Swiss Federal Banking Commission Circular:
Audit of Banks and Securities Firms
(Audit)
29 June 2005 *(Latest amendment: 24 November 2005)*

Contents

Appendices:

I. Introduction

A. Scope of application and definitions

This Circular[1] [2] applies to external auditors as defined in Art. 20 of the Swiss Federal Banking Act (BA) and Art. 18 of the Swiss Federal Stock Exchanges and Securities Trading Act (SESTA), hereinafter referred to as “audit firms”. **1**

This Circular is concerned with the subject-matter (margin nos. 18-51) and procedures (margin nos. 52-81) of the annual audit of the activities of banks and securities firms, in accordance with Art. 19 (1) BA and Art. 17 (1) SESTA. This Circular governs the auditing of individual institutions as well as that of financial services groups and conglomerates that are subject to supervision by the Swiss Federal Banking Commission (SFBC) (margin nos. 82-94). **2**

The term “institutions” is used in this Circular to mean all banks, securities firms and financial services groups or conglomerates that are subject to supervision by the SFBC. **3**

All terms *in italics* are defined in the Glossary (Appendix 2). **4**

B. Subdivision into financial audit and regulatory audit

Annual audits under Art. 19 (1) BA and Art. 17 (1) SESTA are subdivided into a financial audit (margin nos. 18-24) and a regulatory audit (margin nos. 25-51), each with a separate report (SFBC Circular 05/2 “Audit Reports”). **5**

The main purposes of this subdivision are **6**

- to ensure efficient and rapid reporting as needed;
- to provide for transparent description of audit firms’ duties and activities;
- and to enhance transparency in the relationships between the audited institution, the supervisory authority and the audit firm in the context of the dualistic supervisory system.

The financial audit is carried out according to the applicable auditing standards, which are generally accepted throughout the profession and in line with the accounting principles used by the audited institution (margin nos. 21-24). In addition, the regulatory audit is largely shaped by SFBC procedures. **7**

Both the financial and the regulatory audit are to be performed according to accepted standards and customary practices to ensure audit quality (audit methodology, quality controls, second partner review, etc.). **8**

To ensure a high degree of audit efficiency and avoid omissions, the financial and the regulatory audits are to be carried out by the same audit firm. **9**

C. General audit concept

Audits are to be conducted on a risk-based approach, whereby risks that are *material* to the formation of the audit firm’s opinion as regards the subject-matter of the audit are systematically identified and analysed (principle of *materiality*). It is the auditor’s responsibility to evaluate the risk situation reliably. The risk analysis and the resulting audit strategy (margin nos. 55-58) are key elements of audit planning (margin nos. 52-75). **10**

The risk assessment determines audit procedures with regard to the selection of audit areas and the *audit depth*. The risk assessment considers the institution as a whole. The subdivision into financial and regulatory audits becomes important only in the resulting audit strategy. **11**

---

[1] Supplementary adaptations of this Circular which are required by the Audit Oversight Act will take place in connection with the enactment of the Federal Act on Financial Market Supervision (FINMA Act) and its Ordinances.

[2] Modification from 22 August 2007.

The audit firm must perform appropriate *tests of controls* to ascertain the adequacy and effectiveness of the institution's internal control system and risk management. Auditing the internal control system is an important element of both the financial and the regulatory audit. The results of the *tests of controls* of the internal control system influence the audit firm's choice of the type and scope of the *tests of details*. **12**

The verifications to be carried out as part of the regulatory audit include: **13**

- risk-based audits to cover *key audit risks* (margin nos. 68-70);
- mandatory audits (margin nos. 28-46);
- additional audit areas specified by the SFBC (margin nos. 47-49);
- and an in-depth audit (margin nos. 50-51).

Depending on the audit area concerned, *key audit risks* can also be covered by mandatory audits or the in-depth audit.

Mandatory audits ensure that audit activities cover all the *material* areas relevant to supervision each year. The audit firm must express an opinion on the results of mandatory audits in each and every case (SFBC Circular 05/2 “Audit Reports”). The *audit depth* adopted in mandatory audits is, in turn, determined by the risk assessment. The SFBC may specify additional audit areas at its own discretion based on specific circumstances or market developments. **14**

The objective of the annual in-depth audit is to enable the audit firm to get a reliable impression (high *assurance*) of the quality and functional effectiveness of the organisational measures included in internal controls to assure adherence to licensing requirements and other *applicable provisions* over an audit cycle spanning several years. **15**

In addition, the audit firm gets periodically a reliable impression (high *assurance*) of all areas relevant to supervision over an audit cycle spanning several years. To this end, the audit firm establishes the plausibility of the *audit depth*, derived from the risk analysis and, where necessary, adjusts it to an *audit* to give a higher level of *assurance* (Appendix 1). **16**

Furthermore, the audit firm's multi-year audit planning considers the fact that audit activities must be performed periodically in all other major areas of an institution that are not covered by the annual mandatory audits, thereby ensuring that no important area remains unaudited for several years at a time. **17**

II. Audit subject-matter

A. Financial audit

a) Subject-matter of the financial audit

The annual financial statements (individual company accounts and, where appropriate, consolidated group accounts) and the supervisory reporting (SFBC Circular 05/4 “Supervisory reporting”, appendices 1 and 2) constitute the subject-matter of the financial audit. In the financial audit report (SFBC Circular 05/2 “Audit Reports”), the audit firm also expresses an opinion on the following: **18**

- the adequacy of the organisation and internal controls in preparing the annual and interim financial statements (account closing process);
- the valuation policy for assets and off-balance-sheet items as well as the policies on value adjustments and provisions;
- the adequacy of the institution's instruments for financial planning and control, budgeting and achieving its financial targets (gap analysis).

The information to be submitted by institutions in the scope of the supervisory reporting includes details of their annual financial statements and other items. The audit firm subjects the annual account data included in the supervisory reporting to an *audit*. It subjects the remaining information to a *review* or a *plausibility* **19** *check.*

b) Objective of the financial audit

The objective of the financial audit is to issue an audit opinion concerning the degree to which the annual financial statements correspond to the accounting standards applied. The audit opinion is based on the applied audit standards as per margin nos. 21-24. **20**

c) Applicable audit standards

The annual financial statements are audited using the audit standards as per margin nos. 22-24 (including the related interpretations as issued by the pertinent professional bodies). Auditors must also consider the supervisory practice with regard to the due diligence to be exercised by a responsible and adequately qualified auditor under Art. 20 (4) BA and Art. 34 (1a) SESTA. **21**

a. For annual financial statements prepared according to the SFBC's Guidelines on Accounting Regulations (RRV-SFBC), the Audit Standards of the Swiss Institute of Certified Accountants and Tax Consultants apply. **22**

b. For annual financial statements prepared according to the International Financial Reporting Standards (IFRS), the International Standards of the International Auditing and Assurance Standards Board (IAASB) apply. **23**

c. For annual financial statements prepared according to the US Generally Accepted Accounting Principles (US-GAAP), the US Generally Accepted Auditing Standards (US-GAAS) apply. **24**

B. Regulatory audit

a) Subject-matter of the regulatory audit

The subject-matter of the regulatory audit is the adherence to licensing requirements and additional audit areas specified by the SFBC as per margin nos. 47-49. **25**

b) Objective of the regulatory audit

The objective of the regulatory audit is to issue an audit opinion concerning adherence by the audited institution to the licensing requirements and other *applicable provisions.* The audit opinion is based on the applied audit standards (margin no. 27). To enable the audit firm to form an opinion on the degree of adherence to the licensing requirements and other *applicable provisions*, it performs the mandatory audits (margin nos. 28-46), the risk-based audits covering *key audit risks* (margin nos. 68-70) and the in-depth audit (margin nos. 50-51). The SFBC may specify additional audit areas (margin nos. 47-49). **26**

c) Applicable audit standards

The regulatory audit is carried out in accordance with generally accepted and applicable professional standards (e.g. the IAASB's International Standards on Assurance Engagements or the Audit Standards of the Swiss Institute of Certified Accountants and Tax Consultants) and the provisions of this Circular. Wherever possible and reasonable, professional standards originally conceived for financial audits are also to be adopted in regulatory audits. Auditors must also take due account of supervisory practice with regard to the due diligence to be exercised by a responsible and adequately qualified auditor under Art. 20 (4) BA and Art. 34 (1a) SESTA. **27**

d) Mandatory audits

Mandatory audits cover the audit areas for which the audit firm has to issue an annual confirmation or opinion in its report on the regulatory audit (margin nos. 31-44). The results of the mandatory audits, together with the results of the risk-based audits to cover *key audit risks* (margin nos. 68-70) and the results of the in-depth audit (margin nos. 50-51), form the basis for the audit firm's assessment of adherence to the **28** licensing requirements and other *applicable provisions.*

A mandatory audit can take the form of an *audit*, a *review* or a *plausibility check.* The standard report form "Risk Analysis/Audit Strategy" (margin nos. 59-75 and Appendix 1) submitted to the SFBC and the institution's Board of Directors[3] indicates the planned *audit depth*. **29**

The audit firm verifies adherence to the *applicable provisions* concerning mandatory audits, applying the *audit depth* it deems suitable. However, the *applicable provisions* do not prescribe a target standard for every conceivable business line in every conceivable situation. Instead, the auditor must exercise his or her own professional judgement in line with customary SFBC practices. **30**

aa) Audit of adherence to licensing requirements

The objective of an audit of the adherence to the licensing requirements is a statement by the audit firm on whether it has reason to conclude that the licensing requirements have not been observed. This statement is normally worded in the form of a negative *assurance*. **31**

If the audit firm identifies circumstances that constitute breaches of legal provisions or other irregularities, it must assess whether or not the institution in question still adheres to the licensing requirements. If the audit firm has identified such circumstances, it must mention them in its regulatory audit report or its financial audit report or else in a notification in accordance with Art. 21 (4) BA or Art. 19 (5) SESTA. **32**

bb) Audit of adherence to capital adequacy, large exposure and liquidity rules

Confirmation of adherence to these regulations is an important part of the mandatory audits. The *audit depth* applied in these areas is based on an assessment of the risk that the institution does not adhere to these regulations. **33**

cc) Other mandatory audits

To express an opinion on adherence to the licensing requirements, the audit firm must assess *material* business lines, organisational structures and processes. **34**

The following areas qualify as mandatory audit areas on which the audit firm must form and express an opinion every year: **35**

- adequacy of corporate governance, including personnel segregation of executive management and Board of Directors; **36**
- adherence to generally accepted banking principles for transactions with members of governing bodies and any qualifying party with an interest in the institution; **37**
- proper conduct of the business operations by those entrusted with the administrative and executive management and by any qualifying party with an interest in the institution; **38**
- adequacy of organisation and internal control system (including information technology); **39**
- adequacy of risk identification, measurement, management and monitoring; **40**
- adequacy of the internal audit function; **41**
- adequacy of the compliance function; **42**
- adherence to *anti-money laundering regulations*; **43**

[3] For the sake of simplicity, the term "Board of Directors" is used here instead of, but with the same meaning as, the "governing body responsible for supervision and control".

- and adherence to rules on consolidated supervision (margin no. 86). **44**

The audit firm decides which *audit depth* (*audit, review* or *plausibility check*) to apply in the individual audit areas on the basis of its risk analysis. **45**

Audits not considered to be mandatory annual audits are those conducted under **46**

- Art. 15 SESTA (audit of journal and reporting requirements);
- Art. 4 and 72 et seqq. of the Collective Investment Schemes Act (CISA) (audit of adherence to provisions for in-house funds and custodian banks);
- Art. 22 of the Swiss Federal National Bank Act (NBA) and Art. 40 of the Swiss Federal National Bank Ordinance (NBO) (audit of adherence to statistical reporting requirements);
- and Art. 43 (1) of the Swiss Federal Mortgage Bond Act (MBA) (audit of mortgage bond register and loan coverage).

As part of its multi-year audit planning, the audit firm must ensure adherence to the corresponding audit and reporting duties, taking into account any special legal provisions.

e) Additional audit areas specified by the SFBC

The SFBC can specify additional audit areas. It can specify these on an annual basis and for one individual institution, for several institutions together or for all institutions under its supervision. **47**

The SFBC specifies additional audit areas for individual institutions largely on the basis of the risk analysis by the audit firm and/or specific circumstances. Where necessary, it discusses the objectives of these audits with the audit firm. The audit firm performs these audits according to the SFBC's instructions. **48**

The SFBC specifies additional audit areas for several institutions together or for all institutions under its supervision largely in response to market developments or on the basis of newly *applicable provisions.* Where necessary, it discusses the objectives of these audits with the audit firms. The audit firms perform these audits according to the SFBC's instructions. **49**

f) In-depth audit

The audit firm performs an in-depth audit every year. This enables it to get a reliable impression (high *assurance*) of the quality and functional effectiveness of the internal control measures required to guarantee adherence to licensing requirements and other *applicable provisions* over an audit cycle spanning several years. **50**

The audit areas for the in-depth audit are chosen by the audit firm, and the following selection criteria may be used: **51**

- audit area subjected in recent years to a *review* with only moderate *assurance* rather than an *audit*;
- audit area specified by the SFBC (margin nos. 47-49).

III. Audit procedure

A. Audit planning

The audit firm plans its audit activities in accordance with generally accepted and applicable professional standards (margin nos. 21-24 and 27), taking the provisions of this Circular into consideration. **52**

Important elements of audit planning (margin nos. 53-58) and reporting on audit planning (margin nos. 59-75) are discussed below.

a) Understanding the institution's activities and environment

The auditor must have a sufficient understanding of the business activities, internal controls and environment of the institution to ensure that the audit can be planned and that an effective audit strategy can be developed. To this end, the auditor must, in particular, become familiar with **53**

- the products, services and organisational structure of the institution's business lines;
- the macroeconomic and sector-specific factors influencing the institution's activities (sector, markets, customers, other environmental factors) as well as key stakeholders and their influence on the institution;
- the institution's risk exposure;
- the control environment (business processes, company-wide internal control and compliance elements, risk management, IT environment, level of skills and integrity of management);
- and the critical success factors for implementing core business objectives and strategies.

The auditor consults any useful documents (organisation charts; regulations; directives; authority policies; limit systems; principles of risk identification, assessment and monitoring; management and performance reporting; compliance programmes, etc.) and holds discussions with the institution's executive and/or business line management. Where the auditor deems it suitable, he may base his investigations on the results of the previous year's audit and on other useful studies (e.g. financial research material or risk analyses by internal auditors). **54**

b) Risk analysis and resulting audit strategy

As part of its annual audit planning, the audit firm carries out a risk analysis of the institution to be audited, taking account of the understanding gained from the investigations and assessments as per margin no. 53. The audit firm analyses the main factors in terms of circumstances, events, developments and trends that might have a *material* influence on its audit opinion with regard to **55**

- the annual financial statements to be audited (financial audit) and/or
- the institution's adherence to licensing requirements and other *applicable provisions* (regulatory audit).

In its risk analysis, the audit firm also uses information concerning the institution's risk management and internal control system as provided by the Board of Directors and the executive management . **56**

The audit firm documents its risk analysis in its working papers and records the *material* results and the conclusions drawn from them with regard to its audit strategy in the standard report form "Risk Analysis/ Audit Strategy" (margin nos. 59-75 and Appendix 1). **57**

The audit firm discusses the risk analysis and resulting audit strategy – with reference to, among other things, the standard report form "Risk Analysis/Audit Strategy" (margin nos. 59-75 and Appendix 1) – with the executive management, internal auditors or the Board of Directors of the institution to be audited before commencing *material* audit activities. The Board of Directors can delegate this discussion to an audit committee. Nonetheless, the audit firm remains responsible for the risk analysis and the resulting audit strategy at all times. **58**

c) Standard report form "Risk Analysis/Audit Strategy"

The audit firm summarises the *material* findings of the risk analysis and the conclusions drawn from these for its audit strategy in a standard form provided by the SFBC (standard report form "Risk Analysis/Audit Strategy", Appendix 1). The audit firm encloses the form as an appendix to the regulatory audit report (SFBC Circular 05/2 "Audit Reports"). In addition, it indicates and explains in the report any subsequent changes to the chosen audit strategy. **59**

The SFBC may request this form before the beginning of the audit and may suggest amendments or demand additional audit activities. **60**

Instructions concerning the form are provided in Appendix 1. The information listed in margin nos. 62-75 must be included in the form. 61

aa) Risk analysis

The audit firm documents the *material* results of its risk analysis in the form of a risk profile of the institution and a list of the *key audit risks* it has identified. 62

Risk profile of the institution (Appendix 1, section 1.1) 63

The risk profile outlines the *material* business risks for the institution as identified by the audit firm's risk analysis and breaks them down into risk categories and, where appropriate, risk subcategories. With the exception of the main risk categories typical in banking and securities trading as listed in the form, the degree of detail can be adjusted to the institution's business activities and risk situation. The auditor assesses the risk exposure ("high", "medium" or "low") for each risk category and subcategory. Risk exposure is assessed without taking risk-mitigating measures into account.

The audit firm includes a brief explanation of its assessment of the institution's risk exposure and, in the case of medium and high risk exposures, also makes reference to the corporate goals defined by the institution.

In its regulatory audit report, the audit firm expresses its opinion on the risk management applied to the risk categories identified here as *material* (SFBC Circular 05/2 "Audit Reports").

Identification of key audit risks (Appendix 1, section 1.2) 64

Key audit risks are factors identified by the audit firm during its risk analysis that might have a *material* influence on the audit firm's opinion with regard to

- the annual financial statements to be audited (financial audit) and/or
- the institution's adherence to licensing requirements and other *applicable provisions* (regulatory audit).

Each *key audit risk* is analysed to assess its influence on the financial and the regulatory audit. Specific audit steps are derived from the *key audit risks*. Where the identified risk factor is borne out, a *key audit risk* is sufficient cause to prompt a notice of reservation in terms of Art. 21 (3) BA and Art. 19 (4) SESTA in the regulatory audit report or the financial audit report (SFBC Circular 05/2 "Audit Reports").

When identifying *key audit risks,* the auditor bases the assessment on specific information and indications that come to light in view of the understanding of the institution's business activities and environment and the risk analysis. Acknowledging that the general audit concept (margin nos. 10-17), foresees mandatory yearly audits, this focus on specific information and indications results in the mandatory audit being supplemented or deepened in a risk-based manner particular to each institution. The audit firm can also declare a *key audit risk* to be the scope of an in-depth audit.

bb) Regulatory audit – audit strategy

Based on the procedure described in margin nos. 53-58, the audit firm carries out a provisional assessment of the adequacy of the institution's organisation. For each *key audit risk* and each audit area of the mandatory audits, risk is assessed on the basis of *inherent risk* and *control risk*, and the audit strategy is systematically derived from this assessment. 65

Inherent risk is the risk that a specific audit area contains *material* errors, *material* defective transactions or *material* irregularities, irrespective of the existence of internal controls designed to prevent these. The *inherent risk* can be categorised as "higher" or "lower". 66

Control risk is the risk that internal controls fail to prevent or identify and promptly rectify *material* errors, *material* defective transactions or *material* irregularities. It corresponds to the audit firm's provisional assessment of the adequacy and effectiveness of the measures taken by the institution to minimise and mitigate risk. The *control risk* can be categorised as "higher", "medium" or "lower". If there are indications 67 that the internal control system in a given business line is incomplete and/or ineffective, the *control risk* is to be rated as “higher”. If there are good reasons to believe that the organisational internal control measures in a given business line are adequate and effective, the *control risk* is to be rated as “lower”. In all other cases, the *control risk* should be rated as “medium”.

Risk-based audits to cover key audit risks (Appendix 1, section 2.1)

In this part of the form, the previously identified *key audit risks* are assessed by combining the *inherent risk* and the *control risk*. The *combined risk* is rated as “minimum”, “moderate”, “medium” or “maximum”. The audit strategy (i.e. *audit depth*) is systematically derived from the *combined risk*. **68**

The predefined *audit depth* are as follows: “*audit*” for a “maximum” *combined risk*, “*review*” for a “medium” *combined risk*, “*plausibility check*” for a “moderate” *combined risk* and “no investigations” for a “minimum” *combined risk* (Appendix 2). In each case, the audit firm establishes the plausibility of the *audit depth* derived from the systematic approach and, where necessary, adjusts it to give a higher level of *assurance*. **69**

The *key audit risks* are shown in the table under the business lines in which effective monitoring and control might potentially be adversely affected if the *key audit risk* were to occur. **70**

Mandatory audits (Appendix 1, section 2.2)

The risk assessment for mandatory audit areas and the way the respective audit strategy is derived follow a similar procedure. However, the minimum *audit depth* in this case is “*plausibility check*”. **71**

In-depth audit (Appendix 1, section 2.3)

The audit areas for the in-depth audit (margin nos. 50-51) are shown for the year under review and the three previous years. **72**

cc) Financial audit

The procedure to be followed for financial audits is established on the basis of the general understanding of the institution’s business activities, internal controls and business environment as well as the insights gained from the risk analysis carried out as part of audit planning and the resulting audit strategy. **73**

The planning stages required for financial audits are conducted according to industry standards (margin nos. 21-24) and the financial audit methodology developed by the audit firm. **74**

The audit firm summarises its findings that are *material* to the financial audit in the standard report form “Risk Analysis/Audit Strategy”. **75**

B. Follow-up audits

If the audit firm identifies breaches of legal provisions or other irregularities, it sets an adequate deadline for correcting them in accordance with Art. 21 (3) BA and Art. 19 (4) SESTA. Once this deadline has expired, the audit firm performs a follow-up audit, the aim of which is to establish whether the institution has taken the measures necessary to rectify the situation. If the follow-up audit shows that the situation prompting the notice of reservation has been rectified, this is reported in the financial audit report or the regulatory audit report (SFBC Circular 05/2 “Audit Reports”). If the measures necessary to rectify the situation have not been implemented by the deadline, a report on the results of the follow-up audit is to be submitted to the SFBC without delay (Art. 41 [1] of the Swiss Federal Banking Ordinance [BO]). **76**

C. Coordination with internal auditors

Provisions governing the internal audit function, in particular coordination between the audit firm and the internal auditors, are set out in Art. 19 (3) BA, Art. 40a BO, Art. 36 SESTA and SFBC Circular 06/6 “Supervision and Internal Control”. Due account should also be taken of the audit standards applicable in this **77** area (margin nos. 22-24 and 27).

The audit firm and the institution’s internal auditors should coordinate their respective audit strategies. Each side continues to represent its own perspective; based on these, a joint approach can then be established. Responsibility for performing the financial and the regulatory audit remains with the audit firm. **78**

D. Reporting

a) Audit report

Rules governing reporting on the financial and the regulatory audit are set out in SFBC Circular 05/2 “Audit Reports”. **79**

b) Supplementary written reports

Any supplementary written reports must be consistent with the financial audit report and the regulatory audit report. Supplementary written reports include management letters or separate written reports to the Board of Directors or the audit committee. In particular, the audit firm adequately records any *material* shortcomings and important findings, not only in the supplementary reports, but also in the financial audit report and/or the regulatory audit report. Reference must be made in the financial audit report and/or the regulatory audit report to the supplementary report (SFBC Circular 05/2 “Audit Reports”). **80**

c) Notification of serious irregularities and illegal activities

If the audit firm discovers serious irregularities as defined in Art. 21 (4) BA or Art. 19 (5) SESTA, it must notify the SFBC immediately rather than wait until it submits the regulatory audit report and/or the financial audit report (SFBC Circular 05/2 “Audit Reports”). **81**

IV. Audit of financial services groups and conglomerates

A. Scope of application

Financial services groups and conglomerates that are obliged under Art. 23a BO or Art. 29 SESTA to prepare consolidated financial statements or are instructed by the SFBC or are otherwise obliged to adhere on a consolidated basis to the accounting, capital adequacy and large exposure rules stipulated in the Banking Act are subject to an annual audit (group audit) by an audit firm recognised by the SFBC in accordance with Art. 19 (1) BA and Art. 17 (1) SESTA. **82**

Margin nos. 5-81 are applicable by analogy, with allowance for the particularities and special requirements of the group audit. Exceptions and additions to these are set out in margin nos. 84-91, while additional group audit provisions are indicated in margin nos. 92-94. **83**

B. Exceptions and additions

Mandatory audits (margin nos. 28-46): **84**

In general, mandatory audits are required for all Swiss and foreign companies within a financial services group or conglomerate that conduct banking or securities trading activities, as well as those for which the SFBC has ordered mandatory audits to be performed. In individual cases and after prior consultation with the audit firm, the SFBC may specify changes to the mandatory audit areas or declare certain mandatory audit areas as per margin nos. 31-44 to be inapplicable in full or in part.

As a general rule, the *applicable* Swiss *provisions* for a given audit area also apply by analogy to foreign companies within a financial services group or conglomerate. If foreign regulations make it impossible to apply the Swiss provisions, the SFBC must be notified accordingly. **85**

Other mandatory audits (margin no. 44): **86**

The following mandatory audit areas, on which the audit firm must form and express an opinion annually, are additionally defined for audits of financial services groups and conglomerates:

- adequacy of group-wide organisational measures designed to ensure adherence on a consolidated basis to capital adequacy, large exposure and liquidity rules, as well as to manage large exposures within the group;
- adequacy of group-wide organisational measures designed to monitor adherence to Swiss and foreign supervisory rules by companies within the financial services group or conglomerate;
- adherence to the underlying principles of the SFBC's Anti-Money Laundering Ordinance (Art. 3 (1) AMLO-SFBC), global monitoring of legal and reputational risks (Art. 9 AMLO-SFBC) and adherence to the *anti-money laundering regulations* by Swiss group companies (Art. 2 (2d) AMLO-SFBC).

In-depth audit (margin nos. 50-51): **87**

When selecting the audit area for the in-depth audit, the specific circumstances of the financial services group or conglomerate in question must be taken into consideration.

The audit firm may perform an additional in-depth audit (or the SFBC may request one) as part of the group audit. **88**

Audit planning (margin nos. 52-75): **89**

Insofar as the audit firm bases its audit planning on the audit results of *associated audit firms* and/or provides for the involvement of *associated audit firms* in its audit strategy, it must inform about this in its standard report form "Risk Analysis/Audit Strategy" for the financial services group or conglomerate in question. The audit planning may take into account audits by Swiss and foreign supervisory authorities (margin no. 94).

Regulatory audit – audit strategy (margin nos. 65-72): **90**

The audit firm's assessment of the institution's organisation and internal control is carried out by business line or business process and does therefore not necessarily correspond to the legal structures within the financial services group or conglomerate.

Notification of serious irregularities and illegal activities (margin no. 81): **91**

Should the audit firm in the course of auditing entities within financial services groups or conglomerates for which mandatory audits must be performed in accordance with margin nos. 28-46 discover serious irregularities as defined in Art. 21 (4) BA or Art. 19 (5) SESTA, it must notify the SFBC immediately rather than wait until it submits the regulatory audit report and/or the financial audit report.

C. Additional provisions

a) Auditing foreign companies within a financial services group or conglomerate

In general, the audit firm itself performs any regulatory audits of foreign companies within a financial services group or conglomerate that are required for the group audit. **92**

However, such audits may also be performed by *associated audit firms.* In this case, the *associated audit firm* must be instructed appropriately by the audit firm and periodically subjected to a quality control. **93**

b) Reliance on audits performed by Swiss and foreign supervisory authorities

It is left at the audit firm's discretion to what extent it wishes to use the results of audits of companies within a financial services group or conglomerate conducted by Swiss and foreign supervisory authorities as a basis for its own audit. It must in particular consider the general supervisory mandate of such authorities, their readiness to exchange information, ease of access to the requisite audit documentation and the experiences of previous audits. **94**

V. Effective date

Effective date: 1 January 2006 **95**

VI. Transitional provision

This Circular may be applied on a voluntary basis to audits for the financial year ending 31 December 2005. It must be applied to all audits starting with the financial year ending 31 December 2006. For institutions whose financial year does not end on 31 December, this Circular must be applied as of the first financial year ending after 31 December 2006. **96**

Since the reporting period for the regulatory audit is no longer required to coincide with the financial year (SFBC Circular 05/2 "Audit Reports"), there will be a transitional phase during which the regulatory audit may cover a period of more or less than one year. Periods of more than one year are restricted to a maximum of 18 months. They are permissible only for institutions that do not have special risks or problems.

Appendices:

Appendix 1: Standard report form "Risk Analysis/Audit Strategy"
Appendix 2: Glossary

Legal basis:

- BA: Art. 18-22
- SESTA: Art. 17-19

State on 31 January 2008

Appendix 1:
Standard report form “Risk Analysis/Audit Strategy”

Audit firms use this form to submit their “Risk Analysis/Audit Strategy” report in accordance with SFBC Circular 05/1 “Audit”, margin nos. 59-75.

Contents

Note: Standard reporting and other forms of reporting by audit firms to be submitted to the SFBC should duly note the technical terms and definitions as used in the SFBC Circulars “Audit”, “Audit Reports” and “Audit Firms” and in the Swiss Audit Standards.

Standard report form "Risk Analysis/Audit Strategy"		Page:
Institution, domicile:	Audit firm:	Audit year:

1. Risk analysis

1.1 Risk profile of the institution

The auditor defines the main risk categories and subcategories for the institution (columns 1 and 2). The main risk categories typical in banking and securities trading (credit, market and operational risk) are given as a standard. The auditor can add further risk categories and subcategories that are important for the institution as each individual case requires. The degree of detail of the risk categories and subcategories must be appropriate to the institution's business activities and risk situation. For each risk category (e.g. credit risk) or subcategory (e.g. corporate credit business, mortgage business, etc., as subcategories of credit risk), the auditor assesses the institution's risk exposure (column 3). The risk exposure can be categorised as "high", "medium" or "low". Risk exposure is always assessed without taking risk-mitigating measures into account . Under "Comments" (column 4), the auditor gives a brief explanation of the risk exposure assessment and, in the case of medium or high risk exposure, also refers to the relevant corporate goals defined by the institution.

Risk categories (1)	**Risk profile from business activities**		
	Risk sub-categories (2)	**Risk exposure** (✓✓✓ = high risk; ✓✓ = medium risk; ✓ = low risk) (3)	**Comments** (4)
1. Credit risks			
2. Market risks			
3. Operational risks			

Standard report form “Risk Analysis/Audit Strategy”		Page:
Institution, domicile:	Audit firm:	Audit year:

Risk categories (1)	**Risk profile from business activities**		
	Risk sub-categories (2)	**Risk exposure** (✓✓✓ = high risk; ✓✓ = medium risk; ✓ = low risk) (3)	**Comments** (4)
4. Other risks			

Standard report form "Risk Analysis/Audit Strategy"		Page:
Institution, domicile:	Audit firm:	Audit year:

1.2 Key audit risks

In the table below, the auditor records the *key audit risks* (columns 1 and 2) identified in the risk analysis. These are broken down according to the main risk categories and subcategories for the institution as per section 1.1 above. If the auditor does not identify any *key audit risk* in one of the four predefined risk categories, this must be recorded in the form of a negative confirmation. The predefined risk categories can be supplemented but not modified. The same *key audit risk* can be entered for more than one risk category and subcategories at the same time. For greater clarity, the *key audit risks* should be numbered (e.g. KAR1, KAR2 etc.). For each *key audit risk*, the auditor must indicate with a cross whether the audit risk is covered by the risk-based audit, the mandatory audits and/or the in-depth audit (column 3). The audit strategy for *key audit risks* covered by the risk-based audit is given in section 2.1 below. The audit strategy for *key audit risks* covered by the mandatory audits is given in section 2.2 below. If a *key audit risk* is covered by the in-depth audit, this is indicated in section 2.3. In column 4, the auditor enters a "yes" or "no" to indicate whether the *key audit risk* has a *material* influence on the financial audit.

Risk categories/ subcategories (1)	**Key audit risks (number and description) (2)**	**Regulatory audit elements (3)**			**Material influence on financial audit (4)**
		Risk-based audit	**Mandatory audits**	**In-depth audit**	
1. Credit risks					
2. Market risks					
3. Operational risks					
4. Other risks					

Standard report form “Risk Analysis/Audit Strategy”		Page:
Institution, domicile:	Audit firm:	Audit year:

2. Regulatory audit – audit strategy

2.1 Risk-based audits to cover key audit risks

In the table below, the auditor determines the strategy for the risk-based audit on the basis of the *key audit risks*. The main business lines in banking and securities trading are listed in column 1. The auditor can add further business lines or subcategories of main business lines that are of importance to the institution as each individual case requires. As an alternative to the predefined business lines, the processes set out by the institution to be audited can be listed here. In each case, the degree of detail given must be appropriate to the institution’s business activities and risk situation. The auditor first ascertains the *inherent risk* (column 2) and the *control risk* (column 3) for each *key audit risk.* The auditor can rate the *inherent risk* as “higher” or “lower”. The *control risk* can be categorised as “higher”, “medium” or “lower”. If the auditor assesses the *control risk* as “higher” or “lower”, brief reasons for doing so must be given (column 3). The combination of *inherent risk* and *control risk* results in what is known as the *combined risk* (column 4). The *combined risk* determines the *audit depth* to be applied (*audit*, *review*, *plausibility check* or no investigations) by the auditor in the investigations leading to a definitive assessment of the *key audit risk* (column 5, see “*Combined risk – audit depth (matrix)*” in Appendix 2). Reasons must be given for any deviations from the *audit depth* specified in the matrix. The main areas of audit focus in the strategy (audit areas and type of audit, e.g. credit rating audit) are summarised for each business line and each *key audit risk* (column 6). Finally, the auditor states whether the audit in question will be performed in person or the work done by the internal auditors will be referred to (column 7).

Business lines/key audit risks (1)	**Inherent risk** (higher, lower, reasons where appropriate) (2)	**Control risk** (higher, medium, lower, reasons where appropriate) (3)	**Combined risk** (maximum, medium, moderate, minimum) (4)	**Audit strategy**		**Performed by (7)**	
				Audit depth (audit, review, plausibility check, no investigations) (5)	**Main areas of audit focus** (6)	**Audit firm**	**Internal auditors**
1. Interest business							
(the various key audit risks are stated here)							
2. Fee and commission business							
3. Trading (own positions)							

Standard report form “Risk Analysis/Audit Strategy”		Page:
Institution, domicile:	Audit firm:	Audit year:

Business lines/key audit risks (1)	**Inherent risk** (higher, lower, reasons where appropriate) (2)	**Control risk** (higher, medium, lower, reasons where appropriate) (3)	**Combined risk** (maximum, medium, moderate, minimum) (4)	**Audit strategy**		**Performed by (7)**	
				Audit depth (audit, review, plausibility check, no investigations) (5)	**Main areas of audit focus** (6)	**Audit firm**	**Internal auditors**
4. Client relationships							
5. Payment transactions							
6. Support							

Standard report form “Risk Analysis/Audit Strategy”		Page:
Institution, domicile:	Audit firm:	Audit year:

2.2 Mandatory audits

In the table below, the auditor determines the strategy for performing the mandatory audits. The auditor first ascertains the *inherent risk* (column 2) and the *control risk* (column 3) for each mandatory audit area. The auditor rates the *inherent risk* as “higher” or “lower”. The *control risk* is categorised as “higher”, “medium” or “lower”. If the auditor assesses the *control risk* as “higher” or “lower”, brief reasons for doing so must be given (column 3). The combination of *inherent risk* and *control risk* results in the *combined risk* (column 4). The *combined risk* determines the *audit depth* to be applied (*audit*, *review*, *plausibility check*) by the auditor in the investigations leading to a definitive assessment of the mandatory audit area (column 5, see “*Combined risk – audit depth (matrix)*” in Appendix 2). The minimum *audit depth* for mandatory audits is “*plausibility check*”. The main areas of audit focus in the strategy (audit areas and type of audit) are summarised for each mandatory audit area (column 6). Finally, the auditor states whether the audit in question will be performed in person or the work done by the internal auditors will be referred to (column 7). The mandatory audits are divided into mandatory audits for the individual institution and additional mandatory audits for the group. If the rules on consolidated supervision are not applicable to the institution to be audited, the part entitled “Additional mandatory audits for groups” may be deleted.

Mandatory audits for individual institutions

Mandatory audit	**Inherent risk** (higher, lower, reasons where appropriate)	**Control risk** (higher, medium, lower, reasons where appropriate)	**Combined risk** (maximum, medium, moderate, minimum)	**Audit strategy**		**Performed by (7)**	
(1)	**(2)**	**(3)**	**(4)**	**Audit depth** (audit, review, plausibility check) **(5)**	**Main areas of audit focus (6)**	**Audit firm**	**Internal auditors**
Licensing requirements[1]			n/a	n/a	n/a	n/a	n/a
Assurance of proper conduct of business operations[1]			n/a	n/a	n/a	n/a	n/a
Organisation and internal control system (including IT)							
Capital adequacy rules							
Large exposure rules							
Liquidity rules							

[1] No audit strategy needs to be recorded for the licensing requirements and the assurance of proper conduct of business operations. The audit opinion on these two areas is derived from the results of the planned audits as a whole.

Standard report form “Risk Analysis/Audit Strategy”		Page:
Institution, domicile:	Audit firm:	Audit year:

Mandatory audit (1)	**Inherent risk** (higher, lower, reasons where appropriate) (2)	**Control risk** (higher, medium, lower, reasons where appropriate) (3)	**Combined risk** (maximum, medium, moderate, minimum) (4)	**Audit strategy**		**Performed by (7)**	
				Audit depth (audit, review, plausibility check) (5)	**Main areas of audit focus** (6)	**Audit firm**	**Internal auditors**
Corporate governance, including personnel segregation of executive management and board of directors							
Adherence to generally accepted banking principles for transactions with members of governing bodies and any qualifying party with an interest in the institution							
Adequacy of risk identification, measurement, management and monitoring							
Internal audit function							n/a
Compliance function							
Anti-money laundering regulations[2]							
Audit areas specified by the SFBC for the individual institution							

[2] Audits pursuant to Art. 12 (3) AMLO-SFBC should be mentioned here. For these audits, the *audit depth* “*audit*” must always be applied.

Standard report form "Risk Analysis/Audit Strategy"		Page:
Institution, domicile:	Audit firm:	Audit year:

Additional mandatory audits for groups

Mandatory audit (1)	**Inherent risk** (higher, lower, reasons where appropriate) (2)	**Control risk** (higher, medium, lower, reasons where appropriate) (3)	**Combined risk** (maximum, medium, moderate, minimum) (4)	**Audit strategy**		**Performed by (7)**	
				Audit depth (audit, review, plausibility check) (5)	**Main areas of audit focus** (6)	**Audit firm**	**Internal auditors**
Regulations in connection with consolidated supervision							
group-wide organisational measures designed to ensure adherence on a consolidated basis to capital adequacy, large exposure and liquidity rules, as well as to manage large exposures within the group							
Group-wide organisational measures designed to monitor adherence to Swiss and foreign supervisory rules by companies within the financial services group or conglomerate							
Adherence to the basic principles of the SFBC's-Anti-Money Laundering Ordinance (Art. 3 (1) AMLO-SFBC), global monitoring of legal and reputational risks (Art. 9 AMLO-SFBC) and adherence to Anti-money laundering regulations by Swiss group companies (Art. 2 (2d) AMLO-SFBC)							
Audit areas specified by the SFBC for the group as a whole							

Standard report form “Risk Analysis/Audit Strategy”		Page:
Institution, domicile:	Audit firm:	Audit year:

2.3 In-depth audit

The tables below list in-depth audits planned for the year under review and performed in the previous three years. The results of the in-depth audit performed in the previous years and of any follow-up audits (Art. 41 (1) Banking Ordinance, Art. 35 (1) Stock Exchange and Securities Trading Ordinance) must be summarised.

Year under review

Business line	**Audit area**	**Key audit risks**	**Main areas of audit focus**

Previous years

Audit year	**Business line**	**Audit area**	**Results of in-depth audit/follow-up audits**
2004			
2003			
2002			

Standard report form "Risk Analysis/Audit Strategy"		Page:
Institution, domicile:	Audit firm:	Audit year:

3. Financial audit – indication for the audit strategy

The findings of the risk analysis are also mentioned in the financial audit planning. However, the individual planning stages are carried out in accordance with industry standards and the methodologies for the financial audit developed by the audit firm. They are therefore not the subject of this report. Nevertheless, the auditor must summarise below the *material* findings of the risk analysis for the financial audit as well as the audit steps defined to address the *key audit risks.*

Key audit risks (see 1.2)	**Possible impact on the annual financial statement** (especially on valuation, going concern and disclosure)	**Annual financial statement positions**	**Audit steps defined to address the key audit risks**

Standard report form "Risk Analysis/Audit Strategy"		Page:
Institution, domicile:	Audit firm:	Audit year:

4. Concluding remarks

4.1 Discussing the document with the institution

Check the boxes as appropriate and add the date of the discussion.

The audit firm has discussed this document with

- ☐ the Board of Directors on....................
- ☐ the audit committee on ....
- ☐ the executive management on ....
- ☐ the internal auditors on ....
- ☐ ....

4.2 Useful references

References to additional audits (e.g. those performed in accordance with the Collective Investment Schemes Act or the Mortgage Bond Act or upon instructions of the Board of Directors)

4.3 Final comments

The audit firm drew up the risk analysis presented in this document on the following basis (check boxes where appropriate):

- ☐ results of its audits in the previous year
- ☐ planning discussion at which, among other things, the material results and developments for the institution since the completion of the previous year's audit were presented and discussed
  - ☐ with the Board of Directors
  - ☐ with the audit committee
  - ☐ with the internal auditors
  - ☐ with the executive management
  - ☐ with the heads of material business lines
- ☐ audit report drawn up by the previous audit firm in accordance with the Banking Act or Stock Exchange and Securities Trading Act and the relevant working papers, which were seen by the new audit firm on …....
- ☐ other investigations and/or documentation (please list):

____

____

____

Place/date Firm's name/signature

State on 31 January 2008

Appendix 2:

Glossary

Anti-money laundering regulations [Geldwäschereivorschriften] [prescriptions sur le blanchiment d'argent] [disposizioni sul riciclaggio di denaro]

Anti-money laundering regulations comprise in particular the provisions of the Swiss Anti-Money Laundering Act and its implementing provisions, namely the Anti-Money Laundering Ordinance of the Swiss Federal Banking Commission (AMLO-SFBC) and the Swiss banks' Code of Conduct with regard to the exercise of Due Diligence (CDB), which is published by the Swiss Bankers Association.

Applicable provisions [massgebende Vorschriften] [prescriptions pertinentes] [disposizioni derterminanti]

For the purposes of this Circular, the applicable provisions are the rules and regulations relevant to supervisory matters as prescribed by the Swiss Confederation and the rules and regulations issued by the SFBC, as well as the self-regulation recognized as the minimum standard by the SFBC (SFBC Circular 04/2 "Self-regulation as Minimum Standard"). Rules and regulations relevant to supervisory matters enacted by the Swiss Confederation include in particular the Banking Act (BA), the Stock Exchanges and Securities Trading Act (SESTA), the Collective Investment Schemes Act (CISA), the Anti-Money Laundering Act (AMLA), the National Bank Act (NBA), any embargo legislation in force and the Mortgage Bond Act (MBA), as well as the related implementing provisions. If the audit firm identifies breaches of other legal provisions, Art. 21 (3) and (4) BA and/or Art. 19 (4) and (5) SESTA apply by analogy. The audit firm performs the audit to verify adherence to the applicable provisions relevant for mandatory audits applying the *audit depth* derived from its risk analysis *("audit", "review"* or *"plausibility check")*. It performs an *audit*, a *review* or a *plausibility check* to verify adherence to the provisions applicable in relation to other areas if the audit strategy derived from its risk analysis requires such action. Adherence to the applicable provisions is also checked if the audit firm performs an in-depth audit in the area concerned.

Associated audit firm [verbundene Prüfgesellschaft] [société d'audit liée] [società di audit associata]

An association of audit firms includes

- the audit firm itself;
- companies in which the audit firm directly or indirectly holds more than half the voting rights or has a controlling interest in some other manner;
- and any other company otherwise grouped or associated with the audit firm by means of joint control, ownership or management, a shared name or substantial shared resources of any kind.

Assurance / levels of assurance [Zusicherung / Grad der Zusicherung] [assurance / degré d'assurance] [assicurazione / grado di assicurazione]

With regard to the reliability of audit opinions, a distinction is drawn between various levels of assurance:

- high assurance;
- moderate assurance;
- and no assurance.

The degree of reliability of the audit firm's opinion – and hence the level of assurance – depends on the type of audit activity and its results:

- In an *audit*, the auditor gives a high assurance of reliability. The audit opinion is worded positively. Example: the audit firm confirms adherence to certain provisions.
- In a *review*, the auditor gives only a moderate assurance of reliability. This lesser degree of certainty is expressed with a negative wording ("negative assurance"). Example: the audit firm confirms that, in the course of its *review*, no circumstances were discovered that suggested that licensing requirements were not being adhered to.
- In a *plausibility check*, the auditor gives a low level assurance of reliability. This low degree of certainty is expressed with a negative wording. It is reinforced by the additional indication of a *plausibility check* as the *audit depth.*
- If no investigations are carried out, the auditor does not offer any assurances. In this case, the risk analysis takes on a greater importance, since the decision not to carry out investigations in a certain area may be made on the basis of the results of the risk analysis.

Audit [Prüfung] [audit] [audit]

This Circular uses the term "audit" in two different ways:

1. Referring to the general activity of an audit firm.
2. Designating the most detailed and thorough level of *audit depth*. Here, a distinction is made between four levels of the *audit depth*: audit, *review, plausibility check* and no investigations.

In each case, the sense in which the term is used in the main text of the Circular is clear from the context. When used in the second meaning above, *audit* appears in italics.

When *audit* is used in the second meaning above, it implies that the audit firm is adopting a risk-based approach, i.e. that it first performs *tests of controls* (system audits) to get a general impression of the quality and reliability of the internal control system (ICS). This ICS assessment is substantiated by *tests of details.* The selection of random samples used in *tests of details* will depend on the assessment of ICS quality and the risk situation. In all cases, the principle of *materiality* is paramount.

See also *assurance.*

Audit depth [Prüftiefe] [étendue de l'audit] [ampiezza dell'audit]

The risk-based audit approach distinguishes between the various degrees of detail into which different types of audit go. The risk assessment determines audit procedures with regard to the selection of audit areas and the audit depth adopted. According to the main text of the Circular and Appendix 1, four levels of audit depth are generally distinguished for the audit strategy:

- *audit;*
- *review;*
- *plausibility check;*
- and no investigations.

See also *Combined risk – audit depth (matrix)*.

Combined risk, combined risk assessment [Kombiniertes Risiko, kombinierte Risikobeurteilung] [risque combiné, appréciation combinée des risques] [rischio combinato, valutazione combinata del rischio]

The combined risk is equal to *inherent risk* multiplied by *control risk*. The combined risk (maximum, medium, modest or minimum) influences the audit process and the *audit depth* to be applied ("*audit*", "*review*", "*plausibility check*" or "no investigations"). Thus, a "maximum" combined risk requires a full *audit*, whereas a "minimum" combined risk does not require any investigation (see the combined risk/audit depth matrix below). Once the investigations (*audit*, *review*, *plausibility check*) have been carried out, the residual detection risk corresponds to the audit risk in the traditional sense of the term (combined risk x detection risk). In this context, the residual risk is the risk that the auditor's opinion is inaccurate and that, despite expectations to the contrary, the *key audit risk* will occur.

Combined risk – audit depth (matrix) [Kombiniertes Risiko – Prüftiefe (Matrix)] [risque combiné – étendue de l'audit (matrice)] [rischio combinato – ampiezza dell'audit (matrice)]

Inherent risk	**Control risk**		
	Lower	**Medium**	**Higher**
Lower	Minimum *No investigations*	Moderate *Plausibility check*	Medium *Review*
Higher	Moderate *Plausibility check*	Medium *Review*	Maximum *Audit*

Control risk [Kontrollrisiko] [risque de contrôle] [rischio di controllo]

In the context of the risk analysis and the audit strategy derived therefrom, the control risk is the risk that internal controls fail to prevent or identify and promptly rectify *material* errors, *material* defective transactions or *material* irregularities. The degree of control risk is a function of the probability of such events occurring. The control risk in a given audit area can be categorised as "higher", "medium" or "lower". If there are indications that the institution's measures to mitigate risks (controls) are unsuitable, ineffective or only partly effective, the auditor classifies the control risk as "higher". If the auditor finds no such indications, he classifies the control risk as "medium". If the auditor is aware of specific reasons (e.g. results of the previous year's audits and absence of any *material* changes to the control system in the meantime) suggesting that the risk controls are most probably adequate and effective, he may rate the control risk as "lower".

Inherent risk [Inhärentes Risiko] [risque inhérent] [rischio connesso]

In the context of the risk analysis and the audit strategy derived therefrom, the inherent risk is the risk that a specific audit area contains *material* errors, *material* defective transactions or *material* irregularities, in spite of the existence of internal controls designed to prevent them. The degree of inherent risk is a function of the materiality of the occurrence of such an event for the institution and of the probability of its occurrence. The inherent risk in a given audit area can be categorised as "higher" or "lower".

Key audit risk [Schlüssel-Prüfrisiko] [risque essentiel d'audit] [rischio essenziale di audit]

Key audit risks are factors identified by the audit firm in its risk analysis that might have a *material* influence on the audit firm's opinion with regard to

- the annual financial statements to be audited (financial audit) and/or
- the institution's adherence to licensing requirements and other *applicable provisions* (regulatory audit).

Where the identified risk factor is borne out, a key audit risk is sufficient cause to prompt a notice of reservation in terms of Art. 21 (3) BA and Art. 19 (4) SESTA in the regulatory or the financial audit report (SFBC Circular 05/2 “Audit Reports”). Specific audit steps are derived from key audit risks.

Examples of key audit risks:

- Weaknesses and shortcomings prompted notices of reservation in the previous year’s regulatory or financial audit report (SFBC Circular 05/2 “Audit Reports”).
- There is a discernible risk of defective implementation of specific, newly applicable regulations.
- An outsourcing arrangement introduced in the year under review can give rise to heightened risks in certain areas if responsibilities and rights are not adequately stipulated in writing in the service level agreement. Incomplete agreements may ultimately have a negative influence on the assessment of the internal control system.
- The institution has migrated to a new IT platform. There is a risk that the system-supported monitoring of lombard loans is no longer adequate.
- The institution is striving for rapid growth in its dealings with external asset managers. There is good cause to suspect that the internal control system is no longer adequate to the more exacting requirements of this business line.
- The management of the compliance department has changed. There is a risk that measures designed to ensure prompt and complete processing of pending items are not working properly.
- The scope for assessing the value of a given asset is limited (e.g. a deferred tax asset due to tax-deductible losses carried forward).
- The integrity of the data used in the systems to measure and monitor interest rate risk in the banking book has not been sufficiently tested. Decisions for managing interest rate risks in the banking book may be based on incorrect data due to insufficient data integrity testing.

Materiality [Wesentlichkeit] [caractère significatif] [essenzialità]

Materiality is an accepted principle in standard auditing procedures; the decision as to the type and scope of activities required is based on an evaluation of the extent to which a negative audit result can substantially influence the opinion formed by the auditor or a third party. The materiality principle must be given due consideration when planning and peforming the audit, forming the audit opinion and preparing the audit report.

Plausibility check [Plausibilisierung] [audit de plausibilité] [audit di plausibilità]

The plausibility check forms part of the analytical investigation carried out in a *review*. In particular, it involves comparing key variables (target/actual, year-on-year, peer group etc.) or making aggregated calculations to assess whether the value reported matches the expected value. It does not presuppose that the correct result is a precise match between the audited data and the comparison values and/or benchmark calculations. Its main purpose is to establish a degree of objective plausibility.

Review [prüferische Durchsicht („review“)] [revue succincte („review“)] [controllo sommario („review”)]

The review consists primarily of interviews and analytical audit procedures. Therefore, it gives rise to moderate *assurance* (a lesser degree of certainty) in which *material* errors or *material* shortcomings should be detected, although the probability of doing so is less than with a full *audit.*

Tests of controls [verfahrensorientierte Prüfung] [audit orienté processus] [audit orientato ai processi]

Auditors adopt this auditing method to gain insight into the quality and reliability of the internal controls and the control environment, thereby obtaining a reliable audit trail of the system as a whole (organisation, information flows, work processes) and of the controls embedded in the system. Also refer to *tests of details* for contrast and comparison.

Tests of details [ergebnisorientierte Prüfung] [audit de validation] [audit orientato ai risultati]

Tests of details involve auditing specific business transactions (balances, valuations or transactions) and their representation in the accounts or the degree to which they adhere to the *applicable provisions.* They are distinct from the *tests of controls.*