

Guarantee credits – horizontal audit of the capture and sharing of data

Key facts

With the Financial Budget Act of 18 December 1968, the guarantee credit was expanded to become fully enshrined in law as an instrument to safeguard the financial sovereignty of Parliament. Since then, the administrative units have been required to carry out guarantee credit controls. These must provide up-to-date documentation of current and planned use of guarantee credits. The Federal Council must report on the status of guarantee credits within the framework of the federal financial statements.

At the end of 2011 the federal financial statements showed a volume of current, approved guarantee credits in the amount of CHF 174 billion. Of that amount, CHF 110 billion (approximately 63%) are already committed. Of that CHF 110 billion, by the end of 2011 already CHF 81 billion had been paid, with CHF 29 billion still outstanding. At the end of 2011, the number of guarantee credits stood at approximately 200.

With the introduction of the New Accounting Model of the Confederation, the Federal Finance Administration (FFA) developed a standardised solution, which was intended to automate the rendering of accounts at the Federal level and assure the required quality of guarantee credit management by the different administrative units.

Within the framework of the present audit, the Swiss Federal Audit Office (SFAO) has examined the aspects of use and efficiency of the guarantee credit as an instrument of financial policy. At the heart of the investigation was the data on guarantee credits contained in the federal financial statements and in the budget. The drafting process, including the implementation of the standardised solution by the administrative units and the use of guarantee credit data by various user groups, was closely examined.

Rules for guarantee credit management

The current rules for the management of guarantee credit controls come from Article 25 of the Financial Budget Act and Article 15 of the Financial Budget Ordinance. When the Financial Budget Act entered into force on 1 May 2006, heightened quality requirements were placed on guarantee credit controls. An improvement was needed, whereby changes in the use of guarantee credits in particular would be continuously updated and documented individually with system support. In accordance with the Financial Budget Ordinance, the particular expectations are:

- that the use of a guarantee credit can be shown at any time; and
- that guarantee credits are recorded in the accounting system of the administrative unit concerned.

In order to be able to meet these requirements, in their systems the administrative units must manage guarantees planned and already made, as well as payments made, in an integrated manner, according to FFA rules. In this way, traceability and control of guarantee credits should be improved, while reporting costs for the FFA in the federal financial statements and budget should be reduced to a minimum. As regards operational credit management, the administrative units have been left the greatest leeway possible.

Results of the audit

The audit showed that the administrative units are exercising their freedom of choice and are applying heterogeneous instruments for the operational management and oversight of guarantee credits. However, integrated management of guarantee credits, as defined by the FFA in its standardised solution, can be noted in only a few administrative units. In current practice the actual values (accrued payments) illustrated in the federal financial statements are mostly recorded on an ongoing basis in the credit management systems of the administrative units, whereas guarantees are usually only summarily reported on a key-date basis. In addition, the data from the upstream systems is retrieved manually and then fed into the credit management system. As a result of lacking or less than rigorous and poorly documented controls of data retrieval, in terms of processing it is impossible to ensure that the values shown have been verified consistently.

The SFAO's findings also showed that the required benchmark data on the status of guarantee credits is open to interpretation. This can be explained in that the question of when in specific individual cases a guarantee is entered into can illicit varying responses. Accordingly, this gives rise to values which are not consistently comparable or not presented from one single viewpoint. In order to interpret the values given in the federal financial statements and budget, additional data may thus be required.

The above-mentioned difficulties in converting and mapping guarantee credits can have an effect on the quality of guarantee credit data given in the federal financial statements and budget, and can impair the comparability of data concerning the different guarantee credits.

Another limiting factor on the validity of the data is that a guarantee credit by definition paints the picture purely in terms of expense (expenses of financial consequence; cash principle). The guarantee credit in its current state includes neither the internal costs incurred by service providers (such as the Federal Office of Information Technology, Systems and Telecommunication FOITT) nor the internal costs of the administrative unit (such as staff costs), and hence it allows a project to cost more in the end than initially imagined in the guarantee credit. As the guarantee credit does not offer a complete picture of the project's true cost, in the opinion of the SFAO the data which does not appear in the guarantee credit but which nevertheless is relevant for guiding policy and finance should appear elsewhere, for example as an appendix to the dispatches.

It should also be borne in mind that not all major projects must necessarily be tied to a guarantee credit, as guarantee credits must only be applied for if the project's liabilities extend over more than one year; nor indeed can it be excluded that in specific, individual cases an administrative unit might omit to apply for a guarantee credit. In addition there exists a lower limit of CHF 10 million for longer-term property rentals, the procurement of materials outside the areas of construction and property, the procurement of services and an exceptional rule for the hiring of federal staff.

Use of guarantee credit data

The SFAO looked into the usage by the administrative units, the FFA and the various political actors. It largely transpired that there is no uniform data requirement and that the data is used in any number of ways. Despite the documentation that is available regarding the status of guarantee credits, most of the partners involved at all levels are conscious that budget management in the medium term cannot be based on this data alone. The data in the guarantee credit tables is by itself only meaningful to a limited extent. For a deeper understanding, it must sometimes be

supplemented by other budgetary or accounting data, or additional data from the administrative units managing the guarantee credits. Although the data is considered to be not very self-explanatory or transparent, parliamentarians are familiar with this type of presentation and appreciate it as a standardised form of accounting which nevertheless allows a guarantee credit to be tracked using a highly aggregated level of data.

The availability of data aids transparency in the preparation of accounts and as far as those interviewed are concerned, the associated expenses should continue to be accepted. While some remain unconvinced of the need to expand the data provided, others expressed additional data requirements.

Conclusion

The results of this audit show that action is required in a number of areas, particularly in credit management and reporting.

In the short term and regardless of future handling of guarantee credit data, the SFAO recommends the following in the areas of credit approval and credit management:

- assure proper, uniform application of definitions regarding the scope and accounting of guarantee credits; and
- improve reliability of data in the drafting process by providing for seamless integration and through internal control system measures.

For the future handling of guarantee credit data, in the view of the SFAO a choice of action is available. Reporting as it stands today could be either sharply reduced or expanded and put to better use. One might also even imagine that guarantee credit data be integrated in a broader financial and political perspective, in order to create a transparent link between tasks and finances. The SFAO recommends that the FFA examine the alternatives outlined in the report, along with any other proposals, based on a cost-benefit analysis approach, in order to determine:

- in what form guarantee credit data is to be collected and presented in the future; and
- to what extent a more far-reaching link between tasks and finances can be created for projects spanning several years and how guarantee credit data can be integrated into it.

A concluding meeting was held with all audited administrative units and the FFA in March 2013. According to its response to the audit report, the FFA will implement the recommendations. The implementation, along with any adjustments to laws or ordinances, will take place gradually within the framework of the introduction of the new management model (NFB) or the New Accounting Model optimisation project by the 2016 budget. At its ordinary meeting in May 2013, the Finance Delegation took note of the SFAO report.

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