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The consolidation of annual accounts in the Swiss Federal Government

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Kristianstad, 31 of August

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The consolidation of annual accounts in the Swiss Federal Government

ABSTRACT: Financial reporting in the public sector is influenced by the private sector accounting standards. The Swiss Federal Government has recently started to prepare consolidated financial statements. The purpose of this study is to describe how the Swiss Federal Government is doing its consolidated financial statements. Theoretically there are different consolidation theories and methods. The choice of consolidation method can explain which consolidation theory is used when the financial statements are put together. The research is done on the latest consolidated financial statements, 2010, from the Swiss Federal Government and in combination with an interview with the Head of Consolidation of the Swiss Federal Government. The finding in this research is that the Swiss Federal Government has an Entity Theory approach when consolidating its financial statements.

Key words: Public sector accounting; consolidation theories and methods; Swiss Federal Government

1 Introduction

Over the last decades, public sector accounting has been influenced by the private sector (Chan, 2003). Historically, in the public sector, the accounting and financial reports have been put together under a cash based accounting (Guthrie, 1989; Carlin, 2005), but during the two last decades the accrual accounting has been more and more implemented (Carlin, 2005; Pina, Torres & Yetano, 2009). The difference between cash accounting and accrual accounting is that cash accounting focuses on when payments have been done and accrual accounting focuses on which period the revenue and expense belongs to (Guthrie, 1989). The International Public Sector Accounting Standards (IPSAS) is prepared by the International Accounting Standards Board (IASB) and are mostly based on the International Financial Reporting Standards (IFRS), earlier International Accounting Standards (IAS) (Jones, 2007). As in the private sector, also in the public sector a need for more harmonized accounting practices has arisen among countries. One example, connected to the European Union area, is that the accounting systems adopted in the different member states should be more alike in order to increase comparability and understandability of financial reports. Harmonization of the financial reports is increasing in the private sector as in the public sector. One way to harmonize the financial reports is to follow IPSAS (Benito, Brusca & Montesinos, 2007). IPSAS 6 is about consolidated and separate financial statements. Paragraph 7 of IPSAS 6

contains the following definitions of consolidated and separate financial statements (IFAC, 2006c):

Consolidated financial statements are the financial statements of an economic entity presented as those of a single entity.

Separate financial statements are those presented by a controlling entity, an investor in an associate, or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct net assets/equity interest rather than on the basis of the reported results and net assets of the investees.

Consolidation in the public sector is used to improve transparency and accountability and it is also used to improve decision-making (Chow, Humphrey & Moll, 2007; Bergmann & Bietenhader, 2009). The purpose of providing a whole of government financial reporting is to put all resources and obligations together and provide an overall picture of the government (Wise, 2006; Newberry & Pont-Newby, 2009). The picture of the government is just as good as the underlying accounts (Chow *et al*, 2007). In the public sector a controlling entity, “*an entity that has one or more controlled entities*” (IFAC; 2006c, §7), should present a consolidated financial statement (IFAC, 2006c). One advantage with consolidation is that it is possible to understand the financial performance and situations when transactions between economic entities are removed, compared to if only the original separate financial statements were available (Bergmann, 2009).

As mention earlier there are interests to harmonize the accounting in Europe. There are several countries within Europe, but only some countries are within the European Union (EU; Nationalencyklopedin, 2011b) and even less countries are within the Economic and Monetary Union (EMU; Nationalencyklopedin, 2011a). Switzerland is one of those countries that is not within neither the EU nor the EMU (Nationalencyklopedin, 2011b), even though they are a strong country looking at BNP/capita. Two other things that are special about Switzerland are that they have four official languages and that they were neutral in World War II (Nationalencyklopedin, 2011c).

The harmonized accounting model of Switzerland provides accrual accounting, financial planning and budgeting (Bergmann, 2009). In Europe the harmonized accounting model was one of the first accrual accounting and budgeting models for the public sector (Bergmann & Bietenhader, 2009). Both IPSAS and the harmonized accounting model follows the rules of double-entry bookkeeping. There are differences between the harmonized accounting model and IPSAS, not only in the number of pages (260 versus 23) but, for example, also in consultation and assessment regulations (IPSAS, n.da).

The Swiss harmonized accounting model was developed in the 1970s. All states (called 'cantons') and local governments of Switzerland adopted the harmonized accounting model during a period of 15 years. The harmonized accounting model was adopted after that the Conference of State Ministers of Finance had issued it as a non-binding recommendation in 1981. The harmonized accounting model was not updated for about 26 years, which means that the model was not adjusted to the international development (Bergmann & Bietenhader, 2009). Therefore, since 2007 the federal government has adopted IPSAS (IFAC, 2008). There are some specific reasons why IPSAS has been introduced in Switzerland. One reason is that IPSAS helps with standards so that public accounting gives a true and fair view of, for example, assets and revenues. Another example is that IPSAS can help to improve the financial information, which makes the monitoring and control of the public sector easier (IPSAS, n.db).

Until the harmonized accounting model was updated it disregarded groups of entities. The harmonized accounting model is still a non-binding recommendation even though it is updated. The updated version of the harmonized accounting model allows two ways of presenting the information from a group of entities: 1) "*a complete consolidation according to IPSAS*" or 2) "*a disclosure of all separate financial statements in the notes*" (Bergmann & Bietenhader, 2009, p. 214). The fact that the Swiss harmonized accounting model allows two different ways of presenting information regarding a group of entities leads to the following research questions: How is the consolidation compiled at the federal level in Switzerland? How is the area of consolidation defined? Which consolidation methods are used? The objective of this study is to describe how the consolidation of annual accounts is done in Switzerland at the federal level.

The further content of this study is: 2 Research method, 3 Theories of consolidation, 4 Consolidation methods, 5 Consolidation in public sector, 5.1 Area of consolidation, 5.2 Methods of consolidation, 6 The Swiss case and at last 7 Conclusions.

2 Research method

Theoretical and empirical material has been collected and analyzed so that the objective can be reached. The theoretical material is collected from scientific literature (such as articles, books and other important documents). The empirical material is mainly based on a case study based, to describe and explain how the consolidation of owned entities is done at the

federal level in Switzerland. The research is of a qualitative nature, in the way that the objectives are to explain how the consolidation is done and used at the federal level in Switzerland.

A case study is characterized by that more than one source as evidence is used, for example interviews, documentation and observation. There are different types of case studies. By doing an explanatory case study, it is possible to explain how the consolidated financial statement is compiled at the federal level in Switzerland (Ryan, Scapens & Theobald, 1992). This case study consists of an e-mail interview, a document study and what has been written about how Switzerland does the consolidated financial statements in the public sector at the federal level. The e-mail interview was done with Mr Stefan Berger who is the Head of Consolidation of the Swiss Federal Government. In order to select the respondent a convenience selection was used, which is a non-probability sample, and it is characterized by that the respondents has been asked and accepted participation (Christensen, Engdahl, Grääs & Haglund, 2010). The document study is based on the federal consolidated financial statements: financial report 2010 composed by the Swiss Confederation (2011). The Swiss Federal Government has compiled the annual report in different language (German, French Italian and English), because Switzerland is a multi-cultural country.

There are different research methods and they all have different advantages and disadvantages. The respondent can quickly answer a questionnaire survey, but it is difficult to ask complex questions. Given the research question and objective, an observation could have made it easier to understand the process better, but normally it takes too long time. A research method that is done is an interview, which also has advantages and disadvantages. One interview advantage is that a respondent can speak freely about the research problem(s). One disadvantage about interviews is that it takes time to compile and analyze the responses (Christensen, Engdahl, Grääs & Haglund, 2010).

This part has described the method of this study, a theoretical view of how consolidation is done and an empirical view of how Switzerland does their consolidation. Which theories of consolidation are there?

3 Theories of Consolidation

The reason why a consolidation is done between the parent company and its subsidiaries is that the consolidated financial statement gives more meaningful information about the entity

than each entity could do (Kam, 1990). The reason is that the consolidated financial statement of the group only shows transactions that are made with the surrounding and, therefore, the transactions that are done within the group are eliminated (Fagerström, Johansson & Lundh, 2007). There are different theories and methods on how the consolidated financial statement should be put together. Table 1 gives an overview of how it all is linked together. First there will be a description of the different consolidation theories (entity, parent company and ownership theories) followed by different consolidation methods and views of non-controlling interests.

Table 1: Theories of consolidation: a short comparison (Alfredson, Leo, Picker, Loftus, Clark & Wise, 2009).

	<i>Entity Theory</i>	<i>Parent Company Theory</i>	<i>Ownership theory / Proprietary theory</i>
Method of consolidation	Full method	Full method	Proportional method
External interests	External interests of third owner(s) are not separate by the majority owner(s)	External interests of third owner(s) are separate by the majority owner(s), and you can find the shares of third/external owners	External interests of third owners are not disclosed
The view on the non-controlling interests (NCI)s assets, liabilities and equity of subsidiary	NCI is a part of the equity	NCI is seen as a liability	NCI is not included, only the parent's share of the assets and liabilities
Transactions between parent company and subsidiaries	The transactions are fully adjusted. The parent's ownership interest in the subsidiary are not effecting the adjustments	The transactions are both partial and total eliminated. How the elimination of the profit is done depends on who is the seller	The transactions are proportional adjusted

The answer of the question, “*Whose point of view should be taken in the consolidation of the statements?*” shows which consolidation theory that should be used. The answer “*That of the parent*” belongs to the Parent Company Theory and the answer “*That of the combined entity*” belongs to the Entity Theory (Kam, 1990, p. 410). The third consolidation theory is the Ownership Theory. The differences that exist between the consolidation theories are if the parent company does not own all of the subsidiary's equity (Alfredson, Leo, Picker, Loftus, Clark & Wise, 2009).

The Entity Theory focuses both on majority shareholders and minority shareholders (Fagerström *et al.*, 2007), which makes the consultation more complete, relevant, comparable and also more useful than the Parent Company Theory (Aceituno, Valeriano, Bolivar & Pedro, 2006). The group has control over the subsidiary's net assets and the not controlled interests are seen as a part of the group's equity. The not controlled interests' part of the result

is not seen as a cost for the group, but as a division of the result between two groups of owners (Fagerström *et al.*, 2007).

The Parent Company Theory focuses on the parent company's shareholders when the consolidated financial statement is established. That means that minority shareholders are seen as outsider interests. Theoretically the best consolidation method for the Parent Company Theory is the proportional consolidation method, which does not include shares of the result and balance of the minority interests. Practically the Full Consolidation Method is used. The part of the result that belongs to minority interests is seen as a cost in the financial performance. Further, the equity that belongs to minority interests is seen as a liability in the Parent Company Theory (Fagerström *et al.*, 2007). The Parent Company Theory is more used than the Entity Theory (Kam, 1990).

The Ownership Theory focuses only on the part that belongs to the parent company. This means that all assets, liabilities and equity from the parent company are consolidated with the part of assets and liabilities that belongs to the parent company, from its subsidiary's. The non-controlled interest does not belong to the group consolidated financial statement and, therefore, is it not disclosed in the statements (Alfredson *et al.*, 2009).

This part has described the three consolidation theories (Entity Theory, Parent Company Theory and Ownership Theory). Table 2 above illustrated that there is a connection between the consolidation theories and the consolidation methods, which consolidation methods are there?

4 Consolidation methods

There are different methods that can be used to solve the practical problems involved within the preparation of the consolidated financial statements, but first the starting points of the consolidated financial statement have to be decided. There are two kinds of methods, which solve two different problems, when the consolidated financial statement is established. One solves the problem with valuation issues and the other one solves the problem with minority interests. The methods that are used to solve the valuation issue are: Acquisition Method, the Pooling of Interests Methods and the Fresh Start Accounting. These methods reconstruct the price and the cost when a subsidiary is acquired. The reconstruction is done so that all internal transactions between the group companies are eliminated. The consolidated financial report shall only include gains and losses after the acquisition date. The methods that are used to

solve the problem about minority interest are: the Full Consolidation Method, the Proportionate Consolidation and the Equity Method. These methods handles if the minority interests should be included or not, and how, in the consolidated financial statement (Fagerström *et al.*, 2007).

Valuation issue

The Acquisition Method is used when a buyer can be distinguished when the acquisition is done. When a company buys another company, so called subsidiary, the buying company makes an economic sacrifice. This economic sacrifice, the purchase price, is set against the fair value of the subsidiary's assets and liabilities at the acquisition date. There can be a difference between the economic sacrifice and the fair value of the subsidiary's assets and liabilities, called Group Goodwill (Fagerström *et al.*, 2007).

The Pooling of Interests Method is used when two companies merge and when a buyer cannot be distinguished. This method does not reevaluate the purchase price or the assets and liabilities. The book values in each company are the basis of the consolidated financial statement. The book value of the share is deducted against the equity, and this is the reason why there is no Group Goodwill in this case. Continuity in their owner interest as well as in the enterprise before and after the merger is important for both companies (Fagerström *et al.*, 2007).

The Fresh Start Accounting Method is a special case of the Pooling of Interests Method, where companies' results and balance sheet are reevaluated in connection with the acquisition. In other words, all assets and liabilities in both companies are evaluated to fair value at the time of the merger (Fagerström *et al.*, 2007).

Minority interest

The Full Consolidation Method is used on subsidiaries when the group has control, normally more than 50 percent of the votes. The Full Consolidation Method includes minority interest, if there are any, in subsidiaries in the group financial statements (Fagerström *et al.*, 2007). All assets and liabilities are (100%) included in the consolidation (Eriksson, 2002) even though the subsidiary's is not fully-owned. Minority interest shall be reported as a separate item in the group consolidated financial position between equity and provisions (Dansell & Philips, 2007). The part of result that belongs to the minority interest shall also be distinguished, in the group consolidated financial performance (Fagerström *et al.*, 2007).

The Proportionate Consolidation uses a line by line method where revenue, expenses, assets and liabilities are combined with similar items or reported as a separate line in the financial statement (IFAC, 2006b). The Proportionate Consolidation excludes outside interest in subsidiaries. The consolidated financial statement includes only owned shares of assets and liabilities (Eriksson, 2002). This results in that the consolidated financial statement does not tell how much of the equity that belongs to the minority interest. This method is used on joint venture (Dansell & Philips, 2007). The Proportional Consolidation does not involve shares of the result and the balance. This method excludes shares of minority interest in the consolidated financial statement. The idea of the Proportionate Consolidation is that every proprietary company should report its part in the co-owned company as if it was driven within the own group. The Proportionate Consolidation is different from the Full Consolidation Method. The difference is that the Proportionate Consolidation just includes the owned parts of the assets, liabilities and result within the consolidated financial statement (Fagerström *et al.*, 2007). Another difference to announce is the difference in what information The Proportional Consolidation provides versus The Equity Method. The Proportional Consolidation provides less information for explaining bond rating but more for explaining price volatility than The Equity Method (Kothavala, 2003).

The Equity Method excludes outside interest in subsidiaries (Eriksson, 2002). The Equity Method changes the share amount with the change in surplus or deficit, by the share (IFAC, 2006a). The method is only used when the consolidated financial statement is prepared, and the Equity Method is most used when associates are consolidated. The Equity method changes the book values on the shares, which is a separate item in the assets, of associates in the consolidated financial position. The change in the share is the part of the annual profit. There has to be a correction done as well in the consolidated financial performance so there is a balance between both the consolidated performance and position. The correction in the consolidated performance is done by adding a separate line item in connection to the profit, shares in associates (Dansell & Philips, 2007).

This part has described the two kinds of consolidation methods: valuation issues and minority interest, which are solving different problems when a group of entities are preparing the consolidated financial statements. The two latest parts, 3 theories of consolidation and 4 consolidation methods, deals with accounting in general, what about the public sector?

5 The consolidation of annual accounts in the public sector

The Whole of Government Accounting (WGA) has the idea that a government shall produce only one financial report that includes all activities connected to the government (Grossi & Newberry, 2009). The reason why a government should prepare a consolidated financial statement is for example: that citizen's can compare different countries with another, it is easier on a European level to make decision for the European Union and it gives a good picture of the financial situation (Benito *et al.*, 2007). Another reason is that the information should be available for the public so that the citizens can follows what happens (Pina *et al.*, 2009). A study by Benito *et al.* (2007) showed that most countries did not prepare a consolidated financial statement (Benito *et al.*, 2007). There are many users of a report that a government provides. Some users are; politicians, public managers, political advisors, voters, investors, rating companies, and taxpayers (Paulsson, 2006). It is important to know who will use the consolidated financial statements so that the information can be as optimal as possible (Walker, 2009).

In the public sector it is hard, or even impossible, to match revenues to expenses because public goods are used collectively and financed through taxation, which leads to that those who do not pay cannot be excluded from using the public goods because of the tax financing. It is also difficult to identify assets and liabilities in the national government and even harder to measure it in financial terms. One example about the assets is the land that the government owns. Most of the land belongs to the government after colonization or military conquests and in this aspect it is not useful using historical cost or market price. Natural resources and heritage assets have the same problem (Chan, 2003). However there are some problems with using consolidated financial statements in the public sector, including the difficulty of defining the area of consolidation and comparing consolidated information across different level of government (Heald & Georgiu, 2000; Robb & Newberry, 2007; Grossi & Pepe, 2009).

The International Public Sector Accounting Standards Board's (IPSASB) role is to establish financial reporting requirement for governments and other public sector entities. IPSASB has a Conceptual Framework project running. The purpose of the project is to develop concepts, definition and principles regarding governments' entities' and other public sector entities objectives, environment and circumstances, without translating the International Accounting Standards Board (IASB) Framework into the public sector (IPSAS, 2010).

A difference from the private sector is that the public sector, and especially the government, does not have any owners. The fact that there is no owner of the government makes it problematic to use the accounting equation, where owners' equity plus liabilities are the same as assets, as well as its corollary, where revenues minus expenses are the same as profit (Chan, 2003).

This part about consolidation in the public sector is further divided into two sections. The first section is about area of consolidation and the second part is about methods of consolidation.

5.1 Area of consolidation

The area of consolidation can be defined in two ways. The first way, which is more widespread, uses the existence of control. The second way requires presence of financial accountability, which GASB 14 (Governmental Accounting Standards Board) is based on. In most cases only one of these areas are recognized (Grossi & Pepe, 2009).

When an entity has the power to govern it can choose either to exercise control, active control, or not doing anything at all, passive control. Only one entity can have the control over a subsidiary, it does not matter if it has the active or passive control. But it is possible to delegate control to another entity (Alfredson, 2009). There is different control criteria connected to the different levels of the government. At the local level it is enough with 20 percent ownership or if the municipal economy is affected by the municipal corporation, to fulfil the control criterion. To fulfil the control criteria at the central level there should be: a majority of voting rights, an opportunity to approve the statute or documents that are similar, or the opportunity to appoint most members, the majority, to the boards of directors. If a controlling entity is not able to govern the controlled entity by decision-making or benefit from its activities, the control criterion is not fulfilled (Grossi & Pepe, 2009).

On its own, power is insufficient without benefit. That is the reason why both power and benefit are in the IPSAS 6 definition of control (Grossi & Pepe, 2009). IPSAS 6 has defined more control conditions than benefit conditions (IFAC, 2006c). There has to be at least one of the power and one of the benefit conditions for control to exist. One example of power condition is when a government influences a controlled entity by financial and operational policies. One example of a benefit condition is the outcome of the government, both financial and non-financial (Grossi & Pepe, 2009).

The obligation for individuals to account for what they have done gave the idea of accountability (Grossi & Pepe, 2009). Being accountable means that the work that is done is showed to external parties, for example by reporting it (Kam, 1990). One example of a financial accountability is when an organization is fiscally dependent on the government (Grossi & Pepe, 2009). Another example is when an organization has the potential to provide specific financial benefits. Financial accountability should be the main basis when the scope of the government reporting entity is determined (Walker, 2009). The Governmental Accounting Standards Board (GASB) sees financial accountability as an important building block when the financial statements are prepared and the financial conditions and other disclosures are made. GASB sees also that it is the citizens' right to know that is the base for the governmental accountability (Wise, 2010). As the name says, the budgetary perspective takes a budgetary view. Entities should, under the budgetary perspective, be consolidated if they fulfil one of these; that it is relevant for the budget, budgetary decisions are influential or that the budget is critical for them (Bergmann, 2009).

To compose the public sector group reporting entity the IPSASB, has in the Conceptual Framework, a wide range of potential bases: “*control basis*,” “*accountability basis*,” “*oversight and substantial influence*,” “*majority of risks and rewards basis*,” “*common control basis*,” “*operations covered by a public budget*” and “*operations with a similar function or purpose*” (IPSASB, 2010: pp. 51-52).

5.2 Methods of consolidation

According to IPSAS 6 three methods can be used: Full Consolidation Method, Equity Method and Proportionate Consolidation (IFAC, 2006c). See section 4 Consolidation methods for further information.

IPSAS 6 has in the past allowed that minority interests were presented within liabilities. But now the minority interest should be presented within net assets/equity in the consolidated statement of financial position. The minority interest shall also be separated from the controlled entities net assets/equity (IFAC, 2006c).

The Equity Method should be used when investments are done on associates (IFAC, 2006a), the Equity Method can also be used in some case when joint ventures are consolidated (IFAC, 2006b). Associates should be classified as non-current assets when the Equity Method is used. Following information from associates should be separately disclosed:

the surplus or deficit that belongs to the investor's as well as the carrying amount and the investor's share of ended activity (IFAC, 2006a).

The Proportionate Consolidation method is used on joint ventures, if the alternative method of the Equity Method is not used. The Proportionate Consolidation method should not be used on a jointly controlled entity from that day a venture ends up having a joint control (IFAC, 2006b).

This part has described how the consolidation is done in the public sector, which area of consolidation there are as well as which methods of consolidation there are.

6 The case of the Swiss Federal Government

This part presents the relevant information that came out of the case study that was done, based on an e-mail interview and a document study. It is essential to know, which information that should be in the presentation of financial consolidation and which information is disclosed, to understand how the Swiss Federal Government has done their consolidation. This part shows the result of the e-mail interview with Mr. Berger (Head of Consolidation of the Swiss Federal Government), the document study and other relevant information.

The Swiss parliament consists of two parts, which has the same power, the National Council and the Council of States. The National Council consists of 200 members, representing the Swiss people. A member represents an average of 37,500 inhabitants, or at least one canton. The Council of States, which represents the Swiss Cantons, consists of 46 members. Most of the Cantons elects two Senators, but some only have one. (The Swiss Parliament, n.da). The parliament is divided into groups or factions, not parties. There must at least be five members of a Council that goes together, otherwise a faction cannot be formed. A Faction has an important role when opinions are formed (The Swiss Parliament, n.db).

The Swiss Federal Government has composed a federal consolidated financial statements since the fiscal year 2009 (Eidgenössisches Finanzdepartement EFD, 2011; Berger, 2011). The reason why the Swiss Federal Government started with a federal consolidated financial statement was that they had introduced a new accounting system, in a way to develop the financial statements of the federal government (Eidgenössisches Finanzdepartement EFD, 2010). The main reason of the implementation was that it was a legal requirement. The Swiss Federal Government was obliged to issue a consolidated financial report according to Article 55 of the Federal Budget Act (FBA; Berger, 2011), effective date on Article 55 of the Federal

Budget Act was January 1st 2009 (Die Bundesversammlung der Schweizerischen Eidgenossenschaft, 2011).

The economical and the budgetary perspectives are two examples of perspectives that could be taken into consideration when the consolidation is put together. In the private sector it is the boards that have the control over the corporation, but the control of the public sector corporation can be managed from different power perspectives, for example: the electorate, executive and administration perspectives (Bergmann, 2009).

The idea of the economical perspective, which both IPSAS and IFRS have, is to present consolidated financial statement for economic entities. Necessary power is needed so that the controlling entity is able to control the controlled entity. The controlling entity also has to consider the result (either loss or benefit) from the economic activity by the controlled entity. An overview of all the activities within the Swiss Federal Government group is more relevant for the strategic management of the group than for the discussion for the short-term budgetary. There are some very large commercial corporations, as Federal Railway, Post and Swisscom, which makes the budgetary organization becoming a small part of the economic entity (Bergmann, 2009).

Regarding the budgetary perspective, entities are excluded when they are not receiving funds from the government budget or they do not contribute to the budget. The budgetary perspective is relevant for the budgetary decisions because of the information that is provided, but the definition of budgetary influence is dependent. The control principle is included in the budgetary perspective, but it requires budgetary influence which makes it more precise, and makes the scope of consolidation smaller (Bergmann, 2009).

The federal consolidated financial statements

It is the Swiss Confederation that has compiled the federal consolidated financial statements: financial report 2010. The Report is split into five main parts: the first part is an introduction, the second part is a figure overview, the third part is an annual financial statement, the fourth part is notes to the annual financial statements and the fifth and last part is about the relationship with the parent entity. There is one section in the introduction that deals with the differences between the federal financial statement and the federal consolidated financial statements (Swiss Confederation, 2011).

The annual financial statement has four parts: Statement of financial performance, statement of financial position, a cash flow statement and at last a statement of net assets/equity. The annual statement is followed by notes to the annual financial statements.

The notes are divided into three parts. The first part includes general principles, the second part explains the consolidated financial statement and the third and last part deals with further explanations (Swiss Confederation, 2011).

Article 55 of the Financial Budget Act is the base for the preparing of the federal consolidated financial statements, which should provide a right picture of the financial position of “Federal public service”. The Swiss Federal Audit Office has not audited the federal consolidated financial statements because they do not have to have approval from the Swiss parliament (Swiss Confederation, 2011). According to the Swiss Confederation (2011, p.5):

The consolidated financial statements give an overview of the financial position and financial performance of entities and organizations which are allocated to and charged with discharging functions within the Federal Administration structure.

It does not matter what relation an entity has to the Federal Administration, but what matters is transactions that exist between entities. Separate financial statements have a lower information value than the consolidated financial statement because it is difficult to understand the transactions that are done between the entities (Swiss Confederation, 2011). Further on, the Swiss Confederation (2011, p.5) states:

The objective of the consolidated financial statements is to show the level of capital expenditure and financial commitments incurred by the entities concerned, facilitating an assessment of the financial risks to which “federal public services” are exposed.

An advantage with presenting consolidated financial statements for the Swiss Federal Government is to get an overview of all entities level of financial commitments, capital expenditure and liabilities. A lot of entities were outsourced over the past years to a sort of “special purpose entities”. The information that is provided in the consolidated financial statements is useful to the information needs of resource providers and service recipients and gives information about transparency, accountability and decision-making for users’ (Berger, 2011).

The consolidation process

The consolidation process had five phases; (i) Detail Concept, which also encompassed the consolidation manual and the procurement of a consolidation software, (ii) prearrangement of the implementation, (iii) restatement opening balance sheet as per January 1, 2008, (iv) restatement year 2008 for the comparison period, (v) first consolidation fiscal year 2009. The consolidation process is based on two steps. Step one focuses on the consolidation scope, based on Article 55 of the Federal Budget Act. Step two focuses on two things; first, that the

scope should be reviewed within no more than four years after the publication and, second, that the Finance Committees of both chambers gets appropriate recommendations. They are about to start work for this recommendation (Berger, 2011).

Intra-group sales, receivables and liabilities are some internal transactions that are eliminated. The structure of the federal consolidated financial statements is the same as within the private sector accounting, including the four parts. These are; a statement of financial performance, statement of financial position, cash flow statement, statement of net assets/equity and notes. There is a direct relation between the added value that is provided by the federal consolidated financial statements and the consolidation scope (Swiss Confederation, 2011).

Table 2: An overview of consolidated entities and consolidations methods (Swiss Confederation, 2011).

Entities	FCFS	FI, %
Central Federal Administration (Confederation as parent)		
Institutions and administrative units presented in the federal financial statements	100%	n.d.
Decentralized Federal Administration		
Administrative units and funds of the Confederation that present separate accounts within the scope of the state financial statements	100%	n.d.
Separate accounts		
Swiss Federal Institutes of Technology Domain	100%	100,0
Swiss Alcohol Board	100%	n.d.
Fund for major railway projects	100%	n.d.
Infrastructure fund	100%	n.d.
Administrative units of the decentralized Federal Administration with their own accounts / Decentralized administrative units with their own accounts		
Swiss Financial Market Supervisory Authority (FINMA)	100%	n.d.
Swiss Federal Institute for Vocational Education and Training (SFIVET)	100%	n.d.
Swiss Federal Nuclear Safety Inspectorate (ENSI)	100%	n.d.
Swiss Federal Institute of Intellectual Property (IIP)	100%	n.d.
Federal Audit Oversight Authority (FAOA)	100%	n.d.
PUBLICA	-	
Swiss Export Risk Insurance (SERV)	100%	n.d.
Swiss National Museum (SNM)	100%	n.d.
Swissmedic	100%	65,5
Significant interests of the Confederation		
Swiss Post, SBB, RUAG, SAPOMP Wohnbau AG	Equity	100,0
Skyguide	Equity	99,9
Swisscom	Equity	56,9
BLS Netz AG	Equity	50,1
Other organizations		
Swiss National Science Foundation	-	
Switzerland Tourism	-	
PRO HELVETIA Arts Council of Switzerland	-	

FCFS = Federal consolidated financial statement
 FI = Financial interest
 n.d. = not displayed

All controlled entities within the group are consolidated by the Full Consolidation Method, apart from entities with significant interest, in the consolidated financial statements, see table

2. Both assets and liabilities as expenses and revenues are fully recognized. Minority interest is shown separately in the consolidated financial statement where it is disclosed how much of the result that belongs to minority interests. Further on the minority interests are included in net assets/equity in the consolidated financial statement. The minority interests (significant interests) are consolidated by the Equity Method into the consolidated financial statements. Entities that have a significant interest of the confederation are consolidated according to the Equity Method. Other organizations are not consolidated in any way (Swiss Confederation, 2011).

The criterion for a significant interest are an equity stake over 20 percent and an equity value of at least 100 million CHF. The equity value is an aggregation of the equity held and changed for the part of the financial performance. A profit leads to an increase of the equity value and profit distributions and losses leads to a decrease of the equity value (Swiss Confederation, 2011).

The Federal Council has, according to Article 55 (2) (a) FBA, the power to exclude any administrative unit that keeps their own accounts from consolidation. The reason why PUBLICA and Switzerland Tourism are not consolidated is because they do not meet the basic criteria for control. Swiss National Science Foundation is not included in the federal group because of the accordance to Article 55 (1) FBA. Pro Helvetia should have been included since August 1, 2010, but the first time will be with the consolidated financial statements 2011 (Swiss Confederation, 2011).

Controlled entities without share capital are consolidated according to the Full Consolidation Method. Controlled entities with share capital are consolidated according to three different consolidation methods: Full Consolidation Method, Equity Method and Acquisition Value less value adjustment (AV less value adj.; Swiss Confederation, 2011). A political decision is the reason why not all controlled entities are consolidated according the Full Consolidation Method (Berger, 2011). Other material financial interests are consolidated according to AV less value adj. (Swiss Confederation, 2011).

The federal consolidated financial statements are mostly compiled in accordance with the IPSAS, but there are some differences. There are legitimate grounds for when there is a difference between the IPSAS and the federal consolidated financial statements. The differences are disclosed and reasons are explained in the notes (Swiss Confederation, 2011). An obstacle to the full implementation is that the consolidation scope is not in accordance with IPSAS 6, based on the principle of control (Berger, 2011).

Mr. Berger does not think that the Swiss Federal Government consolidation accounting reform has achieved the intended purpose yet, because of that the second step in the consolidation process is not finished. But Mr. Berger hopes that the step two in the consolidation process will give a meaningful consolidated financial report and that the quality of the consolidated financial report, in terms of the scope, will improve significantly. Mr. Berger does not see any differences in the accounting techniques between the private and public sector (Berger, 2011).

The report does not say anything about joint ventures and associates (Swiss Confederation, 2011), so I assume that there are no entities that would fall into IPSAS 8-Investments in joint ventures and IPSAS 7-Investments in associates, which actual means that only the Full Consolidation Method should come in question when The Swiss Federal Government composes the federal consolidated financial statements of Switzerland.

7 Conclusions

Switzerland's federal consolidated financial statements: financial report 2010 is a financial report where all entities and organizations belonging to the Swiss Federal Administration are consolidated together. The consolidated financial report should give a better understanding of how the financial situation at the federal level is in the public sector in Switzerland. The Swiss Federal Government's consolidated financial statements contain a consolidated financial performance, a consolidated financial position, a cash flow statement, statement of net assets/equity and notes and the consolidated financial statements are prepared in compliance with IPSAS. The federal level does not always conform to IPSAS; an example is that the consolidated entities are not always based on the criteria of control so that some entities are consolidated with the Equity Method. In the cases when IPSAS is not followed they disclose why they are not doing it and how they are doing it, so in that way they are following IPSAS.

Switzerland's federal consolidated financial statements are basically based on the Full Consolidation Method, but there are some significant interests that are consolidated according to the Equity Method, see table 2. That some significant interest are consolidated according to the Equity Method and not the Full Consolidation Method is an example where the Swiss federal consolidated financial statements of 2010 does not go in line with IPSAS. Mr. Berger (2011) explanation to that not all entities were consolidated with the Full Consolidation Method was because of a political decision. There were some entities within the group that

were not consolidated, there were three main reasons. One reason was that the entity did not fulfil the control criterion. A second reason was that Article 55 (1) FBA did not include the entity. A third reason was that the entity should not be consolidated yet, first time when the consolidated financial statement of 2011 is compiled.

Thus, the Full Consolidation Method is used on most of the entities that should be consolidated at the federal level. When the Full Consolidation Method is used all internal transactions are eliminated and all assets and liabilities are included in the consolidation. Minority interests are a separate line item both in the consolidated financial performance and in the consolidated financial position. The part that belongs to the minority interest is presented under the net asset/equity in the consolidated financial performance. All this is in line with Fagerström *et al.*, 2007)

The Equity method is used on entities with significant interests. To be a significant interest to the Federal Administration of Switzerland the equity stake has to be over 20 percent and an equity value has to be at least 100 million CHF. The equity value is changing with the annual profit or losses as well as with profit distribution.

There are three theories of consolidation: the Entity Theory, Parent Company Theory and Ownership Theory. There are different things that makes' it possible to recognize if the consolidation is based on the Entity Theory, Parent Company Theory or Ownership Theory, see table 1. Of these' three consolidation theories only one consolidation theory comes in question and that is the Entity Theory. The reasons are that the minority interests are a part of the equity and not the liabilities, that all internal transactions are fully eliminated and that the main method of consolidation is based on the Full Consolidation Method. The Ownership Theory fails already on the consolidation method, using the Proportional Method. The Parent Company Theory uses the Full Consolidation Method but sees minority interests as a liability and not as equity.

The conclusion of this paper is that the Swiss Federal Government uses the Entity Theory approach to consolidate its decentralized entities. The consolidated financial statements of 2010 were prepared in accordance with the Entity Theory. It is based on how the consolidation was done, which method that is used, mostly the Full Consolidation Method, how minority interests are disclosed and so on.

Nothing has been said about the valuations issues; the Acquisition Method, the Pooling of Interests Method and the Fresh Start Accounting Method. The reason is that this part has not been looked at, but it is relevant to have to give an overall understanding. One limitation on this study is that the federal consolidated financial statements are only from one fiscal year.

A suggestion for further research is that the federal consolidated financial statements could be examined from more than one fiscal year. Another suggestion for further research is that the federal consolidated financial statements of Switzerland could be compared with other countries in Europe.

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