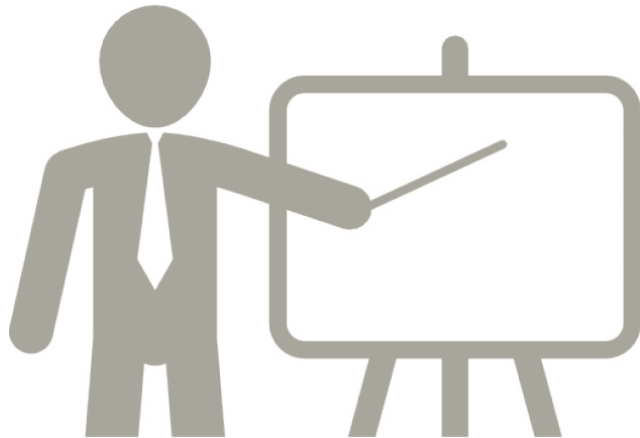National Academy for Finance and Economics
Ministry of Finance

PULSAR

The Role of IA
in PSA Reforms

Dutch Case

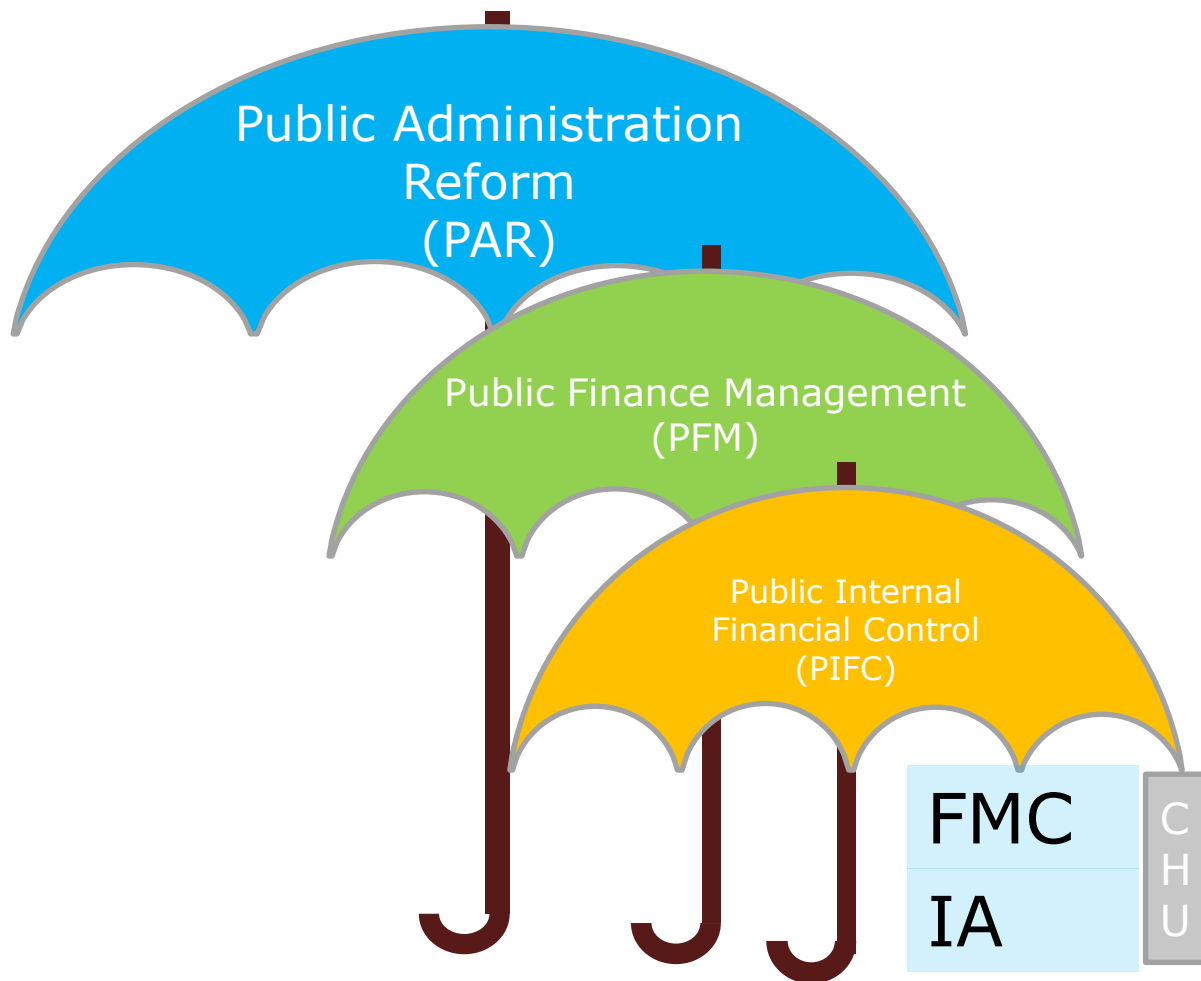**Rodney Betorina, June 2024**

Speaker

- ## Rodney Betorina

- Currently working as Resident Twinning Advisor in Skopje in a project to assist in implementing PFM reforms in North Macedonia (Secondment NAFE)
- Audit Manager Central Government Audit Service
- Certified financial auditor and member of the Institute of Internal Auditors (IIA)
- Experience: Financial Audits and Performance Audits + Experience in the Budget Affairs Directorate of MinFin
- International experience: STE in many countries in Eastern Europe and Balkan, CEF trainings and PEMPAL

PAR/PFM/PIFC The broader reform picture

Public Administration Reform (PAR)

Public Finance Management (PFM)

Public Internal Financial Control (PIFC)

FMC

IA

CHU

- **Multiple umbrella's:**

- Adherence to Good Governance Principles / Good Public Administration;

- Coherent reform strategy;

- Favorable 'external' conditions: legislation, political support, ethical culture;

- (Managerial) accountability (and the systems that drive it);

- Improving budgetary process, Treasury, procurement, Accounting;

- Strengthening IC, IA, EA

A brief history of important PFM reforms in NL

In 1980s shortcomings in internal control pointed out by the State Audit Service (Accounting Chamber) SAI:

• Problems with producing annual accounts (far too late)

• No separate internal audit units

• SAI put problems on agenda of Parliament

Based on these shortcomings a working group formulated the goal:

"to arrive at an integrated accountability for policy, business operations and financial resources, to be presented on the third Wednesday in May: Accountability Day"

Coordinated plan in 80's

- Government Accounting Reform Operation

Objectives:

- ▪ Better accounting information systems
- ▪ Improvement internal control (strengthening 2nd line)
- ▪ 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
- 2013: update: towards responsible budgeting

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

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?

2013 (update)

More focus on specific role and responsibility of the minister regarding the three questions; less administrative burden (decreasing KPI's); better integrated reporting; use of IT

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 <u>financial control</u> and <u>audit function</u>

Dutch context: Budget and Accounting

- Estimated expenditures, revenues and commitments:
  - Mixed cash-liabilities system

- Arm's length agencies: Accrual budgeting and accounting

- Adoption by parliament:
  - 3rd Tuesday in September and 3rd Wednesday in May

- Minister is responsible for his own budget
  - Regularity, effectiveness and efficiency

About the Central Government Audit Service (CGAS)

- Established May 1st 2012

- Combining/merging strengths of
  the ministerial audit departments

- Supervised, coordinated and
  monitored by ministry of Finance, independently
  positioned and working for all ministries

- Center of excellence for public government auditing

The Central Government Audit Service conducts the financial audit within the government, provides audits on request and promotes cooperation between the different departments in the area of governmental auditing.

Key reasons for the merger (and challenges)

- Economies of scale: efficiency and effectiveness of audit capacity public sector wide

- Harmonization, unification: easier to achieve when under one umbrella

- Central planning and coordination – better oversight

- Ability to address audit needs (and risks) that are horizontal/public sector wide

- Swapping of resources: increasing flexibility of available capacity

- Positive impulse for (career) development of employees: horizontal and vertical mobility

Challenges:

- How to stay close to management? Centralized/decentralized: organizational structure deals with this issue (see further slide)
- Huge organization asks for smart solutions: for example, in relation to HR and IT-solutions
- In the first years after merger: how to become one organization instead of a collection of loosely connected silo's/parts? (cultural challenge)
- Impact on employees (from small scale to big scale); impact on clients (will I loose 'my' audit department?)

CGAS-services

- **Statutory task**
- Review of the annual financial reports of the ministries and subordinated bodies. By means of reviewing, assurance is provided with respect to the reliability of the financial statements that are included in the ministerial annual reports (judgment).
- Reviewing financial management control systems within ministries and subordinated bodies (judgment).
- Within the central Government the main question to be answered in this respect is: is tax payers money dealt with in a sound way?

- **Audits on demand**
- Investigations/audits and consulting assignments by request of management.
- It concerns requests in the field of governance, control and accountability in which the focus is aimed at policy- and business-/operational processes (e.g. IT-systems).

- **Assignments on behalf of the European Union**

How to keep IA connected with PAR and PFM reforms

- Linkage with PAR and PFM reforms
  - Accounting as a mirror of the budget process

- Network and understanding the business

- IA Engagements: Assurance Function
- Conclusion on GRC, based on RM

- IA Engagements:
- Advisory role (Advisory, Training, Facilitating)

Dutch examples

- Assurance on financial statements of Ministries
- Assurance/Advice on implementing SAP/Oracle
- Advice on implementing ESG accounting /Assurance
- Insight/Foresight on overarching accounting issues