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Annual Report 2023

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

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Foreword

The end of 2023 marks the end of the 2020 – 2023 strategy period. The FAOA achieved its strategic objectives for these four years. An essential hereto has been ensuring that the quality of Swiss audit services is high in international comparison. Where this was not the case, the FAOA intervened and, if necessary, ensured the restoration of proper conditions via enforcement measures. With regard to its supervisory responsibilities, it continuously improved its processes and introduced new technologies. The main supervisory matters were the advancement of a balanced corporate governance system, the establishment and safeguarding of a culture aligned with public interests, the timely adoption of international auditing standards as part of national professional regulations and the introduction of the new quality management standard (ISQM 1). The FAOA responded quickly and decisively to emerging issues. In light of the takeover of Credit Suisse Group AG by UBS AG in particular, it initiated a corresponding ad hoc inspection at the audit firm concerned. In addition, the FAOA expanded its international network and enhanced its cooperation with foreign audit oversight authorities.

Due to the fact that the FAOA's statutory duties remain unchanged, the 2024 – 2027 strategy period does not involve any fundamental changes. As before, the FAOA will align its activity with the quality target mentioned above. Market developments such as the increasing number of audits carried out on non-financial reports (ESG) will be evaluated proactively and incorporated into the FAOA's work. Highly qualified

personnel and investments in technology and processes remain a priority for the FAOA.

The new strategic goals will be implemented under the stewardship of a Board of Directors that has undergone some personnel changes. Prof. Dr. Franca Contratto, Dr. Stefano Caldoro and Stéphane Gard have been appointed to the Board. With these most recent appointments, the core competencies of auditing and law have been systematically reinforced. Previous members Prof. Dr. Sabine Kilgus, Prof. Dr. Conrad Meyer and Prof. Dr. Daniel Oyon left the Board at the end of 2023 having reached the twelve years legal term of office. We would like to take this opportunity to sincerely thank the three experts for their many years of influential commitment to the FAOA.

Inspections at state-regulated audit firms

Last year, the FAOA conducted twelve financial audit inspections on a total of 27 audit engagements. The largest number of findings were in the areas of audit evidence, overall objectives and conduct of audits, and fraud. The importance of automated tools and techniques (ATT) continues to increase, with a focus on improving user-friendliness for the audit teams, automating and simplifying important audit procedures and developing standardised workflows. Artificial intelligence (AI) is also already in use, particularly for the purpose of traditional data analysis.

In regulatory audit, eight inspections were performed on a total of 23 audit engagements. The majority of findings

were made in the areas of anti-money laundering (AML) and managing business risks (credit risks).

Minor decrease in number of licensed audit firms

At 1,926, the number of licensed audit firms has, as expected, decreased slightly compared to the previous year (2,000). The year 2024 is expected to see the peak of the renewal wave for audit firms whose licenses are limited to a five-year period. In contrast, the number of licensed private individuals increased to 9,789 (previous year: 9,554).

Whistleblowing and enforcement

Whistleblowing remains an important source of information for the FAOA. In order to ensure even better protection for the anonymity of whistleblowers, the FAOA has launched a new external reporting platform. The number of third-party notifications rose compared to the previous year. During the reporting year, a total of 54 notifications (previous year: 39) regarding potential violations of the law or regulations of the profession were recorded. Some 27 notifications (previous year: 18) involved state-regulated audit firms. Only credible and concrete notifications lead to further investigations and only qualified violations initiate proceedings under administrative law. In the past year, the FAOA opened enforcement proceedings in eight cases that could be traced back to third-party notifications. With regard to enforcement, the FAOA issued a total of 25 reprimands and three licence withdrawals in 2023, whilst it also rejected three licence applications. Moreover, five criminal

charges were filed and one notification was submitted to the Swiss Exchange Regulation.

ESG (environment, social and governance) remains a focal point

As before, there are only a small number of formal ESG audit requirements in place in Switzerland. However, the topic is becoming increasingly more significant. The Federal Council aims to establish internationally coordinated legislation on sustainable corporate governance. On 22 September 2023, the Council reinforced its decision of 2 December 2022 relating to this issue and set out the key values for a bill that is expected to be submitted for consul-

tation in July 2024 at the latest. The bill now includes the requirement to audit sustainability reports for companies above certain thresholds. The FAOA will continue to follow this topic closely and contribute to the development of future legal bases.

A thank you to FAOA staff

2023 was yet another demanding year that brought up many new issues. We would like to sincerely thank all employees for their immense commitment, which enabled them to overcome these challenges, and for their willingness to keep up with developments and familiarise themselves with new issues.

Berne, 26 January 2024

Wanda Eriksen

Chairperson of the Board of Directors

Dr. Reto Sanwald

Chief Executive Officer

The FAOA in numbers

Audit firms inspected annually:

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



21 State-regulated audit firms

- 5** Criminal charges
- 3** Licence withdrawal
- 25** Reprimands
- 2** Rejections (licence application)
- 1** Partial rejections (licence application)
- 1** Notification to Swiss Exchange Regulation



Number of inspections FA/RA

15 in 2022
12 in 2023



1'905

Licensed audit firms



9'789

Licensed individuals

7,07 Mio.

Total FAOA expenditure



27.4

employees (FTE)



Regulatory developments

Current projects

Audits of non-financial reporting

Companies that fall within the scope of the relevant legislation must produce an annual report on non-financial matters accounting for environmental matters, particularly CO₂ targets, social issues, employee-related issues, respect for human rights and combating corruption (referred to as reporting on non-financial matters in accordance with Art. 964a ff. CO).

The reporting obligation is restricted to companies deemed public-interest entities. Furthermore, the company must, either on its own or together with one or more companies controlled by it in Switzerland or abroad, have at least 500 full-time positions over two consecutive financial years and must also exceed at least one of the relevant thresholds (balance sheet total of CHF 20 million, sales revenue of CHF 40 million) over two consecutive financial years. Companies that are controlled by another company to which the reporting obligation already applies or that must produce a comparable report in accordance with foreign law do not fall within the scope of the legislation.

In accordance with the decision of the Federal Council of 22 September 2023, these framework conditions will, in principle, remain unchanged. However, the threshold for the number of full-time positions is set to decrease from 500 to 250 (in line with the requirement set out in Art. 727 CO). This is an amendment in line with EU law, which is relevant to the Swiss economy due to the country's high export share to the EU.

An amendment in line with EU law is also set to be made with regard to the obligation to audit non-financial reporting in accordance with a decision by the Federal Council. Non-financial reporting is now to be audited by an external auditor, whereby the term «external auditor» is, at least preliminarily, to be understood as functional. The question

as to which service providers can be licensed to audit sustainability reports in the future remains open. In certain jurisdictions, other providers are also licensed alongside audit firms. The advantages and disadvantages associated with this must be weighed up. In doing so, it is also important to consider the current market conditions and whether distinctions can be made between auditing sustainability reports and auditing the data that is collected along the supply chain. For reasons of legal certainty and to ensure the comparability of audit services, it would be favourable to make all audit service providers subject to the same specifications. Particular considerations include licensing, independence, applicable auditing standards, documentation and archiving, and oversight. For the same reasons, and with regard to auditing standards, a stipulation by the Federal Council or another body on the recognised standards on reporting and auditing would also be welcome (cf. Art. 16a AOA). The International Standard on Sustainability Assurance (ISSA 5000) of the International Auditing and Assurance Standard Board (IAASB), which is currently the subject of a consultation procedure, may in the future become one of the recognised auditing standards. ISSA 5000 is applicable for the auditing of all ESG standards and must be adopted by all professions, not just audit firms. The standard will be available in its final version towards the end of 2024, well before the new Swiss law enters into force.

Federal Council report on legislative action required with respect to audit law

On 31 August 2022, as part of an in-depth evaluation of the seven audit recommendations set out in Peter Ochsner and Daniel Suter's expert report on action required with respect to audit law¹ the Federal Council identified a need to take action in the case of pension fund auditing. For this reason, the Federal Social Insurance Office (FSIO), assisted by the Occupational Pension Supervisory Commission (OPSC), the Federal Office

of Justice (FOJ) and the FAOA, was commissioned with the in-depth clarification of how the stability of the pension system could be bolstered in the long term through improvements to audit quality.

The FAOA continues to be of the opinion that the auditing of pension funds should be treated in the same way as the auditing of private insurance companies² with regard to public interest in the stability of such institutions. A substantial portion of the oversight of the occupational pension sector is delegated to auditors without the delegating occupational pension supervisory authority being in a position to gauge the quality of the auditing underlying the auditor's reports. Around two-thirds of the occupational pension funds in Switzerland have already chosen a state-regulated audit firm (srAF) to be their auditor. Nevertheless, as far as the FAOA is concerned, it is appropriate to at the very least supervise the auditors of larger and more complex occupational pension funds (collective and joint funds) in a risk-oriented manner³. Alongside supervision, special licences for audit firms and their auditors-in-charge, building on the FAOA's basic licenses, would be sensible for such a system in that they would guarantee the relevant expertise and appropriate audit experience. These two measures would improve the protection offered to second pillar policyholders and pensioners. The Federal Council essentially arrives at the same conclusion in its report of 30 November 2018 on the «Ettlin» postulate⁴.

¹ The report is available (in German) at: www.news.admin.ch/news/message/attachments/72813.pdf

² Cf. the comments in the FAOA's Annual Reports from 2016 (p. 46), 2017 (p. 40), 2018 (p. 39), 2019 (p. 47 ff.), 2020 (p. 54), 2021 (p.45) and 2022 (p. 7); cf. also SCHNEIDER/DEVAUD/OFFERGELD, Die Revision von Vorsorgeeinrichtungen aus dem Blickwinkel der RAB, in: EXPERTfocus 2020, p. 771 ff., 774.

³ Cf. the comments in the FAOA's Annual Reports from 2016 (p. 46), 2017 (p. 40), 2018 (p. 39), 2019 (p. 49), 2020 (p. 54), 2021 (p.45) and 2022 (p. 7).

⁴ The report is available (in German) at: www.news.admin.ch/news/message/attachments/54827.pdf

Work to implement the Federal Council's mandate was accelerated during the reporting year. The Federal Council's report on its in-depth investigation is expected to be published in mid-2024.

Federal enterprises as public-interest entities

In the above-mentioned report of 31 August 2022, in fulfilling the postulate 19.4389 «Anerkennung der bundesnahen Unternehmen als Gesellschaften des öffentlichen Interesses (Gdöl) im Sinne des Revisionsaufsichtsgesetzes» («Recognising federal enterprises as public-interest entities (PIEs) within the meaning of the Audit Oversight Act») of the Control Committee of the Council of States (CC-S) of 12 November 2019, the Federal Council came to the conclusion that at least certain federal enterprises should qualify as PIEs under Article 2 letter c of the AOA.

It instructed the FOJ in cooperation with the Federal Finance Administration (FFA), the Swiss Federal Audit Office (SFAO) and the FAOA to develop a corresponding bill to be submitted for consultation by mid-2024.

Ensuring the independence of external auditing at TBTF banks

With the postulate 23.3450 «Die Unabhängigkeit der externen Revision bei Too-big-to-fail-Banken sicherstellen» («Ensuring the independence of external auditing at too-big-to-fail banks»), submitted by Councillor of States Heidi Z'Graggen, the Federal Council is instructed to examine whether a draft bill should be submitted to the Federal Assembly or a measure introduced to strengthen the independence of external auditing at too-big-to-fail (TBTF) banks. The initiative is justified by the downfall of Credit Suisse Group AG. A possible approach may be to place the responsibility for the selection of the auditor (assumed to be the audit firm for the regulatory audit) with FINMA and not the bank under review. As before, the proposal for the selection of the auditor would be presented to the general meeting, which would then select the external auditor. The external

audit would continue to be financed by the bank involved, albeit via FINMA.

On 24 May 2023, the Federal Council requested the acceptance of the postulate and announced that it will look to review the issue as part of the next report on systematically important banks. This report is expected to be published in April 2024. The FAOA is actively involved in developing the report, advising on auditing matters.

Digitalisation of the Commercial Register

Based on the results of an externally conducted needs assessment on the standardisation of the IT environment of the Commercial Register, the Federal Council instructed the Federal Department of Justice and Police (FDJP) on 28 April 2021 to review the legal, technical and financial opportunities for improving the IT environment of the Commercial Register by the end of 2022. Based on these recommendations for improvement, the Federal Council announced the key values for the revision of the Swiss Code of Obligations (CO; SR 220) and the Commercial Register Ordinance (CRO; SR 221.411) in its meeting of 9 December 2022. The FOJ was thereby instructed to prepare a consultation by the end of June 2024. The FOJ also for example reviews the possibility of introducing a simplified information exchange system between the authorities by establishing new interfaces. During the reporting year, the FAOA was in dialogue with the FOJ multiple times regarding the examination of an interface between the Commercial Register and the «Revisorenregister» (Register of Auditors).

Register of beneficial owners

On 12 October 2022, the Federal Council commissioned the Federal Department of Finance (FDF) to develop a draft bill for establishing a central register for identification of the beneficial owners of legal entities. The register is intended to be accessible to the competent authorities and financial intermediaries that are subject to due diligence obligations under the Anti-Money Laundering Act

(AMLA; SR 955.0). Financial intermediaries and advisers will also be able to view the register for the purpose of fulfilling their due diligence duties. In future, audit firms can be qualified as «advisers» if they practise certain advisory activities associated with an increased risk of money laundering. Activities deemed particularly risky include the structuring of companies and real estate transactions.

Substitute authority for state liability claims relating to matters of major importance

On 11 March 2022 the Federal Council decided to adopt into law a mechanism for safeguarding liquidity (public liquidity backstop) for systematically important banks in order to enhance the stability of the financial sector. As part of this proposal, the FDF was also given powers to make decisions as a substitute authority in the event of state liability actions against FINMA or the FAOA in matters of major importance as, due their involvement in such matters, the boards of directors of these authorities are not in a position to make impartial decisions.

Total revision of administrative criminal law

The motion 14.4122 «Für ein modernes Verwaltungsstrafrecht» («For a modern administrative criminal law»), put forward by Councillor of States Andrea Caroni, instructs the Federal Council to present a draft for a total revision of the Federal Act on Administrative Criminal Law (ACLA). The preliminary draft is intended to ensure that responsibility for the prosecution and assessment of administrative criminal law matters remains with the administrative authorities, but that the procedure is modernised by a convergence to the Criminal Procedure Code (CrimPC; SR 312.0) as a basic principle. Moreover, special provisions of special laws that relate to a company's responsibility under criminal law (such as Art. 39a AOA and Art. 49 FINMASA) are to be repealed and standardised in the preliminary draft. The consultation procedure is expected to commence at the beginning of 2024.

The FAOA can issue fines under administrative criminal law, but limited to certain offences and not for audit errors (Art. 39 f. AOA). Additionally, only natural persons are liable as a basic principle. In the FAOA's view, the legal powers to issue administrative fines as monetary administrative penalties to audit firms is a measure worth considering and one that has proved successful with audit oversight authorities abroad.

Measures relating to the situation in Ukraine

On 28 February 2022, the Federal Council decided to adopt the sanctions imposed on Russia by the European Union (EU) and thereby strengthen the impact of these sanctions. Since then, Switzerland has implemented a total of eleven EU sanctions packages, most recently the package of 16 August 2023. In the financial sector, the direct or indirect provision of services in the areas of auditing, including auditing of financial statements, accounting, tax consultancy and corporate and public relations consultancy, for the government of the Russian Federation or legal entities, companies or organisations established in the Russian Federation remains prohibited (Article 28e para. 1 of the Ordinance on Measures Relating to the Situation in Ukraine⁵). However, this prohibition does not apply to services that are designated exclusively for the use of legal entities, companies or organisations established in the Russian Federation that are owned by or under the sole or joint control of legal entities, companies or organisations that have been established or registered in accordance with Swiss law or the law of a member of the European Economic Area or the United Kingdom (Article 28e para. 2 letter a of the Ordinance).

SECO may, in consultation with the relevant bodies of the FDFA and the FDF, grant exemptions from the prohibition with regard to audit services, provided the services are required for the operation, basic maintenance, repair or replacement of components of the CPC pipeline or associated infrastructure (Article 30d para. 2 of the Ordinance).

Federal Act on Combating Insolvency Abuse

On 18 March 2022, the Federal Assembly adopted the Federal Act on Combating Insolvency Abuse. The bill pursued the objective of introducing different measures to prevent debtors from abusing the insolvency procedure in order to rid themselves of their obligations. From an auditing point of view, the bill contains two relevant points: (1) The waiver of the limited audit (known as opting-out) is restricted to future financial years. In addition, the waiver must be filed with the Commercial Registry before the start of the financial year in question. This makes retrospective opting-out impossible. (2) With the bill, trading in shell companies («Mantelhandel») is banned for overindebted companies that are not currently trading and have no assets.

The new provisions in the CO and the enforcement law in the CRO will enter into force on 1 January 2025. The restriction on opting out to future financial years is therefore valid from 2025. If the financial year corresponds to the calendar year, the opt-out registered in 2025 will not apply until 1 January 2026. Companies are still permitted to opt out at the time of establishment.

Limited qualified investor funds

On 23 September 2022, the FDF submitted an amendment to the Ordinance on Collective Investment Schemes (CISO; SR 951.311) for consultation. New implementing regulations that are to apply to limited qualified investor funds (L-QIF) are proposed. A financial audit and a so-called supplementary audit, amongst other things, are stipulated. Audits will be subject to the same requirements as those of regulated collective capital investments. The Swiss Audit Notice 70 (regulatory audit) applies analogously. In addition, other significant requirements for L-QIFs will be reviewed as part of the supplementary audit, specifically whether the criteria of an L-QIF are fulfilled. The revised CISA and its implementing regulations enter into force on 1 March 2024.

Completed projects

Audit of OASI compensation funds

Oversight of OASI, supplementary benefits, loss of earnings compensation and family allowances in the agricultural industry is to be modernised by focusing it more squarely on risks, strengthening governance and adapting the requirements for information systems to the latest technological developments. To this end, on 17 June 2022, the Federal Assembly adopted the Federal Act on Modernising the Oversight of OASI (Bundesgesetz über die Modernisierung der Aufsicht über die AHV). In terms of auditing, the new law stipulates that compensation funds and offices be audited by an audit firm that is licensed as an audit expert in accordance with the AOA. The auditors-in-charge of compensation funds and offices require a special licence for auditing compensation funds and offices in addition to their basic licence as an audit expert.

The requirements for approving audit firms and auditors-in-charge are set out in the AOO, for which the FAOA will now be responsible. An audit firm is licensed to audit compensation funds and offices if it is adequately organised (Article 11n AOO). This requires (a) at least two licensed auditors-in-charge and (b) at least two engagements for compensation funds and offices after three years at the latest.

Auditors-in-charge are approved as such if they possess the expertise and practical experience required to be licensed to audit OASI compensation funds and offices and produce proof of the following (Article 11o para. 1 AOO): (a) 250 audit hours as part of principal audits within the last six years prior to submitting the licence application; (b) 200 audit hours as part of financial statement audits within the last six years prior to submitting the licence application; and (c) twelve hours of continuing education and training on the duties involved in auditing compensation offices within the last three years prior to submit-

⁵ SR 946.231.176.72.

ting the licence application. In order to maintain this licence, an auditor-in-charge must annually produce proof of the following for the last three years (Art. 11o para. 1 AOO): (a) an average of 40 audit hours as part of principal audits and 30 audit hours as part of financial statement audits; and (b) a total of twelve hours of continuing education and training on the duties involved in auditing compensation funds.

Audit licences for audits under the OASIA, issued by the Federal Social Insurance Office under the old law remain valid. After two years, licences will be automatically revoked provided the FAOA has not issued a licence under the new law (Article 51 para 1 AOO). The new provisions entered into force on 1 January 2024.

Revision of the Data Protection Act

The new Federal Act on Data Protection (FADP; SR 235.1) and the accompanying enforcement law entered into force on 1 September 2023. With the introduction of Article 15b AOA, an explicit legal basis for the processing of personal data and the data of legal entities has now been established. In order to comply with the new data protection requirements, the FAOA revised a series of its internal regulations.

Financial Audit

2023 inspections

Overview

The FAOA conducted twelve inspections during the reporting year⁶. As part of these inspections, audits of annual and consolidated financial

statements of 27 companies were assessed through engagement-related File Reviews. Rather than being «second audits», 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

Categories	Five largest audit firms		Other		Total	
	2023	2022	2023	2022	2023	2022
Number of inspections	6	6	6	9	12	15
Comment form/firm review findings	6	5	7	13	13	18
Number of inspected files ⁷	20	26	7	8	27	34
Comment form/file review findings	10	17	11	17	21	34

Firm Reviews

The inspected audit firms' internal quality control and quality management systems can be categorised as adequate.

Figure 2
Trend in the average number of findings from the Firm Review since 2019



⁶ In the case of two of the five largest audit firms, the actual inspection work was completed in 2023. Since the findings process is still at an early stage, these do not form part of the FAOA Annual Report 2023. Conversely, the two inspections that had yet to be completed as of 31 December 2022 are

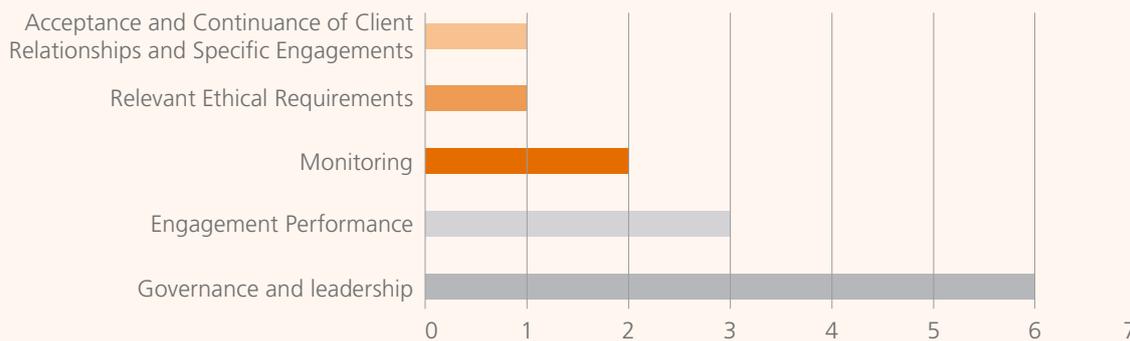
⁷ now included. In addition, in 2023 the FAOA carried out an ad hoc inspection at two srAFs. For the purpose of a file review, the FAOA typically reviews the working papers that relate to the audit of the consolidated financial statements and to a significant subsidiary.

The FAOA identified a total of 13 findings at Firm Level in 2023 (Fig. 2). This gives an average of 1.1 findings per inspection from the individual Firm Reviews. Compared with the previous year (1.2 findings per inspection), this figure has remained relatively consist-

ent. The average number of findings at the five largest audit firms has in the past always been lower than at the smaller audit firms. However, this gap reduced significantly in 2023, which is pleasing. The three trend lines are converging at an increasing rate.

Figure 3

Type and number of 2023 Firm Review findings (total 13 findings)



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

- The FAOA identified six findings relating to the audit firm's governance and leadership for quality. All deficiencies related to the formulation and implementation of the new International Standard on Quality Management 1 (ISQM 1). For further details, please refer to the comments below under «Point of focus 1» for the reporting year.
- The FAOA identified three findings that concerned engagement performance. In the case of two of the five largest audit firms, the FAOA determined that, too often and contrary to auditing standard requirements, the audit teams of PIEs rebutted the risk of fraud in revenue recognition. For more details, please refer to the FAOA Annual Report 2022⁸. The third finding concerns the comprehensive report to the Board of Directors. This report may be dated on the day on which the audit work concludes at the earliest (note 13 of FAOA Circular 1/2009). In the case of two File Reviews, the FAOA

identified that that comprehensive report was submitted to the audit committee some days before the audit report was signed and that the report made reference to audit work yet to be completed. Because, at one srAF, the internal regulations relating to this were unclear, the FAOA addressed this shortcoming at Firm Level.

- The FAOA identified two findings relating to the review process deployed by srAFs. In the first instance, assurances that the auditor-in-charge would be inspected within the set cycle were not made. The justification given was that an FAOA inspection serves as a substitute. However, the regulations of the profession explicitly stipulate that external inspections are not a replacement for internal review activities (ISQM 1.A150). In the second instance, deficiencies identified as part of the review process and relating to the archiving of audit documentation and the determining of random sample sizes for control testing were not rectified through appropriate measures.

Point of focus 1: Formulation and implementation of the new International Standard on Quality Management 1 (ISQM 1)

Audit firms that apply the auditing standards of the IAASB in auditing annual and consolidated financial statements were required to introduce the Standard on Quality Management ISQM 1 as of 15 December 2022. The FAOA evaluated the implementation of the new quality standard at a total of eight audit firms, of which three were larger and five were smaller srAFs. In doing so, the FAOA reviewed in particular the complete recording of the mandatory quality objectives as per ISQM 1, the suitability of the risk assessment process for each individual objective and, on the basis of samples, the design and implementation of measures for reducing quality risks (hereinafter «responses»). Risk assessment and monitoring processes were also evaluated.

With regard to the design and degree of formalisation of the quality management systems (QMS) introduced, due to the differing framework conditions (company size, engagement

⁸ [FAOA Annual Report 2022](#), p. 11f.

portfolio, membership of a global network, etc.) significant differences were revealed as expected. Whereas larger srAFs introduced comprehensive QMSs, partially supported by separate IT applications, smaller srAFs were typically limited to rather rudimentary additions to their previous regulations (quality manuals).

In the case of six (75%) of the srAFs inspected, one or more findings relating to the implementation of ISQM 1 were made. Here, the FAOA determined in particular the following deficiencies:

- Taking account of mandatory quality objectives and responses: In the case of four srAFs, not all of the mandatory quality objectives as per ISQM 1 were taken into account in their QMS, or no reasons were given as to why these objectives were not applicable. As a result, it was not ensured that the risks associated with all mandatory quality objectives were assessed and appropriate responses determined. Moreover, the QMSs of two srAFs did not include all of the mandatory responses that need to be taken into account in accordance with ISQM 1.
- Identifying risks and responses: In the case of two srAFs, certain risks and/or responses were only superficially described, which has a negative impact on the traceability and consistent implementation of the QMS.
- Cause analysis for identified deficiencies: In the case of three srAFs, there were no regulations and procedures in place for carrying out cause analyses for deficiencies that may have been identified during the course of the monitoring activity. A root cause analysis is central in developing sustainable and cause-oriented measures.
- Performance appraisal process: In the case of four srAFs, fault was found with the performance appraisal process for individuals with

ultimate or operational responsibility for the QMS («QMS officers»). Here, the FAOA determined, for example, that no intermittent performance appraisals of QMS officers were taking place or that the results of the annual QMS assessment were not or not sufficiently taken into account during the QMS officers' performance appraisal.

- Other findings: In individual cases, the following deficiencies, amongst others, were objected to: i) lack of systematic comparison of quality objectives, risks and responses; ii) inadequate formalisation and lack of involvement in the annual risk assessment process of the individual with operational responsibility for the QMS; iii) inadequate definition of the control attributes for individual controls (responsibility, frequency, proof of control execution, etc.); (iv) failure to identify risk when complying with the provisions on independence and a lack of regulations regarding measures for individuals whose actions and behaviour impact negatively on audit quality.

For all inspections, the FAOA reached the conclusion that the srAFs have a QMS that is suitable in terms of size and complexity. From 2024, the FAOA will focus on the operating effectiveness and functionality of their QMS.

Analysis of audit reports on 2022 consolidated financial statements

The FAOA primarily examined audit reports on the consolidated financial statements of all SIX-listed companies with a reporting date in 2022. The annual analysis of the audit reports provides the FAOA with important insights into audit-related topics and current issues impacting reporting (e.g. Key Audit Matters (KAMs), going concern assumption, change of auditor, trends regarding audit fees and error corrections from previous years). These insights also assist the FAOA in selecting audit engagements for their inspections in a risk-oriented manner. Two topics are explained in greater detail below.

Going-concern assumption

The going-concern assumption is an important accounting principle. Annual and consolidated financial statements are typically prepared under the assumption that business activity can be continued for at least twelve months after the balance sheet date. The relevant audit team is responsible for reviewing the reasonableness of this assumption (ISA/ISA-CH 570). In the 2022 financial year, there were material uncertainties about the ability to continue as a going concern at nine (3.6%) of the companies inspected. Auditing the going-concern assumption is a demanding task and one that carries a degree of responsibility, as, to a large extent, it involves making assumptions about and predicting the future of the audited company. Consequently, an especially critical approach is required.

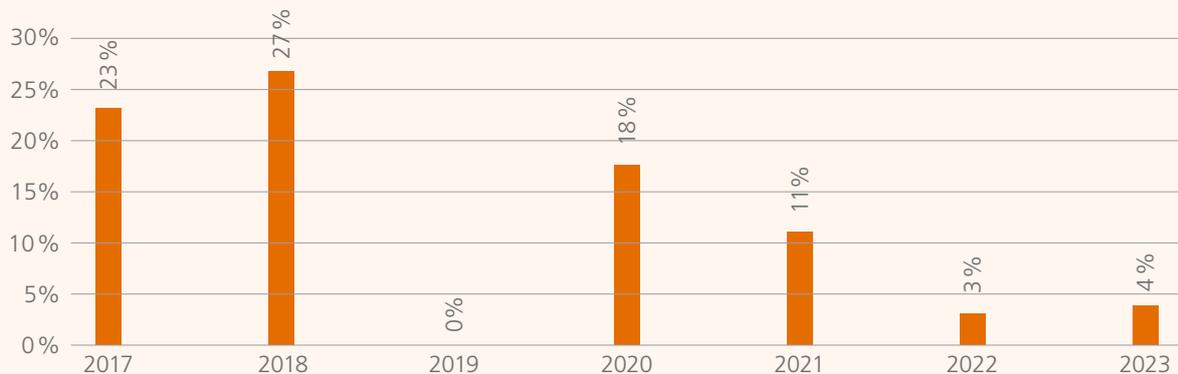
Key Audit Matters (KAMs)

Amongst other things, audit reports on listed companies contain information on the key audit matters. As in the previous year, the most frequently disclosed KAMs in the audit reports examined concerned revenue recognition, intangible assets with indefinite useful lives (including goodwill), taxes and property, plant and equipment.

Since 2017, the FAOA has identified a total of 14 KAM-related findings. Of these, eleven were related to the inadequate implementation of the audit procedures listed in the KAMs. These were either not carried out at all or not carried out as described. In 2023, the FAOA identified no findings at the five largest audit firms and one finding at the smaller audit firms. The percentage of File Reviews with KAM-related findings has decreased since 2018, which is pleasing (Fig. 4).

Figure 4

Number of findings on KAMs since 2017 (in %)



Corporate governance

As part of its inspections of the five largest audit firms in 2022, the FAOA carried out a survey of matters relating to corporate governance. As the FAOA inspections were not yet complete at the time the Annual Report 2022 was printed, the reporting is included in the Annual Report 2023 as announced⁹.

In Switzerland, there are no binding requirements regarding the corporate governance of audit firms beyond the legal specifications for companies limited by shares¹⁰. Even the Swiss Code of Best Practice from *economiesuisse*¹¹ only helps to a limited extent, as it is primarily designed for listed companies and not private companies and companies managed via a partnership model. There are different requirements in the United Kingdom, the Netherlands and Japan, in particular, where (partly in consultation with the audit industry) specific corporate governance codes apply to audit firms. On account of the lack of regulatory provisions, the objective of the FAOA's survey was to compare the governance of the five largest audit firms with one another, to identify good or best practices, to coordinate with the essential regulatory content of foreign codes and to make the companies aware of any need for discussion or improvements. The Board of Directors, the Executive Board, remuneration, shareholder structure, other bodies, accounting/

auditing, transparency/dialogues with audit stakeholders and the principles of corporate governance were examined.

Generally, it can be said that the corporate governance structures in place at the five largest audit firms are similar. This is not least due to the above-mentioned partnership model, which all five companies follow. Despite this, on closer inspection, significant differences emerge. All five companies have already implemented many elements of good corporate governance. At the same time, however, there are also aspects that require further scrutiny or whose further development appears to be worth considering, not least because expectations of corporate governance within the Swiss economy are generally increasing and, in this respect, the audit industry can be seen to be at the vanguard of change.

As part of its future inspections, the FAOA will continue with some of the above-mentioned aspects, assess them in more detail or add new elements.

File Review

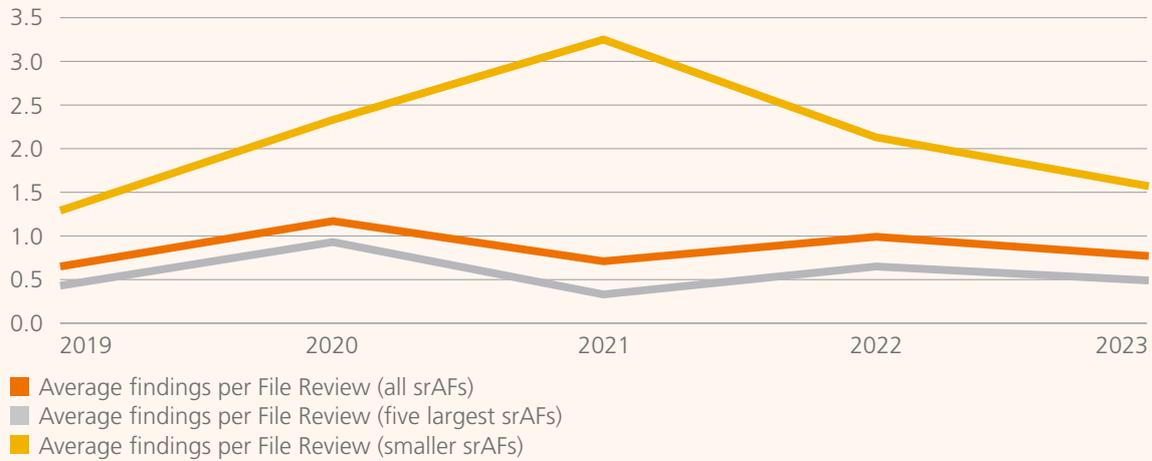
Audit quality at individual audit engagement level depends heavily on the partners and staff involved, as well as the external environment.

⁹ Cf. [2022 Annual Report](#), p. 14.

¹⁰ The revised law on companies limited by shares entered into force on 1 January 2023 and has brought important changes that have generally improved corporate governance standards.

¹¹ The Swiss Code was revised for a third time in 2022 (after 2007 and 2014) and published in February 2023.

Figure 5
Trend in the average number of findings from File Reviews since 2019



In the years 2019 to 2023, the average number of findings per File Review of all srAFs and the five largest audit firms fell within the range of 0.7 to 1.2 and 0.3 to 0.9 respectively (Fig. 5). It is therefore not possible to identify an actual trend. The average number of findings per file for the smaller srAFs is considerably higher than that of the five largest audit firms across all the years. What is pleasing is that, in the same category of srAFs, a positive trend can be observed from 2021.

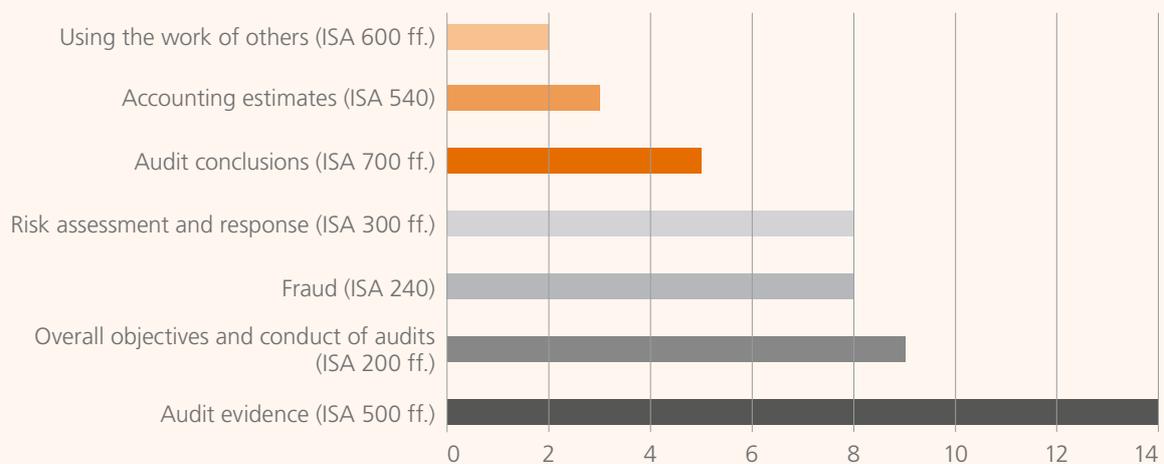
As in the previous year, however, the smaller srAFs must undertake further efforts to reduce the number of findings.

A total of 27 File Reviews were performed in the reporting year (previous year: 34), resulting in 21 findings altogether. As such, the number of findings per File Review (0.8) dropped by 0.2 compared to the previous year (1.0). Specifically, this reduction has occurred due to the fact that, in the

previous year, this figure was at least 3.0 for four inspections (including one ad hoc inspection). The FAOA is striving to ensure that this figure reaches a level that is as low as possible. As a result, the FAOA is currently expecting the average of this figure to fall below 1.0 and to reduce to 0.5 in the coming years.

The figure below shows the type and number of findings from the File Reviews¹² (Fig. 6).

Figure 6
Type and number of 2023 File Review findings (total of 21 findings of non-compliance with 49 auditing standards¹³)



¹² 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).

¹³ Multiple auditing standards may have been breached per finding. Therefore, the number of findings does not accord with the number of auditing standards.

- Deficiencies relating to a range of auditing standards fall under the category «audit evidence». Most commonly, the auditing standards on audit sampling (ISA 530) and external confirmations (ISA 505) were not observed. In the case of audit sampling, as with the previous year the design and size of the sample, as well as the selection of elements to be audited, proved unsatisfactory at times. The selection of certain elements does not represent audit sampling. Thus, in these cases it is not possible to make assertions about the total population as part of substantive auditing. In addition, for audit sampling, each sample element making up the population must have an equal chance of being selected. With regard to external confirmations, the audit teams did not always maintain control over external confirmation requests. As well as this, the audit team is required to obtain audit evidence with a high degree of reliability as part of substantive audit procedures wherever significant risks are involved. External confirmations are explicitly listed as an example of such evidence in the auditing standards (ISA 330.A53). Deficiencies were identified within this context, as the degree of reliability of the audit evidence obtained was not adequate.
- There were also deficiencies in a range of auditing standards under the category of «Overall objectives and conduct of audits». However, the area in which the FAOA most often identified findings was engagement quality management (ISA 220). When auditing public interest entities, the audit team is always assigned an engagement quality control reviewer (EQCR). This individual is required to examine selected documentation relating to significant assessments made by the audit team as well as the conclusions drawn from these. In terms of findings identified by the FAOA, it was the case therefore that not only the auditor-in-charge

reviewer did not perform their duties to an adequate level.

- The following explanations of the FAOA's points of focus for auditing work in 2023 provide details of findings relating to fraud.
- ISA 315 and 330 contain requirements for risk assessment and responses to assessed risks. Without qualitative audit planning, there is a high risk that the subsequent performance of the audit will be inadequate. In this way, the conclusions drawn about the individual audit items, which form the basis of the audit opinion set out in the audit report, may not be sufficiently evidenced. In multiple cases, the FAOA identified that findings were caused by a lack of appropriate application of the aforementioned auditing standards. This related, in particular, to the following audit items: cash and cash equivalents, inventories, mortgage claims, financial assets and liabilities from customer relationships.

Point of focus 2: Audit of fraud (ISA 240)

The auditor's responsibilities relating to fraud (ISA 240) were examined as part of 19 (regular) file reviews and two ad hoc inspections. One or more findings were identified in eight, and thus over a third, of the audit engagements inspected. In five cases, the inadequate auditing of journal entries gave rise to findings. Here, it was determined that the audit teams often contented themselves with interviews or a critical review of selected journal entries and did not assess the adequacy of the entries through further audit procedures (specifically, viewing source documents). In terms of the other objections, no clear pattern could be observed. The findings related to various aspects of ISA 240, such as a lack of interviews or interviews conducted inadequately, deficient assessment of risk factors for fraud or inadequate audit procedures on significant business transactions outside the normal course of business. Reference is made in this context to

the supervisory notice 1/2022 on taking into account fraud when performing audit services, which lists insights from previous inspections and key areas for improvement.

Where applicable, the FAOA also evaluates the suitability of audit procedures that were carried out in response to identified risks of fraud. There was a pleasing outcome here in that no findings emerged from this review work.

During review work in 2022, the FAOA determined a relatively high rebuttal rate for the presumed risk of fraud in revenue recognition¹⁴. With regard to this, in the 2023 inspection year the FAOA made one finding at firm level for two of the five largest audit firms, whose inspections had not yet been completed from the previous year. In the case of one audit firm, fault was found with internal specifications, as these only stipulated a mandatory consultation for cases in which the audit team refuted the presumption of risk for all types of revenue. In the case of the second audit firm, the high rebuttal rate indicated a potentially inconsistent interpretation of the auditing methodology.

In May 2022, the IAASB published a guide on the interactions between ISA 240 and other ISAs, which proves worthwhile reading¹⁵.

Point of focus 3: Identifying and assessing the risks of material misstatement (ISA 315, Revised 2019)

The auditing standard ISA 315 (Revised 2019) was introduced for audits of annual and consolidated financial statements relating to financial periods commencing on or after 15 December 2021. The objectives of the revised standard include promoting uniformity in applying risk identification and assessment procedures. Furthermore, the complexity of the

¹⁴ Cf. FAOA Annual Report 2022, p. 11 f.

¹⁵ «THE FRAUD LENS – INTERACTIONS BETWEEN ISA 240 AND OTHER ISAs» (www.iaasb.org/publications/non-authoritative-guidance-fraud-lens-interactions-between-isa-240-and-other-isas).

standard was reduced in order to increase user friendliness, irrespective of the type and complexity of the company under review (scalability). This promotes, on the one hand, robust risk assessment and, on the other, specific answers relating to the identified risks resulting from the assessment process.

The five largest audit firms have provided their employees with suitable preparation for the challenges involved in auditing in accordance with ISA 315 through new audit programmes, training sessions and guidelines.

The FAOA inspected compliance with ISA 315 in file reviews in selected areas, identifying no findings in the process.

Point of focus 4: Auditing accounting estimates and related disclosures in financial statements (ISA 540 (Revised))

ISA-CH 540 is applicable to audits of annual and consolidated financial statements relating to financial periods ending on or after 15 December 2022 and implements ISA 540 (Revised). ISA-CH 540 subjects auditors to additional requirements in the sense that more detailed information on risk assessment must be provided. In addition, a clear connection between the risk and the audit procedure planned in response must be established. Moreover, auditors must take action if the management of the audited company understates estimation uncertainties. ISA-CH emphasises the need for professional scepticism; thus, the statements provided by the management cannot simply be accepted.

In the reporting year, the FAOA evaluated compliance with the requirements in accordance with ISA-CH 540/ISA 540 (Revised) as part of 20 File Reviews. In the case of three File Reviews (15%), an inadequate implementation of the requirements was recorded. In the first case, despite identifying considerable valuation risks, the audit team did not carry out

any audit procedures. In the second case, the audit team used subjective calculations provided by the audited company's management in order to value the financial assets of a listed company. However, the relevant market values would have led to a considerably lower value. In the same file, receivables and equity interests in predominantly overindebted companies that were part of a complex international network of companies were capitalised. Despite over-indebtedness, outstanding interest payments, a lack of collaterals and unreliable audit evidence, the audit team did not recognise the risks of an overvaluation and a limitation of scope. This becomes all the more critical considering publicly available information that contradicted the information provided by management was ignored. In the third case, the allocation of mortgage loans to the relevant risk groups was not sufficiently audited. The risk groups form the foundation for determining write-downs.

Root cause analysis and measures

The audit firms concerned must remedy the FAOA's findings relating to the individual audit engagements in a sustainable way by adopting suitable measures. 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 the respective global networks, which have formulated rules and tools in response to both findings from internal review and those identified by external audit oversight authorities. The root cause analysis is carried out by those responsible for quality and risk management at the audit firm in each case, leading to detailed action plans.

The FAOA undertakes a critical review of these action plans and generally requests clarifications or improvements to their content. Although the final action plans are typically reported to the global network of audit firms by the sRAF, the implementation is primarily monitored at local level.

The FAOA deemed the root cause analysis at two sRAFs to be inadequate or requiring improvement, which meant that the FAOA was required to adapt the proposed measures considerably. Only well-founded root cause analyses and resulting robust measures lead to a sustainable reduction in recurring internal and external findings and hence an improvement in audit quality.

In 2023, the FAOA agreed a total of 55 improvement measures with the sRAFs audited (Fig. 7).

Figure 7

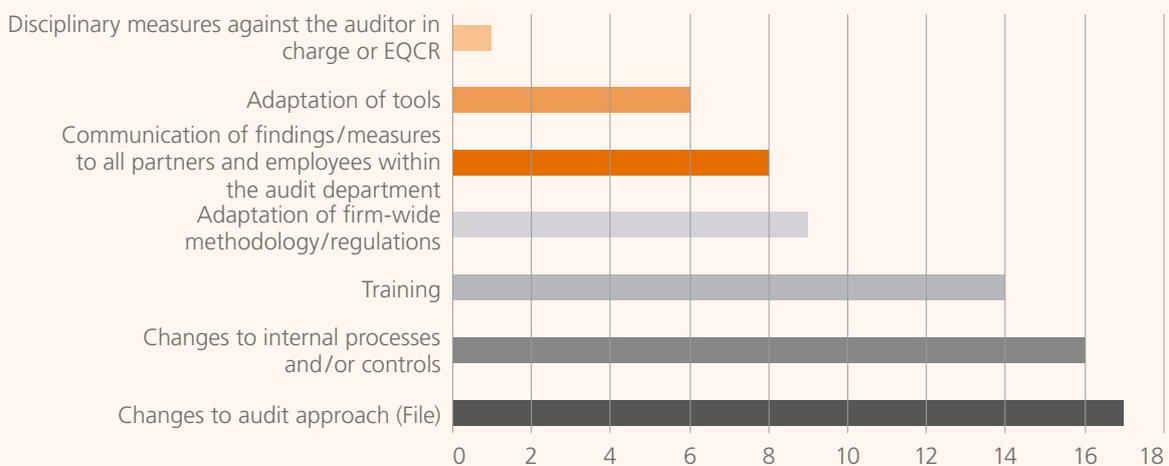
Representation of the number of inspections, files and measures

Number of inspections ¹⁶	Number of files inspected	Number of measures agreed
9	23	55

The measures agreed relate to the following topic areas (Fig. 8).

Figure 8

Measures agreed in the inspection reports, categorised by topic area



(Note: a measure may relate to multiple topic areas)

In view of deficiencies from the Firm Review, internal processes and controls, company-wide methodologies and company-internal regulations in particular were adapted. As well as this, tools were modified or introduced for the first time and training sessions on the applicable auditing and accounting standards were arranged.

By their very nature, the measures relating to deficiencies from the File Reviews depended on the corresponding topics and, in particular, concerned changes to the audit approach and audit scope, as well as adequate audit evidence. Furthermore, an agreement was made with the audit firms to improve tools and carry out training sessions. On top of this, disciplinary measures (withholding of bonuses) were taken in one case against the auditor-in-charge.

Preliminary fact-finding and proceedings

Alongside routine inspections, event-driven preliminary fact-finding and proceedings are also conducted at srAFs. Particular account is taken of credible third-party notifications. In 2023, 16 notifications were received in relation to the work of srAFs and, in 17 cases, preliminary fact-finding was carried out¹⁷.

Takeover of Credit Suisse Group AG by UBS AG

It should be noted in advance that, due to its legal mandate, the FAOA assesses the audit quality of the auditing bodies of Credit Suisse Group AG (CSG) and not the work of CSG itself. Even before the crisis in March 2023, the FAOA was aware of the impor-

tance of CSG's audit engagement and had been inspecting its auditing bodies (KPMG AG until 2019 and PricewaterhouseCoopers AG (PwC AG) from 2020) on an annual basis since 2008. Due to reasons of economic significance and in line with international best practice concerning global systemically important banks (G-SIBs), as of 2012 not only was CSG's audit firm inspected each year, but CSG's audit engagement was also chosen as a sample for the File Review each year. This was done alternately from the perspective of financial auditing

¹⁶ For five audit firms, the findings process is still at an early stage. Consequently, their File Reviews and measures are not included in the table below. On the other hand, three inspections are included that were not yet included in the 2022 annual report.

¹⁷ Fact-finding for notifications received in the previous year were also carried out during the financial year.

and/or the regulatory audit. The relevant findings were addressed with measures, which were subsequently implemented.

The FAOA used the takeover of CSG by UBS AG as an opportunity to initiate the process for carrying out an ad hoc inspection of PwC AG's financial and regulatory audit of CSG for the years 2021 and 2022. This makes it possible to take action irrespective of the regular (and time-limited) inspection cycle. It also enables to take the latest insights from various expert reports, media reports and investigation procedures (specifically the «Geschäftsführung der Behörden – CS-Notfusion» («Management of Authorities – CS Emergency Merger») Parliamentary Investigation Committee, PlnC) into account on an ongoing basis.

Looking ahead, the FAOA has been in close contact with PwC AG (as component auditor of the CSG group company) and Ernst & Young AG (EY AG) (as auditor/regulatory audit firm of the combined UBS AG entity) for months regarding the transfer of the CSG audit from PwC AG to EY AG. Particular considerations include how EY AG will recruit the required human resources and necessary specialists for the significantly larger audit engagement, how, by the same token, PwC AG will prevent an excessive loss of banking expertise, and which supervisory approach the FAOA will take to the combined audit engagement from 2024.

It must also be mentioned that, upon conclusion of the transition, EY AG will audit all financial institutions within the FINMA supervisory cate-

gories 1 and 2 without exception. In terms of the market (risk concentration) and from the perspective of knowledge concentration, this is not an ideal situation.

Audit quality indicators

The FAOA collects twelve audit quality indicators (AQI) from the five largest audit firms (Fig. 9)¹⁸. These indicators are used primarily to analyse trends, to assess risks and plan FAOA inspections.

Figure 9

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

Key figure	2020		2021		2022		2023	
	from	to	from	to	from	to	from	to
Annual turnover per partner in CHF million	2.2	4.1	2.3	4.7	2.6	4.9	2.6	5.4
Ratio of non-audit fees to audit fees								
– SMI companies	0.1	0.3	0.1	0.2	0.1	0.3	0.1	0.2
– Non-SMI public companies	0.0	0.2	0.0	0.2	0.0	0.2	0.1	0.2
Number of staff per partner	9.8	13.9	10.1	15.4	10.6	16.5	10.2	18.1
Training hours	49	75	48	76	47	83	45	99
Staff turnover as a %	16	33	15	27	15	28	19	26
Number of EQCR¹⁹ hours								
– SMI companies	38	215	51	207	57	189	42	162
– Non-SMI public companies	8	26	9	28	10	29	9	24
Number of hours of the auditor-in-charge								
– SMI companies	410	716	399	856	472	829	255	965
– Non-SMI public companies	80	139	58	138	69	151	75	148
Number of foreign shared service centre hours as a % of total hours at public companies	0	18	0	24	0	24	0	23
Number of consultations per public company audit	0.3	1.1	0.1	1.0	0.1	1.4	0.1	1.7

¹⁸ The figures reported by the audit firms are not substantively verified.

¹⁹ Engagement Quality Control Reviewer.

In the case of three of the five audit firms, the annual turnover per partner increased compared to the previous year. One firm's turnover decreased and another's remained almost the same. One audit firm has always produced the highest annual turnover per partner since 2017; its turnover increased by a further 9% during the reporting year.

The number of employees per partner increased at four of the five audit firms.

The FAOA sees the ratio between non-audit and 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 continue to come in well below the limits applicable in the EU.

In terms of ensuring audit quality, constant training plays a decisive role, as it is the only way to guarantee that auditors can keep their expertise and skills up to date. The training hours were calculated excluding self-study hours. Training hours increased at three and fell slightly at two audit firms year on year. One audit firm has shown the lowest amount every year since 2016.

Due to the business model of audit firms, a certain amount of turnover amongst employees is necessary. A turnover rate that is too high, however, can have a negative impact on audit quality, as it could mean the audit firm lacks competent employees with the relevant skills and knowledge. The figure decreased year on year at the top end of the range and increased at the bottom end of the

range. The turnover rate increased at two audit firms and decreased at two others. In the case of one audit firm, the turnover rate remained constant in comparison to the previous year.

An engagement quality control reviewer (EQCR) must be appointed when auditing all listed companies. The relevant EQCR average hourly amounts vary across audit firms: the larger the audited engagements of the firm are, the higher the average generally is. Additionally, familiarisation time incurred as a result of changing the EQCR and performing an audit of an SMI company for the first time also often increases the average. The figure for SMI companies increased by between 15% and 32% at two audit firms and fell by between 14% and 44% at two audit firms. The same firm has consistently shown the highest amounts for SMI companies since 2014.

The average number of audit hours by auditors-in-charge 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 of other public companies. For four out of five audit firms, the AQI increased for SMI companies when compared to the previous year. All five audit firms have processes in place for collecting, evaluating and monitoring these AQIs.

Four out of five audit firms outsource certain audit work to foreign shared service centres. In the case of three of these audit firms, this AQI increased slightly.

Formal consultations are to be held in response to challenging or disputed circumstances in order to increase audit quality. In a pleasing development, the number of consultations per public company audited increased considerably for all audit firms compared to the previous year.

IFIAR survey on inspection findings

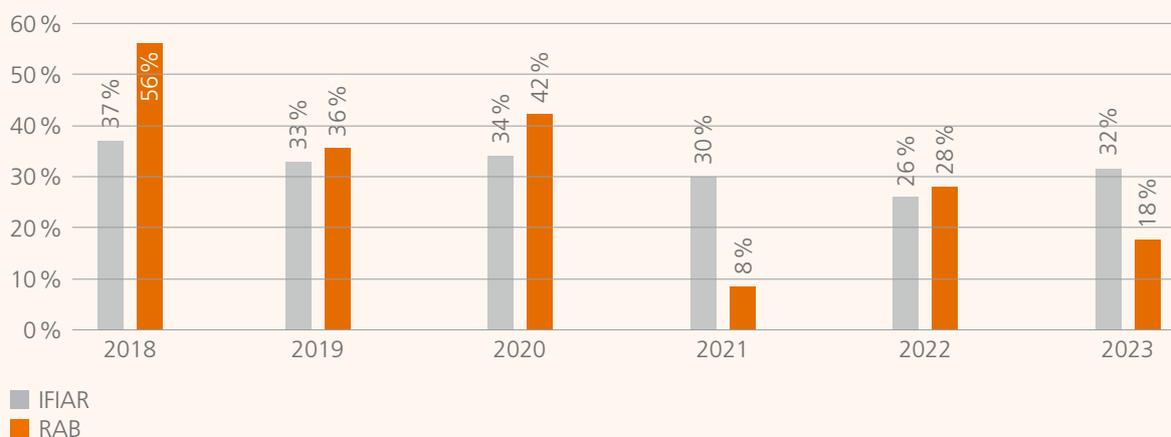
On 15 March 2023, the IFIAR published the results of its broad-based study of its member authorities on the inspection results from the six largest global audit networks (Fig. 10)^{20, 21}.

²⁰ BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative and PricewaterhouseCoopers International Limited.

²¹ www.ifiar.org > Activities > Inspection Survey > 2022 Survey of Inspection Findings.

Figure 10

Comparison of the number of files with at least one finding: IFIAR and FAOA



Based on the percentage of inspected PIEs with at least one finding for the engagement up to 2022, the IFIAR survey indicates a downward trend. However, this figure rose to 32% in 2023²². From IFIAR's point of view, this figure is still too high. The FAOA has observed a downward trend in this figure for the five largest audit firms (without clarifications).

According to the IFIAR survey, most deficiencies were made in accounting estimates, internal controls (ICS), adequacy of financial statement presentation and disclosure, revenue recognition, sampling and reporting. Fundamentally, the findings identified as part of FAOA File Reviews are the same as those recorded in the IFIAR survey.

Cooperation with stock exchanges

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

Cooperation with audit committees

Audit committees and the FAOA have a mutual interest in high-quality audit services. With respect to this, the FAOA was active in two areas:

- The FAOA continued its longstanding dialogue with the chairs of selected audit committees in 2023. In particular, it drew their attention to developments and trends in audit and audit oversight and took their questions and suggestions. Reasons of professional confidentiality prevent any items in the annual and consolidated financial statements of the issuer concerned or the audit quality of the auditing body involved from being addressed as part of this dialogue.
- On Swiss Board Day 2023, the Chief Executive Officer gave a talk on the topic «Trends and developments in auditing – implications for BoDs and audit committees».

Standard setting

Swiss Standards on Auditing (SA-CH)

The new Swiss Standards on Auditing (SA-CH) are applicable for audits of annual and consolidated financial statements ending on or after 15 December 2022²³. The SA-CH incor-

porate those standards for auditing financial statements made up of the ISA standards adopted by EXPERTsuisse with Swiss amendments (ISA-CH) and the independent Swiss Auditing Standards (PS-CH)²⁴.

The ISA-CH correspond with the status of the international ISAs in October 2018 – upon conclusion of the Auditor Reporting Project, the Disclosure Project, the NOCLAR Project and the revised ISA 540 (Revised). This means that, despite the update at the end of 2022, there are already gaps between the ISAs and SA-CH. These include quality management standards (ISQM 1, ISQM 2, ISA 220 (Revised)), ISA 315 (Revised) and ISA 600 (Revised). After consulting the FAOA, EXPERTsuisse is planning to transfer these standards to the digital version of the SA-CH as follows and to declare their application binding with effect from the time periods below:

- ISA 220 (Revised), ISA 315 (Revised) and ISA 600 (Revised) for audits of annual and consolidated financial statements commencing after 15 December 2024.

²² The FAOA was informed of the figure for 2023 prior to the publication of the «IFIAR Survey of Inspection Findings» 2023 report.

²³ The new PS-CH 290, which is based on the revised Art. 725, 725a-725c CO, is an exemption and thus applies from 1 January 2023.

²⁴ PS-CH 290, PS-CH 700 and PS-CH 890 for example.

- ISQM 1 and 2 for all ordinary audits of annual and consolidated financial statements commencing after 15 December 2025

The auditing standard developed by the IAASB for audits of financial statements of less complex entities (ISA for LCE) was published in December 2023 and is primarily expected to be applicable for audits of annual financial statements commencing on or after 15 December 2025. The FAOA is in discussions with EXPERTsuisse as to whether and, if required, where this standard has a meaningful scope of application within Swiss audit law.

International auditing standards

Together with IFIAR, the FAOA regularly submits comment letters on various IAASB and IESBA drafts. In 2023, comment letters were submitted to the IAASB regarding the drafts on the revision of ISA 500 (Audit Evidence), the revision of ISA 570 (Going Concern), the consultation document on the proposed strategy and the 2024 – 2027 work plan. In addition, the FAOA submitted comment letters to IESBA on its strategy and work plan proposals for the 2024-2027 period. All comment letters can be viewed on the FAOA's website.

In 2022, the IAASB published a revised version of the standard ISA 600 (Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)). This auditing standard applies to audits of consolidated financial statements relating to financial periods commencing on or after 15 December 2023. The FAOA recognised this standard on 13 December 2023 and, accordingly, amended the Circular 1/2008 with effect from 15 December 2023. The standard reinforces and expands the responsibility of group auditors in relation to planning, performing and monitoring an audit of consolidated financial statements, including inspecting the work of the component auditor. It also introduces additional documentation requirements to which group auditors must adhere. From now on, group auditors must

deploy a risk-based approach to determine the components in which the audit work is to be carried out, along with the type, time and scope of the component auditor's involvement.

In September 2023, the IESBA published a new version of its Code of Ethics²⁵. Specifically, the Code was updated to incorporate changes to terminology arising from the revised ISAs and ISQM 1 and 2. These concern, in particular, independence and the impacts of the change to the definition of the term «audit team». The revised provisions apply to audits of annual and consolidated financial statements commencing on or after 15 December 2023. Another consideration is that other revisions adopted by the IESBA will enter into force on 15 December 2024. These refer to the extension of the definition of a public interest entity (PIE), non-audit services provided by auditors of financial statements and the use of technology and data analysis for auditing financial statements.

In response to the amendments to the Code of Ethics, in October 2023 the IAASB also announced certain changes designed to increase the transparency of audit reports of auditors of financial statements (ISA 700 (Revised)) and with regard to communication with those charged with governance (ISA 260 (Revised)). These ISA changes provide a clear mechanism for implementing the new independence requirements and are applicable for audits of annual and consolidated financial statements for periods commencing on or after 15 December 2024.

Technological developments

Use of technology for audits of financial statements

The FAOA supports the continuous further development of audits of financial statements, including the enhanced integration of technologies in the audit process, provided this advances audit quality. The FAOA actively monitors the use of technology

for audits of financial statements, as the way in which technology is used determines how audits will be carried out today or in the future. The five largest audit firms are currently concentrating on how they can further develop their audit platforms and automated tools and techniques (ATT). The priorities here are improving user-friendliness for audit teams, automating and simplifying important audit procedures and developing standardised work flows.

As a member of the IFIAR Technology Task Force (TTF), the FAOA is also contributing to the international discussion on the impacts on audit quality of the use and further development of technologies by the six largest global networks of audit firms²⁶. The members of the IFIAR TTF are not currently encountering the use of artificial intelligence (AI) when reviewing audit services for listed companies. However, the six largest global audit firms are already investigating use cases for which AI could be integrated in the future as part of audits of financial statements.

AI is already being used for the purpose of traditional data analysis in particular. The technology allows large quantities of data to be processed quickly and efficiently. Thanks to machine learning, AI tools are able to recognise patterns faster and more reliably than before and adapt criteria to new circumstances. The quantity of data is not restricted. AI can improve analyses by processing unstructured data from various sources, such as by reading vouchers and other documents. AI is thus capable of accelerating automation within auditing and relieving auditors of time-consuming, manual routine processes.

On the other hand, it is vital not to lose sight of the risks associated with

²⁵ 2023 Edition of the Handbook of the International Code of Ethics for Professional Accountants (including International Independence Standards).

²⁶ BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative, PricewaterhouseCoopers International Limited.

AI. AI is a technology that brings additional ethical risks like discrimination and a lack of both transparency and responsibility, alongside typical information security risks associated with data processing and communication. As such, users of this technology cannot always recognise that documents, data and even chats are based on AI. In order to achieve high-quality audit results, it is important to ask the AI tool the correct questions and to give it the correct instructions («prompts»). In doing so, the user is required to ensure that the basis of the analysis is correct and complete. However, it may be difficult to evaluate the AI's database, that is, the data the AI used and still uses to learn. As a result, bias on the part of the AI tool cannot be ruled out. When using AI, it is also important to ensure that data protection, data security and copyright requirements are met. The FAOA expects audit firms to be capable of managing these risks and to correct and control automated routines carried out by AI tools.

Technical resources, information security and cybersecurity (ISQM 1)

For the five largest audit firms especially, IT environments were a particular focus during the 2023 financial year in relation to the implementation of ISQM 1. In this respect, the FAOA concentrated on those systems and applications that are used directly for the design, implementation or operation of quality management systems. With regard to this, ISQM 1 addresses the quality objective of creating or developing, implementing, maintaining and using suitable technological resources in order to support quality management systems and the performance of audits. Information security and data protection are at the forefront here. The FAOA assessed the design and implementation of quality objectives, including the associated quality risks and responses, at the five largest audit firms, identifying no findings in the process.

In 2024, the FAOA is planning, in particular, to evaluate the execution and monitoring of key controls in this

area. In doing so, special attention will also be paid to controls carried out by the network and the question as to how the IT quality requirements of Swiss audit firms can be ensured through a certification of global systems by the global audit network.

Points of focus for 2024 inspections

The FAOA has selected the following points of focus for the 2024 routine inspections of srAFs:

- Auditing the operational effectiveness of Quality Management systems according to ISQM 1
- Design and implementation of ISQM 2
- Quality management for an audit of financial statements (ISA 220 (Revised))
- Auditing accounting estimates and related disclosures in financial statements (ISA 540 (Revised))

The first three points of focus will be applicable or eligible for review for the first time for audits of financial reportings for the 2023 financial year. Moreover, audits of estimates especially require professional scepticism on the part of the auditor, as estimates based on fraud or errors involve an increased risk of material misstatements in the audited financial statement.

Regulatory Audit

2023 inspections

Eight regulatory audit firms were inspected in the reporting year. Five of them are subject to annual inspections (as they audit more than 50 PIEs) (Fig. 11).

The quality of regulatory audit services was inspected by means of File Reviews. Inspections are based on 23 regulatory audit files (twelve banks, seven collective investment scheme institutions, two insurance companies and two securities firms).

Figure 11
Overview of FAOA inspections and number of findings

Category	Five largest regulatory audit firms		Other		Total	
	2023	2022	2023	2022	2023	2022
Number of inspections	5	5	3	2	8	7
Comment form findings Regulatory audit Firm Review	2	2	3	2	5	4
Number of inspected files	20	9	3	2	23	11
Comment form findings Regulatory audit File Review	25	13	9	7	34	18

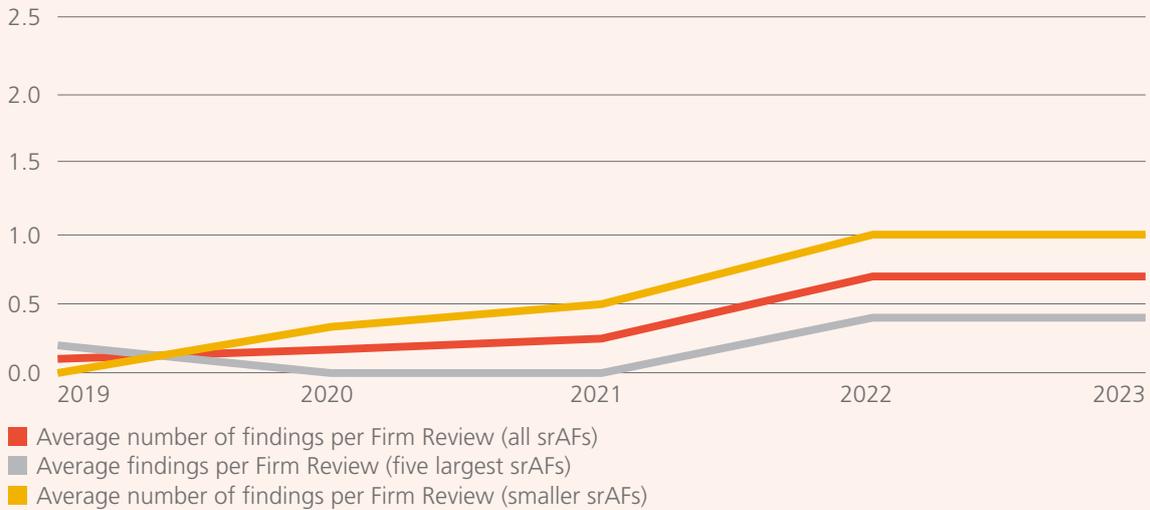
Firm Review

The number of findings per Firm Review average 1.0 for small regulatory audit firms and 0.4 for large regulatory audit firms (1.0 and 0.4 respectively in 2022) (Fig. 12). For both large and small regulatory audit

firms the trend is stable. Findings at Firm Level are hence more common at small regulatory audit firms than at the largest ones. This disparity between small and large firms has existed since 2020. The rise in comment form findings from 2022 to

2023 has been caused in particular by the fact that the FAOA has also addressed findings from the AMLA audit at firm level.

Figure 12
Trend in the average number of findings from the Firm Review since 2019



Combating money laundering at firm level

The FAOA has been identifying recurring deficiencies relating to AMLA audits for some years now. Although improvements have been observed in specific areas of the AMLA audit in the case of some regulatory audit firms over recent years, the FAOA continues to detect recurring deficiencies relating to individual aspects. These concern mainly the following points:

- Audits on customer information (Know Your Customer, KYC) continue to reveal deficiencies. The initial origin of assets and plausibility of inflows and outflows of funds in particular must be reviewed with a mindset. Contradictory information in customer profiles and corresponding clarifications provided by the inspected institutions were not questioned with a sufficiently high level of scrutiny. The documenta-

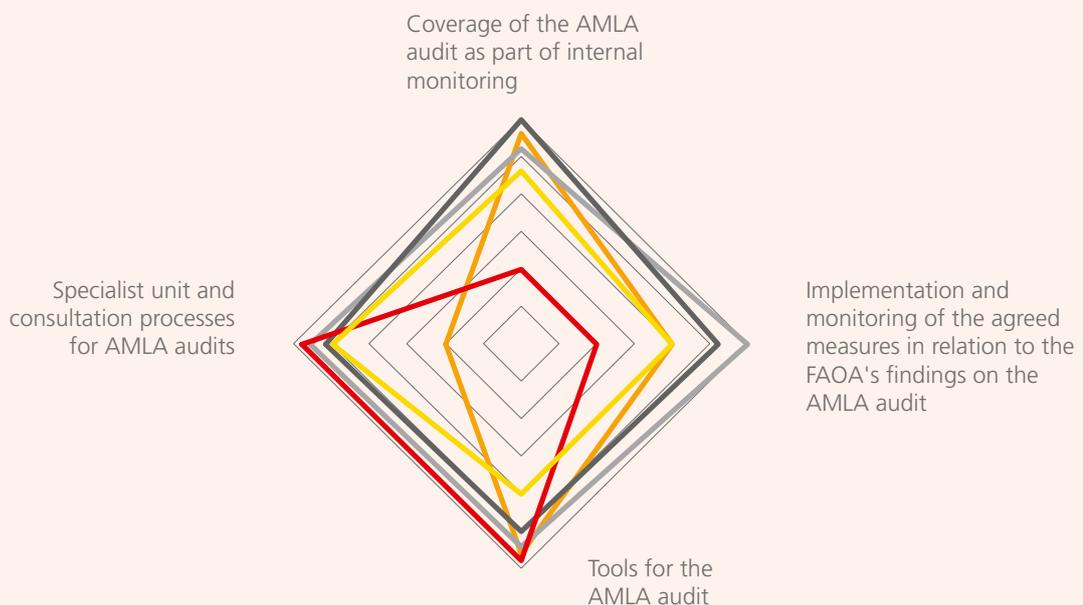
tion necessary for exercising due discretion in connection with the audit team’s related assessments was missing.

- In auditing customer information, coverage of sanctions and embargoes was insufficient in certain cases. This aspect is of particular importance in the current climate, as sanctions imposed by Switzerland and other countries can be very complex and far-reaching and change on a continuous basis.
- Numerous cases relate to sample selection that was not carried out in a risk-oriented way or was not done so sufficiently.
- With regard to crypto assets, deficiencies were identified in audits of the beneficial owners of wallets as well as in audits of the existence of assets from uncertain sources.

Due to the recurring findings mentioned, the FAOA carried out a survey at the five largest regulatory audit firms to gain a better understanding of the ways in which they organise AMLA audits (Fig. 13). This survey focused on bank engagements in the years 2015 to 2022 and covered the following elements in particular:

- Coverage as part of internal monitoring
- Implementation and monitoring of the agreed measures in relation to the FAOA’s findings
- Tools
- Specialist unit and consultation processes

Figure 13
Internal organisation of regulatory audit firms in the area of AMLA audits



In the case of one regulatory audit firm (—), the FAOA observed that the selection of the engagements for internal monitoring was primarily based on criteria for selecting financial auditing engagements. This is not

appropriate from the FAOA’s point of view. An engagement that is not deemed to be risky from a financial audit point of view could very well be seen as risky from a regulatory audit perspective. The engagement

selection process must also take into account certain specific risk criteria relating to the regulatory audit. Moreover, the FAOA determined that checklists used in internal monitoring mostly consisted of issues on general

auditing topics, meaning the points that were addressed during the internal review were not sufficiently risk-oriented and were not precise enough in covering the risks highlighted by the regulatory audit. The FAOA expects the aspects covered to better address the risks arising from the regulatory audit (e.g. by setting points of focus in the review).

In the case of another regulatory audit firm (—), AMLA specialists were not properly involved in the audit work (e.g. when auditing complex structures). With this regulatory audit firm, the process of allocating AMLA specialists was not carried out correctly. Furthermore, the AMLA consultation process was not set out in clear enough terms. It must also be stressed that AMLA audits require the

audit team to possess more seniority and expertise.

The weak spots detailed above were raised with the regulatory audit firms involved during their respective inspections and were remedied through suitable measures.

Interactions between the regulatory audit firms and FINMA

The interaction between the regulatory audit firms and FINMA is of pivotal importance for the orderly execution of the audit. The FAOA expects regulatory audit firms to be even more proactive in their communication with FINMA and to provide FINMA with high-quality information.

As far as the five largest regulatory audit firms are concerned, the FAOA

was particularly interested in the interaction between the regulatory audit firms and FINMA within the context of developing risk analyses and audit strategies (banking and securities firm engagements, supervisory categories 3 to 5, years 2020 to 2022). Regulatory audit firms submit their risk analyses and audit strategies to FINMA. FINMA has the power to approve audit strategies. However, for banks in the supervisory categories 1 and 2²⁷, FINMA sets out the audit strategy itself²⁸. The graphic below (Fig. 15) depicts the reasons why changes were made to audit strategies.

Figure 14

Reasons for the changes to banks' audit strategies required by FINMA (breakdown by regulatory audit firm)



Differing evaluations of risk were the most important reason for changes to audit strategies required by FINMA (32% on average, all regulatory audit firms taken together). These differences can be traced back to very specific risk elements, for example in connection with additional information available to FINMA. They do not concern the rules for determining risk as laid out in the standard audit strategy template. Only in rare cases were errors on the part of the regulatory audit firms cause for changes (14%

on average). The FAOA also examines this on a regular basis as part of its File Reviews. Furthermore, the FAOA noted that the regulatory audit firms deploy suitable resources for preparing risk analyses and audit strategies.

The cost factor often played a role (22% of cases on average). For institutions in supervisory category 3, the cost factor²⁹ reached as high as 42% on average, which is worrying if one considers the significance and complexity of these institutions. The

consequence may be an inappropriate level of risk coverage when auditing a bank.

The «other» reasons for making adjustments to audit strategies were diverse and concerned, for example, the performance of additional audits

²⁷ Internationally and/or nationally systematically important banks.

²⁸ Note 87 of FINMA Circular 13/3 «Auditing».

²⁹ Reduction of audit costs based on FINMA specifications in relation to the partial revision of the FINMA Circular 13/3 «Auditing» as of 1 January 2019.

ordered by FINMA, taking into account the appointment of audit officers or changes to wording that have no material impact on the audit strategy.

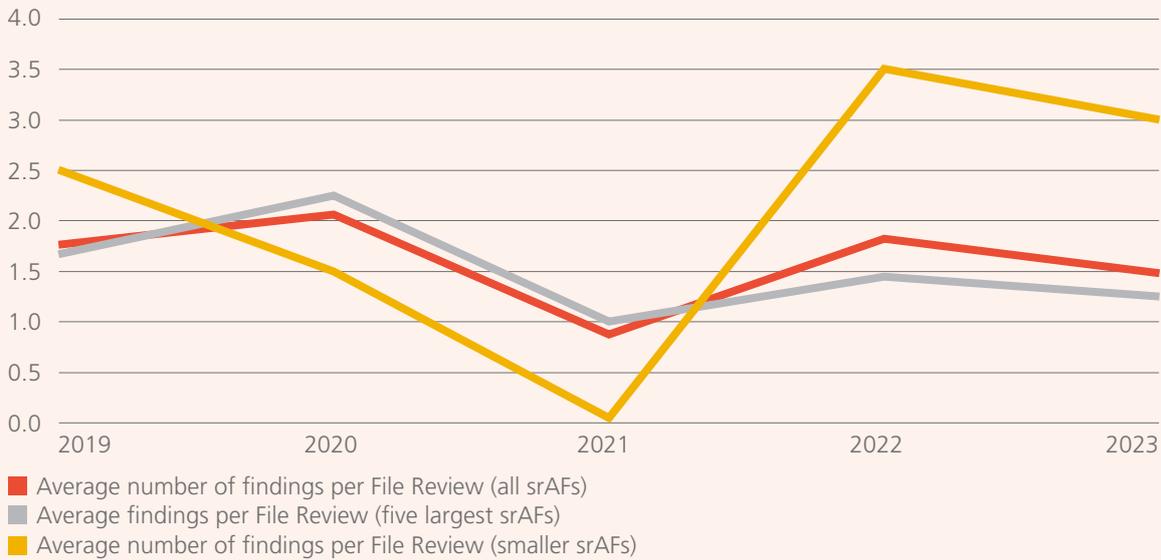
File Review

As with financial audit File Reviews, the quality of the regulatory audit depends heavily on those involved in the engagement. Specifically, the relevant expertise of these individuals and the composition of the audit team play a key role.

As part of its File Reviews, the FAOA identified a total of 25 findings (five largest srAFs). Individual measures for improvement were agreed with the regulatory audit firms to address these. The number of findings per file has dropped slightly overall (Fig. 15). In particular, following a sharp rise, the average has also now returned to a lower level for the smaller srAFs. This decline represents a positive development, especially considering that it was negatively impacted by one individual File Review, which included nine findings.

Figure 15

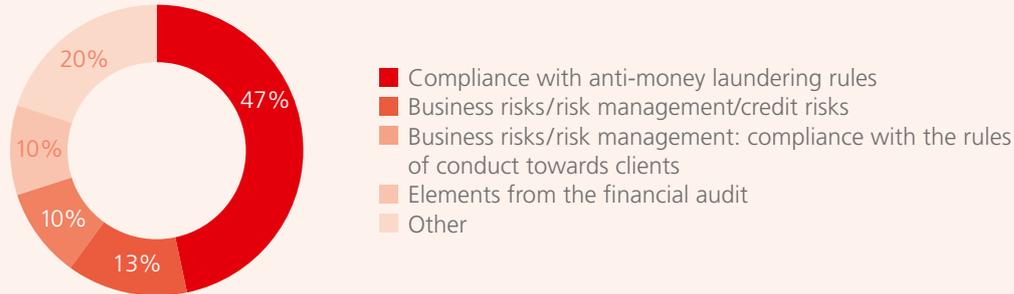
Trend in the average number of findings per file from the Regulatory Audit File Review since 2019



Overall, the number of inspections yielding no findings in the last few years reveals a pleasing trend (in terms of the percentage value).

The audit areas covered as part of inspected engagements depends heavily on the audit frequency agreed between FINMA and the regulatory audit firms as well as on the framework conditions that arise as a result of FINMA's auditing guidelines. In the 2023 financial year, the FAOA's findings were distributed across various audit areas (Fig. 16).

Figure 16
Findings by audit area

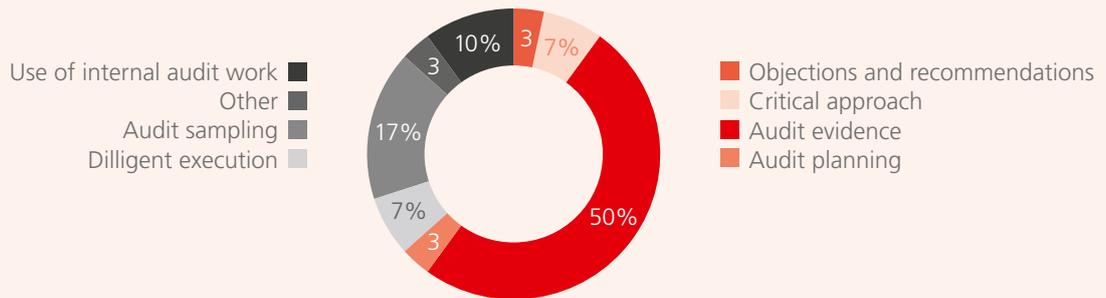


As before, the majority of deficiencies were identified in relation to audits of anti-money laundering requirements, not least due to the fact that this audit area is covered more intensively and has been a point of focus for FAOA inspections for years now. The proportion of AMLA findings is higher than in 2022 (24%) but significantly lower than in 2021 (79%). In 2023, the FAOA addressed this topic at Firm Level to a greater extent and, where required, measures were requested at Firm Level. This issue of AMLA has

once again been defined as a point of focus for FAOA inspections in 2024 in order to ensure that the impact of the measures can be evaluated at Firm Level. The FAOA is also planning to publish a supervisory notice on the same topic in 2024 with the aim of making current insights more transparent.

With regard to auditing standards, the findings can be categorised as follows (Fig. 17):

Figure 17
Findings by auditing standard



Findings were most commonly made in relation to audit evidence, followed by audit sampling deficiencies and findings concerning the use of internal audit work.

Use of new auditing technologies for the regulatory audit (data analytics)

The FAOA's surveys of regulatory audit firms have shown that the use of new auditing technologies for the regulatory audit (e.g. data analytics) is

practically non-existent and that such technologies are only used by selected banking institutions for AMLA audits in isolated cases. Reasons given include the high costs of developing the technologies, decreasing audit budgets due to intervention from FINMA and the lack of applicability outside of Switzerland.

Root cause analysis and measures

Root cause analysis and the defining of measures based on the FAOA's findings is often carried out according to the same methodology as with findings from internal quality assessment (internal monitoring). Here, the FAOA places great value on a robust process.

With respect to this, the FAOA has observed that root cause analysis does not exhibit the same quality and scope across all regulatory audit firms. Some regulatory audit firms continue to have a tendency to reduce findings to problems with documentation. However, causes often lie deeper and should be investigated further. A lack of documentation also means a lack of audit evidence («not documented, not done»). In the case of missing audit evidence, it cannot be assumed that the auditor has carried out sufficient and appropriate audit procedures. The consequence of this is that the proposed measures are partly incomplete and not precise enough. As a result, quite often the FAOA is required to clarify, reinforce and amend the proposed measures, for example by amplifying the internal EQCR's role and strengthening the internal quality assurance system and internal monitoring processes. The

causes of deficiencies are diverse. The following section focuses on recurring causes. For instance, the work of the internal audit was not relied upon in accordance with the relevant provisions³⁰. Here, for example, reviews of whether the internal audit fully covered the audit items to be confirmed or whether it carried out its audit procedures with professional scepticism and the necessary due diligence were not precise enough.

Spoken assertions from guarantors and employees and information, data and process descriptions presented by management of the audited company were not questioned critically enough and were not subject to sufficiently comprehensive analyses. One observation in individual cases was that the auditor-in-charge did not have enough of an influence on the audit. A prompt review would enable tricky points to be discovered at an early

stage and the corresponding audit evidence to be improved by the audit team in good time.

The lack of specialist expertise in applying regulatory audit provisions, failure to use specialists for audits of specific audit areas (e.g. sanctions or cryptocurrency auditing) and the lack of professional scepticism are other common causes. With regard to this, the FAOA also identified that findings arising from the audit were not included in the supervisory report to FINMA as objections or recommendations.

The most frequent measures associated with FAOA findings in 2023 are illustrated in the graphic below (Fig. 18).

Figure 18
Trend in measures



³⁰ FINMA Circular 13/3 Auditing and Swiss Audit Notice 70 (PH 70)

Audit programme design is another common cause of findings (e.g. lack of instructions for the audit team). Indeed, some regulatory audit firms were requested to amend their working paper templates and processes. In this context, it must be pointed out that FINMA's standard audit programme represents the minimum requirements only and it must be adapted to the relevant situation by the regulatory audit firms. Furthermore, the FINMA audit programmes do set out the audit items that must be reviewed; however, the auditors in each case remain responsible for determining the audit methodology for achieving the required audit objectives. Thus, it is important that regulatory audit firms incorporate their audit methodologies into their audit programmes. With respect to this, it is fundamental that audit teams increase their interactions with FINMA in order to clarify and take note of FINMA's expectations. In carrying out its inspections, the FAOA identified some auditing deficiencies that can be attributed to a lack of communication with FINMA.

Preliminary fact-finding and proceedings

Alongside routine inspections, event-driven preliminary fact-finding and proceedings are also conducted at srAFs. Both credible third-party notifications and notifications from FINMA are taken into account in the process. During the reporting year, corresponding clarifications were initiated in response to seven notifications.

Cooperation with FINMA

Through its close cooperation with FINMA, the FAOA creates transparency vis-à-vis FINMA and supports it in carrying out its supervisory activities. The regular interaction also serves to

keep administrative effort as low as possible for both authorities and for the regulatory audit firms. Beyond this, the FAOA informs FINMA about the results of its Firm and File Reviews from its inspection activities at the regulatory audit firms.

Points of focus for 2024 inspections

The FAOA has selected the following points of focus for the 2024 routine inspections of regulatory audit firms:

- Audit of IT (including outsourcing and cyber risks)
- Audit of risk management: credit risks
- Audit of compliance with the provisions of the Federal Act on Combating Money Laundering and Terrorist Financing (AMLA)

Issues surrounding IT (including cyber risks) and outsourcing, which is a consideration in many cases, are important components of financial institutions operating in a highly technology-driven environment. In terms of possible upheavals in the credit and financial markets (e.g. mortgage and Lombard loan business), a well-developed risk management system and the auditing of such a system are key and together form an important building block of regulatory auditing. With regard to various sanctions (e.g. Russia, Syria, Libya) and their implementation by financial intermediaries, the issue of combating money laundering is still present in national and international financial markets.

International

General

The reporting year was characterised by a considerable increase in administrative assistance cases³¹, compared to the previous year. Cooperation with foreign partner authorities, particularly in the USA, remains important (see below).

Extra-territorial scope of the AOA

In light of the internationalisation of financial markets and the companies being audited, and in accordance with the relevant foreign legislation, the AOA also has extra-territorial effect in order to protect investors on the Swiss capital market. Foreign audit firms are hence subject to the oversight of the FAOA if they audit annual and consolidated financial statements for foreign companies whose equity securities and/or bonds are listed on a Swiss stock exchange (Art. 8 AOA).

However, in order to avoid oversight from multiple parties, exemptions from the licensing obligation and the direct oversight of the FAOA are provided for when it comes to these foreign audit firms. These exemptions are listed in Art. 8 para. 2 and 3 AOA and enshrine the principle of oversight in a company's home country. Consequently, oversight of foreign audit firms is delegated to the country in which the company is headquartered. This applies if the authority of this country has been recognised as an equivalent audit oversight authority by the Federal Council.

Relations with the European Union

The FAOA works with the Member States of the European Union (EU), both bilaterally on the basis of a Memorandum of Understanding (MoU) concluded with the various countries, and multilaterally as part of international bodies and organisations such as the «Committee of European Audit Oversight Bodies»

(CEAOB) and IFIAR (more under «Multilateral organisations»).

Relations with the United Kingdom

The United Kingdom of Great Britain and Northern Ireland (UK) left the EU with effect from 1 January 2021. Since then, the Agreement on the Free Movement of Persons of 21 June 1999 between Switzerland and the EU is no longer applicable in relation to the UK, and the necessary reciprocity for governing mutual licensing on that basis no longer in place. As a result, it was no longer possible for individuals with an equivalent UK qualification to be licensed as an audit expert or auditor in Switzerland.

The FAOA and the British audit oversight authority (Financial Reporting Council (FRC)) made official declarations regarding mutual licensing on 8 December 2023, making provisions for individuals licensed as audit experts in Switzerland and who have obtained a qualification as certified public accountants (CPA) to be recognised as holding equivalent certification in the UK and to be registered as a statutory auditor with an accredited professional association. This decision to recognise each country's respective qualifications as equivalent is the foundation for substantive reciprocity whereby individuals registered as statutory auditors with an accredited professional association in the UK can again be licensed in Switzerland as audit experts. Both authorities have exchanged their respective reciprocal rights declarations by way of an exchange of letters³². In accordance with this, auditors from the UK can once again be licensed as audit experts in Switzerland with immediate effect.

The FRC has informed the FAOA that it has commenced a further equivalence assessment focusing on Swiss professional practice with the aim of also recognising Swiss professional practice alongside practices from Germany, Ireland, Luxembourg and

the Netherlands. In future this would mean that it might become possible to complete training modules in the UK with an accredited professional association and subsequently obtain a licence as a statutory auditor based on Swiss professional practice experience/without gaining the relevant practical experience in the UK.

Cooperation with the USA

This year, the FAOA and the Public Company Accounting Oversight Board (PCAOB) commenced the fifth round of joint cross-border inspections (joint inspections). Two Swiss audit firms registered with the PCAOB were subject to such a joint inspection in the reporting year. Cooperation is based on the Statement of Protocol (SoP; equivalent to an MoU) that was originally signed by the FAOA, FINMA and the PCAOB in 2011 and extended between just the FAOA and the PCAOB in 2014.

The cooperation between the FAOA and the PCAOB with regard to joint cross-border inspections as well the exchange of confidential information continues to be efficient.

Relations with other states and organisations

Multilateral organisations

IFIAR

The IFIAR's annual plenary meeting took place from 25 to 27 April 2023. This was the first time it had been held in person since the beginning of the COVID-19 pandemic. The meeting was held in Washington and hosted representatives of audit oversight authorities from 44 member states. At the heart of the discussions were issues such as the development of

³¹ In 2022, the FAOA received ten administrative assistance requests (2022: eight), ten of which were received from supervisory authorities in Europe and 16 from North American authorities.

³² Cf. the relevant FAQ and exchange of letters on the FAOA's website (available at: www.rab-asr.ch/#/page/101/1403).

audit quality, new requirements relating to sustainability reporting and auditing and the attractiveness of the profession.

During the reporting year, the FAOA took part in the activities of the following IFIAR working groups on a continual basis:

- Enforcement Working Group (EWG): This working group promotes the exchange of experiences between authorities in connection with investigation and sanction procedures in the event that auditors or audit firms breach the standards. In the reporting year, the EWG held a workshop in London.
- Global Audit Quality Working Group (GAQWG): This working group maintains dialogues between the six largest international audit networks. The reporting year saw three in-person meetings take place in order to discuss the current state of various projects designed to improve audit quality on a global scale.
- Technology Taskforce (TTF): The TTF maintains dialogue with the six largest international audit networks with regard to the use of technological resources for auditing. To this end, the taskforce is in regular discussion with the networks.

The FAOA continues to serve on the IFIAR Board of Directors. In September, the FAOA organised a two-day board meeting in Zurich, followed by a three-day meeting of the GAQWG.

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 Inspection Sub-group (CEAOB ISG) since 2016. This group is responsible for the exchange of information and the cooperation of the members in connection with inspections. It also aims to improve communication between members and audit firms. The FAOA took part in two ISG meetings as an observer during the reporting year.

UN

In 2009, Switzerland ratified the United Nations Convention against Corruption (UNCAC). Consequently, it is subject to a peer review mechanism for verifying the implementation of the Convention. As part of the second round of this verification process, Switzerland welcomed the responsible evaluators from Bangladesh and Sweden in 2022. The evaluators' draft report was presented to Switzerland for comment in the reporting year; the FAOA also contributed to this work.

Licensing

Statistics

In 2023, the third wave of licence renewal applications for audit firms, whose licences are limited to a five-year period, began. A portion of licensed audit firms renounced their

licence as renewal was due. For this reason, a minor decrease in the number of licensed audit firms can be observed (Fig. 19). This trend is set to continue in 2024 when around of the licensed audit firms will be required to renew their licence. It is likely that

this will lead to a further reduction in licensed audit firms.

Figure 19
Licensed individuals and audit firms³³

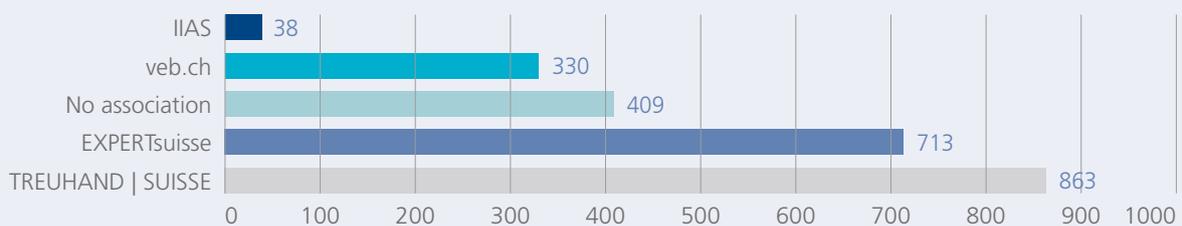
Licence type	Auditor	Audit expert	Total as at 31.12.2023	Total as at 31.12.2022
Individuals	2,516	7,273	9,789	9,554
Audit firms	550	1,355	1,905	1,978
State-regulated audit firms	–	19	19	20
Foreign state-regulated audit firms	–	2	2	2
Total licences	3,066	8,649	11,715	11,554

In the case of private individuals, the reporting year saw a small increase in the number of newly licensed individuals.

Licensed audit firms and private individuals have the option of declaring their existing membership(s) of professional associations in the FAOA's

public register. In this respect, members of a professional association are deemed to be full members³⁴ who meet the professional association's requirements in full. As such, passive memberships of professional associations are not declared in the FAOA's public register.

Figure 20
Professional association memberships³⁵ of licensed audit firms

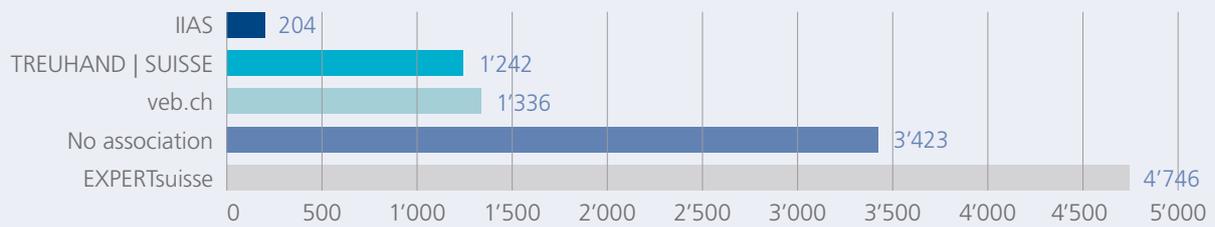


Compared to the previous year, the number of professional association memberships of audit firms decreased slightly in actual terms in the reporting year (Fig. 20). Numerous audit firms belong to multiple professional associations. As at the end of 2023, 26 audit firms were members of three professional associations, 360 of two associations and 1,131

of one association. Some 409 of all licensed audit firms were not members of any professional association, which corresponds to around 21% (previous year: 22%).

³³ All figures refer to legally binding completed proceedings. Pending appeals have not been included.
³⁴ Full members are deemed to be individual expert members and member firms of EXPERTsuisse or individual members and member firms of Treuhand | Suisse.
³⁵ Including multiple answers from individual audit firms with multiple professional association memberships.

Figure 21
Professional association memberships³⁶ of licensed individuals



There was a minor increase in actual terms in professional association memberships of individuals compared to the previous year (Fig. 21). As at the end of 2023, a total of 109 individuals were simultaneously members of three professional associations, 940 of two associations and 5,317 of one association. Some 3,423 individuals

were not members of any professional association (35%).

With a decrease of three audit firms, the number of audit firms with ordinary audit engagements remained largely stable compared to the previous year (Fig. 22). Only 36% of audit firms that are, in principle, permitted

to carry out ordinary audits actually exercised their right to provide ordinary audit services. This does not take into account any selective audit services or those carried out under special legal requirements that require an audit expert licence.

Figure 22
Frequency of ordinary audits³⁷

Number of audit firms	2023	2022
1 to 5 ordinary audits	321	327
6 to 10 ordinary audits	74	72
11 or more ordinary audits	95	94
Total number of audit firms performing ordinary audits	490	493

Around 5.9% of the audit firms licensed by the FAOA do not have any audit engagements.

Figure 23
Frequency of limited audits³⁸

Number of audit firms	2023	2022
1 to 10 limited audits	564	601
11 to 20 limited audits	364	380
21 or more limited audits	880	898
Total number of audit firms performing limited audits	1,808	1,879

³⁶ Including multiple answers from individuals with multiple professional association memberships.

³⁷ Information based on audit firm self-declarations.

³⁸ Information based on audit firm self-declarations.

The number of audit firms with limited audit engagements fell by 71 compared to the previous year (Fig. 23).

In terms of the total number of limited and ordinary audits carried out by the audit firms, as in the previous year the number of engagements

was once again relatively stable (Fig. 24). Nevertheless, a minor trend can be observed to the effect that, for the srAFs, the number of audit engagements performed increased slightly, whereas for the other licensed audit firms, the number of engagements decreased.

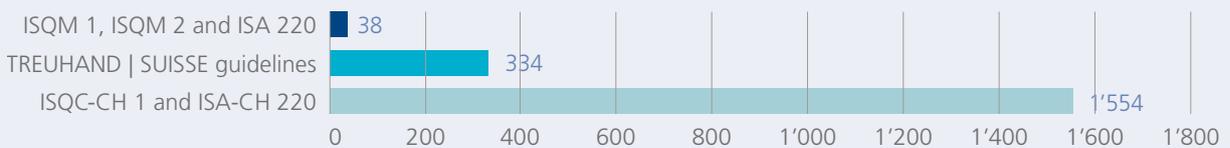
Figure 24
Total number of limited (LA) and ordinary (OA) audits³⁹

Licence type	LAs	OAs	2023	2022
State-regulated audit firms	15,629	8,433	24,062	23,797
Other licensed audit firms	65,067	3,011	68,078	68,852
Total audits performed	80,696	11,444	92,140	92,649

Only minor changes in actual terms can be observed across all three QA standards adopted (Fig. 25). This can also be traced back to the slight reduction in the number of licensed audit firms. However, with the change from ISQC 1 and ISA 220 to ISQM 1, ISQM 2 and ISA 220, a reduction of around 42% in the number of international QA standards applied can be

observed compared to the previous year. The implementation of these new QA standards requires more in-depth engagement with the quality objectives, the associated risks and the corresponding measures. It is possible that this was too much effort for some audit firms that do not operate globally or only apply the new standard on a voluntary basis.

Figure 25
Internal quality assurance standard applied⁴⁰



The number of auditors-in-charge who have one or more special licences for regulatory audits (Art. 9a AOA) has been stable for a number of years (Fig. 26).

³⁹ Information based on audit firm self-declarations.

⁴⁰ Only the highest QA standard was taken into account when audit firms declared several QA standards.

Figure 26

Regulatory auditors-in-charge by special licence type

Licence type	Total regulatory auditors-in-charge as at 31.12.2023	Total regulatory auditors-in-charge as at 31.12.2022
Audits under BankA, FMIA, FinIA ⁴¹ and MBA	111	111
Audits under CISA ⁴²	69	67
Audits under InsSA	39	40
Audits under Art. 1b BankA (fintechs)	25	26
Total licences	244	244

The total of 244 special licences are held by 186 auditors-in-charge, some of whom have multiple special licences.

Figure 27

Regulatory audit firms by special licence type

Licence type	Total regulatory audit firms as at 31.12.2023	Total regulatory audit firms as at 31.12.2022
Audits under BankA, FMIA, FinIA and MBA	8	8
Audits under CISA	10	10
Audits under InsSA	7	7
Audits under Art. 1b BankA (fintechs)	9	9
Total licences	34	34

The number of special licences held by sRAFs for regulatory audits has also been extremely stable for some years now (Fig. 27). The total of 34 special licences are distributed amongst eleven different sRAFs that generally also hold multiple special licences.

As mentioned above, Ernst & Young AG audits all financial institutions belonging to FINMA supervisory categories 1 and 2 without exception. In terms of the market (risk concentration) and from the perspective of knowledge concentration, this is not an ideal situation.

As of 1 January 2024, auditors-in-charge and regulatory audit firms can also apply for an OASI special

licence in addition to the other special licences that have existed for years. The licence was previously issued by the Federal Social Insurance Office (FSIO), which continues to be responsible for the oversight of audits of OASI offices. Audit firms and individuals that currently hold a FSIO licence will retain their licence for a transition period of two years. During the period, the individuals and legal entities concerned must submit an application to the FAOA to continue their licence as an OASI auditor or OASI audit firm. Upon conclusion of this two-year transition period, only individuals and firms to which the FAOA has issued the relevant licence are permitted to offer and provide OASI audit services.

⁴¹ The «FinIA» category includes securities firms in accordance with Art. 2 para. 1 letter e FinIA (previously «securities traders»).

⁴² 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

In the reporting year, a total of 177 audit firms were able to have their licences renewed without any gaps. In the case of six audit firms, their licences expired due to missing documents

or considerable deficiencies in the application; their licences could subsequently be reissued once the licence requirements had been met (Fig. 28).

Figure 28
Number of licence renewals granted in 2023

Licence type	Auditor	Audit expert	Total 2023	Total 2022
Total licence renewals	39	144	183	74

A total of 59 audit firms chose not to continue their licence either voluntarily or because they did not submit their licence renewal application.

In 2024, the licences of almost half of the just under 2,000 licensed audit firms will be due for renewal. Therefore, successfully managing the applications represents a challenge for the FAOA. The FAOA recommends that the companies concerned submit their documents on time in order to avoid the risk of licensing gaps.

Survey on the FAOA customer portal

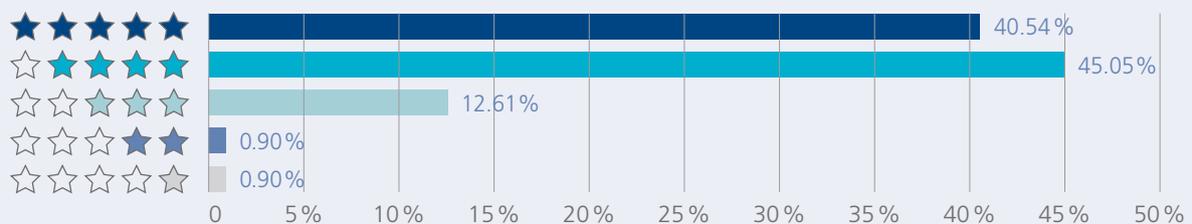
In June 2018, the FAOA launched a new software specifically designed to process licences. In August 2023, following five years of operation and constant further development of the software, the FAOA started a survey aimed at customers who had used the FAOA customer portal in the last few months.

In total, 697 customers (381 individuals and 316 audit firms) were contacted to take part in the survey by way of a mass e-mail. Some 111 customers took part in the electronic survey altogether, providing the FAOA with their

feedback. This equals a response rate of around 16%. Of those who took part in the survey, 76 individuals were from the German-speaking region of Switzerland, 24 were from the French-speaking region and 11 were from the Italian-speaking region.

The FAOA was aiming to find out whether customers found the customer portal useful and beneficial. This was addressed in the survey with four questions. Participants could, on the one hand, assess certain criteria on a scale of one to five and, on the other, justify their answers and hence share nuanced feedback with the FAOA. The participants rated the four questions as follows:

Figure 29
Is the personal customer portal well and clearly organised?

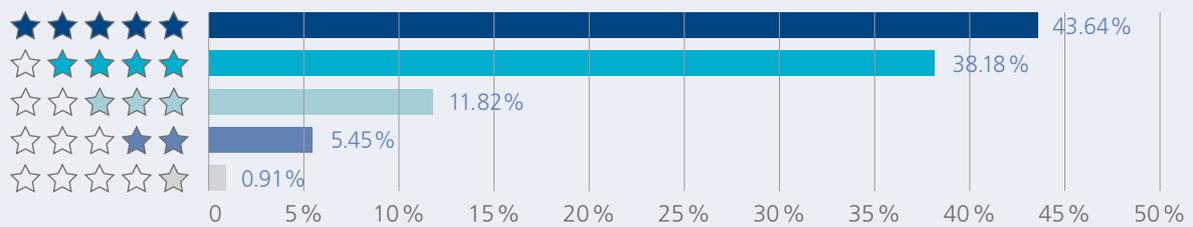


Altogether, on a scale of 1 to 5 stars, over 95% of survey participants rated the design of the customer portal positively or very positively (rating of 4 or 5 stars). Less than 2% of participants were not satisfied with the design and responded to this question with 1 star or 2 stars. The average rating was only slightly lower in French-

(4.17 stars) and Italian-speaking Switzerland (4.09) than in German-speaking Switzerland (4.28 stars). Across all survey participants, the average was 4.24, which is a very satisfactory outcome.

Figure 30

Is the navigation in the personal customer portal intuitive?

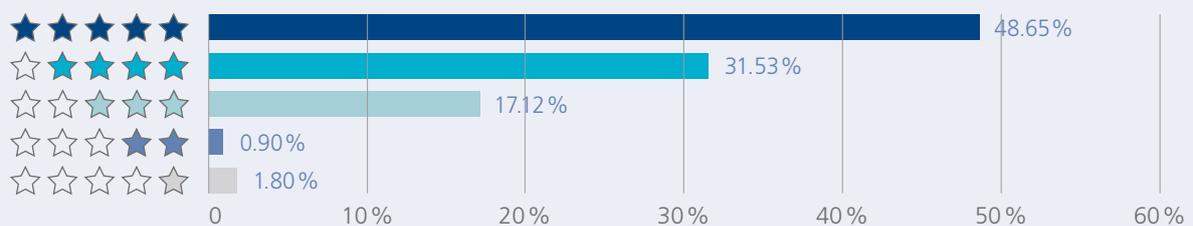


Users felt that navigating the customer portal was intuitive. Over 43% responded to this question with the maximum rating of 5 stars. The number of people who were not satisfied with the customer portal's navigation (rating of 1 to 2 stars) represented less than 7%. With an average rating of 4.0 stars (French-speaking Switzerland)

and 4.09 stars (Italian-speaking Switzerland), navigation was assessed slightly less favourably in the French- and Italian-speaking regions than in German-speaking Switzerland, where the average figure was 4.25 stars. Overall, the average rating was 4.18 stars, which can also be regarded as highly satisfactory.

Figure 31

Could all functionalities in the personal customer portal be used as desired?

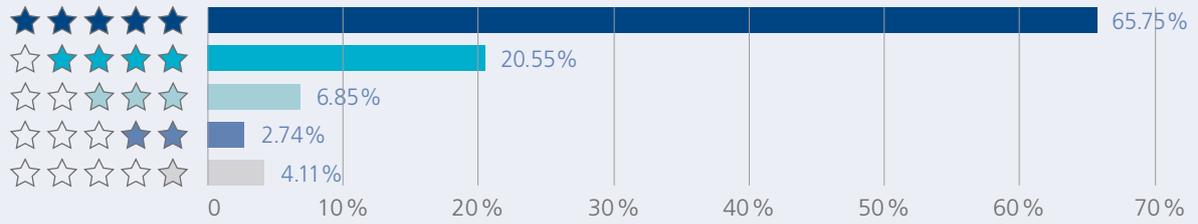


Nearly 50% of users responded to this question with the maximum rating of 5 stars. At the same time, at 2.7%, the number of those expressing dissatisfaction (a rating of 1 to 2 stars) was very low. Once again, contentment was highest in the German-speaking region of Switzerland

with an average rating of 4.35 stars. However, the results from French- (4.0 stars) and Italian-speaking Switzerland (4.09) were also positive. At 4.25 stars, the average rating for functionality across all language regions was high.

Figure 32

If problems occurred: did you receive the support you needed from the FAOA staff?



Around two-thirds of survey participants were fully satisfied with the assistance they received. The high total average rating of 4.41 stars was slightly exceeded in German-speaking Switzerland, which produced an average of 4.5 stars. Conversely, in French- (4.32 stars) and Italian-speaking (4.2 stars) Switzerland, the approval rating was slightly lower.

With a total of 111 participants, the survey only reached a small portion of the roughly 11,700 individuals and audit firms holding FAOA licences.

Nevertheless, the results are a good indicator since they were consistently very positive. Across all language regions, all questions were given an average rating of 4 stars or higher on a scale of 1 to 5 stars. One particularly positive outcome is that, even though customers sometimes faced problems when using the customer portal, they rated the support they received from staff in the licensing department as positive. Correspondingly, with an average of 4.41 stars, customer satisfaction is high, reflecting a high service level.

Enforcement and court rulings

Introduction

In the year just gone, the FAOA revised its Enforcement Policy from 2016 and re-published it on its website (cf. the nine principles in Fig. 33). With these principles, the FAOA establishes yet more transparency vis-à-vis the financial audit and regulatory audit sec-

tors as well as interested parties with regard to the principles by which it implements enforcement action⁴³. In comparison to the first version of the policy, the individual principles have been set out in more detailed terms. The FAOA also establishes transparency regarding its enforcement operations by publishing legally binding

court rulings on its website. These are anonymised in line with regulations applicable to the courts. As well as this, the FAOA provides anonymised information on all first instance enforcement proceedings completed on its website by publishing the subject matter of the proceedings and the measure ordered.

Figure 33

Overview of the enforcement principles

Principle 1	Coercive means	The FAOA enforces applicable law by coercive means where necessary.
Principle 2	Sound judgement	The FAOA weighs up all significant facts carefully and considers possible alternative actions before opening proceedings.
Principle 3	Information sources	Enforcement proceedings are in particular based on relevant indications arising from licensing procedures, inspections, other enforcement proceedings concerning the same or similar matters, reports from licensed individuals and firms or other authorities, media reports or notifications by other third parties (whistleblowing).
Principle 4	Fast and focused proceedings	The FAOA conducts its proceedings expeditiously and resolutely and strives for first instance completion of proceedings within twelve months of opening them in principle.
Principle 5	Fair and transparent proceedings	The FAOA conducts its proceedings in strict compliance with the principle of procedural fairness and statutory procedural rights.
Principle 6	Parties to proceedings	Enforcement proceedings are directed primarily against licence holders, individuals who work for audit firms under state oversight and individuals and firms that provide statutory audit services without a licence.
Principle 7	Internal organisation	Within the FAOA, those responsible for the ongoing supervision of audit firms under state oversight are, wherever possible, not the same as those responsible for enforcement proceedings against them.
Principle 8	Cooperation with other authorities	The approach of the FAOA and the prosecuting authorities is coordinated as far as possible and necessary. Within the legal framework, the FAOA cooperates with other domestic authorities and foreign audit oversight authorities.
Principle 9	Cautious communication	The FAOA only provides information to the public on individual proceedings in the event of overwhelming public or private interest. However, it publishes legally binding court rulings on its website and provides information, in anonymised form, on first instance enforcement proceedings completed by publishing the subject matter of the proceedings and the measure ordered.

⁴³ The Enforcement Policy is available in all official languages and English on the FAOA's website at <https://www.rab-asr.ch/#/page/135>.

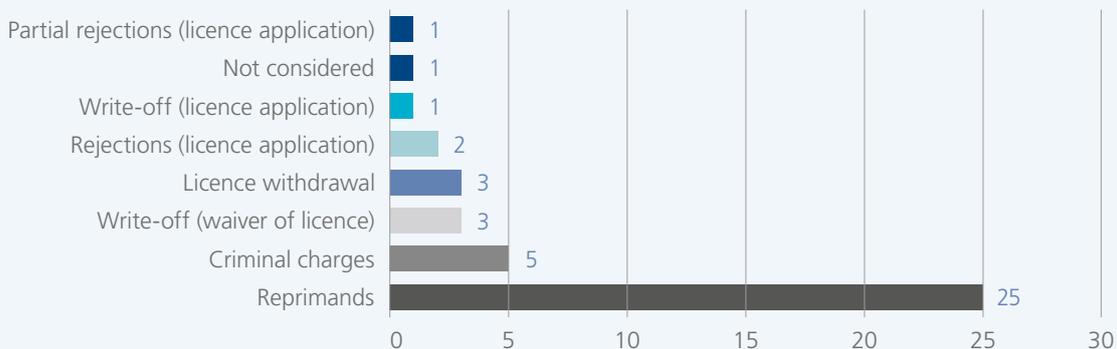
Enforcement

A total of two licence applications were rejected in the reporting year (previous year: five). In one case, the audit expert application was rejected and, instead, an auditor licence was issued (previous year: none). In another case, the FAOA did not consider a licence application. Furthermore,

three licences were withdrawn (previous year: two) and 25 written reprimands (previous year: 45) were issued (Fig. 34). Three individuals withdrew their licence during ongoing withdrawal proceedings (previous year: none). In 2023, the FAOA filed five criminal charges on suspicion of providing audit services without a licence (previous year: two). Additionally, one

licensing procedure was written off due to the application being withdrawn (previous year: two) and five enforcement procedures were abandoned on the grounds that the reprimand or licence withdrawal would not have been justified on the basis of the final overall evaluation, in particular newly submitted evidence (previous year: two).

Figure 34
Number of enforcement orders and criminal charges in 2023



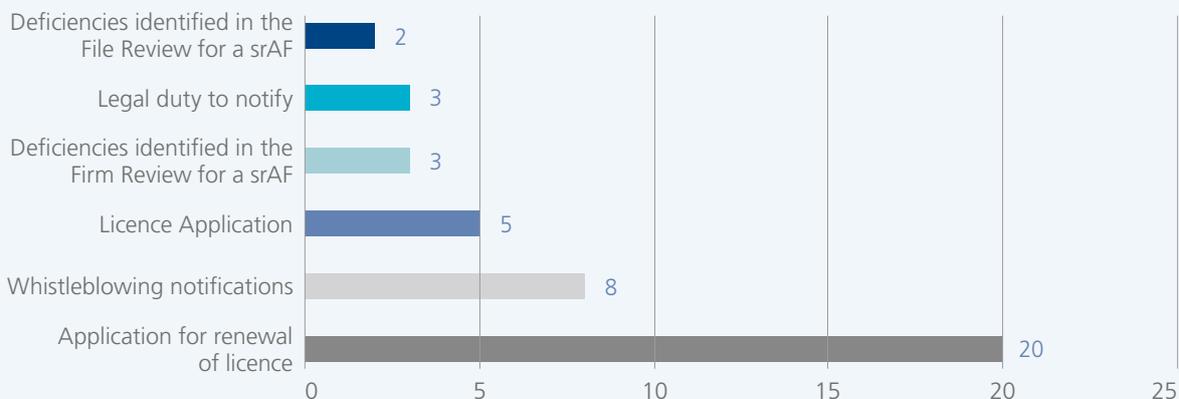
The graphic below illustrates the sources of the notifications that led to enforcement proceedings (Fig. 35)

In December 2023, the FAOA launched an external whistleblowing

platform. The platform allows users to submit notifications anonymously⁴⁴. Data is shared with the FAOA in encrypted form via the secure external platform. It is not possible to technically trace reports. Those submitting

reports can also set up a protected mailbox on the external platform. This allows users to communicate with the FAOA, anonymously if required.

Figure 35
Overview of the source of notifications for enforcement proceedings in 2023



⁴⁴ The whistleblowing system Integrity Line from the provider EQS Group AG is available at: <https://rab-asr.integrityline.io>. More information on whistleblowing can be found at: www.rab-asr.ch/#/page/52.

Court rulings

In 2023, the Federal Administrative Court (FAC) made six rulings on FAOA decisions. In four cases, the appeals of the complainants were rejected, with two complainants taking their case to the Federal Supreme Court. In one case, the FAC partially upheld the appeal, whilst, in another case, it did not consider the appeal⁴⁵. In 2023, the Federal Supreme Court (FSC) made two rulings on FAOA decisions. In the first case, it dismissed an appeal against a rejection decision by the FAC. In the second case, it overturned an FAC ruling on procedural grounds without reference to the FAOA and referred the case back to the FAC for reassessment. The most important deliberations are summarised below:

[FAC Ruling No. B-2245/2021 of 27 January 2023](#)

The FAC partially upheld an appeal against an order by the FAOA. The complainant had audited an ordinary capital increase during which the existence of the (fictitious) bank that had provided the relevant security had not been sufficiently audited. The audit work concerning the existence and solvency of the issuer of the bank guarantee was insufficient and the conclusions presented in the audit report could not be substantiated. In light of this severe breach of her due diligence obligation, the FAOA withdrew the complainant's licence for a period of three years. The FAC confirmed the breaches of the duty of due diligence as identified; however, due to the singularity of the deficiencies, it formed the opinion that a licence withdrawal for three years was disproportionate and reduced the withdrawal period to two years. The ruling is legally binding.

[FAC Ruling No. B-4563/2021 of 29 March 2023](#)

The FAC dismissed an appeal against the FAOA's decision to reject an application. The applicant had a Bachelor of Arts in International Affairs from the University of St. Gallen (HSG). As this programme of study is geared towards international relations and

is categorised as a political science course by Swiss universities, in the FAOA's view the qualification cannot be viewed as a business management, economics or law degree course. The classification of the subjects taken (as the degree course comprised modules) into the three legally required training areas revealed that the actual training only encompassed 28.8% of subjects that can be assigned to the discipline of business management (a further 18.3% to economics and 8.3% to law). According to the FAC, the acquisition of sufficient knowledge in one of the three disciplines requires, as a minimum, that the mandatory subjects stipulated in the teaching plans of the relevant study programme be completed. The bachelor's course «Major in International Affairs» is to a large extent a combination of other majors offered by the University of St. Gallen. In the FAC's view, during the course of his education the complainant had certainly acquired certain knowledge in each of the areas listed in Art. 4 para. 2 letter c AOA. However, he could not prove that he had acquired the required broad, in-depth knowledge in at least one of the subject areas. The ruling is legally binding.

[FAC Ruling No. B-424/2022 of 9 May 2023 and B-433/2022 of 10 May 2023](#)

The FAC dismissed appeals against two rejection rulings (identical in content) by the FAOA. Both complainants held US university degrees and were qualified in the US as Certified Public Accountants (US CPA). In May 2020, they also successfully completed two examinations with the Institute of Chartered Accountants of Scotland (ICAS) and were exempted from the rest of the examinations required for acceptance into the professional association as their US education was recognised. Neither, however, were entered into the UK register of statutory auditors. After the FAOA had left the question as to whether the Agreement on the Free Movement of Persons (AFMP) between Switzerland and the EU should still apply to the two cases as a basis for reciprocal

rights following the UK's withdrawal from the EU open, the FAC formed the opinion that, in this context, it is the time at which the rejection decision was made that is relevant and not the time at which the application was submitted. The AFMP was therefore no longer applicable in relation to the UK at the time of the disputed orders. Moreover, the FAOA expressly informed the complainants that the AFMP was only valid until 31 December 2020. The FAC also confirmed that the FAOA was justified in rejecting the two applications in view of substantive reciprocal rights as the training the complainants completed in the UK cannot be regarded as equivalent within the meaning of Art. 4 para. 2 letter d AOA. Hence, the complainants did not hold any qualifications that authorised them to perform professional audit duties in their country of origin that would enable them to work as statutory auditors of financial statements in the country in which they completed their training.

[FSC Ruling No. 2C_76/2023 of 14 November 2023](#)

The FSC rejected the appeal against FAC Ruling No. [B-1640/2021](#) of 19 December 2022, which had confirmed the first instance order of the FAOA for a three-year withdrawal of an audit expert's licence on the basis of breaches of his duty of due diligence during five formation audits (inclusion of works of art in the total purported value of CHF 165 million). The complainant had issued the audit confirmations for the formations of non-cash contribution even though the audit of the legal requirements was neither carried out nor documented in accordance with the law in any of the formations. He had also neglected to document the audit planning process («not documented, not done»).

[FSC Ruling No. 2C_384/2022 of 14 November 2023](#)

The FSC overruled the FAC ruling of 21 March 2022, which reduced the duration of the licence withdrawal of an audit expert as well as his authorisation to be an auditor-in-charge

⁴⁵ The FAC did not publish the ruling.

for banks, financial market infrastructures, financial groups and public tenders, securities firms and central mortgage bond institutions by one year to three years. The FSC deemed the complainant's formal objections with regard to the breach of his right to a fair hearing to be unjustified. It therefore adjudged the anticipatory assessment of evidence by the lower court to be lawful and deemed the request for recusal put forward to have been submitted too late. However, the FSC took the view that the appeal proceedings before the FAC were affected by a procedural error, as the court denied the complainant a public hearing guaranteed by the ECHR without further justification. Consequently, the FAC ruling was overruled (independently of the appeal's chances of success in the matter) and referred back to the FAC for reassessment.

[FAC Ruling No. B-5497/2021 of 12 December 2023](#)

The FAC rejected an audit firm's appeal against an FAOA decision in as far as it had not already become devoid of purpose. The FAOA had identified a range of severe deficiencies with the audit firm in question as part of an inspection procedure and subsequently banned it from deploying the current auditor-in-charge as an auditor-in-charge, a member of an audit team or an engagement quality control reviewer for the provision of audit services for public-interest entities or any other function in which the individual could exert influence over the audit services mentioned for the next three financial years. The FAOA imposed the same penalty on the engagement quality control reviewer. After the FAOA had endorsed the audit firm's request to lift state oversight and to grant it licence as an audit expert, the legitimate interest in reviewing the measures imposed ended. As a result, the FAC only adjudged the request to reduce the inspection fee whereby, in connection with this, the question as to whether the audit firm's right to a fair hearing had been breached also had to be assessed. However, the FAC did not recognise

it to be possible that the FAOA had delayed proceedings or that it had not taken the audit firm's objections to the findings and measures seriously. As a sovereign authority, the FAOA is free to issue its orders unilaterally. This applies in particular when, during an inspection procedure, no consensus can be reached regarding the inspection results and the corrective measures. In the FAC's view, the procedure was correctly carried out and concluded and the inspection fee was not objectionable.

Other rulings of interest

[FSC Ruling No. 4A_292 of 22 December 2022](#)

In accordance with this FSC ruling, the sole member of the board of directors of a company limited by shares (Aktiengesellschaft, AG) shall not be deemed to have made an unavoidable error regarding the company's actual financial situation if he relies solely on the (false) information of the CEO. As the respondent was aware that considerable delays had been caused with the accounting and auditing of the annual financial statements, his duty of due diligence included obtaining the required information from elsewhere. This involves, in particular, making enquiries with the individual responsible for accounting and the auditor. The member of the board of directors is liable for the resulting delay in filing for bankruptcy.

[FSC Rulings No. 4A_465/2022 and 4A_467/2022 of 30 May 2023](#)

In this ruling on two associated proceedings, the FSC confirmed that the repayment claim (Art. 678 CO) and the liability claim (Art. 754 ff. CO) are in a state of competition (competing claims). If multiple people are liable in this context, they are liable on different legal grounds (Art. 51 para. 2 CO). Specifically, the auditor is jointly and severally liable with the parent company and the sole member of the board of directors of the insolvent subsidiary if the latter inadmissibly pays out high dividends to the parent company and, in doing so,

exhibits considerable deficiencies in its accounting, which are not objected to by the auditor. Specifically, insufficient provisions were set aside for pending arbitration proceedings and the advance on costs to the court of arbitration were impermissibly posted as resulting in neither a profit nor a loss. In addition, the claim against a third-party company should not have been capitalised due to its lack of solvency. If a law firm estimates the probability of losing a case to be around 50%, a proportional provision (50% of the claim) is advisable.

[FSC Ruling No. 2C_98/2023 of 14 June 2023](#)

During a non-contentious action, the FSC dealt with the status of a whistleblower and the resulting rights. In delivering its ruling, the court recalled that, in non-contentious proceedings, the status as a plaintiff or informant does not confer the right to lodge an appeal against the decision of an authority concerning the notification. The status of whistleblower does not confer party status in the procedure. To obtain party status, the whistleblower must, beyond being in a close and special relationship with the situation being contested, also be able to claim a legitimate interest in the intervention of the oversight authority. This argument also applied accordingly to the FAOA's practice.

[FSC Ruling No. 4A_166/2022 of 29 June 2023](#)

This ruling concerned the liability of an auditor that had carried out a limited audit. While the question was ultimately left open, the auditor as defendant may be assumed to have knowledge if it was involved in the accounting of the audited company, as was already stipulated in the old law before 2008. Specifically, the point in time at which the over indebtedness should have been reported (and hence the duration of the delay in filing for bankruptcy) can be brought forward, to the disadvantage of the auditor, from the time of the audit of the annual financial statements to the time at which the annual financial statements were prepared.

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 (Chair)</p> <p>Sabine Kilgus, Prof. Dr. iur., Lawyer (Vice-Chair) (until 31 December 2023)</p> <p>Conrad Meyer, Prof., Dr. (until 31 December 2023)</p> <p>Daniel Oyon, Prof., Dr. (until 31 December 2023)</p> <p>Victor Balli, Chemical Engineer ETH/Economist HSG</p> <p>Franca Contratto, Prof. Dr., LL.M., Lawyer (Vice-Chair) (from 1 January 2024)</p> <p>Stefano Caldoro, Dr., LL.M., Lawyer (from 1 January 2024)</p> <p>Stéphane Gard, Master in Economics and Management, Swiss Certified Accountant (from 1 January 2024)</p>
	Executive Board	<p>Reto Sanwald, Chief Executive Officer, Dr. iur., Lawyer, Executive MBA HSG</p> <p>Martin Hürzeler, Deputy to the Chief Executive Officer, Head of Financial Audit, Graduate in Business Administration, Swiss Certified Accountant</p> <p>Heinz Meier, Head of Regulatory Audit, Swiss Certified Accountant</p> <p>Michael Hubacher, Head of Legal and International, Master of Law, Lawyer, Executive MBA</p>
	Auditor	Swiss Federal Audit Office (SFAO)
Number of employees	As of 31 December 2023, the FAOA employed 35 members of staff (27.4 full-time positions).	
Funding	The FAOA finances itself entirely from the fees and oversight charges levied on licensed individuals and audit firms under oversight. No taxes or federal funds are claimed.	
Legal function	To ensure the proper provision and quality of audit and regulatory audit services.	
Responsibilities	The FAOA is responsible for licensing individuals and firms that provide statutory audit services, acting as the oversight authority for audit firms and regulatory audit firms of public interest entities and providing (inter)national administrative assistance in the area of audit oversight.	
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/ vested interests	The Board of Directors makes the necessary organisational arrangements to prevent conflicts of interest (specifically through vested interests ⁴⁶), both for itself and for employees. The FAOA's Code of Conduct is published on its website. Employees received the relevant training on 3 July 2023 and 11 December 2023.	

⁴⁶ The vested interests of the BoD members are disclosed on the FAOA's website.

Index of abbreviations

OASI	Old age and survivors' insurance	CO	Code of Obligations of 30 March 1911
SO	Supervisory organisation	PCAOB	US Public Company Accounting Oversight Board
SOO	Ordinance of 6 November 2019 on Supervisory Organisations in Financial Market Supervision (Supervisory Organisation Ordinance)	MBoA	Mortgage Bond Act of 25 June 1930
BankA	Banks and Savings Banks Act of 8 November 1934	PH 70	Swiss Audit Notice 70, Notice for regulatory audits
FSC	Federal Supreme Court (Lausanne)	SAS	Swiss Auditing Standards of EXPERTsuisse
FOJ	Federal Office of Justice	QA	Quality assurance
FSIO	Federal Social Insurance Office	FAOA	Federal Audit Oversight Authority
OPA	Occupational Pensions Act of 25 June 1982	AOA	Auditor Oversight Act of 16 December 2005
FAC	Federal Administrative Court (St. Gallen)	AOO	Auditor Oversight Ordinance of 22 August 2007
CEAOB	Committee of European Audit Oversight Bodies	SA-CH	Swiss Standards on Auditing
FADP	Federal Act of 19 June 1992 on Data Protection	srAF	State-regulated audit firm
FDJP	Federal Department of Justice and Police	SER	SIX Exchange Regulation
ECHR	Convention of 4 November 1950 for the Protection of Human Rights and Fundamental Freedoms (entered into force for Switzerland on 28 November 1974)	SICAV	Open-ended investment schemes
EQCR	Engagement Quality Control Reviewer	SIX	SIX Swiss Exchange
ESG	Environment, Social and Governance	SMI	Swiss Market Index
EU	European Union	SoP	Statement of Protocol
EWG	IFIAR Enforcement Working Group	SRO	Self-regulatory organisation
FinSA	Financial Services Act of 15 June 2018	TTF	IFIAR Technology Task Force
FinMIA	Financial Market Infrastructure Act of 19 June 2015	US-GAAP	United States Generally Accepted Accounting Principles
FinIA	Financial Institutions Act of 15 June 2018	IOA	Insurance Oversight Act of 17 December 2004
FINMA	Federal Financial Market Supervisory Authority		
FINMASA	Financial Market Supervision Act of 22 June 2007		
FRC	Financial Reporting Council (UK)		
GAQWG	Global Audit Quality Working Group		
PIE	Public interest entity		
AMLA	Anti-Money Laundering Act of 10 October 1997		
AMLO	Anti-Money Laundering Ordinance of 11 November 2015		
IAASB	International Auditing and Assurance Standards Board		
IAS	International Accounting Standards		
IESBA	International Ethics Standards Board for Accountants		
IFIAR	International Forum of Independent Audit Regulators		
IFRS	International Financial Reporting Standards		
ICS	Internal control system		
ISA	International Standards on Audit		
ISG	CEAOB Inspection Sub-group		
ISQC 1	International Standard on Quality Control 1		
ISQC-CH 1	Quality control for firms that perform audits and reviews of financial statements, and other assurance and related services engagements		
ISQM 1	International Standard on Quality Management 1		
IWWG	IFIAR Inspection Workshop Working Group		
CISA	Collective Investment Schemes Act of 23 June 2006		
KAM	Key Audit Matter		

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.⁴⁷ The following table is not exhaustive (last updated: 31 December 2023).

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 ⁴⁸ , finance groups and public tenders/securities firms/central mortgage bond institutions	State-regulated audit firm	Audit expert	FAOA	Art. 9a AOA, Art. 11a ff. AOO
Fintech companies ⁴⁹	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 ⁵⁰	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 compensation funds and offices	Audit expert	Audit expert	FAOA	Art. 68 para. 1 OASIA ⁵¹ , Art. 11m ff. AOO

⁴⁷ This applies to regulatory audits of casinos and pension funds in particular.

⁴⁸ Comprising stock exchanges, multilateral trading systems, central counterparties, central depositories, transaction repositories and payment systems.

⁴⁹ Cf. the definition in the Banking Act (Art. 1b BankA).

⁵⁰ Comprising fund managers, investment funds, open-ended investment schemes (SICAVs), limited partnerships for collective investment schemes, investment companies with fixed capital (SICAFs), asset managers of collective investment schemes and representatives of foreign collective investment schemes.

⁵¹ Federal Act of 20 December 1946 on Old-Age and Survivors' Insurance (OASIA, SR 831.10).

State-regulated audit firms

Data correct as of 31 December 2022

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
600002	Kost Forer Gabbay & Kasierer	Tel Aviv
600003	BREA SOLANS & ASOCIADOS SC.	Buenos Aires

Cooperation with foreign authorities

Status: 31 December 2023

Bilateral agreements		Multilateral agreements	
Country/authority	Agreement	Country/authority	Agreement
Austria, Audit Oversight Body of Austria (AOBA)	2019	Australia, Australia Securities and Investments Commission (ASIC)	2017
Canada, Canadian Public Accountability Board (CPAB)	2014	Brazil, Securities and Exchange Commission of Brazil (CVM)	2017
Finland, Patent and Registration Office (PRH)	2014 (renewed 2022)	Dubai, Dubai Financial Services Authority (DFSA)	2017
France, High Council for Statutory Auditors (H3C)	2013	Gibraltar, Gibraltar Financial Services Commission (GFSC)	2017
Germany, Auditor Oversight Body (AOB)	2012 (renewed 2022)	Cayman Islands, Auditors Oversight Authority (AOA)	2017
Ireland, Auditing & Accounting Supervisory Authority (IAASA)	2016	Lithuania, The Authority of Audit, Accounting, Property Valuation and Insolvency Management under the Ministry of Finance of the Republic of Lithuania (AAAPVIM)	2017
Japan, Financial Services Agency of Japan (JFSA) and Certified Public Accountants and Auditing Oversight Board (CPA/OB)	2021	Malaysia, Audit Oversight Board (AOB)	2017
Luxembourg, Commission de Surveillance du Secteur Financier (CSSF)	2013	New Zealand, Financial Markets Authority (FMA)	2017
Principality of Liechtenstein, Financial Market Authority (FMA)	2013	Norway, Financial Supervisory Authority (FSA)	2019
The Netherlands, Authority for the Financial Markets (AFM)	2012	Poland, Audit Oversight Commission (AOC)	2019
The United Kingdom of Great Britain and Northern Ireland, Financial Reporting Council (FRC)	2014 (supplemented 2023 ⁵²)	Slovakia, Auditors Oversight Authority (AOA)	2017
The United States of America, Public Company Accounting Oversight Board (PCAOB)	2011 (extended 2014)	South Korea, Financial Services Commission/Financial Supervisory Service (FSC/FSS)	2017
		Taiwan, Financial Supervisory Commission (FSC)	2017
		Czechia, Public Audit Oversight Board (RVDA)	2017
		Türkiye, Public Oversight, Accounting and Auditing Standards Authority (POA)	2017

⁵² Mutual declaration on the recognition of qualifications of certified accountants licensed as audit experts (Switzerland) and of chartered accountants registered as statutory auditors (UK), cf. above Relations with the United Kingdom (reciprocal rights declaration).

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)