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# **Financial governance system central government in the Netherlands**

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11-5-2015





# Dutch Financial Governance System Central Government

## Financial Management and Control System

- **External control** = parliamentary/political control
- **Internal control** = ministerial/political control  
and  
official/management control



# Organizational aspects of governance/control

## External and internal control *Five lines of defense*

- 1. Management:** control (1<sup>st</sup> line)
- 2. FEAD** (fin. ontroller): advise, co-ordination and surveillance (2<sup>nd</sup> line)
- 3. MoF/DG Budget** (CHU): co-ordination by regulation and surveillance (3<sup>rd</sup> line) (within central government)
- 4. CGAS :** internal audit (4<sup>th</sup> line)
- 5. SAI/CoA:** external audit (5<sup>th</sup> line) (within central government)



# Organizational aspects of governance/control

## Internal control

### Special aspects

- **Mandating of authorities**
- **Policy performance/execution:** within or outside central government
- **Operational support management:** within or outside central government



# Organizational aspects of governance/control

## Mandating of authorities

Acting on behalf of the minister = taking decisions and/or signing

**Minister** --> mandates

**Official top management** (strategic level: SG-DG's) --> mandates

**Official middle management** (tactical level: directors) --> mandates

**Lower management** (operational level of policy performance: heads of departments or of agencies)



# Organizational aspects of governance/control

## Execution of policy and support

### Policy programmes (primary processes)

### Operational support management (secondary processes)

by:

by:

- internal departments
- internal agencies
- external agencies
- regional and local governments (external).



# Object of governance/control

## Activities and processes

- **Policy process:** policy programmes (policy objectives, target groups, instruments, budget)
- **Support process:** PIMOFACH (dutch acronym)
- **Budget process** (including budget accounting):  
budget preparation – budget execution –  
changing of budget– financial report/accounts
- **Financial process** (including financial accounting):  
expenditure and revenues (commitments –  
payments – collecting revenues)
- **Reporting process:** management information and  
political/external information
- **Evaluation process:** policy evaluation and support evaluation





# Objectives of financial control

- Respecting budgetary and financial frameworks:  
EU-balance and EU-debt
- Respecting the 3 E's: effectiveness, efficiency and economy
- Respecting financial regularity



# Standards of internal control

- COSO standards
- INTOSAI standards
  
- Control environment
- Performance and risk management
- Information and communication
- Control activities
- Monitoring



# Managerial accountability

## Counterpart of mandating of authorities

### Internally:

official lower management (operational level) -->

accountable to

official middle management (tactical level) -->

accountable to

official top management (strategic level) -->

accountable to

minister (political level)

### Externally:

Minister --> accountable to parliament



# Financial Economic Affairs Department

**= financial controller within a ministry**

- co-ordinates annual budget process and multi-annual fin. Estimates
- supervises the fiscal performance
- organises budget accounting and financial accounting
- advises Minister on all issues with mayor financial consequences
- co-ordinates the process of multi-annual policy evaluations
- organises the payment process



# Position of MoF: CHU for FMC and IA

## **Co-ordination/harmonization**

- budget process
- financial process
- reporting process
- internal audit process

By way of:

## **Central regulations (frame setting, standardizing, time tables)**

- laws, decrees
- ministerial regulations
- manuals, guidelines, toolkits



# Position of MoF: CHU for FMC and IA

## Surveillance ex ante (ex ante control)

- Especially **budgetary** surveillance (including efficiency) during budget preparation (multi-annually) and budget performance/execution
- No **general** financial surveillance on financial transactions during the execution (neither ex ante, nor ex post)
- Only on some **special** financial transactions above certain thresholds.



# Central Government Audit Service = Internal audit

## Two main tasks:

### ➤ **law based task: financial and compliance audits**

- regularity of financial management
- financial regularity of financial information in annual reports
- realisation of policy information in annual reports

Result: report of audit findings and statement of assurance

Characteristic : ex post financial control

- ### ➤ **consultative task: operational or performance audits** about
- policy execution (e.g. subsidy payments, loans, taxation)
  - operational support management (e.g. staff, procurements, ICT, housing)

Result: report of advise, sometimes a statement of assurance