by around

²¹ The amounts reported by the audit firms are not subjected to any substantive testing.

²² Certain prior-year amounts have been corrected.

²³ Engagement Quality Control Reviewer.

5 percentage points at two, while remaining on a par with the prior year at the other three. One audit firm has reported the highest staff turnover every year since 2018. Another has consistently boasted the lowest rate ever since this AQI was first recorded.

An Engagement Quality Control Reviewer (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 performing an audit engagement for the first time also often increases the average. There were significant changes year on year at all four audit firms that audit SMI companies. The AQI fell by 20% or more at three audit firms but increased by over 20% at another. Since 2014, the same firm has shown the highest amount for SMI companies. Another has reported the lowest amount every year since 2018.

The average number of auditor-in-charge hours spent on the engagement fluctuates each year and depends on engagement-specific circumstances. Companies joining and leaving the SMI and the rotation of the auditor-in-charge can cause significant fluctuations in this AQI. The average number of auditor-in-charge hours at SMI companies was several times that at other public companies.

Four out of the five audit firms outsource certain audit work to foreign shared service centres. This is the first time this AQI has changed little year on year at all four audit firms since it was first recorded.

Formal consultations are required to be held in response to challenging or disputed matters in order to increase audit quality. Four audit firms carried out more consultations per public company audit than they did last year. At one firm, the number of

consultations remained practically unchanged compared to the prior year.

AQIs of the five largest audit firms

The five largest audit firms use their own AQIs, in some cases supplemented by the FAOA's AQIs described above. The AQIs differ 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. A fourth audit firm will shortly be implementing new AQI processes, while the global network of the fifth audit firm is currently developing a list of AQIs.

AQIs outside Switzerland

A few developments in the area of AQIs outside Switzerland are listed below:

- Several foreign audit firms communicate various AQIs in transparency reports²⁴ or audit quality reports.²⁵
- The Canadian Public Accountability Board (CPAB), together with Chartered Professional Accountants Canada, published a guide²⁶ for audit committees in 2018 that lists AQIs designed to support discussions on audit quality with audit teams. In its final report on AQIs,²⁷ the CPAB concluded that the indicators harbour significant potential for improving audit quality.
- The Financial Reporting Council (FRC) in the UK conducted a topic-specific review on AQIs at the six largest audit firms. The FRC also assessed the trend in the indicators included in transparency reports and the question of how useful these are for audit stakeholders as well as questioning 15 oversight authorities on their use of AQIs. The results were published in May 2020 in a report²⁸ that identifies a lack of recognised principles for determining indicators, which are therefore calculated in a variety of ways. Six tried-and-tested methods were also highlighted, in-

cluding that employed by the FAOA. The FRC concludes its report by saying that the monitoring of AQIs by audit firms can improve quality in auditing. The FRC also believes that audit committees need to use AQIs in their assessment of auditors and evaluate audit quality by comparing relevant indicators.

Evaluating the IFIAR survey

On 17 February 2020, the International Forum of Independent Audit Regulators (IFIAR) published a broad-based survey.²⁹ 49 IFIAR members took part in the survey. This was already the eighth survey of this type, identifying common findings at the six largest global audit networks³⁰ 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 jointly on measures to improve audit quality. An analysis of

²⁴ The «Policy and Reputation Group» (PRG) of the largest audit firms in the UK has agreed a series of AQIs that are included in their annual transparency reports. Examples: www2.deloitte.com/uk > Annual Report 2020 > Reporting > Transparency Report – www.bdo.co.uk > About > Our Performance > Transparency Report – www.pwc.co.uk > About us > Transparency Report – home.kpmg/uk > About > Annual Review > UK Transparency Report – www.ey.com/en_uk > who we are > Transparency Report 2020.

²⁵ www.pwc.com/us > Services > Audit and assurance > Assurance Quality Advisory Committee > Our focus on audit quality.

²⁶ www.cpacanada.ca > Business and Accounting Resources > Audit and assurance > Enhancing audit quality > Audit committee guide to audit quality indicators.

²⁷ www.cpac-ccrc.ca > Thought leadership publications 06/12/2019 > Audit quality indicators: Final report.

²⁸ www.frc.org.uk > publications > 20 May 2020 – AQI Thematic May 2020.

²⁹ www.IFIAR.org>Activities>InspectionSurvey.

³⁰ BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative and PricewaterhouseCoopers International Limited.

the file review findings of the FAOA compared with those of other oversight authorities shows that they are similar. 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 33%. 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 their local member firms must increase their efforts to improve audit quality and eliminate recurring deficiencies permanently. In 2015, IFIAR reached an agreement with the six largest audit firms to meet this goal. This stipulated 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 selected member authorities. This target was not quite met, as IFIAR's 2019 survey indicates that the figure was only cut by 21% to 31%. A second initiative has therefore also been agreed between IFIAR and the six largest global audit firms, whereby 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 member authorities that have voluntarily signed up to this new initiative. The FAOA has also decided to take part.

Cooperation with stock exchanges

The FAOA coordinates its oversight activities with the SIX Exchange Regulation (SER) to avoid duplication. The FAOA focuses primarily on evaluating auditor compliance with legal and professional standards and only indirectly on accounting standards. SER is responsible for ensuring that companies listed on the Swiss stock exchange (SIX) comply with accounting standards. 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. Audit committees have a significant influence on audit quality. Contact with audit committee representatives is cultivated during inspections of state-regulated audit firms, while workshops for them and for investors are also held periodically. The most recent workshop was organised in 2019.

Standard setting

Swiss Auditing Standards

Companies preparing financial statements under the requirements of 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 an international accounting and reporting standard (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) (cf. FAOA Circular No. 1/2008).

However, the current SASs (from 2013) are mainly based on the ISAs from March 2009. There have since been significant changes to eleven ISA auditing standards,³¹ which have therefore not been adopted by the SASs. In connection with the extended audit report, FAOA Circular No. 1/2015 rendered the 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 KAMs in the audit report (cf. FAOA Circular No. 1/2015). The FAOA welcomes the developments that the ISAs have since undergone, as their implementation improves audit quality.

EXPERTsuisse is currently planning to publish the updated SASs in the first quarter of 2022, which will be based on the ISAs as at December 2017. These new SASs are to be applied to audits of financial years ending on or after 1 July 2022. However, this means that there will once again be a gap between the ISAs and SASs³² when these new SASs are first applied, which will widen over time yet again.³³ The FAOA is currently weighing up various possible scenarios for closing the gap between the ISAs and SASs more quickly and is already in dialogue with the profession.

International Standards

IFIAR has submitted the following comment letters on various IESBA and IAASB proposals resulting from a coordinated internal process:

- In May 2020, IFIAR submitted a comment letter to IESBA on the drafts entitled «Provision of Non-Assurance Services (NAS) to an Audit Client» and «Proposed Revisions to the Fee-Related Provisions of the Code».
- IFIAR also sent the IAASB a comment letter in September 2020 on its draft of ISA 600 (Revised), «Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)».

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

The FAOA also took part in a July 2020 survey by the IAASB on the auditor reporting standards, which entered into force in 2015. The FAOA gave positive feedback on the «new» reporting standards as well as providing anonymous details of the recurring shortcomings it had observed in relation to KAMs. In addition, the

³¹ ISA 250, 260, 315, 540, 570, 610, 700, 701, 705, 706 and 720.

³² ISA 540 (Revised).

³³ Such as the quality management standards (ISQM 1, ISQM 2, ISA 220) or ISA 315 (Revised) and ISA 600 (Revised).

FAOA said that it would welcome information also being disclosed in the audit report about materiality, the scope of the audit and the risks of material misstatements due to fraud together with the associated audit procedures.

ISQM 1 is expected to replace the International Standard on Quality Control 1 (ISQC 1) in late 2022. The requirements for «Engagement Quality Reviews» are currently contained in ISQC 1 and the auditing standard ISA 220 and will be brought together in ISQM 2 in the future. The FAOA welcomes the latest developments on these standards as their implementation is set to further improve overall audit quality. As in the prior year, the FAOA tracked the progress made by the five largest audit firms with introducing or implementing these standards during the reporting year.

Points of focus for 2021 inspections

The FAOA has selected the following points of focus for the 2021 routine inspections of audit firms:

- Evaluation of the audit of fraud (ISA 240)
- Evaluation of the performance of external confirmations, primarily of bank balances (ISA 505)
- Evaluation of the audit of accounting estimates, including fair value accounting estimates, and related disclosures (ISA 540 (Revised))

The COVID-19 pandemic has had a major impact on businesses all over the world, due in particular to restrictions on production and trade and to changes in customers' buying behaviour. Economic uncertainty has also increased, e.g. in respect of more volatile asset prices and exchange rates and the cutting of long-term interest

rates in certain economies. These events can have a significant influence on estimates, while a rise in the number of accounting misstatements due to asset misappropriation is also likely. In addition, the crisis has particularly prompted many companies to change their employees' way of working (e.g. working from home) or carry out a restructure. This carries the increased risk of the control mechanisms that have proved their worth over time being easier to disable. Auditing estimates also requires particular professional scepticism since these are likewise exposed to an increased risk of manipulation. Furthermore, the FAOA also considers the auditing of the external confirmation process (primarily of bank balances) to be relevant in light of various financial scandals of recent times.

Other areas of focus are based on the individual analysis of the specific circumstances surrounding an audit engagement.



Regulatory Audit

Introduction and statistics

Besides acting as statutory auditors under the CO, state-regulated audit firms also work as regulatory audit firms and thus make an important contribution to Switzerland's dual system of financial market oversight.

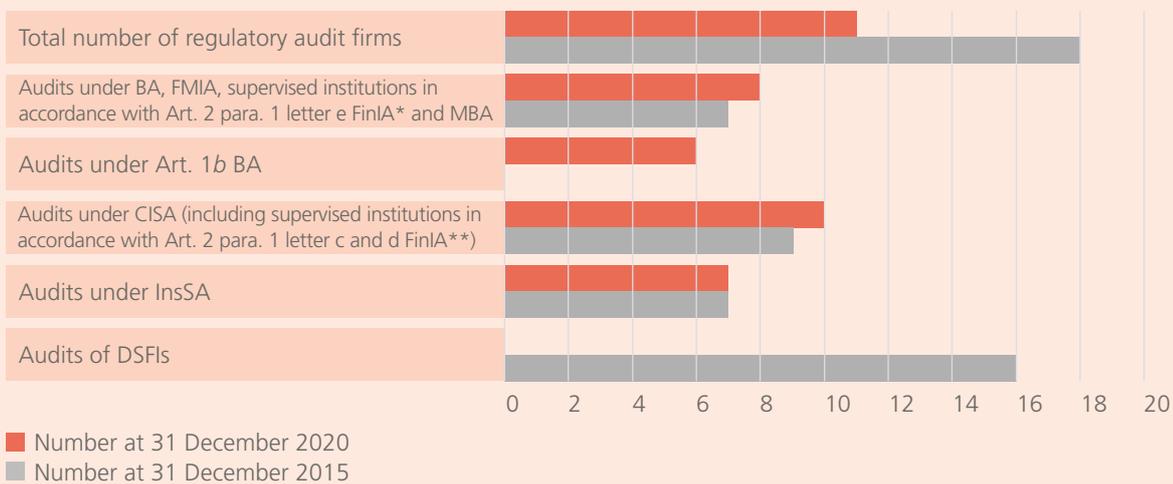
This unique status is associated with correspondingly high expectations of regulatory auditors in terms of their professional scepticism, adequate auditing and transparent reporting.

Whilst FINMA is responsible for the conditions underlying regulatory auditing, the FAOA ensures its quality.

The regulatory audit market has changed little in recent years. The three largest regulatory audit firms – PwC, EY and KPMG – continue to perform the vast majority of regulatory audits, though the FAOA believes there is lively competition between all regulatory audit providers for new audits being put out to tender.

Figure 11

Regulatory audit firms according to licence type in 2020 and 2015



* The «FinIA» category includes securities firms in accordance with Art. 2 para. 1 letter e FinIA (previously «securities traders»).

** This category also includes those supervised in accordance with Art. 2 para. 1 letter c and d FinIA (managers of collective investment schemes and fund managers). Kapitalanlagen sowie die Fondsleitungen).

A comparison with the situation in 2015, when the FAOA took over responsibility for overseeing regulatory audit firms from FINMA, reveals a marked reduction in the number of audit firms from 18 at the time to 11 at present. On closer look, it becomes clear that the fall is mainly due to audits of DSFIs being abolished with effect from 31 December 2019. This chiefly affected regulatory audit firms that specialised exclusively in auditing DSFIs and held no other licences for audits under financial market legislation. The numbers of providers of regulatory audits for banks, CISA institutions³⁴ and insurers have remained unchanged over the past five years.

Since 1 January 2019, the licensing of persons in accordance with Art. 1b BA (fintech companies) has created a new category, for which six regulatory audit firms and thirteen auditors-in-charge have obtained licenses to date. At FINMA, by contrast, only one supervised institution has so far been granted a corresponding fintech licence.

The market for regulatory audit services has also been similarly stable in terms of the number of institutions requesting regulatory audits. The trend over the past five years indicates that the wave of consolidation in the banking sector is flattening and

demand in the CISA segment is increasing slightly. The number of DSFI licences decreased steadily up until the end of 2019.

³⁴ The «CISA institutions» category also includes those supervised in accordance with Art. 2 para. 1 letter c and d FinIA (managers of collective investment schemes and fund managers).

Figure 12
Number of supervised institutions by regulatory area (excluding CISA institutions)

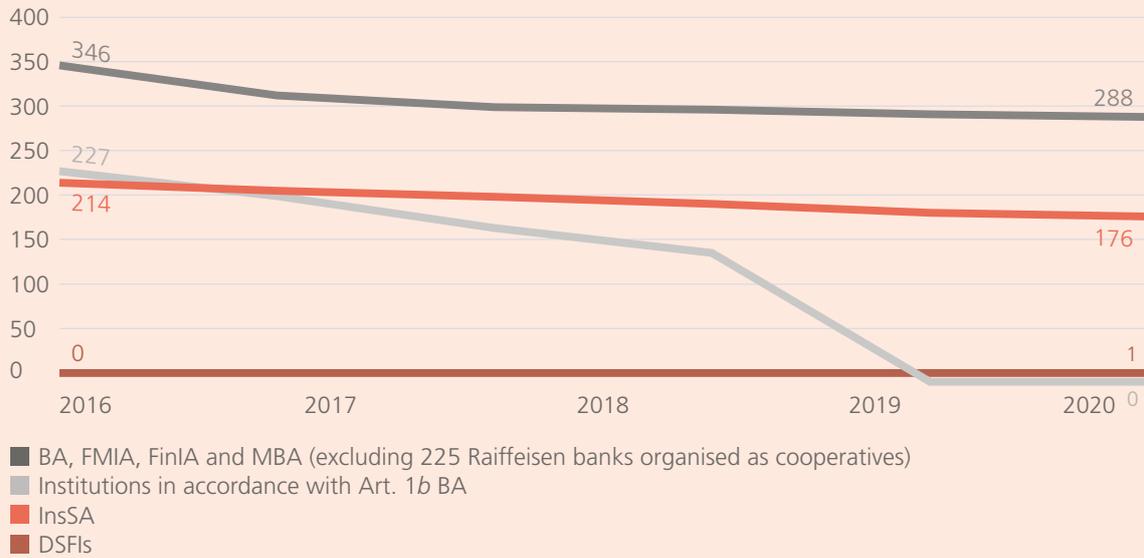


Figure 13
Number of supervised institutions by regulatory area (CISA institutions)



Regulatory auditing is based on principles. Although the FAOA supports this approach, it is finding more and more that a rules-based regulation system is becoming an increasingly popular idea in practice due to questions of interpretation. This is particularly noticeable in practice with regard to the

self-regulatory provisions, as explained in more detail below.

The section on the 2020 inspections lists the areas where quality has generally increased and where the FAOA was required to intervene. Looking back, the picture is mixed: hardly any

regulatory audit file reviews provide no grounds for findings whatsoever. Conversely, the extreme cases with a great many or very serious findings are becoming rarer.

Impact of FINMA's «Auditing» Circular

The terms of FINMA Circular No. 2013/3 «Auditing» were amended on 1 January 2019 as part of its new supervision system. Amongst other things, these amendments were geared towards reducing audit costs by around 30% by introducing an even more risk-based supervisory approach. The new approach presents the regulatory audit firms with a number of challenges if they are to maintain an adequate level of quality in their regulatory audits.

In this connection, EXPERTsuisse resolved to implement the abovementioned FINMA initiative with effect from 1 January 2020 as part of its revised audit practice statement 70 (PH 70). PH 70 was also added to the list of self-regulatory provisions recognised and approved by FINMA at more or less the same time. The regulatory audit firms have not yet implemented the new provisions in a timely manner or across the board, as the «Root cause analysis and measures» section below explains in more detail.

FINMA's new auditing provisions allow small banks in particular to opt for limited supervision with a reduced audit approach (the «small banks regime»). Under this regime, for instance, certain areas of auditing are now only covered every six years («moderate» net risk³⁵), while other areas are no longer audited at all by the regulatory audit firms («low» net risk). This approach accepts the fact that, over a lengthy period of time – in some cases years – serious problems and shortcomings at a supervised institution will go undetected by both the audit firm and FINMA.

The new audit frequency also provides a degree of predictability in terms of interventions by the regulatory audit firms and the supervision of small and medium-sized institutions. This should be compensated for by other forms of supervision so that adequate oversight of small institutions can continue to be guaranteed. The FAOA therefore believes that regulatory audit firms

should incorporate elements of unpredictability³⁶ when formulating their multi-year plans (risk analysis and audit strategy), following the same process as when auditing financial statements.

The risk analysis plays a decisive role in determining audit cycles (audit frequency and audit depth). In this context, the FAOA would make the point that the auditor's professional scepticism when assessing risks, particularly the control risk, is a key factor.

PH 70 stipulates extensive requirements on this issue and specifies the various situations in which the control risk is to be rated low, moderate or high. The FAOA sees one criterion as being particularly fundamental: the auditor's considerations on the adequacy and effectiveness of internal controls and on potential changes to the internal control system since the last intervention by the regulatory audit firm. The auditor's considerations on these points must be shaped by a significant degree of professional scepticism, and their assessments have to be understood by third parties. The FAOA notes that the considerations of auditors-in-charge relating to the development of risk analyses and audit strategies are underpinned by varying degrees of robustness, even within individual regulatory audit firms. As this is a key element in the new audit regime, the FAOA expects robust processes and consistent audit statements on this issue from all regulatory audit firms and individual auditors-in-charge.

PH 70 thus covers more and different aspects of the implementation of the new audit regime. These will have a significant impact on the performance of regulatory audits at various levels: planning, implementation and finalisation. In the future, the FAOA will focus in particular on how the regulatory audit firms implement the new provisions (gap analyses, adapting audit programmes, CPD, etc.).

2020 inspections

Eight³⁷ regulatory audit firms were inspected in the 2020 reporting year, five subject to an annual inspection cycle (as they audit more than 50 PIEs) and three with a three-year reporting cycle.

The quality of regulatory audit services was inspected by means of 17 file reviews, and the following categories of supervised financial institutions were selected:

- Nine banks, including three cantonal banks and one major bank involved in asset management
- Three asset managers
- Three fund managers
- Two insurers, both part of a systemically important company

³⁵ The net risk results from the combination of the inherent risk and the control risk in a particular area of auditing.

³⁶ elements of unpredictability.

³⁷ A further two audit firms at which the inspection fieldwork was completed are excluded from this year's annual report as the findings process is still at an early stage. Conversely, three inspections are included that had not yet made it into the Annual Report 2019.

Figure 14

Overview of completed FAOA regulatory inspections and number of findings in 2020

Categories	Five largest regulatory audit firms		Other		Total	
	2020	2019	2020	2019	2020	2019
Number of inspections	5	5	3	2	8	7
Comment Form Findings Firm Review Regulatory Audit	0	1	1	0	1	1
Comment Form Findings File Review Regulatory Audit	27	25	6	5	33	30
Number of inspected files	14	15	3	2	17	17

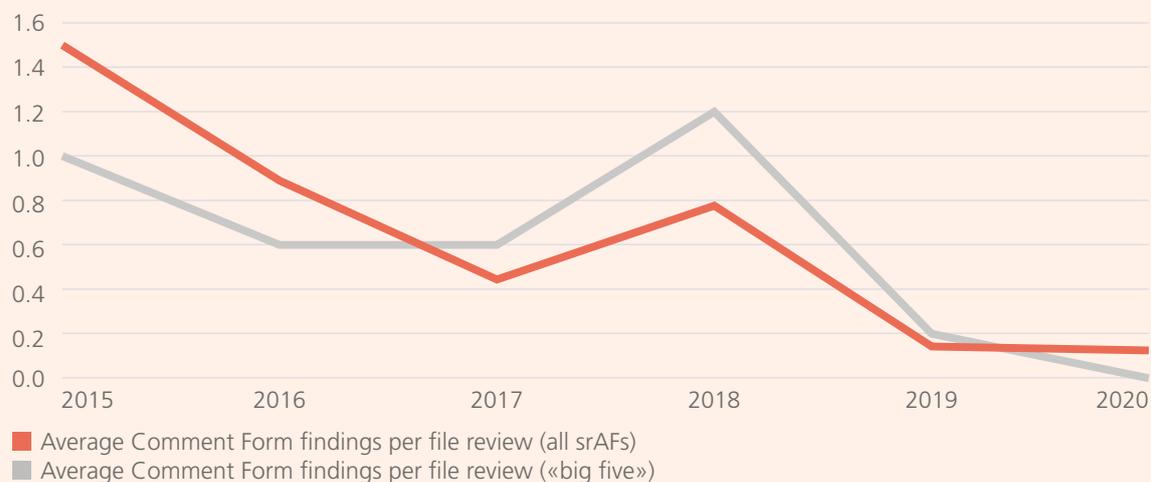
Firm Review

The 2020 firm reviews and the inspections that had not yet made it into the Annual Report 2019 gave rise to one finding relating to incompatibility when performing activities requiring a licence under financial market legislation.

There has been a positive trend in findings from firm reviews since 2015 amongst both the five largest and the other regulatory audit firms.

Figure 15

Trend in the average number of findings from firm reviews since 2015



File reviews

Similar to the statements made in the «Financial Audit» section (see above), audit quality in regulatory audit engagements is also heavily dependent on the auditors-in-charge engaged. Here too, up-to-date specialist knowledge is crucial.

The file reviews completed in 2020 and reviews from 2019 not included

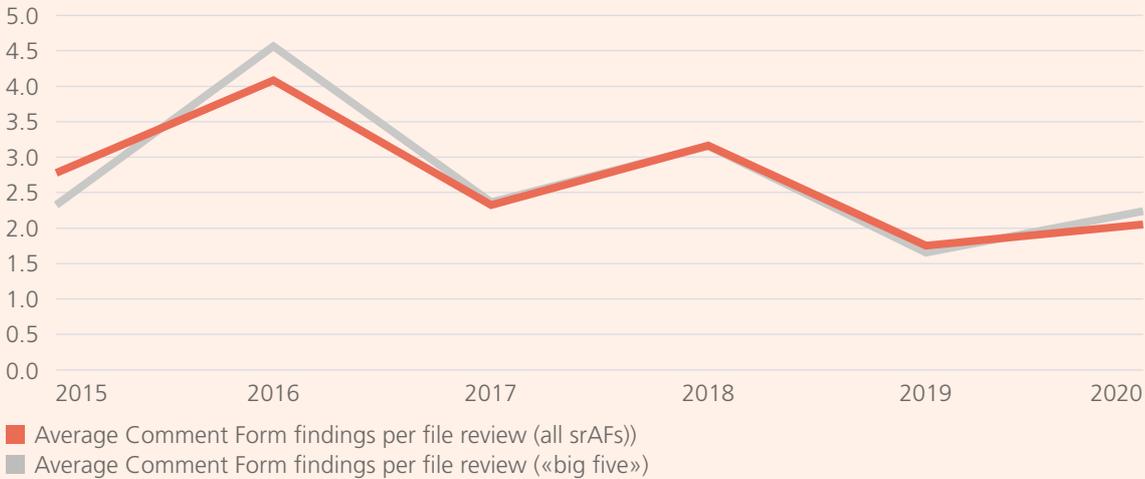
in the Annual Report 2019 generated 30 findings, for which tangible improvement measures were agreed with the regulatory audit firms concerned.

The trend in the average number of findings per file review indicates a slight improvement overall following the highs of 2016 and 2018. At over two findings per file, however,

the current average is still too high in the FAOA's view. It therefore expects regulatory audit firms and auditors-in-charge to strive even more to improve the quality of regulatory audits.

Figure 16

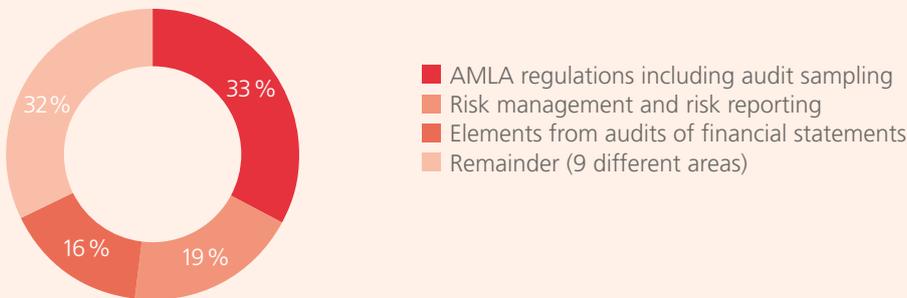
Trend in the average number of findings per file from regulatory audit file reviews since 2015



The file reviews gave rise to the following three types of finding, which made up more than two thirds of the total:

Figure 17

Recurring findings by audit area



The main shortcomings identified in the individual categories are detailed below.

Provisions of the AML

In what was more or less a repeat of the prior year, the following main weaknesses were observed in the auditing of efforts to combat money laundering:

Audit sampling is a tried-and-tested method for auditing business relationships and higher-risk transactions. In 2020, once again, audit work was seen to fall short of the requisite qual-

ity standards in several cases involving engagements of different sizes. The sample size was chosen based on the minimum levels stipulated by FINMA in most cases. There were also instances of no or too little account being taken of risk when selecting samples. Neither were identified errors critically assessed or included in regulatory reports.

Furthermore, it was observed that not enough critical attention was paid to the quality of the risk analysis³⁸ to be prepared by the financial intermediaries being audited in the run-up

to their audit. The impression often arises that preparing this document is seen as merely a formal exercise. Addressing the AML risks in detail

³⁸ Art. 25 para. 2 AMLO-FINMA: «The competence centre for combating money laundering or another independent body shall also prepare a risk analysis covering the aspects of combating money laundering and terrorist financing, taking account of the financial intermediary’s field of activity and the nature of its business relationships and paying particular attention to the location of the client’s domicile or registered office, the client segment and the products and services being offered. The risk analysis shall be approved by the board of directors or the highest-level executive body and updated periodically.»

– in terms of identifying, measuring and combating them – would create substantial added value as well as giving the regulatory audit firms a useful starting point for their audits.

Auditing «Know Your Customer» (KYC) information is the source of major problems. In some cases, the audits had not been carried out comprehensively or with the necessary due diligence. The origin of assets and the plausibility check of the subsequent in- and outflows must be assessed critically. Contradictory information in the client profile (KYC) and the associated statements from the institutions being audited were not scrutinised critically enough. No evidence was provided of professional judgement exercised or of the associated significant assessments.

Auditors also face regulatory obstacles when auditing the basic principle of KYC, however, as the specific requirements of audit procedures are not always regulated clearly in the applicable provisions. To improve the quality of AML auditing, therefore, it would make sense for FINMA to communicate its experience from its own inspections and its own expectations in this regard in a suitable format. The FAOA shares potential improvements with FINMA within the scope of inspections on an ongoing basis.

Risk management and risk reporting

The shortcomings identified in previous years also persisted in the areas of risk management and risk reporting. These mainly involve a combination of insufficient audit procedures and inadequate professional scepticism. With regard to risk reporting in particular, shortcomings were found in Test of Controls and Test of Details with regard to the key risk data. In many cases, the regulatory audit firms did not critically assess the data provided by the companies being audited critically enough or verify that it was reliable and complete. The FAOA believes that merely including management interviews and reviews of the risk reports of the supervised institutions without conducting any in-depth audits is in-

adequate in this area. Risk reports must be seen as a key piece of management information for the executive bodies of the company being audited and represent an essential management tool.

Elements from audits of financial statements

In several cases, shortcomings in regulatory audits were also identified that resulted from auditing financial statements. Examples include the valuation of properties in the case of real estate funds as well as regulatory elements relating to the auditing of mortgage or the institutions' capital planning. Depending on the circumstances, these shortcomings also illustrate how regulatory audits and audits of financial statements are closely linked. With smaller institutions, the FAOA does not believe that it always makes sense to separate the role of the auditor in charge of the regulatory audit from that of the auditor in charge of the audit of the financial statements as insights from the latter can generate synergy effects for the former.

Points of focus for 2020 inspections

The FAOA published its points of focus for the 2020 regulatory audit inspections in its Annual Report 2019 and examined these in detail in the reporting year.

The audit of risk management and of compliance with the provisions of the AMLA gave rise to numerous findings, which were also reflected in the above list of most frequent shortcomings.

Audits of internal organisation and the internal control system (including IT) revealed fewer findings. Evaluating the internal control system forms an integral part of numerous areas of auditing. Shortcomings with the audits of the presence and effectiveness of the financial intermediary's controls were identified in a few cases.

There are still the same signs of regulatory audit procedures being heavily focused on Test of Details. The FAOA believes that it would be more effective to apply control based audit procedures in many cases, as this would allow important insights to be gained into the quality of the structure and process organisation as well as internal control system in place at the companies being audited. Audit cycles of up to six years, as extended by FINMA, often make a substantive audit approach more attractive in the short term. However, it is precisely because the core audit areas of «Internal organisation and internal control system (ICS)» and «Information technology (IT)» are only covered gradually over a period of six years and it is up to the individual audit teams to decide on the audit depths. This does not encourage quality in the audits being carried out. Provided that the auditor does not identify any significant weaknesses, they may assume that, applying an audit depth of «negative assurance», the audit risks are adequately covered. In certain circumstances, therefore, these two audit areas might never be audited at «positive assurance» depth for years on end. These rules allow the auditor to adopt a passive attitude. This is the reason why, in most cases, a «negative assurance» approach in these audit areas (ICS and IT) is performed. The «negative assurance» approach does not include control testings. In this respect, the FAOA is critical of the idea behind of gradual coverage approach as ICS or IT weaknesses can usually be identified more expediently in process-based audits (controls testing).

Root cause analysis and measures

The FAOA has observed that the root cause analysis and its associated findings do not demonstrate the same quality and depth at all regulatory audit firms. Some regulatory audit firms tend to restrict their findings to simple problems in the documentation to avoid having to admit that the causes are more deep-rooted or must be

found elsewhere. However, the lack of documentation also means a lack of audit evidence («not documented, not done»). If audit evidence is missing, the auditor cannot be assumed to have carried out adequate and appropriate audit procedures.

An insufficiently thorough root cause analysis will mean that the measures put forward will often be incomplete and imprecise and will not address the deeper causes of the shortcomings identified. The FAOA is therefore often forced to clarify, reinforce and improve the measures being proposed, and not just at small- and medium-sized regulatory audit firms. The regulatory audit firms should also refrain from leaving it up to the individual audit teams to define the processes for conducting the root cause analysis and determine the corrective action to be taken – this should be done by a higher-level independent quality assurance body.

The shortcomings identified have many causes, and the following section focuses on the recurring ones. As previously, the FAOA's findings are often connected to shortcomings in professional scepticism. Verbal statements from top management and

employees as well as information produced by company, data and process reports presented are not sufficiently critically assessed or analysed comprehensively by the auditors.

In some cases, audit evidence from prior years is reused without the auditor critically assessing whether it is still adequate and appropriate for the current audit too. This should be established and critically appraised as part of quality assurance in order to ensure that any changes in the financial institution's organisational structure are discovered. A lack of involvement on the part of auditors-in-charge during the audit can also often be observed in practice. A prompt review could enable tricky issues to be spotted early and the audit evidence to be improved by the audit team.

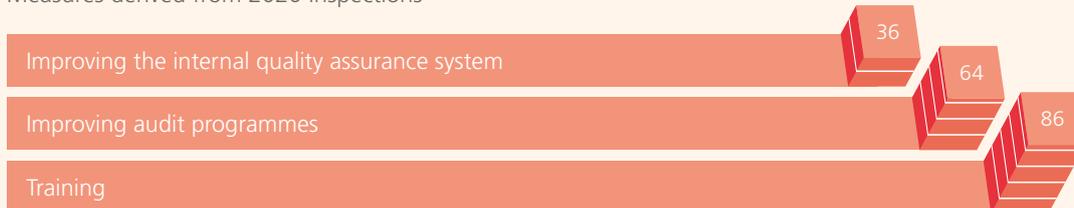
Inadequately defined audit programmes are a similarly frequent cause of findings (e.g. a lack of instructions for the audit teams). A number of regulatory audit firms are under persistently heavy pressure in this regard and are being required to overhaul their working paper templates and procedures, particularly in the current context of the implementation of PH 70. Some regulatory

audit firms have already made fairly good progress with introducing PH 70, while others still have a considerable need for action. The FAOA will therefore continue to pay great attention to the implementation of PH 70.

The figure below illustrates the most frequent measures associated with FAOA findings in 2020.

Figure 18

Measures derived from 2020 inspections



The most common measure – training staff at the regulatory audit firms – applies to nearly all inspections. The modifications to audit programmes in 2020 were due in particular to the amendments made in light of the new PH 70.

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. Five third-party notifications relating to the work of

state-regulated audit firms were received in the reporting year, with three of these prompting preliminary fact-finding.

Cooperation with FINMA

Regular dialogue between the FAOA and FINMA serves to reduce the administrative burden on the two authorities and on the regulatory audit firms, to create transparency for both sides and to help FINMA perform its supervision activities.

Cooperation between supervised institutions, including regulatory audit firms, and FINMA was stepped up in the reporting year with the addition of a new component, namely FINMA's online survey and application platform (EHP³⁹). This platform allows regulatory audit firms to enter planning and reporting data from e.g. bank audits directly and in a standardised way. The fact that risk analyses, audit strategies and regulatory reports are recorded systematically facilitates analyses and comparisons between individual regulatory audit firms, auditors-in-charge, financial years and institutions. This thus makes it much easier for the FAOA to take a risk-based approach to selecting files and points of focus for its inspections.

Points of focus for 2021 inspections

The FAOA has selected the following points of focus for the 2021 routine inspections of regulatory audit firms:

- Auditing risk management and

risk reporting (particularly structure and reviewing the content and completeness of compliance and risk reports).

- Auditing compliance with the provisions of the AMLA.
- Implementing PH 70 (especially planning, professional scepticism and due discretion, rules on random samples, reliance on Internal Audit, audit evidence and reporting).

The first two points of focus came as a result of findings identified by the FAOA in the reporting year. The FAOA believes that the latest developments in the field of preventing money laundering are highly significant. Not least in view of the pertinent money laundering scandals of recent times, the FAOA regards this as further justification to keep focusing on this area in its 2021 inspections as well. PH 70 establishes uniform basic criteria for all regulatory audit firms, and the FAOA will focus on monitoring compliance with it. Other areas of focus could be based on the individual analysis of specific circumstances.

³⁹ www.finma.ch/en/finma/extranet/ehp-survey-and-application-platform/

International

General

Despite the global Covid-19 pandemic, the number of requests for international administrative assistance in the reporting year has been relatively stable,⁴⁰ efficient collaboration with foreign oversight authorities thus remains key.

The reporting year was shaped by the FAOA's active involvement in IFIAR, which was due not least to Frank Schneider being its Chair. His term of office ended prematurely on his death with the then Vice Chair Duane DesParte (PCAOB Board Member) taking over as Chair.

Extra-territorial scope of the AOA

With the financial markets becoming increasingly internationalised, the AOA also applies outside Switzerland to protect investors on the Swiss capital market and in line with equivalent foreign legislation. The law thus requires foreign audit firms to be overseen by the FAOA if they audit foreign companies whose shares and/or bonds are listed on a Swiss stock exchange (Art. 8 AOA). This means that they also need to be licensed by the FAOA as a state-regulated audit firm.

To prevent different authorities exercising multiple oversight of the same audit firms, however, there are exceptions to the requirement for FAOA licensing and direct oversight. As far as possible, the oversight of foreign audit firms is transferred to the oversight authorities deemed equivalent by the Federal Council in the countries in which these firms have their registered office (cf. the list in Annex 2 of the AOO).

Relations with the European Union

Consequences of the UK leaving the EU (Brexit)

The United Kingdom of Great Britain and Northern Ireland (UK) left the European Union on 31 January 2020.

The EU-Swiss agreement on the free movement of persons of 21 June 1999 remained in force until 31 December 2020 as a result of the agreed transition process. The reciprocal rights that govern mutual market access for auditors ceased to apply on 1 January 2021. Individuals with a UK qualification can thus no longer be licensed as auditors or auditors-in-charge in Switzerland. Licenses issued by the FAOA on or before 31 December 2020 based on a UK qualification remain valid even though the free movement agreement no longer applies.

As things stand, neither the UK audit oversight authority (the Financial Reporting Council, FRC) nor the FAOA has identified any further negative consequences of Brexit on the MoU between the two authorities. The same applies to the Federal Council's recognition of oversight equivalence. Should the FRC be transformed into a new authority, however, as is currently being discussed in the UK, a new process for recognising equivalence would have to be instigated.

Cooperation with the USA

Joint inspections

The FAOA and the PCAOB had planned to launch the fourth cycle of joint inspections (2020–2022) by inspecting two out of the five Swiss audit firms registered with the PCAOB. However, the COVID-19 pandemic prevented the two inspections from being conducted on site, leading to them being postponed to the following years.

Relations with other states and organisations

As part of its strategic objective no. 8,⁴¹ the FAOA had planned to receive a delegation from the Securities Commission of the Republic of Serbia in cooperation with the Centre for Financial Reporting Reform (CFRR/World Bank). This technical meeting was postponed to 2021 in the wake of the COVID-19 pandemic.

Multilateral organisations

IFIAR

IFIAR's 2020 plenary meeting was due to be held as usual in late April. The event was to be organised by the FAOA and take place in Zurich. Due to the COVID-19 pandemic, however, this also had to be called off.

Despite the cancellation of the plenary meeting, which would have been entitled «Management of Audit Quality», it was possible to deal with most important agenda items via videoconference or in writing. These included a progress update from the IFIAR working groups and an interactive dialogue with top managers from the GPPC's six largest international audit networks.

All IFIAR's face-to-face meetings planned for 2020 were subsequently cancelled or held via videoconference. As a member, the FAOA took part in all board meetings and its subgroups.

The FAOA remained involved in the work of selected IFIAR working groups in the reporting year:

- Enforcement Working Group (EWG): the FAOA continues to chair this working group, which is geared towards expanding the specialist knowledge of IFIAR members by exchanging experiences of investigation proceedings and sanctions enforced on auditors and audit firms for their misconduct. In 2020, for example, the EWG organised a survey on access to working papers during investigation proceedings.
- Global Audit Quality Working Group (GAQWG): this working group focuses on the abovementioned dialogue with the GPPC's in-

⁴⁰ The FAOA received nine (prior year: ten) requests for administrative assistance in the reporting year, two from the USA, six from oversight authorities in the EU/EFTA and one from Asia.

⁴¹ Contributing to developing oversight instruments in other countries.

ternational audit networks. Several meetings with network representatives were held virtually in the reporting year due to the COVID-19 pandemic. Discussions focused in particular on measures to improve long-term audit quality, such as reducing the number of findings by 25% by 2023. The issue of technology was also debated

- Inspection Workshop Working Group (IWWG): this working group organises an annual workshop for inspectors from IFIAR member authorities, where they can exchange experiences and discuss topical issues from the world of financial audit oversight. The FAOA attended this year's workshop in the US city of Washington in February 2020.

As in prior years, IFIAR played a key role in the «Roundtable» on external audit organised by the Financial Stability Board (FSB), which was held virtually in September 2020. Frank Schneider made numerous contributions in his role as IFIAR's Chair. He also represented IFIAR at the meetings of the Monitoring Group and at bilateral talks with the Global Public Policy Committee (GPPC).

CEAOB

The Committee of European Audit Oversight Bodies (CEAOB) is the EU's coordinating body for intra-Union cooperation between national audit oversight authorities.

The FAOA retains observer status in the CEAOB Inspection Sub-Group (ISG), which is responsible for promoting the exchange of information and cooperation in the field of inspection activities and for improving communication with audit firms. This status also enabled the FAOA to attend the ISG's virtual meeting in late November 2020, which mainly focused on following up developments in the Common Audit Inspection Methodology (CAIM) project, approving the work plan for 2021 and obtaining updates from the various task forces (financial, IT, smaller regulators).

OECD: anti-corruption country examinations

The Organisation for Economic Co-operation and Development (OECD) and its Working Group on Bribery in International Business Relations (WGB) addressed Switzerland's tools for fighting the corruption of foreign officials in a country examination and as part of the «Phase 4 Follow-Up Report Switzerland» on 9 November 2020. This produced two auditing recommendations:

- On the subject of recommendations 15(a) and (b) – not implemented: Switzerland has not introduced any new measures to make it clear that external auditors are obliged to report any suspected actions relating to foreign bribery to the executive board and, as the case may be, to the company's supervisory bodies as well. Neither do the authorities have any plans to oblige external auditors to report the suspected bribery of foreign officials to the competent authorities (e.g law enforcement agencies).
- On the subject of recommendation 15(c) – not implemented: based on the information available, the training and awareness-raising measures organised by authorities and professional associations for external auditors focus ad hoc on issues relating to the corruption of foreign officials. However, there is no clear evidence of the specific issue being addressed. The same applies to publications by the relevant professional associations.

The FAOA and the professional associations involved have explained the legal situation in Switzerland to the OECD in detail. In a limited audit, it is indeed the case that neither the legislator nor the standards of the profession stipulate an explicit obligation to report breaches of the law (which, by definition, includes the bribery of foreign officials). In an ordinary audit, however, this reporting obligation does apply to the executive bodies of the company being audited, although the law does not include a list of all

conceivable breaches. Contrary to the WGB's assumption, there is also no international «best practice» that compels auditors to report breaches of the law to law enforcement agencies. The FAOA will address both recommendations and seek further dialogue with the professional associations involved if necessary.

Licensing

Introduction

While half of existing audit firm licences were renewed in 2019, with about 1,000 licence renewals, 2020 was once again an average year as far as the past five years are concerned, with around 370 licences renewed. The number of applications for new licences is also down slightly year on year amongst both individuals and corporate bodies. The FAOA believes this to be down to the uncertain economic situation caused by the COVID-19 pandemic.

Statistics

Licences

The figures in this report confirm the trend seen in prior years, namely that the number of licensed audit firms is continuing to fall. This trend is largely due to the many audit firms opting not to renew their licence for a further five years. With only a few existing audit firm licences set to expire, the FAOA expects the number of licensed audit firms to stabilise at its current level in 2021 and 2022.

The trend of the past few years amongst individuals also continued, with the FAOA seeing another slight year-on-year increase in the number of individuals being licensed. Also noteworthy is the fact that the legislator abolished the category of «DSFI-only state-regulated audit firm» with effect from 1 January 2020.

Figure 19

Licensed individuals and audit firms as at 31 December 2020⁴²

Licence type	Auditor	Audit expert	Total as at 31.12.2020	Total as at 31.12.2019
Individuals	2,667	7,229	9,896	9,664
Audit firms	620	1,434	2,054	2,144
State-regulated audit firms	–	21	21	20
DSFI-only state-regulated audit firms	–	–	– ⁴³	4
Foreign state-regulated audit firms	–	2	2	2
Total licences	3,287	8,686	11,973	11'834

During the reporting year, a total of 100 individuals were licensed as auditors and 266 individuals were granted a licence as an audit expert, either receiving their first licence or in response to an application to change licence type.

⁴² All figures refer to legally binding completed proceedings. Pending appeals have not been included.

⁴³ The category «DSFI-only state-regulated audit firm» was abolished with effect from 1 January 2020.

Figure 20

Types of qualification submitted by auditors newly licensed in 2020, expressed as a percentage



In 2020, the FAOA carried out an analysis to determine which qualifications were submitted most frequently by individuals applying for a

licence. This revealed that most newly licensed auditors were qualified fiduciaries with a federal VET certificate, trained financial and account-

ing specialists or graduates from a university or university of applied sciences.

Figure 21

Types of qualification submitted by audit experts newly licensed in 2020, expressed as a percentage



The vast majority of newly licensed audit experts submitted a qualification as a certified accountant. Over 11% held an equivalent foreign

qualification and were able to prove that they were entered in the auditors' register in their home country or would meet all the registration crite-

ria. Only relatively few newly licensed audit experts used the other qualifications in their applications.

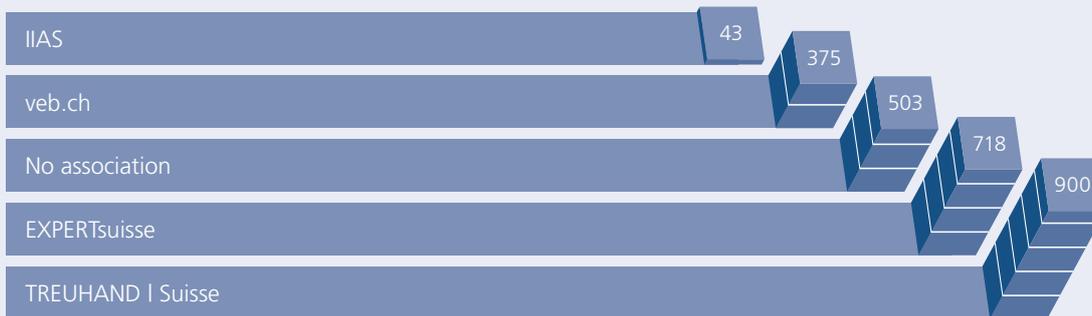
Membership of professional associations

Membership of one of the four relevant professional associations is not required in order to obtain a licence. However, both individuals and audit firms can publish their membership(s) in the FAOA's online register, which anyone can view.

The number of audit firms that are not members of any professional association continued to fall in the reporting year. Overall, the majority of licensed audit firms (76%) are members of at least one of the professional associations.

Figure 22

Professional association memberships⁴⁴ of licensed audit firms as at 31 December 2020

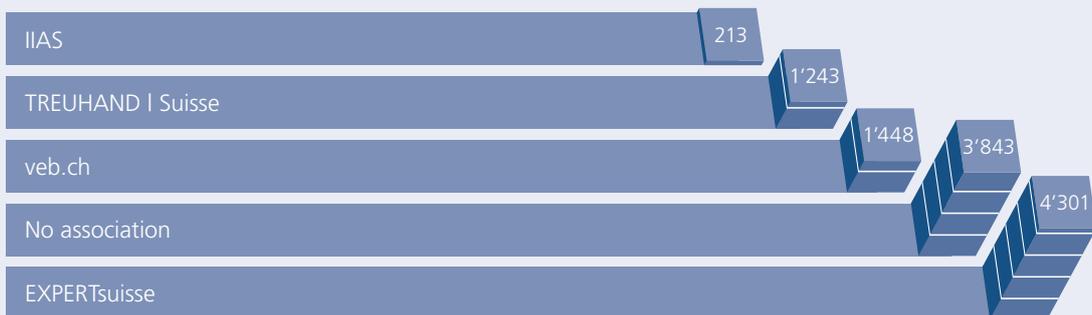


The FAOA views association membership in a positive light because an association's internal mechanisms are generally a more reliable way of maintaining continuing professional

development (CPD) for audit employees and ensure that the challenges currently facing the profession are tackled as part of the association's activities.

Figure 23

Professional association memberships⁴⁵ of licensed individuals as at 31 December 2020



Some 61% of the individuals licensed are members of at least one professional association. With a few more individuals licensed, the number of individuals holding membership of the professional associations also rose slightly year on year.

⁴⁴ Including multiple answers from individual audit firms with multiple professional association memberships.

⁴⁵ Including multiple answers from individuals with multiple professional association memberships.

Number of audits

At 487, the number of audit firms performing ordinary audits is virtually on a par with the prior year (489). Nearly 70% of these audit firms have up to five engagements for ordinary audits in total. Most of this group

have either one (34%) or two (28%) such engagements in their portfolio. The proportion with three (15.5%), four (13%) or five (9.5%) engagements for ordinary audits is relatively low.

Figure 24

Frequency of ordinary audits (data correct as at 31 December 2020)⁴⁶

Number of audit firms	2020	2019
1 to 5 ordinary audits	338	336
6 to 10 ordinary audits	68	79
11 or more ordinary audits	81	74
Total number of audit firms performing ordinary audits:	487	489

As in prior years, there has been a fall in the number of audit engagements declared. Only around a quarter of audit firms licensed as audit experts also actually have engagements for ordinary audits. Over 5% of all li-

censed audit firms currently do not have any engagements for either limited or ordinary audits.⁴⁷

Figure 25

Total number of limited (LA) and ordinary (OA) audits performed (data correct as at 31 December 2020)⁴⁸

Licence type	LAs	OAs	2020	2019
State-regulated audit firms	16,268	8,172 ⁴⁹	24,440	24,698
Other licensed audit firms	66,548	2,678	69,226	70,195
Total audits performed	82,816	10,850	93,666	94,893

⁴⁶ Information based on audit firm self-declarations.

⁴⁷ Information based on audit firm self-declarations.

⁴⁸ Information based on audit firm self-declarations.

⁴⁹ The deviation in the number of ordinary mandates compared to the previous year (9,093) is due to the change in the method for determining the number of mandates at a state-regulated audit firm.

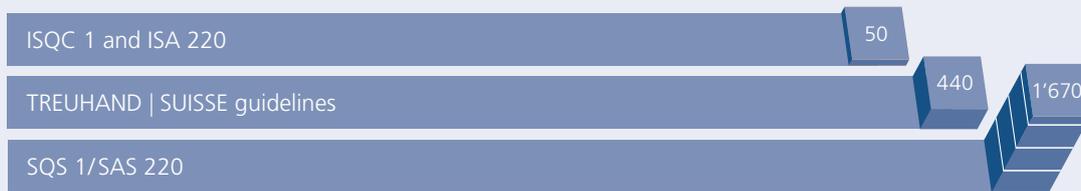
Internal quality assurance standard

The number of audit firms that apply the SQS 1/SAS 220 standards in their internal quality assurance has held steady despite fewer audit firms holding a licence. At the same time, the number of audit firms applying the quality assurance guidelines for SME audit firms has fallen by nearly 20%. The prior-year trend of audit firms

increasingly switching to SQS 1/SAS 220 thus continued in the reporting year. Over 70% of the audit firms that do not carry out ordinary audits also currently apply the SQS 1/SAS 220 QA standard.

Figure 26

Internal quality assurance standard applied (data correct as at 31 December 2020)



This matches the trend observable since as long ago as 2017:

Figure 27

Trend in quality assurance standards applied

Internal quality assurance standard applied	2017	2018	2019	2020
ISQC 1 and ISA 220	52	51	48	50
TREUHAND SUISSE guidelines	920	830	554	440
SQS 1 and SAS 220	1,717	1,746	1,662	1,670
Total (including where multiple standards are mentioned)	2,689	2,627	2,264	2,160

Internal quality assurance system

Since 1 October 2017 at the latest, all audit firms have been required to have an internal quality assurance system, including those firms in which only one individual holds a corresponding licence from the FAOA. A review of applications for licence renewal highlights the problems in terms of monitoring and CPD in particular (cf. the statements on enforcement):

Monitoring

The performance of annual monitoring, to be documented in a monitoring report, forms a key element of the internal quality assurance system.

A good-quality monitoring report will describe the monitoring procedures followed and include the results of the annual firm and file reviews. The shortcomings and resulting recommendations and measures are recorded in the report. At the same time, the monitoring process also reviews

whether the recommendations and measures from the prior year were implemented and had the desired effect. Even more than three years after the statutory obligation to run and document an internal quality assurance system entered into force, the FAOA is still finding isolated cases of monitoring reports not including firm and file reviews, not being produced on an annual basis or not being prepared at all as part of its review of audit firms' applications for licence renewal.

CPD

Amongst other things, the FAOA also looks into which measures and processes are used to monitor and document compliance with the professional associations’ CPD requirements internally. The FAOA reserves the right to also request tangible evidence of CPD if it has any grounds for suspicion. If an audit firm ensures that the provisions of the CPD regulations laid down by EXPERTsuisse or TREUHAND | SUISSE (30 hours or four days respectively of CPD a year on average, excluding self-study) are complied with, monitored and documented for all persons with an FAOA licence, regardless of their role, full-time equivalent status or

activity, then the FAOA will deem the requirements in respect of the CPD obligation to have been met. Any monitoring of internal CPD must be dated and signed, including by audit firms not affiliated with a professional association.

In the reporting year, the review of licence renewal applications showed once again that, in some cases, compliance with the CPD regulations is still not being systematically monitored and this monitoring is not being documented every year. The FAOA also encounters isolated instances of companies that are ignoring CPD requirements entirely.

Depending on the severity of the breach, shortcomings in quality assurance result in the FAOA ordering appropriate corrective action, issuing a reprimand to the guilty audit firm at the firm’s cost, or declining to renew its licence, either without any gaps or at all.

Licence renewal

The licences held by some 500 audit firms expired in 2020.

Figure 28

Number of licence renewals granted in 2020 (data correct as at 31 December 2020)

Licence type	Auditor	Audit expert	Total 2020	Total 2019
Audit firms	121	250	371	1,009
State-regulated audit firms	–	–	– ⁵⁰	7
Total licence renewals	121	250	371	1,016

Most firms interested in renewing their licence submitted the relevant documents by the deadline. The number of audit firms voluntarily waiving their licences accounted for some 27% of the firms affected in 2020. Such serious deficiencies were identified at around 25 audit firms after

they had submitted their applications that their licences could not be renewed on time. Roughly 20 of these firms were able to rectify their shortcomings and obtain a new licence after what was generally only a brief interruption. As regards the remaining firms, either their application was

withdrawn after their current licence expired, their renewal application was rejected or their application was still pending as at 31 December 2020.

⁵⁰ In accordance with Art. 7 para. 3 AOA, the licences granted to state-regulated audit firms have been for an unlimited term since 1 January 2020.

Special licences

At the end of 2019, a total of 29 auditors-in-charge had been licensed to audit DSFIs. The legislator abolished this category with effect from 1 Janu-

ary 2020 without replacing it. Despite levels remaining steady in the other four categories, this abolition reduced the number of special licences held by auditors-in-charge from 259 to 237.

Figure 29

Regulatory auditors-in-charge by special licence type (data correct as at 31 December 2020)

Licence type	Total regulatory auditors-in-charge as at 31.12.2020	Total regulatory auditors-in-charge as at 31.12.2019
Audits under BA, FMIA, FinIA ⁵¹ and MBA	118	116
Audits under CISA ⁵²	68	68
Audits under InsSA	38	38
Audits of DSFIs	–	29
Audits under Art. 1 <i>b</i> BA (fintechs)	13	8
Total licences	237	259

Created in 2019, the special licence for auditing companies in accordance with Art. 1*b* BA – the «special fintech licence» – resulted in an increase in the number of auditors-in-charge in the reporting year. Licence numbers also increased at the regulatory audit

firms, rising by three year on year. This means that six audit firms now hold a special fintech licence. The numbers of special licences in the «BA, FMIA, FinIA and MBA», «CISA» and «InsSA» categories remain largely unchanged on the prior year amongst both au-

ditors-in-charge and regulatory audit firms. A total of eleven state-regulated audit firms hold special licences.

Figure 30

Regulatory audit firms by special licence type (data correct as at 31 December 2020)

Licence type	Total regulatory audit firms as at 31.12.2020	Total regulatory audit firms as at 31.12.2019
Audits under BA, FMIA, FinIA and MBA	8	8
Audits under CISA	10	10
Audits under InsSA	7	7
Audits of DSFIs	–	11
Audits under Art. 1 <i>b</i> BA (fintechs)	6	3
Total licences	31	39

⁵¹ The «FinIA» category includes securities firms in accordance with Art. 2 para. 1 letter e FinIA (previously «securities traders»).

⁵² This category also includes those supervised in accordance with Art. 2 para. 1 letter c and d FinIA (managers of collective investment schemes and fund managers).

Enforcement and court rulings

Enforcement

A total of eleven licence applications were rejected in the reporting year (prior year: two). Nine individuals and companies withdrew their applications or surrendered their licences during ongoing proceedings (prior year: six). In addition, two licence withdrawals were imposed (prior

year: four) and 120 reprimands issued (prior year: 68). No criminal charges due to the suspected provision of audit services without an FAOA licence were filed in 2020 (prior year: two).

The continued increase in reprimands is due partly to the large number of licence renewals for (non-state-regulated) audit firms (cf. the introduction

to the «Licence» section above) and partly to the 22 written reprimands issued to individuals in the reporting year (prior year: two).

Figure 31

The 98 reprimands issued to audit firms break down as follows:

Description of shortcomings	Anzahl
Shortcoming in one area	
Shortcomings in the monitoring process	54
Shortcomings in enforcing CPD regulations	17
Late introduction of QA system	5
Breach of statutory quorums	4
Shortcomings in QA system documentation	3
Shortcomings in the independence monitoring process	1
Shortcoming in the requirements for maintaining a regulatory audit firm licence	1
Shortcoming in two areas	
Shortcomings in the monitoring process and in enforcing CPD regulations	5
Shortcomings in the monitoring process and late introduction of QA system	3
Shortcomings in the monitoring process and in QA system documentation	2
Verletzung der gesetzlichen Quoren und Mängel im Nachschauprozess	2
Shortcoming in three areas	
Breach of statutory quorums, shortcomings in the monitoring process and shortcomings in enforcing CPD regulations	1
Total	98

Insofar as the weaknesses identified were rectified, the audit firm in question was given the reprimand mentioned and relicensed.

Court rulings

The Federal Administrative Court ruled on five appeal cases involving the FAOA and licensed individuals or firms in 2020. It also ruled on three other appeals relating to access to of-

ficial FAOA documents in accordance with the Freedom of Information Act. The Federal Supreme Court did not issue any relevant rulings. The most important deliberations are summarised below.

[Federal Administrative Court Ruling No. B-2332/2018 of 11.3.2020](#)

The auditor-in-charge (a licensed audit expert) is a member of the board of directors and the management at an audit firm as well as being an

employee in the Audit department. In 2017, this firm assumed responsibility for conducting an ordinary audit of a company's annual financial statements for 2016 and subsequent years. In the same year, the audit firm acquired the shares in another company that carried out various accounting, payroll and tax services on behalf of the first company, likewise in conjunction with the 2016 financial year. Negotiations concerning the purchase of the shares had begun before

the audit engagement was accepted, and the purchase had been completed before the date on the audit report. After the FAOA's administrative proceedings against the auditor were instigated, this second company stopped providing its services to the company being audited. The FAOA withdrew the auditor-in-charge's licence for two years as it believed that this arrangement violated the provisions on independence (breach of the ban on self-auditing in accordance with Art. 728 para. 2 no. 4 CO).

The FAC upheld the breach of the provisions on independence. Based on the most recent rulings by the Federal Supreme Court (which came after the order being challenged in this particular case), however, it decided that a reprimand would be more proportionate than withdrawal of the licence. This was argued based on the fact that the breach was deemed to be moderately severe and only related to a single engagement and that the person concerned took the necessary measures to avoid any further breaches before the FAOA decided to withdraw their licence.

[Federal Administrative Court Ruling No. B-3781/2018 of 8.6.2020](#)

The auditor-in-charge (a licensed audit expert) prepared two reports on limited audits on behalf of an audit firm. The FAOA's inspection of working papers revealed numerous breaches of the Standard on Limited Audits. The documents were missing the auditor's considerations on their understanding of the company being audited, on materiality, on the outcome of the analytical review and on the inherent risks. Furthermore, there was a lack of information on the audit programme including the individual audit procedures, the misstatements uncovered and the measures for rectifying them or assessing audit evidence. The principle of independence was also violated: the person who signed the audit report together with the appellant had also been involved on the accounting side and had performed other services (VAT statements and tax returns) on behalf

of the company being audited, thus running the risk of auditing their own work. In the FAOA's view, breaches of this kind justify withdrawing the auditor-in-charge's licence for three years.

The FAC upheld the breaches of the Standard on Limited Audits and the provisions on independence as well as the duration of the licence withdrawal, considering the appellant to have failed in their duties as auditor-in-charge. On the independence question, the court ruled that the co-signing of the audit reports justifies the assumption that the co-signatory had been involved in the auditing and thus had indeed audited their own work. With regard to the appellant's argument that the breaches were standard practice at their audit firm and were due in particular to a lack of time and money, the court ruled that any internal organisational shortcomings did not attenuate either the auditor-in-charge's misconduct or their personal accountability.

[Federal Administrative Court Ruling No. B-6020/2019 of 27.10.2020](#)

When renewing an audit firm's licence as auditor, the FAOA established that the monitoring process as part of the internal quality system had not been carried out for 2014–2016 and that the monitoring for 2018 had been performed late (the report was written on 12 March 2019). The audit firm had claimed that it had followed the TREUHAND | SUISSEE quality assurance guidelines for small and medium-sized audit firms since 2014. The FAOA issued the audit firm with a reprimand, which was appealed to the FAC.

The court considered that, rather than explicitly requiring either monitoring or the obligation to prepare a report on it, the version of the abovementioned guidelines valid for 2014–2016 (version dated 4 September 2008) merely called for a periodic review of the internal quality system by means of regular updates to the quality assurance manual. In these circumstances, the audit firm could not be accused of neglecting its monitoring or the corresponding reports. With regard to the

late monitoring for 2018, the court considered that, although the version of the guidelines dated 27 June 2017 envisaged monitoring being performed annually (including preparing a report), it contained no specific details about when this was to be completed by. If the primary objective of an internal quality assurance system is to ensure the quality of audit services, the point in time by which the monitoring report is to be completed cannot be the sole determining factor for whether or not the audit firm ensures the quality of its auditing. The court could find no evidence that the monitoring report dated 12 March 2019 was not adequate for ensuring audit quality. As the court could not identify any violation on the part of the audit firm, it upheld the appeal and rescinded the FAOA's reprimand.

[Federal Administrative Court Ruling No. B-646/2018 of 30.11.2020](#)

The auditor-in-charge (a licensed audit expert) had not carried out any limited audits or prepared audit reports for a limited-liability company (GmbH) for around four years. The auditor were not provided with the sets of annual financial statements. The FAOA instigated proceedings against the auditor-in-charge after being informed by a third party. It discovered that the auditor had failed to comply with their due diligence obligations by not taking any tangible action as a result of the lack of annual financial statements (e.g. terminating their engagement, convening an extraordinary general meeting of shareholders or stating the impossibility of issuing an audit opinion in their audit report). Neither did they spot that the company being audited was clearly in excessive debt (as the sets of annual financial statements submitted by the informant made clear) or take any corresponding action. The provisions on independence were also breached in that the auditor-in-charge was a close friend of the sole shareholder and managing director of the company to be audited. The FAOA therefore withdrew the auditor-in-charge's licence for three years.

In its ruling, the FAC upheld the breach of due diligence obligations on account of the failure to perform any audit work during the roughly four-year term of the engagement. The auditor-in-charge had thus failed in their auditing and reporting duties (Art. 818 para. 1 in conjunction with Art. 729a and 729b CO). A diligent auditor would have taken the abovementioned action. However, the court rejected the two other accusations. As the auditor-in-charge had never been shown any accounting documents or annual financial statements, they had been unaware of the company's actual financial situation and could thus not be accused of having overlooked its clear overindebtedness. This accusation is an inherent part of the first accusation. Neither could the court find any evidence that the provisions on independence were breached: no close relationship can be determined based on the appellant's written statements, which were alleged to demonstrate close contacts (even friendly in parts) with the sole shareholder and managing director of the company being audited, as email correspondence and chat messages on file indicate that relations between the two had soured over the years. In view of the abovementioned aspects, the court ruled that a two-year withdrawal of the auditor's licence was proportionate.

[Federal Administrative Court Rulings No. B-1109/2018, 709/2018 and 6115/2019 of 16.12.2020](#)

In the first case, a pension scheme requested that the FAOA allow it to access the files for a set of enforcement proceedings against an individual. Invoking the Freedom of Information Act (FoIA), it argued that it needed this access in order to furnish evidence in a pending liability lawsuit against its former statutory auditor that this auditor had committed a gross dereliction of duty.

The FAOA refused access to its files with the justification that it was only permitted to disclose information about ongoing and completed proceedings if overriding public or pri-

mate interests required it. As a special provision (*lex specialis*), the relevant provision in Art. 19 para. 2 AOA takes precedence over the FoIA. The FoIA is not applicable in any case because the party making the request is required to submit the corresponding request for disclosure as part of the ongoing liability lawsuit.

The FAC thus rejected the appeal filed against this decision. The FAOA's official secrecy correlates with the obligation of statutory auditors to maintain confidentiality in auditing, which is protected under criminal law. This systemic context makes it clear that the FAOA, like FINMA with regard to bank-client confidentiality, is always subject to a very strict obligation of official secrecy in respect of all information or documentation that it receives from entities that it oversees.

Even if the provision in Art. 19 para. 2 AOA were not to be considered a *lex specialis*, details of administrative or criminal prosecutions and punishments still qualify as sensitive personal data and may only be disclosed if there is an overriding public interest in their disclosure.

«Overriding public interest» can exceptionally apply: if disclosure serves a particular informational interest on the part of the general public, especially due to important events; if disclosure serves to protect specific public interests, especially the preservation of public order and security or public health; or if the person whose privacy could be infringed by the disclosure is in a de jure or de facto relationship with an authority subject to the FoIA and derives significant benefits from this relationship. The court did not believe that any of these reasons applied, hence there was no overriding public interest.

According to the statements by the court, the private interest of the entity being overseen is deemed to be «overriding private interest», not the private interest of a third party requesting access to the information. As the pension scheme would also

be able to request a judicial opinion within the ongoing liability lawsuit itself, its interest in accessing the files from the FAOA's enforcement proceedings was purely financial in nature and thus was not to be considered an overriding private interest.

The second case involved a journalist, likewise invoking the FoIA, who requested access to the report on the FAOA's ad hoc inspection of an audit firm and to the associated written reprimand issued to an individual so that the story could be published in the media. The FAOA denied this access.

In a similar fashion to the first case, the court concluded in its response to the subsequent appeal that no overriding public or private interest applied. However, its considerations went further than in the first case and stated that the persons affected are to be consulted if a re-request concerns documents containing their personal data. Although it is highly unlikely that these persons would grant their consent, their views are nevertheless required to be heard in advance. The appeal was thus partly upheld and the matter returned to the FAOA so that it could give the persons affected the opportunity to comment and then make a new decision concerning the access request.

In the third case, two companies – again invoking the FoIA – requested access to the report on the FAOA's ad hoc inspection of an audit firm on its auditing of the consolidated and annual financial statements of the parties making the request. The FAOA declined this request too.

The FAC ruled in the same way as in the first and second cases. As the two companies were investigating liability claims against their former statutory auditor, they were ultimately interested in gathering evidence to help them weigh up their chances of successful legal action before taking any and to use in their potential liability lawsuit. Their interest was thus purely financial and not an overriding private interest.

Other rulings of interest

[Federal Supreme Court Ruling No. 6B_1175/2019 of 2.3.2020](#)

In this appeal, the Cantonal Court of Fribourg had ruled that the control board of a pension fund had committed a serious dereliction of duty. Specifically, it had made inadequate estimates of the inherent risk of financial investments made by the manager responsible for asset management, performed inadequate auditing and failed to demonstrate adequate care and vigilance. At no point had the pension fund's board of trustees been notified that the manager had invested between 75% and 81% of the fund's assets in a company established under British Virgin Islands law that had subsequently been converted into a professional investment fund. Neither had the board of trustees' attention been drawn to the conflict of interest resulting from the fact that the company in question was managed by the self-same manager. The cantonal court held the person who had carried out the bulk of the audit procedures responsible for these circumstances. Although this person was neither the auditor-in-charge nor licensed by the FAOA, they had been involved in all audit procedures together with a licensed audit expert and had assumed primary responsibility on site. Even though the person concerned could not be held liable as the principal offender, the criminal-law provisions of the Act on Occupational Old Age, Survivors' and Invalidity Pension Provision required them in the cantonal court's view to be sentenced as a joint offender to a fine equivalent to 120 times their daily rate (CHF 800.–/day), suspended for two years.

In its response to the subsequent appeal, the FSC established that the control board, led by the auditors-in-charge (licensed audit experts), had failed to comply with its due diligence obligations because the auditors had limited their involvement to signing the reports put in front of them. However, the FSC also considered that the lower court had not

identified any actual or contingent intent to violate the statutory auditor's obligations. If a person can only be found guilty for the version of a deed committed with intent (unless the law explicitly stipulates otherwise, although this was not the case here), it follows that the control body cannot be convicted. It therefore could not be convicted as a joint offender either. The FSC thus upheld the appeal by the person affected and overturned the cantonal court's ruling in this aspect.

[Summary penalty order issued by the public prosecutor's office for the canton of St. Gallen on 13.7.2020](#)

A licensed auditor had prepared 53 reports on company formations and capital increases, including six after 1 January 2015. An expert opinion demonstrated that the audit work had been performed incorrectly or inadequately with regard to the auditing standards applied. The public prosecutor's office for the canton of St. Gallen thus served the auditor with a summary penalty order imposing a fine of CHF 1,200.– (plus CHF 300.– in legal costs). This sentence was based on the application of Art. 40 para. 1 letter abis Auditor Oversight Act (AOA, SR 221.302). This provision did not enter into force until 1 January 2015 and states that any person who makes false statements or conceals material facts in an audit report, a regulatory audit report or an audit certificate on material facts will be punished with up to three years' imprisonment or a fine. If the person acted negligently, the fine can be up to CHF 100,000.–.

Pension scheme audits

Greater public interest

A pension scheme is essentially an insurance company that covers the risks of old age, death and disability («pension insurance»). Switzerland is home to more than four million people who are actively insured in this way and who pay monthly contributions together with their employers.⁵³ They are joined by over a million holders of old-age pensions worth some CHF 38 billion a year. The 1,500 or so pension schemes currently manage over a trillion Swiss francs.

By their very nature, the auditors of these pension schemes play an important role in providing assurance. Firstly, they ensure through their audits of financial statements that a scheme's financial reporting complies with the applicable regulations and thus make sure that the various stakeholders (board of trustees, supervisory authorities, occupational pension experts, insureds, etc.) obtain a reliable insight into the scheme's financial situation. Secondly, auditors also perform many other audit procedures specific to the world of occupational pensions. As a basic principle, this sees them performing the same role as in a regulatory audit as part of their supervision of private-sector insurance companies. This indirect or delegated supervision of pension schemes by auditors thus makes a key contribution to the stability of and trust in the occupational pension system. This system also includes an increasing number of «systemically relevant» institutions as a result of the trend towards ever-larger joint and collective institutions, some of which have complex structures and are in competition with one another.⁵⁴

This greater importance accorded to auditing in the sector means that high expectations are being made of audit quality and ensuring the quality of audit services for pension schemes, something that is very much in the public interest.⁵⁵

State-regulated audit firms and oversight of pension schemes

Unlike with the oversight of private-sector insurance companies, the

auditors of pension schemes are essentially not subject to any (ongoing) oversight. As a basic principle, therefore, the FAOA can only assess audit quality for pension schemes if there are suspicious circumstances and when assessing whether individuals are guaranteeing proper audit services. There are two exceptions to this principle:

- One explicit exception involves the auditing of investment foundations, which are required to appoint a state-regulated audit firm as their statutory auditor.⁵⁶
- The second exception applies to pension schemes that have appointed a state-regulated audit firm as their statutory auditor. The FAOA conducts institutional oversight of these audit firms rather than restricting itself to engagements for public-interest entities.

Although the FAOA's oversight covers audit firms that provide auditing services for PIEs and thus hold a licence as a state-regulated audit firm,⁵⁷ there is a need to distinguish between the question of having to undergo oversight and the question of the scope of that oversight. For instance, the law does not limit this oversight to PIE engagements, either directly or indirectly. Based on a teleological interpretation of the law, whether an audit engagement concerns a pension scheme or a public-interest entity is irrelevant in the event of a shortcoming in how this engagement is conducted. If auditing shortcomings are identified in an engagement for a pension scheme or even an SME, it cannot be assumed that these do not occur amongst PIEs as well. Furthermore, in the case of audit firms that have submitted to oversight voluntarily, the FAOA also inspects audit services for companies that are not PIEs.⁵⁸ As far as the law is concerned, therefore, the FAOA's oversight is not restricted to PIEs.

Looking at the market, it must also be borne in mind that around two thirds of pension schemes have appointed a

state-regulated audit firm,⁵⁹ probably expecting, amongst other things, that it would be subject to institutional oversight by the FAOA. Otherwise, there is a considerable expectation gap on the part of stakeholders connected with the pension scheme and in the public sphere.

Breaches of due diligence obligations

The FAOA handled a total of ten cases of potential breaches of due diligence obligations in audits of pension schemes in the reporting year, five of which are still ongoing.⁶⁰

In one case, the FAOA issued the person in charge of audit services with a written reprimand because they had merely held an auditor licence at the time their report was submitted. In another, the FAOA ordered legal compliance to be restored but stopped short of imposing any enforcement measures. In three other cases, the breaches were of minor importance, meaning there was not sufficient justification to open proceedings.

⁵³ On this and the following section, cf. Federal Statistical Office (FSO), Pension funds statistics 2019 (provisional figures).

⁵⁴ FSO, Pension funds statistics 2018, 7 ff.; TISCHHAUSER, Führung unter Aufsicht – Praxisbericht BVS, Der Risikodialog mit der Aufsichtsbehörde, SPV 03/2018, 47.

⁵⁵ Cf. FSC Ruling No. 2C_860/2015 of 14 March 2016, E. 5.3.

⁵⁶ Art. 9 IFO.

⁵⁷ Art. 7 in conjunction with Art. 2 letter c AOA.

⁵⁸ Art. 33 para. 1 AOO.

⁵⁹ Source: FAOA, analysis of the data in the direct supervisory authorities' register of pension schemes and the data in the commercial register.

⁶⁰ In another case, the FAOA ordered the two-year withdrawal of the auditor-in-charge's licence during the reporting year due to serious auditing shortcomings; however, this case was already mentioned in the Annual Report 2019 (p. 49).

Need for regulation

Even though only just over a third of pension schemes have not appointed a state-regulated audit firm as their auditing body, the FAOA considers it to be alien to the system if audits of pension schemes are not treated in the same way as those of private-sector insurance companies.⁶¹ This is all the more pertinent given that much of the supervision in the occupational pension sector is delegated to auditors without the occupational pension supervisory authority that is doing the delegating being able to gauge the quality of the auditing underlying the auditor's reports.

In the FAOA's view, therefore, it is appropriate to subject the auditing bodies at least of larger pension schemes to risk-based oversight.⁶² In addition, a special licence that builds on a basic FAOA licence would have to be introduced for the audit firms and their auditors-in-charge under such a system. These two measures would improve the protection afforded to holders

and recipients of 2nd-pillar pensions. The Federal Council essentially comes to the same conclusion in its report of 30 November 2018 on the «Ettlin» postulate.

As part of the follow-up work for the Ochsner/Suter expert report, the Federal Council has therefore tasked the FJPD, in cooperation with the FOJ, the FAOA, the OPSC and the FSIO, with investigating in detail to what extent the legislator actually needs to act (cf. «Regulatory developments» and «Current projects» above).

⁶¹ Cf. the comments in the FAOA's Annual Reports from 2016 (p. 46), 2017 (p. 40), 2018 (p. 39) and 2019 (p. 47 ff.); cf. also SCHNEIDER / DEVAUD / OFFERGELD, Die Revision von Vorsorgeeinrichtungen aus dem Blickwinkel der RAB, in: EXPERTfocus 2020, 771 ff., 774.

⁶² Cf. here too the comments in the FAOA's Annual Reports from 2016 (p. 46), 2017 (p. 40), 2018 (p. 39) and 2019 (p. 49).

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 FDJP	
Registered office	Berne	
Representative bodies of the FAOA	Board of Directors	<p>Wanda Eriksen, Masters in Accounting Science, Swiss Certified Accountant, US CPA (Chairman)</p> <p>Sabine Kilgus, PD Dr., lawyer (Vice-Chairman)</p> <p>Conrad Meyer, Prof., Dr.</p> <p>Daniel Oyon, Prof., Dr.</p> <p>Viktor Balli, Chemical Engineer ETH/Economist HSG</p>
	Executive Board	<p>Frank Schneider, Chief Executive Officer, Executive MBA ZFH, Swiss Certified Accountant (until 5 October 2020)</p> <p>Reto Sanwald, Head of Legal & International, Dr. iur., Attorney at law, Executive MBA HSG (Interim Chief Executive Officer from 9 October 2020, Chief Executive Officer since 1 January 2021)</p> <p>Martin Hürzeler, Head of Financial Audit, Graduate in Business Administration, Swiss Certified Accountant (Interim Deputy to the Chief Executive Officer from 9 October 2020, Deputy to the Chief Executive Officer since 1 January 2021)</p> <p>Heinz Meier, Head of Regulatory Audit, Swiss Certified Accountant</p>
	Auditor	Swiss Federal Audit Office (SFAO)
Number of staff	As at 31 December 2020, 28 staff members, representing 24.5 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

AHVO	Old-Age and Survivors' Insurance Ordinance (AHV Ordinance) of 31 October 1947
AMLA	Anti-Money Laundering Act of 10 October 1997
AMLO	Anti-Money Laundering Ordinance of 11 November 2015
AMLO-FINMA	FINMA Anti-Money Laundering Ordinance of 3 June 2015
AOA	Audit Oversight Act of 16 December 2005
AOO	Audit Oversight Ordinance of 22 August 2007
BA	Banks and Savings Banks Act of 8 November 1934
BVS	Oversight authority for occupational pension schemes and foundations in the canton of Zurich
CAIM	Common Audit Inspection Methodology
CC	Criminal Code
CC-S	Control Committee of the Council of States
CEAOB	Committee of European Audit Oversight Bodies
CFRR	Centre for Financial Reporting Reform (Vienna)
CGU	Cash-generating units
CISA	Collective Investment Schemes Act of 23 June 2006
CO	Code of Obligations of 30 March 1911
DO-FAOA	Federal Audit Oversight Authority Ordinance on Disclosing the Lack of Oversight of Audit Firms Engaged by Foreign Bond Issuers
DPA	Data Protection Act of 19 June 1992
DSFI	Directly supervised financial intermediary (supervised by FINMA)
EHP	FINMA's survey and application platform
EQCR	Engagement Quality Control Reviewer
EU	European Union
EWG	Enforcement Working Group
FAC	Federal Administrative Court (St. Gallen)
FAOA	Federal Audit Oversight Authority
FATF	Financial Action Task Force
FCC	Federal Criminal Court (Bellinzona)
FDF	Federal Department of Finance
FinIA	Financial Institutions Act of 15 June 2018
FinIO	Financial Institutions Ordinance of 6 November 2019
FINMA	Federal Financial Market Supervisory Authority
FINMASA	Financial Market Supervision Act of 22 June 2007
FinSA	Financial Services Act of 15 June 2018
FinSO	Financial Services Ordinance of 6 November 2019
FJPD	Federal Department of Justice and Police
FMIA	Financial Market Infrastructure Act of 19 June 2015
FoIA	Act of 17 December 2004 on Freedom of Information in the Administration (Freedom of Information Act)
FOJ	Federal Office of Justice
FRC	Financial Reporting Council (UK)
FSB	Financial Stability Board
FSC	Federal Supreme Court (Lausanne)
FSIO	Federal Social Insurance Office
FSO	Federal Statistical Office
FTA	Federal Tax Administration
GAFI	Groupe d'action financière

GAQWG	Global Audit Quality Working Group
GEA	Gender Equality Act
GPPC	Global Public Policy Committee
G-SIBs	Global Systemically Important Banks
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
ICS	Internal control system
ICWG	International Cooperation Working Group
IESBA	International Ethics Standards Board for Accountants
IFIAR	International Forum of Independent Audit Regulators
IFO	Investment Foundation Ordinance of 10 and 22 June 2011
IFRS	International Financial Reporting Standards
InsSA	Insurance Supervision Act of 17 December 2004
ISA	International Standards on Audit
ISG	Inspections Sub-Group
ISQC 1	International Standard on Quality Control 1
ISQM	International Standard on Quality Management
IWWG	Inspection Workshop Working Group
KAM	Key audit matter
KYC	Know Your Customer
MBA	Mortgage Bond Act of 25 June 1930
MMoU	Multilateral Memorandum of Understanding
MoU	Memorandum of Understanding
MROS	Money Laundering Reporting Office Switzerland
OASI	Old age and survivors' insurance
OECD	Organisation for Economic Co-operation and Development
OPA	Occupational Pensions Act of 25 June 1982
OPSC	Occupational Pension Supervisory Commission
PCAOB	US Public Company Accounting Oversight Board
PH 70	Swiss audit notice 70; audit notice on regulatory audits
PIOB	Public Interest Oversight Board
QA	Quality assurance
SAS	Swiss Auditing Standards of EXPERTsuisse
SER	SIX Exchange Regulation
SICAF	Investment schemes with fixed capital
SICAV	Open-ended investment schemes
SIX	SIX Swiss Exchange
SME	Small and medium-sized enterprises
SMI	Swiss Market Index
SO	Supervisory organisation
SOO	Ordinance on Supervisory Organisations in Financial Market Supervision (Supervisory Organisation Ordinance)
SoP	Statement of Protocol
SQS 1	Swiss Quality Control Standard 1
SRO	Self-regulatory organisation
US-GAAP	United States Generally Accepted Accounting Principles
WGB	OECD Working Group on Bribery in International Business Relations

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 areas⁶³. The table makes no claim to be complete (data correct as at 31 December 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, ⁶⁴ 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 ⁶⁵	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 ⁶⁶	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

⁶³ This applies to regulatory audits of casinos and pension schemes in particular.

⁶⁴ Comprising stock exchanges, multilateral trading systems, central counterparties, central depositories, transaction repositories and payment systems.

⁶⁵ Cf. the definition in the Banking Act (Art. 1b BA).

⁶⁶ 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 at 31 December 2020

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
501131	BfB Audit SA	Renens
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
600001	Deloitte Co. S.A.	Buenos Aires
600002	Kost Forer Gabbay & Kasierer	Tel Aviv

Cooperation with foreign authorities

Status: 31 December 2020

Bilateral agreements

Country	Authority	Agreement
Austria	Audit Oversight Body of Austria (AOBA)	MoU (2019)
Canada	Canadian Public Accountability Board (CPAB)	MoU (2014)
Finland	Auditing Board of the Central Chamber of Commerce (AB3C)	MoU (2014)
France	High Council for Statutory Auditors (H3C)	Cooperation Protocol (2013)
Germany	Audit Oversight Commission (AOC)	MoU (2012)
Ireland	Auditing & Accounting Supervisory Authority (IAASA)	MoU (2016)
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)
UK	Financial Reporting Council (FRC)	MoU (2014)
USA	Public Company Accounting Oversight Board (PCAOB)	Statement of Protocol (2011) and Addendum (2014)

Multilateral agreements

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

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)
Cayman Islands	Auditors Oversight Authority (AOA)	IFIAR Multilateral Memorandum of Understanding (2017)
Czech Republic	Public Audit Oversight Board (RVDA)	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/CPAFOB)	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 (AOB)	IFIAR Multilateral Memorandum of Understanding (2017)
New Zealand	Financial Markets Authority (FMA)	IFIAR Multilateral Memorandum of Understanding (2017)
Norway	Finanstilsynet/Financial Supervisory Authority (FSA)	IFIAR Multilateral Memorandum of Understanding (2019)

Country	Authority	Agreement
Poland	Komisja Nadzoru Audytowego / Audit Oversight Commission (AOC)	IFIAR Multilateral Memorandum of Understanding (2019)
Slovakia	Auditing Oversight Authority (AOA)	IFIAR Multilateral Memorandum of Understanding (2017)
South Korea	Financial Services Commission / Financial Supervisory Service (FSC/FSS)	IFIAR Multilateral Memorandum of Understanding (2017)
Taiwan (Chinese Taipei)	Financial Supervisory Commission (FSC)	IFIAR Multilateral Memorandum of Understanding (2017)
Turkey	Public Oversight, Accounting and Auditing Standards Authority (POA)	IFIAR Multilateral Memorandum of Understanding (2017)

Court rulings 2020

Status: 31 December 2020

The following is a complete list of the 2020 rulings by the Federal Administrative Court relating to cases involving holders of FAOA licences. The Federal Supreme Court did not issue any relevant rulings this year. The rulings are in chronological order, with a short note on the subject matter and on the conclusion reached by the court.

- FAC Ruling No. B-2332/2018 of 11 March 2020: violation of the provisions on independence. Ordinary audit performed on the annual financial statements of a company even though another company acquired by the first company had helped to work on the accounts and provided other services (payroll, VAT). Withdrawal of audit expert licence for two years. Verdict overturned by the FAC, reprimand issued. Ruling legally binding.
- FAC Ruling No. B-579/2019 of 26 March 2020: 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 audit licence for four years. FAC ruling (reduction of licence withdrawal period to two years) overturned by the FSC in response to the FAOA's appeal. Sent back to the FAC for re-appraisal. Four-year licence withdrawal period confirmed by the FAC. Ruling legally binding.
- FAC Ruling No. B-3781/2018 of 8 June 2020: inadequate audit work and violation of the provisions on independence. Missing documents on the auditors' understanding of the company being audited, on materiality, on the outcome of the analytical review and on the inherent risks. Lack of information on the audit programme including the individual audit procedures, the misstatements uncovered and the measures for rectifying them or assessing audit evidence. Co-signatory of the audit report (together with the appellant) also involved on the accounting side and with other services (VAT statements and tax returns) on behalf of the company being audited, thus running the risk of them auditing their own work. Four-year withdrawal of audit expert licence confirmed by the FAC. Ruling legally binding.
- FAC Ruling No. B-6020/2019 of 27 October 2020: internal quality assurance system and monitoring. Lack of monitoring from 2014 to 2016 and late monitoring in 2018, following the TREUHAND | SUISSE quality assurance guidelines for SME audit firms. Reprimand rescinded by the FAC. Ruling legally binding.
- FAC Ruling No. B-646/2018 of 30 November 2020: audit procedures not performed and no audit reports prepared for around four years. Failure to spot clear over-indebtedness and fulfil the associated duty to act. Violation of the provisions on independence (close relationship). Licence withdrawal period reduced from three to two years. Ruling legally binding.
- FAC Ruling No. B-1109/2018 of 16 December 2020: applicability of the Freedom of Information Act to a request to access FAOA enforcement proceedings against an individual to aid a liability lawsuit against the auditor. Requirement for weighing up the benefits. No overriding public or private interests identified. Rejection of appeal. Ruling not yet legally binding.
- FAC Ruling No. B-709/2018 of 16 December 2020: applicability of the Freedom of Information Act to a request to access an ad hoc inspection report and FAOA enforcement proceedings based thereon for the purposes of publishing the story in the media. Requirement for weighing up the benefits. No overriding public interests identified.
- Appeal partly upheld as the views of the data subjects have not yet been sought. Ruling not yet legally binding.
- FAC Ruling No. 6115/2019 of 16 December 2020: applicability of the Freedom of Information Act to a request to access an ad hoc inspection report by the FAOA to help weigh up a liability lawsuit against the auditor. Requirement for weighing up the benefits and the existence of overriding public or private interests. No overriding private or public interests identified. Rejection of appeal. Ruling not yet legally binding.

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)

