

# Introduction to Swiss Internal Audit and Internal Control systems and structures

March 21, 2023 in Bern, Switzerland



# 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 subsidiarity & taxation in Switzerland

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

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# 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 are **autonomous and independent**

## Federal Government



## Federal Finance Act (FHG)

### Internal Control

- The **Ministry of Finance** develops **IC directives** – in collaboration with the administrative 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 is 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**



# Internal Audit and Internal Control in Swiss Municipalities

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

- **Horizontal 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 😊

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**Thank you!**

**...time for Q&A.**

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