



Circular 1/2010

on Reporting by Audit Firms under State Oversight to the Oversight Authority

of 31 March 2010

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I. Background

- 1 The purpose of this circular is to provide a more detailed description of the content of the reports to be submitted by audit firms under state oversight to the Oversight Authority, on the basis of the different circumstances that may apply, and to prevent unnecessary administrative work.
- 2 Audit firms under state oversight shall be obliged to report to the Oversight Authority within the framework of the following instruments:
 - Annual update of licensing documents as at 30 June and submission by 30 September, whereby valid documents that remain unchanged shall not have to be resubmitted (Art. 14 para. 1 AOA¹);
 - Immediate notification in writing of circumstances that are relevant to the oversight (Art. 14 para. 2 AOA, see no. IV. below);
 - Annual report on compliance with the provisions of oversight regulations as at 30 June, to be submitted by 30 September (so-called oversight report, Art. 30 para. 1 AOO²), whereby no oversight report shall be submitted in the calendar year in which the decision is taken to grant the definitive licence or renew the licence (Art. 30 para. 2 AOO).
- 3 The updated licensing documents shall be submitted together with the oversight report (Art. 31 AOO).
- 4 In addition, the Oversight Authority may actively request, at any time, that the audit firms under its oversight, their employees and the companies being audited provide it with all the information and documents it needs to carry out its work (Art. 13 para. 1 AOA).
- 5 The Oversight Authority shall also subject audit firms under state oversight to a detailed inspection at least once every three years. If it suspects that statutory duties have been infringed, it shall conduct an ad hoc investigation.
- 6 Within the framework of an inspection the Oversight Authority shall inspect in particular whether the audit firm's licensing documents are complete and correct (Art. 7 para. 1 letter a OOF-FAOA³). In principle, the inspections by the Oversight Authority shall be carried out in a risk-oriented manner (Art. 8 OOF-FAOA). In practice this means that certain differences will arise for the Oversight Authority with regard to the frequency and intensity of the inspections.
- 7 The information required by the Oversight Authority depends to a large extent on whether the audit firm in question is subjected to an inspection at intervals of one year or more than one year.

¹ Federal Act of 16 December 2005 on the Licensing and Oversight of Auditors (AOA; SR 221.302)

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

³ Ordinance of the Federal Audit Oversight Authority of 17 March 2008 on the Oversight of Audit Firms (OOF-FAOA; SR 221.302.33)

II. Audit firms under state oversight inspected at intervals of one year

- 8 Audit firms under state oversight that provide audit services to more than 50 public companies shall be subjected to an inspection annually, unless the Oversight Authority deems an interval of more than one year to be appropriate in an individual case. The audit firms shall already be required to submit documents and provide information to the Oversight Authority within the framework of this annual inspection. Furthermore, regular discussions shall take place between the audit firm and the Oversight Authority in addition to the inspection.
- 9 In view of the information sources mentioned above, audit firms under state oversight that are inspected at intervals of one year shall not be required to submit an oversight report.

III. Audit firms under state oversight inspected at intervals of more than one year

- 10 Audit firms under state oversight that provide audit services to up to 50 public companies shall be subjected to an inspection at least once every three years, unless the Oversight Authority deems an interval of one year to be appropriate in an individual case. Audit firms that are inspected at intervals of more than one year shall be required to submit an oversight report by 30 September of the calendar year in question (reference date: 30 June). The Oversight Authority shall inform the audit firms concerned in good time of the inspection interval that will apply to them.
- 11 The information sources that apply in the case of audit firms inspected annually (see no II. above) are naturally not available in the case of audit firms inspected at intervals of more than one year. This absence of information is rectified in a proportionate way through the submission of an oversight report. In calendar years in which an inspection is carried out, it shall not therefore be necessary to submit an oversight report.
- 12 The oversight report shall satisfy the Oversight Authority's requirements if it provides it with a comprehensive insight into the activities of the audit firms under state oversight and enables it to inspect their compliance with the licensing and independence requirements as well as the way in which they ensure the quality of their audit services.
- 13 Valid facts and documents that have remained unchanged since the last inspection or the last inspection report shall not have to be described or submitted again. A precise reference to the documents that have not changed shall be sufficient. The report shall contain the details in accordance with margin numbers 14 to 20.
- 14 Details of the FAOA user account
Confirmation that the details in the FAOA user account are correct.
- 15 Details of compliance with the licensing requirements
 - a. Declaration of whether all auditors in charge hold the necessary licence;
 - b. Number of persons involved in the provision of audit services, broken down into:
 1. Persons who hold the required licence;
 2. Persons who do not hold a corresponding licence.

- c. If applicable, list of the public companies whose annual or consolidated financial statements are audited, with an indication of the following information:
 1. Corporate name or name, registered office and Commercial Register number of the public company;
 2. Type of public company (Art. 727 para. 1 number 1 CO⁴);
 3. If applicable, name and location of the stock exchange on which the public company's equity securities or bonds are listed;
 4. Accounting standard in accordance with which the public company prepares its annual and, if applicable, consolidated financial statements;
 5. Surname, first name and register number of the auditor in charge;
 6. Date on which the auditor in charge assumed this role;
 7. Date on which the financial year ends.
- d. If applicable, overview of decisions, judgments and settlements, in proceedings relating to civil, criminal or administrative liability and proceedings before oversight authorities in accordance with specific legislation or professional disciplinary bodies, that concluded the proceedings and were connected with legally prescribed audit services (indicating the facts of the case, level of the claim asserted, legal assessment, litigation risk and amount of any settlement);
- e. Current extract from the debt collection and bankruptcy register (no more than three months old at the time the documents are submitted);
- f. Current articles of association or current partnership agreement, as well as organisational and operational regulations or equivalent documents;
- g. Description and graphical representation of the ownership structure, including agreements among owners and other arrangements making it possible to exercise control or significant influence in another way;
- h. List of members of the highest supervisory or governing body and of the executive body, stating surname, first name, place of residence, place of origin, date of birth, occupation and, if applicable, register number, and enclosing a current extract from the central criminal records and the debt collection and bankruptcy register (no more than three months old at the time the documents are submitted in each case) for those members who do not hold a licence as an audit expert;
- i. Description and graphical representation of the external company structure (group and investment structure), including domestic and foreign subsidiaries, branch offices and all direct and significant indirect participations, an indication of the activities carried out and the relevant annual financial statements;
- j. Description and graphical representation (organisational chart) of the internal company and management structure, stating the names of the persons responsible for individual areas;
- k. If available, annual reports for the last two financial years, including any consolidated financial statements and corresponding audit reports (otherwise audited annual financial statements);
- l. Insurance contract or documentation and attestations relating to equivalent financial security (Art. 9 para. 1 letter c AOA and Art. 11 AOO), e.g. captive solutions and confirmation from third parties (insurance brokers) regarding their maximum liability coverage;

⁴ Code of Obligations of 30 March 1911 (CO; SR 220)

- m. List of persons at partner level who have joined or left since the last inspection, indicating the following for persons with a decision-making function: position, business unit and name of previous or new employer.

16 Details of compliance with independence requirements

- a. Description of the measures taken to ensure the independence of the audit firm, in particular description of the internal controls carried out (own controls, controls within any network etc.), indicating the results and the measures taken to achieve them;
- b. List of the ten largest companies audited on the basis of the fees arising from audit and other services, indicating the percentage share in the total fees (Art. 11 para. 1 letter a AOA);
- c. Overview showing the audit fee and other fees for each public company for the financial years since the last inspection by the Oversight Authority.

17 Details of how the quality of the audit services is ensured

- a. Description of company-specific and assignment-specific processes implemented to ensure the quality of the audit services (Art. 12 AOA), with an indication of the controls carried out in relation to management (“tone at the top”), the acceptance and continuation of client relationships/assignments, personnel management and the execution of assignments;
- b. Description of the measures taken to ensure compliance with provisions on the documentation and retention of records, and in particular with controls in the area of archiving (Art. 730c CO; Art. 10 OAAF-FAOA);
- c. Confirmation of compliance with the guidelines on further training of the Swiss Institute of Certified Accountants and Tax Consultants.

18 Details of internal monitoring/quality review

- a. Description of the scope and results of the internal monitoring most recently carried out and of any measures taken;
- b. Names of the external or internal persons who carried out the internal monitoring, with a description of their qualifications;
- c. Notification of the current status of measures arising from internal monitoring that have not yet been implemented.

19 Details of measures agreed with the Oversight Authority

Notification of the implementation status of measures agreed with the Oversight Authority.

- 20 The oversight report must be dated and furnished with a legally valid signature prior to its submission to the Oversight Authority.

IV. Obligation to provide ad hoc notification

- 21 Audit firms under state oversight must notify the Oversight Authority immediately in writing of circumstances that are relevant to the oversight. This obligation to provide notification on an event-related basis shall remain unaffected by the stipulations under no. II. and no. III.

- 22 In addition to the circumstances that are explicitly referred to in the Act (Art. 14 para. 2 AOA), the Oversight Authority must be notified of the following in particular:
- a. Proceedings against the audit firm, its licensed audit experts and auditors, members of its highest supervisory or governing body and executive body, other persons with a decision-making function and other employees who are involved in audit services:
 1. The filing of an action, judgments by courts of first instance and higher courts and settlements in civil proceedings that are connected with auditing activities;
 2. The commencement of proceedings, judgments by courts of first instance and higher courts and settlements in administrative proceedings that are connected with auditing activities;
 3. The commencement or referral of proceedings, judgments by courts of first instance and higher courts and settlements in criminal or administrative criminal proceedings;
 4. The commencement of proceedings, judgments by courts of first instance and higher courts and settlements in proceedings before a professional disciplinary body;
 - b. Audit assignments where the ratio between the audit fee and additional fees, according to the annual report of the audited public company, is in excess of 1:3 in two consecutive financial years, indicating which safeguards have been implemented to prevent independence from being impaired;
 - c. Circumstances with an international context that are significant for the Oversight Authority, in particular:
 1. Registration of the audit firm with a foreign authority;
 2. Request by a foreign authority or foreign official, a foreign audit firm or another foreign person or organisation to transfer information or documents that are not publicly accessible to a foreign country, in so far as the transfer is the Oversight Authority's responsibility or the provisions on administrative and mutual assistance are otherwise infringed.
- 23 The audit firm shall satisfy the obligation to provide notification by transferring the necessary details and documents, within 10 working days of it becoming aware of the circumstances in question (e.g. following publication of the public company's annual report in accordance with margin no. 22 letter b), to the Oversight Authority by post or by e-mail to info@rab-asr.ch.

V. Cooperation with oversight authorities in accordance with specific legislation

- 24 The Oversight Authority shall coordinate its oversight activities with oversight authorities in accordance with specific legislation to avoid any duplication (Art. 22 AOA). They may grant each other electronic access to licence applications, the associated documents and the other records (Art. 26 para. 1 AOO)⁵. In so far as possible they shall collect the necessary data together. In fulfilment of their duties in accordance

⁵ Cf. Ordinance of the Federal Audit Oversight Authority of 14 November 2008 on Electronic Access to Confidential Data (DO-FAOA; SR 221.302.32)

with specific legislation, these authorities shall, however, collect additional information from audit firms under state oversight as and when required.

VI. Transitional law

- 25 Audit firms with a provisional licence must submit the documents referred to under number 15 (“compliance with the licensing requirements”). The Oversight Authority shall decide in individual cases whether additional documents need to be submitted.

VII. Commencement

- 26 This circular shall come into force on 1 April 2010.