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## Circular 1/2014

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

of 24 November 2014 (Status as at ~~15 January~~December ~~202~~2024)

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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 management 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~~ Quality management for the audit of the annual financial statements must meet at least the TREUHAND|SUISSE quality management requirements of for small and medium-sized audit firms (AQM) ~~for quality control with small and medium-sized audit firms~~ in the current version.
- 4 Margin no. 3 also applies particularly to:
  - a. ~~the limited audit of an annual financial statement,~~s which are performed ~~upon~~ request of one or several persons with a minority holding (revocation of opting-out pursuant to Art. 727a para. 4 CO);-
  - b. the limited audit of the annual financial statements to be performed prior to their approval by the general meeting of shareholders in a company without an auditor (opting-out), if the assets, less the liabilities, no longer cover half of the sum of the share capital, the statutory capital reserve not to be repaid to the shareholders and the statutory retained earnings reserve (Art. 725a para. 2 CO).
- 5 ~~Internal quality control with regard to~~ Quality management regarding other legally stipulated audit 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 governed by 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.

<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).

### 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~~Quality management -must meet at least the requirements of the Swiss standard of quality ~~control management for audit firms (ISQM-CH1)~~<sup>5</sup> and the contract-related quality assurance (ISQM-2)<sup>6</sup> as well as ISA-CH 220<sup>7</sup> in the current version.
- 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;
  - b<sup>bis</sup>. the ordinary audit of the annual accounts of a limited liability company at the request of a departing company member whose financial settlement has not yet been paid in full (Art. 825a para. 4 CO);
  - 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>8</sup>);
  - d. the audit of the annual accounts of a health insurance company (Art. 25 para. 1 let. a HIOA<sup>9</sup>);
  - e. the audit of the annual accounts of a casino or organiser of large games (Art. 49 para. 3 BGS<sup>10</sup>);
  - f. the audit of an OASI compensation office or branch (Art. 68 and Art. 68a OASIA<sup>11</sup>).
- 9 ~~Internal quality control~~Quality management regarding 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>12</sup> shall be based on the provisions in margin no. 7.

### IV. Audit firms under state oversight

- 10 ~~Internal quality control~~Quality management requirements for audit firms under state oversight are based on Art. 5 OO-FAOA<sup>13</sup> and recognized standards according to Circ. 1/2008<sup>14</sup>.

<sup>5</sup> Quality management for firms that perform audits, reviews of financial statements, other assurance or related services engagements (ISQM-CH 1).

<sup>6</sup> Contract-related quality assurance (ISQM-CH 2).

<sup>7</sup> Swiss Auditing Standard 220, quality ~~control during~~management for the annual audit (ISA-CH-220).

<sup>8</sup> Federal Act of 25 June 1982 on Occupational Old-Age, Survivor's and Disability Pensions (LOB; SR 831.40).

<sup>9</sup> Federal Act of 26 September 2014 on the Oversight of Social Health Insurance (Health Insurance Oversight Act, HIOA); SR 832.12).

<sup>10</sup> Federal Act on Gambling of 29 September 2017 (Gambling Act, BGS; SR 935.51).

<sup>11</sup> Federal Act of 20 December 1946 on Old-Age and Survivors Insurance (OASIA; SR 831.10).

<sup>12</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>13</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>14</sup> Circular 1/2008 of 17 March 2008 on the recognition of Auditing Standards and Quality Controls (Circ. 1/2008).

## **V. Transitional provisions as of 24 November 2014**

- 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.

## **V<sup>bis</sup>. Transitional provision to the amendment of 4 December 2023**

- 13<sup>bis</sup> Audit firms carrying out auditing services according to margin no. 8 let. f must adapt their internal quality control system according to the requirements of ISQC-CH 1 and ISA-CH 220 by 31 December 2024.

## **VI. Enactment**

- 14 This circular shall enter into force on 1 January 2015.<sup>15</sup>

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<sup>15</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).
- Amendment of 12 October 2021 (in force since 15 October 2021).
- Amendment of 14 December 2022 (in force since 15 December 2022).
- Amendment of 4 December 2023 (in force since 1 January 2024).
- Amendment of 19 June 2026 (in force since 15. December 2026).

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

Limited audit	Law article	Minimum licence	Minimum requirements for <del>internal quality control</del> <u>quality management</u> <sup>16</sup>
Stock corporation	Art. 727a CO	Auditor	<del>Instruction</del> <del>Treuhand   Suisse</del> <u>AQM</u>
Partnership limited by shares	Art. 764 para. 2 CO in conj. with Art. 727a CO	Auditor	<del>Instruction</del> <del>Treuhand   Suisse</del> <u>AQM</u>
Limited liability company	Art. 818 para. 1 CO in conj. with Art. 727a CO	Auditor	<del>AQM</del> <del>Instruction</del> <del>Treuhand   Suisse</del>
Cooperative	Art. 906 CO in conj. with Art. 727a CO	Auditor	<del>AQM</del> <del>Instruction</del> <del>Treuhand   Suisse</del>
Association	Art. 69b para. 2 and 3 CC <sup>17</sup> in conj. with Art. 727a CO	Auditor	<del>AQM</del> <del>Instruction</del> <del>Treuhand   Suisse</del>
Foundation	Art. 83b para. 3 CC in conj. with Art. 727a CO	Auditor	<del>AQM</del> <del>Instruction</del> <del>Treuhand   Suisse</del>

Ordinary audit	Law article	Minimum licence	Minimum requirements for <del>internal quality control</del> <u>quality management</u>
Stock corporation	Art. 727 CO	Audit expert	<del>ISQC-CH 1</del> <del>ISQM-CH</del> <del>ISQM-CH 1, -ISQM-CH 2, -ISA-CH 220</del>
Partnership limited by shares	Art. 764 para. 2 CO in conj. with Art. 727 CO	Audit expert	<del>ISQC-CH 1</del> <del>ISQM-CH</del> <del>ISQM-CH 1, -ISQM-CH 2, -ISA-CH 220</del>
Limited liability company	Art. 818 para. 1 CO in conj. with Art. 727 CO	Audit expert	<del>ISQC-CH 1</del> <del>ISQM-CH</del> <del>ISQM-CH 1, -ISQM-CH 2, -ISA-CH 220</del>
Cooperative	Art. 906 CO in conj. with Art. 727 CO	Audit expert	<del>ISQC-CH 1</del> <del>ISQM-CH</del> <del>ISQM-CH 1, -ISQM-CH 2, -ISA-CH 220</del>
Association	Art. 69b para. 1 and 3 CC in conj. with Art. 727a CO	Audit expert	<del>ISQC-CH 1</del> <del>ISQM-CH</del> <del>ISQM-CH 1, -ISQM-CH 2, -ISA-CH 220</del>
Foundation	Art. 83b para. 3 CC in conj. with Art. 727a CO	Audit expert	<del>ISQC-CH 1</del> <del>ISQM-CH</del> <del>ISQM-CH 1, -ISQM-CH 2, -ISA-CH 220</del>
Public company <sup>18</sup>	Art. 727b para. 1 CO	Audit firm under state oversight	<del>ISQC-CH 1</del> <del>ISQM-CH</del> <del>ISQM-CH 1, -ISQM-CH 2, -ISA-CH 220</del> <sup>19</sup>

<sup>16</sup> ~~Cf. transitional period to 1 September 2017 (margin no. 11).~~

<sup>17</sup> Swiss Civil Code (CC; SR 210).

<sup>18</sup> Art. 727 para. 1 no. 1 CO.

<sup>19</sup> Cf. Circ. 1/2014 (margin no. 10).

<b>Audit of annual accounts by special laws</b>	<b>Law article</b>	<b>Minimum licence (basic licence)</b>	<b>Minimum requirements for <del>internal quality control</del> <u>quality management</u></b>
Mortgage bond clearing house	Art. 38a PFG <sup>20</sup>	Audit firm under state oversight <sup>21</sup>	<del>ISQC-CH 1</del> <del>ISQM-CH 1</del> , <del>ISQM-CH 2</del> , -ISA-CH 220
Pension fund	Art. 52c para. 1 let. a LOB	Audit expert	<del>ISQC-CH 1</del> <del>ISQM-CH 1</del> , <del>ISQM-CH 2</del> , -ISA-CH 220
OASI compensation of offices and branches	Art. 68 and 68a OASIA	Audit expert	<del>ISQC-CH 1</del> <del>ISQM-CH 1</del> , <del>ISQM-CH 2</del> , -ISA-CH 220
Investment foundation	Art. 9 f. ASV <sup>22</sup>	Audit firm under state oversight	<del>ISQC-CH 1</del> <del>ISQM-CH 1</del> , <del>ISQM-CH 2</del> , -ISA-CH 220
Health insurance company	Art. 25 para. 1 let. a and para. 2 KVAG	Audit expert	<del>ISQC-CH 1</del> <del>ISQM-CH 1</del> , <del>ISQM-CH 2</del> , -ISA-CH 220
Casino and organiser of large games	Art. 49 para. 3 BGS	Audit expert	<del>ISQC-CH 1</del> <del>ISQM-CH 1</del> , <del>ISQM-CH 2</del> , -ISA-CH 220
Investment fund	Art. 126 para. 1 let. a and para. 5 CISA <sup>23</sup>	Audit firm under state oversight <sup>21</sup>	<del>ISQC-CH 1</del> <del>ISQM-CH 1</del> , <del>ISQM-CH 2</del> , -ISA-CH 220
SICAV	Art. 126 para. 1 let. b and para. 5 CISA	Audit firm under state oversight <sup>21</sup>	<del>ISQC-CH 1</del> <del>ISQM-CH 1</del> , <del>ISQM-CH 2</del> , -ISA-CH 220
Limited partnership for collective investment schemes	Art. 126 para. 1 let. c and para. 5 CISA	Audit firm under state oversight <sup>21</sup>	<del>ISQC-CH 1</del> <del>ISQM-CH 1</del> , <del>ISQM-CH 2</del> , -ISA-CH 220
SICAF	Art. 126 para. 1 let. d and para. 5 CISA	Audit firm under state oversight <sup>21</sup>	<del>ISQC-CH 1</del> <del>ISQM-CH 1</del> , <del>ISQM-CH 2</del> , -ISA-CH 220
Fund management company	Art. 63 para. 1 let. b FinIA <sup>24</sup>	Audit firm under state oversight <sup>21</sup>	<del>ISQC-CH 1</del> <del>ISQM-CH 1</del> , <del>ISQM-CH 2</del> , -ISA-CH 220
Asset manager of collective investment schemes	Art. 63 para. 1 let. b FinIA	Audit firm under state oversight <sup>21</sup>	<del>ISQC-CH 1</del> <del>ISQM-CH 1</del> , <del>ISQM-CH 2</del> , -ISA-CH 220
Representative of foreign collective investment schemes	Art. 126 para. 1 let. f and para. 5 CISA	Audit firm under state oversight <sup>21</sup>	<del>ISQC-CH 1</del> <del>ISQM-CH 1</del> , <del>ISQM-CH 2</del> , -ISA-CH 220
Bank	Art. 18 BankG <sup>25</sup>	Audit firm under state oversight <sup>21</sup>	<del>ISQC-CH 1</del> <del>ISQM-CH 1</del> , <del>ISQM-CH 2</del> , -ISA-CH 220
Securities firms	Art. 63 para. 1 let. b FinIA	Audit firm under state oversight <sup>21</sup>	<del>ISQC-CH 1</del> <del>ISQM-CH 1</del> , <del>ISQM-CH 2</del> , -ISA-CH 220

<sup>20</sup> Mortgage Bond Act of 25 June 1930 (PFG; SR 211.423.4).

<sup>21</sup> Additional requirements according to Art. 9a AOA and Art. 11a ff. AOO.

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

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

<sup>24</sup> Federal Act of 15 June 2018 on Financial Institutions (FinIA, SR 954.1).

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

<b>Audit of annual accounts by special laws</b>	<b>Law article</b>	<b>Minimum licence (basic licence)</b>	<b>Minimum requirements for <del>internal quality control</del> <u>quality management</u></b>
Financial market infrastructures and financial groups	Art. 84 FMIA <sup>26</sup>	Audit firm under state oversight <sup>21</sup>	<del>ISQC-CH 1</del> <u>ISQM-CH 1, -ISQM-CH 2, -ISA-CH 220</u>
Financial conglomerate	Art. 63 para. 1 let. b FinIA	Audit firm under state oversight <sup>21</sup>	<del>ISQC-CH 1</del> <u>ISQM-CH 1, -ISQM-CH 2, -ISA-CH 220</u>
Insurance company	Art. 28 VAG <sup>27</sup>	Audit firm under state oversight <sup>21</sup>	<del>ISQC-CH 1</del> <u>ISQM-CH 1, -ISQM-CH 2, -ISA-CH 220</u>

<b>Audit of particular processes</b>	<b>Law article (non-exhaustive)</b>	<b>Minimum licence<sup>28</sup></b>	<b>Minimum requirements for <del>internal quality control</del> <u>quality management</u></b>
Audit with at least an auditor licence	Art. 635a CO Art. 652d CO Art. 652f para. 1 CO Art. 670 para. 2 CO Art. 725a para. 2 CO <u>Art. 725b para. 2 CO</u> <u>Art. 725c para. 2 CO</u> Art. 907 CO Art. 81 para. 1 FusG <sup>29</sup> Art. 85 para. 2 FusG Art. 13d para. 1 let. a GEA <sup>30</sup>	Auditor	<del>ISQM-CH 1 / ISQM-CH 2</del> <del>ISA-CH 220</del> <u>ISQC-CH 1 / ISA-CH 220</u>
Audit with at least an audit expert licence	Art. 653f para. 1 CO Art. 653i para. 1 CO <u>Art. 653m para. 1 CO</u> <u>Art. 653p para. 1 OR</u> <u>Art. 728a para. 1 no. 4 CO</u> Art. 745 para. 3 CO Art. 795b CO Art. 825a para. 2 CO <u>Art. 964k para. 3 CO</u> Art. 6 para. 2 FusG Art. 15 para. 1 FusG Art. 25 para. 2 FusG Art. 40 FusG	Audit expert	<del>ISQM-CH 1 / ISQM-CH 2</del> <del>ISA-CH 220</del> <u>ISQC-CH 1 / ISA-CH 220</u>

<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 17 December 2004 on the Supervision of Insurance Companies (VAG; SR 961.01).

<sup>28</sup> Cf. the legal principle of uniform licensing (footnotes 4 and 11 above).

<sup>29</sup> Federal Act of 3 October 2003 on Mergers, Demergers, Changes of Legal Form and Asset Transfers (FusG, SR 221.301).

<sup>30</sup> Federal Act of 24 March 1995 on Gender Equality (GEA, SR 151.1).

Audit of particular processes	Law article (non-exhaustive)	Minimum licence <sup>28</sup>	Minimum requirements for <del>internal quality control</del> <u>quality management</u>
	Art. 62 para. 1 FusG		
	Art. 92 para. 1 FusG		
	Art. 97 para. 3 FusG		
	Art. 100 para. 2 FusG		
	Art. 162 para. 3 IPRG <sup>31</sup>		
	Art. 163d para. 1 IPRG		
	Art. 164 para. 1 IPRG		
	Art. 164 para. 2 let. b IPRG		
	Art. 16 para. 2 DDTro <sup>32</sup>		
	Art. 68 para. 1 OASIA		

<sup>31</sup> Federal Act of 18 December 1987 on International Private Law (IPRG, SR 291).

<sup>32</sup> Ordinance on Due Diligence and Transparency in relation to Minerals and Metals from Conflict-Affected Areas and Child Labour (DDTrO, SR 221.433).