



Case Study: The internal control system of the City of Zurich – its introduction, development, structure and links to risk management

Input PEMPAL IACOP (Internal Audit Community of Practice)

Bern (Switzerland), March 22, 2023

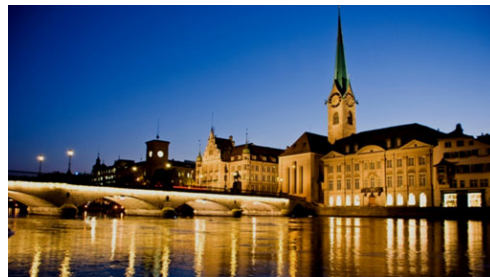
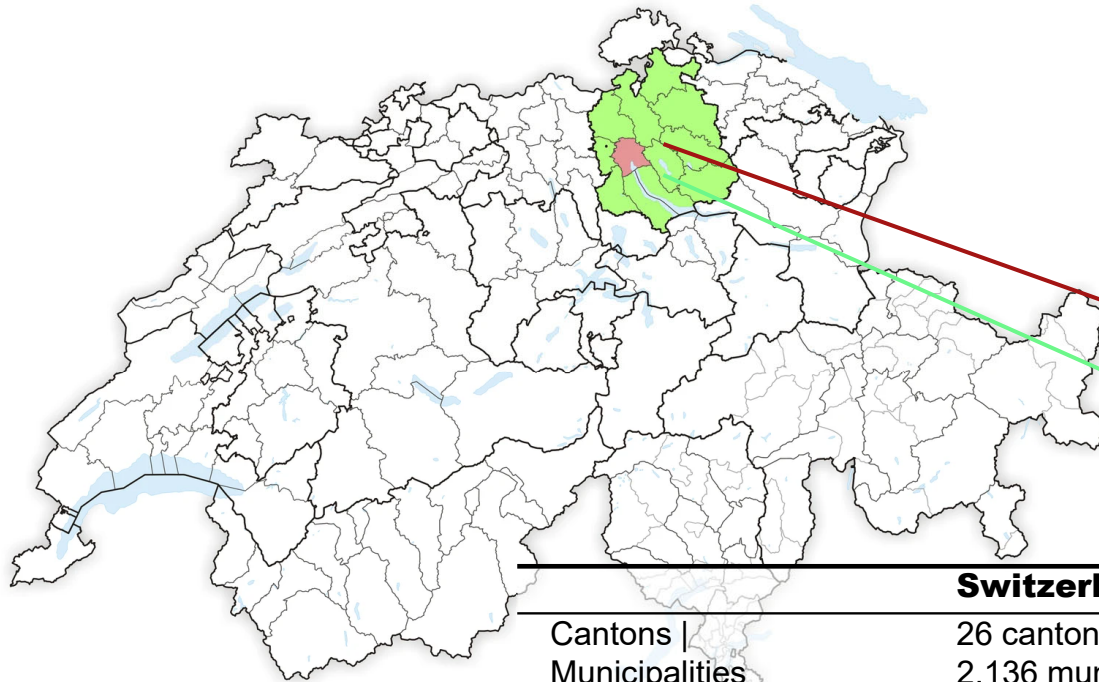
Dr. Markus Braunschweiler, Head IKS Competence Center, City of Zurich



Agenda

1. City of Zurich
2. "CHARM" project for city-wide introduction of opportunity- and risk-management and of IKS
3. Risk management of the City of Zurich
4. Internal control system of the City of Zurich
5. Overview

1. City of Zurich

City of Zurich, Canton of Zurich, Switzerland



	Switzerland 	Canton of Zurich 	City of Zurich
Cantons Municipalities	26 cantons 2,136 municipalities	1 canton 160 municipalities	- 1 municipality
Official Languages	German, French, Italian, R.	German	German
Surface	41,285 km2 (100%)	1,729 km2 (4%)	88 km2 (0.2%)
Population	8,738,800 (100%)	1,577,568 (18%)	426,890 (5%)
Foreigner ratio	25.7%	27.6%	32.8%
Workforce	5,242,000 (100%)	1,060,000 (20%)	495,000 (9%)
GDP, 2021 (CHF)	732 billion (100%)	147 billion (20%)	79 billion (11%)
Per capita GDP (CHF)	≈ 84,000 (100%)	≈ 93,000 (111%)	≈ 185,000 (220%)

City of Zurich | Political system and administration



Circa 234,000 voters

Every year, a few votes (e.g., on school building construction, local law amendments, initiatives, referenda).

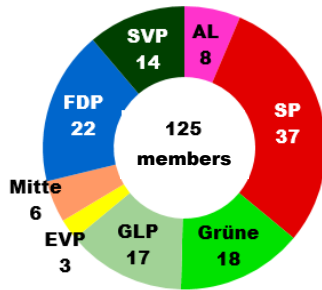


City of Zurich
Finance Administration

elect every 4 years

Elections 2022

The City Parliament
(legislative authority)



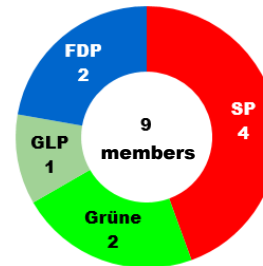
- It
- enacts laws
 - oversees the City Council
 - appoints Financial Controllers
 - approves the budget and public accounts.

Annual accounting, 2021
(CHF million)

Expenditure	9,294
Revenue surplus	120.1
Net investments	1,052
Equirty	1,664
Net liabilities	4,495

Case Study: The internal control system of the City of Zurich
Markus Braunschweiler

The City Council
(executive authority)

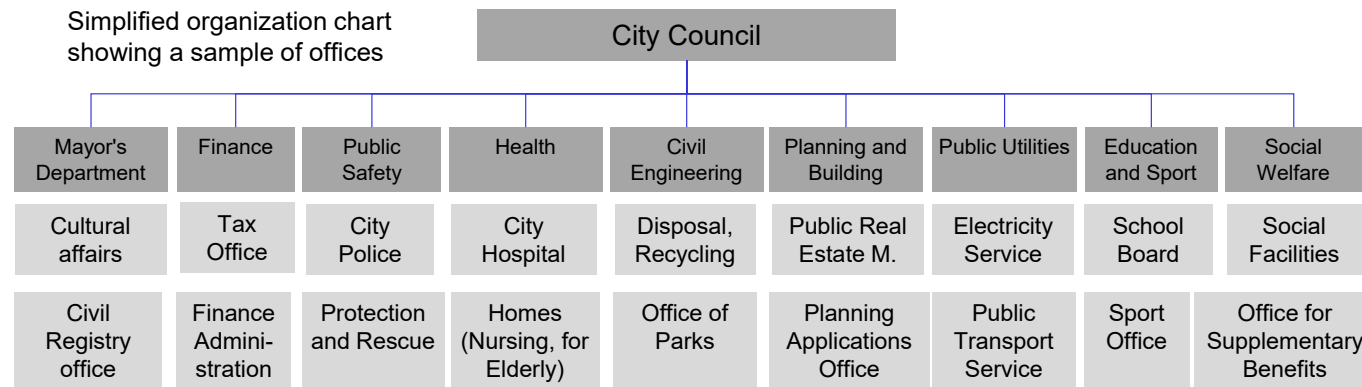


The Mayor of the City of Zurich



It issues regulations and ensures administration (22,900 FTEs) in 9 departments and circa 70 offices.

Simplified organization chart showing a sample of offices



22.03.2023
page 5

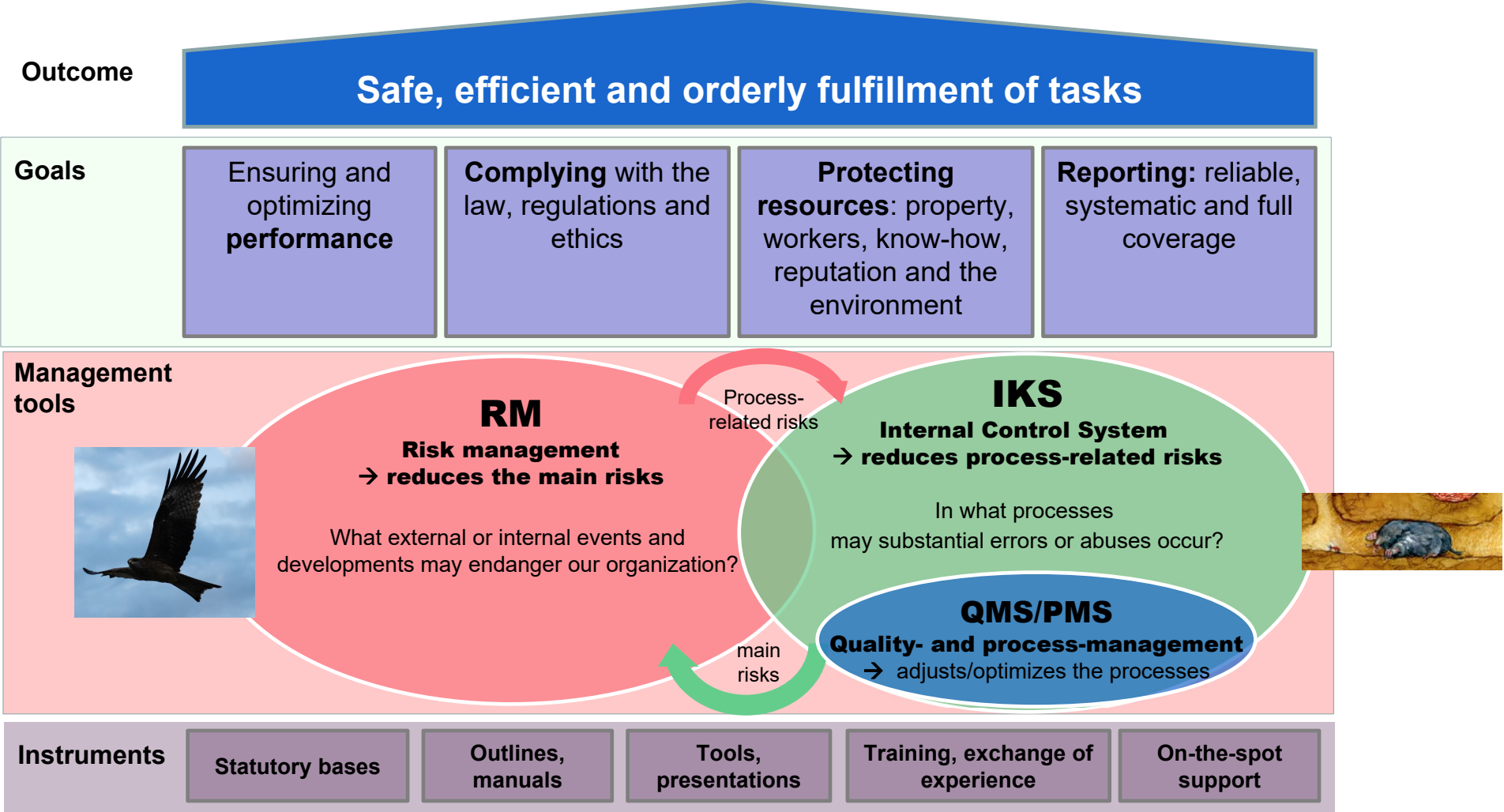
2. "CHARM" project for the city-wide setup of opportunity- and risk-management and of IKS

"CHARM" project

City-wide project covering all departments

- Around 2006 Identification by City Councilor M. Vollenwyder of a potential for optimization in the area of insurance
- Up to 2007 Elaboration of a risk and insurance outline
- 2008 Call for tenders for a solution regarding insurance, introduced Jan. 1, 2009
→ Higher (risk) retention requires better risk control
- 2008 Establishment of a risk management (RM) working group, concurrent consideration of including the related topics of IKS and Accounting Manual
- 2009 Commissioning of the "CHARM" project by City Councilor M. Vollenwyder
Opportunity- (chances-) & risk-management (acronym: "CHARM") and IKS
- 2011 Adoption of the Risk and Insurance Regulation and the IKS Regulation, project finalization
- 2021 Full revision of the IKS Regulation (AS 172.170)

Dealing with risks: goals and instruments



3. Risk management (RM) in the City of Zurich

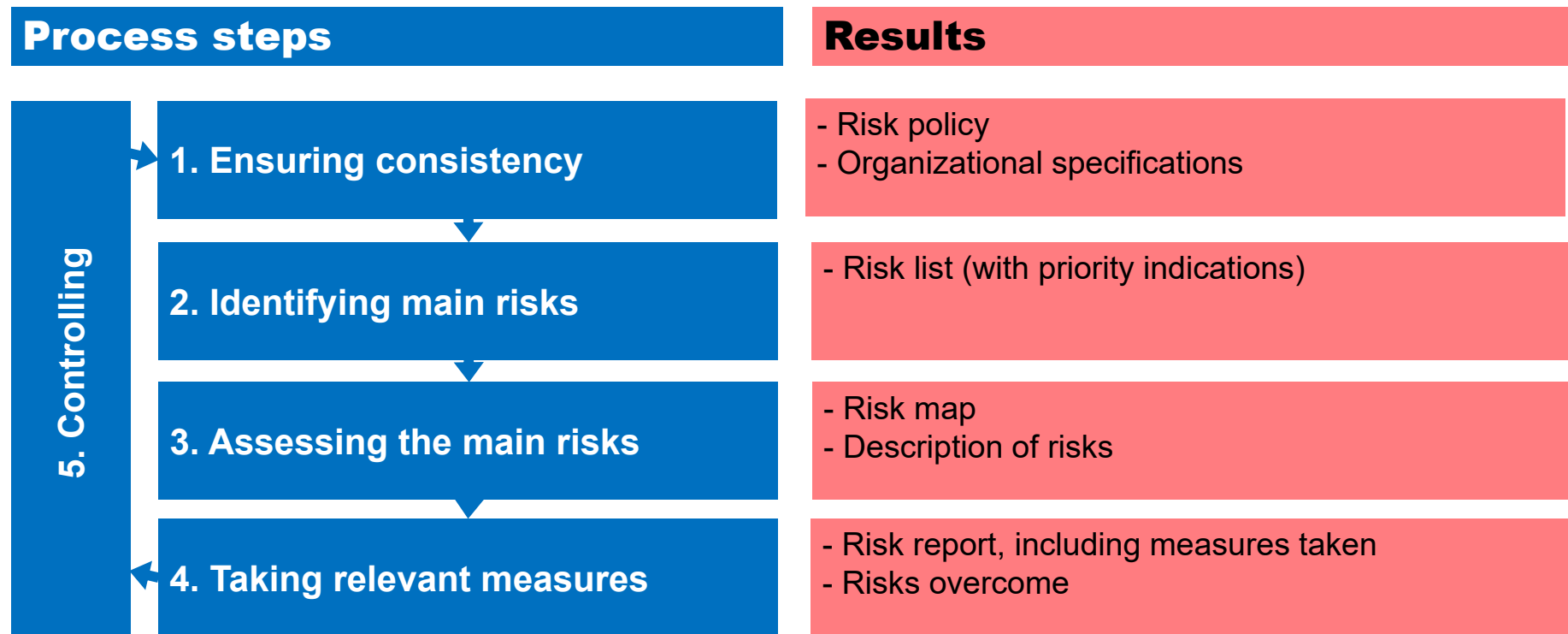
Risk management: what is it about?

Goals

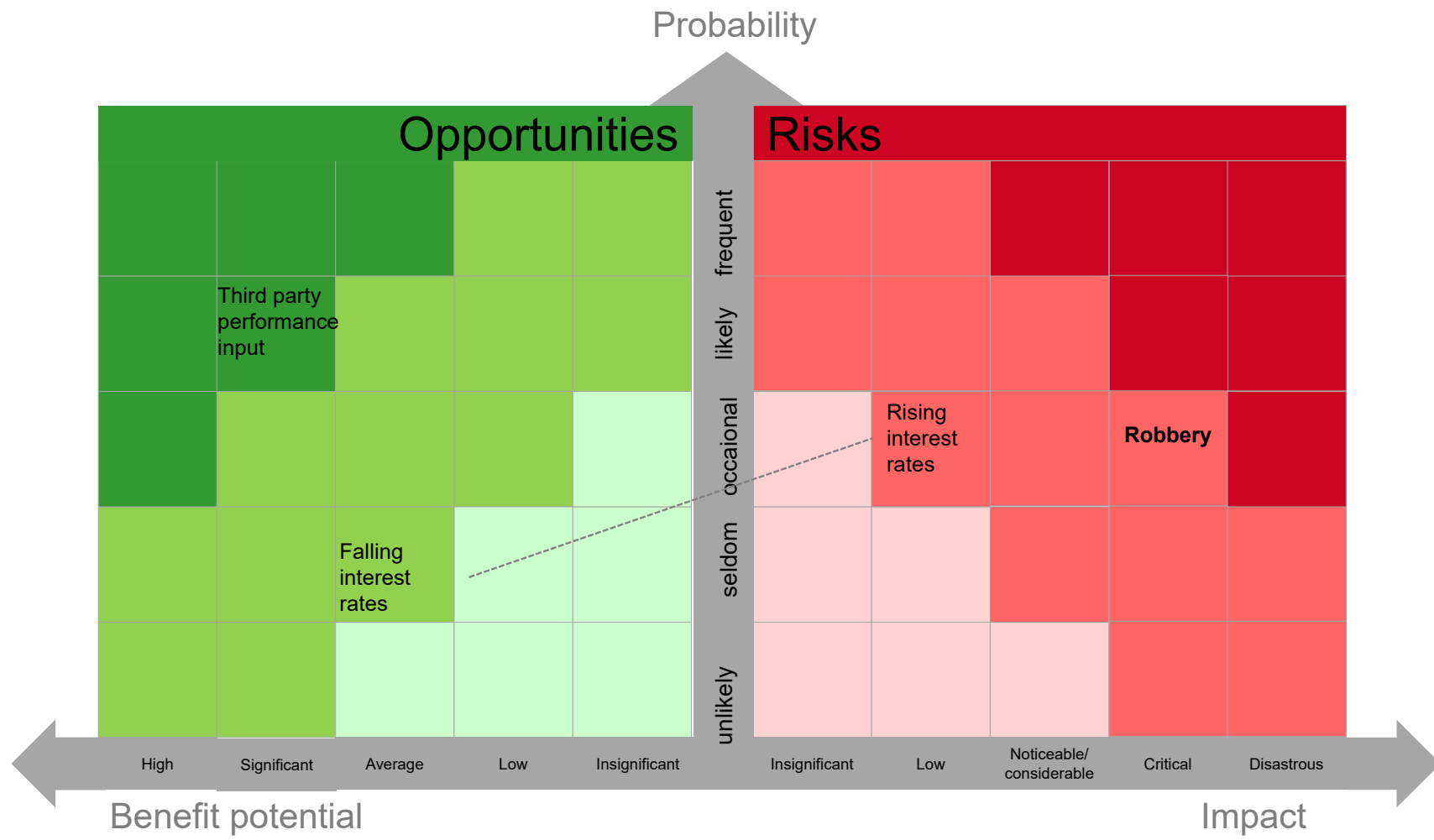
Risk management in the City of Zurich helps to ensure **the city administration's** ongoing **performance and operational capacity** and:

- **protects human beings, the environment, property and reputation,**
- **ensures transparency** with regard to (opportunities and) risks for the attainment of goals,
- **supports management** through comprehensive and updated information about risks,
- promotes, through appropriate measures, **risk identification and control,**
- helps to **reduce risk costs,**
- enhances the **opportunity- and risk-awareness** of all workers.

Risk management process in each service section - usually a workshop, including management staff

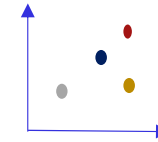


Risk management | Example of an opportunity and risk map

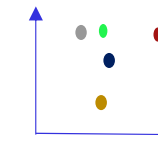


Risk management at City level: bottom-up approach, consolidation

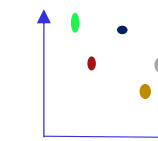
4. The **City Council** examines the risk map and adopts the definite version.



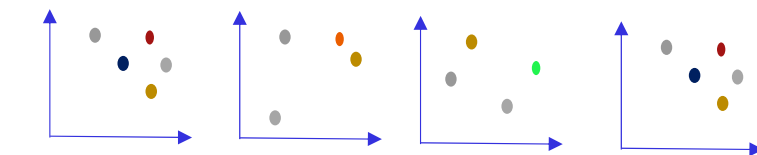
3. A group of administration executives assesses the risks from a **political standpoint** and adjusts the map.



2. The technical team compiles the biggest and frequently reported risks often. An **expert committee** adjusts the map.



1. Approximately 60 **service sections** identify and assess their main risks (partly in workshops with the technical team).



4. The Internal Control System (IKS) of the City of Zurich

Regulations for RM and IKS at municipality level

Not in focus:
Regulations
for the federal
administration

CH

Not in focus:
Regulations
for the canton
administration

Cantons
In this case,
Canton of
Zurich

Not in focus:
Regulations
for other
cities and
communities

Municipalities
In this case,
City of Zurich

- **No federal regulations for municipalities**
- **Recommendation** of the Conference of Cantonal Financial Directors in the "**Model finance act for cantons and municipalities**" of 2008:
 - **Art. 68, Risk minimization:** (1) The Government Council shall take the necessary measures to protect property, ensure appropriate use of funds, prevent or detect errors or irregularities in book keeping, and ensure correct accounting and reliable reporting.
(2) In so doing it shall consider the risk situation and the cost-benefit ratio.
 - **Art. 69, Internal Control System:** (1) IKS shall include regulatory, organizational and technical measures. The Government Council shall issue the relevant guidelines after consultation with Financial Control.
(2) The managements of administrative units shall be responsible for introducing, implementing and monitoring the Control System in their area of competence.

Municipal Law of the Canton of Zurich of 20.4.2015 (GG; [LS 131.1](#))

- § 49.** (1) The Municipal Board shall conduct the administration of the municipality. ...
- (2) It shall carry out monitoring and administration, and
- (a) ensure compliance with the relevant provisions,
 - (b) provide for the appropriate use of resources,
 - (c) take measures to protect municipal property and prevent administrative offences..

Financing Regulation of the City of Zurich (FHR; [AS 611.111](#))

- Art. 9** (1) The organization units shall take measures to protect municipal property, ensure appropriate use of funds, prevent errors or irregularities in book keeping, and ensure correct accounting and reliable reporting.
- (2) In so doing, they shall consider in particular - besides cantonal and local budget-act provisions - the Risk and Insurance Regulation (RVR) of the City of Zurich adopted by the City Council, and the IKS Regulation.

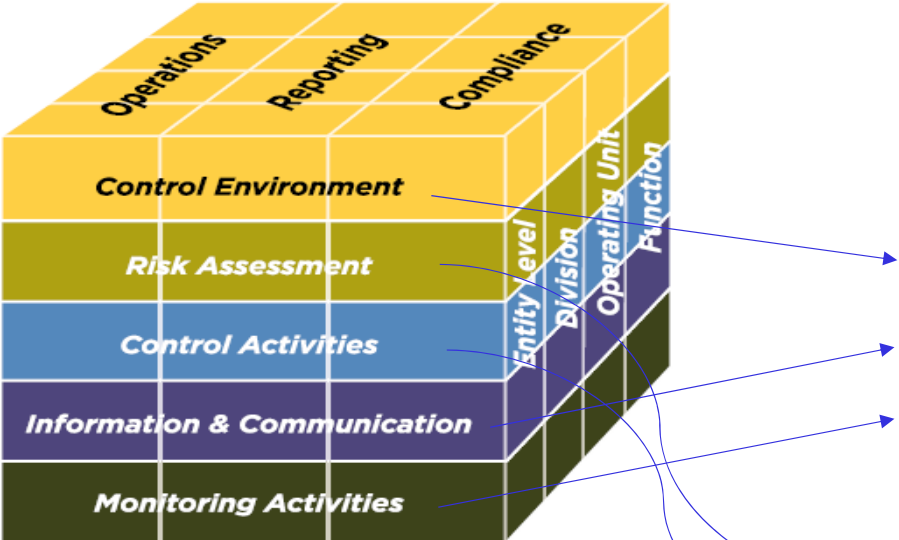
What is IKS and what are its aims?

According to articles 3 and 4 of the IKS Regulation (2021):

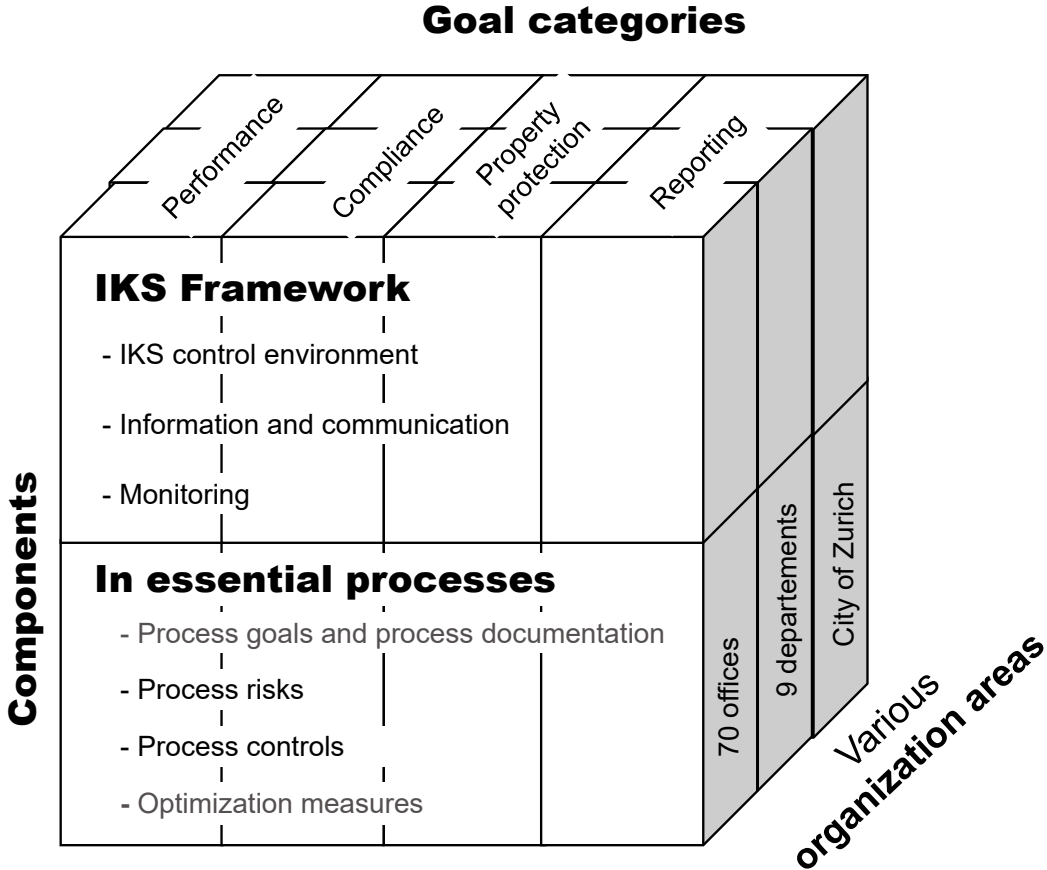
IKS is an in-house management tool. It includes all methods and measures designed to avoid, reduce and detect errors and abuse in connection with the following goals:

- Ensuring performance (of tasks)
- Complying with the law, regulations and ethics
- Protecting resources: property, workers, know-how, reputation and the environment (asset preservation)
- Reporting: reliable, systematic and full coverage

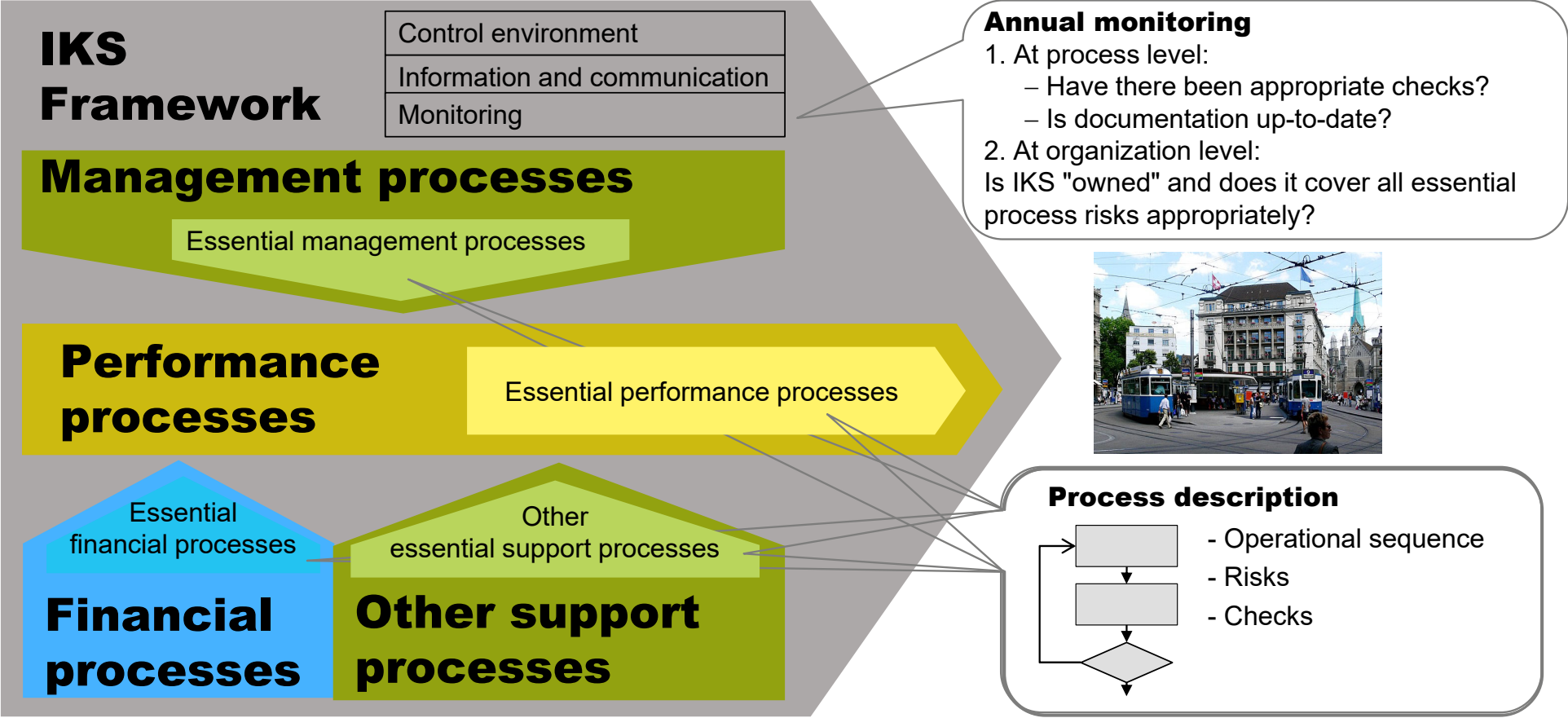
Background: the COSO cube and the Zurich-IKS cube



COSO III (2013)
Internal Control -
Integrated Framework



Requirements specified for City IKS I



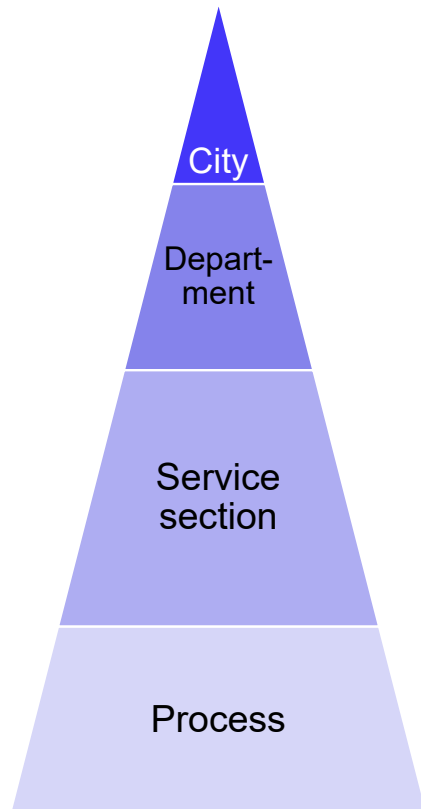
Requirements specified for City IKS II

The IKS Regulation lays down the following essential salient points:

1. Defining the IKS fundamentals (the IKS Framework) at office-level
2. Identifying essential processes
3. Documenting, for each essential process, the:
 - Operational sequence
 - Biggest process risks
 - Key checks (including competence, frequency and evidence)
4. Conducting specified checks, documenting results, correcting errors
5. Ensuring annual monitoring at process level
 - Is documentation up-to-date?
 - Are checks carried out effectively?
6. Ensuring annual monitoring at office-level
 - Is IKS in line with the essential processes?
 - Is IKS used effectively?
 - Is the "IKS Framework" up-to-date?
7. Undertaking optimizations where necessary

IKS roles

Various IKS tasks by level



At City level

- The **City Council** adopts the IKS Regulation and every 2 years is informed about the state of IKS.
- The **IKS Competence Center** coordinates IKS city-wide, supports the OEs, informs the City Council.
- Financial control **reviews the IKS of the OEs**

At the level of each department

- The **department management** is informed annually about the state of IKS in the department.
- The **department's IKS contact persons** assess IKS in the in the department, inform management

At the level of each service section

- **Directors** approve the IKS Framework, establish essential processes, assess IKS in the OE annually, and decide on IKS optimization measures.
- The **persons in charge of IKS** coordinate IKS at OE level, prepare the IKS Framework, launch and monitor process review, assess IKS at OE level, and recommend IKS optimization measures.

At the level of each process

- The **supervisors of those responsible for the process** ensure annually that the process can be assessed.
- The **persons responsible for the process** assess annually the process, including the process checks.
- The **persons responsible for the checks** carry them out

IKS tools: "IKS check list" (risk- and control-matrix)



IKS - JAHRESLISTE INSTITUTION/DIENSTABTEILUNG

B-1 Planung und Budgetierung 20xx

(jährlich von den Dienstabteilungen zu beantworten; daneben ist bei Änderungen oder spätestens alle 4 Jahre die «Frontliste zu beantworten)

[Organisationseinheit]

Prozessziel: Finanzen der OE sind realistisch und gemäss übergeordneten Vorgaben geplant

V2.2018-04	Prozessbeschreibung	Zweck	#	Risiko	Risikotyp	Höhe	Kontrollmassnahme	i.O.?	Bemerkung	RM			
Prozess-Phase	Input/ Arbeitsschritt Output	Ziel des Prozess-schrittes	Nr.	Risikobeschreibung	C V R O	Aus-mass	Kontrolle	wer	Fre-quenz	Nachweis	ja nein	Zu beachten / Optimierung	Top-Risiko
Für Institution planen und budgetieren	Gesamtstädtische und departementale Planungsvorgaben											für Grobplanung, Feinplanung und Überarbeitung	
	Institution organisiert Planung und Budgetierung unter Einhaltung der gesamtstädtischen und departementalen Vorgaben	Städtische und departementale Fristen und Kompetenzregeln einhalten	PL_115	Verzögerung im Gesamtprozess; Vorgaben verletzt	C	O	klein	Ist der Planungs- und Budgetprozess zuverlässig organisiert? Sind Aufgaben, Termine und Stellvertretungen festgelegt?	jedes mal				
	Leistungen, Stellen und Beträge planen und budgetieren	Umfeldentwicklung richtig einschätzen und strategische Ziele berücksichtigen	PL_120	Eingaben sind unrealistisch oder widersprechen Zielen		R O	gross	Realistische Annahmen zur Umfeldentwicklung? Strategische Ziele berücksichtigt?	jedes mal				
		Finanzielle und fachliche Korrekte Stellenplanung	PL_175	Finanz-Planungsvorgaben Keine Anpassung der	C	P O		Ist das Total innerhalb der finanz-letztgültigen Massung zur Disposition?	jedes mal				
		Interne Leistungen	PL_176	Unvollständige, falsche oder	C	P O		Vieraugenkontrolle bei allen ILV.	jedes mal				
		Korrekte Zahlen und Begründungen	PL_180	Fehler oder Lücken		R O	mittel	Vieraugenkontrolle: sind unsere Zahlen und Begründungen plausibel?	jedes mal				
		Bei Korrekturvorgaben FAP und Budget bereinigen	Bereinigungen korrekt und bei allen Positionen umsetzen	PL_200	unvollständige, abweichende, falsche Werte		R O	Vieraugenkontrolle: sind Bereinigungen vollständig umgesetzt?	bei Bedarf				
	Unterlagen schriftlich einreichen	Unterlagen termingerecht und von Zuständigen unterschrieben	PL_205	Verzögerungen, Abweichungen, Kompetenzüberschreitung	C	O		Unterschreiben die Zuständigen? Stimmen Werte im System mit Ausdruck überein?	jedes mal				
	Eingabe												
November-brief	Wesentliche, bisher nicht bekannte Anpassungen ergänzen	Aktualisiertes Budget	PL_330	Wesentliche Anpassungen werden vergessen oder absichtlich verschwiegen	C	R		Sind wesentliche, neue Entwicklungen erfasst?	bei Bedarf				

Risikotyp
 C: Compliance-Risiko
 V: Risiko Vermögensverlust
 R: Reporting-Risiko
 O: operatives Risiko

Optimierung

Rolle
 Prozessverantwortliche/r
 Vorgesetzte/r

Name

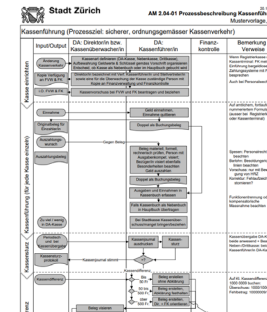
Datum und Unterschrift

Bemerkungen

Development of IKS in the City of Zurich, taking as an example the "cash management" process

Start (2009): Process-specific presentations

- Process description with Visio
- Risk control matrix in Excel, with 27 process risks and (specific) checks



This is an Excel risk control matrix for the 'Kassenführung' process. It lists 27 risks and their corresponding controls. The columns include 'Risiko', 'Kategorie', 'Häufigkeit', 'Auswirkung', 'Steuerung', 'Überwachung', and 'Berichterstattung'. The risks cover areas like 'Einzahlungen', 'Auszahlungen', and 'Kassenbuchführung'.

Revision for HRM2 (2020): Streamlining

- Inclusion of the operational sequence
- Risk control matrix in Excel, with 13 major process risks and key controls

This is a streamlined Excel risk control matrix for 'Kassenführung' (2020). It focuses on 13 major risks and key controls. The columns include 'Risiko', 'Kategorie', 'Häufigkeit', 'Auswirkung', 'Steuerung', 'Überwachung', and 'Berichterstattung'. The risks are more concise than the 2009 version, focusing on 'Einzahlungen', 'Auszahlungen', and 'Kassenbuchführung'.

Introduction of IT Tool with workflow (as from 2023):

- Processes, process-steps, risks and checks are documented in Tool, with links to risks, incidents, etc.
- The persons responsible for the checks receive an e-mail with a link on Tool in order to confirm the check
- The persons responsible for the process assess it on Tool, their supervisors confirm it on Tool
- The ICS managers prepare the IKS Framework and the annual report on Tool, the Director releases it.

In IKS, tightrope walk between too little and too much

Finding the golden mean

Too few checks

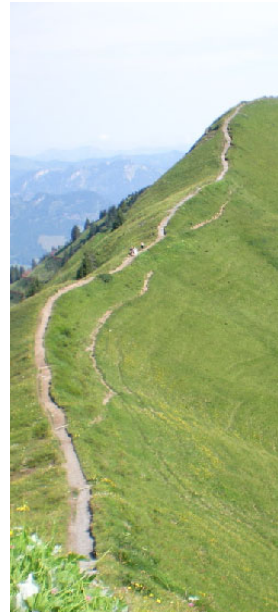
- Negligence
- Many errors
- Danger of abuse

Too little documentation

- Vague operational sequences
- Unclear responsibilities

Too little documentation on control findings

- No proof possible
- Uncertainly as to what was checked



Too many checks

- Costliness
- Undermined confidence
- Superficial checks

Too much documentation

- Costs
- Rapid obsolescence

Too much documentation on control findings

- Bureaucracy
- Blind targeting

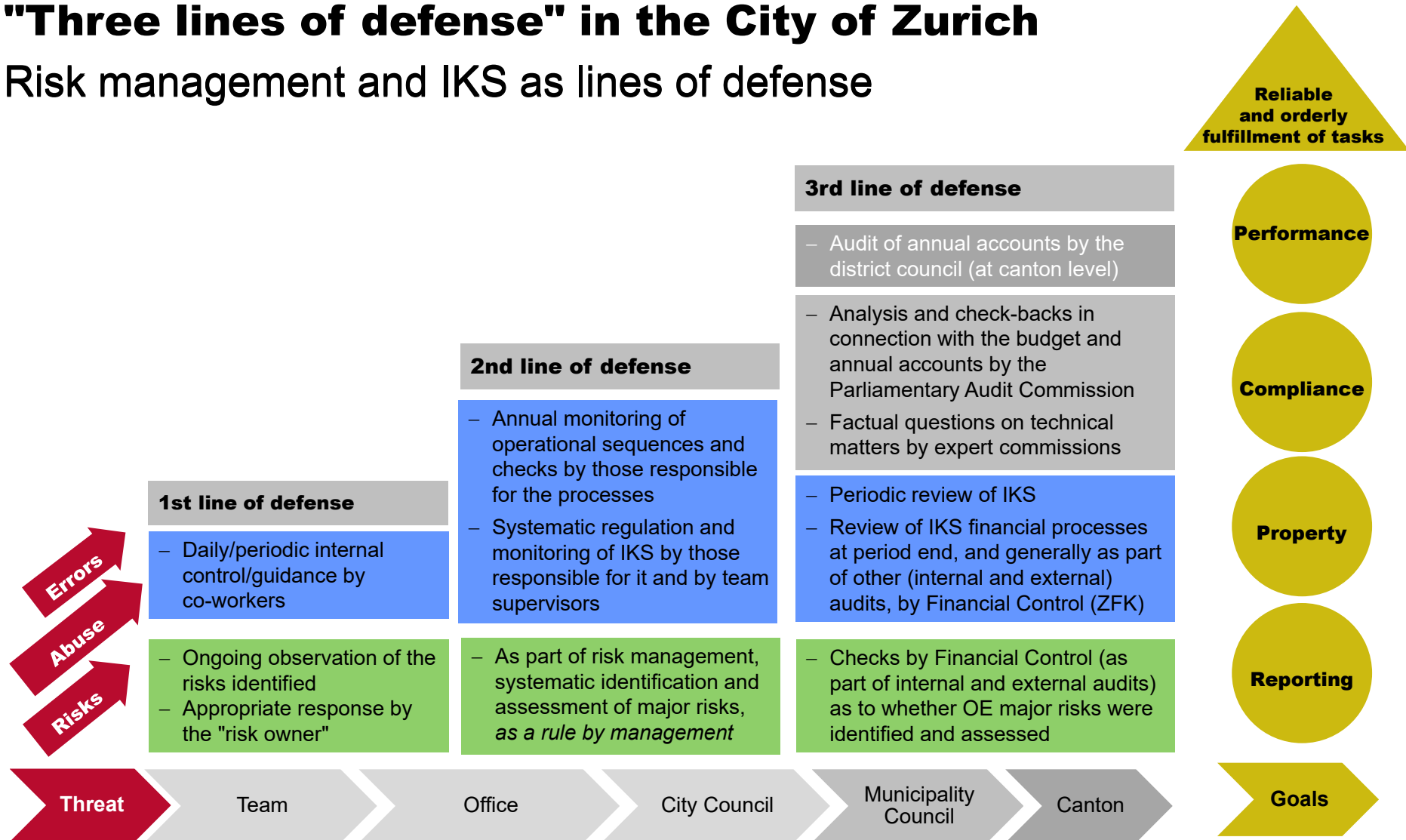
Limits: No IKS can prevent all errors and abuses

- Technical disturbances
- Inadequate assessments and monitoring
- Circumvention, tortious acts

5. Overview

"Three lines of defense" in the City of Zurich

Risk management and IKS as lines of defense



Success factors for risk management and Internal Control System

Success factors for **system setup**

1. Support by an influential City Councilor
2. Inclusion of opportunities
(against the prejudice that "an organization with risks implies weak management")
3. Involvement of specialized staff from all departments in setting up IKS
4. Specification of "what" must be achieved, providing leeway as to "how", regarding organization
5. Stress on the benefits for the offices

Success factors for the **transition**

- a) Appropriate presentations and tools
- b) Exchange of experience with the staff responsible
- c) Committed persons in charge of IKS and RM
- d) Management recognition of the value of RM and IKS, and concomitant support and ownership.