# Circular 2013/3 Auditing

Auditing

FINANCIAL SERVICES

# Circular 2013/3 Auditing

Auditing

4 November 2020

**Other Languages**

DE: Rundschreiben 2013/3 - Prüfwesen vom 4.11.2020

FR: Circulaire 2013/3 - Activités d'audit du 4.11.2020

IT: Circolare 2013/3 - Attività di audit del 4.11.2020

Unofficial English translation: January 2021

# Circular 2013/3
# Auditing

Auditing

| | |
|---|---|
| **Reference:** | FINMA circ. 13/3 "Auditing" |
| **Issued:** | 6 December 2012 |
| **Entry into force:** | 1 January 2013 |
| **Last amendment:** | 7 December 2022 [amendments are denoted with an * and are listed at the end of the document] |
| **Concordance:** | previously FINMA circ. 08/41 "Auditing" dated 20 November 2008 |
| **Legal bases:** | FINMASA Article 7(1)(b), 24, 25, 27, 28a, 29<br>BA Article 18<br>FinIA Article 63<br>FiniO Article 88<br>FiniO-Finma Articles 19-22<br>CISA Articles 52, 107, 118, 126, 130<br>ISA Articles 28, 30, 70, 78<br>FINMA-AO Articles 1–14<br>CISO-FINMA Articles 110, 112, 113, 114, 116<br>AMLA Article 19a<br>MBoA Article 38a(1)<br>FMIA Articles 83, 84(1) and (3), 116(2), 117(1) |

| | |
|---|---|
| **Annex 1:** | Repealed |
| **Annex 2** | Standard Audit Strategy for Banks / Securities firms |
| **Annex 3:** | Standard Audit Strategy for Fund Management Companies or Managers of Pooled Assets |
| **Annex 4:** | Repealed |
| **Annex 5:** | Standard Audit Strategy for Representatives |
| **Annex 6:** | Standard Audit Strategy for SICAFs |
| **Annex 7:** | Standard Audit Strategy for SICAVs |
| **Annex 8:** | Standard Audit Strategy for LP-CISs (including general partners) |
| **Annex 9:** | Standard Audit Strategy Custodian Bank |
| **Annex 10:** | Standard Audit Strategy for Insurance Companies |
| **Annex 11:** | Standard Audit Strategy for Insurance Groups and Conglomerates |
| **Annex 12:** | Repealed |

# Addressees

| | | |
|---|---|---|
| BA | Banks | X |
| | Financial groups and congl. | X |
| | Other intermediaries | X |
| ISA | Insurance companies | X |
| | Insurance groups and congl. | X |
| | Distributors | |
| FinIA | Asset management companies | |
| | Trustees | |
| | Managers of coll. Inv. schemes | X |
| | Fund management companies | X |
| | Account-holding investment firms | X |
| | Non-account holding Investment firms | X |
| FMIA | Trading venues | X |
| | Central Counterparties | X |
| | Central depositories | X |
| | Trade repositories | X |
| | Payment systems | X |
| | Participants | |
| CISA | SICAV | X |
| | Limited partnerships for CISs | X |
| | SICAF | X |
| | Custodian banks | X |
| | Representatives of foreign CISs | X |
| | Other intermediaries | |
| AMLA | SROs | |
| | SRO-supervised institutions | |
| OTHERS | Audit firms | X |
| | Rating Agencies | |

# Table of Content

# Part 1 General Aspects

## I. Purpose

In view of a risk-based supervisory concept, this Circular shall define the audit of supervised institutions by audit firms which act as the FINMA's extended arm and, unless stated otherwise, always relates to the audit as per Article 24(1)(a) FINMASA (hereinafter "audit"). 1*

For audit procedures relating to licenses to operate a business under financial market laws (so-called license audits), the audit standards as per margin nos. 35-44 of this circular shall apply. 1.1*

## II. Appointment of the audit firm

Repealed 2*

The supervised institution shall inform FINMA of any change in audit firm immediately, but at the latest 3 months prior to submitting the current audit period's risk analysis. 2.1*

Repealed 3*

## III. Audit content

Audits shall be structured into individual audit areas and audit fields. FINMA may issue audit instructions (audit points). 4*

Repealed 5*

For every supervisory area, the audit areas and audit fields to be tested during a basic audit for each supervisory institution shall be listed in the annexes to this circular. 6*

Repealed 7*-8*

## IV. Risk analysis

Audit firms must prepare an annual risk analysis for each supervised institution to be audited and forward this analysis to the FINMA. If the risk analysis is adjusted after the initial submission, it must be re-submitted to FINMA. A risk analysis must also be prepared for groups or conglomerates which are supervised by the FINMA. 9*

Exceptions shall apply to certain supervised institutions under FinIA / CISA, (cf. Annexes and margin numbers 113.2 and 121).

A risk analysis is an independent assessment of the supervised institution's risk situation prepared by the audit firm to the attention of the FINMA. 10

In case an engagement is handed over from one audit firm to the next, the new audit firm may rely on the previous audit firm's audit results when estimating control risks, provided these have been critically appraised. 10.1*

In the risk analysis, the audit firm shall show the risks to which, from its perspective, the supervised institution is exposed. It may use the findings from Internal Audit for this purpose. The risk analysis must be made available to the supervised institution. 11*

A risk analysis shall: 12

- encompass the supervised institution to be audited in its entirety; 13
- provide an overview of the risks which result from the supervised institution's business activities (for this, the audit firm must specifically take into consideration the market conditions and the financial and political environment in which such an institution is operating); and 14
- repealed 15*
- take forward-looking perspective, i.e. keep in mind the possible impact of current developments on the supervised institution. 16*

The individual risks shall be assessed and weighted on the basis of the possible impact they could have on the supervised institution at hand. 17

The risk analyses shall be prepared in accordance with the annex. These shall be structured as follows: 18*

- the audit firm's general assessment of the risks that could affect the supervised institution; 19
- comprehensive categorization and appraisal of risks: The categorization shall depend on the audit areas and the audit fields. If other risks seem likely, these shall be stated so that the overview of the supervised institution's risk exposure is as comprehensive as possible. 20*
- The aspects "impact/extent" together with "probability of occurrence" of the risk for each audit area or audit field shall define the "inherent (gross) risk". 21

The inherent risk shall be assessed as follows: 22

23*

| Impact/extent | Probability of occurrence | Inherent risk |
|---|---|---|
| very high | very high | very high |
| very high | high | very high |
| very high | medium | high |
| very high | low | high |
| high | very high | high |
| high | high | high |

| | | |
|---|---|---|
| high | medium | medium |
| high | low | medium |
| medium | very high | medium |
| medium | high | medium |
| medium | medium | medium |
| medium | low | low |
| low | very high, high, medium, low | low |

The audit firm must rank the supervised institution's gross risks. 24

The net risk shall be determined by taking into account the risk-mitigating measures (e.g. implemented controls) identified by the audit firm. 25*

Repealed 26*-27*

# V. Audit strategy

The audit strategy shall determine the depth and periodicity of the audit required for the supervised institution's specific audit areas and audit fields. The audit firm's audit plan shall be based on the audit strategy. If the audit strategy is adjusted after having been submitted, it must be re-submitted to FINMA. 28*

In principle, the FINMA shall define a minimal standard audit strategy for the basic audit for each supervisory category (cf. Annexes) in every supervisory area. In it, FINMA shall determine the audit areas and audit fields, the minimum audit depths and the periodicity for the audit. 29*

Should the audit firm deem the standard audit strategy to be insufficient, it must propose deviations from the standard audit strategy to the FINMA. Such a proposal shall be substantiated. 30

The FINMA may also order additional audits outside the timetable defined in the standard audit strategy. 31*

# VI. Audit depth

Two audit depths shall be foreseen: 32

- Audit: The audit firm must obtain an in-depth picture of the circumstances to be audited. The result must be an unambiguous opinion on whether the regulatory provisions have been adhered to or not (called "positive assurance"). 33*

- Critical assessment: The audit firm must get an adequate overview of the circumstances to be audited. The auditor shall give an opinion whether the audit procedures performed (review of documents, inquiries, etc.) resulted in any facts which would lead it to conclude that regulatory provisions were not being adhered to (also called "negative assurance"). 34*

# VII. Audit standards

Audits shall be based on the provisions of this circular. International and national audit standards applicable to the financial audit do not apply to this audit. 35*

Based on the defined audit strategy, the audit firm must perform a systematic audit planning. The audit firm must prepare and perform the audit with professional skepticism, thus ensuring objective assessments. It shall keep in mind the possible impact of current developments in regard to audit areas and audit fields of both the supervised institution and its environment. In particular it must consider in its audit procedures whether any regulatory provisions may have been violated. 36*

## A. Quality assurance

The audit firm shall define standards to ensure the quality of its audit, making sure that these are adhered to at all times. It shall take the appropriate measures for each audit mandate which will allow it to adhere to the standards on the whole but also for the individual audit mandates. 37*

This shall be especially applicable to the audit planning, the audit program, the delegation of tasks to qualified employees, the availability of the information to be audited, the instructions given to the audit team, their supervision and an adequate scheduling.

Should the supervised entity's circumstances require additional tests, the audit firm shall engage further auditors, internal subject-matter experts or external specialists in the field. 38

## B. Documentation

The audit firm must prepare a comprehensive and sufficiently detailed audit documentation in a timely manner for each mandate, which can be retraced by a knowledgeable third party. The information for the planning and performance of the audit contained in the working papers shall document the considerations and conclusions of the audited circumstances, as well as the confirmations and the results in the reports provided to the FINMA. Moreover, the working papers shall define the type, time and extent of the audit procedures performed. If the audit firm uses documents prepared by the supervised institution, these must be documented as such, and their correctness must be critically questioned. Working papers can be set up as permanent files, provided the information contained therein is valid for more than the audited year. The audit documentation is the property of the audit firm and must be closed within an appropriate deadline after the audit report has been submitted to the FINMA. Once closed, the documentation may no longer be altered until the statutory record retention requirement has expired. The audit firm shall ensure a safe and confidential retention of the audit files and, as far as this is possible, a retention separate from the documentation of the financial audit during the entire record retention period stipulated by law. 39*

## C. Legal and other regulations

When performing the audit, the audit firm must take into account the applicable legal and other regulatory provisions. If, during the audit, it becomes evident that statutory or other provisions have been violated, it must be taken into account during audit procedures that the integrity of the company management and employees might be compromised. 40

### D. Audit evidence

Sufficient and adequate audit evidence shall be obtained during the audit. The conclusions drawn from these shall form the basis for the confirmations and reports. The design and effectiveness of systems and processes shall be tested using process-oriented audit procedures. Case-by-case audits and analytical audits shall be handled with results-oriented audit procedures. Audit evidence shall be obtained through inspections, observations, inquiries, confirmations and calculations, and wherever appropriate, complemented with analytical audit procedures, for instance, the analysis of key figures, trends, comparisons with previous periods or expectations as well as industry benchmarking. 41*

If the audit uses sample testing, the number of samples must be large enough to allow for a reasonable basis for the conclusion on the audited circumstances, and the risk associated with sample testing must be reduced to an acceptable level. When defining the samples, the purpose of the audit procedures, the relevance of the affected audit area or audit field and the characteristics of the population must be considered. In doing so, the sample shall consider a risk-based approach (cf. Article 24(2) FINMASA). Errors found on the basis of the sample must be assessed in regard to type and reason, and it should be determined whether these affect other audit areas as well, and if necessary, an extrapolation must be made for the entire population. 42*

Significant events which are identified after the audit has ended and before the report has been submitted must be listed in the audit report. For this, the audit firm must perform sufficient audit procedures and gather appropriate audit evidence. 43*

Repealed 44*

## VIIa. Incompatibility with an audit mandate

The audit firm as well as the auditors of the supervised institution must adhere to the independence rules as per Article 11l AOO and Article 7 FINMA-AO. These as well as the following explanations on the incompatibility with an audit engagement must also be considered when reducing the audit frequency as per margin nos. 86.1 and 113.2. 44.1*

There are no time limits for general advisory activities until the beginning of the first audit period for a newly accepted regulatory audit engagement. However, previous audit and advisory engagements must be disclosed to FINMA in connection with the notification of the appointment of an audit firm. The term "audit engagement" shall encompass only the services performed by the Leading Auditor, as per Article 8(1) FINMA-AO. However, the term "engagement" shall encompass all of the services performed or planned by the audit firm for that particular client, regardless of whether this had to do with the regulatory audit or other audits and services. 44.2*

As a rule, the term "regulatory advisory services" shall include any kind of service provided upon the request of the supervised institution's bodies and employees. Specifically, such activities shall include: 44.3*

- the development and implementation of IT and management information systems as well as the development of measures used to remediate gaps and weaknesses in existing systems;

- the development and implementation of client-specific compliance and risk control/management tools;
- the development of business processes;
- the preparation of instructive documents (e.g. policies);
- coaching;
- client-specific training;
- client-specific know-how transfer as well as
- accompanying and supporting services.

Contrary to this, pre-audit assessments (e.g. pre-audit activities) that do not encompass advising and/or accompanying services shall be permissible, provided they are fully disclosed to FINMA. Such assessments shall enable the provision of an independent audit opinion for a specific audit area or audit field outside of the audit. For this, the audit object must be developed in full and be ready to be implemented. Moreover, generic analyses and benchmark analyses, where the audit firm is merely compiling facts and does not make any recommendations, shall be permitted. 44.4*

It is not permitted to provide regulatory advisory services related to a licensing procedure if the audit firm will be taking over the audit engagement after the license has been obtained. 44.5*

All services related to due diligence (buy-side and sell-side, regardless whether these require a FINMA license) affecting a supervised institution in Switzerland that go beyond the mere preparation of fact books or data rooms shall be considered to be regulatory advisory services and are therefore not permitted. Audits according to the Merger Act shall be subject to separate stipulations. 44.6*

Margin nos. 44.3-44.6 shall be applicable to the provision of services to domestic or foreign group companies that are subject to a consolidated supervision by FINMA. Whether the service is provided by the audit firm or by another company belonging to the same network shall be irrelevant. Whether an advisory engagement for regulatory aspects is permitted for a domestic or foreign corporate group not under the consolidated supervision of FINMA depends on the relevance of the affected group company for which an advisory engagement is foreseen as well as the type and scope of the planned engagement. 44.7*

Secondments by audit firm employees as internal auditors at the supervised institution shall be permitted if the employee in question is not involved in the decision-making process and the secondment does not last longer than six months. Secondments of Internal Audit department employees to audit firms are permitted if the assignment for each person is a one-off and does not exceed six months. Further secondments are permitted if the secondee performs an activity during the secondment that is permitted on a contractual basis from a regulatory point of view and this person does not hold any decision-making powers. 44.8*

The lending of staff going beyond the above-mentioned is not permitted.

## VIII. Segregation of audit and financial audit

Repealed 45*

If justified, FINMA may demand that the audit is not performed by the same Leading Auditor or audit team as the ones performing the financial audit. 46*

## IX. Internal audit

Repealed 47*

The audit firm may rely on the work provided by Internal Audit. 47.1*

If the audit firm relies on Internal Audit's work, this must be clearly indicated in the audit report. It shall state the audit area, the audit field, to what extent the audit was performed, and the results reached by the supervised institution's Internal Audit department. 48*

The audit firm must assess the quality and the meaningfulness of the work performed by Internal Audit. Should the audit firm rely on the work of Internal Audit for a particular audit area or audit field and find it inadequate, it shall perform its own audit procedures in addition. 49*

## X. Audits of Internationally active groups and conglomerates

In principle, the audit firm shall itself carry out the audit to be performed within the scope of the group audit at the companies of a group or conglomerate abroad. 50

The audit may also be performed by affiliated audit firms. The affiliate shall be instructed and supervised diligently by the leading audit firm. Working papers' quality must be subject to a periodic quality review. The audit firm must appraise the affiliate's audits. 51

The audit firm must inform the FINMA in its audit report if Swiss regulatory provisions could not be adhered to due to a conflict with foreign legislation. 52

## XI. Reports

Repealed 53*

In its reports, the audit firm shall take into account the supervised institution's environment as well as current and near-future developments. It shall focus on the presentation of existing weaknesses and potential improvements at the supervised institution. 54*

Repealed 55*-62*

The audit report shall consist of at least the following components: 63*

- Overview on the general terms of the audit, i.e. specifically the scope of the audit, the reporting period, the names of the persons significantly involved in the audit (persons leading or coordinating the audit as well as specialists, such as IT, tax, valuation experts, etc.), the period of the audit procedures, audit approach, scope of reliance on third-party work, confirmation of adherence to the audit strategy as well as indications on the difficulties encountered during the audit and confirmation that the supervised institution has made available all of the necessary information in a timely manner and in sufficient quality; 64*

- Confirmation of adherence to the audit firm's independence; 65

- Information on the audit firm's other mandates at the supervised institution; 66

- Presentation of all notices of reservation and recommendations made by the audit firm, the deadline for the remediation and/or the implementation as well as any measures already taken or to be taken by the supervised institution to address the notices of reservation or implement the recommendations (only those notices of reservation and recommendations where the audit firm has foreseen its own audit procedures in accordance with the audit strategy shall be addressed); 67*

- Presentation of material weaknesses identified by third parties (e.g. Internal Audit, if the auditor does not rely on their work); 67.1*

- Presentation of significant changes at the supervised institution, especially concerning the company's ownership, its bodies, business model, relationships to other companies and its strategic alignment as well as an outlook covering future challenges the supervised institution faces; 68*

- Audit confirmation and a summary of all audit procedures performed for each audit area and audit field covered. 69*

Repealed 70*-72*

Audit firms shall use FINMA templates for the audit and any other reports. 73*

Repealed 74*-75*

The status of remediation, notices of reservations and recommendations have to be raised regardless of the audit depth used. When addressing a notice of reservation deemed "high" or "medium", the relevant audit confirmation (margin no. 69) must as a matter of principle be answered with "no". 75.1*

Notices of reservation shall be classified as follows: 75.2*

- A notice of reservation shall be classified as "high", if 75.3*
    - the breach constitutes a reportable event as per Article 27(3) FINMASA,
    - organizational elements, functions or processes stipulated by supervisory legislation, articles

of incorporation, policies or directives mostly do not exist and/or the processes' effectiveness is strongly impaired,

- the finding significantly worsens the audited entity's risk situation; or
- there is a systematic error.

- A notice of reservation shall be classified as "medium", if 75.4*
  - organizational elements, functions or processes stipulated by supervisory legislation, articles of incorporation, policies or directives partially do not exist and/or the processes' effectiveness is impaired (e.g. one-off error), or
  - the finding moderately worsens the entity's risk situation.
- A notice of reservation shall be classified as "low", if 75.5*
  - organizational elements, functions or processes stipulated by supervisory legislation, articles of incorporation, policies or directives are not adequately documented or formally approved, but the processes' effectiveness is not impaired, or
  - the finding does not impact the audited institution's risk situation.

Recommendations shall be classified as follows: 75.6*

- A recommendation shall be classified as "high", if 75.7*
  - there is a risk that the risk situation could worsen considerably or that a serious, comprehensive breach of regulatory provisions could occur, or
  - there is an urgent need for remediation.
- A recommendation shall be classified as "medium", if 75.8*
  - there is a risk that the risk situation could worsen or that a breach of regulatory provisions could occur, or
  - remediation must take place within the next reporting period.
- A recommendation shall be classified as "low", if 75.9*
  - the possibility exists that regulatory provisions cannot be fulfilled in the medium to long term,
  - there is a possibility of improving the organization or processes, or
  - there is an adjustment need with low urgency.

Should the supervised institution disagree with a notice of reservation or a recommendation, this must be disclosed. The audit firm must systematically review whether the institution has remedied prior issues. For institutions with a lower audit frequency as per margin nos. 86.1 and 113.2, the review of the remediation shall generally be postponed to the next planned intervention. 76*

Notices of reservation or recommendations that occur repeatedly must be flagged. 76.1*

For groups and conglomerates under consolidated supervision by FINMA, the audit firm shall generally prepare separate reports for the individual entity and the group. 77*

## XII. Notification duties

The audit firm's statutory notification duties must be adhered to at all times, also in case of a reduced audit frequency as per margin nos. 86.1 and 113.2. FINMA must be informed immediately of any unlawful acts by the supervised institution. 78*

As per Article 14(2) FINMA-AO, FINMA shall be notified of expenses and fees for audit and non-audit services provided to supervised institutions in accordance with FINMA guidelines. 78.1*

# Part 2 Special Provisions

## I. Special audit provisions for banks and securities firms

### A. Risk analysis

The general provisions on the risk analysis shall apply. 79

After having determined the gross risks, the risk analysis (cf. Annex "Risk Analysis Banks") shall also take into account the controls implemented to arrive at the net risks. In doing so, the audit firm shall assess the inherent risks (cf. margin nos. 22 et seq.) and the control risks: 80*

- High: The audit firm has not yet performed any audit procedures on the existence and functioning of controls, is not sure whether controls exist, has deemed the controls to be ineffective or there are indications that the control system has been significantly adjusted since the last intervention. 81*
- Medium: Based on its audit procedures in the form of a critical assessment performed in the last 3 years, the audit firm has determined that controls are in place. It also does not have any indications that the controls are inadequate or ineffective, or that they have been substantially adjusted since the last intervention. 82*
- Low: Based on the audit procedures in the form of an audit performed in the last 3 years, the audit firm has determined that the controls are adequate and effective, and that they have not been substantially adjusted since the last intervention. 83*

Net risks shall be determined as follows: 84

| Inherent risk | Control risk | Net risk |
|---|---|---|
| very high | high | very high |
| very high | medium | very high |
| very high | low | high |
| high | high | high |
| high | medium | medium |
| high | low | medium |
| medium | high | medium |
| medium | medium | medium |
| medium | low | low |
| low | high | low |
| low | medium | low |
| low | low | low |

85

## B. Audit strategy

The audit firm shall rely on the risk analysis to determine the audit strategy. 86*

The governing body of supervised institutions in supervisory categories 4 and 5 may apply to FINMA for a reduced audit frequency (audit procedures every 2 years for supervisory category 4 and every 3 years maximum for supervisory category 5). The prerequisites shall be that no increased risk situation and no significant weaknesses are present at the supervised institution (e.g. no notices of reservation as defined in margin no. 75.3). In cases of a reduced audit frequency, the preparation and/or the submission of the standard audit strategy as per margin no. 109.2 and the cost estimate as per margin no. 106 and therefore any potentially planned interventions as per the audit cycles (standard audit strategy) mentioned in margin nos. 87.2 et seq. are not required in the corresponding years. Unless otherwise agreed, the interventions and any necessary follow-up audits as per margin no. 110 shall be performed on-site on the occasion of the next audit procedures at the supervised institution for the current audit year and thus postponed. 86.1*

FINMA shall define the audit strategy for supervised institutions in supervisory categories 1 and 2 in consultation with the audit firm. In particular, it shall take into account the net risks for each audit area or audit field according to the risk analysis. The standard audit strategy is not applied in these cases. 87*

The standard audit strategy shall be used in consideration of the net risk for each audit area and audit field for institutions in supervisory categories 3 to 5. 87.1*

If the net risk has been deemed to be "low", no intervention shall be performed for the relevant audit area or audit field as part of the standard audit strategy. 87.2*

If the net risk is assessed as “medium,” an intervention with audit depth “audit” must be performed every 6 years for the corresponding audit area or audit field as part of the standard audit strategy. 88*

If the net risk has been deemed to be “high”, an intervention shall be performed every 3 years for the corresponding audit area or audit field as part of the standard audit strategy, whereby it must be performed alternately with audit depth “critical assessment” and “audit”. 89*

If the net risk has been deemed to be “very high”, an annual intervention with audit depth “audit” must be performed for the corresponding audit area or audit field as part the standard audit strategy. 90*

The following audit areas or audit fields shall deviate from the stipulations of margin nos. 87.2-90: 91*

- Repealed 92*–94*
- Capital requirements arising from and licensing requirements for internal models approved by FINMA (stand-alone institution) as well as group level): gradual coverage of all aspects over four years. If the net risk is “low”, the coverage is generally performed with audit depth “critical assessment” and if the net risk is “medium” to “very high”, the audit depth is “audit”. In the case of simple model structures, the audit firm may restrict itself to covering all aspects in one examination (with audit depth “audit”) within 4 years. 95*
- Internal Audit (stand-alone institution) and Internal Audit at group level: Annual critical review. 96*
- Internal organization and internal control system Gradual coverage of topics over a period of 6 years with an audit depth defined according to the auditor’s professional judgment. 97*
- Management of information and communication technology risks (ICT risks): Gradual coverage of topics over a period of 4 years with an audit depth defined according to the auditor’s professional judgment. 97.1*
- Outsourcing: Gradual coverage of individual topics over a period of 6 years with an audit depth defined based on the auditor’s professional judgment. For outsourcing agreements that are new, the intervention shall be performed with audit depth “audit”. 98*
- Repealed 99*
- Adherence to anti-money laundering requirements (stand-alone institution) and group-wide measures for the prevention of money laundering: For net risks deemed to be “high” or “very high”, an annual intervention with audit depth “audit” shall be performed. For net risks deemed to be “medium”, an intervention shall be performed with audit depth “audit” at least every 2 years. For net risks deemed to be “low”, an intervention shall be performed with audit depth “audit” at least every 3 years. 100*
- Corporate governance at group level: Annual critical review. 101*
- Repealed 101.1*

- Risk control and risk mitigation functions at group level: annual critical review. For net risks deemed to be "very high", an annual intervention with audit depth "audit" must be performed. 102*

Repealed 103*–105*

The audit firm shall submit to FINMA a cost estimate for its planned audit procedures in the reporting year together with the audit strategy or as part of the definition of the audit strategy. The estimated costs of additional audits must be disclosed separately. 106*

The FINMA may adjust the audit strategy. 107*

## C. Audit of models

If the supervised institution applies for the approval of an internal model to calculate capital requirements or if a model is prescribed to calculate liquidity requirements, FINMA may demand further audit procedures for the initial approval of the model itself as well as for any amendments to the model. The auditing principles set out in margin nos. 35-44 of this circular shall apply to such auditing procedures by analogy. 107.1*

## D. Reports

The report must confirm that the institution has adhered to FINMA orders, e.g. as required by a formal decree. 108

## E. Deadlines

The audit reports on the previous interventions shall be submitted to FINMA no later than 4 months after the end of the business year. No audit report needs to be submitted in the years without regulatory audit procedures. 109*

The risk analysis shall be submitted no later than 4 months after the closing of the previous business year. 109.1*

The audit strategy for supervised institutions in supervisory categories 3 to 5 must be submitted no later than 4 months after the end of the previous business year; it is deemed implicitly approved after 2 months have elapsed since its submission. In reference to margin no. 87, the audit strategy for supervised institutions in supervisory categories 1 and 2 must be defined no later than 6 months after the end of the previous business year. 109.2*

## F. Follow-up audits

Should the audit firm set a deadline as per Article 27(2) FINMASA, it must perform a follow-up audit within an adequate time frame. 110

## G. Audits of central mortgage bond institutions

Both the general and the special provisions for the audit of banks and securities firms shall also apply to central mortgage bond institutions by analogy. 111*

## H. Financial audit

The audit firm shall take into consideration the provisions of FINMA and FAOA on the comprehensive reporting as per Article 728b Code of Obligations (CO). The submission to FINMA must take place annually, irrespective of any reduced audit frequency as defined in margin no. 86.1. A comprehensive report shall also be prepared for the following entities: 112*

i) supervised institutions that are not public limited companies, ii) branch offices of foreign banks and iii) financial groups and financial conglomerates subject to FINMA supervision as such.

# I$^{bis.}$ Special provisions for the audit of financial market infrastructures

As a rule, the supervision of financial market infrastructures is performed by FINMA. However, the Financial Markets Infrastructure Act (FMIA) requires systemically important financial market infrastructures to be under the supervision of the SNB as well. 112.1*

## A. Risk analysis

The risk analysis shall be carried out in accordance with the general provisions as well as the special provisions on the risk analysis at banks and securities firms (cf. margin nos. 79 et seq.). When considering risks, the specificities of licensees under FMIA shall be taken into consideration.[1] 112.2*

## B. Audit strategy

The audit strategy shall be implemented in accordance with the general as well as special provisions on the audit strategy for banks and securities dealers (cf. margin nos. 86et seq.).[2] According to margin no. 4 FINMA may provide guidance on the conduct of the audit (audit points).[3] 112.3*

The following audit areas or audit fields shall deviate from the application in accordance with margin no. 112.3: 112.4*

- Internal Audit (stand-alone institution) and Group Internal Audit (group level): Annual critical review. 112.5*
- IT: Gradual coverage of topics over a period of 6 years with an audit depth defined according to the auditor's professional judgment.[4] 112.6*

[1] Systemically important financial market infrastructures shall also submit a risk analysis to the SNB.
[2] In systemically important financial market infrastructures, the SNB shall also be involved in the preparation of the audit strategy.
[3] The SNB can also provide such information (audit points) for systemically important financial market infrastructures.
[4] For systemically important financial market infrastructures, the SNB may carry out on-site inspections to assess the special requirements in accordance with Article 37 NBO or mandate third parties to carry these out.

- Outsourcing: Gradual coverage of individual topics over a period of 6 years with an audit depth defined based on the auditor's professional judgment. For outsourcing agreements that are new, the intervention shall be performed with audit depth "audit". 112.7*

- Corporate governance at group level: Annual critical review. 112.8*

- Risk control and risk mitigation functions at group level: Annual critical review. For net risks deemed to be "very high", an annual intervention with audit depth "audit" must be performed. 112.9*

The FINMA may adjust the audit strategy.[5] 112.10*

### C. Reports

Reports shall be based on the general provisions (cf. margin nos. 53 et seq.) as well as the special provisions for banks and securities firms (cf. margin no. 108).[6] 112.11*

### D. Deadlines

The audit reports on the previous interventions shall be submitted to FINMA no later than 4 months after the end of the business year. No audit report needs to be submitted in the years without regulatory audit procedures. 112.12*

The risk analysis shall be submitted no later than 4 months after the closing of the previous business year. 112.13*

The audit strategy for supervised institutions in supervisory categories 3 to 5 must be submitted no later than 4 months after the end of the previous business year; it is deemed implicitly approved after 2 months have elapsed since its submission. The audit strategy for supervised institutions in supervisory categories 1 and 2 must be defined no later than 6 months after the end of the previous business year. 112.14*

### E. Follow-up audits

Follow-up audits shall be based on the special provisions for banks and securities firms (cf. margin no. 110). 112.15*

## II. Special provisions for audits under FinIA / CISA

### A. Risk analysis

The risk analysis shall be carried out in accordance with the general provisions as well as in analogy in accordance with the special provisions on the risk analysis at banks and securities firms (cf. margin nos. 79 et seq.). When assessing the risks of licensees subject to FinIA/CISA, the audit firm shall also take into account the collective investment schemes managed by these. 113*

[5] The SNB shall have the same competences with regard to systemically important financial market infrastructures.

[6] Reports for systemically important institutions subject to FMIA shall also be submitted to SNB.

## B. Audit strategy

The audit firm shall rely on the risk analysis to determine the audit strategy. 113.1*

The governing body of supervised institutions in supervisory category 5 may apply to FINMA for a reduced audit frequency (audit procedures every 2 years). The prerequisites are that there is no increased risk situation and no significant weaknesses have been determined at the supervised institution (e.g. no notices of reservation as defined in margin no. 75.3). In cases with a reduced audit frequency, the preparation or submission of the risk analysis and the standard audit strategy as per margin no. 121 and the cost estimate as per margin no. 119 and therefore any potentially planned interventions as per the audit cycles (standard audit strategy) mentioned in margin nos. 114.2 et seq. are not required in the corresponding year. Unless otherwise agreed, the interventions and any necessary follow-up audits as per margin no. 121.2 shall be performed on-site on the occasion of the next audit procedures at the supervised institution for the current audit year and thus postponed. 113.2*

FINMA may define the audit strategy for supervised institutions in supervisory category 4 in consultation with the audit firms involved. In particular, it shall take into account the net risks for each audit area or audit field according to the risk analysis. The standard audit strategy is not applied in these cases. 114*

The standard audit strategy shall be based on the net risk for each audit area or audit field for institutions in supervisory categories 4[7] to 5. 114.1*

If the net risk has been deemed to be "low", an intervention with audit depth "critical assessment" shall be performed every 6 years for the relevant audit area or audit field as part of the standard audit strategy. 114.2*

If the net risk has been deemed to be "medium", an intervention shall be performed every 4 years for the relevant audit area or audit field as part of the standard audit strategy, alternating the audit depths between "critical review" and "audit". 115*

If the net risk has been deemed to be "high", an intervention shall be performed every 2 years for the relevant audit area or audit field as part of the standard audit strategy, alternating the audit depths between "critical review" and "audit". 116*

If the net risk has been deemed to be "very high", an annual intervention with audit depth "audit" must be performed for the corresponding audit area or audit field as part the standard audit strategy. 117*

The following audit areas or audit fields shall deviate from the stipulations of margin nos. 114.2-117: 117.1*

- Information technology (IT): For institutions in supervisory category 4: gradual coverage of topics over a period of 4 years with an audit depth defined based on the auditor's professional judgment. 117.2*
- Compliance with anti-money laundering requirements: For net risks deemed "high" or "very high", there shall be an annual intervention with audit depth "audit". For net risks deemed to be "medium", an intervention shall be performed with audit depth "audit" at least every 2 years. For net risks 117.3*

[7] With the exception of institutions in supervisory category 4 where the audit strategy has been defined by FINMA in accordance with margin no. 114.

deemed to be "low", an intervention shall be performed with audit depth "audit" at least every 3 years.

- Adherence to investment regulations: An intervention shall be performed every 2 years, alternating between audit depths "critical assessment" and "audit". 117.4*

- Valuations/calculation of NAV: An intervention shall be performed every 2 years, alternating between audit depths "critical assessment" and "audit". 117.5*

- Safekeeping of collective investment scheme's assets and of collateral (only for custodian bank licensees): An intervention shall be performed every 2 years, alternating between audit depths "critical assessment" and "audit". 117.6*

- Calculation of net asset value and the issue and redemption prices of units (only for custodian bank licensees): An intervention shall be performed every 2 years, alternating between audit depths "critical assessment" and "audit". 117.7*

- Investment decisions (only for custodian bank licensees): An intervention shall be performed every 2 years, alternating between audit depths "critical assessment" and "audit". 117.8*

Repealed 118*

For fund management companies and managers of collective assets, the audit firm shall submit to FINMA a cost estimate for the planned audit procedures for the reporting year together with the audit strategy. The estimated costs of additional audits must be disclosed separately. 119*

The FINMA may adjust the audit strategy. 120*

## C. Deadlines

121*

| Document: | Deadline: |
|---|---|
| Risk analysis and audit strategy for newly approved institutions | 3 months after the confirmation of the legal validity of the license approval |
| Audit report concerning performed interventions | 6 months after the end of the business year |
| Risk analysis[8] and audit strategy[9] of the | 6 months after the end of the following year business year |
| Audit report deposit banks | 4 months after the end of the bank's business year |

The audit strategy shall be deemed implicitly approved after 3 months have elapsed since its submission. 121.1*
In the years when no regulatory audit procedures take place, no audit report must be submitted.

[8] No risk analysis is necessary for custodian banks and representative offices of foreign collective investment schemes.
[9] The audit strategy for custodian banks must be submitted at the same time as the audit report.

## D. Follow-up audits

Follow-up audits shall be based on the special provisions for banks and securities firms (cf. margin no. 110). 121.2*

## E. Financial audit

The audit firm shall take into consideration the provisions of FINMA and FAOA on the comprehensive reporting as per Article 728b Code of Obligations (CO). For SICAVs and the LP-CISs, the audit firm shall submit its comprehensive reporting pursuant to Article 728b CO to FINMA on an annual basis, irrespective of any reduced audit frequency. 122*

# III. Special audit provisions for insurance companies

## A. Risk analysis

In the risk analysis (cf. Annex "Risk Analysis Insurance Companies"), the audit firm shall describe the identified risks together with existing, functioning and risk-mitigating measures that have already been taken by the insurance company, group or conglomerate or those regarded as certain to be taken within the next six months. The lack of such measures for identified risks must also be mentioned. 122.1*

The audit firm shall assess the net risks (very high, high, medium or low), taking into consideration the described risk-mitigating measures (or any negative notifications), and rank the net risks. 122.2*

Depending on the supervisory category, the FINMA may determine that there is no need for an annual risk analysis for the insurance company. 123

No risk analysis is necessary for insurance companies not subject to full institutional supervision by FINMA. In particular, these shall include: 124

- branch offices in Switzerland of foreign insurance companies; 125*
- comprehensive health insurances subject to supervision by the Swiss Federal Office of Public Health (Article 25 SPA in conjunction with Article 2(2)(b) ISA); and 126
- reinsurance captives that are small and have a simple risk structure. 127*

## B. Audit strategy

The FINMA shall determine the audit strategy. 128

## C. Deadlines

| Document | Deadline |
|---|---|
| Audit reports of insurance companies (re-insurers excluded) | 30 April of the following business year |
| Audit reports of insurance companies which solely conduct reinsurance business | 30 June of the following business year |
| Audit reports of insurance groups and conglomerates | 30 April of the following business year |
| Risk analysis for insurance companies (without re-insurers) | 30 April of the following business year |
| Risk analysis for re-insurers which solely conduct reinsurance business | 30 June of the following business year |
| Risk analysis for insurance groups and conglomerates | 30 April of the following business year |

129

## D. Financial audit

The audit firm shall take into account the provisions of FINMA and FAOA on the comprehensive reporting as per Article 728b Code of Obligations (CO) Branch offices of foreign insurance companies subject to FINMA supervision shall prepare and submit financial statements consisting of an income statement, a balance sheet and Notes prepared in accordance with the accounting standards stated in Articles 957 – 961d Code of Obligations and any additional FINMA requirements. 130*

# IV. Repealed

Repealed 131*-148*

# IV^bis. Special provisions for the audit of persons as defined in Article 1b BA (FinTech license)

## A. Risk analysis

The risk analysis shall be carried out in accordance with the general provisions (cf. margin nos. 9-27) as well as the special provisions on the risk analysis for banks and securities firms (cf. margin nos. 79-85). When considering risks, the specificities of persons as defined in Article 1b BA shall be taken into consideration. 148.1*

## B. Audit strategy

The audit strategy shall be carried out in accordance with the general provisions (cf. margin nos. 28-31) as well as the special provisions on the risk analysis at banks and securities firms in supervisory category 5 (cf. margin nos. 86-107). 148.2*

For persons pursuant to Article 1b BA, the provisions on the audit strategy for banks and securities firms 148.3*

apply to the audit areas or audit fields relevant to them. By way of derogation, and regardless of a potentially reduced audit frequency, it must be confirmed annually that deposits from the public are being held in accordance with Article 14f BO and that the information requirements of Article 7a BO are complied with.

### C. Reports

Reports shall be based on the general (cf. margin nos. 53-77) as well as special provisions for banks and securities firms (cf. margin no. 108). 148.4*

### D. Deadlines

The audit reports on the previous intervention shall be submitted to FINMA 4 months after the end of the business year. 148.5*

The risk analysis shall be submitted 4 months after the closing of the previous business year. 148.6*

The institution's audit strategy must be submitted 4 months after the end of the previous business year; it is deemed implicitly approved after 2 months have elapsed since its submission. 148.7*

### E. Follow-up audits

Follow-up audits shall be based on the special provisions for banks and securities firms (cf. margin no. 110). 148.8*

## V. Annexes

The templates for the standard audit strategies and the risk analyses can be found in the Annexes. 149

# Part 3 Transitional provisions

Repealed 150*-156*

# List of amendments

## The circular has been amended as follows:

These amendments were passed on 28 November 2014 and shall enter into force on 1 January 2015.

| | |
|---|---|
| New margin nos. | 44.1-44.8, 75.1, 76.1, 78.1, 122.1, 122.2 |
| Amended margin nos. | 4, 6, 9, 11, 25, 29, 35, 37, 39, 43, 46, 48, 54, 64, 77, 80, 106, 112, 119, 125, 127, 130 |
| Repealed margin nos. | 2, 3, 5, 7, 8, 26, 44, 45, 47, 53, 55-62, 72, 74, 75, 150–155 |

Moreover, the term "regulatory audit" was replaced with "audit" throughout the circular.

These amendments were passed on 18 November 2016 and enter into force on 1 January 2017.

| | |
|---|---|
| New margin nos. | 2.1, 101.1, 103.1, 112.1–112.7, 117.1 |
| Amended margin nos. | 4, 67, 94, 98, 99, 101, 102, 112, 115, 116, 117, 130 |
| Repealed margin nos. | 106, 119 |

These amendments were passed on 20 June 2018 and shall enter into force on 1 January 2019.

| | |
|---|---|
| New margin nos. | 1.1, 47.1, 67.1, 75.2-75.9, 86.1, 87.1, 87.2, 107.1, 109.1, 109.2, 112.8–112.15, 113.1, 113.2, 114.1, 114.2, 115.1, 117.1–117.8, 121.1, 121.2, 150 |
| Amended margin nos. | 1, 2.1, 4, 6, 9, 11, 16, 18, 20, 23, 28, 29, 31, 33, 34, 35, 36, 41, 42, 43, 44.1, 44.2, 44.3, 44.4, 44.6, 44.7, 44.8, 48, 49, 54, 63, 64, 67, 68, 69, 73, 75.1, 76, 76.1, 77, 78, 80, 81, 82, 83, 86, 87, 88, 89, 90, 91, 96, 97, 98, 100, 101, 102, 106, 107, 109, 111, 112, 112.3–112.7, 113, 114, 115, 116, 117, 119, 120, 121, 122, 133; |
| Various annexes | (2, 3, 5, 7, 8, 9, 13, 15, 16, 17) |
| Repealed margin nos. | 15, 27, 70, 71, 92, 93, 94, 95, 99, 101.1, 103, 103.1, 104, 105, 118, 156, Annex 1, Annex 4 |

These amendments were passed on 26 June 2019 and enter into force on 1 July 2019.

| | |
|---|---|
| New margin nos. | 148.1, 148.2, 148.3, 148.4, 148.5, 148.6, 148.7, 148.8 |
| Other amendments | New title before margin no. 148.1 |

These amendments were passed on 4 December 2019 and entered into force on 1 January 2020.

| | |
|---|---|
| Amended margin no. | 9 |
| Repealed margin nos. | 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148 |
| Other amendments | the title before margin no. 131 has been repealed |

*In addition, the terms "securities dealer" were replaced with "securities firm" and "asset manager" with "managers of collective assets" throughout the Circular.*

These amendments were passed on 4 November 2020 and enter into force on 1 January 2021.

| | |
|---|---|
| New margin no. | 10.1 |
| Amended margin nos. | 95, 107.1, 121, 122 |

These amendments were passed on 7 December 2022 and enter into force on 1 January 2024.

| | |
|---|---|
| New margin no. | 97.1 |
| Amended margin no. | 97 |
| Repealed margin no. | 150 |

# Contacts

**Philipp Rickert**
Partner, Head of Financial Services,
Member of the Executive Committee
Zurich
Tel. +41 58 249 42 13
prickert@kpmg.com

**Helen Campbell**
Partner, FS Transformation
Tel. +41 58 249 35 01
hcampbell@kpmg.com

**Thomas Dorst**
Partner, Assurance & Regulation
Tel. + 41 58 249 54 44
tdorst@kpmg.com

**Nicolas Moser**
Partner, Geneva Office
Tel. +41 58 249 37 87
nmoser@kpmg.com

**www.kpmg.ch**