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# Annual Report 2022

## Impressum

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In order to improve readability, separate male and female terms are not used in this report. The relevant terms apply to both men and women in accordance with the principle of gender equality.

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## Foreword

The year 2022 was again marked by change. No sooner had the COVID-19 pandemic been overcome (at least emotionally) than war broke out in Ukraine. Even though, at first glance, the two events are hardly comparable, they have similarities with regard to accounting and auditing: Both broke out in the first quarter. Therefore, they in general had no impact on the annual and consolidated financial statements already completed at that time. The audit topics are also similar. The audit industry will therefore benefit from its experiences from the pandemic in the context of the audit of the annual and consolidated financial statements for 2022.

When compared to the pandemic, however, there are special features in connection with the Ukraine war: On the one hand, the implementation of the (constantly widening) sanctions and the audit of certain sectors in Russia and Belarus must be kept in mind, whereby the national firms have been disconnected from the global audit networks. On the other hand, the risks in the area of cyber security have increased again.

There are authors today who assume that we will remain confronted with crises for the foreseeable future. This due to increasing asymmetries (e.g. in wealth distribution), increased (technological) disruption, changing demographics, increased (for example political) polarisation and an increasing crisis of trust towards institutions and elites.

While it is to be hoped that this will not occur: against this background, the importance of trustworthy financial reporting undoubtedly increases. The audit industry and the regulators are challenged and required to ensure trust in the financial figures and to offset the ongoing changes in a timely manner.

### Audits at audit firms under state oversight

The FAOA carried out 15 reviews of a total of 34 audit mandates last year in the financial audit area. Since the pandemic these have taken place in hybrid form at audit firms under state oversight. Experience herewith continues to be positive on both sides of the oversight relationship.

The largest number of findings was in the areas of audit evidence, fraudulent acts and the identification of and response to risks. With regard to the use of data analytics tools, it is to be noted that their use in the audit of journal entries and turnover, among other things, is gaining importance.

Seven reviews were carried out on a total of eleven audit mandates in the area of regulatory audit. Most of the findings were in the areas of business risk management and combating money laundering (AML).

### Stable registration figures

The Federal Council and FAOA have substantiated the requirements for the professional practice of individuals and moderately raised them,

which is expected to have a quality-enhancing effect. The number of licensed audit firms remained stable at 2,000 in comparison to the previous year (2,027). In contrast, around 900 licences of natural persons have been (voluntarily) withdrawn as part of a large register adjustment. The new wave for the renewal of audit firm licences, which are limited to five years, will start in 2023.

### Whistleblowing and enforcement

The number of indications received from third parties increased in comparison to the previous year. In the reporting year, a total of 39 leads (previous year: 27) were received regarding possible violations of the law or breach of professional law. Of these, 18 (previous year: 11) related to audit firms under state oversight. Further investigations are only conducted on the basis of credible indications and only qualified breaches lead to administrative proceedings by the FAOA. This was the case for three indications received last year. In 2022 the FAOA issued a total of 45 reprimands and two licence withdrawals and rejected five licence applications. In addition, two criminal charges were filed.

### ESG remains in the FAOA's focus

There are still only a few formalised ESG audit requirements in Switzerland. In this context, one can think of the verification of wage equality analyses or due diligence obligations regarding minerals and metals from conflict areas and child labour. How-

ever, the issue continues to grow in importance. The Federal Council intends to prepare a consultation draft on the topic of sustainable corporate governance by July 2024 and strives for an internationally coordinated regulation. The requirements in the EU are likely to play an important role due to the third-country regulations and the corresponding impact on Swiss companies (60 percent of Swiss exports go to the EU). This applies in particular to the directive on corporate sustainability reporting adopted in November 2022 and the directive on corporate sustainability due diligence expected in 2023. As these EU

regulations (presumably) contain corresponding requirements, the question of possible assurance obligations will also need to be examined in Switzerland. The FAOA will continue to closely monitor this issue and be involved in the development of a future legal basis.

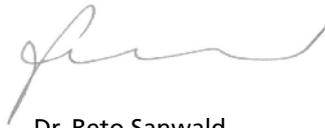
#### Thanks to the staff of the FAOA

Against the backdrop of the international upheavals mentioned above, 2022 was a challenging year. We would like to thank all our employees for their great commitment, flexibility and creativity in mastering these challenges.

Berne, 31 January 2023



**Wanda Eriksen**  
Chairperson of the Board of Directors



**Dr. Reto Sanwald**  
Chief Executive Officer

# The FAOA in numbers

## Audit firms inspected annually:

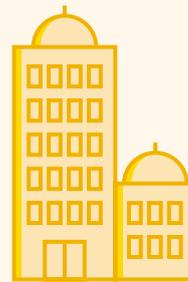
- PricewaterhouseCoopers AG
- Ernst & Young AG
- KPMG AG
- Deloitte AG
- BDO AG



**22** State-regulated  
audit firms



**2** Criminal charges  
**2** Licence withdrawal  
**45** Reprimands  
**5** Rejections



Number of inspections  
FA/RA

**9** in 2021  
**15** in 2022



**1'978**

Licensed audit  
firms



**9'554**

Licensed individuals

**6,51 Mio.**

Total FAOA expenditure



**24,6**

employees (FTE)



## Regulatory developments

### Ongoing projects

#### Report of the Federal Council on the need for legislative action in audit law

On 31 August 2022, the Federal Council approved a report on the in-depth evaluation of the seven audit recommendations made by experts Peter Ochsner and Daniel Suter on the need for action in audit law<sup>1</sup>. The report concludes that the current audit law has principally proven itself and that there is no fundamental need for legislative action.

In contrast, it sees a proven need for improvements in the auditing of pension funds. The Federal Social Insurance Office (FSIO), in collaboration with the Occupational Pension Supervisory Commission (OPSC), the Federal Office of Justice (FOJ) and the FAOA, will therefore be tasked with the immersed clarification of how the stability of the pension system can be improved in the long term by improving the quality of audits.

The FAOA maintains its view that it is alien to the system if the audit of pension funds is not treated in the same way as the audit of private insurers as regards the public interest<sup>2</sup>. In the area of occupational pension, a significant part of the oversight is delegated to auditors without the delegating LOB oversight authority being able to assess the quality of the audit on which the auditor's report is based. While around two-thirds of the pension funds in Switzerland have already selected a state-regulated audit firm (srAF) as their auditing body, it would in the FAOA's view be appropriate for the auditors of at least the larger pension funds and the more complex pension funds (such as collective and joint funds) to be supervised on a risk-oriented basis<sup>3</sup>. Additionally, a special licence, based on the FAOA's basic licence, would need to be introduced for audit firms and their lead auditors within such a system. These two measures would improve the protection of insured persons and pension recipients of the second pillar. The Federal Council basically reaches the same conclusion in

its report on the Ettlín postulate from 30 November 2018. Whether and to what extent this concern can be implemented in the legislative process will become clear in the course of the implementation of the Federal Council's mandate.

#### Federal government-associated business as public interest entities

In the same report of 31 August 2022, the Federal Council, in fulfilment of Postulate 19.4389 «Recognition of federally-related companies as public interest entities (PIEs) within the meaning of the Audit Oversight Act» by the Business Audit Committee of the Council of States (GPK-S) from 12 November 2019, came to the conclusion that at least certain federal government-associated businesses should qualify as PIEs under Article 2 letter c AOA. Accordingly, it instructed the FOJ, with the involvement of the Federal Finance Administration (FFA) and the FAOA, to prepare a consultation draft to reinforce the role of external auditors at certain federal government-associated businesses and to define which companies should be considered PIE in future by mid-2024.

#### Audit of Old-age and survivors's insurance compensation funds

The supervision of the Old-age and survivor's insurance (OASI), the supplementary benefits, the income compensation and the family allowances in farming is to be modernised by orientating supervision more closely towards risks than is currently the case, by strengthening governance and by adapting the provisions on information systems to the current state of technological development. For this purpose, the Federal Assembly passed the Federal Law on the Modernisation of OASI Supervision on 17 June 2022. In the area of auditing, the new law stipulates that compensation funds are to be audited by an auditing company licenced as an auditing expert under the AOA. In addition, the lead auditors of compensation funds are to hold a basic licence as an audit expert. The audit mandate exceeds the audit of annual

accounts and contains elements of a supervisory audit (audit of the organisation and management, the information systems, risk management, quality management and the ICS). In particular, more detailed provisions on the requirements for the auditor and the lead auditor which go beyond the licensing requirements as an audit expert should be issued in executive ordinances. The FAOA is to be responsible for issuing these special licences<sup>4</sup>. A consultation on the aforementioned executive ordinances is to be carried out in the second quarter of 2023. The new provisions are expected to enter into force on 1 January 2024.

#### Federal Act on Combating Abusive Bankruptcy

On 18 March 2022, the Federal Assembly passed the Federal Act on Combating Abusive Bankruptcy. The bill aims to use various measures to prevent debtors from abusing bankruptcy proceedings to dispose of their obligations. From the revision perspective, the bill contains two relevant points: (1) The waiver of the limited audit (so-called opting-out) is limited to future financial years. In addition, the waiver must be registered with the Commercial Registry before the beginning of the relevant business year. This makes retroactive opting-out impossible. (2) The proposal prohibits the so-called shell company trading for over-indebted companies without business activity and without assets. The consultation period for the amendment to the Commercial Register Ordinance (CO) is until 5 May 2023. Entry into force is expected on 1 January 2024.

<sup>1</sup> The report is available at: [www.news.admin.ch/news/message/attachments/72813.pdf](http://www.news.admin.ch/news/message/attachments/72813.pdf).

<sup>2</sup> Cf. the comments in the 2016 (p. 46), 2017 (p. 40), 2018 (p. 39), 2019 (p. 47 ff.), 2020 (p. 54) and 2021 (p. 45) annual reports of the FAOA; see further SCHNEIDER/DEVAUD/OFFERGELD, Die Revision von Vorsorgeeinrichtungen aus dem Blickwinkel der FAOA, in: EXPERTfocus 2020, 771 ff., 774.

<sup>3</sup> See further the comments in the 2016 (p. 46), 2017 (p. 40), 2018 (p. 39), 2019 (p. 49), 2020 (p. 54) and 2021 (p. 45) annual reports of the FAOA.

<sup>4</sup> Federal Council Dispatch of 20 November 2019 (BBl 2020 I, 68).

### Limited Qualified Investor Funds

On 17 December 2021, the Parliament approved the revision of the Swiss Collective Investment Schemes Act (CISA) to introduce the so-called Limited Qualified Investor Fund (L-QIF). No FINMA approval or authorisation is required for the launch of an L-QIF. On 23 September 2022, the Federal Council submitted a draft for a revised ordinance on collective investment schemes for consultation. The draft provides for a financial audit on the one hand, and on the other a supplementary regulatory audit in the audit depth «audit» on (a) the provisions of the conceptual features of an L-QIF, (b) on the provisions of the mandating of a custodian bank, (c) on the content and amendment of the fund contract, the statutes and the investment regulations as well as the articles of association, (d) the provisions on reporting and data collection, (e) the minimum assets and (f) the time limit for achieving the investment restrictions (concerns L-QIF in the legal form of an open collective investment scheme). The audit firm must submit a summary report and an audit report on the financial audit as well as an audit report on the supplementary regulatory audit. Significant deficiencies are to be included as objections in the audit report on the regulatory audit of the institute responsible for the management of the L-QIF. The consultation process has been completed. The revised CISA is expected to enter into force in the second quarter of 2023.

### Measures in connection with the situation in Ukraine

On 28 February 2022, the Federal Council decided to adopt the EU sanctions against the Russian Federation and Belarus. The Ordinance on Measures in Connection with the Situation in Ukraine<sup>5</sup> entered into force on 4 March 2022. Since then, Switzerland has already implemented the EU's eighth sanctions package. In the financial sector, the direct or indirect provision of services in the areas of auditing (including auditing, accounting and tax consultancy), business and public relations consultancy to legal persons, companies or organi-

sations established in Russia has been prohibited since 29 June 2022 (Art. 28e para. 1 Ordinance).

However, this prohibition does not apply to services intended for the exclusive use of legal persons, undertakings or entities established in the Russian Federation which are owned or solely or jointly controlled by legal persons, undertakings or entities incorporated or constituted under Swiss law or the law of an EEA Member State or of the United Kingdom (Article 28e para. 2 let. b Ordinance). The State Secretariat for Economic Affairs (seco) is responsible for the application of this provision.

### Revision of the Federal Data Protection Act

The complete revision of the Federal Data Protection Act (FDPA), passed by Parliament on 25 September 2020, will enter into force on 1 September 2023. In the annex to the bill, an article has been added to the FDPA which updates the legal basis for the processing of personal data and the data of legal persons (new Art. 15b FDPA). Due to the complete revision of the FDPA, the Federal Council further adopted a complete revision of the corresponding implementing provisions on 31 August 2022. The new Data Protection Ordinance (DPA) will also enter into force on 1 September 2023 accordingly.

### Completed projects

#### Revision of company law

The new Company Law adopted by the Federal Assembly on 19 June 2020 came into force on 1 January 2023. For the points relevant to the revision, please refer to the explanations in the 2020 Annual Report<sup>6</sup>.

#### Ordinance on Due Diligence and Transparency Regarding Minerals and Metals from Conflict Areas and Child Labour (VSoTr)

The implementation of the indirect counterproposal to the Corporate Responsibility Initiative (CRI) also provides for requirements on due dili-

gence and transparency regarding minerals and metals from conflict areas and child labour at the legislative level. For this purpose, the companies concerned shall introduce a management system and define in particular a relevant and traceable supply chain policy therein. The risk management plan drawn up by the company, including the risks of harmful effects on the supply chain and the measures to minimise the risks, must from 1 January 2022 on be reviewed on an annual basis by an audit firm licenced as an audit expert by the FAOA (Art. 16 DDTro).

### Raising the standards for professional practice

On 23 November 2022, the Federal Council decided to amend Article 7 of the AOO in order to specify the requirements for professional practice and raise them to a meaningful level. In future, the minimum proportion of professional experience required in the field of financial auditing will be 25% for accreditation as an audit expert, of which a third must be in the field of ordinary auditing. For licencing as an auditor, the minimum proportion required in the area of financial auditing is now 37.5%.

Moreover, supervised professional experience will only be recognised if the activity is formally subordinated for at least three months and without significant interruptions and at a minimum extent of 50%. For activities that have been supervised by the same professional for more than two years, on the other hand, an activity level of 20% is sufficient. Since these requirements are in part stricter than the current practice, the persons concerned benefit from appropriate transitional periods, whereby these are based on the duration of the professional practice for the respective specialist practice, the longer the transition period. Holders of existing licences are not affected by the new regulation. In addition, the FAOA has codified its assessment practice in a

<sup>5</sup> SR 946.231.176.72.

<sup>6</sup> Cf. 2020 FAOA Annual Report, p. 11 ff.

new Circular 1/2022, which, as the ordinance amendment, came into force on 1 January 2023.

#### Revision of the FAOA Supervision Ordinance and Data Ordinance

The issuance of the new Swiss Standards on Auditing by EXPERTsuisse (SA-CH) necessitated several adjustments to the FAOA Supervision Ordinance (FAOA-SO). The adjustments are of a consequential nature and came into force on 15 December 2022. In view of the new Criminal Records Act (StReG<sup>7</sup>), the Data Ordinance (DV-RAB) was amended as well. This amendment entered into force on 23 January 2023.

#### Update of all previous FAOA Circulars

The enactment of the new SA-CH also impacts the FAOA Circulars. Therefore, [Circular 1/2007](#) (Circ.) on the information to be included in the licence application, the documents to be submitted and the reporting obligations during the licence period, [Circ. 1/2008](#) on the recognition of auditing and quality controls, [Circ. 1/2009](#) on the comprehensive audit report to the board of directors, [Circ. 1/2010](#) on the reporting of state-regulated audit firms to the oversight authority and [Circ. 1/2014](#) on internal monitoring in audit firms were updated. The changes are in general of an editorial nature. There are two exceptions:

- [Circ. 1/2015](#) on disclosures of matters significant to the audit in the auditor's report to the general meeting was repealed in view of the entry into force of ISA-CH 701 (communication of particularly important audit matters in the independent auditor's report).
- Some adjustments in [Circ. 1/2007](#) were made with a view to the new wave of licence renewals for audit firms due in 2023.

The amendments in the mentioned circulars as well as the repeal of [Circ. 1/2015](#) entered into force on 15 December 2022.

<sup>7</sup> Federal Act on the Criminal Records Information System VOSTRA (Criminal Records Act, StReG; BBl 2016 4871).

# Financial Audit

## Inspections 2022

### Overview

The FAOA conducted 15 inspections during the reporting year<sup>8</sup>. As part of these inspections the audit of the annual and consolidated financial statements of 34 companies was assessed by means of mandate-related reviews (file reviews). File reviews are not second audits but are limited to items and issues where the FAOA sees particular risks (fig. 1).

### Firm Review

The internal systems for quality control at the audited audit firms can still be classified as adequate.

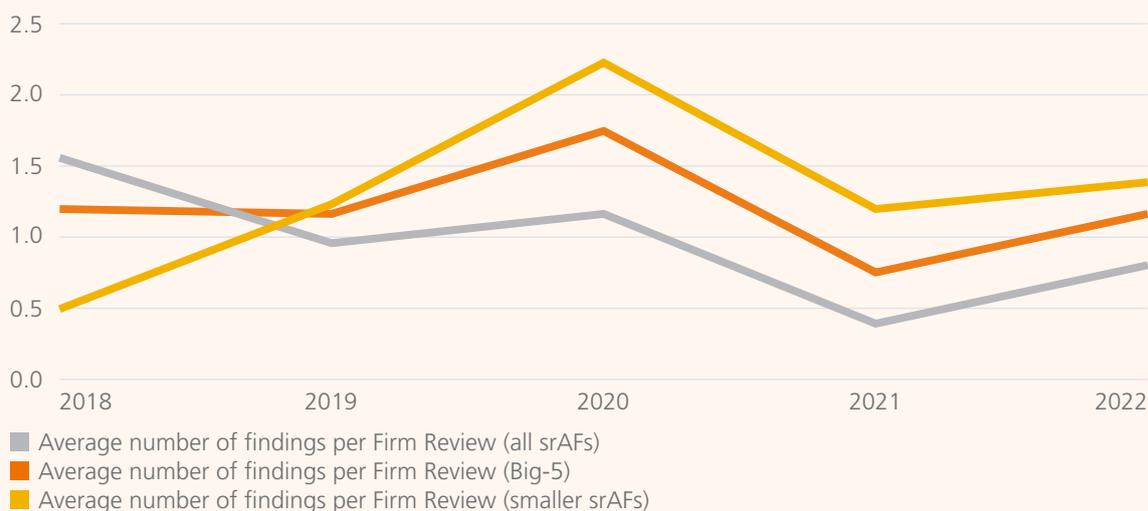
**Figure 1**

Overview of FAOA reviews and findings 2021 and 2022

Categories	Five largest audit firms		Other		Total	
	2022	2021	2022	2021	2022	2021
Number of inspections	6	5	9	4	15	9
Comment Form/ Findings Firm Review	5	2	13	5	18	7
Number of inspected files <sup>9</sup>	26	27	8	4	34	31
Comment Form/ Findings File Review	17	9	17	13	34	22

**Figure 2**

Trend in the average number of findings from the Firm Review since 2018



<sup>8</sup> The inspection field work was completed at two of the five largest audit firms. Since the findings process is still at an early stage, these do not form part of the FAOA Annual Report 2022. Conversely, the two inspections that had yet to be completed by 31 December last

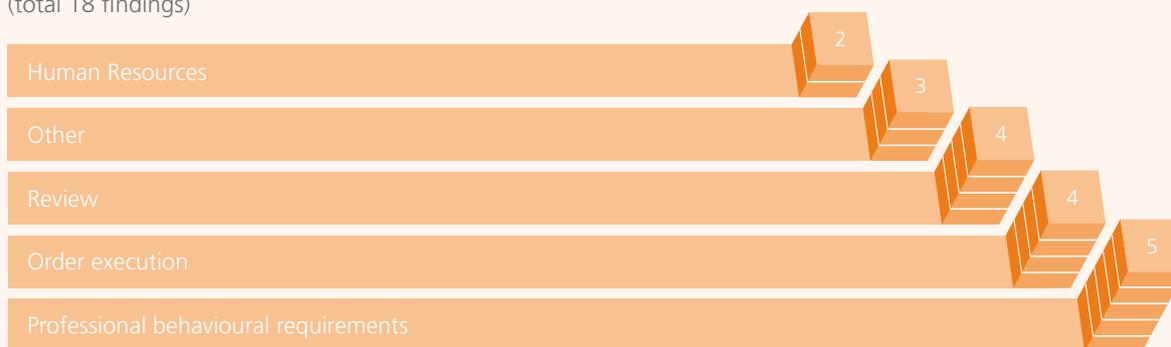
year are now included. The FAOA also conducted an ad hoc review of one of the five largest audit firms in 2022.

<sup>9</sup> The FAOA typically reviews the group audit working papers and those of a significant subsidiary as part of a file review.

The lowest and highest average of findings across all srAFs were in 2021 and 2020 respectively (Fig. 2). In 2022 the FAOA identified a total of 18 findings at firm level. The individual firm reviews therefore resulted in an average of 1.2 findings per inspection (prior year 0.8). This increase was due to the fact that in the report-

ing year the reviews at three smaller audit firms resulted in a total of 13 findings. Except in 2018, the average number of findings at the five largest audit firms was lower than at the smaller audit firms.

**Figure 3**  
Type and number of 2022 Firm Review findings (total 18 findings)



The largest number of findings resulted in the following categories (Fig. 3):

- In the area of ethical requirements the FAOA identified five findings. In three cases the process for the annual independence confirmation was insufficient. In one case the lead auditor breached the rotation requirement, which was not detected by the audit firm’s internal controls. In the fifth case the process for accepting non-audit services was not correct: in some cases engagement confirmations and conflict checks were not prepared or performed. The FAOA identified a breach of independence which led in particular to a reprimand against the audit firm and the lead auditor.
- In the area of engagement performance, the FAOA identified four findings. At two of the five largest audit firms the FAOA found that PIE audit teams too frequently rebutted the risk of fraud in revenue recognition contrary to the requirements of the auditing standard.

Please refer to the comments below for further details. In another case, the instructions for external bank confirmations was unclear. In the last case, the assignment of the engagement quality assurers to the audited entities was too late.

- In the area of internal monitoring the FAOA identified four findings. In particular, it was not ensured everywhere that lead auditors were reviewed within the specified cycle. Furthermore, in some cases there were no instructions on the classification of identified deficiencies or on the determination of recurring findings that should lead to action at firm level. In one case, the process for complaints and allegations was missing.

**Rebuttal of the risk of fraud in revenue recognition**

In supervisory notice 1/2022 on the consideration of fraud within the scope of audit services the FAOA points to the existing expectation gap between the public’s expectation of the auditor and the auditor’s ef-

fective statutory mandate. Based on the FAOA’s findings from the 2017 to 2021 inspections, audit teams were provided with various key improvements to their practical approach.

ISA/SAS 240 states that the audit team must start using the presumption that risks of fraud exist in revenue recognition. If this presumption does not apply, the reasons for this must be documented. According to the auditing standard, the the auditor may conclude that there is no risk of material misstatement due to fraud relating to revenue recognition in the case where a there is a single type of simple revenue transaction. According to the standard setter, this is currently the case, for example, with leasehold revenue from a single unit rental property.. If this example is used as a benchmark, the rebuttal of the risk of fraud with regard to revenue recognition by industrial companies should only apply in exceptional cases.

As part of the 2022 inspection the FAOA noted that a relatively high

number of srAF audits tended to rebut the presumption of risk. As this audit approach contradicts the exceptional nature of the regulation, the FAOA issued corresponding findings. Specific measures were agreed with the audit firms. The FAOA will continue to monitor the relevant developments in future inspections.

**Analysis of the 2021 audit reports**

The FAOA primarily examined the audit reports on the consolidated financial statements of all SIX-listed companies with a reporting date in 2021. The annual analysis of the audit reports provides the FAOA with important insights into audit-relevant topics and current events with an impact on reporting (e.g. key audit matters (KAM), ability to continue as a going concern, change of auditor, development of audit fees, error corrections from previous years, COVID-19 pandemic and Ukraine war). The findings also support the FAOA in the risk-oriented selection of mandates for inspection. Three topics are explained in more detail below.

**Assumption of going concern**

The going concern assumption is an important accounting principle. Annual and consolidated financial statements are usually prepared under the assumption that business

operations can continue for at least 12 months after the balance sheet date. The respective audit team has to validate the reasonableness of this assumption (ISA/SAS 570). This is a challenging topic, depending on the circumstances, and has become more important in the last two years, especially due to the economic impact of the COVID-19 pandemic. In the previous year, ten or 4.5% of the companies examined had material uncertainties related to their ability to continue as a going concern. The latest analysis of the audit reports showed, on the one hand, that the going concern problem continued to exist for half of these companies in the 2021 business year. On the other hand, another company was affected by this problem. It can therefore be concluded based on the 2021 annual and consolidated financial statements that the COVID-19 pandemic has not had a negative impact on the SIX-listed companies' ability to continue as a going concern.

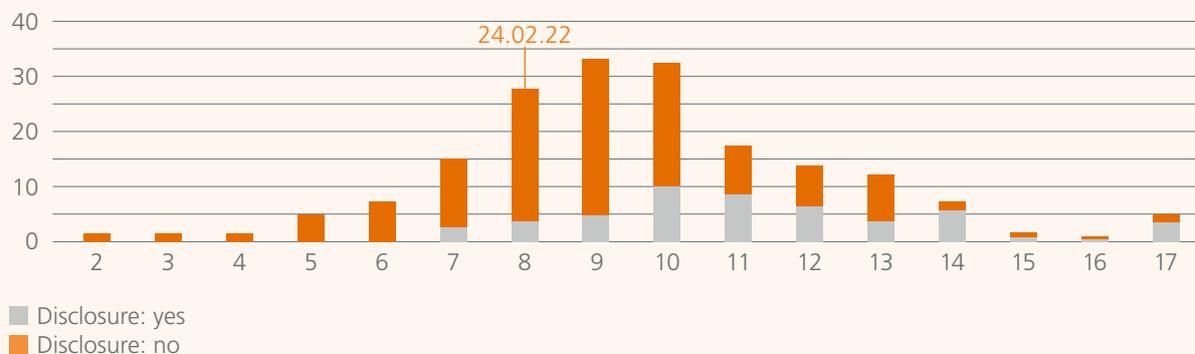
**War in Ukraine**

On 24 February 2022, Russia launched an invasion of Ukraine. The effects of the Ukraine war are global and manifold (increased energy prices, withdrawal from Russian sales markets, disrupted supply chains, etc.). The war in Ukraine also ampli-

fies economic developments that had already begun before the outbreak of the war (especially inflation and the associated rise in interest rates). Like the outbreak of the COVID-19 pandemic in 2020, issuers respectively their auditors once again had to deal with a momentous event after the balance sheet date and its potential impact on reporting at the beginning of 2022. It was largely undisputed that the Ukraine war did not constitute an event to be considered for issuers with a balance sheet date before 24 February 2022. For annual and consolidated financial statements published after the start of the Russian invasion, however, it was necessary to assess whether the war constituted a material event and required corresponding disclosures in the financial statements.

**Figure 4**

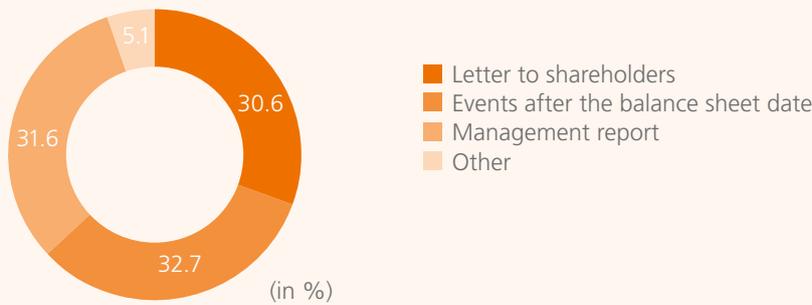
Number of annual reports with and without information on the Ukraine war by companies listed on SIX



The FAOA examined the audit reports published in the period from calendar weeks two to 17 (Fig. 4)<sup>10</sup>. The number and proportion of issuers disclosing information on the Ukraine war in the annual report increased with the passage of time of corresponding war effects.

**Figure 5**

Percentage of reporting forms with information on the Ukraine war (companies listed on SIX)



Depending on the time of publication of the financial statements and the assessed impact on the issuer's business activity, the Ukraine war was addressed differently in the reporting of SIX-listed companies (Fig. 5). Corresponding information was mostly found in the management report, in the information on events after the balance sheet date in the notes to the annual or consolidated financial statements, in the letter to shareholders or in a combination of the aforementioned forms of reporting. Only in two cases was the

Ukraine war included as an Emphasis of Matter paragraph in the auditor's report.

**Key Audit Matters (KAM)**

Audit reports of listed companies also contain, among other things, information on the key audit matters. The most frequently disclosed KAMs in the audit reports examined concerned the items intangible assets with indefinite useful lives (incl. goodwill), revenue recognition, taxes, property, plant and equipment and inventories.

**Figure 6**

Number of findings on KAMs since 2017 (in %)



<sup>10</sup> Includes 195 of the 222 financial statements analysed.

Since 2017, the FAOA has identified 13 KAM findings. Eleven of these related to insufficient implementation of the audit procedures set out in the KAM. These were either not performed at all or not performed as described. The percentage of file reviews with KAM findings has fortunately declined since 2018 (fig. 6). In 2022 the FAOA identified one respective no findings at the five largest and smaller audit firms.

### Corporate Governance

Whether there is a direct correlation between good corporate governance and corporate success is disputed. However, corporate governance is a

recognised method for counteracting aberrations and failures in companies in general. Applied to audit firms, corporate governance should support the achievement of the following objectives:

- Promoting audit quality
- Ensuring the public interest or public confidence in the reliability of the audit and the srAF
- Reduction of the risk of the demise or at least the market exit of an srAF, which would be of systemic importance

In 2022 the FAOA took stock of corporate governance at the five largest

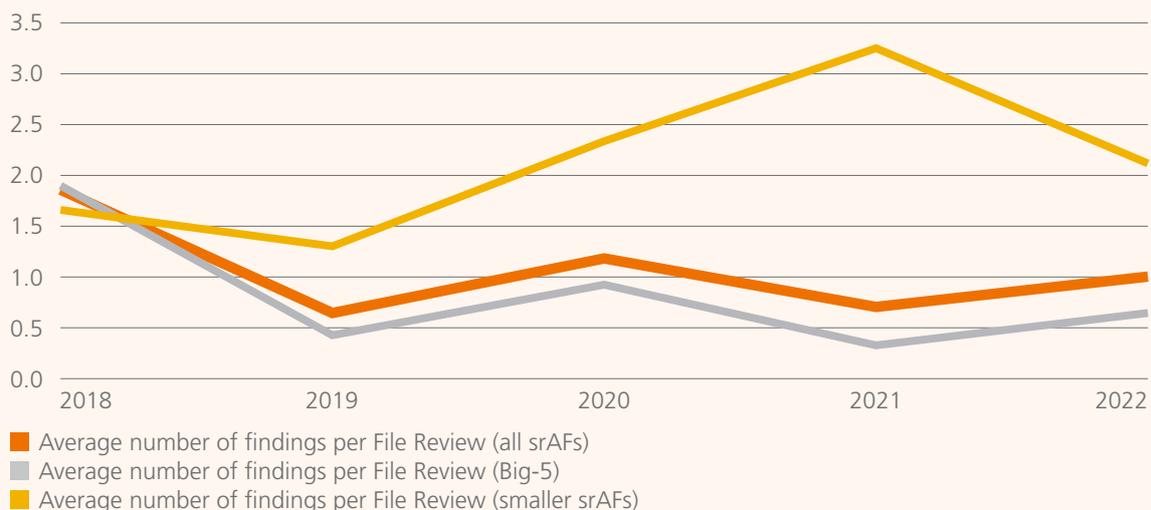
audit firms and compared them with each other. The corporate governance structures at the five largest audit firms are generally similar. This is not least due to the partnership model followed by all five firms. Nevertheless, there are clear differences in detail. Since the 2022 inspections have not yet been completed, reporting will take place in the 2023 annual report.

### File Review

As in previous years, the quality of the audit on the individual mandate depends heavily on the partners and staff involved as well as on the external environment.

**Figure 7**

Trend in the average number of findings from file reviews since 2018



The average number of findings per file review of all srAFs was by far the highest in 2018 (1.9). In the following years (2019 to 2022), this indicator was within the range of 0.7 to 1.2. No real trend can be identified. The same statements apply to the five largest audit firms, except that the ratio was within the range of 0.4 to 0.9 in the years 2019 to 2022. The average number of findings per file at the smaller srAFs is significantly higher than at the five largest audit firms from 2019 onwards. Especially the smaller srAFs have to make further efforts to reduce the number of findings.

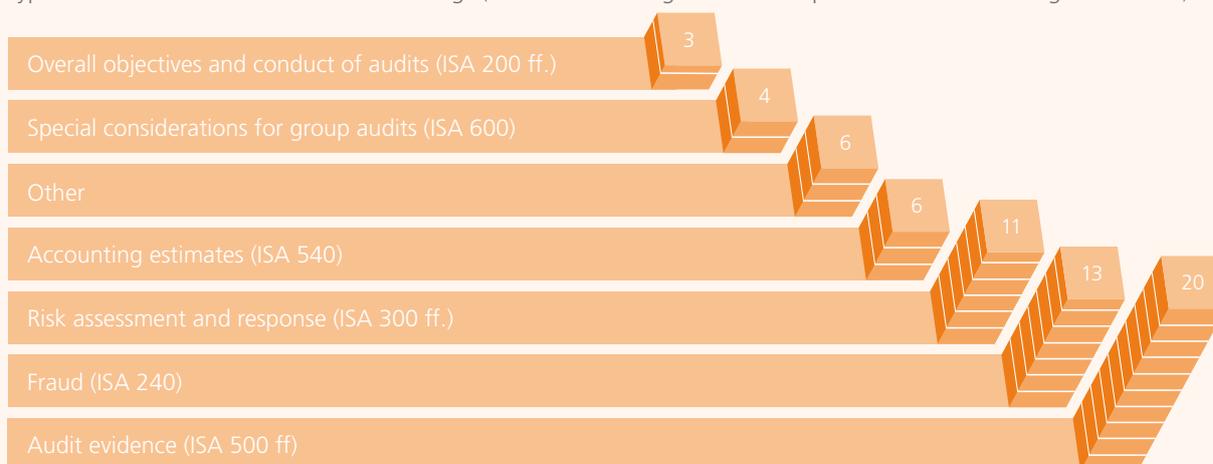
In the reporting year, a total of 34 file reviews were conducted (previous year: 31). These resulted in a total of 34 findings. The number of findings per file review (1.0) increased by 0.3 compared to the previous year (0.7). This increase is particularly due to four reviews (including one ad hoc review) in which the indicator was at least 3.0.

The following figure shows the type and number of findings from the file reviews<sup>11</sup> (Fig. 8).

<sup>11</sup> For comparison purposes, findings based on non-compliance with Swiss or US auditing standards were allocated to identical or comparable ISAs.

**Figure 8**

Type and number of 2022 file review findings (total of 34 findings of non-compliance with 63 auditing standards<sup>12</sup>)



– «Audit evidence» includes deficiencies in the area of various auditing standards. The audit standards on external confirmations (ISA/SAS 505) and on audit sampling (ISA/SAS 530) were most frequently not complied with, followed by violations of the standards on audit evidence (ISA/SAS 500) and inventories (ISA/SAS 501). Audit teams did not always maintain control over external confirmation requests. Furthermore, the design and scope of the sample and the selection of elements to be audited were sometimes insufficiently performed. The selective examination of specific items (ISA/SAS 500) does not constitute audit sampling according to ISA/SAS 530. Consequently, in these cases, no conclusions can be projected on the total population based on the substantive audit procedures. In the case of audit sampling, each sampling unit must have an equal chance of being selected from the population. The auditing standard ISA/SAS 500 could practically be assigned to each finding. However, this is not very meaningful. In 2022 the FAOA found in several cases that the reliability of the information produced by the entities on which the audit team relied was inadequately assessed. Regarding the findings around inventories (ISA/SAS 501), please refer to the following explanations

of the FAOA's audit focus areas in 2022.

– Fraud is an intentional act by one or more persons from among the board of directors, management, employees or third parties involving the use of deception to obtain an unjust or illegal advantage. Fraud can be classified as fraudulent financial reporting or misappropriation of assets.

As last year, in 2022 the FAOA most frequently criticised the lack of or inadequate interviews with management and members of the board of directors of the audited firm and the inadequate journal entries testing. The more detailed the risks of fraud are identified, assessed and responded to in the planning phase, the lower the risk of findings. The FAOA also identified various deficiencies in this area. For example, the integrity of the board of directors was insufficiently questioned or the presumed risk of fraud was rebutted in revenue recognition for reasons that were not comprehensible.

The identified findings are addressed by the audit firms with robust measures. The FAOA will address this topic as an audit focus in 2023.

– ISA/SAS 315 and 330 provide guidance on risk assessment and re-

sponse to identified risks. Without qualitative audit planning, there is a high risk that the subsequent audit procedures will be inadequate. The conclusions drawn on the individual audit items, which form the basis for the audit opinion in the audit report, are thereby not adequately evidenced. The FAOA found in several cases that audit teams did not adequately cover the remaining period to the balance sheet date for controls testing, and substantive audit procedures performed during the year. Furthermore, audit teams relied on controls (including general IT controls) even though they had not been tested or had only been partially tested. As a result, controls testing of application controls or the scope of substantive audit procedures were insufficient. It was also found that audit procedures were insufficient despite adequate risk assessment.

– For the findings in the area of accounting estimates, please refer to the comments below on the FAOA's audit focus areas in 2022.

<sup>12</sup> Several auditing standards may have been violated per finding. Consequently, the number of findings does not correspond to the number of auditing standards.

### Focus 1: Audit of Estimated accounting estimates and Related Financial Statement Disclosures (ISA/SAS 540)

The audit of accounting estimates requires a particularly critical approach by the audit team as such estimates have an increased risk of material misstatement. The FAOA identified six findings in 2022. In virtually all cases, insufficient audit evidence was obtained on the recoverability of various asset items (mineral resources, real estate, goodwill, financial instruments, or private equity investment funds).

### Focus 2: Audit of inventories (esp. ISA/ASS 501)

Inventories are a significant balance sheet item for most industrial companies. Nevertheless, inventories are rarely identified as a significant risk of material misstatement for the annual and consolidated financial statements or as a key audit matter (KAM)<sup>13</sup>. Increased inventory risks are usually identified in valuation rather than completeness and existence.

Notwithstanding the risk assessment, the auditing standard ISA/SAS 501 provides for specific audit procedures in the case of significant inventories in order to obtain adequate audit evidence on the existence and nature of the inventories. This includes the audit team's attendance at physical inventory counting (inventory observation) and the reconciliation of the inventory results with the accounting records. The following audit procedures are to be performed during the physical inventory counting: i) inspection of inventories to verify existence and condition; ii) evaluating management's instructions and procedures for recording and controlling physical inventory counting results; iii) observing the performance of management's count procedures; iv) performing test counts. Depending on the risk assessment and the planned audit approach, the inventory observation may be considered as a controls test and/or a substantive audit activity.

If it is impractical for the audit team to attend the physical inventory counting, it must perform alternative audit

procedures to obtain the required audit evidence. The question of practicality arises more in a pandemic or wartime environment. The largest audit firms reviewed responded to this potential limitation, by providing specific guidance to assist audit teams in conducting virtual inventory counts. Furthermore, virtually all audit firms offer comprehensive checklists for inventory observation and other tools for the test counts to be performed. Two of the largest audit firms also provided their audit teams with specific instructions on how to conduct inventory observations in the case of a perpetual inventory system and/or multiple storage locations.

In addition to the valuation, the FAOA also reviewed compliance with the Inventory Audit Standard (ISA/SAS 501) through 11 file reviews and identified a total of four findings<sup>14</sup>. In two cases, either controls were not adequately tested or management's instructions and procedures were not sufficiently assessed for the perpetual inventory process. In two other files, no audit procedures were performed on the change in inventories between the count date and the closing date. In two other cases, the sampling procedure used by the audit team to determine the inventory observation locations and the items for the test counts to be performed at several locations<sup>15</sup> was found to be deficient. Test counts were performed by most audit teams as a «dual-purpose» test, which simultaneously tested the effectiveness and reliability of management's count procedure (control evidence) and the accuracy of the inventory records used to prepare the financial statements (substantive evidence). When planning such dual-purpose tests, the different audit purposes were not considered separately in two cases. For the smaller audit firms, the FAOA only identified an audit deficiency in one file in relation to the testing of cost prices of inventory items. No findings were made in relation to inventory observation. The reason for this is likely to be that in the case of the selected files management carried out a classic year-end inventory

with complete stocktaking and not a perpetual inventory.

### Focus 3: Effectiveness of internal monitoring (ISQC 1.48 ff.)

Audit firms must assess the design and effectiveness of their system of quality control as part of the monitoring procedures. This includes the ongoing assessment of the quality control system and the retrospective review of completed engagements (engagement review). Appropriately designed and verifiable monitoring processes are taken into account by the FAOA in its inspections in favour of the srAF<sup>16</sup>.

In the reporting year, the monitoring processes of the five largest audit firms were assessed. For this purpose the audit firms were asked to provide statistical information on the monitoring process for the years 2019 to 2021 (period under review)<sup>17</sup>. In order to draw conclusions on the effectiveness of the monitoring processes, the FAOA also reviewed audit engagements that had already been subject to an internal review by the audit firms. Based on its inspections the FAOA did not identify any findings.

### Coverage of PIE

The proportion of PIE audit mandates that were subject to a review during the period under review varied considerably depending on the srAF. The same applies to the results of the audited mandates. However, very good results over several years may also indicate that the follow-up process is not critical enough.

### Coverage of the lead auditors

The average coverage rate of the lead auditors inspected<sup>18</sup> was between 20% and 36% during the period

<sup>13</sup> An analysis of the 2021 annual reports of the 228 companies listed on the SIX shows that inventories were only identified as a key audit matter for 21 companies (including one SMI company).

<sup>14</sup> When describing the following deficiencies, it is important to bear in mind that a finding may consist of several deficiencies.

<sup>15</sup> This only applies in the context of test counts conducted to track physical stock records.

<sup>16</sup> Cf. art. 12 para. 2 ASV-RAB.

<sup>17</sup> The information is based on a respective self-declaration.

under review. The diverging coverage rates are mainly due to the inspection cycles of different lengths defined by the audit firms (cf. the explanations below).

**Review cycle and selection criteria**

The five largest audit firms have determined cycles of different lengths

for the periodic review of the lead auditors of PIE. The range is between three and five years<sup>19</sup>. It should be mentioned that the audit firm has taken compensatory measures with the five-year cycle. For example, new mandates from public companies and lead auditors with an unsatisfactory performance assessment are immedi-

ately subjected to a review. Furthermore, this audit firm has set itself the goal of subjecting all public company mandates to a review within three to five years.

**Figure 9**  
Mandatory selection criteria for a review

	A	B	C	D	E
New partners	yes	yes	yes	yes	yes
Partner candidates	no	no	no	no	no
New lead auditors	no	yes	yes	yes	yes
Lead auditors with an unsatisfactory grade in the current or previous year	yes	yes	yes	yes	yes
Direct Entry Partner	no	yes	yes	yes	yes
First mandates	no	no	no	yes	yes

The procedure for selecting new partners, partner candidates and lead auditors with insufficient monitoring results is largely identical at all five audit firms (Fig. 9). Only one audit firm did not define new lead auditors and «direct entry partners»<sup>20</sup> as mandatory selection criteria.

For all five audit firms, the selection of mandates is risk-oriented. Criteria such as the PIE, the size of the company, the mandate-specific risk profile, the year of the last inspection, consultations, etc. are applied. First-time audits are only taken into account as a mandatory selection criterion for two audit firms. However, the remaining audit firms sometimes use further quality control measures for initial audits (e.g. in the form of additional reviews prior to report submission). All five audit firms include an element of unpredictability in the selection of engagements (e.g. random selection of lead auditors, selection of a different financial year).

**Network review**

At two of the five largest audit firms, the mandate review is carried out

entirely by central offices within the global network. This outsourcing can have a positive effect on the objectivity and the degree of specialisation of the review. However, even with full outsourcing, audit firms must ensure that the scope of the review meets local requirements. For the remaining three audit firms, the proportion of network inspections ranged between 15% and 78% over the period under review.

**Use of resources**

For the 4 audit firms that provided information on the use of resources, the average number of days spent per mandate reviewed<sup>21</sup> varied significantly. The range was from three to 18 days, with two firms showing comparable averages of eight and nine days. The use of resources depends on the type and complexity of the selected audit mandates and the focus of the review. Due to the high demands and expectations, the inspection of PIE is generally associated with a higher use of resources. The FAOA considers the average number of days at the lower end of the range (three days) to be critical.

**Early review**

Three out of five audit firms provide for additional quality controls prior to signing the report (so-called «hot reviews») in addition to engagement quality control and the monitoring of the engagement. The FAOA welcomes such preventative measures as any quality deficiencies can be identified and rectified in good time. However, these additional quality controls are rarely used. Only one audit firm also qualifies as a monitoring review (including assessment of any findings). A challenge with such additional quality controls before signing the report is the availability of human resources.

**Root cause analysis and measures**

The findings of the FAOA are to be remedied by the audit firm concerned

<sup>18</sup> Lead auditors of PIE and other ordinary audit mandates.  
<sup>19</sup> Two audit firms apply a three-year cycle, two audit firms apply a four-year cycle and one audit firm applies a five-year cycle.  
<sup>20</sup> Externally recruited partners.  
<sup>21</sup> PIE and other ordinary audit mandates.

with appropriate measures. The basis for this is a root cause analysis by the audit firm. The root cause analysis processes at the five largest audit firms are supported by the respective global networks. These have developed guidelines and tools both for findings from the internal monitoring and for findings by external audit oversight authorities. The root cause analysis is carried out by those responsible for quality and risk management at the audit firm, leading to detailed action plans.

The FAOA critically reviews the action plans and in certain cases requests clarifications or improvements to the content. Although the final action plans are usually reported by the srAF to the global networks of audit firms, implementation is primarily monitored locally.

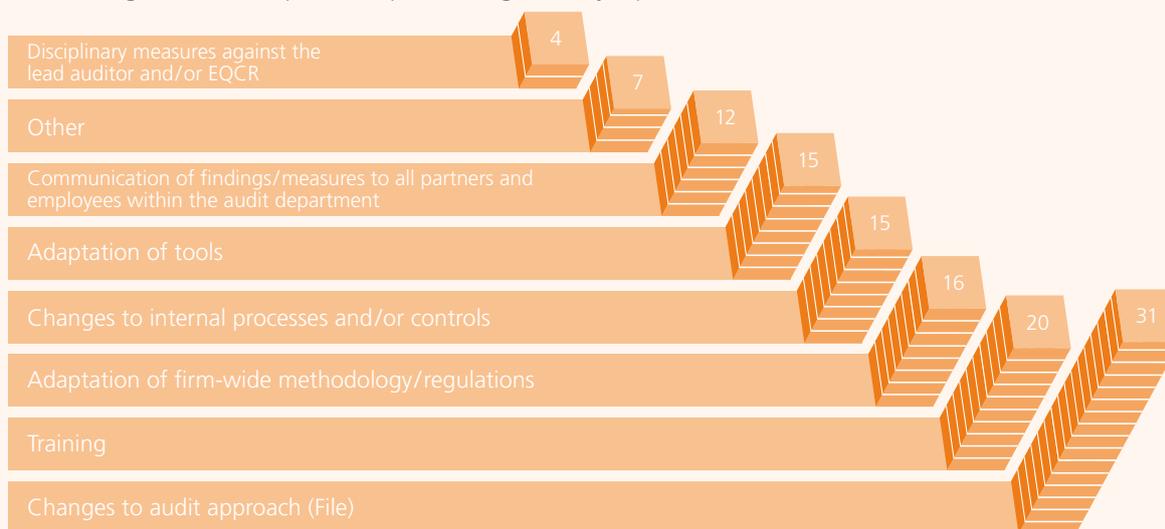
The FAOA agreed a total of 120 improvement measures with the reviewed srAFs in 2022 (Fig. 10).

**Figure 10**  
Representation of the number of checks, files and measures

Number of inspections (incl. inspections without findings) <sup>22</sup>	Number of files (incl. files without findings)	Number of measures agreed
13	28	120

The agreed measures are distributed across the following thematic areas (Fig. 11)

**Figure 11**  
Measures agreed in the inspection reports, categorised by topic area



Note: a measure can affect several thematic areas

<sup>22</sup> For three audit firms, the findings process is still at an early stage. Consequently, their file reviews and measures are not included in the table below. On the other hand, one review is included that was not yet included in the 2021 annual report.

As measures to address deficiencies from the firm review, especially training on the relevant standards on auditing and accounting was carried out, and adjustments were made to the methodology or regulations as well as to the internal processes and controls. Furthermore, tools were modified or introduced.

The measures for deficiencies from the file review were naturally dependent on the subject matter and in 2022 again related in particular to adjustments to the audit approach and scope as well as to appropriate audit evidence. Furthermore, it was agreed with the audit firms that audit tools would be improved and training

would be provided. In four and two cases, respectively, bonus deductions for the lead auditor and the engagement quality control partner were agreed as measures. In one case, the lead auditor was prohibited from performing the role of lead auditor and engagement quality control partner of statutory audit services for PIE for a limited period of time.

### Preliminary fact-finding and proceedings

Alongside routine inspections, event-driven preliminary fact-finding and proceedings are also conducted at srAFs. Particular account is taken

of credible third-party notifications. In 2022, 18 notifications were received in connection with srAF work and preliminary fact-findings were opened in five cases. No enforcement proceedings were opened as a result of the completed fact-findings.

### Audit quality indicators

The FAOA collects twelve audit quality indicators (AQI) (fig. 12) from the five largest audit firms<sup>23</sup>. These indicators are used primarily to analyse trends, to assess risks and plan FAOA inspections.

**Figure 12**

Selected AQIs (average values) relating to the audit function of the five largest audit firms

Key figure	2019		2020		2021		2022	
	from	to	from	to	from	to	from	to
Annual turnover per partner in CHF million	2.2	4.2	2.2	4.1	2.3	4.7 <sup>24</sup>	2.6	4.9
<b>Ratio of non-audit fees to audit fees</b>								
– SMI companies	0.1	0.4	0.1	0.3	0.1	0.2	0.1	0.3
– Non-SMI public companies	0.0	0.3	0.0	0.2	0.0	0.2	0.0	0.2
Number of staff per partner	9.7	13.7	9.8	13.9	10.1	15.4	10.6	16.5
Training hours	51	78	49	75	48	76	47	83
Staff turnover as a %	15	27	16	33	15	27	15	28
<b>Number of EQCR<sup>25</sup> hours</b>								
– SMI companies	48	167	38	215	51	207	57	189
– Non-SMI public companies	7	21	8	26	9	28	10	29
<b>Number of hours of the lead Auditor</b>								
– SMI companies	387	897	410	716	399	856	472	829
– Non-SMI public companies	74	135	80	139	58	138	69	151
Number of foreign shared service centres hours as a % of total hours at public companies	0	17	0	18	0	24	0	24
Number of consultations per public company audit	0.2	1.0	0.3	1.1	0.1	1.0	0.1	1.4

<sup>23</sup> The key figures reported by the audit firms are not materially verified.

<sup>24</sup> In the 2021 annual report, 4.9 was incorrectly stated.

<sup>25</sup> Engagement Quality Control Reviewer.

At all audit firms, the annual turnover per partner increased compared to the previous year. The audit firm with the lowest number of staff per partner also had the lowest turnover 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 ratio set by European Union (EU) legislation is a three-year average of 0.7. Swiss audit firms come in well below the limits applicable in the EU.

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. CPD hours were calculated excluding self-study hours. CPD hours increased at two and fell at three audit firms year on year. One audit firm has shown the lowest amount every year since 2016.

The business model of an audit firm requires a certain level of staff turnover. However, too high a rate can impair audit quality, since a firm may not have enough capable staff with the necessary competence and pro-

fessional knowledge. Except for one audit firm, staff turnover increased compared to the previous year. One audit firm has consistently boasted the lowest rate ever since this AQI was first recorded.

An Engagement Quality Control Reviewer (EQCR) must be deployed in audits of listed 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. Since 2014, the same audit firm has consistently shown the highest values for SMI companies. The average number of hours spent by the lead auditor on the engagement depends on engagement-specific circumstances. The addition or departure of SMI companies and the rotation of the lead auditor can lead to significant fluctuations in the AQI.

The average number of lead auditor hours at SMI companies was several times higher than at the other public companies.

Four out of five audit firms outsource certain audit work to foreign shared service centres (SSCs). The proportion of outsourced audit work is unevenly distributed. Two audit firms are strongly encouraging this trend and have seen large increases in the ratio of outsourced audit work since 2017.

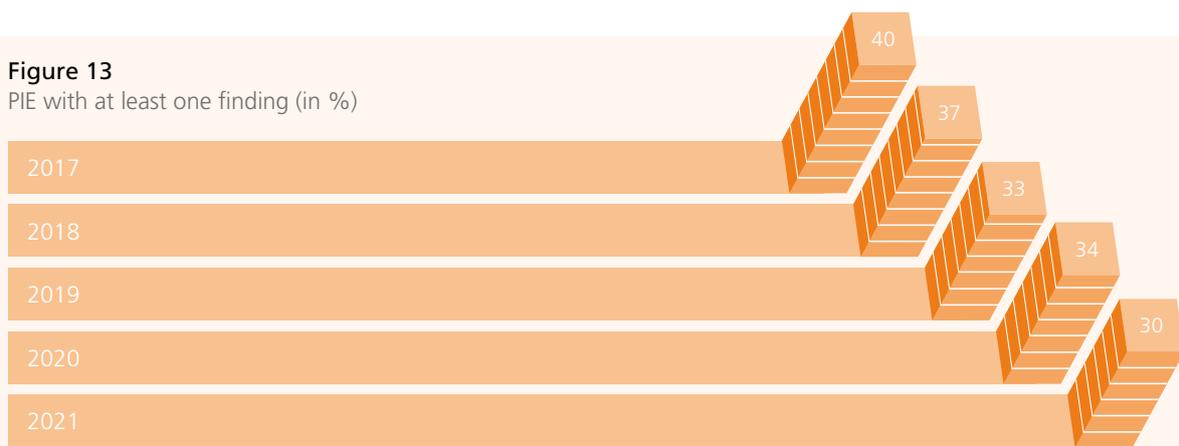
Formal consultations are to be held in response to challenging or disputed circumstances in order to increase audit quality. At one audit firm, the number of consultations per audited public company increased significantly compared to the previous year.

The five largest audit firms use their own AQIs, in some cases supplemented by the FAOA's AQIs described above. The AQIs are structured differently. All five audit firms have processes for collecting, evaluating and monitoring these AQIs.

**Evaluation of the IFIAR survey**

On 25 March 2022, IFIAR published the findings from its broad-based study of its member authorities on the anonymised inspection results from the six largest global audit networks (Fig. 13)<sup>26,27</sup>.

**Figure 13**  
PIE with at least one finding (in %)



<sup>26</sup> BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative and PricewaterhouseCoopers International Limited.  
<sup>27</sup> www.ifiar.org > Activities > Inspection Survey > 2021 Survey of Inspection Findings.

The IFIAR Survey shows a downward trend in the percentage of inspected PIEs with at least one finding on the mandate. The ratio is at 30%, which is still too high.

According to the IFIAR survey, most deficiencies were made in accounting estimates, internal controls (ICS), adequacy of financial statement presentation and disclosure, revenue recognition, sampling and reporting.

### Cooperation with stock exchanges

The FAOA coordinates its oversight activities with SIX Exchange Regulation (SER) to avoid duplication. No notification was submitted to SER in the reporting year.

### Cooperation with audit committees

Audit committees and the FAOA have a common interest in high-quality audit. Against this background the FAOA was active in two areas:

- The FAOA continued its long-standing dialogue with the chairs of selected audit committees in 2022. In particular, the FAOA drew attention to developments and trends in auditing and audit oversight and received questions and suggestions from the audit committees. For reasons of professional confidentiality, no specific items in the annual and consolidated financial statements of the issuer concerned or the audit quality of the auditing body concerned will be discussed in the course of this exchange.
- 2022 the FAOA has published the second edition of its Audit Committee Guide. The guide supports less experienced audit committee members especially in their cooperation with the external auditor and is primarily aimed at audit committees of smaller PIEs, primarily those belonging to the Swiss Performance Index (SPI).

### Standard setting

#### Swiss Standards on Auditing (SA-CH)

The new Swiss Standards on Auditing (SA-CH) were published in summer 2022 and apply in principle to the audit of financial statements for periods ending on or after 15 December 2022<sup>28</sup>. The SA-CH comprise the standards on the audit of financial statements resulting from the ISAs adopted by EXPERTsuisse with Swiss adaptations (ISA-CH) and the independent Swiss Auditing Standards (PS-CH)<sup>29</sup>. The ISA-CH correspond to the status of the international ISAs of October 2018 – after completion of the Auditor Reporting Project, the Disclosure Project, the NOCLAR Project and the revised ISA 540 (Revised). This means that there is already another gap between the ISAs and SA-CH, which will continue to widen over time<sup>30</sup>. EXPERT-suisse will continuously review any changes in the sense of a dynamic adoption and transfer them to the digital version of SA-CH as soon as the official German and French language translations are available. The gap between the ISA and SA-CH will thus be closed much more quickly in the future.

#### International auditing standards

As a result of a coordinated approach within IFIAR, the FAOA regularly submits comments on various IESBA and IAASB drafts. The comments on the drafts to the IAASB (Audits of Financial Statements of Less Complex Entities (LCE); Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised)) and to the IESBA (Definition of engagement team and group audits; Technology-related revisions to the Code; Inputs on the IESBA Strategy Survey 2022») are available on the FAOA website.

For audits of financial statements for periods beginning on or after 15 December 2021 and audited in accordance with ISAs, ISA 315 (revised)<sup>31</sup> will apply for the first time. The FAOA will treat this standard as an audit focus.

### Implementation of the new quality management standards

International Standard on Quality Management 1 (ISQM 1)<sup>32</sup> replaces International Standard on Quality Control 1 (ISQC 1)<sup>33</sup>. The requirements for Engagement Quality Reviews previously contained in ISQC 1 and ISA 220 are now summarised in the International Standard on Quality Management 2 (ISQM 2)<sup>34</sup>.

If srAF perform audits on annual and consolidated financial statements of public interest entities prepared in accordance with foreign accounting standards, they must implement the international standards on quality management. The other audit firms comply with the Swiss Standards on Auditing (SA-CH) issued by EXPERT-suisse. The Swiss standard on quality control is ISQC-CH 1, which deals with the obligations of an audit firm for its system of quality control, in particular for the performance of audits of financial statements. ISQC-CH 1 corresponds to ISQC 1, which was brought into force by the IAASB on 15 December 2009. EXPERTsuisse is expected to take over the implementation of the new international standards in due course.

The quality management system (QMS) in accordance with ISQM 1 has been developed and implemented by 15 December 2022. This means that audit firms have completed their initial risk analysis, identified and assessed the risks to achieving their quality objectives, and defined and

<sup>28</sup> There are also deviations from this principle. For example, PS-CH 290 applies from 1 January 2023.

<sup>29</sup> For example PS-CH 290, PS-CH 700 and PS-CH 890.

<sup>30</sup> In particular, the standards on quality management (ISQM 1, ISQM 2, ISA 220 (Revised)), ISA 315 (Revised) and ISA 600 (Revised) should be considered.

<sup>31</sup> ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement.

<sup>32</sup> ISQM 1, Quality Management for Firms that perform Audits or Reviews of Financial Statements, or other assurance or related service engagements.

<sup>33</sup> ISQC 1, Quality Control for Firms that perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements.

<sup>34</sup> ISQM 2, Engagement Quality Reviews.

implemented their responses. By the end of 2023 the audit firm has to verify that their QMS is actually working. The FAOA was therefore able to observe the progress of the five largest audit firms in introducing or implementing these standards up to the 2022 inspection cycle. In the 2023 inspection year it will assess the design and implementation of the QMS and in the following year focus on the effectiveness and functionality of the systems.

From the FAOA's point of view, there are already various pitfalls to consider when developing and implementing the QMS. The global networks offer extensive assistance to their member firms. This can be guidelines and specifications in the creation of a risk-response matrix, or IT systems that help with the documentation of the new QMS or carry out certain automated controls. Further, global departments can oversee processes or exercise manual controls. Global networks certainly have advantages in the implementation of ISQM 1, as they have dealt with the new regulations in good time, can provide resources (time, money, people) and the network companies are used to constantly adapting to structural and organisational changes. However, the responsibility for implementing the regulations remains with the FAOA licensee. In terms of risk assessment, this means that local conditions are decisive. Thus, non-compliance with Swiss regulations constitutes a risk. For example, one of the Swiss specifics is that the acceptance or continuation process must be completed before the audit firm is elected by the

general meeting. Also, the audit firm must be able to explain and justify the risk assessments and the responses to them. A reference to the specifications of the global networks is not sufficient here.

The audit companies are not passive recipients of the «right» solution, but must actively participate in the design of the QMS. The background to this is the scalability of the QMS. If certain risks are not present, for example because no internationally active companies are served, the responses can be simpler<sup>35</sup>. However, the more extensive the business model and the audited companies are, the more complex the QMS becomes.

Based on its observations, the FAOA notes good progress at the five largest audit firms. On the one hand, the controls implemented and their formalisation have increased. Secondly, the level of QMS documentation has increased significantly in recent years<sup>36</sup>. Some of today's documentation tools combine risk assessment, responses, control implementation and monitoring measures in one application and allow centralised evaluations. The FAOA assumes that all affected audit firms will implement the requirements in a timely manner. As this is a dynamic model, improvements will also be necessary in the future.

ISQM 2 applies to audits of financial statements for periods beginning on or after 15 December 2022. Consequently, the FAOA will not be able to assess its implementation until the 2024 audit year.

## Technological developments

### Use of technologies in the audit

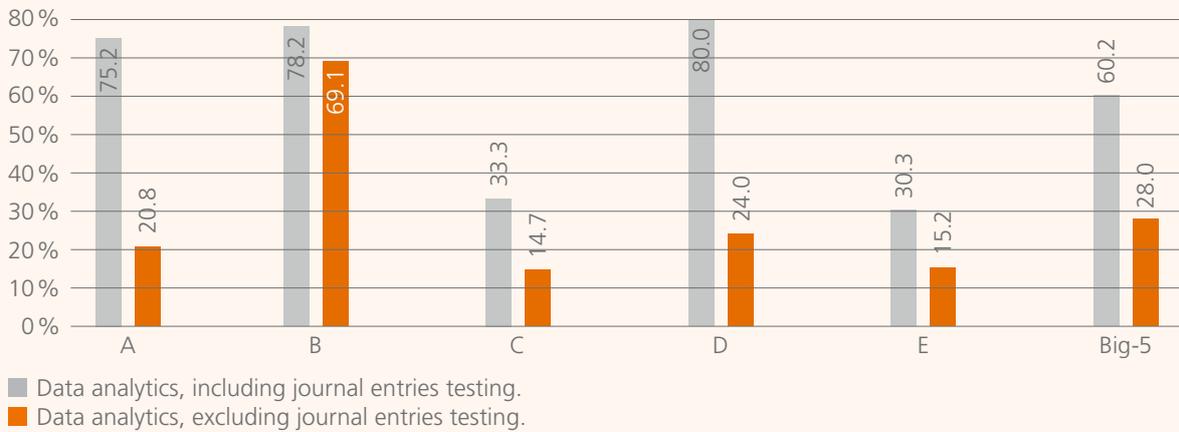
The use of technology in auditing is steadily gaining in importance. This brings both opportunities and challenges for audit firms and oversight authorities. The FAOA has been a member of the IFIAR Technology Task Force (TTF) since this financial year. The main focus of the TTF is on the one hand to gain an understanding of the use of technological resources in the networks with a particular focus on automated tools and techniques (ATT) and on the other hand to share inspection experiences. The TTF holds regular meetings with the six largest globally active audit firms. The aim is to promote a two-way dialogue between the audit firms and the members of the TTF.

During the financial year the FAOA collected information on the areas in which the five largest Swiss audit firms used data analytics tools in their audits of public companies (fig. 14).

<sup>35</sup> As an example, clarifications on compliance with independence can be carried out locally.

<sup>36</sup> For example, under ISQC 1 audit firms were still sometimes required by the FAOA to prepare a risk and control matrix or to perform a root cause analysis.

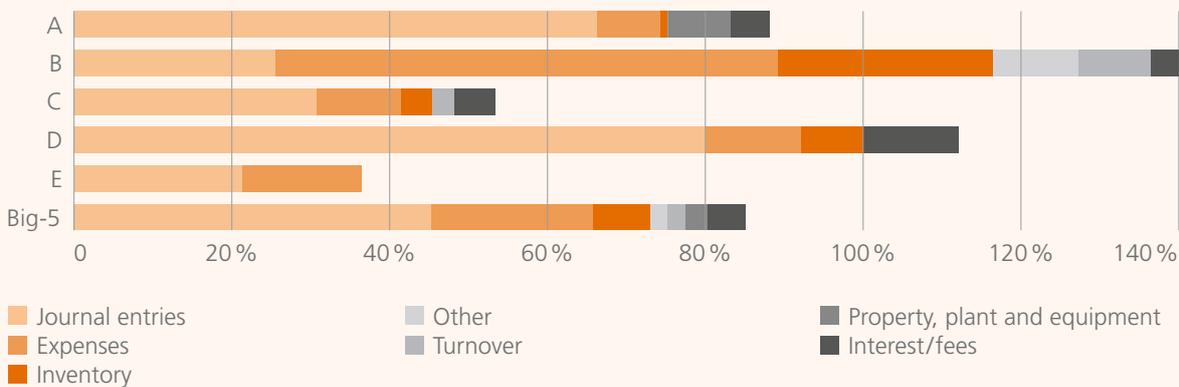
**Figure 14**  
Application of data analytics at the five largest audit firms (A to E)<sup>37</sup>



All large audit firms use data analytics tools to audit public companies. While firms A, B and D use data analytics tools (including journal entries testing) for more than 70% of public companies, firms C and E only use these techniques for around 30%. If

journal entries testing is not considered, an even clearer picture emerges. In this case, company B clearly uses data analytics tools most frequently, at around 69%, while the other audit companies have an average of around 19%.

**Figure 15**  
Use of data analytics by topic<sup>38</sup>



<sup>37</sup> The data in the chart was based on the information provided by the audit firms (self-declaration).

<sup>38</sup> The basis for calculating the percentages is the number of audit clients. Since in some cases several areas of audit clients were covered by data analytics, the percentage may be greater than 100%.

The topics where data analytics tools were used are shown above (Fig. 15). All audit firms used tools to test journal entries to varying degrees. It is noticeable that audit firms B, C and E show relatively low values compared to the other two. In addition, compared to the other audit firms, audit firm B uses data analytics tools most frequently to audit revenue, expenses, property, plant and equipment and inventories. The FAOA welcomes the use of data analytics tools as this increases audit quality. The FAOA will continue to monitor developments in this area and expects the use of data analytics to increase.

#### Technical Resources, Information Security & Cybersecurity (ISQM 1)

ISQM 1 also addresses, among other things, the technological resources of audit firms that support the operation of the quality management system and the performance of audits. Technology resources typically include systems and applications as well as infrastructure that form part of the audit firm's IT environment. In 2022 the FAOA assessed the IT environment especially of the five largest audit firms in connection with the implementation of ISQM 1. It focused on those systems and applications that are directly used for the design, implementation or operation of the audit firm's quality management system<sup>39</sup>.

The audit firms have implemented appropriate access controls, procedures and controls over procurement, development and changes, commensurate with their size and complexity, to minimise security risks to systems and applications relevant to quality management and to the corresponding data. Furthermore, incidents and problems within the IT environment are controlled and analysed. This also means that external incidents are detected, monitored, and regularly simulated through penetration tests. Employees are regularly sensitised to dangers from cyberspace (especially phishing emails).

The FAOA did not find any indications that information and cyber security or

data confidentiality were not guaranteed at the major audit firms.

#### Sustainability reporting (ESG)

Due to the emphasis on environmental and social issues and the growing need for transparent information on the impact of corporate activities on the environment and society, sustainability reporting has become increasingly important in recent years. In response, inter(national) regulatory efforts and initiatives can be observed.

With the indirect counter-proposal to the corporate responsibility initiative, new provisions were added to the CO as of 1 January 2022. On the one hand, large companies<sup>40</sup> are required to report on non-financial matters. Secondly, the law requires companies with risks in the areas of child labour and conflict minerals to conduct due diligence and reporting, which must be audited by an audit firm with limited assurance. These new provisions are applicable for the first time to the financial year beginning on 1 January 2023. From 2024, public interest entities must disclose the financial risks of their climate-related activities and the impact of their business activities on the climate. There is currently no audit requirement for climate reporting.

On 1 January 2023, the new Corporate Social Reporting Directive (CSRD) came into force in the EU, which expands both the reporting obligation and the content scope and audit requirement of the existing regulations. Large companies<sup>41</sup> based in the EU must now integrate the report on sustainability issues in the management report and have it audited by an independent auditor with limited assurance. As of the financial year beginning on 1 January 2028, third-country companies with net sales of more than EUR 150 million will also fall within the scope of this reporting obligation.

The Federal Council is striving for an internationally coordinated regulation and is constantly monitoring de-

velopments, particularly in the EU. In addition, Switzerland's leading role as a sustainable financial centre should also be secured in the future. Against this background, further regulation in the area of sustainability reporting is to be expected. The FAOA is monitoring (inter)national developments and, where possible, is actively involved in shaping the legal requirements as part of ongoing office consultations.

#### Publications of the FAOA

In June 2022 the FAOA published supervisory notice 1/2022 on the consideration of fraudulent acts in audit. The publication provides audit teams with practical guidance on responding to risks of material misstatement arising from fraudulent acts or non-compliance with laws and regulations. Among other things, the supervisory notice contains a list of questions that can support audit teams in their (mandatory) interviews with representatives of the audited entity regarding risks of fraudulent acts. The publication refers only to the ordinary audit. It does not constitute a binding pronouncement of the FAOA, nor does it derogate or override applicable (inter)national auditing standards.

<sup>39</sup> In order to understand the audit firms' governance and oversight of IT and information security, including cyber security, the following information, among others, was included and discussed with the firms: (i) organisation, including roles and responsibilities; (ii) internal policies and procedures; (iii) internal and external monitoring activities; (iv) risk management; (v) control environment and procedures, policies and processes, including training and awareness of audit firm staff; (vi) information security incident detection, recording and management procedures; and (vii) business continuity solutions.

<sup>40</sup> Public companies, banks and insurance companies with at least 500 employees, a balance sheet total of at least CHF 20 million or a turnover of more than CHF 40 million.

<sup>41</sup> Companies with 250 employees, total assets of EUR 20 million or net sales of EUR 40 million.

Furthermore, the FAOA published the 2<sup>nd</sup> edition of its Audit Committee Guide in June 2022. Audit committees and the FAOA have a common interest in high-quality audits. Against this background the FAOA produced a guide back in 2015 to support particularly less experienced audit committee members in their work with the external auditor. The guide has been revised and supplemented in certain areas. It deals with the audit committee's areas of responsibility in relation to the external auditor and contains, among other things, a questionnaire in the supplement which can support audit committees in communicating with and evaluating the external auditor. The document does not comment on the further tasks of the audit committees. The guideline is primarily aimed at audit committees of smaller public interest companies, which primarily belong to the Swiss Performance Index (SPI).

### **Focal areas for the inspections 2023**

In connection with the routine review of srAFs, the FAOA has defined the following priorities for 2023:

- Auditor's responsibilities relating to fraud (ISA 240)
- Identification and assessment of the risks of material misstatement (ISA 315 [Revised])
- Auditing of Accounting estimates and Related Disclosures (ISA 540)
- Design and implementation of the new «International Standard on Quality Management 1» (ISQM 1)

In the past, the FAOA identified various findings on the audit of fraud. Furthermore, the auditing standard ISA 315 [Revised] was applied for the first time for the audit of the financial year 2022. In addition, the audit of accounting estimates requires a particularly critical attitude on the part

of the auditor, as estimates usually involve an increased risk of material misstatement in the audited financial statements due to fraud or error. Audit firms that apply ISQM 1 had to have designed and implemented it by December 2022.

Further focal points result from the individual analysis of the concrete circumstances.

# Regulatory Audit

## Introduction

As the «extended arm» of FINMA, regulatory audit firms make a key contribution to the dualistic financial market supervision system in Switzerland. The legal framework for the regulatory audit differs significantly from the duties of an auditor under the Swiss Code of Obligations. FINMA is responsible for the reg-

ulatory audit framework and the FAOA monitors the quality of the regulatory audit.

## Inspections 2022

Seven regulatory audit firms were inspected in the reporting year. Five of them are given annual inspections (as

they audit more than 50 public-interest entities), with the other two being inspected every three years (Fig. 16).

The quality of regulatory audit services was mainly inspected by means of file reviews. The inspections completed are based on eleven regulatory audits (eight banks, two asset managers and one insurance company).

**Figure 16**  
Overview of completed FAOA inspections and number of findings

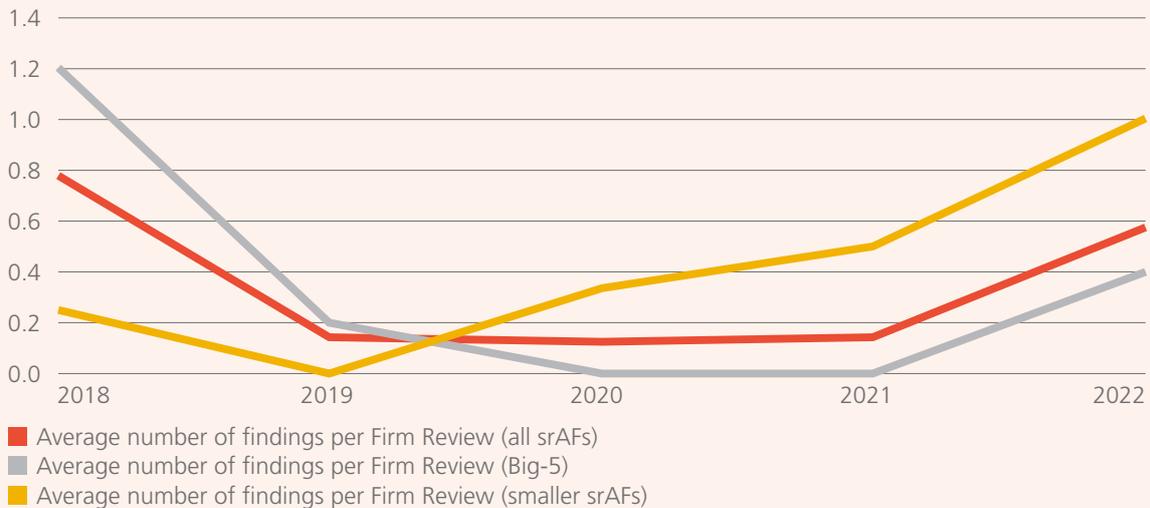
Category	Five largest audit firms		Other		Total	
	2022	2021	2022	2021	2022	2021
Number of inspections	5	5	2	2	7	7
Comment Form/findings Firm Review	2	1	2	0	4	1
Number of inspected files	9	14	2	2	11	16
Comment Form/findings File Review	13	14	7	0	18	14

## Firm Review

The development of the findings per Firm Review 2022 shows an increase compared to the previous year, which is mainly related to the audit focus of

the internal monitoring in the regulatory audit (Fig. 17). These findings required concrete measures to improve internal controls.

**Figure 17**  
Trend in the average number of findings from the Firm Review since 2018



**Monitoring regulatory audit**

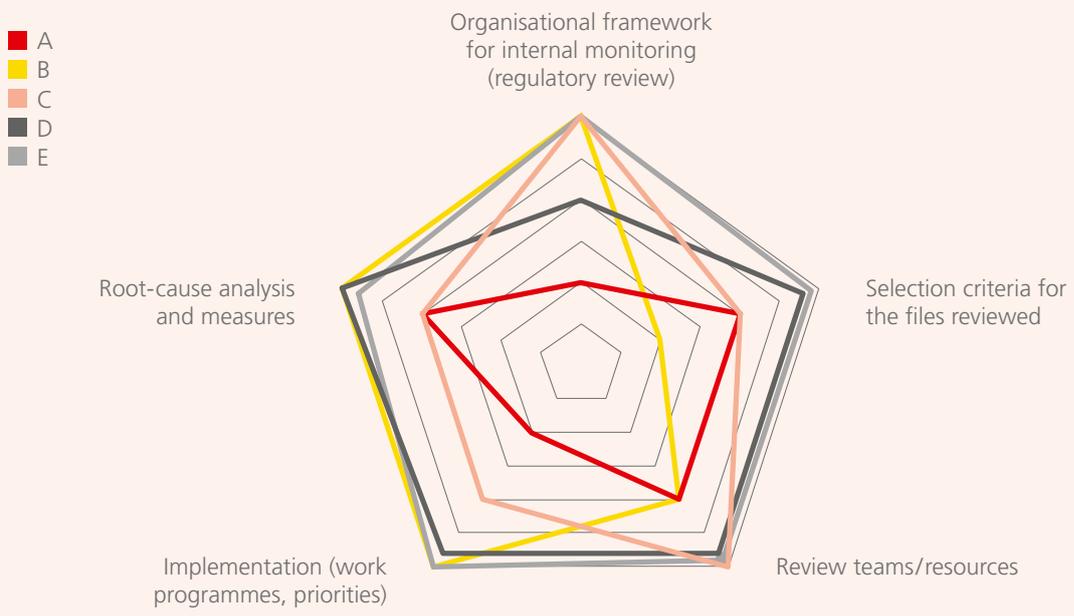
Internal monitoring has long been an important component of the financial audit quality control system and is well established there. In the regulatory audit, monitoring was not explicitly regulated in FINMA Circular 2013/3. However, FINMA recognised EXPERTsuisse’s Swiss Audit Note 70 (PH 70) as binding self-regulation on

29 January 2020. PH 70 stipulates that the audit firm’s general quality control system in accordance with the requirements of the Swiss Quality Standard (QS1) must in principle also be applied to regulatory audit unless other requirements expressly exist. The audit firm must also ensure continuous compliance with this quality control system. PH 70 does not spec-

ify any further detailed requirements for internal monitoring, which means that the general requirements of QS1 apply. Even before the introduction of PH 70, however, most audit firms did not make any fundamental distinction between auditing and regulatory audits with regard to internal monitoring.

**Figure 18**

Key criteria for assessing the adequacy of the monitoring process



As part of its firm reviews, the FAOA conducted its own follow-up surveys of the five largest audit firms (Figure 18).

The survey shows great differences in the practical implementation of the monitoring reviews in the regulatory audit. The internal requirements are regulated either as a separate internal directive based on the financial audit or as an appendix to the financial audit, where only regulatory specialities are addressed. The FAOA considers both options to be appropriate.

In practice, the majority of monitoring reviews covering regulatory audits are carried out as a parallel but independent process alongside the monitoring

reviews covering financial audits. One audit firm treats the monitoring reviews of regulatory audits as a de facto «appendix» to the monitoring reviews of the financial audit, both in the selection of mandates and in the setting of audit objectives. This does not strengthen the system of quality control in the regulatory audit to the desired extent, as the regulatory audit and the financial audit do not always involve and cover the same risks.

In most cases the selection criteria chosen by the audit firms cover the risks well. However, it is not very effective if the FAOA’s inspection is deliberately set as an exclusion criterion when selecting an audit engagement. With this focus, larger audit engage-

ments are not selected for monitoring reviews by individual audit firms over several years.

Due to the specific nature of the Swiss regulatory audit, the monitoring review teams covering regulatory audits are generally composed of persons from Switzerland. An international composition of the monitoring review team is difficult, but would not be impossible if a country has a similar regulatory system as Switzerland.

For the composition of the monitoring review team it is not so much the number of inspectors but their seniority and independence from the audit team that is decisive. In the case of a national composition of the teams it

is central for the FAOA that a sufficiently large number of inspectors are also deployed at «partner» level. It is also important that team members do not review mandates for which senior auditors and partners from their chain of command or promotion are responsible.

It is gratifying that all audit firms strive for the most complete and periodic coverage possible of all lead auditors working in the regulatory audit. However, not all audit firms set annual focus areas for the regulatory audit. Such focus areas make sense, whereby the focus should not only be on formalistic aspects. A stronger inclusion of material and technical topics, such as key points from the AMLA audit, risk management or compliance with PH 70 would be beneficial and to be welcomed.

The establishment of a consistent root cause analysis can be further expanded. It has proven useful for the audit firm to provide the responsible audit team with a catalogue of possible root-causes to open the field of

vision wide. It is also advantageous if the search for the causes of the deficiencies is analysed by an independent team.

Measures to remedy deficiencies primarily focus on raising awareness through communication and training. Although these are appropriate measures in many cases, the horizon should be broadened and extended to include other measures. Here, too, a predefined catalogue of possible measures and a well-founded analysis of the root causes is helpful. If an accumulation of deficiencies is found in individual audit areas, it is imperative that the audit documentation be adapted and additional guidance be created by the srAF for the audit teams. The reference to professional judgment cannot release from the need to define effective measures.

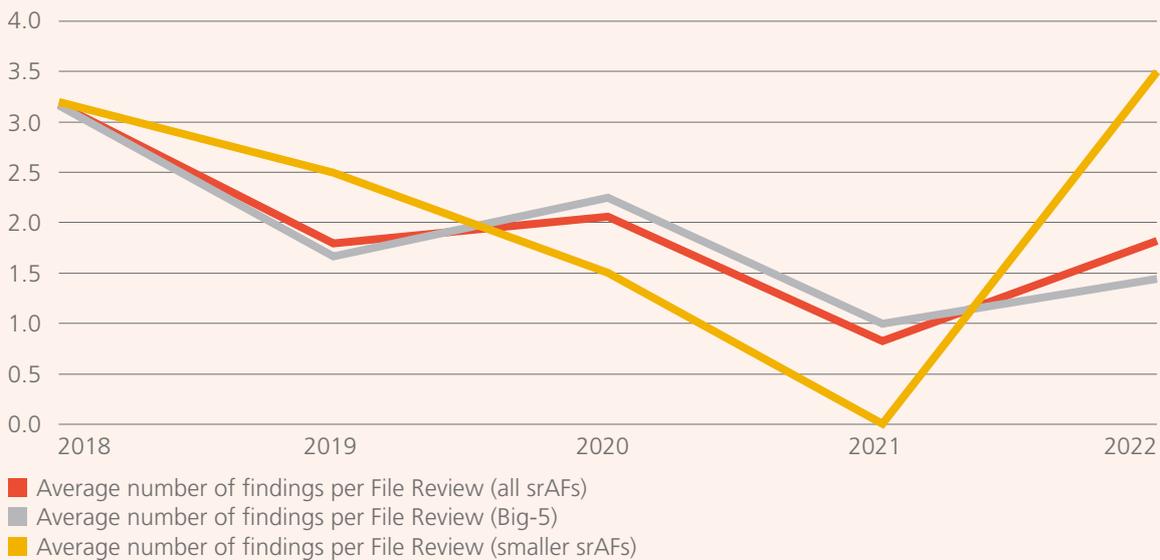
**File Review**

As with audits of financial statements audit quality in regulatory audit engagements is heavily dependent on the persons engaged. Here too, up-to-date specialist knowledge is crucial.

A total of 18 findings were made during the FAOA file reviews. Individual improvement measures were agreed with the audit firms for these findings. The number of findings is thus slightly higher than in the prior year, although an unusually high number of deficiencies were identified in one mandate with five findings. This also led to the unusually high increase in the average value for the smaller srAFs in 2022 (Fig. 19).

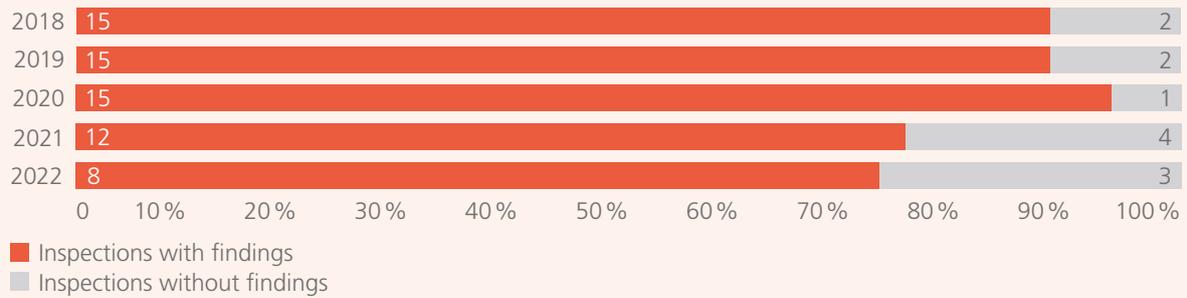
After peaking in 2018, followed by a steady decline in the average number of findings per file, a slight increase occurred again in 2022 (Fig. 19). In contrast to the previous year, six files had two or more findings. Fortunately, three inspections were completed without findings.

**Figure 19**  
Trend in the average number of findings per file since 2018



The number of inspections without findings shows an overall (percentage) pleasing development in the last two years (Fig. 20).

**Figure 20**  
Trend of inspections with and without findings since 2018



The distribution of audit areas across the inspected mandates is heavily dependent on the audit cadence (agreed between FINMA and the audit firms) and the framework conditions resulting from FINMA’s audit requirements.

The findings in the 2022 business year are distributed over the following audit areas (Fig. 21). The areas of the audit of risk management and risk reporting show the most weaknesses in percentage terms.

**Figure 21**  
Findings by audit areas



The most significant deficiencies from the two most important categories are explained in more detail below. The fact that most deficiencies are found in the audit areas of risk management and risk reporting as well as auditing of AMLA provisions is due to the fact that these two audit areas are also periodically covered more intensively by the audit firms.

**Combating money laundering**

Although slight improvements were noted compared to previous years, this year also showed that the audit had room for improvement in several cases.

The audit of the customer information («Know Your Customer», KYC) continues to show major deficiencies. The origin of the assets and the plau-

sibility of the subsequent inflows and outflows of funds are particularly critical. Contradictory information in the customer profile and the explanations of the audited institutions were not critically scrutinised enough. Consequently, there was a lack of evidence on the exercise of professional judgment with the associated significant assessments by the audit team.

Numerous findings relate to sampling, which in some cases was not or only insufficiently risk-oriented. The trend towards reducing the selected sample size to the minimum requirements stipulated by FINMA was also observed this year.

In the area of crypto assets, deficiencies were found in the audit of the beneficial owners of the wallets as well as in the audit of the existence of assets from uncertain sources. When auditing such complex and unusual subject areas, the audit firm should consult with FINMA at an early stage, i.e. before the audit, on the scope of the audit and the audit procedures to be performed.

#### Business risk management and risk reporting

In the areas of business risk management and risk reporting, deficiencies were identified in combination with a lack of audit procedures and a lack of professional scepticism. Findings were made namely in the sample selection in the loan audit, especially in the risk-oriented sample selection and by not using replacement items.

There was also a need for improvement in the audit of services provided by an external service provider, particularly in the use of reports as audit evidence to confirm that controls at the external service provider are effective. Furthermore, special attention must be paid to ensuring that the data provided by the audited companies is critically scrutinised by the audit firms. In the audit depth «audit», interviews with management and inspections of documents without further audit procedures are not sufficient. It also seems important that the quality and completeness of central management data on risk management are critically scrutinised in depth by the auditors.

#### Reports according to ISAE 3402

In the financial sector, services are increasingly being outsourced to external service organisations. Since such companies usually serve not only one financial intermediary but a multitude

of them, which in turn are audited by different audit firms, basically each of these audit firms would have to conduct an audit of the internal control system relevant to its client at the service company. To prevent this, so-called ISAE 3402 reports are used.

ISAE 3402 reports are based on the International Standard on Assurance Engagements 3402, which is an international auditing standard that regulates the auditing of an internal control system (ICS) at a service provider (including reporting) by an external auditor. However, these audits and reports are not audit services subject to FAOA oversight.

ISAE 3402 reports may not be taken at face value by the outsourcing companies' audit firms. A distinction is also made between two types of report. Type 1 audits whether the actual establishment and design of the service-related internal control system is appropriately presented at a certain point in time and whether the controls are appropriately designed. In the more significant Type 2 report, the extent to which the controls were effective over the entire audit period is additionally examined. The Swiss Auditing Standard PS 402 of EXPERT-suisse regulates the use of such reports within the scope of the financial audit. When using an ISAE Type 2 report, the standard requires the auditor to ensure that this report is based on appropriate audit evidence on the effectiveness of controls to corroborate the risk assessment.

The principles of PS 402 are used analogously in the regulatory audit. The FAOA has identified deficiencies in the use of ISAE 3402 reports (Type 2) in the course of its inspections. In particular, there is too little critical assessment of whether the operating effectiveness tests performed by the service provider's auditor are suitable for providing sufficient assurance on the outsourcing entity's internal control system. It is also important to assess whether the controls are relevant to the outsourcing company and

whether the report is based on sufficiently appropriate audit evidence on the controls.

#### Fintech and new technologies

The number of fintech institutions (Art. 1b BankA) remains low, with four authorised institutions (previous year: 4). Nevertheless, numerous financial intermediaries authorised by FINMA (e.g. banks or securities firms) are active in the area of new financial technologies or crypto-assets.

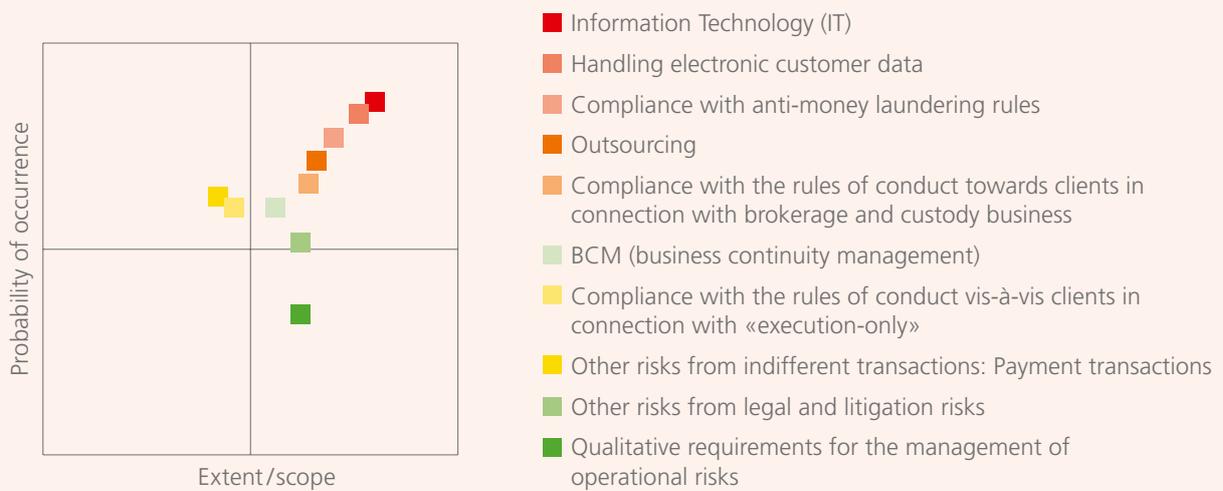
These activities are sometimes complex, risky and require specific expertise (e.g. in the areas of IT and anti-money laundering). In order to reduce audit risk it is important for audit firms to take particular care when accepting and continuing such engagements. The use of qualified individuals and specialists is of key importance to the FAOA.

In recent years the FAOA has covered audit engagements with a significant relationship to cryptocurrencies. The FAOA can summarise the risks for these institutions as follows (fig. 22). They are based on the audit firms' regulatory risk analyses.

The most important risks are directly or indirectly related to IT: IT, data protection, outsourcing of IT activities (e.g. supervised financial institutions outsourcing activities to non-supervised institutions). The AMLA risk is also very important and is one of the top 5 risks.

**Figure 22**

Presentation of risks at fintech institutions according to risk analyses by the audit firms



In the course of its inspections, the FAOA has found that both FINMA’s standard audit programmes and audit firms’ audit programmes are not always sufficiently appropriate for auditing activities related to these new technologies (e.g. auditing clients’ powers of attorney over their wallets or audit points within FINMA’s AMLA survey form). It is therefore important that audit teams critically examine these audit programmes and, if necessary, adapt, supplement and, where appropriate, proactively work with FINMA to find a common audit approach that is seen as adequate and appropriate by all stakeholders.

**Root cause analysis and measures**

Root cause analysis and the definition of actions on FAOA findings often follow the same methodology as for findings from internal monitoring. The FAOA attaches importance to a consistent and robust process here.

The FAOA observes that the root cause analyses in connection with its findings are not of the same quality and depth at all regulatory audit firms. Some regulatory audit firms tend to restrict their findings to simple problems in the documenta-

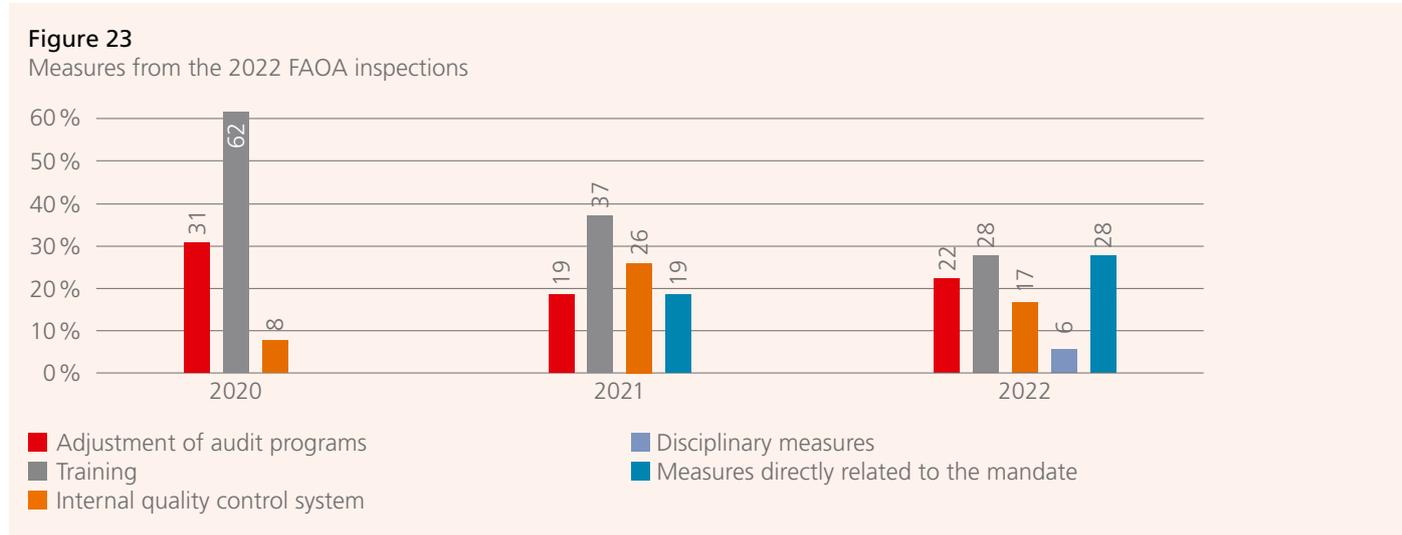
tion to avoid having to admit that the causes are more deep-rooted or must be found elsewhere. This means that the proposed measures are sometimes incomplete or not precise enough. The FAOA is therefore often forced to clarify, reinforce and improve the measures being proposed.

The shortcomings identified have many root causes, and the following section focuses on the recurring ones. For example, verbal statements from top management and employees as well as information, data and process reports presented are not given sufficient critical scrutiny or analysed comprehensively enough by the auditors.

In some cases, audit evidence from third parties is used without a closer examination of whether it even fully covers the audit points to be confirmed (e.g. internal audit reports, ISAE reports, reports from other auditors in the group relationship). A lack of involvement on the part of auditors-in-charge 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 formulated audit programmes used is a frequent cause of findings (e.g. lack of instructions for

the audit teams). Here, some audit firms are required to overhaul their specimen working papers and procedures.. In this context, it should be noted that FINMA’s standard audit programmes set out only minimum requirements and must be adapted by the audit firms to the respective situation. Moreover, while FINMA audit programmes specify the audit points to be audited, the audit methodology to achieve the audit objectives is left to the auditors. It is therefore important that audit firms incorporate their audit methodology into the audit programmes.

The most frequent measures in connection with FAOA findings in 2022 can be seen in the following diagram (Fig. 23):



The rectification of deficiencies is often and primarily done through good training of the staff. With the improvement of the quality control system and the work programmes, the occurrence of deficiencies can also be prevented.

### Preliminary fact-findings and proceedings

Alongside routine inspections, event-driven preliminary fact-finding and proceedings are also conducted at srAFs.s. Particular account is taken of credible third-party notifications and notifications from FINMA. Two notifications prompted the FAOA to undertake preliminary fact-finding at srAFs during the reporting year.

### Cooperation with FINMA

With this cooperation the FAOA creates transparency vis-à-vis FINMA and supports it in the performance of its oversight activities. Furthermore, the regular exchange of information serves to minimise the administrative burden on both authorities and the regulatory audit firms. The FAOA

also informs FINMA of the results of firm and file reviews as part of its inspection activities at the audit firms.

### Points of focus 2023

The FAOA has selected the following points of focus for the 2022 routine inspections of regulatory audit firms: In connection with the routine inspections of the regulatory audit firms, the FAOA has defined the following focus areas for 2023:

- Audit of compliance with the provisions of the Federal Act on Combating Money Laundering and Terrorist Financing (AMLA)
- Risk management review: Credit risks
- Risk management audit: rules of conduct (especially FIDLEG)

The issues surrounding the fight against money laundering continue to be present in the national and international financial markets (incl. sanctions against persons and companies domiciled in Russia, Iran, Syria, etc.), and the FAOA therefore retains this focus. Good risk management is central in view of the

distortions in the credit and financial markets (mortgage and Lombard lending business) and its audit is an important component of the regulatory audit. In the audit of the provisions of the FIDLEG, the introduction and implementation of the rules of conduct is of particular interest.

# International

## Introduction

In 2022, there was a decrease in administrative assistance cases compared to the previous year<sup>42</sup>. However, cooperation with foreign partner authorities has not become less important, in particular cooperation with the USA (see Cooperation with the USA).

## Extraterritorial scope of the AOA

In view of the internationalisation of financial markets and audited companies, the AOA has extraterritorial effects as it aims to protect investors involved in the Swiss capital market in line with comparable foreign legislation. Consequently, foreign audit firms are subject to FAOA oversight if they audit the annual or consolidated financial statements of foreign companies whose equity securities and/or bonds are listed in a Swiss stock exchange (Art. 8 AOA).

However, exemptions from the licensing requirement and the FAOA's direct oversight of these foreign audit firms are provided for in order to avoid administrative duplication (Art. 8 para. 2 and 3 AOA). These anchor the so-called principle of home state oversight. Accordingly, the supervision of foreign audit firms is delegated to the state in which the firm has its registered office. This applies if the authority of this state has been recognised as an equivalent audit oversight authority by the Federal Council.

Based on an evaluation conducted by the FAOA in the reporting year, the Federal Council recognised two further foreign audit oversight authorities from Chile (Comisión para el Mercado Financiero CMF) and China (Ministry of Finance MoF) as equivalent on 23 November 2022. The Bermuda supervisory system, which was recognised as equivalent on 1 October 2017, originally relied in particular on the agreement with the independent Canadian Public Accountability Board (CPAB) to which its inspections were delegated. This agreement was

terminated as of 1 January 2020 and the inspections thereafter delegated to the Canadian professional association CPA Ontario. As a result, the requirements for independence from the professional sector are no longer met and Bermuda's oversight system is no longer equivalent. The Bermuda Public Accountability Board (BPAB) was accordingly deleted from the list of recognised audit oversight bodies. The supervisory systems of Croatia, Poland, Romania and Hungary are still considered equivalent. However, there have been changes in the organisation of these authorities, which have been added to the list of recognised authorities.

Based on the equivalence decision of the Federal Council to the China Securities Regulatory Commission (CSRC) on 26 May 2021 (in force since 1 August 2021), the SIX Swiss Exchange was able to start trading in global depository receipts (GDRs) for shares of Chinese companies on 25 July 2022 (so-called China-Switzerland Stock Connect Westbound). Meanwhile, some Chinese companies with such GDRs are listed on the SIX Swiss Exchange. On 30 November 2022, the FAOA was recognised as equivalent by the Chinese authorities. This decision is, among other things, a prerequisite for companies listed on the SIX Swiss Exchange with Chinese Depository Receipts (CDR) to be listed on the Shanghai or Shenzhen stock exchanges (so-called China-Switzerland Stock Connect Eastbound).

## Relations with the European Union

On 7 June 2022 the FAOA and the German Auditor Oversight Body (APAS) concluded a new Memorandum of Understanding (MoU) replacing the original agreement with the former Auditor Oversight Commission (APAK).

On 22 June 2022 the FAOA and Finland's audit oversight authority the Finnish Patent and Registration Office (PRH) also concluded a new Mem-

orandum of Understanding, which replaced the original agreement with the former authority «Auditing Board of the Central Chamber of Commerce» (ABC3).

The changes in the above authorities are a consequence of an EU audit reform adopted in 2014, which entered into force in 2016.

The two newly signed Agreements continue to strengthen the protection of investors in listed companies. Likewise, it is a relief for the audit industry if direct supervision of each other's audit firms is mutually waived.

## Cooperation with the USA

The FAOA and the Public Company Accounting Oversight Board (PCAOB) initiated the fourth round of joint cross-border inspections after a two-year hiatus due to the COVID-19 pandemic. Two Swiss audit firms registered with the PCAOB were subject to such a joint inspection. This cooperation is based on the Statement of Protocol (SoP; equivalent to an MoU) originally signed by the FAOA and FINMA with the PCAOB in 2011 and extended without FINMA in 2014.

## Relations with other states and organisations

### Multilateral organisations

#### IFIAR

In light of the uncertainty surrounding the impact of the COVID-19 pandemic, IFIAR's annual plenary meeting was held virtually for the second year in a row, from 25 to 27 April 2022. The exchange focused on the topic of «Transition to the New Normal». The current state of audit oversight and the potential impact of emerging developments on audit oversight in the future «new normal» were discussed. 53 member states participated in the event.

<sup>42</sup> In the year under review the FAOA received nine requests for administrative assistance (2021: 13), of which seven were from regulators on the European continent and two from regulators on the North American continent.

In the year under review the FAOA was continuously involved in the activities of the following working groups within IFIAR:

- Enforcement Working Group (EWG): The FAOA chaired the working group from May 2018 to May 2022. The working group promotes the exchange of experience between authorities in the area of investigation and sanction procedures for breaches of standards by auditors and audit firms. In the reporting year, the EWG organised a webinar on the topic of discretionary sanctions.
- Global Audit Quality Working Group (GAQWG): This working group maintains regular dialogue with the six largest international audit networks. In the reporting year, three virtual meetings and one face-to-face meeting were held to discuss the current status of various projects to improve audit quality at a global level.
- Inspection Workshop Working Group (IWWG): This working group organises an annual workshop for the inspectors of IFIAR member authorities with the aim of fostering exchange and discussing current issues within the audit oversight. The 2022 workshop was held in virtual form for the second year in a row. The FAOA left the working group in 2022 in favour of membership in the task force below.

- Technology Task Force (TTF): The TTF aims to advance the IFIAR approach to the use of technological resources in auditing. To this end, it conducts regular exchanges with international audit networks.

The FAOA continues to serve on the IFIAR Board and is elected until 2025.

#### *CEAOB*

The Committee of European Audit Oversight Bodies (CEAOB) is the body that creates the framework for co-operation between national audit oversight authorities within the EU. The FAOA has held observer status in the CEAOB Inspection Sub-group (ISG) since 2016. The ISG is responsible for the exchange of information and cooperation between members in the area of inspections. It also aims to improve communication between members and audit firms. The FAOA attended in one virtual and one physical ISG meeting (Amsterdam, Netherlands) as an observer.

#### *UNO*

Switzerland ratified the United Nations Convention against Corruption (UNCAC) on 24 September 2009. Consequently, it is subject to the corresponding peer review mechanism for reviewing the implementation of the Convention. As part of the second round of this review, Switzerland received evaluators from Bangladesh and Sweden to answer detailed questions. The FAOA participated in this meeting alongside other authorities.

# Licensing

## Statistics

The 2022 statistics on the number of licensed individuals shows a relatively large decrease (Fig. 24). This is due to various measures taken by the FAOA

to reduce the number of individuals who are not (or no longer) active. This resulted in over 900 individuals who decided to renounce their licence.

**Figure 24**  
Licensed individuals and audit firms<sup>43</sup>

Licence type	Auditor	Audit expert	Total as at 31.12.2022	Total as at 31.12.2021
Individuals	2'454	7'100	9'554	10'208
Audit firms	573	1'405	1'978	2'005
State-regulated audit firms	–	20	20	20
Foreign state-regulated audit firms	–	2	2	2
<b>Total licences</b>	<b>3'027</b>	<b>8'527</b>	<b>11'554</b>	<b>12'235</b>

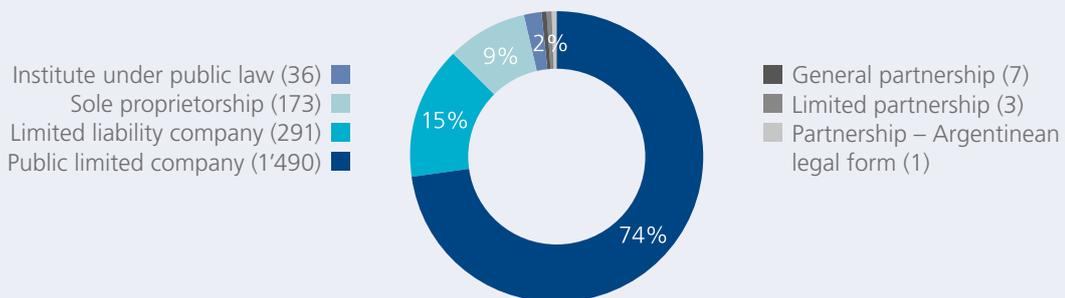
As in the previous year, around 2,000 audit firms held FAOA licences at the end of December 2022. The number of licensed audit firms thus remained stable.

For the first time the FAOA has statistically analysed the legal forms of licensed audit firms. The chart below

shows that around 90% of the audit firms are organised in the legal form of a public limited company (PLC) or a limited liability company (LLC). With around three quarters of all the licensed audit firms, the PLC is by far the most common legal form (Fig. 25). Still, almost 10% of all audit firms organise themselves in the legal forms

of sole proprietorship, general partnership or limited partnership. This is surprising insofar as it entails considerable liability risks for the respective private assets of the owners or partners. The 36 institutes under public law are financial controls of the public sector, which are entitled to obtain a licence (Art. 6 para. 2 AOA).

**Figure 25**  
Legal forms of the licensed audit firms



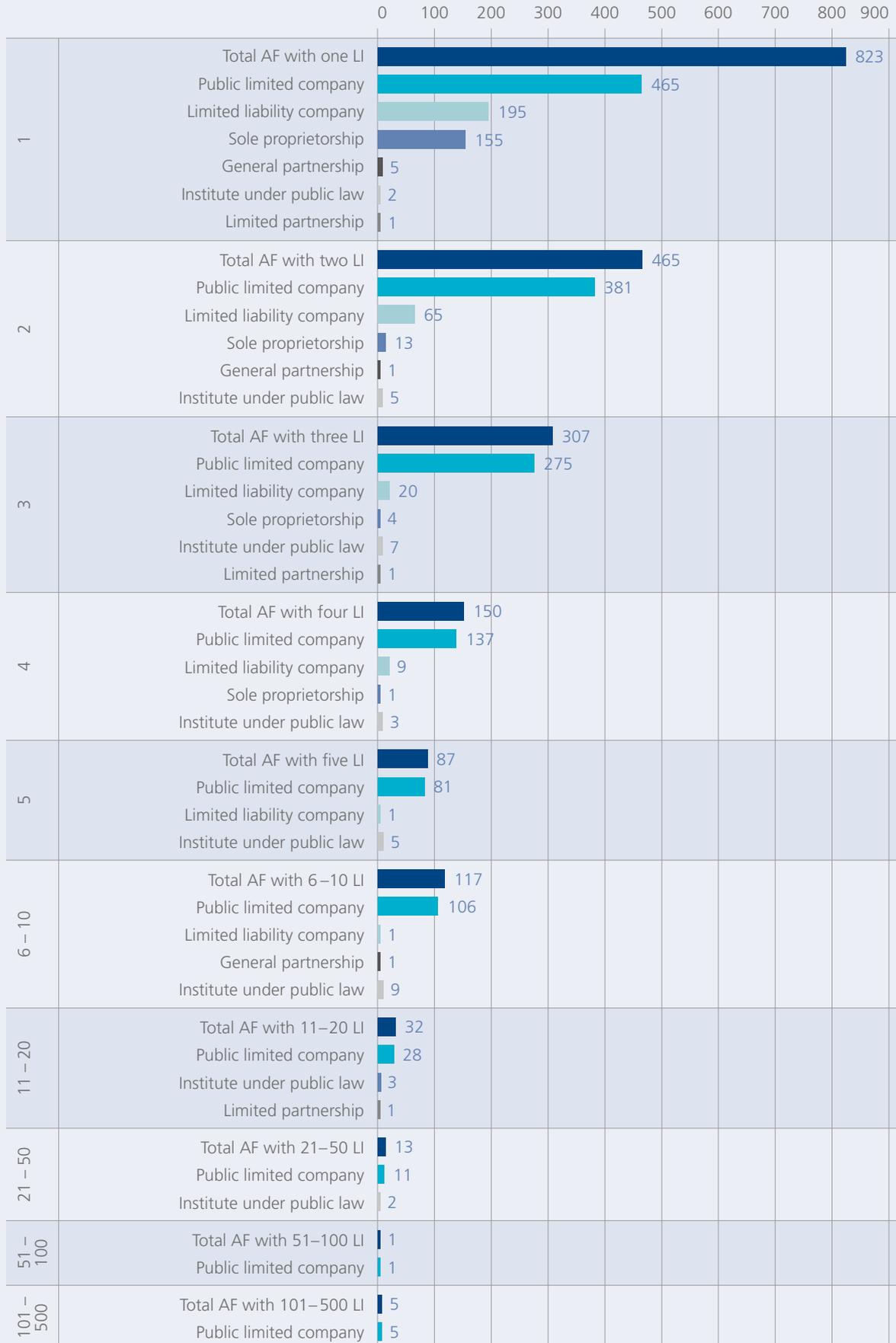
The breakdown of the legal form, taking into account the number of licensed individuals in the firm (Fig. 26), shows that the audit firms in the legal form of a sole proprietorship are very small audit firms or one-person businesses. Only five of the 173 licensed sole proprietorships employ three or

four licensed individuals. None of the licensed sole proprietorships has five or more licensed individuals.

<sup>43</sup> All figures refer to legally binding completed proceedings. Pending appeals have not been included.

**Figure 26**

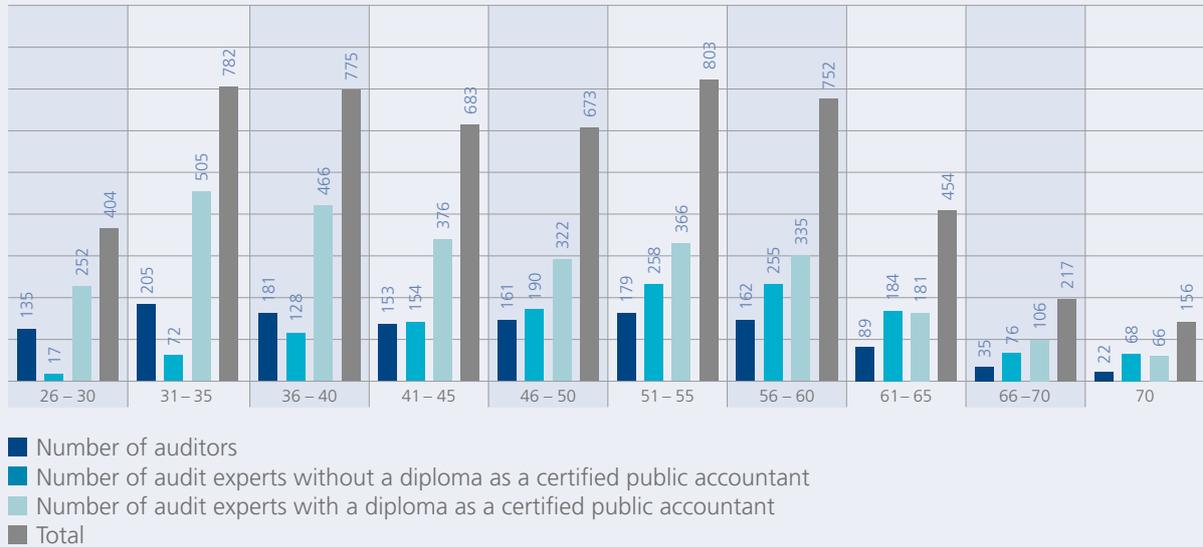
Legal form and company size (number of licensed individuals, LI) of audit firms (AF)



Regardless of the legal form chosen, 40% of all audit firms have only one licensed individual. A total of six au-

dit firms can draw on a pool of 50 or more licensed individuals.

**Figure 27**  
Age structure of the active licensed individuals



Individuals are licensed by the FAOA for an unlimited period. However, around 40% of the licensed individuals currently listed in the FAOA register are not linked to an audit firm. The analysis of the age structure of licensed individuals (Fig. 27) therefore only contains those licensed individuals who were effectively linked to an audit firm at the end of December 2022.

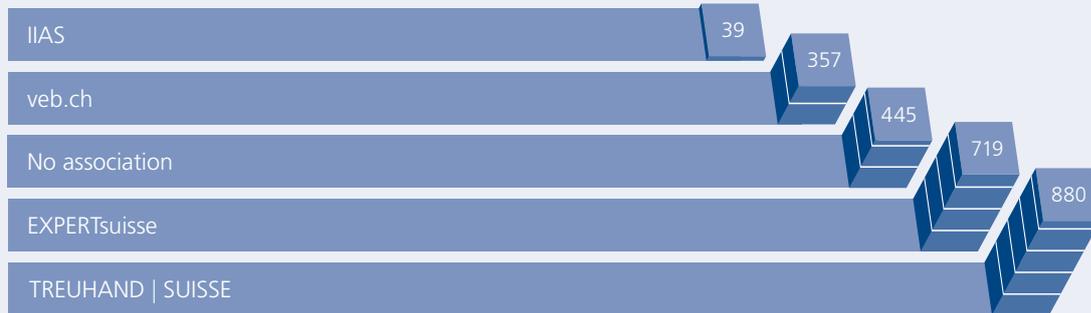
In the category of individuals up to 25 years, no individuals have a licence as audit experts and only seven individuals have a licence as auditors. Therefore this category was omitted in figure 27. In the category of certified public accountants, individuals with comparable foreign diploma were also taken into account. About 10% of the certified public accountants are individuals with comparable foreign educations.

The evaluation shows that the number of licensed individuals between the ages of 30 and 60 is relatively stable in all age structures and that no obvious demographic gap is discerni-

ble. Only in the category of individuals over 60 years is a clear decrease in the number of licensed individuals noticeable. The relatively even distribution of licensed individuals across the various age groups gives hope that the individuals leaving the field of auditing due to age can be replaced by young professionals coming up.

While the number of licensed certified public accountants decreases with increasing age, the number of licensed audit experts without a diploma as certified public accountants increases with increasing age. This can be explained by the fact that audit experts, which are not holding a certified public accountant diploma, have to prove up to 12 years of professional experience to become a licensed audit expert. The acquisition of the necessary professional experience therefore requires a certain length of professional activity in the accounting and auditing industry and is only achieved by various employees in the auditing industry with increasing age. Nevertheless, the percentage of audit experts clearly exceeds

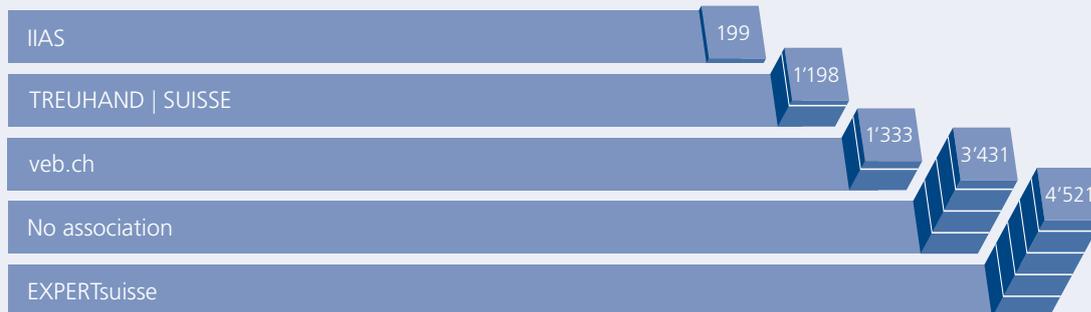
the percentage of auditors in all age categories (except in the category of individuals up to 25 years, which is insignificant in terms of licensing).

**Figure 28**Professional association memberships<sup>44</sup> of licensed audit firms

The percentage of professional association memberships of the licensed audit firms largely moved sideways in the reporting year compared to the previous year (Fig. 28). 27 audit firms

are members of three professional associations, 385 firms are members of two professional associations and 1'140 audit firms are members of one professional association. 445 au-

dit firms have no professional association membership. This corresponds to a share of around 22% (previous year 23%).

**Figure 29**Professional association memberships<sup>45</sup> of licensed individuals

The effective numbers of professional association memberships of individuals have decreased compared to the previous year (Fig. 29). However, this is largely due to the voluntary cancellation of around 900 individual licences (see above). 106 licensed individ-

uals are members of three different professional associations at the same time, 913 of two professional associations and 5'104 of a single professional association. 3'431 licensed individuals have no professional association membership (around 36%).

The number of audit firms performing ordinary audits is largely stable at the level of the previous year, with a slight decrease of five audit firms (Fig. 30).

<sup>44</sup> Including multiple answers from audit firms with multiple professional association memberships.

<sup>45</sup> Including multiple answers from individuals with multiple professional association memberships.

**Figure 30**  
Frequency of ordinary audits<sup>46</sup>

Number of audit firms	2022	2021
1 to 5 ordinary audits	327	341
6 to 10 ordinary audits	72	68
11 or more ordinary audits	94	89
<b>Total number of audit firms performing ordinary audits</b>	<b>493</b>	<b>498</b>

As in previous years, the vast majority of audit firms (75.3 %) has no ordinary audits. 5.81 % of the audit firms have neither limited nor ordinary au-

aits. This does not take into account any selective audit services that may nevertheless have been provided.

**Figure 31**  
Frequency of limited audits<sup>47</sup>

Number of audit firms	2022	2021
1 to 10 limited audits	601	598
11 to 20 limited audits	380	384
21 or more limited audits	898	921
<b>Total number of auditing firms performing limited audits</b>	<b>1'879</b>	<b>1'903</b>

The number of audit firms with limited audits decreased by 24 audit firms compared to 2021 (Fig. 31).

For the limited and ordinary audits performed by the audit firms as a whole, the number of audits is stable compared to the previous year (Fig. 32).

<sup>46</sup> Information based on audit firm self-declarations.

<sup>47</sup> Information based on audit firm self-declarations.

**Figure 32**Total number of limited (LA) and ordinary audits (OA)<sup>48</sup>

Licence type	LAs	OAs	2022	2021
State-regulated audit firms	15'533	8'264	23'797	23'670
Other licensed audit firms	65'719	3'133	68'852	68'956
<b>Total audits performed</b>	<b>81'252</b>	<b>11'397</b>	<b>92'649</b>	<b>92'626</b>

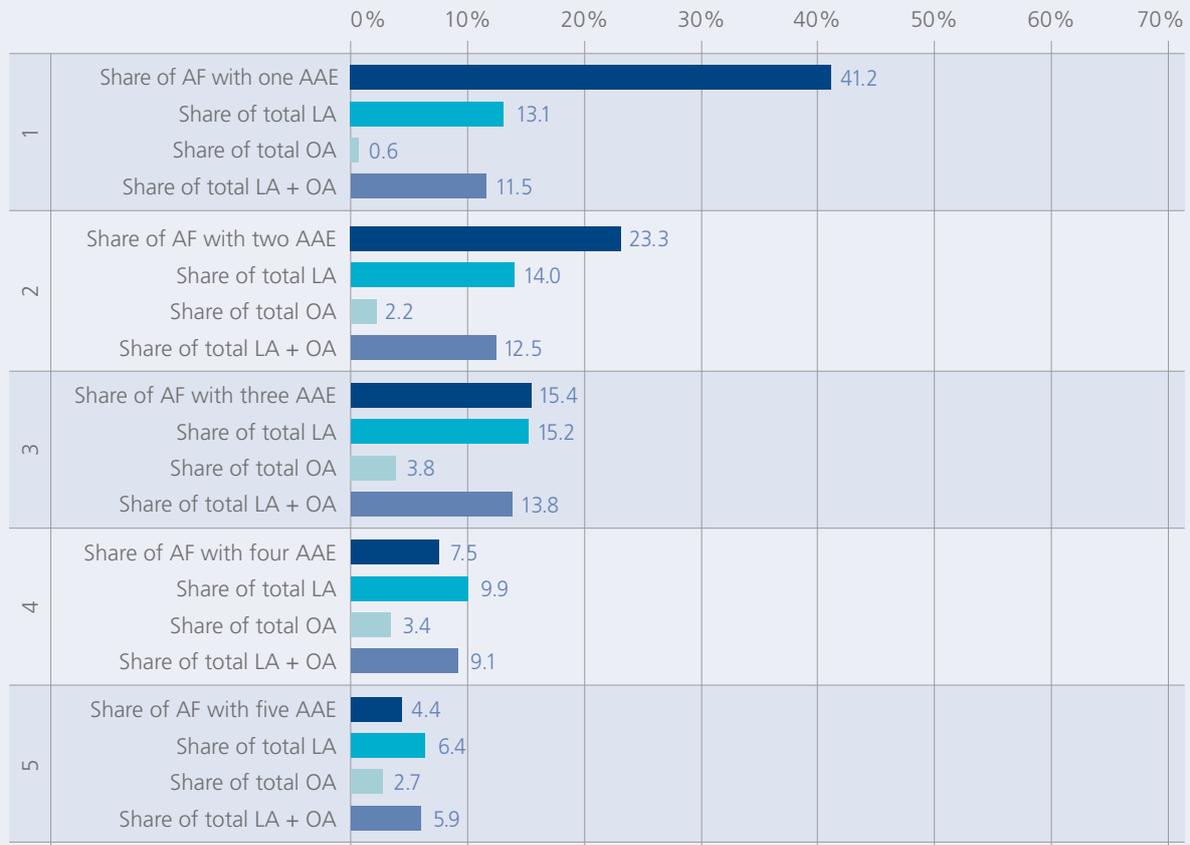
The srAFs are responsible for about one quarter of the audits carried out each year. The five largest audit firms, which all have more than 100 licensed auditors respectively audit experts, perform a total of 20.1 % of all audit services in the total market of limited and ordinary audits (Fig. 33). With around 64.2 % of the ordinary audits performed, the market

for ordinary audits is relatively heavily concentrated among the five largest audit firms in Switzerland. These results, however, differ significantly from the market for limited audits. Here, the five largest audit firms have a market share of around 13.9 % (all 20 srAFs domiciled in Switzerland handle around 19.1% of the limited audits). This share is practically iden-

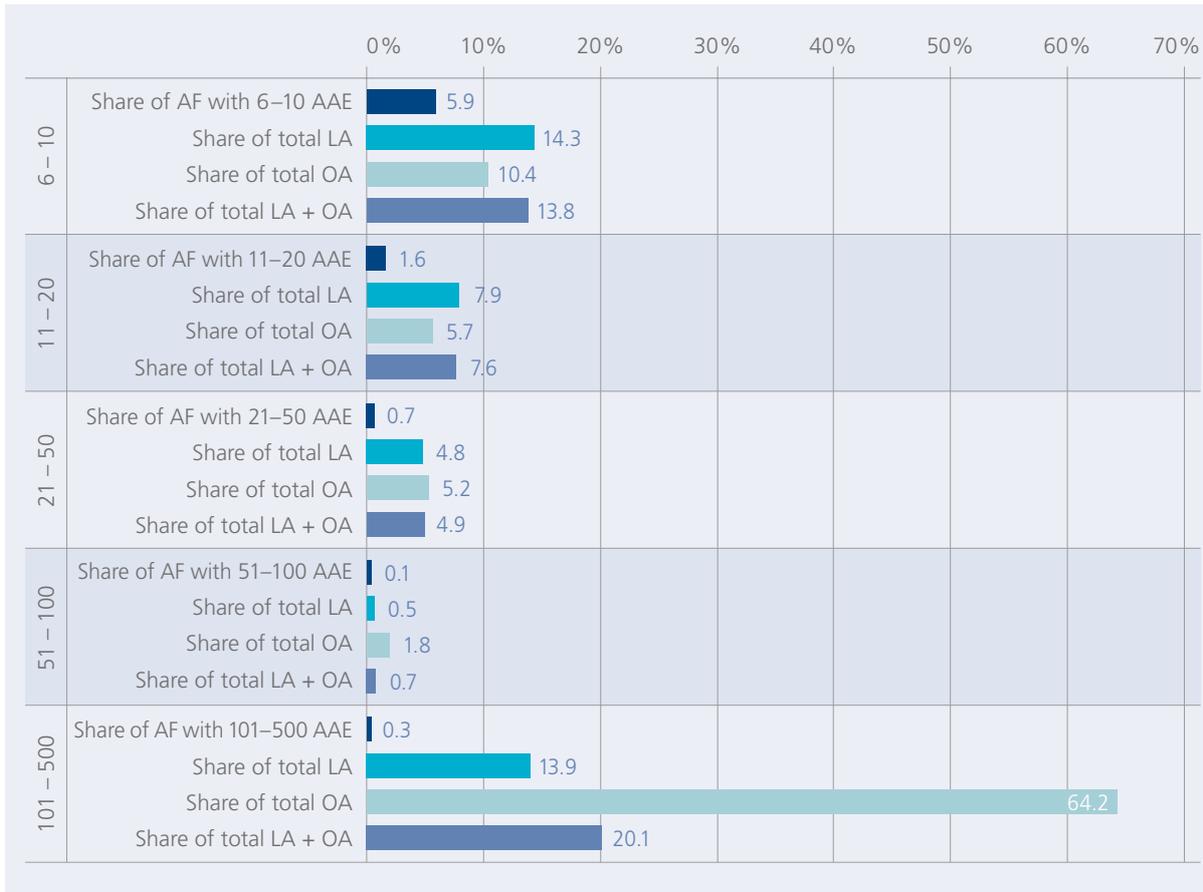
tical to the market share of those firms in which only one individual has a licence (13.1%). However, firms with only one licensed individual account for 41.2 % and the four largest audit firms together account for only 0.3 % of all licensed audit firms in the market.

**Figure 33**

Shares of audit firms (AF) in the total market of limited (LA) and ordinary (OA) audits depending on their size (number of licensed auditors and audit experts, AAE)



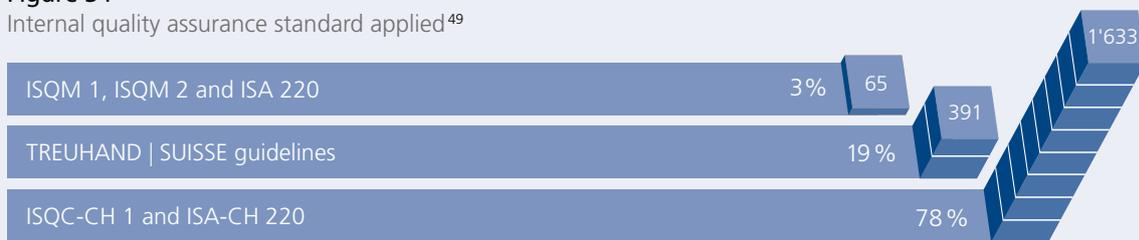
<sup>48</sup> Information based on audit firm self-declarations.



The new quality assurance standards (QA) have been applied since 15 December 2022. In that process, the QA standards «SQS 1 and SAS 220» were replaced by «ISQC-CH 1 and ISA-CH 220» and «ISQC 1 and ISA 220» by «ISQM 1, ISQM 2 and ISA 220». The previous QA standards therefore were replaced by the new

designations in figure 34. The guidelines provided by the professional association Treuhand | SUISSE, continues to be applied and is therefore still designated as such. Apart from the new designations, the number of the applied QA standards has changed only slightly compared to the previous year.

**Figure 34**  
Internal quality assurance standard applied<sup>49</sup>



<sup>49</sup> Only the highest QA standard was taken into account when audit firms declared several QA standards.

**Figure 35**  
Regulatory auditors-in-charge by special licence type

Licence type	Total regulatory auditors-in-charge as at 31.12.2022	Total regulatory auditors-in-charge as at 31.12.2021
Audits under BankA, FMIA, FinIA <sup>50</sup> and MBA	111	116
Audits under CISA <sup>51</sup>	67	69
Audits under InsSA	40	38
Audits under Art. 1b BankA (fintechs)	26	27
<b>Total licences</b>	<b>244</b>	<b>250</b>

The number of auditors-in-charge who hold one or more special licences for regulatory auditing (Art. 9a AOA) remained stable in 2022 (Fig. 35).

The total of 244 special licenses is held by a total of 180 auditors-in-charge, some of whom hold several special licences.

The number of special licences for regulatory auditing is among the srAFs stable (Fig. 36). The total of 34 special licences is distributed among a total of eleven different srAFs, which usually have several special licences.

**Figure 36**  
Regulatory audit firms by special licence type

Licence type	Total regulatory audit firms as at 31.12.2022	Total regulatory audit firms as at 31.12.2021
Audits under BankA, FMIA, FinIA and MBA	8	8
Audits under CISA	10	10
Audits under InsSA	7	7
Audits under Art. 1b BankA (fintechs)	9	9
<b>Total licences</b>	<b>34</b>	<b>34</b>

## Licence renewal

### In the past year

In the reporting year, the licences of a total of 71 audit firms were seamlessly renewed (Fig. 37). The licences of three audit firms, which expired due to missing documents or deficiencies, were subsequently renewed after the requirements were met.

A total of 28 audit firms voluntarily waived the continuation of their licence.

<sup>50</sup> The «FinIA» category includes securities firms in accordance with Art. 2 para. 1 letter e FinIA (previously «securities traders»).

<sup>51</sup> 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).

**Figure 37**

Number of licence renewals granted in 2022

Licence type	Auditor	Audit expert	Total 2022	Total 2021
Total licence renewals	24	50	74	109

### Priorities for the third wave of licence renewals

Audit firms are licensed by the FAOA for a period of five years (Art. 3 para. 2 AOA). An exception to this applies only to those audit firms which are state-regulated (Art. 7 para. 3 AOA).

The third wave of licence renewals will begin in 2023. The FAOA will continue to focus on ensuring compliance with the central elements of the quality assurance system in the areas of continuing professional development and monitoring:

- The experience of recent years shows that still not all audit firms carry out a control of the necessary continuing professional development nor enforce the continuing professional development requirements from their staff. For this reason, in the process of the licence renewal, the FAOA requests from all the licensed audit firms the professional development controls (without course certificates) of all licensed and active auditors and audit experts. The FAOA only requests course certificates if there are doubts about the correctness of the control of the continuing professional development.
- The FAOA will continue to assess whether the monitoring and the corresponding reports are carried out on an annual basis and whether all substantive aspects of the firm- and file-review are present. Therefore, from 2023 onwards, not

only the last monitoring report, but also the last five monitoring reports will be required.

- Only isolated deficiencies have been found in the past regarding the compliance of the rotation obligation of the auditors (in charge) carrying out ordinary audits (Art. 730a para. 2 CO). The processes of the rotation obligation have proven that they work, therefore the request for relevant documents will be waived in the future and only a confirmation from the audit firm, that the requirements are met, will be required.

### Notification and reporting obligations

In 2022 the FAOA noted again that the notification and reporting obligations were not always met by the firms nor the individuals. All individuals and audit firms are required, from the starting point of their application, to notify the FAOA without delay of any relevant facts concerning the assessment of the licensing requirements (Art. 15a para. 2 AOA). The duty to notify applies not only to the actual licensing procedure, but also for an unlimited period up to the point at which a licence no longer exists. In particular, the following must be reported: judgments by courts of first instance or higher courts and settlements in criminal and administrative criminal proceedings, including those not yet final; the issuing of

certificates of loss as well as completed civil or administrative liability proceedings relating to auditing services prescribed by law; and proceedings before oversight authorities under special law, bodies that determine penalties under stock exchange law or professional standards bodies (Art. 15a para. 1 and 2 AOA in conjunction with note 7 letter o and note 8 letter n of Circular 1/2007).

In particular, proceedings before professional standards bodies are often not reported to the FAOA. Any violation of the notification and reporting obligations is deemed and infringement and can be punished with a fine of up to CHF 100'000 (Art. 39 para. 1 let. d AOA). The notification and reporting obligations are fulfilled by entering the necessary information in the corresponding online user account and uploading all the documents within ten working days using the document upload function or sending the documents to the FAOA by post.

## Enforcement and court rulings

### Enforcement

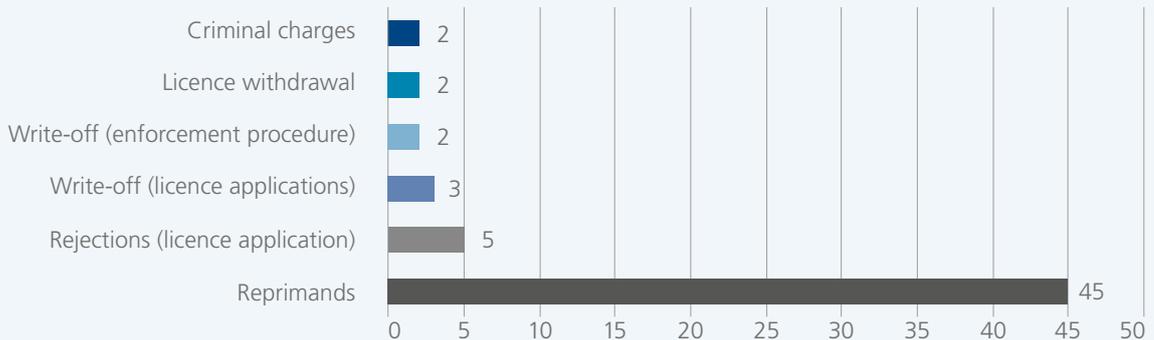
In the reporting year, a total of five licence applications were rejected (previous year: 13). Furthermore, two licence withdrawals were imposed (prior year: six) and 45 reprimands were issued (prior year: 61) (Fig. 38).

In addition, the FAOA filed two criminal charges on suspicion of providing audit services without a licence in 2022 (prior year: one). All applications were accepted (prior year: one not accepted). In 2022, there were no licence surrenders during ongoing enforcement proceedings (previous

year: one). In addition, two enforcement procedures were suspended in the reporting year because the reprimand or withdrawal of authorisation would not have been justified. In addition, two initial licensing procedures were written off as the corresponding applications were withdrawn.

**Figure 38**

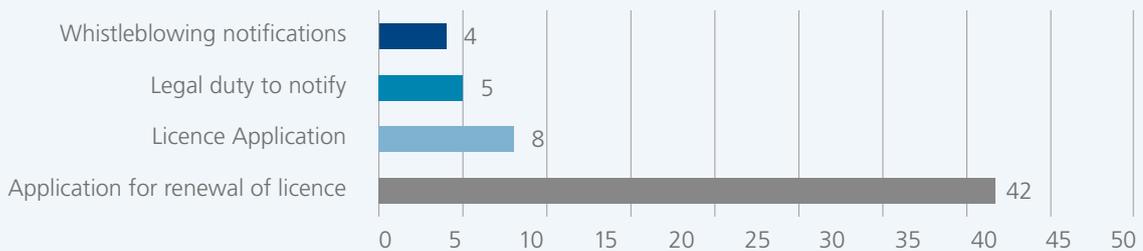
Number of enforcement orders and criminal charges



The following chart shows the source of the lead that prompted the respective enforcement procedure (Fig. 39).

**Figure 40**

Enforcement orders by source of the opening of proceedings



### Statistics 2019–2022

In continuation of previous publications<sup>52</sup>, the following are overall statistics on the FAOA's enforcement activities in 2019–2022 (Fig. 40)<sup>53</sup>. The

«Tendency» column shows whether there were more (▲), fewer (▼) or an equal number of cases (↔) in the respective category compared to the 2015–2018 period.

<sup>52</sup> See the statistics 2007–2010 (Annual Report FAOA 2010, p. 10 f.), 2011–2014 (Annual Report FAOA 2014, p. 37 f.) and 2015–2018 (Annual Report 2018, p. 35 f.).

<sup>53</sup> For statistical purposes, the conclusion of the proceedings in the first instance is decisive. Due to methodological improvements, the figures do not fully correspond to those in previous annual reports.

**Figure 40**

Overview of the FAOA's enforcement activities 2019–2022

Natural persons			2019–2022			
Type of order	Deficiency	Case category	Number	%	Trend	
Application not proceeded with	Duty to cooperate	No documents submitted with application	1	1.5	↓	
Application rejected	Duty to cooperate	Incomplete application	0	0	↓	
		Professional experience	No qualification under Art. 4 para. 2 letters a-c AOA	0	0	↓
			Insufficient supervised professional experience	3	4.6	↓
			Insufficient length of professional experience	0	0	↓
		Lack of professional experience in audit	0	0	→	
	Foreign education	No qualification under Art. 4 para. 2 letter d AOA (incl. no reciprocity)	15	23.1	↑	
		Lack of knowledge of Swiss law	1	1.5	→	
	Reputation	Breach of independence	0	0	→	
		Convictions under civil or criminal law	0	0	→	
		Auditing without a licence	0	0	→	
		Financial situation	0	0	→	
	Special licence requirements	Continuing professional education hours	0	0	↓	
		Regulatory audit hours	0	0	→	
Rejection as audit expert but licenced as auditor	Professional experience	Insufficient period of specialised practice	0	0	→	
	Foreign education	Reciprocity	1	1.5	↑	
Licence withdrawal	Reputation	Breach of independence	0	0	↓	
		Auditing without licence	1	2	↓	
		Convictions under civil or criminal law	2	3.1	↓	
		Financial situation	0	0	↓	
		Deficient audit	7	10.8	↑	
		Incompetence	0	0	→	
	Special licence requirements	Continuing professional education hours	0	0	↓	
Regulatory audit hours		0	0	→		
Written Reprimand	Reputation	Breach of independence	13	20.0	↑	
		Auditing without admission	8	12.3	↓	
		Convictions under civil or criminal law	7	10.8	↑	
		Deficient audit	5	7.7	↑	
		Manipulation of audit documentation	1	1.5	↑	
	Special licence requirements	Continuing professional education hours	0	0	↓	
		Regulatory audit hours	0	0	↓	
Total orders against individuals			65	100	↓	

Auditing firms			2019–2022		
Type of order	Deficiency	Case category	Number	%	Trend
Application not proceeded with	Duty to cooperate		0	0	↓
Application rejected	Duty to cooperate	Incomplete application	4	1.5	↑
	Quorum not achieved	Non-compliance with Art. 6 AOA	1	0.4	↑
	Quality assurance system	Non-compliance with Art. 9 AOO	4	1.5	↑
Licence withdrawal	Quorum not achieved	Non-compliance with Art. 6 AOA	1	0.4	↓
	Quality assurance system	Non-compliance with Art. 9 AOO	1	0.4	↓
Written reprimand	Quorum not achieved	Non-compliance with Art. 6 AOA	29	10.7	↑
	Quality assurance system	Non-compliance with Art. 9 AOO	229	84.4	↑
		Breach of independence	1	0.4	→
		Retention obligation violated	1	0.4	↑
	Registration obligation violated	–	0	0	↓
	Deficient or non-timely implementation of agreed remedial measures	–	0	0	→
	Special licence requirements	Non-compliance with Art. 11b AOO not complied with	1	0.4	↑
Total orders against audit firms			271	100	↑
Overall total of proceedings with negative outcome			336		↑

Comparison of the four time periods 2007–2010, 2011–2014, 2015–2018 and 2019–2022 shows that the number of enforcement proceedings first decreased by 38% from 308 (2007–2010) to 191 (2011–2014) and then by 23% to 147 (2015–2018) before increasing again by 129% to 336 enforcement proceedings (2019–2022).

The first reduction is due to various transitory legal questions that became less relevant in the second period from 2011–2014. The second reduction of 23%, on the other hand, can be seen as an indication that a certain professionalisation has taken place in the industry. The fact that the figures have now risen again is due to the 84% increase in written reprimands against audit firms which have had a delay in the implementation of the quality assurance requirements.

In 2019–2022, a total of 18 enforcement proceedings were conducted

resulting from the inspection of a srAF (2015–2018: 21; 2011–2014: 20; 2007–2010: 3).

The 92 srAF inspections and 198 inspected engagements in 2019–2022 resulted in a total of eight written reprimands and two licence withdrawals. In one case, the audit firm was ordered to restore the legally compliant status. In another case, the proceedings were ceased after the person concerned voluntarily waived his or her personal licence. In two cases, the proceedings were ceased without issuing a measure. Four proceedings were still pending on 31 December 2022. Overall, around 12% of all inspections resulted in an enforcement measure. Outside of inspection proceedings (in particular due to reportable events or based on information from third parties), a further five written reprimands and one licence withdrawal were issued against state-regulated audit firms or their employees.

A total of 256 reprimands (Fig. 38) and two licence withdrawals were imposed on non-srAF in 2019–2022. Of these, 181 or 71% were members of a professional association.

**Figure 41**

Number of reprimands against audit firms by case category in 2019–2022

Description of the defect	Number
<b>Deficiencies in one area</b>	
Deficiencies in the audit process	157
Deficiencies in the enforcement of the continuing professional education requirements	28
Breaches of the legal quorum	21
Delayed introduction of the QA system	9
Deficiencies in the documentation of the QA system	3
Deficiencies in the retention of audit documentation	1
<b>Deficiencies in two areas</b>	
Deficiencies in the inspection process and deficiencies in the enforcement of the continuing professional education requirements	21
Violation of the statutory quorum and deficiencies in the inspection process	6
Delayed introduction of the QA system and deficiencies in the inspection process	5
Deficiencies in the documentation of the QA system and deficiencies in the inspection process	2
Violation of the legal quorums and deficiencies in the enforcement of the continuing professional education requirements	1
<b>Deficiencies in three areas</b>	
Violation of legal quorums, deficiencies in the inspection process and deficiencies in the enforcement of continuing professional education requirements	1
Delayed introduction of the QA system, deficiencies in the inspection process and deficiencies in the enforcement of the continuing professional education requirements	1
<b>Total</b>	<b>256</b>

Provided that the identified deficiencies were remedied, the audit firm was re-licenced under issuance of the aforementioned reprimand.

### Court rulings

In 2022 the Federal Supreme Court (FSC) ruled on access to an official document under the Freedom of Information Act. The Federal Administrative Court (FAC) ruled on four appeal cases between the FAOA and licensed persons or companies. Significant deliberations are summarised below.

#### [Federal Administrative Court Ruling No. B-5528/2019 of 21 March 2022](#)

In connection with the withdrawal of the licence as an audit expert and as

lead auditor of banks, financial market infrastructures, financial groups and public tenders, securities firms and central mortgage bond institutions for a period of four years, the FAC evaluated the numerous breaches of the provisions on financial and regulatory auditing identified by the FAOA. The FAC concluded that the misconduct was severe enough to call into question the guarantee of proper audit work and that only the withdrawal of the licence could come into consideration. However, the FAC reduced the duration of the withdrawal by one year to three years as it took individual elements in favour of the complainant into consideration where the FAOA had made a stricter assessment. The judgement is not yet legally binding.

#### [Federal Supreme Court Ruling No. 1C\\_93/2021 of 6 May 2022](#)

The FSC dealt with whether Article 19 AOA, as a special provision, takes precedence over the Federal Act on Public Access (FOPA). The court ruled against the legal opinions of the FAC and the FAOA, which had concluded that Article 19 AOA is a special provision that takes precedence over the FOPA. As a consequence, FOPA applies to the FAOA's supervision and enforcement practice. In its reasoning, the FSC distinguishes between personal data of audit firm employees, which can be anonymised or redacted, and personal data of the audit firms themselves, which can neither be anonymised nor redacted. A balancing of interests must therefore be carried out in order to decide

whether or not a document must be made accessible in its entirety (Art. 19 para. 1<sup>bis</sup> let. b FADP). In this specific case, the question is whether there is an overriding public interest in the FAOA's inspection report. The FSC ruled that the FAC's assessment of interests must be corrected and amended on several points. It therefore upheld the appeal, overturned the contested verdict and referred the matter back to the FAC for a new ruling.

[Federal Administrative Court Ruling No. B-5889/2020 of 3 August 2022](#)

In this case, the FAC dealt with the question of whether foreign training (United Kingdom) qualifies as equivalent. It was in particular questionable whether all theoretical requirements of the necessary «audit qualification» were met in a transitional legal constellation. The FAOA's position was essentially to reject the application for a licence as an audit expert for lack of reciprocity. The applicant was in fact not entitled to work as an auditor in the UK on the basis of her training. Furthermore, she was not in a position to substantiate that all theoretical requirements for obtaining an audit qualification were met within the temporarily applicable accommodation provision of the FAOA. The Court however notes that the lack of evidence was not due to a failure to pass an examination, but to the fact that the applicant had been exempted from taking the examination. Moreover, it is to her credit that she absolved the missing examination immediately upon learning of the problem. The FAC therefore concluded that the particular situation surrounding this exemption had to be taken into account in terms of proportionality; the applicant would otherwise most likely have absolved the exam in 1999 and thus fulfilled the theoretical requirements for the «audit qualification». The FAC referred the case back to the FAOA for a new decision, which has since approved the person concerned as an audit expert. For the sake of good order, it should be noted that, due to the particular circumstances, this

judgement does not result in any change to the FAOA's practice on audit qualification in the UK.

[Federal Administrative Court Ruling No. B-1640/2021 of 19 December 2022](#)

In this case the FAC dismissed the appeal after the FAOA had withdrawn a person's licence as an audit expert for a period of three years. The person in question had carried out the respective formation audit for five public limited companies in a grossly negligent manner. No documentation for careful audit planning was prepared for those companies («not documented, not done») and audit confirmations were issued for non-cash contribution foundations by means of paintings, although a review of the legal requirements (in particular with regard to the possibility for capitalization or utilization and availability) had neither been carried out nor documented in a legally compliant manner during any of the foundations. It could not be proven that the contributions in kind had ever been available to the incorporated companies. Thus, elementary duties of care were violated in the core area of the audit. Furthermore, the duty to notify the FAOA was breached by not reporting two relevant court rulings. Due to the serious breaches of duty, the complainant does not offer any guarantee of impeccable audit work. The FAC therefore confirmed the proportionality of the licence withdrawal.

**Other rulings of interest**

[Federal Supreme Court Ruling No. 4A\\_496/2021 of 3 December 2021 \(BGE 148 III 69\)](#)

In the above-mentioned ruling, the FSC decided that the term of office of a member of the board of directors ends six months after the end of the last relevant business year if no re-election takes place in accordance with the law. The FSC has thus answered the controversial question previously left open by the court of last instance, as to whether and for

how long members of the board of directors remain in office without explicit re-election after the expiry of their statutory term of office. Since the court thus denies the tacit extension of the board mandate, this results in a defect in the organisation. In contrast, the term of office of the auditors ends with the approval of the last annual financial statement of their term (Art. 730a para. 1 CO). Unlike for the members of the board of directors, the term of office for the auditors is thus extended until the final audited annual financial statement of their term in office has been approved. This also applies in principle if the board of directors fails to convene a general meeting at which the audited annual financial statements can be approved.

[Federal Supreme Court Ruling No. 4A\\_581/2021 of 3 May 2021](#)

In these proceedings, the FSC dealt with a claim based on liability of the bankruptcy estate of a company against the auditors under company law (Art. 755 CO). The court ruled that an unquantified claim should not be admitted if the plaintiff does not explain why it is impossible or unreasonable for him to quantify his claim at the beginning of the proceedings in his statement of claim (Art. 85 para. 1 CCP). The law does not explicitly regulate at what point the plaintiff must justify this. However, the plaintiff can be required to prove that it is impossible or unreasonable to quantify the claims in the statement of claim – and not later during the evidentiary proceedings or after an expert opinion has been presented. A mere reference to missing information is not sufficient. Otherwise, the defendant would not only be in the dark about the amount for which he is being sued, but would in addition not be able to initially assess why the quantification of the claims is impossible or unreasonable. The assessment of the litigation risk would thus be made more difficult for the defendant, and the consequences resulting from Art. 85 para. 1 CCP would be solely to the detriment of the defendant.

**Federal Supreme Court Ruling**  
**No. 1B 547/2021 of 1 July 2022**

The FSC had to address an appeal against an unsealing order filed by a company that was neither the owner of the seized electronic data carriers nor directly affected by the house search. However, the company directly affected by the seizure was its auditor. According to the FSC, data is to be unsealed if the company concerned cannot prove that the data is obviously not relevant to the investigation. It is up to the company concerned to substantiate in more detail which records and files clearly could not contribute to the clarification of the incriminating facts. A general reference to business secrets (customer relations, purchases/sales, balance sheet/income statement) or to a possible «fishing expedition» is not sufficient. The audited company is only entitled to inspect the data relating to it if it can justify in a comprehensible manner why it would otherwise not be in a position to sufficiently substantiate its confidentiality interests.

## 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	<a href="#">Board of Directors</a>	<p><b>Wanda Eriksen</b>, Masters in Accounting Science, Certified Public Accountant, US CPA (Chairperson)</p> <p><b>Sabine Kilgus</b>, Prof. Dr., Lawyer (Vice-Chairperson)</p> <p><b>Conrad Meyer</b>, Prof., Dr.</p> <p><b>Daniel Oyon</b>, Prof., Dr.</p> <p><b>Victor Balli</b>, Chemical Engineer ETH/Economist HSG</p>
	<a href="#">Executive Board</a>	<p><b>Reto Sanwald</b>, Dr. iur., Attorney at Law, EMBA HSG (Chief Executive Officer)</p> <p><b>Martin Hürzeler</b>, Graduate in Business Administration, Swiss Certified Accountant (Head of Financial Audit)</p> <p><b>Heinz Meier</b>, Swiss Certified Accountant (Head of Regulatory Audit)</p> <p><b>Michael Hubacher</b>, Master of Law, Attorney at Law (Head of Legal &amp; International)</p>
	Auditors	<b>Swiss Federal Audit Office (SFAO)</b>
Number of staff	As at 31 December 2022, 29 staff members, representing 24,6 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 audit firms and the regulatory audit firms and rendering of (inter)national 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 takes organisational precautions to prevent conflicts of interest (in particular due to vested interests <sup>54</sup> ) both for itself and for employees. The FAOA Code of Conduct is published on the FAOA website. Staff were trained accordingly on 18 January and 25 October 2022 and the Board of Directors on 28 November 2022.	

<sup>54</sup> The vested interests of the BoD members are [disclosed](#) on the FAOA website.

## List of abbreviations

AMLA	Anti-Money Laundering Act of 10 October 1997	ISG	Inspection Sub-group
AMLO	Anti-Money Laundering Ordinance of 11 November 2015	ISQC 1	International Standard on Quality Control 1
AMLO-FINMA	FINMA Anti-Money Laundering Ordinance of 3 June 2015	ISQC-CH 1	Quality management system for audit firms performing audits or reviews of financial statements, or other assurance or related services engagements.
AOA	Audit Oversight Act of 16 December 2005	ISQM	International Standard on Quality Management
AOO	Audit Oversight Ordinance of 22 August 2007	IWWG	Inspection Workshop Working Group
AR 70	Swiss Audit Recommendations 70	KAM	Key Audit Matter
BankA	Banks and Savings Banks Act of 8 November 1934	KYC	Know Your Customer
CEAOB	Committee of European Audit Oversight Bodies	MBoA	Mortgage Bond Act of 25 June 1930
CISA	Collective Investment Schemes Act of 23 June 2006	MMoU	Multilateral Memorandum of Understanding
CO	Code of Obligations of 30 March 1911	MoU	Memorandum of Understanding
DDTrO	Ordinance on Due Diligence and Transparency in relation to Minerals and Metals from Conflict-Affected Areas and Child Labour	OASI	Old-age and survivors' insurance
EQCR	Engagement Quality Control Reviewer	OASIO	Old-Age and Survivors' Insurance Ordinance (AHV Ordinance) of 31 October 1947
ESG	Environment, Social and Governance	OECD	Organisation for Economic Co-operation and Development
EU	European Union	OPA	Occupational Pensions Act of 25 June 1982
EWG	Enforcement Working Group	OPSC	Occupational Pension Supervisory Commission
FAC	Federal Administrative Court (St. Gallen)	PCAOB	US Public Company Accounting Oversight Board
FADP	Federal Act of 19 June 1992 on Data Protection	PIE	public interest entity
FAOA	Federal Audit Oversight Authority	QA	Quality assurance
FDJD	Federal Department of Justice and Police	SA-CH	Swiss Standards on Auditing
FinIA	Financial Institutions Act of 15 June 2018 (SR 954.1)	SER	SIX Exchange Regulation
FINMA	Federal Financial Market Supervisory Authority	SICAF	investment company with fixed capital
FINMASA	Financial Market Supervision Act of 22 June 2007	SICAV	Open-ended investment schemes
FinMIA	Financial Market Infrastructure Act of 19 June 2015	SIX	SIX Swiss Exchange
FinSA	Financial Services Act of 15 June 2018 (SR 950.1)	SMI	Swiss Market Index
FoIA	Federal Act of 17 December 2004 on Freedom of Information in the Administration	SoP	Statement of Protocol
FOJ	Federal Office of Justice	srAF	state-regulated audit firm
FRC	Financial Reporting Council (UK)	SRO	Self-regulatory organisation
FSC	Federal Supreme Court (Lausanne)	US-GAAP	United States Generally Accepted Accounting Principles
FSIO	Federal Social Insurance Office		
GAQWG	Global Audit Quality Working Group		
GPK-S	Geschäftsprüfungskommission des Ständerates		
GPPC	Global Public Policy Committee		
IAASB	International Auditing and Assurance Standards Board		
IAS	International Accounting Standards		
ICS	Internal control system		
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		

## Additional Swiss audit licences

Based on one of the basic licences under the AOA, a special licence from the FAOA or a special statutory licence from another authority is required in particular for audit work in the following areas. In some audit areas the basic licence of the FAOA is sufficient<sup>55</sup>. The following list does not claim to be complete (status: 31.12.2022).

Audit/examination in the area of	Basic licence according to AOA: Auditing company	Basic approval according to AOA: senior examiner	Responsible for special/special legal Approval	additional requirements
Banks/financial market structures, finance groups and public tender offers <sup>56</sup> / securities traders/ central mortgage bond institutions	State-regulated audit firm	Audit expert	FAOA	Art. 9a AOA, Art. 11a ff. AOO
FinTech company <sup>57</sup>	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 <sup>58</sup>	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 ff. AOO
OASI	Audit expert	Audit expert	FSIO	Art. 165 OASI

<sup>55</sup> This applies in particular to the audit of casinos and pension funds.

<sup>56</sup> These include exchanges, multilateral trading facilities, central counterparties, central securities depositories, trade repositories and payment systems.

<sup>57</sup> Cf. the definition in the Banking Act (Art. 1b BankA).

<sup>58</sup> This includes fund management companies, investment funds, SICAVs, limited partnerships for collective investment schemes, SICAFs, asset managers of collective investment schemes and representatives of foreign collective investment schemes.

## State-regulated audit firms

Data correct as of 31 December 2021

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	Mattig-Suter and Partner Trust and Auditing Company	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 Trust Ltd.	Zurich
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
600002	Kost Forer Gabbay & Kasierer	Tel Aviv
600003	BREA SOLANS & ASOCIADOS SC.	Buenos Aires

## Cooperation with foreign audit oversight authorities

Status: 31 December 2022

Bilateral agreements		Multilateral agreements	
Country/Authority	Agreement	Country/Authority	Agreement
Germany, Auditor Oversight Body (APAS/AOB)	2012 (renewed 2022)	Australia, Australia Securities and Investments Commission (ASIC)	2017
Finland, Finnish Patent and Registration Office (PRH)	2014 (renewed 2022)	Brazil, Comissão de Valores Mobiliários (CVM)	2017
France, Haut Conseil du commissariat aux comptes (H3C)	2013	Dubai, Dubai Financial Services Authority (DFSA)	2017
Ireland, Auditing & Accounting Supervisory Authority (IAASA)	2016	Gibraltar, Gibraltar Financial Services Commission (GFSC)	2017
Japan, Financial Services Agency of Japan (JFSA) and Certified Public Accountants and Auditing Oversight Board (CPA/OB)	2021	Cayman Islands, Auditors Oversight Authority (AOA)	2017
Canada, Canadian Public Accountability Board (CPAB)	2014	Lithuania, The Authority of Audit, Accounting, Property Valuation and Insolvency Management under the Ministry of Finance of the Republic of Lithuania (AAAPVIM)	2017
Principality of Liechtenstein, Financial Market Authority (FMA)	2013	Malaysia, Audit Oversight Board (AOB)	2017
Luxembourg, Commission de Surveillance du Secteur Financier (CSSF)	2013	New Zealand, Financial Markets Authority (FMA)	2017
Netherlands, Authority for the Financial Markets (AFM)	2012	Norway, Finanstilsynet / Financial Supervisory Authority (FSA)	2019
Austria, Auditor Oversight Board (APAB)	2019	Poland, Komisja Nadzoru Audytowego/Audit Oversight Commission (AOC)	2019
United Kingdom of Great Britain and Northern Ireland, Financial Reporting Council (FRC)	2014	Slovakia, Auditing Oversight Authority (AOA)	2017
United States of America, Public Company Accounting Oversight Board (PCAOB)	2011, 2014	South Korea, Financial Services Commission/Financial Supervisory Service (FSC/FSS)	2017
		Taiwan (Chinese Taipei), Financial Supervisory Commission (FSC)	2017
		Czech Republic, Public Audit Oversight Board (RVDA)	2017
		Turkey, Public Oversight, Accounting and Auditing Standards Authority (POA)	2017

## Court rulings 2022

Status: 31 December 2022

The FAOA lists in the following all Federal Supreme Court and Federal Administrative Court rulings from 2022 that were made in cases between licensees or applicants and the FAOA. The rulings are arranged in chronological order and contain a brief reference to the respective topic and the court's conclusion.

- Federal Administrative Court ruling No. B-5528/2019 of 21 March 2022: Withdrawal of licence as audit expert and lead auditor for the audit of financial market infrastructures, financial groups and public tenders, securities firms and central mortgage bond institutions due to insufficient audit work in the areas of accounting and supervisory audit for a period of four years. Partial approval of the appeal and reduction of the withdrawal period to three years. Ruling not yet legally binding.
- Federal Supreme Court ruling No. 1C\_93/2021 of 6 May 2022: Applicability of the Public Access Act to a request for access to a review report of a srAF for the purpose of filing a liability action against the auditor. Balancing of interests. Article 19 paragraph 2 AOA is not a special provision that takes precedence over the FADP (Art. 4 FADP). A request for access to official FAOA documents is therefore subject to the conditions of the FADP. However, personal data must still be protected. The appeal was upheld by the FSC and referred back to the FAC for a new ruling.
- Federal Administrative Court Ruling No. B-1972/2022 of 8 July 2022: Requirement to the form of an appeal. Appeal against an order of the FAOA rejecting a licence application. Granting of a respite to rectify the appeal as the statutory requirements, in particular with regard to the statement of grounds, were not complied with. The appeal was not upheld as it was not rectified within the period granted. Final ruling.
- Federal Administrative Court Ruling No. B-5889/2020 of 3 August 2022: Applicability of the FAOA's temporarily applicable accommodation rule for assessing the comparability of foreign education (United Kingdom, pre-Brexit). Approval of the appeal by the FAC, considering the specific circumstances of the case, the theoretical requirements for «audit qualification» are met. The FAC annulled the order and remitted the case for reassessment. Final ruling.
- Strike-off decision no. B-472 of 16 November 2022: Appeal against a decision of the FAOA to withdraw the licence for a period of three years. Waiver of personal licence during the appeal proceedings. Apportionment of the costs of the proceedings incurred to date to the appellant and dismissal of the proceedings as having become devoid of purpose. Final ruling.
- Federal Administrative Court Ruling No. B-1640/2021 of 19 December 2022: Withdrawal of the licence as an audit expert for a period of three years. Dismissal of the 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)

