

**IMMEDIATE  
ATTENTION**

SM/09/164

June 29, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Switzerland—Report on the Observance of Standards and Codes—Fiscal  
Transparency Module**

Attached for the **information** of the Executive Directors is the fiscal transparency module of the report on the observance of standards and codes for Switzerland.

It is expected that this report will be posted on the Fund's external website after Monday, July 6, 2009.

Questions may be referred to Mr. Allen, FAD (ext. 37091).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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INTERNATIONAL MONETARY FUND

SWITZERLAND

**Report on the Observance of Standards and Codes (ROSC)  
Fiscal Transparency Module**

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June 25, 2009

**EXECUTIVE SUMMARY**

This report provides an assessment of fiscal transparency practices in Switzerland in relation to the requirements of the IMF *Code of Good Practices on Fiscal Transparency*. It is limited to fiscal transparency at the central government (confederation) level, which accounts for about a third of general government expenditures and revenues. The report is based on discussions with the authorities and other organizations, the authorities' response to the IMF fiscal transparency questionnaire, and other sources of information. The IMF *Manual on Fiscal Transparency* (2007) provides further explanation of the terms and concepts used in this report (<http://www.imf.org/external/np/fad/trans/manual/>).

Switzerland has made rapid improvements in the management of federal public finances in recent years and, in most respects, its performance against the *Code* meets best international practice. The fiscal role of the executive and legislative branches of government, and the legal framework for the management of federal public finances, are clearly defined. The federal budget process is governed by a precise legal framework. A coherent medium-term fiscal framework provides a clear context for budget decisions. The accuracy of macroeconomic forecasts compares favorably with private sector counterparts. The legislative basis for taxation is complex given the multiplicity of federal and cantonal codes in some cases, but transparent and well understood; and tax administration and taxpayers' rights are clearly defined and efficiently delivered. Rules for public procurement, and the employment and ethical behavior of civil servants, are clear and generally well observed.

There are some areas, however, where further measures could be considered, in consultation with parliament where appropriate, to enhance fiscal transparency and the presentation and management of fiscal risks. These include: improving the timeliness of fiscal information relating to general government (currently compiled with a time lag of two years); strengthening the credibility of macroeconomic and fiscal forecasting by increasing the use and disclosure of sensitivity analysis and deployment of alternative scenarios, and greater external validation; disclosing additional information on the government's debt management strategy, tax expenditures, and contingent liabilities; establishing a coherent framework for presenting quasi-fiscal activities in public corporations, especially postal services and railways in which there is a universal service obligation; and strengthening the transparency of the social security system by separating the funds for old age pensions and disability. Finally, the government could announce further steps to fully comply with international public sector accounting standards (IPSAS) of financial reporting; clarify the functions of internal and external audit; and reinforce the independence of the Swiss Federal Audit Office.

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**ABBREVIATIONS AND ACRONYMS**

CG	Central Government
CoA	Chart of Accounts
EBF	Extra Budgetary Funds
FCA	Federal Customs Administration
FFA	Federal Finance Administration
FTA	Federal Tax Administration
GDP	Gross Domestic Product
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
NAM	New Accounting Model
NFPCs	Nonfinancial Public Corporations
PPPs	Public-Private Partnerships
QFA	Quasi-Fiscal Activity
SDDS	Special Data Dissemination Standard
SFAO	Swiss Federal Audit Office
SNB	Swiss Federal Audit Office
SOE	State-Owned Enterprise
SPV	Special Purpose Vehicle
SSF	Social Security Funds
UBS	Union Bank of Switzerland

## I. INTRODUCTION<sup>1</sup>

1. **This report provides an assessment of the fiscal transparency practices of Switzerland against the requirements of the IMF *Code of Good Practices on Fiscal Transparency* (2007).** The first part is a description of practices, prepared by IMF staff on the basis of discussions with the authorities and their responses to the fiscal transparency questionnaire, and drawing on other available information. The second part is an IMF staff commentary on fiscal transparency in Switzerland. The two appendices summarize the staff's assessments, comment on the observance of good practices, and document the public availability of information.

2. **This assessment focuses primarily on fiscal transparency at the central government (confederation) level.** Given the unique character of political economy and fiscal federalism in Switzerland, and that less than a third of general government expenditure or revenue is accounted for by the confederation, this does not give a complete picture. Cantons are responsible for important areas of economic and social policy, and have a strong influence on the composition and impact of public spending, and the overall stance of fiscal policy. Further work would be needed to prepare a comprehensive assessment of fiscal transparency and fiscal risk covering the whole of general government.

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<sup>1</sup> The IMF staff team visited Switzerland—Bern, Geneva, Winterthur, and Zürich—during January 16–29, 2009. It comprised Mr. Allen (head), Messrs. Khan and Schiller (all FAD), and Mr. Petrie (from FAD's roster of fiscal experts). In Bern, the mission met with the President of the Confederation and Minister of Finance (Mr. Merz), and officials from the Federal Finance Administration (FFA); the State Secretariat for Economic Affairs; the Federal Office of Transport; the Federal Office for Buildings and Logistics; the Federal Office of Agriculture; the Federal Social Insurance Office; the Federal Department of Home Affairs; the Federal Tax Administration (FTA); the Federal Customs Administration (FCA); and the Federal Statistics Office. It also held meetings with the finance committees of the State Council and the National Council; the Swiss Federal Audit Office (SFAO); the Fund for the Financing of Public Transport Infrastructure; the Swiss Railway Company; Swiss Post; the Conference of the Directors of Finance of the Cantons; representatives of the cantons of Appenzell Ausserrhoden, Geneva, and Solothurn; Transparency International Switzerland; Hochschule Luzern; and Professor Dafflon. In Geneva, the mission met representatives of the Swiss Federal Social Security Fund (SSF), and the Centrale de Compensation (CdC). In Winterthur, it met with Professor Andreas Bergmann. Finally, in Zürich, the mission held meetings with the Swiss National Bank (SNB); Economiesuisse; Avenir Suisse; Credit Suisse; and PWC. The mission would especially like to acknowledge the extensive support provided by Mr. Zurbrugg, Ms. Huerzeler, Mr. Martinez, and other officials of the FFA.

## II. DETAILED DESCRIPTION OF PRACTICE

### A. Clarity of Roles and Responsibilities

#### Definition of government activities

#### 3. General government is defined consistently with Government Finance Statistics (GFS) principles and is well covered in the budget process. 1.1.1

General government is defined in accordance with the principles of the *Government Finance Statistics Manual (GFSM 2001)* and comprises four main sectors (Box 1): The federal government comprises seven departments and related offices, the federal chancellery, and four special funds. The special funds cover (i) railway projects; (ii) infrastructure; (iii) technical universities; and (iv) the alcohol board. There are 26 cantonal governments. The cantons are sovereign states with considerable autonomy. There are 2715 communes, which likewise have considerable autonomy. The four social security institutions cover (i) old age and survivors protection schemes; (ii) the disability protection scheme; (iii) income compensation allowances in case of mandatory service and maternity; and (iv) unemployment insurance. These schemes operate essentially on a pay-as-you-go basis.

#### Box 1. Composition of General Government in Switzerland

Main Components	Expenditure as percent of GDP, 2006
Federal government: 7 departments and chancellery	10.9
of which: 4 extrabudgetary funds	0.8
State government: 26 cantons	14.7
Local government: 2715 communes	9.4
Social security: 4 social security institutions	10.4
Total (excluding double counting)	36.0

#### Government relationship with the central bank and public financial corporations

#### 4. The Central Bank of Switzerland—the Swiss National Bank—is operationally independent, and has no fiscal role. 1.1.4

The Swiss National Bank (SNB)<sup>2</sup> is an independent, publicly-owned corporation, whose shares are owned by the public sector and private shareholders (companies and

<sup>2</sup> Art. 99 of the Federal Constitution; the National Bank Act of October 3, 2003; the National Bank Ordinance of March 18, 2004; and the Federal Act on Currency and Payment Instruments of May 1, 2000, provide the legal framework for the SNB.

individuals).<sup>3</sup> A minimum shareholding for cantons is not defined. However, currently, the public sector (cantons, cantonal banks, and other public institutions) holds 61.5 percent of the shares. SNB's financial instruments are stated in the balance sheet at fair value. All valuation changes (gains and losses) are reported in the income statement. Dividends at a maximum rate of 6 percent are paid to the shareholders; the SNBs' remaining profits are distributed to the cantons (two-thirds) and the federal government (one-third) under a 10-year agreement, which is reviewed after 5 years.

The SNB provides banking services to the federal government to whom it charges a fee, which by law must be on a full-cost recovery basis unless the activity contributes to the conduct of monetary policy. The SNB's executive board and staff coordinate closely with the federal government on various aspects of economic policy—including macroeconomic forecasting—and prepare monetary and balance of payments statistics and quarterly forecasts of inflation. The SNB's primary role is to conduct monetary policy so as to maintain price stability, and to maintain stability in the financial system through its role as lender-of-the-last resort. This mandate has been used by the SNB to explain its recent support for the Union Bank of Switzerland (UBS), which represents a substantial quasi-fiscal activity (QFA) (Box 2). The SNB is not allowed to provide loans to the federal government or to other levels of government.

#### **5. Public ownership of financial institutions is limited at the federal level. 1.1.4**

At the level of the confederation, there is no government ownership of financial corporations. However, in response to the ongoing financial crisis, the federal government introduced a major package of measures in October 2008 (including above described support for the UBS, a new deposit insurance scheme, and the possibility of interbank guarantees). The support to UBS—which is required by law to be fully disclosed in the financial statements of the confederation—took the form of a mandatory convertible loan with the obligation to convert unless sold to another investor within the next 30 months. This operation could lead to a federal government participation of about 9 percent of the capital of UBS. The public sector debt is expected to increase by 7 percent of GDP as a result of these support measures, thus heightening the importance of a transparent presentation. SNB announced in March 2009, via

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<sup>3</sup> The SNB is governed by a supervisory council comprising 11 members, 6 of whom are appointed by the federal government and 5 by the general meeting of shareholders. Its day-to-day operations are managed by an executive board comprising 3 members and 3 alternates—with 6-year terms of office—nominated by the council and approved by the federal government.



### **Box 2. The SNB's Support for UBS as a Quasi-Fiscal Activity**

The SNB has justified its recent support of UBS in relation to its role as lender-of-the-last resort. This explanation rests on three considerations, namely: that UBS is a systemically important institution; could provide sufficient collateral; and was solvent. On the last point, the SNB obtained advice from the Federal Banking Commission that UBS was solvent, enabling it to provide emergency support. It did so by funding 90 percent of the purchase price of distressed assets to the value of US\$60 billion.<sup>1</sup> These assets were valued by external assessors, and transferred to a Special Purpose Vehicle (SPV) under the SNB's control. To reduce the risks of not fully recovering the funds of the SPV, the SNB has set up several safeguards against potential losses. UBS' equity contribution to the stabilization fund, amounting to 10 percent of the assets purchased, serves as the primary loss protection. In the case of a loss on the SNB loan, the SNB's warrant for 100 million UBS shares serves as secondary loss protection.

This transaction should be classified as a QFA given the risk that the SNB may fail to recover all of its investment. In this case, the profits of the SNB distributed to the federal government would be lower, with a negative impact on the budget.

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1/ On February 10, 2009, it was announced that the stabilization fund would acquire UBS assets for a lower maximum amount than originally planned (approximately US\$ 40 billion).

a press release and through its annual report,<sup>4</sup> the financial situation of the SPV, and will continue to report on a quarterly basis the SPV's financial position and the effects on the SNB's balance sheet.

In addition to the financial support operations noted above, Swiss Post has a subsidiary, PostFinance, which accepts deposits from the public and plays an important role in the payments system. There are also banks in many cantons that are owned partially or fully by the cantons, which typically guarantee all or at least part of their deposits.

### **Government relationship with nonfinancial public corporations (NFPCs)<sup>5</sup>**

#### **6. The relationship between government and NFPCs is clear. 1.1.4**

At the federal level, there are five large NFPCs with full government ownership, one large NFPC with a majority government ownership, and several smaller NFPCs (Table 1). The

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<sup>4</sup> The SNB's annual report ([http://www.snb.ch/en/i/about/pub/annrep/id/pub\\_annrep\\_2008](http://www.snb.ch/en/i/about/pub/annrep/id/pub_annrep_2008)) incorporates two chapters covering in detail the UBS transaction.

<sup>5</sup> This report uses the term "corporation," consistent with *GFSM 2001*; the Swiss government generally uses the term "enterprise."

**Table 1. Switzerland: Federal Government Ownership of Nonfinancial Corporations<sup>6</sup>**

<b>Institution</b>	<b>Ownership by Government (percent)</b>	<b>Total Government Equity (CHF million)</b>
<i>SBB</i>	100	9048
<i>Swisscom</i>	52	2693
<i>Swiss Post</i>	100	2280
<i>RUAG</i>	100	774
<i>Skyguide</i>	100	285
<i>SAPOMP</i>	100	176
<i>Other</i>		51
<b>Total</b>		<b>15307</b>

large NFPCs are all governed by special laws and directives.<sup>7</sup> These laws provide for operational independence of the NFPCs, but require them to adhere to substantial strategic directions given by the federal government.<sup>8</sup> These objectives are embedded in performance directives. The NFPCs report annually to the supervising federal department, and the department then submits a report to the general assembly of the federation. These reports cover the corporations' financial results and nonfinancial performance in relation to the strategic directives. The financial reports are audited by private audit firms and are made available to the general public. Swisscom and Swiss Post have regularly reported profits in recent years, which were either retained or transferred to the government.<sup>9</sup> Swiss Railway (SBB) is the only NFPC of the federation which benefits from substantial subsidies. Also, the SBB, as well as Swiss Post, benefit from certain tax exemptions. In an effort to rationalize the operations of NFPCs, in September 2006 the federal council published new principles on the direction and control of public corporations and nonmarket nonprofit institutions, which are still being reviewed by the federal assembly.<sup>10</sup> At the cantonal and communal level, there

<sup>6</sup> Information provided by the authorities (as of December 31, 2007).

<sup>7</sup> For Swiss Post, for example, the Post Law of 1997 and the Post Organization Law of 1997, establishing the Swiss Post and defining its organizational structure, as well as the Post Regulation of 1997, providing directives for its operations, establish the legal framework.

<sup>8</sup> For Swiss Post, for example, the Regulatory Office for the Post issued directives on December 7, 2004.

<sup>9</sup> Swiss Post transferred dividends to the budget in 2007 for the first time, while Swisscom has transferred dividends to the budget for several years.

<sup>10</sup> The so-called corporate governance report of the federal council is available in the internet under <http://www.efd.admin.ch/dokumentation>. This report distinguishes between four different tasks of government: (i) preparation and implementation of government policies (ministerial tasks); (ii) provision of goods and services under monopoly conditions; (iii) issuance and implementation of regulations; and (iv) provision of goods and services under market conditions.

is extensive ownership of NFPCs in many sectors, including energy generation and distribution, water, regional transportation, and insurance.

**7. Laws and processes governing government regulation of the private sector are clear and open.** 1.1.5

The Obligation Law (*Obligationenrecht*) provides the basic framework for Swiss nationals and foreigners to do business in Switzerland. Other important laws are the commercial law and the labor law. Legislation allows for the formation of several types of corporations and prescribes rules for their governance. All cantons have special offices which are efficient in steering potential investors through the relevant laws and regulations. All these laws and regulations are established at the federal level, but their application and interpretation may differ from canton to canton. Much of the authority to administer the funds and create incentive programs has been devolved to the cantonal governments.

**Fiscal management relationship among the branches of government**

**8. The fiscal roles of the executive and legislative branches are clearly defined in law.** 1.1.2

The Federal Constitution and various laws clearly define the fiscal roles and responsibilities of the executive and legislative branches of the government in managing federal public finances. The executive branch is responsible for budget preparation and execution. Budgets and final accounts have to be approved by parliament. At the federal level, parliament—the united federal assembly—is made up of two equal chambers, the national council and the council of states.<sup>11</sup> The executive authority—the federal council—consists of seven members, elected by a combined assembly of both chambers of parliament. The third branch, the judiciary, belongs principally to the cantons, even when it comes to applying federal law. The supreme court, however, is a federal institution.

**Fiscal management relationships among different levels of government**

**9. The responsibilities of different levels of government and the relationship between them are complex, but clear and well understood.** 1.1.3

Over many centuries, a model of federalism has evolved in Switzerland that is very complex not only because of the complicated network of intergovernmental relations, but also because of its interactions with a system of semi-direct democracy, including extensive use of referenda. All cantons have their own constitution, executive, parliament, and judiciary. The relationship between the cantons and their communes is defined by each canton. Cantons

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<sup>11</sup> The national council is elected on the basis of a system of proportional representation. The council of states consists of 46 representatives of the cantons, 2 for each canton and 1 for each half-canton, irrespective of population, geographic size, or economic/financial status.

generally have a supervisory role over communes on fiscal management issues, but there is no such relationship between the federal government and cantons.

**10. Expenditure assignments are exclusive, shared, or common.** 1.1.3

The fundamental principle in the distribution of expenditure assignments is subsidiarity, namely that the task should be carried out at the lowest level of government for which it is appropriate. There are exclusive and shared responsibilities (Box 3).<sup>12</sup> This division of responsibilities is not easily discernible from budget documents or financial accounts because of the extensive network of transfers, subsidies, joint financing, and delegation of competencies that has evolved over the years. The new system of financial equalization, introduced in 2008, tries to address these problems (see below).

**Box 3. Expenditure Assignments**

**Confederation:** national defense; foreign affairs; national roads; old age and disability insurance; accidental and occupational disease insurance; agriculture; SBB (federal railway); technical high schools; and livestock breeding.

**Shared responsibilities for confederation and cantons:** health insurance; student assistance (only in tertiary education); urban transportation; regional transportation; main roads; execution of penalties; official measurements and standards; protection of historic monuments, the natural environment, and water supply; protection against noise and flooding; and improvements in agriculture, forestry, wildlife, and fisheries.

**Mainly by cantons:** jurisdiction; police; education (all mandatory schools); health (including hospitals); cantonal roads and regional traffic; area planning; forestry; sport; and cultural institutions of supraregional importance.

**Responsibilities shared among cantons:** assistance for handicapped and elderly people (including construction and operation of special homes); cantonal universities; specialized higher level education; student assistance; public city transportation; airport traffic control; housing in mountainous regions; and promotion of agriculture at the cantonal level.

**Mainly by communes** (can vary from one canton to the other): civil protection; primary schools; culture and leisure; waste removal; clean water; and energy.

**11. Revenues are assigned to all three levels of government.** 1.1.3

The Federal Constitution is explicit in separating taxing powers vertically (Box 4). Tax codes and effective tax rates may vary significantly from canton to canton.

<sup>12</sup> *Reforme de la péréquation financière et de la répartition des taches entre la confederation et les cantons*, September 2007, [www.nfa.ch](http://www.nfa.ch).

#### **Box 4. Revenue Assignments**

**Confederation:** income tax; tax on net profits; withholding tax; military and civil service exemption tax; value added tax; stamp duties; tobacco tax; beer tax; tax on distilled spirits; mineral oil tax; motor vehicle tax; and customs duties.

**Cantons:** income tax; wealth taxes; poll tax or household tax; tax on net profits; tax on capital; inheritance and gift taxes; capital gains tax; real estate tax; taxes on the transfer of immovable property; motor vehicle taxes; entertainment taxes; dog taxes; stamp duties; and tax on hydraulic power stations.

**Communes:** income tax; wealth taxes; poll tax or household tax; tax on net profits; tax on capital; inheritance and gift taxes; capital gains tax; real estate taxes; taxes on the transfer of immovable property; trade tax; dog taxes; and entertainment taxes.

#### **12. There is a strong tendency to equalize differences in revenue and living conditions through a system of financial equalization.** *1.1.3*

The financial equalization scheme is complex but well understood by experts and informed citizens. A new equalization scheme was introduced in January 1, 2008. The main objectives of the reform were two-fold: (i) the reallocation and clearer separation of tasks between the federation and the cantons; and (ii) the introduction of a new system of equalization that would better take into account the potential of the cantons to raise revenue, and the need to equalize specific financial burdens arising from topography and the social-demographic structure of the population.<sup>13</sup> The new system is based on two main pillars: (i) calculating a resource index for each canton, and taking into account the personal income, business income, and wealth of the canton's citizens; and (ii) compensating two groups of cantons for specific expenditure requirements: first, the cantons in the mountainous regions for the higher costs involved in delivering public services to citizens; and second, the urban cantons with a fiscally unfavorable population structure, such as a high share of unemployed, poor, elderly, and foreign persons. In addition, there is a provision to compensate those cantons that lose revenue under the new system; such support, however, will be phased out over time. Under the new system, no earmarked grants are paid to cantons.

#### **The legal and administrative framework for fiscal management**

#### **13. The legal framework for the management of public finances is clear and comprehensive.** *1.2.1.*

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<sup>13</sup> Criteria for determining the relative "financial strength" of cantons are the taxable income of individual taxpayers, earnings from taxable assets of individual taxpayers, and the taxable profits of firms (per cantonal inhabitant in each case).

The legal framework provides a sound base for efficient fiscal management. In particular, Art. 100(5) of the Constitution stipulates that the federation may temporarily increase taxes and duties, although its stabilization policies are principally rules-based (notably, the “debt brake” rule). The cantons have similar provisions in their constitutions and typically also have their own public finance laws and regulations; in addition, many cantons have fiscal rules. For the legal framework on public finances at the federal level, see paragraph 21 below.

**14. All taxes, fees, and other charges are based in law; legislation is complex, but well publicized.** *1.2.2*

While complex, tax laws are generally clear and easily available. Legislation is fragmented but well publicized. Efforts have been made to bring greater harmonization to federal and cantonal tax codes. The Federal Law on the Harmonization of Direct Cantonal and Communal Taxes, which entered into force on January 1, 1993, constitutes a framework law. It contains principles with regard to tax liability, the definitions of taxable units and assessment periods, and procedures and enforcement. These provisions include (i) standardized assessment periods for both individuals and legal entities; (ii) full taxation of social welfare services and full deduction of premiums paid out; (iii) the taxation of families and dependents; (iv) standardization of taxes deducted at source; and (v) tax relief for newly incorporated companies. All cantons met the eight-year timetable (terminating on January 1, 2001) for aligning their tax legislation with the framework law.

As all three levels of government are empowered to levy taxes and there is tax competition among both cantons and communes, taxpayers in similar economic situations may be subject to different effective tax rates depending on where they reside. There is a significant volume of tax expenditures at both the federal and cantonal level, and additional tax exemptions have been introduced in recent years (see also paragraph 41).

**Tax administration**

**15. Tax administration is clearly defined and well coordinated with overall fiscal management.** *1.2.2*

Excise duties, customs duties, and VAT are administered by the federation; personal and company income taxes and wealth taxes are administered by the cantons. Various other taxes are also collected by the cantons and communes. Both the Federal Tax Administration (FTA) and Federal Customs Administration (FCA) are organizations within the federal Department of Finance, with a large measure of independence on a day-to-day basis, but no constitutional or legal autonomy (see also paragraph 61).

**16. Taxpayers' legal rights are defined, and the appeals of tax or nontax obligations are considered in a timely manner.** 1.2.2

There are established and well respected procedures for the tax appeal process. In the first instance, appeals by taxpayers against decisions taken by the tax and customs administrations (federal or cantonal) regarding interpretation of the tax laws and codes are heard by the administration itself who has a duty to ensure that the tax law is applied correctly. The administration provides a ruling on the case which, if in favor of the authority, the taxpayer may appeal to a court; the appeal procedures vary from tax to tax.<sup>14</sup> For customs' matters, legal rights are defined in the Customs Law (Art. 116); appeals are considered in a timely manner, and are made public.<sup>15</sup> Unlike in some other countries, however, the rulings of the tax administration are not made public. Taxpayers have the right to professional representation in their dealings with the tax and customs administrations.

**Public consultation**

**17. The influence of the public on proposed laws, regulatory changes, and broader policy changes is unusually high.** 1.2.3

Reflecting the unique institutional character of the government system, the voter/citizen is much closer to government policy decision making in Switzerland than in other countries. With the signatures of 100,000 people, a so-called *popular initiative* can be launched and a change of the Federal Constitution can be proposed. The people also have the right to *referenda* if 50,000 signatures are collected within 100 days. The Public Hearing Process (*Vernehmlassungsverfahren*) comprises expert-based discussions and a consultation procedure whereby the government involves political parties, economic and social groups, and international and national experts in the preparation of legislation.

**Legal framework for liability and asset management**

**18. There is a clear framework for managing federal debt.** 1.2.5

The legal framework for federal debt management is contained in the Budget Law (Arts. 60–62), and the Budget Regulations (Arts. 70–74). There is no special public debt law. Debt management at the level of the federation is the responsibility of the treasury, a unit

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<sup>14</sup> In the case of the federal income tax, for example, the details are stated in the federal income tax law (*Bundesgesetz über die direkte Bundessteuer*). According to the law, a taxpayer has the right to appeal before the cantonal tax authority against a tax provision within 30 days (Art. 132). If the appeal is dismissed by the cantonal tax authority, the taxpayer may appeal again within 30 days before the cantonal tax commission (*Steuerrekurskommission*, Art. 140). Finally, the taxpayer may appeal before the Federal Supreme Court of Switzerland (*Bundesgericht*, Art. 146).

<sup>15</sup> <http://www.ezv.admin.ch/dokumentation/00474/index.html?lang+de>.

within the Department of Finance that is also responsible for cash management, facilitating close integration of the two functions. Debt management operations are overseen by an Asset and Liability Management Committee. The committee is chaired by the director of the Federal Finance Administration (FFA), and includes a representative of the SNB. The committee meets quarterly and reviews cash and debt management operations, and risk control. In order to provide a government guarantee, the government needs an appropriation in the annual budget. Thus, de facto parliament approves all guarantees.

**19. There is no standardized legal framework for privatization. 1.2.5**

Only one corporation, Swisscom, has been (partly) privatized. The process was orderly and transparent. However, there is no standardized legal framework for such operations. At the subnational level, some cantons have undertaken privatization projects.

## **B. Open Budget Processes**

### **The budget preparation process: clarity and consistency of process and presentation**

**20. The budget calendar and process are clearly defined and are followed in practice; budget documentation is comprehensive and clear. 2.1.1**

The legal base for preparing the budget is clearly set out.<sup>16</sup> The budget preparation process is outlined in Box 5. The fiscal year is on a calendar year basis. Budget preparation commences in January with the FFA preparing a medium-term financial plan and budget guidelines.

Departments prepare their budget proposals in March and April. These are reviewed by the FFA in May and June; approved by the federal council; and sent to parliament three months prior to the winter session and four months prior to the beginning of the new fiscal year. The budget documents sent to parliament have been streamlined recently into five volumes, and are both comprehensive and clear (Box 6).

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<sup>16</sup> See Arts. 100, 126, 159, 167, and 183 of the Constitution; the Law of the Parliament of December 13, 2002; the Finance Law of October 7, 2005; and the Ordinance on Finance of April 5, 2006. The legal base is described in FFA, *Principes Applicables à la Gestion des Finances*, January 2008. This document also sets out the indicative timetable for budget preparation (page 54), though the detailed timetable that each year is prepared by the FFA is not published.



### **Box 5. The Budget Preparation Process in Switzerland**

The fiscal year is set on a calendar year basis. The process of preparing the budget is divided into the following five phases. The only date fixed in law (*Finanzhaushaltsgesetz*, FHG, Art. 29) is the submission of the budget and financial plan to parliament (end-August). The timetable for the other steps in the budget process is set out in the guidelines of the federal council.

<b>Due Dates</b>	<b>Activities</b>
Phase 1: January–February	FFA prepares the medium-term fiscal framework (financial plan), and expenditure ceilings for the forthcoming budget year, on the basis of macroeconomic and revenue projections. The federal council approves the guidelines and timetable for preparing the budget and the financial plan. Budget guidelines are issued to departments, along with the expenditure ceilings.
Phase 2: March–April	Departments prepare their budget bids on the basis of the budget guidelines and detailed departmental instructions issued to the budget units. Departments must submit their bids to the FFA before the end of April.
Phase 3: May–June	Departments discuss their spending proposals and priorities with the FFA. At the beginning of June, the federal council reviews the macrofiscal outlook and approves the budget proposal and the medium-term financial plan.
Phase 4: July–August	The FFA prepares the detailed budget proposals and the financial plan, which are approved by the federal council for submission to parliament by the end of August.
Phase 5: September–December	The budget proposals are discussed by the two finance committees who prepare a draft resolution for consideration by a plenary session of parliament. The budget must be adopted by the end of December.

Source: FFA, *Principes Applicable à la Gestion des Finances*, January 2008.

The process of discussions within parliament is complex and lengthy, reflecting the existence of two chambers of equal authority, and gives a strong role to the finance committees of the two chambers.<sup>17</sup> Parliament has unfettered powers under the Constitution to amend the budget, subject to application of the debt brake rule. In practice, however, such amendments are quite limited.

<sup>17</sup> The budget bill is sent back and forth between the two chambers of parliament up to three times. If there are still differences between the two chambers, the budget is sent to a “reconciliation committee,” comprising members of both chambers. In case of extreme differences, parliament has the option of sending the budget back to the federal council for revision, but this has not happened in practice.

### **Box 6. Budget Documentation**

The Federal Budget documents presented to parliament in August comprise five volumes. Volume 1 is intended to be a stand-alone summary of the budget. Volumes 2A and 2B contain the appropriations (credits) by department and agency, with more detailed information in Volume 2B. Volume 3 provides information supplementary to Volume 1, including more detailed and multi-annual information of the macroeconomic forecasts, expenditures, and taxes. Volume 4 provides information on the special accounts (two EBFs, technical institutes, and the alcohol board). Volume 5, the financial plan, presents the medium-term revenue and expenditure estimates for the three years following the budget year. After parliament has made any amendments and approved the budget, Volume 6 is published: it contains the final detailed appropriations.

The annual financial statements follow an identical structure, but do not include Volumes 5 and 6.

### **The medium-term framework and policy basis for the budget**

#### **21. Budget forecasts and underlying macroeconomic assumptions are clearly presented and generally realistic.**

*2.1.2, 4.3.3*

The federal government's macroeconomic forecasts are produced by an inter-departmental group of experts led by the State Secretariat for Economic Affairs (SECO). A representative of the SNB also participates as an independent observer, and the SNB produces and publishes its own economic forecasts. The forecasts, which are produced four times a year, are for the current year and one year ahead only. To compile the out-years in the medium-term fiscal forecasts, the FFA uses its own estimates of potential growth. The forecasts are accompanied by a press release, and a lengthy explanatory bulletin is also published.<sup>18</sup> The latest data available on the general government fiscal outturn available to the expert group is approximately two years old, which makes forecasting government consumption difficult. The alternative forecast scenario included for the first time in the 2009 budget documents, in response to the economic downturn, was compiled by the FFA after consultation with the expert group. While the expert group meets with external parties as part of developing its view of economic developments, this process is not formalized, and there is no external review of the official forecasts before they are finalized.

A recent academic study covering the period 1997–2006 found that the government's forecasting record compares favorably with private forecasters.<sup>19</sup> The average error in the one-year ahead GDP forecast of the government's group of experts, on which the federal

<sup>18</sup> Published by SECO at [www.seco.admin.ch/themen/prévisionsconjoncturelles](http://www.seco.admin.ch/themen/prévisionsconjoncturelles).

<sup>19</sup> Government officials have conducted internal assessments of historical forecast accuracy, but these have not been published, although it is intended to publish such an assessment in 2009 in conjunction with presenting the forecasts in fan chart form to illustrate the degree of uncertainty around the point estimates.

budget is based, was 0.9 percent.<sup>20</sup> Strengthening the processes for compiling the macroeconomic and fiscal forecasts would help mitigate the impact of forecasting error.

**22. A statement on medium-term fiscal policy objectives is included in the budget documents.** 2.1.2

A presentation of the government's medium-term fiscal policy objectives and priorities is included with the annual budget estimates. Assumptions for GDP growth (real and nominal), as well as for inflation, interest rates, and exchange rates, are precisely specified. The government prepares a financial plan, equivalent to a medium-term budgetary framework (MTBF) covering the upcoming budget year and the three following years, which is presented with the macroeconomic projections. The financial plan is prepared on a rolling basis, so that the estimate for year two becomes the starting point (or baseline) for the preparation of the following year's budget.

**23. Fiscal rules and targets are clearly stated and explained in the budget documentation.** 2.1.2

The Constitution (Art. 126) requires expenditures not to exceed revenues over the medium term. The federal law states that the maximum level of expenditure (excluding extraordinary expenditure) must be equal to the estimated revenues multiplied by a "cyclical factor." This fiscal rule (the "debt brake") has been applied since 2003 and should ensure that the nominal debt remains constant over the cycle, excluding any extraordinary expenditures and revenues (Box 7). The debt brake rule appears to have been effective in constraining debt: the gross public debt of the Federation as at end-2007 was 24 percent of GDP (for the general government it was 44 percent), and was projected to be 20.7 percent by end-2008, compared with 28 percent of GDP in 2002. Parliament recently passed an amendment to the debt brake rule that, from 2010, requires extraordinary expenditures incurred in any year to be offset over the business cycle.

**24. Major new revenue and expenditure initiatives are normally described in the budget documents, but there is no summary statement of their economic and budgetary impact.** 2.1.3

An estimate of the expected budgetary cost and economic impact of any new policy measure, law or regulation is presented to the federal council when such a measure is proposed. However, although the budget documents do record such information, they do not include a table summarizing the estimated fiscal impact of all new policies and laws. Proposals for new

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<sup>20</sup> Source: La Qualité Des Previsions Economiques Suisse, Aurelio Mattei, Professor a l'Universite de Lausanne, available at [www.hec.unil.ch/amattei/qualite.pdf](http://www.hec.unil.ch/amattei/qualite.pdf).

### **Box 7. The Debt Brake Rule in Switzerland**

The federal government's "debt brake" rule, introduced in 2003, specifies a one-year ceiling on federal government expenditures (excluding extraordinary expenditures) equal to predicted revenues adjusted by a factor reflecting the cyclical position of the economy. The cyclical factor is determined as a ratio of the level of trend real GDP to expected real GDP. Thus, it is possible for the government to run a deficit in a recession and a surplus in a boom, but over the cycle deficits and surpluses would have to cancel out. Over the longer term, the gross debt will remain constant in nominal terms so that it is likely to fall steadily as a ratio of GDP. However, this assumes that extraordinary expenditures are zero, as they are excluded from the debt brake. In 2008, extraordinary expenditures amounted to CHF 11 billion. Following the recent amendment of the debt brake rule, as of 2010 extraordinary spending will be included.

In the cantons, many different fiscal rules exist. The cantons of Fribourg, Nidwalden, St. Gallen, Solothurn, and Zürich have introduced a very strict rule, including sanction mechanisms. The cantons of Aargau, Bern, Graubünden, Luzern, and Wallis have somewhat milder rules where an increase of debt during recessions is permitted. The cantons of Appenzell, Aargau, Basel Stadt, and Ticino have only weak rules. The remaining cantons have no fiscal rule.

Most of the cantons have also set formal rules to regulate the finances of the communes. The degree of control varies substantially from canton to canton. Only a few communes have a debt brake imposed by the canton. Most cantons, however, monitor financial indicators such as the self-financing coefficient in the budget and intervene if these indicators develop adversely.

taxes, or changes in existing taxes, are not included in the budget. The Department of Finance, however, provides a summary of relevant tax policy objectives and changes in tax rates and other measures in the commentary accompanying the budget figures.

### **Fiscal sustainability analysis**

#### **25. An assessment of fiscal sustainability is included in the budget documentation.**

*2.1.4*

The "debt brake" rule described above is the main central policy instrument used by the federal government to maintain fiscal sustainability. As noted, the rule is used during the preparation of the annual budget and the MTBF to calculate the expenditure ceilings that are compatible with the federal government's medium-term fiscal policy objectives. The federal debt/GDP ratio in Switzerland is relatively low by international standards (the preliminary estimate for 2008 is 22.8 percent). Fiscal sustainability and the application of the fiscal rule is described in the budget documentation. The federal council is required to publish, on a regular basis, development scenarios on specific government functions that take account of long-term trends, such as population aging, that will impact public finances. The first such report, on health and long-term care, was published in January 2008. The FFA has also published a study of long-term fiscal sustainability which projects the impact of expected

demographic developments on age-dependent public expenditures (old-age, disability, health, and long-term care) from 2005 to 2050.<sup>21</sup> The baseline scenario shows the ratio of general government debt to GDP rising to 130 percent by 2050, and an estimated fiscal gap of 1.4 percent of GDP. This report will be updated on a regular basis.

## **Coordination of budgetary and extrabudgetary activities**

### **26. Mechanisms for the coordination and management of budgetary and extrabudgetary activities are well defined. 2.1.5**

As noted in Section I.A, the extrabudgetary funds of the federation can be divided into two categories. First, the four special funds (*sonderrechnungen*)—comprising the funds for technical universities, railways, transport infrastructure, and the alcohol monopoly board—are closely integrated into the budget process. Their budgets are discussed and approved by parliament at the same time as the federation budget and, as noted, information is published in a separate volume of the budget documentation.

Second, the Social Security Fund (SSF)—which combines three separate funds for old age (AVS), disabilities (AI), and military and maternity insurance (EO)—is a legal entity that invests and manages the assets owned by the social security system (currently valued at around CHF 22 billion). It has no responsibility in relation to policy, legislation, and oversight of the system (which are dealt with by the Social Security Office within the Federal Department of Home Affairs) or operations and administration (receipts of social security contributions and payments of pensions and other benefits), which are managed by a large network of offices, mainly based in the cantons, and a central clearing house—La Centrale de Compensation—which is formally an office of the Department of Finance, with some 700 staff, based in Geneva. Most of the costs of these administrative and operational functions are financed by transfers to the budget out of the income of the SSF, and are clearly identified in the budget documents. The budget of the SSF is determined by the fund's governing board, which is appointed by the federal council. In making projections of social security finances, the fund uses the government's short-term economic forecasts of unemployment and inflation, supplemented by its own assumptions for long-term projections. The SSF may obtain treasury advances to finance shortfalls within specified limits. Unemployment insurance is also an extrabudgetary fund with its own legal status.

## **Accounting and reporting on budget execution**

### **27. Accounting and internal control procedures provide a reliable basis for financial management, and facilitate both effective expenditure control and the management of assets and liabilities. 2.2.1**

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<sup>21</sup> FFA, *Long-Term Sustainability of Public Finances in Switzerland*, April 2008.

As more fully discussed below, the federal government follows an accrual accounting basis for both budgeting and accounting. A system using an off-the-shelf SAP package is used for both budgeting and accounting by all federal departments and agencies. The system tracks expenses and investment expenditures against the corresponding appropriations, and operates an automated control system to ensure that these transactions are within budgetary limits. Commitment control is exercised by the system where orders or other contractual documents exist. In other cases, control is exercised when the invoice is booked. The control is against the *annual* appropriation limits for each line item. No other in-year funding limits are used. Long-term commitments are approved by parliament separately from the annual appropriation process, are recorded in the system, and disclosed in the financial statements. Arrears are not considered an issue.

Detailed accounting and internal control procedures are decentralized, with clear roles and responsibilities of federal departments and offices. The procedures related to financial management are set out in four main documents: the *New Accounting Model (NAM)*, the *SAP System Manual*, the *Accounting Policies Manual*, and the *Internal Control System Guidelines*. Departments and offices are responsible for ensuring that they operate internal control procedures that are consistent with the detailed guidelines provided by the Department of Finance. Secretaries general of departments and directors of offices are required to certify annually as part of the financial statements, that these statements have been correctly prepared, internal control procedures have operated effectively, and no irregularities have occurred. The quality of financial management, internal control and reporting systems and processes are subject to internal evaluation from time to time, e.g., the introduction of the NAM involved a major review and overhaul of the systems and processes. Departments may also take initiatives to undertake internal evaluation of their own systems and processes and those of offices. For example, the Department of Environment, Transport, Energy, and Communications (DETEC) is currently planning to undertake such an evaluation during 2009. The results of the evaluation will be presented to the department's secretary general.

A treasury single account (TSA) for the budget entities is in place, which facilitates effective internal control of spending. Departments and agencies may not open bank accounts without the approval of the Department of Finance, and usually do not have such accounts.

**28. The accounting system is capable of producing accurate in-year reports on central government budget outturns.** 2.2.1

As indicated above, a single accounting system is used by all federal departments and offices with an integrated chart of accounts (CoA) and budget classification. The accounting system, particularly the CoA, is designed to support the dual perspectives of the NAM (Box 8).<sup>22</sup> The

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<sup>22</sup> The impetus for NAM appears to have come from a growing realization that a simple cash-based framework was inadequate to meet the financial and other management needs of the government and

### **Box 8. Accrual Budgeting and Fiscal Policy—The Swiss Model**

The federal government adopted the accrual basis for budgeting and financial reporting with effect from the 2007 budget. Referred to as the *New Accounting Model (NAM)*, this framework emphasizes two main objectives, also referred to as the “dual perspectives” of NAM: fiscal policy management at the macro level, and a focus on performance of government departments and other administrative units. Enhancing transparency of the public finances through the adoption of internationally recognized accounting concepts and standards is also stated to be an objective of the NAM.

The government’s fiscal policy objective is expressed through the debt brake rule described in Box 7. This requires revenue and expenditure to be balanced over the business cycle. The debt brake rule is essentially a cash concept and the *financing and cash flow statement* of the budgetary central government, derived from the income statement and balance sheet in accordance with internationally accepted accounting practice, is the reporting tool used to monitor compliance with the rule.

At the level of departments and agencies, the performance objective requires a focus on cost of government activities regardless of the timing of the related cash flows. Accordingly, budget appropriations are for accrual-based expenses including noncash items such as depreciation. In addition, investment expenditures are separately appropriated. Appropriations are defined at a reasonably detailed line item level and distinguish, through the CoA, cash, noncash, and intra-government items or charges. For this purpose, accounts payable are posted in the accounts denominated as “cash” and the usual timing difference—whereby liabilities incurred in one year may be settled in cash in another year—is not considered to present any difficulties with cash management or for the purposes of debt brake rule.

Appropriation controls are exercised at these detailed levels for each appropriation line item. By this simple mechanism, the system ensures that any appropriation for a noncash item, e.g., depreciation, cannot be spent in cash. For departments and offices, the budget comprises a budgeted income statement (accrual based) and an investment statement. No separate cash-flow budgets for departments and agencies are included in the published budget documents, although such information is available. Unutilized appropriations lapse at the year-end, although in exceptional circumstances departments may request the approval of the Department of Finance to carry forward specific amounts. For legal purposes, appropriations authorize, and are considered utilized by, commitment or the incurrence of accrual-based expenses and capital expenditure.

A SAP-based system is used by all the departments and offices to prepare and execute the budget, and carry out accounting and reporting functions. The system automatically controls the level of expense or expenditure against the annual budgets at the level of detailed line items. The annual financial statements of the federal government include, for each department and agency, an income statement and an investment statement showing actual expenditure and comparison with the budget.

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parliament. While cash remained important for the management of fiscal policy at the macro level, the need to manage the agencies’ performance based on costs rather than simply cash expenditure was an important factor underlying the change. The cantons, who had already implemented accrual accounting some years ago, also pressed for harmonization. The implementation of NAM, including the IT systems, took almost seven years to complete. While capacity issues presented some challenges, and particular difficulties were experienced in connection with the introduction of internal service charges, overall the implementation process was relatively smooth compared to the experience of some other countries.

use of an integrated budgeting and accounting system, and the adoption of a new accounting model based on internationally recognized standards, have facilitated the generation of accurate and more comprehensive reports about not just cash flows but also stocks of assets and liabilities during the year and at the year-end. While the cantons are adopting a harmonized model of their own, the key difference with the NAM is that the application of international public sector accounting standards (IPSAS) is not mandatory under this framework.

Variances between appropriations and actual spending, both at the aggregate level and at the department/office level, are disclosed in the annual financial statements. In addition, detailed budget execution reports for the budget sector as a whole are produced monthly with a time lag of one month.

General government reports are published once a year. The federal system in Switzerland makes the process of data collection and consolidation a time consuming one. This is partly due to the delays in receiving the necessary information from all cantons and communes. Another factor is the need to make consolidation adjustments to eliminate the effects of application of different accounting policies by the cantons and communes. The federal government has no authority to mandate any accounting policies on the cantons; the move toward greater harmonization noted above is a voluntary arrangement.

**29. The legislature receives timely in-year reports on budget outturns, and undertakes a mid-year review.** 2.2.2

Budget execution reports on the federal government budget, including information on estimated actual revenue and expenditure for the full year, are presented to the legislature and made publicly available in June and September. These reports are integrated with supplementary budgets and related reviews. A third report is produced in November for the finance minister, but is not published. In addition, monthly budget execution data for the budgetary central government as a whole by economic line items are produced for use within the administration with a time lag of three weeks, but are not made public. Annually, key financial data and the annual unaudited financial statements are issued to the legislature and made publicly available within, respectively, 6 and 14 weeks after the year-end. As more fully discussed below, the audit is completed later.

**30. Supplementary revenue and expenditure proposals during the fiscal year are presented to the legislature in a manner consistent with the original budget presentation, and follow a similar set of procedures as the annual budget.** 2.2.3

Supplementary budgets are presented to the legislature in June and December. Spending increases through supplementary budgets are not encouraged and have generally not involved significant outlays compared to the total budget (during 2000–07, they averaged CHF 800 million, equivalent to 1.5 percent of total expenditures). Supplementary budgets, in conjunction with conservative revenue forecasts, are the main mechanism for managing the



risk of unexpected in-year variations to revenues and expenditures. There is no contingency provision within the central government budget. In addition, departments have very limited authority to transfer funds between credits (parliamentary appropriations), and standing legislative authority for spending is limited to just a few items (and does not include, for instance, debt servicing).

**31. The audited final accounts are available within four months of the end of the fiscal year.** 2.2.4

Audited financial statements of the federal government are submitted to parliament within four months of the end of the fiscal year. However, the auditor's opinion on the financial statements is not attached to the financial statements published by the Department of Finance. This is because the financial statements are published in April, while the audit report is normally signed in May. Parliament is presented with a complete package including the financial statements and the separate audit report. However, the effect of this system is that the published financial statements do not contain any evidence that they have been audited or any indication of the type of the opinion (e.g., unqualified or qualified for any reason) provided by the Swiss Federal Audit Office (SFAO). Finally, as detailed below, the audit report indicates that the audit covers only part of the published financial statements package. This creates the risk that ordinary readers would not appreciate that some parts of the financial statements have been audited and others have not.

The annual financial statements include a detailed comparison of actual outturns with the estimates included in the budget. The presentation of the budget and the annual financial statements are similar, facilitating the process of comparison of outturns and budget estimates. Explanations also cover variances with the previous financial year. In line with the federal system of Switzerland, the accounts of cantons and communes are not included. The financial statements are published in four volumes (Box 6). The external audit report on the financial statements indicate that the audit does not cover Section 1 of Volume 1 and Volumes 2B and 3. In other words, the audit covers Volume 1 excluding Section 1, Volume 2A, and Volume 4.

### **C. Public Availability of Information**

#### **Commitment to timely publication of fiscal data**

**32. A calendar for releasing fiscal data is announced in line with special data dissemination standard (SDDS) commitments, and fiscal information concerning the federal government is comprehensive and readily available to the public.** 3.3.1, 3.3.2

The federal authorities are committed to publishing data on central government operations monthly, within a month of the end of the period; data on central government debt quarterly within a quarter; preliminary data on general government and the SSF annually, within six months of the end of the year; and final general government data annually, within one year.

Actual publication is typically within these periods, except for general government data, where there is a long delay (see below).<sup>23</sup> Data are published on the FFA's website and on the IMF's SDDS website.<sup>24</sup> An advance release data calendar is announced for fiscal data, in accordance with Switzerland's adherence to the SDDS, and is mostly adhered to.<sup>25</sup> The Federal Budget Law requires annual publication of a financial statement and budget, and a forecast over the three years following the budget. Parliament introduced a requirement in 2006 for two in-year reports on budget execution, including revised estimates of the budget outturn. In addition, regulations on the collection of statistical data require the FFA to report fiscal data in accordance with the methodology of the IMF's *GFSM 2001*.<sup>26</sup>

### **The coverage and quality of budget documents**

#### **33. The budget documents cover federal government fiscal activities comprehensively, but do not provide data on general government or the SSF. 3.1.1, 3.1.4**

The focus of the budget documents is the central government. There is no information on the financial performance or position of subnational governments. While the federation has no control over the fiscal stance or fiscal policies of the cantons, the general government fiscal position is relevant for assessing the appropriateness of the federation's fiscal stance, particularly during economic slowdowns when an activist fiscal policy is under consideration. There is also no information in the published budget documents on the finances of the SSF.

#### **34. Defense expenditures are comprehensively covered in the budget. 3.1.1**

Defense expenditures are appropriated in the same manner as any other expenditures, and are included in the federal government's financial plan. Multi-year commitments under defense procurement contracts are included for information in the budget. Defense spending is subject to the same internal control procedures as other federal spending. Two of the federal government's 13 internal audit units are located within the department of defense, with one responsible for defense procurement. Defense spending is audited by the SFAO, and is subject to the usual parliamentary oversight.

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<sup>23</sup> See

[http://www.bfs.admin.ch/bfs/portal/en/index/themen/systemes\\_d\\_indicateurs/economic\\_and\\_financial/data.html](http://www.bfs.admin.ch/bfs/portal/en/index/themen/systemes_d_indicateurs/economic_and_financial/data.html); and Switzerland, Annual Observance Report of the Special Data Dissemination Standard for 2007, at [http://dsbb.imf.org/vgn/images/AnnualReports/2007/CHE\\_SDDS\\_AR2007.PDF](http://dsbb.imf.org/vgn/images/AnnualReports/2007/CHE_SDDS_AR2007.PDF).

<sup>24</sup> See [www.efd.admin.ch](http://www.efd.admin.ch); and <http://dsbb.imf.org/Applications/web/sddshome/>.

<sup>25</sup> The public is informed of this practice through a regular notice in the monthly *Die Volkswirtschaft / La Vie économique* published by the Federal Office for Development and Labor.

<sup>26</sup> The compilation and publication of data are governed by the *Federal Law on Statistics* (10/09/92) and the corresponding ordinance, and the *Federal Law on Data Protection* (06/19/92).

## Coverage of fiscal reporting

### 35. **Fiscal reporting covers all of the central government.** 3.1.1, 3.1.4

The federal government's fiscal reports cover all of budgetary central government, including the four special funds. The SSF is included in the general government sector, not the central government, and reports separately. There is no uniform classification system for the general government, which complicates the production of general government data.

### 36. **The budget documentation does not provide information on the fiscal position of subnational governments or the finances of public corporations.** 3.1.6

As noted previously, cantons and communes are independent fiscal entities under the Swiss Constitution and, while there is some national harmonization of statistical reporting requirements under the *Statistics Law*, there is no legal basis for the federation to require cantons to report their budget or fiscal outturn data. In practice, the FFA collects and consolidates fiscal data from cantons and the largest communes. However, while the accounting models of some of the large cantons are comparable to the federal NAM, many are not, and this necessitates time-consuming adjustments to the statistics to produce general government data. As a result, there is a time lag of about 20 months before final general government data is available, although interim data are produced within around 8 months. With respect to state-owned enterprises (SOEs), although two large corporations conduct significant QFAs, (Swiss Post and Swiss Rail), there is no overview of the state corporation sector or information on individual QFAs. While each SOE publishes independently audited financial statements in a timely manner, there is no consolidated report on the financial position and performance of the SOE sector.

## Past and forecast fiscal data in the budget

### 37. **The budget document discloses the main fiscal aggregates for two years prior to the budget year, and three years beyond the budget year.** 3.1.2

The standard tables in the budget documents, both for fiscal aggregates and detailed information, show the final outturn for revenues or expenditures two years prior to the budget year, but only the budgeted numbers for the current year (the year prior to the budget year). The tables do not show the estimated outturn for the current year. Volume 5 of the budget documents presents detailed three-year forward estimates of departments and agencies.

## Treatment of fiscal risks

### 38. **Comprehensive information on fiscal risks is not presented in the budget documents, although for the first time in 2009 they contained an alternative macroeconomic and fiscal scenario.** 3.1.3

In general, the budget documents do not provide information that is specifically intended to identify and, where practicable, quantify the risks to which the budget is exposed. For instance, the sensitivity of the fiscal aggregates to marginal changes in economic or other forecasting parameters is not shown. Nor is full information on contingent liabilities provided in the budget documents, or details of other sources of fiscal risk such as QFAs. In light of adverse economic developments, the 2009 budget documents did contain a brief alternative macroeconomic and fiscal scenario, thus providing an alternative view of how the economy and the budget might develop.

**39. Only limited information on contingent liabilities is included in the budget documents, and a statement of contingent liabilities is presented in the financial statements.** 3.1.3

Information on contingent liabilities is published in *Notes to the Financial Statements*, with a brief narrative on the largest elements, including data on gross exposures. The annual budget documents contain a separate appropriation for the estimated cost of calls on guarantees. However, they do not present comprehensive information on contingent liabilities.

**40. Tax expenditures are extensive, but only limited information is published on them.** 3.1.3

There is a significant volume of federal tax expenditures in Switzerland (possibly equivalent to around 10 percent of total federal revenues, depending on the benchmark used), and additional tax exemptions have been introduced in recent years. Under current law, the federal government is obliged to publish a Public Subsidy Report every six years. The report includes a chapter on tax expenditures, but does not provide a complete coverage of such expenditure.<sup>27</sup> The FTA is compiling its own comprehensive report on tax expenditures, with quantitative estimates using both a comprehensive income tax and a consumption tax as baselines.

**41. Some significant QFAs are carried out by public corporations, although budget subsidies also finance the cost of some non commercial activities.** 3.1.3

Public corporations are required by law to comply with strategic directions set by the federal government, which are published. Swiss Post, Swisscom, SBB, and Skyguide have mandates to provide universal services, namely, to provide services at adequate prices nationwide in an effort to equalize living conditions in the country. Most of the corporations are profitable, although three of them (Swiss Post, Swiss Railway, and Swisscom) are required to provide services on a non-commercial basis, e.g., to service all regions of the country at reasonable

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<sup>27</sup> According to the IMF's *Manual on Fiscal Transparency* (2007), tax expenditure is defined as "revenues foregone as a result of selective provisions in the tax code. They may include exemptions from the tax base, allowances deducted from gross income, tax credits deducted from tax liability, tax rate deductions, and tax deferrals."

prices.<sup>28</sup> The general policy framework provides that public corporations finance these services through cross-subsidies (in the case of Swiss Post, in part from revenues earned on legal monopolies enjoyed in the letter market). Public corporations are also exempt from certain taxes. There are payments from the federal budget for the supply of some non-commercial services, and written agreements covering the services being purchased. This applies particularly to Swiss Rail, where the federal government appropriates a substantial sum (CHF 1.5 billion in 2008) for rail infrastructure investments through the Rail Fund, and subsidies for regional rail services. There was also a budget subsidy of CHF 30 million in 2008 to Swiss Post to deliver newspapers, which is substantially less than the actual cost. Information on the QFAs of public corporations is generally not presented in the annual federal budget, or in the corporations' annual reports. Swiss Post is, however, required to report to PostReg (the authority responsible for regulating postal services) on the costs of its universal service obligations, and the revenues derived from legal monopoly services. PostReg includes these details in one of its reports.<sup>29</sup>

### **Publication of data on debt, other liabilities, and financial assets**

#### **42. Comprehensive information is published on federal debt.**

3.1.5

In accordance with Switzerland's subscription to the SDDS, data on the gross public debt of the federal government are published each quarter, within a quarter of the end of the period. Federal debt is reported by maturity (short- and long-term, and medium-term debt), and by currency. Debt servicing costs are separately identified in government fiscal reports. The medium-term financial plan, published with the annual central government budget, presents forecasts of debt servicing expenditures for the three years beyond the budget year. In accordance with the government's accounting standards, the use of derivatives in debt management is disclosed in Notes to the Annual Financial Statements. As a one-off exercise, the federal government prepared in 2006 a comprehensive debt report. This report included time-series data of all levels of government, and an analysis of developments in the various components of debt. There is detailed reporting within government of performance in managing the debt portfolio against a debt management strategy, but no details of this strategy are published.

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<sup>28</sup> As provided, for example, by Art. 92.2 of the Constitution with respect to postal and telecommunication services. The Constitution is silent on how these universal services are to be financed.

<sup>29</sup> Swiss Post has estimated the cost of their universal service obligation at CHF 212 million in 2007. This figure has been independently audited, and published in a report by PostReg (the agency responsible for regulating the postal market). Other estimates of QFAs provided informally to the mission by the authorities are CHF 150 million for the universal service obligation of Swisscom, and CHF 50 million for the under-financing of the cost of newspaper delivery by Swiss Post. See <http://www.news-service.admin.ch/NSBSubscriber/message/attachments/12501.pdf>, pp. 15–16.

**43. Information is published on civil service pension obligations and guarantee exposures.** *3.1.5, 1.2.4*

The main nondebt liabilities of the federal government are for civil service pensions. Following reforms in recent years, these are now defined contribution schemes, with some residual protection from the government for the nominal value of pensions. Publica, the federal civil service pension fund, publishes data on its financial performance and position.<sup>30</sup> However, the government's obligation to pay civil service pensions is not recognized as a liability on the government's balance sheet. The NAM only requires information to be disclosed in the Notes to the Financial Statements. The NAM defines contingent liabilities, and each agency is required to maintain a register of them. A short narrative on the largest contingent liabilities is presented in the Notes to the Annual Financial Statements. Although public private partnerships (PPPs) are under consideration for infrastructure projects, there are currently no projects at the federal level (although there are some at the cantonal level).

**44. Information on government financial assets is published.** *3.1.5*

The government publishes a full balance sheet according to international standards (IPSAS)—the limited departures from IPSAS do not apply to financial assets. The accounting policy is to value financial assets at market value. There are financial assets portfolios managed by the SSF and by Publica, each invested in a diversified portfolio appropriate to the structure of their liabilities. Information on the asset allocation and performance of these funds is published on their websites.

### **Analysis of long-term public finances**

**45. Analyses of long-term finances were first published in 2008, and will be updated on a regular basis.** *3.1.7*

As noted, the federal government has published a long-term development scenario on health and long-term care, and a study of long-term fiscal sustainability. There is a requirement to publish a development scenario on a regular basis, and it is anticipated that the study on long-term fiscal sustainability will also be updated periodically.

### **Guide to the budget**

**46. A clear and simple guide to the budget is available to the public.** *3.2.1*

Volume 1 of the annual budget documents contains an accessible, stand-alone 60-page summary of the main elements of the budget, and contains user-friendly graphs and tables. It presents the objectives of the budget, summarizes the economic outlook, and provides an

<sup>30</sup> See <http://www.f.publica.ch/page/content/index.asp?MenuID=527&ID=1026&Menu=2&Item=11.2.1>.

overview of revenues and revenue sharing with the cantons, expenditures and capital investments, and debt. There is a short summary of the budgets of the special funds. Tables present the budget aggregates in both cash and accrual form, together with key fiscal indicators, and the operation of the debt brake is explained. In addition, the FFA issues a seven-page press release summarizing the main features of the budget presented to parliament and the medium-term finance plan.<sup>31</sup>

### **Budget classification**

#### **47. The annual budget presentation is generally consistent with international standards, but remains primarily inputs-based. 3.2.2**

Revenues, expenditures, and financing items are clearly distinguished, and expenditures are presented on a gross basis. The classification system is compatible with that of the IMF's Government Finance Statistics (*GFSM 2001*), and facilitates the generation of GFS-consistent reports. Budget appropriations are classified by each of the seven federal departments, by unit within each department, and by economic object (with the exception of agencies funded on a global basis, as explained below). There is no output or program classification in the appropriations, and parliamentary control is at a detailed level of line item. The CoA follows the budget classification, and budget execution reports mirror the budget appropriations.

### **General government balance**

#### **48. The overall fiscal balance of the federal government is the main indicator of the fiscal position. 3.2.3**

The fiscal rule that guides budget policy, the “debt brake,” is defined in cash terms, and the overall balance, expressed in cash terms, is the focus of policy attention. There is detailed reporting in the budget and final accounts of compliance with the debt brake rule. An accrual measure of the overall balance is also presented in the budget and reported against. As noted, data on the general government balance are not presented in the budget.

### **Results-oriented budgeting and reporting**

#### **49. In general, budgeting remains on a line item inputs basis, although some agencies have global budgets and performance indicators. 3.2.4**

Most units and agencies are appropriated on the basis of detailed line item inputs—that is, parliament authorizes credits at the level of economic object of expenditure (e.g., the compensation of employees, the use of goods and services, subsidies) rather than on the basis

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<sup>31</sup> See <http://www.news-service.admin.ch/NSBSubscriber/message/de/http://www.news-service.admin.ch/NSBSubscriber/message/attachments/13061.pdf>.

of programs or outputs. There is very limited flexibility to transfer credits between line items during budget implementation. For many units, the budget does not contain any performance information. However, 23 agencies—many of which provide specific services to other units or to the public—are funded on the basis of global budgets, and have substantial flexibility to adjust the mix of inputs during budget implementation. Their budgets presented to parliament contain high-level product groups (outputs), and some performance indicators. They have four-year agreements signed with the federal council, with key performance indicators that are monitored by the departments concerned. After expansion of the scheme in 2007, nearly 30 percent of federal spending (operating expenses) is provided through agencies funded on a global basis. Consideration is being given to further extending the scheme to additional agencies.

#### D. Assurances of Integrity

##### Integrity of budget and accounting processes

50. **Budget data are reliable, and the variances between budget appropriations and actual outturns of the main fiscal aggregates are disclosed to the public.** *4.1.1*

Table 2 shows deviations between the original budget and the final outturn for 2005–07, for the main expenditure and revenue components. The deviations for ordinary recurrent primary expenditure, which comprises over 75 percent of total expenditure, vary from 1.9–3.4 percent, while deviations for the two largest taxes (income tax and VAT) are 1.4–3.4 percent and .01–2.9 percent, respectively. However, some of the smaller components (e.g., the railway fund, withholding tax, and stamp duty) are subject to larger forecast errors.

**Table 2. Switzerland: Revenue and Expenditure Forecasting Performance, 2005–07**  
(Percent absolute deviation between original budget and final outturn)

	2005	2006	2007
<b>Expenditure</b>			
Ordinary recurrent primary expenditure	2.2	3.4	1.9
Interest expenditure	7.9	7.0	3.1
<b>Revenue</b>			
Income tax	1.4	3.4	1.4
VAT	0.1	2.9	0.2



**51. Internationally accepted accounting standards are used to compile fiscal data of the federal government, and a statement on the accounting basis is included in the budget and final accounts documents.** 4.1.2

Financial statements are prepared in accordance with IPSAS, with some exceptions that are specified in government regulations. Notable departures from IPSAS include the following:

- civil service pension liabilities are not recognized but disclosed in the Notes to the Financial Statements;
- military weapons and related equipment are not recognized as assets but treated as expenditures; and
- consolidated financial statements of all entities controlled by the federal government—public corporations, for example—are not produced.

The accounting policy on pension liabilities was decided partly to avoid raising expectations that the government may be called upon to inject additional capital in publicly-owned entities. However, the amounts calculated in accordance with the requirements of international standards (including International Accounting Standard (IAS) 19) and the effect of any departure from the standards, are disclosed in the Notes to the Financial Statements. Military weapons are not capitalized, which is consistent with the recommended treatment in *GFSM 2001*. On the issue of coverage of consolidated financial statements, the authorities have adopted a phased approach. In the first phase, starting in 2007, only budget entities are included in the financial statements, in accordance with the wishes of parliament. In the second phase, commencing in 2009, the autonomous agencies that are considered closely linked to the federal government would be consolidated. The issue is to be further reviewed in 2013 to consider, inter alia, whether other controlled entities such as public corporations and the SSF are to be included in the consolidated financial statements.

A full set of financial statements, incorporating an income statement, balance sheet, cash flow statement, and notes, is prepared in accordance with IPSAS for the budgetary central government as a whole. In addition, investment expenditures are set out in a separate statement that facilitates comparison with the corresponding budget appropriations. Individual federal departments or offices are not treated as separate reporting entities and are not required to produce such complete financial statements. Instead, only income and investment statements are published for these units. As discussed above, financial statements are set out in four volumes and contain detailed information and comparison with the budget and the previous year's outturn data.

## Reconciliation practices

### 52. The process of accounts reconciliation and fiscal reporting are effective.

4.1.3

Under the NAM, a full set of double-entry based financial statements is produced; these incorporate a standard reconciliation of accounts. The statements include (i) a cash flow statement, which reconciles cash receipts and payments with the change in cash balances; (ii) a balance sheet, which reconciles movements in assets and liabilities with the income statement; and (iii) notes that reconcile cash flows with operating activities and the operating results. The accounting information is regularly reconciled with bank accounts and budget appropriations within four months after the year-end and is consistently tracked during the year.

### 53. Major revisions to historical fiscal data and any changes to data classification are explained.

4.1.3

The most recent changes to data classification occurred as part of the introduction of the NAM. This involved a change in the accounting basis as well as the budget classification and CoA. In addition, accounting policies had to be revised to ensure compliance with IPSAS. The main changes were in the balance sheet. Although under the old system a balance sheet was produced, the NAM required revaluation of assets and liabilities leading to a decrease in value—sometimes significant—of assets; reductions in excessive provisions; and the recognition of some assets and liabilities for the first time. The cash flow statement under the NAM is more comparable to the previous version, although there have been some reclassifications leading to a loss of comparability of data at the detailed level. While expense data were affected by both the change in accounting basis and CoA, the impact on revenue data was less significant. As part of the transition, the Department of Finance prepared and submitted additional documentation in response to specific inquiries, e.g., from parliament.

## Internal oversight

### 54. Public servants are subject to a code of behavior.

4.2.1

Ethical behavior, pay, and employment in the federal government are regulated by the federal law for public personnel (*Bundespersonalgesetz*), and in the regulations for public personnel (*Bundespersonalverordnung*). Cantons and communes often have similar regulations. A proposed amendment to the federal law includes a new article on whistle blowing. This is intended to encourage civil servants to give notice of irregularities that come to light in the performance of their duties, while protecting them from retaliatory action. There is no special federal agency responsible for ensuring that compliance with the government's anti-corruption policies is monitored and enforced.

**55. Civil service employment procedures are clear and well understood.** 4.2.2

Entry into the civil service is by open and competitive process. Promotion is determined by seniority and performance, with a strong emphasis on the latter. External application for senior positions is open and encouraged. The law gives only limited opportunity for managers to dismiss staff, but they have significant flexibility in hiring and promoting staff, especially in units that operate with a global budget.

**56. Procurement rules and practices meet international standards, and are well-known and observed in practice.** 4.2.3

There is a sound legal framework for procurement at the federal and cantonal level.<sup>32</sup> The regulations require that all private or state-owned companies that submit tenders for procurement contracts above a certain threshold make their bids public. At an administrative level, a procurement commission is responsible for setting the overall strategy and policies for procurement. A separate central procurement office is responsible for all civilian procurement, while military procurement is handled by ArmaSuisse. In addition, traveling by public officials is managed by a dedicated travel unit. The implementation of procurement procedures is subject to review by both internal and external auditors.

**57. Purchases of public assets are undertaken in an open manner, and any major transactions are separately identified in the budget and fiscal reports.** 4.2.4

Purchases by federal departments and offices are generally covered by the procurement procedures discussed above. Investment activities by entities such as the pension fund are covered by separate laws, regulations, and procedures. No major sales of public assets have taken place recently or planned for the near future. Under the NAM and the requirements of IPSAS, major transactions in financial and nonfinancial assets should be disclosed in the financial statements.

**58. Internal audit is based on a risk management approach and is effective; however, its responsibilities compared to those of external audit is not clearly distinguished.** 4.2.5

Internal audit is not mandatory for each department and office. Departments take a risk management approach in assessing the need for internal audit functions—also referred to as the financial inspectorate—in their offices. The Swiss Federal Audit Office (SFAO)—the supreme audit institution of the Swiss Confederation—can also request the federal council to form new internal audit units.

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<sup>32</sup> With effect from January 1, 1996, Switzerland has been a signatory to the World Trade Organization (WTO) Government Procurement Agreement (GPA).

The *Federal Auditing Act* of 1967 governs the operations of the SFAO, as well as the activities of the internal audit units (Art. 11). The law stipulates that the financial inspectorates are responsible for the *control of financial management* in their domain.<sup>33</sup> They are assigned to the executive management, but operate independently in the fulfillment of their audit functions. The rules and regulations of the internal audit units are subject to approval by the SFAO, which is also responsible for coordinating and supervising (see below) the effectiveness of their work. The SFAO may also issue technical directives on audit methodology and procedures, although in practice only one such directive has been issued to put in place mandatory standards in respect of the internal auditors' role in auditing the annual financial statements. The internal audit units are required to submit their annual audit programs and all audit reports to the SFAO. Any deficiencies identified by the internal audit process that are considered of a fundamental nature, or of significant financial importance, must be immediately brought to the attention of the SFAO. The SFAO is also responsible for training and development of the internal audit staff.

Internal audit standards are developed in accordance with Swiss standards of internal audit, which, in turn, are based on the international standards issued by the Institute of Internal Auditors (IIA). A review of the quality and effectiveness of the internal audit function is carried out by the SFAO once every five years. The main issues that have arisen as a result of internal audit assignments in the recent past concern the implementation of the NAM. Internal audit found that capacity to implement the new accounting procedures was weak both in the Department of Finance and other departments and offices. Departments are making efforts to improve their capacity in this area.

### **Clarity of internal control and independence of tax administration**

#### **59. The FTA and FCA agencies have effective internal monitoring and control mechanisms.**

4.2.6

The FTA and FCA make extensive use of computerized systems, with taxpayers being able to access the systems for information and to lodge tax returns. While the SAP system is used for financial management purposes, other special purpose systems are employed to manage tax and customs affairs. According to a World Bank study conducted in 2008, which made use of a logistics performance index, the FCA systems rank fifth in a comparison with other countries. The FTA systems are due for a major overhaul to improve capacity for monitoring and analysis. The FTA and FCA both have well established internal audit functions and IIA standards are followed. These agencies are also subject to external audit by the SFAO. There is a code of conduct for tax officials, consistent with the ethical guidelines for the public service. Taxpayers' rights and appeals and complaints processes are set out in relevant

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<sup>33</sup> The authorities have explained that the term "control" in this context should be interpreted not as "control" but as "audit." In this case, the English translation of the law, which uses the term "control," should be clarified.

legislation.<sup>34</sup> Unlike some other countries, no information on the results of the complaints review process by the FTA and FCA is published, so that taxpayers have no guidance on these important interpretations of the law.

**60. The FTA and FCA are operationally independent; only limited information on their activities is made publicly available.** 4.2.6

The FTA and FCA have been established through legislation that sets out their functions, powers, and responsibilities. Administratively, they are part of the Department of Finance. The agencies are operationally independent. The procedures for appointment and dismissal of their directors are the same as for other government agencies. Both agencies submit formal reports to the Department of Finance three times a year. These reports are confidential and are only provided to the secretary general of the Department of Finance, though the FCA makes some information available to the public at least once a year. In addition, press releases are issued three times a year by the Department of Finance showing statistics of revenue collection and an associated commentary.<sup>35</sup> As part of its annual report to parliament, the Department of Finance also reports on the activities and financial operations of the revenue authorities.

### **Independent external oversight**

**61. External audit is independent of the executive branch, and its mandate covers all federal government activities.** 4.3.1

The external audit function is not explicitly mentioned in the Federal Constitution, as recommended under the relevant international standard—the 1998 Lima Declaration of the International Organization of Supreme Audit Institutions (INTOSAI). Federal law defines the SFAO as the supreme financial supervisory organ of the Swiss Confederation. The SFAO is an independent office, headed by a director who is appointed, for a period of six years, by the federal council, subject to approval by the federal assembly. The federal council may also dismiss the director for serious infringement of his or her duties, subject to an administrative court appeal to the federal court. The federal assembly's approval is not required for such dismissals. The budget of the SFAO is passed to parliament without modification by the executive. Parliament determines the total financial resources and emoluments of the SFAO. The SFAO submits its reports directly to the legislature, as described below.

The SFAO is responsible for auditing all federal government administrative units, parliamentary services, federal courts, and corporations owned more than 50 percent by the confederation. It has the power to audit the use made by cantons of federal moneys (e.g., subsidies, loans, and advances), provided such audits are permitted by a federal law or

<sup>34</sup> Some of this information is published—see [http://www.admin.ch/ch/d/sr/c173\\_320\\_4.html](http://www.admin.ch/ch/d/sr/c173_320_4.html).

<sup>35</sup> <http://www.news-service.admin.ch/NSBSubscriber/message/attachments/13542.pdf>.

decree. In the absence of such legal authority, the SFAO may only audit the use of federal funds with the consent of the cantons. The SFAO may be invited to participate in discussions concerning the preparation of the budget and the annual accounts, and to advise on matters concerning appropriation requests. Finally, as discussed above, the SFAO has a close relationship with internal audit units in departments, and is responsible for approving related regulations, monitoring their effectiveness, ensuring coordination of their activities, and providing them with training.

The SFAO is a member of INTOSAI. For financial audits, the SFAO follows the auditing standards issued by the International Auditing and Assurance Standards Board (IAASB). INTOSAI standards are followed for performance auditing assignment. These standards are incorporated in the audit manual. The activities of the SFAO have been subject to two recent peer reviews by the supreme audit institutions of Germany and Norway, and their findings have been positive.

**62. The SFAO has adequate capacity to perform the external audit role. 4.3.1**

The SFAO has about 95 staff, of which 65 are auditors and specialists. Thirty-three staff have appropriate professional qualifications. Audit teams include the appropriate specialist staff. Specialist areas are financial supervision, IT-audits, construction and procurement audit, and evaluation of economic efficiency and cost effectiveness. The SFAO may also engage experts where the execution of its responsibilities requires special expertise that is not available in-house.

**63. External audit reports are submitted to the legislature but not always published, and audit findings are systematically monitored. 4.3.2**

The SFAO prepares a report on each audit and transmits it to the joint committee on finance of parliament. Other relevant documentation, including a summary of each report and comments on the SFAO's findings by the audited agency is also submitted. The joint committee considers the audit reports. In addition, the SFAO submits an annual report to the joint committee in which it sets out the nature and focus of its audit activities, its main findings and conclusions, and any audits that remain pending and the reasons for the delay. The annual report—which is published—also lists all the SFAO reports that have been publicly released. The SFAO decides alone whether to publish any audit report or evaluation report (Art. 14.2 of the *Federal Auditing Act*). If a specific audit report that has not been published were requested, it would generally be made available, though this is not mandatory. The joint committee monitors all cases of pending audit and noncompliance with regulations or other issues raised by the SFAO to ensure that they are resolved.

**64. The government finance statistics unit within the FFA has the primary role in producing fiscal data, and acts with the required institutional independence. 4.3.4**

The FFA is authorized by law (*Bundesstatistikgesetz* and *Statistikerhebungsverordnung*) to prepare the fiscal data of general government. The FFA rather than the Federal Statistics Office has the primary responsibility in this area. Article 3 of the federal statistics law requires that the government units which are assigned to produce federal statistical data be technically independent. Further, the government finance statistics unit within the FFA is a signatory to the Swiss Charter of Public Statistics which serves as a professional code of ethics for Swiss statistical institutions and their employees.

### III. IMF STAFF COMMENTARY

**65. At the federal level, Switzerland currently meets most aspects of the fiscal transparency code and, in most areas, matches best international practice.** Recent initiatives such as the introduction of accrual accounting and budgeting, a NAM that is based on IPSAS, streamlined budget documentation, and a risk management framework covering all government departments, are impressive steps forward.

**66. Although the Fund was not requested to review the transparency of fiscal operations and documentation at lower levels of government (cantons and communes), their activities constitute more than two-thirds of general government.** Crucial areas of policy are the prerogative of the cantons, and these can significantly affect the overall fiscal stance and the composition and impact of spending and revenue. Further efforts could be made to reduce the very long lags (currently around 20 months) in collecting and compiling general government fiscal data, because these prevent timely analysis of fiscal trends and prospects, and may impede the specification and implementation of federal fiscal policy. Information on the fiscal position of general government should be given greater prominence in the federal government's budget documents and other fiscal statements and assessments.

**67. At the federal government level, all four pillars of the code are well addressed:**

- *Clarity of roles and responsibilities.* There is a clear definition of general government and a closely prescribed and comprehensive legal framework governing public finances and the budget process. The fiscal role of the executive and legislative branches of government, and the legal framework for the management of public finances, are clearly defined. Public corporations (which are all nonfinancial entities at the federal level) conform to sound principles of strategic planning, regular reporting, and corporate governance, though they carry out some significant QFAs. Regulation of the private sector is clear and light, and contractual arrangements between the government and the private sector—including procurement rules—are accessible and clear. The legislative basis for taxation is complex given the

multiplicity of federal and cantonal codes for some taxes, but transparent and well understood; and tax administration and taxpayers' rights are clearly defined and well implemented.

- *Open budget preparation, execution, and reporting.* The budget process is governed by a precise legal framework, and the timetable is well defined. Macroeconomic forecasts are prepared on a regular basis, and their accuracy compares favorably with private sector counterparts. A coherent medium-term fiscal framework provides a clear context for budget decisions. Fiscal targets and rules (principally, the debt brake rule) are clearly described and openly discussed. Proposals for new measures are accompanied by estimates of their fiscal impact. Supplementary budgets are prepared on a regular timetable (twice a year), and are subject to a similar process of discussion and review by parliament as the original budget. Budget execution is controlled and monitored according to clear regulations and standards, which minimize opportunities for irregularity. A comprehensive risk management policy is being implemented by departments.
- *Public availability of information.* Fiscal data on the central government are comprehensive and readily available to the public. Comprehensive statistics on public debt are disclosed. Data are published on certain non-debt liabilities and exposure to federal government guarantees. An assessment of long-term trends in public finances was first published in 2008. A clear and simple guide to the budget is available to the public. In general, budgeting remains on a heavily itemized, input-oriented basis; only a limited number of agencies has global budgets and performance indicators.
- *Assurances of integrity.* Fiscal data are prepared broadly in line with the IPSAS standard. The process of accounts reconciliation is effective. Major revisions to historical fiscal data and their classification are explained. Rules for public procurement, and the employment and ethical behavior of civil servants are clear and generally well observed. Internal audit is effective though not yet comprehensively applied across all government departments. Procedures for internal control and monitoring of tax administration are well managed. The SFAO has a sound legal basis; its reports are submitted to parliament—though not all are made publicly available—and there are well-understood mechanisms to ensure follow up of audit findings.

68. **There are some areas, however, where the authorities could consider taking further measures**, in consultation with parliament where appropriate, to enhance fiscal transparency and the presentation and management of fiscal risks. These are summarized below.



## Disclosure of additional fiscal information by the federal government

69. **Support provided by the federal government and the SNB to UBS and other financial institutions affected by the global crisis is reported in, respectively, the confederation's and the SNB's financial statements, supplemented by quarterly updates by the SNB.** However, in order to provide a comprehensive assessment, the federal government should consider publishing in its financial statements information on the SNB's support operations alongside the report of its own activities.

70. **The government should publish its findings on tax expenditures and regularly update them.** Tax expenditures do not need to be appropriated each year, thereby escaping scrutiny and the need to compete with other fiscal priorities in the budget process. Over time, tax expenditures can result in insidious erosion of the tax base. The volume of tax expenditures is significant, as a recent study by the FTA indicates. The government is aware of the importance of keeping tax expenditures in check. It could consider publishing an annual tax expenditure statement with the annual budget.<sup>36</sup>

71. **The government should make an effort to disclose information on specific fiscal risks, including contingent liabilities and QFAs, with the budget,** in line with the IMF's Guidelines for Fiscal Risk Disclosure and Management, and eventually publish a single statement of fiscal risks.<sup>37</sup> In particular, the universal services provided by Swiss Post, Swiss Rail, and others are partly financed through cross-subsidies, which represent a form of interpersonal redistribution, and taxes and transfer payments from the budget are considered more desirable to support such activities from a transparency perspective. QFAs are disclosed only to a very limited extent.

72. **The Social Security Funds should be clearly distinguished.** Apart from the unemployment insurance scheme, the other three funds are jointly operated. The old age and disability pension funds are cross-financing each other, with the first fund running persistent surpluses that are used to finance the deficits of the second. Clearly, separating the three funds would make the financial health of each of them more transparent and facilitate the necessary policy discussion about the sustainability of current policies. Parliament has already passed a bill to separate the old-age and disability pension funds into two separate funds. A referendum on the issue will be held in September 2009. In addition, an overview of the finances of the social security sector and its relationship with the budget in the short to medium term, in the context of an assessment of long-term fiscal sustainability, should be included in the budget documents. More forward-looking information on the finances of the

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<sup>36</sup> While estimating the fiscal impacts of tax expenditures is complex and time consuming, the FTA has already completed a substantial amount of work on this, which could be published initially, if necessary, as work in progress.

<sup>37</sup> QFAs undertaken by public corporations should also be reported in their annual reports, including an estimate of their financial impact.

special funds would also be useful. Together, these measures would provide a better basis for assessing the sustainability of current fiscal policy.

73. **More information should be published on the sensitivity of the budget to changes in macroeconomic variables and an alternative macroeconomic and fiscal scenario, building on the useful analysis already published by the government.** This would provide a better basis for assessing the uncertainties surrounding the budget.<sup>38</sup> In addition, the federal government could consider extending and formalizing the process of external review of macroeconomic forecasts and assessments of economic developments.

74. **An overview of the finances of public corporations could also be provided in the budget.** Some corporations receive significant funding from the budget, and others conduct QFAs, making it important to consider their financial position and profitability in the context of fiscal policy.

75. **Additional information should be reported on public debt management,** namely, the debt management strategy and performance against it, and the impact of parameter changes on debt-servicing costs.

76. **A summary statement of all new policy measures that are reflected in the budget proposals,** with an estimate of their fiscal impact, should be published, to supplement the summary data on expenditure by tasks already provided in Volume 3 of the budget documents.

77. **Each federal government department should be encouraged to publish an annual report** that summarizes relevant information concerning their goals and objectives, strategic priorities, operational risks, financial results, and nonfinancial performance. This would be in line with practice in many OECD countries.

### **Accounting and financial reporting**

78. **The government should consider moving towards fuller compliance with IPSAS.** Several steps are required to complete this task. Civil service pension obligations should either be recognized in accordance with IPSAS or, if such compliance is considered to lead to amounts being recognized that would impair the fair presentation of the financial position of the federal government, this should be clearly explained, and the SFAO should express its opinion on this issue. So far as military assets are concerned, even if these are not recognized as assets in order to achieve compliance with *GFSM 2001*, consideration should be given to disclosing in the notes the carrying value (i.e., the value at which the assets would be recognized in the balance sheet) and other relevant details. Finally, we welcome the

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<sup>38</sup> In that context, budget tables should show, for the year prior to the budget year, the expected outcome for that year, and not just the original (or amended) budget.

authorities' intention to extend the coverage of the financial statements in accordance with IPSAS. The medium-term aim should be to produce consolidated financial statements for the central government and all entities controlled by it (including public corporations and the SSF).

## **Audit**

79. **The independence of the SFAO, or the perception of it, could be further enhanced in line with IPSAS.** Consideration should be given to modifying Art. 2.2 of the Federal Act of the SFAO and remove the power of the federal council to dismiss the SFAO.<sup>39</sup> Instead, parliament should be given this power. The protection of the court should be retained. Consideration could also be given to reviewing and revising Art. 7 of the Act to remove any of the non-audit services which may be perceived as potentially presenting a conflict of interest; and to revising Art. 11 of the Act with a view to transferring the functions of supervision, developing regulations and methodologies, coordination, and training of internal auditors from the SFAO to the executive—for example, by establishing a centralized harmonization unit within the Department of Finance.<sup>40 41</sup> Many European countries have set up such a unit, a practice that is recommended by the European Commission.<sup>42</sup> Art. 12 could be modified to eliminate any possible interpretation that the federal council can arbitrate if the audited entity objects to a decision by the SFAO.

80. **The audit report should clearly express an audit opinion on the financial statements subject to audit.** This should go beyond the current practice of simply confirming compliance with legal requirements, and include an opinion on whether the statements present a true and fair view or are presented fairly in all material respects. Even if the legal requirements in Switzerland mandate another form of wording, the auditor's responsibility to form such an opinion remains unchanged. Consideration should be given to including such a requirement in the law on the SFAO.<sup>43</sup>

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<sup>39</sup> The INTOSAI's Lima Declaration, for example, stipulates that the procedures for removal from office should be embodied in the Constitution and may not impair the independence of the members.

<sup>40</sup> The INTOSAI guidelines on conflicts of interest stipulate that when such non-audit services are provided, "the auditors should ensure that such advice or services do not include management responsibilities or powers, which must remain firmly with the management of the audited entity."

<sup>41</sup> The SFAO takes the view that transferring functions such as supervision, preparing regulations and methodology, coordination and training from the SFAO to the executive—for example by establishing a unit within the Department of Finance—could result in a decrease of independence of internal audit. However, in the IMF's view, the existing practice may impair the independence of the SFAO.

<sup>42</sup> See European Commission, 2006, *Welcome to the World of PIFC: Public Internal Financial Control*.

<sup>43</sup> International Standard on Auditing (ISA) 700.

**81. The published annual financial statements should include the audit report.**

Consideration should be given to modifying the current practice of publishing unaudited financial statements first and the audit report later, in order to ensure that general readers are in no doubt about the audit status of the financial statements, in line with the practice in most OECD countries.

**Next steps**

**82. The government will want to consider, in consultation with parliament and other stakeholders, which of the above recommendations fits best with its strategy for improving fiscal transparency and strengthening risk management.** In the Fund's view, the following measures are quite straightforward, however, and could be introduced relatively quickly, preferably (if appropriate) as part of the budget for 2010:

- Publishing in the federal government's financial statements information on the SNB's support operations for UBS alongside the confederation's own activities to strengthen financial institutions.
- Preparing and publishing additional and readily available data on fiscal risks, such as contingent liabilities, QFAs, and the finances of the SSF, which could be developed over time into a comprehensive fiscal risk statement to be published with the budget.
- Publishing more timely information on general government finances, even if it initially requires using preliminary or estimated data.
- Including preliminary projections of revenues for 2009 in the 2010 budget.
- Publishing statistics and other information on tax expenditures.
- Supplementing the basic macroeconomic and fiscal forecasts with additional scenarios and variability analysis, and extending the external review of macroeconomic forecasts.
- Including a summary of the fiscal impact of new policy measures introduced in the budget.
- Including the SFAO's audit opinion with the published final accounts.

## Appendix I. Summary Assessment of Practices

	Principles and Practices	Summary Assessments	Comments
<b>Clarity of Roles and Responsibilities</b>			
1.1.	<b>The government sector should be distinguished from the rest of the public sector and from the rest of the economy.</b>	<i>Observed</i>	
1.1.1	The structure and functions of government should be clear.	<i>Observed</i>  General government is defined consistently with Government Finance Statistics (GFS) principles, and is well covered in the budget process.	
1.1.2	The fiscal powers of the executive, legislative, and judicial branches of government should be well defined.	<i>Observed</i>  The fiscal roles of the executive and legislative branches are clearly defined in law.	
1.1.3	The responsibilities of different levels of government, and the relationships between them, should be clearly specified.	<i>Observed</i>  The responsibilities of different levels of government and the relationships between them are complex, but clear and well understood.	
1.1.4	Relationships between the government and public corporations should be based on clear arrangements.	<i>Observed</i>  The relationship between government and public corporations is clear.	
1.1.5	Government relationships with the private sector should be conducted in an open manner, following clear rules and procedures.	<i>Observed</i>  Government relationships with the private sector are conducted in an open manner. The laws governing this relationship are clear.	

	<b>Principles and Practices</b>	<b>Summary Assessments</b>	<b>Comments</b>
<b>1.2.</b>	<b>There should be a clear and open legal, regulatory, and administrative framework for fiscal management.</b>	<i>Observed</i>	
1.2.1	The collection, commitment, and use of public funds should be governed by comprehensive budget, tax, and other public finance laws, regulations, and administrative procedures.	<i>Observed</i> The legal framework for management of public finances is clear and comprehensive.	
1.2.2	Laws and regulations related to the collection of tax and nontax revenues, and the criteria guiding administrative discretion in their application, should be accessible, clear, and understandable. Appeals of tax or nontax obligations should be considered in a timely manner.	<i>Observed</i> All taxes, fees, and other charges are based in law; legislation is fragmented and complex, but well publicized.	
1.2.3	There should be sufficient time for consultation about proposed laws and regulatory changes and, where feasible, broader policy changes.	<i>Observed</i> The influence of the public on proposed laws, regulatory changes, and broader policy changes is unusually high.	
1.2.4	Contractual arrangements between the government and public or private entities, including resource companies and operators of government concessions, should be clear and publicly accessible.	<i>Observed</i> Contractual arrangements between the government and public or private entities are limited. There are no PPPs at the federal level.	
1.2.5	Government liability and asset management, including the granting of rights to use or exploit public assets, should have an explicit legal basis.	<i>Observed</i> There is a clear legal framework for managing public debt. There is no legal framework for privatization, but only one corporation has been (partly) privatized.	

	Principles and Practices	Summary Assessments	Comments
<b>Open Budget Process</b>			
2.1	<b>Budget preparation should follow an established timetable, and be guided by well-defined macroeconomic and fiscal policy objectives.</b>	<i>Observed</i>	
2.1.1	A budget calendar should be specified and adhered to. Adequate time should be allowed for the draft budget to be considered by the legislature.	<i>Observed</i> The budget calendar and process are clearly defined and are followed in practice; budget documentation is clear and comprehensive.	
2.1.2	The annual budget should be realistic, and should be prepared and presented within a comprehensive medium-term macroeconomic and fiscal policy framework. Fiscal targets and fiscal rules should be clearly stated and explained.	<i>Observed</i> Budget forecasts and underlying macroeconomic assumptions are clearly presented and generally realistic. A statement on fiscal policy objectives is included in the budget documents. Fiscal rules (the “debt brake”) and targets are clearly explained.	
2.1.3	A description of major expenditure and revenue measures and their contribution to policy objectives, should be provided. Estimates should also be provided of their current and future budgetary impact and their broader policy implications.	<i>Largely observed</i> Major new revenue and expenditure initiatives are normally described in the budget documents, but there is no summary statement of their economic and budgetary impact.	A summary statement of the fiscal impact of new policy measures could be included in the budget documentation.
2.1.4	The budget documentation should include an assessment of fiscal sustainability. The main assumptions about economic developments and policies should be realistic and clearly specified, and sensitivity analyses should be presented.	<i>Observed</i> An assessment of fiscal sustainability is included in the budget documentation, and analyses of long-term trends such as population aging that will impact public finances are also published.	

	<b>Principles and Practices</b>	<b>Summary Assessments</b>	<b>Comments</b>
2.1.5	There should be clear mechanisms for the coordination and management of budgetary and extrabudgetary activities within the overall fiscal policy framework.	<i>Observed</i>  Mechanisms for the coordination and management of budgetary and extrabudgetary activities are well defined.	
<b>2.2</b>	<b>There should be clear procedures for budget execution, monitoring, and reporting.</b>	<b><i>Observed</i></b>	
2.2.1	The accounting system should provide a reliable basis for tracking revenues, commitments, payments, arrears, liabilities, and assets.	<i>Observed</i>  Accounting and internal control procedures provide a reliable basis for a modern financial management system that facilitate effective expenditure control and management of assets and liabilities.	
2.2.2	A timely mid-year report on budget developments should be presented to the legislature. More frequent updates, which should be at least quarterly, should be published.	<i>Observed</i>  The accounting system is capable of producing accurate in-year reports on central government budget outturns. The legislature receives timely in-year reports on budget outturns, and undertakes a mid-year review.	
2.2.3	Supplementary revenue and expenditure proposals during the fiscal year should be presented to the legislature in a manner consistent with the original budget presentation.	<i>Observed</i>  Supplementary budgets are presented to the legislature twice a year in a manner consistent with the original budget presentation, and follow a similar set of procedures as the annual budget.	
2.2.4	Audited final accounts and audit reports, including reconciliation with the approved budget, should be presented to the legislature and published within a year.	<i>Largely observed</i>  The audited final accounts are available within six months of the end of the fiscal year.	The published annual financial statements should include the audit report. The audit report should clearly express an audit opinion on financial statements subject to



	Principles and Practices	Summary Assessments	Comments
			audit. This should go beyond the current practice of simply confirming compliance with legal requirements, and include an opinion on whether the statements present a true and fair view or are presented fairly in all material respects.
<b>Public Availability of Information</b>			
3.1	<b>The public should be provided with comprehensive information on past, current, and projected fiscal activity and on major fiscal risks.</b>	<i>Largely Observed</i>	
3.1.1	The budget documentation, including the final accounts, and other published fiscal reports should cover all budgetary and extrabudgetary activities of the central government.	<i>Observed</i> The budget documents and fiscal reporting cover all of the central government.	
3.1.2	Information comparable to that in the annual budget should be provided for the outturns of at least the two preceding fiscal years, together with forecasts and sensitivity analysis for the main budget aggregates for at least two years following the budget.	<i>Largely observed</i> The budget documents disclose the main fiscal aggregates and detailed data for the two years prior to the budget year, and three years beyond the budget year. For the current year (the year prior to the budget year), budget tables show only the budgeted numbers, not the estimated outturn. Volume 5 of the budget presents detailed forward estimates of departments and agencies for three years following the budget year.	It is important to present both the budget and the estimated outturn data for the current year, to provide more of a picture of the reliability of budget data.
3.1.3	Statements describing the nature and fiscal significance of central government tax expenditures, contingent liabilities, and QFAs should be part of the budget documentation, together with an assessment of all other major fiscal risks.	<i>Largely not observed</i> The budget documents contain only limited information on contingent liabilities, and none on tax expenditures or QFAs. For the first time, in 2009 the budget contained an alternative macroeconomic and fiscal scenario.	It is important to present information on tax expenditures in the annual budget, and expanded treatment of fiscal risks (fiscal sensitivity, QFAs, and full information on contingent liabilities), including with regard to financial sector support operations.

	<b>Principles and Practices</b>	<b>Summary Assessments</b>	<b>Comments</b>
3.1.4	Receipts from all major revenue sources, including resource-related activities and foreign assistance, should be separately identified in the annual budget presentation.	<i>Observed</i>	
3.1.5	The central government should publish information on the level and composition of its debt and financial assets, significant nondebt liabilities (including pension rights, guarantee exposure, and other contractual obligations), and natural resource assets.	<i>Observed</i> Comprehensive information is published on public debt. The annual financial statements report information on civil service pension obligations, guarantee exposures, and financial assets.	
3.1.6	The budget documentation should report the fiscal position of subnational governments and the finances of public corporations.	<i>Not observed</i> The focus of the budget documents is the central government. There is no information on the financial performance or position of subnational governments or public corporations.	It is important to provide an overview of the finances of subnational governments, and of the public corporations sector, in the annual budget documents.
3.1.7	The government should publish a periodic report on long-term public finances.	<i>Observed</i> Both a long-term scenario for spending on health and long-term care, and long-term fiscal projections have been published.	Analyses of long-term finances were first published in 2008, and will be updated on a regular basis.
<b>3.2</b>	<b>Fiscal information should be presented in a way that facilitates policy analysis and promotes accountability.</b>	<b><i>Largely Observed</i></b>	
3.2.1	A clear and simple summary guide to the budget should be widely distributed at the time of the annual budget.	<i>Observed</i> Volume 1 is an accessible 60-page summary of the main elements of the budget. It is accompanied by a seven-page press release.	

	<b>Principles and Practices</b>	<b>Summary Assessments</b>	<b>Comments</b>
3.2.2	Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category.	<i>Largely observed</i>  The annual budget presentation is generally consistent with the <i>GFSM 2001</i> standard.	
3.2.3	The overall balance and gross debt of the general government, or their accrual equivalents, should be standard summary indicators of the government's fiscal position. They should be supplemented, where appropriate, by other fiscal indicators, such as the primary balance, the public sector balance, and net debt.	<i>Largely observed</i>  The overall balance of the federal government is the main indicator of the fiscal position.	Since 2007, the federal government has presented the overall balance on both cash and accrual basis.  An overview of the finances of the social security system should be presented in the annual budget documents.  Some outturn information on the general government balance would be useful as an input to determining the appropriate federal fiscal stance.
3.2.4	Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.	<i>Largely not observed</i>  In general, budgeting remains on a line item inputs basis, although some agencies have global budgets and performance indicators.	The number of agencies appropriated on the basis of global budget was doubled in 2007. Consideration is currently being given to the future of the scheme.
<b>3.3</b>	<b>A commitment should be made to the timely publication of fiscal information.</b>	<b><i>Observed</i></b>	
3.3.1	The timely publication of fiscal information should be a legal obligation of the government.	<i>Observed</i>  There are specific commitments to timely publication.	
3.3.2	Advance release calendars for fiscal information should be announced and adhered to.	<i>Observed</i>	

	Principles and Practices	Summary Assessments	Comments
<b>Assurance of Integrity</b>			
<b>4.1</b>	<b>Fiscal data should meet accepted data quality standards.</b>	<b><i>Observed</i></b>	
4.1.1	Budget forecasts and updates should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments.	<i>Observed</i> Budget data are reliable and the variance between budgeted and actual outturns of the main fiscal aggregates are disclosed to the public.	
4.1.2	The annual budget and final accounts should indicate the accounting basis used in the compilation and presentation of fiscal data. Generally accepted accounting standards should be followed.	<i>Observed</i> The federal government adopted IPSAS with effect from 2007. Financial statements disclose accounting policies. The budget and financial statements are prepared on a comparable accrual basis.	The government should consider moving towards fuller compliance with IPSAS. In particular, civil service pension liabilities should be disclosed or the reasons for departure from IPSAS disclosed. Coverage of financial statements should be extended, and consolidated financial statements of all controlled entities should be prepared.
4.1.3	Data in fiscal reports should be internally consistent and reconciled with relevant data from other sources. Major revisions to historical fiscal data and any changes to data classification should be explained.	<i>Observed</i> Internationally accepted accounting standards are used to compile fiscal data, and a statement on the accounting basis is included in the budget and final accounts documents.	
<b>4.2</b>	<b>Fiscal activities should be subject to effective internal oversight and safeguards.</b>	<b><i>Largely Observed</i></b>	
4.2.1	Ethical standards of behavior for public servants should be clear and well publicized.	<i>Observed</i> Public servants are subject to a code of behavior which is widely observed.	

	<b>Principles and Practices</b>	<b>Summary Assessments</b>	<b>Comments</b>
4.2.2	Public sector employment procedures and conditions should be documented and accessible to interested parties.	<i>Observed</i> Civil service employment procedures are clear and well understood.	
4.2.3	Procurement regulations meeting international standards, should be accessible and observed in practice.	<i>Observed</i> Procurement rules and practices meet international standards, and are well known and observed in practice.	
4.2.4	Purchases and sales of public assets should be undertaken in an open manner, and major transactions should be separately identified.	See answer to 4.2.3	
4.2.5	Government activities and finances should be internally audited, and audit procedures should be open to review.	<i>Largely observed</i> Internal audit is based on a risk management approach and is effective; however, its responsibilities compared to those of external audit is not clearly distinguished.	The roles and responsibilities of internal audit should be clarified in accordance with international standards.
4.2.6	The national revenue administration should be legally protected from political direction, ensure taxpayers' rights, and report regularly to the public on its activities.	<i>Largely not observed</i> The FTA and FCA are operationally independent; only limited information on their activities is made publicly available.	
<b>4.3</b>	<b>Fiscal information should be externally scrutinized.</b>	<b><i>Largely Observed</i></b>	
4.3.1	Public finances and policies should be subject to scrutiny by a national audit body or an equivalent organization that is independent of the executive.	<i>Observed</i> External audit is independent of the executive branch, and its mandate covers all federal government activities.	The independence of the SFAO or the perception of it, should be further enhanced.

	<b>Principles and Practices</b>	<b>Summary Assessments</b>	<b>Comments</b>
4.3.2	The national audit body or equivalent organization should submit all reports, including its annual report, to the legislature and publish them. Mechanisms should be in place to monitor follow-up actions.	<i>Largely observed</i>  External audit reports are submitted to the legislature but not always published, and audit findings are systematically monitored.	
4.3.3	Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions.	<i>Largely not observed</i>  While the inter-departmental expert group discusses its macroeconomic forecasts with external parties, this process is not formalized, and there is no external review of official forecasts.	The federal government could consider extending and formalizing the external review of macroeconomic forecasts.
4.3.4	A national statistical body should be provided with the institutional independence to verify the quality of fiscal data.	<i>Observed</i>  The government finance statistics unit within the FFA has primary responsibility for preparing fiscal data, and acts with the required institutional independence.	

## Appendix II. Public Availability of Information—A Summary

	<b>Budget and Fiscal Report Element</b>	<b>Included in Budget/Report Documents?</b>	<b>Available to the Public?</b>	<b>Paragraph Reference</b>	<b>Code Reference</b>
1.	Central government (CG) budget estimates	Yes	Yes (published/ internet)	21	2.1.1
2.	CG defense expenditures	Yes	Yes	35	2.1.1
3.	CG EBFs (including special development funds, SSF, and resource revenue funds)	Yes, special funds No, SSF	Yes, special funds Yes, SSF	27	2.1.2
4.	CG budget outturns	Yes, two years prior to budget No, one year prior to budget	Yes, website of FFA, and SDDS	30	2.1.2
5.	CG budget forecasts	Yes, for budget plus following three years	Yes, in Volumes 2A, 2B, and Volume 5 (medium-term finance plan)	22	2.1.2
6.	CG contingent liabilities	Full details in budget on one guarantees program.  No contingency provision in budget	Yes, in Notes to Financial Statements	40	2.1.3
7.	CG tax expenditures	No	Some information in six-yearly subsidy report	41	2.1.3
8.	CG QFAs	No	At least one quantitative estimate published in report of PostReg	42	2.1.3
9.	Macroeconomic assumptions	Yes, Volumes 1 and 3	Yes, through SECO press release each quarter	22	3.1.3
10.	Analysis of fiscal risks/sensitivity analysis	No sensitivity analysis  An alternative macroeconomic scenario in 2009 budget (Volume 3)	No  Yes	39–42	3.1.5
11.	CG debt	Yes (stock, and medium-term debt servicing)	Yes	43	2.1.4

	<b>Budget and Fiscal Report Element</b>	<b>Included in Budget/Report Documents?</b>	<b>Available to the Public?</b>	<b>Paragraph Reference</b>	<b>Code Reference</b>
12.	CG financial assets	No	Yes, in accrual financial statements	45	2.1.4
13.	Sustainability analysis	No	Long-term reports on fiscal sustainability and health spending in 2008.	26, 46	3.1.1
14.	General government budget estimates	No	No	29, 49	2.1.5
15.	CG monthly/quarterly reports on fiscal outturn	Monthly reporting on central government outturn on FFA and SDDS websites	Yes	29	3.4.1
16.	General government monthly/quarterly reports on fiscal outturn	No	No, annual fiscal outturn available on FFA and SDDS websites	29	3.4.1
17.	CG final accounts	Yes, for final outturn for two years prior to budget.  No, for final outturn one year prior to budget	Yes, annual financial statements	32	3.4.2
18.	Consolidated general government final accounts	No	No	32	3.4.2