

Comprehensive report on the audit of the 2017 federal financial statements

Federal Finance Administration

Key facts

The annual surplus in the 2017 federal financial statements was CHF 4,736 million, comprised of revenue of CHF 69,698 million and expenses of CHF 66,687 million. The negative financial result was -1,026 million and the financial interest result was +2,750 million. Tax revenue accounted for CHF 66,413 million, or 95%, of total operating revenue. Transfer expenses accounted for CHF 52,902 million, or 79%, of total operating expenses, while own operating expenses represented CHF 13,628 million, or 20%. The remaining percentage (157 million) was attributable to the net expense for special financing in liabilities.

Legal conformity of the CHF 2 billion provision formed in the financing statement

The Financial Budget Act (FBA) stipulates that the overall fiscal balance is determined on the basis of expenditure and receipts. Provision changes do not fall under the definition of current receipts and expenditure. Consequently, the recognition of provision formation in the 2017 financing statement does not comply with the FBA.

The Swiss Federal Audit Office (SFAO) restricted its audit opinion in this regard. There are differences of opinion with the Federal Finance Administration (FFA) regarding the legal conformity of the CHF 2 billion provision formed in the financing statement. These are to be clarified as part of the implementation of the Hegglin motion¹, which has to be implemented, and a draft amendment of the law must be drawn up quickly. The specialist recommendations of the Harmonized Accounting Model 2 (HAM2) must also be taken into account, as the Federal Council is committed to harmonising the accounting standards.

The 2017 federal financial statements contain material errors that need to be corrected in 2018

The Confederation did not lose any money, but there are accounting errors in the federal financial statements. These will be corrected retrospectively in 2018 as part of a restatement.

Withholding tax receivables and accrued expenses/deferred income are overstated (634 million and 195 million, respectively). In contrast, the tax liabilities recognised are too low (91 million). As a result of these errors, the withholding tax provision (300 million) and cantonal shares (52 million) are also overstated. The withholding tax receipts of the Federal Tax Administration (FTA) in the financing statement and statement of financial performance are overstated by CHF 178 million in net terms. The Federal Roads Office (FEDRO) has not recognised depreciation and amortisation totalling CHF 957 million since 2008. These are offset by cantonal shares of CHF 560 million which are not recognised either. In net terms, the figures in the statement of financial performance have been CHF 397 million

¹ Peter Hegglin (CVP/ZG), "For accounting standards that reflect the actual financial and revenue situation (16.4018)", is available on the website parlament.ch.

too high since 2008. Furthermore, armasuisse Immobilien armament buildings are overvalued by almost CHF 117 million.

The SFAO also restricted its audit opinion on these matters. Measures to proactively avoid such errors are being examined. Moreover, options are being sought to ensure that any future material errors can still be corrected in the annual financial statements.

Assessment of the Confederation's asset and debt situation

Article 47 of the FBA states that the accounting standards should ensure a true and fair view of the assets, financial position and financial performance. This would require the railway infrastructure fund (RIF) and the infrastructure fund (IF) to be taken into account in the federal financial statements. However, also in accordance with the FBA (Art. 5), these two funds must be managed outside the federal financial statements. The requirements of the two articles contradict each other. Without the withdrawal of the RIF prescribed by law, the net assets/equity in the federal financial statements would be around CHF 8.3 billion lower. In order to resolve this contradiction, the SFAO recommended adapting Article 5 of the FBA in such a way that the two funds can be recorded in the federal financial statements in the future.

The SFAO recommends approving the 2017 federal financial statements despite restrictions

The Federal Assembly decides on approving Switzerland's state financial statements (federal financial statements) every year. It has to be able to ensure that an independent auditor audited the federal financial statements. The SFAO thus audits them in accordance with recognised auditing principles. It subsequently gives the Finance Committees of the two chambers a recommendation as to whether the federal financial statements are to be approved or not. In its report of 26 April 2018, the SFAO recommended approving the 2017 federal financial statements despite restrictions.

The SFAO is additionally bound by law to check the internal control system (ICS). Consequently, it also issues an opinion regarding the existence of the ICS. The SFAO confirmed this for fiscal 2017.

Statutory provisions are still of great significance for the federal financial statements

The loss carried forward by the RIF amounted to around CHF 8.3 billion at the end of 2017 and corresponds to the Confederation's receivables from the RIF fund. These receivables can be repaid only with future revenue, and the repayment is governed by law. From 1 January 2019, the RIF must use 50% of the restricted deposits from the heavy vehicle charge and mineral oil tax funds to repay the loan.

The Confederation recognised a loan of CHF 2.2 billion to the unemployment insurance fund (ALV fund) under non-administrative assets. According to the ALV fund's statement of financial position, the fund's negative net assets/equity amounted to just under CHF 1 billion at the end of December 2017. The Confederation's loans are not fully covered. Consequently, the ALV fund can only use future surpluses to repay the loans.

The cantons assess and collect direct federal tax. They deliver its share to the Confederation (just under 21 billion in 2017). The cantonal audit offices are responsible for conducting audits in this area every year. The SFAO has no authority to check the cantons' reporting in

this regard. The cantonal audit offices' individual reports on 2016 receipts contained no negative observations deemed significant for the federal financial statements overall.

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