



Impressum

Swiss Federal Audit Office

Monbijoustrasse 45

3003 Berne, Switzerland

T +41 31 323 11 11

F +41 31 323 11 00

www.efk.admin.ch

info@efk.admin.ch



Foreword by the Director

I have the pleasure of presenting you with the 2013 Annual Report of the Swiss Federal Audit Office.

This report is an important communication instrument, allowing the public to get to know our work and to satisfy itself that the SFAO is watching over the proper use of public funds. We foster effective financial oversight, which is a guarantee for the credibility of the entire Administration's activity. Please do not hesitate to contact us if you have suggestions for improving our work.

The year 2013 was characterised by large information technology projects. Responding to several failures, the Federal Council asked the SFAO to audit the 15 most important IT projects in a systematic way. Three specialists were employed, and the first audits began in the autumn of 2013. The effort appears to be paying off and to have a positive preventive effect. The first reports will be available in 2014. The SFAO has also strengthened its competences in the field of procurement audits in order to address the deficits that unfortunately have been noted in several federal offices (see, for instance, point 1.2.2). The rules for public procurement must be better respected in order to make room for competition. The SFAO is committed to greater transparency in this area and is making its whistleblowing hotline available (verdacht@efk.admin.ch).



Auditing the State financial statements and the various funds affiliated with the State constitutes the traditional activity of the SFAO (point 2.1). A new concept implemented two years ago, which is fully based on the Swiss Auditing Norms and the principle of materiality, allows the SFAO's work to concentrate on the most important movements and should reduce detailed audits to a strict minimum. The SFAO has furthermore pursued its thematic analyses by auditing guarantee credits, an instrument that would be worth dusting off (point 1.7.2).

The topic of sustainability is often discussed but until now has rarely been audited. The SFAO has broken new ground by examining what remains of Switzerland's development projects in South Africa and India several years after their funding came to an end (point 1.5).



Such evaluations constitute essential independent analyses for ensuring the effectiveness of public spending. In the same spirit, the SFAO is multiplying its audits of beneficiaries of subsidies, such as Pro Senectute (1.2.1), trans-shipment terminals (1.1.1), professional education (1.3), energy savings (1.8), and regional policy (1.9).

All of the evaluations, the most important reports, and those requested under the Freedom of Information Act can be found on our website, www.efk.admin.ch.

2013 also marks the year of the creation of the Swiss Conference of Financial Auditors (point 6.1). Our federal system has a major impact on financial oversight. In numerous sectors – such as social insurances – the federal, cantonal, and communal institutions are financially interlinked or complementary. It is important for the various oversight authorities to work closely together in order to identify and prevent dysfunction between the levels of execution. After 13 years of joint work, this formalisation of cooperation among the SFAO, the cantonal audit offices, and the audit offices of the major Swiss cities is encouraging.

As a final remark, auditors are often accused of talking only about problems, risks, and errors. This observation is correct, and there is an explanation for it: The SFAO's resources are limited. With fewer than 100 people, it is illusory to want to inspect everything – choices

must be made. To be effective, the SFAO focuses on the areas presenting the greatest risks, areas undergoing change, or those that have come under criticism. The areas or projects audited thus do not constitute a statistically representative sample of the entire Administration. This orientation toward risks is reflected in our reports and automatically entails a concentration of negative observations. This gives a distorted view of the Federal Administration, which I regret. Nevertheless, I have to note that every day, we encounter an Administration in which the vast majority is efficient, motivated, and professional in its activities.

I would like to thank the Finance Delegation of the Federal Assembly and the Federal Council for their trust in naming me the successor of Kurt Grüter as Director of the SFAO. Kurt Grüter has retired after 15 years at the head of the office. He has left a lasting mark on our institution by giving it its matrix organisation and by strengthening its work in the area of evaluation. Finally, he had the thoughtfulness to take over the editing of the present report. My gratitude also goes to the staff members of the SFAO for the dynamism and motivation they have shown in accomplishing their mission. In conclusion, I would like to thank the numerous staff members of the audited entities who have loyally and efficiently supported our work.

Bern, April 2014
Michel Huissoud

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Note

For better readability and simplicity, this Annual Report uses only the masculine form. The feminine form is of course always implied.

Main areas of financial supervisory auditing

In the area of financial supervision, the SFAO carried out audits that were included in the annual programme on the basis of risk considerations. The audit findings specified below have already been discussed and/or noted by the Finance Delegation. The chapter is limited to the main areas of financial supervisory auditing and important findings. Where it made sense to do so, the SFAO made recommendations to the entities concerned. A complete list of audits submitted to the Finance Delegation between February 2013 and January 2014 is set forth in Annex 1.

1.1 Transport sector

The SFAO conducted various audits in the transport sector. These focused on the funding of transport infrastructures, IT projects in the road sector, and the loan granted to Swissair in 2001. Based on its analysis, the SFAO made various recommendations.

1.1.1 Rail transport

To promote combined transport, the Confederation supports the establishment of terminals by providing interest-free, repayable loans and non-repayable contributions. The operator must pay at least 20% with its own funds. Since 1986, the Confederation has participated with about CHF 400 million and has supported 39 facilities. 31 terminals are located in Switzerland and eight abroad. The largest facility co-funded by the Confederation is the Busto Arsizio-Gallarate terminal in Northern Italy.

The SFAO audited the federal subsidies to the trans-shipment terminals. It concluded that objectives have been defined only for transalpine transit. Objectives are missing for import/export and domestic transport, even though a large volume of goods is transported between Switzerland and Northern Europe. The Federal Office of Transport prioritised the terminal in Northern Italy. The other projects answered more to regional policy needs than to logistical priorities. Accordingly, the Confederation's start-up funding was able to improve the productivity of combined transport only slightly.

In light of the high investment and operating costs, only a few facilities can be operated economically. The Confederation should play a more active role in assessing needs and in planning infrastructure. Individual projects should be evaluated using meaningful criteria. The funding conditions should be defined better, and the various innovation promotion instruments should be coordinated. The SFAO has recommended making only non-repayable contributions and reducing the maximum rate of 80%.

The report is available at www.efk.admin.ch.

The Confederation grants financial assistance to licenced transport companies for the **upgrading, expansion, and maintenance of rail infrastructure**. The assistance is made either via non-repayable contributions or via repayable or conditionally repayable loans. In its audit at the Federal Office of Transport (FOT), the SFAO evaluated the instrument of conditionally repayable loans. At the end of 2012, the Confederation had loans receivable in the amount of CHF 7.1 billion, not counting upgrading projects, which are financed via the Fund for Major Railway Projects or the Infrastructure Fund. Conditionally repayable loans make up CHF 6.5 billion.

The maintenance of rail infrastructure has been funded via service agreements since 1999 for the Swiss Federal Railways (SBB) and since 2011 for private railways. Funding

until 2006 was for individual projects, but now it is allocated to investment programmes. This gives the railways more flexibility in carrying out their construction projects. The agreements are the basis for the Confederation and the cantons to order services as well as for loan payments. The SFAO noted that several cantons have not yet signed the service agreement already in effect for the years 2013 to 2016. This might be interpreted as a worrying sign that the cantons might try to delay projects as part of their austerity programmes. The future Financing and Expansion of Rail Infrastructure (FABI) envisages sole financing of rail infrastructure by the Confederation starting in 2017. The FOT must therefore ensure that the projects planned as part of the agreements are actually realised.

The SFAO believes conditionally repayable loans are a useful instrument. Where necessary, the FOT can influence companies in a timely manner and introduce corrective measures. Any necessary restructuring of balance sheets can also be performed without additional federal funds. If non-repayable contributions were made, interventions of this kind would not be so simple. The SFAO has recommended that the FOT consider, in light of the steadily increasing loan amounts, how loans should be treated in future. Does it make sense to allow loans – which may exceed the equity of a company several times over – to keep increasing continuously over decades?



Together with the audit office of the Canton of Geneva, the SFAO audited the **Cornavin – Eaux-Vives – Annemasse (CEVA) rail link**. The audit concerned the projects and processes in the organisation and the funding of this rail project, which is scheduled to be completed in 2017. The project costs are estimated at CHF 1.6 billion (last assessed in 2008). Of this amount, the Canton of Geneva contributes CHF 698 million and the Confederation CHF 869 million. The federal contribution is debited from the Infrastructure Fund for Agglomeration Transport. The SFAO identified a need for improvement in the implementation of specifications governing allocation of competences, functional specifications for construction managements, documentation, and invoicing. It was also not possible to make any firm statement regarding the division of project costs between the Confederation and the Canton of Geneva. An annual external review is recommended for this purpose.

For the **upgrade of the Rosshäusern – Mauss line to two tracks**, the SFAO audited the organisation for the execution phase, project funding, implementation of the work contract, project controlling and reporting, and quality assurance at the construction site. This project run by BLS Netz AG is an upgrade of the Bern–Neuchâtel line. The envisaged investment costs amount to CHF 166 million. The SFAO noted that implementation of the work contract by the construction management is being controlled using appropriate work instruments. The specifications for quality assurance on the construction site are appropriate and up to date, and they constitute a good basis for the monitoring and control of the execution quality. The SFAO identified optimisation potential in regard to recording performance and documenting scope as well as in regard to comparing the budget and actual costs. Urgent measures are needed in regard to funding, since only partial funding has been secured. The remaining funding via a service agreement had not yet been approved at the time of the audit.

The audit report has been published pursuant to the Freedom of Information Act (FOIA) at www.efk.admin.ch.

In 2008, the SFAO audited the business management instruments for cargo transport subsidies at **SBB Cargo AG**. The audit showed that financial transparency and controllability were inadequate. This means essential foundations that would influence the financial situation of SBB Cargo in a sustainable way are missing. The recommendations of the SFAO were taken up within the FITS programme. This programme encompassed the development of a management model, standardisation of performances and processes, and streamlining of the existing IT landscape. Costs in the amount of CHF 57 million were budgeted for implementation of the programme. During the reporting period, the SFAO audited the implementation status of the recommendations. Effective the beginning of 2013, SBB Cargo AG managed to launch its IT solution for improving financial transparency and controllability. All previous projects with similar objectives had failed already in the early project phase. In this way, the cost drivers have successfully been linked via the performance components so that the transaction can be reproduced in SAP in terms of cost. The SFAO noted that the essential contents of its recommendation from 2008 had been implemented.

In regard to the **New Rail Link through the Alps (NRLA)**, the SFAO coordinates its audits with those of the FOT, the statutory external auditors, and the builder's internal supervisory bodies in order to avoid redundancies and audit gaps. The annual meetings under the chairmanship of the SFAO not only serve the mutual exchange of information, but they also foster "unité de doctrine" and increase the efficiency of supervision of this project of the century. The audits conducted by the various supervisory bodies are analysed by the SFAO, provide information for its own risk analyses, and help with quality assurance. Each control instance is responsible for preparing its own risk analysis and audit plan as well as for conducting its own audit. By analysing the FOT's annual status reports, the SFAO is in a position to give the Parliamentary Delegation for the Supervision of the NRLA information about key points and developments.

The focus of the audit conducted at the Federal Office for Spatial Development (ARE) was on the financial participation of the Confederation in the **infrastructure projects for agglomeration transport**. To improve the transport infrastructures in cities and agglomerations, the Confederation makes a total of CHF 6 billion available for the Infrastructure Fund. The SFAO audited how the Confederation determines its co-funding of agglomeration programmes and how it monitors implementation. In this connection, the SFAO was especially interested in how the Confederation deals with project changes.



Through its co-funding, the Confederation has strong incentives at its disposal to ensure that planning covers all modes of transport and takes account of spatial development in the agglomerations. For cooperation and coordination, structures have been built up in the agglomerations that also add value to the handling of other topics. The SFAO sees room for improvement in several areas. The audit process and the cooperation among the participating federal offices (ARE, FOT, FEDRO, and FOEN) have to be formalised and clearly specified. The definition and inclusion of the inter-office control bodies are also insufficient. In the view of the SFAO, the Confederation should set out binding rules governing project-related, inter-office organisation with defined processes for the audit of future agglomeration programmes. Finally, it is not understandable why there should be no cost-benefit calculations for significant project changes and why the priorities are not reviewed.

1.1.2 Road transport

The Federal Roads Office (FEDRO) is the Swiss federal authority responsible for road infrastructure and private road transport. On 1 January 2008, it took over the legal mandate to operate and maintain national roadways from the cantons. Most cantons used the road data application STRADA, which had been developed in cooperation with FEDRO and now has to be replaced. This gave rise to the vision of **MISTRA** for more efficient and, most importantly, centralised administration of all road data. The SFAO audited to what extent the defined objectives have been achieved, whether the project is being run professionally, whether funds are employed thriftily and economically, and how the reliability of systems and data for users can be ensured. The SFAO recognises the necessity in principle for the FEDRO to have an IT-based solution. The audit was supposed to show whether the planned scope made sense. The MISTRA project order originally covered seven subprojects instead of the

currently 19 subprojects, about half of which are in productive use. The EMNS module for maintenance management of national roadways, which is meant to draw on all available data to automatically calculate the least expensive dates for restoring a roadway section, is still in project status without a date for its productive rollout. With EMNS, the FEDRO will in future be able to structure its maintenance planning with significantly more efficiency than today. Compared to the 2003 project order, the objectives defined at the time have been achieved only partially and significantly later than planned. The original budget for the entire project was CHF 43 million; so far, CHF 95 million have been spent. The SFAO believes that a guarantee credit should have been applied for. Operationally, the management of the project is good overall, but specifications are not complied with at important decision points. In particular, there are no project orders for most of the subprojects added subsequently. The transparency of procurements is insufficient. While the legal specifications are met, the systematic addendums to the concluded contracts raise questions regarding the economic use of funds. Maintaining the data quality of all modules employed will continue to be a great challenge for the FEDRO and its branches. There is a risk that the current status of the data, which took a huge effort to develop, will be obsolete in the medium term. The audit reported was published pursuant to the Freedom of Information Act (FOIA) at www.efk.admin.ch.

Since taking over the national roadways, the FEDRO has **controlled investment costs** via projects and no longer via budget credits or partial credits. This approach requires the development of a continuous system to support the FEDRO from planning to invoicing. To meet these requirements, the FEDRO introduced the **TDcost application** in 2008, which has been further developed on an ongoing basis since then. TDcost is a tool for the management of project costs and for the planning and management of the annual budget. In this way, TDcost today also serves as an upstream system for the Confederation's financial accounting. Each year, more than 22,000 invoices in an amount of more than CHF 1.5 billion are processed. The SFAO's audit served to evaluate the processing of financially relevant business processes, the quality of the internal control system, and the IT aspects of TDcost. The SFAO identified significant risks and deficits in regard to system authorisations (see Chapter 2.1 – The State financial statements of the Swiss Confederation). The significant investments in the further development and expansion of the application, totalling about CHF 4 million, are turning the original standard product TDcost into an individual application of the FEDRO. Maintenance and technical support for the application are provided by a supplier with the help of a subcontractor. This leads to dependence on the supplier and the subcontractor in regard to staff and technical aspects. This triangular relationship is cost-intensive and heavily limits the FEDRO in terms of price negotiations, since there are currently no alternatives for further developments. Moreover, only a few people at both the supplier and the subcontractor have knowledge of TDcost. The report is available at www.efk.admin.ch.

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 a settlement is intended 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. At the SFAO's request, the liquidator made the required documents available for the audit, amounting, over several stages, to 146 folders. It was possible to complete the audit of the settlement in 2011. As a precaution, the liquidator then created a reserve of CHF 350 million and originally held out the prospect of a statement by the end of May 2012. Subsequently, individual statements and extensive additional records relating to numerous findings and objections have been received successfully, which the SFAO audited in turn. The difference adjustment procedure with the liquidator is still ongoing, however, and the liquidator has still not submitted a final statement. 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 welfare, asylum and refugees

In this high-expense area of responsibility, the SFAO focused on the supervision of social benefits, audits of subsidy recipients, and various analyses relating to asylum and refugees.

1.2.1 Social welfare

At the Federal Social Insurance Office (FSIO), the SFAO audited the federal supervision process and the payment and calculation of the federal contribution to **supplementary benefits to Old Age and Survivors' Insurance (AHV) and Disability Insurance (IV)**. In December 2012, about 181,500 people received supplementary benefits to AHV, and 110,200 people received supplementary benefits to IV. The total expenditures for supplementary benefits amounted to CHF 4.4 billion, CHF 1.3 billion of which were charged to the Confederation. The FSIO expects these payments to double by 2033. For 2012, the SFAO noted that the calculation of the federal share is plausible and comprehensible, and that the federal contributions to supplementary benefits as well as the flat-rate administrative costs paid to the cantons were calculated, paid, and booked

appropriately. The supervisory work of the FSIO is designed in an appropriate manner. Pursuant to an earlier SFAO audit, the FSIO revised its circular to non-profit institutions and put it into effect the beginning of July 2013.

Compensation for loss of earnings is provided to people performing military, civil, or civil protection service. Since 2005, payments have also been made in the event of maternity. About CHF 1.5 billion is paid each year, 90% of which is split more or less equally between military service and maternity. Various cases of fraud and misappropriation occurred between 2007 and 2010. Some of the compensation paid for civil protection service was fraudulent. The Swiss Armed Forces benefited from the use of volunteers to reduce the burden on its own budget.

The compensation offices and the Central Compensation Office, the Armed Forces, and the Protection and Support Service consequently took several measures to prevent such abuse. During the reporting period, the SFAO audited the reporting procedure and supervision, recommending improvements such as stronger oversight within the Armed Forces and the Protection and Support Service as

well as a reassessment of the risks and automation of the approximately 800,000 forms that are currently processed manually.

The report is available at www.efk.admin.ch.

The SFAO examined the impact of federal contributions on **Pro Senectute**. For the years 2010 to 2013, the Confederation concluded a service level agreement with an annual financial framework of CHF 54 million. The contribution was intended for Pro Senectute's work "with special consideration of vulnerable target groups". Pro Senectute funnels CHF 28.5 million to the cantonal agencies for services actually performed locally. For coordination and development, the cantonal Pro Senectute agencies additionally receive a fixed annual flat rate of CHF 18.8 million. The national umbrella organisation receives CHF 6.4 million. The SFAO audited whether the contributions from the Old Age and Survivors' Insurance (AHV) Fund achieved the expected impact. It noted that target achievement in regard to allocation of contributions and reporting is not sufficiently apparent. The SFAO believes that applying flat-rate contributions and focusing on target achievement are more suitable in the case of impact-oriented service level agreements. It also examined whether the services in the areas of social consulting and community intervention actually reach the target groups. The SFAO believes that strategic implementation of the focus on vulnerable groups is running too slowly. While the local

cantonal agencies undertake various efforts to improve accessibility, these measures have yet to be strategically coordinated. A nationwide concept has been initialised but not yet accomplished. In the view of the SFAO, the impact can be improved if appropriate activities are determined and strategies are found to identify vulnerable target groups.

The report is available at www.efk.admin.ch.

1.2.2 Asylum and refugees

In 2011, the Confederation compensated the cantons for the **accommodation costs** of asylum seekers, provisionally admitted persons, and refugees with flat-rate contributions totalling approximately CHF 490 million. Additionally, it supported the integration of foreigners with CHF 36 million. This corresponds to a contribution of CHF 6,000 per person for this measure.

The SFAO examined the economic efficiency of the flat-rate integration contribution in a canton considered a pioneer in this area. It found cases of multiple subsidisation and uses of funds that did not always correspond to the legislative intent, and it made several recommendations to the Federal Office for Migration. For instance, the flat-rate contributions and integration contributions should be delineated more clearly, and the guidelines should be improved. Meaningful indicators should be used to measure integration progress, the information should be centralised, and supervision should be strengthened.



In a further audit, the SFAO examined 25 **procurements** in the Federal Office for Migration with a cost volume of CHF 49 million as well as the internal control system for operating expenses. Of the 25 audited procurements, 21 were awarded directly. Most of these procurements should have been awarded on a competitive basis, however. The FOM has already recognised the need for action of its own accord, and it has begun to increase its number of WTO tenders.

1.3 Education and research

The SFAO audited the subsidies for **professional education**. Each year, the Confederation pays CHF 880 million to the cantons for professional education institutions. About 90% of the federal contributions in 2012 were paid to the cantons in the form of flat-rate contributions depending on the level of basic education. The remaining 10% were earmarked for projects. Audits were also performed at the State Secretariat for Education, Research and Innovation (SERI) and in four selected cantons. The SFAO found that the SERI by and large takes an appropriate approach to supervision. But it also found that flat-rate compensation does not take proper account of higher professional education opportunities. The costs of higher professional education are thus added to the other costs of professional education when the lump-sum compensation is calculated, and then allocated to part-time studies according to the level of basic education. This increases the allowable costs,

leading to excessive compensation. The SFAO recommended implementing the distribution of funds in compliance with the law. The SERI does not see any immediate need for adjustments and takes the position that the cantons already reviewed the existing rules in 2011, especially in regard to higher professional education, and had not asked the SERI to make any changes in this regard. In order to monitor the cantons' compliance with quality standards as required by law, the SFAO also recommended establishing a reporting system. The SERI refused to monitor implementation of quality development and standards, however, because the ordinance does not expressly provide for reductions of flat-rate contributions. But since the federal law provides for reductions of contributions, it is indispensable for the SERI to perform inspections of quality development in each canton on a case-by-case basis.

In 2011, Parliament adopted an extensive ***package of measures to mitigate the consequences of the strong franc***. This included increasing the funds of the Commission for Technology and Innovation (CTI). The intent was to help export companies suffering from the high exchange rate by providing quick and effective financial assistance for planned innovation projects in cooperation with recognised research institutions.

The CTI commissioned an external evaluation of these support measures. The SFAO participated in the advisory group and evaluated the results of the study. According to the CTI, the study is to be published at the beginning of 2014. Already when examining the economic stimulus measures between 2008 and 2010, the SFAO expressed reservations regarding the effectiveness of long-term supply-side measures to counter economic slowdowns. The evaluation by the external experts supports this finding. Their report also contains various references to limited effectiveness, such as in the form of deadweight and displacement effects. Already during the implementation phase, numerous projects have been delayed or changed. A careful selection and accompanying of projects cannot be ensured by such a stop-and-go policy. Even though the evaluation in some individual areas offers a good basis for deciding future measures, various relevant aspects and questions regarding the package of measures and regular innovation promotion remain unanswered. Of particular note are the long-term impact of CTI project promotion and the success rate of the supported projects. The evaluation was scheduled too soon. The impact of project promotion on the companies and research partners and on the national economy could not be evaluated. The increase in funds recommended by the experts and the expansion of the CTI's financial leeway are therefore not supported by the SFAO.



1.4 National defence

For the period of 2013-2020, expenses with a budgetary impact in the amount of CHF 210 million are expected for the **business management and logistical systems of the Armed Forces** (BLSV/ar programme). For the entire time period of 2005-2020, this results in costs with a budgetary impact of CHF 418 million. This does not include investments in real estate. The programme is intended to create the conditions for a provision of services by the Swiss Armed Forces that is efficient in terms of business management. The targets are defined in the programme mandate. The overarching objectives of the programme have not changed substantially over the year. However, the requirements governing the final state to be achieved are expanded and supplemented every year. While some final targets have been added, omitted, or expanded, there is no accounting of the status of target achievement and the reasons for any changes. It is not apparent to outsiders what has been achieved so far and what deliverables still have to be generated for the programme to attain its targets.

The programme management is tasked with coordination, controlling, and overall reconciliation of the individual projects. However, it has not been given responsibility for results, nor is it responsible for enforcing organisational changes. The SFAO believes this aspect is problematic, since especially in SAP environments, appropriate organisational preconditions must be created for the successful introduction of projects. Those responsible for the programme claim, however, that the Chief of the Armed Forces, the Chief of Armament, and the line managers in the programme committee meet the preconditions for enforcing organisational measures.

The planned projects are being implemented, albeit some of them with delays. For instance, a continuous procurement workflow has been achieved between armasuisse and the Armed Forces. The logistics systems of the Armed Forces, which made negative headlines at the time they were introduced in 2010, are now at an acceptable level in terms of use and data quality, according to the information received. So far, the SAP Air Force system has not been integrated into the SAP defence system.

Due to objections and legal defects of form in the WTO tender, the integration was not completed as planned by the beginning of 2013.

The new deadline is now 1 January 2016.

The various IT projects are funded using real estate and IT credits as well as credits for ensuring the material arrangements of the Armed Forces. The SFAO believes that a separate credit should be requested for individual major IT projects. The current annual funding, which uses various types of credit, is not sufficiently transparent, and there is a risk of never-ending projects. In light of the high financial expenditures still needed, it is important for costs and benefits to be analysed carefully for any further developments.

On the basis of the audit findings from 2010, the SFAO conducted a status assessment of the **Central Agency for Historic Equipment of the Armed Forces** (CAHEAF). It found that while cooperation between the Central Agency and the foundations entrusted with the collections has made progress, cooperation on the side of the Confederation is not sufficiently guided by targets. Upon conclusion of the transformation phase at the end of 2015, the implementation concept is scheduled to be replaced by new foundations for the “normal operation” of the collections. Given the risk of cost overruns, the SFAO analysed the real estate projects especially in Thun, Burgdorf, and Uster. It found that the buildings in Thun renovated during the first construction phase, with their high building standard and their low spatial utilisation, unfortunately correspond more to a museum than to a less expensive walkable collection. In order not to exceed the investment amount of CHF 11 million approved for all locations in total, lower standards than for the first phase were then mandated for the second construction phase in Thun.



1.5 Foreign relations

During the reporting period, the SFAO audited several areas of foreign relations. Of special note are the audits of the enlargement contributions and the sustainability of development assistance.

Through 2017 (and 2019 in the case of Bulgaria and Romania), Switzerland will pay **enlargement contributions** to the 12 new **EU countries** amounting to CHF 1.257 billion. The SFAO examined project funding in **Romania** and the **Czech Republic**. It assured itself that its recommendations from 2009 have been implemented by the State Secretariat for Economic Affairs (SECO). In light of the risks of corruption, supervision is carried out quite efficiently. With regard to procurement, the SFAO found that the integrity clauses and the “no objection” right of the SECO are systematically complied with. On the side of the Swiss Agency for Development and Cooperation (SDC), a Swiss Intermediate Body (SIB) has been created for every thematic fund. This has made the structure of the Swiss enlargement contributions and the role allocation between the Swiss and Romanian actors more

complex. Especially in the field of security, the SFAO has recommended that the SDC ensure adequate supervision of the SIBs in order to fulfil its primary responsibility. In addition, it has suggested that the SDC and the SECO supervise the projects in Romania also in regard to the agreed reduction of socio-economic disparities as well as the principle of subsidiarity and decentralisation.

In the **Czech Republic**, the SFAO found that thanks to close monitoring of the Swiss enlargement contribution, the cooperation programme between Switzerland and the Czech Republic is being implemented in a strict and transparent way. Due to decentralisation of the Czech implementation structure, implementation of the projects and programmes of the enlargement contribution has taken more time than planned. However, thanks to the major participation of the Czech national coordination service, the implementation has avoided delays that might have threatened the realisation of the individual tasks. The projects, programmes, and other special financial instruments generally respect the principles and criteria of the agreement between Switzerland and the Czech Republic. The contributions to public-benefit organisations and retirement

homes, especially, fulfil the transparency requirements, the goals of social integration, and the principle of subsidiarity. To improve conformity and efficiency of implementation, the SFAO has recommended ensuring proper substitutions for the local programme managers and bundling supervision by the internal Financial Inspectorates of the FDFA and the SECO so that all areas of the Swiss enlargement contribution can be audited in the same way. In view of future enlargement contributions, it has also suggested performing a comparative analysis of the funding instruments – global subsidies and joint funds. A more flexible handling of complaint procedures for procurements and the introduction of a “programme” approach should also be considered. As part of an evaluation in 2014, the SFAO will compare the various funding instruments of the Swiss enlargement contribution as well as with those of Norway and the EU.

In 2012, the Confederation made CHF 2.8 billion available for bilateral and multilateral **development assistance** projects. The SDC used CHF 1.65 billion of that amount. The goal of the evaluation was to examine the current development status of 14 projects in South Africa and India after Switzerland exited the projects. Studies of this kind – taking place years after conclusion of the project or exit of a donor country – are rare, given that it is complex and difficult to measure sustainable aspects. Overall, the results of the study were good, even though some of the projects developed in unexpected directions after Switzerland’s withdrawal. The SFAO found “project footprints” in all the examined projects. But the forms of these traces differ in terms of quantity and quality. All the supported organisations still exist and continue to operate in the areas previously supported. Switzerland’s exit was described as exemplary and pleasant by the partners. Many projects were supported in “niche areas” that tended to be “off the beaten track” of development assistance organisations. The potential for innovations was accordingly great. Since Swiss development cooperation primarily supported smaller projects, the broadness of their effects and their sustainability were limited. The SFAO recommended performing more risk assessments and targeted ex-post analyses to increase effectiveness and create added value. The definition of objectives should be improved in regard to measurability of achievement of objectives, and project documentation should be systematised. The report is available at www.efk.admin.ch.



1.6 Agriculture

The SFAO audited the **ASA 2011 programme** at the Federal Office for Agriculture (FOAG). As part of this programme, the **Agate portal** and first applications for simplifying administrative workflows and controls in the agricultural and veterinary field were implemented and launched at the beginning of 2011. Later, additional projects integrated specialist applications into the ASA 2011 programme. In spring 2012, the FOAG decided to terminate the programme structure and implement the additional plans as individual projects.

The SFAO recommended that the FOAG define the tasks and responsibilities more tightly, especially the interplay among the various bodies, so that the strategic and operational questions relating to the Agate portal can be clarified in a purposeful way. It should also be considered in this regard whether a superordinate steering body should be created with representatives from the Federal Veterinary Office and the cantons. To simplify workflows and responsibilities, the SFAO also recommended concentrating all IT tasks of the

FOAG in connection with the portal within the IT Management Division. The support structure of the Agate portal and the applications it makes available are still not mature, even two years after the launch. The responsibilities, the escalation procedures, and the communication channels must be defined and implemented more clearly.

Another audit dealt with FOAG supervision of the **Identitas AG** company. Identitas AG is mandated by the Confederation to operate a **database for various animal species**. The Confederation is the main shareholder with 51% of the shares and sends two representatives to the board of directors (one from the Federal Veterinary Office and one from the FOAG). The company and the Confederation have concluded a service-level agreement renewable every four years. One of the SFAO's recommendations for the new service-level agreement from 2014 to 2018 is to review the appropriateness of the amount of the basic contribution and the tariffs applicable to the individual service components, in light of



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the available visible and hidden reserves (CHF 3.9 million at the end of 2012). When animal by-products are disposed of, Identitas AG is responsible for the administration and distribution of federal funds in the amount of CHF 48 million each year. The new service-level agreement should specify the controls to be performed by Identitas AG. The FOAG should also require the business accounting of Identitas AG to make a clear distinction between the results of activities under public law and those under private law. Finally, the participation of federal representatives on the board of directors should be reviewed.

1.7 Finance and taxation

The SFAO audits not only the thrifty use of funds but also the proper levy of taxes. It performed various audits on fiscal matters and analysed the data quality of resource equalisation and cost compensation.

1.7.1 Federal taxes

In 2010, the SFAO audited the procedure for determining **Value Added Tax flat rates**. Various weaknesses were found, and in numerous cases the appropriateness of individual flat rates in 2010 and 2011 could not be confirmed or assessed. The Federal Tax Administration (FTA) subsequently took the position that any mathematical or statistical approach for measuring the appropriateness of these tax rates would be doomed to failure from the outset. In addition to administrative simplification, the flat rates also offer a way to optimise taxes. This means that those who use the flat rate method will predominantly be the financial beneficiaries of the system. The problems inherent to the system had been demonstrated very clearly. According to the FTA, the mandate given to the SFAO by the legislator could not be fulfilled unless the audit limit itself to the question of

whether the FTA's approach is comprehensible. For these reasons, the FTA saw itself unable to implement various SFAO recommendations.

As a consequence of this different assessment of the situation, the SFAO had the Federal Office of Justice (FOJ) prepare an opinion on the interpretation of the wording of the law and the ordinance. The opinion was to provide clarity about whether the SFAO's assessment of appropriateness is proper and what the legislative power deems to constitute appropriateness. The opinion concludes that the review of appropriateness must primarily consist in an appraisal of the correctness of the FTA's calculation. According to the opinion, the precondition for a correct calculation is a representative sample of datasets. The datasets should not only be selected on the basis of risk, but they should also represent all regions of the country as well as the various sizes and types of businesses. To assess whether the tax burden remains the same regardless of the VAT settlement method used, deviations at the expense of the FTA should be tolerated more readily, given that the legislator had accepted the loss of tax revenue as a consequence of the flat rate method. The FOJ would entirely eliminate the benchmark of administrative savings used by the SFAO.

In light of this opinion, the SFAO evaluated the assignment and appropriateness of the flat rates for all business sectors and activities audited in the years 2010 to 2012. The outcome did not change in regard to the criterion of correct mathematical determination of the flat rates. Overall, the flat rates were assigned in a non-transparent manner to 5 of the 82 sectors or activities, corresponding to 6%. Even after the renewed assessment of appropriateness taking account of the basic findings in the

FOJ opinion, the system was still not deemed appropriate overall. For this reason, the SFAO supported the envisaged legislative amendment that would eliminate its explicit duty to audit the appropriateness of the flat rates.

At the FTA, the SFAO also audited the status of implementation relating to the international **withholding tax agreements**. The agreements between Switzerland and the UK as well as Austria entered into force on 1 January 2013. The main elements of taxation consist in regularising assets at Swiss paying agents through subsequent taxation or disclosure and through the future levy of a final withholding tax on investment income and notification of such income. The financial volume of the tax is large. For UK regularisation alone, Switzerland already paid CHF 500 million of a total of CHF 1,300 million as a prepayment after entry into force of the agreement.

Substantive supervision of the final withholding tax is exercised by the audit offices of the paying agents. At the time of the audit, the guidelines and specifications available were made up of two sets of instructions for the paying agents and a draft audit manual. The SFAO recommended providing a more detailed definition of the risks, the audit procedure, the scope of the audit, and the frequency of the audit in the audit manual.

A complete record of the paying agents compiled by the FTA is a key element for safeguarding the purpose of the agreement. The FTA has planned completeness checks of the directory in question, but in the view of the SFAO these checks are not sufficient.

1.7.2 Finance

The SFAO has the statutory mandate of verifying the **data quality of resource equalisation and cost compensation**. The audit of the gathering and processing of the data used to calculate cost compensation in 2014 did not show any significant errors or weaknesses. The SFAO deems the data quality to be good overall. Nevertheless, it found systematic errors in several cantons. It recommended that the cantonal tax administrations test changes to their data extraction programs using pre-defined cases. In addition to the audits in the cantons, the SFAO also gained an overview of the work of the FTA, the Federal Statistical Office, and the Federal Finance Administration – federal offices that play an important role in data processing for resource equalisation and cost compensation. At the FTA, the SFAO found the description of the processes and controls to be in need of improvement in terms of completeness and comprehensibility. For cost compensation, the Federal Statistical Office must revise the catalogue of social insurances in order to exclude multiple receipts of social benefits from the statistics. The audit report is available on the SFAO website at www.efk.admin.ch.

In various federal offices, the SFAO audited the instrument of **guarantee credits** under the aspects of benefit and efficiency. The focus was on information about guarantee credits contained in the State financial statements and the budget. The audit showed that the administrative units employ heterogeneous instruments for the operational control and monitoring of guarantee credits. Integrative management of guarantee credits – the standardised solution provided by the Federal Finance Administration – is used by only few administrative units. The SFAO's surveys showed that there is room for interpretation in regard to the reportable key data on the content and status of the guarantee credits. The SFAO clarified the benefit of the instrument among various administrative and political actors. There is no uniform need for information, and the data is used in very different ways. The results of the horizontal audit are available at www.efk.admin.ch.



1.8 Energy and environment

At the Federal Office for the Environment (FOEN), the SFAO audited supervision of the **3rd Rhone correction in Valais**. The project with overall costs of more than CHF 2 billion is being delayed by objections. The SFAO has recommended that the FOEN negotiate early on with the Federal Finance Administration and the Canton of Valais about the carryover of the extensive guarantee credit balance. The guidelines on wage costs eligible for subsidies must be made more precise and communicated to the Canton in writing. The SFAO also recommended structuring the regular reports on costs and deadlines in a more systematic way.

At the **federal and cantonal buildings programme**, the SFAO performed two evaluations and one audit of the complex project organisation, the estimation model, and the financial implementation of this programme. In this context, auditing actions were carried out at the FOEN and the Swiss Federal Office of Energy (SFOE) as well as the national service centre, which is operated by an external service provider for the Conference of

Cantonal Energy Directors. Since 2010, the Confederation and the cantons have promoted energy-efficiency renovations of buildings with annual funds of about CHF 180 million, which are generated by the partial earmarking of the CO₂ levy. Two thirds of these funds are allocated to Programme Component A, which promotes harmonised standards for the renovation of building shells throughout Switzerland. The remaining funds are allocated to Programme Component B as global contributions to the cantons for projects in the field of renewable energies, waste heat utilisation, and building technology. The FOEN and partially the SFOE are responsible for Programme Component A. To ensure harmonised execution of this programme component, the two offices have concluded a programme agreement with the Conference of Energy Directors, which in turn has commissioned an external service provider with operational programme implementation. For the receipt and distribution of the annual allocations from the CO₂ incentive levy for the buildings programme, the Conference of Energy Directors maintains business relationships with the Bündner Kantonalbank and the Finance Administration of the Canton of Graubünden.

The SFAO found that the organisation of Programme Component A is unsystematic and that the decision-making processes are complicated. The competences of the two federal offices have not been clarified sufficiently. The powers and responsibilities at both the federal and the cantonal level are not clearly defined. Moreover, demand since 2010 has significantly exceeded the available subsidy amounts in Part A. In contrast, Programme Component B is controlled using global contributions to the cantons. The more effective a canton's programme, the more global contributions the canton receives. Tasks, powers, and responsibilities in this part are properly matched. Essentially, this solution follows the logic of the programme agreements under the NFA. A key element is the harmonised subsidy model, with which the cantonal programmes are harmonised and their effectiveness – i.e., the energy and CO₂ savings achieved per subsidy franc – can be estimated. In both programme components, effectiveness is determined using an estimation model, but only in Component B do these estimates have financial consequences. The SFAO recommended concentrating responsibility for implementation of the two programme components within the Swiss Federal Office of Energy. The tasks and powers should also be delegated more strongly to the cantons, and uniform financing via global contributions should be considered. For the global contributions in Component B, the SFAO recommends stronger supervision by the Confederation. As part of the first package

of measures for the 2050 Energy Strategy, the DETEC proposed exclusive financing via global contributions. With this solution, the identified potential for improvement in regard to the distribution of tasks, powers, and responsibilities can be realised at all levels. The proposed adjustment would also ensure the control of committed subsidies vis-à-vis revenue from the CO₂ incentive levy. Using today's model for Programme Component A, the expected revenue from up to two subsequent years has already been committed in advance. In regard to the estimation model, the SFAO examined various subsidy measures. The SFAO found that the estimation model has developed organically. The model exhibits various inconsistencies and is in part non-transparent and difficult to comprehend. In general, energy savings tended to be overestimated in the examined subsidy areas. As far as CO₂ savings is concerned, it is definitely not possible to determine conclusively whether savings are being overestimated or underestimated. The deadweight effects that always occur in subsidy programmes appear to be greater than assumed. Since introduction of the subsidy in the buildings sector in 2003, which corresponds to today's Programme Component B, the subsidy volume has increased dramatically. While about CHF 14 million was invested each year at the beginning, a volume of CHF 350 million is to be made available under the 2050 Energy Strategy. This growth also requires adjustments to the precision of the estimation model.

The SFAO recommended completely revising the estimation model and focusing on an overall view of the building in the effectiveness analysis. At the very least, the SFAO expects validation of the assumptions as well as an adjustment to today's changed conditions. The cantons had already planned a revision of the model before the evaluation was carried out, but the specific revision steps depend on the ongoing parliamentary consideration of the 2050 Energy Strategy, which will determine the future design of the buildings programme. In regard to financial administration of Component A by the national service centre, the SFAO evaluated the formal processes. Proper accounting was not part of this audit, since accounting is audited and certified annually by the financial audit office of the Canton of Graubünden. Using the financial planning instruments, the national service centre can represent the development of the liquidity situation and thus terminate funding commitments in a timely manner so that the existing overcommitments can be eliminated by the end of the programme term. The adjustment of the subsidy conditions – which, in the view of the SFAO, was delayed – favoured the growth of overcommitments at the beginning of the programme, which also meant that many small applications had to be considered. Given the flat-rate processing fee for each subsidy application, this phase generated disproportionately high execution costs. The execution

costs originally envisaged in the programme agreement of 6.5% of the subsidy amount can no longer be achieved. During the reporting period, the Confederation concluded the third programme agreement with the Conference of Energy Directors for Buildings Programme Component A. Due to the 2050 Energy Strategy, the contracting parties reduced the originally envisaged programme term from 10 to 7 years. Because of the shorter programme term as well as significant execution cost overruns between 2010 and 2012, the cantons requested that the cost ceiling for the execution costs be raised from 6.5% to 7.3% of the global subsidies allocated over the programme term. With the third programme agreement, the DETEC approved the higher cost ceiling for execution costs. In return, the cantons are expected to provide a detailed financial accounting of these costs. The SFAO expects full cost transparency in the final accounting. In particular, the final accounting must indicate which costs are due to the shorter programme term and which are due to facts that were not or only insufficiently taken into account at the outset. The start-up costs from the year 2009, which are not included in today's bookkeeping for the buildings programme, must also be taken into account. The reports on the project organisation and the impact model are available at www.efk.admin.ch.

At the Federal Office of the Environment, the SFAO also audited the handling of *contaminated sites in accordance with the Environmental Protection Act* and the Contaminated Sites Ordinance. The annual levy of about CHF 35 million under the Contaminated Sites Ordinance is being collected in a proper and timely manner. The fund balance of about CHF 170 million at the end of 2012 will be reduced significantly in the foreseeable future due to upcoming major clean-ups. The SFAO audited the clean-ups of two disposal sites. In the compensation commitment for the Schnepfenmatt/Canva site project, there were no explicit indications of the clean-up objectives or specifications for the required reports. These elements should in future be part of every commitment agreement. At the Kölliken hazardous waste site, the audit focused on the newly developed compensation commitment. The SFAO believes the subsidy amount of CHF 215 million committed in light of the expected total costs of CHF 993 million is realistic. The complexity of the clean-up project in Kölliken shows that a specific controlling concept is necessary to the monitoring process. Such a concept should also be elaborated for the remaining major clean-ups of the La Pila (FR), MuttENZ (BL), and Stadtmist (SO) sites.

1.9 Other federal areas of responsibility

The SFAO audited several questions relating to implementation of the *New Regional Policy* using programme agreements. As in 2011, three cantons were audited. The audit included financial supervision, usefulness of controlling, the orientation of the New Regional Policy, and cooperation with other subsidy areas. One of the SFAO's focus areas was the switch from cost contributions to performance-based and impact-based control, in connection with the instrument of programme agreements. In this regard, progress is needed for the 2016-2024 programme period. Additionally, management of the Fund for Regional Development was audited, and the evaluation activities of the State Secretariat for Economic Affairs in the area of New Regional Policy were critically appraised. Of note is that with the increase of tourism promotion by CHF 200 million, a priority was established in regional policy that does not correspond to the conclusions of the evaluation. The SFAO recommended taking a position on the recommendations of evaluations in the future and publishing those positions together with the reports. The audit report is available on the website of the SFAO at www.efk.admin.ch.



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Within the framework of the Federal Radio and Television Act (RTVA), research represents a measure to **improve and protect the variety of programme quality**. The RTVA makes an explicit distinction between media research and audience research, and it determines the sources of financing. Currently, about CHF 2 million are available for media research and about CHF 2 million for audience research. According to the performance mandate, the Federal Office of Communications must ensure that beneficiaries use these funds economically and in accordance with their purpose. The SFAO recommended making payments only if a transparent and comprehensive performance record is available and providing applicants with more binding specifications.

1.10 Federal level

At the federal level, the SFAO audited various IT projects, procurements, and individual construction projects of the Confederation.

1.10.1 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 directives are being followed. In this role, the SFAO conducts various IT audits (see Annex 1).

For the third year in a row, the SFAO audited implementation of the Federal Council's measures on **IT security**. Unlike the two previous years, where the focus was on urgent measures, the focus this year was on the additional measures that have to be implemented by the end of 2013. These measures are two-factor authentication (2FA) at federal workplaces, securing remote access to the federal network, and implementation of the IT and data protection requirements.

The SFAO found that the Federal Council's targets were not achieved on time. A key role in the implementation of the requirements is played by the Federal Office of Information Technology, Systems and Telecommunication (FOITT). The FOITT provides all IT services for several departments and operates both the federal network and the public key infrastructure (AdminPKI). This means that many activities come together at the FOITT. The projects for implementation of the requirements are mostly far advanced, but various technical solutions were available only with delays. The conversions associated with the comprehensive introduction of 2FA at federal workplaces and with securing remote access were underestimated, not only by the FOITT: The departments and individual administrative units also waited too long before concrete projects were launched.

The SFAO would have expected that the introduction work for 2FA would be centrally coordinated. Instead, most departments run their own projects alongside the FOITT. The procurement of the smartcards, which hold the certificates for 2FA, was problematic. Half the departments were uncertain until June 2013 whether the smartcards would actually be available for the planned roll-out. Despite all the difficulties, it can be assumed overall that most federal workplaces will be converted on time. The problem of mobile devices, which are used with increasing frequency in the Federal Administration, remains unresolved.

The strict rules existing today for the use of such devices are already being circumvented in practice and cannot be maintained formally much longer either. Without a Confederation-wide project to cover the growing needs of users, the departments will again deal with the issue themselves, which will inevitably lead to different technical developments.

It will not be possible to further secure remote access across the Confederation in a timely manner, nor will it be possible to carry out all the conversion work in the months remaining. Accordingly, there already have been calls for exemptions, which in principle should be refused. The Federal IT Steering Unit emphasises that it will not make any concessions regarding the envisaged level of security by granting exemptions.

The SFAO found that implementation of the network security specifications in the cantons are making only slow progress. The topic was already audited by the SFAO in 2009 and has been a concern for those involved for many years already; the results achieved are not commensurate with the time they have taken. Cantons that do not implement even the minimum security specifications are vulnerable and accordingly are also a risk factor for the federal network. Within the Federal Administration, there is great pressure to increase the security level everywhere, while cantons are generously accepting of deficits. For the SFAO, this is not an acceptable state of affairs.



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The SFAO audited the cancellation of the **INSIEME** project of the Federal Tax Administration (FTA). The dismantling of INSIEME was the responsibility of the existing project organisation. The SFAO found that the resources were released from the project within the planned timeframe and in compliance with the contract and the law, or they were assigned to the successor project **FISCAL-IT** by way of addenda to the contract. There were hardly any actual liquidation costs. It does not appear likely that the termination will lead to further claims against the Confederation. However, it is being clarified whether the Confederation can reclaim money from suppliers in connection with service invoices that presumably were incorrect.

Immediately after the termination decision, the FTA compiled a complete inventory of all existing IT applications. These documents allow those responsible at the FTA to gain a realistic estimate of the existing risks and the priorities that must be established for the successor project. Moreover, the synergy potential is made clearly visible so that IT systems that are now redundant can be centralised in the new structure. The inventory shows that it is illusory to restart FISCAL-IT from scratch,

even though the goal was to begin the new project without any relics of the past. For a successful execution of the FISCAL-IT project, it will be important for the General Secretariat FDF to observe the development of the overall project at the FTA and the FOITT as well as cooperation between the two administrative units and to intervene where necessary.

At the FOITT, the SFAO audited the continued operation or restoration of selected IT applications, the IT infrastructure, and of basic ICT systems such as office automation and disaster communication. The approach taken in various emergency scenarios was evaluated, such as when one of the two FOITT computing centres stops operating, extended interruptions, or failure of premises among service procurers. The SFAO recommended including service procurers better in emergency planning and sensitising them more strongly. While individual fall-back solutions and measures exist to reduce the risks of operation stoppages, considerable efforts are still necessary to meet the requirements of effective disaster preparedness. Individual measures such as



redundant data storage of highly available applications have been implemented. But these do not cover all aspects of complete emergency planning.

The SFAO audited the **IT of the Federal Treasury** at the Federal Finance Administration (FFA). The organisation of the Federal Treasury has proven itself in practice. It permits a clear division of functions and a controlled execution of business. The risks of the Federal Treasury essentially encompass market risks, counterparty risks, and operational risks. Operational risks refer to the execution of transactions with the audited applications that ensure correct representation in the accounting system and ultimately the correctness of the State financial statements.

The SFAO found that secure access to the systems of the Federal Treasury is good.

There is a risk of unauthorised access by external IT service providers, but the SFAO believes that risk is tolerable. Moreover, a server release as soon as possible should eliminate a security weakness.

1.10.2 Buildings

Due to pending approval, the start of the **new construction and renovation of the Swiss embassy in Moscow** has been delayed. The SFAO is therefore not conducting an audit onsite and instead audited the project at the Federal Office for Buildings and Logistics (FBL) and the FDFA. It found that through the conclusion of the planning phase, the total costs of the project are within the limits of the approved credit – despite changes to the plans. The SFAO supports the guidelines of the FBL and the FDFA to prevent corruption and to comply with local laws in Moscow.

The SFAO examined **building management** at the FBL, especially aspects concerning surface and façade cleaning. A total of 1,152,000 m² have to be cleaned within the real estate portfolio of the FBL. The FBL manages this volume of service largely with its own employees. About 200,000 m² or nearly 20% of the surfaces are outsourced to external surface providers. The FBL aims to achieve long-term cost-benefit optimisation and wants

to find solutions that are comparable to the private sector. However, the SFAO noted that the indicators for implementing the vision and the tools for such a continuous project management still need to be developed. Optimisation potential exists in terms of the preconditions for objective evaluation of the FBL's own services and third-party services and in terms of corresponding project monitoring. The FBL is especially lacking measurable targets for this purpose. Indicators need to be found that can be used to provide transparent and comprehensible evidence of cost-benefit optimisation as well as for the purpose of external cost comparisons.

The SFAO conducted an analogous audit at **ETH Zurich**. It found that the area is organised well. The financial goals for building cleaning were achieved, but the satisfaction of building users suffered. It could be, however, that the poor survey results also express that the economical use of financial resources was misunderstood. The SFAO recommended informing users more clearly about the connection between costs and services in order to promote understanding. Contact will be established with ETH Lausanne and the construction and property authorities of the Confederation in order to create a common basis for comparisons.

In the summer of 2012, the SFAO audited **eight construction projects at ETH Zurich** with a cost volume of CHF 126 million. It found that the organisation in the area of real estate infrastructure is appropriately designed. The establishment of a procurement office has created good preconditions for improvements in procurements. The controlling instrument, risk management, and the transparency of awards can be improved. For instance, suitability criteria were used in some instances instead of award criteria. The points model for price evaluation is likewise often inadequate.

Annual audits

2.1 The State financial statements

The federal financial statements are compiled in close accordance with the International Public Sector Accounting Standards (IPSAS). In 2012, the SFAO revised its concept for auditing the federal financial statements. Some of the changes were already included in the 2012 annual audit in the spring of 2013. The new concept will be applied fully starting with the 2013 audit of the federal financial statements. On the basis of the results of various audits of administrative units during the year, an interim audit of the Federal Financial Administration (FFA), and the annual audits at selected offices and the FFA, the SFAO was able to confirm that the **federal financial statements for the year 2012** are in conformity with the 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 federal financial statements. Without qualifying the audit opinion, it made note of important facts relating to the non-reviewability of the direct federal tax, the advances received by the Fund for Major Railway Projects (FinPT), the loans made to Unemployment Insurance, and the internal control system (ICS) of the federal financial statements. The SFAO report is available on the website www.efk.admin.ch.

Over the course of the reporting period, the revised audit concept for essential business processes was used to audit the financially relevant ICS at numerous administrative units. The individual audit results from these interim audits influence the approach taken for the annual audits and also have an impact on the overall evaluations concerning the existence of the ICS for compiling the **2013 federal financial statements**. With respect to fiscal revenue, the SFAO audited the financially relevant ICS at the Federal Tax Administration (FTA) with regard to the withholding tax and stamp duties as well as at the Swiss Customs Administration (SCA) with regard to the petroleum tax and the CO₂ levy. In the area of **stamp duties and withholding taxes**, there are high risks inherent to the system due to their current legal basis. These risks cannot be covered fully with internal controls, given the resources available to the FTA. In the currently heterogeneous IT environment of the FTA, internal controls and plausibilities are distributed among a large number of IT systems and interfaces, some of which are old. Auxiliary, time-consuming manual controls are unavoidable. The SFAO has recommended several improvements to the control design, the implementation of which the ICS can strengthen considerably. With regard to the **petroleum tax and the CO₂ levy**, the SFAO found that the key controls performed are appropriate and that they cover the risks of incorrect essential data in the federal financial statements.

In connection with federal expenditures, numerous ICS audits in the following process areas were conducted: personnel, purchasing, facilities, and subsidies. The audit results concerning **personnel expenses** at the Personnel Service Centre of the FDFA and various associated administrative units showed the difficulties of process and ICS design across different areas of responsibility. The goal is to closely identify control gaps across interfaces and also to avoid redundancies.

An audit of the **purchasing process** at the Federal Roads Office (FEDRO) showed that the TDCost application, conceived for construction cost management, does not meet the demands on a financially relevant upstream system for the correct preparation of the federal financial statements. The separation of functions was identified as deficient, leading to incompatible accumulations of functions. Control gaps arising in this area should be closed without delay. Apart from formal weaknesses in process and ICS reporting and the documentation of completed controls, implementation and application problems were also noted. The audits of the financially relevant ICS in the **investment process** essential to the federal financial statements (materials expenses and depreciation) at the Federal Office for Buildings and Logistics and the audits at the various administrative units in regard to the **subsidy process** indicated formal and substantive potential for improvement of the existing ICS.

General IT controls form the basis for properly functioning, automated IT application controls. They address risks in regard to

access rights, data quality, data security, and system changes. The audits at the Federal Office of Information Technology, Systems and Telecommunication, which operates various IT systems relevant to the federal financial statements, indicated deficits in the control of activities of highly privileged or non-personalised user identification.

This cross-section of audit results shows that the financially relevant ICS in the business processes essential to the federal financial statements requires continuous maintenance and monitoring in order to fulfil its function.

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.



2.3 Infrastructure Fund

With respect to individual projects, disbursements are stipulated by separate federal decrees. In 2012, the fund received earmarked revenue in the amount of CHF 1.3 billion; CHF 1.4 billion was spent on project funding. The loss carried forward by the fund amounted to a total of CHF 8 billion, which must be paid off by earmarked revenue in the following years. Based on its audits, the SFAO found that the 2012 annual accounts of the FinPT are in conformity with statutory requirements. It recommended specifying certain processes and powers as well as the substitution policy for the fund manager. The SFAO recommended that the Finance Committees of both chambers approve the separate accounts.

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 improvements in the area of general IT controls. The SFAO recommended that the Finance Committees of both chambers approve the separate accounts of the Infrastructure Fund for 2012.

2.4 Social security institutions

The SFAO audited the 2012 annual accounts for the Old-Age and Survivor's Insurance (AHV), Disability Insurance (IV), and Income Compensation (EO) social insurance schemes with the help of Ernst & Young and the Financial Inspectorate of the Central Compensation Office (CCO). The audit took place at the CCO and the branch in Geneva. The SFAO issued the report of the external auditors without restrictions and recommended that the annual accounts be approved. In the course of the audit, it was however noted that the legal foundations were not complied with. These foundations (Article 79(3) of the Federal Disability Insurance Act and Article 28(3) of the Income Compensation Act) specify that the liquid assets and the investments of the compensation fund as a rule may not fall below 50% of annual expenditures. As the audit office for the Unemployment Insurance Fund (ALV Fund), the SFAO audited the 2012 annual accounts and noted the audit result in the audit office's report to the Supervisory Commission for the attention of the Federal Council. In its assessment, the 2012 annual accounts complied with the law and the ordinance provisions. The SFAO recommended that the 2012 annual accounts be approved. The ALV Fund is run by the Compensation Office at the Labour Directorate of the State Secretariat for Economic Affairs. The ALV Fund consolidates 25 cantonal offices, 10 private offices, and 1 other unemployment office and makes payments to the cantonal offices. The revenue surplus in 2012 was CHF 1.158 billion. At the end of 2012, negative capital was CHF 3.474 billion.

2.5 State enterprises, foundations, and public agencies

The 2012 consolidated annual accounts of 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 accounting and the annual accounts of the individual institutions were in conformity with the legal requirements. The SFAO therefore recommended that these be approved. The introduction of the new SAP consolidation system was smooth, and the ETH institutions told the SFAO that the system was forward-looking and facilitated the financial statements process. This means the quality of the separate accounts has improved compared with the past. The remarks and recommendations from the previous year were taken up or implemented by the ETH Board. After the SFAO welcomed the decision to switch to a higher accounting standard, it made constructive but also critical contributions as an observer in the project steering committees.

The SFAO recommended that the Foundation Council of the **Swiss National Science Foundation** (SNSF) approve the 2012 annual accounts without restrictions. At the request of the SNSF management, the SFAO in cooperation with BDO AG compared today's status with the possible accounting standards (Swiss GAAP FER and International Public Sector Accounting Standards IPSAS) to be used pursuant to the new accounting law. Starting in 2015 at the latest, the SNF accounts will be kept according to one of these two accounting standards.

The SFAO also audited the 2012 annual accounts of the **Swiss Federal Institute of Intellectual Property** (IPI), **swissmedic**, the **Swiss Alcohol Board** (SAB), the **Swiss Financial Market Supervisory Authority** (FINMA), the **Federal Audit Oversight Authority** (FAOA), the **Pro Helvetia Foundation** and the **Building Foundation for International Organisations** (FIPOI). The SFAO recommended that all these annual accounts be approved.

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 audited the accounts of two special organisations of the United Nations: the World Meteorological Organization (WMO) in Geneva and the Universal Postal Union (UPU) in Bern. It also serves as the audit office of the Inter-Parliamentary Union (IPU) and the International Union for the Protection of New Varieties of Plants (UPOV) in Geneva. The audit findings are submitted to the responsible bodies at each organisation. The SFAO recommended that the Member States' delegates accept the annual accounts. In addition, it conducted various special audits related to IT and construction.

During the 2013 reporting period, the SFAO also exercised the following mandates for Switzerland:

- *Intergovernmental Organisation for International Carriage by Rail (OTIF) in Bern.*
- *European Free Trade Association (EFTA) in Geneva and Brussels: The SFAO is Switzerland's member on the Board of Auditors.*
- *European Organization for Nuclear Research (CERN) in Geneva: The SFAO sends one member to the Board of Auditors.*

As an external auditor of the UN organisations, the SFAO is a member of the United Nations Panel of External Auditors together with ten other national audit offices. 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.

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.

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 Notifications pursuant to Article 15 of the FAOA

Article 15(3) of the Federal Audit Office Act states: “Should the SFAO identify particular occurrences or deficiencies of a fundamental or considerable financial importance, then besides that particular division it shall also inform the head of the department in charge as well as the head of the Federal Department of Finance. Should the ascertained deficiencies concern the financial management of a division of the Federal Department of Finance, the President or the Vice President of the Federal Council shall be notified. The SFAO shall at the same time notify the Finance Delegation of the Federal Assembly. If it shall regard it as expedient, it shall inform the Federal Council instead of the department head responsible.” Examples of such particular occurrences are offences with major losses or fundamental deficiencies in the internal control system. If the accounting or bookkeeping is not found to be in order or legal provisions have been systematically ignored, this classifies as a deficiency of fundamental importance. During the reporting period, the SFAO did not have to make any notifications pursuant to Article 15.

4.4 Whistleblowing – duty to report, right to notify, and protection of employees

On 1 January 2011, new Article 22a of the Federal Personnel Act (FPA, SR 172.220.01) 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.

This past year, the SFAO received various reports of suspicion by federal employees and third parties. Half of the reports were received by the SFAO via its e-mail address ***verdacht@efk.admin.ch***. The SFAO received most of the other reports by phone or post.

Legislative procedures and opinions

5.1 Opinions and consultations

In connection with the internal federal office consultation procedures, the SFAO was often welcomed to participate during the reporting period. In 18 cases, the SFAO issued an opinion. One of these cases was the message on the first package of measures for the 2050 Energy Strategy, for which the SFAO requested that the Federal Council adopt provisions on the costs of the system for guarantees of origin. As part of the office consultation on optimisation of the accounting model (NAM), the SFAO requested further specification of individual provisions of the Federal Budget Act. Furthermore, the SFAO gave its opinion on various items of business relating to the Federal ICT Strategy, such as the concept for ICT portfolio management, market models for ICT standard services, and the pool of IT project leaders for major ICT projects.

The SFAO is also in regular contact with the Federal Finance Administration. The FFA consults the SFAO especially before entry into force of changes to the manual for accountants, when dealing with fundamental questions, or in the case of exceptions to the accounting standards.

5.2 Participation in specialist committees

The SFAO is an observer 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, the Expert Group for Quality Assurance in Resource Equalisation and Cost Compensation of fiscal equalisation, and the steering group for Management by Performance Mandate and Global Budget (MPM). It participates 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.

5.3 Communication of good practice

Also during the reporting period, employees of the SFAO gave talks at various meetings and events to communicate lessons learnt from the audits and good practice. For the same purpose, an audit letter was published, including on implementation of the evaluation clauses and the internal control system.

For several years now, the SFAO has 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.

5.4 Publication of financial supervisory reports

The SFAO's reporting serves to support the administrative unit audited as well as the supervisory activities of Parliament and the Federal Council (Article 1(1) of the FAOA). 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 aware of the public's interest in the results of the audits. In particular, it publishes the results of performance and horizontal audits.

During the reporting period, six requests pursuant to the Freedom of Information Act (FoIA) were submitted to the SFAO. In two cases, access was granted, although access to certain information had to be limited in accordance with Article 7(1)(b), (c), and (d) of the FoIA, and the corresponding passages in the report were blacked out. In four other cases, access to the desired report was granted in full.

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 SAIs 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

Since 2001, the SFAO has invited the audit offices of all the Swiss cantons and the Principality of Liechtenstein to meet each year in Bern. The goal of this meeting is to investigate a priority topic in depth, in order to organise cooperation among the various financial supervisory bodies efficiently and effectively. At the 2013 meeting, the conference discussed the topic of construction audits, with a focus on subsidies for water control structures and national road construction.

An important agenda item at the 2013 conference was the formation of a simple partnership, the **Swiss Conference of Audit Offices (SCAO)**. Since 5 September 2013, this conference has brought together the audit offices of the cantons, the seven largest Swiss cities, and the SFAO. The purpose of the conference is in particular to draft opinions on important consultations as well as to promote joint audits.

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.

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). A global conference takes place every three years. In autumn 2013, Beijing was the host. In addition to the adoption of audit standards, the topics of the conference were sustainable financial policy and principles of good administration. INTOSAI is divided into regional groups. The Regional Group for Europe, the European Organisation of Supreme Audit Institutions (EUROSAI), was founded in June 1989 and currently comprises 47 SAIs of the European countries. The SFAO has been a member of this Regional Group since its creation and takes part in two EUROSAI Working Groups. It holds the chair for the Information Technology Working Group. The IT Working Group develops a series of self-assessment tools for IT and IT audits that have been successfully deployed in European countries. During the reporting period, the SFAO moderated workshops in various supreme audit institutions. The SFAO is also a member of the Working Group on Environmental Auditing, chaired by Norway, which organises joint audits and training events using concrete experiences and case studies. The SFAO has concluded a support agreement with the Slovak supreme audit institution in Bratislava. The SFAO helps professionalise IT audits and financial supervision. It is reimbursed with resources from the Cohesion Fund. Various SAIs from other countries again visited the SFAO during the reporting period in order to learn about the supervisory system and federal cooperation of audit offices in Switzerland.

Germany's Regional Courts of Audit and its Federal Court of Audit regularly hold conferences on issues of current interest in financial supervision. Along with the President of the Austrian 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. The debt brake and the financing and supervision of major infrastructure projects in Switzerland were of special interest.

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. The SFAO is particularly active in the Swiss Institute of Certified Accountants and Tax Consultants and in the Institute of Internal Auditing Switzerland (IIAS) as well as in ISACA (the Information Systems Audit and Control Association) in the field of IT audits. 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. In August, the Federal Council appointed Michel Huis-soud, previously Deputy Director of the SFAO, as the successor to Kurt Grüter, who retired at the end of 2013. In the autumn session, the Federal Assembly ratified the appointment of Michel Huissoud. The Director's term of office runs until the end of 2019.

Because not only Director Kurt Grüter retired during the reporting period but also Deputy Director Armin Vuillemin, Eric-Serge Jeannet and Brigitte Christ were appointed Vice Directors of the SFAO in 2013 (see Annex 3).

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 State financial statements and various separate accounts, the AHV Fund, Unemployment Insurance, the data for resource equalisation 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.

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 24 million and a workforce of approximately 100 employees. The organisational chart in Annex 3 shows a two-dimensional matrix organisation, with six mandate sectors and seven competence centres. The mandate heads put forward the viewpoint of the audited agencies. The SFAO's audit experts are each assigned to one of the competence centres for financial supervision and audit, public work and procurement audits, project and IT audits, 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. During the reporting year, initial steps toward building up a dedicated team for the audit of key IT projects were taken.

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 apply it 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. New professional standards are integrated into the processes in a targeted manner. 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 Quality assurance

Thanks to its matrix organisation, the SFAO's quality assurance is built into its structure. Both the head of the competence centre, who has the necessary specialised knowledge, and the mandate head, with knowledge of the responsibilities and processes of the audited administrative office, are guarantors of impeccable audit work. All findings must be documented in writing and comprehensible. Additionally each year, two members of the Management and a team carry out random inspections of individual audits in terms of compliance with standards, audit norms, and internal directives. In this connection, the SFAO also carries out regular surveys of the audited entities.

The SFAO also regularly organises **peer reviews** by foreign SAIs. Such a peer review is planned in 2015.

7.4 Finances

During the reporting period, the SFAO had expenses of CHF 21 million and revenue of CHF 1.7 million. The details are as follows:

	Financial statements 2012	Budget 2013	Financial statements 2013	Deviation from budget	
Expenses	20'463	23'197	21'022	- 2'175	- 9.4%
Personnel expenses	17'126	18'262	17'446	- 816	- 4.5%
Rent	1'049	1'051	1'049	- 2	- 0.2%
IT materials expenses	772	1'558	703	- 855	- 54.9%
Consulting expenses	726	1'220	859	- 361	- 29.6%
Other operating expenses	779	1'076	907	- 169	- 15.7%
Depreciation	11	30	7	- 23	- 76.7%
Contribution to reserves		-	51	51	-
Revenue	1'571	1'319	1'726	407	30.9%
Fees	1'527	1'300	1'698	398	30.6%
Other revenue	25	19	28	9	47.4%
Drawdown from reserves	19	-	-	-	-

(all figures in CHF 1,000)

The 2013 accounts show a credit of CHF 2.2 million with respect to the budget. With regard to personnel expenses, this is attributed to vacancies that could not be filled in a timely matter. Consulting expenses are dependent on the annual auditing budget. In 2013 not all of these funds were used. With regard to IT expenditure, GEVER could not be introduced as planned, leading to leftover credit.

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 wage categories. These fees amounted to CHF 1.7 million. However, financial supervisory audits are not billed, as this is a sovereign task.

The SFAO accounts are audited each year by a cantonal audit office. The Cantonal Audit Office of the Canton of Fribourg audited the years 2008 – 2012. Starting with the 2013 accounts, the Cantonal Audit Office of Solothurn will perform the audit.

7.5 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, poor execution of the statutory mandate, and lack of qualified personnel. In its annual risk assessment, and based on its internal control system, the SFAO concluded that current precautions are sufficient to keep risks at a reasonable level.

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Annex 1

Authorities and courts

Federal Chancellery

- Audit pursuant to agreement on cooperation between the Confederation and the cantons for the operation of the Swiss portal www.ch.ch from 2011 to 2014

Federal Department of Foreign Affairs

General Secretariat

- Audit of financial management of the Swiss House at the Olympic Games in London

State Secretariat and Directorate of Political Affairs

- Audit of financial management

Foreign representations

- Audit of project development of new construction and renovation of the Swiss embassy in Moscow

Directorate for Resources

- Audit of procurement of services

Consular Directorate

- Audit of financial management

Swiss Agency for Development and Cooperation

- Audit of emergency action for Iran
- Audit of exit and sustainability of Swiss development cooperation

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Federal Department of Home Affairs

Federal Office of Culture

- Audit of subsidies in the field of culture
- Audit of subsidies in the field of film promotion

Federal Office of Public Health

- Audit of the internal control system in regard to subsidies

Federal Social Insurance Office

- Evaluation of the Pro Senectute service-level agreement
- Supervision of the LOB Collective Institution Foundation
- Audit of the notification procedure and monitoring mechanism relating to Income Compensation
- Federal Supervisory Commission for Retirement Provision – Organisational and risk analysis of supervision and financial processes
- Cost control of financial assistance from the AHV/IV Fund
- Supplementary benefits to AHV and IV – Audit of supervision and controls

Federal Department of Justice and Police

General Secretariat

- Quality and effectiveness assessment of the Financial Inspectorate

Federal Office for Migration

- Audit of implementation of flat-rate integration payments in the Canton of Neuchâtel
- Audit of special responsibility relating to asylum
- Procurement processes and internal control system for operational expenses

EU External Borders Fund

- 2010 Annual Programme projects

A1

Federal Department of Defence, Civil Protection and Sport

General Secretariat

- Audit of the risk management and internal control system in the DDPS
- Quality and effectiveness evaluation of the DDPS Inspectorate

Federal Intelligence Service

- Audit of annual financial statements

Federal Office for Civil Protection

- Project status analysis in the field of civil protection

Armed Forces Staff

- Situation analysis for the programme on defence/armasuisse management and logistical systems
- Situation analysis of the processes relating to the international activities of the Armed Forces
- Central Agency for Historic Equipment of the Armed Forces – Status assessment and audit of real estate investments

Armed Forces Joint Staff

- Audit of the annual financial statements of the Social Service of the Armed Forces
- Audit of the financial management of the SWISSINT Competence Centre
- Audit of compensation for protective responsibilities

armasuisse

- Audit of the contract for the rental and leasing of real property
- Price audit of a procurement contract

Federal Department of Finance

Federal Finance Administration

- Audit of the federal financial statements
- Audit of financial management in finance and human resources
- Audit of the payment management of the Federal Administration

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- Audit of the provision of services by the FDF Finance Service Centre
- Audit of the annual financial statements of the Federal Employees' Savings Bank
- IT audit of the Federal Treasury
- Audit of cantonal data for fiscal equalisation between the Confederation and the cantons

Federal Compensation Office

- Main audit and statutory audit of the annual financial statements
- Audit of the annual financial statements of the Family Compensation Offices

Swiss Compensation Office

- Audit of the annual financial statements

Federal Tax Administration

- Audit of appropriateness of the VAT flat rates
- Audit relating to the international withholding tax agreements
- Audit of cancellation of the INSIEME project
- Audit of the internal control system with regard to withholding tax and stamp duty receipt processes

Federal Customs Administration

- Audit of the internal control system with regard to the mineral oil and CO₂ tax receipt process

Federal Office of Information Technology, Systems and Telecommunication

- Audit of business continuity management
- Audit of general IT controls for selected specialist applications

Federal Office of Personnel

- Audit of annual financial statements of the Financial Support Fund
- Internal Control System FA PLUS / Competence Center Human Resources CCHR

Federal Office for Buildings and Logistics

- Audit of accommodation concepts
- Audit of surface and façade cleaning

A1

Federal Department of Economic Affairs, Education and Research

State Secretariat for Economic Affairs SECO

- Audit of EU enlargement contributions for Romania
- Audit of EU enlargement contributions for the Czech Republic
- Audit of the Regional Development Fund and implementation of the new regional policy in three cantons

State Secretariat for Education, Research and Innovation

- Assessment of supervision of subsidies for professional education

Federal Office for Agriculture

- Audit of Agate, ASA 2011 operating system

Commission for Technology and Innovation

- Participation in advisory group on the evaluation of flanking measures in R&D project promotion of the CTI as a consequence of the strong franc

Federal Office for Housing

- Audit of organisation, financial and IT processes and internal control system

Department of the Environment, Transport, Energy and Communications

Federal Office of Transport

- Evaluation of promotion of combined transport
- Audit of NRLA financial flows and their representation in IT systems
- Analysis of the audit report 2012 of the control bodies
- Situation analysis of the FITS programme and assessment of the implementation of FITSII at SBB Cargo
- Project audit of the upgrade of the Rosshäusern - Mauss line to two tracks
- Audit of funding of railway infrastructure through conditionally repayable loans
- Alp Transit AG – Coordination meeting with control bodies
- FinPT Fund – Report on annual audit of separate accounts

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Federal Office of Civil Aviation

- Evaluation of data quality and data flows for accounting
- Audit of the internal control system of the financially relevant personnel processes

Federal Roads Office

- Project audit of the Road and Road Traffic management information system
- TDCost system audit
- Audit of quality and effectiveness assessment of the Financial Inspectorate
- Infrastructure Fund – Report on the annual audit of the separate accounts 2012

Federal Office for the Environment

- Audit of Visp construction site of the 3rd Rhône correction
- Audit of the buildings programme of the Confederation and the cantons
- Assessment of the appropriateness of the financial flows in Buildings Programme Component A
- Handling and financing of contaminated sites
- Audit of the internal control system for subsidies
- Audit of the annual financial statements of the Swiss Landscape Fund
- Audit of the annual financial statements of the Swiss National Park Foundation
- Audit of the annual financial statements of the Fund for the Promotion of Forestry and Wood Research

International Rhine Regulation

- Intergovernmental audit of the annual financial statements

Federal Office for Spatial Development

- Audit of agglomeration programmes

Inter-departmental and inter-office audits

- Horizontal audit of guarantee credits
- Horizontal audit of IT security in the Federal Administration
- Internal control system for financially relevant personnel processes in the FDF Human Resources Service Centre and selected administrative units

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Foundations, institutes, funds and special organisations

Building Foundation for International Organisations in Geneva (FIPOI)

- Audit of the annual financial statements
- Audit of award of contract for energy retrofitting of the Palais des Nations

Marcel Benoist Foundation

- Audit of the annual financial statements

Pro Arte Foundation

- Audit of the annual financial statements

Pro Helvetia

- Audit of the annual financial statements

Foundation for the Future of Swiss Travellers

- Audit of the annual financial statements

Swiss Centre of Accreditation and Quality Assurance in Higher Education

- Audit of the annual financial statements

Rectors' Conference of the Swiss Universities

- Audit of the annual financial statements
- Audit of EU enlargement contributions, Project Scientific Exchange Programme between Switzerland and the New Member States of the European Union
- Follow-up of the evaluation of secondary activities of university professors

Swiss Society for Research in Education

- Audit of the annual financial statements

Swiss University Conference

- Audit of the annual financial statements

Swiss National Science Foundation

- Audit of the annual financial statements
- Audit of management and control of subsidies to the Universities of Geneva and Basel and EPF Lausanne

Federal Institutes of Technology – ETH Domain

- Audit of the consolidated annual financial statements

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Board of the Federal Institutes of Technology

- Audit of the annual financial statements
- Quality and effectiveness audit of the ETH Board's internal audit

Federal Institute of Technology Zurich (ETH Zurich)

- Audit of organisation, processes, and financial management of ongoing construction projects
- Audit of the annual financial statements
- Audit of aspects of surface and façade cleaning

Federal Institute of Technology Lausanne (EPF Lausanne)

- Audit of the annual financial statements

Swiss Federal Institute for Forest, Snow and Landscape Research

- Audit of the annual financial statements

Swiss Federal Laboratories for Materials Science and Technology

- Audit of the annual financial statements

Swiss Federal Institute of Aquatic Science and Technology

- Audit of the annual financial statements

Paul Scherrer Institute

- Audit of the annual financial statements
- Procurement audit together with the ETH Board's internal audit

Agroscope

- Audit of cost and performance accounting, externally funded projects

Swissmedic

- Audit of the annual financial statements

Swiss Federal Institute of Intellectual Property

- Project invoicing for Ghana, Serbia, Laos, Bangladesh, and Indonesia
- Audit of the annual financial statements

Federal Institute of Metrology (METAS)

- Audit of the status of preparation for financial processes

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Social Fund for Defence and Civil Protection

- Audit of the annual financial statements

Swiss IT Conference

- Audit of the annual financial statements

Swiss Alcohol Board

- Audit of the annual financial statements
- AlcoZoll project audit (integration of SAB into SCA)

Federal Audit Oversight Authority

- Audit of the annual financial statements

Federal Financial Market Supervisory Authority

- Audit of the annual financial statements

Fund for Major Railway Projects

- Audit of the annual financial statements

Infrastructure Fund for Agglomeration Transport and the National Road Network

- Audit of the annual financial statements

Swiss Landscape Fund

- Audit of the annual financial statements

Forest and Wood Research Fund

- Audit of the annual financial statements

Swiss National Park Foundation

- Audit of the annual financial statements

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Compensation Fund for AHV / IVIEO

- Audit of the annual financial statements

Unemployment Insurance Compensation Fund

- Audit of annual financial statements

Identitas AG

- Audit of federal supervision of central database on animal movements

International organisations

Universal Postal Union

- Audit of the annual financial statements of the UPU
- Audit of the annual financial statements of the pension and insurance funds
- Audit of the annual financial statements of the UN Development Programme
- Audit of the annual financial statements of translation services

International Union for the Protection of New Varieties of Plants

- Audit of the annual financial statements

Inter-Parliamentary Union

- Audit of the annual financial statements

Intergovernmental Organisation for International Carriage by Rail

- Audit of the annual financial statements

World Meteorological Organization

- Audit of the annual financial statements
- Audit of the annual financial statements of the affiliated organisations (GIEC and SMOI)

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Annex 2

Financial inspectorates (Internal Audit Offices) of the central and decentralised Federal Administration pursuant to Article 11 of the Federal Audit Office Act

- 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

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Annex 3

Organigramm



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Annex 4

A	AHV	Old-age and survivors' insurance
	ALV	Unemployment insurance
	ARE	Federal Office for Spatial Development
C	CAO	Cantonal Audit Office
	CERN	European Organization for Nuclear Research
	CEVA	Cornavin – Eaux-Vives – Annemasse rail link
	CHME	Centre for Historic Military Equipment
	CSRCO	Ordinance on the Charge for the Remediation of Contaminated Sites
	CTI	Commission for Technology and Innovation
D	DETEC	Federal Department of the Environment, Transport, Energy and Communications
E	EFTA	European Free Trade Association
	EO	Compensation for loss of earnings
	ETH	Federal Institutes of Technology
	EU	European Union
	EUROSAI	European Organisation of Supreme Audit Institutions
F	FAOA	Federal Audit Office Act
	FAOA	Federal Audit Oversight Authority
	FCA	Federal Customs Administration
	FDFA	Federal Department of Foreign Affairs
	FEDRO	Federal Roads Office
	FERI	Project to fund and expand the rail infrastructure
	FFA	Federal Finance Administration
	FINMA	Swiss Financial Market Supervisory Authority
	FIPOI	Building Foundation for International Organisations
	FOAG	Federal Office for Agriculture
	FOBL	Federal Office for Buildings and Logistics
	FOEN	Federal Office for the Environment
	FoIA	Freedom of Information Act
	FOITT	Federal Office of Information Technology, Systems and Telecommunication
	FOJ	Federal Office of Justice
	FOM	Federal Office for Migration
	FOT	Federal Office of Transport
	FPA	Federal Personnel Act
	FSO	Federal Statistical Office
	FTA	Federal Tax Administration
	FVO	Federal Veterinary Office

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G	GEVER	Electronic records and process management
I	ICS	Internal Control System
	ICT	Information and communication technologies
	IIP	Swiss Federal Institute of Intellectual Property
	INTOSAI	International Organisation of Supreme Audit Institutions
	IPSAS	International Public Sector Accounting Standards
	IPU	Inter-Parliamentary Union
	ISACA	Information Systems Audit and Control Association
	IV	Disability insurance
K	KFIKO	Swiss Conference of Financial Auditors
M	MISTRA	Management information system for roads and road transport
	MMMM	Motorway Maintenance Management Module
	MPM	Management by performance mandate and global budget
N	NAM	New Accounting Model
	NFE	New system of fiscal equalization and division of tasks between the Confederation and the cantons
	NRLA	New Rail Link through the Alps
O	OTIF	Intergovernmental Organisation for International Carriage by Rail
R	RTVA	Radio and Television Act
S	SAB	Swiss Alcohol Board
	SAP	Standard accounting software
	SBB	Swiss Federal Railways
	SDC	Swiss Agency for Development and Cooperation
	SECO	State Secretariat for Economic Affairs
	SERI	State Secretariat for Education, Research and Innovation
	SEVAL	Swiss Evaluation Society
	SFAO	Swiss Federal Audit Office
	SFOE	Swiss Federal Office of Energy
	SIB	Swiss Intermediate Body
	SIIA	Swiss Institute of Internal Auditing
	SNSF	Swiss National Science Foundation
	STRADA	Road data application
T	TDcost	Project cost management tool
	TFA	Two-factor authentication
U	UN	United Nations
	UPU	Universal Postal Union
W	WMO	World Meteorological Organization
	WTO	World Trade Organization

