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Financial control concerning the education system in Poland

Social-economic and political transformation initiated in Poland at the end of the 1980's also had an impact on the Polish system of education. As a result of the political reforms in Poland, the powers of the public administration authorities were changed. As far as education is concerned, specific local government entities took over the responsibilities connected with education which previously belonged to the government administration authorities. Taking over the responsibility for schools by the local government entities was basically connected with the financial and investment involvement on the part of the local governments for the sake of improving the educational conditions in schools.

Organizational structure of the education system

In accordance the Act on School Education of 7th September, 1991, the local government entities may establish and run only schools and public institutions.

As a result of the educational reform the following types of public and non-public schools have been created:

- six-year primary school,
- three-year lower secondary school,
- post-lower secondary schools: basic vocational schools, three-year general upper secondary schools, upper secondary general schools, technical secondary schools, post-secondary schools.

In 1990 a process of establishing non-public schools was also initiated in order to create an alternative to the public school system. In Poland, there are already 1362 non-public schools which constitute 9.9 % of all the schools. Nearly 50 % of the non-public schools are run by the [Roman Catholic] Church and religious institutions.¹

Financing the education system

Traditionally, it is assumed that the responsibility for financing of education rests with the state. Consequently, the level of expenditures for the education is usually referred to their share in the state budget expenditures as related to the share in the GDP. State involvement in the educational development is measured on the basis of the public expenditures for that purpose in the GDP structure. According to the data published by the Central Statistical Office, in 2003 the public expenditures for schools and education amounted to 33.6 million PLN which constituted 4.13 % of GDP. These expenditures were designated mainly for salaries and related costs (70%)².

In the 1990's a radical reform of the primary and secondary school system was carried out which consisted in shifting the responsibility for schools to local government entities, which were endowed with new powers.

1. www.wsipnet.pl Report of the Institute of Public Affairs
2. www.vulcan.edu.pl
3. Letter of the Minister of National Education of 1st February 2005 Nr DKOS-1-KK-5010-31/05

The objective of the reform was to decentralize the main functions of the education financing system. However, as far as the financing of the educational tasks is concerned, the local government entities are still to considerable degree dependant on the subventions from the state budget. Gradual taking over of the responsibilities for the educational tasks by the local government entities created the conditions for providing additional financing for education from the revenue sources of local government entities other than the educational subvention. The financing was to be conditioned by the possibilities of the local government entities, their development programmes and priorities specified.

According to the Act on School Education System, the provision of education, upbringing and care is the educational task which belongs to the scope of responsibilities of the following entities:

- communities/municipalities (gminas) (kindergartens, primary schools, lower secondary schools, also with integration classes),
- districts (poviats) (special primary schools, special lower secondary schools, post lower secondary schools, also with the integration classes, sports schools and athletic schools),
- province (voivodship) local governments (schools, institutions of regional and supraregional significance, educational institutions and teacher training institutions).

Financial management principles concerning schools and institutions are stipulated by the Act on the School Education System. Financial means required for carrying out the educational tasks, including funds for teacher's salaries and funds for financing schools and institutions are guaranteed in the revenues of the local government entities.

Local government entities finance their educational tasks from the following sources:

- educational part of the general subvention,
- own revenues of communities/municipalities (gminas).

Educational part of the general subvention is divided among the specific entities of the local government taking into account the scope of the educational tasks which are performed by these entities. Upon consulting the minister responsible for public finances and the representatives of the local government entities, the minister responsible for schools and education defines, by means of an ordinance, the method of distributing the educational part of the general subvention among specific local government entities, taking into account especially types and kinds of schools and institutions which are run by these local government entities, levels of teachers' professional qualifications and experience and number of pupils in these schools and institutions. The state, while specifying the amount of the educational subvention for specific local government entities, must use objective indicators which enable dividing the financial means from the educational part of the subvention according to the criteria which are uniform and common for all local government entities.

Legislative body of the local government entity makes decisions concerning designation of the financial means received as the general subvention, including the educational subvention, taking into account the regulations of the Act on School Education System. The data gathered on the basis of the reports concerning the budget revenues and expenditures of the communities/municipalities (gminas), districts (poviats), cities treated like a district and self-government provinces (voivodships) shows that in 2003 158 districts (poviats) and 688 communities/municipalities (gminas) had current expenditures on the level lower than the revenues received from the educational part of the general subvention and the subsidy for current purposes received from the state budget. The above statement does not

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mean explicitly that these local government entities designated the educational subvention for purposes other than the educational ones because in most cases some subsidy amounts were spent on the educational purposes which are not subventioned (e.g. providing transportation to schools for pupils, educational investments).³

The Act on School Education System stipulates the principles of financial management for schools and educational institutions. Financial means necessary for carrying out tasks connected with education and upbringing as well as financial means for teachers' salaries and for running schools and educational institutions are guaranteed as the revenue of the local government entities. Legislative body of the local government entity may give consent to establishing the accounts of own revenues which may be used for financing the educational tasks.

Local government entities, apart from financing the schools for which these entities act as the establishing bodies, are obliged by the regulations of the Act on School Education System to provide subsidies for non-public schools. In accordance with the above mentioned Act, non-public schools which have the powers of public schools and in which the compulsory school education or compulsory education are carried out are eligible for the subsidies for each pupil in the amount which is not lower than the amount designated for one pupil in a given type and kind of school in the educational part of the general subvention received by a local government entity. Other non-public schools which have the powers of public schools may receive the subsidies for each pupil in the amount not lower than 50 % of current expenditures made in public schools of the same type and kind calculated for one pupil which are specified in the budget respectively for each commune/municipality (gmina) or district (powiat). If there is no public school of a given type and kind within the territory of a given community/municipality (gmina) or district (powiat), the subsidy amount is specified on the basis of the current expenditures made by the nearest community/municipality (gmina) or district (powiat) for running a public school of a given type and kind.

Legislative body of the local government entity defines the procedure for granting and making the settlement of the subsidies, taking into account especially the subsidy calculation basis and the scope of data which should be included in the application for granting the subsidy.

Financial control

Three main areas can be distinguished within the financial control system concerning the educational entities:

- internal control in the educational institutions which is carried out by the manager of the institution and its chief accountant. The institution manager is obliged to define the written control procedures. The chief accountant keeps the accounting books and carries out ex ante and ex post controls of the financial and accounting documents.
- internal audit concerning the educational organizational entities is carried out by the auditor employed in the local government entity.
- external audit which is carried out by the Regional Chamber of Audit with regard to subventions, subsidies, financial management and public procurement.

In accordance with the Public Finances Act, the principles concerning internal financial control and audit of the entities of the public finances sector have been in force since 1st January 2002. Managers of the educational institutions are obliged to adhere to these principles. It should be emphasized that the control of school finances in Poland is clearly

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separated from the specific supervision (e.g. concerning the educational standards) which is carried out by the state education offices.

Internal control

In accordance with the Public Finances Act, the internal financial control includes:

- assuring the obedience to the control procedures and carrying out initial evaluation with regard to purposefulness of contracting financial obligations and making expenditures,
- examining and comparing the actual state with the required state with regard to taking and collecting public financial means, contracting financial obligations and making expenditures from public financial means, granting public procurement orders and returning of public financial means,
- financial management and application of the control procedures.

Such an approach to financial control derives from the contemporary concepts of internal control to which the above mentioned commonly recognized standards of internal control refer. Selected definitions of internal control are referred to below in order to present properly the relations between the internal control as defined by the regulations of the Act and the internal control specified in other documents.

According to "INTOSAI Guidelines for Internal Control Standards": "Internal control is the management tool used in order to assure a rational certainty that the management objectives are achieved".

According to the "Internal control standards in the European Commission "the internal control includes all the principles and procedures planned and assumed by the management of the entity in order to assure that:

- the entity achieves its objectives in an economical, efficient and effective manner,
- the entity acts in accordance with the legal regulations, the internal acts and the management guidelines,
- material and data assets of the entity are protected,
- errors and non-conformities are prevented and detected,
- financial and management information is reliable and created in time".

In the light of the above, the financial control (financial control system) in the entity of the public finances sector can be defined as a part of the internal control system which refers to the processes connected with collecting and distribution of public means and with the management of assets.

It is crucial to emphasize the principle which states that by means of the financial control system the entity manager can achieve only a reasonable degree of certainty (also known as rational certainty) but not an absolute certainty that the entity's objectives are being achieved.

In accordance with the Public Finances Act, the entity manager is responsible for preparation and implementation of specific procedures, instructions and mechanisms which constitute the financial control system. While defining the financial control procedures, the entity manager should take into account the standards specified by the Finance Minister. The

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financial control system should be constructed in such a way as to take into account the specific legal, personnel and financial conditions of the entity operation.

Financial control standards are prepared in the five areas which correspond to the five main components of the internal control:

- environment of the financial control system,
- risk management,
- mechanisms of the financial control system,
- information and communication,
- evaluation and internal audit.

It should be emphasized that the financial control is the component of the current operation of the entity and constitutes the sequence of activities and actions performed by the entity manager, managers of the organizational units, chief accountant and individual employees. Components of the internal financial control system are incorporated in the organizational structure, procedures and current practice applied in a given entity.

Control activities and mechanisms constitute an integral part of specific processes and economic operations e.g. of salaries payment, making payments for services and deliveries, collecting revenues.

Financial control mechanisms comprise the regulations, procedures, instructions, scope of powers, duties and responsibilities of the employees as well as other principles. In principle, the control mechanisms should be present in the entity on all the management levels and should refer to the results of the risk analysis process. The mechanisms should be aimed at mitigating the identified risk.

Control mechanisms introduced in specific entities will vary because the entities have different characteristics and objectives, function in different environments, differ in size and organizational structure, have different experience and face different risk levels. Even in the case of the entities which have the same objectives and tasks as well as similar organizational structures (e.g. schools), the control mechanisms may vary because of the individual assessment of the management or different management styles. However, despite the differences, all the control mechanisms should be designed in such a way as to enhance the achievement of objectives and accomplishment of tasks by the entity.

While evaluating the adequacy of the control mechanisms, it should be considered whether proper mechanisms have been introduced, whether proper number of the mechanisms exists and whether the mechanisms function in an efficient manner. The above mentioned analysis and evaluation should also concern the information systems.

Internal audit

In cases specified by the Public Finances Act the entities undergo objective and independent evaluation of the financial control system which is carried out by the internal auditor. The internal auditor is employed in the local government entity and has the right to carry out the internal audit in the organizational entities (e.g. in schools).

The scope and frequency of the examination concerning the components of the financial control system are adequate for a given entity. In particular:

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- the internal audit is carried out on the basis of the annual audit schedule based on the risk analysis,
- individual components of the financial control system are examined on a regular basis,
- examination of the financial control system or its components is always carried out in case of significant changes concerning activity plans of a given entity, significant changes in activity scope of a given entity, significant organizational changes or changes in the financial and budget processes or in the processing of the financial and budget information etc.,
- examination of the financial control system is carried out by qualified internal auditors,
- in the case of the entities where significant amount of data (especially the financial data) is processed by means of the IT systems, the internal auditor utilizes computer-based audit enhancement techniques,
- the examination process concerning the financial control system is properly documented.

Inefficiencies found in the internal auditing process are quickly corrected. In particular:

- inefficiencies of the control mechanisms are quickly notified to the employees who are directly responsible for the specified tasks and to their direct supervisors,
- information concerning the significant weaknesses and problems connected with financial control are notified to the top management.

In accordance with the Public Finances Act, the implementation of the control procedures established in the subordinate educational entities is subjected to the control carried out by the executive body of the local government entity. Each year this control should cover at least 5 % of the expenditures made by the subordinate organizational entities and should examine the financial control procedures operative in these entities. Most frequently, the responsibilities with this regard belong to the internal auditors.

External audit carried out by the Regional Chambers of Audit

Important role in the audit of the financial management of the educational institutions is played by the Regional Chambers of Audit which are the entities authorized to carry out the audit on the basis of the legality and diligence criteria with regard to financial management and the financial public procurement.

The Regional Chambers of Audit control the correctness of calculating the educational part of the general subvention. Among other things, the correctness of the data, specified in the statistical reports, concerning the number of pupils and teachers in specific schools is checked during the control of the local government entities.

The Regional Chambers of Audit control also:

- correctness of the subsidy granting,
- applications for the subsidies,
- correctness of the subsidy calculation,
- timeliness of handing over of the subsidies,
- correctness and diligence of the subsidy settlement.

Applied accounting principles and circulation of financial and accounting documents constitute the significant mechanisms of the internal financial control. During the controls

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carried out by the Regional Chambers of Audit in the educational entities the following issues are checked:

- the list of the accounting books applied in the entity; in case of applying the computerized accounting books the list of data bases which constitute the accounting books are checked,
- description of the computer data processing system,
- entity plan of accounts including all the accounts where the economic operations are recorded by the controlled entity, taking into account the principles concerning their functioning,
- whether the entity keeps all the accounting books required by relevant regulations, i.e.
 - a) daily record,
 - b) general ledger and subsidiary ledgers,
 - c) the register concerning the turnover and balance of the accounts of the general ledger and subsidiary ledgers,
 - d) the list of assets and liabilities (inventory).
- whether the account balances shown in the accounting books on a closing day are equal to the account balances on the opening day in the next financial year,
- whether all the costs for a given financial year have been included in the accounting books,
- whether economic operations were properly recorded in the accounting books of the entity on the basis of properly prepared accounting records,
- whether the accounts are properly closed at the end of the financial year,
- whether the entity adheres to the accruals basis,
- is there any compensation of the assets and liabilities of the settlement accounts, one sided account balance,
- whether real value of the receivables and liabilities with regard to the employees and the legal and public obligations have been verified by comparing the data from the accounting books with the relevant documents,
- whether the executive body of the local government entity has not exceeded the authorization received from the council of the local government entity with regard to contracting obligations,
- whether the accounting register concerning the settlement accounts is kept in accordance with the requirements of the Accounting Act and the description concerning functioning of these accounts in the company account plan,
- whether the unit financial statements have been prepared by all the budget entities, budget companies, and auxiliary companies of the controlled local government entity,
- whether the data presented in the financial statement of the controlled entity conform to the data included in the accounting registers of the entity (e.g. expenditure charts, register of revenues),
- whether the data in the collective financial statements include all the data from the unit financial statements,
- whether the public procurement regulations are adhered to.

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Summary

The modern system of control and audit concerning the educational system is still developing in Poland.

Internal control standards introduced recently comply with the INTOSAI guidelines and the guidelines of the European Commission.

Changes of the internal and external control system correspond to the development of the education system and changes in the school financing system.

Managers of the educational institutions transform and create new mechanisms of internal control which are subsequently subjected to evaluation in the internal auditing process.

The Regional Chambers of Audit improve the audit methods applied in order to obtain the objective evaluation of the tested processes.

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