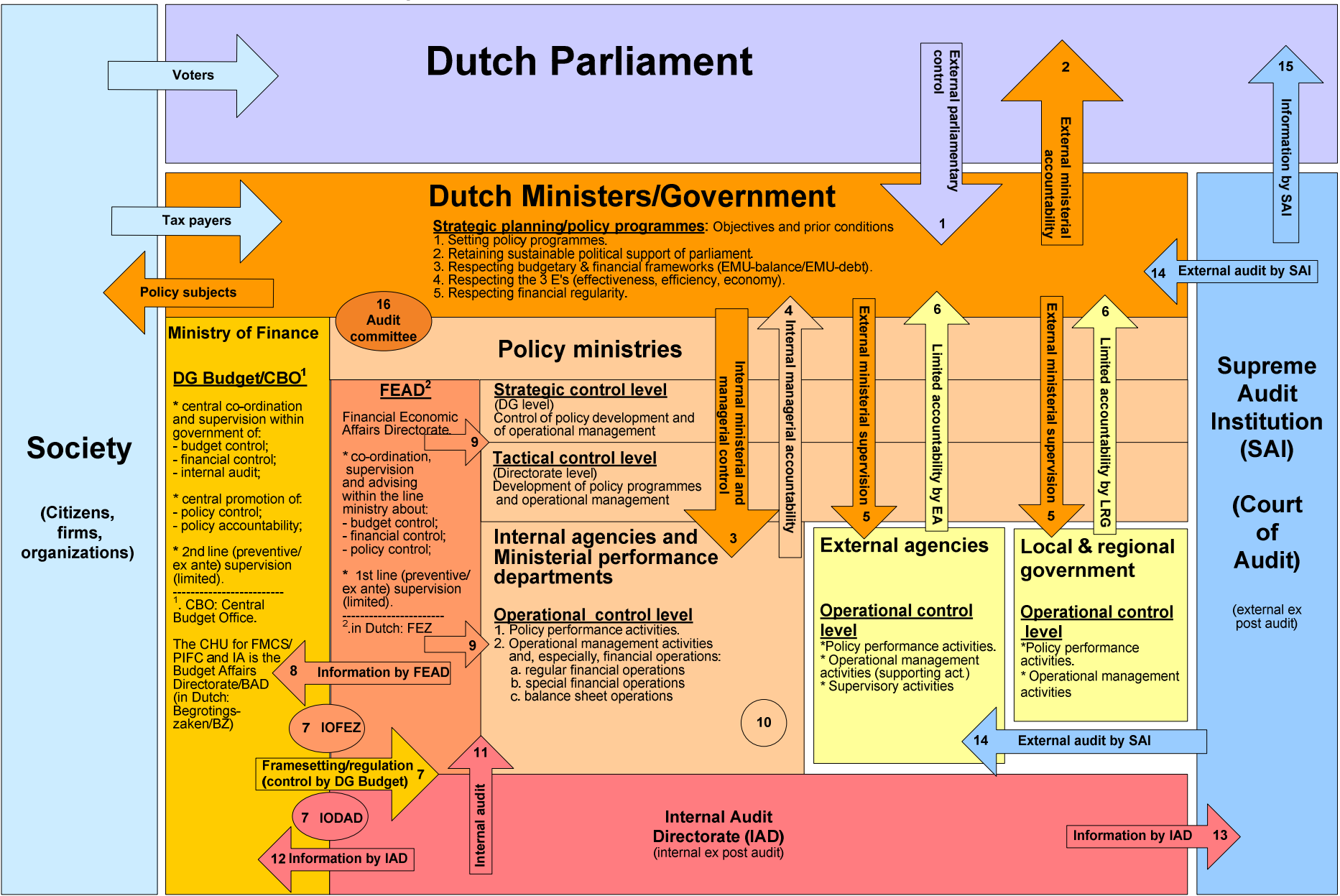


Financial Governance System of Central Government in The Netherlands (Dutch FGSCG)



Explanation of the Dutch FGSCG

The Dutch Financial Governance System of Central Government is the administrative governance and management system in The Netherlands from financial perspective and covers:

External governance/control

- a. political control by parliament;
- b. audit function of the Supreme Audit Institution;

Internal governance/control

- c. management control by the minister (political) and by the managerial officials of a ministry;
- d. 1st line supervision by the director FEAD;
- e. 2nd line supervision by the Minister of Finance;
- f. audit function of the Internal Auditor.

The system focuses on the steering and controlling of the **policy making processes** (policy programmes/primary processes) and the **operational management** (secondary/supporting processes) to support the policy processes in order to realize the (strategic) objectives of the Minister(s)/Government.

Policy programmes (primary processes):

The strategic elements of a policy programme are in general:

- a. the objectives;
- b. the target groups;
- c. the instruments/tools;
- d. organization structure for policy performance, including supervision/inspection:

Performance options:

- 1. performance by the ministries = full ministerial accountability,
 - 2. performance by external agencies = legally limited ministerial accountability;
 - 3. performance by local and regional governments = no ministerial accountability; own local/regional democratic control;
 - 4. in case of 2 and 3 there is ministerial responsibility for the policy direction (the so called system responsibility) and supervision/inspection by ministries or by an (other) external agency.
- e. the budget;
 - f. the time schedule.

Prior (or limiting) conditions:

The most important prior condition in the strategic planning is retaining sustainable political support of parliament for the policy programmes (external control). For the budgetary sustainability of government policy it is also important to respect the budgetary framework, which is for an important part enforced by the EU (General government balance: structural zero balance, maximum deficit of 3% GDP; General government debt: maximum of 60% GDP). Respecting the prior conditions of effectiveness, efficiency, economy (the 3 E's) and of financial regularity is an important approach of the FGSCG.

Operational management (secondary/supporting processes):

The operational management is defined as: organizing the input of staff and the material means for the support of the policy processes. So, the general and technical support services. (in Dutch the acronym PIMOFACH-functions: Staff, Procurement, Material and equipment, Organization, Finances, Automation/ICT, Communication (internal), Office housing).

For a specification of financial management activities on the (lowest) activity and transaction level in the organization: see nr. 10.

Dutch political system I: coalition government

In the Dutch political system parliament is normally constituted of about a dozen political parties. After elections some parties will – in principle for a four years period - form a coalition government (new Administration or Cabinet) based on a majority in parliament (more than 75 deputies). The new administration is based on a political deal (coalition agreement); it is an enumeration of

a. the agreed policy programmes, and

b. the fiscal constraints (budgetary framework and tax burden conditions):

1. the mid term objective (mto) for the general government deficit, based on the EU's Budgetary Stability Programme for the Netherlands (at present an structural EMU balance not exceeding a deficit of - 0,5 % to a surplus of + 0,5% GDP);
2. the tax burden.

In the first meeting of the council of ministers (constituent meeting) decisions will be taken on the fiscal rules, the rules necessary to respect the fiscal constraints. In fact the start of a new Administration is the beginning of a new (4 year) external control cycle.

Dutch political system II: individual ministerial responsibility/accountability

In the Dutch political system ministers are individually responsible and accountable to parliament. There is no collective responsibility of government. Government only promotes the unity of policy; a decision of government is finally always a decision for which the Minister concerned is responsible to parliament.

The control and accountability relations in the Dutch FGSCG are always relations between a Minister and parliament (external control and accountability) and between a Minister and his ministerial officials/managers (internal control and accountability). There is no accountability relation between parliament and ministerial officials.

Political (parliamentary) control versus ministerial accountability (externally) and Political (ministerial) control versus managerial (official) accountability (internally).

(The numbers correspond with the numbers in the FGSCG schedule).

Ex ante versus ex post →		Ex ante control and supervision of budget and financial management	Ex post control, supervision and audit of budget and financial management
External versus internal ↓			
Political/parliamentary control = External control	Political control	1. External political control Control by Parliament of ministers/government through: a. enacting annually the budget laws. b. setting the general budgetary and financial framework through enacting the Organic Budget Law/PFIC-law (Comptabiliteitswet).	1. External political control Control by Parliament of ministers/government through: a. annually voting the (financial) ministerial reports. b. discussing the audit reports of the SAI/CoA.
	External audit		14/15. External audit Independent audit by the SAI/CoA for Parliament. a. auditing annually the financial reports and the financial management of the ministries. b. performing periodically efficiency audits.
Political/ministerial control and official control = Internal control (management control)	Internal control	3. Internal political control: a. Control by the minister of the official management (managerial board: SG and DG's; strategic level); Internal official control b. Control by the official management of the general staff members (tactical and operational level);	3. Sometimes, risk based, internal verification by a verification department , through order of the manager (for example in case of large-scale granting subsidies).
	1 st line internal supervision	Internal supervision by FEAD 9. Setting budgetary and financial frameworks, internal regulation and advising within a line ministry . Supplemented with limited preventive control for special cases/situations/operations/ activities (mandatory directions = hard control).	No formal (hard) ex post controls (e.g. mandatory directions). Applying soft ex post control through informing, arguing and convincing.
	2 nd line internal supervision	Internal supervision by the MoF/DG Budget 7. Setting government broad budgetary and financial frameworks and regulations. Supplemented with limited preventive control for special cases/situations/operations/activities (mandatory directions = hard control).	No formal (hard) ex post controls (e.g. mandatory directions). Applying soft ex post control through informing, arguing and convincing.
	Internal audit		11. Internal audit Financial, compliance and operational audits by the internal auditor. Independent of the manager/policy performer, but subordinated to the minister

Definitions

Control

Internal control

Supervision

Internal supervision (1st line)

Internal supervision (2nd line)

Audit/verification

steering and managing of the processes of an organization through:

a. laying down standards; b. testing the performance against the standards, c. reporting about the results of the test, d. taking corrective actions.

(in case of a ministry): the political and official steering by the minister and - on behalf of him - by the official management of his ministry.

to supervise that something happens or has been happened or that is acted or has been acted within a certain normative framework and in addition to which respecting that framework could be enforced or promoted through taking adequate measures.

the supervision of a controller on the operational actions (especially financial operations) of the line managers.

the supervision of the Ministry of Finance/DG Budget on the operational actions (especially financial operations) of the line ministries.

inspecting whether something has been happened or that has been acted in line with a certain standard, without the inspectors competence to enforce respecting the standard or to impose a sanction for compensation or punishment.

Within the FGSCG external and internal control are distinguished, as well as ex ante control (preventive) and ex post control (repressive). The external control is the political control by Parliament of the political manager(s)/ministers: Parliament controls the Ministers or Government ex ante through enacting the budget laws and ex post through accepting the annual financial report/accounts (in the Netherlands the annual financial reports/accounts are not enacted by Parliament; Parliament annually explicitly discharges the ministers). All other control is internal control (management control); control within central government by the Ministers and the official management. Management control can be divided into internal control and internal supervision (1st and 2nd line supervision). The internal control is executed by the Minister (politically) and by the subordinated line managers (officially) (SG, DG's, heads of directorates, departments etc.). The 1st line internal supervision is the monitoring by the head FEAD. He supports the management through reporting and advising on the control results. The head FEAD is organizationally independent of the official management. He has the authority to inform and advise the SG and the minister directly. The 2nd line internal supervision is executed by the MoF and of behalf of him by the DG Budget.

Control and accountability relations (the numbers correspond with the numbers in the FGSCG)

1. External control of parliament through questioning Minister(s)/Government

Questioning the Minister(s) or government on a regular or an occasional base. On a regular base: e.g. discussing the annual budget and the annual (financial) reports.

2. External accountability of Minister(s)/Government through informing parliament

The Ministers are obliged to answer parliament (obligation of information provision). Informing on a regular base through e.g. legislation, policy reports, evaluation reports, annual budget, regular budget reports during the year, annual financial report, etc.

The Minister is fully responsible and accountable to parliament for all the activities and (trans)actions of (the organizational units of) his ministry.

3. Internal control by Minister(s) through organizing the internal management and control system within a ministry

Within a (line) ministry (theoretically) we can distinguish three levels of control:

A. the top management/strategic level: Minister, State Secretary, Secretary General and Directors-General (DG's); responsible for the strategic planning.

B. the middle management/tactical level: the heads of the directorates (Directors); responsible for the development of the policy programmes and the operational management (supporting processes).

C. the executive management/operational level (activity & transactions): the heads of the departments, units and internal agencies; responsible for the performance of the policy activities (primary activities) and for the performance the operational management activities (secondary or supporting activities).

The Minister (or State Secretary) takes the strategic decisions, after consulting the top management (A). Decisions that are not taken by the Minister (or State Secretary) himself, have been mandated to the SG and sub mandated to the DG's; they have been authorised to act on behalf of the Minister. A further sub mandating has been done to level B (Directors) and sometimes to level C (head of departments etc.) depending on the nature and the scope of the activities.

The Minister however remains fully accountable to parliament for all taken decisions either by him or on behalf of him.

To be sure that on all levels decisions are taken according to his political ideas and specific instructions, the Minister needs an internal control system. This system is built up of a consistent set of control standards (e.g. the COSO standards).

Agencies

Agencies are generally charged with policy performance tasks, operational management tasks (supporting tasks) or external supervision tasks. In the Netherlands there are two categories of agencies: *internal* and *external* agencies.

Internal agencies are units of a ministry. They form a part of the internal control system of the ministry. The Minister is fully responsible (and accountable) to parliament for all the activities and transactions of an internal agency. Internal agencies have no own legal personality.

External agencies: see 5/6.

4. Giving account (internally) by the management to the Minister

Giving account goes through informing the Minister – on his demand or unasked-for – through for instance (periodical) notes, reports etc. about the performance of the annual budget, the performance of a policy programme, policy evaluations, recommendations of the Audit Committee etc.

5. External supervision (limited control) by Minister(s)/Government of external agencies and local & regional governments

External agencies are generally charged with the performance of (branches of) national policy. They have their direct/own mandates (authorities) by law. For the individual activities and transactions the management of an agency is not accountable to the Minister/Government, nor to parliament, but in general to an own – law based – board of supervision. So, an external agency has its own internal and external control system. However, the external control of the agency is extended with (external) supervision by the Minister/Government. This external supervision is by law limited to the outlines of the policy performance. The Minister and parliament are together responsible for the law based system of supervision (“system responsibility”). If the system is not well functioning, the law should be changed.

Local & regional governments have their direct/own mandates (authorities) by law for their own public household. This is based on a historically long decentralized tradition since the Middle Ages. For the individual activities and transactions the local and regional governments (Mayor and Aldermen/Her Majesty’s Governor and Deputies) are not accountable to the Minister/Government, nor to parliament, but in general only to the local or regional (democratically voted) council. So, a local or regional government has its own internal and external control system. However, for some policy fields these governments perform national policy. In those cases the necessary mandates/authorities are generally transferred by law and the own external control of these local and regional governments is extended with (external) supervision by the Minister/Government. This external supervision of the performance of national policies is limited. The local and regional governments are limitedly accountable to the Minister. The extent of the accountability depends on the regulation by law of their responsibility.

6. Limited accountability of external agencies and local & regional governments to a Minister

External agencies

The management of a law based agency (with own legal personality) is fully accountable to his own – law based – board of supervision, only limitedly accountable to the Minister and not at all directly accountable to parliament.

The Minister is (limitedly) accountable to parliament, that’s to say only for the legal framework and for the way his supervision works (“system responsibility”).

Local & regional governments

The (political) management of the local & regional governments (the Mayor and Aldermen/Her Majesty’s Governor and Deputies) is fully accountable to his own – law based – council of representatives, only limitedly accountable to the Minister - in case of the performance of (a branch of) national policy - and not at all directly accountable to parliament.

The Minister is (limitedly) accountable to parliament in case of the performance of (a branch of) national policy, that’s to say only for the legal framework and for the way his supervision works (“system responsibility”).

7. Frame setting by the CHU of the MoF (DG Budget/Budget Affairs Directorate (BAD))

Central co-ordination by DG Budget/BAD of the Ministry of Finance (as Central Harmonization Unit/CHU for Public Internal Financial Control/PIFC/FMCS and Internal Audit/IA) through frame setting for budget control and financial control on the one hand and for internal audit on the other hand.

The frame setting is formalized in government broad regulations. Before issuing the regulations by the Minister of Finance there are (institutionalized) consultations between DG Budget and the FEAD’s and the IAD’s of the line ministries in the so called IOFEZ- respectively IODAD-meetings.

Within the set frames the ministries (ministers/policy managers) are rather autonomous with regard to especially financial management (less with regard to budget management). DG budget supervises especially whether the frames are respected. So 2nd line supervision (preventive/ex ante) with respect to financial transactions by DG Budget could be very limited and is in general only applied to guarantees (warranties).

8. Information provision by the Financial Economic Affairs Directorate (FEAD) to DG Budget (MoF)

DG Budget supervises the budget and financial management of the line ministries (line ministers/policy managers) during the year by means of regular and occasional information provided by the FEAD. The MoF (DG Budget on his behalf) has the legal authority to demand all the (financial) information necessary for his supervision.

The line ministers (FEAD's on their behalf) are legally obliged to supply that information.

These authorities and obligations have been laid down in the Government Accounts Act 2001 (Comptabiliteitswet 2001)¹.

9. Co-ordination, supervision and advising by the Financial Economic Affairs Directorate (FEAD) within a line ministry

The main tasks of FEAD within a ministry are:

- a. co-ordinating of the annual budget process and the multi-annual financial estimates;
- b. supervising the budget performance;
- c. organizing the budget accounting (accounting of the financial estimates) and the financial accounting;
- d. advising (independently from the policy/line managers) the Minister on all issues with financial consequences;
- e. co-ordinating the multi-annual policy evaluations;
- f. organising of the payment process, the assignments of the cashiers (= managers/administrators of the bank accounts) and the securing of the valuables (cash, credit cards, bank cards, bank warranties, etc).

The competences (authorities) of (the head of) the FEAD are:

1. *Establishing/issuing of internal by-laws within the ministry* with regard to the financial management, the budget process and process of the financial accounts (financial reports) (= frame setting with the broader frames set by DG Budget/BAD).
2. *Giving of mandatory advice* about all (policy) projects with financial consequences to (the heads of) the ministerial departments and with the competence to report his objections directly (independently of the hierarchical line) to the minister (= 1st line supervision, preventive/ex ante).
3. *Submitting directly (independently of the hierarchical line) an alternative budget proposal to the minister*, if he does not agree with a proposal of the policy department (= 1st line supervision, preventive/ex ante).

The co-ordination, (1st line) supervision and advising by FEAD is applied upon three organizational levels within a ministry: the strategic level (DG level), the tactical level (directorate level) and the operational level (the activity and transaction level as lowest level).

There are 11 line ministries and every line ministry has his own FEAD. A FEAD is hierarchically directly subordinated to the Secretary General and the Minister; so, internally independent of the policy directorates.

NB1. The Ministry of Finance is partly line ministry and partly central co-ordination ministry for financial operational management (FMCS).

NB2. The Ministry of the Interior is partly line ministry and partly central co-ordination ministry for other operational management aspects (staff, procurement, ict, materials/equipment, organization and housing).

10. Activity and transaction level

At this level the policy performance activities (primary activities) and the operational management (supporting) activities (secondary activities) take place.

The activities with financial consequences/effects (financial operations) are divided in:

I. *regular financial operations*:

- a. entering into financial obligations (contracting, subsidizing);
- b. paying expenditures (payments);

¹ In the Netherlands the Government Accounts Act (Comptabiliteitswet 2001) is a fusion of the Organic Budget Law, the PIFC (or FMC) law, the Internal Audit Law and the External Audit (or SAI) Law.

- c. imposing levies/taxes/tariffs (imposing claims);
- d. collecting (tax and non-tax) revenues.

II. *special financial operations* e.g. payment of advances, balancing of debts, payment in kind, remission of debt, securing valuables (cash, credit cards, bank cards, bank warranties, etc). (In Dutch: voorschotten, schuldvergelijking, betaling in natura, kwijtschelding en buiteninvorderingstelling, beveiliging van waarden).

III. *balance sheet operations* (treasury activities, managing financial assets and managing financial liabilities).

11. Financial, compliance and operational auditing by the Internal Audit Directorate (IAD)

The IAD has two main task fields.

- a. the law based task: financial and compliance audits – auditing of the financial regularity of the financial management, the financial information and (the realization of) policy information in the annual reports, resulting in the annual statement of assurance. This is the main element of (internally independent) ex post audit.
- b. the consultative task: operational audits (or performance audits) – advising the manager on his demand – about the operational management systems/procedures (supporting systems for Staff, Procurement, ICT, Materials/equipment, Organization, Finances, Housing). A statement of assurance can be the result. Operational audits are not an element of ex post audit.

The IAD reports the results of the annual financial and compliance audits to the minister. So, internal audit includes reporting of the results (information by the IAD to the minister).

The content of the financial and compliance audits is:

- a. auditing whether the financial management is regular, orderly, verifiable and efficient;
- b. auditing whether the financial information in the annual reports is congruent with the financial records,
- c. auditing of the realization of policy information in the annual reports.

The financial, compliance and operational audits by the IAD are applied upon three organizational levels within a ministry: the strategic level (DG level), the tactical level (directorate level) and the operational level (the activity and transaction level as lowest level).

There are 11 ministries. 5 ministries have each their own IAD. There are 2 Shared Service Centres (SSC) for Internal Audit, one SSC for 2 ministries (the IAD of the Ministry of Economic Affairs, Agriculture and Innovation for that ministry and the Ministry of General Affairs) and one SSC (Government Audit Directorate/GAD; in Dutch RAD) for 4 ministries (Ministry of the Interior, Ministry of Finance, Ministry of Health, Welfare and Sport and partly the Ministry of Infrastructure and Environment).

A (director of an) IAD is hierarchically directly subordinated to the Secretary General and the Minister; so, internally independent of the policy directorates. In case of the SSC GAD, this IAD is hierarchically directly subordinated to the Secretary General of the Ministry of Finance and the Minister of Finance, but functionally directly subordinated to the Secretary General and the Minister involved. The GAD is not a central audit directorate in hands of the MoF. The results of the audits and the audit certificate are submitted directly to the line minister involved. So, the audit function is still decentralized; the organization form is centralized.

The choice for a SSC is only a matter of efficiency in auditing. In the future more IAD's could merge with the GAD.

12. Information provision by the Internal Audit Directorate (IAD/GAD) to DG Budget (MoF)

The line ministers are legally obliged to submit the results of the financial and compliance audits (inclusively the audit certificate) to the MoF. This obligation has been laid down in the Government Accounts Act (Comptabiliteitswet 2001).

13. Information from the IAD to the Supreme Audit Institution (SAI)

The annual financial and compliance audit reports of the IAD's/GAD are sent to the SAI, so the SAI can make use of the results of this audit (for reason of efficiency of the audit process). This obligation has been legally regulated in the Government Accounts Act (Comptabiliteitswet 2001). However, the SAI is constitutionally independent; it has the authority to decide itself to do any supplementary (financial or policy) audit.

14. External audit by the SAI

(Line) ministries and external agencies

Independently from the IAD the SAI audits:

- a. the regularity of the policy programs (primary processes) and the operational management (secondary processes); especially the financial regularity of the financial transactions;
- b. the performance of the policy programs and the operational management: the effectiveness, the efficiency and the economy (the 3 E's).

The SAI issues annually a statement of approval regarding the annual financial statements included in the central government annual financial report, and also regarding the central government trial balance.

The external audit by the SAI is applied upon three organizational levels within a ministry and an external agency: the strategic level (DG level), the tactical level (directorate level) and the operational level (the activity and transaction level as lowest level).

Regarding the external agencies, the audit by the SAI is limited to the public or legal tasks of the agencies and to the public money involved.

For efficiency reasons the SAI makes use of the audit results of the IAD (the statement of assurance).

External audit includes reporting of the audit findings; the SAI provides the (line) minister and the external agency with audit information.

Local & regional governments

The SAI has not been authorized to audit the public household of these governments. With regard to the performance of national policy by the local & regional governments the SAI can only perform audits by means of data, documents and other data carriers in possession of the ministry involved. The SAI has no entry to the offices and accounting systems etc. of local & regional governments. To this no-entry-rule is only one exception: in case of spending of European subsidies/subventions by local & regional governments.

Based on a historically long decentralized tradition, local & regional governments are responsible for organizing and regulating their own external audit.

Normally these audits are performed by a local "SAI" or by a public accountancy firm.

15. Information from the SAI to parliament (and to the Ministers)

The SAI informs primarily parliament annually about the (financial) regularity of the policy programs (primary processes) and the operational management (secondary processes). About the performance of the policy programs (the 3 E's) the SAI informs parliament on a regular but not an annual base (every year some other policy programs, risk based).

The SAI reports, before being sent to parliament, are submitted to the Ministers involved for their remarks. The ministerial remarks are also sent to parliament by the SAI.

16. Audit committee

In each ministry an audit committee advises the minister and/or the Secretary General about:

- a. the recommendations of the internal and external auditor (IAD and SAI/CoA) as a result of the audits of the financial report and the financial management;
- b. operational management affairs (secondary processes) and risk management;
- c. and sometimes about the (programming of the) annual audit plan of the IAD.

It is a functional (not hierarchical) official body, composed of the members of the top management (DG's, SG), the head FEAD, the head IAD and some external members with special expertise in FMC affairs or broad public management expertise.

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