



SIGMA

Support for Improvement in Governance and Management

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POLAND PUBLIC SECTOR EXTERNAL AUDIT¹ ASSESSMENT 2003

1. Introduction

The *Najwyższa Izba Kontroli* (the NIK) operates on a collegiate basis and is 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* (Parliament) 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 seven are directors of organisational units or advisers to the President of the NIK and seven external scholars of law or economics). The NIK has 14 departments at its headquarters in Warsaw and 16 regional offices. In 2002 it produced 194 reports that were forwarded to Parliament. The total number of staff is 1,700 including 1,251 auditors. The NIK's 2003 budget amounts to 196,352 million zlotys (45,980 million euros), compared to 196,215 million in 2002 (45,940 million euros). Since March 2003 the NIK has entered into a "twinning light" project with the UK National Audit Office, which will end in August.

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, 2001 and 2002 baselines achieved). The Constitution and the NIK Act still 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 contains a clear right of this institution 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

¹ The rating is comprised of four categories: baseline achieved; baseline substantially achieved; baseline partially achieved; baseline not achieved.

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, including in training matters, between the NIK and the RAC are 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, 2001 and 2002 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 NIK has now started to turn this into an audit opinion on the financial statements on the execution of the state budget. This will actually imply 91 separate audit certificates and one on the consolidation account (on the consolidation procedure as such). The NIK has planned to deliver the first certificates on the state accounts this year, i.e. in relation to the execution of the 2002 budget. The report on the execution of the state budget, presented by the President of the NIK at a plenary meeting of the *Sejm*, 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 and 2002 baselines substantially achieved). The legislation provides the NIK with a good level of independence, both operationally and functionally, from the legislative (*Sejm*), executive and judicial organs of the state. The NIK presents its budget proposal directly to Parliament. It is exclusively up to the NIK to decide 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, but the NIK cannot be compelled to perform these tasks. Although this type of audit does have priority, the number of such tasks remains low (seven audits in 2000, four in 2001 and seven in 2002).

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

Baseline substantially achieved (1999 and 2000 baselines achieved, 2001 and 2002 baselines 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 audit report on state budget execution, 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 have been applicable since September 2002. Additional simplifications would require legal changes, but the NIK has already drafted provisions for that eventuality in case 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 achieved (1999, 2000, 2001 and 2002 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 special State Control Committee was established by the *Sejm* in December 1998 to examine the rulings made by the NIK on its audit findings, as well as to perform a regular appraisal of the NIK's activities. Ultimately, the opinions and reports presented by the NIK are transmitted by the Speaker of the *Sejm* to the State Control Committee and other proper *Sejm* committees. In one year, about 100 parliamentary committee sessions are devoted to the examination and discussion of reports of the NIK. The State Audit Committee is, among 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 NIK Council even has the right to request the Marshall of the *Sejm* to call a special plenary debate on certain audit findings and recommendations (this procedure has already been used on two occasions in 2003).

The State Control Committee had an opportunity to discuss the report on the relations between parliaments and supreme audit institutions, prepared by NIK staff in 2002 in the framework of the Sigma-supported co-operation with ECA and other candidate country SAIs. This report included specific recommendations on the improvement of follow-up procedures to NIK reports.

The government's response on audit findings is generally good. However, 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 started to develop a policy of agreements with other public institutions (including the Regional Accounting Chambers), establishing joint task forces in order in particular to disseminate the knowledge and professional standards in use with the NIK throughout key components of the Polish public administration.

The NIK has a very high media profile, which results in frequent press articles and media appearances for senior staff. As a result of this visibility and the results actually achieved, the NIK has a very high rating among the public (gathered from public opinion polls) and has elicited a lively parliamentary and public interest in its 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, 2002 baseline substantially achieved). The NIK carried out a comparative review in 2001 to check its actual audit practice against the INTOSAI Auditing Standards. This review provided the basis for preparation of an 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, the EU Implementing Guidelines, as well as the IFAC standards, taking into account the specificity and context of the NIK's functioning. The finalised document was approved at the end of May 2002.

The NIK also finalised the production of its Audit Manual in June 2002. Based on an adopted Mission and Vision Statement, the manual contains numerous elements for the most part in line with internationally and generally recognised auditing standards and compatible with EU requirements. At the end of March 2003 the manual contained 27 chapters in four main parts: general issues (strategy, auditing standards, Code of Ethics, glossary); methodological guidelines (following the layout of the NIK Auditing Standards); useful techniques; and detailed guidelines for specific audit areas, e.g. for the audit of the state budget. The manual is available for NIK auditors on intranet. The NIK is a large organisation, with a considerable number of staff and numerous, important sub-organisations. The NIK's size 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, which will need careful planning and entail a 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, 2002 baseline achieved). The senior management of the NIK is aware of its 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 to this continuing commitment.

The NIK is otherwise actively involved in disseminating its experience in the field of new audit techniques and processes among homologous 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 activities of the Polish authorities in the area of EU 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 2002 the NIK also continued its co-operation with the European Court of Auditors (ECA). It participated in the ECA audit, which was part of the Statement of Assurance 2002, where the objective was to give an opinion on the legality/regularity of payments and on the management and control system relating to payments made from the budget of the European Communities.

The NIK actively co-operates with Supreme Audit Institutions of Central and Eastern Europe and with the ECA in the context of European integration through its participation in working groups.

3. Capacity to Further Develop the System

The NIK continues to have 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 changes by 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 being 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 remaining for the institution is to find a proper balance between operational tasks and development activities, and at the same time, to contribute step by step to better financial control and financial management in the administration.

At present the Mission and Vision Statement (with the Strategic Development Plan) has been finalised, taking into account comments presented by the NIK structural units and Sigma, as well as the set of audit standards and the new manual.

A good demonstration of the commitment to change of the NIK is given by the fact that the competent staff have themselves developed the software used to carry out the new certification task in the framework of the revised financial audit (“auditor’s assistant”). An office for obligatory training and professional development has been established to support the preparation and implementation of the overall concept of professional development in the NIK.

Most of the new work has been carried out and most new documents were produced by the Department of Audit Strategy, where in 2001 the team for development of audit methodology was established, but in close co-operation with other departments, in particular audit departments, at both central and regional levels. The NIK is firmly committed to inform its external partners of the new audit concept and methodologies now being implemented.

4. Summary and Next Steps

External audit substantially meets the requirements of INTOSAI Auditing Standards and EU Implementing Guidelines for adequate audit of public funds and expenditure. The NIK should continue to give priority to developing its audit methodology and to bringing its formal audit opinion into line with internationally recognised auditing standards. The NIK, as well as parliament and the government, should continue to develop their procedures for follow-up 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):

- The new audit manuals should be tested and the audit methodology revised in an organised and thorough manner, including feedback from field practice.
- The NIK should continue to implement the adopted Strategic Development Plan in a well co-ordinated and coherent manner, taking into account the agreed detailed findings of the Sigma Peer Review and other input coming from the NIK’s own analyses or other resources.
- The NIK should continue to develop and expand the implementation of its revised audit methodology/manuals/policies/standards, in line with good practices of EU SAIs.
- The training requirements for progressively implementing the revised audit approaches and techniques should be carefully assessed and planned, with sufficient attention paid to the need for ownership among audit staff and efficient dissemination of new audit instruments.

- The NIK needs to continue efforts to inform its main partners in government, including managers of audited entities, and parliament, and to request their opinions on the new solutions in the NIK's audit methodology aimed at increasing the efficiency of audit work.

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

- The NIK should continue to seek peer assurance to assess the progress resulting from the current changes and reform process.