



Regional Chamber of Audit
in Wrocław

Special forms of supervision and audit of the Regional Chambers of Audit in Poland

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Consequences of introducing new debt limits

General information on the finance of local authorities:

- deficit (the difference between revenues and expenditures)
- current result (the difference between revenues and current expenditures)
- property result (the difference between revenues and capital expenses)

	2010	2011	2012	2013
	Million PLN			
Deficit, of which:	-14,969.5	-10,285.6	-3,045.8	-380.3
Current result (surplus)	9,283.8	10,994.0	11,625.7	14,336.8
Property result (deficit)	-24,253.3	-21,279.6	-14,671.5	-14,717.1



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Regulations limiting the level of debt of local authorities

- current expenses must be financed from current revenues
(the principle of balancing the current budget)
- in the budget year and each following year the repayment index for credits, loans, and redemption of bonds cannot exceed the individual debt repayment capacity ratio of the local authority, calculated based on the legal formula
- local authorities are obliged to develop and to pass long-term financial forecasts in a form of resolutions



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Long-term financial forecast

Significance:

- provides e.g. the grounds for the evaluation of meeting the fiscal rules
- facilitates the evaluation of the decisions taken by the bodies of local authorities and long-term undertakings

Period covered by the forecast:

- the period in which the local authority will be paying the liabilities (contracted and planned)



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Resolution on long-term financial forecast

Formalised document:

- local authorities are obliged to develop a resolution according to the formula provided for in the regulation of Minister of Finance

Resolution components:

- projection of the budgets of the years to come: revenues, expenditures, liabilities contracted, repayment of instalments (broken down into categories)
- debt amount forecast (debt value, values indispensable to calculate the individual debt repayment capacity ratio and the value of the ratio itself, indication whether it will be maintained)
- the list of long-term undertakings (executed and planned) both current and property in nature (together with defining the limits of expenditures planned for each undertaking in successive years)
- explanations to the values passed in the resolution (justification of the assumptions made)



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New tasks of the chambers

In the scope of:

- ***supervision:***
 - investigating long-term financial forecast
 - investigating corrective programs
- ***opinion-giving on:***
 - draft resolution on long-term financial forecast
 - the regularity of the amount of the debt planned
 - corrective programs
- ***audit:***
 - new procedures
 - report on the state of financial management of the local authority



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Supervision

Long-term financial forecast

- **supervision objective** (eliminating the resolutions breaching the law, including fiscal rules, from legal transactions)
- **criterion:** legality, namely the compliance of the contents of the resolution with the regulations on:
 - forecasting period
 - maintaining fiscal rules
 - regularity of presenting data in the forecast (classifying the values to adequate categories)
 - correctness of calculations
 - justifications of the values assumed



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Supervision; corrective programs

The chambers are obliged to demand the development of corrective program from the local authority which does not meet the statutory rules and which, due to a difficult financial situation, is not capable of performing its tasks.

Legal components of corrective program:

- analysis of the state of finance and the reasons for the threat posed to the performance of public tasks
- corrective actions plan, together with the schedule of their introduction
- forecasted financial effects of corrective actions, together with determining how to calculate those effects

The time the program has been developed for: not exceeding three years

Consequences of failing to pass the resolution on corrective program or a negative opinion on the program - the budget of the local authority is established by the chamber.



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Opinion-giving

The chambers are obliged to issue e.g the opinions on:

- **draft resolution** on long-term financial forecast:

 - evaluation of the regularity of the draft, its assumptions, pointing to potential threats resulting from passing the draft resolution

- **regularities of the planned amount of the debt:**

 - evaluation of the regularity of the calculation of the debt amount throughout the repayment period

- **corrective program:**

 - assessment of the assumptions made, effects of the actions taken and their effect on improving the financial situation of the local authority



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Audit

A new scope of comprehensive audits of financial management of local authorities; e.g. the public debt as a separated audit task under the resolution of the National Council of the Regional Chambers of Audit (2011).

Coordinated audits on debt:

- determining and evaluating the financial situation of local authorities resulting from the level of debt
- verifying how the local authorities obey legally defined debt limits and the repayment of liabilities
- verifying the reliability of the data presented by local authorities, indispensable to evaluate their financial situation and the reliability of forecasting basic financial parameters in the budget year and in the years to come.