



Public Sector Internal Audit Strategy in the Netherlands

Continuous Development



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Agenda

- **Background and current situation**
- **Milestones in the transformation process**
- **Challenges for the future**
- **Discussion points**

Background and current situation





The Netherlands

Form of government	Constitutional / parliamentary monarchy
GDP 2005	€ 506 billion
Population	16,4 million
Surface	41.526 km²
Landscape	‘Polder’: land between dikes, flat, below sea level

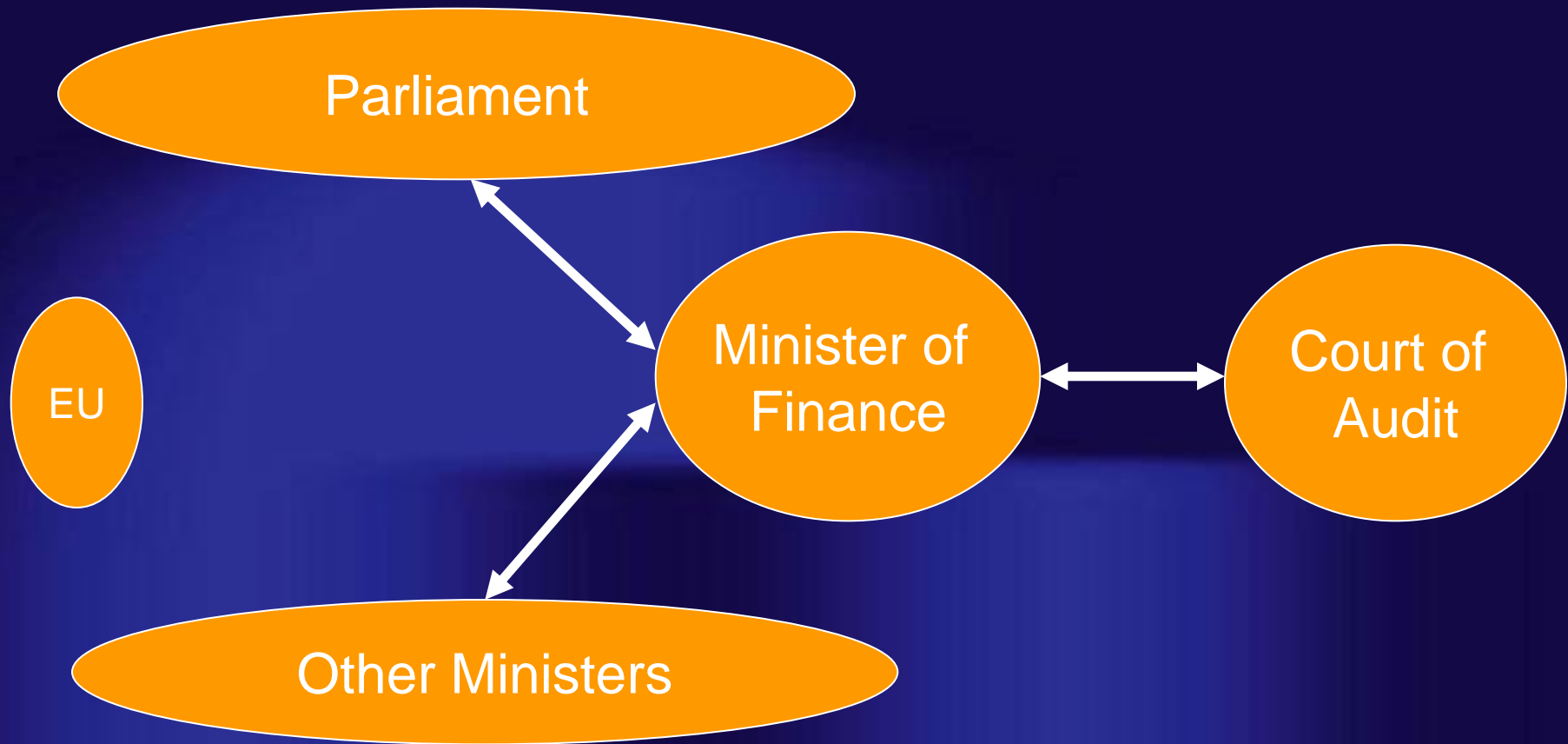


The Dutch System / 'Polder Model'

- Democratic
- Consensus Economy
- Different Stakeholders
- Different Interests
- Checks and balances
- Ability to compromise (Polder Mentality)
- Audit System: more principle based (comply or explain)



The Dutch Audit Environment





Audit Bodies at State Level

- **Netherlands Court of Audit (external)**
- **Government Audit Policy Directorate (within MoF
= IA Component CHU)**
- **Internal Audit Department (within every Ministry)**



External checks and balances

- **Ministry of Finance (Policy Directorate about the Budget): co-ordination and oversight**
- **Netherlands Court of Audit**
- **Both units receive all reports from ministries' internal audit departments**
- **Parliament (discharge authority)**



Internal checks and balances (within the Ministries)

- Financial/economic affairs directorate (internal budget) and internal audit staff both placed directly under the Secretary-General (SG)
- SG and Policy Directors-General: fully responsible
- Audit Committee chaired by SG and external members





Important Changes / Milestones

- **National level**
 - 1447: foundation of Netherlands Court of Audit
 - 1927: Government Accounting Act
 - 1945: foundation of 1 Central Internal Financial Audit Unit
 - 1986: introduction of 13 Internal Financial Audit Units
 - 1999: introduction of a new budget and accounting concept within government (VBTB)
- **Organisational level**
 - 2000: Virtual pool for performance and operational audits (with the name 'Boa')
 - 2003: merger of 2 audit departments: MoF and Tax Administration



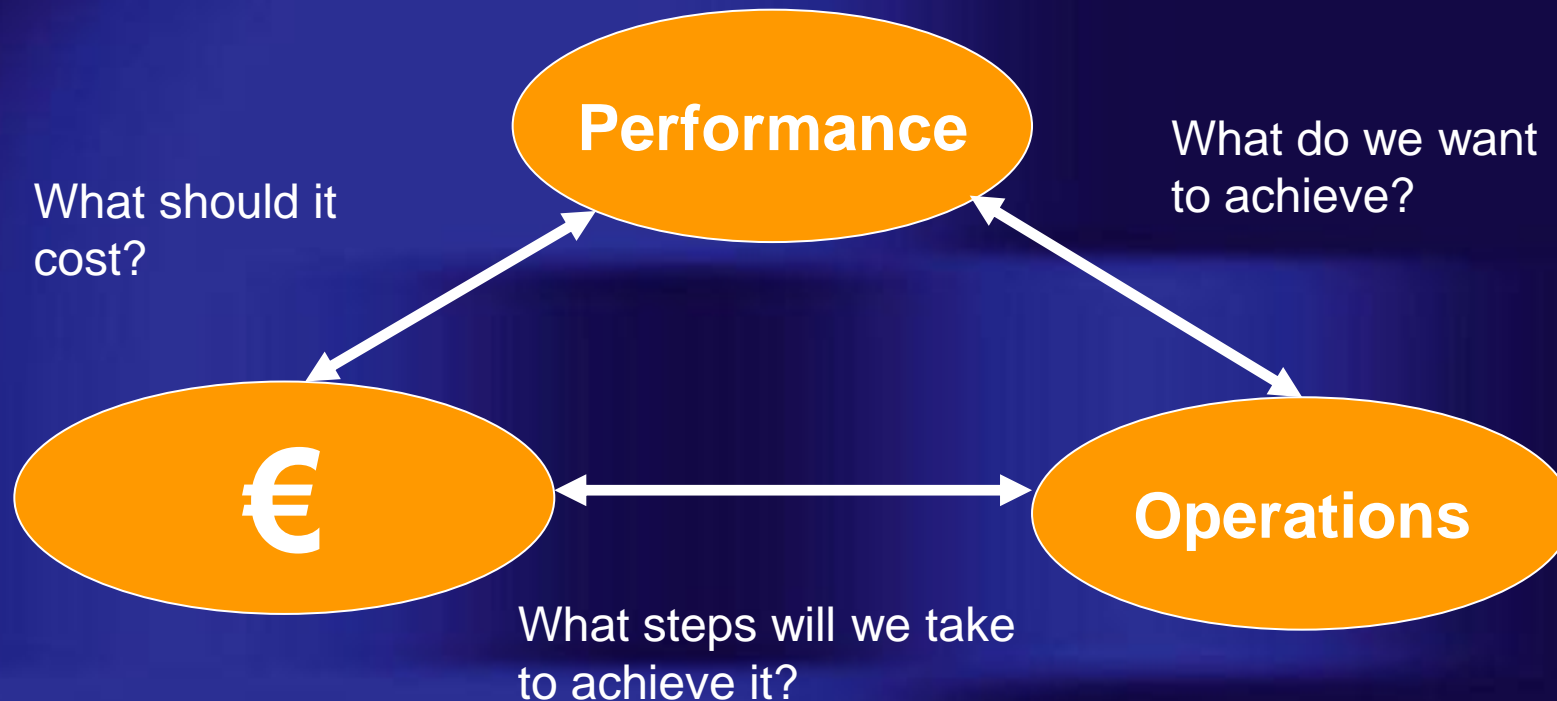
Reform 1986 - 1992

- **Introducing a modern financial management system (computerization) within government**
- **Strengthening Internal Financial Audit Function**
 - Decentralization of Internal Audit Function / introduction of 13 Internal Financial Audit Units (each ministry develops its own audit unit)
 - Transformation of CHU
 - Introduction of Audit Committee



Reform 1999 -

Introduction of a new budget and accounting concept
“from policy budget to policy accounting (VBTB)”





Characteristics of Reform 1999

'towards a new budget and accounting system'

- Improving information value for Parliament and Dutch citizens
- Central role of policy objectives, concrete operational priorities, performance indicators and policy evaluations
- Link between performance, operations and budgets
- management gives “in control statement” about operational efficiency and effectiveness of processes within the Ministry concerned



Concept of VBTB and Strategic Challenges for Internal Audit Departments

- Reform process (broader audit objects, more risk oriented and more 'partner of management')
- Strengthening the role of audit committees (introducing external members)
- Special attention to human resources (multi-disciplinarity, education)



Challenges for the future

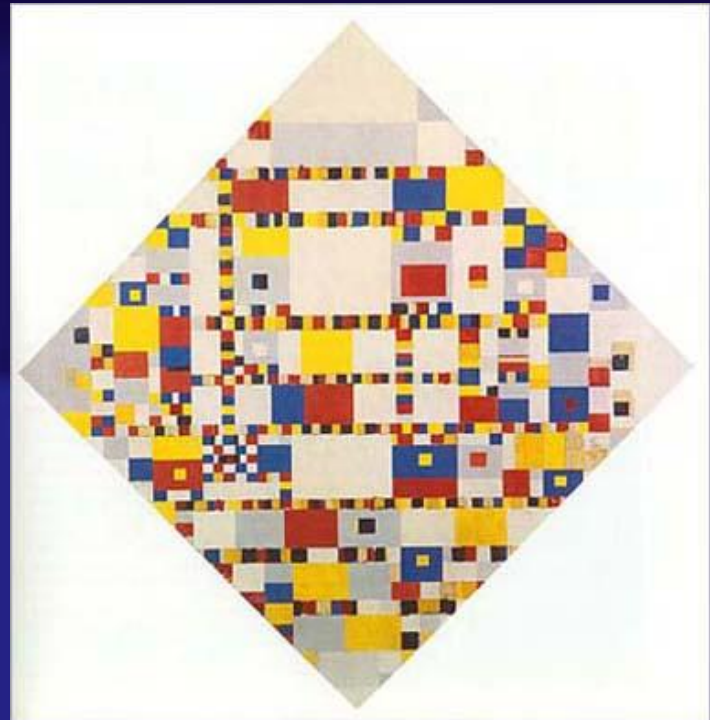
- **Joint audits / 1 national internal audit service**
 - More centralization: back to 1945?
 - Efficiency operation
- **National Statement of Assurance**
 - More rule based (compliance to rules) or principle based (comply or explain)?



Discussion Points

- **Audit professionals don't need an Internal Audit Strategy!**
- **Excellent Audit Departments have Excellent Audit Strategies!**

Your turn!





Overview Strategic Questions

1. What system do you want? Rule based? Principle based? Or tailor made?
2. What system is realistic? (regarding stakeholders, history and other factors)
3. How does your audit environment look like? Define key players, stakeholders, parties with different interests, your own role and interests.
4. What kind of checks and balances do you have?
5. What are the milestones in your country?
6. What is happening in your country? A movement towards centralisation or decentralisation?
7. What kind of concepts (due to political influences) are promoted in your country?