Fédération des
Experts Comptables
Européens

SURVEY OF FINANCIAL CONTROL AND EXPENDITURE APPROVAL IN CENTRAL GOVERNMENTS ACROSS EUROPE

April 2006

A Paper from the FEE Public Sector Committee

CONTENTS

I INTRODUCTION

1. FEE recognised that a variety of approaches were being adopted to ensure financial control over expenditure approvals by different European governments. In addition, FEE was aware that there was a move to change the approach adopted by some governments. For this reason, FEE undertook a survey in July 2004 to identify current practices to ensure internal financial control over expenditure approvals within central government institutions in the European Union. This report sets out the results and aims to provide further details and explanations on the main two approaches currently adopted.

2. These approaches should be considered in the wider context of risk management and internal control. In September 2004 the COSO Committee in the US issued their publication *Enterprise Risk Management – integrated framework.* This built on their seminal work on internal control which had been issued over a decade earlier. In March 2005, FEE issued a discussion paper, *Risk Management and Internal control in the EU.* These papers recognise that internal control is an approach to the wider issue of risk management. The FEE survey aimed to provide more information on one aspect of internal control, the manner in which financial approval is given for proposed items of expenditure.

3. FEE received completed questionnaires from 17 European countries. As expected two broad approaches are being practiced:

   - In some countries operational managers or budget managers check and authorise payments without an independent check being undertaken *before* payment;

   - In other countries specialist officers provide this check and authorisation function, for example, financial controllers.

   This report is divided into five main sections:

   - Misunderstandings and definitions of key terms;
   - Explanation of the two main approaches;
   - Results of the FEE survey;
   - Discussion on the two approaches; and
   - Conclusions.

II MISUNDERSTANDINGS AND DEFINITIONS OF KEY TERMS[1]

4. Many of the key concepts used in articles and books on financial control are not clearly defined. In some cases, they may be well defined and understood by accountants and auditors in one country, but are then used with a variety of different meanings in other countries. In other cases, generally recognised words do not exist to distinguish between concepts such as control and audit. This may create confusion and misunderstandings, and it can make reform work in some countries more difficult and time-consuming than it would be if there was a common understanding of the key concepts.

5. Within the European Union, the term "financial control" is used in different ways. In certain Member States. "Financial control" is an overall system of organisations, controls, rules, procedures and regulations set up to provide reasonable assurance of economic, efficient and effective use of finance. This system is wide ranging and includes *ex-ante* controls (that is those acting before, for example, a payment is made), internal and external audits, systems audits, performance and information technology (IT) audits, etc., and covers a variety of organisations and functions. In other Member States, the term "financial control" is used in a more restricted sense, to refer to a specific function performing certain aspects of the overall control function, e.g. a centralised *ex-ante* financial control organisation, an inspectorate general, treasury or external audit service, or a specific procedure (*ex-ante* control or internal audits).

6. It is therefore possible to make the following refinements in the terminology of the various aspects of "financial control":

   (i) Internal financial control: refers to the government's internal control systems aimed at protecting the financial interests of the government at large, while external control refers to financial control activities by external bodies (normally supreme audit institution and reporting to parliament) whose task it is to scrutinise and assess the financial control systems of the government;

   (ii) Third party *ex-ante* approval: is the procedure whereby an independent financial control organisation (whether centralised or decentralised) checks and approves the financial effects of management decisions before the action is taken. These checks may occur before an official order is issued, before an invoice is paid or at both stages. In any case, this process provides for the refusal by the controller. This may, however, be overruled under certain strict conditions (the so called "passer-outre" procedure in the EU). The Treasury function of the Ministry of Finance may also have undertaken certain functions of the *ex-ante* approval process (e.g. checking the availability of funds before approving a contract or of committed funds before making disbursements);

   (iii) Internal Auditing: is "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." (defined by the IIA

[1] This section is adapted from *Public Management Forum*, SIGMA Volume V Number 6, November/December 1999: http://www.sigmaweb.org/PDF/PMF/PMF99_V5N6E.PDF

http://www.theiia.org/?doc_id=1499). Internal auditors assist senior management to improve and maintain sound systems of internal control within their organisations and so manage the risks the Government faces in achieving its objectives. It reviews individual systems and processes makes recommendations to the relevant manager on how risks may be reduced by improving internal controls.

7. In the past, internal audit might also have been responsible for checking on individual transactions (before or after the payment has been made). It is now increasingly recognised that there are two separate functions which are better undertaken by discrete sections. Thus internal audit is more usually restricted to checking the soundness or otherwise of internal controls rather than confirming that the individual transactions are themselves regular. Responsibility for the latter function (if retained) is then given to a separate unit or section.

8. It is generally accepted Internal audit, because it is now designed to review operational effectiveness, should be systems rather than transaction based. It should use sampling techniques to assess the quality of the control procedures. It should focus its resources on the areas of greatest risk to the organisation.

9. Thus accepted good practice now suggests that internal audit should provide assurance to senior management that the organisation's risk management procedures are adequate and that appropriate internal controls are being used to mitigate or reduce the most significant risks. Where such controls are not considered to be sound, internal audit should provide recommendations which are aimed at helping to improve the overall control system rather than identifying individual transactions which are irregular.

10. Within the context of providing approval for planned expenditure within government administrations the following distinctions may be made:

   - **Financial Control** refers to the financial aspects (whether administrative, managerial or budgetary) of management/internal control. Such controls may be either *ex-ante* (controls in advance of expenditure) or *ex-post* (controls after expenditure);

   - **Management/Internal Control** refers to all the procedures and means making it possible to meet objectives and to comply with the budget and the rules in force, to safeguard assets, ensure the accuracy and reliability of accounting data and facilitate management decisions, in particular by making accurate financial information available at the appropriate time;

   - **Internal Audit** indicates a department within an entity, entrusted by its management with carrying out checks and assessing the entity's systems and procedures in order to minimize the likelihood of fraud, errors and inefficient practices. Internal audit must be independent within the organisation and report directly to management. The term can also indicate an activity;

- **External Audit** means audit carried out by a body which is external to and independent of the auditee, the purpose being to give an opinion on and report on the accounts and financial statements, the regularity and legality of operations, the financial management and performance[2].

Control review function responsibilities:

	Internal	**External**
Ex-ante control	Financial controller Inspectorate General	
Ex-post control	Internal audit (less recently)	External audit

2 Adapted from the nine language glossary of terms *Glossary: Selection of Terms and Expressions Used in the External Audit of the Public Sector* by Patrick Everard and Diane Wolter. © 1989 Court of Auditors of the European Communities, Luxembourg

III EXPLANATION OF THE TWO MAIN APPROACHES

11. One of two approaches are generally adopted for responsibility for checks before the payment is made:

    - "Pre-audit" or ex-ante control in some governments the check and authorisation function is provided by specialist officers, for example, financial controllers (see also Annex 2 on the Portuguese system); and

    - Managerial checks: in some countries operational managers or budget managers have authority to check and authorise payments without an independent check being undertaken *before* payment (see also Annex 3 on the UK system).

12. Pre-audit is the process where financial transactions, especially expenditure, are reviewed by an independent body (e.g. internal audit, external audit or a specialised control service) before the goods or services are committed (formally ordered) or before the associated payments are made. In some countries (Belgium and Greece), the external auditor is also involved and carries out a further pre-payment check before the invoice can be paid and thus forms part of the payment process. These checks, authorisations and certifications may occur at both the commitment (ordering) stage of the transaction and prior to the payment of the associated invoice. Individual transactions are examined for propriety before they are completed. A payment may not be made until the auditor has approved the related voucher after examining the supporting documents. Centralised ex ante auditing by the supreme audit institution is still practised in a few countries. In other countries, however, such audits are an element of management control, and therefore not the responsibility of the external auditor. In these countries, ex ante auditing by the external auditor has been largely abolished, with the external auditor focusing on the reliability of the measures taken by each ministry to avoid illegal or improper payments and other transactions.

13. France also provides an example of the first type of approach. The financial controller (controleur financier), who is an officer from the central Ministry of Finance posted within line ministries, undertakes a pre-audit of all commitments. The financial controller verifies that there are sufficient funds available in the relevant budget head and that the expenditure is appropriate for this budget. The financial controller then co-signs the official order to indicate that they are satisfied with the regularity of the commitment. This control is in addition to the checks and authorisation undertaken by the authorising officer (*ordonnateur*) or their delegates who are responsible for budget implementation. At the payment stage, an accountant (*comptable public*), who is again an officer of the central Ministry of Finance, is responsible for verifying the regularity of the payment orders in addition to any checks and certifications undertaken by the authorising officer. France is in the process of introducing radical changes to its public sector budgeting and accounting systems. The roles of the *controleur financier* and the *comptable public* are to be retained. However, the *controleur financier* will in future check orders after they have been raised and report to programme managers on any risks they have identified.

14. The UK provides an example of the second approach. A line or operational manager will formally authorise an order before it is issued. Ideally, a different manager will then certify the associated invoice before the payment is made. These officers are employees of the ministry, department or agency who have been authorised by the head of that entity to undertake these tasks. The orders and invoices are not checked or authorised by a second or independent auditor/controller.

IV RESULTS OF THE FEE SURVEY

15. Checks on commitments or proposed payments in central government in the Czech Republic, Hungary, Iceland, Romania, Finland and UK are largely the responsibility of the operational or budget manager. These countries therefore adopt the second approach. In each of these countries (as in most others) a senior official such as the minister or the chief civil servant or their deputy have to sign all orders or invoices or both (apart from small value items). The exceptions appear to be Hungary, Iceland and the UK where such high level checks are not undertaken and so reliance is placed on the operational or budget manager to undertake the necessary checks without any specialist officers undertaking such a role.

16. Eight countries have the specialist financial controller role which may be undertaken by staff of the relevant ministry or by staff seconded from the Ministry of Finance. These two approaches are equally common. In addition, in eight of the 17 countries a senior official such as the Minister or the chief civil servant or their deputies have to sign all orders or invoices or both, apart from small items. Finally in one or two countries the internal or external auditors may have a role in this process. In the case of Cyprus and France the line management officials are not expected to check the orders and rely on the specialist officials (although in France this approach is being stopped). Similarly in Bulgaria, Cyprus, Finland and France the line management officials are not expected to check the invoices prior to payment.

17. Whilst many countries argue that pre-audit or financial control is an essential complementary part of their internal control systems, six of the countries responding to the survey accepted that such a specialist or high level system of checks may have the effect of delaying the payment of invoices and so exacerbate the level of payment arrears. Nine of the 17 countries responding indicated that there had been changes in the previous two years in this area. Half of these changes were due to computerisation and three due to changes in legislation. Interestingly Iceland introduced organisational changes after consideration of the costs and benefits of such specialist checks and decided to discontinue them. In addition, five countries are currently considering reforms in this area. Romania is integrating its ex-ante financial controls and making them exclusively a line management responsibility.

18. Details of the responses received are included at Annex 1.

V DISCUSSION ON THE TWO APPROACHES

19. The use of a specialist financial control function should be considered carefully as part of the totality of a countries procurement and payment processes. Approval of transactions is only one element of the 'control' process and cannot be deemed to be effective unless all the other elements of the control process exist. Transaction approval is one of the last elements in a whole process of control, not the principal substance of the control process.

20. To a certain extent current practices may be the result of a historic approach which countries have not critically assessed in recent years. The cost of such a specialist service may be justified, but it should be reviewed from time to time and only retained if a positive cost benefit assessment is achieved.

21. The two approaches may represent two different views of public sector financial management. On the one hand, perhaps, there is the traditional bureaucratic approach with an emphasis on probity and regularity. In this case the additional specialist role(s) of financial controller can be justified by references to a reduction in irregularity. On the other there is the New Public Management approach which puts much greater emphasis on efficiency and giving managers the right to manage. In this case the operational or line managers may be more likely to be given full discretion to approve orders and the payment of the associated invoices. The fact that the UK, one of the leading exponents of New Public Management in Europe appears to be one of the few countries not to have any specialist financial control function leads weight to this argument. This is strengthened by the fact that until recently there was an element of such a specialist function in the UK as internal audit units in local government, at least, would have the responsibility to review independently major construction contracts before the final payment was made to the contractor.

22. One body that has formally reviewed its internal financial control function in recent years is the European Commission. Following criticism by the European Parliament of financial management practices within the Commission, which led to the resignation of the entire Commission in March 1999, a Committee of Independent Experts was established. This Committee concluded that "the existence of a procedure whereby all transactions must receive the explicit prior approval of a separate financial control service has been a major factor in relieving Commission managers of a sense of personal responsibility for the operations they authorise while doing little or nothing to prevent serious irregularities." (Second Report by the Committee of Independent Experts on Reform of the (European) Commission (10th September 1999) (Paragraph 4.18.1 - http://www.europarl.eu.int/experts/default.htm

23. It went on to say that:

"whatever the (im)practicalities of these options, the Committee continues to have strong reservations about them on two points of principle. First, ex ante checking, whether it be universal or on the basis of sampling, is unlikely to be a cost-effective process: the effort put in to checking all transactions is clearly disproportionate, while sampling is unlikely to have sufficient dissuasive effect. The second, and fundamental, principle is that any retention of ex ante control runs up against the crucial objection that, de facto if not de jure, it displaces responsibility for financial regularity from the person actually managing expenditure onto the person approving it. This displacement of responsibility, meaning in effect that no-one is ultimately responsible." (paragraph 4.6.2).

24. The committee recommended (recommendation 35) that a professional and independent Internal Audit Service should be set up reporting directly to the President of the Commission, that the existing centralised pre-audit function should be dispensed with, and that internal control - as an integrated part of line management - should be decentralised to the Directorates-General (departments) in the Commission. The Commission announced in January 2000 that it would accept this recommendation, and a reorganisation of the Commission services began later that year.

25. The European Commission has, however, retained its specialist pre-audit (financial control) function, although this has been devolved to separate units in each of the Directorates-General rather than being a centralized function which had been combined with internal audit.

26. There are a range of alternative views on whether or not internal financial control should be a specialist function. Two views are shown below. The first is from Germany where this function was devolved to individual ministries in 1998:

The pre-audit offices were replaced by internal auditing as from 1 January 1998. Before that, personnel had been installed in the departments and authorities to check the current management of funds and to carry out ex-post control of data. These personnel were functionally subordinated, and were obliged to report, to the SAI. As this form of auditing produced very little by way of results in the course of the years, internal auditing was introduced as a self-check focusing on specific points of emphasis.

The reform promotes the "two person" principle within the departments, and the control function stems in part from the very fact that specific transactions can be checked at any time. Setting main points of emphasis in the audit reports enables internal auditing to target specific areas, thus going far beyond the checking of warrants and the plausibility of calculations.

Accountability and Control Federal Republic of Germany – Federal Ministry of Finance, January 2004, (page 17) –
http://www.bundesfinanzministerium.de/cln_01/nn_12742/sid_75EFBD7B2756F54F20C53C5EC7A0F48B/nsc_true/EN/Service/Downloads/1000003__0,templateId=raw,property=publicationFile.pdf

27. In contrast, the World Bank took the following view in its analytical review of Mali in 2002:

Financial control is the sole means of preventing those with responsibility for placing orders of entering into irregular commitments.

Pre-audit, financial control, has the advantage of being regular and exhaustive, it enables the prevention of expenditure commitments which are not authorised or are irregular. In effect, all payments are checked with regard to their coding, the availability of funds, the application of financial orders, laws and regulations, their conformity with parliamentary authorisation and the consequences the measures proposed could have on public finances.

The decentralisation of this control by attaching delegated financial controllers to purchasing sections has made this process more efficient and effective.

Country Financial Accountability Assessment for Mali - the World Bank, November 2002, page 34, translated from the original French http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2003/12/04/000012009_20031204164429/Rendered/PDF/270660vol10Whi12580CFAA0Mali01FINAL.pdf

28. The International Organisation of Supreme Audit Institutions (INTOSAI) has prepared a checklist for managers on control and internal audit. This is attached for reference purposes as Annex 4 to this paper.

VI CONCLUSIONS

29. All public sector organisations should develop and maintain effective or sound systems of internal financial control (and wider internal control and risk management). Two particular control points, the commitment (raising of an official order) and the payment (printing of the cheque) are often considered to be particularly important in procurement and payment systems.

30. There are two approaches to control at these points and each are widely adopted in different European countries. There are sound arguments for and against each of these approaches.

31. FEE considers there are two important points to note:

- As with all aspects of internal financial control, the approach adopted should be periodically and formally reviewed to ensure that the necessarily level of control is efficiently and economically achieved; and

- That the approach adopted is consistent with, and complementary to, the overall approach to internal control, the organisation's control environment, approach to risk management and its control culture.

32. In addition, the implications of computerisation should be carefully considered. IT may provide an efficient approach to some aspects of financial control of expenditure approvals and was seen as the reason in half of the cases where changes have recently been introduced.

33. More widely, line ministries need the 'tools' to enable them to carry through their responsibilities. Line ministries and staff reporting to them should therefore:

- Be responsible for carrying out any ex ante checks of both commitments (orders) and invoices and other payments which are considered necessary ('financial control');

- Have available an assurance mechanism to enable them to satisfy themselves that controls are working properly ('internal audit');

- Have available sufficient timely financial and performance information to enable them to manage services with economy, efficiently and effectively (i.e. with a view to achieving value for money) (access to an adequate financial and management information system);

- Have the management flexibility to adjust service inputs in order to maximise performance outputs (appropriate delegated authority).

ANNEX 1: QUESTIONNAIRE: SURVEY OF CENTRAL GOVERNMENT INTERNAL FINANCIAL CONTROL IN EUROPE

	B[*]	BG	CY	CZ	FI	FR	GE	HU	IS	IT	NL	PL	R0	SI	SK	SP	UK
1. In the central government ministries of your country, is there a system of checking orders (or other forms of commitment) prior to the issue of the order?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2. If your answer to question 1 is 'YES' then who is responsible for the checking process? (If more than one person is responsible please tick all the appropriate items.) Is it:																[3]	
a) A line management official?	2[4]	1		1			1	1	1	1	1	1	1	1	1		1
b) A financial controller (or other specialist official) based in the Ministry and on the staff of the Ministry?	2[5]						2				1		1	2	1		
c) A financial controller (or other specialist official) based in the Ministry but on the staff of the Finance Ministry or another Ministry?			1			2				1			1	2		1	

[*] B: Belgium, BG: Bulgaria; CY: Cyprus; CZ: Czech Republic; FI: Finland; FR: France; GE: Germany; HU: Hungary; IS: Iceland; IT: Italy; NL: Netherlands; PL: Poland; RO: Romania; SI: Slovenia; SK: Slovakia; SP: Spain; UK: United Kingdom

[3] In Spain there is an internal control institution, the IGAE, integrated in the finance Ministry. The IGAE has a delegate in each Ministry. The cases of the Ministry of Defence and the Social Security are special; they have their own financial control institutions, but these receive instructions and are functionally dependant of IGAE. The financial controller in each Ministry is responsible for the checking process for all orders, except those which have to be approved by the Government or which have to be informed by a special consultant institution. These cannot be checked by the Ministry's financial controller and must be checked by the IGAE itself.

[4] Orders less than or equal to 5500 Euros

[5] Orders more than 5500 Euros

	B[*]	BG	CY	CZ	FI	FR	GE	HU	IS	IT	NL	PL	R0	SI	SK	SP	UK
d) The internal auditor?							1							2			
e) The external auditor?	2[6]						1[7]							2			
f) Another official (if so please indicate who)?					1				Yes [8]			Yes [9]		Yes [10]	Yes [11]	No	
LEGEND: 1. For all orders 2. Only for some orders e.g. above a value																	
3. In the central government departments of your country is there a system of checking invoices prior to payment?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
4. If your answer to question 3 is 'YES' then who is responsible for the checking process? (If more than one person is responsible please tick all the appropriate items.) Is it:																[12]	

[*] B: Belgium, BG: Bulgaria; CY: Cyprus; CZ: Czech Republic; FI: Finland; FR: France; GE: Germany; HU: Hungary; IS: Iceland; IT: Italy; NL: Netherlands; PL: Poland; RO: Romania; SI: Slovenia; SK: Slovakia; SP: Spain; UK: United Kingdom

[6] Financial Inspection (Inspection Unit that is responsible for checking all the expenses of Belgian Public departments ('Federale Overheidsdiensten'))

[7] In exceptional cases

[8] A countersignature may be required in some instances.

[9] Chief Accountant

[10] Budget inspectors from the Budget Supervisory Service at the Ministry of Finance (MF) – 2
Official in charge of the budget line (or of the contract) – 1
Specialist for legal matters (in case of a contract) – 1
Official in charge of finance (in case of a contract) – 1

[11] It depends on each ministry

[12] In Spain there is an internal control institution, the IGAE, integrated in the finance Ministry. The IGAE has a delegate in each Ministry. The cases of the Ministry of Defence and the Social Security are special; they have their own financial control institutions, but these receive instructions and are functionally dependant of IGAE.The financial controller in each Ministry is responsible for the checking process for all orders, except those which have to be approved by the Government or which have to be informed by a special consultant institution. These cannot be checked by the Ministry's financial controller and must be checked by the IGAE itself.

	B[*]	BG	CY	CZ	FI	FR	GE	HU	IS	IT	NL	PL	R0	SI	SK	SP	UK
a) A line management official?	2[13]			1			1	1	1	1	1	1	1	1	1		1
b) A financial controller (or other specialist official) based in the Ministry and on the staff of the Ministry?	2[14]	1					1				1			2	1		
c) A financial controller (or other specialist official) based in the Ministry but on the staff of the Finance Ministry or another Ministry?			1			1								2	1	1	
d) The internal auditor?														2			
e) The external auditor?	1[15]													[16]			
f) Another official (if so please indicate who)?					1				Yes[17]	Yes[18]		Yes[19]		/	Yes[20]	No	
LEGEND: 1. For all invoices 2. Only for some invoices e.g. above a value																	

[*] B: Belgium, BG: Bulgaria; CY: Cyprus; CZ: Czech Republic; FI: Finland; FR: France; GE: Germany; HU: Hungary; IS: Iceland; IT: Italy; NL: Netherlands; PL: Poland; RO: Romania; SI: Slovenia; SK: Slovakia; SP: Spain; UK: United Kingdom

[13] Orders less than or equal to 5500 Euros

[14] Orders more than 5500 Euros

[15] National Audit Office makes random checks.

[16] Budget inspectors from the Budget Supervisory Service at the Ministry of Finance (MF) – 2
Official in charge of the budget line (or of the contract) – 1
Specialist for legal matters (in case of a contract) – 1
Official in charge of finance (in case of a contract) – 1

[17] A countersignature may be required in some instances.

[18] “Consegnarato”

[19] Chief Accountant

[20] It depends on each ministry.

	B[*]	BG	CY	CZ	FI	FR	GE	HU	IS	IT	NL	PL	R0	SI	SK	SP	UK
5. What is the purpose of the checks? (If more than one objective is to be achieved please tick all the appropriate items.) Is it to ensure:																	
a) Compliance with the budget?	Yes[21]	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	No	Yes	Yes	No	Yes	Yes	Yes	Yes
b) Compliance with the law or other regulations such as contract procedures?	Yes[22]	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	No	Yes	Yes	No	Yes	Yes	Yes	
c) To ensure that the spending decision has been properly authorised by the relevant line management official?	Yes[23]	Yes	Yes	Yes	No	Yes	Yes		Yes	No	Yes	No	Yes	Yes	Yes	Yes	
d) To prevent fraud or other irregularity?	Yes[24]	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	No	Yes	No	Yes	Yes	Yes	Yes	
e) To ensure that the invoice matches the order?	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	
f) To ensure that the goods and services being paid for have actually been received?	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
g) Any other reason? (Please specify)																	
6. Where the checks are to ensure compliance with the budget, does the check ensure that commitments entered into but for which invoices have not yet been received or paid are taken into account?	Yes	Yes	Yes	Yes		Yes	Yes	Yes	No		Yes	Yes	Yes	Yes	Yes	Yes	Yes

[*] B: Belgium, BG: Bulgaria; CY: Cyprus; CZ: Czech Republic; FI: Finland; FR: France; GE: Germany; HU: Hungary; IS: Iceland; IT: Italy; NL: Netherlands; PL: Poland; RO: Romania; SI: Slovenia; SK: Slovakia; SP: Spain; UK: United Kingdom

[21] All orders

[22] Except orders more than 5500 Euros

[23] Except orders more than 5500 Euros

[24] All orders

	B[*]	BG	CY	CZ	FI	FR	GE	HU	IS	IT	NL	PL	R0	SI	SK	SP	UK
7. Does a senior official such as the Minister or the chief civil servant or his deputy have to sign all orders or invoices or both, apart from small items?	Yes	Yes	No	Yes	Yes	No	No	No	No	Yes	No	Yes	Yes[25]	Yes	No	Yes	No
8. Are 'value for money' checks carried out? ('Value for money' is defined as ensuring that goods and services purchased result in improved efficiency and effectiveness: it does not cover spending in accordance with the law and the budget.)	No	No	Yes	No	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes[26]	Yes
9. If your answer to question 8 is 'YES' then who is responsible for the 'value for money' review? (If more than one person is responsible please tick all the appropriate items.) Is it:																[27]	
a) A line management official?			No				Yes	Yes	No	Yes	Yes	Yes	Yes	No			Yes
b) A financial controller (or other specialist official) based in the Ministry and on the staff of the Ministry?			No				Yes		No	No	Yes	No	Yes	No			

[*] B: Belgium, BG: Bulgaria; CY: Cyprus; CZ: Czech Republic; FI: Finland; FR: France; GE: Germany; HU: Hungary; IS: Iceland; IT: Italy; NL: Netherlands; PL: Poland; RO: Romania; SI: Slovenia; SK: Slovakia; SP: Spain; UK: United Kingdom

[25] Only for payment orders

[26] In the previous check the financial controller cannot express an opinion about the efficiency and effectiveness, but all the expenses are submitted to an ex-post control (audit), carried out by the financial controller as well, one of whose purposes is to evaluate the "value for money".

[27] In the previous check the financial controller cannot express an opinion about the efficiency and effectiveness, but all the expenses are submitted to an ex-post control (audit), carried out by the financial controller as well, one of whose purposes is to evaluate the "value for money".

	B[*]	BG	CY	CZ	FI	FR	GE	HU	IS	IT	NL	PL	R0	SI	SK	SP	UK
c) A financial controller (or other specialist official) based in the Ministry but on the staff of the Finance Ministry or another Ministry?			Yes						No	No	No	No	Yes	No		Yes	
d) The internal auditor?			No				Yes	Yes	No	No	Yes	Yes	Yes	No			Yes
e) The external auditor?			No				Yes [28]	Yes	Yes [29]	No	Yes	Yes	Yes	No			Yes
f) Another official (if so please indicate who)?			No		Yes		Yes [30]		No	No	Yes [31]	No	No	No			
10. Where the checks carried out on invoices by the officials (question 3) cover 100% of the transactions (other than petty cash transactions) does this affect:																[32]	
a) the timing of payments by delaying them beyond, say, two weeks from the receipt of the invoice?	Yes [33]	No	No	Yes			No	No	Yes	No	Yes	No	No	No [34]	Yes		

[*] B: Belgium, BG: Bulgaria; CY: Cyprus; CZ: Czech Republic; FI: Finland; FR: France; GE: Germany; HU: Hungary; IS: Iceland; IT: Italy; NL: Netherlands; PL: Poland; RO: Romania; SI: Slovenia; SK: Slovakia; SP: Spain; UK: United Kingdom

[28] In weightily exceptional cases

[29] The Icelandic National Audit Office

[30] In weightily exceptional cases by employees of the Finance Ministry

[31] Purchase department within our ministry

[32] The usual system of the previous check is the "limited check", in which the financial controller just verifies the essential aspects of the invoice. The delay caused by the previous check in this system is five days. When the "limited check" cannot be applied (expenses that have to be approved by the Government or when the exact amount cannot be determined previously) the delay is ten days (maximum), or five days if the expense related to the invoice is urgent.

[33] Depends on the kind of goods bought. The verification of the invoice with the goods delivered can take some time, especially in a decentralised organisation

[34] According to the Act on the Implementation of the Central Government Budget commitments to be covered by the central government budget shall be met not earlier than 30 days from the receipt of the invoice (there are no reasons for delays that can be ascribed to the checks.

	B[*]	BG	CY	CZ	FI	FR	GE	HU	IS	IT	NL	PL	R0	SI	SK	SP	UK
b) the timing of payments by delaying them beyond, say, four weeks from the receipt of the invoice?		No	No	No			No	Yes	No	No	No	No	No	No	Yes	Yes	
11. Where the checks carried out by officials in questions 1 or 3 cover less than 100% of the transactions (other than petty cash transactions) how do the officials decide which transactions to check?																	
a) Are the checks random?	Yes [35]		No	No	No						No		No	No	No		
b) Are statistical sampling techniques used?			No	No	No						No		No	No	No		
c) Are risk analysis techniques used?			No	No	No						No		Yes	No	No		
d) If none of the above, please describe the main reason which determines what is checked			Yes [36]	No	No			Yes [37]			No		No	No	No	[38]	
12. Has there been any significant change in the approach to the checking of commitments and invoices over the last:																	

[*] B: Belgium, BG: Bulgaria; CY: Cyprus; CZ: Czech Republic; FI: Finland; FR: France; GE: Germany; HU: Hungary; IS: Iceland; IT: Italy; NL: Netherlands; PL: Poland; RO: Romania; SI: Slovenia; SK: Slovakia; SP: Spain; UK: United Kingdom

[35] Checks are made by audit office

[36] 100 % checking is carried out

[37] 100 % checking is carried out

[38] Transactions related to elections, repetitive transactions, small amounts and grants foreseen in the budget are not checked.

	B*	BG	CY	CZ	FI	FR	GE	HU	IS	IT	NL	PL	R0	SI	SK	SP	UK
a) 2 years?	Yes [39]	Yes	Yes	Yes				Yes	Yes					Yes	Yes	No	No
b) 5 years?							Yes			Yes						No	No
c) 10 years?						Yes							Yes			No	No
13. If the answer to question 11 is 'YES' then what has caused the change? Is it due to:																	
a) Computerisation of systems?	Yes		Yes	No		No	Yes	Yes	No	Yes			No	Yes	No		
b) Increase in the volume of commitments/payments?			No	No		No		Yes	No	No			Yes	Yes	No		
c) Shortage of staff?			No	No		No		No	No	No			No	No	No		
d) Excessive delay in payments?			No	No		No		No	No	No			No	No	No		
e) There was no perceived benefit?			No	No		No		No	No	No			No	No	No		
f) Some other reason (Please specify)	Yes [40]		No	Yes [41]		Yes [42]	Yes [43]		Yes [44]	No			No	Yes [45]	Yes [46]		

* B: Belgium, BG: Bulgaria; CY: Cyprus; CZ: Czech Republic; FI: Finland; FR: France; GE: Germany; HU: Hungary; IS: Iceland; IT: Italy; NL: Netherlands; PL: Poland; RO: Romania; SI: Slovenia; SK: Slovakia; SP: Spain; UK: United Kingdom

39 Questions 12-13: In 2003, the processes of the budget department within the Ministry of Finance were 'redesigned' so that they would become more efficient and effective. These processes will be implemented gradually and the internal control procedures will be reinforced at the same time.
Remark: These answers are only valid for the Ministry of Finance. Other departments can organise their internal control procedures in different ways (limited by the relevant legislation).

40 Reinforcement of internal control procedures can lead to more financial autonomy of the department.

41 Passing a law: Act on Financial Control in Public Administration and Amendments to Some Acts (the Act on Financial Control)

42 Before the reform, financial controllers had the same control practice, wherever they were based (in central administrations or in local administrations); a major reform took place in 1996, with a re-orientation of the local administrations financial control towards more « global » controls and less "individual" controls.

43 Increase in efficiency

44 Organisational changes – benefits vs. cost

45 The activity of internal auditors and the Court of Audit

46 Issue of the new Act no. 502/2001 on Financial Control and Internal Audit and modification of the system of ax-ante and on-going controls, issue of the internal legislative norms.

	B[*]	BG	CY	CZ	FI	FR	GE	HU	IS	IT	NL	PL	R0	SI	SK	SP	UK
14. If the answer to question 11 is 'NO' then why has there been no change? Is it because:																	[47]
a) It would require a change in the law?											Yes			No	No		
b) The external auditor would not agree?											No			No	No		
c) It would require a re-organisation which is not possible?											No			No	No		
d) There is another reason and if so please specify					Yes						Yes [48]			No	No	Yes [49]	
15. Is any change currently being considered to reform the arrangements for the control of commitments and invoices?		Yes	No	No	Yes	Yes	No	Yes	No	No	No	No	Yes [50]	No	Yes [51]	Yes [52]	No

[*] B: Belgium, BG: Bulgaria; CY: Cyprus; CZ: Czech Republic; FI: Finland; FR: France; GE: Germany; HU: Hungary; IS: Iceland; IT: Italy; NL: Netherlands; PL: Poland; RO: Romania; SI: Slovenia; SK: Slovakia; SP: Spain; UK: United Kingdom

[47] Not considered necessary.

[48] System change would be necessary.

[49] The system works properly.

[50] The integration of the ex-ante financial control exclusively in the management responsibility sphere as well as the creation at the level of the Ministry of Public Finance of a Central Harmonization Unit of the Financial Management/Internal Control are taken into account.

[51] Planned internal audit in the year 2004 – it can recommend some changes computerization of the accounting and follow-up of the system of payments. Computerization of the State Treasury – system of payments and budgetary liability.

[52] A new Budgetary Law has been approved in November 2003. The changes will affect the "essential aspects" evaluated in the "limited check", which will be increased with some aspects related to "value for money" and specially those referring to the budget stability.

ANNEX 2: ENSURING GOOD FINANCIAL MANAGEMENT IN THE UNITED KINGDOM

by Chris Butler, Head of Audit Policy and Advice, HM Treasury, UK
Taken from Public Management Forum, SIGMA, Vol. V - N°6 - November/December 1999

Under the British system, department accounting officers in the central administration are responsible for obtaining prior approval from the Treasury for all expenditure. The National Audit Office helps to account for spending by auditing the accounts of departments, and conducting value-for-money audits (VFM or performance audits) or examinations of economy, efficiency and effectiveness in the use of resources. The following article addresses these and other aspects of the UK approach to ensuring sound financial management.

The United Kingdom maintains a decentralised system of controlling government expenditure. The Treasury, as Finance Ministry, plays several key roles within this system and has recently established a new regime for public expenditure. Spending plans by departments (ministries) are divided into 1) "departmental expenditure limits," which are fixed for three years, and 2) "annually managed expenditure," which cannot reasonably be subject to firm multi-year limits. The Treasury approves these spending plans before presenting them to Parliament for approval. The UK's public expenditure costs of European Community membership are all fully accounted for in Government plans. The Government thus ensures that taxpayers and Parliament are informed of the use of Community funds, and controls and audits these funds with the same care as it controls its own expenditure.

The Treasury appoints an accounting officer for each parliamentary vote, to manage the expenditure, ensure that money is used for the specific purpose intended by Parliament, and account for it at the end of the financial year. Normally the accounting officer is the most senior full-time official (e.g. the Permanent Secretary) of the department (the ministry). As part of their financial management duties, accounting officers are responsible for obtaining prior approval from the Treasury for all expenditure. Regular spending does not need specific authorisation, but new spending, not covered by the approved spending plans, requires Treasury approval.

Parliament and the Auditors

Auditors have a key role to play in accounting for spending. The Comptroller and Auditor General, the head of the National Audit Office (NAO), is an officer of Parliament and by virtue of his statutory position enjoys a high degree of independence. NAO staff audit the accounts of departments (certification or attestation audit), and may also conduct value-for-money (VFM) examinations of economy, efficiency and effectiveness in the use of resources. These latter examinations may lead to a report to the Public Accounts Committee of the Parliament. The Committee, when alerted by the Audit Office of a critical VFM report or a qualified audit report, cross-examines the relevant accounting officer. The hearings are published, and sometimes televised, adding to the discomfort of the accounting officer. In order to achieve good financial management, and hopefully reduce the likelihood of an adverse hearing in the Public Accounts Committee, the accounting officer is required by Treasury's manual *Government Accounting* to have an internal audit service. The Treasury sets the standards and practices in the *Government Internal Audit Manual* which internal auditors must follow.

Internal Audit Gives Assurance

All aspects of control, which concern the accounting officer, the Treasury and Parliament are covered by internal audit which appraises the current controls over the:

- Effectiveness of operations;
- Economical and efficient use of resources;
- Compliance with applicable policies, procedures, laws and regulations;
- Safeguarding of assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption;
- Integrity and reliability of information, accounts and data.

Internal audit assures the accounting officer on all these aspects. The results of individual audits are reported, and each year a summary report is issued with an audit opinion on the adequacy and effectiveness of the internal control system.

A new requirement obliges accounting officers to state each year that internal financial control has been reviewed within their organisation. This signed statement further emphasises the accountability of accounting officers and underlines the role internal audit plays in supporting them. In some cases, the accounting officer may be called before the Public Accounts Committee of Parliament to account for the way in which the department's resources have been employed in discharging its functions.

After many years of development, internal auditors in central government are ready to respond to these growing demands. British experience shows that the keys to making internal audit effective are to establish internal audit standards and to encourage professional training in internal audit. The Treasury's Audit Policy and Advice team maintains the standards and continues to encourage innovation and development of best practice.

Note:
Since this annex was written a system of devolution has been introduced in the UK and there are now additional bodies with responsibility for Scotland, Wales and Northern Ireland.

ANNEX 3: PORTUGAL'S FINANCIAL CONTROL SYSTEM

By Vitor Caldeira, Member of the European Court of Auditors, Luxembourg
Taken from Public Management Forum, SIGMA, Vol. V - N°6 - November/December 1999

This article describes the system of financial control in Portugal. The Portuguese system is a modernised version of an Inspectorate General of Finance model, with emphasis on *ex-post* controls and co-ordination of controls by a centrally placed government body.

External Versus Internal Control

Portugal's system of financial control is based on a model that distinguishes between different types and levels of control, including a clear separation between external and internal control functions. The Parliament exercises external control at the political level, while the Court of Audit, in its capacity as an independent, sovereign court, does so at the judicial level. In its capacity as the country's supreme audit institution, the Court of Audit is at the same time responsible for performing the external audit function.

Internal control is carried out by bodies which determine their own working methods, including the inspectorates general in each ministry and by other audit bodies which are assigned internal control tasks. These tasks include the verification, follow-up, evaluation and provision of information concerning legality, regularity and good management of activities, programmes, projects, and operations carried out by public or private entities. Private entities which receive national, EU or other public funds are subject to internal control.

Taking into account the Portuguese control experience of the EU structural funds, a coordinated system for the internal control of the state financial administration was put in place in 1998. This system covers budgetary, economic and financial domains as well as other assets, and aims to ensure clear, coherent control. The system must guarantee that:

- All areas are controlled;
- None are subject to double examination;
- Each level of control respects its area of competence; and
- That common and accepted audit methodology is used.

The Internal Control System

The organisation of internal control in Portugal is divided into three levels:

1) Micro level management;
2) Sectoral control;
3) High level or horizontal control.

At the horizontal or high level of internal control, there are three bodies: the Inspectorate General of Finance, which is the control institution responsible for the overall financial control of all public revenue and expenditure, the General Budget Directorate, responsible for the horizontal control of the implementation of the state budget and the Financial Management Institute of Social Security, responsible for the social security budget horizontal control.

At the sectoral level of internal control, there is a network of audit bodies. These include those entities charged with organic, functional, or even regional internal control tasks, such as Inspectorates (for example, the General Health Inspectorate or Regional Finance Inspectorates of Madeira or Açores). Sectoral control concentrates on assessing the soundness of the organisation, reliability, and activity of internal control at the micro level.

At this first (micro) level of the system, control occurs in operational units implementing management activities of public funds. The audit sections of these units perform the controls. The verification and follow up of the management activities and decisions is the main task of these internal audit functions, which are fundamental inputs to the work of the higher levels of control.

The Inspectorate General of Finance

The Inspectorate General of Finance enjoys a key position in the system. It reports directly to the Minister of Finance and it functions, among other things, as the national liaison body with the European Commission in the field of financial control.

It carries out three types of *ex-post* controls:

1) **Financial control or audit.** The objective is to give an opinion on the financial and accounting systems and the procedures of internal control of entities under public law, such as public enterprises, and paying agencies for EU Agricultural Funds;

2) **Control of legal conformity and financial regularity.** The goal is to provide an assessment of legal and administrative conformity, regularity of administration and systems of financing and financial management;

3) **Financial management control or "performance audit".** This is an examination of the extent to which public organisations or agencies have used financial, human and other resources in an economic, effective and efficient manner in the implementation of their objectives.

The second and third forms of control are carried out in a co-ordinated fashion across the state financial administration.

With this system, Portugal has succeeded in meeting the basic EU requirements on financial control and in introducing a more efficient audit and financial control system that has improved the value-added of controls of state budget funds.

ANNEX 4: CHECKLIST FOR MANAGERS

Taken from Internal Control: Providing a Foundation for Accountability in Government An introduction to internal control for managers in governmental organizations
http://www.intosai.org/Level3/Guidelines/3_InternalContrStand/3_INT_Ae.pdf

In establishing your framework, have you:

- o Assessed the risks the organization faces?
- o Identified control objectives to manage the risks?
- o Established control policies and procedures to achieve the control objectives?
- o Created a positive control environment?
- o Maintained and demonstrated personal and professional integrity and ethical values?
- o Maintained and demonstrated a level of skill necessary to help ensure effective and efficient performance?
- o Maintained and demonstrated an understanding of internal controls sufficient to effectively discharge responsibilities?

For implementing internal control, have you:

- o Adopted effective internal control throughout the organization?
- o Based the organization's internal control on sound internal control standards?
- o Included in the organization's internal control structure appropriate and cost-effective control practices?
- o Prescribed control practices through management directives, plans, and policies?
- o Established a means of continually monitoring the operation of the organization's internal control practices?

Concerning the audit function, have you:

- o Shown an understanding of the difference between internal control and audit?
- o Recognized that an audit function is integral to your organization's internal control?
- o Established an audit function?
- o Ensured the audit organization's independence?
- o Given the audit organization responsibility for evaluating the effectiveness of the audited organization's internal control practices?
- o Established a system to monitor the organization's progress in implementing internal and external auditor recommendations?