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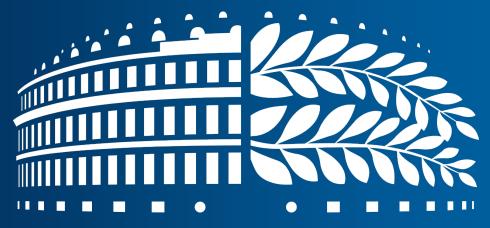








Introduction to Swiss Internal Audit and Internal Control systems and structures March 21, 2023 in Bern, Switzerland



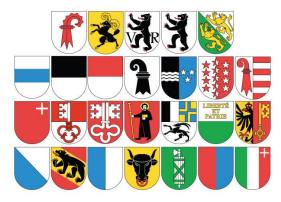
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Swiss Federal State structure

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...

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Thank you!

...time for Q&A.

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