Zurich University of Applied Sciences









# Introduction to Swiss Internal Audit and Internal Control systems and structures March 21, 2023 in Bern, Switzerland



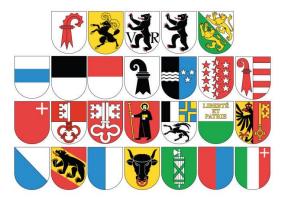
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### **Swiss Federal State structure**

#### **Federal Government**



#### 26 Cantons



#### **2100+ Municipalities**





## **Swiss Federal State structure**

#### Principle of subsidiarity

- The federal government only undertakes tasks that the cantons are unable to perform, or which require uniform regulation by the federal government.
- Under the principle of subsidiarity, nothing that can be done at a lower political level should be done at a higher level.
- > Wherever possible, **rights and responsibilities** lie with the lowest level of government.



# The principle of subsidiarity and IA / IC

#### Principle of subsidiarity

- Subsidiarity also applies to the (income) taxation system
- Internal Audit and internal Control systems follow the institutional setting thus, where the major financial in- and outflows take place
- This results in a very heterogenous picture of different IA and IC setups in both, the cantons and municipalities



# The principle of subsidiarty & taxation in Switzerland

"What is the **share of income and profit tax revenue** for cantons and municipalities combined - in comparison to the federal government?"

Please scan the code on the right or go to:

<u>menti.com</u> ...and use the following **voting code 8261 1470** 





# Internal Audit and Internal Control at Federal level

Financial Control Act (FKG)

#### Internal Audit / Internal Revision

Each administrative unit has its own financial inspectorate.

Financial inspectorates report
to the management / head of
the unit

Financial Inspectorates areautonomous and independent

Federal Government



# Federal Finance Act (FHG)

#### **Internal Control**

➤The Ministry of Finance develops IC directives – in collaboration with the adminstrative units and SAI

Head of administrative units are responsible for implementation and monitoring of IC systems

# Internal Audit and Internal Control in Swiss Cantons

#### High degree of autonomy for both Internal Audit/Revision and Internal Control

- Most cantons in particular the German-speaking ones have hybrid control systems, meaning that the audit office in responsible for both, internal and external audit
  - 1) support the executive body and administrative units in monitoring and control of IA and IC functions
  - > 2) support the legislative body in their oversight function
- In some cantons, audit reports are often only made available to the executive body and/or heads of administrative units, i.e., the auditees and not the legislature or the general public
- Internal control: Follows the same principles as at federal level



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# Internal Audit and Internal Control in Swiss Municipalities

#### High level of heterogeneity among Swiss municipalities in their IA and IC systems

- Horizonal heterogeneity among different municipalities and vertical heterogeneity across municipalities from different cantons
- Two legislative systems for municipalities based on population:
  - > Direct: assembly-based legislative for smaller municipalities;
  - Indirect: parliamentary-based legislative for larger municipalities (i.e., cities)
- Most larger cities (e.g., Zurich, Bern, Winterthur) have the same hybrid system as seen at the cantonal level





# Internal Audit and Internal Control in Swiss Municipalities

#### High level of heterogeneity among Swiss municipalities in their IA and IC systems

- > Both IA and IC systems are **tailored** to the structure and needs of each municipality
- Cantonal administration has an oversight function and defines guidelines for the municipalities
- The cantons often use KPIs (based on Swiss National Accounting Standards HAM2) as means of oversight, the most relevant include:
  - > Net **debt** ratio: Compares total income & profit tax revenue with total debt
  - Net investment capability: Can public investments be financed without increasing debt?
  - > Interest expense ration: Compares interest expense to total revenue





Let's see what we learned this morning 🙂

# ...we continue the quiz on menti.com, it should still be active on your device, if not...

Please scan the code on the right or go to:

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# Thank you!

# ...time for Q&A.

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