

# SUPREME AUDIT OFFICE

# '10



## Annual Report

Warsaw 2011 POLAND



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# SUPREME AUDIT OFFICE

The year 2011, in which this report is published, is the year when Poland takes over the Presidency of the European Union. It is a great honour for our country to preside over the Community seven years only after our accession. The NIK would like to thank the other EU Supreme Audit Institutions for their collaboration, it has been a pleasure to work with you within the EU audit community. This report is illustrated with photographs of Warsaw and Luxemburg taken by employees of the NIK.

## Annual Report 2010

Warsaw 2011 POLAND

# 2010 ANNUAL REPORT

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Supreme Audit Institution  
2010



**The mission** of the Supreme Audit Office (NIK) is to promote economic efficiency and effectiveness in the public service to the benefit of the Republic of Poland.

**The vision** of the NIK is a Supreme Audit Institution with a widely recognised standing, whose reports will be an expected and sought for source of information for bodies of the state and the general public.

The Supreme Audit Office (NIK) is the supreme state audit body, independent of the executive, whose task is to safeguard public money.

The organisation and the functioning of the Polish Supreme Audit Office (the NIK) are set out in the Constitution of the Republic of Poland and in the Act on the NIK of 23 December 1994. The NIK is subordinate to the Sejm (the lower chamber of the Polish Parliament) and it is headed by the President, who is appointed by the Sejm for a six-year term of office. The NIK's basic task is to conduct audits related to the execution of the state budget. It also audits public finance spending and the management of public assets by state and local governmental bodies and economic entities (businesses). Every year, the NIK submits three key documents to the Sejm: its analysis of the execution of the state budget and monetary policy guidelines, its opinion on the vote of approval for the government and its annual activity report.

In December 2010, the President of Poland signed the amended Act on the NIK, to come into force on 2 June 2011. It comprises an array of changes and it will be introduced in subsequent stages. In 2011, the new organisational structure of the NIK will be established and external audit of the NIK's budget and financial management will be carried out. While in 2012, a new methodology of conducting and documenting of audits will be introduced, and in the subsequent year - the fixed term of office for managerial staff.



## Dear Colleagues,

It gives me great pleasure to present you with the report on the activity of the NIK in 2010. In the report, you can find general information on the tasks and mandate of our institution, its staff and budget, international activity and the list of audits carried out in 2010. The majority of those audits were related to the state budget execution audit, which is our priority task every year. They are aimed at informing public authorities and, in the first place, the citizens, on how the state functions, how the public administration performs and how public money is spent.

The year 2011, when this report is published, is the last year of the NIK's presidency of EUROSAI and the last year when I am the Chair of the EUROSAI

Governing Board. Therefore, our international activity primarily concentrated on initiatives within EUROSAI Presidency, the flagship one being the development of the EUROSAI Strategic Plan to cover the years 2011-2017. This document is aimed at making EUROSAI activities yet more effective, and I hope that one day it will be regarded our great joint success.

Another important achievement of our Presidency was the finalisation of efforts aimed at starting cooperation with ASOSAI, to be concluded with the first EUROSAI-ASOSAI Conference in autumn 2011. It has been an important step in the development of interregional cooperation of EUROSAI.

In the course of our efforts to further improve the effectiveness and efficiency of the public sector auditing, in March 2011 we concluded the Cooperation Agreement between EUROSAI and the European Confederation of Institutes of Internal Auditing (ECIIA). I hope its implementation constitutes one more step in the improvement of cooperation

between external and internal audit functions in the public sector.

Although EUROSAI Presidency has been the priority for us for the last three years, we have not neglected other areas of international activity. It gives me great pleasure to inform you that at XX INTOSAI Congress in Johannesburg the NIK took over the chairmanship of the INTOSAI Subcommittee on Internal Control Standards. This has opened new opportunities for us to collaborate with our colleagues from the INTOSAI community.

The year 2010 also witnessed continuation of several parallel audits in which the NIK cooperated with Supreme Audit Institutions of other countries. More information on these initiatives is comprised in the section dedicated to our international activity of this report, where you will also find a summary of the NIK's bilateral contacts and its participation in EUROSAI and INTOSAI structures in 2010.

Jacek Jeziarski  
President of the NIK



## Audits in 2010 – some statistics

- 184 planned audits
- 2,778 entities audited
- 205 ad hoc audits
- 2,995 post-audit statements
- 183 pronouncements on audit results submitted to the Sejm (lower chamber of the Parliament)
- PLN 14.5 billion – volume of financial irregularities disclosed in audits
- PLN 700.1 million – financial benefits of audits
- PLN 7.7 million – volume of financial irregularities to the detriment of the European Communities budget
- NIK representatives participated in 719 sessions of parliamentary committees and sub-committees
- 71 de lege ferenda proposals
- 6 parallel audits conducted with Supreme Audit Institutions of other countries





## College of the NIK

The NIK operates on the basis of the principle of collegial responsibility, which is expressed in the activity of the College of the NIK. The members of the College, who are independent in their functions, are appointed by the Speaker of the lower chamber of the Polish Parliament, upon motion of the President of the NIK, for a three-year term of office. The College is composed of: the NIK President (Chair of the College), the NIK Vice-Presidents, the NIK Director General and 14 members: seven academics, experts in law or economics, and seven Directors of the NIK's organisational units or Advisors to the NIK President.

The tasks of the College of the NIK comprise: adoption of the analysis of the execution of the state budget and monetary policy guidelines, and the NIK's annual activity report, as well as giving opinion on the vote of approval for the government and on the NIK's work plan and draft budget. The College also gives opinion on audit programmes and on information on the most important audits, as well as considers objections to post-audit statements.

Moreover, the members of the College of the NIK gather at special seminar sessions during which they debate on the most vital issues with regard to the state functioning. In 2010, one of the sessions of the College was dedicated to legal aspects of municipal businesses.



# What the NIK does

The NIK audits all the areas of the state activity where public money or public assets are involved. It also examines whether public institutions do their job in an effective, efficient and economical manner. Every year, the NIK audits several thousand entities and on that basis develops a special report which depicts an overall picture of the state functioning. Audits performed by the NIK are based on clearly set principles, such as the transparency of intentions, reliability of information, political neutrality of auditors and collegial responsibility for key decisions taken.



## Bodies subject to NIK audits

Bodies audited by the NIK	Audit criteria applied
Government administration authorities, the National Bank of Poland (NBP), state legal entities and other state organisational units	Legality, sound management, efficacy and integrity
Local government authorities, local government legal entities and other local government organisational units	Legality, sound management and integrity
Other organisations and businesses that use state funds or assets	Legality and sound management

With regard to some entities, the NIK can audit only the execution of budgets and the management of finance and assets. These restrictions apply to the Offices of the two chambers of the Polish Parliament (the Sejm and the Senate), the Office of the President of Poland, the Supreme Court, the Supreme Administrative Court, the National Council of the Judiciary, the Constitutional Tribunal, the

Human Rights Defender, the Children's Rights Defender, the National Broadcasting Council, the Inspector General for the Protection of Personal Data, the Institute of National Remembrance – Commission for the Prosecution of Crimes against the Polish Nation, the National Electoral Office and the National Labour Inspectorate.

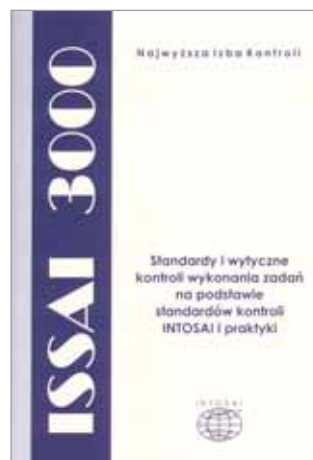
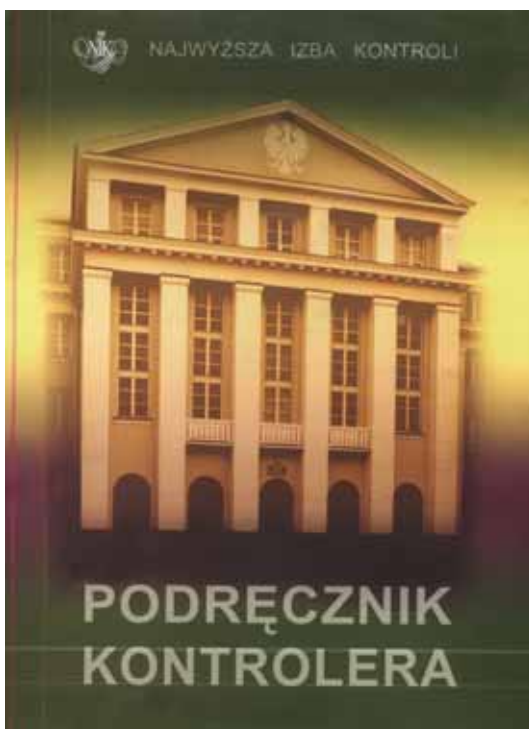


## Auditing standards of the NIK

Each audit is conducted on the basis of the Act on the NIK and in accordance with the auditing standards of the NIK and its methodology. The auditing standards of the NIK allow for maintaining the professional level of auditing. They provide the basis for audit planning, audit performance and appraisal of audit results. The standards are divided into 17 thematic groups comprising the most important stages and procedures of auditing. They have been elaborated with consideration for Polish legal regulations, the INTOSAI Auditing Standards, the European Implementing Guidelines for the INTOSAI Auditing Standards, the Auditing Standards of the International Federation of Accountants (IFAC) and the long experience of the NIK.

On the basis of the auditing standards of the NIK, methodology guidelines have been developed that provide detailed instructions for audit conducting. The NIK auditing standards together with methodology guidelines make *Auditor's Manual (Podręcznik kontrolera)*. In accordance with the auditing standards, regular reviews of audit proceedings are carried out at the NIK.

The latest review took place in 2010. Recommendations formulated as a result of such reviews contribute to the improvement of the NIK's activity.

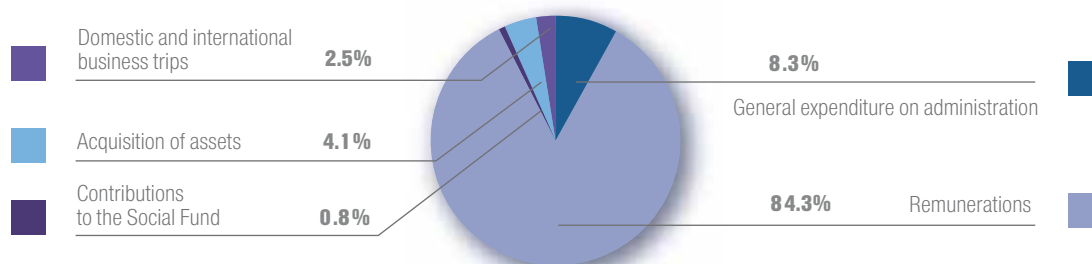


# Budget of the NIK



A draft budget of the NIK is adopted by the College of the NIK and later considered and recommended by the Public Finance Committee and the Parliamentary Committee on State Auditing. Then, as a part of the state budget, it is subject to voting at a plenary session of the Sejm (the lower chamber of the Polish Parliament). In 2010, the revenue of the NIK budget stood at PLN 0.6 million, while its expenditure, in accordance with the Budget Act, were realised at the volume of PLN 242.2 million. The majority of the expenditure was spent on remunerations for employees – 84.3%. The NIK budget is also developed as a task-based budget. It is connected with the obligation to include in the Budget Act a justification that comprises, among others, a list of tasks performed within the planned expenditure, together with a description of their objectives and performance measures. The basic task of the NIK is to audit the activity of the government administration, the National Bank of Poland (NBP), state legal persons and other state entities.

Figure. Structure of the NIK budget expenditure in 2010



## Internal and external audit

The execution of the NIK budget was analysed and verified systematically with regard to the discipline of expenditure and efficient management of budgetary resources and examined by the internal auditor. Starting from 2011, in accordance with the amended

Act on the NIK, the NIK will be subject to external audit at least once every three years. External audit will be ordered by the Speaker of the Sejm to an entity selected in accordance with the regulations on public procurement. It will cover the execution of the NIK budget and financial management.





Annual Report NIK

## NIK Staff

President of the NIK Jacek Jezierski congratulates Prof. Irena Lipowicz, member of the College of the NIK, on her achievements and appointment to the post of the Human Rights Defender in 2010

In 2010, the NIK employed ca. 1,640 persons. Our employees are experienced people with various educational background, mainly in law, administration, economics, technical sciences and agriculture. The recruitment for posts of auditors is conducted as an open competition, compliant with the INTOSAI International Auditing Standards and the Auditing Standards of the NIK.

Candidates should possess broad knowledge and skills, as well as appropriate professional experience. They are also supposed to be citizens of

Poland and to have no criminal record.

Before they are nominated to the posts of public auditors, NIK employees must complete a specialist course in auditing, tailored to the needs of our institution, called the introductory practical course for audit professionals (Polish: *aplikacja kontrolerska*), and pass the final examination.

Upon the nomination, auditors pledge to serve the Polish state, to comply with legal regulations, and to perform their duties in a diligent and objective manner.

The amended Act on the NIK of December 2010 introduces fixed terms of office for the posts of directors and deputy directors. From January 2013, they will hold their posts for five years. Candidates for these posts will be selected through a competition, as it has been done so far. The amended Act sets forth the basic requirements that candidates must meet, while other requirements are to be specified in a competition notice. The new regulations also set out the rules for qualification procedure for those applying for posts of auditors.

# Introductory practical course for audit professionals



The introductory practical course for audit professionals (Polish: *aplikacja kontrolerska*) is an internal course that prepares NIK employees for the posts of auditors. Candidates for auditors have to take this course within the first three years of their employment. After they pass the final examination, they can become nominated employees of the NIK.

In 2010, 46 NIK employees participated in the introductory practical course for audit professionals. The course covered about 330 hours of lectures, seminars and practical classes. The participants of the course learned how to correctly elaborate documentation on audit findings and how to develop documents required for audit proceedings. They also got

acquainted with the tasks of the NIK as the supreme body of state auditing and its organisation. The curriculum of the course also comprised some legal issues, including the European Union law. Among the lecturers of the training, there are both experienced NIK employees and academic professors.



## Audit planning



The NIK's annual work plans are developed on the basis of priority audit directions defined by the NIK College every three years. In the years 2009-2011, the NIK is to assess whether the state operates smoothly and is friendly to its citizens, whether public resources are managed effectively and how the Polish state functions within the European Union. The audits planned for 2009 were also concerned, as in the previous years, with examination of corruption threats. Within each audit, already at the stage of developing its schedule, potential corruption threats were taken into account. This allowed for

identifying potential corruption areas and corruption-prone mechanisms. During each audit, the NIK also assessed the functioning of the auditee's internal control system.

The most important audit in each NIK's annual plan and the NIK's priority task is the audit of the execution of the state budget and monetary policy guidelines. Every year, the NIK carries out audits in some 400 entities within the state budget execution audit, whose results are presented by the President of the NIK at a plenary session of the Sejm. They are described in the document entitled *Analysis*

*of the Execution of the State Budget and Monetary Policy Guidelines* (in Polish: *Analiza wykonania budżetu państwa i założeń polityki pieniężnej*).

To support audit planning, NIK experts have developed a specialist software, tailored to meet the specific needs of the planning process, called SterNIK. It has proved to be a useful tool as it allows for making lists of potential audit topics, for drawing up audit schedules, as well as for analysing the number of tasks assigned to auditors and the frequency of audits carried out in individual entities.

# Priority audit directions of the NIK in 2010

The year 2010 was the second year in which our audits revolved around the priority audit directions adopted by the College of the NIK for the years 2009-2011.

Audits carried out within the *Efficient and Citizen-friendly State* audit direction were to assess how the state ensures safety and other needs of its citizens, whether it guarantees that their rights are respected, whether they have access to free healthcare and education and whether the state takes care of the natural environment.

The second group of audits, carried out within the *Cost-efficient Governance of Public Assets* priority direction, were to verify whether the public administration had set its objectives and ways of their implementation appropriately, and whether it had used state budget resources economically and effectively. The NIK audited how assets of the state, of

local governments and state enterprises are managed.

The *Poland in the European Union* priority direction comprises issues related to the presence of Poland in the European Community. NIK audits in this area concentrated on matters in the field of economy and development – on deriving and

absorbing European resources. It was aimed to assess whether Poland had used them for reducing disproportions in the economic development.

In 2010, as in the previous years, the NIK also examined corruption threats and the functioning of the internal control systems in the audited entities.

Priority audit directions of the NIK	Audit areas in 2010
Efficient and Citizen-friendly State	internal and external state security; control and supervisory functions of government bodies; quality of services for citizens offered by public administration offices; protection of consumer rights; living in a clean environment; efficient use of natural resources; support for the development of science; promotion of Polish culture; functioning of the education system; the state's social and educational functions; support for professional activation; support for families and the disabled; access to and quality of medical services; reorganisations in the public healthcare system.
Cost-efficient Governance of Public Assets	condition of public finances; collection of public revenue; fight against crisis and activities aimed at mitigation of its effects; public funds management in public finance sector units and public utilities; implementation of investments financed from public funds; restructuring, commercialisation and privatisation of economic sectors, State Treasury entities and municipal entities; management and administration of State Treasury assets, local government and state-owned enterprises' assets; functioning of corporate governance; land planning; construction, development and maintenance of the infrastructure.
Poland in the European Union	acquisition of funds from the European Union and their management; utilisation of EU subsidies within the 2007-2013 financial perspective; implementation of regional Policy and coordination of structural instruments.

# State budget execution audit

The audit of the state budget execution is one of the most important tasks of our institution, in accordance with the Constitution of Poland and the Act on the NIK.

Every year, within this audit the NIK examines financial management of about 400 entities. In 2010, the NIK carried out 96 state budget execution audits. NIK auditors spent almost a

quarter of their working hours on this huge audit. Pronouncements on the results of state budget audits made over a half of all the pronouncements that the NIK submitted to the Sejm (the lower chamber of the Parliament).

State budget audits are coordinated by the Department of Budget and Finance of the NIK, and all NIK audit departments participate in them. The outcome

of state budget audits is the *Analysis of the Execution of the State Budget and Monetary Policy Guidelines*, which is a document that the President of the NIK presents at plenary sessions of the Sejm every year. These audits also determine the opinion on the vote of approval for the government that the NIK annually submits to the Parliament.

Figure. Planned audits carried out in 2010

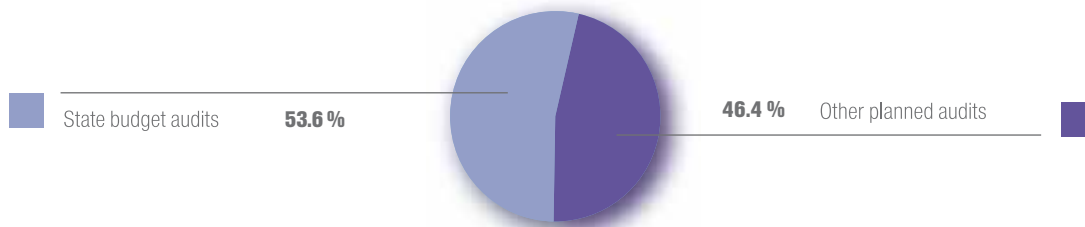
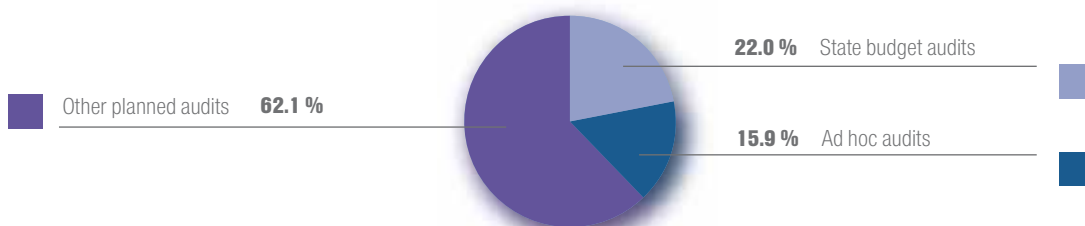


Figure. Percentage of working time dedicated to individual types of audits in 2010



# Addressees of our reports

- Reports on the NIK's audits are presented to the Parliament, the President of Poland and the Prime Minister. In this way, these bodies are provided with knowledge on how the most important areas of the state function. The NIK also sends its reports to other government and local government authorities.
- After audit reports are presented to the Parliament, the President of the NIK can make them public, except for confidential and sensitive data.
- As the citizens have the right to be informed on the performance of public bodies, institutions and officials, which is guaranteed in the Constitution, the NIK is obliged to make results of its audits public. Therefore, the President of the NIK meets the media and makes statements, press conferences are organised and information on audit results is available in the Internet at [www.bip.nik.gov.pl](http://www.bip.nik.gov.pl).
- In 2010, the NIK presented the Sejm with a total of 183 reports (including 94 concerning state budget execution audits).



President of the NIK Jacek Jeziński presents the Polish Sejm with *Analysis of the Execution of the State Budget and Monetary Policy Guidelines and Report on the Activity of the NIK*. Warsaw, July 2010

The work plan of the NIK for 2010 comprised 96 audits of the state budget execution in 2009 and 88 other audits. The majority of audits conducted in 2010 were related to the state budget, the condition of public finances, the economy, the security of the state and the citizens, healthcare, ecology, education and culture, social issues, as well as activities connected with Poland's membership in the European Union. The following is the list of the subjects of the audits carried out in 2010.

## Our audits in 2010

## Efficient and Citizen-friendly State

### Internal and external security of the state:

- Functioning of offices of attachés in diplomatic posts
- Functioning of water rescue services
- Flood protection in the Małopolskie and Świętokrzyskie regions
- Functioning of the 112 emergency telephone number in Poland
- Public roads management with regard to traffic safety
- Cars movement on border crossings after Poland's entry to the Schengen Area
- Transport to schools for students of primary and middle schools
- Epizootic safety after the entry to the Schengen Area
- Implementation of the programme for combating Aujeszky's disease



### Supervision and control functions of state bodies

- New accommodation for prisoners – a programme of the Ministry of Justice and the Central Management of the Prison Service
- Subsidies for entities from outside the public finance sector designated for tasks commissioned by government administration bodies
- Technical supervision of the use and maintenance of railway tracks and vehicles on the part of the Head of the Railway Transport Office
- Activity of government administration bodies in the field of training for drivers of vehicles transporting passengers and goods, and supervision of this activity
- Geodetic and cartographic supervision
- Management control and internal audit in municipalities
- Recruitment for posts of officials in local self-government units

**NIK audits**



## NIK audits

### Quality of services for citizens provided by public administration bodies; protection of consumer rights

- Tasks of the government administration as regards issues of the Polish citizenship
- Implementation of provisions of the Act on tourist services by the governors of the regions where the cities to host EURO 2012 matches are situated

### Living in a clean environment; efficient use of natural resources

- The citizens' right to participate in environmental protection proceedings
- Prevention of serious damages that can pose a threat to the environment
- Implementation of the National Programme for Municipal Waste Water Treatment
- Management of municipal waste, especially with regard to biodegradable waste, in municipalities of selected regions

- Disposal of waste containing asbestos
- Collection and division of funds received from payments and fines for using the environment, and management of local funds for environmental protection and water management
- Management of sediments generated in municipal waste water treatment plants
- Protection of rural and forest land in the process of industrial construction (in the Dolny Śląsk region)

### Support for the development of science; promotion of the Polish culture

- Activity of the Chemical Equipment Research and Development Centre (CEBEA) based in Kraków
- Management and supervision of historic buildings



## Functioning of the education system; state's social and educational functions

- Implementation of the Act on national and ethnic minorities
- Physical education classes and sports in public schools
- Functioning of public schools in prisons

## Support for professional activation; assistance to families and the disabled

- Employment of disabled persons in the public administration
- Sending persons to welfare homes and financing their stays by local self-government bodies
- Functioning of family garden plots
- System of housing benefits
- Refunds on reduced-fare bus tickets
- Implementation of the multiannual programme on state aid for food by municipalities

## Access to and quality of medical services; reorganisations in the public healthcare system

- Training for nurses, midwives and medical rescue workers
- Access to selected medical services
- Functioning of treatment and nursing centres



- Supervision of research hospitals by medical universities
- Acquisition of medical equipment and medicines by research hospitals and financing of hospitals' activities by suppliers
- Access to medical services provided to residents of welfare homes
- Care for mothers and newborn babies in public hospitals

## Cost-efficient Governance of Public Assets

### Condition of public finances; collection of public revenue; fight against crisis and activities aimed at mitigation of its effects

- Implementation of the monetary policy guidelines in 2009
- Ensuring stability of the banking sector



## NIK audits

- Collection of Personal Income Tax
- VAT on intra-Community transactions
- Licences on ore extraction and setting and collecting payments for this activity

### Public funds management in public finance sector units and public utilities

- Financial system for support of export loans
- Organisation and equipment of customs administration units

- Public assets management by regional funds for environmental protection and water management
- Subsidies and loans for ecological activities derived from the resources of the Regional Fund for Environmental Protection and Water Management in Poznań
- Management of resources of companies' social funds in local self-governmental units and subordinate public finance sector units
- Use of public funds for promotion of agricultural produce
- Activity of the Association of Towns and Villages of the Parsęta River Basin

### Investments financed from public funds

- Poland's preparations for the organisation of the UEFA EURO 2012 Football Championship
- Multiannual programme for the construction of the Świnna Poręba Artificial Lake (2006-2010)
- Programme for the protection of seashores
- Oświęcim Governmental Strategic Programme – stage 3



## Restructuring, commercialisation and privatisation of economic sectors, State Treasury entities and municipal entities

- Restructuring of the National Sugar Company (Krajowa Spółka Cukrowa SA)
- Strategy for the privatisation of State Treasury health resorts
- Restructuring and privatisation processes in the printing industry
- Activity of liquidators and co-financing, from the State Treasury Fund, of liquidation processes in state enterprises
- Management of assets of the Gilmar SA Refinery (under bankruptcy)

## Management of State Treasury assets, local self-governments and state-owned enterprises' assets; functioning of corporate governance

- Management of estates by public healthcare centres within the sectors of national defence and internal affairs
- Repairs of machines and equipment by entities of the mining sector
- Management of estates in national parks
- Technical condition of buildings used by public healthcare centres
- Sales of wood from forests owned by the State Treasury
- Performance of tasks by regional broadcasting companies



- Activity of the Military Housing Agency (WAM) and the “Kwatera” Military Social Construction Society
- Sale of municipal estates
- Functioning of selected companies with a stake of municipal self-governments
- Management of estates of the national defence sector

## Land planning; construction, extension and maintenance of the infrastructure

- Financial management of selected companies of the Polish Railways Group (Grupa PKP)
- Settlements of the state budget with owners of licences under compensations for motorway tolls
- Maintenance of hydrological improvements
- Improvements of the transport system in Poland's biggest cities



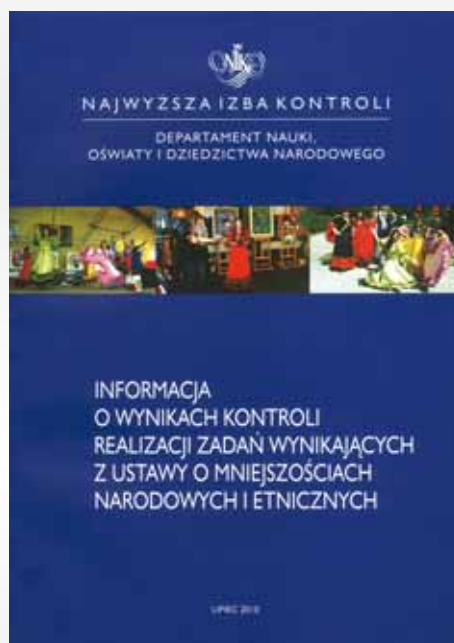
## Poland in the European Union

### Acquisition European Union funds and their management

- Closing of financial assistance from the Structural Funds in the 2004-2006 financial perspective
- Effects of educational programmes of the Human Resources Development Sectoral Operational Programme

### Utilisation of EU subsidies within the 2007-2013 financial perspective

- Functioning and extension of special economic zones
- Management of programmes for improvement of the environment financed from the European Regional Development Fund within the Regional Operational Programme for the Pomorskie Region for the years 2007-2013



### Implementation of regional policy and coordination of structural instruments

- Organic farming in Poland
- Implementation of the Post-accession Programme for the Support of Rural Areas, including the use of the World Bank's loan





# Results of Our Audits

The results of the NIK's audits contribute to the improvement of the state functioning. Faulty mechanisms that NIK auditors detect are frequently remedied, while legal systems are tightened up in order to prevent similar errors in the future.



Thanks to its mandate, the NIK is the guardian of public money, taking care of its legal, economic and efficient utilisation. Not only does the NIK indicate irregularities, but it also presents potential solutions aimed at remedying faulty mechanisms. The NIK shows in which areas the state operates well and in which areas there is room for improvement. Some of improvements are introduced already during audits or immediately after their completion. The NIK elaborates recommendations for individual auditees – in the form of audit recommendations, and it also develops conclusions addressed to the system as a whole. In 2010, the NIK elaborated 2995 audit recommendations. Once auditors find out an offence or a negligence, they inform the prosecutor's office or other law enforcement bodies thereof. In 2010, the NIK sent 208 such notifications. Additionally, the NIK attaches great weight to implementation of its audit recommendations, while the way they are implemented is also monitored.

## De lege ferenda proposals

Given that irregularities identified stem from legal loopholes or unclear legal regulations, the NIK elaborates proposals for changes aimed at the improvement of the law (so called *de lege ferenda* proposals). They are most frequently addressed to the legislative branch (the Parliament) and to the government. In 2010, 71 such proposals were elaborated by the NIK.

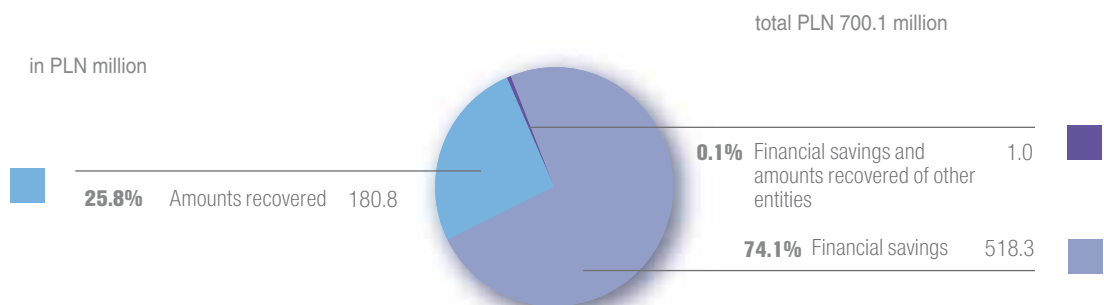
## Financial outcomes of audits

The effectiveness of NIK audits is mirrored in their financial outcomes. These are:

- financial benefits, especially savings generated as a result of audits,
- volume of financial irregularities.

In the NIK budget for 2010, expenditures stood at PLN 242.2 million. Financial benefits received in 2010 as a result of NIK audits reached PLN 700.1 million, which means that the NIK's activity paid for itself over 3 times.

Figure. Volume and structure of financial benefits in 2010



## Cooperation with the Parliament

audits it has carried out. All these documents are submitted by the President of the NIK at plenary sessions of the Sejm.

The NIK is a state body with a leading role in auditing, and its findings and recommendations can be verified only through proceedings that the NIK conducts itself. This provides for the independence of the NIK. The status of the President of the NIK is set forth in the Constitution of Poland. The President of the NIK is appointed by the Sejm, with the consent of the Senate, for a six-year term of office. The President cannot be held accountable nor deprived of liberty without a prior consent of the Sejm.

Cooperation with the Sejm is realised by participation of the President or Vice-Presidents of the NIK in plenary sessions of the Sejm. The NIK also closely collaborates with the Committee on State Auditing, which is tasked with giving opinion on the most important documents developed by the NIK and with periodic evaluation of the NIK's activity. NIK representatives also participate in works of other parliamentary committees. In 2010, they took part in 719 sessions of parliamentary committees and subcommittees, during which the results of the NIK's most important audits were also presented.

Moreover, NIK representatives are involved in legislative works of parliamentary committees. They are entitled to voice their comments and present the NIK's stance with regard to draft bills, elaborated both by the Members of the Parliament and the government.



President of the Supreme Audit Office in the Polish Sejm, Warsaw, 21 July 2010

As the supreme body of state auditing, the NIK is subordinate to the Sejm (the lower chamber of the Polish Parliament) and therefore it is obliged to provide information about the condition of the state. The Act on the NIK sets forth the documents that the NIK submits to the Sejm. These are, among others, the analysis of the execution of the state budget and monetary policy guidelines, the NIK's opinion on the vote of approval for the government and its annual activity report. Moreover, the NIK presents the Sejm with information on the

# Anti-corruption activities

Fight against corruption is one of the NIK's priorities. Wherever public interest overlaps with private interest, a risk of corruption may appear. The NIK examines the causes of corruption and indicates areas where it poses a threat. Many years of the NIK's experience allow it to identify mechanisms that can lead to abuse or misappropriation. These are mainly freedom in decision-making processes, the lack of the supervision and control system or its malfunctioning, or too many powers in the hands of individual officials. The NIK's activity in corruption combating mainly relies on identification of corruption risks and on preventive actions. While auditing the performance of public institutions, the NIK pays attention to corruption-prone mechanisms. In order to do so, NIK auditors have a special methodology at their disposal. Still, the NIK's task is not to execute legal responsibility, which lies with law enforcement bodies. If audit findings indicate a possibility of corruption offences, the NIK notifies the prosecutor's office of that. While audit recommendations addressed to the heads of audited entities contain proposals for preventive steps. Analyses of corruption risks identified by the NIK during its audits are submitted to the Parliament as one of the chapters of the NIK's annual activity report.

## Corruption-prone mechanisms identified during NIK audits:

- irregularities in law establishment
- freedom of proceedings
- conflict of interests
- lack of openness of proceedings
- weaknesses of the supervision and control system
- too many powers vested in one person
- disrespect for documentation and reporting.

# International activity of the NIK



EUROSAI Governing Board at the 36th meeting, Madrid, 4 November 2010

International activity of the NIK focuses on two priority areas. These are audits conducted in cooperation with foreign partners (cooperative audits) and initiatives related to exchange of standards, best practices and knowledge, aimed to support audit activity, realised, for instance, through participation in international organisations of audit institutions. The NIK is a member of the European Organisation of Supreme Audit Institutions (EUROSAI) and the International Organisation of Supreme Audit Institutions (INTOSAI). It is actively involved in the works of the Contact Committee of the Heads of the Supreme Audit Institutions of the European Union and the European Court of Auditors (ECA), as well as in bilateral and multilateral contacts with the SAIs of other countries. Since June 2008, President of the NIK Jacek Jezierski has been the Chair of the EUROSAI Governing Board and since November 2010, the Chair of the INTOSAI Subcommittee on Internal Control Standards.

## International Organization of Supreme Audit Institutions – INTOSAI

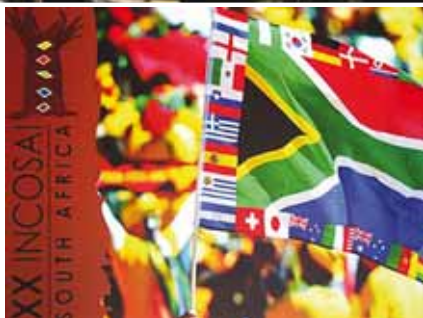
At the 20th INTOSAI Congress, held in November 2010 in Johannesburg, South Africa, President of the NIK took over the chairmanship of the INTOSAI Subcommittee on Internal Control Standards. The Subcommittee operates within the INTOSAI Professional Standards Committee (PSC), responsible for the implementation of Goal 1 that calls on INTOSAI to strive to establish an effective framework for the adoption of professional standards that correspond to the demands and expectations of member institutions. The Subcommittee on Internal Control Standards is the first structure within PSC in which the NIK participates, and the first INTOSAI structure that the NIK chairs. The Subcommittee's task is the development and promotion of good practices in the field of internal control for the Public Sector. The chair of the Subcommittee is responsible for the implementation of its work plan for the years 2010-2013 which comprises, among others, working out examples of internal control measures for all internal control objectives and components, integration of the internal control and risk management conceptualisation, and development of a paper dedicated to reporting on internal control standards.

Apart from taking over the chairmanship of the INTOSAI Subcommittee on Internal Control Standards, in 2010 the NIK was also engaged, as a member, in the works of the following INTOSAI bodies:

- Working Group on Environmental Auditing – WGEA (the NIK was also a member of the WGEA Steering Committee until the end of 2010),
- Working Group on IT Audit – WGITA,
- Working Group on Key National Indicators – WG KNI,
- Working Group on the Fight Against Corruption and Money Laundering – WG FACML,
- Task Force on Financial Crisis,
- Working Group on Programme Evaluation,
- Working Group on Privatisation, Economic Regulation and Public Private Partnerships – PPP (the Group completed its mission and was officially dissolved at the INCOSAI in Johannesburg),
- Subcommittee 3 (of the Capacity Building Committee): Promote Best Practices and Quality Assurance through Voluntary Peer Reviews.

XX INTOSAI Congress in Johannesburg, 22-27 November 2010. President of the NIK Jacek Jezierski, Vice-Chair of Theme II speaking during the session dedicated to Theme II "Environmental Auditing and Sustainable Development"





XX INTOSAI Congress in Johannesburg, 22-27 November 2010. President of the NIK Jacek Jezierski reports on the seminar on ISSAIs at the meeting of the Professional Standards Committee (PSC)

The NIK has its representatives in each of the above INTOSAI structures. They participate in the meetings of these bodies and are involved in the development of their documents.

Apart from being engaged in INTOSAI permanent bodies, in 2010 the NIK also participated in other events that INTOSAI organised for its members. For example, a delegation from the NIK, headed by President Jacek Jezierski, took part in the conference on strengthening external public auditing in the regions of INTOSAI, organised in Vienna by the INTOSAI Secretariat General in May 2010. President of the NIK delivered a presentation on the independence of SAIs in practice, presenting

the situation of INTOSAI Regional Groups. He also recalled examples of activities that may lead to limiting the independence of SAIs.

In November 2010, a delegation from the NIK, headed by President Jacek Jezierski, participated in the 20th INTOSAI Congress hosted by the SAI of South Africa. The President of the NIK was the Vice-Chair of Theme II: Environmental Auditing and Sustainable Development. He also presented, as Chair of the EUROSAI Governing Board, the activity report of EUROSAI. During INCOSAI, a meeting was held of EUROSAI members, on the occasion of the 20th anniversary of this regional group. The meeting was chaired by the President of the NIK, who presented the achievements of the Polish Presidency, especially with regard to the EUROSAI Strategic Plan, while Manuel Núñez Pérez, Head of the SAI of Spain which is the EUROSAI Secretariat General, delivered a presentation on the history of EUROSAI.

## European Organisation of Supreme Audit Institutions – EUROSAI

In 2010, the activity of the NIK within EUROSAI concentrated on two main areas: chairing EUROSAI Governing Board and activities within its working groups and task forces. To implement the main objectives of the NIK's Presidency of EUROSAI, intense works took place on the development of the EUROSAI Strategic Plan for the years 2011-2017, on the realisation of the training strategy for the years 2008-2011, on strengthening cooperation with INTOSAI and its other regional groups, and on promotion of the Organisation in the international arena.

In 2010, the NIK participated in the works of the following EUROSAI structures:

- EUROSAI Strategic Plan Task Force (chair),
- EUROSAI Working Group on Environmental Auditing,

- EUROSAI IT Working Group,
- EUROSAI Task Force on the Audit of Funds Allocated to Disasters and Catastrophes,
- EUROSAI Working Group on Elaboration of Good Practices for Achieving Quality within an SAI,
- EUROSAI Training Committee – ETC.

## NIK's Presidency of EUROSAI

At the latest 7th EUROSAI Congress, held in Kraków on 2-5 June 2008, the NIK was vested with EUROSAI Presidency and President of the NIK Jacek Jezierski became the Chair of the EUROSAI Governing Board for the following three years, until the 8th Congress in Lisbon.

During its Presidency of EUROSAI, the NIK has run an Internet website at [www.eurosai2008.pl](http://www.eurosai2008.pl) which serves as a communication platform for the current Chair of the Governing Board and comprises the materials of the 7th EUROSAI Congress.

Opening of the 36th meeting of EUROSAI Governing Board, Madrid, 4 November 2010. From the left: Jacek Jezierski, Chair of EUROSAI Governing Board, José Bono Martínez, President of the Congress of Deputies of Spain and Manuel Núñez Pérez, Secretary General of EUROSAI





### **EUROSAI Strategic Plan**

During the 7th Congress, a decision was taken to elaborate the first EUROSAI strategic document, aimed at making the functioning of the Organisation more effective. Therefore, the Congress entrusted the EUROSAI Governing Board with developing the EUROSAI Strategic Plan, which has become the flagship initiative of the Polish Presidency. A Task Force was appointed to prepare this strategic document, to cover the years 2011-2017, chaired by the NIK. The Task Force was composed of representatives of the SAIs of Austria, Germany, the Netherlands, Norway, Portugal, Spain, the United Kingdom and Poland. In 2010, the Task Force met three times (in June and in September in Warsaw and in November in the Hague) to develop subsequent drafts of the Strategic Plan and to elaborate the draft document describing the main procedures for appointing and functioning of teams responsible for the implementation of individual EUROSAI strategic goals. Each draft was consulted with Governing Board members and observers and in September 2010 it was also consulted with all EUROSAI members. The NIK reported on the progress of works on the draft Plan at the 36th meeting of the EUROSAI Governing Board, held in November 2010 in Madrid.

The EUROSAI Strategic Plan is to define the mission and vision of EUROSAI, to list activities and projects aimed at achieving EUROSAI strategic

goals and objectives, as well as to propose a new organisational structure of EUROSAI which should facilitate its effective implementation. The plan is also meant to contribute to the performance of the INTOSAI Strategic Plan in Europe and to maximise the effective use of INTOSAI initiatives and products, so that to further develop public sector auditing in the European region.



## Other initiatives within EUROSAI Presidency

In January 2010, the NIK organised, in collaboration with the European Institute of Public Administration (EIPA), the seminar entitled *Performance Audit of Social Programmes for Professional Integration of the Disabled: A Practical Approach to Evaluating Economy, Efficiency and Effectiveness*. The seminar marked an important step on the way to implement one of the recommendations of the 7th EUROSAI Congress. After the seminar, a meeting was held of European SAIs interested in conducting a parallel audit in the field, initiated by the NIK. The audit was carried out in 2010 and the joint report will be presented in Lisbon at the 8th EUROSAI Congress.



EUROSAI Strategic Plan Task Force at the meeting at the NIK, 16 June 2010

As Chair of the EUROSAI Governing Board, the NIK initiated activities aimed at starting cooperation with the European Confederation of Institutes of Internal Auditing (ECIIA), which promotes professional internal auditing. In 2010, a draft cooperation agreement between EUROSAI and ECIIA was elaborated, whose aim is to exchange good practices in the field of good governance and to share tools between SAIs and internal auditors operating in the public sector, thus contributing to the better effectiveness and efficiency of public sector auditing.

## NIK's participation in coordinated audits in 2010

Coordinated audits, carried out in cooperation with foreign partners, make a very important element of the NIK's international activity. In 2010, the NIK participated in six audits performed with other SAIs:

1. Audit of preparations for the joint organisation of the UEFA EURO 2012 Football Championship in Poland and Ukraine. In November 2008, the SAIs of Poland and Ukraine signed a cooperation agreement in which they committed themselves to conduct annual audits on the preparations for EURO 2012. The first audit was carried out between September 2008 and January 2009, followed by the second audit, conducted between September 2009 and January 2010 and concluded with the joint report signed in July 2010.
2. Audit of the implementation of programmes supporting employment of the disabled. The NIK is the coordinator of this audit in which other EUROSAI member SAIs participate from 11 countries, namely Bulgaria, the Czech Republic, Germany, The former Yugoslav Republic of Macedonia, Romania, Slovakia, Slovenia, Spain, Switzerland, Turkey and Ukraine. A joint audit report should be ready by April 2011 and presented at the 8th EUROSAI Congress in Lisbon. The audit is a part of the package initiatives in the field of professional integration of the disabled, inspired with the Conclusions and Recommendations of the 7th EUROSAI Congress. The other part of the initiative was the seminar entitled *Performance Audit of Social Programmes for Professional Integration of the Disabled: A Practical*



Supreme Audit Institutions of the Visegrad Group, Austria and Slovenia (V4+2), at the meeting in Sliach – Sielnica, Slovakia, 30 September – 1 October 2010. From the left: Stanislaw Jarosz, Vice-President of the NIK, Jacek Jezewski, President of the NIK and Jacek Mazur, Advisor to the President of the NIK

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operational programmes, performed by the SAIs of Denmark (coordinator) and Poland (Regional Branch of the NIK in Gdańsk). In December 2009, representatives of the two SAIs met in Copenhagen to sign a draft agreement on the audit. The joint audit, covering the years 2007-2009, was related to assistance funds from the EU budget designated for the years 2007-2013. The joint audit report was signed in September 2010.

*Approach to Evaluating Economy, Efficiency and Effectiveness*, organised in January 2010 by the NIK in cooperation with the European Institute of Public Administration (EIPA), which contributed with expert knowledge.

3. Audit of the management of programmes for the environment quality improvement co-financed from the European Regional Fund within regional
4. Audit of the epizootic safety after entering the Schengen Area was undertaken by the SAIs of Lithuania, Poland and Slovakia. The audit was initiated by the NIK. The audit team, composed of representatives from the three SAIs, met three times: in February 2010 in Poland, in June 2010 in Slovakia and in September 2010 in Lithuania.

Participants in the coordinated audit on the employment of the disabled at the meeting at the NIK, 17 September 2010





Jacek Jezierski, Chair of EUROSAI Governing Board and Christian Melly, President of EURORAI at the VII EURORAI Congress, London, October 2010

The joint audit report was signed by the Heads of the involved SAIs on 14 December 2010 in the NIK.

5. The audit on costs of controls, performed by the Contact Committee Working Group on Structural Funds. The report on the audit will be presented at the Contact Committee meeting in 2011.
6. The coordinated international audit on climate change, in which, apart from the NIK, the SAIs of the following countries were involved: Australia, Austria, Brazil, Canada (audit coordinator), Estonia, Finland, Greece, Indonesia, Norway, Slovenia, South Africa, the United Kingdom and the USA. The report on the joint audit was presented at the INTOSAI Congress in Johannesburg in November 2010.

## Contact Committee

The Contact Committee gathers the Heads of the European Union Member States' SAIs and the European Court of Auditors, and its aim is to facilitate cooperation among audit institutions. In 2010, NIK representatives were actively involved in the works of the following groups of the Contact Committee:

- Working Group on Common Auditing Standards and Comparable Audit Criteria based on internationally recognised auditing standards, tailored to the EU area (the Group completed its mission in 2010),
- Working Group on Structural Funds IV,
- Working Group on Activities on VAT,
- Working Group on Public Procurement (in 2010,



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the name was changed into the Updating Group on Public Procurement),

- Working Group on National SAI Reports on EU Financial Management (In 2010, the Group completed its mission and was transformed into a collaboration network),

- Task Force of Liaison Officers on Cooperation between National SAIs and the European Court of Auditors.

At its annual meeting, on 18-19 October 2010 in Luxemburg, the Contact Committee discussed the role of national parliaments after the adoption of the Lisbon Treaty, the draft amendments to the EU financial regulation, and possibilities to formulate joint auditing standards and comparable audit criteria for EU funds auditing. During the discussion on the role of national parliaments, the President of the NIK presented relations between the NIK and parliamentary committees in auditing EU-related matters. Parliamentary committees inspire the NIK





Annual meeting of the Contact Committee of the Heads of the EU SAIs and the ECA, Luxembourg, 19 October 2010

to carry out certain audits and discuss some of NIK audit reports, while NIK representatives participate in parliamentary committees' sessions during which EU draft legal acts are debated on. According to the President of the NIK, cooperation with parliamentary committees is of vital importance to the NIK. Not only do NIK representatives share their knowledge and proposals, but they get acquainted with the stances and needs of MPs.

### Cooperation with the European Court of Auditors – ECA

The NIK cooperates with the European Court of Auditors (ECA) during its audit missions conducted in Poland (16 such missions in 2010). This cooperation covers, among other things, participation of NIK auditors as observers in ECA audit missions in Poland, support for the ECA in dealing with Polish auditees and in obtaining necessary data and documents, as well as exchange of periodic work plans between the NIK and the ECA. Experience and information gained through participation in ECA audit missions adds to NIK auditors' knowledge on potential irregularities in the field of European Union funds management. This information is also useful for the NIK in planning its audits related to EU funds.



Meeting of the ECA member with the Management of the NIK, Goławice, 16 December 2010. From the left: Augustyn Kubik, member of the ECA and Jacek Jezierski, President of the NIK





Józef Higersberger (1856-1921), first President of the NIK



Józef Piłsudski (1867-1935), statesman, Head of State, Marshal of Poland



Ignacy Jan Paderewski (1860-1941), Prime Minister, Minister of Foreign Affairs, excellent pianist and composer

## Some history

### DZIENNIK PRAW PAŃSTWA POLSKIEGO.

183.

#### DEKRET

#### o Najwyższej Izbie Kontroli Państwa.

Na wniosek Rady Ministrów stanowią co następuje:

Art. 1. W miejsce utworzonego postanowieniem Tymczasowej Rady Stanu z 10 sierpnia 1917 r. Urzędu Obrachunkowego utworzoną zostaje Najwyższa Izba Kontroli Państwa w Warszawie. Najwyższa Izba Kontroli Państwa jest władzą podległą bezpośrednio Naczelnikowi Państwa, samodzielna i powołana do stałej, a wszechstronnej kontroli dochodów i wydatków państwowych, prawidłowości administrowania majątkiem państwa oraz gospodarki instytucji, zakładów fundacji i funduszy, tudzież jednostek samorządowych i miast wskazanych w art. 11. Ponadto Najwyższa Izba Kontroli Państwa kontroluje wszechstronnie wykonanie budżetu.  
[...]

Dan w Warszawie, dnia 7 lutego 1919 r.

Naczelnik Państwa:  
*J. Piłsudski*

Prezydent Ministrów:  
*I. J. Paderewski*

Minister Skarbu:  
*Dr. Englich*

For over 90 years, the NIK has been appraising the functioning of the state and the management of public resources. The tradition of Polish state auditing goes back to the 19th century, but the date of the NIK's establishment is 7 February 1919. On that day, Head of State Józef Piłsudski issued a decree on the Supreme Office of State Audit, which was also signed by the President of Ministers Ignacy Jan Paderewski. The NIK was established as an independent authority, it was directly subordinate to the Head of State, while its numerous connections with the Sejm (the lower chamber of the Parliament) were also emphasised. Its task was to conduct constant and versatile audits of public finances. The Supreme Office of State Audit was one of the first institutions established in Poland after the First World War, when the country finally regained independence. It was the main task of the first President of the NIK Józef Higersberger to organise the new institution and to provide legal basis for auditing.

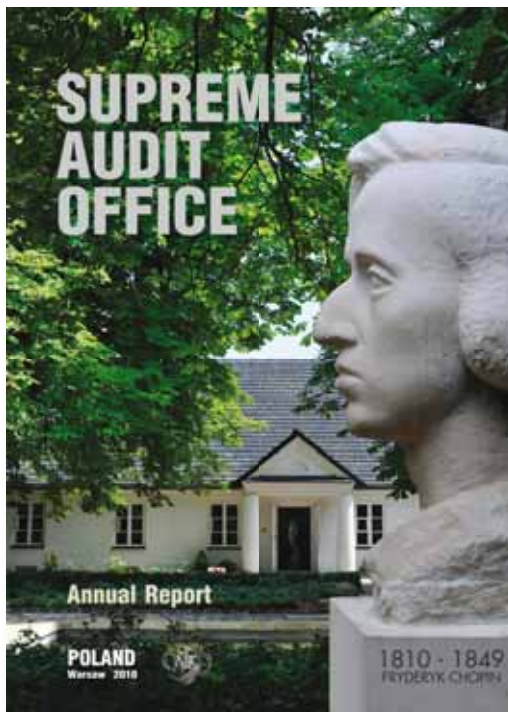
Every year, on 7 February, representatives of the NIK lay wreaths at the monument to the founders of the NIK to commemorate their achievements



Between the First and Second World Wars, the NIK was an independent state body that collaborated with the Parliament. After the Second World War, it was transformed into the Audit Bureau by the communist authorities. Reactivated in 1949 as a body subordinate to the Sejm, only three years later it was again transformed, this time into the Ministry of State Audit. The death of Stalin did not mark the end of attempts to make the NIK dependent on the executive.

Not until the transformations made by the great social movement “Solidarność” in 1980-1989, the model of state audit introduced before the Second World War was restored. It was possible thanks to the efforts of first non-communist Presidents of the NIK Walerian Pańko and Lech Kaczyński, who provided the foundations for modern state auditing. After Poland entered the European Union (1 May 2004), the NIK got involved in the works on elaborating auditing standards. These efforts were appreciated by our European partners. The NIK was vested with the organisation of the 7th Congress of the European Organisation of Supreme Audit Institutions EUROSAI and in 2008 in Kraków and the President of the NIK became the Head of the EUROSAI Governing Board. It was a great honour and simultaneously it proved that the NIK had been heading the right direction – serving its country and the citizens, in compliance with international standards.





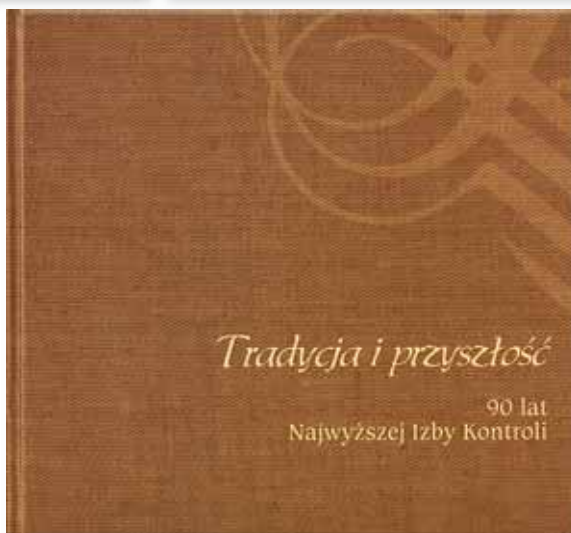
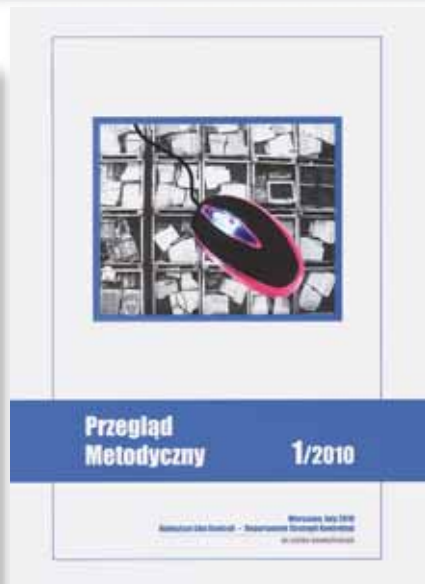
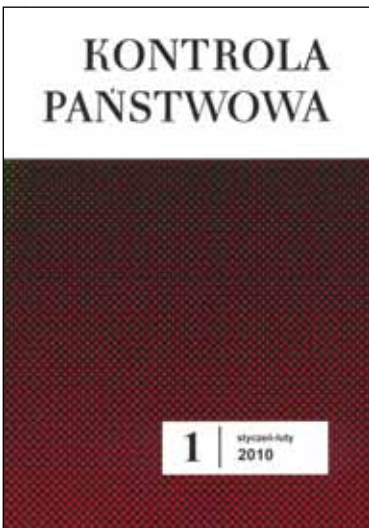
## Our publications

The most important publications of the NIK are its pronouncements on audit results. Besides, the NIK publishes two specialist periodicals. The *Kontrola Państwa* (State Audit) bimonthly has been issued since 1956, and it is the only scientific publication dedicated to state auditing in Poland. It is addressed to NIK auditors and also to other audit professionals, academics and entities audited by the NIK. *Kontrola Państwa* presents issues related to auditing, economy, law and social matters, as well as to international activities of the NIK.

*Przegląd Metodyczny* (Methodological Review) is a quarterly addressed to NIK auditors exclusively. It promotes good audit practices, presents audit techniques and promotes innovative solutions applied by the NIK and other Supreme Audit Institutions all over the world.

The NIK also issues specialist titles dedicated to training and methodology, which popularise achievements of the NIK and Supreme Audit Institutions of other countries, as well as occasional publications. In 2010, the photo album was issued entitled *Tradycja i przyszłość. 90 lat Najwyższej Izby Kontroli* (Tradition and Future – 90 Years of the Supreme Audit Office) that depicts the celebrations of the 90th anniversary of the establishment of the NIK and gives an account of regional conferences organised on this occasion.

Every year, the NIK publishes two documents that are submitted to the lower chamber of the Polish Parliament, namely *Report on the Activity of the NIK* and *Analysis of the Execution of the State Budget and Monetary Policy Guidelines*. An abridged version of the Report is also published in English, addressed to foreign readers.



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