



# Financial Management and Control in the Dutch Public Sector

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## Topics:

1. Introduction: administrative structure of the Netherlands
2. Characteristics Dutch FMC-system (+Compendium)
3. Overview



# Administrative Structure of The Netherlands

- Dutch Constitution: decentralised unitary state
- Three government layers:
  - central government (State): 11 ministries, 128 independent agencies
  - regional government: 12 provinces
  - local government: 403 municipalities
- Each government layer has its own democratic structure (elected bodies)
- Provinces and municipalities: 'shared management tasks' with central government (financed by specific purpose grants)
- Income: both taxes and charges (contributions for social security and health care, geared to specific needs)





# Administrative Structure of The Netherlands

## STATE EXPENDITURE BUDGET 2014



- Ministries and agencies: € 110,6 billion
  - this includes € 20,8 billion for provinces and municipalities (general purpose)
  - budget of Ministry of Education includes funding of schools
- Social security: € 78,6 billion (unemployment benefits, State pensions, etc.)
- Health care: € 77,8 billion (including financing of hospitals)
- Provinces and municipalities have their own budgets and governance structure

***Dutch public sector: basically decentralized – policymaking rather centralized***



## 1986 - 1992: Crucial developments in Internal Control and Internal Audit

In 1980s shortcomings in internal control pointed out by SAI:

- Problems with producing annual accounts (far too late)
- No separate internal audit units
- SAI put problems on agenda of Parliament



## Coordinated plan in 80's

### Government Accounting Reform Operation

#### Objectives:

- Better accounting information systems
- Improvement internal control
- Introducing internal audit
- MoF as central department for coordination operation (CHU role)
- SAI reported about progress



## Operation VBTB

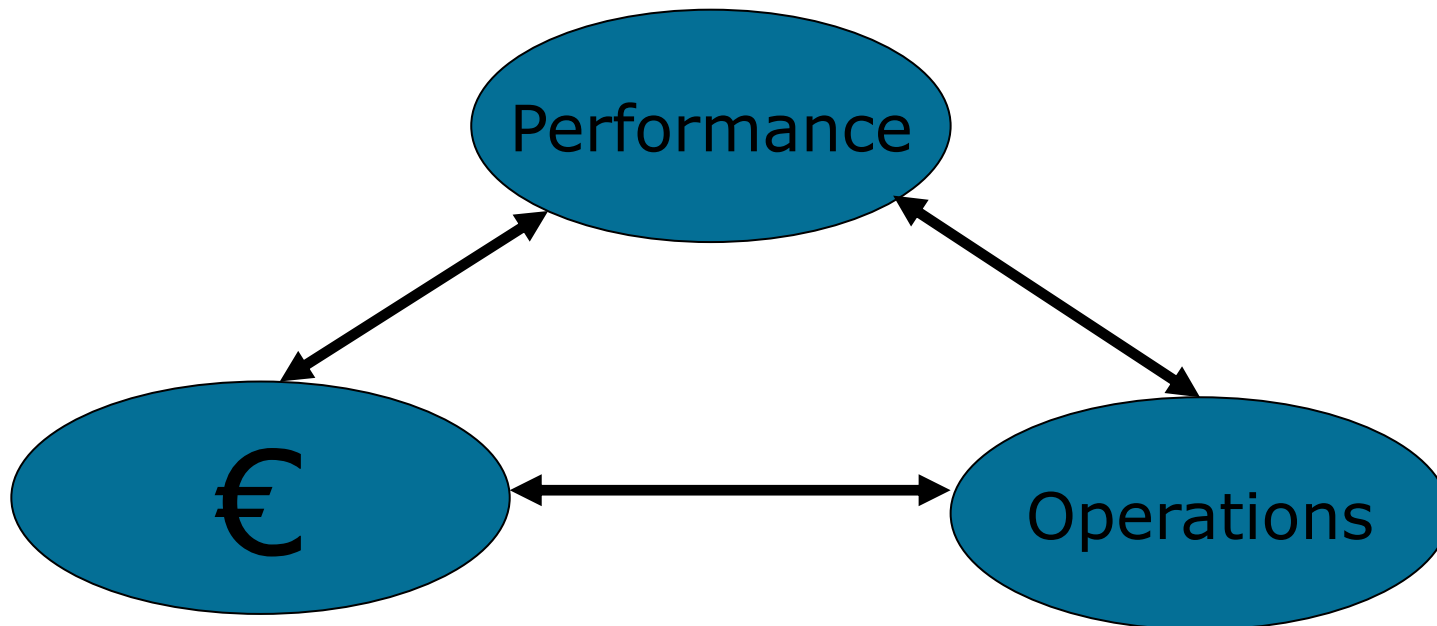
1999: Operation: “From policy budget to policy accountability”:

- improving information value for Parliament and Dutch citizens
- link between performance, operations and budget
- performance indicators and policy evaluations
- from input to output/outcome



## 'Operation VBTB'

Introduction of new budget and accounting system:  
"from policy budget to policy accounting" (VBTB)







# 'Operation VBTB'

VBTB: more information on *efficiency* and *effectiveness*

## **Budget process**

1. What do we want to achieve?
2. What steps will we take to achieve it?
3. What should it cost?

## **Annual accounts or report**

1. Have we achieved what we intended?
2. Have we done what we should have done to achieve?
3. How much did we pay?: did it cost what we had expected?



## Characteristics of VBTB

- central role of policy objectives, concrete operational priorities and performance indicators;
- coherence between budget and accounting documents;
- management gives “in control statement” about operational efficiency and effectiveness of processes within the Ministry concerned



## Developments caused by the introduction of VBTB

More explicit responsibilities and duties concerning:

- Defining policy objectives, priorities and performance indicators
- Management of financial and non financial processes
- Efficiency and effectiveness of processes
- Broader scope annual report (including “in control statement”)
- New information needs of management
- Changing role of financial control and audit function



# Key-players in FMC (the Netherlands)

FMCS		Ex ante control/supervision/verification of budget and financial management	Ex post control/supervision/audit of budget and financial management
External control = political/parliamentary control	Political control	<i>Control</i> of ministers/government <b>by Parliament</b> through: a. enacting annually the budget laws. b. setting the general budgetary and financial framework through enacting the Organic Budget Law/PFIC-law (Comptabiliteitswet).	<i>Control</i> of ministers/government <b>by Parliament</b> through: a. annually voting the (financial) ministerial reports. b. discussing the audit reports of the SAI/CoA.
	External audit		<i>Independent audit by the SAI/CoA</i> for Parliament. a. auditing annually the (financial) ministerial reports and the financial management of the ministries. b. performing periodically efficiency audits.
Internal control = ministerial and managerial control (management control)	1 <sup>st</sup> line internal control	<i>Supervision:</i> a. <b>by the minister</b> of the managerial board (SG/DGs; strategic level); b. <b>by the managers</b> (policy performers) of the staff members (operational level); c. supplemented with self-control by the (performing) staff members and with testing by colleagues.	Sometimes, risk based, <i>internal verification by a verification department</i> , through order of the manager (for example in case of large-scale granting subsidies).
	2 <sup>nd</sup> line internal control	<i>Setting budgetary and financial frameworks, internal regulation and advising within a line ministry by FEAD.</i> Supplemented with <i>limited preventive control by FEAD</i> for special cases/situations/ operations/ activities (mandatory financial second opinion).	
	2 <sup>nd</sup> line external control	Setting government broad budgetary and financial frameworks and regulations by the MoF/DG Budget. Supplemented with limited preventive control by the MoF/DG Budget for special cases/situations/ operations/activities (mandatory financial third opinion).	
	Internal audit		Audit by the <b>internal auditor (CGAS)</b> . Financial, compliance and operational audits. Independent of the manager/policy performer, but subordinated to the minister.



# Dutch Parliament

Voters

# Dutch Ministers/Government

**Strategic planning/policy programmes:** Objectives and prior conditions

1. Setting policy programmes.
2. Retaining sustainable political support of parliament.
3. Respecting fiscal frameworks (EMU-balance/EMU-debt).
4. Respecting the 3 E's (effectiveness, efficiency, economy).
5. Respecting financial regularity.

## Ministry of Finance

### DG Budget/CBO<sup>1</sup>

\* central co-ordination and surveillance within government of:

- budget control;
- financial control;
- internal audit;

\* central promotion of:

- policy control;
- policy accountability;

\* 2nd line (preventive/ex ante) surveillance (limited).

<sup>1</sup> CBO: Central Budget Office.

The CHU for FMCS/PIFC and IA is the Budget Affairs Directorate/BAD (In Dutch: Begrotingszaken/BZ)

16 Audit committee

## Policy ministries

### Strategic control level (DG level)

Control of policy development and of operational support management

### Tactical control level (Directorate level)

Development of policy programmes and operational support management

## Internal agencies and ministerial performance departments

### Operational control level

1. Policy performance/execution.
2. Operational support management
  - A. financial management operations:
    - a. regular financial operations
    - b. special financial operations
    - c. balance sheet operations
  - B. material management operations
  - C. human resource management operations

### FEAD<sup>2</sup>

Financial Economic Affairs Directorate

\* co-ordination, surveillance and advising within the line ministry about:

- budget control;
- financial control;
- policy control;

\* 1st line (preventive/ex ante) surveillance (limited).

<sup>2</sup>in Dutch: FEZ

8 Information by FEAD

7 IOFEZ

Framesetting/regulation (control by DG Budget)

12 Information by CGAS

11 Internal audit

**Central Government Audit Service (CGAS)**  
(internal ex post audit)

Information by CGAS 13

1 External parliamentary control

2 External ministerial accountability

15 Information by SAI

14 External audit by SAI

3 Internal ministerial and managerial control

4 Internal managerial accountability

5 External ministerial supervision

6 Limited accountability by EA

5 External ministerial supervision

6 Limited accountability by LRG

## External agencies

### Operational control level

\* Policy performance/execution, or  
\* Supervision activities  
\* Operational support management

## Local & regional government

### Operational control level

\* Policy performance/execution  
\* Operational support management

14 External audit by SAI

## Supreme Audit Institution (SAI)

(Court of Audit)

(external ex post audit)

## Society

(Citizens, firms, organizations)

Tax payers

Policy subjects



Ministry of Finance



Thank you for your  
attention!!!!

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