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Annual Report 2021

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Foreword

The 2021 auditing season can be seen as the first major acid test for the audit industry during the pandemic. This is because, in the previous year, many audits had already been completed when the crisis struck. The situation was largely handled very well in the FAOA's view: the industry was able to deal with the specific challenges that it faced and devise pragmatic solutions that maintained compliance with regulations.

However, the pandemic has ushered in a «new normal» that is itself posing new challenges: for instance, the importance of data-oriented audits has increased enormously as a result of the pandemic. Although these bring clear benefits in terms of efficiency and coverage level, there is also the danger of seeing a company being audited increasingly as a collection of data rather than a social system. Data can only paint an extremely incomplete picture of a company's culture, for instance – something that is particularly key for risk assessments and audit procedures, which help to uncover fraud and illegal activity. Although hybrid working will undoubtedly play a major role in the future, members of the audit team still need to be present on site. Audit firms should therefore set out specifications detailing in which audit phases and for what issues in-person contact with the company is and will remain a requirement.

Sixteen inspections of state-regulated audit firms

Most of the FAOA's inspections of state-regulated audit firms have likewise been conducted remotely since the start of the pandemic. Both parties in the oversight relationship continue to report positive experiences. Here too, however, a hybrid form of inspection involving some in-person elements is likely to become the norm.

Last year, the FAOA conducted nine financial audit inspections out of a total of 31 audit engagements. The largest number of findings concerned fraud, estimates and audit evidence. The use of data analytics tools is clearly becoming increasingly important.

In regulatory audit, seven inspections were performed out of a total of 16 audit engagements. The bulk of the findings related to compliance with anti-money-laundering provisions (AMLA).

Licensing levels relatively steady

At 2,027, the number of licensed audit firms held relatively steady compared to the prior year (2,077). With only a few audit firm licences set to expire in 2022, this figure looks set to remain more or less unchanged in the coming year too. Once again, the main shortcomings in renewal applications related to internal quality assurance. As in the previous year, internal

monitoring and continuing professional development (CPD) in particular were not implemented rigorously enough across the board.

Whistleblowing and enforcement

The number of third-party notifications fell year on year. A total of 27 (prior year: 37) notifications of potential breaches of the law or the regulations of the profession were received in the reporting year. Eleven (prior year: 14) of these notifications related to srAFs. Only creditable notifications result in fact-finding, and only eligible breaches lead the FAOA to bring proceedings under administrative law. Six notifications met these criteria last year. In total, the FAOA issued 61 reprimands, withdrew six licences and rejected thirteen licence applications in 2021.

ESG becoming increasingly important

Environmental, social and corporate governance (ESG) is very much a hot topic at the moment. One key element of this broad-based discussion within society is the introduction of reporting and disclosure obligations in order to bring some transparency to the private sector's contribution towards achieving the objectives mentioned. The question of whether audits or confirmations from independent third parties, particularly audit firms, are needed in order to ensure that the data and statements



Board of Directors of the FAOA: Victor Balli, Dr. Sabine Kilgus, Wanda Eriksen, Prof. Dr. Conrad Meyer and Prof. Dr. Daniel Oyon

published are comparable and reliable often takes somewhat of a back seat in the debate. The first ESG audit obligations have already made it into Swiss law. These include the auditing of equal pay analyses and of due diligence obligations concerning conflict minerals and metals and child labour. More audit procedures will undoubtedly be added in due course, and the FAOA will continue to monitor this issue closely.

In terms of its own commitment to protecting the environment, the FAOA joined the federal administration's «RUMBA» environmental protection programme in 2021.

New management team for the FAOA

Following the sudden death in October 2020 of Frank Schneider, who had been Chief Executive Officer of the FAOA since it was founded, the authority has been led by Dr. Reto Sanwald as Chief Executive Officer and Martin Hürzeler as his deputy since January 2021.

2021 was yet another challenging year. Thanks to the immense dedication, flexibility and creativity shown by our staff, however, we can look ahead to 2022 with confidence.

Berne, 31 January 2022

Wanda Eriksen

Wanda Eriksen
Chairperson of the Board of Directors

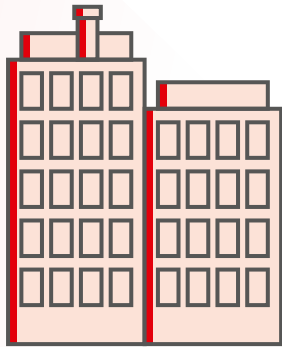
Dr. Reto Sanwald

Dr. Reto Sanwald
Chief Executive Officer

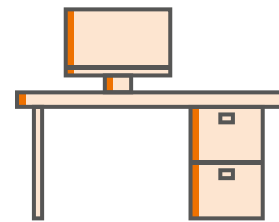


Executive Board of the FAOA: Michael Hubacher, Dr. Reto Sanwald, Martin Hürzeler and Heinz Meier

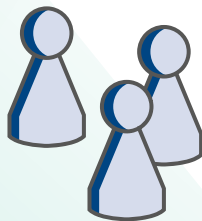
The FAOA in numbers



2'005 Number of licensed audit firms



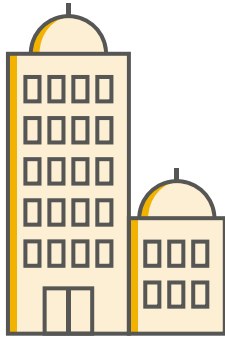
23,4 employees (FTE)



10'208 Number of licenced individuals



6,54 Mio.
Total FAOA expenditure



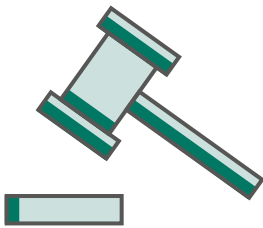
Audit firms inspected annually

Number of inspections FA/RA

16 in year 2021

19 in year 2020

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



6 licence withdrawals
61 reprimands



22 Number of stateregulated
audit firms

Regulatory developments

Current projects

Expert mission on legislative action required with respect to audit law

On 8 November 2017, the Federal Council took note of the report of the experts Peter Ochsner and Daniel Suter and decided to have seven specific recommendations examined further by the Federal Department of Justice and Police (FDJP) and other federal bodies as to the need for action.¹ The Federal Office of Justice (FOJ) is leading this project. The Federal Council's report of 30 November 2018 on the «Postulate Ettlín» («Keine neue Soft-Regulierung durch die Oberaufsichtskommission Berufliche Vorsorge»; «No new soft regulation by the Occupational Pension Supervisory Commission») also makes reference to this detailed examination.²

The FOJ also conducted investigations in 2021. The report, which is now also to cover the postulate entitled «Anerkennung der bundesnahen Unternehmen als Gesellschaften des öffentlichen Interesses im Sinne des Revisionsaufsichtsgesetzes» («Recognising federal enterprises as public-interest entities within the meaning of the Audit Oversight Act»; cf. the comments below), is expected in spring 2022 by all accounts. More information can be found in the «Pension scheme audits» section.

Federal enterprises as public-interest entities

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

The Council of States accepted the postulate on 11 March 2020. The Federal Council's investigations are forming part of the report on the expert mission on legislative action required with respect to audit law (cf. above).

Amendment of company law

The Federal Assembly approved the new company law on 19 June 2020. See the comments in the prior year's report for details of the points relevant to auditing³. The implementation law is still being drafted, meaning that no new relevant points have arisen. The changes were not put to a referendum, and the law is expected to enter into force in 2023.

Ordinance on Due Diligence Obligations and Transparency on Conflict Minerals and Metals and Child Labour

The Federal Parliament responded to the popular initiative «For responsible businesses – protecting human rights and the environment» (the «corporate responsibility initiative») with an indirect counterproposal at act level, which was approved by popular vote on 29 November 2020. Amongst other things, the new provision of the Code of Obligations also includes rules on due diligence obligations and transparency in respect of conflict minerals and metals and child labour.

The companies that this affects are to implement a management system to this end in which they are to set out their corresponding supply chain policy, amongst other things. They must also set up a system allowing traceability back to the start of their supply chain. Companies are required to determine and assess the risks of harmful effects in their supply chain, draw up a risk management plan and take action to minimise the risks identified.

The corresponding audit is to be carried out by an audit firm licensed by the FAOA as an audit expert, which is to report to the most senior executive and administrative body. The explanatory report also states that the auditor-

in-charge also has to be licensed as an audit expert. Engaging an audit firm will ensure that uniform auditing standards are applied, which in turn will guarantee comparability between audit reports. However, this firm will not necessarily have to be the company's statutory auditor. With regard to independence, the rules on ordinary audits (Art. 728 CO) apply mutatis mutandis.

In the style of an appropriateness test, the audit examines whether there are any indications to suggest that the relevant due diligence obligations were not complied with («negative assurance»). An audit to SAS 980 (Principles for Assurance Engagements Relating to Compliance Management Systems) would appear to be a suitable option for this. It requires the audit firm to issue an audit opinion with limited assurance on whether the company's supply chain policy and system for ensuring traceability of its supply chain are presented adequately for all essential matters and whether they are appropriate for determining and assessing risks of harmful consequences. The audit covers determining and assessing the risks, the risk management plan and the action taken to minimise the risks identified but not, however, the effectiveness of the management system implemented to comply with due diligence obligations. The professional associations may potentially produce an auditing standard that is suited specifically to this purpose.

OASI auditing

Oversight of old age and survivors' insurance (OASI), supplementary benefits, the income compensation allowance and family allowances in the agriculture industry is to be modernised by focusing it more squarely on risks, strengthening governance and adapting the requirements made of information systems to the latest technological developments. The Federal Council adopted the dispatch on 20 November 2019. See the com-

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

² Cf. FAOA Annual Report 2018 (p. 7).

³ Cf. FAOA Annual Report 2020, p. 11 ff.

ments in the prior year's report for details of the points relevant to auditing.⁴ The bill was addressed by the Council of States (first chamber) on 21 June 2021. No major changes that would be relevant to auditing have been agreed.

Revision of the Data Protection Act

The Federal Assembly approved the total revision of the Data Protection Act (DPA) on 25 September 2020. The annex to the bill also added a new article to the Audit Oversight Act updating the legislation underlying the processing of personal data and data of corporate bodies (new Art. 15b AOA). The implementation law is still being drafted, meaning that no new relevant points have arisen. The DPA is not expected to enter into force until early 2023 at the earliest.

Act Combating Insolvency Abuse

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

- Firstly, the option to opt out of a limited audit is being restricted in that the opting-out is now only to apply to future financial years. The opting-out must also be reported to the Commercial Registry before the start of the financial year. The very common practice of opting out retrospectively is thus to be outlawed.
- Secondly, trading in shell companies («Mantelhandel») is to be banned. However, the Federal Assembly is adopting a more liberal approach in that this ban is only to apply to overindebted companies that are not currently trading and have no assets. The Federal Council had proposed to forbid any kind of trading in shell companies whatso-

ever. If the Commercial Registry has good reason to suspect that such trading is going on in conjunction with an application for registration, it is to ask the company concerned to submit a signed copy of its latest annual financial statements and, if it has a statutory auditor, its audited annual financial statements as well. If the company fails to do so, or if the annual financial statements confirm the initial suspicion, the Commercial Registry will reject the registration application.

The bill has still not passed as differences of opinion remain.

Limited Qualified Investor Funds

On 17 December 2021, the Federal Assembly approved a partial revision of the Collective Investment Schemes Act (CISA) in conjunction with the introduction of limited qualified investor funds (L-QIFs). The annual and, if applicable, consolidated financial statements of an L-QIF and any real estate company that it owns must be audited by an srAF in accordance with the principles of the ordinary audit under the CO (audit of financial statements). Although the L-QIF is not supervised by FINMA, the regulatory audit must be entrusted to a regulatory audit firm that has been licensed by the FAOA to conduct audits under financial market legislation. The relevant implementation law is still being drafted, and the bill is not expected to become law until mid-2022 at the earliest.

Completed projects

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

The criticism of the cost/benefit ratio and highly formalised nature of limited audits that was expressed in parts of the Ochsner/Suter expert report was seen by the Federal Council as an opportunity to authorise the State Secretariat for Economic Affairs (SECO) to commission a further study from the Zurich University of

Applied Sciences (ZHAW). The study was published in November 2020. See the comments in the prior year's report for details of the FAOA's reservations about the study's methodology and content⁵.

The measures suggested in the study were not taken up any further because the Federal Assembly decided to strengthen audit as an institution as part of its consultations on the Act Combating Insolvency Abuse (cf. the section «Current projects» above).

AMLA amendment

On 26 June 2019, the Federal Council adopted the dispatch to amend the Anti-Money Laundering Act (AMLA). The bill implements the most important recommendations of the fourth country report on Switzerland by the Financial Action Task Force (FATF) in 2016.

Amongst other things, audit firms would now be subject to the AMLA if they prepare or perform the following activities on a commercial basis as «advisors»: setting up, managing and administering domiciliary companies and trusts based in Switzerland and organising the raising of funds; buying or selling companies; providing an address or premises to serve as a registered office; or performing the role of nominal shareholder for the abovementioned entities.

On 19 March 2021, the Federal Assembly opted against introducing such a rule. The approved wording of the updated AMLA and the corresponding implementation law are expected to enter into force in 2023.

Further development of auditing law

In conjunction with the Act Combating Insolvency Abuse, the Legal Affairs Committee of the Council of States had intended to task the Federal Council with presenting a bill relating to audit law (Art. 727 ff. CO) to the Federal Assembly with its «Weiterentwicklung des Revisionsrechts»

⁴ Cf. FAOA Annual Report 2020, p. 13.

⁵ Cf. FAOA Annual Report 2020, p. 10 ff.

(«Further development of auditing law») motion. This move is designed to make auditing regulations do more in future to prevent insolvency cases from being deliberately dragged out and to render any abuse impossible, while taking account of the private sector's need to not be overburdened by auditing requirements.

The Federal Council moved to reject the motion because it does not see any general need for action on auditing law based on various relevant studies from the past few years. The Council of States approved the motion unanimously on 31 May 2021. The National Council, by contrast, rejected the proposal on 6 December 2021. The matter was thus dismissed with no further consequence.

Simplified criteria for FinTech audit licences

Companies involved in financial technology («FinTech», Art. 1b BankA) are required to engage a FAOA-licensed regulatory audit firm for their regulatory audits in accordance with the FINMASA. The AOO provides more specific details of the licensing

requirements for auditing these financial institutions. In particular, the audit firms require a minimum number of auditors-in-charge and FinTech audit engagements, and auditors-in-charge must specifically provide evidence of the hours of audit work and CPD that they have done in this regulatory area. However, FINMA has only licensed a handful of FinTech to date, meaning that the abovementioned licensing criteria are impossible to meet with the market as it is. These criteria are therefore to be adapted to the current situation by allowing engagements and auditing hours at banks and collective investment schemes to count too. However, minimum requirements will continue to apply to CPD in the Fin Tech segment. The simplified criteria have applied since 1 August 2021.

Updates to all FAOA circulars

The FAOA updated all circulars to its new layout with effect from 15 October 2021. The opportunity was also taken to codify a few content-related points that are already standard practice and to make some editorial improvements.

Financial Audit

Introduction

The Swiss audit market for public-interest entities (PIEs) is dominated by the five largest audit firms: BDO, Deloitte, EY, KPMG and PwC.⁶ A total of 22 audit firms held an srAF licence at the end of 2021 (prior year: 23).

As well as on PIEs, the COVID-19 pandemic also had a major impact on srAFs and the FAOA. The FAOA has mainly been conducting remote inspections since the outbreak of

the pandemic in order to protect the health of its own employees and those of the srAFs. This requires the srAFs in question to archive their audit documentation digitally for the FAOA to access online or on laptops. Meetings are also conducted on the FAOA's digital platform or that of the relevant srAF. This has proved a positive experience for both sides, and a hybrid form of inspection involving some in-person elements is likely to become the norm after the pandemic is over.

2021 inspections

Overview

The FAOA conducted nine inspections during the reporting year.⁷ The audits of the annual and consolidated financial statements of 31 companies were the subject of file reviews as part of these inspections. Rather than being «second audits», however, file reviews restrict themselves to items and issues that harbour particular risks in the FAOA's view (Fig. 1).

Figure 1

Overview of FAOA inspections and findings 2020 and 2021

| Categories | Five largest audit firms | | Other | | Total | |
|--|--------------------------|------|-------|------|-------|------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Number of inspections | 5 | 5 | 4 | 6 | 9 | 11 |
| Comment Form/Findings Firm Review | 2 | 6 | 5 | 14 | 7 | 20 |
| Number of inspected files ⁸ | 27 | 28 | 4 | 6 | 31 | 34 |
| Comment Form/Findings File reviews | 9 | 26 | 13 | 14 | 22 | 40 |

⁶ Cf. the Swiss Audit Monitor 2021 of the Chair for Auditing and Internal Control at the University of Zurich. As Figure 4 illustrates, the five largest audit firms received 99.8% of the audit fees paid by companies in the Swiss Performance Index (SPI).

⁷ The inspection fieldwork for two of the five largest audit firms was completed at the premises of the srAF. Since the findings process is still at an early stage, these do not form part of the FAOA Annual Report 2021. Conversely, the two inspections that had yet to be completed by 31 December last year are now included.

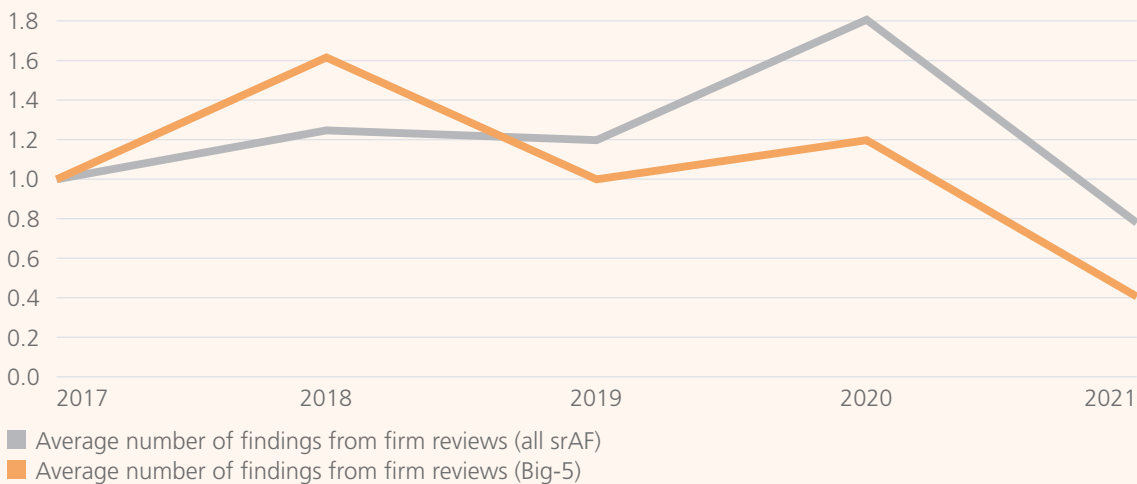
⁸ For a file review, the FAOA generally selects the working papers that relate to the group audit (including the individual financial statements of the parent company) and to a significant subsidiary.

Firm Review

As in the prior year, the quality assurance systems of the audit firms inspected can be regarded as appropriate overall.

Figure 2

Trend in the average number of findings from firm reviews since 2017



The average number of findings amongst all srAFs had been roughly constant or had even increased over the previous four years. In a pleasing development, the reporting year saw a reversal of this trend (Fig. 2).

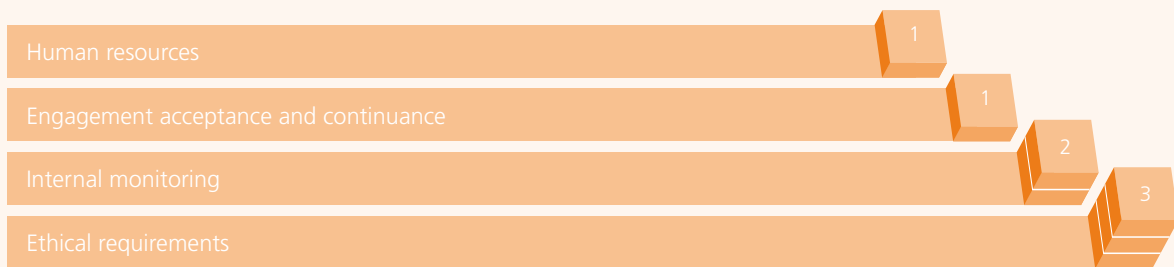
The FAOA identified a total of seven findings at firm level in 2021. This

gives an average of 0.8 findings (prior year: 1.8) per inspection from the individual firm reviews. This fall is due not least to the fact that the inspections of two smaller audit firms in the prior year had resulted in a total of ten findings between them. In addition, five recurring findings had been determined at firm level at three of

the five largest audit firms in the prior year, whereas no such findings were identified during the reporting year.

Figure 3

Type and number of 2021 firm review findings (total: seven findings)



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

- The FAOA identified three findings that concerned ethical requirements. In one case, the auditor-in-charge had breached their duty to rotate, something that was not spotted by the audit firm's internal controls. In another, the quality assurance regulations did not cover the confirmation of independence required from employees in sufficient detail. In the third case, the way in which agreement was given to provide non-audit services did not comply with the internal guidelines. Specifically, no corresponding approval was granted despite significant changes to the scope of the service being introduced retrospectively.
- The FAOA identified two findings relating to the monitoring process. In one case, the monitoring was ineffective, failing to spot any material shortcomings in those areas in which the FAOA identified findings even though the same areas were also assessed as part of the monitoring. In the second case, the audit firm opted not to carry out any monitoring at file level as it was relying on the result of the FAOA's inspection. Furthermore, the monitoring only looked at how processes were designed and not whether they were effective. The FAOA also found fault with the firm's internal regulations on monitoring in that not all auditors-in-charge are to be included in at least a three-year cycle.

The FAOA conducted a follow-up investigation into the culture at audit firms during the reporting year. It also tackled the COVID-19 pandemic, restatements arising from errors, and the audit reports on the 2020 consolidated financial statements of SIX-listed companies. These issues are explored in more detail below.⁹

Follow-up investigation into the culture at audit firms

The FAOA conducted a topic-specific review into the corporate culture at the five largest audit firms in 2019.

The outcome indicated a selective need for improvement in various areas.¹⁰ During the reporting year, the FAOA investigated whether the audit firms had responded to the need for improvement identified and, if so, what action they had taken.

Overall, the investigation found that the audit firms have largely taken on board the points raised by the FAOA and tackled them adequately in internal action plans. The introduction of new quality assurance standards (ISQM 1 and 2 and ISA 220 [Revised]) by the end of 2022 will also impose even more of a duty on the audit firms to foster a quality-oriented culture. For instance, they will now be obliged to demonstrate that the importance of quality has been factored into their strategic decisions and actions. In addition, audit firms will be required to highlight the role that they play in providing audit services in the public interest. Since an appropriate corporate culture forms the basis for high-quality audit services, the FAOA will also be paying due attention to this area in its future inspections.

COVID-19-Pandemie

The COVID-19 pandemic has also had a major negative impact on the audit industry in that it necessitated a change to existing work practices. Where relevant, the effects of the pandemic on financial statements with a reporting date of 31 December 2019 were disclosed in the notes as events after the reporting date. Financial statements with a reporting date of 31 December 2020 were generally expected to have a greater impact due to the progression of the pandemic.

The networks of the five largest audit firms were quick to prepare extensive guidance and practice aids for this purpose and make them available to their local audit teams. This work focused on the areas of auditing and items in annual and consolidated financial statements that have been affected most significantly by the pandemic, particularly the auditing of inventories, fraud risk factors,

estimates, the going-concern principle, the reporting of key audit matters (KAMs), and information in the notes. The gathering of adequate audit evidence in a virtual working environment was also addressed. At local level, these practice aids were supplemented by specific regulations and audit programmes (e.g. for COVID-19 loans or compensation for short-time working in Switzerland).

The audit teams from the five largest audit firms were generally supported via new COVID-19 intranet websites, assistance from COVID-19 task forces, training and tools as well as various communications. Two of the five largest audit firms integrated compulsory audit steps into their existing audit tool. Although the relevant focus points resulting from COVID-19 were orchestrated at global level, the risk assessment process for accepting and continuing engagements and the audit plans for the individual engagements were implemented locally. There was no overarching formal consultation obligation and no requirement to disclose a KAM in conjunction with COVID-19 at the five largest audit firms.

The evaluation of all SIX-listed companies in the 2020 financial year reveals that none of these public companies disclosed a separate KAM concerning COVID-19. However, 18% of companies mentioned the topic of COVID-19 in respect of at least one of their existing KAMs.

The FAOA's inspections reveal that the pandemic is hitting certain industries and sectors very hard while others are benefiting significantly. The pandemic has undoubtedly raised awareness and, depending on the risk assessment carried out, has led to expanded audit procedures in a number of audit areas and more extensive disclosures in the financial statements. However, its impact, particularly in terms of

⁹ The inspections of two of the five largest audit firms have not yet been completed, meaning that the relevant issues from these inspections have not been included in the Annual Report 2021.

¹⁰ Cf. FAOA Annual Report 2019, p. 16 ff.

auditing estimates and an entity's ability to continue as a going concern, has been less severe than originally anticipated, not least as a result of the recovery on the markets towards the end of the year.

Restatements arising from errors

Various studies¹¹ and the sanctions imposed on a regular basis by SER¹² show that even the annual and consolidated financial statements of public companies are not error-free. According to one of these studies, nearly one in ten of the IFRS annual financial statements prepared by SIX-listed issuers that were investigated contained major errors and had to be corrected («restated») retrospectively.

The need for a restatement is never a good testimonial of the audit firm concerned, as major corrections of errors are a strong indication of shortcomings in how it is conducting its audits. The FAOA thus regards effective processes for dealing with errors that emerge retrospectively as key. During the reporting year, the FAOA looked into what guidance and measures the five largest audit firms have in place to identify restatements and their causes.

Overall, it found that they generally have adequate procedures at their disposal for spotting restatements, investigating their causes and taking appropriate action. Although the FAOA's inspection did not result in any findings at any of the audit firms, it did identify the need for improvement in a few areas, namely: one audit firm only considered public companies when dealing with restatements, thus excluding some public-interest entities, while another did not have a formal process for responding to the discovery of restatements.

Analysis of audit reports on 2020 consolidated financial statements

The FAOA investigated the audit reports on all SIX-listed companies in the 2020 financial year. This enabled it to select engagements for inspection in a risk-oriented way, analyse

trends in various topics and assess the impact of the COVID-19 pandemic. Three issues are explored in more detail below:

Going-concern assumption

The going-concern assumption is an important principle in financial reporting. Annual and consolidated financial statements are usually prepared based on the assumption that the company will be able to keep continuing in business for at least twelve months after its reporting date. The auditor is required to scrutinise the justifiability of this assumption (cf. the requirements in SAS/ISA 570). This can be a challenging issue to investigate in some circumstances and one that has become more important over the past two or so years due in particular to the COVID-19 pandemic.

The FAOA also analysed the relevant reporting carried out by SIX-listed companies in light of the pandemic and its potentially negative impact on an entity's ability to continue as a going concern. Only ten (4.5%) of the companies investigated expressed material uncertainty over their ability to continue as a going concern. The inspection of the relevant audit reports and disclosures in the notes to the annual financial statements did not give rise to any negative findings on the part of the FAOA. In most cases, the major uncertainties related to complying with loan agreements (keeping to debt covenants) and the ability to refinance borrowings (e.g. replacing bonds).

The FAOA asked the five largest audit firms to provide details on their auditing of the going-concern principle at public companies.¹³ Amongst other things, the audit firms were required to indicate which public companies were experiencing events or circumstances that raised significant doubts about their ability to continue as a going concern. Such events or circumstances were identified at 17 (8%) of the public companies. In around half of these cases, the audit team concluded that no material uncertainty existed despite the presence of these

factors and thus chose not to make a corresponding comment in the audit report. The justifications provided for this decision were assessed by the FAOA and did not result in any negative findings.

On the basis of these investigations, the FAOA ultimately saw no need to inspect compliance with SAS/ISA 570 in more detail in file reviews.

¹¹ Cf. Tobias Hüttche, Dicke Bretter, wenig Späne – Entdeckte Fehler in der IFRS-Rechnungslegung. Eine Analyse von Fehlern in Finanzberichten, den Ursachen und Hinweisen zu ihrer Vermeidung, in: Der Schweizer Treuhänder 2012, p. 74 ff. as well as Christian Bitterli and Marco Passardi, Korrekturen von Fehlern nach IFRS und Swiss GAAP FER – Eine Bestandesaufnahme bei börsenkotierten Anwendern, EXPERT FOCUS 2018, p. 34 ff.

¹² Cf. www.ser-ag.com > Fundamentals > Sanctions.

¹³ Companies with listed participation shares.

KAMs

Amongst other things, audit reports on listed companies contain information on KAMs for the attention of the annual general meeting.

Figure 4
Most common KAMs for SIX-listed group companies (as a %)

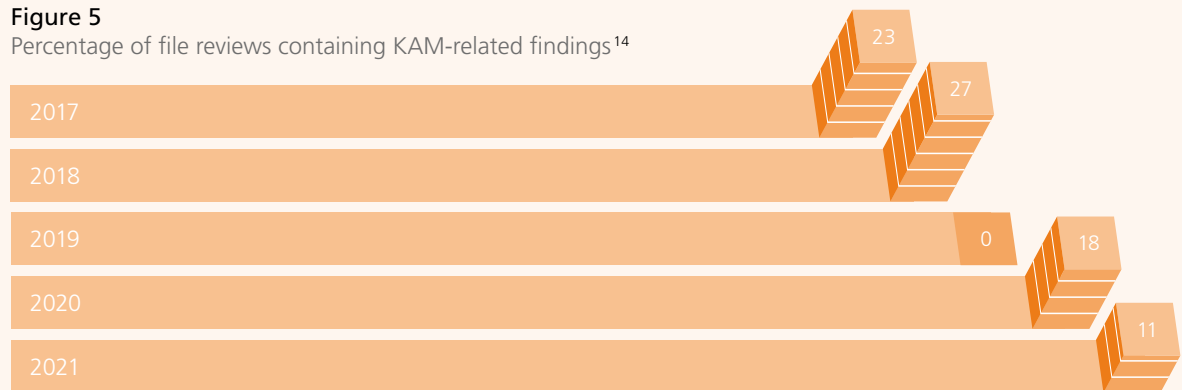


The most frequently reported KAMs (Fig. 4) related to the following items: intangible assets with indefinite useful lives (including goodwill); revenue recognition; taxes; and the valuation of inventories and property, plant and equipment. This mirrors the surveys that the FAOA conducted in 2020.

plementation of the audit procedures stated in the KAMs, which had either not been carried out as described or not done at all. The FAOA established no findings at the five largest audit firms and two at smaller audit firms in 2021 (Fig. 5).

The FAOA has identified twelve KAM-related findings since 2017. Ten of these related to the inadequate im-

Figure 5
Percentage of file reviews containing KAM-related findings¹⁴



¹⁴ The FAOA mainly conducted topic-specific file reviews in 2019, none of which revealed any KAM-related findings.

The FAOA notes that the percentage of file reviews with KAM-related findings has been falling since 2017.

thus particularly on how the company is structured and whether its internal processes permit a «fast close».

Timing of the publication of annual and consolidated financial statements

When annual and consolidated financial statements are published depends primarily on how efficient companies are at preparing them and

Figure 6
Financial statements published after the year-end (in months and as a %)

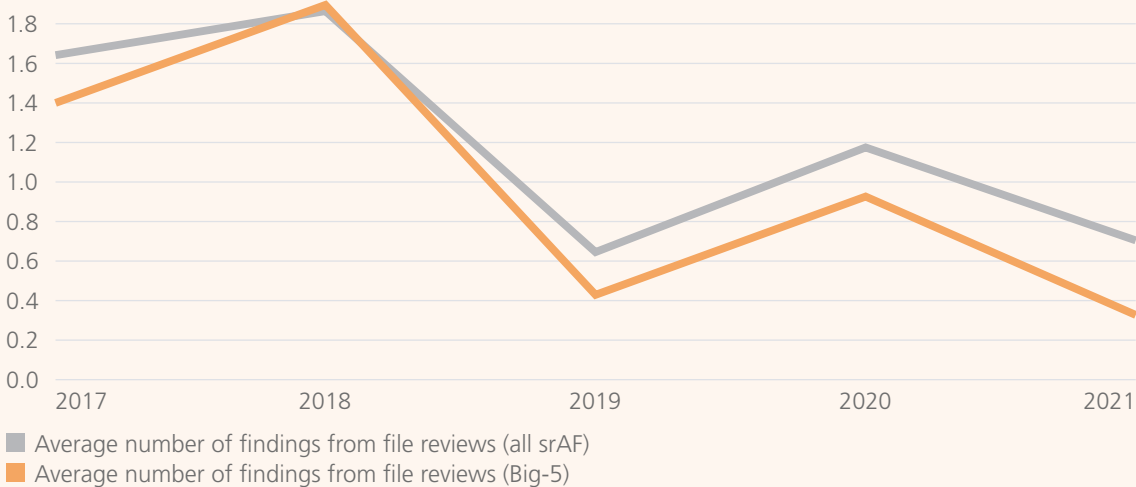


While 2% of SIX-listed companies published their annual financial statements within a month of the year-end (Fig. 6), most needed between two and three months.

File Review

Audit quality at individual engagement level depends heavily on the partners and staff involved as well as the external environment.

Figure 7
Trend in the average number of findings from file reviews since 2017



Viewed over the entire time period, the trend in the average number of findings per file review for all srAFs and the five largest audit firms (Fig. 7) is generally positive. Depending on the situation at the srAF concerned, it is now a question of making further efforts or keeping the pleasingly low number of findings down at its current level, as the case may be.

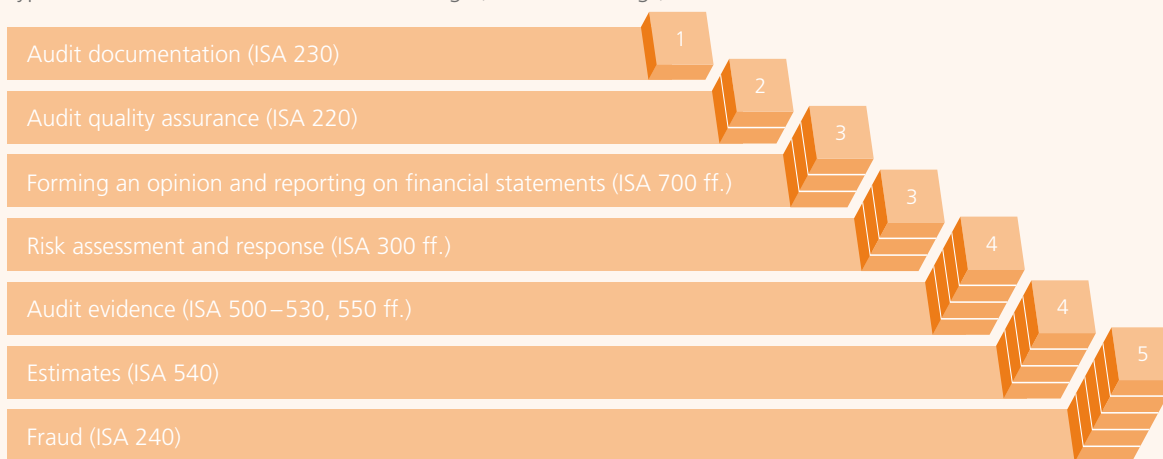
A total of 31 (prior year: 34) file reviews were performed in the reporting year.

They resulted in a total of 22 findings. The number of findings per file review (0.7) dropped by a significant 0.5 compared to the prior year (1.2). This fall is due not least to two ad hoc inspections conducted in the prior year, which had led to six findings in all. In addition, a total of nine findings had emerged from a file review conducted at each of two smaller audit firms in the prior year. The average number of findings per file is much lower at the five largest audit firms (0.3) than

at their smaller counterparts (3.3). The figure below shows the type and number of findings from the file reviews¹⁵ (Fig. 8).

Figure 8

Type and number of 2021 file review findings (total: 22 findings)



The following explanations of the FAOA’s points of focus for auditing work in 2021 provide details of findings relating to fraud and estimates. The FAOA identified findings concerning audit evidence in four engagements. In particular, these resulted from a failure to assess whether there was a material discrepancy between the other disclosures and the financial statements. In addition, an audit team failed to notice that various disclosures were missing from the notes in the case of one engagement.

¹⁵ For comparability purposes, findings that relate to breaches of Swiss or US auditing standards have been allocated to the identical or comparable International Standard on Auditing (ISA).

Point of focus 1: fraud (ISA 240)¹⁶

Fraud is defined as a deliberate act by one or more persons from amongst the board of directors, the management, the employees or third parties that is designed to obtain an unfair or unlawful advantage by means of deception. Fraud is classified as either fraudulent financial reporting or misappropriation of the assets of the company being audited. The FAOA had set compliance with ISA 240 as a point of focus back in the prior year. Thirteen files were assessed at three of the five largest audit firms, throwing up a total of seven findings by the FAOA. This relatively large number of findings in 2020 prompted the FAOA to inspect this area once again in 2021. It inspected this auditing standard in 19 files, identifying five findings.

As explained in the Annual Report 2020, the FAOA has identified recurring findings in this important area at three of the five largest audit firms since 2016, leading it to conclude that the measures taken in the past have not been effective enough. It recorded three findings at firm level in 2020, agreeing robust measures with the audit firms to tackle these findings. Some of these measures had

not yet become effective at file level at the time of the 2021 inspections due to the deadlines agreed.

As in the prior year, the issues that gave rise to the most findings by the FAOA in 2021 were the failure to conduct interviews with the management and members of the board of directors, either adequately or at all, and the inadequate auditing of journal entries. Journal entries are tested via an electronic analysis of manual journal entries, which is often done by IT specialists. However, these individuals often lack the necessary knowledge to be able to work in compliance with the relevant standards. Compulsory training for the specialists in this area raises the prospect of a fall in the number of findings. In addition, the FAOA found with one file that various pieces of information indicating risks of material misstatements due to fraud were not taken sufficiently into account during the audit.

The audit firms are to bring in robust measures to tackle the findings identified, and the FAOA will continue to treat this issue as a priority.

The FAOA observed that some audit firms were introducing additional

fraud training and expanded guidelines for employees, not least as a result of the Wirecard scandal and the COVID-19 pandemic. A number of audit firms also updated their processes for accepting and continuing engagements.

Point of focus 2: external confirmations, primarily of bank balances (ISA 505)

The 2020 Wirecard scandal was based on fictitious bank balances, amongst other things, and made headlines all around the world. This was one of the reasons that the FAOA made confirming business relationships with banks (bank confirmations) a point of focus for auditing work for 2021. The FAOA inspected compliance with the relevant standard (ISA 505¹⁷) in eleven file reviews (Fig. 9). This standard requires the auditor to maintain oversight of how confirmations are obtained at all times, else there is an opportunity for bank confirmations to be manipulated.

Figure 9

Process for selecting the business relationships with banks to be confirmed in eleven file reviews



¹⁶ The findings process is still at an early stage at two of the five largest audit firms, meaning that points of focus 1 to 3 are not included for these in the Annual Report 2021.

¹⁷ For comparability purposes, findings that relate to breaches of Swiss or US auditing standards have been allocated to the identical or comparable International Standard on Auditing (ISA).

All eleven audit teams obtained bank confirmations. Seven audit teams requested confirmations for virtually all the existing relationships with banks. Two audit teams only sought confirmation for the bank relationships involving material bank balances. Two others considered immaterial bank balances as well as material ones in order to introduce an element of surprise into their audits. Seven of the eleven audit teams used the digitalised and automated process of a third-party provider to request confirmations from foreign banks. (Fig. 9)

On the one hand, the FAOA found a number of positives: in two cases, the group auditors informed the component auditors about the need to obtain bank confirmations (via instructions or telephone calls). In two cases, an element of surprise (see above) was also introduced in addition to materiality when selecting the bank balances to be audited. This is an important response to the risk of misstatements due to fraud. In addition, one audit team investigated why the bank accounts listed with a zero balance had not appeared on the bank confirmations.

On the other hand, the FAOA also identified various areas requiring improvement, although it did not make these formal findings. One audit team submitted eighteen confirmation requests by post and only received five back. Although the team then followed some alternative audit procedures, no reminders about the confirmations were sent to the banks. Another audit team received bank confirmations by email. However, it did not check whether the emails came from a trusted source and whether the information that they contained was reliable. Another audit team did not question why the addressee on the confirmation request differed from the sender of the bank confirmation.

Point of focus 3: auditing estimates (ISA 540 [Revised])

ISA 540 (Revised) was brought in for audits of annual and consolidated

financial statements relating to financial periods beginning on or after 15 December 2019. The aim was to keep up with the fast-changing markets and developments in international accounting and reporting standards (e.g. IFRS 9, IFRS 15 and IFRS 16) and to give auditors robust specifications for auditing complex estimates and related disclosures.

The standard imposes tougher requirements in the areas of risk assessment (assessing inherent risk separately), the scalability of audit procedures (depending on the risk assessment), professional scepticism, disclosures and audit evidence in particular. The five largest audit firms have prepared their employees for the challenges posed by auditing to ISA 540 (Revised) with new audit programmes, training and instructions.

The FAOA inspected compliance with ISA 540 in 26 file reviews¹⁸ in selected areas, identifying four findings in the process. In particular, these related to reviewing intangible assets and goodwill for impairment and to forecasts for evaluating the company's ability to continue as a going concern.

The FAOA's evaluation of the SIX-listed companies in the 2020 financial year shows that at least 50% of KAMs are closely linked to ISA 540 (Revised). The results of the IFIAR survey over the past five years also indicate that the most common inspection relate to ISA 540 or ISA 540 (Revised).

The public expect the risks of material misstatements in auditing estimates to be identified adequately and tackled with due professional scepticism and robust audit procedures. This issue will remain a point of focus for future FAOA inspections.

Root cause analysis and measures

The audit firm concerned must put suitable measures in place to rectify the FAOA's findings on audit engagements with lasting effect. These measures are to be based on a root

cause analysis by the audit firm. The root cause analysis processes at the five largest audit firms are supported by their respective global networks, which have formulated rules and tools in response to both findings from internal monitoring and those identified by external audit oversight authorities. In each case, the root cause analysis is performed by staff from the audit firm's quality and risk management team, who ultimately come up with detailed plans of measures.

The FAOA undertakes a critical review of these plans of measures and generally requests more precise details or improvements to their content. The final plans of measures are usually submitted to the relevant global auditing network as well. However, implementation is primarily monitored at local level.

The FAOA deemed the root cause analysis at two srAFs to be inadequate, forcing it to significantly rework the measures being proposed. Only a sound root cause analysis and robust measures derived from it will bring about a lasting reduction in recurring internal and external findings and thus improve audit quality.

¹⁸ Eleven of these file reviews related to ISA 540 and fifteen to ISA 540 (Revised).

In 2021, the FAOA agreed a total of 52 improvement measures with the srAFs inspected (Fig. 10).

Figure 10

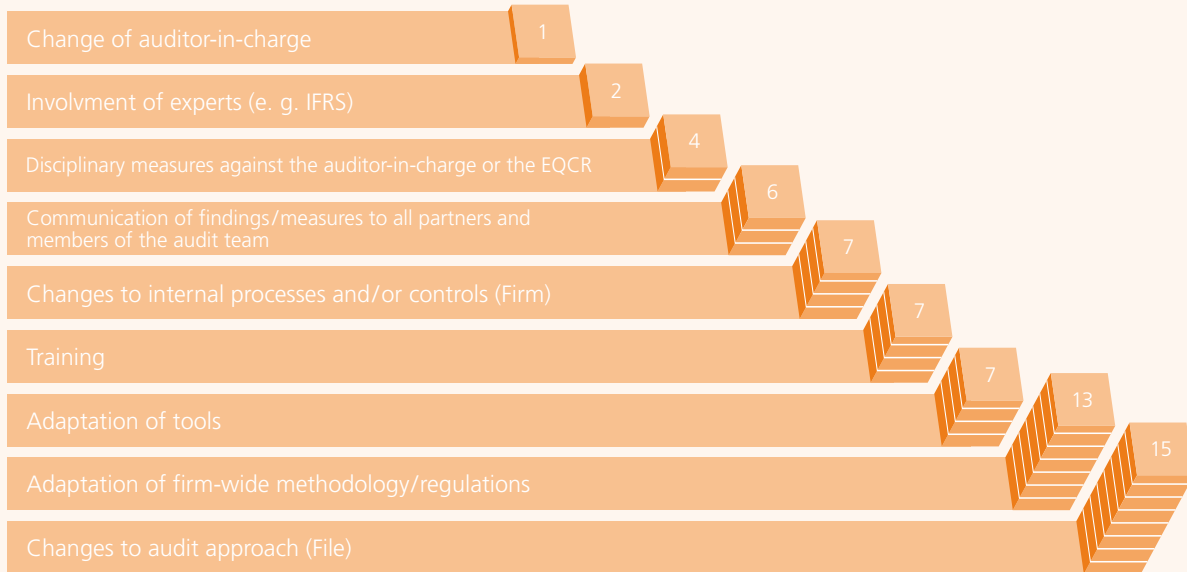
Number of inspections, files and measures

| Number of inspections (including those not resulting in findings) ¹⁹ | Number of files (including those not resulting in findings) | Number of measures agreed |
|---|---|---------------------------|
| 8 | 27 | 52 |

The measures agreed relate to various areas (Fig. 11).

Figure 11

Measures agreed in inspection reports, classified by areas



Note: one measure can affect several areas

¹⁹ The measures process is still at an early stage at three audit firms, meaning that their file reviews and measures are not included in the table. Conversely, two inspections are included that had not yet made it into the Annual Report 2020.

The measures for tackling shortcomings from firm reviews included, in particular, adapting internal processes, firm-wide methodology and regulations. In addition, tools were modified or newly introduced, as appropriate, and training sessions on the relevant auditing, accounting and reporting standards were agreed. In two cases, the auditor-in-charge and EQCR were temporarily banned from providing and being involved in statutory auditing services for public-interest entities.

By their very nature, the measures relating to shortcomings from the file reviews depended on the corresponding issues and, in particular, concerned changes to the audit approach and audit scope as well as adequate audit evidence. It was also

agreed with the audit firms that auditing tools would be improved, training given or experts brought in. Furthermore, disciplinary measures (withholding of bonuses) were also taken in one case against the auditor-in-charge, who was also required to drop out of the rotation cycle for the engagement, and in another against the EQCR.

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. Eight such notifications relating to the work of srAFs were received in

2021, three of which prompted preliminary fact-finding. No enforcement proceedings were opened as a result of the completed investigations.

Audit quality indicators

FAOA audit quality indicators

The FAOA collects twelve audit quality indicators (AQIs) from the five largest audit firms (Fig. 12).²⁰ It uses these primarily to analyse trends, to assess risks and to plan its inspections.

Figure 12

Selected AQIs relating to the audit function of the five largest audit firms

| AQI | 2018 | | 2019 | | 2020 | | 2021 | |
|--|------|------|------|------|------|------|------|------|
| | from | to | from | to | from | to | from | to |
| Annual revenue per audit partner in CHF million | 2.1 | 4.1 | 2.2 | 4.2 | 2.2 | 4.1 | 2.3 | 4.9 |
| Ratio of non-audit fees to audit fees²¹ | | | | | | | | |
| – SMI company | | | | | | | | |
| – Non-SMI public companies | 0.1 | 0.2 | 0.1 | 0.4 | 0.1 | 0.3 | 0.1 | 0.2 |
| | 0.0 | 0.3 | 0.0 | 0.3 | 0.0 | 0.2 | 0.0 | 0.2 |
| Number of staff per partner | 9.5 | 14.3 | 9.7 | 13.7 | 9.8 | 13.9 | 10.1 | 15.4 |
| Training hours | 49 | 85 | 51 | 78 | 49 | 75 | 48 | 76 |
| Staff turnover as a % | 13 | 31 | 15 | 27 | 16 | 33 | 15 | 27 |
| Average number of EQCR hours | | | | | | | | |
| – SMI company | 51 | 224 | 48 | 167 | 38 | 215 | 51 | 207 |
| – Non-SMI public companies | 9 | 19 | 7 | 21 | 8 | 26 | 9 | 28 |
| Average number of auditor-in-charge hours | | | | | | | | |
| – SMI company | 562 | 757 | 387 | 897 | 410 | 716 | 399 | 856 |
| – Non-SMI public companies | 77 | 125 | 74 | 135 | 80 | 139 | 58 | 138 |
| Number of foreign shared service centre hours as a percentage of overall hours at public companies | 0 | 13 | 0 | 17 | 0 | 18 | 0 | 24 |
| Number of consultations per public company audit | 0.2 | 1.1 | 0.2 | 1.0 | 0.3 | 1.1 | 0.1 | 1.0 |

²⁰ The amounts reported by the audit firms are not subjected to any substantive testing after the fact.

²¹ Certain prior-year amounts have been corrected.

The annual revenue per partner increased year on year at three audit firms and fell at two. The audit firm with the lowest number of staff per partner also had the lowest revenue per partner.

The FAOA sees the ratio of non-audit to audit fees at PIE audit clients as a risk factor. The higher the ratio, the greater the risk of a conflict of interest for the audit firm. The 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 professional knowledge. The figure decreased year on year at both the top and bottom end of the range. Staff turnover fell by 1 percentage point at one audit firm and by 2 percentage points at another. One audit firm has consistently boasted the lowest rate ever since this AQI was first recorded.

An 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. The figure for SMI companies increased by between 22 % and 57 % at three audit firms and fell by 4 % at another. The same firm has consistently shown the highest amounts for SMI companies since 2014, while another has reported the lowest amount every year since 2018.

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

Four out of the five audit firms outsource certain audit work to foreign shared service centres. This figure increased by 5 percentage points at two audit firms.

Formal consultations are to be held in response to challenging or disputed circumstances in order to increase audit quality. Three audit firms carried out many more consultations per public company audit than they did in the prior year. The figure fell at two audit firms, which are at the top and bottom end of the range.

AQIs of the five largest audit firms

The five largest audit firms use their own AQIs, in some cases supplemented by the FAOA's AQIs described above. The various AQIs are structured in different ways. Three audit firms have processes in place for collecting, evaluating and monitoring internal AQIs. A fourth introduced a new five-AQI process during the reporting year, while the global network of the fifth audit firm began developing a list of eight AQIs in 2020.

AQIs outside Switzerland

See the comments in the FAOA's Annual Report 2020.²²

It is also worth mentioning that the Independent Regulatory Board for Auditors (IRBA) in South Africa has likewise been gathering AQIs on audit firms listed on the Johannesburg Stock Exchange (JSE) since 2019. The second report on these AQIs was published in February 2021.²³ It describes and comments on 14 AQIs on areas including independence, engagement term, review and workload. The report contains information that is particularly relevant to members of boards of directors, audit committees and company management teams.

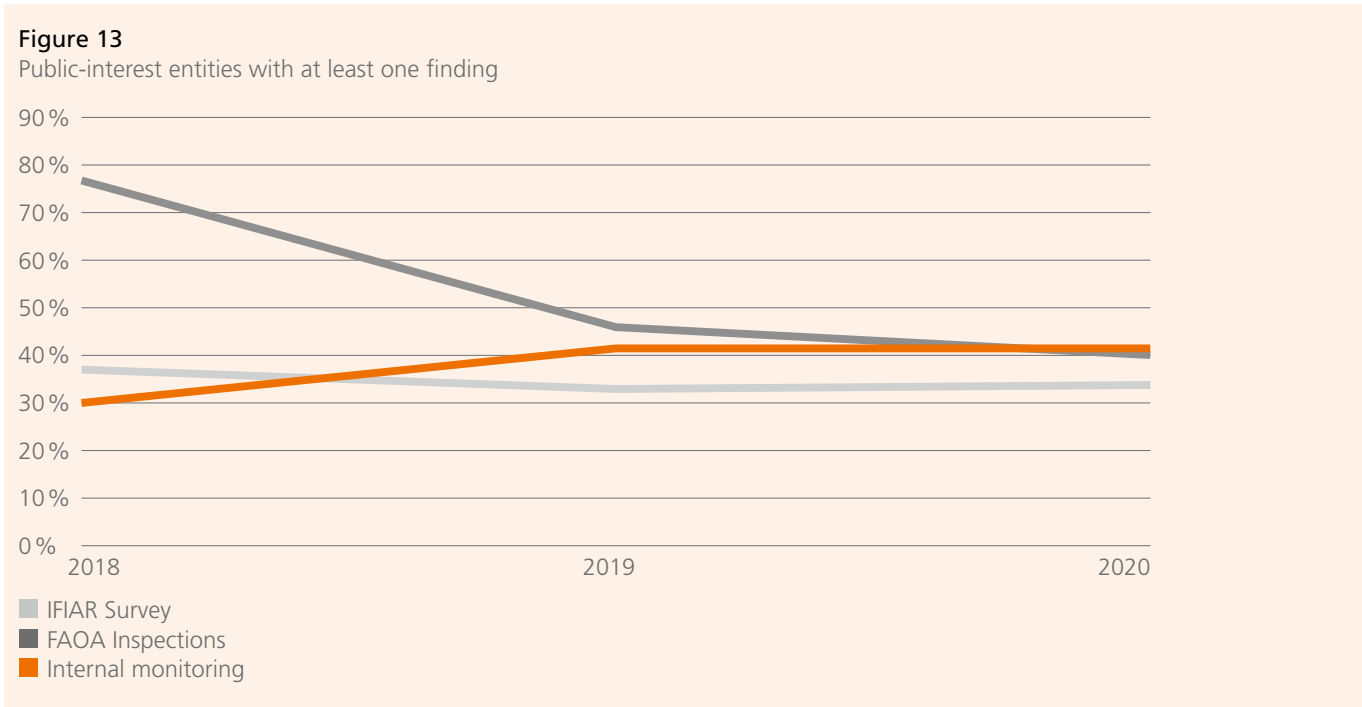
²² Cf. FAOA Annual Report 2020, p. 28 f.

²³ www.irba.co.za > Guidance for RAs > Technical Guidance for RAs > Transparency Reporting and Audit Quality Indicators (AQIs).

Evaluating the IFIAR survey

On 15 March 2021, 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.^{24,25}

The FAOA compared these findings with those from the internal monitoring done by the five largest audit firms in Switzerland and those from its own inspections (Fig. 13).



Based on the percentage of inspected public-interest entities with at least one finding for the engagement, both the IFIAR survey and the FAOA’s inspections indicate a downward trend. With regard to internal monitoring, the unwelcome rise was halted in 2019 and the level kept constant in 2020. The three AQIs are trending sideways at a high level and range from 34% to 42%. On a positive note, however, it would appear that the decision as to when an engagement reveals a major shortcoming is taken in a surprisingly uniform way across the world.

A comparison between the IFIAR survey and the FAOA’s findings covering a period of two years indicates a certain thematic overlap, with most shortcomings relating to estimates, fraud, internal controls (ICS), random samples and reporting.

Cooperation with stock exchanges

The FAOA coordinates its oversight activities with SIX Exchange Regulation (SER) to avoid duplication. The FAOA submitted one notification to SER in the reporting year.

Cooperation with audit committees

The FAOA continued its longstanding dialogue with the chairs of selected audit committees in 2021. In particular, it drew their attention to developments and trends in audit and audit oversight and took their questions and suggestions. 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.

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

²⁵ www.ifiar.org > Activities > Inspection Survey > 2020 Survey of Inspection Findings.

Standard setting

Swiss Auditing Standards (SASs)

The current SASs (from 2013) are based on the ISAs from March 2009. Eleven ISA auditing standards²⁶ have been revised over the past twelve years, most of them significantly. However, the improvements and added precision that this has brought have not subsequently been incorporated into the SASs.

The profession is currently planning to issue new, updated SASs to apply for financial years ending on or after 15 December 2022. However, these will only be based on the ISAs as of October 2018. This means that there will yet again be a sizeable gap between the ISAs and SASs when these new SASs are first applied, which will widen over time.²⁷ The FAOA is currently considering various possible scenarios for closing the gap between the ISAs and SASs more quickly and is engaged in dialogue with the profession in this regard.

International auditing standards

The FAOA regularly submits comment letters on various IESBA and IAASB drafts resulting from a coordinated process within IFIAR. One such comment letter, on the discussion paper

entitled «Fraud and Going Concern in an Audit of Financial Statements», can be found on the FAOA's website.

Implementing the new quality assurance standards

ISQM 1 and ISQM 2 will replace the current ISQC 1 on 15 December 2022. This will affect firms auditing companies that prepare their annual and consolidated financial statements in accordance with international accounting and reporting standards and are thus also audited to international auditing standards. The assessment of effectiveness is set to be completed by 15 December 2023. ISA 220 (Revised) on quality management for an audit of financial statements is also to be implemented from mid-December 2022 onwards.

As in the prior year, the FAOA also tracked the progress made by the five largest audit firms with introducing the new standards in 2021. It observed that, as expected, the projects to implement them were largely driven and supported by the specifications of the global audit networks. Implementation is supplemented at local level as required. The five firms are currently at the implementation stage, with different components at different levels of completeness. No

early adoption of the standards has taken place in Switzerland.

The FAOA will continue to monitor the progress being made and will conduct its first inspection of the new standards' implementation in practice in the 2023 inspection year.

Technology

Auditing technologies

All srAFs use technologies to document their audits (Fig. 14). The range is broad and covers everything from simple Excel and Word templates through to data-driven auditing. The five largest srAFs use more advanced technologies.

Figure 14

Technologies employed at the five largest audit firms

| | srAF A | srAF B | srAF C | srAF D | srAF E |
|--|--------|--------|--------|--------|--------|
| Auditing software (documentation) | × | × | × | × | × |
| Analyses | | | | | |
| – Process and monitoring analyses | × | × | | × | |
| – Data analyses | × | × | × | × | × |
| – Regulatory analyses | × | | | | |
| Robotics and other forms of automation | × | × | | | × |
| Crypto tools | × | × | | × | |

²⁶ ISA 250 (Revised), 260 (Revised), 315 (Revised), 540 (Revised), 570 (Revised), 610 (Revised 2013), 700 (Revised), 701, 705 (Revised), 706 (Revised) and 720 (Revised).

²⁷ These include, in particular, the quality assurance standards ISQM 1, ISQM 2, ISA 220 (Revised), ISA 315 (Revised) and ISA 600 (Revised).

Whilst smaller audit firms use fewer automatic tools, the use of data analyses is already more or less routine at the five largest ones. As well as the risk assessment at the planning stage, sales processes are the most common subject of analysis during auditing. This involves investigating sales transactions in particular, from ordering and delivery through to invoicing and payment. Data analyses were also used in the following areas: procurement processes; stock management for inventories; property, plant and equipment; HR management; analysis of annual financial statements; journal entries; valuation of financial instruments; and financial income. Process and monitoring analyses were used in particular in the procurement process by means of «process mining»²⁸ and for overarching IT controls and segregation of duties. Only one audit firm uses a tool for auditing compliance with regulatory requirements.

The five largest audit firms also use so-called bots²⁹ to conduct automatic analyses or largely automate routine audit tasks, including, in particular, the automatic recognition and analysis of texts and documents (e.g. annexes, checklists or confirmations).

The FAOA's file reviews in the reporting year resulted in one finding relating to the use of analytical tools to audit journal entries.

In its discussions with the audit firms, the FAOA established that a certain degree of uncertainty still exists in some quarters regarding the requirements for obtaining audit evidence (ISA 500) using technologies. In principle, all the information on which the audit conclusions draw is to be filed as audit evidence. The following principles also apply:

- When it is a question of spotting discrepancies and unexpected transactions, events, amounts, circumstances and trends, the overriding aim is to identify or assess the risks of material misstatements. Data analysis offers an opportunity

here to process large volumes of data and factor in data from a wide range of sources.³⁰ Audit teams should therefore gather audit evidence on the relevance and reliability of the data.

- If the same information is used to plan and conduct further audit procedures, the nature of the audit statements³¹ that can be made will be crucial to the gathering of audit evidence. Deviations from or exceptions to these audit statements must be investigated and substantiated with relevant evidence. Deviations and exceptions of the same kind can be grouped together and must be audited via random sampling (ISA 530). For all business operations without any deviations or exceptions, it must be ensured that the data analysis is appropriate for audit statements, particularly on occurrence and accuracy, and that the underlying data is reliable. This means that audit evidence is to be gathered to confirm that the whole population of the relevant data has been extracted from the audited company's systems and that the relevant data items (e.g. timing, quantities, product codes) have been checked for completeness and accuracy.
- The use of data analysis for substantive analytical procedures (ISA 520) is generally better suited to large quantities of transactions that tend to be predictable over the course of time. This allows audit teams to incorporate information from several internal and external sources and use much larger volumes of data for their analyses. Data reliability is an important factor here too, however, as it is the data that underpins the development and performance of analysis procedures. When carrying out substantive analytical audit procedures, audit teams need to develop an expectation that is accurate enough to enable them to spot misstatements. Deviations³² from these expectations must be investigated and substantiated with appropriate, relevant audit evidence.

Auditing crypto companies

As part of its firm reviews, the FAOA looked at the quality assurance processes followed by the five largest audit firms and one smaller audit firm in relation to crypto companies. Specifically, it assessed the acceptance and continuation of engagements at and the auditing of companies that use blockchain technology, hold crypto assets or provide crypto services.

The audit firms' strategic focus on auditing crypto companies ranges from cautious to enthusiastic. While those at the reluctant end are more concerned about the risks, their peers at the other end are focusing on the associated opportunities. The risks that the six audit firms see in auditing crypto companies are illustrated below (Fig. 15):

²⁸ Investigating process workflows.

²⁹ A bot (from «robot») is a computer program that automatically works through repetitive tasks without intervention from a human user.

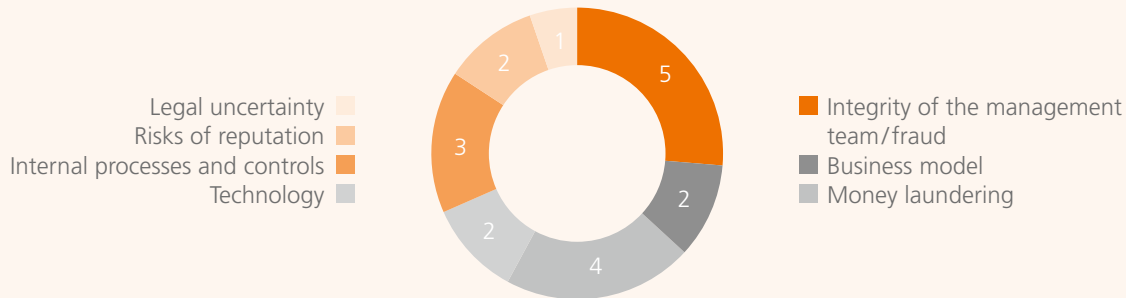
³⁰ This also includes information collected outside the company being audited.

³¹ These include occurrence, completeness, accuracy, application of the accruals principle to business operations or their presence as well as the rights and obligations associated with assets and debts.

³² To this end, specific items of transaction data can be analysed, broken down further («drilling down») or illustrated in visual form.

Figure 15

Risk assessment on crypto companies (six audit firms)



Besides the integrity of the management team, an understanding of the business model is crucial in order to be able to assess the business risks and the risks associated with the items being audited in particular. The FAOA would criticise the fact that the assessment of risks connected with the business model of the company being audited is somewhat neglected. If the audit firm lacks an adequate understanding of how and in what scope the company that it is auditing does business, it will not be able to evaluate the resulting risks posed to auditing. It is also hard to determine what regulatory oversight the companies should be submitting to.³³ The assessments of the other five risks vary. The FAOA will look more closely at these issues during its next inspection of the audit firms concerned.

Most audit firms have tools to help them gauge the risks posed by accepting and continuing engagements at crypto companies. One audit firm is currently still working on devising a suitable tool. All audit firms have both human and intellectual capital to draw on, and three of the five largest ones have crypto tools at their disposal to enable them to provide auditing services for crypto companies. The FAOA will continue to monitor the extent to which these resources are adequate as part of the process to formulate ISQM 1 and take this into account when selecting audit engagements for file reviews.

Points of focus for the FAOA's inspections in 2022

The FAOA has selected the following points of focus for the 2022 routine inspections of srAFs:

- Auditing accounting estimates and related disclosures in financial statements (ISA 540 [Revised])
- Auditing inventories (ISA 501 in particular)
- Effectiveness of internal monitoring processes (ISQC 1.48 ff.)

Auditing estimates requires particular professional scepticism on the auditor's part, because estimates harbour an increased risk of material misstatements in audited financial statements due to fraud or error.

The COVID-19 pandemic has prompted the audit firms and the companies being audited to change how their staff work (e.g. working from home). Where it is not practically feasible to be present when inventories are being taken, the auditor is required to follow alternative audit procedures in order to gather sufficient audit evidence on the presence and characteristics of inventories.

Alongside these audit procedures, the FAOA also deems the valuation of inventories to be relevant on account of the COVID-19 pandemic.

In addition, audit firms have internal monitoring processes in place to ensure that the internal regulations and measures in their quality assurance system are relevant and appropriate and function effectively. The FAOA relies on these processes for its own risk assessment.

Other areas of focus will emerge based on the individual analysis of specific circumstances.

³³ Such as FINMA, self-regulatory organisations (SROs) or supervisory organisations (SOs).

Regulatory Audit

Introduction

As the «extended arm» of FINMA, regulatory audit firms make a key contribution to the dual supervision system of the financial market in Switzerland. The statutory framework governing regulatory audits under supervisory law differs substantially from the obligations of the statutory auditor under the CO. Whilst FINMA is responsible for the conditions underlying regulatory auditing, the FAOA guarantees its quality.

The regulatory audit market has changed little in recent years. The three largest regulatory audit firms

(PwC, EY and KPMG) continue to perform the vast majority of regulatory audits, though the FAOA believes there is lively competition between all regulatory audit providers for new audits being put out to tender. See the corresponding statistics in the «Licensing» section (Fig. 30).

The number of supervised financial institutions (Fig. 16) has remained stable for a number of years. The trend over the past five years only indicates a slight increase in demand in the CISA segment, i.e. amongst asset managers under the CISA and collective investment schemes. By contrast, there has been a steady fall

in the number of representatives of collective investment schemes (Fig. 17). The number of licensed fintech companies (Art. 1b BankA) remains at a low level.

Figure 16

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

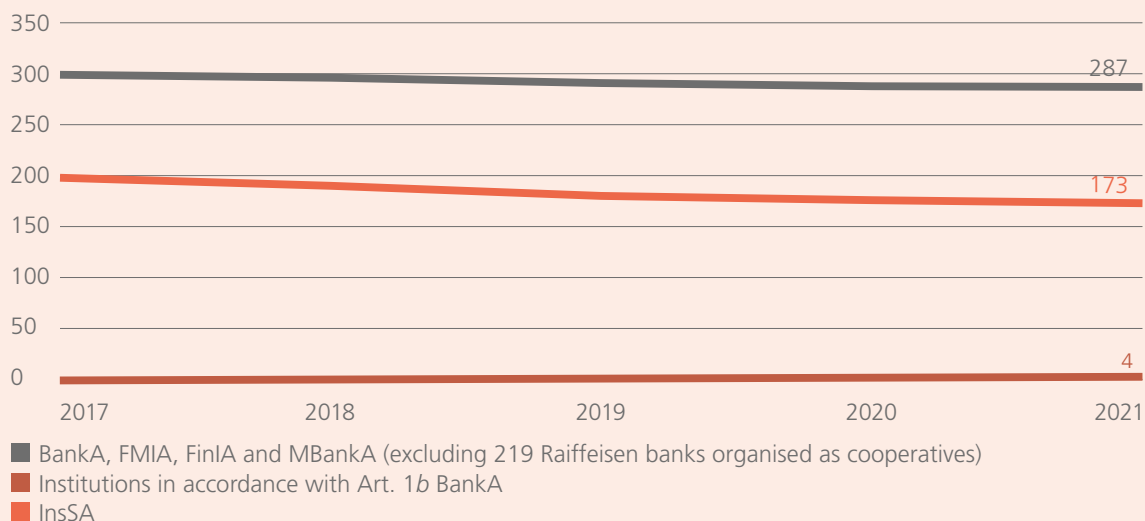
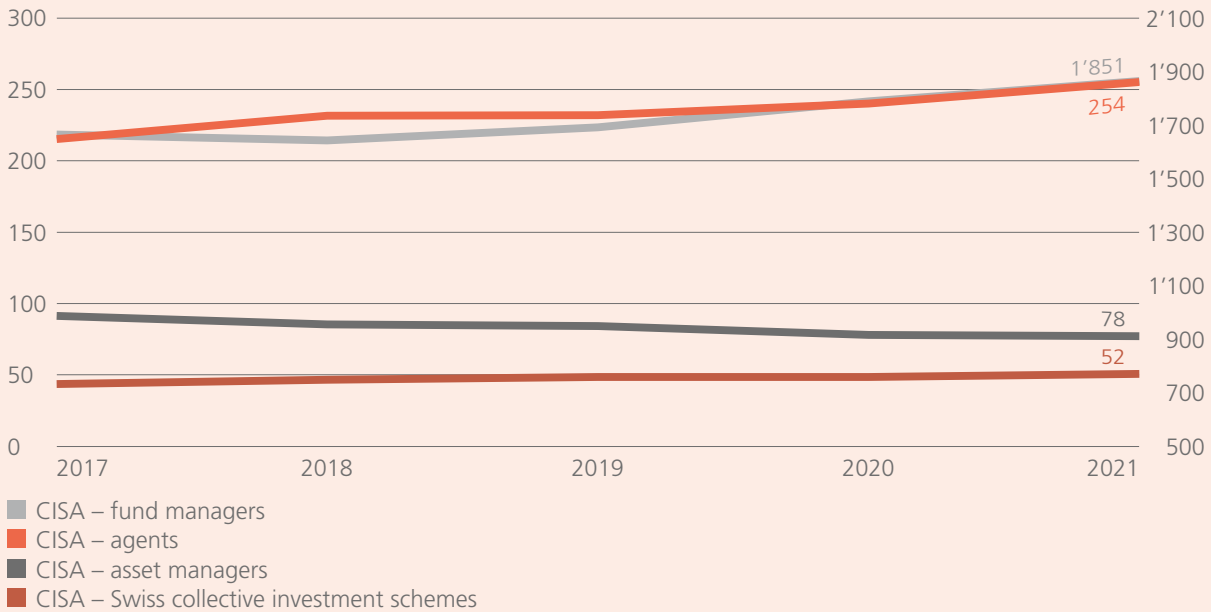


Figure 17
Number of supervised institutions by regulatory area (CISA institutions only)



2021 inspections

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. 18).

The quality of regulatory audit services was mainly inspected by means of file reviews. The inspections completed are based on sixteen regulatory audits (thirteen banks, one asset manager and two insurers). As part of this process, three banks were subjected to a topic-specific inspection relating to combating money laundering.

In addition, several of the banks inspected were involved in large-scale asset management activities. The fact that the engagements selected are dominated by banks is due to the focus being placed on the auditing of efforts to combat money laundering.

Figure 18
Overview of FAOA inspections and findings 2020 and 2021

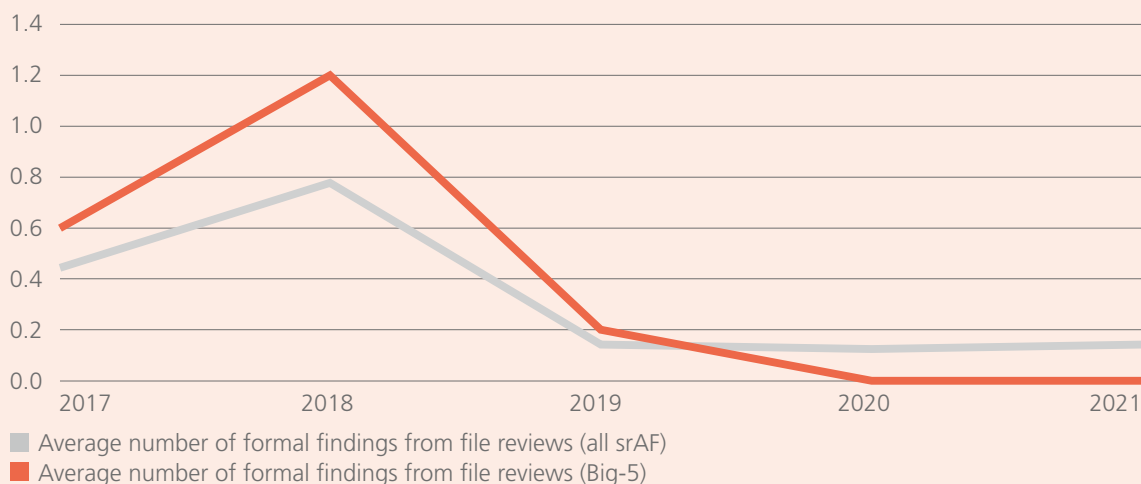
| Categories | Five largest regulatory audit firms | | Other | | Total | |
|---|-------------------------------------|------|-------|------|-------|------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Number of inspections | 5 | 5 | 2 | 3 | 7 | 8 |
| Comment Form Findings Firm Review Regulatory Audit | 1 | 0 | 0 | 1 | 1 | 1 |
| Number of inspected files | 14 | 14 | 2 | 3 | 16 | 17 |
| Comment Form Findings File Review Regulatory Audit | 14 | 27 | 0 | 6 | 14 | 33 |

Firm Review

The inspections completed in 2021 resulted in only one finding as part of the 2021 firm reviews. This is a pleasing result and correlates with the downward trend in findings across the board since 2018 (Fig. 19).

Figure 19

Trend in the average number of findings from firm reviews since 2017



File Review

As with audits of financial statements (cf. the comments made in the «Financial Audit» section above), audit quality in regulatory audit engagements is heavily dependent on the auditors-in-charge engaged. Here too, up-to-date specialist knowledge is crucial.

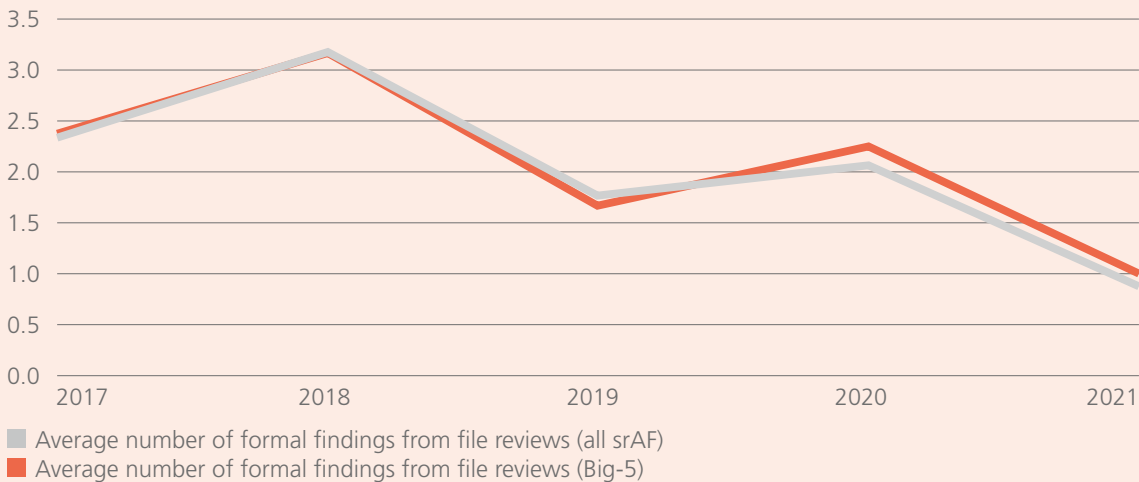
The file reviews completed in 2021 gave rise to 14 findings, for which individual improvement measures

were agreed with the regulatory audit firms. The number of findings has thus more than halved year on year, a pleasing improvement.

The trend in the average number of findings per file indicates a steady improvement overall following the high of 2018 (Fig. 20). Only four inspections produced two or more findings, and four inspections ran their full course without any findings whatsoever.

Figure 20

Trend in the average number of findings per file since 2017



The findings relate to the following areas of auditing (Fig. 21). In percentage terms, the most weaknesses in auditing were uncovered in connection with the auditing of compliance with the provisions of the AMLA.

Figure 21

Findings by area of auditing



The main shortcomings identified in the two most important categories are detailed below.

Provisions of the AMLA

Auditing compliance with the regulations on combating money laundering and terrorist financing will remain an important and central issue in the FAOA's inspections (cf. the points of focus for the FAOA's inspections in 2022). The learning curve is still not

steep enough in this area. Compared with prior years, the following weaknesses emerged in particular:

- The auditing of information on clients («Know Your Customer», or KYC) remains plagued by major deficiencies. In some cases, the audits had not been carried out transparently or with the necessary due diligence. In particular, the origin of assets and the plausibility check of

the subsequent in- and outflows of funds must be assessed critically. Contradictory information in the client profile and related statements from the institutions being audited were not scrutinised critically enough. Often, no evidence was provided of due discretion being exercised or of the associated meaningful assessments.

– It was repeatedly observed that the necessary critical attention was not being paid to the quality of the AMLA risk analysis³⁴ that the financial intermediaries are required to prepare periodically as part of their ongoing work. The impression was frequently given that preparing this document is seen as merely a formal exercise on the part of the financial intermediary. Addressing the specific AMLA risks in detail – in terms of identifying, measuring and combating them – would create substantial added value as well as giving the regulatory audit firms a useful starting point for their audits.

– Audit sampling is a tried-and-tested method for auditing business relationships and higher-risk transactions. Although there has been a slight improvement on prior years, audit work once again fell short of the requisite quality standards in several cases in 2021. Yet again, there were too many instances of no or too little account being taken of risk when selecting samples. Neither were identified errors critically assessed or included in regulatory reports. The trend of reducing chosen sample sizes to the minimum stipulated by FINMA shows no signs of abating. The fairly rigid minimum requirements governing the selection of samples thus favours a minimalist approach to audit work. The FAOA would welcome a more risk-oriented selection of samples based on the abovementioned risk analysis of the institution being audited. This should also result in larger samples in high-risk client segments than the current minimum requirements are producing.

Risk management and risk reporting

The shortcomings identified previously also persisted in the areas of risk management and risk reporting. These mainly involve a combination of insufficient audit procedures and a lack of professional scepticism. In various fields of activity, for instance, it was observed that work done by

the respective internal audit team was simply being relied on without applying due professional scepticism. Particular attention still needs to be paid to ensuring that the data furnished by the company being audited is scrutinised critically by the regulatory audit firm and that the correctness and completeness of this data is checked in the process. The FAOA believes that interviewing management and reviewing documents without conducting any more in-depth audit procedures is not sufficient for an audit depth of «positive assurance».

Root cause analysis and measures

Companies often used the same methodology to prepare the root cause analysis for the abovementioned shortcomings and define suitable measures for rectifying them as they applied to shortcomings from their in-house quality checks (internal monitoring). It is therefore important that this process is robust and will be followed in a uniform way.

The FAOA has observed that the root cause analyses and their associated findings do not demonstrate the same quality and depth at all regulatory audit firms. Some regulatory audit firms tend to restrict their findings to simple problems in the documentation to avoid having to admit that the causes are more deep-rooted or must be found elsewhere. However, the lack of documentation also means a lack of audit evidence («not documented, not done»). If audit evidence is missing, the auditor cannot be assumed to have carried out adequate and appropriate audit procedures.

This lack of thoroughness will mean that the measures put forward will often be incomplete and imprecise and will not address the deeper causes of the shortcomings identified. The FAOA is therefore often forced to clarify, reinforce and improve the measures being proposed. The regulatory audit firms should also refrain from leaving it up to the individual

audit teams to define the processes for conducting the root cause analysis and determine the corrective action to be taken – this should be done by a higher-level neutral quality assurance body that is not involved in the audit procedures.

The shortcomings identified have many root causes, and the following section focuses on the recurring ones.

– The FAOA's findings are often connected to shortcomings in professional scepticism. 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. This is particularly important in areas of auditing where the auditor's subjectivity is critical (e.g. AMLA audits).

In some cases, audit evidence from prior years is reused without the auditor critically assessing whether it is still adequate and appropriate for the current audit too. For example, the environment in which the company operates may have changed so significantly that the audit evidence from the prior year can no longer be used. This should be established and critically appraised as part of quality assurance in order to ensure that any changes in the financial institution's organisational structure are discovered. In addition, audit evidence from third parties is used all too often without checking whether it covers exactly the audit points to be confirmed

³⁴ Cf. the FINMA regulations, which state that the competence centre for combating money laundering or another independent body shall also prepare a risk analysis covering the aspects of combating money laundering and terrorist financing, taking account of the financial intermediary's field of activity and the nature of its business relationships and paying particular attention to the location of the client's domicile or registered office, the client segment and the products and services being offered. The risk analysis is to be approved by the board of directors or the highest-level executive body and updated periodically (Art. 25 para. 2 AMLO-FINMA).

by the auditor (e.g. internal audit reports, ISAE reports or reports from other auditors in the case of a group of companies).

- 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 are a similarly frequent cause of findings (e.g. a lack of

instructions for the audit teams). A number of regulatory audit firms are under persistently heavy pressure in this regard and are being required to overhaul their specimen working papers and procedures.

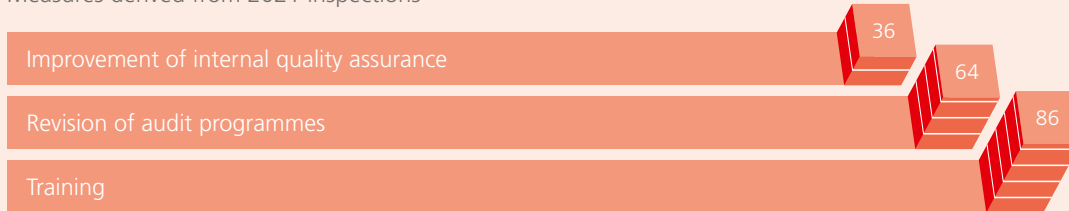
Some regulatory audit firms have already made fairly good progress with introducing PH 70, while others still have a lot to do. The FAOA will therefore continue to pay significant attention to the implementation of PH 70. It must be borne in mind in this context that FINMA's standard auditing programmes merely set out minimum

requirements and have to be adapted to each individual situation in a risk-based way by the regulatory audit firms involved. In addition, although these FINMA audit programmes specify which points are to be audited, it is often left to the auditor to decide what auditing methodology to apply in order to cover them. The regulatory audit firms therefore need to reference this auditing methodology in the audit programmes.

The most frequent measures associated with FAOA findings in 2021 are as follows (Fig. 22):

Figure 22

Measures derived from 2021 inspections



Nearly all regulatory audit firms are engaged in training staff. The revision of audit programmes in 2020 was prompted in particular by the amendments made in light of PH 70.

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 and notifications from FINMA. Three notifications prompted the FAOA to undertake preliminary fact-finding at srAFs during the reporting year.

Cooperation with FINMA

The law provides for close cooperation between the FAOA and FINMA, with the former supporting the latter with its supervision of the financial markets. In addition, the administrative burden on the authorities and

regulatory audit firms involved is kept to a minimum.

Day to day, this dialogue takes place at all levels of the hierarchy. The FAOA notifies FINMA of the results of its individual firm and file reviews and shares the key findings from its practical experience of regulatory audit.

Points of focus for the FAOA's inspections in 2022

The FAOA has selected the following points of focus for the 2022 routine inspections of regulatory audit firms:

- Audit of compliance with the provisions of the Federal Act on Combating Money Laundering and Terrorist Financing (AMLA)
- Inspecting the effectiveness of internal monitoring processes
- Audits associated with risk management issues

Issues related to combating money laundering continue to dominate the Swiss and international financial markets, prompting the FAOA to retain this point of focus. The internal monitoring processes adopted by regulatory audit firms are a key component of quality assurance, including in the area of regulatory audit. In addition, well-functioning markets rely on financial institutions having a robust and effective risk management system, so auditing this element is absolutely crucial.

International

Introduction

The number of cross-border administrative assistance cases increased year on year.³⁵ Collaboration with foreign audit oversight authorities is still necessary in order to guarantee adequate global oversight in view of the internationalisation of the financial markets and the international activities of the audited companies.

Extra-territorial scope of the AOA

The FAOA has a duty to ensure investor protection on the Swiss capital market. Besides companies based in Switzerland, this market also includes those based abroad that participate directly in the Swiss capital market. This explains why the AOA has an extra-territorial scope, which means that foreign audit firms need to be licensed as srAFs by the FAOA if they audit the annual or consolidated financial statements of foreign companies whose shares and/or bonds are listed on a Swiss stock exchange (Art. 8 AOA).

However, there are some exemptions from the requirement to be licensed and overseen by the FAOA in order to avoid duplication of administrative work. These are listed in Art. 8 para. 2 and 3 AOA and enshrine the «principle of home oversight». Insofar as the Federal Council recognises the oversight authority in an audit firm's country of domicile as equivalent, the oversight of the foreign audit firm will be delegated to this oversight authority (cf. the list of recognised oversight authorities in Annex 2 to the AOA).

On 1 July 2021, the China Securities Regulatory Commission (CSRC) was recognised as equivalent based on the above-mentioned principle. This recognition was born out of the Federal Council's China strategy, which includes enhancing cooperation between the Swiss stock exchange and the Chinese stock exchanges. The trade in global depositary receipts for Chinese shares on the Swiss stock exchange also re-

quires an auditing body to be nominated and subjected to equivalent oversight.

Relations with the European Union

The United Kingdom of Great Britain and Northern Ireland (UK) left the European Union (EU) with effect from 1 January 2021. This means that the EU-Swiss agreement on the free movement of persons of 21 June 1999 is thus no longer applicable in dealings with the UK and consequently that no reciprocal rights currently exist between Switzerland and the UK. As a result, individuals with a UK qualification can no longer be licensed as auditors or auditors-in-charge in Switzerland. However, licences issued by the FAOA on or before 31 December 2020 based on a UK qualification remain valid even though the free movement agreement no longer applies. The FAOA is currently examining various scenarios for how mutual market access for auditors can be regulated in future.

Cooperation with the USA

In light of the uncertainties surrounding the COVID-19 pandemic, the joint FAOA and PCAOB inspections of Swiss audit firms did not take place and have been postponed to the next few years.

Relations with other states and organisations

On 10 June 2021, the FAOA and the Japanese authorities – the Financial Services Agency of Japan (JFSA) and Certified Public Accountants and Auditing Oversight Board (CPA-AOB) – signed a Memorandum of Understanding (MoU) in the form of an Exchange of Letters (EoL)³⁶ on cooperation in the area of audit oversight. This will further strengthen the protection afforded to investors in listed companies. In addition, the MoU will ease the burden on the audit

industry in both countries as the need for direct oversight of audit firms in the respective other country is being waived.

The FAOA is also in negotiations with two other audit oversight authorities about signing additional MoUs.

Multilateral organisations

IFIAR

The COVID-19 pandemic resulted in IFIAR's annual plenary meeting being held virtually from 19 to 21 April 2021, with all 54 member authorities taking part. The main topic for the three-day event was «Management of Audit Quality in the COVID Environment and Beyond».

The FAOA contributed to the work of various IFIAR working groups in the reporting year:

- Enforcement Working Group (EWG): the FAOA has chaired this working group since May 2018. The EWG serves to facilitate the exchange of experiences concerning investigation proceedings and sanctions enforced on auditors and audit firms for their misconduct. The EWG organised the fifth international Enforcement Workshop in the reporting year, the first to be held virtually.
- Global Audit Quality Working Group (GAQWG): this working group ensures ongoing dialogue with the six largest international audit networks. The members held one virtual meeting during the reporting year at which they discussed the current status of several ongoing projects geared towards improving audit quality on a global level.

³⁵ The FAOA received thirteen (2020: nine) requests for administrative assistance in the reporting year. Ten came from European oversight authorities, two from Asian oversight authorities and one from a North American oversight authority.

³⁶ An EoL is equivalent to an MoU: the difference is merely formal.

– Inspection Workshop Working Group (IWWG): this working group organises an annual workshop for inspectors from all IFIAR member countries in order to promote dialogue and discuss topical questions relating to audit oversight. This year's workshop was held virtually for the first time in its history.

The FAOA was also elected to the IFIAR Board for a further four years. In addition, the FAOA is an active participant in the «New Member Category Workstream», a sub-group of the IFIAR Board that deals with granting IFIAR membership to audit oversight authorities that are still in early stages of their development.

CEAOB

The Committee of European Audit Oversight Bodies (CEAOB) is the EU's body for cooperation between the various national audit oversight authorities. The FAOA has held observer status in the Inspections Sub-Group (ISG) since 2016. The ISG aims to promote dialogue between members on the subject of inspections but also to improve communication between members and audit firms. The FAOA attended two virtual ISG meetings as an observer.

Transmittal of information by private parties to foreign authorities

The issue of data being transmitted from Switzerland to foreign authorities by private individuals and the criminal nature of this act as an unlawful activity on behalf of a foreign

state (Art. 271 CC) have now been covered in not one but two FAOA Annual Reports. After making an initial ruling on the mens rea, or subjective element of the crime,³⁷ the FSC has also now been asked to consider the actus reus, or objective element.³⁸

Specifically, a Swiss asset manager had given files on clients suspected of tax fraud to a US authority. The handover was done by the chairman of the board of directors, who had travelled from Switzerland to the USA solely for this purpose. The question was whether the act is still a criminal offence if the data is located not only in Switzerland but also – to fulfil an intended purpose – in third countries from which its transmission to the US authority would (potentially) have been lawful.

The court holds that the asset manager's client data was originally disclosed in Switzerland based on contractual relationships. Consequently, the data should have been requested and obtained by the competent Swiss authorities from the asset manager in its capacity as the Swiss-based holder of the information and transmitted abroad via administrative/legal assistance channels. The fact that the data was also stored in third countries to fulfil an intended purpose is irrelevant because preserving the state's monopoly of power in Switzerland is paramount. There is therefore no longer any need to decide whether it would have been possible and lawful to transmit data from the third countries to the US authorities.

Applying the same logic to the audit industry, this makes it a criminal offence to circumvent the Swiss administrative and legal assistance process by transmitting data on third parties that is not in the public domain and that was originally given in Switzerland to Swiss-based audit firms directly to a foreign authority. This applies even if, to fulfil an intended purpose, the data is also located in a third country from which its transmission to an authority in the target country might potentially be lawful. This means that moving data to a third country (even if the act is lawful per se) for the purposes of transmitting it to the authority in the target country (potentially lawfully) is also a criminal offence. Although the ruling does not cover all conceivable scenarios, it does bring clarity to an issue that is always sparking debate in practice.

³⁷ Cf. FAOA Annual Reports 2018, p. 29, and 2019, p. 38.

³⁸ Ruling No. 6B_216/2020 of 1 November 2021.

Licensing

Introduction

The COVID-19 pandemic also had an impact on the FAOA’s licensing department during the reporting year. Although its staff mainly worked from home, applicants remained able to contact them at any time.

Statistics

At 2,027, the number of licensed audit firms held relatively steady in the reporting year compared to the prior year (2,077) (Fig. 23). With only a few audit firm licences set to expire in 2022, this figure looks set to remain more or less unchanged in the coming year too.

Figure 23
Licensed individuals and audit firms (as at 31 December 2021)³⁹

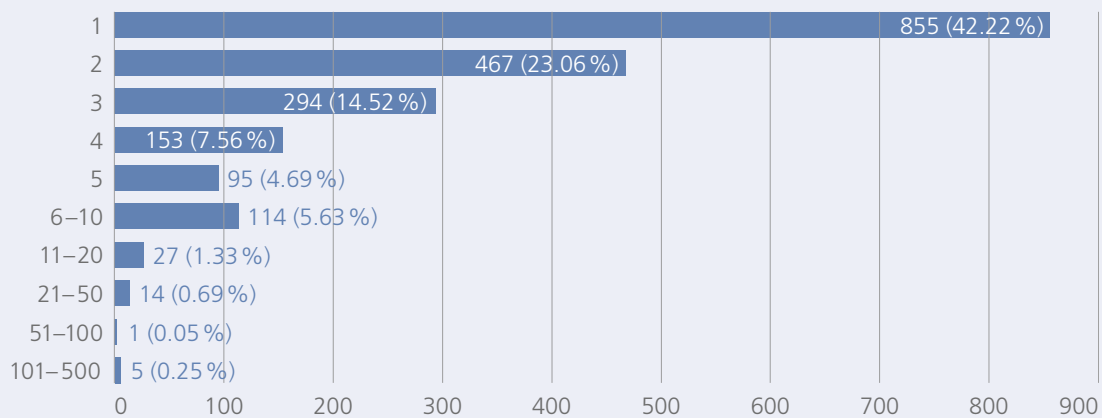
| Licence type | Auditor | Audit expert | Total as at 31.12.2021 | Total as at 31.12.2020 |
|-------------------------------------|--------------|--------------|------------------------|------------------------|
| Individuals | 2'733 | 7'475 | 10'208 | 9'896 |
| Audit firms | 591 | 1'414 | 2'005 | 2'054 |
| State-regulated audit firms | – | 20 | 20 | 21 |
| Foreign state-regulated audit firms | - | 2 | 2 | 2 |
| Total licences | 3'324 | 8'911 | 12'235 | 11'973 |

The FAOA issued a total of 48 first-time licences to audit firms and around 396 new licences to individuals in the reporting year. The upward trend in the number of licensed individuals has thus continued for

a further year. As Figure 23 shows, this number has increased by about 32.5% to 10,208 over the past ten years (2011: 7,696). This development is due in part to notification and reporting obligations not being

adequately complied with (cf. the corresponding comments below). For 2022, the FAOA is planning to send reminders of these obligations in the form of personalised mailshots.

Figure 24
Number of audit firms per segment with corresponding number of licensed individuals per audit firms (as of December 31, 2021)



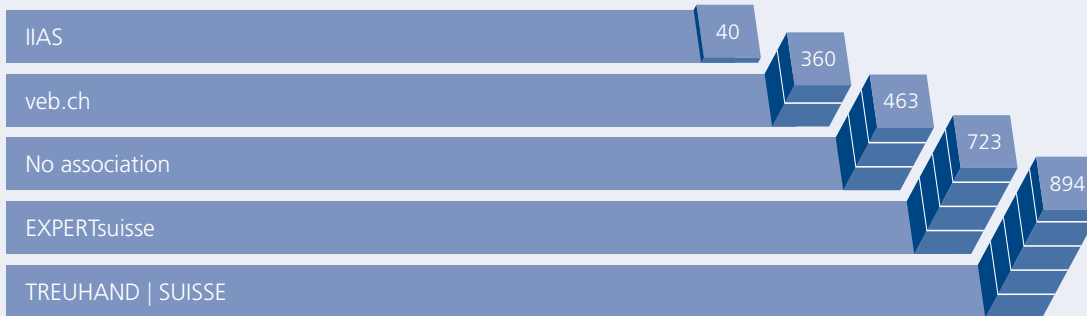
³⁹ All figures refer to legally binding completed proceedings. Pending appeals have not been included.

An analysis of the number of licensed people per firm reveals that most firms only have one or two licensed people (Fig. 24). Beyond that, the

number of licensed people per audit firm falls sharply, with only 47 audit firms (2.3 %) having a total of more than ten licensed audit staff.

Figure 25

Professional association memberships⁴⁰ of licensed audit firms (as at 31 December 2021)



The number of professional association memberships of audit firms has held steady compared to the prior year

(76 %) (Fig. 25). Overall, 77 % of all licensed audit firms are members of at least one professional association.

Figure 26

Professional association memberships⁴¹ of licensed individuals (as at 31 December 2021)



As with the audit firms, the percentage of individuals who are members of at least one professional association is likewise one percentage point higher year on year (62 % as against 61 %) (Fig. 26). This high number of

professional memberships is to be welcomed, because members of professional associations benefit from the information that they provide – and this is especially true in the current challenging economic environment.

⁴⁰ Including multiple answers from individual audit firms with multiple professional association memberships.

⁴¹ Including multiple answers from individuals with multiple professional association memberships.

Figure 27
Frequency of ordinary audits (data correct as at 31 December 2021)⁴²

| Number of audit firms | 2021 | 2020 |
|--|------------|------------|
| 1 to 5 ordinary audits | 341 | 338 |
| 6 to 10 ordinary audits | 68 | 68 |
| 11 or more ordinary audits | 89 | 81 |
| Total number of audit firms performing ordinary audits: | 498 | 487 |

Overall, 498 licensed audit firms held engagements for ordinary audits in the reporting year, including 20 srAFs (i.e. all those domiciled in Switzerland) (Fig. 27). These srAFs carried out 74 % of all ordinary audits. At 19.2 %, the srAFs' share of the market for limited audits is roughly on a par with the previous year (19.6 %) (Fig. 28).

Figure 28
Total number of limited (LA) and ordinary (OA) audits performed (data correct as at 31 December 2021)⁴³

| Licence type | LAs | OAs | 2021 | 2020 |
|-------------------------------|---------------|---------------|---------------|---------------|
| State-regulated audit firms | 15'754 | 7'916 | 23'670 | 24'440 |
| Other licensed audit firms | 66'170 | 2'786 | 68'956 | 69'226 |
| Total audits performed | 81'924 | 10'702 | 92'626 | 93'666 |

The trend in the quality assurance standard applied that has emerged over the past few years continued in the financial year just gone. While the number of audit firms applying the SQS 1/SAS 220 standard remains high (2021: 1,657; 2020: 1,670), the number of audit firms using the quality assurance guidelines for SME audit firms fell further year on year from 440 to 401 (Fig. 29).

Abbildung 29
Internal quality assurance standard applied (data correct as at 31 December 2021)



⁴² Information based on audit firm self-declarations.

⁴³ Information based on audit firm self-declarations.

The number of special licences for individuals increased slightly year on year (Fig. 30), although this is due more or less exclusively to the special licences granted in the fintech segment. Licences in this category have more than doubled in the space of a year to 27 (prior year: 13). However, a renewed rise had been expected. The numbers of all other types of special licence remained virtually unchanged on the prior year. With a total of 184 auditors-in-charge holding one or more special licences, the number of individuals with one or more special licences also held steady compared to the prior year (186).

Figure 30

Regulatory auditors-in-charge by special licence type (data correct as at 31 December 2021)

| Licence type | Total regulatory auditors-in-charge as at 31.12.2021 | Total regulatory auditors-in-charge as at 31.12.2020 |
|---|--|--|
| Audits under BankA, FMIA, FinIA ⁴⁴ and MBA | 116 | 118 |
| Audits under CISA ⁴⁵ | 69 | 68 |
| Audits under InsSA | 38 | 38 |
| Audits under Art. 1b BankA (fintechs) | 27 | 13 |
| Total licences | 250 | 237 |

Disregarding the former DSFI special licences, the number of regulatory audit firms holding one or more special licences has remained unchanged at eleven since 2017. Taken together, all regulatory audit firms hold a total of 34 special licences (Fig. 31). Within the category of fintech special licences, which was created in 2019, all new licences granted to date (nine) have gone to regulatory audit firms that already held a special licence in at least one other category. Additional regulatory audit firms that specialise in fintech have yet to enter the market.

Figure 31

Regulatory audit firms by special licence type (data correct as at 31 December 2021)

| Licence type | Total regulatory audit firms as at 31.12.2021 | Total regulatory audit firms as at 31.12.2020 |
|---|---|---|
| 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 | 6 |
| Total licences | 34 | 31 |

⁴⁴ The «FinIA» category includes securities firms in accordance with Art. 2 para. 1 letter e FinIA (previously «securities traders»).

⁴⁵ 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).

Licence renewal

Figure 32

Number of licence renewals granted in 2021 (data correct as at 31 December 2021)

| Licence type | Auditor | Audit expert | Total 2021 | Total 2020 |
|------------------------|---------|--------------|------------|------------|
| Total licence renewals | 28 | 81 | 109 | 371 |

A total of 183 out of the 2,054 audit firms licensed (and not overseen) as at 31 December 2020 saw their five-year licence expire in the reporting year. Overall, 109 audit firms had their licence renewed in 2021 (Fig. 32). Twenty-nine firms opted not to renew their existing licence on expiry, and a further five surrendered their licence even before it had expired. The entries of 39 audit firms in the FAOA's public register had to be deleted after their licences expired. These firms had either not submitted any documentation at all to the FAOA (27) or did not meet the licensing requirements when their licences expired (12). The licences of these twelve companies thus expired, rather than being renewed without any gaps as they had wanted. The shortcomings that resulted in the firms being struck off the public register mostly related to their internal quality assurance system, which had either never been implemented or was not being followed in practice – either adequately or at all – with regard to annual monitoring or CPD in particular.

Since 1 January 2020, the licences for all srAFs have not had a time limit imposed on them. However, they still undergo regular inspections, during which the criteria for retaining their licence are also reviewed.

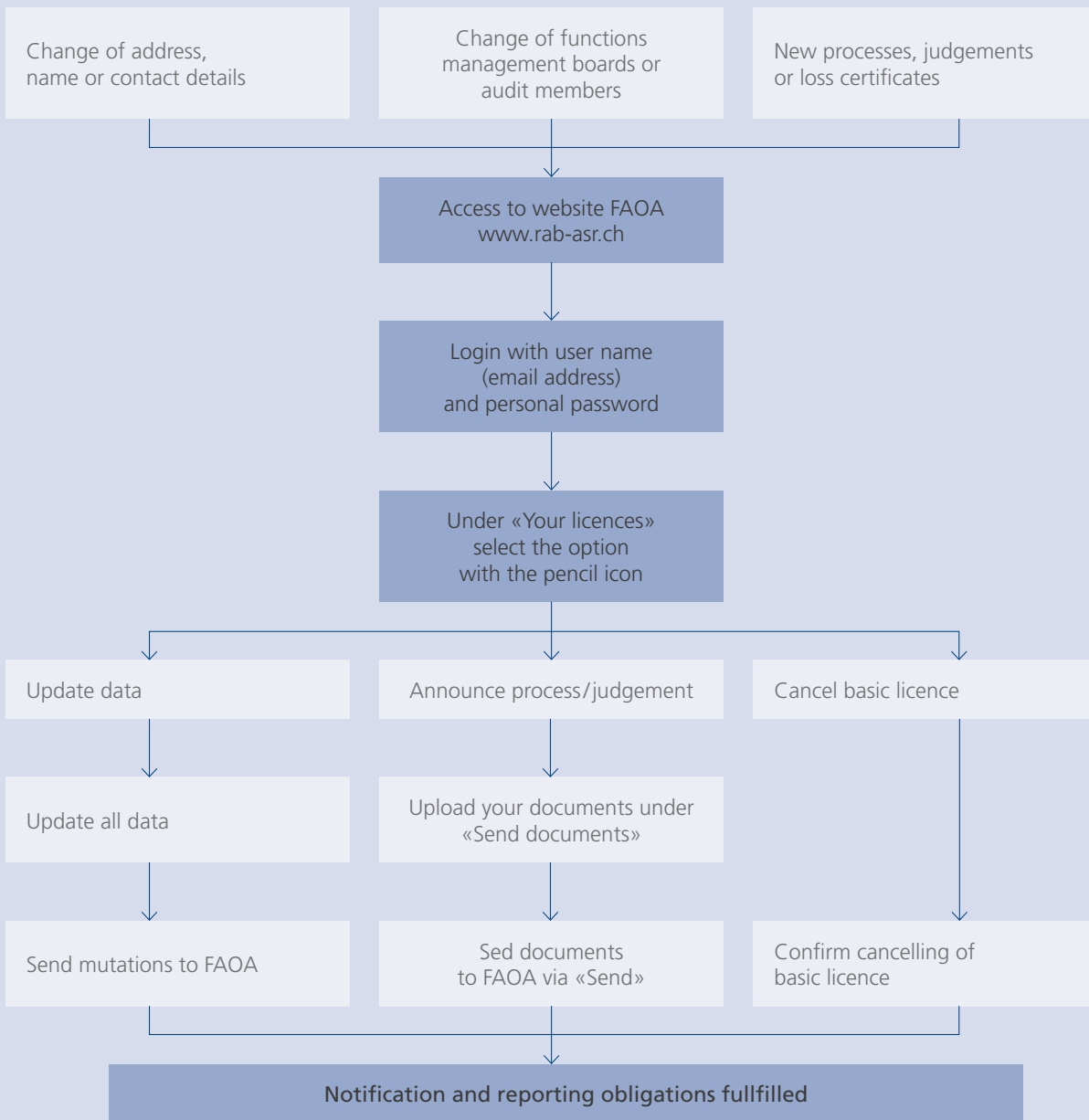
Notification and reporting obligations

The law imposes various notification and reporting obligations on licensed people and audit firms. Unfortunately, experience has shown that these obligations are sometimes forgotten about and are not always complied with rigorously.

All people and audit firms licensed by the FAOA are obliged to notify it of any change to a fact entered in the auditors' register or the online register (Art. 15 para. 3 AOA). These include, in particular, information used to contact the registered people and firms (address, telephone number, email address, etc.). The notification obligation is deemed to have been complied with if the corresponding entry in the relevant FAOA user account is updated within ten days (cf. the process as illustrated in Fig. 33).

Figure 33

Communicating changes to the FAOA to comply with the notification and reporting obligation



As well as applying to the actual licensing process, the notification obligation also remains in force – without a set time limit – until the firm is no longer licensed.

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 as well as note 15 letter d and note 22 letter a of Circular 1/2010).

Any violation of the notification and reporting obligations is deemed an infringement and can be punished with a fine of up to CHF 100,000 (Art. 39 para. 1 letter b and c and para. 2 AOA).

Enforcement and court rulings

Enforcement

A total of 13 licence applications were rejected in the reporting year (prior year: 11). The FAOA did not proceed with one application (prior year: none). In addition, six licence withdrawals were imposed (prior year: two) and 61 reprimands

issued (prior year: 120) (Fig. 34). One person surrendered their licence during enforcement proceedings (prior year: nine). The FAOA also filed criminal charges in one case in 2021 due to the suspected provision of audit services without a licence (prior year: no cases).

Figure 34
Number of enforcement proceedings



Five of the sets of proceedings that ended with a licence being withdrawn had been instigated based on a third-party notification. Another was opened based on a report made by the person affected themselves in compliance with their reporting obligation under Art. 15a AOA. Of the sets of enforcement proceedings culminating in a reprimand, 59

were instigated based on identified shortcomings in the licence renewal process at audit firms. Two sets of proceedings were opened following a report by a third party. One other set of proceedings against an individual was initiated based on shortcomings identified in the file review for an srAF (Fig. 35).

Figure 35
Enforcement proceedings by source of instigation



The number of reprimands issued to (non-state-regulated) audit firms fell in the reporting year following sharp rises in 2019 and 2020 due to the large number of licence renewals (Fig. 36). Fifty-eight reprimands were issued to audit firms and three to individuals in total.

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

Figure 36

Number of reprimands issued to audit firms by category

| Description of shortcoming | Number |
|---|-----------|
| Shortcomings in one area | |
| Shortcomings in the monitoring process | 35 |
| Shortcomings in enforcing CPD regulations | 6 |
| Breaches of statutory quorums | 4 |
| Late introduction of QA system | 2 |
| Shortcomings in two areas | |
| Shortcomings in the monitoring process and in enforcing CPD regulations | 6 |
| Shortcomings in the monitoring process and late introduction of QA system | 2 |
| Breach of statutory quorums and shortcomings in the monitoring process | 2 |
| Breach of statutory quorums and shortcomings in enforcing CPD regulations | 1 |
| Total | 58 |

Court rulings

The Federal Administrative Court (FAC) issued one ruling and one interim decision on the suspensive effect of a licence withdrawal in appeal cases involving the FAOA and licensed individuals or firms in 2021. The most important deliberations are summarised below.

[FAC Ruling No. B-2458/2020 of 7 March 2021](#)

In this case, the FAOA had issued a licensed audit expert with a written reprimand. He also sat on the board of directors of a company that had not paid its OASI contributions, which the cantonal insurance court had ordered him to do (legally binding ruling). Ultimately, however, the company was able to pay all the outstand-

ing contributions to the cantonal compensation fund from the proceeds of selling a property.

The FAC considers non-payment of OASI contributions due to financial difficulties to be an offence against financial assets. Although the misappropriation of salary deductions within the meaning of Art. 159 CC is not directly connected to the work being done by the auditor, the negative impact on trust in the audit profession cannot be ignored. In this specific case, the reputation of the audit expert was besmirched by questions over his trustworthiness and the correctness of his behaviour in business dealings. Although the redress did not change anything about the infringement originally committed as a basic principle, it has to be taken into account when

selecting the action to be taken. The court found that the reprimand issued by the FAOA complied with the principle of proportionality.

[FAC Interim Decision No. B-2245/2021 of 24 June 2021](#)

The FAC was asked to rule on the attempt by the appellant to remove the suspensive effect of a decision by the FAOA to withdraw her licence for three years and thus to have the details of her licence deleted from the auditors' register ahead of time. The appellant thus wanted the withdrawal of her licence to start while proceedings were still ongoing so that she would get it back all the sooner.

The court weighed up the appellant's interest in having the withdrawal effected immediately against the pri-

vate and public interests in maintaining its suspensory effect. It considered the following five elements in this respect: (1) The appellant had requested the removal of the suspensory effect herself and was being represented by a lawyer. She had taken account of all the consequences of the withdrawal of her licence taking effect immediately, including the risk that the matter would not be decided or that the early withdrawal of her licence could potentially be interpreted as an admission of guilt. (2) The proceedings were being conducted in the absence of any respondent who could be disadvantaged by the suspensory effect being removed. (3) The FAOA had no objection to the suspensory effect being removed and felt that effecting the withdrawal immediately would not run counter to public interest. (4) There was no other overriding public interest in the withdrawal of the licence being effected immediately. (5) There was no overriding likelihood of a decision in the main case not being made until after the three-year withdrawal of the licence had lapsed and thus that it would end with the proceedings being abandoned without any substantive investigation.

The court thus upheld the appellant's request to remove the suspensory effect of her appeal and effect the withdrawal of her licence ahead of time.

Other rulings of interest

[Federal Supreme Court Ruling No. 6B_1236/2018 of 28 September 2020](#)

Between 2001 and 2009, the auditor-in-charge, who also sat on the board of directors of the company being audited, failed to notice that the CEO of that company was running a «Ponzi»scheme (a pyramid scheme that represents a particular form of investment fraud). Under the scheme, funds from investors were generally not being invested profitably, as had been promised, but were instead being used to pay existing clients (as purported income or as a repayment)

or for the CEO's own personal ends. The actus reus of forgery of a document (Art. 251 no. 1 CC) applies in this case because the associated fake account entries gave a false overall impression of the accounting situation. The untrue disclosures in the annual financial statements and audit reports concealed how the clients' money was actually being used.

At the centre of the dispute was the mens rea, or the (potentially intentional) obtaining of an advantage. For this, the perpetrator – in this case, the auditor-in-charge – need only record the basic outline of the fraud scheme and knowingly make the untrue disclosures in the audit report. Having knowledge of certain events (e.g. the failure to pass clients' money on to custodian banks, reclassifying client deposits as company income or the CEO's funds; major discrepancy between inflows of funds and actual investments; the CEO's lifestyle, which could not have been funded from his salary) means that there is no scope for assuming that the auditor-in-charge – who also sat on the board of directors – had failed to spot the principle of investment fraud behind these actions. Thus he had accepted that his audit report would be used to keep the investment fraud covered up. As a result, the court overturned the acquittal of the accusation of document forgery that had been granted by the lower court and sent the case back to it for re-appraisal.

The auditor-in-charge had also violated the provisions on independence by also sitting on the board of directors of the company being audited (Art. 728 para. 2 no. 1 CO; Art. 727c CO [old version]) and having the trust company that he ran on the side helping with the accounting for the company being audited (Art. 728 para. 2 no. 4 CO; Art. 727c CO [old version]).

[Federal Supreme Court Ruling No. 2C_399/2020 of 28 December 2020](#)

In late 2020, the Federal Supreme Court addressed the question of the

independence of the FINMA audit agent (Art. 24a para. 1 FINMASA). In line with constitutional provisions governing extrajudicial proceedings (Art. 29 para. 1 of the Federal Constitution [Cst.]), this is deemed not to exist if circumstances suggest that the outcome of the proceedings is no longer open (requirement for impartiality). Corresponding circumstances are to be judged more prudently than is the case with court officials (Art. 30 para. 1 Cst.).

In this case, the audit agent had, in particular, instigated 200 debt enforcement proceedings worth CHF 5,367,740 against the bank being audited. In the view of the Federal Supreme Court, this was not enough to assume bias on the audit agent's part, because the debt enforcement proceedings were unrelated to the financial market supervision proceedings against the bank for which FINMA had mandated him.

[Federal Supreme Court Ruling No. 4A_218/2020 of 19 January 2021](#)

In 2021, the FSC ruled on the question of audit liability and the distribution of the burden of proof in the case of damage or loss caused by a company continuing to trade as a result of its insolvency case being dragged out. In its deliberations, it stated that the plaintiff is required to prove the extent of the damage or loss (difference between the company's actual overindebtedness when it declared insolvency and its hypothetical indebtedness at the time its statutory auditor breached its obligation to file a report with the court). When doing so, the plaintiff may make use of the option in Art. 42 para. 2 CO to ease the burden of proof for unquantifiable damage or loss.

However, they are still required to substantiate their claims. If it is not possible to make sufficient claims on the existence and extent of the damage or loss in the complaint, this cannot be «outsourced» to a court-appointed expert when taking evidence. This

also applies in particular to accounting issues that are crucial to assessing situations involving assets. It is not the court's duty to try and find out which accounting questions could or would have to be answered in an expert report if it is not presented with suitable claims and requests for disclosure. Blanket questions to an expert and blanket requests for disclosure do not fit the above requirements.

**Federal Supreme Court Ruling
No. 5A_853/2020
of 16 March 2021**

In 2021, the FSC once again had to rule on a case involving exempting a foundation from the obligation to be audited. The supervisory authority for foundations can exempt a foundation from this obligation if, for example, this is not required in order to make a reliable judgement of its assets and income. This will be the case if its arrangements are clear and straightforward and thus the supervisory authority for foundations can audit its annual financial statements with the same level of reliability as a statutory auditor (probably not in methodological terms, but with the same result).

However, if the bulk of the foundation's assets is unexpectedly invested in a mortgage being granted on the private apartment of the chairman of the foundation's board, if expenses are suddenly being incurred for which no detailed evidence is provided, and if the same chairman keeps having problems complying with his accountability obligations on health grounds, then the revocation of the auditing exemption is justified. The supervisory authority for foundations is permitted to seek support from the statutory auditor in such a situation.

However, the FSC did correct the lower courts in that the mandate given to the statutory auditor under federal law only covers an audit of the assets and income situation (in principle) and not whether the foundation's board has complied with its articles of association.

**FAC Ruling
No. B-1546/2020 of
28 June 2021**

In accordance with a FAC ruling, a foundation is entitled to claim an exemption from the obligation to be audited by the supervisory authority for foundations even as early as when it is being set up if it does not expect to accumulate total assets of CHF 200,000 and if a reliable judgement of its assets and income can be made without an audit.

The criterion that requires the foundation to have total assets of less than CHF 200,000 in two consecutive financial years is to be interpreted teleologically rather than literally. The court is basing this view on the dominant school of thought regarding limited companies in Switzerland, which states that an ordinary audit rather than a limited audit is to be conducted as early as when the company is founded if the relevant thresholds are expected to be reached.

Pension scheme audits

Greater public interest

Pension schemes are a form of pension insurance covering the risks of old age, death and disability. Switzerland is home to some 4.4 million people who are actively insured in this way (prior year: 4.34 million) and who pay monthly contributions together with their employers.⁴⁶ They are joined by around 1.26 million holders of old-age pensions (prior year: 1.23 million) worth approximately CHF 41.26 billion a year (prior year: CHF 39.7 billion). The 1,434 pension schemes (prior year: 1,491) currently manage CHF 1,063 billion in assets (prior year: CHF 1,005 billion).

Firstly, the auditors of pension schemes ensure through their audits of financial statements that a scheme's financial reporting complies with the applicable regulations and thus make sure that the various stakeholders (board of trustees, supervisory authorities, occupational pension experts, insureds, etc.) obtain a reliable insight into the scheme's financial situation. Secondly, auditors also perform many other audit procedures specific to the world of occupational pensions that are comparable to regulatory audits of private-sector insurance companies. Given the size of the public funds entrusted to them as mentioned above and the sometimes complex structures of collective and joint institutions, the public has heightened expectations of the quality of the audit services performed for pension schemes.

Breaches of due diligence obligations

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

In one case, the FAOA withdrew the audit expert licence held by the auditor-in-charge for a period of three years because of serious breaches of due diligence obligations that occurred in two consecutive financial years regarding the audit and regulatory audit of a collective foundation: (1) Compliance with statutory provi-

sions and those set out in its regulations should not have been allowed to be confirmed as a result of the large volume of contributions outstanding. Neither was there any criticism in the audit reports of the collective foundation's breach of its obligation to report on this matter to the governing body composed of an equal number of employee and management representatives or to the competent regional supervisory authority for occupational pensions. (2) In addition, the audit reports made no reference to the breach of statutory provisions and those set out in the scheme's regulations and no attempt to modify the audit opinion in view of unsecured investments of two employers. (3) Furthermore, the existence of an internal control system appropriate to the scheme's size and complexity was confirmed without reservation or a corresponding notification even though there were no documented audit procedures for this. (4) Neither did the working papers indicate what audit procedures were followed to verify compliance with provisions on investment limits. (5) Finally, the tasks required by law and the standards of the profession were not performed when several pension schemes in the collective foundation experienced a shortfall of cover: for instance, no checks were made to determine whether the collective foundation had taken the necessary steps to restore full cover or had appointed an occupational pensions expert, even though the competent regional supervisory authority for occupational pensions asked it to do so.

In the remaining three cases, the breaches were of minor importance, meaning there was not sufficient justification to open proceedings.

Need for regulation

Even though around two thirds of pension schemes have already chosen an srAF as their auditor, the FAOA considers it to be alien to the system if audits of pension schemes are not treated in the same way as those of private-sector insurance companies.⁴⁷ Much of the super-

vision in the occupational pension sector is delegated to auditors without the occupational pension supervisory authority that is doing the delegating being able to gauge the quality of the auditing underlying the auditor's reports.

In the FAOA's view, therefore, it is appropriate to subject the auditing bodies at least of larger pension schemes to risk-based oversight.⁴⁸ In addition, a special licence that builds on a basic FAOA licence would have to be introduced for the audit firms and their auditors-in-charge under such a system. These two measures would improve the protection afforded to holders and recipients of 2nd-pillar pensions. The Federal Council essentially comes to the same conclusion in its report of 30 November 2018 on the «Ettlin» postulate. Reference is also made to the ongoing work in conjunction with the Ochsner/Suter expert report (cf. the comments under «Current projects» in the «Regulatory developments» section).

⁴⁶ On this and the following section, cf. Federal Statistical Office (FSO), Pension funds statistics 2020.

⁴⁷ Cf. the comments in the FAOA's Annual Reports from 2016 (p. 46), 2017 (p. 40), 2018 (p. 39), 2019 (p. 47 ff.) and 2020 (p. 54); cf. also SCHNEIDER/DEVAUD/OFFERGELD, Die Revision von Vorsorgeeinrichtungen aus dem Blickwinkel der RAB, in: EXPERTfocus 2020, p. 771 ff., 774.

⁴⁸ Cf. here too the comments in the FAOA's Annual Reports from 2016 (p. 46), 2017 (p. 40), 2018 (p. 39), 2019 (p. 49) and 2020 (p. 54).

Organisation of the FAOA

| | | |
|---|---|--|
| Legal form | Public-law institution with separate legal identity | |
| Incorporation within the government administration | Independent unit within the decentralised government administration, organisationally attached to the FDJP | |
| Registered office | Berne | |
| Representative bodies of the FAOA | Board of Directors | <p>Wanda Eriksen, Masters in Accounting Science, Swiss Certified Accountant, US CPA (Chairperson)</p> <p>Sabine Kilgus, PD Dr., lawyer (Vice-Chairperson)</p> <p>Conrad Meyer, Prof., Dr.</p> <p>Daniel Oyon, Prof., Dr.</p> <p>Victor Balli, Chemical Engineer ETH/Economist HSG</p> |
| | Executive Board | <p>Reto Sanwald, Dr. iur., Attorney at law, EMBA HSG (Chief Executive Officer)</p> <p>Martin Hürzeler, Graduate in Business Administration, Swiss Certified Accountant (Head of Financial Audit)</p> <p>Heinz Meier, Swiss Certified Accountant (Head of Regulatory Audit)</p> <p>Michael Hubacher, Master of Law, Attorney at law (Head of Legal & International)</p> |
| | Auditor | Swiss Federal Audit Office (SFAO) |
| Number of staff | As at 31 December 2021, 27 staff members, representing 23,4 full-time equivalents, were employed by the FAOA. | |
| Funding | The FAOA finances itself entirely from the fees and oversight charges levied on licensed individuals and audit firms under oversight. No taxpayers' money is used. | |
| Legal function | To ensure the proper provision and quality of audit and regulatory audit services. | |
| Responsibilities | Appraisal of licence applications, oversight of the 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 makes the necessary organisational arrangements to prevent conflicts of interest, both for itself and for employees. The FAOA's Code of Conduct is published on its website. | |

List of abbreviations

| | | | |
|------------|--|---------|--|
| AHVO | Old-Age and Survivors' Insurance Ordinance (AHV Ordinance) of 31 October 1947 | FTA | Federal Tax Administration |
| AMLA | Anti-Money Laundering Act of 10 October 1997 | GAFI | Groupe d'action financière |
| AMLO | Anti-Money Laundering Ordinance of 11 November 2015 | GAQWG | Global Audit Quality Working Group |
| AMLO-FINMA | FINMA Anti-Money Laundering Ordinance of 3 June 2015 | GEA | Gender Equality Act |
| AOA | Audit Oversight Act of 16 December 2005 | GPPC | Global Public Policy Committee |
| AOO | Audit Oversight Ordinance of 22 August 2007 | G-SIBs | Global Systemically Important Banks |
| AR 70 | Swiss Audit Recommendations 70 | IAASB | International Auditing and Assurance Standards Board |
| BankA | Banks and Savings Banks Act of 8 November 1934 | IAS | International Accounting Standards |
| CAIM | Common Audit Inspection Methodology | ICS | Internal control system |
| CC | Criminal Code | ICWG | International Cooperation Working Group |
| CC-S | Control Committee of the Council of States | IESBA | International Ethics Standards Board for Accountants |
| CEAOB | Committee of European Audit Oversight Bodies | IFIAR | International Forum of Independent Audit Regulators |
| CFRR | Center for Financial Reporting Reform (Vienna) | IFO | Investment Foundation Ordinance of 10 and 22 June 2011 |
| CGU | Cash-generating units | IFRS | International Financial Reporting Standards |
| CISA | Collective Investment Schemes Act of 23 June 2006 | IAAS | Institute of Internal Auditing Switzerland |
| CO | Code of Obligations of 30 March 1911 | InsSA | Insurance Supervision Act of 17 December 2004 |
| Cst. | Federal Constitution of the Swiss Confederation of 18 April 1999 | ISA | International Standards on Audit |
| DO-FAOA | Federal Audit Oversight Authority on Disclosing the Lack of Oversight of Audit Firms Engaged by Foreign Bond Issuers (SR 221.302.34) | ISG | Inspection Sub-group |
| DSFI | Directly supervised financial intermediary (supervised by FINMA) | ISQC 1 | International Standard on Quality Control 1 |
| EHP | web-based survey and application platform of FINMA | ISQM | International Standard on Quality Management |
| EoL | Exchange of Letters | IWWG | Inspection Workshop Working Group |
| EQCR | Engagement Quality Control Reviewer | KAM | Key Audit Matter |
| EU | European Union | KYC | Know Your Customer |
| EWG | Enforcement Working Group | MBoA | Mortgage Bond Act of 25 June 1930 |
| FAC | Federal Administrative Court (St. Gallen) | MMoU | Multilateral Memorandum of Understanding |
| FADP | Federal Act of 19 June 1992 on Data Protection | MoU | Memorandum of Understanding |
| FAOA | Federal Audit Oversight Authority | MROS | Money Laundering Reporting Office Switzerland |
| FATF | Financial Action Task Force | OASI | Old-age and survivors' insurance |
| FCC | Federal Criminal Court (Bellinzona) | OECD | Organisation for Economic Co-operation and Development |
| FDF | Federal Department of Finance | OPA | Occupational Pensions Act of 25 June 1982 |
| FDJD | Federal Department of Justice and Police | OPSC | Occupational Pension Supervisory Commission |
| FinIA | Financial Institutions Act of 15 June 2018 (SR 954.1) | PCAOB | US Public Company Accounting Oversight Board |
| FinIO | Financial Institutions Ordinance of 6 November 2019 | PIE | public interest entity |
| FINMA | Federal Financial Market Supervisory Authority | PIOB | Public Interest Oversight Board |
| FINMASA | Financial Market Supervision Act of 22 June 2007 | QA | Quality assurance |
| FinMIA | Financial Market Infrastructure Act of 19 June 2015 | SAS | Swiss Auditing Standards of EXPERTsuisse |
| FinSA | Financial Services Act of 15 June 2018 (SR 950.1) | SER | SIX Exchange Regulation |
| FinSO | Financial Services Ordinance of 6 November 2019 (SR 950.11) | SESTA | Stock Exchange and Securities Trading Act of 24 March 1995 |
| FoIA | Federal Act of 17 December 2004 on Freedom of Information in the Administration | SICAF | investment company with fixed capital |
| FOJ | Federal Office of Justice | SICAV | Open-ended investment schemes |
| FRC | Financial Reporting Council (UK) | SIX | SIX Swiss Exchange |
| FSB | Financial Stability Board | SME | small and medium-sized enterprise |
| FSC | Federal Supreme Court (Lausanne) | SMI | Swiss Market Index |
| FSIO | Federal Social Insurance Office | SO | Supervisory organisation |
| FSO | Federal Statistical Office | SOO | Ordinance on Supervisory Organisations in Financial Market Supervision (Supervisory Organisation Ordinance, SOO; SR 956.134) |
| | | SoP | Statement of Protocol |
| | | SQS 1 | Swiss Quality Control Standard 1 |
| | | srAF | state-regulated audit firm |
| | | SRO | Self-regulatory organisation |
| | | US-GAAP | United States Generally Accepted Accounting Principles |
| | | WGB | Working Group on Bribery in International Business Relations of OECD |

Additional Swiss audit licences

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

AOA. A basic FAOA licence will suffice in some audit areas.⁴⁹ The table makes no claim to be complete (data correct as of 31 December 2021).

| Financial/regulatory audit in the area of | Basic licence under the AOA: audit firm | Basic licence under the AOA: auditor-in-charge | Responsible for special/special-law licence | Additional requirements |
|---|---|--|---|-----------------------------------|
| Banks/financial market structures ⁵⁰ , finance groups and public tender offers/securities traders/central mortgage bond institutions | State-regulated audit firm | Audit expert | FAOA | Art. 9a AOA, Art. 11a ff. AOO |
| Fintech companies ⁵¹ | 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 ⁵² | 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. SOO |
| OASI | Audit expert | Audit expert | FSIO | Art. 165 AHVO |

⁴⁹ This applies to regulatory audits of casinos and pension schemes in particular.

⁵⁰ Comprising stock exchanges, multilateral trading systems, central counterparties, central depositories, transaction repositories and payment systems.

⁵¹ Cf. the definition in the Banking Act (Art. 1b BankA).

⁵² Comprising fund managers, investment funds, openended investment schemes (SICAVs), limited partnerships for collective investment schemes, investment companies with fixed capital (SICAFs), asset managers of collective investment schemes and representatives of foreign collective investment schemes.

State-regulated audit firms

Data correct as of 31 December 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 | Treuhand- und Revisionsgesellschaft Mattig-Suter und Partner | Schwyz |
| 500646 | Ernst & Young AG | Basel |
| 500705 | BDO AG | Zurich |
| 500762 | Balmer-Etienne AG | Lucerne |
| 501131 | BfB Audit SA | Renens |
| 501382 | Berney Associés Audit SA | Geneva |
| 501403 | KPMG AG | Zurich |
| 501470 | Ferax Treuhand AG | Zurich |
| 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

Data correct as of 31 December 2021

| Bilateral agreements | | Multilateral agreements | |
|---|------------|---|-----------|
| Country, Authority | Agreement | Country, Authority | Agreement |
| Germany, Abschlussprüfer-aufsichtskommission (APAK) | 2012 | Australia, Australia Securities and Investments Commission (ASIC) | 2017 |
| Finland, Auditing Board of the Central Chamber of Commerce (AB3C) | 2014 | 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) und 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 (AAPVIM) | 2017 |
| Principality of Liechtenstein, Finanzmarktaufsicht (FMA) | 2013 | Malaysia, Audit Oversight Board Malaysia (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, Abschlussprüferaufsichtsbehörde (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 |
| USA, 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 |

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)



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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.