Ministry of Finance

5th Seminar of Public Sector Internal Auditors

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Internal Audit Practice in the Public Sector

— Highlights from the Dutch Practice —

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Ministry of Finance

Content

- Overview of the Dutch financial control and audit structure

- Roles and tasks of audit bodies at state level

- Recent developments and challenges

- National Declaration

A few figures……..

Indicators the Netherlands	
Form of government	Constitutional / parliamentary monarchy
Government coalition	**Christian Democratic Alliance, Labor Party & Christian Union**
Decentralized government layers	12 provinces, 443 municipalities
Population (July 2009)	16.528.699
Surface	41.526 km^2
GDP (2008)	€ 595 billion
EMU deficit (2008)	58,2% of GDP
Unemployment rate (1/9/2009)	5,0% of labor force

Overview of the system
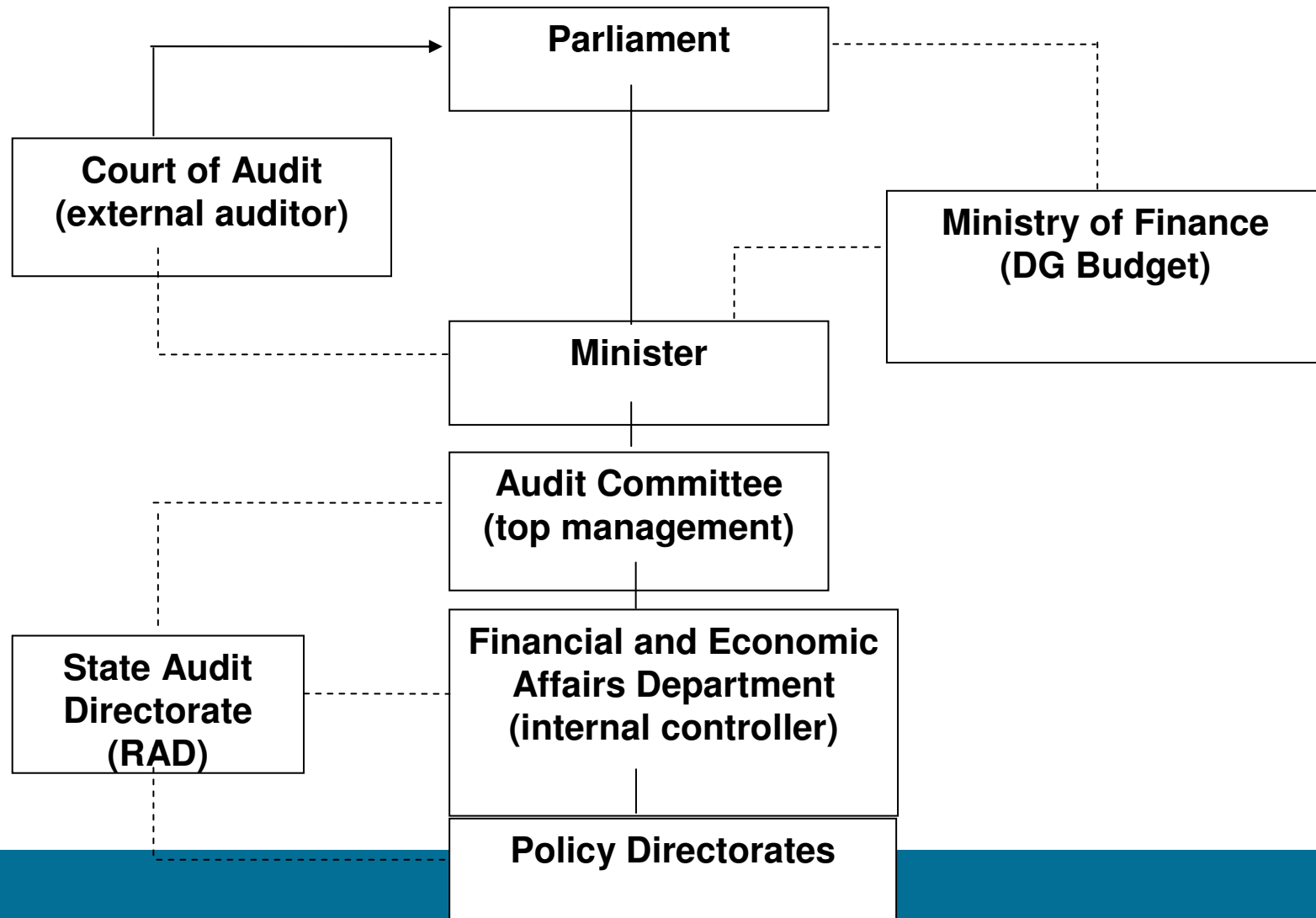
CHU-Function

- **Responsibility of the Minster of Finance.**
  - **Part of the Central Audit Directorate (RAD)**

- **Coordinating and supporting the performance of the Internal Audit Departments**

- **Chairman of the Inter-Departmental Council of Directors of the Internal Audit Department**

- **Audit Manuals: development of uniform audit guidelines**

State Audit Directorate (IAD) 1

Independent and high position within the Ministry (independent from auditee)

Directly under Secretary General

Supervised, monitored and co-ordinated by Ministry of Finance

Reviewed by Court of Audit

State Audit Directorate (IAD) 2

Examines:

• **whether principles of sound financial management were applied to,**

• **whether the annual accounts are reliable and**

• **whether transactions have been realized legitimately**

Secondary: advisory responsibility within the Ministry ("tool of management")

State Audit Directorate (IAD) 3

The audit opinion certifies:

- Reliability of financial reporting (correct and complete) → **direct reporting**

- Legality of commitments, expenditure and receipts (in conformity with the budget and any other legislation) → **assertion based**

Audit Approach

- **Integrated vision on financial, operational and IT auditing**

- **Strategic analysis**

- **Process analysis**

- **Remaining (substantive) audit procedures**

- **Issuing audit opinion and reporting findings**

Recent developments with regards to internal audit 1

**Broadening and strenghtening the audit function
(audit quality improvement action)**

*The need for a broader accountability asked for a
reconsideration of the scope of the audit function*
→ Quality improvement action plan

*Refocus audit activities: not only financial auditing, but also
other types of auditing (operational auditing, IT-auditing), etc.*

Risk based audit programming

Multi-disciplinary audit departments

*Special attention to recruitment and education and investment
in knowledge, skills and attitude*

Use of knowledge and experiences of other organisations

New Audit Manuals and Toolboxes (http://www.rijksacademie.nl)

AND…………..

Recent developments with regards to internal audit 2

One internal audit department for central government as a whole

⟶ *State Audit Directorate*

Central Government Reform Program (Coalition Agreement)

"Better and Smaller": better policymaking, less regulation, effective implementation, fewer civil service posts (189.000 – 12.800 in 2011; audit departments: 800 – 200 in 2011)

Strengthening co-operation and horizontal cohesion between the various Ministries

Recent developments with regards to internal audit 3

Redesigning/clustering the audit function
One government-wide audit department for the entire civil service:

- More efficiency and flexibility (economy of scale)

- Exchange of knowledge and experience

- Size and viability of small audit departments

- Less interdepartmental co-ordination and reviews

- Independence of financial audit function

- Better position on the labor market

- Broader sphere of activities and better career opportunities for auditors

State of Play in the re-design

5 separate audit services & 1 department for audit policy

July 2007 decision to merge

August 2008 the start of the Central Audit Service

January 2009 more audit services joined

April 2009 end transition phase

October 2009 1st anniversary!

Responsibility State Audit Directorate

The internal audit function for central government as a whole:

Providing assurance

By auditing policy processes as well as managerial and operational processes.

Audits on a legal basis and

Audits on request of management of the participating ministries.

Providing other services (advisory role on strategic level).

Role of the State Audit Directorate

Role in audit policy (CHU-function):

a. Within the Central Audit Service:
   to develop and support:
   - audit methodology,
   - supporting systems for the audit process,
   - joint HRM-policy for the audit function,
   - knowledge-management and communication.

b. For central government as a whole:
   chairman of the inter-departmental council of directors of
   internal audit departments (IODAD)

State Audit Directorate : Advantages 1+1=3

- **Expanded scope: we audit several ministries**
  - *5 line ministries including ministry of Finance,*
- **Dealing with governmental developments more quickly**
  - *Sharing audit resources over all ministries / no sub-optimal solutions per ministry*
- **Bundling expertise & expanding knowledge; specialization**

  - *Example: chair for governmental auditing*
- **More variety for our professionals**:

  - *job perspective, job enrichment, membership IIA*

Professional developments

Shift of focus of audits: to the front

Auditing the government as a whole

Auditing policy processes as well as managerial and operational processes

Audits lead to strategic advice

Audits are multidisciplinary (FA, OA, IT)

Single Audit

Joint Audit

National Declaration

National declaration 1

Dutch concern about the negative DAS

Conclusions ECOFIN Council (11/2005):

- Improving financial management EU funds in shared management is an urgent necessity;

- Introduction of a national statement on a voluntary basis by Member States as a distinct option.

National declaration 2

Annual statement on the sound financial management of EU related financial streams both to and from the EU

- proper functioning of control systems

Annual statement whether EU funds are used in accordance with rules and legislation of the EU

- transactions at fund level

- Still to be implemented:
  - Assurance on the Dutch contribution

National declaration 3

Objectives:

• Showing/assuring that EU funds are used in a legal and regular way in the Netherlands

• Contributing to create the environment for a positive DAS
  > by showing that a national statement is possible
  > by inspiring other EU Member States

• Improving management of EU funds

If the national statement will be a success:
  > less audits by the European Commission
  > less administrative burden for the Member State

National declaration 4: Different aspects

Political:

- The Minister of Finance issues the national statement on behalf of the Dutch Cabinet (to Dutch parliament and EU)

Organisational:

- Separation of certifying, audit and management responsibilities
- Centralisation of the audit and certifying authorities

Operational

- More uniform procedures, specialised auditors

Court of Audit

- Provides additional assurance

National declaration 5: State of Play

National statement on:
- Agricultural Guarantee Fund
- European Social Fund (SF)
- European Regional Development Fund (SF)

In coming years the national statement will also cover other funds & Own Resources (the Dutch contribution to the EU)

Challenges

Budget and capacity (10% less by 2011)

Culture

Professionalism / (international) standards

Compliance

Lower administrative burden and control pyramide

Thank you for your attention!

For further questions, please contact:

http://www.minfin.nl/en/home

http://www.rijksauditdienst.nl

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The opinions expressed in this presentation are solely those of the speaker