

PUBLIC SECTOR AUDIT AT CANTON LEVEL IN SWITZERLAND

Introduction

As the Swiss political system is of a federal nature, it is appropriate to consider how public sector audit operates at the level of the 20 cantons and the 6 sub-cantons. Although there are many points in common, the particular situation and remit may vary from canton to canton - not least as a result of the difference in the number of inhabitants per canton, which ranges between 15,000 and 1.3 million.

The following comments are based on assessments dating from the year 2002, and on changes identified since then. On the basis of previous surveys, the Professional Association of Audit Offices published a brochure on a supplementary analysis carried out on the structures of audit offices in 2008.

Besides, it should be noted that the cantons of Geneva (since 2007) and Vaud (since 2008) have a Court of Audit in addition to the Audit Office. Except where indicated otherwise, the following information on the audit offices applies by analogy to these two courts of audit.

Legal basis

The Confederation plays no part in setting up audit offices at canton level, or in specifying the remit for them. The cantons' audit offices are organized in accordance with the specific legislation of each canton, and their activities are dictated by this legislation. In two cantons the financial supervision is determined by parliamentary decrees. In the other cantons, it is set up by law, partly in addition also by the cantonal constitution. The two courts of audit of the cantons of Geneva and Vaud are enshrined in the cantonal constitution. In most cantons, the audit office is integrated in the Financial Budget Act, although in the new legal bases it can be noted that there is a trend towards legislators adopting separate acts for audit offices. All audit offices have professional independence, which derives from the cantonal constitution or from the law in 24 cantons, and from legislative acts in the other two cantons. This situation reflects the strong position these audit institutions have and is also a sign of the independence required by the legislator. The position and powers of audit offices are unquestionable and there is a trend towards a further strengthening of these supervisory bodies.

From the 26 audit offices, 25 rely on both parliament and government. Besides, some audit offices carry out tasks of a secretariat nature within the parliamentary financial supervision committees.

To summarise, it can be stated that within the framework of their legally imposed remit to carry out audits, cantonal audit offices provide support for:

- the legislature (parliament) in carrying out the ultimate supervision of the government, administration and courts;

- the executive (government) in the execution of its duty to supervise the administration.

This support both to parliament and government is particularly demanding. Furthermore, audit offices may have special auditing tasks entrusted to them by the legislature and the executive, and they may be called on to act in an advisory capacity. One important aspect of these special commissions is that independence and autonomy are guaranteed. Where such commissions might represent a threat to completing their normal auditing programme, audit offices may refuse them. In several cantons, the audit office must fulfil a performance mandate. In other cantons, it is established that the audit office is only bound by the cantonal constitution and law in its auditing activity, along with the generally accepted auditing standards.

The administration has the duty to report. All services and offices within the scope of application of the cantonal budgetary law should report the audit office on every decision with financial implications.

Areas of competence

As a rule, the activities of the cantonal audit offices extend to:

- the accounting system of the parliament
- the cantonal administration
- the courts and administration of justice
- the public law based entities and bodies of the canton
- organisations and persons outside the cantonal administration, to which or whom the canton delegates public duties or in which the cantonal administration has financial stakes
- organisations and persons in receipt of subsidies from the canton in order to promote or ensure the fulfilment of freely chosen tasks.

In addition to these areas of competence, it must be noted that audit offices also carry out auditing activities where, in accordance with laws and statutes, individual audit or control offices are set up. Any exceptions must be identified in specific laws.

In some cantons it is also stipulated that whenever the canton has the authority to appoint a member of the supervisory body in private companies or semi-private companies, the audit office shall be appointed as representative.

Auditing criteria and standards

The auditing process includes the following auditing criteria:

- regularity
- legality
- efficiency
- appropriateness

- economy
- effectiveness

Within the framework of introducing service agreements, audit offices are now also responsible for auditing the implementation of these contracts.

In carrying out their activities, audit offices apply the generally accepted auditing standards. This transparent formulation contributes towards ensuring that there is no delay in further developments in auditing activities being implemented within public administration as well. The auditing standards published by the Swiss Institute of Certified Accountants and Tax Consultants are currently generally acknowledged. They reflect the implementation of all International Standards on Auditing (ISA) published on 30 June 2003. The general and specific basic principles for the professional practice of internal auditing of the Institute of Internal Auditors are also taken into account. With reference to specific auditing criteria and objectives, audit offices apply a combination of the methods used for internal and external auditing. Furthermore, the recommendations issued by national and international professional associations of audit offices must be taken into account, as well as those of professional bodies involved in financial supervision. To ensure the independence and objectivity of the body, no executive duties must be assigned to the audit office.

In the case of complex problem areas requiring specific professional knowledge, the law stipulates that experts may be called in. Generally, the audit office is the principal to which reports are submitted, passing on these opinions, expertises or reports with the office's own assessment appended.

Internal control

Internal control includes all organizational methods and measures applied within public administration, similarly to those within private business, with the aim of:

- protecting the assets of the community,
- guaranteeing the accuracy and reliability of accounting and
- ensuring compliance with statutory standards.

The internal control system (ICS) provides support for and ensures:

- proper and efficient governance
- compliance with the basic principles of administrative policy
- protection of public assets
- that errors and irregularities are minimised and disclosed
- that bookkeeping is reliable and comprehensive
- that accounts are rendered in good time accompanied by reliable financial information.

It is the duty of those responsible for management at all levels to define control and supervisory duties in cooperation with the various departments, to provide support for

the bodies entrusted with execution and to create the organizational conditions necessary for an effective and indispensable control.

Within the context of its statutory auditing remit, it is the task of the audit office to check that internal control is taking place appropriately and effectively and that automatic security measures are effectively in place. In some cantons, internal formal and material controls incumbent on departments are regulated in directives by the audit office and supervised by it.

General auditing activities

The audit office checks the entire financial budget of a canton in accordance with the auditing criteria indicated above. The 26 cantonal audit offices as well as the two courts of audit are entitled to determine their working and auditing programmes freely. Auditing is carried out not only retrospectively, but also contemporaneously. The auditing of public accounts (canton accounts) and the separate accounts of departments, offices, institutions and undertakings is one of the core activities assigned to audit offices. In some cantons, the audit office also audits municipalities in accordance with the law. As regards the courts of audit of Geneva and Vaud, municipalities fall also within their audit scope.

System and project auditing activities include, for example, IT system audits and the concomitant auditing of the progress of construction projects. Audits of subsidies and audits carried out on behalf of or in co-operation with the federal government likewise form part of the auditing remit. The basic principles of risk-oriented audit planning are applied for auditing activities.

With the outsourcing and privatisation of tasks and undertakings from the public administration, greater significance is attached to the aspect of 'consolidated approach: risk assessment'. The audit office checks whether risk assessment is being carried out, if the necessary measures are being introduced and also ensures that the corresponding notes are being included in the public accounts.

The object of checking **regularity** is to arrive at a critical assessment of a result and how it is presented. There is no difference between this and audits carried out in the private sector.

From the point of view of **legality**, the audit office checks whether the basic principle of compliance with the law in respect of the financial budget is being complied with, whether the necessary credits for disbursements are in place, and if the applicable regulations on areas of financial competence are being observed. In particular, a check is made to ensure that the basic legal principles are fulfilled in respect of obligations undertaken and disbursements made, as necessary to satisfy the requirements of the principle of legality.

The principle of **efficiency** requires that the best possible result be achieved for the lowest possible expenditure. As a precondition, it is necessary for both costs and benefits to be quantified, and for the ratio of these two values to be optimised. The audit office assesses efficiency by checking whether a result has been achieved in a rational

and beneficial manner, and whether the best possible result has been attained for the lowest possible expenditure.

In checking **appropriateness**, the audit office turns its attention to whether organization is appropriate and management responsibility is accepted and fulfilled at the proper levels. At the same time the audit office checks whether the audited entity is properly organized given its particular remit, and whether the necessary preconditions for the appropriate management in response to the relevant requirements actually exist.

The principle of **economy** in public administration means that expenditure (current account) and disbursements (investment account) are kept as low as possible. Acting economically is defined as preventing any expenditure and/or disbursement which is not required for the fulfilment of public duties, avoiding any unnecessary luxury, and working rationally. In checking economy, the audit office also looks into whether expenditure and/or disbursement have been necessary, that proof of the relevant requirements has been provided, and that alternatives have been considered.

The services provided by the administration and the proper, systematic recording, evaluation and assessment of these services are covered by the **efficiency audit**. As far as auditing efficiency is concerned, it is not the input aspect but that of output which is to the fore. The efficiency audit is closely linked to auditing efficiency and economy. It refers to the performance inventory and the performance review based on it. In the process, the audit office checks whether:

- the financial expenditure is achieving the anticipated effect;
- any undesirable side-effects are arising;
- the requirements of the public as citizens (clients) are known and fulfilled;
- a favourable ratio between costs and benefits is achieved (benchmarking);
- service assessments are fulfilled in terms of both quality and quantity;
- the statutory objectives of programmes and actions are met in terms of both quality and quantity;
- performance indicators correspond to the relevant requirements;
- the controlling office processes the details of the performance inventory at the appropriate levels and passes this information on for management decisions;
- conclusions drawn from the performance inventory are implemented by means of appropriate measures.

For some audit offices the auditing of the **implementation** of service assessments is expressly stipulated by law.

In addition, the audit office is involved in an advisory capacity for the drafting of regulations on budget management and in the development and ratification of accounting systems.

Steps in the audit process

The audit office decides whether it will carry out an audit with the provision of advance notice or whether no notice will be provided (surprise audit). Generally, unannounced audits take place in connection with cash-desk and asset audits or in the event of

indications of irregularities (illicit activities) having been received. Any party subject to the supervision of the audit office assists the latter in the execution of its duties. In particular, at the request of the audit office the necessary documents must be provided and information made available. During the implementation of its audit activity, the audit office is exempt from respecting official channels. Normally, the audit exercise covers the stages of planning, preparation, execution, reporting and follow-up.

As it is not possible to carry out a thorough audit of all areas on an annual basis, this results in the various areas for auditing (audit fields) being audited periodically, by means of a specifically-focused in-depth audit. Such audits are appropriate for: cash management, contingent liabilities, state guarantees, personnel, contributions, special financing arrangements, roads and other special accounts, to name but a few examples.

Reporting

Every audit is concluded with a report, which usually is subject to a final discussion. The form, content and layout of reports vary between the individual cantons. The dissemination of reports also varies between cantons and is determined by the relevant legal requirements. In the canton of Valais, for instance, all reports are made available to the auditee, the relevant department, the finance department, the government of the canton, and the presidents of the parliamentary committees with responsibility for financial supervision and management control. In the event of punishable offences the audit office immediately reports the competent authority, the government and the presidents of the parliamentary committees with responsibility for financial supervision and management control. In some cantons, the dissemination of reports is regulated in a more restrictive manner. The courts of audit of the cantons Geneva and Vaud publish their reports on their respective websites.

Procedures

If only insignificant shortcomings are identified, it is adequate for the audited bodies to notify the audit office that these shortcomings have been made good. In the case of significant weaknesses, the audit office requires a statement to be made on the factual findings as well as on measures applied or introduced. In the event of significant objections, the audit office has an obligation to and is authorized to report directly to the executive. In some cantons in the case of matters liable to result in criminal proceedings, the competent judicial authority is directly informed. Some audit offices are entitled to issue an instruction (injunction) in respect of objections to regularity and legality. When an organisation under audit does not comply with the requirements of the audit office, this latter may appeal to a higher instance so that it issues the necessary injunctions. Usually it is the cantonal government who adopts a final and binding decision and orders the appropriate measures to be taken. The procedures for reporting vary from canton to canton, but are similar as far as achieving the set objectives is concerned. Great importance is attached to checking the success of the audit or following it up.

Report on activities

Normally, the audit office is required to produce a report on its activities and submit it to the executive and legislative powers. In some cantons, the report is published by the audit office itself while in others it is the parliament that publishes it. The publication of reports ensures the transparency of auditing for external parties.

Organisation

In 8 cantons, the head of the audit office is elected by the cantonal parliament. In nearly half of the cantons, this selection is made by the cantonal government and must be confirmed in most cantons by the parliament or by the supervisory commissions. The canton's personnel legislation is applicable to the management of the audit office. Depending on its competencies, the management of the audit office may appoint, promote and dismiss its personnel within the framework of the approved preliminary budget. In some cantons personnel is selected by the government after consultation of the finance commission.

As regards the Court of Audit of the canton of Vaud, the cantonal parliament appoints the five magistrates for a period of six years. The three magistrates of the Court of Audit of Geneva, as well as their substitutes, are elected by citizens for a period of six years.

The legislation on financial budgets is applicable for the management of the audit office's budget. In some cases, the audit office's accounts are audited by an external auditing office. In circumstances in which the audit office is separate from the cantonal administration, the government accepts the annual preliminary budget and the financial planning for the audit office as they stand into the preliminary budget and the financial plan for the canton. The Court of Audit of the canton of Vaud submits its preliminary budget to parliament through government.

On the basis of the federal legislation in force since 1st January 2008, natural and legal persons who provide auditing services must be duly authorized by the relevant federal authorities. In most cases, audit offices have the permission to perform audits in their capacity as audit experts.

Staff of audit offices has been completed in recent years in part with computer experts, engineers, and legal experts.

Internal quality controls are an integral part of quality assurance. 15 audit offices submit to quality controls (peer reviews) performed by third parties, namely, the audit offices of other cantons or private audit firms. Some audit offices are certified to ISO. The critical reappraisal of the responses received from the audited entities is also part of the quality control process.

The audit office deals directly with its principals and the organisations audited. Discussions with the relevant parliamentary committees responsible for the ultimate supervision as well as with the government take place on a regular basis.

Co-operation - Advanced training

Co-operation is visible particularly in what concerns inter-cantonal organisations. These are audited partly by auditors of different cantonal audit offices or these auditors take turns according to a pre-established order. Some cantons have entered into agreements with the Federal Audit Office as regards audits in the field of direct federal taxation collected by cantons. Several federal offices also require that audit offices confirm that cantons have made good use of subsidies made available to them.

Audit offices are actively involved in exchanging information and experiences between themselves. The audit offices of the German-speaking cantons and cities and of the Principality of Liechtenstein have organized themselves in the Professional Association of Audit Offices, while those of the French and Italian speaking cantons have formed the Conference of Heads of Audit Offices of the 'Romanic' Cantons. This latter organizes once a year an advanced training seminar for its employees (about 100 participants). Besides, most of the audit offices are affiliated to the Swiss Association for Internal Auditing, which manages its own sector on public administrations. Many of the heads and collaborators of audit offices are members of the Swiss Institute of Certified Accountants and Tax Consultants. Furthermore, the audit offices of the German-speaking cantons take part in the events (meetings, conferences, seminars) organized by the German Institute of Internal Auditing. Most audit offices are also members of the Swiss Association for Public Finance and Accountancy and - depending on the specific topic - also take part in the events organized by the Swiss Society of Administrative Sciences. Some relationships have been established with universities. The annual meetings held between the Federal Audit Office and the cantonal audit offices are of great importance and benefit. Apart from the exchange of information and experiences which takes place, another important aspect of this co-operation is further and advanced training in the field of public sector auditing.

Lastly, it should be mentioned that the audit offices of the cantons of Geneva, Zurich, and Valais, as well as the two courts of audit of the cantons of Vaud and Geneva are members of the European Organization of Regional External Public Finance Audit Institutions (EURORAI). In autumn 2005, this Association organized for the first time in Switzerland (in Zurich) a seminar in which many representatives of cantonal audit offices took part. At the end of October 2007, EURORAI organized also for the first time in Switzerland its triennial congress (in Crans-Montana, in the canton of Valais). On the occasion of this assembly of member institutions, the Head of the Audit Office of the canton of Valais, Christian Melly, was appointed President of EURORAI for the period 2007-2010. This appointment along with the activities organized in Switzerland and the active participation of the Swiss members are a sign of mutual recognition and respect.