



SIGMA

**Support for Improvement in Governance and Management
in Central and Eastern European Countries**

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POLAND PUBLIC SECTOR EXTERNAL AUDIT¹ ASSESSMENT 2002

1. Introduction

The, *Najwyższa Izba Kontroli*, (the NIK) operates on a collegiate basis managed by a President. The institution has been significantly reformed during the last decade. In 1994 a new NIK Act was adopted which strengthened the independence of this body, and in 1997 the new Constitution confirmed the important role and position already given to the NIK in strengthening public accountability. The NIK is headed by the President, who is accountable before the *Sejm* for its activity. The NIK Council consists of the NIK President, the Vice-Presidents, the Director General and 14 other members in a Council, (of whom 7 are directors of organisational units or advisers to the President of the NIK and 7 external scholars of law or economics). The NIK has 14 departments at the headquarters in Warsaw and 16 regional offices. In 2001 it produced 201 reports that were forwarded to Parliament. The total number of staff is 1 695, including 1 247 auditors. The NIK 2002 budget amounts to 196 215 Million Zlotych (51 665 million Euros), compared to 196 594 in 2001 (58.5 million Euros). The NIK is currently considering to enter into a “light twinning” arrangement with an EU Member State partner.

2. Baseline Questions

2.1 *Does the SAI have clear authority to satisfactorily audit all public and statutory funds and resources, bodies and entities, including EU resources?*

Baseline achieved (1999, 2000 and 2001 baselines achieved). The Constitution and the NIK Act provide a solid and detailed base for the work of this Supreme Audit Institution. The NIK audit area covers the activities of Government administration organs, the National Bank of Poland, state legal entities and other state structural units (from the viewpoint of legality, economic diligence, integrity, and efficacy). The NIK can audit the activities of local Government structural units, local Government legal entities and other local Government organisational units (from the viewpoint of legality, economic diligence and integrity). The NIK can also audit from the point of view of legality and economic diligence the activities of other structural units and economic entities to the extent they make use of public property or resources, including resources allocated on the basis of international agreements. The NIK Act has a clear right to audit the final beneficiaries of EU funds. The NIK has full rights to audit state-owned companies, and even to audit companies with one per cent of shares owned by the state.

The external audit of local government finances is under the responsibility of the Regional Accounting Chambers (RAC) for regularity aspects as well as some performance aspects. The regions and the counties are audited each year. The municipalities should be covered at least every fourth year. These intervals are not ideal, but in the current circumstances may be considered acceptable. Co-operation and co-ordination,

1. The rating has four categories: baseline achieved; baseline substantially achieved; baseline partially achieved; baseline not achieved.

including in training matters, between the NIK and the RAC is based on an agreement concluded in February 2002.

2.2 *Does the type of audit work carried out cover the full range of regularity and performance audit set out in INTOSAI auditing standards?*

Baseline substantially achieved (1999 baseline achieved, 2000 and 2001 baselines substantially achieved). The NIK performs most types of regularity and performance audits. Most audits are normally of the thematic type on a topical issue with evidence collected from the whole Polish administration. Legality aspects still dominate the audit process, but there are many, and an increasing number of reports, where performance aspects prevail. The NIK normally covers internal control and financial management aspects in each audit. The NIK is the only external auditor issuing audit opinions in the state budgetary sector. State-owned enterprises organised in accordance with the Commercial Code are statutorily subject to an annual certification audit of their financial statements by a private auditor.

The basic obligations of the NIK are to present to the *Sejm* a) an analysis of the state budget execution and the monetary policy guidelines; and b) a formal audit opinion on the discharge of Government responsibilities. The latter task comes close in character to the certification of financial reporting from the central budget. The report on the execution of the state budget is presented by the President of the NIK at a plenary meeting of the *Sejm* and provides the basis for this body's decision on granting discharge of duties to the Government.

2.3 *Does the SAI have the necessary operational and functional independence required to fulfil its tasks?*

Baseline substantially achieved (1999 and 2000 baselines achieved, 2001 baseline substantially achieved). The legislation provides the NIK with a good level of independence, both operationally and functionally, from the legislative (*Sejm*), the executive and the judicial organs of the State. The NIK presents its budget proposal directly to Parliament. It is exclusively for to the NIK to decide upon how the audit should be carried out as well as the conclusions to be drawn. The *Sejm* and its bodies have the right to request the NIK to carry out audits; and the President and the Prime Minister also have the right to propose audits to the NIK, but the NIK can not be compelled to perform such tasks. Though this type of audit does get priority, the number of such tasks remains low and has decreased in 2001 (4 audits compared to 7 in 2000).

2.4 *Are the SAIs annual and other reports prepared in a fair, factual and timely manner?*

Baseline substantially achieved (1999 and 2000 baselines achieved, 2001 baseline substantially achieved). There are no statutory timetable requirements for the annual reporting to the *Sejm* within the specific legal framework of the NIK. However the *de facto* deadline for the report on state budget execution audit report including the NIK's opinion on discharge of duties derives from the Constitutional calendar for granting discharge of duties to the Council of Ministers by the *Sejm*. In practice this should be done within 5.5 months after completion of the previous budget execution. So far, the NIK has managed to produce these formal reports and documents in due time and to a high standard. Deadlines for delivering to the *Sejm* the results of the other audits performed by the NIK are not specified in the law: they depend on the annual work plan adopted by the NIK.

However, taking into account the existence of complicated procedural steps which result in slowing down the reporting cycle, and in order to make the NIK audit procedures more efficient, its President has introduced simplifications to the audit procedures to the extent possible by way of internal regulation. These new rules are applicable from September 2002 onwards. Additional simplifications would need legal changes but the NIK has already drafted provisions for that in the case where the NIK Act happened to be re-examined in the *Sejm*.

The fairness of reporting is in principle ensured with a detailed contradiction and strong (somewhat lengthy) appeal procedures.

2.5 *Is the work of the SAI effectively considered by government and parliament e.g. by a designated committee that also reports on its own findings?*

Baseline substantially achieved (1999, 2000 and 2001 baselines substantially achieved) The NIK's annual statutory reports are presented to the *Sejm*. As a rule, the committee in charge of a topic or an area discusses the NIK findings; a plenary *Sejm* debate can also be organised on motion by the NIK. A special State Audit Committee has been established by the *Sejm* since November 1998, to examine the rulings of the NIK on its audit findings. Ultimately, the opinions and reports presented by the NIK are referred by the Speaker of the *Sejm* to the State Audit Committee and other proper *Sejm* Committees. The State Audit Committee is, amongst others, in charge of presenting opinions concerning materials and conclusions ensuing from the NIK Act.

The NIK Act requires the President of the NIK to present his reports to the public after delivering them to the *Sejm*. In general the NIK audit results are well accepted by the *Sejm*. The President of the NIK has the right to participate in the meetings of the *Sejm*. The Government's response on audit findings seems to be good. The President's office and the Prime Minister's office do not have any specific procedures in place to deal with the audit reports.

The NIK has a very high media profile which results in many articles and media appearances for senior staff. As a result of this and the results actually achieved, the NIK has a very high rating among the public (gathered from public opinion polls) and a lively parliamentary and public interest in their work.

2.6 *Has the SAI adopted internationally and generally recognised auditing standards compatible with EU requirements, and how far have they been implemented?*

Baseline substantially achieved (1999, 2000 and 2001 baselines partially achieved). The NIK carried out a comparative review in 2001 to check its actual audit practice against the INTOSAI Auditing Standards. This provided the basis for preparation of executive programme to implement the NIK's audit strategy. The NIK Audit Strategy Department developed the NIK auditing standards, which stem from the INTOSAI Auditing Standards, their European implementing guidelines for INTOSAI standards as well as the IFAC standards, taking into account the specificity and context of the NIK functioning. The document is at this stage the subject of discussion but should be approved before the autumn of 2002.

The NIK is also engaged in the development of an up-to-date audit manual replacing the current manual (the Green Book), which is more a compendium of the rules and regulations applicable to the audit work. Based on an adopted Mission and Vision statement, the draft manual already contains finalised elements generally in line with internationally and generally recognised auditing standards compatible with EU requirements. This is the case for the NIK audit standards already mentioned, including a specific glossary, and additional practical guidelines on evidence selection and collection, audit sampling, legal issues, preparation of rulings on audit results, specific standards for the state budget audit, for the audit of privatisation, and IT investments. The manual is likely to be approved before the summer 2002. The NIK is a big organisation with a large number of staff and numerous and important sub-organisations. This could raise concern about the effectiveness of any change and development process. It has to be stressed that the actual implementation of the new standards and manual will require important training efforts, that will need careful planning and substantial mobilisation of resources.

2.7 *Is the SAI appropriately aware of the requirements of the EU accession process?*

Baseline achieved (1999, 2000 and 2001 baselines substantially achieved). The senior management of the NIK are aware of their responsibilities and role as a consequence of Poland being one of the first countries

expected to gain accession to the EU. The development efforts described above bear witness of this continuing commitment.

The NIK is otherwise actively involved in disseminating its experience in the field of new audit techniques and processes amongst homologue institutions in candidate countries.

In addition, since the beginning of the 1990s, the NIK has carried out numerous audits of EU aid resources as well as of the Polish authorities activities in the field of integration or EU-law approximation. In its 2000 — 2002 Strategic Audit Plan preparations for EU accession were listed among the priority tasks of the NIK.

In 2001 the NIK also continued its co-operation with the European Court of Auditors. It has participated namely in joint audits of PHARE resources in the area of environmental protection.

The NIK is actively involved in co-operation with Supreme Audit Institutions of Central and Eastern Europe and the ECA in the context of the European integration by way of participating in working groups.

3. Capacity to Further Develop the System

The NIK still has a progressive and proactive attitude to developing itself as an institution, and is keen to develop itself as a well functioning SAI operating to good EU standards. It has demonstrated a clear commitment to making beneficial change through its decision to be subject to a Peer Review carried out by SIGMA. The recommendations made in this framework were thoroughly analysed by the NIK; most of them were adopted and their implementation is carefully monitored. The NIK in particular has moved towards the next important phase in the change programme by finalising and progressively implementing a Strategic Development Plan. The biggest challenge for the institution remains to find a proper balance between operational tasks and development activities, and from that, contributing step by step to a better financial control and financial management in the administration.

At present the Mission and Vision Statement (with the Strategic Development Plan) is being finalised, taking into account comments presented by the NIK structural units and SIGMA. This document also contains a detailed Strategic Development Plan, with executive tasks including deadlines and persons in charge.

Since July 2001 a specialised team for audit methodology has been active at the NIK Audit Strategy Department, which is composed of outstanding practitioner auditors and benefiting from advice of external experts.

4. Summary and Next Steps

External audit substantially meets the requirements of INTOSAI Auditing Standards/EU Guidelines for adequate audit of public funds and expenditure. The NIK should continue to give priority to developing its audit methodology and bringing its formal audit opinion into line with internationally recognised auditing standards. The NIK, as well as Parliament and the Government should develop their procedures for follow-up of actions to be taken on audit findings.

Priority should be given to the following actions:

A. Should be applied (or started) in the short term (next 12 months):

- Continue action to implement the adopted Strategic Development Plan taking into account the agreed detailed findings of the SIGMA Peer Review in a well co-ordinated and coherent manner, and other input coming from the NIK's own analyses or other resources;

- Continue developing and expanding the implementation of the NIK's revised audit methodology/manuals/policies/standards in line with good practices of EU SAIs;
- Carefully assess and plan the training requirements for progressively implementing the revised audit approaches and techniques with sufficient attention paid to the need for ownership amongst the audit staff and efficient dissemination of new audit instruments;
- Inform and request opinion of the main partners in Government, including managers of audited entities, and Parliament about the new solutions in the NIK's audit methodology. This would be conducive to proper understanding of the new solutions, and thus to increasing the efficiency of audit work;
- The NIK, as well as Parliament and the Government should be encouraged to develop and strengthen their procedures for reporting and follow-up of actions taken on audit findings.

B. Should be applied (or started) in the medium term (next two years):

- Seek peer assurance to assess the progress resulting of the current change and reform process.