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Audit of public sector entities in The Netherlands

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Market

A simplified overview of the public sector market

	Government	Semi Government	Subsidized institutions	Not-for-profit organizations
	<ul style="list-style-type: none"> • Central Government • Provinces • Municipalities • Water Boards • Government participations 	<ul style="list-style-type: none"> • Supervisory bodies • Centre for Work and Income • Chambers of Commerce • Public bodies for industry and the professions 	<ul style="list-style-type: none"> • Education • Welfare • Health care • Cultural • Environment • Art 	<ul style="list-style-type: none"> • Housing • Charity • Humanitarian aid • Sports • Research
	Licensed (under Audit Firms Supervision Act)			Not-licensed
Financial audit	CG Ad / NL Court of Audit	BIG 4, (Ad)		BIG 4 SMPs
Other audits	CG Ad / NL Court of Audit BIG 4	BIG 4 (Audit departments)		BIG 4 SMPs

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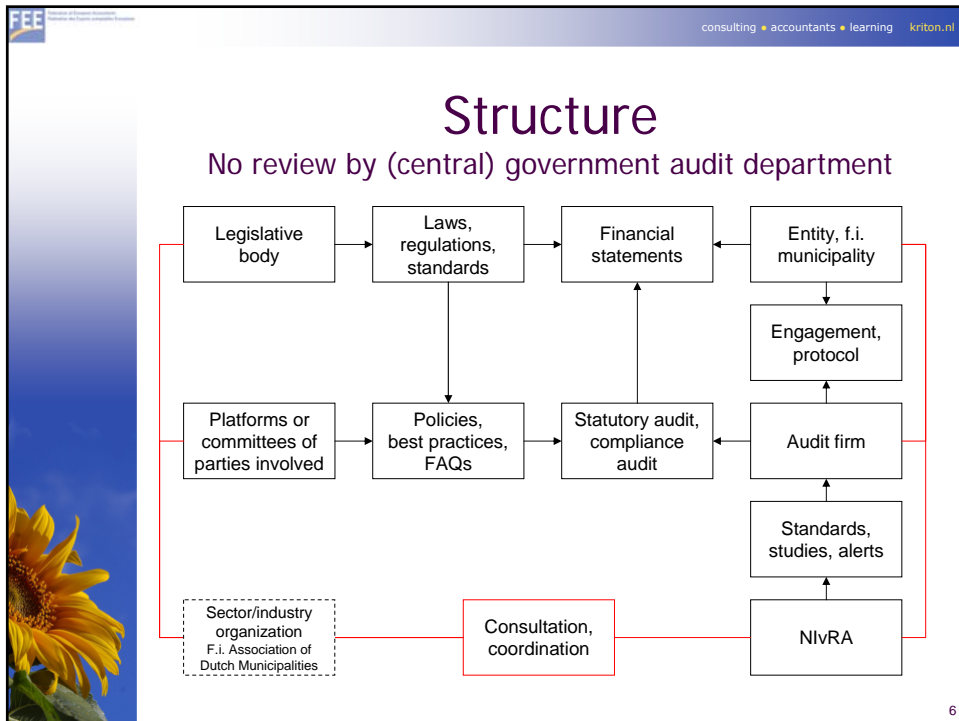
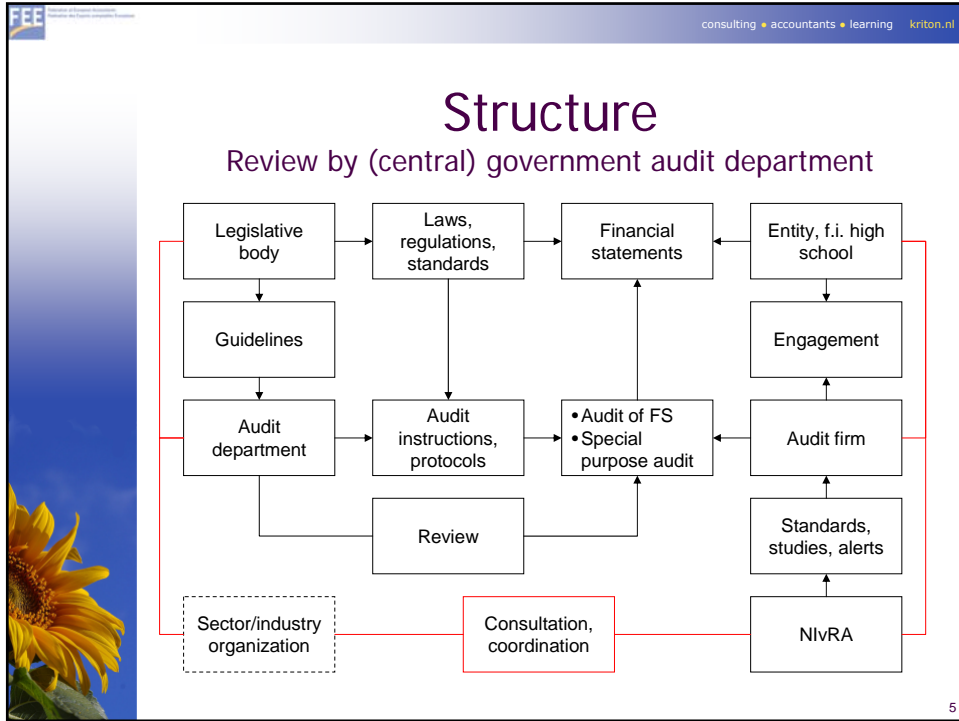
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Services

Provided to the public sector

- Financial audit, including compliance with laws and regulations
- Special purpose audits of statements on (income and) expenses related to specific grants or subsidies
- Operational audit
- Internal audit
- IT Audit
- Accounting services
- Et cetera

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Main characteristics¹

A municipality from the audit perspective

- Complex organization
 - Multiple activities and processes
- Importance of laws and regulations
 - Definition of compliance, many laws and regulations to comply with, scope
- Public interest
 - Many different users of information, PM / RM are defined by council (quantitative / qualitative)
- Budget driven
 - Instead of P&L, accruals and cash flows
- Specific accounting principles
 - Very extensive and detailed financial statements based on industry-specific accounting principles

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Main characteristics²

A municipality from the audit perspective

- Local Audit Office/Public Audit Committee
 - Primarily 'operational audits'
- Political culture
 - Hidden agenda's and cover ups, focus on short term issues
- Slow and dilatory in acting
 - (Decision making) processes
- Who's the boss?
 - Council, executive, management or civil servants
- Recent developments
 - 'Single Information, Single Audit'
 - Compliance Statement

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Main risks

Relating to the audit of the financial statements of a municipality

- Long term financial position is underemphasized
- Internal control weaknesses
- Complex and/or legacy IT environment
- Improper application of accounting principles
- Lack of transparency
- Unreliable non-financial information in reporting on outcome and effects of activities
- Frequent changes of key officers and employees
- Focus is on audit fee, not on audit quality
- Auditor appears in public council meetings
- Files can be subject to different reviews

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Requirements

Auditing the financial statements of a municipality

- Specific
 - in-depth knowledge (industry, laws and regulations, accounting principles, audit standards)
 - audit protocols
 - continuous education
 - social, communication and board room skills
- Experience and track record (market entry)
- Sufficient means to invest in this market
- Complicated and expensive tenders
- Understanding the political sensitiveness of issues
- Understanding the 'not-for-profit culture'

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