

Dr. Stanisław Srocki, Ph.D.  
Chairman of the National Council of the Regional Chambers of Audit (KRRIO)  
Poland

## **Competencies of regional chambers of audit in the area of public debt**

### **Summary**

Territorial self-government was reactivated in Poland (after a period of suspension caused by the Second World War and the rule of socialists) in the year of 1990 on local community (*gmina*) level and since 1998 also on county (*powiat*) and provincial (*województwo*) levels.

During the period of 1990–1998 units of territorial self-government (local communities) were able to contract debts (credits, loans, issue of bonds) without having any legislative limitations. The Public Finances Act passed in November 1998 introduced – for the first time in Poland – legislative definition of public debt and limits for self- governments for contracting such debt, as well as the limit of budgetary resources which may be assigned for repayment of liabilities.

In the 16 years of reestablished self-governments' existence, three periods of importance to the functioning in the area of self-governmental budgetary finances may be differentiated.

The first, from 1990 to 1992, was characterized not only by lack of regulations defining debt limit but also by the fact that budgetary finances were not subjected to external control by State inspection agencies.

During the second period, spanning the years of 1993–1998, inspection of budgetary finances was carried out by regional chambers of audit (starting in 1995, as well as by Supreme Chamber of Control - NIK). However, there were still no specifications concerning credit limits.

The third period, running from 1999 until now is characterized by legislative definition as to what is included in public debt and in providing specification of the limits. The limit for contracting debt (credits, loans, issue of bonds and mandatory payables) amounts to up to 60% of the revenues planned by a local community, municipality or province. This limit (threshold) has a formally legal character and does not take into account the actual economic situation of self-governments, including obvious risks. The other element securing the execution of mandatory self- governmental tasks consists of a legislative prohibition of assigning for the coverage of liabilities of more than 15% of planned revenues.

At the present time, the government is conducting work on a new Public Finances Act. Completely new approach to the issues of public debt in self-governmental structures is being expected. It concerns moving away from a formal limit to the method of limiting incurred liabilities with taking into account the so called operational surplus (which means considering the actual financial situation of a specific unit of self-government).

Since 1999 regional chambers of audit supervise, issue opinions and inspect if regulations on public debt are being followed in self-governments (approximately 3 thousand units: self-governing local communities, municipalities and provinces).

Supervision consists of reviewing budgetary legislations which must contain, among others, data on planned new debt and repayment of liabilities incurred in prior budgetary periods.

The issuing of opinions concerns two areas:

- a) issuing opinions on the draft of the budget, execution of the budget for the first semi-annual period and the annual report on budget execution, as well as issuing opinion on the ability to repay credits, loans and bonds, as well as forecast regarding public debt,
- b) reviewing of budgetary reports for the needs of the Ministry of Finance, including the correctness of data on liabilities (such reports are submitted by self-governments on quarterly basis, all of them are reviewed by regional chambers of audit (RIO)).

Inspections in self-governing units are carried out by RIO inspectors. The inspections cover, among others, all operations dealing with incurring liabilities, as well as their repayment.

In the view of the National Council of Regional Chambers of Audit (KRRIO), we have reached such a level of supervision and control over self-governmental finances in Poland, that now is the right time for verification of some of the solutions – both of procedural and legal-material character.

We hope that the new Public Finances Act will include, in the area of public debt of self-governments, solutions which take into account economic realities of particular units of self-government, since the standards used until now present to many of them an obvious developmental barrier, which is a hindrance also to their role of being partners of the European Union.