1. Basic Information
1.1 Desiree Number: PL0003.04
1.2 Title: Internal financial control at regional level
1.3 Sector: Finance - Twinning code: PL2000/IB/FI03
1.4 Location: Poland

2. Objectives
2.1 Wider Objectives
To contribute to the establishment of administrative capabilities in the regions to exercise adequate management, monitoring and financial control over funds provided by the European Union.

2.2 Immediate Objectives
The immediate objectives of the project are:
- Establishment of a comprehensive system to collect and process data on EU funds spending in Poland, with an emphasis on the development of a monitoring system on the implementation of EU funded regional development programmes within a regional and local framework
- Improvement and adjustment of the methods and techniques of planning and performing financial control over EU funds.
- Improvement and adjustment of the methods of planning and performing financial control to EU standards.

2.3 Accession Partnership and NPAA priority
The Accession Partnership indicates as medium term priorities a number of issues related to effective and efficient programming and implementation of regional development programmes. It covers preparing for the implementation of regional programmes, improving the budgetary system according to structural funds standards, including ex-ante appraisal and evaluation, improving legislative and administrative capacity for internal financial control at regional level as well as strengthening of public financial control functions through the provisions of adequate staff, training and equipment.

Short-term priority: Ensuring an independent financial control by the Polish administration
The NPAA recognises the need to obtain assistance, especially in the implementation of pilot projects at various levels of the government and self-government administration, and for an improved co-ordination of controlling activities undertaken by various entities, adjustment of the control policies and mechanisms to the standards adopted under Community law, and preparation of institutions responsible for controlling public funds to operate effectively.

It is also of relevance for the project that the Regular Report requires to ensure the provision of administrative capacity in the perspective of the management of pre–accession and structural funds and the further development of the financial control function in the regional context.

3. Description
3.1 Background and rationale
Development of computerised management, monitoring and control system for EU grant at the regional level.
The Government Plenipotentiary for EU Funds, and after the accession the Minister of Finance, has an obligation to forward EU aid funds and those from the national budget intended as co-financing to the implementing agencies. In order for this task to be carried out properly, it is necessary to ensure an up-to-date and effective registration of funds spent that would allow for retrieval of data necessary to make decisions on the transfers of EU grant. An additional difficulty is the change in the method of funds circulation within the regional framework, with an increased role of the voivod as a junction point in the transfer system.

The first component in the present project aims at the establishment of an efficient system for management, monitoring and control of EU structural funds at regional level. Within the Polish system of regional administration of operational programmes, it is of vital importance that central government and the regions have systems in place which will allow for co-ordinated and effective monitoring, verification and evaluation of programmes, their results and the use of financial resources, including the computerised exchange of data between the Commission and the Member State (see art. 18 of Council Regulation 1260/99).

The Ministry of Economy (responsible for regional policy) and the Ministry of Finance (as a focal point for gathering financial information) decided to implement a unified computerised system, monitoring financial and physical information.

Within the present project we aim to expand the existing system on central level to regional level, with a voivod’s office as a central point. To this extent we plan to deliver technical assistance and equipment as well as to upgrade the computer application, developed under other Phare projects.
The chain of responsibilities will be as follows: At the lowest level, the municipalities (gminas and poviats) will send financial and physical information in a special computer format to the relevant services at voivod’s office, where all information from the region will be processed, stored and filed. It will allow for a quick reaction in case if any information is needed. The Voivod will be responsible for further transfer of data: it will report financial information to the Ministry of Finance and physical information (e.g. meeting the assumed objectives) to the Co-ordinating authority for regional development. With the system operational, these two institutions could send required information directly to the relevant EU institutions. At the regional level, the Marshall, who has statutory functions of carrying out regional policy, also will need access to the information on the implementation of the Structural Funds.

Strengthening the financial control services in carrying out control over EU funds

An efficient system of financial control will be strengthened within the public administration. This is related to Poland’s responsibility for proper application of EU funds. The framework of the financial control over public spending lies in the law on public finance, adopted by the Parliament in November 1998. The law aims at a consolidation of public finance and a greater discipline and transparency in public spending, both of domestic and foreign aid funds and this on all levels. The use of the system of ex-ante control will be implemented by acts to be applied as from the end of 2000.

3.2 Linked activities

The project is complementary and strictly related to the institution building actions related to regional policy implemented under previous Phare funded programmes, the sub-project concerning the development towards structural funds programming and the new orientation for Phare (Phare 97, sub – project 3.3) as well as the financial control projects implemented under Phare 97 and 99 programmes.

1. Some institutional capacity building actions, limited to a number of regions have been carried out within the framework of RAPID, STRUDER I, STRUDER II and INRED programmes. Support was provided mainly for regional development strategy formulation and institutional development.

2. Comprehensive actions aimed at preparation of Polish administration to the future participation in EU structural programmes have been initiated under Phare 98 Special Preparatory Programme for Structural Funds.

3. Technical assistance for regional development under Phare 99 encompasses preparation of integrated Objective-1 type operational programmes for Lubelskie and Podlaskie voivodships. Having regard to time sequence in the programming of structural programmes, all 5 regions in which integrated operational programmes are to be prepared under Phare 98 and 99 programmes have been chosen as target regions for investment programme “Economic and social cohesion” under Phare 2000.

4. The sub-project concerning the development towards structural funds programming and the new orientation for Phare (Phare 97, sub–project 3.3) contains three modules aiming correspondingly at the creation of database on foreign assistance funds, technical assistance for the institutions involved in the implementation of EU assistance and training for the relevant central institutions and voivodships in the field of EU assistance for Poland, including monitoring and financial management. Also under Phare 1997, euro 0.5 million was assigned for financial control (PL 9707-1.4.2). The activities are to start in December 1999.

5. A 1999 Phare project was designed to complement activities under the 1997 Phare programme and the SPP programme regarding financial control.

6. The model of financial control of public spending will be able to be built upon early experience of the application of financial control towards Phare, ISPA and SAPARD resources.

3.3 Results

Development of computerised management, monitoring and control system for EU grant at the regional level

1.1. The report “The existing system of data collection on EU funds spending”, taking into account the studies rendered under other Phare projects;

1.2. The report “The decentralised monitoring model best suited for the Polish conditions, based on the existing documents and a review of systems in several member states.

1.3. Elaborated standard computer format for data relevant for monitoring

1.4. The upgrade application enabling access to reliable and current information to be developed and launched.

1.5. Delivered and installed necessary IT hardware, software and infrastructure to the voivods’ offices and Marshall’s offices.

1.6. Materials and guidelines in the form of the “Manual of monitoring and ex-ante control of structural and regional development programmes”.

1.7. Qualified and competent staff in the voivods’ and Marshall’s offices, familiar with the procedures and guidelines of implementing and monitoring EU grant.
1.8. Qualified and competent staff of treasury control and regional audit chambers, familiar with the procedures and guidelines of ex-post control, and with professional terminology in the area of “financial control”, with an emphasis on unifying and reconciling Polish terms with those commonly used in EU states.

1.9. Qualified and competent staff of municipalities, able to exercise efficient control over projects, being co-financed with EU grants.

Strengthening the financial control services in carrying out control over EU funds

Materials and guidelines in the form of the “Audit methodology and techniques for structural and regional development programmes”.

3.4 Activities

Contract 1: Twinning

- One long-term twinning expert (PAA) to co-ordinate the work of all medium-term and short-term experts. The Pre-accession Advisor will be based in the Ministry of Finance. He will co-operate with the National Fund and with the General Inspector of Treasury Control to manage the program. The pre-accession advisor should:
  - have experience in financial management or financial control of Structural Funds pref. ERDF at a central level (at least 5 years)
  - speak English
  - have good knowledge in the system of EU funds absorption in several Member States
  - have experience in international co-operation, in particular with CEE countries.
- Three medium-term twinning experts to develop the relevant procedures and guidelines to be applied in monitoring and ex-ante control of regional programmes.
- Two medium-term twinning experts to develop the relevant procedures and guidelines to be applied in ex-post control of structural and regional programmes.
- One medium term expert to elaborate computerised standard monitoring format for final beneficiaries and relevant physical information format and financial information format
- 16 medium-term twinning experts in regions (placed in voivod’s offices) to assist voivod’s staff and Marshall’s staff in the implementation of the system and do on-the-job training for monitoring.

The sixteen medium-term twinning experts will be based in the regions to assist the voivod in implementing the management information system for EU programs. The medium – term experts to supervise the preparations for EU funds in the regions should have experience in Structural Funds management on the regional level, speak English, German or French and have general knowledge in the system of EU funds absorption in several Member States.

Contract 2: Training, seminars, in-house visits.

- Ex-post control procedures for treasury control (including methods and techniques of audit) 16 x 5-day training, trained: 320 staff of treasury control offices nation wide.
- Ex-post control of regional development programmes by the regional audit chambers (including methods and techniques of audit), 4 x 3-day training; trained: 80 staff of regional audit chambers nation wide.
- Ex – ante control procedures over EU grants for treasurers of municipal budgets (chief accountants of local governments’ budgets); 16 x 5 day training; trained: 160 accountants from municipalities.

Contract 3:

- Two short-term experts to specify the decentralised monitoring model which is best suited for the Polish conditions and the necessary administrative and IT infrastructure:
- Upgrade and specification of the final detailed model of the IT system.

Contract 4: Construction of the IT system and its implementation

4. Institutional framework

The system of implementing regional policy in Poland is based upon a principle of subsidiarity and cooperation between the regional and central government.

On the central level, the Ministry of Economy has been designated responsible for the co-ordination of the regional policy in Poland. It specifically deals with the creation of the National Regional Development Strategy,
assists the voivodships in creating their regional development strategies, co-ordinates the creation of other sectoral development strategies.

The Ministry of Finance is responsible for general financial management of the state budget, including EU grants. This includes the creation of a system of absorption of EU grants in Poland, which is a task of the National Authorising Officer (NAO). The tool for monitoring the use of these resources is a crucial part of this absorption system. As of January 1st 2000, the resources coming from foreign grants are a separate category in the state budget. They will be spent according to the same rules as budgetary resources i.e. they will be covered by public finance discipline and their use will be controlled by the treasury control system (Ministry of Finance). The treasury control has been assigned by the Polish government as responsible for the ex-post control of the pre-accession assistance and the independent internal control of the Structural Funds (the 5% control and validation function set out in Regulation 2064/97).

On the regional level, the voivodship self-government (with the Marshal heading its executive body) is responsible for enforcement of the regional development strategy, including programming EU grants. On the other hand, the state budget subsidies and EU grants for the actions in the area of regional policy are channelled to regional and local self-government via the voivod (state representative in the voivodship), who is responsible for financial management and financial control of these resources in the implementation phase. Poviats and gminas, being lower level of self-government are final beneficiaries for various projects and sometimes act as intermediaries, organising tendering and grants.

Regional audit chambers, supervised by the Prime Minister, audit the activity of local self-government. The results of these audits on EU grant will be used by the treasury control.

The institutions benefiting from this project will be the Ministry of Finance (Department for Foreign Assistance and Department for Treasury Control), the Ministry of Economy, treasury control offices nation-wide, entities of the state administration in regions (voivod’s offices), regional self-government (marshals’ offices).

The IT system to be implemented within subproject 1 aims at voivod’s offices as end–users and Marshall’s offices as points gathering relevant information, and will constitute their ownership.

### 5. Detailed Budget (million EUR):

<table>
<thead>
<tr>
<th>Activity</th>
<th>Phare Support</th>
<th>Investment (IN)</th>
<th>Institution Building (IB)</th>
<th>Total PHARE (IN+IB)</th>
<th>National Co-financing</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contract 1 Twinning</strong></td>
<td></td>
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<tr>
<td><strong>Development of computerized management, monitoring and control system for EU grant at the regional level</strong></td>
<td></td>
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<tr>
<td>Pre-accession advisor to coordinate works</td>
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<td>0,4</td>
<td>0,4</td>
<td>0,1</td>
<td>0,5</td>
<td></td>
</tr>
<tr>
<td>Procedures in monitoring and ex-ante control of regional programs</td>
<td></td>
<td>0,33</td>
<td>0,33</td>
<td></td>
<td>0,33</td>
<td></td>
</tr>
<tr>
<td>Regional twinning in implementation of the monitoring system</td>
<td></td>
<td>0,79</td>
<td>0,79</td>
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<td>0,79</td>
<td></td>
</tr>
<tr>
<td><strong>Strengthening the financial control services in carrying out control over EU funds</strong></td>
<td></td>
<td>1,85</td>
<td>1,85</td>
<td>0,4</td>
<td>2,25</td>
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</tr>
<tr>
<td>Procedures in ex-post control of structural &amp; regional programs</td>
<td></td>
<td>0,33</td>
<td>0,33</td>
<td>0,3</td>
<td>0,36</td>
<td></td>
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<tr>
<td><strong>Sub Total:</strong></td>
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<td>1,85</td>
<td>1,85</td>
<td>0,4</td>
<td>2,25</td>
<td></td>
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<tr>
<td><strong>Contract 2: technical assistance</strong></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>training, seminars, in-house visits</td>
<td></td>
<td>0,91</td>
<td>0,91</td>
<td>0,7</td>
<td>0,98</td>
<td></td>
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<tr>
<td><strong>Contract 3: technical assistance</strong></td>
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<tr>
<td>Upgrade and specification of the final detailed model of IT system</td>
<td></td>
<td>0,1</td>
<td>0,1</td>
<td></td>
<td>0,1</td>
<td></td>
</tr>
<tr>
<td>Computer standard format</td>
<td></td>
<td>0,07</td>
<td>0,07</td>
<td></td>
<td>0,07</td>
<td></td>
</tr>
<tr>
<td>Development of Decentralised Monitoring Model</td>
<td></td>
<td>0,02</td>
<td>0,02</td>
<td></td>
<td>0,02</td>
<td></td>
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<tr>
<td><strong>Contract 4: investment</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Construction of IT system and its implementation</td>
<td>1,57</td>
<td>1,57</td>
<td>0,525</td>
<td>2,1</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td></td>
<td>1,57</td>
<td>2,95</td>
<td>4,52</td>
<td>1,625</td>
<td>6,145</td>
</tr>
</tbody>
</table>
The Polish authorities have assured that the Government cofinancing is available either through the reserve budget foreseen specifically by the Ministry of Finance for this purpose each year, or directly through the budget of the relevant Ministry. The project will be carried out through one twinning covenant (contract 1), two TA contracts, and one investment contract.

6. Implementation arrangements

6.1 Implementing Agency

PAO: P. Samecki, Undersecretary of State at the Office of the Committee for European Integration
Al. Ujazdowskie 9, Warsaw. Tel.: 4822 694 75 42, 4822 694 7195, 4822 694 6064. FAX: 4822 694 7194, 4822 625 0380. CFCU: Foundation “Cooperation Fund”, 6/12 Nowy Świat St., 00-400 Warsaw.

The CFCU is responsible for handling tendering, contracting and payments of contracts on behalf of the Ministry of Finance which itself shall be responsible for preparing projects and managing their technical implementation.

6.2. Twinning

Contract 1 will be implemented under twinning agreement. The Ministry of Finance will be the party to the covenant. The PAA will be based in the Ministry of Finance. The sixteen medium-term twinning experts will be based in the regions in the voivod’s offices. All other twinning experts will be placed in the Ministry of Finance. Twinning is envisaged with one twinning partner institution, possibly with an involvement of another Member State to cover Subproject 2. At the Ministry of Finance, the Senior Project Officer will be responsible for the project implementation.

Senior Project Officer: Agnieszka Kazmierczak, Deputy Director of the Foreign Assistance Funds Department, Ministry of Finance, ul. Swietokrzyska 12, Warsaw.
Tel. 48 22 694 48 95, fax: 48 22 694 38 18

6.3 Non-standards aspects: n.a.

6.4 Contracts

Contract 1 (twinning) – 1,85 M€
Contract 2 (technical assistance) – 0,91 M€
Contract 3 (technical assistance) – 0,19 M€
Contract 4 (investment) - 1,57 M€

7. Implementation Schedule

7.1 Start of tendering: January 2001
7.2 Start of project activity: July 2001
7.3 Project Completion: June 2003

8. Equal opportunity

In Poland sex discrimination is forbidden by law. The only criteria for the participation in the project will be professionalism and experience.

11. Investment criteria: n.a.

12. Conditionality and sequencing

Sequencing:
Although the entire project is comprised of two subprojects, their implementation is not interdependent since each is intended for a different circle of beneficiaries.
On the other hand, however, there is a strict linkage between the present subproject 1 with previous Phare funded activity, focusing on central administration. Since the proper functioning of the whole system is interdependent, the system can not be efficiently implemented in the regions without progress of works at central level. Thus, in this sense, activities under subprojects are linked and their performance depends on the timely completion of preceding activities.
Another factor which will influence the implementation of the project, is the enactment of the law on regional policy by the state, which will set a framework for the state’s involvement in the division of tasks in the field of regional policy, and thus will establish a clear division of interrelations between Voivod and Marshall.
### Internal financial control

**General objectives**

<table>
<thead>
<tr>
<th>Indicators of achievement</th>
<th>Sources of information</th>
<th>Assumptions and risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment of administrative capabilities in the regions for adequate management and financial control over EU funds.</td>
<td>Degree of effective funds application from their receipt until final consumption.</td>
<td>Reports of controllers and EU funds management units.</td>
</tr>
</tbody>
</table>

**Specific objectives**

<table>
<thead>
<tr>
<th>Indicators of achievement</th>
<th>Sources of information</th>
<th>Assumptions and risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Establishment of a system to collect and process data on EU funds spending in Poland, with an emphasis on the development of a monitoring system over the utilisation of EU funds within a regional framework. * Improvement of the control methods and techniques of spending EU funds. * Improvement and adjustment of the methods of planning and performing financial control to EU standards.</td>
<td>* Existence of a functional system to effectively and smoothly collect and process data on EU funds spending in Poland. * The degree to which control methods and techniques will be improved. * The quality of planning and performing financial control</td>
<td>* An opinion of relevant EU and Polish authorities responsible for financial control, both at the central and regional levels. * A report on the effectiveness of control. * An opinion of relevant financial control authorities on the effectiveness and suitability of new control methods.</td>
</tr>
</tbody>
</table>

**Results**

<table>
<thead>
<tr>
<th>Indicators of achievement</th>
<th>Sources of information</th>
<th>Assumptions and risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Availability of reliable information on the method of spending and committing EU funds at all levels (central and regional). * Effective utilisation of funds from the moment of their receipt until final consumption. * Adjustment of the financial control methods and techniques to EU standards. * Availability of reliable data on spending EU funds through proper identification of entities to be controlled.</td>
<td>* The degree to which available information is up-to-date and complete. * The extent of EU funds utilisation. * The existence of control methods and techniques consistent with EU standards. * The degree of control effectiveness, a higher rate of detection of irregularities with a simultaneous decline in the general number of irregularities.</td>
<td>* Reports on EU funds utilisation drafted at the central and regional levels. * Reports on EU funds utilisation drafted at the central and regional levels. * A report on the degree of consistency between the control method and techniques and EU standards.</td>
</tr>
</tbody>
</table>

**Outputs**

- Opinion on the current method of collecting data on EU funds spending.
- Analysis of the possibilities and ways of controlling EU aid funds spent at the regional level.
- Proposed model of the data collection and processing system developed on the basis of previous documents and systems of at least two Members States.
- Implementation of such a system, including the provision of necessary IT equipment.
- Developed computerised standard monitoring formats
- Manual on the methods of planning and conducting control for treasury inspectors, with a comparative study of techniques and methods of four selected EU states and a proposition for Poland, taking into account its specifics and the anticipated accession to the EU.
- Trained staff of the government administration, Regional Audit Chambers, treasury inspectors and municipalities in control methods and techniques consistent with EU standards, including EU professional terminology applied in the area of financial control.
## Annex 2: Cumulative Implementation, contracting and disbursement schedule

<table>
<thead>
<tr>
<th>Project: Internal financial control</th>
<th>Proposed allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M€</td>
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<tr>
<td></td>
<td>I</td>
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<tr>
<td>PLANNING</td>
<td></td>
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<tr>
<td>2000</td>
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<tr>
<td>Implementation</td>
<td>D</td>
</tr>
<tr>
<td></td>
<td>2.95</td>
</tr>
<tr>
<td>Contracting</td>
<td>1,235</td>
</tr>
<tr>
<td>Disbursement</td>
<td></td>
</tr>
</tbody>
</table>

D=Design / C=Contracting / I=Implementation and disbursement