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## **Circular 1/2014**

on Internal Quality Control in Audit Firms (Circ. 1/2014)

of 24 November 2014 (status as at 1 October 2017)

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## I. Background

- 1 An audit firm is licensed to provide legally stipulated auditing services if its management structure guarantees that the individual audit mandates are sufficiently supervised (Art 6 para. 1 let. d AOA<sup>1</sup>). An audit firm has a sufficient management structure for supervising individual engagements if it has an internal quality control system and supervises the appropriateness and effectiveness of the quality control principles and measures (Art. 9 para. 1 AOO<sup>2</sup>).
- 2 The purpose of this circular is to specify the applicable standards for internal quality control in audit firms. The basis is Art. 6 para. 1 let. d AOA.

## II. Audit firms licensed as auditors

- 3 The limited audit of annual financial statements (Art. 729 ff. CO<sup>3</sup>) must be performed by an audit firm holding at least an auditor licence (Art. 727c CO). Internal quality control with regard to the audit of the annual financial statements must meet at least the instruction requirements of TREUHAND|SUISSE for quality control with small and medium-sized audit firms in the current version.
- 4 Margin no. 3 also applies particularly to limited audits which are performed on request of one or several persons with a minority holding.
- 5 Internal quality control with regard to other legally stipulated auditing services (Art. 2 let. a AOA) which by law must be performed by an audit firm with at least an auditor licence<sup>4</sup>, shall be based on the provisions in margin no. 7.
- 6 Margin no. 3 also applies if the audit firm is licensed as an audit expert and does not provide any auditing services within the meaning of the margin no. 5 and 7 to 9.

## III. Audit firms licensed as audit experts

- 7 The ordinary audit of annual accounts (Art. 728 ff. CO) must be performed by an audit firm with at least an audit expert licence (Art. 727b para. 2 CO). Internal quality control must meet at least the requirements of QS 1<sup>5</sup> and SAS 220<sup>6</sup> in the current version.

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<sup>1</sup> Federal Act of 16 December 2005 on the Licensing and Oversight of Auditors (AOA; SR 221.302).

<sup>2</sup> Ordinance of the Federal Council of 22 August 2007 on the Licensing and Oversight of Auditors (AOO; SR 221.302.3).

<sup>3</sup> Code of Obligations (CO; SR 220).

<sup>4</sup> Public companies (Art. 727 para. 1 no. 1 CO) must have audits, which according to legal provisions, must be performed by a licensed auditor or a licensed audit expert respectively, also conducted by an audit firm under state oversight (Art. 727b para. 1 clause 2 CO). Companies above the legal threshold values (Art. 727 para. 1 no. 2 CO) must have audits, which according to legal provisions, must be performed by a licensed auditor, also conducted by an audit firm with at least the licence as an audit expert (Art. 727b para. 1 no. 2 and para. 2 no. 2 CO).

<sup>5</sup> Swiss Quality Control Standard 1, quality control for offices [audit firms] performing annual audits and reviews of financial statements and other business reviews and mandates regarding related services (QS 1).

<sup>6</sup> Swiss Auditing Standard 220, quality control during the annual audit (SAS 220).

- 8 Margin no. 7 particularly also applies to:
- a. the ordinary audit which is performed on request of one or several persons with a minority holding;
  - b. the ordinary audit being performed according to the articles of association or based on the decision of the supreme body or of a supervisory authority;
  - c. the audit of the annual accounts of a pension fund in the area of occupational old-age, survivor's and disability pensions (Art. 52c para. 1 let. a LOB<sup>7</sup>);
  - d. the audit of the annual accounts of a health insurance company (Art. 87 para. 1 KVV<sup>8</sup>);
  - e. the audit of the annual accounts of a casino (Art. 75 para. 1 VSBG<sup>9</sup>).
- 9 Internal quality control with regard to other legally stipulated auditing services (Art. 2 let. a AOA) which by law must be performed by an audit firm with at least an audit expert licence<sup>10</sup> shall be based on the provisions in margin no. 7.

#### **IV. Audit firms under state oversight**

- 10 Internal quality control requirements for audit firms under state oversight are based on Art. 5 OO-FAOA<sup>11</sup> and recognized standards according to Circ. 1/2008<sup>12</sup>.

#### **V. Transitional provisions**

- 11 Audit firms performing auditing services according to margin no. 3 only and in which only one person has the necessary licence must operate an internal quality control system that meets the minimum requirements set out in margin no. 3. with effect from 1 September 2017.
- 12 Audit firms performing auditing services according to the margin no. 5 and 9 but none according to margin no. 7 must set up an internal quality control system according to the requirements of QS 1 and SAS 220 by 1 September 2016.
- 13 Audit firms carrying out auditing services according to margin no. 8 let. c must set up an internal quality control system according to the requirements of QS 1 and SAS 220 by 31 December 2015.

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<sup>7</sup> Federal Act of 25 June 1982 on Occupational Old-Age, Survivor's and Disability Pensions (LOB; SR 831.40).

<sup>8</sup> Ordinance of the Federal Council of 27 June 1995 on Health Insurance (KVV; SR 832.102).

<sup>9</sup> Ordinance of the Federal Council of 24 September 2004 on Gambling and Casinos (VSBG; SR 935.521).

<sup>10</sup> Public companies (Art. 727 para. 1 no. 1 CO) must have audits which according to the legal provisions must be performed by a licensed audit expert also conducted by an audit firm under state oversight (Art. 727b para. 1 clause 2 CO).

<sup>11</sup> Ordinance of the Federal Audit Oversight Authority of 17 March 2008 on the Oversight of Audit Firms (OO-FAOA; SR 221.302.33).

<sup>12</sup> Circular 1/2008 of 17 March 2008 on the recognition of Auditing Standards (Circ. 1/2008).

## **VI. Enactment**

14 This circular shall enter into force on 1 January 2015.<sup>13</sup>

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<sup>13</sup> This circular was amended as follows:

- Amendment of 17 August 2016 (in force since 1 September 2016).
- Amendment of 23 August 2017 (in force since 1 October 2017).

## Annex: Scheduling overview of quality control in legally stipulated auditing services

| Limited audit                 | Law article  | Minimum licence | Minimum requirements for internal quality control <sup>14</sup> |                |
|-------------------------------|--|-----------------|---|----------------|
|                               |  |                 | Instruction TS  | QS 1 / SAS 220 |
| Stock corporation             | Art. 727a CO   | Auditor         | x   |                |
| Partnership limited by shares | Art. 764 para. 2 CO in conj. with Art. 727a CO                     | Auditor         | x   |                |
| Limited liability company     | Art. 818 para. 1 CO in conj. with Art. 727a CO                     | Auditor         | x   |                |
| Cooperative                   | Art. 906 CO in conj. with Art. 727a CO                             | Auditor         | x   |                |
| Association                   | Art. 69b para. 2 and 3 CC <sup>15</sup> in conj. with Art. 727a CO | Auditor         | x   |                |
| Foundation                    | Art. 83b para. 3 CC in conj. with Art. 727a CO                     | Auditor         | x   |                |

| Ordinary audit                | Law article  | Minimum licence                  | Minimum requirements for internal quality control |                 |
|-------------------------------|--|----------------------------------|---|-----------------|
|                               |  |                                  | Instruction TS                                    | QS 1 / SAS 220  |
| Stock corporation             | Art. 727 CO  | Audit expert                     |   | x               |
| Partnership limited by shares | Art. 764 para. 2 CO in conj. with Art. 727 CO        | Audit expert                     |   | x               |
| Limited liability company     | Art. 818 para. 1 CO in conj. with Art. 727 CO        | Audit expert                     |   | x               |
| Cooperative                   | Art. 906 CO in conj. with Art. 727 CO                | Audit expert                     |   | x               |
| Association                   | Art. 69b para. 1 and 3 CC in conj. with Art. 727a CO | Audit expert                     |   | x               |
| Foundation                    | Art. 83b para. 3 CC in conj. with Art. 727a CO       | Audit expert                     |   | x               |
| Public company <sup>16</sup>  | Art. 727b para. 1 CO                                 | Audit firm under state oversight |   | x <sup>17</sup> |

<sup>14</sup> Cf. transitional period to 1 September 2017 (margin no. 11).

<sup>15</sup> Swiss Civil Code (CC; SR 210).

<sup>16</sup> Art. 727 para. 1 no. 1 CO.

<sup>17</sup> Cf. Circ. 1/2008 (margin no. 10).

| Audit of annual accounts by special laws                | Law article  | Minimum licence                                | Minimum requirements for internal quality control |                |
|---|--|--|---|----------------|
|   |  |  | Instruction TS                                    | QS 1 / SAS 220 |
| Mortgage bond clearing house                            | Art. 38a PFG <sup>18</sup>                             | Audit firm under state oversight <sup>19</sup> |   | x              |
| Pension fund  | Art. 52c para. 1 let. a LOB                            | Audit expert                                   |   | x              |
| Investment foundation                                   | Art. 9 f. ASV <sup>21</sup>                            | Audit firm under state oversight               |   | x              |
| Health insurance company                                | Art. 86 KVV  | Audit expert                                   |   | x              |
| Casino  | Art. 37 SBG <sup>22</sup>                              | Audit expert <sup>23</sup>                     |   | x              |
| Investment fund   | Art. 126 para. 1 let. a and para. 5 CISA <sup>24</sup> | Audit firm under state oversight <sup>19</sup> |   | x              |
| SICAV   | Art. 126 para. 1 let. b and para. 5 CISA               | Audit firm under state oversight <sup>19</sup> |   | x              |
| Limited partnership for collective investment schemes   | Art. 126 para. 1 let. c and para. 5 CISA               | Audit firm under state oversight <sup>19</sup> |   | x              |
| SICAF   | Art. 126 para. 1 let. d and para. 5 CISA               | Audit firm under state oversight <sup>19</sup> |   | x              |
| Fund management company                                 | Art. 126 para. 1 let. a and para. 5 CISA               | Audit firm under state oversight <sup>19</sup> |   | x              |
| Asset manager of collective investment schemes          | Art. 126 para. 1 let. e and para. 5 CISA               | Audit firm under state oversight <sup>19</sup> |   | x              |
| Representative of foreign collective investment schemes | Art. 126 para. 1 let. f and para. 5 CISA               | Audit firm under state oversight <sup>19</sup> |   | x              |
| Bank  | Art. 18 BankG <sup>25</sup>                            | Audit firm under state oversight <sup>19</sup> |   | x              |
| Financial market infrastructures and financial groups   | Art. 84 FMIA <sup>26</sup>                             | Audit firm under state oversight <sup>19</sup> |   | x              |
| Securities broker                                       | Art. 17 BEHG <sup>27</sup>                             | Audit firm under state oversight <sup>19</sup> |   | x              |
| Insurance company                                       | Art. 28 VAG <sup>28</sup>                              | Audit firm under state oversight <sup>19</sup> |   | x              |

<sup>18</sup> Mortgage Bond Act of 25 June 1930 (PFG; SR 211.423.4).

<sup>19</sup> Additional requirements according to Art. 9a AOA and Art. 11a ff. AOO.

<sup>21</sup> Ordinance of the Federal Council of 10 and 22 June 2011 on Investment Foundations (ASV; SR 831.403.2).

<sup>22</sup> Federal Act of 18 December 1998 on Gambling and Casinos (SBG; SR 935.52).

<sup>23</sup> Additional requirements according to Art. 75 of the Ordinance of the Federal Council of 24 September 2004 on Gambling and Casinos (VSBG; SR 935.521).

<sup>24</sup> Federal Act of 23 June 2006 on Collective Investment Schemes (CISA; SR 951.31).

<sup>25</sup> Federal Act of 8 November 1934 on Banks and Savings Banks (BankG; SR 952.0).

<sup>26</sup> Federal Act of 19 June 2015 on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FMIA; SR 958.1).

<sup>27</sup> Federal Act of 24 March 1995 on Stock Exchanges and Securities Trading (BEHG; SR 954.1).

<sup>28</sup> Federal Act of 17 December 2004 on the Supervision of Insurance Companies (VAG; SR 961.01).

| Audit of particular processes               | Law article<br>(non-exhaustive)  | Minimum licence <sup>29</sup> | Minimum requirements for internal quality control |                |
|---|--|-------------------------------|---|----------------|
|   |  |                               | Instruction TS                                    | QS 1 / SAS 220 |
| Audit with at least an auditor licence      | Art. 635a CO<br>Art. 652a para. 3 CO<br>Art. 652d CO<br>Art. 652f para. 1 CO<br>Art. 670 para. 2 CO<br>Art. 725 para. 2 CO<br>Art. 907 CO<br>Art. 81 para. 1 FusG <sup>30</sup><br>Art. 85 para. 2 FusG  | Auditor                       | x   | x              |
| Audit with at least an audit expert licence | Art. 653f para. 1 CO<br>Art. 653i para. 1 CO<br>Art. 745 para. 3 CO<br>Art. 795b CO<br>Art. 825a para. 2 CO<br>Art. 6 para. 2 FusG<br>Art. 15 para.1 FusG<br>Art. 25 para. 2 FusG<br>Art. 40 FusG<br>Art. 62 para. 1 FusG<br>Art. 92 para. 1 FusG<br>Art. 97 para. 3 FusG<br>Art. 100 para. 2 FusG<br>Art. 162 para. 3 IPRG <sup>32</sup><br>Art. 163d para. 1 IPRG<br>Art. 164 para. 1 IPRG<br>Art. 164 para. 2 let. b IPRG | Audit expert                  | x   | x              |

<sup>29</sup> Cf. the legal principle of uniform licensing (footnotes 4 and 10 above).

<sup>30</sup> Federal Act on Mergers, Demergers, Changes of Legal Form and Asset Transfers of 3 October 2003 (FusG, SR 221.301).

<sup>32</sup> Federal Act on International Private Law of 18 December 1987 (IPRG, SR 291).