Chapter 15
Reporting on Non-Financial Matters: Recent Developments and their Impact on the Internal Control System (ICS)

Duties of the Board of Directors and Management to be Extended in Swiss Companies

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Abstract In 2008 and 2012, important revisions of the Swiss Code of Obligations (CO) were implemented regarding the ICS. In the meantime, the ICS has become an important part of governance, compliance management, and auditing for Swiss companies. Following the rejection of a popular initiative on corporate responsibility in 2020, international pressure on Swiss legislators increased significantly. Although Art. 964ff CO on the transparency on non-financial matters concerning Swiss companies entered into force in 2022, international pressure persists. Current climate discussions and the efforts of the European Union (EU) regarding the Corporate Sustainability Reporting Directive (CSRD) continue to put pressure on Swiss companies to make their non-financial efforts visible.

In parallel to mandatory financial reporting according to Art. 964ff CO, many Swiss companies prepare information on non-financial matters voluntarily. However, the debate on the national response regarding increased international pressure, e.g., to the CSRD, started at the meeting of the Federal Council on June 26, 2024. The draft of the new law anticipates that the Federal Council wants to expand the duty to prepare reports on non-financial matters on more companies. In particular, non-public companies exceeding certain thresholds would additionally be obliged. The Federal Council also anticipates to introduce an audit obligation—a novelty with regard to non-financial matters in Switzerland.

Moreover, reporting on non-financial matters is not to be underestimated and needs to be integrated into management processes. The ICS is an effective instrument for this purpose. This article demonstrates how internal control can help Swiss

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companies reduce their risks as well as operationally support the achievement of non-financial goals and aims to provide practical recommendations.

Keywords Internal control system (ICS) · Internal controls · Non-financial matters · Auditing · Reporting · ESG

Introduction

The Swiss Code of Obligations (CO) uses thresholds and other characteristics to specify whether Swiss companies are subject to an ordinary audit, a limited audit or to no audit at all. Besides the audit of the financial statements and the proposition of profit distribution, the existence of the Internal Control System (ICS) must also be confirmed by the external auditor annually—but only in the case of an ordinary audit. The focus of this examination is primarily on risks and associated internal controls concerning the financial statements and their underlying accounting practices.

In a broader organizational perspective, an ICS may, e.g., build and provide trust (PwC, n.d.) and contribute to greater security for supervisory and management bodies of companies in uncertain times (Sutter & Sommerhalder, 2023, pp. 71ff). For example, security may also mean effectiveness: planning, managing, and controlling the right objectives at the right place with the right resources at the right time.

Speaking of time and place, a time of intense developments can be observed not only in Switzerland, but worldwide. Current natural disasters, such as glacier collapses, debris flows, and floods, are often directly associated with climate change and may carry increased risks for business practices. For this reason, climate change has triggered an increase in sustainability efforts of regulators and public administrations. Consequently, Swiss companies also began to publish information on non-financial matters—either voluntarily or due to the legal obligation according to Art. 964ff CO.

This article elaborates on the above-mentioned subjects and will further answer the following question: How can the current ICS of Swiss companies be further developed so that the companies' non-financial (e.g., ESG) activities can additionally be optimally reflected in their reporting?

Financial Matters and ICS

This section will first focus on the currently applicable Swiss auditing requirements. Additionally, the ICS will be defined. This will mainly be done in connection with the so-called COSO framework. Furthermore, the duties of the organs of a Swiss limited company will be discussed when speaking of reporting, auditing, and the ICS.

Introduction to the Swiss CO

The Swiss auditing requirements are generally designed regardless of any legal form. First, for quick reference, Fig. 15.1 provides a general overview of the current legal situation in Switzerland according to the Swiss CO.[1]

Whether or not a Swiss company is subject to an audit mainly depends on economic key figures and other similar characteristics. According to Art. 727ff CO, companies of public interest (e.g., listed companies) are generally obliged to perform an ordinary audit, as well as companies exceeding two of the following three key figures (to be understood as thresholds) in two successive years:[2]

- Total of balance sheet: MCHF 20
- Total of revenues: MCHF 40
- Full-time equivalents (FTE) on annual average: 250

The other Swiss companies are generally subject to a limited audit, with the possibility to either perform an *Opting-Up* (perform an ordinary audit voluntarily) or an *Opting-Out*, which then leads to no obligation to perform any audit (Art. 727a CO). Regarding the scopes of an ordinary and a limited audit, Fig. 15.2 summarizes their key characteristics.

The limited audit as applicable in Switzerland is unique. For example, in the European Union (EU), no such audit type comparable to a Swiss limited audit exists (Federal Department of Justice and Police FDJP, pp. 16–17). The scope and depth

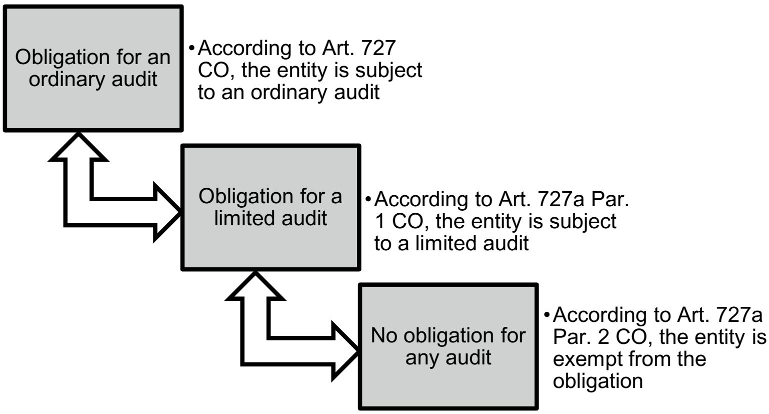

Fig. 15.1 Summary of the Swiss audit requirements according to the Swiss CO (based on Sommerhalder, 2020, p. 11)

[1] Besides the Swiss CO, the Swiss Audit Oversight Act (AOA) must be mentioned. It sets out the rules for the admission and supervision of persons and companies providing auditing services in Switzerland. Furthermore, the AOA serves to ensure proper performance and quality of Swiss auditing services.

[2] According to the Swiss Civil Code (Swiss CC), the thresholds for associations are different: Total of balance sheet MCHF 10; total of revenues MCHF 20; FTEs on annual average 50 (Art. 69b CC). However, associations will not be further mentioned in this article.

	Ordinary Audit	**Limited Audit**
Components and Scope	• Financial Statements[a] • Proposition of profit distribution • **Existence of the ICS**	• Financial Statements • Proposition of profit distribution
Assurance	*Reasonable* Assurance[b] General wording according to the audit report: *In our opinion, the (…) comply with (…)*	*Limited* Assurance[c] General wording according to the audit report: *(…) nothing has come to our attention that causes us to believe that (…) do not comply with (…)*

Fig. 15.2 Key characteristics of an ordinary and limited audit in Switzerland. [a]This also applies to consolidated financial statements. This will not further be discussed in the remainder of this article. [b]*Reasonable* Assurance is also commonly referred to as *Positive* Assurance. [c]*Limited* Assurance is also commonly referred to as *Negative* Assurance (own representation based on Swiss CO)

of a limited audit are significantly less than those of an ordinary audit (EXPERTsuisse, 2014, p. 58). Consequently, the latter one leads to a higher degree of assurance (so-called *Reasonable* Assurance) compared to a limited audit (with a so-called *Limited* Assurance).

Regarding this article's main topic, the following must especially be highlighted: Whether an ICS exists in a Swiss company does not primarily depend on the type of audit. Although the limited audit does not require the external auditor to examine the existence of an ICS—as shown in Fig. 15.2—companies subject to a limited audit (or even to no audit) are able to implement an ICS for their own (organizational) benefit, with good reasons as explained at a later stage of this article (EXPERTsuisse, 2022a, p. 11; Pfaff & Ruud, 2019, pp. 47–48).

The term "ICS" was mentioned above a couple of times. Thus, it is useful to discuss what is meant by it. The following section will first provide a widely known definition and then further elaborate on the purpose of an ICS.

Defining the ICS

When considering the Swiss legislation itself, no clear definition of the ICS exists. The external auditor must confirm the existence of the ICS in the case of an ordinary audit according to Art. 728a CO; further specifications are not apparent in the Swiss CO.[3] This also becomes evident when taking the following into account:

[3]According to Art. 728a CO in relation to an ordinary audit, the external auditor must take the ICS into account when carrying out the audit and in determining the extent of the audit. This particularly depends on the professional judgment of the external auditor. However, the *operating* effectiveness of the ICS is not confirmed due to no legal obligation.

"The Swiss law does not specify the content of the Internal Control System. The audited organization therefore decides for itself which control mechanisms would best suit the specific circumstances" (The Federal Assembly—The Swiss Parliament, 2005).

For a commonly known definition, the COSO framework (published by the Committee of Sponsoring Organizations of the Treadway Commission—COSO) may be consulted. It is widely accepted and provides the following concise definition:

> Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. (COSO, 2013, p. 3)

For a more intuitive overview, the framework also provides the so-called COSO cube, as shown in Fig. 15.3.

For the purpose of this article, *Reporting,* as one of the three categories of objectives on the lid of the COSO cube, is of special interest. Moreover, although all five components of internal control at the front are fundamentally important, mainly *Risk Assessment* and *Control Activities* will be pointed out in the Sect. "ICS with Focus on Non-Financial Matters".

At this stage, it appears crucial to clarify who is responsible for the ICS, and how. The following section will further elaborate on these considerations and clarify the responsibilities with regard to a Swiss limited company subject to an ordinary audit. The aforementioned legal form is the one most frequently used in Switzerland (Federal Department of Economic Affairs, Education and Research EAER, 2024) and is particularly suitable for an exemplary discussion of the topic.

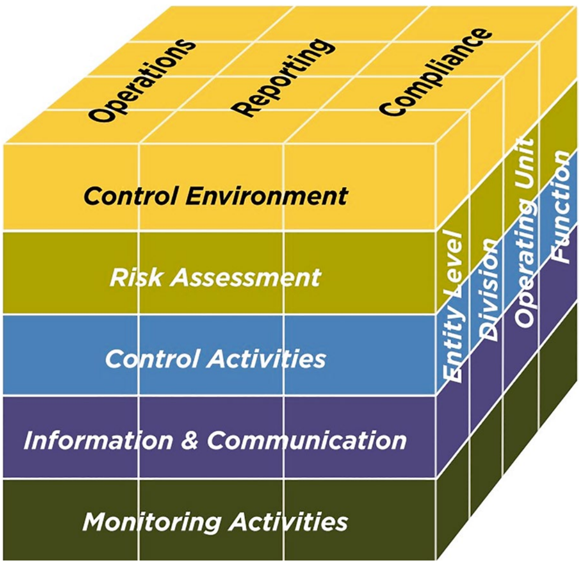

Fig. 15.3 The COSO cube (COSO, 2013, p. 6)

Duties of the Organs of a Swiss Limited Company

This section will now focus solely on the ordinary audit and a Swiss limited company. In this regard, the board of directors, the general assembly, and the external auditor are considered as the three organs (i.e., *governing bodies*) according to the Swiss CO. In the following, Fig. 15.4 gives a concise overview of their relationships and communication paths.

In a simple setting, the sum of all shareholders can be understood as the general assembly. In this regard, Art. 698 CO specifies the duties and responsibilities of the general assembly. On the one hand, the general assembly elects the board of directors as the company's main supervisory body, and on the other hand, it elects the external auditor. Additionally, the general assembly has the sole power to decide on the acceptance or rejection of the financial statements and the proposition of profit distribution.

Furthermore, the financial statements and the proposition of profit distribution are directly connected with the other two organs, as shown below:

– Both were prepared and proposed, respectively, by the board of directors (Art. 716a CO).
– Both were audited by the external auditor, following their preparation and proposal by the board of directors (Art. 727 CO).

A board of directors of a Swiss limited company is constituted as a so-called one-tier board (management functions are not separated from its supervisory function, this is also assumed in Fig. 15.4). The management function is often delegated to, e.g., a CEO or a managing director (Sommerhalder & Hüttche, 2023). This circumstance and the observations concerning the three organs inevitably lead to the so-called Principal-Agent Theory—an economic framework to support a comprehensible analysis of (corporate) relationships. In a simple setting, it is assumed that both the agent and the principal aim to maximize their own utility (e.g., growth,

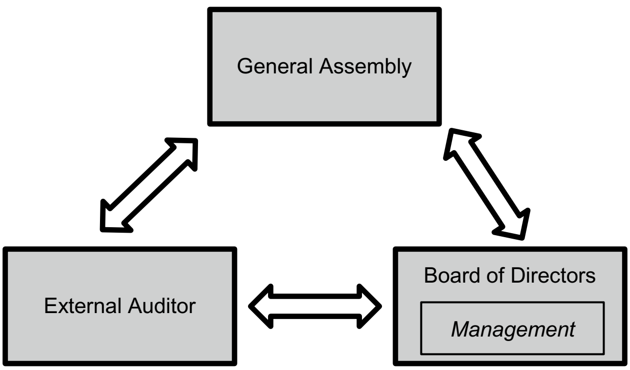

Fig. 15.4 Overview of relationships/communication paths in Swiss limited companies in relation to their organs (own representation based on Swiss CO)

dividends, etc.). However, the agent (e.g., board of directors/management) may be better informed than the principal (e.g., general assembly, i.e., the sum of all shareholders). Leading to these unfavorable information asymmetries, an external auditor is capable of being a suitable solution as an independent party between the agent and the principal (Sager et al., 2011, p. 444).

With this theory in mind: When now focusing on the ICS, all organs, as well as the management, are to be considered as indicated below according to PS-CH 890 (EXPERTsuisse, 2022b, p. 994):

- Board of directors' responsibility: Designing, implementing, and maintaining an appropriate ICS.
- Management's responsibility: Execution of the ICS as specified by the board of directors (however, the board of directors remains to bear the main responsibility regarding the ICS—but the execution might be delegated to the management in the sense of a one-tier board).
- External auditor: Examination of the existence of the ICS as specified by the board of directors.[4]

The external auditor either confirms or rejects the existence of the ICS. In this respect, the general assembly does not vote on its existence due to no legal requirements.[5] However, the general assembly is generally informed through the ordinary audit report regarding the confirmation or rejection of its existence by the external auditor. Furthermore, the board of directors is informed through a comprehensive report, which also contains findings on the ICS.

While the focus regarding the existence of the ICS mainly lies on its impact on financial reporting, the question now arises as to how the situation presents itself in the case of reporting on non-financial matters. In contrast to the financial statements, proposition of profit distribution and its underlying (mainly financially-focused) ICS as discussed in detail above, the following section will present important considerations regarding the emerging future of reports on non-financial matters and its (current and future) implications on the ICS—internationally and nationally.

Non-financial Matters and ICS

While the previous Sect. "Financial Matters and ICS", primarily addressed financial aspects and explained the current significance of the ICS in relation to Swiss law, this section will now focus especially on non-financial aspects. In the Sect. "Recent Developments of the International Environment", international developments will

[4] In addition, the external auditor must take the ICS into account when carrying out the audit and in determining the extent of the ordinary audit (Art. 728a CO).

[5] This is different from the financial statements and proposition of profit distribution, both of which must be approved or rejected by the general assembly (see Figs. 15.2 and 15.4).

be summarized, and relevant legislation and standards will briefly be discussed. Special emphasis will be added to international developments in relation to the EU, as these might be the most important drivers for past, current, and future developments in Switzerland. In the Sect. "Recent Developments in Switzerland", the anticipated new law regarding reporting on non-financial matters in Switzerland will particularly be outlined by discussing national developments. The Sect. "ICS with Focus on Non-Financial Matters" will conclude with specific consideration of the COSO framework and the associated COSO cube. The main focus will be on the objectives of *Reporting* (as referred to in Fig. 15.3), as well as the components of control, *Risk Assessment* and *Control Activities*.

Recent Developments of the International Environment

When the Non-Financial Reporting Directive (NFRD) came into force in the EU, certain large companies were required to report on non-financial matters from the year 2017 onward. However, due to increased expectations on the part of the readers/users of these reports, the Corporate Responsibility Reporting Directive (CSRD) was initiated. The CSRD will be implemented in a step-by-step approach (commonly referred to as *waves*):

- "Wave 1: For financial years beginning on or after January 1, 2024: Companies of public interest with more than 500 employees
- Wave 2: Additionally, for financial years beginning on or after January 1, 2025: All other large companies under accounting law.
- Wave 3: Additionally, for financial years beginning on or after January 1, 2026: Capital market-oriented SMEs (unless they exercise the option to defer until 2028)." (Federal Ministry of Labour and Social Affairs, n.d.).[6]

In addition to the increased number of obligated companies and the increased reporting obligations along the new European Sustainability Reporting Standards (ESRS) to be used in the process, one of the most far-reaching developments is the adoption of an audit obligation for these reports. The audit is carried out by means of *limited assurance*—comparable to the assurance level for limited audits in Switzerland (see Fig. 15.2). However, it is intended to gradually increase the level of assurance until the objective of Reasonable Assurance[7] (see Fig. 15.2) is achieved.

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[6] According to the first *Omnibus-Package* as proposed by the European Commission on February 26, 2025, it is intended to postpone mandatory reporting for companies included in Wave 2 and Wave 3 by two years. It is also intended to increase the existing threshold to 1750 employees. The adjustments must first be reviewed and accepted by the European Parliament and the Council of the European Union (European Parliament, 2025; PwC Switzerland, 2025).

[7] See Footnote 6: The European Commission also proposed to remove the future obligation for *Reasonable* Assurance. Equal to the other proposed adjustments, it must first be reviewed and accepted by the European Parliament and the Council of the European Union (PwC Switzerland, 2025).

This would mean that the level of assurance would be of a similar level to that of the ordinary audit in Switzerland (Federal Ministry of Labour and Social Affairs, n.d.).

Speaking of ESRS, the term *Double Materiality* catches attention. It is a fundamentally new understanding of materiality and different to the one prevalent in traditional financial reporting/auditing. It can briefly be defined as follows:

> In a broader sense, the concept of double materiality ensures that sustainability reporting focuses on the topics that are most relevant for the organization and its stakeholders.[8] (PwC Netherlands, n.d.)

More precisely, this means that a company must consider sustainability aspects from two different perspectives—both from an *outside in* view and an *inside out* view:

> **Financial materiality**: This '*outside-in*' view focuses on how sustainability matters may pose either a prospective material risk or opportunity that could affect a company's financial performance and position over the short, medium, and long term. Sustainability matters are considered material for primary users of a company's financial reports if omitting or misstating the information could influence the users' decisions.
>
> **Impact materiality**: This '*inside-out*' view focuses on the actual or potential short, medium and long-term impacts on people or the environment that are directly linked to a company's operations and its value chain. These impacts can be both positive and negative. (PwC US, n.d.)

As the definitions above indicate, *Double Materiality* inevitably has an impact on the reporting and auditing of non-financial matters. Besides ESRS, other standards were also issued—for example, the IFRS Sustainability Disclosure Standards. In contrast to ESRS, such standards are not compatible with CSRD, so obligated companies in the EU have no choice as to which standard they would like to apply. The situation differs in Switzerland, as it pursues a different approach in this respect (see Sect. "Recent Developments in Switzerland").

In addition, the following must be highlighted with regard to Switzerland: It can be observed that Swiss companies, both small and large, may directly or indirectly be affected by CSRD due to advancements in the EU environment (The Federal Council, 2024). The Sect. "Recent Developments in Switzerland" will bring this into perspective.

Recent Developments in Switzerland

As described in the Sect. "Recent Developments of the International Environment", international developments with regard to reporting on non-financial matters are advancing rapidly. Focusing on Switzerland, important considerations on changes

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[8] While Fig. 15.4 and the description relating to the Principal-Agent Theory in Sect. "Duties of the Organs of a Swiss Limited Company" have mainly focused on shareholders in relation to financial reporting, stakeholders are mentioned directly in relation to non-financial reporting. A shift from the traditional shareholder approach to the (broader) stakeholder approach is observable.

Fig. 15.5 Switzerland and its process on implementing transparency on non-financial matters in applicable law (own representation)

in the past, present, and future need to be taken into account at this point. Figure 15.5 shows the developments in Switzerland over the last 5 years.

In the following paragraphs, the different points in time as illustrated in Fig. 15.5 will be specified further. However, the focus will particularly be on the present and the future concerning the reporting on non-financial matters in Switzerland and the ICS.

2020 and 2022: Popular Initiative and Initial Inclusion of *Transparency on Non-financial Matters* in Swiss Law

In Switzerland, widely known for its direct democracy, the Swiss population had the opportunity to vote on the popular initiative *For responsible businesses—protecting human rights and the environment.* Although the result ended in a popular majority of 50.7% supporting the initiative, it was rejected due to the lack of a majority of the cantons. Consequently, the indirect counter-proposal to the aforementioned initiative entered into force on January 1, 2022. Art. 964ff CO—namely, *Transparency on Non-Financial Matters*—was a novelty and brought non-financial matters into Swiss applicable law. Art. 964ff CO particularly specifies the area of application regarding the preparation of reports on non-financial matters, their purpose and content, as well as the general responsibilities regarding approval and publication of the report.

Before discussing Art. 964ff CO in more detail, a description of current and future developments will first be provided.

2024 and Future: New Applicable Law

Triggered by international pressure as well as pressure arising from different stakeholders in Switzerland itself, the Swiss Federal Council opened a consultation process during its meeting on June 26, 2024. The subject was the revision of the current

Swiss law, especially Art. 964ff CO. First and foremost, the Federal Council wants to oblige more companies to prepare a report on non-financial matters. While approximately 300 Swiss companies are currently subject to the reporting obligations according to Art. 964ff CO, the legal revision would affect around 3500 Swiss companies[9] in the future—a significant increase (The Federal Council, 2024). In addition, it is anticipated that the responsibilities of a company's organs will be extended. The most obvious change is probably that the reports on non-financial matters will most likely be subject to an audit. Such requirements do not exist under the current legal situation in Switzerland but do so, e.g., in the EU (see Sect. "Recent Developments of the International Environment").

To put the current applicable law and the anticipated new law into perspective, Fig. 15.6 gives a brief summary covering their contents and their differences in particular. Similar to the Sect. "Duties of the Organs of a Swiss Limited Company", Swiss limited companies are used as a basis.[10]

The ICS as such is not mentioned in the current state of applicable law concerning non-financial matters, nor is it part of the newly anticipated law—in contrast to Art. 728a CO regarding the financial audit. Nevertheless, the current and anticipated law also mentions risks and controls in relation to non-financial matters. According to Art. 964b CO in its current state, the report must contain the following: A description of the main risks related to environmental matters and the business-related performance, results, and activities covered in the report, as well as a description of how the company is dealing with these risks. The anticipated new law provides a more precise description as shown below, according to Art. 964c CO:[11]

- A description of the material actual or potential negative impacts on sustainability aspects or of sustainability aspects that are linked to the company's business activities and its value chain, as well as a description of the measures taken to identify and monitor these impacts.
- A description of the measures taken by the company to prevent, mitigate, remediate, or eliminate actual or potential negative impacts in accordance with the aforementioned description of the material actual or potential negative impacts, and the success of these measures.
- A description of the material risks to which the company is exposed in connection with sustainability aspects and how the company manages these risks.

[9] See Footnote 6: If the European Parliament and the Council of the European Union accept this change, then an adjustment to the threshold regarding the legal implementation in Switzerland could also be expected.

[10] Figure 15.6 provides a general overview. Thus, it is therefore not intended to be conclusive in terms of content.

[11] The following section is translated analogously from the German language, as it is currently not available in English.

	Present – Art. 964ff CO	Future – Art. 964ff CO
Mainly affected companies	Companies (all must apply): • Of public interest • with ≥ 500 FTE on average in 2 successive years • exceeding at least one of following thresholds in two successive years: Balance sheet total MCHF 20; total revenue of MCHF 40	Companies: • Of public interest • exceeding at least two of following thresholds in two successive years: Balance sheet total MCHF 25; total revenue of MCHF 50; 250 FTE on average in two successive years[a]
Main content[b]	The report should address the following content in particular: • Environmental matters • Social matters • Employee-related matters • Matters regarding the respect for human rights • Matters regarding the fight against corruption	In a broad sense, the main content is largely identical to current applicable law as described on the left. However, the content must noticeably be more in-depth and expects a more extensive disclosure of information.
Basic Principle	The report does not necessarily have to be based on a national / international standard.	The report does have to be based on ESRS or a comparable standard.
Approval	• Approval and signature of the board of directors • Approval of the general assembly	
Publication	• Obligation to publish the report on non-financial matters online • Ensure availability of at least ten years	• Obligation to publish the report on non-financial matters and the related audit report online • Ensure availability of at least ten years

Audit of report on non-financial matters	No obligation	• Obligation
		• To be performed either by
		  ○ an audit firm according to AOA
		  ○ a conformity assessment body according to AOA[c]

Fig. 15.6 Contents and their differences—key-characteristics of the current and anticipated future legislation in Switzerland. [a]See footnote 6. [b]The perspectives from which the main contents should be disclosed are outlined in the remainder of this section. [c]Parallel to the revision of Art. 964ff CO, the AOA and Art. 728a CO as well as parts of the Swiss Criminal Code will also be revised. (The Federal Council, 2024; own representation based on current Swiss CO and Federal Department of Justice and Police FDJP, 2024)

Clearly, the duties of the organs of a Swiss limited company will be extended. Especially the external auditor, as an organ, bears more responsibility.[12] Also, the report prepared by the board of directors still needs to be approved or rejected by the general assembly according to the anticipated new law—similar to the responsibilities regarding the financial audit and the current regulations under Art. 964ff CO. As pointed out above, the report also needs to contain a description of associated risks and how the company addresses them. This is where the ICS comes into play as a suitable instrument to support these objectives. The Sect. "ICS with Focus on Non-Financial Matters" will therefore elaborate on the implementation of the ICS concerning non-financial matters.

ICS with Focus on Non-financial Matters

As pointed out in the Defining the ICS section, the main objective of the COSO cube for the purpose of this article is *Reporting*. Reporting objectives can be understood as follows:

> *Reporting Objectives*—These pertain to internal and external financial and **non-financial reporting** [emphasis added] and may encompass **reliability** [emphasis added], timeliness, **transparency** [emphasis added], or other terms as set forth by **regulators** [emphasis added], recognized standard setters, or entity's policies. (COSO, 2013, p. 3)

The paragraph above particularly shows (as highlighted in bold letters) that the COSO framework already refers to non-financial matters and their reporting.[13] Also, the objectives of *Reporting* include expectations of regulators, which in turn also fits the current situation in Switzerland. The reliability of reports on non-financial matters is of special interest due to the anticipated audit-obligation, as mentioned in the Sect. "Recent Developments in Switzerland", which can also represent an appropriate response to the Principal-Agent Theory as described in the Sect. "Duties of the Organs of a Swiss Limited Company". Furthermore, appropriate reporting of non-financial matters increases transparency for stakeholders of various types, as mentioned in the Sect. "Recent Developments of the International Environment".

In order to achieve the objectives of *Reporting*,[14] the five components of internal control (displayed on the front of the COSO cube as shown in Fig. 15.3) should be

[12] This especially has to be taken into account when the external auditor elected to perform the audit of the financial report also performs the audit of the report on non-financial matters.

[13] Also, COSO mentions an article on its website that demonstrates how the COSO framework can be leveraged for sustainability purposes. As the article was published in 2017, it shows that the ICS had already been addressed and linked to non-financial matters before the currently existing regulations (internationally and in Switzerland) (Herz et al., 2017).

[14] This also applies to the other objectives, *Operations* and *Compliance*. Although all three objectives may be equally important depending on a company's operations, business, and goals, the authors of this article consider that the objective of *Reporting* is of special interest regarding non-financial matters and their reporting (COSO, 2013, p. 3ff).

Risk Assessment
The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
The organization considers the potential for fraud[a] in assessing risks to the achievement of objectives.
The organization identifies and assesses changes that could significantly impact the system of internal control.
Control Activities
The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
The organization selects and develops general control activities over technology to support the achievement of objectives.
The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

Fig. 15.7 The principles of *Risk Assessment* and *Control Activities*. [a]An ICS is suitable for minimizing the risk of fraud, e.g. by management or other personnel. This circumstance is often explained using the so-called Fraud-Triangle, which includes the three factors *Opportunity, Pressure* and *Justification*. These three components must be given simultaneously for there to be a risk of fraud. An ICS particularly addresses the factor *Opportunity*. (Cressey, 1950, pp. 738–743; Sutter et al., 2014, p. 35; COSO, 2013, p. 7)

consulted. For the purpose of this article, the remainder of this section will primarily focus on the components *Risk Assessment* and *Control Activities*.[15] Regarding these components, the COSO framework lists individual principles that should be considered when designing, implementing, and maintaining an appropriate ICS, as shown in Fig. 15.7.

Examples of important risks resulting from a *Risk Assessment* and examples of *Control Activities* with regard to non-financially related reporting practices will be specified in the following section.

In order to visualize identified risks and associated controls, the so-called Risk-Control Matrix has become well established in practice in Switzerland. Firstly, it connects the individual processes, which might be particularly important for a specific company, with their corresponding risks. Secondly, controls are derived from these identified risks. The controls are intended to minimize the probability of negative incidents occurring (due to associated risks) to an acceptable level. Figure 15.8 shows a simple visualization of this matrix.[16]

[15]As already discussed, also the other components of internal control must be considered when designing, implementing, and maintaining an appropriate ICS and should not be omitted in its practical realization.

[16]The Risk-Control Matrix is often adapted to company-specific characteristics. For example, the matrix can be further expanded by differentiating between different types of controls (e.g., manual or automated controls) or by specifying responsible personnel.

Processes		***Risks***		***Controls***	
Number	*Description*	*Number*	*Description*	*Number*	*Description*
1	…	*1*	…	*1*	…
2	…	*2*	…	*2*	…
…	…	…	…	…	…

Fig. 15.8 Risk-Control Matrix (own representation based on Hunziker et al., 2008, p. 11)

The Risk-Control Matrix will be mentioned again in the following section.

Practical Implications and Recommendations for Swiss Companies

As the previous sections have made clear, there are still many questions regarding the legal implementations in Switzerland. Although the draft of the new law indicates the direction in which the rules for the preparation and the audit of reports on non-financial matters are heading, there are still constant developments expected in this regard. Nevertheless, it seems practicable—even if the final text of the new law has not yet been passed—for companies to address these topics in a managerial way.

These first three sections have already summarized some of the most important key elements to be considered regarding reports on financial and non-financial matters and their preparation and auditing. While the previous section examined the ICS from a more theoretical perspective, the following sections will now focus on the discussion of practical elements and will suggest important topics to be considered when implementing an ICS while targeting non-financial matters.

Building on Existing ICS-Practices

As previously mentioned, Swiss companies subject to an ordinary audit must have implemented and documented an ICS. In turn, the external auditor must confirm its existence according to Art. 728a CO. In contrast, other companies (subject to a limited audit/subject to no audit at all) are also assumed to have to address risks and controls in relation to financial reporting—although such risks and controls may not be documented and/or implemented at the same level of detail.

Therefore, it seems reasonable for companies to build on existing ICS principles and practices. Thus, leveraging existing processes and practices from a financial perspective into the non-financial perspective might be feasible. This can especially be achieved by using a possibly already existing Risk-Control Matrix (targeting financial matters). Such a matrix as described in the ICS with Focus on

Non-Financial Matters section is considered to be Best-Practice in Switzerland and is widely used in actual practice. Combined with a potentially existing, detailed ICS documentation (a prerequisite for the ordinary audit), companies can apply their knowledge and experience from the financial part also in the non-financial part. As a result, exemplary ICS documentation should include and address the following elements (this applies to both the financial and non-financial perspective):

– **Who** is responsible? (control owner(s)—e.g., who reviews/approves, etc.)
– **Which** type of control is performed, and **how**?[17]
– **When** is the control performed?[18]
– **Where** is the control evidenced/documented?

Furthermore, the COSO cube as described in the Defining the ICS section may also support designing, implementing, and maintaining an ICS that focuses on non-financial matters.

While leverage might be possible, some important considerations must be made when comparing the ICS from a financial and non-financial perspective. The Sect. "Adding Controls to Enhance Quality of Reporting on Non-Financial Matters" will therefore focus on the process stages where controls can create added value and mitigate risks.

Adding Controls to Enhance Quality of Reporting on Non-Financial Matters

While financial aspects are often easily/reliably measurable and often denominated in currency amounts and monetary values, non-financial aspects pose the following important problems:

– They are often more difficult to measure reliably.
– They are often denominated in different, non-monetary values.
– They are often results from questionnaires.

These circumstances give rise to new, additional risks. Companies do normally have control mechanisms in place between the creation/collection of data (e.g., the posting of a business transaction / bookkeeping) and the reporting of these figures (e.g., in the form of the financial statement). They can minimize the risk of errors in the process as a whole. Nevertheless, the situation differs, as not all such (financially focused) controls may be leverageable when designing, implementing, and maintaining an ICS regarding non-financial matters. Figure 15.9 shows exemplary

[17] The different types of controls and how they can be performed will further be discussed in the Sect. "Adding Controls to Enhance Quality of Reporting on Non-Financial Matters".

[18] The process stages where controls might be implemented will further be discussed in the Sect. "Adding Controls to Enhance Quality of Reporting on Non-Financial Matters".

Fig. 15.9 Process stages where controls might effectively be implemented (own representation)

process stages regarding non-financial matters and their reporting. In addition, possible stages where controls might be effectively implemented will be highlighted.

It should be emphasized that Fig. 15.9 assumes that the controls are carried out after a respective process stage (i.e., detective control). Of course, controls might also be implemented before a respective stage (i.e., preventive control). In addition, a differentiation can be made between the type of execution, i.e., whether a control is carried out manually or automatically—or a combination of both (i.e., semi-automated).

Figure 15.10 explains the different types of controls and further gives practical examples, which are based on the following assumptions: At the end of 2025, an international Swiss company decided, as part of its *Zero Emission* project, to reduce the fuel consumption of all fleet vehicles in Switzerland by 20 percent by the end of 2028 without investing in additional electric vehicles (50 percent of all fleet vehicles had already been replaced by electric vehicles by the end of 2025)

The type of control that best covers a risk depends on the individual case and must be adapted to the circumstances in the best possible way to minimize the risk of a misstatement in the report on non-financial matters. As highlighted in the Sect. "ICS with Focus on Non-Financial Matters", this can also efficiently be documented in the Risk-Control Matrix.

	Preventive *A control that should minimize the risk of an error / fraud before it occurs.*	**Detective** *A control that should minimize the risk of an error / fraud after it occurs.*
Manual *A control that is carried out exclusively by a person without the involvement of an IT system.*	The CEO meets the Chief Investment Officer (CIO) in February 2026. He asks him about the measures he has already initiated as CIO for 2026, 2027 as well as 2028 and how high he estimates the fuel savings associated with these measures in liters and CHF per year. The CIO is well prepared and sends a comprehensive documentation to the CEO.	At the end of 2026, the energy inspector approaches the fleet vehicle manager with a key-questionnaire. He asks him if and how he implemented the fuel reduction regulations issued by the company and compares the values with the actual target values.
Semi-automated *A control that is carried out by a person with the involvement of an IT system.*	On the last day of every month, all fleet vehicle managers and energy inspectors automatically receive a notification via e-mail – including a link to the ERP-system which informs them about the forecasts for fuel procurement and amounts in CHF for the next month. On the same day, all fleet vehicle managers and energy inspectors need to revise and approve the data in the ERP-system while explaining any differences to the target values to the controlling department.	On the first day of every month, all fleet vehicle managers and energy inspectors automatically receive a notification via e-mail – including a link to the ERP-system which informs them about the updated fuel liters procured and amounts in CHF in the last month. The actual values are automatically compared with the target values. On the same day, all fleet vehicle managers and energy inspectors need to revise and approve the data in the ERP-system while explaining any differences to the controlling department.
Automated *A control that is carried out by an IT-system without the involvement of a person.*	The ERP ensures that all necessary forecast data for the next month is entered seamlessly into the input grid by the fleet vehicle manager. If required data is missing or is entered in the wrong format, the ERP-system automatically blocks the entire data input.	The ERP ensures that all necessary actual data for the past month is entered seamlessly into the input grid by the fleet vehicle manager. If required data is missing, is entered in the wrong format or the actual values deviate to much from the target values, the ERP-system automatically blocks the entire data input.

Fig. 15.10 Types of controls and examples (own representation)

Conclusion

Currently, with regard to Switzerland, there are already companies that prepare and publish reports on non-financial matters. So far, such reports need not be audited by external auditors in Switzerland. In 2024 and 2025, Art. 964ff CO was under consultation and further decisions are expected by the Federal Council in spring 2026 at the latest—however, a more far-reaching obligation to prepare, publish, and review reports on non-financial matters is anticipated for Swiss companies. The authors of this article examined how the ICS can make a significant contribution while dealing with non-financial matters and the associated achievement of objectives in connection with said developments. The COSO cube gives a clear and concise assistance on how to design, implement, and maintain an appropriate ICS regarding non-financial matters, e.g., in connection with a Risk-Control Matrix as a useful tool. The associated processes, the risks assigned to them, and the related control measures should especially be highlighted.

How can companies take the complex aspects of non-financial matters into account and address them with an appropriate ICS? This article emphasized three challenging areas in this connection: Firstly, filtering out the data relevant to the non-financial target achievements is crucial. Secondly, taking the relevant data into account in a correct and purposeful way for the calculation is of special importance so that, thirdly, the non-financial target achievements can be shown in the reports on non-financial matters in the most meaningful way.

It is currently not possible to make a precise forecast as to when the new legal requirements concerning Art. 964ff CO will enter into force in Switzerland in the medium term. However, independent of any legal obligation, Swiss companies can use the ICS as an instrument to record and monitor important data and associated processes while contributing to the achievement of non-financial goals, e.g., goals with regard to carbon emission.

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