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Annual Report 2011 on the Activity of the Swiss Federal Audit Office

Editorial

This Report is designed to provide an overview of the main focus of auditing activity carried out by the Swiss Federal Audit Office (SFAO). It offers insight into the broad spectrum of supervision and demonstrates the wide variety of auditing work. This ranges from classic auditing of annual accounts to analysis of subsidy policies and carrying out of effectiveness audits for expenditure programmes.

With its work, the SFAO seeks to assist in improving State services. Its goal is to ensure that financial management of the Administration is consistent with the principles of regularity and legality. It does not approach its auditing work with negative preconceptions about the subjects to be audited. Rather, by taking a critical stance, it seeks to identify deficiencies and weaknesses and to achieve not merely specific but also fundamental optimisation of administrative action through convincing expert work. Consequently, the SFAO's primary focus is on developing a dialogue with those audited in

order to ensure that its recommendations are willingly accepted. It strives to exercise financial supervision fairly and in the interest of all citizens, and in so doing, it is undeterred in seeking ways to avoid mismanagement or correct it and in coming up with solution-oriented recommendations for optimising State services.

I would like to take this opportunity to thank the Finance Delegation and the Federal Council, which appreciate the role that the SFAO plays as an independent and critical audit authority. I would also like to express my gratitude to the numerous employees in the audited offices, who readily supported the work of the SFAO in the interests of the matter at hand. Finally, I would like to thank the employees of the SFAO, who perform their challenging work in the public interest with commitment and motivation.

Bern, April 2012
Kurt Grüter

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Overview

The Swiss Federal Audit Office (SFAO) is the supreme financial supervisory organ of the Swiss Confederation. It is independent and autonomous and, pursuant to Article 1 of the Federal Audit Office Act (FAOA) (SR 614.0), in its auditing activity it is bound only by the Federal Constitution and the law. It supports the Federal Assembly in exercising primary supervision and the Federal Council in fulfilling its supervisory role. One of the core tasks of the SFAO is to audit the federal budget. The SFAO intervenes at all levels of budget implementation, e.g. by auditing annual accounts, conducting on-site audits of administrative units, semi-governmental organisations, and subsidy recipients in connection with financial supervision, or carrying out preventive controls prior to liabilities being assumed. All federal administrative units, subsidy recipients, and organisations of any legal form outside the Federal Administration that have been entrusted with the performance of public tasks by the Confederation are subject to financial supervision. Only the Swiss National Bank is exempt from the purview of the FAOA. Pursuant to Article 5 of the FAOA, the SFAO exercises financial supervision in accordance with the criteria of regularity, legality, and economic efficiency.

Using performance audits and evaluations, the SFAO seeks to contribute to the development of so-called New Public Management and to increase the effectiveness of programmes. Audit mandates are chosen based on risk criteria. Audits cover the Internal Control System (ICS), risk management, and good-governance aspects.

Pursuant to Article 14 of the FAOA, the SFAO submits an annual report to the parliamentary Finance Delegation and to the Federal Council covering the scope and focus of its auditing work, key findings and assessments, and open audit recommendations. Chapter 1 of this Report looks at the focus of financial supervisory audits, broken down by federal government field of activity. In addition to financial supervision, the SFAO is also charged with conducting annual audits, the most important one being the Confederation's Annual State Accounts. Chapter 2 summarises the main findings of this audit and discusses the findings from the auditing of the social-security institutions, the Federal Institutes of Technology, and other organisations. Chapter 3 provides an overview of the SFAO's auditing of international organisations for Switzerland. Chapter 4 provides information on the implementation status of earlier recommendations.

Chapter 5 looks at other services performed by the SFAO, such as issuing opinions regarding legislative procedures, participating in technical committees, and imparting best practices. Chapter 6 provides an overview of the network of relationships that the SFAO maintains with other supervisory bodies and professional associations, which enables it to benefit from a wealth of ideas and experience. Finally, Chapter 7 contains a profile of the SFAO.

The findings below are the result of audits submitted to the Finance Delegation between February 2011 and January 2012. At the time when this Report was compiled, it was not yet possible to determine the extent to which the identified irregularities have been rectified and the SFAO's recommendations have been implemented. Follow-up audits will enable the actual status of certain transactions to be ascertained.

Main areas of financial supervisory auditing

In the area of financial supervision, the SFAO carried out numerous audits that were included in the annual programme on the basis of risk considerations. The audit results specified below have already been discussed and noted by the Finance Delegation. A complete list of audits submitted to the Finance Delegation between February 2011 and January 2012 is set forth in Annex 1. The following focuses on the main areas of supervisory activity.

1.1 Transport sector

The SFAO conducted various audits in the transport sector. These focused on major railway projects, the Swiss Federal Railways (SBB), national roadways, and the loan granted to Swissair in 2001.

1.1.1 Rail transport

During the reporting period, the SFAO audited the **Zurich Durchmesserlinie** [cross-city link] project based on two work contracts in order to determine whether the work had been performed in conformity with the stipulated binding requirements. It also reviewed whether the services had been rendered in accordance with principles of regularity, legality, and economic efficiency. The SFAO found that use of the

SBB's standardised master agreement leads to precise requirements for the contracting partners. At the same time, however, it identified irregularities in the recording and billing of the services provided. There is a risk of improper advance payments. Measures introduced to improve the conclusion of contracts for SBB noise abatement projects had a barely discernible effect on the Durchmesserlinie. The SBB intends to implement the recommendations of the SFAO.

The SFAO conducted an audit at the Federal Office of Transport (FOT) that investigated the **accessibility of the public transport system to people with disabilities**. It also examined the procurement of goods and services throughout the entire FOT. With respect to access to the public transport system by people with disabilities, the implementation of which is being supported with federal contributions at an average of CHF 15 million annually, the SFAO found that the process was economically efficient. With respect to the procurement system, the SFAO identified a need for improvement, particularly as regards the responsibilities of the procurement department, as well the creation of greater transparency and competition. The recommendations were received positively and are to be implemented.



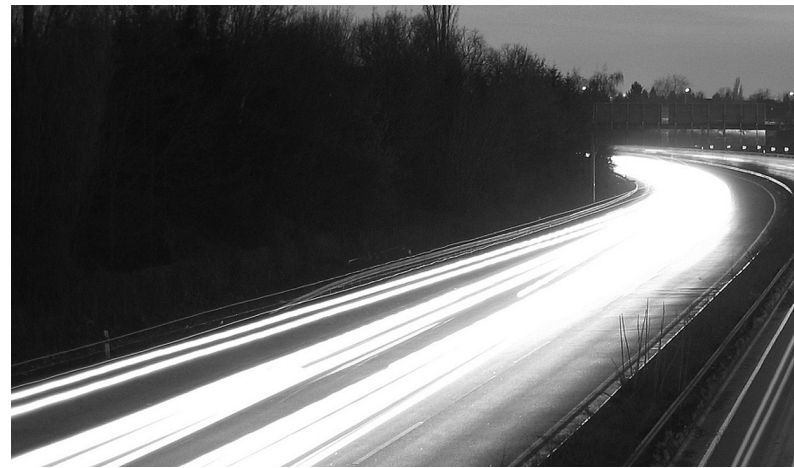
The SFAO plays an accompanying role in the financial supervision of the New Rail Link through the Alps (NRLA). Audits by the SFAO and the FOT, by the statutory external auditors, and by the builder's internal supervisory bodies are all coordinated. At the SFAO's initiative, this coordination and information platform was set up for all auditing bodies in order to implement the **Alpen-Transitverordnung** [Alpine Transit Ordinance]. This has helped to improve the efficiency of supervision and foster the «*unité de doctrine*». The audits conducted by the various supervisory bodies are analysed by the SFAO, provide information for its own risk analysis, and help with quality assurance. The audit planning for 2011 took into account the main risks. Each control instance is responsible for preparing its own risk analysis and audit plan, as well as for conducting its own audit. The coordination meeting with the various control bodies also showed that there were neither redundancies nor audit gaps. By analyzing the FOT's status reports, the SFAO is in a position to give the Delegation for the Supervision of the NRLA information about key points and developments. There are risks associated, in particular, with the rail technology in the Gotthard Base Tunnel and with the

shell construction for the Ceneri Base Tunnel. The early opening of the Gotthard Base Tunnel, as well as rail technology, caused a considerable amount of discussion during the reporting period, resulting in further clarifications by the FOT and AlpTransit Gotthard AG.

The SFAO audited **the repurposing of non-essential SBB real estate**. With land holdings of 97 km², i.e. approximately half the size of the Canton of Zug, the SBB is one of Switzerland's largest real estate owners. Roughly one fifth of this area and its 3 500 buildings are not dedicated to railway use. The SBB is making an effort to generate as much revenue as possible from the use of properties that are no longer needed for railway operations. The SFAO audited the way in which the SBB identifies such properties and how decisions are made to release them for other use. Under a so-called release procedure, the SBB ensures that when enquiries are made, properties and buildings are not disposed of that may still be needed for future railway operations. In the opinion of the SFAO, a structured procedure is needed in order that changes to expectations for existing railway properties can be

systematically detected and that such properties can be examined for possible release. The SFAO made a number of recommendations, which received a positive reception.

In 2008, under a mandate from the Finance Delegation, the SFAO audited the **business management tools and freight subsidies** at SBB Cargo AG. During the reporting period, the SFAO reviewed the implementation of its recommendations. It found that implementation is on track, though a successful outcome is not assured: The target date for the introduction of the new financial management tools, originally scheduled for early 2012, will be missed and has been postponed to 1 April 2012. However, introduction of the new tools can be considered a success only when SBB Cargo is prepared to use them to handle its operational business. While today the focus is strongly on guaranteeing deliveries and meeting customer demands, this has to give way to the will to run the business according to financial aspects as well. The management tools also form an essential basis for the decision on the political requirements for subsidising rail freight nationwide. Decisions on subsidies need, inter alia, reliable bases on which to make them, as well the kind of financial transparency that only a well-tested management and information model can deliver.



1.1.2 Road transport

At the Federal Roads Office (FEDRO), the SFAO audited the **cost allocation key for joint national road construction projects** by looking at 12 contribution transactions. The issue was which costs are to be borne by the Confederation and which by third parties, like cantons, communes, or private investors. In making the assessment, consideration had to be given to the fact that planning and construction will take years and that until 2008 the cantons were solely responsible for carrying out the projects. Projects fully planned and tendered by the FEDRO are not expected to commence until 2012. The SFAO found potential for improvement in a number of areas. The FEDRO is in agreement with the corresponding recommendations and promises that they will be implemented.



1.1.3 Settlement of the loan to Swissair

Pursuant to a loan agreement dated 5 October 2001 and a supplementary agreement dated 24 and 25 October 2001, the federal government had financed Swissair's reduced flight operations until 30 March 2002. Swissair had undertaken to account for the federal loan that had been drawn on and to use the federal funds only for continued flight operations and the orderly transfer of such operations to a new national airline. The supplementary agreement also stipulated that the balance remaining after retirement of the loan was «not a priority debt but rather a normal third-class claim». Under the loan agreement, Swissair was paid CHF 1.15 billion up to 30 March 2002.

Part of this amount served as a liquidity reserve for Swissair and did not have to be used as stipulated in the public-law loan agreements.

This portion is not a legacy liability but rather a mass liability not to be included in the schedule of claims, and the Confederation can claim repayment in full. However, prior exemption of the mass liability requires the loan to be settled. Such settlement is to reliably estimate the legacy liability to be included in the schedule of claims.

This loan settlement is now at hand, it has been in place since April 2009. The SFAO subsequently announced a need to re-examine the situation, which it is entitled and obliged to do under Article 8(1)(c) of the FAOA. At the SFAO's request, the liquidator made the required documents available, amounting, over several stages, to 146 files in all. It was largely possible to complete the audit of the settlement in 2011. The difference adjustment procedure with the liquidator is currently ongoing. As a precaution, the liquidator has created a reserve of CHF 350 million. Furthermore, the liquidator is correct in assuming that if agreement cannot be reached with regard to the settlement, the existence and amount of the Confederation's claim would have to be decided in proceedings before the Federal Administrative Court.



1.2 Social security and health

A few years after the statute governing the **voluntary Old-Age and Survivors' Insurance (AHV) and Disability Insurance (IV) schemes for Swiss nationals living abroad** was amended and the insurance schemes were reorganised, the SFAO audited the financial effects of the amendment and the control system on declarations of membership and the duty to pay contributions from abroad. The SFAO found that the statutory amendment had the desired effects. However, the insurance deficit for Swiss nationals living abroad could not be reduced to the desired extent. Moreover, the contributions of insured persons only partially cover the expenses of administration. The analysis of the control system reached the conclusion that the process for joining and leaving the insurance schemes is reliable. The greatest risk identified by the SFAO has to do with the assessment procedure. The SFAO made a number of recommendations intended to help clear up the deficit relating to voluntary insurance. In particular, the controls are

to be carried out on a risk-oriented basis, and in cases of official assessment, the charges on income and assets are to be increased in order to deter insured persons from providing insufficient information about their economic situation. However, a balanced account would require that the circle of insured persons be further limited and premiums increased. The report has been published at www.efk.admin.ch.

In connection with its financial supervisory audit of the Invalidity Insurance (IV), the SFAO found that **supervision of the cantonal IV offices** was being carried out using the appropriate measures of structural and procedural organisation. Together with the regional medical services, the IV offices are responsible for monitoring financial benefits totalling CHF 6.9 billion and costs for individual measures amounting to CHF 1.4 billion. The SFAO recommended that the mandates placed on the external auditors of compensation funds with regard to the auditing of IV offices be adjusted to conform to the amended statutory

provisions. In addition, financial performance indicators should be defined and agreed to in the reconciliation of objectives entered into with the IV offices.

In 2007, the SFAO concluded its evaluation of the ***inclusion of hearing aids in the IV and AHV schemes*** with eight recommendations for the Federal Social Insurance Office (FSIO). The follow-up audit documented the success of the FSIO. Seven of the eight recommendations have been implemented, and the estimated annual savings potential of CHF 30 to 40 million from the SFAO's recommendations is achievable.

In this field of activity, the SFAO does more than merely exercise financial supervision; it also executes audit mandates relating to the AHV compensation fund and to unemployment insurance (see point 2.4).



1.3 Agriculture

The SFAO undertook an evaluation in the area of ***agricultural income***. Agricultural income indicators form a central basis for assessing the economic status of agricultural operations. The ascertainment of income-related statistics at the level of individual operations has long been controversial and has been the subject of sometimes heated discussions among professionals in the area of agricultural policy. The study showed that ascertainment of income and income comparisons are complex and methodologically challenging and have various deficiencies. For instance, the manner in which operations are currently being selected for inclusion in the ascertainment is not random and does not constitute a broad sample. Income comparisons, on the other hand, reveal numerous disparities and accordingly are of only limited significance. The deficiencies are known and form the subject of a planned reform.



The SFAO supports the reform measures, and it emphasised that clear objectives and rigorous implementation of the reform are determinative factors for a successful outcome. It recommended that it be determined how additional data sources can be used to better define income parameters and that provision be made for a mix of important results and background information in order to enable balanced reporting on the income situation in agriculture. The Federal Office for Agriculture and the Agroscope Tänikon-Reckenholz Research Station intend to implement the recommendations. The report is available at www.efk.admin.ch.



1.4 National defence

The SFAO audited the *Centre for Historic Military Equipment and the liquidation of military equipment and ammunition*. It was critical of the limited transparency and controls at the Centre. It recommended that the Centre's management and financial transparency be strengthened. With regard to liquidation of military equipment and ammunition, the SFAO found that the recommendations from prior audits had been implemented only in part. The Chief of the Armed Forces and the National Armament Director now intend to implement the recommendations without further delay. In some cases, immediate measures have already been introduced.

As a result of information provided by the Federal Department of Defence, Civil Protection and Sport (DDPS), the SFAO audited the management of *Dübendorf Airport*. It analysed the organisational structures, the status of accounting, and contract management. The audit disclosed that from today's point of view, there is a clear need for action in a number of areas, some of which have developed over several years. The SFAO was critical of the unclear

arrangement of powers, tasks, and responsibilities of the various offices in charge of the airport. This has made optimal management of Dübendorf Airport difficult, if not impossible. Over the years, a large number of private users have been undertaking activities at the airport in a relatively uncontrolled manner, some of which were not in conformity with zoning at the time the activity commenced or were only subsequently approved by the cantonal authorities on a provisional basis. Private users have a great deal of influence today at Dübendorf Airport. From the standpoint of the Confederation, contractual obligations may constitute a liability for the future use of the property or limit manoeuvring room.

The SFAO also made critical findings about the rules of good corporate governance. It found irregularities with separation of functions and conclusion of contracts. It also found that certain projects have been or are being supported without any legal basis or without formally correct decrees.

From the standpoint of the SFAO, the DDPS must take a stronger, leading role in the management of Dübendorf Airport and its future development. Obvious deficiencies must be corrected, and it must be ensured that the interests of the Confederation are given primary consideration. In this regard, the SFAO made a number of recommendations. The DDPS intends to implement them.

The SFAO audited the current situation of the multi-project programme *«management and logistical systems defencelarmasuisse»*. The programme was created in 2005 and reorganised in early 2010 and given a new mandate. The goal of the programme is to create the operational and IT conditions necessary for efficient rendering of logistical services. The programme is to be concluded by late 2015. The budgeted project costs for both phases amount to CHF 430 million. The SFAO found that cost transparency was insufficient for providing information about the actual and planned status of the programme. The SFAO judged the programme's risk assessment to be on target, but it found that no cross-programme risks are being looked at. It also found fault with the absence of any guidelines for cost and economic efficiency responsibility. Process organisation also needs to be strengthened in order to force successful implementation of this costly project.



1.5 Foreign relations

The SFAO audited the Swiss Business Hubs in Singapore and Beijing, along with satellite offices in Shanghai and Guangzhou. The Confederation maintains Swiss Business Hubs in particularly important markets. These provide, inter alia, information, advice, marketing, and assistance with authorities. Most Hubs are affiliated with the official representation network of the Federal Department of Foreign Affairs (FDFA). There are currently 18 such Hubs. Whereas the SFAO was critical of various accounting irregularities and low utilisation of capacities in Singapore, it gave good marks to the work in China. The State Secretariat for Economic Affairs (SECO) claimed that the low number of mandates was intentional in order to avoid competing with private institutions that promote exports.

The audit of the final accounting for the Swiss contribution of CHF 16 million to the Swiss pavilion at the **2010 Shanghai Expo** revealed that at such large-scale events, it is essential that an ICS be introduced in order to avoid redundancies and to document financial decisions in a complete and comprehensible manner. Nevertheless, the results of the audit as a whole were good. Happily, contributions by sponsors exceeded original expectations. The Confederation's contribution did not need to be increased.

The financial supervisory audit conducted at the Swiss Agency for Development and Cooperation (SDC) in the area of **humanitarian aid** had an overall good result. However, the SFAO was critical of the lack of a statutory basis for the financial support of CHF 1.7 million extended to the Global Humanitarian Forum foundation, which is in liquidation. In order to avoid reputational damage to , the Federal Council decided that the FDFA had the authority to deploy the resources necessary for the liquidation. Although serious deficiencies were found in the foundation's management, the Federal Council rejected the SFAO's recommendation that recourse claims be asserted.



1.6 Finance and taxation

1.6.1 Federal taxes

Based on Article 37 of the *Bundesgesetz über die Mehrwertsteuer* [Federal Act on Value Added Tax] and on Articles 6 and 8 of the FAOA, the SFAO audited the Federal Tax Administration (FTA) regarding the appropriateness of the VAT flat rates. The flat rates are intended to simplify the enforcement of value added tax. The Parliament stipulated that these rates are to be competitively neutral and are not to lead to any deterioration in federal finances. This new arrangement entered into force in early 2010. The SFAO reviewed the procedure for ascertaining the appropriateness of flat rates and conducted random audits in individual sectors as to whether the flat rates are appropriate and are being properly applied by the FTA. It found that the FTA sets flat rates in a comprehensible manner and adequately documents the procedure. It reached the conclusion that the turnover limit should be lowered. The SFAO recommended that the number of flat rates be increased and that

further delimiting criteria for the allocation to an industry be considered. In addition the term <input VAT rate applied to an industry> should be defined more precisely, and standards should be established for assessing appropriateness. The FTA is prepared to examine the recommendations in depth.

The SFAO audited the FTA regarding the enforcement of **stamp duties**. The audit revealed that there is room for improvement in the areas of risk analysis and control strategy, as well as with respect to process documentation and internal control. In addition, the SFAO found that the countless IT systems needed create a risk with respect to completeness and accuracy and impede the handling of business. The FTA pointed out that a number of improvements are planned in connection with the IT project INSIEME. The SFAO would like to see the project implemented in a targeted manner and as quickly as possible. INSIEME dates back to 2001. At that time, the vision was better aligning the FTA with the needs of customers by adopting comprehensive, modern processes supported by a uniform, overall IT system, since existing IT applications had become outdated. The project was redesigned in early 2008, following revocation of the WTO award for the IT project in August 2007 and a resulting interruption. The Parliament approved a guarantee credit of CHF 150 million. INSIEME was scheduled to be finalised in several stages over four years, with completion by early 2013. As of late 2011, only a small portion of what was originally meant to be wrapped up by June 2010 has been completed.



1.6.2 Fiscal equalization

The SFAO has the statutory mandate of verifying the quality of data for the calculation of **resource equalization and cost compensation**. It audited cantons and federal offices. The auditing of the recording and processing of data underlying the calculation of the resource equalization, which amounted to approximately CHF 4 billion for 2012, did not reveal any significant errors or irregularities. At the request of the SFAO, the FTA systematically verified the completeness and accuracy of data from companies benefitting from tax relief from direct federal tax. This increased the reliability of cantonal data for calculating resource equalization. The most important findings for the tax year 2008, which was audited in 2011, relate to the income of persons taxed at source. The SFAO found errors in two cantons with regard to taxpayers taxed at source. The report is available at www.efk.admin.ch.

Due to differences between fiscal equalization data and SECO data in the area of tax relief granted by the Confederation and the cantons to foreign companies based on the **«Bonny Resolution»**, the SFAO conducted an in-depth audit in four cantons and at select businesses. It found a lack of compliance with the statutory requirements for a variety of files and unsatisfactory supervision of the offices involved at federal and cantonal level. Based on the SFAO's recommendations, the SECO and the FTA established supervisory responsibilities and defined the process for handling requests. The SECO took immediate steps, defining more precisely the workplace criterion and the requirements for obtaining an extension of tax relief.

The audit report has been published at www.efk.admin.ch.



1.7 Energy and environment

The SFAO audited the Swiss Federal Office of Energy (SFOE), the KEV Foundation, Swissgrid AG, and Energiepool Schweiz AG regarding the implementation of **cost-covering remuneration for feed-in to the electricity grid** (CRF). A surcharge is added to the costs billed to consumers for high voltage grid transmission in order to finance measures to promote renewable energy. This surcharge is designed to make approximately CHF 500 million available each year. The CRF structures are complex, young, and not yet mature. Responsibilities are spread among a variety of involved parties, resulting in complex data and financial flows, numerous interfaces, and redundant collection of data. The SFAO found deficiencies or gaps in some contracts. The SFOE does not use public service agreements as a management tool, and the SFAO found reporting and accountability to the Confederation to be unsatisfactory. It recommended that the SFOE create a binding organisation manual governing collaboration, reporting, and the responsibilities of the involved parties. On the one hand, the SFOE is seeking to change the legal bases in order to bolster supervision

of the CRF. On the other, supervisory tools are to be augmented and enhanced in order to achieve quick improvement with respect to ensuring that CRF processes are regular and economically efficient.

The SFAO audited the Federal Office for the Environment (FOEN) with regard to supervising implementation of the **Third Rhone Correction**. The flooding protection created with the Second Rhone Correction is no longer sufficient, as was made strikingly clear by the flooding in 2000. The Third Rhone Correction is pursuing three objectives: Flooding protection, environment protection, and socio-economic concerns. The correction of the Rhone extends from the river's source to Lake Geneva. Total costs are expected to amount to CHF 1.6 billion. The project is being undertaken by the cantons of Valais and Vaud, with the technical, administrative, and financial support of the FOEN. The federal government's contribution averages around 65%. The work is scheduled to last until 2030. Working in conjunction with the Audit Office of the canton of Valais, the SFAO has developed a risk map and a multi-year audit plan. During the reporting period, the SFAO audited the

FOEN's supervisory concept and, working in conjunction with the cantonal Audit Office, the immediate measures taken in Visp.

The SFAO found that the FOEN's supervisory concept has gaps and that the requirements for the construction firms need to be defined more precisely. In addition, the FOEN's decisions on warranties need to be made more transparent. Requests by construction firms need to be depicted in lots. The SFAO identified considerable risks associated with the construction of a dam on the Lonza in Visp. The SFAO recommended, inter alia, that the procedure be defined for possible loan overruns. The FOEN was receptive to the recommendations and will implement them.



1.8 Other Confederation fields of activity

The SFAO audited the administration of the **federal art collection** and the European audio-visual programme MEDIA. It found that the lending out of artworks tied up scarce resources to the detriment of other important responsibilities, like cataloguing. The SFAO recommended, inter alia, that a collection concept be created that is in conformity with the recommendations of the Association of Swiss Museums, that objectives be tailored to available resources, and that the policy for lending out artworks be defined. In addition, processes and rules of procedures are to be defined more precisely. Switzerland is supporting the MEDIA programme with a total of EUR 41 million for the period 2007 to 2013. The SFAO recommended that the ICS be strengthened and that contributions be paid out when due and not earlier.



The SFAO audited the final accounting for the Confederation's expenses associated with the **13th Francophonie Summit**, which was held in the autumn of 2011 in Montreux. The results of the audit were good, particularly since the Summit cost a good CHF 6 million less than the budgeted amount of CHF 30 million. The only point of criticism was that CHF 14 million was advanced without obtaining any bids. The FDFA attributed this omission to time constraints. The audit of the shared costs of the canton of Vaud showed that the latter met its obligations in full to the Confederation.

Since early 2000, Article 170 of the Federal Constitution has stipulated that the effectiveness of federal measures be verified. More than 100 different acts and ordinances contain a so-called **evaluation clause**, which obliges the Federal Administration to evaluate the effectiveness of programmes and measures. The SFAO took stock of whether these clauses were actually being implemented and whether compliance with them was being monitored. The SFAO found that numerous evaluation clauses in legal texts were worded unclearly and that a wide variety of terms were used, such as expediency, effectiveness, economic

efficiency, and controlling and monitoring. The SFAO made various recommendations to the departments, the Federal Chancellery, and the Federal Office of Justice. In particular, evaluation clauses are to be worded more precisely. The administrative units are to publish the results of evaluations, including their comments. In order to increase transparency, the evaluations are to be entered into the ARAMIS database and published in a user-friendly fashion on the website of the Federal Chancellery. The report has been published at www.efk.admin.ch.

1.9 Federal level

1.9.1 Personnel

The SFAO looked into the **fulfilment of the requirements of the Behindertengleichstellungsgesetz by the Federal Administration as an employer** [Federal Act on the Elimination of Discrimination against People with Disabilities]. «Work outdoes pension» is a fundamental principle and must be given highest priority, particularly in view of the large deficits in disability insurance. The SFAO concluded that disabled employees were being successfully reintegrated but that administrative units did not always do a good job of being models for hiring and early recognition. The Federal Office of Personnel (FOPER) was receptive to the recommendations, although it believes that the study was started too early to be able to provide relevant results. Some of the recommendations were already in the process of being ruled and have been included in the personnel strategy decreed by the Federal Council.

The report has been published at www.efk.admin.ch.

In connection with a horizontal audit, the SFAO audited decentralised units of the Federal Administration with regard to **job growth and pay**. The audit activities focused on the trend in job numbers and personnel costs between 2006 and 2010, the horizontal comparison of select job functions, and personnel reporting. The SFAO found that the number of jobs in decentralised units has grown faster than in the Federal Administration. Moreover, organisations with a changed statutory basis or a changed mandate have grown faster than all other organisations. The growth in personnel costs generally exceeded the growth in job numbers. Wage systems varied greatly, although the SFAO found them to be appropriate. A comparison with the Federal Administration shows that salaries in decentralised units normally fall within the spectrum set forth for the central Federal Administration. However, minimum and maximum salaries were found to vary significantly. The FOPER intends to implement the recommendation on reporting. On the other hand, it determined that it would be virtually impossible to collect and depict wage trends in connection with reporting due to the fact that job descriptions were too imprecise. The report can be viewed at www.efk.admin.ch.



1.9.2 IT and procurement

Pursuant to Article 6 of the FAOA, the SFAO audits whether IT applications in financial management exhibit the required security and functionality, particularly whether the directives of the Federal IT Council are being followed. In this role, the SFAO conducts various IT audits (see Annex 1). Particularly worthy of mention are the following two audits.

Under a mandate from the Federal Council, the SFAO audited the extent to which measures have been implemented to increase **IT security** in the Federal Administration. Special attention was paid to the issues of «compliance with password requirements», «timely closing of security breaches», and «more intensive network monitoring». The audit revealed that on new Windows operating systems, both compliance with password requirements and the timely closing of security breaches were in good condition at the audited service providers. The SFAO identified a number of serious deficiencies in the timely closing of security breaches on non-Windows-based platforms,

as well as in the area of specialised applications. Strict implementation of the directives at the highest level of the Federal Administration is another challenge.

The report has been published at www.efk.admin.ch.

The SFAO audited the Federal Office for Buildings and Logistics (FOBL) and the IT Service Centre of the Federal Department of Justice and Police (FDJP) with regard to procurement of the *«biometrics system platform»*. The results of the audit were good. Despite great time pressure, it was possible to carry out procurement in an efficient and professional manner. The launch of the «e-documents» system platform was a challenge for all involved. All tasks were completed successfully and on time. Rollout took place as scheduled.

The SFAO audited *Federal Administration contract management* and the *reorganisation of the procurement offices*. The audit of the reorganisation of the procurement offices revealed that for goods procured centrally, it was possible to improve legal certainty significantly and to increase economic efficiency. The promised annual savings potential of CHF 20 million was successfully achieved. The SFAO made recommendations to the two central procurement offices, armasuisse and FOBL, in order, on the one hand, to reduce the cost for generating procurement payment statistics while, on the other, to advertise the value of those statistics, especially to the departments. Both procurement offices will implement the proposals. With regard to contract management, the SFAO found that contrary to original

intentions, controlling is being defined and implemented by the departments, rather than by the Federal Council. It noted that efforts are no longer being made to supervise and control the procurement system at the federal level. Particularly in the areas of strategic independence from key suppliers and combating corruption, efforts must be made to achieve overarching objectives. With centralised procurement controlling, active support could be provided for compliance with such objectives. Doubts remain about the effectiveness of future procurement controlling, since to date there has been a lack of binding measurable targets on a nationwide basis. Without this, any type of controlling will be ineffective. The SFAO recommended that the General Secretaries' Conference develop a cross-department strategy that would enable procurement to be controlled effectively on a nationwide basis. The General Secretariat of the Federal Department of Finance did not accept this recommendation, arguing that the existing ordinance adequately regulates tasks and responsibilities in the public procurement system. The report has been published at www.efk.admin.ch.

Annual audits

2.1 The Confederation's State Accounts

The audit of the State Accounts, which is undertaken in close accordance with IPSAS accounting standards, is based on a variety of elements. First, as a result of its auditing of administrative units, the SFAO receives a great deal of information that is important for determining whether the State Accounts are in conformity with the standards. Second, it conducts an interim audit of the Federal Finance Administration each autumn. The annual audit itself is conducted at select offices and at the Federal Finance Administration. The SFAO is supported by Financial Inspectorates, which audit their administrative units. Based on all of this work, the SFAO was able to confirm that the State Accounts for 2010 are in conformity with statutory requirements and the provisions of Article 126 of the Federal Constitution on financial management (debt brake). The SFAO recommended that the Finance Committees of both chambers approve the State Accounts. Without qualifying the audit opinion, it made note of the fact that direct federal taxes cannot be audited, the breach of the principle of annuality by the Federal Roads Office, the advances received by the Fund for Major Railway Projects, and the uncovered loans made to unemployment insurance.

The auditor's report has been published at www.efk.admin.ch.

In connection with its annual audit of the 2010 State Accounts, the SFAO audited the FTA in the area of value added tax (VAT), as well as the accounts of the Federal Customs Administration (FCA). Each of these two federal offices collected roughly half of the total VAT revenues of approximately CHF 20 billion. Therefore, it is important to define the interfaces precisely. The SFAO found that there is still a need to improve cross-office coordination in financially relevant matters and with the ICS. Although the FCA has made good progress in comparison to prior year with respect to account generation, the statutory requirements and relevant directives with respect to proper accounting principles have not yet been implemented with sufficient consistency.



potterat

2.2 Fund for Major Railway Projects

The annual accounts for the Fund for Major Railway Projects (Fund for the Financing of Public Transport Infrastructure Projects, FinPT) are based on the transitional provisions of the Federal Constitution ratified in November 1998 by the People and the Cantons on the construction and financing of the public transport infrastructure projects. According to these provisions, major railway projects consist of the NRLA, Rail 2000, the linking of eastern and western Switzerland to the European high-speed network, and the improvement of railway noise abatement. The projects are funded by the performance- and consumption-related heavy vehicle fee, a portion of the petroleum tax, a thousandth portion of value added tax, and financing from the Confederation. The FinPT is in the form of a legally dependent fund with its own accounting (separate accounts), and it shows financing and use of monies for projects in a transparent manner. With respect to individual projects, disbursements are stipulated by separate federal decrees. Based on its audits, the SFAO found that the 2010 annual accounts of the FinPT are in conformity with statutory requirements.

The SFAO recommended that the Finance Committees of both chambers approve the separate accounts of the FinPT for 2010.

2.3 Infrastructure Fund

The Infrastructure Fund Act of 6 October 2006 (SR 725.13) governs the Fund's principles. The Act entered into force in early 2008. The Fund is in the form of a legally dependent fund with its own accounting. This comprises an income statement and a balance sheet, as augmented by a liquidity statement that shows the Fund's liquidity status. The federal government makes deposits into the Infrastructure Fund by debiting monies from the special road transport financing system. These monies are then used pursuant to the requirements of the Infrastructure Fund Act. The monies are to be used to complete the national road and motorway network, eliminate congestion hotspots in the national road and motorway network, invest in transport infrastructure in agglomerations, and maintain major roads in mountain and peripheral regions.

The SFAO recommended that the Finance Committees of both chambers approve the separate accounts of the Infrastructure Fund for 2010. Even though national roads and motorways under construction were capitalised as assets in conformity with the law, it noted that these capitalisations are not able to sustain their value for the Fund. The national roads and motorways under construction were also capitalised as assets in the Confederation accounts.

2.4 State enterprises and public agencies

The 2010 consolidated *annual accounts for the ETH Domain*, the Federal Institutes of Technology in Lausanne and Zurich, the ETH Board and the four research institutes were audited by the SFAO on the basis of Article 35a of the Federal Act on the Federal Institutes of Technology. The consolidated annual accounts, as well as the annual accounts of the individual institutions, were in conformity with statutory requirements. The SFAO recommended without qualification that these be approved.



The SFAO also audited the 2010 annual accounts for the *AHV and IV schemes and unemployment insurance*, the *Swiss Federal Institute of Intellectual Property*, *Swissmedic*, the *Swiss National Science Foundation*, the *Swiss Alcohol Board*, the *Swiss Financial Market Supervisory Authority* (FINMA), the *Federal Audit Oversight Authority*, and the *Building Foundation for International Organisations* (FIPOI). The SFAO recommended without qualification that these annual accounts be approved. The accounting and annual accounts were in conformity with statutory requirements. A complete list of the SFAO's audit mandates is set forth in Annex 1.

International organisations

Pursuant to Article 6 of the FAOA, the SFAO exercises control mandates at international organisations. It audits the accounts of three special organisations of the United Nations: the World Intellectual Property Organization (WIPO) in Geneva, the International Telecommunication Union (ITU) in Geneva, and the Universal Postal Union (UPU) in Bern. For this reason, the SFAO is a member of the United Nations Panel of External Auditors. The other members of the Panel are the supreme audit institutions (SAIs) of China, Germany (Chair), France, India, Canada, Pakistan, the Philippines, South Africa, and the United Kingdom. Only State supervisory bodies that are members of INTOSAI may classify as UN auditors. The Panel seeks to coordinate auditing within the UN system and to exchange information and findings with a view to implementing uniform audit procedures and audit standards. Since its foundation the Panel has discussed a number of topics on accounting and auditing and formulated recommendations. The focus has been on financial reporting, audit strategies, IT audits, control systems, internal audits, HR and procurement, developmental cooperation, the introduction of IPSAS standards, and performance audits. The SFAO's work on this international committee offers it a useful exchange with other SAIs, safeguards the 'unité de doctrine' for supervision of the UN system, and allows it to maintain valuable relationships.

In addition, the know-how obtained can be used in its own audit work. The audit findings are submitted to the responsible bodies at each organisation. During the reporting period, the SFAO also recommended that the Member States' delegates accept the annual accounts. In addition, it conducted various special audits related to IT and construction, and it assessed the work of the internal auditors.

During the 2011 reporting period, the SFAO also exercised the following mandates for Switzerland:

- *the Intergovernmental Organisation for International Carriage by Rail (OTIF) in Bern: the Federal Council assigned this mandate to the Deputy Director of the SFAO;*
- *the European Free Trade Association (EFTA) in Geneva and Brussels: the SFAO is Switzerland's member on the Board of Auditors;*
- *Eurocontrol: the SFAO is on the Audit Board;*
- *the World Meteorological Organization (WMO): the SFAO is represented in the supervisory committee*

Open audit recommendations and notifications

4.1 Implementation of SFAO recommendations

Each recommendation made by the SFAO is recorded, and its implementation is monitored in connection with controlling. The SFAO can thus ascertain during follow-up audits whether the recommendations have actually been implemented. Such follow-up audits are also noted separately in the annual report in order to emphasise the central importance of implementing the recommendations made.

4.2 Open audit recommendations pursuant to Article 14 of the FAOA

Open audit recommendations under Article 14(3) of the FAOA mean recommendations not yet implemented by the audited agencies. Recommendations are considered to be open at the end of a year if an administrative unit has recognised the deficiency and accepted the proposed improvement measures but has failed to act upon them within the time set by the SFAO. However, this need not be mentioned in the annual report if, for example, the administrative unit has posted a job opening in its financial department but not yet filled the vacancy. Likewise, an open recommendation need not be reported if the deadline for its implementation has not yet expired by the end of the reporting period or if the follow-up audit has not yet been conducted.

The SFAO made numerous recommendations during the reporting period. The recommendations were accepted by the audited entities and have been implemented in a timely manner or are on schedule. The SFAO will audit the status of implementation in connection with follow-up audits. There is currently no need for action on the part of the Federal Council or Parliament.

4.3 Duty to report, right to notify, and protection of employees

On 1 January 2011, new Article 22a of the *Bundespersonalgesetz* [Federal Personnel Act (FPA)] entered into force. This provision contains a duty to report, a right of notification, and, in conjunction with Article 14 of the FPA, also the sought-after protection of Confederation employees against termination. The FOPER notified employees in a newsletter about their new rights and obligations under the FPA. The SFAO feels that this information should be sent to all affected persons each year.

During the past year, the SFAO received a good 50 notifications by mail, phone, or e-mail. These included notifications about banking transactions and money laundering. Since the SFAO is not responsible for this area, they were forwarded to FINMA. Several anonymous notifications were received by mail and from

the FOPER that contained very limited information and could not be followed up. In other cases, when necessary, the SFAO contacted the notifying parties by phone or e-mail in order to be able to obtain further clarification of the facts and circumstances.

By way of illustration, mention is made of several notifications that referred to side occupations. Under the FPA, employees must disclose their side occupations and offices they hold and, above a certain level of time commitment or direction, obtain the approval of their superiors or department heads. However, employees often do not discuss notified or approved side occupations with one another. This can lead to incorrect assumptions and suspicions.

Another example is the acceptance of gifts, which is strictly prohibited for federal personnel under Article 21(3) of the FPA. However, the FPA Ordinance states that socially customary presents are possible. This is a contradiction that raises a number of questions, and not merely at Christmas time. The SFAO welcomes the efforts being made by the General Secretaries' Conference to create uniform rules for all departments to the greatest possible extent and, in particular, to regulate how submitted gifts are utilised.

In addition, the SFAO was approached in a variety of manners about how the ruling in Article 22a of the FPA is to be interpreted. The SFAO will address these questions of interpretation as part of the Interdepartmental Working Group on Combating Corruption.

Legislative procedures and opinions

In addition to audits, the SFAO's responsibilities under Article 7 of the FAOA also include preparing opinions on draft statutes and ordinances. As a result, the SFAO exercises influence on aspects of importance to financial supervision by providing opinions and advice as early as at the stage of statute drafting.

5.1 Amendment of the FAOA

In responding to Motion 07.3282 on «Primary Supervision in Direct Federal Taxation», the Federal Council authorised the SFAO on 26 May 2010 to carry out a consultation procedure. The proposal seeks in particular to close the audit gap in direct federal taxation, which is why an amendment of the FAOA was envisaged in order to grant auditing authority to the SFAO. In light of the critical reception that the consultation received from the cantons, the Federal Council decided not to amend the FAOA and to refrain from granting the SFAO expanded auditing authority. Instead, the existing audit gap is to be closed by amending the **Bundesgesetz über die direkte Bundessteuer** [Federal Law on Direct Federal Taxation]. The FTA is currently working on a proposal that would oblige the cantonal financial supervisory organs to conduct regular audits and report to the federal authorities. The SFAO must accept this solution, although it is not in conformity with INTOSAI declarations.

5.2 Opinions and consultations

In connection with internal federal office consultation procedures, the SFAO was forced to correct the processes between the SFAO and the Federal Council or Parliament, as well as the SFAO's reporting. There had been a constant need to point out that there is a distinction between financial supervision under the FAOA and an audit mandate. The matter also involved, in particular, the implementation of recommendations in the area of corporate governance, suggestions for combating corruption, use of fees, reparations payments, and revenues from fines. With regard to proposals for the financing of railway projects or the new track-price system, more precise definitions and transparent depiction were sought for the purpose of traceability. In the guidelines for dispatches, the SFAO pointed out the financial supervisory conditions in the area of subsidies. With regard to the amendment of the **Bundesinformatikverordnung** [Federal IT Ordinance], the SFAO, as the body responsible for IT audits, insisted on the status quo of prior information pathways.

In addition, the SFAO is in regular contact with the Federal Finance Administration. The latter consults with the SFAO, in particular, prior to entry into force of changes to the Manual for Accounting Officers, when addressing basic questions, or in the event of exceptions to accounting standards. For instance, during the reporting period the SFAO rendered opinions on the out-sourcing to BDO Visura AG of payments to royalty recipients, on valuation questions for the Swiss Alcohol Board, and on exceptions to the no-offsetting principle.

In addition, it intervened with the FOPER in order to point out mistakes involving employees' wage statements for 2011. These interventions were guided by the desire to simplify administrative processes while complying with statutory requirements.

5.3 Participation in specialist committees

The SFAO is represented in the project organisation for a new management model for the Confederation and is a member of the 'Federal Procurement Commission', the 'IT Security Committee', and the 'Expert Group for Quality Assurance in Resource Equalization and Cost Compensation' of fiscal equalization. It plays an active role in the Interdepartmental Working Group on Combating Corruption. The SFAO contributes its experience to these bodies and draws attention to audit requirements; however, its role is merely consultative so as not to jeopardise its autonomous and independent judgment.

5.4 Communication of best practices

During the reporting period, the SFAO published an audit letter that contains lessons learned from a case of fraud stemming from the liquidation of military equipment, information about the new whistleblowing arrangements, and recommendations for the awarding of public service contracts.

The audit letter is available at www.efk.admin.ch.

For several years now, the SFAO has also organised a course for federal employees working in supervision. The goal of this three-day course is to professionalise these activities. The participants work in a wide variety of fields, such as social insurance, the environment, and customs, which makes possible an enriching exchange of experiences.

5.5 Publication of financial supervisory reports

The SFAO's reporting primarily serves to support the administrative unit audited as well as the supervisory activities of Parliament and the Federal Council. Pursuant to Article 14(2) of the FAOA, the SFAO decides on publication of reports after they have been dealt with by the Finance Delegation. The SFAO is certainly aware of the public's interest in the results of the audits. It regularly publishes reports whose contents are of public or general interest. On the other hand, the SFAO also has to be in a position to conduct audits in sensitive situations and in matters of state security, where the results of such audits are not to be made available to the public at large.

During the reporting period, a total of 23 requests pursuant to the Federal Act on Freedom of Information in the Administration (Freedom of Information Act, FoIA, SR 152.3) were submitted to the SFAO. Full access was granted for six requests. One request cannot be fully processed before next year. In just one case, several lines of text had to be redacted (Article 7(1)(b) and (d) of the FoIA). Of the 11 cases where access to documents was completely refused, five requests related to documents that did not exist.



The SFAO and other supervisory bodies

The SFAO collaborates with the cantonal Audit Offices and the Confederation's internal Financial Inspectorates, plays an active role in Swiss professional organisations and associations, shares experiences purposefully with SAs in other countries, and participates in working groups of the international audit organisations INTOSAI and EUROSAI. All of this is done with the objective of improving the quality of auditing.

6.1 Cantonal Audit Offices

The Swiss Conference of Audit Offices is an annual meeting of the heads of the cantonal financial supervisory organs. At the 2011 meeting, the Conference discussed the labour market and unemployment insurance. The outcome of the meeting was an assessment of risks and improved sharing of information and experiences between cantonal and federal authorities.

Various joint working groups study audit topics relating to tasks shared between the Confederation and the cantons and then present these at the annual conference. The SFAO conducts joint audits annually with the cantonal Audit Offices. These help to strengthen common understanding and advance the level of professionalism of financial supervision in the Swiss federal system.

6.2 Federal Financial Inspectorates

Thirteen federal offices have a Financial Inspectorate pursuant to Article 11 of the FAOA. These internal audit services are responsible for controlling financial management. In most cases they report to the head of the office, although they have complete independence and autonomy in fulfilling their audit tasks. For office heads, they are an effective tool well suited to supporting their management responsibilities; at the same time, they support the SFAO as well. Article 11 sets out the requirements that a Financial Inspectorate needs to meet. For its part, the SFAO takes charge of technical supervision and audits the inspectorate's effectiveness in fulfilling its tasks. For example, during the reporting period the SFAO analysed the audit work of various Financial Inspectorates pursuant to the standards of the Institute of Internal Auditors and then interviewed members of the inspectorates. The SFAO intends to take stock of these effectiveness audits once all of them have been completed.

The SFAO is also responsible for ensuring that the staff of the federal Financial Inspectorates receives training and further education. Therefore, the SFAO's internal training is generally available to the Financial Inspectorates as well. Regular meetings between the SFAO and Financial Inspectorates have helped to promote greater understanding and coordination between the heads of the various internal Financial Inspectorates. For example, this led to the completion of a project to introduce audit software that made it possible to save time and money with regard to needs assessment, software rollout, and training organisation. Lines of communication were also strengthened with the internal auditing offices at Swiss Post and the SBB, which also have the status of a Financial Inspectorate within the meaning of Article 11 of the FAOA.

6.3 Supreme audit institutions in other countries

Since the 1950s, the SFAO has been a member of the International Organization of Supreme Audit Institutions (INTOSAI), which is divided into Regional Working Groups. The Regional Working Group for Europe, the European Organisation of Supreme Audit Institutions (EUROSAI), was founded in June 1989 and currently comprises the SAIs of 47 European countries. The SFAO has been a member of this Regional Working Group since its creation.

The triennial congress was held in Lisbon from 30 May to 2 June 2011, where the strategy for the years 2011 to 2017 was adopted. A variety of audit topics were treated, including the audit of independent regulatory agencies. The SFAO takes part in two EUROSAI Working Groups. It holds the chair for the Working Group on Information Technologies. The Working Group has developed a series of self-assessment tools for IT and IT audits that have been successfully deployed in European countries. The SFAO is also a member of the Working Group on Environmental Audit, chaired by Norway, which organises joint audits and training events using concrete experiences and case studies. Various SAIs from other countries visited the SFAO in order to learn about the supervisory system and federal cooperation in Switzerland. Delegations from Slovakia, Hungary, China, Korea, and Nigeria visited. Together with the SFAO, the Audit Office for the canton of Valais organised a visit by the Russian SAI. The Rhone Correction was used as a prime example of collaboration between the SFAO and the Valais authorities.

Germany's *Landesrechnungshöfe* [Regional Courts of Audit] and its *Bundesrechnungshof* [Federal Court of Audit] regularly hold conferences on issues of current interest in financial supervision. Along with the president of the Austrian *Rechnungshof* [Court of Audit] and Germany's representative on the European Court of Auditors, the Director of the SFAO is regularly invited to these conferences in order to cultivate a cross-border exchange of information and experiences.



6.4 Professional organisations

Representatives of the SFAO belong to the leading professional organisations. This allows the SFAO to participate in creating future professional standards, gives it access to the methodologies and tools used by other audit specialists, and provides it with a network of experts when dealing with special issues. In the field of IT audits, the SFAO is particularly active in ISACA (the Information Systems Audit and Control Association), in the Swiss Institute of Certified Accountants and Tax Consultants, and in the Institute of Internal Auditing Switzerland (IIAS). The SFAO holds the chair of the Swiss Evaluation Society (SEVAL). The SFAO's involvement in these leading professional associations also helps to ensure ongoing quality assurance and the harmonisation of working methods.

Profile of the Swiss Federal Audit Office

The institutional status and the responsibilities of the SFAO are laid down in the FAOA. The Federal Council appoints the Director for a six-year term of office. This appointment is ratified by the Federal Assembly. The current Director's tenure expires at the end of 2013. SFAO staff members are hired by the Director within the framework of the employment law of the general Federal Administration. The Federal Council forwards the SFAO's annual budget proposal unaltered to the Federal Assembly. The Finance Delegation reviews the SFAO's proposal and then forwards it to the Finance Committees of both chambers for approval.

7.1 Institutional status, responsibilities

Pursuant to Article 1 of the FAOA, the SFAO is the **supreme financial supervisory organ of the Swiss Confederation**. It supports the Federal Council in fulfilling its supervisory role with respect to the Administration and, at the same time, the Parliament in exercising its primary supervision of the Federal Administration and the administration of justice. The SFAO operates autonomously, with respect both to the preparation of its annual audit programme and to the way it organises individual audits and draws up reports. Pursuant to Article 5 of the FAOA, it exercises financial supervision in accordance with the criteria of regularity, legality, and economic efficiency. Using performance audits and evaluations, the SFAO seeks

to contribute to the development of New Public Management and to raise the effectiveness of public programmes. Audit mandates are chosen based on risk criteria.

The SFAO's supervisory responsibility covers all of the Confederation's areas of activity of relevance to finance. One of the SFAO's core tasks consists of conducting approximately 40 mandatory audits, in particular, the auditing of the Confederation's State Accounts and various separate accounts, the AHV fund, unemployment insurance, the data for resource equalization and cost compensation, and the VAT flat rates, as well as carrying out various mandates at international organisations. It exercises its second core task – financial supervision – by means of numerous special audits, whether in the area of procurement, IT, or subsidies. The auditing mandate extends beyond the Federal Administration to include all subsidy recipients, entities in charge of public tasks, and federal companies.

The SFAO systematically conducts **evaluations and horizontal audits**. Evaluations are undertaken with a view to improving the implementation and impact of State measures through the issuance of recommendations. Horizontal audits compare various administrative units with one another in order to determine the best approach for the performance of tasks.

The reports can be viewed at www.efk.admin.ch.

7.2 Personnel

The SFAO conducts its audits on a risk-oriented basis and according to the standards set by the Swiss Institute of Certified Accountants and Tax Consultants and international professional associations. During the reporting period, it had a budget of CHF 20 million and a workforce of approximately 90 employees. The organisational chart in Annex 3 shows a two-dimensional matrix organisation, with six mandate sectors and six competence centres. The heads of the audit areas put forward the viewpoint of the audited agencies. The SFAO's audit experts are each assigned to one of the competence centres for financial audits, public work and procurement audits, IT, and evaluations. The heads of these competence centres are tasked with maintaining and expanding the knowledge required for the respective competence centre and with assuring the quality of the audits. A combination of knowledge, professional experience, and social skills forms the basis for the successful performance of financial supervision, serving

to ensure continual optimisation of administrative action for the benefit of citizens. For this reason, the SFAO places great importance on training and further education. Each January, it organises a 10-day internal seminar that provides training and further education for SFAO staff and the federal Financial Inspectorates, as well as for some cantonal Audit Offices. Participants are expected to maintain and communicate the knowledge they gain and to bring it to bear in carrying out their statutory mandate. The knowledge holders are required to keep abreast of developments in their areas and share their knowledge within the SFAO. The SAIs of other countries are an important source of knowledge for the SFAO, as are professional associations and chartered accountants. For individual audits, the SFAO may also call upon the expertise of external specialists when it lacks the requisite knowledge or when additional manpower is needed due to time constraints. In all cases, project management and responsibility lie with the SFAO, and this also ensures that knowledge is transferred.

7.3 Finances

During the reporting period, the SFAO had expenses of CHF 20.3 million and revenue of CHF 1.5 million. The details are as follows:

Expenses and Revenue

	2010	2011	2011	Deviation from	
	Accounts	Budget	Accounts	in 1 000	budget
	in CHF 1 000			in %	
Expenses	20 524	21 663	20 336	- 1 327	- 6.1
Personnel expenses	17 109	17 440	17 014	- 426	- 2.4
Rent	1 084	1 093	1 077	- 16	- 1.5
IT materials expenses	653	1 070	701	- 369	- 34.5
Consulting expenses	648	1 010	745	- 265	- 26.2
Other operating expenses	881	1 010	781	- 229	- 22.7
Depreciation	37	40	18	- 22	- 55.0
Contributin to reserves	112	-	-	-	-
Revenue	1 320	1 130	1 527	397	35.1
Fees	1 291	1 120	1 410	290	25.9
Other revenue	29	10	14	4	40.0
Drawdown from reserves	-	-	103	103	-

With regard to salaries and employer contributions, this is attributable to vacancies. Consulting expenses are dependent on the annual auditing budget. In 2011 not all of these funds were used. With regard to IT expenditure (hardware, software, project, operating, and maintenance costs), the expenses for projects and system maintenance were under budget due to more favourable prices. In addition, the launch of the electronic business management project GEVER was postponed. SFAO resources make up approximately 0.03% of the federal budget.

The SFAO has its own Fees Ordinance (SR 172.041.17 of 19 January 2005) for its statutory audit mandates. It charges for the time spent on annual audits in accordance with the rates of the Federal Finance Administration, which are based on the burden rate for the salary categories. These fees amounted to CHF 1.4 million. However, financial supervisory audits are not billed, as this is a sovereign task.

7.4 Risks

The SFAO has identified the following internal risks: wilful misstatements in audit results, technical errors, loss of independence, loss or disclosure of confidential information, and poor execution of the statutory mandate. It has included as a new risk the lack of qualified personnel. In its annual risk assessment, and based on its ICS, the SFAO concluded that current precautions are sufficient to keep risks at an acceptable level.

Overview of the audits of authorities and courts within federal departments and at other operations and affiliated and international organisations

Annex 1 contains the audits submitted to the joint parliamentary Finance Delegation between February 2011 and January 2012.

Authorities and courts

- Audit of the accounting for the operating costs of www.ch.ch; Federal Chancellery

Federal Department of Foreign Affairs

General Secretariat

- Audit of the Swiss Embassy in Mexico
- Audit of financial management of the 13th Francophonie Summit
- Audit of Human Resources
- Audit mandates for organisations and international institutions

Switzerland attendance

- Audit of accounting for the 2010 Shanghai Expo

Directorate for Resources

- IT conditions at the Federal Department of Foreign Affairs

Swiss Agency for Development and Cooperation (SDC)

- Recommendation controlling, performance audit of bid awards by the SDC
- Financial supervision in the area of humanitarian aid

Foreign representations

- Swiss Business Hub ASEAN Singapore
- Swiss Business Hub China

A1

Federal Department of Home Affairs

Federal Office of Culture

- Audit of the management of the federal art collection and analysis of monitoring of the European programme MEDIA

Swiss Federal Archives

- Audit of financial management with defined areas of emphasis

Swiss Meteorological Institute MeteoSwiss

- Procurement of equipment and services/contributions to international organisations/third-party funds

Federal Social Insurance Office

- Evaluation of the issuing of hearing aids – follow-up of SFAO recommendations from 2007
- Supervisory activity in the area of disability insurance

Federal Department of Justice and Police

Federal Office of Justice

- Audit of financial management

Federal Office of Police

- Expenditures during 2010 in the Observation and Investigations/Special Operations units
- IT management and operation

Swiss Institute of Comparative Law

- Audit of financial management

Federal Department of Defence, Civil Protection and Sport

Federal Intelligence Service

- Audit of the 2010 annual accounts and audit of financial management

Federal Office of Sport

- Audit of SAP environment, cost and performance accounting, and Internal Control System

A1

Federal Office for Civil Protection

- Financial supervision in the infrastructure business area

Centre for Historic Military Equipment

- Audit of organisation and financial management

Federal Department of Defence, Civil Protection and Sport – Armed Forces Command Support Organisation

- IT and telecommunications security; audit of security organisation and requirements for DDPS service providers (Armed Forces Command Support Organisation)

Armed Forces Logistics Organisation

- Audit of financial management for Troop Accounting and Internal Control System
- Audit of financial management and efficiencies; Armed Forces College (AFC/Military Academy at the ETH Zurich)
- Procurement audit of select disbursements from the budget for equipment and renovation needs (AEB) at DDPS for the years 2008-2010
- SAP audit – facilities accounting and follow-up on Audit 7241 (comprehensive audit of authorisation processes) at the Defence Sector
- Audit of the management of select Dübendorf Airport plane and weapons locations/departmental branch Defence
- Overview of the situation for the Management and Logistical Systems at Defence (BLSV/ar) programme; departmental branch Defence

armasuisse – Command and Control and Reconnaissance Systems

- Price audit at Siemens IT Solutions and Services AG, 8047 Zurich

armasuisse – Land Systems

- Price audit at Tony Brändle AG Wil, 9501 Wil

armasuisse – departmental branch Defence

- Financial supervisory audit and follow-up controlling: Retirement of military equipment and ammunition

General Secretariat

- Federal Administration Contract Management project – introduction of the federal standard for contract management
- Consolidated Confederation accounts – assessment of consolidation processes and informative value of the consolidated Confederation accounts
- Audit of the 2010 annual accounts of the Federal Employees' Savings Bank (SKB)
- Swiss Confederation State Accounts for 2010
- Resource levelling and cost compensation – 2011 audit of cantons and federal offices
- Swiss IT Conference – limited audit of the 2010 annual accounts

Federal Compensation Fund

- Audit of the 2010 annual accounts
- Voluntary AHV/IV analysis of the financial impact of the 2001 amendment and the control system.

Swiss Compensation Fund

- Geneva, 2010 main audit
- Bern, 2010 main audit
- 2010 annual audit

Federal Office of Personnel

- Evaluation of occupational integration of people with disabilities
- Audit of the 2010 annual accounts of the Support Fund for Federal Employees
- Audit of the provision of services by the Personnel Service Centre of the Federal Department of Finance

Federal Tax Administration

- Appropriateness of the VAT flat rates / review of the procedure for ascertaining flat rates
- What does the SFAO audit at cantons?
- Stamp duties – audit of the administration of stamp duties
- Value Added Tax Main Division – audit of the 2010 State Accounts

Swiss Federal Customs Administration (FCA)

- Performance-related heavy vehicle fee – audit of developments in the area of processes, organisation, and instruments.
- Audit of the 2010 State Accounts

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- Quality and effectiveness assessment of the inspectorate
- Process audit of authorised recipients / e-dec import at the Chavornay customs inspectorate

Federal Office for Buildings and Logistics

- Efficiency and user orientation; audit of the renovation and expansion of the National Museum in Zurich (SLM)
- Comprehensive procurement audit of the biometrics system platform at the Federal Office for Buildings and Logistics (FBL) and at the IT Service Centre of the Federal Department of Justice and Police (FDJP).
- Quality and effectiveness assessment of the internal audit office

Federal Office of Information Technology, Systems and Telecommunication – Solution Centre

- Audit of the interfaces between service beneficiaries, the organisation, and the provision of services

Federal Department of Economic Affairs

State Secretariat for Economic Affairs

- Audit of direct federal tax relief in connection with the federal law for the benefit of economic renewal areas (‹Bonny Resolution›)
- Analysis of the environment and control activities of the European programmes INTERREG, ESPON, URBACT, and INTERACT; State Secretariat for Economic Affairs and the Federal Office for Spatial Development

Federal Office for Professional Education and Technology

- Commission for Technology and Innovation; the Start-up Promotion and Entrepreneurship department; price audit at Institute for Start-up Companies (IFJ) – St. Gallen

Federal Office for Agriculture (FOAG) – Agroscope Reckenholz-Tänikon (ART)

- Ascertainment of agricultural income – evaluation of current income ascertainment for individual operations and reform measures

Federal Housing Office

- Sale of Sapomp Wohnbau AG property holdings

Schweizerische Bundesbahnen AG (SBB)

- Contract conclusion for construction of the Durchmesserlinie in Zurich

SBB Cargo AG

- FITS programme (financial transparency and control)

SBB real estate

- Audit of the identification and repurposing of non-essential real estate

Federal Office of Transport

- Notice to the Delegation for the Supervision of the NRLA – status report on the New Rail Link through the Alps No 30, 1 July to 31 December 2010
- Notice to the Delegation for the Supervision of the NRLA: NRLA; assessment of 2010 audit reports by control offices
- E-Government: Phoenix application
- Fund for Major Railway Projects (fund for the financing of public transport, FinPT); report on the audit of the 2010 separate accounts on behalf of the Federal Office of Transport (FOT)
- Summary for the Delegation for the Supervision of the NRLA: NRLA/SBB; agreement to commence operations for the Gotthard axis; controlling and reporting
- Notice to the Delegation for the Supervision of the NRLA; Federal Office of Transport (FOT), NRLA; coordination meeting on 1 December 2011
- Implementation concept for making the public transport system accessible to people with disabilities and procurement of goods and services

Federal Office of Civil Aviation (FOCA)

- Financial management and follow-up

Federal Office of Energy

- Efficiency and regularity in cost-covering remuneration for feed-in to the electricity grid

Federal Roads Office

- Infrastructure Fund; report on the audit of the 2010 separate accounts
- Cost-allocation schedule; allocation of construction, operating, and maintenance costs for joint construction projects

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Federal Office for the Environment

- Work on the Third Rhone Correction

Federal Office for the Environment

- Fund for the Promotion of Forestry and Wood Research (WHFF)
- Swiss National Park Foundation, 2010 annual accounts
- Intergovernmental audit of 2009/2010 annual accounts; International Rhine Regulation from the mouth of the Ill to Lake Constance (IRR)

Inter-departmental and inter-office audits

- Notice; publication of Federal Administrative Court volume
- Report and application: 2012 budget proposal for the Swiss Federal Audit Office
- Horizontal project on reorganising the armasuisse procurement system; FBL
- Implementation of evaluation clauses in the Federal Administration; audit
- Horizontal audit of IT security in the Federal Administration; report for the Federal Council
- Job growth and pay; horizontal audit of decentralised units of the Federal Administration
- Notice; procurement system at the Federal Administration

Foundations, institutes, funds and special organisations

Building Foundation for International Organisations in Geneva

- Audit of the 2010 annual accounts

Pro Arte Foundation

- Audit of the 2010 annual accounts

Marcel Benoist Foundation

- Audit of the 2010 annual accounts

Pro Helvetia

- Audit of the 2010 annual accounts

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Future for Swiss Travellers Foundation

- Audit of the 2010 annual accounts

Swiss Centre of Accreditation and Quality Assurance in Higher Education

- Audit of the 2010 annual accounts

Rectors' Conference of the Swiss Universities (CRUS)

- Contribution to EU enlargement in 2010; Project Scientific Exchange Programme between Switzerland and the New Member States of the European Union – SciexNMSch

Swiss University Conference (SUC)

- Audit of the 2010 annual accounts

Swiss National Science Foundation

- Audit of the 2010 annual accounts

State Secretariat for Education and Research / Swiss Society for Research in Education (SSRE), Aarau

- Audit of the 2010 annual accounts
- Support of the National Authority as part of the establishment of a monitoring concept for the European programmes: Youth in Action and Lifelong Learning
- Analysis of the environment and control activities of the Seventh European Framework Programme for Research

Federal Institutes of Technology

- Audit of the 2010 consolidated annual accounts

Board of the Federal Institutes of Technology

- Audit of the 2010 annual accounts

Federal Institute of Technology Zurich (ETHZ)

- Audit of the 2010 annual accounts

Federal Institute of Technology Lausanne

- Audit of the 2010 annual accounts
- Auditors' report on the 2010 annual accounts; AHV (Old Age and Survivors' Insurance) compensation fund

Swiss Federal Institute for Forest, Snow and Landscape Research (WSL)

- Audit of the 2010 annual accounts

Swiss Federal Laboratories for Materials Science and Technology (Empa)

- Audit of the 2010 annual accounts

Swiss Federal Institute of Aquatic Science and Technology (Eawag)

- Audit of the 2010 annual accounts

Paul Scherrer Institute (PSI)

- Audit of the 2010 annual accounts
- Financial audit of the Laboratory for Nanomagnetism and Spin Dynamics and activities related to the Paul Scherrer Institute

Swiss Federal Institute of Intellectual Property

- 2010 project accounting for the Swiss-Vietnamese Intellectual Property Project (SVIP) / 2010 project accounting Ghana / 2010 project accounting Serbia
- Audit of the 2010 / 2011 annual accounts

Social Fund for Defence and Civil Protection (SVB)

- Audit of the 2010 annual accounts

Federal Audit Oversight Authority

- Limited audit of the 2010 annual accounts

Compensation fund for unemployment insurance

- Audit of the 2010 annual accounts

Swiss Alcohol Board

- Audit of the 2010 annual accounts

Financial Market Supervisory Authority

- Audit of the 2010 annual accounts

Swiss Landscape Fund

- Audit of the 2010 annual accounts
- Work on the Third Rhone Correction (R3), inspection of the Visp construction site and the Internal Control System
- Quality and effectiveness assessment; SBB internal audit office

International organisations

Universal Postal Union

- Audit of the 2010 annual accounts
- Audit of the 2010 annual accounts of the pension and insurance funds
- Audit of the 2010 annual accounts of the Fund for the Improvement of Services Quality

International Telecommunication Union

- Audit of the 2010 annual accounts of the Union
- Audit of the 2010 annual accounts of the closed pension fund
- Audit of the 2010 annual accounts of the health fund

World Intellectual Property Organization

- Audit of the 2010 annual accounts of the Union
- Audit of the 2010 annual accounts of the closed pension fund

European Free Trade Association

- Audit of the 2010 annual accounts

EUROCONTROL

- Audit of the 2010 annual accounts

World Meteorological Organisation

- Audit of the 2010 annual accounts

International Rhine Regulation

- Audit of the 2009/2010 annual accounts

Intergovernmental Organisation for International Carriage by Rail

- Audit of the 2010 annual accounts

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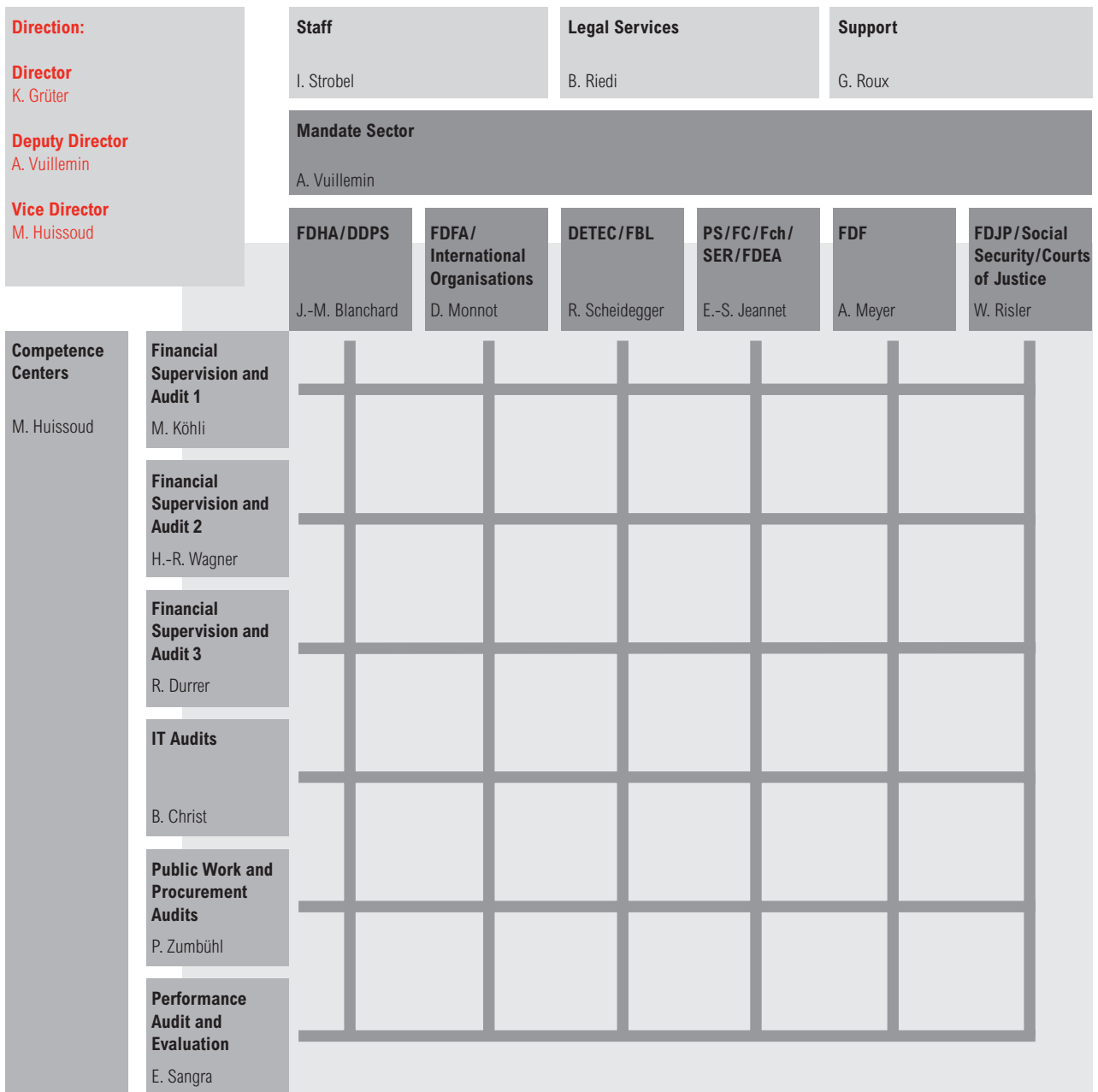
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Annex 2

Financial Inspectorates (Internal Audit Offices) of the central and decentralised Federal Administration pursuant to Article 11 of the FAOA

- Internal Audit Office of the FDFA
- Financial Inspectorate of the State Secretariat for Education and Research
- Internal Audit Office of the ETH Board
- Financial Inspectorate of the Federal Department of Justice and Police
- Financial Inspectorate of the DDPS
- Internal Inspectorate of the Central Compensation Office
- Financial Inspectorate of the Federal Tax Administration
- Inspectorate of the Federal Customs Administration
- Internal Audit Office of the Federal Office for Buildings and Logistics
- Internal Audit Office of SECO
- Financial Inspectorate of the Federal Office for Agriculture
- Audit Office of the Federal Office of Transport
- Financial Inspectorate of the Federal Roads Office

Organisational Chart



Abbreviations

A

AHV	Old-Age and Survivors' Insurance scheme (AHV)
ALV	Unemployment insurance
ASTRA	Federal Roads Office (FEDRO)

B

BAFU	Federal Office for the Environment (FOEN)
BAV	Federal Office of Transport (FOT)
BAK	Federal Office of Culture (FOC)
BBL	Federal Office for Buildings and Logistics (FBL)
BBT	Federal Office for Professional Education and Technology (OPET)
BFE	Swiss Federal Office of Energy (SFOE)
BFM	Federal Office for Migration (FOM)
BGÖ	Freedom of Information Act (FoIA)
BPG	Federal Personnel Act (FPA)
BIT	Federal Office of Information Technology, Systems and Telecommunication (FOITT)
BLW	Federal Office for Agriculture (FOAG)
BVET	Federal Veterinary Office (FVO)

D E

DBG	Federal Act on Direct Federal Taxation
DEZA	Swiss Agency for Development and Cooperation (SDC)
EDA	Federal Department of Foreign Affairs (FDFA)
EDI	Federal Department of Home Affairs (FDHA)
EFK	Swiss Federal Audit Office (SFAO)
EFTA	European Free Trade Association (EFTA)
EFV	Federal Finance Administration (FFA)
EO	Compensation for loss of earnings
ESTV	Federal Tax Administration (FTA)
ETH	Federal Institutes of Technology (ETH)
EUROSAI	European Organisation of Supreme Audit Institutions (EUROSAI)
EVD	Federal Department of Economic Affairs (FDEA)



FKG	Federal Audit Office Act (FAOA)
FinöV	Fund for major railway projects (FinPT)
FIPOI	Building Foundation for International Organisations (FIPOI)
FLAG	Management by performance mandate and global budget (MPM)
FOPER	Federal Office of Personnel
GRECO	Group of States against Corruption (GRECO)

I

ICT	Information and Communication Technology (ICT)
IFRS	International Financial Reporting Standard (IFRS)
IKS	Internal Control System (ICS)
INTOSAI	International Organization of Supreme Audit Institutions (INTOSAI)
IRB	Federal IT Council (FITC)
ISACA	Information Systems Audit and Control Association (ISACA)
ISB	Federal IT Steering Unit (FITSU)
IV	Disability insurance (IV)

M N O R

NEAT	New Rail Link through the Alps (NRLA)
NRM	New Accounting Model of the Swiss Confederation (NAM)
OMM	World Meteorological Organization (WMO)
OSEC	Business Network Switzerland (OSEC)
OTIF	Intergovernmental Organisation for International Carriage by Rail (OTIF)
RUAG	Swiss Technology Group: Aerospace, Defence, Technology (RUAG)

S

SAP	Standard accounting software (SAP)
SECO	State Secretariat for Economic Affairs (SECO)
SEVAL	Swiss Evaluation Society (SEVAL)
SHAB	Swiss Official Gazette of Commerce (SOGC)
SR	Classified Compilation of Federal Legislation (SR)

U V W Z

UIT	International Telecommunication Union (ITU)
UPU	Universal Postal Union (UPU)
VBS	Federal Department of Defence, Civil Protection and Sport (DDPS)
WIPO	World Intellectual Property Organization (WIPO)
WTO	World Trade Organization (WTO)

