

# LOCAL GOVERNMENT AUDIT IN THE NETHERLANDS

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## Legal framework

In the Netherlands, local government is formed by twelve provincial authorities (provinces) and a slowly diminishing number of 480 municipalities (gemeenten). Central government, provinces and municipalities are all formally independent and each has its parliament or council whose members are elected in a popular vote. Unlike most other European countries, the provincial executive is chaired by the Queen's Commissioner (Commissaris van de Koningin) whereas the municipal executive is chaired by the Mayor (Burgemeester). The Queen's Commissioners and the mayors are appointed by the Crown (the Queen and government ministers). Political responsibilities therefore are attributed to the other members of the executive: the municipal aldermen or the provincial deputies, who are selected by the majority coalition at the local council. Both the provinces and the municipalities have responsibility for different aspects of administering and managing regional and local services and programmes. And both of them are financed by a combination of central government specific purpose grants (55%), general grants out of the municipal or provincial fund (30%) and locally revised taxes (15%).

Each tier of government has its own external public finance control. At the national level a "General Chamber of Audit" exists, the *Algemene Rekenkamer*. "General" stands for the fact that it audits all central government activities. The General Chamber of Audit originates like many of its colleagues from centuries ago and it has a firm legal basis in the Constitution and the Accountability Act.

At the local level, however, no independent audit offices exist until 1997. With exception for the four biggest cities, the annual accounts were, and still are certified by public accountants of private accountancy firms, mainly Deloitte & Touche and Ernst & Young. In Amsterdam, Rotterdam, Den Haag and Utrecht, the head of the city's audit department is also appointed as external accountant and certifies the accounts. To accommodate this odd situation, the Municipal Act as well as the By-law of the Dutch institute for chartered accountants holds a special article. It sets aside the basic rule which prohibits chartered accountants to be employed by their auditee. All certifying accountants are formally appointed by the local council and are overseen by the public accounts committee. But in fact until recently, they maintained a close contact with the auditee: the mayor and aldermen and their public services. Several public accounts committees performed non-financial audits as well but this was restricted to a very small number each period.

In 1997 the City Council of Rotterdam agreed on founding a municipal audit office, the *Rekenkamer Rotterdam*. Although national legislation was lacking, founding on municipal legal statutes was nevertheless possible. With the appointment of a director by October 1998, the *Rekenkamer Rotterdam* became the first independent local audit office of the Netherlands. Other public offices in some municipalities which called themselves "audit

offices” were actually standing committees staffed by members of the city council. Many of them were originally public accounts committees who had broadened their scope towards value for money audits and had appointed some external independent advisers on the committee as well. We will refer to this type of committees as “public audit committees”<sup>1</sup>.

In 2002, a major reform of the Municipal Act (Gemeentewet) was agreed upon in the national parliament (Generalstaten). Each province and municipality in the Netherlands is now legally bound to set up either a public audit committee (in which members of the council may participate) or an independent local audit office (excluding members of the council) before 2005 at the provinces, and before 2006 at the municipalities. The composition, scope and type of control of an audit committee have to be taken care for by local regulation. As a consequence, it can be adjusted every time a majority in the local council feels necessary. The composition, scope and type of control of a local audit office, however, are determined by several articles in the national Municipal Act.

Once a local council has established a local audit office, its independence is warranted by:

- the appointment of an Auditor or Board for a fixed term of six years;
- the authority to select any object of audit without consent of the City Council or anyone else (with one major exception: the annual account, see next chapter);
- access rights to all information and places;
- the authority to offer audit reports to the City Council and publish them at the same time.

By September 2004, the 12 provinces were expected to have set up between four or five independent joint regional audit offices. Out of the 480 municipalities, only approximately 80 have established a public audit committee (about 70), a local audit office (9, including Amsterdam, Rotterdam and Utrecht<sup>2</sup>) or both (1). Among these 80, all but one of the 25 bigger cities (above 100,000 inhabitants) are present. In the year 2007 the situation was as follows: 11 provinces finally got together and decided to found in total 4 joint audit offices, one province set up its own audit office, there are by now around 30 local audit offices and 190 municipalities agreed to establish public audit committees which are dependent on the respective municipal council.

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<sup>1</sup> This is not a typically Dutch local feature. We can also find elected representatives as auditors in Sweden, where the Parliamentary Auditors audit the relatively small ministries and the Cabinet Office, while the national audit office used to audit the numerous and large agencies. And many European parliaments establish temporary committees whose investigations into, for example, extreme budget expenditures can be characterised as value for money audits.

<sup>2</sup> Utrecht started in 1997 with a public audit committee made up of members of the council only. After an evaluation its composition was changed in 2001 with then four councillors and three external members including the chairman making up the committee. On January 1, 2005 the committee was replaced by the city’s local audit office headed by a part-time board made up of three members.

## Scope of the control activity

Unlike at all other countries, neither the national *Algemene Rekenkamer* nor the local audit offices or audit committees certify the annual public accounts. At the national level, the annual accounts of the ministries are certified by the internal audit department. Nevertheless, the *Algemene Rekenkamer* does have a task in providing assurance on the consolidated State Account. For this, the State Account is, on an annual basis, submitted to the *Algemene Rekenkamer* for approval. The law prescribes for this assurance providing the expression of an unqualified or qualified opinion. A qualified opinion leads automatically to an amendment procedure for Parliament. In order to attain a sound basis for an opinion on the State Account the *Algemene Rekenkamer* relies heavily upon the audit findings of the internal auditors of the ministries. It can therefore direct a major part of its audit capacity (about 66%) to other objects than the audit of the annual accounts.

This holds even more so for the local audit institutions. A local audit office or a local audit committee is legally allowed to audit the efficiency, effectiveness and regularity of all aspects (including of course the incomes and expenditures) of local government except for the audit of the annual account. As was written before, this is taken care of by public accountants or, for the four biggest cities, by the internal audit department<sup>3</sup>. In the latter case, recent legal changes will attribute some powers to overview the audit of the annual accounts to the local audit offices of the cities involved.

Next to aspects, local audit offices as well as audit committees have the legal authority to audit the performance of all city departments, of the municipal or provincial executive, the Ombudsman and even of the council itself. For local audit offices only, this legal authority even holds for organisations which receive considerable grants and for companies which are owned (by a 50% or more stakeholders majority) by local government.

## Types of control

The audit activities of the national audit office, the local audit offices and audit committees show much resemblance. They perform, on different levels, the same type of audits. We already discussed their relatively limited audit activities concerning the annual accounts. Most audits therefore concern regularity, operational and performance audits. A few of them actually concern effectiveness audits, for example, one regarding the level of street maintenance and cleansing<sup>4</sup>. In a study<sup>5</sup> initiated some time ago by the Ministry of the

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<sup>3</sup> For the account of 2004 and later on, Rotterdam has decided to appoint a public accountant as well who will make use of the audit work done by the internal audit department.

<sup>4</sup> “Messy Rotterdam”, Rekenkamer Rotterdam, December 2002.

<sup>5</sup> “List of studies from municipal and provincial audit offices and audit committees 1991-2004”, Bruno Steiner Advies, September 2004.

Interior a list of the six most audited themes gives an impression of the types of audits involved (excluding the national audit office):

1. policy on subsidies
2. tendering, contracting out and purchasing
3. hiring management consultants
4. project management
5. land development
6. privatisation and corporatisation.

### **Relationships with other audit institutions**

The currently existing audit offices and public audit committees in the municipalities and the already constituted joint regional audit offices to serve the provinces, are entities which work independently from each other. This will also apply to all other audit bodies still to be established. There is no kind of subordination with regard to central government and the *Algemene Rekenkamer*, the national audit office. However, the setting-up of so many new audit offices and committees in the past few years has brought about an urgent need for the exchange of knowledge and know-how. In 1999, local audit institutions started to organise an annual “expert meeting”. At the 2003 expert meeting the Society of Local Audit Institutions was officially founded. In 2004, the national audit office became a member, what caused a change of name into the Dutch Society of Public Audit Offices and Public Audit Committees (NVRR)<sup>6</sup>. The current more than 200 members include nearly all bigger cities.

The NVRR maintains a publicly accessible website which holds all titles of audit reports published by all audit offices (excluding the *Algemene Rekenkamer*) over the last ten years. For most of them, the full report can be downloaded. The society also publishes a newsletter by e-mail, issues an extensive manual regarding the execution of local government audits, offers training facilities together with the *Algemene Rekenkamer* and develops an academic summer course.

Two aspects of the NVRR are remarkable. Firstly, the society deliberately unites public audit offices and public audit committees. The founders were convinced that the obvious institutional differences between the (external) audit offices and (partly internal) audit committees should not withhold them from working together to increase the quality of public sector audit in general. And secondly, the cooperation among the members is carried out on the basis of voluntary principles. This became very clear once the board proposed to codify shared rules of practice into “guidelines”. One of the draft guidelines, for example, addressed the (in)compatibility of management-consultants having a part-time appointment as member of an audit committee or with an audit office. At a general meeting, members were asked to apply or explain in their future annual reports whether they applied these

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<sup>6</sup> In Dutch: Nederlandse Vereniging van Rekenkamers & Rekenkamercommissies NVRR; [www.NVRR.nl](http://www.NVRR.nl)

guidelines or to explain why they deviated from them. For the members, independent as they are, this was not acceptable. Instead of guidelines, the meeting agreed to codify shared insights into recommendations, which leaves every individual member free to follow or not.

Apart from the NVRP, the audit offices and committees work together on a smaller scale. Three committees published a joint audit about the information quality of the annual budget proposals from their municipalities<sup>7</sup>. The *Rekenkamer Rotterdam* and the *Algemene Rekenkamer* take part in a co-ordinated audit regarding neighbourhood safety.

## **Audit procedures**

According to the Municipality Act the selection of the objects of audit falls into the authority of the audit office or the audit committee. The council might request for a specific audit. Turning down such a request might be, if, for example, it asks for an audit outside the legal scope of control, unavoidable but would be considered to be rude. Therefore, the council will make contact in advance, what enables the auditors to clarify the possibilities.

The Municipality Act obliges the audit offices and audit committees to report their findings and judgements to the auditee. Recommendations might be added. All reports have to be sent to the council and the executive and are disclosed to the public at the same time.

Except for the above-mentioned selection and reporting procedures, there are no further legal obligations regarding the audit procedures. The council might, by local statutes, add procedures to be followed by their audit committee; an independent audit office has to be invited to discuss and adopt the intended procedures.

In addition to the statutory procedures, the NVRP has developed an audit manual. Drawn from the experience of several audit offices and committees, it reflects the common practices regarding audit procedures. The following procedural audit steps are being described:

- selection of the object to be audited
- drawing an audit plan
- considering contracting out an audit (partly)
- data collection
- writing a draft report
- clearance: collecting a response from the auditee and adding an after word
- publication and press statements
- clarification to the council committee discussing the report
- evaluation.

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<sup>7</sup> Joint audit of the audit committees of Apeldoorn, Arnhem en Nijmegen into the programme budgets 2004, June 2004.

## **Addressees of audit reports**

As mentioned before, audit reports are sent to the council, the executive and are disclosed to the public. Next to these three main addressees, copies are sent to the audited department or organisations involved. Within the scope of control, the auditees involved vary over the years to avoid focussing too much on certain aldermen, city departments or connected organisations. Most local statutes regarding the clearance procedure oblige the executive to respond to the audit office or committee whether or not it will follow each of the recommendations made in the report. Most statutes also prescribe a proper discussion of audit reports by the council, well prepared by discussion in advance at the involved select committees of the council. Auditors and aldermen will both be present to give evidence.

## **Publication of reports**

Audit offices and audit committees publish their reports themselves and add a press statement. Apart from printed copies a rising number of reports are available on the Internet. The general public is usually addressed through the media. At the larger municipalities, local newspapers, radio and television regularly attend press conferences from the local audit office or committee.

Special types of reports are those evaluating the activities of the audit offices or audit committees themselves. By September 2004, nearly ten reports were published mostly self-evaluations or evaluations by management-consultants under the authority of an audit committee. In one case, the city council appointed an external committee to review the local audit office<sup>8</sup>.

## **Financial resources**

The activities of the audit offices and committees are not paid for by the auditees but are paid out of the local budget. The Municipality Act prescribes the attribution by the council to the audit office of “the necessary resources needed for a proper execution of audit offices activities”. The actual annual budgets vary widely, reflecting the difference in size of municipalities and provinces. Correcting these numbers by using an estimate per inhabitant, the budgets vary from 1 € to 1.5 €, with exceptions at both sides of the scale up to 2 €

Once attributed to the local audit office, the office is free to spend the budget according to its own insights. Budget unspent at the end of the year can be added to a specific reservation for future audits, which attributes to the office’s independence.

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<sup>8</sup> Passionate and persistent evaluation of the Rekenkamer Rotterdam 1998 – 2001; Evaluation committee Rekenkamer Rotterdam, May 2002.

## **Human resources**

Along with the differences in budget, the human resources available vary even more. Most audit committees and some audit offices restrict themselves to regularly meetings where they discuss their activities and instruct their secretary. The secretary might even be a part-time position, if the actual audit is contracted out. At other committees and offices members participate in the audit as well and the numbers of staff fully occupied may rise from 1 up to 15. Educational background varies from chartered accountants to economics, law and policy studies.