

Institutions for the external monitoring and auditing of public revenues

Presentation by the Geneva cantonal
inspectorate of finance

EURORAI international seminar at Alicante

Mandate for monitoring

- The cantonal inspectorate of finance is the external monitoring organ of the state of Geneva based on the *Law on the Surveillance of Administrative and Financial Management (LSGAF)*:

LSGAF Art. 13 Audit of the annual accounts of the state

The inspectorate verifies that the accounting, the administrative bookkeeping, and the balance sheet of the state are in conformity with the law.

Objectives, types, and scope of the monitoring activity

- The accounts of the state of Geneva are subject to the application directives of the IPSAS (DiCO-GE) standards.
- The aim of the monitoring is to satisfy ourselves that the accounts respect these directives and consequently the IPSAS standards.
- Currently, the scope of the monitoring covers only the state of Geneva. For 2010 an audit of the consolidated accounts is planned.

ACTIF		Bilan au 31.12.2008	Bilan au 31.12.2007
ACTIF COURANT	Trésorerie et équivalents de trésorerie	104.2	241.6
	Créances fiscales	1'985.1	2'714.4
	Autres créances à court terme	974.0	749.6
	Placements financiers à court terme	5.9	6.8
	Instruments dérivés actifs	1.8	39.1
	Actifs transitoires	290.0	263.4
	Stocks	12.0	11.0
	Actif courant	3'372.9	4'025.8
ACTIF NON COURANT	Prêts et créances à long terme	420.4	406.4
	Placements financiers à long terme	304.9	321.7
	Immobilisations corporelles	10'804.7	11'335.2
	Immobilisations incorporelles	40.4	0.3
	Prêts du patrimoine administratif	39.4	64.5
	Créances de location-financement	1'758.4	1'863.4
	Participations du patrimoine administratif	774.2	783.5
	Subv. d'investissement accordées	397.2	370.9
Actif non courant		14'539.6	15'146.0
TOTAL DE L'ACTIF		17'912.5	19'171.8

PASSIF		Bilan au 31.12.2008	Bilan au 31.12.2007
PASSIF COURANT	Fournisseurs et autres créanciers	249.0	212.9
	Autres engagements courants	2'588.5	3'096.4
	Passifs transitoires	323.4	396.6
	Instruments dérivés passifs	65.7	91.3
	Emprunts à court terme	994.6	719.9
	Part à court terme des emprunts à long te	1'214.3	1'523.3
	Passifs courants	5'435.5	6'040.5
PASSIF NON COURANT	Emprunts à moyen et long terme	9'160.9	9'962.0
	Provisions pour risques et charges	660.2	846.4
	Fonds alloués par des tiers avec condition	35.8	38.3
	Passifs non courants	9'857.0	10'846.8
Total des fonds étrangers		15'292.4	16'887.3
FONDS PROPRES	Fonds propres affectés	204.4	230.4
	Réserve conjoncturelle	743.7	495.7
	Réserve de réévaluation	63.0	171.2
	Fonds propres reportés	1'609.0	1'387.2
	Total des fonds propres	2'620.1	2'284.6
TOTAL DU PASSIF		17'912.5	19'171.8



Compte de fonctionnement

en millions de CHF

		Compte 2008	Compte 2007
REVENUS	Impôts	6'157.2	5'970.9
	Amendes, patentes et concessions	57.3	67.1
	Revenus des biens du patrimoine administratif	321.2	365.1
	Revenus provenant de contreprestations	349.5	404.9
	Subventions, dédommagements et transferts	565.2	400.0
	Utilisation et dissolution de provision	334.8	271.4
	Produits différés de subventions d'investissement	0.7	0.5
	Autres revenus	16.2	10.1
	Revenus Fondation de valorisation	232.7	203.5
Revenus d'exploitation a		8'034.7	7'693.6
CHARGES	Charges de personnel	1'990.6	1'942.9
	Dépenses générales	384.5	416.4
	Subventions accordées	3'277.9	3'266.7
	Charges de dédommagements et de transferts	662.5	338.7
	Amortissements du patrimoine administratif	279.3	336.5
	Constitution de provisions	251.0	397.6
	Autres charges	354.9	130.1
	Charges Fondation de valorisation	73.2	60.5
Charges d'exploitation b		7'273.7	6'889.4
Résultat d'exploitation c=a-b		761.0	804.2
	Revenus financiers d	198.9	170.3
	Charges financières e	464.1	381.9
RESULTAT NET f=c+d-e		495.9	592.6



REPUBLIQUE
ET CANTON
DE GENEVE

23 avril 2010

Inspection cantonale des finances

Monitoring methods

- Auditing program based on the standards of Swiss auditing (taken from the ISA):
 - Analysis of the inherent risks and assessment of the major financial procedures
 - Analysis of the internal monitoring system (SCI) for the major financial procedures (the findings of which are the subject of a separate report).
 - Definition of residual risk
 - Auditing of accounts by sampling (5.7 million accounts reviewed in 2009)
 - The number depends on the level of risk noted at the time of the SCI [Integrated Accounting system] audit.
 - Criteria of general materiality and by the nature of the accounts
 - Computerized extracts from the data (SQL requests)

Effect of the monitoring

- The conclusions of the audit form the basis of a report that is published with the state's financial statements on March 31. This report contains the audit opinion and the recommendation for approval (or for non-approval) of the accounts:

LSGAF Art. 20 Report on the audit of the annual accounts

The ICF presents a written report to the Grand Council on the results of its audit. It recommends approval of the annual accounts with or without reservations, or their return to the Council of State.

- The report is presented to a parliamentary committee. It is composed of an appendix for each ministry (department).

Effect of the monitoring

- Recommendations are obligatory by law :

LSGAF Art. 22 Corrective measures and appeal authorities

1. Corrective measures relating to the keeping of the accounts and to the adequacy of the internal monitoring system for the tasks and the structure of each entity are obligatory.
2. The deadline for implementation is set by the inspectorate after consultation with the department or the authority to which the audited entity is attached.
3. In case of disagreement between the inspectorate and the department or authority to which the audited entity is attached regarding the corrective measures to be implemented, the disagreement is to be brought before the Council of State to be resolved. The decision is communicated to the finance committee and the committee for management audit.

Case of analysis of accounting for taxes

- Objective: To make sure that the fiscal receipts are accounted for in conformity with accounting principles, especially the following principles:
 - accrual accounting
 - completeness
 - true and fair view

The accounting sections affected by the taxes

- Fiscal revenues
- Losses for bad debt
- Interest (receipts and charges)
- Fiscal debits (taxes plus estimates)
- Provisions (estimates)
- Liabilities (redistribution to other entities, advances)

The Swiss fiscal system

- The Swiss state is composed of 3 levels, each of which is financed by taxes.
 - Federal taxes (VAT, IFD [Direct Federal Tax], federal taxes on fuels).
 - Cantonal taxes (wealth taxes, income taxes, tax on capital, tax on profits, inheritance tax, real estate tax, tax on recordings) and duties.
 - Communal taxes (idem).
- Geneva manages the taxes in the canton for the 3 levels. One part of the amounts collected is returned to the communes and to the Confederation.

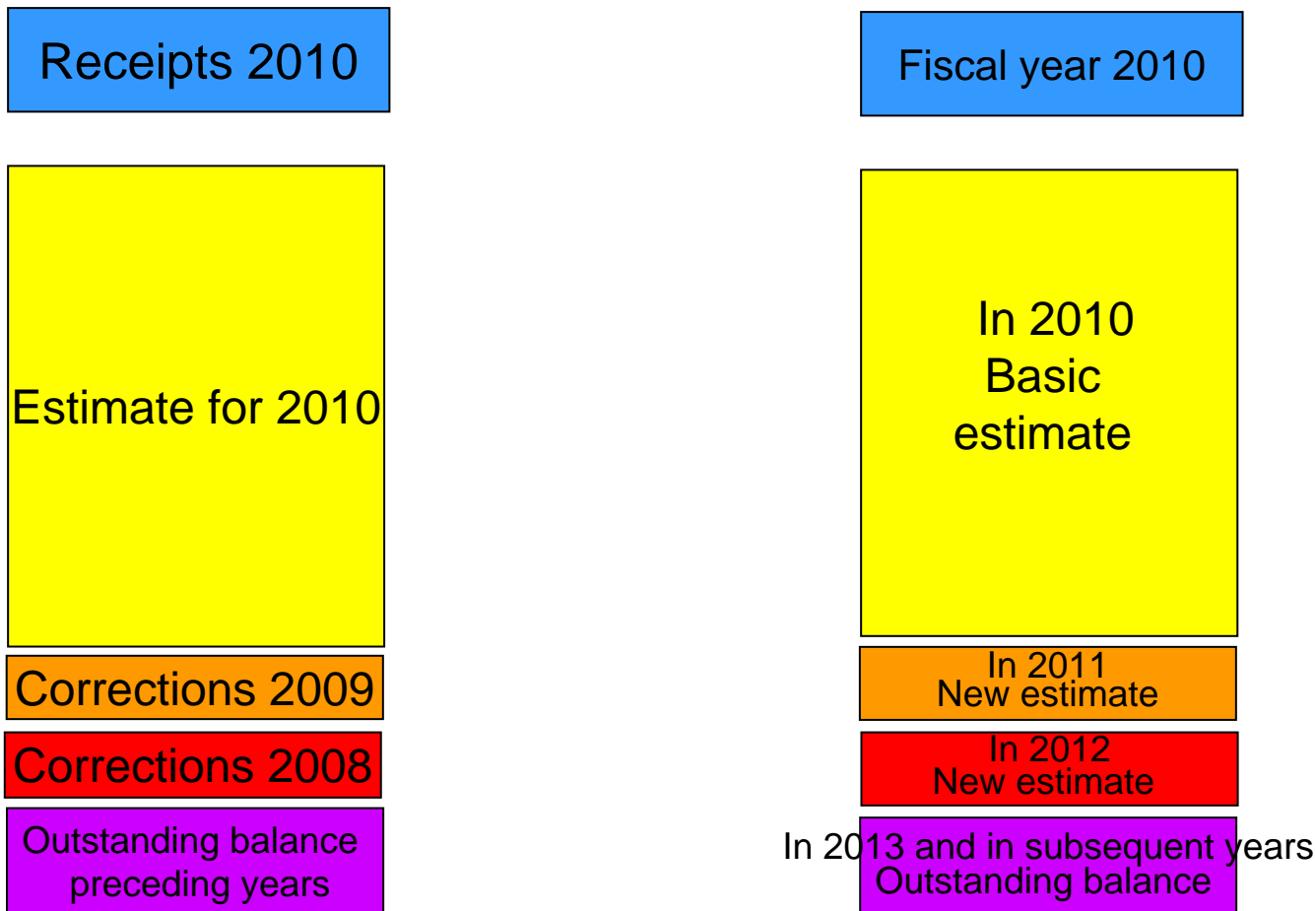
The Swiss fiscal system

- Taxation using the system of payments based on the previous year's income ["Postnumerando"] The fiscal year N is based on the revenue of the business year N. Taxation for the majority is in N+1 except for delayed payments. Collection takes place during the year N (provisional on-account payments) and year N+1.

Respect for the principle of accrual accounting

- Requirements of the IPSAS standards:
 - IPSAS 23 requires that fiscal receipts be accounted for based on the principle of accrual accounting. This means that in the case of the postnumerando system, one should calculate receipts at the end of year N even though they will be taxed only starting in N+1.
 - The IPSAS standards consequently require accounting by an estimation of receipts if the estimate can be calculated in a reliable manner.
- In Geneva, the estimates of the fiscal receipts amount to somewhat less than 6 billion francs.

Accounting according to the principle of accrual accounting



Principle of accrual accounting (examples)

- Taxes on revenue and wealth of physical persons (PP)
 - The tax is due if the person is domiciled in the canton on December 31. Econometricians have put in place an estimating model based on the connection (elasticity) between the tax and the GDP of the canton.
- Tax on the profit and capital of companies (PM)
 - The tax is due if the company is domiciled in the canton on December 31. The estimate is based on a survey questionnaire of the largest companies of the canton of Geneva.
- Inheritance tax
 - According to the law, the tax is due 90 days after death. The notary pays the estimated amount to the fiscal administration. This is the amount that is considered a reliable estimate.

Audit of estimates

- **Analysis**

- of the procedure (SCI) [Integrated Accounting System]
- of the reliability of hypotheses;
- of the quality of the estimation model;
- of the results obtained;
- comparison of the estimates of the preceding periods with the actual results of these periods.

- **Result of the estimates is acceptable (average reliability around 5%)**

The result of the estimates for companies is nevertheless the subject of a great deal of attention due to the significant volatility of profits, and consequently of the taxes.

Respect for the principle of completeness

- This audit attempts to ensure that all fiscal receipts have been accounted for.
- The difficulty in auditing is due to the large number of fiscal events each year. In Geneva, more than 250,000 individual persons and 50,000 companies are taxed annually in addition to other levies.
- Analysis of the taxation procedure to verify that monitoring is in place that allows one to be sure that:
 - the list of taxpayers is complete;
 - all tax returns have been submitted;
 - all completed tax returns have been received from taxpayers;
 - all tax returns are subject to taxation;
 - all invoices have been submitted;
 - all invoices have been subject to accounting.

Respect for the principle of true and fair view

- Monitors that:
 - the taxes and the estimates have been accounted for properly in the accounts (categories);
 - the revenues have been correctly and completely accounted for;
 - the provisions for bad debts are sufficient (they cover the effective risks);
 - the amounts taxed for the account of the communes and the Confederation are included in the liabilities;
 - advances on taxes paid are presented in categories corresponding to the liabilities of the balance sheet;
 - interest on arrears and for repayments is accounted for in the products and the expenses of the fiscal year.

General comments

- The transition to new accounting rules in 2002 (principle of due date) has caused many problems (unexplained differences in the accounts of 180 million francs).
- The quality of the SCI for taxes has greatly improved in recent years. It is, however, still not very efficient (cumbersome monitoring tools).
- Up until 2008, registration of payments was not done in the same manner (different date of accounting) for the general treasury and the taxpayers' accounts.
- The PM and PP estimates are considered reliable; the estimates for 2007 were however not very precise due to a change in method.
- Comment for 2010: The calculation of interest on fiscal debts (automatic calculation) is incorrect.