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Circular 1/2014

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

of 24 November 2014 (Status as at 15 December 2022)

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I. Background

- 1 An audit firm is licensed to provide legally stipulated auditing services if its management structure guarantees that the individual audit mandates are sufficiently supervised (Art 6 para. 1 let. d AOA¹). An audit firm has a sufficient management structure for supervising individual engagements if it has an internal quality control system and supervises the appropriateness and effectiveness of the quality control principles and measures (Art. 9 para. 1 AOO²).
- 2 The purpose of this circular is to specify the applicable standards for internal quality control in audit firms. The basis is Art. 6 para. 1 let. d AOA.

II. Audit firms licensed as auditors

- 3 The limited audit of annual financial statements (Art. 729 ff. CO³) must be performed by an audit firm holding at least an auditor licence (Art. 727c CO). Internal quality control with regard to the audit of the annual financial statements must meet at least the instruction requirements of TREUHAND|SUISSE for quality control with small and medium-sized audit firms in the current version.
- 4 Margin no. 3 also applies particularly to limited audits which are performed on request of one or several persons with a minority holding.
- 5 Internal quality control with regard to other legally stipulated auditing services (Art. 2 let. a AOA) which by law must be performed by an audit firm with at least an auditor licence⁴, shall be based on the provisions in margin no. 7.
- 6 Margin no. 3 also applies if the audit firm is licensed as an audit expert and does not provide any auditing services within the meaning of the margin no. 5 and 7 to 9.

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 Code of Obligations (CO; SR 220).

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

III. Audit firms licensed as audit experts

- 7 The ordinary audit of annual accounts (Art. 728 ff. CO) must be performed by an audit firm with at least an audit expert licence (Art. 727b para. 2 CO). Internal quality control must meet at least the requirements of the Swiss standard of quality control (ISQC-CH 1)⁵ and ISA-CH 220⁶ in the current version.
- 8 Margin no. 7 particularly also applies to:
 - a. the ordinary audit which is performed on request of one or several persons with a minority holding;
 - b. the ordinary audit being performed according to the articles of association or based on the decision of the supreme body or of a supervisory authority;
 - c. the audit of the annual accounts of a pension fund in the area of occupational old-age, survivor's and disability pensions (Art. 52c para. 1 let. a LOB⁷);
 - d. the audit of the annual accounts of a health insurance company (Art. 25 para. 1 let. a HIOA⁸);
 - e. the audit of the annual accounts of a casino or organiser of large games (Art. 749 para. 2 **Ga**mbIA⁹).
- 9 Internal quality control with regard to other legally stipulated auditing services (Art. 2 let. a AOA) which by law must be performed by an audit firm with at least an audit expert licence¹⁰ shall be based on the provisions in margin no. 7.

IV. Audit firms under state oversight

- 10 Internal quality control requirements for audit firms under state oversight are based on Art. 5 OO-FAOA¹¹ and recognized standards according to Circ. 1/2008¹².

⁵ International Standard on Quality Control 1, Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements (ISQC-CH 1).

⁶ Swiss Auditing Standard 220, quality control during the annual audit (ISA-CH-220).

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

⁸ Federal Act of 26 September 2014 on the Oversight of Social Health Insurance (Health Insurance Oversight Act, HIOA); SR 832.12).

⁹ Federal Act on Gambling of 29 September 2017 (Gambling Act, BGS; SR 935.51).

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

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

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

V. Transitional provisions

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

VI. Enactment

- 14 This circular shall enter into force on 1 January 2015.¹³

¹³ This circular was amended as follows:

- Amendment of 17 August 2016 (in force since 1 September 2016).
- Amendment of 23 August 2017 (in force since 1 October 2017).
- Amendment of 12 October 2021 (in force since 15 October 2021).
- Amendment of 14 December 2022 (in force since 15 December 2022).

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

Limited audit	Law article	Minimum licence	Minimum requirements for internal quality control ¹⁴
Stock corporation	Art. 727a CO	Auditor	Instruction Treuhand Suisse
Partnership limited by shares	Art. 764 para. 2 CO in conj. with Art. 727a CO	Auditor	Instruction Treuhand Suisse
Limited liability company	Art. 818 para. 1 CO in conj. with Art. 727a CO	Auditor	Instruction Treuhand Suisse
Cooperative	Art. 906 CO in conj. with Art. 727a CO	Auditor	Instruction Treuhand Suisse
Association	Art. 69b para. 2 and 3 CC ¹⁵ in conj. with Art. 727a CO	Auditor	Instruction Treuhand Suisse
Foundation	Art. 83b para. 3 CC in conj. with Art. 727a CO	Auditor	Instruction Treuhand Suisse

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

¹⁴ Cf. transitional period to 1 September 2017 (margin no. 11).

¹⁵ Swiss Civil Code (CC; SR 210).

¹⁶ Art. 727 para. 1 no. 1 CO.

¹⁷ Cf. Circ. 1/2014 (margin no. 10).

Audit of annual accounts by special laws	Law article	Minimum licence	Minimum requirements for internal quality control
Mortgage bond clearing house	Art. 38a PfG ¹⁸	Audit firm under state oversight ¹⁹	ISQC-CH 1 / ISA CH 220
Pension fund	Art. 52c para. 1 let. a LOB	Audit expert	ISQC-CH 1 / ISA CH 220
Investment foundation	Art. 9 f. ASV ²⁰	Audit firm under state oversight	ISQC-CH 1 / ISA CH 220
Health insurance company	Art. 25 Abs. 1 Bst. a KVAG	Audit expert	ISQC-CH 1 / ISA CH 220
Casino and organiser of large games	Art. 49 Abs. 3 BGS	Audit expert	ISQC-CH 1 / ISA CH 220
Investment fund	Art. 126 para. 1 let. a and para. 5 CISA ²¹	Audit firm under state oversight ¹⁹	ISQC-CH 1 / ISA CH 220
SICAV	Art. 126 para. 1 let. b and para. 5 CISA	Audit firm under state oversight ¹⁹	ISQC-CH 1 / ISA CH 220
Limited partnership for collective investment schemes	Art. 126 para. 1 let. c and para. 5 CISA	Audit firm under state oversight ¹⁹	ISQC-CH 1 / ISA CH 220
SICAF	Art. 126 para. 1 let. d and para. 5 CISA	Audit firm under state oversight ¹⁹	ISQC-CH 1 / ISA CH 220
Fund management company	Art. 63 para. 1 let. b FinIA ²²	Audit firm under state oversight ¹⁹	ISQC-CH 1 / ISA CH 220
Asset manager of collective investment schemes	Art. 63 para. 1 let. b FinIA	Audit firm under state oversight ¹⁹	ISQC-CH 1 / ISA CH 220
Representative of foreign collective investment schemes	Art. 126 para. 1 let. f and para. 5 CISA	Audit firm under state oversight ¹⁹	ISQC-CH 1 / ISA CH 220
Bank	Art. 18 BankG ²³	Audit firm under state oversight ¹⁹	ISQC-CH 1 / ISA CH 220
Securities firms	Art. 63 para. 1 let. b FinIA ²⁴	Audit firm under state oversight ¹⁹	ISQC-CH 1 / ISA CH 220
Financial market infrastructures and financial groups	Art. 84 FMIA ²⁵	Audit firm under state oversight ¹⁹	ISQC-CH 1 / ISA CH 220
Finanzkonglomerat	Art. 63 para. 1 let. b FinIA	Audit firm under state oversight ¹⁹	ISQC-CH 1 / ISA CH 220
Insurance company	Art. 28 VAG ²⁶	Audit firm under state oversight ¹⁹	ISQC-CH 1 / ISA CH 220

¹⁸ Mortgage Bond Act of 25 June 1930 (PfG; SR 211.423.4).

¹⁹ Additional requirements according to Art. 9a AOA and Art. 11a ff. AOO.

²⁰ Ordinance of the Federal Council of 10 and 22 June 2011 on Investment Foundations (ASV; SR 831.403.2).

²¹ Federal Act of 23 June 2006 on Collective Investment Schemes (CISA; SR 951.31).

²² Federal Act of 15 June 2018 on Financial Institutions (FinIA, SR 954.1)

²³ Federal Act of 8 November 1934 on Banks and Savings Banks (BankG; SR 952.0).

²⁴ Federal Act of 15 June 2018 on Financial Institutions (FinIA, SR 954.1)

²⁵ Federal Act of 19 June 2015 on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FMIA; SR 958.1).

²⁶ Federal Act of 17 December 2004 on the Supervision of Insurance Companies (VAG; SR 961.01).

Audit of particular processes	Law article (non-exhaustive)	Minimum licence ²⁷	Minimum requirements for internal quality control
Audit with at least an auditor licence	Art. 635a CO Art. 652d CO Art. 652f para. 1 CO Art. 670 para. 2 CO Art. 725 para. 2 CO Art. 907 CO Art. 81 para. 1 FusG ²⁸ Art. 85 para. 2 FusG Art. 13d para. 1 let. a GEA ²⁹	Auditor	ISQC-CH 1 / ISA CH 220
Audit with at least an audit expert licence	Art. 653f para. 1 CO Art. 653i para. 1 CO Art. 745 para. 3 CO Art. 795b CO Art. 825a para. 2 CO Art. 6 para. 2 FusG Art. 15 para.1 FusG Art. 25 para. 2 FusG Art. 40 FusG Art. 62 para. 1 FusG Art. 92 para. 1 FusG Art. 97 para. 3 FusG Art. 100 para. 2 FusG Art. 162 para. 3 IPRG ³⁰ Art. 163d para. 1 IPRG Art. 164 para. 1 IPRG Art. 164 para. 2 let. b IPRG Art. 16 para. 2 DDTro ³¹	Audit expert	ISQC-CH 1 / ISA CH 220

²⁷ Cf. the legal principle of uniform licensing (footnotes 4 and 10 above).

²⁸ Federal Act of 3 October 2003 on Mergers, Demergers, Changes of Legal Form and Asset Transfers (FusG, SR 221.301).

²⁹ Federal Act of 24 March 1995 on Gender Equality (GEA, SR 151.1).

³⁰ Federal Act of 18 December 1987 on International Private Law (IPRG, SR 291).

³¹ Ordinance on Due Diligence and Transparency in relation to Minerals and Metals from Conflict-Affected Areas and Child Labour (DDTrO, SR 221.433).