

Glossary

Anti-money laundering regulations [Geldwäschereivorschriften] [prescriptions sur le blanchiment d'argent]

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]

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 Investment Fund Act (IFA), 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 *mutatis mutandis*. 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]

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]

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]

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]

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]**

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)]**

Inherent risk	Control risk		
	Lower	Medium	Higher
Lower	Minimum <i>No investigations</i>	Moderate <i>Plausibility check</i>	Medium <i>Review</i>
Higher	Moderate <i>Plausibility check</i>	Medium <i>Review</i>	Maximum <i>Audit</i>

Control risk [Kontrollrisiko] [risque de contrôle]

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]

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]

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]

Materiality is a recognised 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 performing the audit, forming the audit opinion and preparing the audit report.

Plausibility check [Plausibilisierung] [audit de plausibilité]

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“)]

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]

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]

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*.