



REPUBLIC OF POLAND

July 2020

TECHNICAL ASSISTANCE REPORT—PROGRESS REPORT ON BUDGET SYSTEM REFORM—DEVELOPING A STANDARD CHART OF ACCOUNTS AND A MEDIUM- TERM BUDGET FRAMEWORK

This Technical Assistance Paper on the Republic of Poland was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in December 2019.

Disclaimer:

This document was prepared before COVID-19 became a global pandemic and resulted in unprecedented economic strains. It, therefore, does not reflect the implications of these developments and related policy priorities. We direct you to the [IMF Covid-19 page](#) that includes staff recommendations with regard to the COVID-19 global outbreak.

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**International Monetary Fund
Washington, D.C.**

Republic of Poland
Progress Report on Budget System Reform -
Developing a Standard Chart of Accounts and a
Medium-term Budget Framework

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Technical Report

April 2020

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ACRONYMS

BSR	Budget System Reform
CD	Capacity Development
CoA	Chart of Accounts
CoM	Council of Ministers
EC	European Commission
EFB	European Funds Budget
EPSAS	European Public Sector Accounting Standards
ESA	European System of National and Regional Accounts
EU	European Union
FAD	Fiscal Affairs Department of the International Monetary Fund
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
GPFR	General Purpose Financial Reports
GPFS	General Purpose Financial Statements
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
IT	Information Technology
LG	Local Government
MoF	Ministry of Finance
MTB	Medium-Term Budget
MTBF	Medium-Term Budget Framework
MTFF	Medium-Term Fiscal Framework
MTO	Medium-Term Objective
MYFF	Multi-Year Financial Forecast
MYSFP	Multi-Year State Financial Plan
PFA	Public Finance Act
PFM	Public Financial Management
PFS	Public Finance Sector
RAC	Regional Accounting Chambers
RPG	Recommended Practice Guidelines
SCoA	Standard Chart of Accounts
SER	Stabilizing Expenditure Rule
SoF	Source of Funds
SRSS	Structural Reform Support Service of the EC
WB	World Bank
WG	Working Group

PREFACE

In response to a request from the Ministry of Finance (MoF), a Fiscal Affairs Department (FAD) capacity development (CD) mission took place in Warsaw from December 5–18, 2019.

The mission met with senior officials of the MoF, including: the Director of the State Budget Department, Ms. Anna Napiórkowska and her staff; the Director of the Accounting and Auditing Department, Ms. Justyna Adamczyk and her staff; and representatives of Budget Zone Financing Department, Economic Policies Support Department, Economy Financing Department, Local Governments' Finances Department, Macroeconomic Policy Department, Public Debt Department, and Paying Authority Department.

Messrs. Riccardo Ercoli and Iakovos Dimitriou, Policy Analysts of the European Commission's Structural Reform Support Services, joined for a day to discuss the SRSS project and participate in the workshops of the mission.

The mission would like to express its appreciation for the hospitality and courtesy extended by the authorities. The mission is grateful to Ms. Katarzyna Szarkowska and Mr. Bartosz Staszewski for their excellent support in coordinating the mission meetings with the authorities and the IMF resident representative in Warsaw, and his staff for their support. Finally, the mission would like to express its appreciation to Mses. Joanna Rheindorf-Zaorska and Bozena Glowacka for their excellent interpretation and translation services without which the work of the mission would not have been possible.

EXECUTIVE SUMMARY

The Polish government is making good progress with implementing the ambitious Budget System Reforms (BSR) program, first approved by the Council of Ministers (CoM) in 2016.

The government demonstrates a high level of commitment to these reforms and is making significant progress in implementing the recommendations of earlier FAD missions with the support of the resident advisor.

The authorities have put in place an appropriate and effective governance structure for these reforms, supported by various working groups.

The management and working arrangements now in place are fostering good collaboration and coordination among various role players in the reforms. These aspects are critical success factors in reforms of this significant nature. However, while reaching agreements by consensus is an ambitious goal to strive for, reforms of this nature may require some more bold decisions to be made, particularly when harmonizing reporting. For example, revising the definitions of revenue and expense currently used in the budget—revisions of these definitions to exclude proceeds from the sale of assets and payment incurred for the acquisition of non-financial assets are required to enable the harmonized reporting throughout the fiscal cycle that the BSR call for.

The assessment of the progress allowed an opportunity to take stock of accomplishments.

In large multi-year reforms, it is useful to take a step back and appreciate the milestones reached. Significant progress was made in the reforms since the start of the project in 2016. The Stabilizing Expenditure Rule (SER) was introduced in 2013 and implemented in 2015. Several amendments have been made to the Public Finance Act (PFA) and supporting regulations to facilitate these ongoing reforms. *Assumptions to Budget System Reforms* approved by the CoM has guided the first phase of the BSR (the BSR 1 project) towards completion, which include the first proposals on the new Standard Chart of Accounts (SCoA).

Working groups have made good progress with proposing the SCoA structure and developing proposals on the details of various segments of the SCoA.

Further modifications are needed before obtaining the approval of the BSR 1 Steering Committee for coding, testing, and implementation. There is a real need for new thinking about the classifications, rather than just accommodating existing classifications in a new structure. To this end reporting throughout the PFM cycle was discussed and advice on how to harmonize the classifications in various phases provided. The principles for building a SCoA were again discussed with technical counterparts to ensure that these principles are considered in amending the outstanding issues in the SCoA proposals for the various segments.

The economic segment of classification is the most challenging area in the development of SCoA, with two options being considered. While both the options for structuring the economic segment present advantages and disadvantages, it may be necessary to manage these

different proposals by adopting a compromise solution. The solution must be based on a full understanding and consistent application of definitions of the main elements of classification throughout the PFM cycle, based on generally accepted concepts and principles.

Some improvements can also be made to the administrative and fund segment proposals.

The proposals under consideration display an overlap between the fund and administrative segments. To this end, firstly identifying individual reporting entities in line with their accountability and responsibility is necessary, before establishing the controlled entities to allow determining the boundaries of consolidation. Furthermore, adhering to the principle of mutual exclusivity, does not allow entities to be classified as both an administrative unit and in the fund segment. Once an entity is identified as an administrative unit, sources of funds for such an entity can be either a fund, classified in the fund segment, or another entity, classified in the administrative segment, only.

While the functional segment proposals were also developed, these need to be supplemented by developing the program and project segments. Developing the program segment of the SCoA would form the basis for data collection requirements for further improving the medium-term budget framework (MTBF) and performance-based budget indicators. The development and implementation of this segment will greatly facilitate improvements in the linkages between policy initiatives, MTBF and performance.

With respect to the development of the MTBF, actions are needed to synchronize the multi-year state financial plans and annual budgets. Most importantly, the first year of the plans should correspond to the annual budget, as has been achieved in 2019, but then the outer years should, in time, provide a useful prediction of future year budgets, thereby allowing for medium-term planning. As such, outer year estimates should not only incorporate inflation and growth estimates, but also detailed analysis of investment project costs over time. Also, guidelines were provided on how to enhance the current performance-based indicators by improving program structures, aligning SCoA, MTBF and program structures and establishing improved communications and coordination between the MoF, CoM and the legislature in general.

While the MoF has also conducted a survey of the readiness of public sector entities' accounting systems to accommodate accounting reforms, a gap analysis on the IT-system is urgently needed. The result of the accounting survey indicated that most central government entities are ready to accommodate the SCoA, however some uncertainty around the IT-systems that need to collect and consolidate information and its reporting capabilities remain outstanding. Since these capabilities are essential to allow testing and implementing of the SCoA, action should be taken to identifying these IT needs in a timely manner.

RECOMMENDATIONS*

Integration of Fiscal Reporting

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|------------|--|
| III | <ol style="list-style-type: none">1. Adopt a balanced view of different purposes and uses (internal and external) of the SCoA including statistical reporting, budgetary, and financial;2. Ensure that all the relevant user needs are equally represented and taken into consideration in the development of the SCoA;3. Focus development work on the connections between the budget and GPFs, and the needs for reconciling budgetary reporting and financial statements; and4. Address in the design and implementation of PFM reforms, the connections between enhancing MTBF and financial reporting. |
|------------|--|

Developing the Standard Chart of Accounts

- | | |
|-----------|---|
| IV | <ul style="list-style-type: none">● Administrative segment:<ol style="list-style-type: none">1. Identify accountability levels at which individual and consolidated financial reports should be compiled in the administrative classification;2. Review and refine the taxonomy of the Public Finance Sector as defined in the 2009 PFA, Article 9;3. Classify appropriate sub-types of entities in consultation with the respective Level 1 Budget Holders;4. Define subsidiary reference tables for reporting by other combinations of public entities as required for statistical or legislative reporting.● Economic segment:<ol style="list-style-type: none">1. Ground further development of the economic category in the generally accepted concepts of revenue, expense, assets and liabilities;2. Develop a compromise solution for the economic classification that incorporates elements from the two options considered;3. Use existing classifications in budget accounts and other reports only as a starting point for the development of the economic segment and be prepared to make bold decisions such as the revision of the definition of revenue in the Budget to align definitions;4. Have in mind the future structure of the budget, financial statements, statistical, and managerial reports while finalizing the structure of the economic segment;5. Articulate the economic segment so that data can be pulled out easily at various levels of classification in a consistent manner with the structure of the different reports;6. Apply the notions of relevance, materiality, and cost benefit to decide on the granularity of information classified in the economic segment. |
|-----------|---|

	<ul style="list-style-type: none"> • Fund Segment: <ol style="list-style-type: none"> 1. Review the proposed SoF classification structure and eliminate overlaps with other segments (most notably administrative classification) of the SCoA.
Developing the Medium-Term Budget and Performance Budgeting	
V	<ol style="list-style-type: none"> 1. Head towards aligning government policy priorities in a National Strategic Plan costed within the constraints of the MTBF; 2. Ensure consistency in the reforms of the program segment of the SCoA and the MTBF reforms by enhancing the necessary technical support in CoM as the centrepiece of the Integrated Planning System; 3. MoF to reengage with line ministries in order to assist with MTBF submissions including the further refining of forward estimates based on policy outcomes desired.
IT Environment	
VI	<ol style="list-style-type: none"> 1. Review the ability of the existing collection and consolidation financial software to facilitate the implementation of the proposed SCoA and accounting reforms.

* The anticipated dates for these deliverables are being finalized in consultation with the working groups. The dates are being synchronized with the work plan of the resident advisor.

I. INTRODUCTION

1. This mission is a continuation of IMF capacity development (CD) to Poland to strengthen fiscal reporting and the medium-term budget framework (MTBF).¹ The main objective of this CD is to support the Ministry of Finance (MoF) in developing a new standard chart of accounts (SCoA) to facilitate fiscal reporting and accounting and to develop aspects of the MTBF as needed.

2. The Polish government embarked on a broad and ambitious program of reforming the budgetary system in 2016. These envisaged reforms were approved by the Council of Ministers (CoM) and developing a SCoA and the MTBF were identified as priorities.

Council of Minister Budgetary Reform Plans

3. In July 2016, the Council of Ministers (CoM) approved a six-point plan (Assumptions to Budget System Reform (BSR)) for budgetary reform. The plan's components are:

- implementation of a MTBF;
- integration of annual and multi-annual planning processes, and modifications to the budget calendar;
- redefinition of the role of the CoM, line ministries, and the Ministry of Finance (MoF) in the budget process;
- unification of the traditional budget classification and the performance-based classification;
- improvement in accounting and financial reporting systems; and
- institutionalization of spending reviews.

4. The authorities have identified reforming and unifying the chart of accounts (CoA) and budget classification and introducing the MTBF as their highest priorities. Nevertheless, these two reforms will in many ways rely upon other reforms occurring in parallel. Introducing a SCoA will require improvements in organizational arrangements, accounting and financial reporting standards, principles and policies, as well as accounting systems. The MTBF will also require adjustments to the budget calendars, administrative reforms including identification of programs and the introduction of spending reviews. Given the strong interrelation between the reform of the SCoA and the MTBF, in agreement with the Polish Authorities, the IMF's FAD has

¹ The CD is provided with the financial support of the European Union (EU).

been asked to assist in these reform areas, benefiting from previous capacity development work done by the World Bank (WB).²

5. In the past, the authorities have received technical advice from the Fiscal Affairs Department of the IMF (FAD) on strengthening key aspects of their budgetary procedures, including medium-term fiscal and budgetary frameworks. This advice includes several previous reports in 2008, 2010, 2017, and 2019.³ The government has made significant progress in implementing recommendations by FAD and others on fiscal and budgetary reform, but some further work in several areas remain outstanding as indicated by the summary *Table of Progress made with the Implementation of Fiscal and Budgetary Reforms* (see Table 1). The endorsement by the CoM of the *Assumptions to Budget System Reform* in July 2016 effectively means that the reforms associated with the revision of the PFA, presentation of the budget strategy reform to the CoM and implementation of forward estimates were approved and the process of reforms initiated. Progress with developing a SCoA and MTBF are further elaborated in the remainder of this section.

² World Bank, *Poland: Selected Budget Reform Issues*, December 2016.

³ R. Allen et al. June 2008, *Developing a Multiannual Fiscal Framework*, June 2008; and M. Kumar, et. al., *Strengthening the Fiscal Framework*, June 2010; *Developing a Medium-Term Budget Framework*, Renteria et. al., March 2017; *Building Forward Estimates and Standardizing the Chart of Accounts*, Harris et.al., December 2017; and *Next Steps in Developing a Standard Chart of Accounts and Multi-year Budget*, De Clerck, et.al., May 2019;

Table 1. Poland: Summary of Progress Made in Implementing Fiscal and Budgetary Reforms

Recommendation	Actions Taken
Cross-cutting Issues	
Implement permanent fiscal rules	Achieved. Stabilizing Expenditure Rule introduced in 2013 and implemented in 2015
Introduce a Fiscal Responsibility Law	Partly achieved. Several Amendments to Public Finance Act introduced since 2010
Initiate a budget reform process	Achieved. CoM approved MoF proposals in the Assumptions to Budget System Reform paper, July 2016
Establish a Fiscal Council	Not achieved
Comprehensively review the Public Finance Act to incorporate reforms in the budget process	Partly achieved through amendments to Public Finance Act since 2010
Budget strategy paper presented to the CoM at beginning of the budget process	Partly achieved with the introduction of multi-year forecast requirements in 2019 MoF Budget Regulation
MOF to introduce a change management strategy	Not achieved.
SCoA	
Set up appropriate governance arrangements for the SCoA project	Achieved. Steering Committee, Working Groups and Project Management was established and functions effectively.
Consider and assess user needs in light of international standards and guidelines	Ongoing. User survey conducted, results analyzed, and all forms of financial reporting are being considered in the development of the structure
Define and agree a conceptual structure for the SCoA	Partly achieved. Working groups developed proposals, that will be further developed and decided on based on advice of this mission.
Standardize the economic and functional segment based on GFS/ESA	Partly achieved. Proposals for these segments partly reflect the international classifications
Standardize the Administrative segment across various reports and ensure consistency with regional and international requirements to report on general government and public sector	Partly achieved. Proposals for these segments partly reflect the international classifications
MTBF	
Build and implement expenditure forward estimates model	Partly achieved. No systematic framework yet in place for bottom-up forward estimations – however some pilots were conducted.
Synchronize preparation of the MTBF and annual budget	Initiated. First step in building a top-down decision-making process initiated in 2019 MoF Budget Regulation.
Define the scope of the MTBF to cover all the entities, funds and accounts that have budgetary impact	Not achieved
Strengthening engagement with line ministries in preparing forward-estimates	Partly achieved during 2017, but now stalled as the focus shifted to SCoA development completion as a priority.
Implement a performance-based budget system	Partly achieved. Performance data are compiled and presented but are not integrated with decision making on the annual budget, nor with budget execution.
Establish a spending review committee in the MoF, and initiate first reviews	Achieved – A Committee was set up and some reviews conducted.

Source: Mission assessment, based on recommendations in FAD reports since 2008 referred to in Footnote 4.

Key: Green = achieved; yellow = partially achieved; red = not achieved.

Standard Chart of Accounts

6. The WB supported this reform, as part of their broader *Enhancement of Public Sector Accounting and Financial Reporting Program, which came to an end in 2016*. As part of this reform, the WB provided guidance on the integration of the SCoA and budget classification that provides the broad conceptual design architecture of the reform. These conceptual design elements were adapted to Polish circumstances, initially focusing primarily on four core segments, namely the administrative, economic, fund, and functional classifications. However, due to the need for further developing the MTBF, and accommodating classification in use in the current performance budgeting system, some attention was also given to the development of the program classifications. This will need to be further fleshed out during the remainder of the development phase of the SCoA.

7. The governance of the development phase of the SCoA is conducted within dedicated projects with Steering Committees and working groups, covering various aspects of the reform initiative. In particular, early work focused on resolving the scope and coverage of the public sector and the economic segment of the SCoA. Preliminary structure proposals for the four core segments of the SCoA were developed and will be further refined based on advice provided in subsequent CD missions and with the support of the resident advisor.

Medium-Term Budget Framework

8. The February 2017 FAD Capacity Development (CD) mission found that many of the prerequisites are in place for implementing a successful MTBF.⁴ This mission provided high-level guidance on MTBF design and tools. It made specific recommendations to improve the budget process, notably by enhancing the role of the CoM in the resource allocation process, and to design a standard approach for line ministries to prepare forward estimates.

9. In October 2017 the follow-up mission found that a first attempt at preparing forward estimates had been made. Measures and methods on how these estimates might be improved over time were discussed with the MoF and CoM. Working with three ministries to illustrate the methodology was followed by additional guidance on refining the methodology for preparing forward estimates in May 2019.

10. The authorities have introduced changes to the budget calendar and have issued broad guidelines for preparing forward estimates. These changes enable the CoM to intervene and make decisions earlier in the budget process. A MoF Budget Regulation issued in 2019, required all holders of budgetary parts (the equivalent of budgetary spending agencies) to prepare a medium-term budget with initial estimates for 2020, and starting estimates for 2021–22. This is a critical point at which the government is introducing medium-term budgeting

⁴ See Footnote 3 for the references to reports mentioned in this section.

at the core of the budget process. However, further refinements of these estimation processes at budget holder level is dependent on other reforms in the classification system and estimation procedures. Providing comprehensive guidance on the bottom-up forward estimation procedures and fully incorporating performance-based indicators remain outstanding.

II. INTEGRATION OF FISCAL REPORTING

11. Fiscal reporting occurs at various phases of the PFM Cycle. While the need for a SCoA is well agreed in Poland, some doubts continue to exist on how to use it as an instrument to harmonize reporting through the fiscal cycle. Fostering an integrated view of the different reporting elements of the fiscal cycle seems to be less well understood. Amalgamating views on this is needed to overcome obstacles to progressing in some critical areas of the project such as finding solutions to the economic segment of the SCoA and the integration between the MTBF and financial reporting. The conceptual basis of the various phases of the PFM cycle and their fiscal reporting needs were discussed extensively to clarify these outstanding issues (see Appendix I). In particular, general purpose financial statements (GPFS) and their role in the fiscal cycle, as well as the integration of these statements with other fiscal reporting needs are discussed in the remainder of the section.

A. An Integrated Approach to Financial Reporting

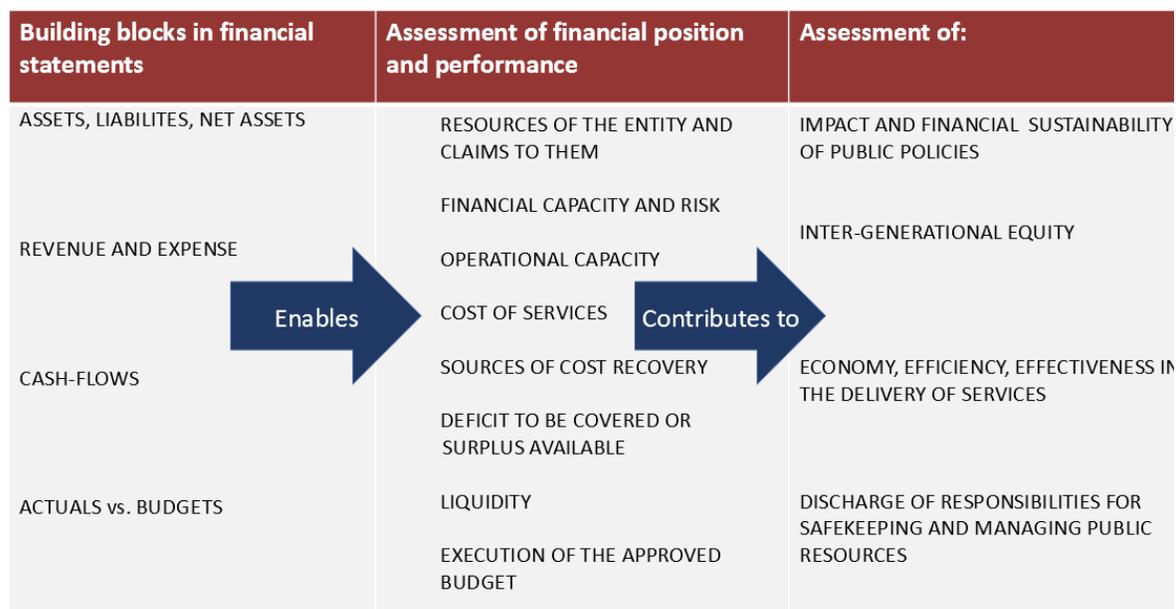
12. Financial information should integrate multiple dimensions of the results of financial operations of a public sector entity. There is no single notion of financial information able to capture every dimension of the financial results of a public sector entity. As an example, prioritizing control over financing expenditure requires the accounting for cash-flows and cash balances. Nevertheless, focusing on cash as the only key-indicator of the entity's financial position implies neglecting resources other than cash and their consumption in the delivery of services. Such a cash focus also neglects management of all assets and liabilities.⁵ Capturing the whole set of assets and liabilities calls for accrual accounting and addressing net worth (or net assets) as the key-indicator of the entity's financial sustainability over time.

13. A comprehensive view of the elements of financial information should be provided to users to facilitate the assessment of the entity's results (see Figure 1). The basic building blocks of financial reporting derive from the entity's budgetary and financial accounting systems. Adequate information about assets and liabilities, revenue and expense, cash inflows and outflows, and budgeted amounts compared to actuals, is at the basis of assessment of fiscal and financial results. Those elements should match given qualitative characteristics, as previously

⁵ In this report the statistical concept of assets and liabilities are used—therefore assets include financial and nonfinancial assets, while liabilities include equity and liabilities other than equity. This concept differs from the accounting concept where liabilities is deemed to exclude equity. See also Appendix III.

discussed and indicated in Appendix II. The accounting information available to users, enables further insights into multiple dimensions of the financial position and performance of the entity.

Figure 1. Elements of Financial Information



Source: IMF staff.

14. Accounting information needs to be supplemented by additional information from other sources, such as service performance indicators and statistical reporting, in order to allow the full analysis of an entity's or sector's results. Additional information is needed to assess complex dimensions of public entities' performance, such as the long-term sustainability of public finance, intergenerational equity, efficiency and effectiveness in the provision of services, discharging of responsibilities for safekeeping and managing resources on behalf of constituents. The key message is that all the elements of financial information are indispensable and interrelated for a comprehensive assessment of fiscal and financial results

15. GPFS forms the core of what is included in general purpose financial reports (GPFRs) of a public sector reporting entity. GPFRs provide comprehensive information on the major factors underlying the financial and service delivery performance of an entity, and also provide information on factors that may influence their performance in future. The role of GPFSs is to provide information for understanding of the financial position and financial performance of the reporting entity. GPFSs present on the face of the financial statements information primarily coming from the entity's financial accounting system that is supplemented by disclosure information in the notes. Requirements for the preparation of financial statements are set at all levels of government in Poland.

16. In the Polish government sector, there are requirements for the compilation of individual financial statements, which are consolidated by entities servicing the holders of budgetary parts (within central budgetary sub-sector) or by local governments. Ideally,

consolidated financial statements should be prepared for economic entities including a controlling entity and one or more controlled entities. Consolidated financial statements are needed to provide users with comprehensive information about the financial position and performance of the economic entity as a whole. However, the coverage of consolidation in Poland is not complete since consolidated financial statements are not prepared at all levels of government. At individual local government level, only consolidated balance sheets are provided for the economic entity encompassing the whole of entities controlled by that local government. Public entities with legal personality are not consolidated at holder of budgetary part level and there are no consolidated financial statements available for the whole of the State administration.

17. Harmonization of accounting and financial reporting regulations facilitates understandability, comparability and consolidation of financial statements across the public sector. For financial statements to be fully understandable to users and comparable across a jurisdiction, and internationally, they must be prepared on the same bases. International Public Sector Accounting Standards (IPSAS) provide for international standards for high-quality financial reporting. Specific regulations are issued in Poland for government budgeting, accounting, and financial reporting. Furthermore, even though all entities in the general government sector are to follow the general provisions of the Accounting Act, not all of them are subject to the same supporting regulations. For example, financial reporting by state legal entities is the same as that applicable to private sector entities.

18. Budgetary information should be a component of GPFSs and should therefore be linked or at least reconcilable with financial accounting information. Budget estimates and actuals information after execution are relevant components of financial reporting. This is due to the specific role of the budget in the public sector, as acknowledged in the Preface to the IPSASB's Conceptual Framework. IPSAS 1 and IPSAS 24 provide for budgets and actuals to be reported in the GPFS by those entities that are required or elect to make publicly available their approved budget(s).⁶

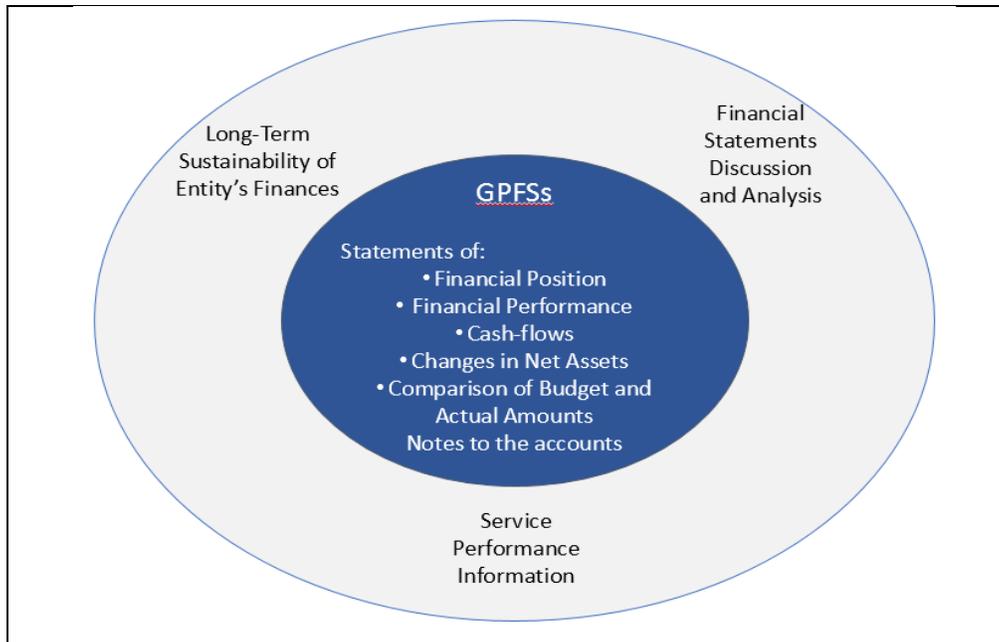
19. When the budget is prepared on a cash-basis, as is the case of Poland, information about the execution of the budget should be prepared on a comparable basis. This information can be provided in a separate additional statement, the *Statement of Comparison of Budget and Actual Amounts* within the GPFS. Alternatively, it is possible to accommodate this requirement also by harmonizing and standardizing the format of the *Cash-flow statement* required by IPSAS 2. IPSAS 24 also sets requirements for reconciliation of the actual amounts reported in the budgetary statement with other financial statements prepared in accordance with IPSASs, at the level of net cash-flows from operating activities, investing activities, and financing activities.

⁶ See <https://www.ipsasb.org/publications/2019-handbook-international-public-sector-accounting-pronouncements>.

20. The scope of financial reporting is broader than financial statements and implies an integrated set of GPFs, as well as statistical and budgetary reports to be published to match users' needs. For the users to be provided with all relevant information, additional statistical and budgetary reports are required to address those dimensions of the entity's results which are not fully captured by GPFs.

21. Additional financial reporting is proposed by existing Recommended Practice Guidelines (RPGs) from the IPSASB. These provide guidelines for the preparation of three additional reports: Long-Term Sustainability of Entity's Finances; Service Performance Information; Financial Statements Discussion and Analysis (see Figure 2). These reports integrate budgetary and financial accounting information with information coming from entity's strategic plans, MTBF, performance and statistical reporting. Mirroring the integrated vision of financial information, the Polish authorities have scope to further improve the integration of financial reporting and its relations with the different sources of financial information.

Figure 2. Scope of Financial Reporting



Source: IMF staff.

22. There is a need to further harmonize views among different departments involved in the SCoA project. Budgeting, statistical reporting, and financial accounting have been long considered and operated as separate systems. While they serve different purposes, they share a common basis of data and produce reports relevant to match specific users' needs. All these reports should be integrated components of financial information to users. Narrowing differences between GFS/ESA and IPSASs has been pursued as a major goal over the last decades

and progress has been made to eliminate or reduce unnecessary differences. In addition, some guidelines on how to manage remaining differences were issued.⁷

Main Findings and Recommendations

23. An integrated view of the various objectives and components of financial reporting should be further enhanced in Poland. An analysis of the project status, and more generally of the current practice and regulations in Poland shows that financial reporting can be enhanced following the implementation of the new SCoA. This will facilitate (i) amalgamation of views among the departments involved in the Project; (ii) better understanding the role of, and requirements for, the SCoA under development; (iii) leveraging connections between the different functions and systems along the PFM cycle, and particularly between MTBF and financial reporting; (iv) improving transparency and accountability at different stages of the PFM cycle; and (v) designing and implementing PFM reforms in line with best international practice.

Recommendations:

1. Adopt a balanced view of different purposes and uses (internal and external) of the SCoA including statistical reporting, budgetary, and financial; (MoF Working groups, short term)
2. Ensure that all the relevant user needs are equally represented and taken into consideration in the development of the SCoA; (BSR Steering Group, continuously)
3. Focus development work on the connections between the budget and GPFs, and the needs for reconciling budgetary reporting and financial statements; (MoF, short term)
4. Address in the design and implementation of PFM reforms, the connections between enhancing MTBF and financial reporting. (MoF, medium term).

III. DEVELOPING THE STANDARD CHART OF ACCOUNTS

24. The progress with developing the SCoA was reviewed and guidance provided to inform the pending decision on the structure of the SCoA. In identifying these pending issues, it was clear that some of the general principles to be followed when building a SCoA are not that familiar to all role-players. Therefore, an overview of the general principles to be followed in building a SCoA were discussed so that it could be used to eliminate some of the outstanding issues (see Appendix II). Subsequently, the specific segment proposals were

⁷ IPSASB, *International Public Sector Accounting Standards (IPSASs) and Statistical Bases of Financial Reporting: An Analysis of Differences and Recommendations for Convergence, Study Report, 2005*; IPSASB, *Process for Considering GFS Reporting Guidelines during Development of IPSASs, Policy Paper, 2014*; and IMF, *Government Finance Statistics Manual, 2014, Appendix VI*.

reviewed, and suggestions on how to revise and improve these proposals are provided in the remainder of this section.

A. Administrative Segment

25. The administrative segment of the SCoA is essential for identifying accountability and is used in consolidating financial reporting. The Poland PFA, Article 9 defines the scope of the Public Finance Sector by enumerating not only administrative entities, but also authorities, funds, as well as some non-defined unique organizations without legal personality.⁸ Generally, governments establish organizations (e.g., ministries, departments, agencies and other budget-funded entities) to deliver government functions. It is necessary to classify these organizations in a separate segment of the SCoA to identify responsibility and accountability centers for:

- Budget control:
 - Identify the entity responsible for managing the resources allocated to it for implementing specified policy objectives.
 - Monitor and manage the use of budget by the entities, in accordance with the annual and multi-year appropriations.
 - Hold entities accountable for delivering on their policy objectives.
- Reporting:
 - Provide government financial information by statistical sector and by consolidated and individual reporting entity according to the needs of policy makers, government managers, parliament/ legislature, the broader public, supreme audit institution, credit rating agencies and international agencies.
 - Set the organization segment as the balancing segment as the basis for aggregated and/or consolidated financial reports.
 - Adhere to statutory and international reporting requirements and standards.
- Fiscal responsibility, and cash and other resource management:
 - Optimize the use of government financial resources by entities.

26. The proposed administrative segment reflects the current hierarchy of central government budget holders configured in the Trezor system. The same configuration is proposed for classifying the hierarchy of local government budget holders. The structure is shown in the Table 2. In some instances (e.g., in the case of Police) there are numerous level 2 budget holders. In such cases an additional level 2(1) of budget holders is established for purposes of aggregating information on budget execution for managerial convenience. The actual

⁸ See Footnote 3 for earlier FAD mission reports that discussed the challenges associated with defining the public sector and its sub-sectors in Poland.

execution of the budget in terms of contracting, committing, and paying for goods and services is by entities at the third level.

Table 2. Poland: Structure of the Administrative Segment in the SCoA

Segment	Sub Segment	Digits
Administrative	Level 1-First Level Budget Holder ^{1/}	3
	Level 2-Second Level Budget Holder	2
	Level 2(1)-Second Level Budget Holder	2
	Level 3-Entity	5
	Entity Type	2

Source: IMF staff.

^{1/} In the context of Poland, the different levels of budget holders correspond to Ministries, Departments, Offices and Public Entities.

27. The number of digits provided for each sub-segment is based on the current number of budget administrators and public finance sector entities. The number of budget administrators and public finance sector entities that exist at each level is shown in the Table 3. The table suggests the following rule of thumb for the number of digits required for coding the different sub-segments within the administrative segment (as portrayed in Table 2):

- Level 1 budget holder to be coded using three digits as there are 156 entities at level 1.
- Level 2 budget holder to be coded using 2 digits as the coding at level 2 will be hierarchical and there are presently no more than 16 level 2 entities below a level 1 entity.
- Level 3 entities to be coded using a unique 5-digit code for each entity as there are currently no more than 99,999 such entities.

Table 3. Poland: Number of State Budget Administrators and Public Finance Sector Entities

Description	Number of Units
<i>State budget administrators:</i>	
First level holders (holders of budgetary parts)	156
Second level holders	89
Third level holders	2864
<i>Public finance sector entities</i>	
State budgetary units	2468
Executive agencies	10
Institutions of budgetary economy	10
State special-purpose funds	35
State owned legal entities	67
Municipalities, including cities with Powiat rights	2477
Cities with Powiat rights	66
Powiats	314
Voivodships	16
Local government public finance sector entities, including budgetary units	~55000

Source: MoF and Statistics Poland; number of state budget administrators as of February 2020; number of state budgetary units as of December 2018.

28. The final recommendations of the working group on administrative segment should include coding rules. The rules should provide for the first three sub-segments of the segment to be coded hierarchically. In other words, the two digits codes of second-degree budget holders are not unique as the same code could be repeated under different first-degree budget holders. However, the 7-digit code comprising first, and second-degree budget holders will be unique. The five-digit code allotted to entities which are at level 3 uniquely identify each spending unit. The rules should also provide guidance on the allotment of codes when there are modifications or additions to the administrative structure.

29. The entity type sub-segment could be used to reflect the taxonomy of the public finance sector as envisaged in Article 9 of the PFA. Table 4 illustrates the use of the entity type code. The table is illustrative and reflects the current taxonomy of the public finance sector. Once the entities are mapped to the appropriate group of the public finance sector it would be possible to report budget appropriations and budget outcomes by these groups.

Table 4. Poland: Taxonomy of Public Finance Sector

Group	Description	Group	Description
01	Government administration authorities	11	State special-purpose funds
02	Authorities of state control	12	Social Insurance Institution and Funds
03	Authorities of legal protection	13	Agricultural Social Insurance Institution and Funds
04	Courts and tribunals	14	The National Health Fund
05	Local governments and unions thereof	15	Independent public healthcare facilities
06	Metropolitan unions	16	State higher education institutions
07	Budgetary units	17	The Polish Academy of Sciences and organizational units
08	Local government budgetary entities	18	State and local government cultural institutions
09	Executive agencies	19	Other state or local government legal persons established under separate statutes
10	Institutions of budgetary economy		

Source: MoF.

Note: The purpose of including this table in the text of the report is to give an example of the possible use of the entity type code based on the current taxonomy reflected in PFA Article 9. The refinement of the taxonomy of the public finance sector is a separate exercise and should be addressed before the entity types are grouped and coded for inclusion in the new SCoA.

30. However, the taxonomy of public sector units and the administrative segment may be improved by identifying reporting entities, consistent with fiscal reporting and as defined in IPSASs. IPSASB's Conceptual Framework does not specify which public sector units should be identified as a reporting entity. This can be a government or other public sector organization, with or without a separate legal identity, a program or an identifiable area of activity. An entity having the responsibility to raise or use public resources, acquire or manage public assets, incur liabilities, delivery service on a significant scale are signals that resource providers and service recipients exist who may depend on the GPFRs of the entity for relevant

information. Such reporting entities should be clearly identified and be aligned within the reformed administrative segment.

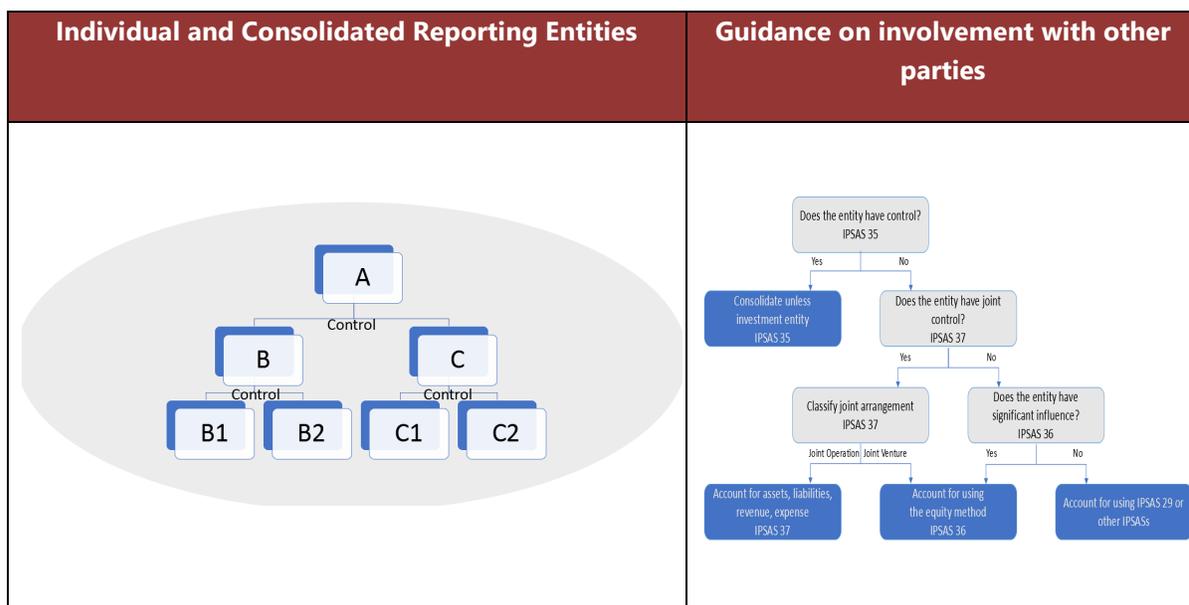
31. The unique code of the level 3 entity provides the flexibility to map the entity to different sectors, functions or higher-level budget holders. Even when the level 3 entity is attached to another higher-level budget holder due to administrative restructuring, the unique code of the level 3 entity can be reassigned, and the past budget execution data migrated to the new higher-level budget holder. It is also possible to use data dictionaries or internal database tables to group the level 3 entities to different sectors or combination of sectors. The recommendations made to the BSR 1 Steering Committee on the structure of the SCoA should include a list of all the dictionaries/ tables needed to map the level 3 entities to sectors or other administrative groups required to be consolidated or aggregated for various reporting needs. The criteria for mapping to different groups should be clearly defined.

32. The rationale for identifying an entity within the administrative segment is its relevance for budgetary and/or financial management purposes. The same rationale should be followed in identifying reporting entities in a consistent manner. This flexible notion of reporting entity according to IPSASs could also be aligned with the notion of institutional unit from *GFSM 2014*. The flexible notion in IPSAS allows the identification of the reporting unit according with the notion of institutional unit, as needed. These reforms should therefore not only cast existing structures in a new administrative classification, but rather carefully consider what should be the optimum administrative structure of government and organize reporting accordingly.

33. The administrative segment should include and identify controlling entities as defined in IPSASs. According to IPSAS 35, an economic entity includes a controlling entity and one or more controlled entities (see Figure 3). The controlling entity presents GPFs which consolidates accounts of all the entities within the economic entity. Units in the administrative segment which are not reporting entity based on the IPSASB's Conceptual Framework should consolidate within a broader economic entity, if requirements for consolidation are satisfied. For an economic entity to be identified, a control relationship as defined in IPSASB must be assessed to exist between a controlling entity and one or more controlled entities. Control relationships among units and boundaries of economic entities should be clearly identified when designing the administrative segment.

34. There may be interests in other entities other than control, which give rise to a significant influence on the "associate entity." Identifying the nature of the relationships among the entities within the administrative segment is relevant to apply the appropriate accounting treatment and disclosure requirements according to different IPSASs.

Figure 3. Using Notion of Control to Determine Consolidation Practices



Source: IMF staff.

35. Existing anomalies in the administrative structures should be resolved before coding the segment. One such anomaly is the treatment of funds which are regarded as separate public sector entities despite the fact that, in principle, they do not have legal personality. The general principle is that an administrative entity should be the controlling entity for funds as defined in a fund segment. Entities which meets the criteria of being a reporting unit should be coded as such in the administrative segment. Only when within such entities the source of funding should be identified separately, a fund segment should be distinguished. The criteria for identifying units to be included in the administrative segment should be linked to their status as individual or consolidated reporting units and be linked to their status as institutional units.

Main Findings and Recommendations

36. The proposed administrative classification provides flexibility for grouping the level 3 entities by sub-types, sectors, controlling entities, reporting entities or other administrative sub-sets for reporting purposes. The criteria for assigning entities to different groups should be clearly defined and appropriate dictionaries/tables prescribed in the SCoA proposal to be submitted to the BSR 1 Steering Committee.

Recommendations:

1. Identify accountability levels at which individual and consolidated financial reports should be compiled in the administrative classification; (MoF, short term)

2. Review and refine the taxonomy of the Public Finance Sector as defined in PFA, Article 9; (MoF, short term)
3. Classify appropriate sub-types of entities in consultation with the respective Level 1 Budget Holders; (MoF, short term)
4. Define subsidiary reference tables for reporting by other combinations of public entities as required for statistical or legislative reporting. (MoF, short term)

B. Economic Segment

37. The economic segment has proved to be one of the most challenging areas for progressing the development of the SCoA in Poland. Interpretation of transactions and events may vary among different reporting formats and reaching agreement on the structure of the classification appears to be difficult. Clarification of concepts in the light of the best international practice and structuring a methodological approach to designing the economic segment have been issues also addressed by previous missions. Guidelines provided during the mission are intended to support the working group in finding agreed solutions.

38. It is necessary to ground the economic segment on generally accepted principles. The economic classification in the SCoA should reflect the economic nature of the relevant transactions or economic events. The logic of the classification should be helpful in identifying the major categories of classifications but should also identify the lowest category of classifications in the database. Defining the major conceptual items such as revenue and expense, assets and liabilities, on notions and principles internationally accepted, such as the ones coming from the *GFSM 2014* and IPSASs, sets the framework within which the details can be developed.

39. The basis of recording does not affect the classification of items. Therefore, in the logic of cash accounting, the only relevant flows recognized are those affecting the cash and cash equivalent balances. In such a system, cash inflows and cash outflows affect the related stock. Therefore, cash revenue should be seen as cash inflows that affect the net cash asset position, while cash expense are cash outflows that affect the net cash asset position. Similarly, cash inflows and outflows related to investment in nonfinancial assets, financial assets and liabilities could be identified. At a subsequent level, cash inflows and outflows are classified according to their nature (for example, cash receipts for grants; cash disbursement for the acquisition of service). Internationally accepted notions, such as the ones embedded in GFS/ESA and IPSASs, could then be used for further development of the detailed levels of the economic segment of the SCoA.

40. Accrual accounting does not change the classification of items in the economic segment of the SCoA but expands the scope of events recognized and changes the time of recording events. For example, in the case of revenue recognized on an accrual basis, the counterpart to the accrued revenue transaction becomes an account receivable rather than cash.

Similarly, the counterpart to an expense item recognized on an accrual basis becomes an account payable. In the later phase of the transaction these may affect cash balances when the account payable/accounts receivable are paid or received. In addition, some non-cash flows such as payments in kind, provisions, depreciation and valuation changes will be recognized in an accrual system.

41. The working group has developed two options for dealing with the economic segment of the SCoA. They both provide a high-level view of the structure of the SCoA. The two options are displayed in Figure 4 and were extensively discussed during the mission.

Figure 4. Proposals for the Economic Segment of the SCoA

OPTION A	OPTION B	GROUPS FOR REPORTING (outside classification)	
1 REVENUE	ECONOMIC CLASSIFICATION STRUCTURE	A Cash income	E Assets (stocks)
1 0 0 1 Public levies (taxes)	1 Public levies (taxes)	A 1 Public levies (taxes)	E ...
...	2 Social security and health insurance contributions	A 2 Social security and health insurance contributions	F Liabilities (stocks)
1 0 0 8 Non-financial assets	3 Transfers within the public finance sector	A 3 Transfers within the public finance sector	F ...
2 EXPENSES	4 Other current	A 4 Other current	G Assets (revaluations)
2 0 0 1 Public levies (taxes)	5 Other non-current	A 5 Other non-current	G ...
...	6 Remuneration	A 8 Non-financial assets	H Liabilities (revaluations)
2 0 0 8 Non-financial assets	7 Social Benefits	B Accrual income	H ...
3 FINANCIAL ASSETS	8 Non-financial assets	B 1 Public levies (taxes)	I ...
3 1 Long-term	9 Financial assets	B 2 Social security and health insurance contributions	
...	10 Financial liabilities	B 3 Transfers within the public finance sector	
3 1 4 amounts remaining to be received		B 4 Other current	
3 1 4 1 Public levies (taxes)		B 5 Other non-current	
...		B 8 Non-financial assets	
3 2 short-term		C Cash expenses	
...		C 1 Public levies (taxes)	
3 2 3 cash		C 2 Social security and health insurance contributions	
3 2 3 1 Public levies (taxes)		C 3 Transfers within the public finance sector	
...		C 4 Other current	
3 2 4 amounts remaining to be received		C 5 Other non-current	
3 2 4 1 Public levies (taxes)		C 6 Remuneration	
...		C 7 Social Benefits	
4 FINANCIAL LIABILITIES		C 8 Non-financial assets	
4 1 Long-term		D Accrual expenses	
...		D 1 Public levies (taxes)	
4 1 4 amounts remaining to be paid		D 2 Social security and health insurance contributions	
4 1 4 1 Public levies (taxes)		D 3 Transfers within the public finance sector	
...		D 4 Other current	
4 2 short-term		D 5 Other non-current	
...		D 6 Remuneration	
4 2 3 cash		D 7 Social Benefits	
4 2 3 1 Public levies (taxes)		D 8 Non-financial assets	
...			
4 2 4 amounts remaining to be paid			
4 2 4 1 Public levies (taxes)			

Source: MoF

42. Option A largely reflects the traditional fiscal framework as used in the cash basis of recording (akin to the GFSM 1986 type of framework). This option includes proceeds from the sales of non-financial assets in the definition of revenue. Similarly, the expense is defined to also include any outflow of resources for the acquisition of non-financial assets. Such a definition is not consistent with the main elements of financial statements and is also not in alignment with the concepts used in the statistical basis of recording. Modern fiscal reporting guidelines, such as the GFS and IPSASs, remove the acquisition and disposal of non-financial assets from revenue and expense and present net acquisition of these categories separately as an element of all reports. This allows a clear distinction between the operational activities of the reporting unit that results in a change in their net worth (also known as net asset position), and those activities that

result just in a change in the composition of assets/liabilities.⁹ It also has the added benefit that it places greater emphasis on the activities of the reporting unit related to investment in non-financial assets which often leads to a greater awareness of the impact of such investment on the economy and fosters the better management of these assets.

43. Option B presents an attempt to avoid having to define main elements and presents a list at a high-level of classification that is largely neutral to the basic elements of accounting/reporting. This option has identified seven categories that could represent either inflows/outflows or revenue/expense, before adding categories for non-financial assets, financial asset and liabilities. However, in using this structure in groups, the lack of defining the main elements of revenue and expense leads again to the inclusion of non-financial assets in the notion of "income" and "expense." In addition, this option groups a vast range of classifications under the heading "other current" and "other non-current." These categories serve as a "catch-all" for a range of categories that are very different in their economic nature. Although the MoF proposal divides the "other" category into more detailed items, the description does not intuitively lead to mutually exclusive categorization since non-current is a term often associated with asset.

44. Both options present advantages and disadvantages which may require a compromise solution. Defining the main economic elements of fiscal reporting consistently throughout the PFM cycle is essential in correctly identifying all the detailed classification of items. Therefore, defining the major conceptual items such as revenue and expense, assets and liabilities in line with international guidelines (such as GFSM 2014 and IPSASs), creates the framework within which the details can be developed.

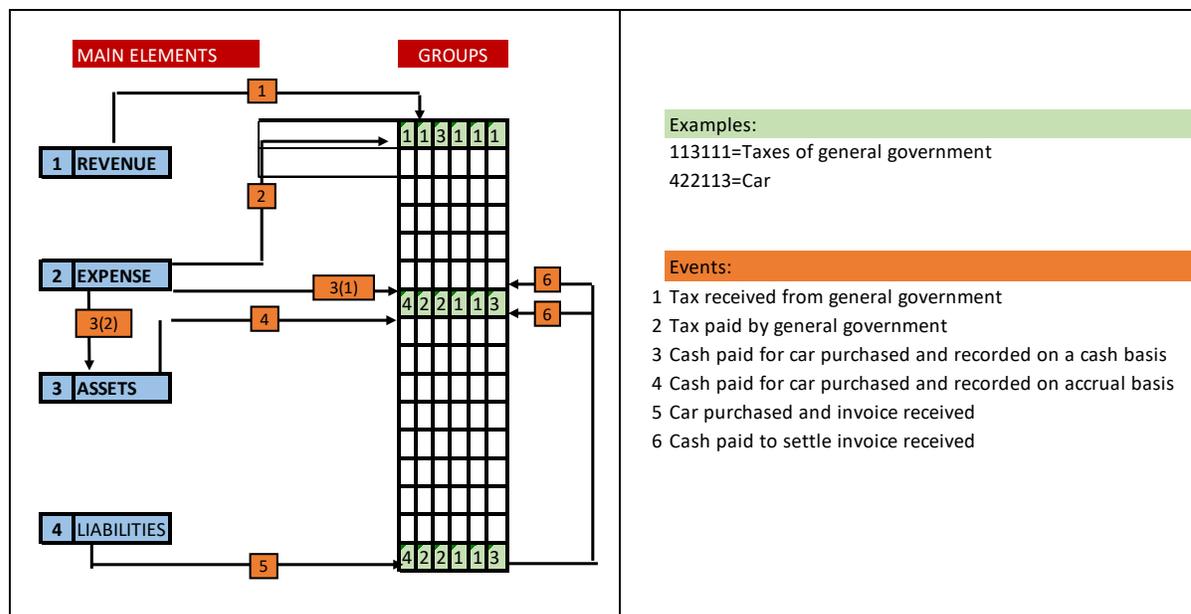
45. A compromise could be to further develop option B (see Figure 5). This can be achieved by assuming as an upper level of classification or linkage in which the generally accepted categories of revenue, expense, assets and liabilities are assumed. Appendix III provides reference to the internationally accepted concepts of revenue and expense, assets and liabilities which could serve as a basis for further developing the classifications.

46. The classification of paragraphs provided in the current budgetary CoA is a useful starting point for the development of the economic segment. Once the basic concepts have been clarified, the work of developing the different levels of the economic segment can move from the classifications provided for in the existing national regulations. Particularly, the articulated structure of paragraphs in the existing budgetary CoA could be used as a source of information to develop the economic segment of the SCoA. However, the work to be done

⁹ For example, separate flow accounts for the acquisition, disposal, consumption, gains in valuation, and losses in valuation could be created for each asset class – all of them influencing the calculation of the stock for that asset class.

should not consist of simply shifting the current classifications with minor changes, but rather to clarify and organize with a logic that can better serve reporting needs in the new system.

Figure 5. Illustrative Proposal for Economic Segment



Source: IMF Staff

Notes:

- The counterpart accounting entries for recording of cash-flows related to events 1 through 6 will be in the cash book. The classification of the transaction in the cash book will include the six-digit code identifying the economic nature of the cash flow.
- The entry 3 (1) is made in the budgetary accounting ledger to clear the commitments recorded when the purchase order for the car was placed while the entry 3(2) is made to record the increase in net worth.

47. The logic on analyzing the existing paragraphs in the budgetary CoA is outlined in Appendix IV. Each relevant paragraph from the existing budgetary CoA should be analyzed in the light of the generally accepted elements to be placed in the structure of the economic segment of the SCoA. As for paragraphs recording cash receipts, it must be clarified that they can in principle relate to different economic transactions or events, such as (i) revenue; (ii) disposal of an asset; or (iii) incurrence of a liability. As to paragraphs recording cash disbursement, they can be linked to (i) expense; (ii) acquisition of an asset; or (iii) settlement of a liability. Appendix IV provides some examples and is intended as an outlay of a possible methodological approach to the work to be done.

48. The economic segment must be developed having in mind the structure of the budget, financial statements, statistical reports and management information. The SCoA classifies financial data according to a defined structure. It is important that data are articulated so that they can be pulled out—at a certain level of classification—in a consistent way with the requirements for the execution of the budget and the preparation of the financial statements.

49. To allow the compilation of IPSASs based financial statements it is important to also consider options and disclosure requirements. IPSASs are not very prescriptive with respect to the detailed classifications of financial statements. While the high level of reporting is embedded in the format of the face of the financial statements, details are to be disclosed in the notes in order to match the qualitative characteristics of financial information. The format requirements for the information to be displayed on the face of the financial statements is presented in IPSAS 1 and allows for presentation either according to functional or economic categories.

50. IPSASB's Conceptual Framework describes the objectives that should drive the choice of what to present in GPFs. It should be driven by the objective of providing relevant, faithful, understandable, comparable, verifiable information to users, under the constraints of cost-benefit and materiality. Individual IPSASs set requirements for information to be provided on the face of the GPFs or in the notes to GPFs. So, if an IPSAS based system is envisaged to be applied, presentation options have to be considered together with requirements for disclosing detailed information in the notes to the GPFs.

51. In contrast, the GFS/ESA reporting requirements for the economic segment are very much standardized. The prescriptive level of details was developed to clearly distinguish between various economic events because they impact the economy differently. Similarly, standardization is also needed to ensure consistency in reporting to allow inter-governmental comparisons, consistency over time and regional and international comparisons. For example, the revenue recorded in financial statements is divided in the statistical basis of reporting between revenue from transactions and other economic flows. This distinction is particularly important since it is only revenue/expense from transactions that is directly related to policy decisions.

Main Findings and Recommendations

52. The economic segment seems to have been one of the most challenging areas for progressing in the development of the SCoA. Both the options for structuring the economic segment present advantages and disadvantages which need to be managed through a compromise solution. The solution must be based on a full understanding and consistent application of definitions of the main elements of classification based on generally accepted concepts and principles.

Recommendations:

1. Ground further development of the economic category in the generally accepted concepts of revenue, expense, assets and liabilities; (MoF Working Group, short term)
2. Develop a compromise solution for the economic classification that incorporates elements from the two options considered; (MoF Working Group, short term)

3. Use existing classifications in budget accounts and other reports only as a starting point for the development of the economic segment and be prepared to make bold decisions such as the revision of the definition of revenue in the Budget to align definitions; (MoF Working Group, short term)
4. Have in mind the future structure of the budget, financial statements, statistical, and managerial reports while finalizing the structure of the economic segment; (MoF, short term)
5. Articulate the economic segment so that data can be pulled out easily at various levels of classification in a consistent manner with the structure of the different reports; (MoF, short term)
6. Apply the notions of relevance, materiality, and cost benefit to decide on the granularity of information classified in the economic segment. (MoF, Working group, short term)

C. Fund Segment

53. The fund segment of a SCoA is used to ensure accountability of funds received by government entities from specific identifiable domestic and/or external sources. The fund segment therefore allows expense to be linked to the source from which the specific expense is financed (therefore also referred to as Source of Funds (SoF) in Poland). Countries are often required to manage and account for certain funds separately from the general budget resources, or own generated sources. For example, in Poland European Union funds, and other earmarked funds are managed separately from the general budgetary resources.¹⁰ The fund segment can be used to identify all the resources received from a specific fund and used by an entity to deliver a service. It facilitates the linkage of resources used with performance achieved through the use of these resources.

54. Including the fund segment in the SCoA facilitates specific types of reporting. The benefits of including this segment in the SCoA are as follows:

- It facilitates fund accounting, which is used for the accounting of resources whose use has been defined by the donor, granting authority, governing agency, or other individuals or organisations or by law;
- It enables the separation of financial resources between those immediately available for ongoing operations and those intended for a donor specified reasons; and
- It provides an audit trail that all moneys have been spent for their intended purpose.

¹⁰ However, just because an entity has the wording "fund" in its name does not imply that they need to be managed separately in the accounts of the recipient entity. If such a fund is a separate institutional unit, it is identified as such in the administrative classification. Therefore, it will not necessarily constitute a SoF for the recipient entity.

55. The current classification of SoF in Poland is not comprehensive (Table 5). The MoF regulation on budget classification prescribes the classification of SoF. The regulation provides for a single digit for classifying the SoF. The current classification mainly relates to funds received from external multilateral and bilateral sources as can be seen from Table 5 below:

Table 5. Poland: Current Classification of Source of Funds

Code	Description
1	Financing of programs from non-returnable funds originating from the European Union
2	Co-financing programs carried out from non-returnable funds originating from the European Union
3	Financing from foreign credits and loans or grants allocated to Poland by individual countries or institutions
4	Co-financing of foreign credits and loans and donations and grants awarded to Poland by individual countries or institutions
5	Financing from other non-returnable funds
6	Co-financing of other non-returnable funds
7	Payments related to the budget of European funds
8	Financing of programs and projects from funds referred to in PFA, Art. 5 para. 3, with the exclusion of funds referred to in PFA, Art. 5 para. 3 subpara. 2, subpara. 5 let. c and d and subpara. 6, with the exclusion of the budget of European funds
9	Co-financing of programs and projects carried out from funds referred to in PFA, Art. 5 para. 3, with the exclusion of funds referred to in PFA, Art. 5 para. 3 subpara. 2, subpara. 5 let. c and d and subpara. 6
0	Used when the above-mentioned categories do not apply

Source: MoF

56. The proposed fund segment structure provides the granularity required to underpin on-going BSR (see Table 6). The proposed structure of the fund segment provides for the classification of all types of sources of funds including domestic sources such as earmarked funds and extrabudgetary funds. It also provides for identification of different types of external sources of funds. The structure is shown in the table below:

Table 6. Poland: Proposed Classification of Source of Funds

Digits	Description
2	Source of Fund
1	Type of Fund
2	Fund Code
1	Detail

Notes: **Source of funds:** State, vovoidship, powiat, gmina, union of gminas, union of powiats-gminas, union of powiats, Metropolitan Unions, other domestic sources, multilateral organizations, bilateral development partners, and other international organizations; **Type of Fund:** General budget, earmarked funds, extrabudgetary funds; **Fund Code:** e.g. 01 2 01 Civil Society Development Fund, 01 2 06 Physical Culture Development Fund, 01 3 03 National Health Fund, 01 3 02 National Railway Fund, 10 1 01 EU structural funds, 10 1 02 Cohesion Fund; **Detail:** To identify co-financing by sources of funding.

57. There are overlaps between the proposed structure and other segments of the SCoA. Such overlap is contradicting the general principles for building SCoA. The proposal includes elements which should be in the administrative segment of the SCoA. For example, the “Source of Fund” subsegment includes vovoidship, powiat, gmina, union of gminas, which are administrative entities. The SoF “Extra-Budgetary Funds” is classified repeatedly for different levels of local governments. This method of classification does not use the multi-dimensional nature of the new SCoA which classifies each transaction with an “Administrative” classifier and a “Fund” classifier. In a multi-dimensional classification environment, it is sufficient to have a unique code for “Extra-Budgetary Funds” in the fund classification table. This unique code attached to the administrative classification code will identify the local government entity operating the extra-budgetary fund.

Main Findings and Recommendation

58. The proposed source of fund classifications represents a mix of administrative units and source of funding. Following the principle of mutual exclusiveness, the classification of administrative units should be decided and within such unit’s source of funds be identified, rather than considering certain fund as both administrative units and funds.

Recommendations:

1. Review the proposed SoF classification structure and eliminate overlaps with other segments (most notably administrative classification) of the SCoA. (MoF, short term)

IV. MEDIUM-TERM BUDGET FRAMEWORK

A. Background

59. The Polish authorities have committed to extend the horizon of policy making into the medium term. This reform is seen as a key instrument for achieving its medium-term objectives as set out in the Convergence program. The MoF and CoM first pronounced plans on moving towards a MTBF in 2016. The strong commitment towards this reform was reiterated in pronouncements by the Minister of Finance in early 2019.

60. Several FAD capacity development missions have contributed towards developing the MTBF in Poland.¹¹ The first step in this process, namely preparing the first round of forward estimates, was undertaken for selected ministries in the form of a technical exercise, following the FAD TA mission in March 2017. The follow-up mission in November 2017 reviewed the efforts and progress made in preparing forward estimates and offered guidance for further improvements. The April 2019 mission recommended strengthened engagement with line

¹¹ See Footnote 3 for references to these CD missions.

ministries and entities to improve forward estimates, as well as defining the scope of the MTBF to cover all the entities, funds and accounts that have budgetary impact. Currently, project resources are directed towards developing a SCoA, and when available it is envisaged that forward estimates will be further refined to embed the “bottom-up” estimates of MTBF.

61. Performance budgeting (PB) was initiated in 2006 but remains a secondary exercise, largely limited to providing information in budget supplementary documentation. The current PB framework that was introduced in 2009 implemented a concept of performance classification of expenditure based on functions, tasks, subtasks, and activities. The Multi-year State Financial Plan (MYSFP) also introduced in 2009 was to be based on these performance classifications, while in turn the draft budget was to be based on the MYSFP. However, these links were indirect. Several attempts were made to improve the relevance of the PB in Poland—the comprehensive budgetary system review conducted in MoF, on which *Assumptions to Budget System Reform* were based, showed that for the PB to be successful it should become an integral part of the core budgetary management system. It also highlighted the need for an improved program classification in the SCoA and improvement in the organizational division of the budget.

62. Against this background, MoF has sought support to further developing the conceptual thinking on the MTBF and links to program budgeting. The mission has reviewed the progress, including the changes in budget circular for accommodating the medium-term horizon. The authorities also requested clarification on the linkages between performance information, the MTBF, and the SCoA. Furthermore, guidelines have been provided for the rollout of the MTBF to local governments, which have some elements of performance budgeting already in place.

B. Progress with MTBF

63. Poland has made progress since 2016 in moving towards a multi-annual budget framework. The 2019 MoF Budget Regulation incorporated the medium-term (three years) perspective in the standard budget submission forms. Initial amounts of expenditure, traditionally issued by MoF for individual budget parts to limit budget submissions for the forthcoming budget year, are supplemented with a concept of starting amounts of expenditure (initial ceilings) for two outer years. Starting amounts of expenditure were issued for the first time for years 2021 and 2022 in preparing the budget for 2020.

64. In spite of these reforms, the main focus in preparing the budget for 2020 was still on the annual budget. This is usually the case for many countries in the early stages of introducing the MTBF. Given Poland’s strong growth over a sustained period of time, some concerns exist that in subsequent planning cycles the holders of budgetary parts may treat the initial ceilings as floors. It is therefore expected that it will take some years to refine outer year limits. Typically, countries calculate outer year expenditure incrementally at first considering inflation and growth. Later, as the “bottom-up” estimates are refined by budget holders then

they should also include more accurate cost estimates. In particular the medium-term estimates, using a bottom-up approach should include costs associated with investment expenditure in the medium term, as well as associated operations and maintenance after project end, amongst other variables.

65. The Strategy for Responsible Development 2017-2020 is the medium-term strategic document in Poland and includes the perspective up to 2030. The strategy is oriented towards inclusive social and economic development and identifies specific objectives and the basic sources of financing. However, it does not comprise detailed costings constrained by the medium-term fiscal framework (MTFF) and is not easily used in prioritizing expenditure within annual budgetary planning. Costing should be part of any future update of the strategy and should be compared with the MTFF to assess viability. Such new national policy development should start at central government level and either be based on this Strategy or developed afresh with clear policy direction from the CoM. Similarly, sectoral and local strategic plans should be in strict alignment with the national plan so that government policies can be carried out throughout the government. Such plans should inform annual action plans for budget implementation. All budgetary expenditure should therefore be orientated towards achieving government policy.

66. Ensuring appropriate linkage of budgets to strategy and policies is a key challenge for all countries and especially those seeking to reform and strengthen their public expenditure management systems. Policy is often emblematic and not thoroughly defined. Policy has not always developed through the application of all the steps recommended for good policy making. As a result, it can be difficult to link budgets (the detail of government activities) to policy objectives and policy goals. When the policy is vague, it is unlikely to be generally understood even by those responsible for ensuring achievement of the Government's objectives and goals. The first task for effective PFM is to ensure that policies are clear. For new policies this can be achieved by implementing a good policy-making process, that is by improving policy design.

67. Once policy is clear, it is important to link all expenditures through activities, outputs, outcomes and programs to declared policy objectives. This can be achieved through program policy review and also at the budget preparation stage in ensuring that planned appropriations are consistent with policy. The CoM can also add value in this process by ensuring that policies are followed, through a "ticking of boxes" associated with program and sub-program expenditure. This would require sufficient capacity in the CoM to review proposed budgets for policy consistency.

C. Linkages Between MTBF, SCoA, and PB

68. In line with the BSR agenda, the traditional classification and presentation of the budget is expected to be linked with performance-based classifications, with implications for the MTBF. This will require the MTBF to, in addition to a medium-term perspective, have a

program and performance-based classification which if well applied can further support policy decisions. It implies a reorientation of the budget towards an alignment with government policy decisions as measured by associated outcomes, outputs and activities. Such a realignment has implications for a SCoA, budget classification, and administrative/program structures.

69. The implications of such an orientation are recognized by the authorities. While currently the focus in Poland is setting ceilings based on traditional classifications (such as budgetary parts), the intention is to support baseline costing and the setting of ceilings using programs based on well-defined outcomes, outputs and activities. MoF has therefore recognized the need for defining programs and accommodating them in a dedicated segment of the SCoA along with the building blocks for a MTBF that are already in place.

70. In Poland the focus of the ceilings remains on current budgetary parts rather than well-defined programs. Eventually these programs should be costed based on well-defined outcomes, outputs and activities. Linking outcomes, outputs and activities to administrative units can be useful but are not optimal in determining performance. MoF recognized the need for defining programs and accommodating them in a dedicated segment of a SCoA. Ultimately programs could enable incorporating performance budgeting into the MTBF.

71. Designing programs that will be captured in the program segment of the SCoA requires extensive review of both the administrative structure of government but also the design of the current expenditure programs. Good program design should reflect the delivery of goods and services, as well as accurate framing of outcomes, outputs and activities. Such an administrative review should achieve a clarification of mandates and key competencies of the respective ministries.

72. Effectively defining programs, focusing on the delivery of goods and services is a key first step to assessing performance. Poland has undergone such an exercise in the past but current programs are a mixture of well-defined (ostensibly) programs, sub-programs, projects, and project/transfer funding that could cover many programs. This includes programs under EU financing. Allocating them to well-defined programs would not require changes to the modalities of EU financing, but simply an appreciation of what programs each financing source should be allocated to. Examples of programs currently defined can be seen in the Table 7 below.

Table 7. Poland: Select Programs in 2019

Program	Comments
Protection of animal and public health	Well-defined (ostensibly)
Construction of a coastal Lagoon (Vistula to Bay of Gdansk)	Stand-alone project
University of Warsaw 2016-2025	Project for new construction or a transfer
Program of supporting Investments of significant importance to the Polish economy 2011-23	Multi projects that could be incorporated into many programs
Asbestos Cleansing Program 2009-32	Sub-program (of building rehabilitation for example)
Coastal Protection Program	Well-defined
Maintenance of Sea Waterways in Oder Estuary 2019-28	Project
Reconstruction of University Children's Hospital Krakow	Project
Operational Program Technical Assistance 2014-2020	Technical Assistance probably covering many program areas (EU funded)
Regional Operational Program Pomeranian Voivodeship 2014-2020	Regional Assistance probably covering many program areas

Source: IMF staff.

73. Program identification should be clarified in developing the SCoA so that the program segment of the SCoA should reflect all programs while adhering to the basic principles of building a CoA. The program segment is less standardized but should be developed to comply with the four parts of a Program Policy Statement (see Box 1). Developing programs could be seen as an iterative process, since programs can be redefined over time and the SCoA updated accordingly. In the Polish context it would be important to identify initial program and sub-program structures for the piloting and testing of the SCoA.

74. The portion of government spending covered by programs differs from country to country. Programs cover all general government expenditure in some countries and in others simply the majority of expenditure with ministries covering services which are difficult to measure (or a matter of national security) that are left outside the ambit of program budgeting. Poland has the opportunity of piloting program classifications in some ministries and then making the decision whether to expand the scope to all or most of general government. Typical ministries selected for trials are those with large expenditure and easy to measure performance indicators such as Health, Education, Interior, Social Welfare, Transport, and Infrastructure.

Box 1. Four Parts of the Program Policy Statement

<p>The <i>Program Policy Statement</i> is a written presentation of:</p>	<ul style="list-style-type: none"> • The <i>policy description</i> • The <i>policy goals</i> • The <i>policy objectives</i> • The <i>policy standards</i>
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For any given program, the following definitions apply.

<p><i>Policy</i> is defined as</p>	<p>The translation of government’s political priorities and principles into courses of action to deliver desired changes.</p>
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<p><i>Policy Goal</i> is defined as</p>	<p>The desired, measurable result to be achieved from government actions that should be achieved in the long term.</p>
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<p><i>Policy Objectives</i> are defined as</p>	<p>Specific results, precisely measured in terms of time, number and cost, that can be accomplished in the short-to-medium term and that are intermediate steps in achieving a policy goal.</p>
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<p><i>Policy Standards</i> are defined as</p>	<p>The quantity and quality parameters that give the policy meaning.</p>
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Source: SPEM Project, Albania.

75. Dedicated units in CoM and MoF would be required to drive the program segment reform process. The BSR project team provides a basis for such an institution within the MoF. A similar function should be performed in the office of CoM. The Centre for Strategic Analysis and/or the Centre for Assessment of Administration in the office of CoM could provide the basis for such technical advisory services. Such an institutional set-up has been advanced as part of an Integrated Planning System (covering strategic plans, MTBF and budgetary reform) in some countries e.g., Lithuania and Albania. It provides the political space to advance program and performance indicator reforms as senior politicians felt briefed and part of the process, in particular if the CoM can review ceilings and budget submissions as early in the process as possible. Such a unit in the office of CoM should also interface regularly with other key stakeholders in the reform such as the Ministry responsible for strategy development.

76. To implement a fully integrated program segment and performance indicators the integration of program/functional classifications into the SCoA is a prerequisite and should be considered. In addition to the administrative, economic, fund, and functional segments, expenditure should also be classified by program and sub-program level. This would enable the production of all required reports; accounting, statistical and economic as well as performance information, in that all expenditure could also be linked to activities, outputs and

outcomes. Given that the SCoA would reflect program segments, it will enable the accounting system to allow a compilation of a matrix of spending by economic classification and programs.

77. The development of performance indicators, ordinarily outcomes and outputs, is a time-consuming task and requires training across government program management teams. Outcomes are broad policy goals such as the increase in literacy or increase in maternal and child health. Associated with outcomes are more detailed outputs such as the education of 5,000 extra schoolchildren to grade 9 in 2020, or 10 percent extra mothers breastfeeding for at least 6 months in 2021. The ability to measure outputs is central to their definition. They should also be specific, achievable, realistic and time bound (see Box 2 for characteristics of SMART - Indicators). Each output should be achieved through a combination of activities (which have associated costs). Outputs are often defined incorrectly as activities or outcomes. Spending on those activities will be captured through the SCoA, while the monitoring of outputs will require supplementary information. The monitoring of outputs should be increased both in terms of coverage and frequency, and it should be recognized that skilled service providers often prefer to provide services rather than complete bureaucratic forms for Program Management Teams.

Box 2. Characteristics of Effective SMART Indicators

- **Specific.** Indicators should reflect simple information that is communicable and easily understood.
- **Measurable.** Are changes objectively verifiable?
 - Students' learning achievement
 - Value of land (number of hectares, multiplied by price per hectare)
 - Percentage of customers who are satisfied with the availability of potable water or electricity
- **Achievable.** Indicators and their measurement units must be achievable and sensitive to change during the life of the project.
- **Relevant.** Indicators should reflect information that is important and likely to be used for management or immediate analytical purposes.
- **Time bound.** Progress can be tracked at a desired frequency for a set period of time.

Source: World Bank Group.

78. Well defined performance indicators provide a platform for meaningful monitoring and evaluation, and in particular are associated with meaningful expenditure reviews. Unit costs of outputs can easily be calculated and compared across regions and also countries, thereby driving efficiency savings. MoF has already conducted a number of spending reviews for selected sectors in Poland including:

- Payments to farmers utilizing qualified seeds material;

- Teachers motivation and remuneration mechanisms;
- Indexation mechanisms regarding social and health expenditures;
- Housing support policy;
- Road programs financed from National Road Fund (excluding PPPs);
- Tasks executed by Voluntary Work Corps, especially with regard to beneficiaries not in employment, education or training; and
- Institutions with budget autonomy, e.g., Chancellery of lower and upper chamber of parliament, Supreme Audit Institution, etc.

Other reviews are in progress. MoF has balanced the fear of budget units losing funding as a result of identifying efficiency gains, with an assurance that any such gains can be retained within the budget holder's institution. It is too early to ascertain whether these reviews have impacted on budgetary decisions within line ministries.

79. A phased approach to integrating performance information may require the identification of some Key Performance Indicators (KPIs) in the first instance. Piloting of programs in key service delivery ministries could also be introduced, with policies, outcomes, outputs and activities linked to expenditures. This will enable ministries and other budget units to assess their experience and impact of reform before either full or maximum rollout. Rollout should include all LGs, given their importance to service delivery in Poland. However, full rollout may be decided against as some ministries' functions do not lend themselves so easily to performance analysis e.g., Defense, Finance, Foreign Affairs.

80. Introducing an improved program segment and integrated performance indicators into the SCoA requires IT investment in accommodating the new classifications. IT investment would also be needed to include additional budget preparation/MTBF software which could add rigor to the respect of ceilings, ensure that all expenditure is associated with program activities and outputs and outcomes, as well as enable increased monitoring of performance through expenditure reviews. Such IT investment may often require long lead times to develop (see also Section VI B). It is therefore important to start to assess requirements over the coming years. A prerequisite for the development of software is a set of detailed procedural guidelines for the preparation of MTBF at both central ministry level and also budget unit level.

81. Management flexibility is important for enhancements to the MTBF processes. The ability to transfer funding between activities to secure the delivery of goods and services in a more efficient manner is important and requires increased management skills. Many budget holders are traditionally wedded to notions of incremental increases in their budget year-on-year allowing for changes in inflation and number of service users for example. Program Management Teams would need to look for ways delivering programs at reduced costs, which requires a shift in management approach. The process of bottom-up estimation of program costs via outputs

and activities promotes accountability of budgeting at program level. Multi-year horizons also promote the flexibility of carryovers in deserving programs from year-to-year.

D. Accommodating Decentralized Units Going Forward

82. Some LGs already introduced their own performance budgeting framework based on service delivery projects. Changes to classifications in the SCoA is usually piloted at central government level and rolled out to cover all ministries and their entities included in programs. It may be worth piloting program classifications in some of the larger municipalities as well. PFM systems in Warsaw and other larger LG units seem to be sophisticated in that they accommodate large budgets with significant sums sourced from the EU. In addition, LGs are already budgeting using Multi-Year Financial Forecasts (MYFF) and so are familiar with multi-annual budgeting.

83. Significant service delivery is carried out at local government level in Poland. To fully cover the impact of programs it is important to rollout program classifications also to the level of the local governments. Otherwise it could be the case that a program for social welfare would only capture some administration and monitoring costs of social welfare payments at central level as funds are transferred to LG units who are responsible for all the actual social benefit payments. Whilst program responsibility could be retained at CG level, each Voivodeship could represent a sub-program. As illustrated in Figure 6 below, this would represent clear management lines for the provision of services, as well as an ability to compare costs per unit of welfare payments made.

Figure 6. Illustrative Example of Program Structure at Central and Local Government Level



Source: IMF staff.

Main Findings and Recommendations

84. There is room for government to further strengthen the development of the MTBF. It will require the strengthening and implementation of longer-term policies at a high level. Also, development of appropriate program structures and ensuring that preparation for the development of MTBF software takes place will support these reforms. The CoM currently has increased its engagement with the budgetary process, but this could be deepened with technical support and also its guidance over translating government policy into strategic plans. Current programs are not well integrated with performance indicators and therefore program definitions should be revisited. Engagement with line ministries has decreased since 2017 and would be required to help line ministries refine budget submissions in line with the medium-term ceilings that have started to be issued according to the 2019 MoF Budget Regulation.

Recommendations:

1. Head towards aligning government policy priorities in a National Strategic Plan costed within the constraints of the MTBF; (MoF, medium term)
 - CoM to decide the appropriate Ministry for this task; and
 - Once complete, CoM to ensure that sectoral and regional plans are developed in harmony with National Strategic Plan.
2. Ensure consistency in the reforms of the program segment of the SCoA and the MTBF reforms by enhancing the necessary technical support in CoM as the centrepiece of the Integrated Planning System; (MoF and CoM, medium term)
 - Possibly expanding the capacity of the current Centre for Strategic Analysis and/or Centre for Assessment of Administration in the CoM;
 - Developing a small dedicated team to advise on PFM reform within the CoM to foster support and understanding for these reforms; and
 - Formalizing communication structures that facilitate consistent reform progress between all relevant technical teams and other role players.
3. MoF to reengage with line ministries in order to assist with MTBF submissions including the further refining of forward estimates based on policy outcomes desired; (MoF and relevant line ministries, medium term).

V. IT ENVIRONMENT

A. IT Systems in Use

85. The Financial Management system of the Central Government is essentially cash based. The Trezor system is used by the Budget Departments in MoF, and three levels of budget holders for collecting and compiling budget formulation, budget allocation, budget control, cash planning, cash control, and budgetary reporting. Functionalities of the Trezor system include the following:

- Preparation of budget bids and cash forecasts by the third level of budget holders, aggregation by higher levels of holders, and submission to the MoF;
- Distribution and recording of the approved budget and cash limits from the MoF through to different levels of budget holders. The budget breakdown of the annual budget allocations by Sections, Chapters and Paragraphs;
- Communication of monthly, weekly, and daily cash limits broken down to the third level of budget holders;
- Daily transfer of funds from the government's account at the National Bank of Poland (NBP) to the bank accounts of third level budget holders in the NBP or the National Economy Bank (NEB) on the basis of payment instructions issued by the MoF;
- Return of funds remaining unused at the end of the day to the MoF account by the NBP and recording in the Trezor system on the basis of the NBP bank statement;
- Suite of financial reports including reports on Cash Balance, Profit and Loss Account and Statement of Changes in the Budget Entities' Fund; and
- Suite of statutory budget reports including [Rb-23, 23A, 23B, 24, 27, 28, 28NW, 28, 28UE, 28NW, 28CAP, 28UECAP, 33, 35, 40, 50].

In addition, some of these TREZOR reports periodically incorporate data from external sources for providing accrual-based financial reports and budget execution reports on commitments and arrears. The system provides also for importing some data on local government's finances (reports RB-50 and Rb-27ZZ) from the BeSTi@ system.

86. BeSTi@, an electronic data collection and dissemination system in use in Poland, facilitates the transmission and aggregation of data concerning local governments. The BeSTi@ system is installed in 2,807 local government units, 16 regional accounting chambers and the MoF. It enables the preparation and electronic submission of budget and financial reports as well as financial plans and MYFFs of local governments to the MoF through the appropriate regional accounting chambers. The system consists of three subsystems used by local governments, regional accounting chambers and the MoF, between which communication takes place via a communication server. The functionality of the three subsystems includes:

- preparation, verification and dispatch of reports;
- analysis of the financial situation of local governments using the reporting module;
- at the level of the Ministry of Finance, calculating the amount of general subsidy for local governments; and
- preparation of draft budget resolutions and MYFFs by local governments and sending them to regional accounting chambers for verification.

87. Public entities of the central and local government currently use a wide range of financial accounting software to meet their own accounting requirements. A recently concluded survey on “IT programs supporting general purpose accounting in public finance sector entities” (the IT -survey) which covered 2 694 central and local government entities shows that:

- 70 percent of the entities which took part in the survey use 12 IT programs to support their general-purpose accounting. The remaining 30 percent of entities use further 128 IT programs;
- 65,5 percent of state budgetary entities which took part in the survey use 7 IT programs to support their general-purpose accounting. The remaining 34,5 percent of entities use a variety of 89 other IT programs; and
- 16,7 percent of entities which took part in the survey share their IT program with their subordinates.

B. Need for IT Environment to Accommodate the Needs of the SCoA and Other Reforms

88. The IT support for financial management is fragmented between number of financial accounting and reporting systems. The EU PHARE project on a unified public finance management system which started in 2002 and ended in 2006 envisaged that the two IT systems, Trezor and BeSTi@ would eventually be integrated. Currently the two are loosely interfaced, with BeSTi@ transmitting some electronic reports (concerning expenditure and revenue related to central government’s tasks executed by local governments) to the Trezor system. EU financed programs are implemented by the MoF’s Paying Authority Department through the NEB payment portal.

89. Standalone financial accounting systems operating at the third level of budget holders are also interfaced with the TREZOR system for transmission of non-cash information. These include information such as on commitments, accruals, and arrears that the TREZOR system does not directly account for. The challenge of fragmentation is further compounded by the survey showing that since 2016 only 8,9 percent of entities replaced their IT

systems with new ones, and further 11,9 percent of entities have plans to do so in the near future.

90. An earlier survey conducted by MoF in 2016 indicated that existing systems would be able to cope with SCoA reforms. The survey showed that 93 percent of public sector entity systems have the feasibility to expand. Of these, 85 percent requires changes by system providers, while 8 percent of them can be expanded by inhouse teams. Also, almost 20 percent of respondents planned to modify or replace their systems—most of them planned these changes for 2017.

91. The requirements of the PFM reform agenda should drive the IT requirements. It will be important for Poland to first define its current and future SCoA requirements unencumbered by perceived limitations of existing systems. Today, the focus is less on a single integrated system and more on correctly defining the data relationships and developing data warehouses, and on interfaces, inter-operability and interconnectivity between different government systems. Thus, Poland should focus first on the data requirements, in this case the SCoA, and then seek the support of the public sector entities and accounting system vendors to ensure all required systems can support these requirements.

92. With the imminent start of the second phase of the BSR there is an urgent need for clarity on the future IT support needs to accommodate the SCoA implementation. The 2017 FAD Report envisaged that the implications for the IT systems that use the SCoA to collate and consolidate the financial results of government operations would be scoped out during the first phase of the FAD project and would be considered in more detail in phase 2. of the FAD project (funded by the EU). The recommendations coming from the recent survey on IT support is to:

- Promote the use of shared service centers to outsource the accounting function for the smallest entities; and
- Consider purchase or development by MoF of accounting application software for public sector entities that could be offered free of charge.

93. The differing perspectives regarding the adequacy and configuration of financial/accounting systems should be addressed urgently. The ability of the existing financial software to implement the proposed SCoA should be reviewed and decision taken on the way forward. The way forward could be to further develop the current system or to consider replacing it with an Integrated Financial Management Information System (IFMIS). In either event, the upgrade/ replacement of the system could take from two to four years. SCoA implementation is conditional on a tested version of the appropriate software and requisite hardware environment being operational in time for the pilot roll out of the new SCoA. Given this time frame there is a need for an urgent decision on the way forward regarding the IT strategy. The BSR 1 project should, within the next three months, requisition the services of an IT

consultant to assess the current financial software environment available to public entities. The assessment should be conducted to determine gaps in functionalities compared to the requirements of the SCoA structure being recommended by the SCoA working groups to the Steering Committee. The report of the IT consultant should provide a strategy for financial software development and deployment, including the feasibility of establishing web-based shared service centers. It should provide the costing and timelines of activities proposed for implementing the strategy.

Main Findings and Recommendations

94. A comprehensive IT strategy is required to support the timely implementation of the SCoA reforms. A variety of accounting systems are currently used for financial reporting needs in a very decentralized system. This diversity and deficiencies in IT systems in use may cause delays in testing and roll-out of the reforms if they are found to be not suited to accommodate the changes. It could also lead to duplications in efforts and costs. These systems and the extent to which they will be able to collect and consolidate financial information of the entities using the new SCoA should be assessed as a matter of urgency and selecting the best option to be used in future should be considered as a matter of priority.

Recommendations:

1. Review the ability of the existing collection and consolidation financial software to facilitate the implementation of the proposed SCoA and accounting reforms. (MoF, short term)

VI. PROJECT MANAGEMENT

95. At the request of the authorities the SRSS considered a follow-up project to focus on the implementation of the SCoA reforms. Representatives of the SRSS joined the mission to discuss the objectives and modalities of the follow-up project. In consultation with the authorities and the SRSS, the mission discussed a draft project plan that will be further developed.

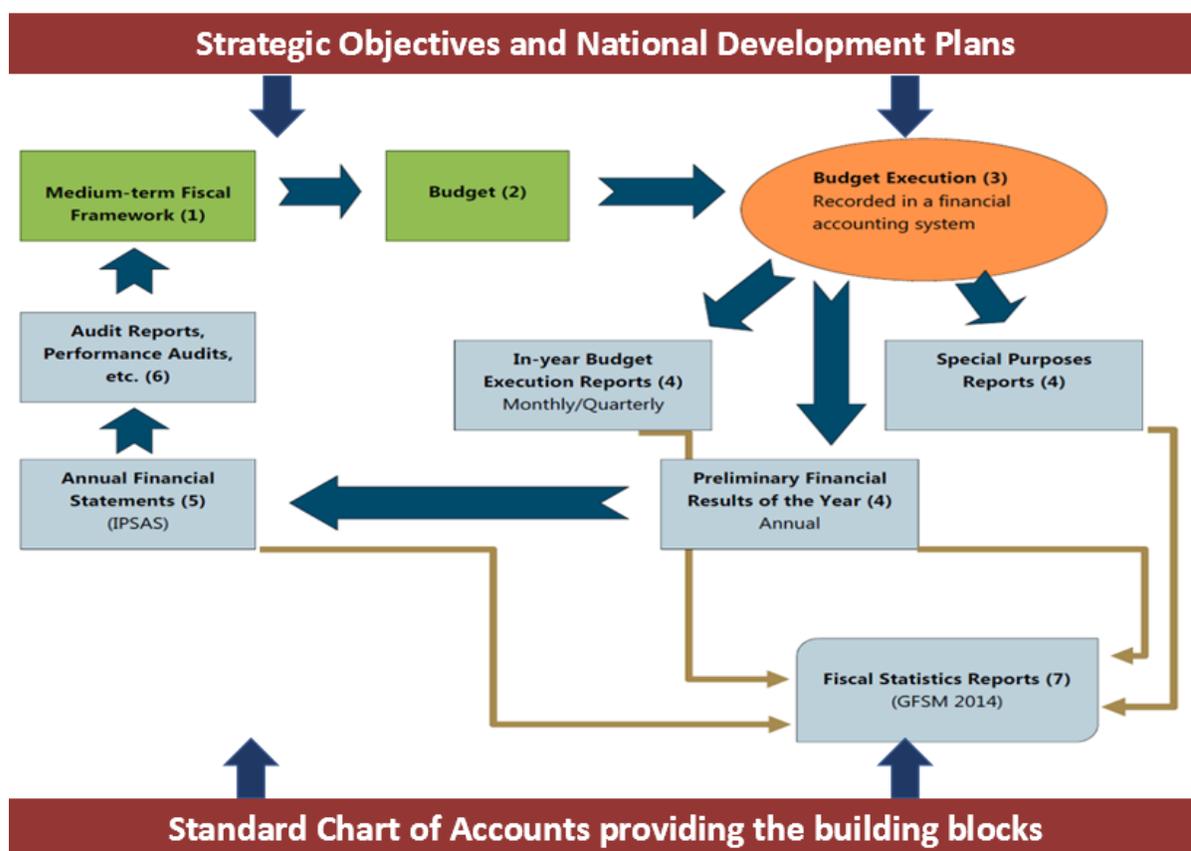
Appendix I. Fiscal Reporting During the PFM Cycle

Viewing fiscal reporting throughout the PFM cycle helps understand relationships between all its elements. In designing and implementing PFM reforms, the flow of interlinked functions and systems throughout the PFM cycle should be taken into consideration (see Figure). The PFM cycle encompasses a wide range of processes. Generally, the cycle is initiated by national strategic or development plans that are reflected in the medium-term budget framework which is largely determined by the costing of public expenditure and monitored through performance indicators. In turn the MTBF is the basis for yearly budgeting, resulting in revenue management, expenditure management, debt management, accounting and general purpose and specialized financial reporting, followed by quality control measures such as compliance and financial auditing, performance auditing and spending reviews.

The objective of PFM is to assure that public resources are efficiently raised and utilized according to agreed strategic objectives and policy priorities. Targets should be achieved in the delivery of service whilst preserving operational efficiency and fiscal sustainability. A variety of functions, systems, regulations and rules have to be implemented, and different inter-linked activities to be executed to meet the strategic objectives.

Strategic planning is required to set multi-year priorities and programs within which annual budgets are prepared and executed. A MTBF serves the purposes of measuring programs in terms of forward estimates of multi-annual revenue and expenditure forecasts and expressing policy objectives by suitable performance indicators. By approving the next year's budget, within this framework of multi-year planning, the executive and entity's management receive authorization and targets in terms of collectable revenue and limits to spending. Economic activities are subsequently captured in accounting systems to record and present the economic effects of the execution of the budget.

Financial reporting and audit reports capture among others, information about the results of the execution of budget plans. Various types of financial reports are prepared, among them the GPFS. As a general good practice these GPFS should be subject to some independent external audit by either the Supreme Audit Chamber or private audit companies, as applicable. The financial audit process ensures the assessment of the quality of financial information, and audit opinions should inform further improvements in the reporting system. All this information is finally taken into consideration to adjust entity's objectives and programs, and as a basis on which to develop subsequent PFM cycles.



Source: IMF staff.

Accountability and transparency along the PFM cycle are essential requirements of PFM.

As a public sector entity collects and uses resources in the interest of citizens and the wider community of constituents, there is a need for accountability and transparency along the whole cycle. This requires for PFM to be structured as “due processes,” in accordance with the law and other regulations and guidelines. At each stage, information must be accessible, and checks and balance mechanisms established to ensure accountability. The promotion of accountability and transparency is increasingly regarded as an objective of PFM reforms in itself.

The accessibility of financial information is a prerequisite for accountability and decision-making in the public sector.

Needs for financial information for accountability and decision-making arise at all stages of the cycle. The provision of relevant information about the results gathered, as compared to the targets set, is a basic mechanism through which public sector entities are kept accountable to constituents. Information provided for accountability purposes contribute to, and inform, decision making by internal and external users.

Internal and external accountability are equally relevant to the discharge of government responsibilities for the efficient and effective use of public resources. Accountability relationships are established between different levels of an entity’s organizations and with other external public sector organizations such as regional and international organizations. A public

sector entity is also accountable for the use of public resources to a variety of external users, mostly in their position as resource recipients or service providers.

Accountability and decision-making are affected by the quality of financial information reported to users. Financial reporting is the means by which relevant financial information is provided to users. To support accountability and decision making, financial information is required to meet the qualitative characteristics of relevance, faithful representation, understandability, timeliness, comparability, verifiability. Financial reports prepared in accordance with high-quality reporting standards, such as IPSASs, matches those qualitative characteristics.

The adoption of a SCoA improves quality and facilitates the integration of the statistical, budgetary and financial reporting from the accounting systems. The SCoA is the tool for classifying financial data into granular pieces of data across multiple dimensions. The classifications are determined by their relevance to statistical, budgetary and financial accounting systems. The classification must be articulated so that it effectively provides the building blocks to serve the reporting needs of all the types of financial reports.

The economic and functional classifications in the GFS/ESA are largely consistent with those at the basis of financial accrual accounting and reporting systems. Such classifications are in general consistent in both a cash and accrual-based accounting system. Recording transactions relevant to a cash-based budgetary accounting system is still possible using the same SCoA, given that such a system recognizes (i) a sub-set of economic events; and (ii) at a different point in time (when cash is received or paid as compared to an accrual accounting system). The basis of reporting therefore impacts on the scope of events recognized and the counterpart to the transaction but does not influence the classification of the transaction. Recording data using a common classification system enhance consistency and facilitate reconciliation in financial information provided for statistical, budgetary and financial reporting purposes.

Appendix II. Principles in Building a SCoA

At least seven core principles can be identified for effective development, implementation and maintenance of a chart of accounts (CoA). In reviewing the progress made by the working groups, some common issues were identified that illustrated that there is need for a discussion and reminder of what these core principles entail and how they should be used in the SCoA.¹

Comprehensiveness

The COA should be comprehensive enough to capture all the required/relevant information and it needs to serve not only the budget framework but also the accounting and statistical framework. The budget classifications should not be different and should be embedded in (or harmonized with) the government's accounting classifications. This is because the accounting and reporting system² should be the primary source of financial information for reporting on budget execution. The accounting and reporting system may require additional classifications to meet the financial management needs and comply with accounting standards and statistical reporting guidelines. The SCoA should therefore not be seen as a classification that are in line with either accounting or statistical basis of reporting. It should rather be seen as a level of classifications that provides all the building blocks to be used in any of the reporting systems.³

Adequate Granularity

The segments and sub-segments of the CoA should be designed to facilitate many possible combinations of data elements necessary for control, accountability and reporting purposes. They should therefore represent the necessary building blocks that could be aggregated/consolidated in various manners to allow differentiation in reporting and presentation while maintaining consistency in classification. Each segment should have sufficient detail to meet all financial control, accountability, management, and reporting needs of various stakeholders.

¹ Based on S Pattanayak et.al., *Chart of Accounts: A Critical Element of the Public Financial Management Framework*, Technical Notes and Manuals, FAD, IMF, August 2011.

² The accounting/reporting system here means the budgetary and financial accounting systems taken together.

³ For example, IPSAS 31 recognizes no asset arising from the research phase of an internal project but allows recognition of an asset in the development phase if it complies with certain requirements to be recognized as an asset. GFS/SNA does not make the distinction between "research" and "development", but states that any "research and development" will be recognized as intellectual property products only when it creates an asset. Therefore, by clarifying in the SCoA that "research" is an expense related to R&D while spending on "development" are capitalized could serve a harmonized reporting need.

Mutual Exclusiveness

The CoA segments and their attributes should be defined in a way to make them mutually exclusive. These classifications should be clear and avoid confusion in transaction and balances' recording and reporting.

Avoiding Redundancy

There is no need for an independent segment in the CoA if the related information could be derived from another segment. Where there are multiple classifications, it is useful to explore the relationships between those classifications. For example, the requirements of GFS can be derived from the economic classification and the United Nations Classification of Functions of Government (COFOG) can often be derived from either the administrative classification (if each lowest level administrative unit in a hierarchical administrative segment discharges a unique function) or the program classification.⁴ When relationships are established, it also helps to minimize the volume of data capture (or the number of key strokes for a data input operator in a computerized IFMIS) which in turn reduces the opportunity for data input error.

Internal Consistency

The logic applied in designing the hierarchical structure of CoA segments should be internally consistent. Using a consistent numbering system and structure helps make the chart user friendly and reduces the chance of coding errors. Similarly, to attain integration of stocks and flows, the same categories of assets should be used in identifying, purchases, sales, depreciation, maintenance, revaluations, and accumulated stocks (or balances) of the particular type of assets. Also, when a government unit can make and receive a certain type of economic resource, both the revenue and the expense should have an account in which such item can be recorded.

Unified Framework

Sometimes individual accounting units are allowed certain flexibility in developing their own specific accounting codes at a more detailed level to capture/record specific information. For example, this can be attained through subsidiary ledgers, for internal management and control of their units. However, the CoA framework should be unified to ensure that at least the information at the aggregated level uses the same accounting classification to ensure consistency between the two sets of accounting data.

⁴ COFOG can be derived from the program classification, only to the extent that programs do not straddle functions and/or sub-functions. Although this is desirable, this is systematically not the case in all countries with a program classification.

Scalability

The CoA should allow flexibility for future additions and changes as far as possible. It should provide for capturing additional information where needed, and in future, particularly when such information has been anticipated/identified as part of an ongoing PFM reform program. Providing room for growth, change and future reporting requirements can help ensure a CoA remains relevant for a long period of time as the business environment, regulatory requirements and reporting needs evolve. At the same time, it should not go into too much detail that overburden the system without adding much value. Appropriate planning during the development stage can help design a CoA with open account ranges to accommodate future legal and business requirements.

The proposed multi-dimensional structure of the SCoA broadly aligns it with the core principles. Numerous instances of deviations of the current CoA from core principles have been enunciated in previous technical assistance reports. Attention has been drawn to: (i) the fragmentation of the classification system with at least 5 classifiers for specific reporting purposes in violation of the unified framework principle; (ii) lack of granularity to compile transactional accounts; and (iii) specific segments (e.g., Chapters) reflecting a mix of organizations, programs, projects, activities and funds in violation of the principle of mutual exclusiveness. The current Paragraph Segment code overlaps with account codes, fund codes and administrative codes violating the principle of avoiding redundancy. The proposed new SCoA integrates the five separate classifiers into one multi-dimensional structure. It should parse the overlaps in the Paragraph classification into the appropriate segments of the multi-dimensional structure. The granularity of the administrative and economic segments should also be enhanced to provide for transactional accounting.

Appendix III. Comparison of Basic Conceptual Definitions

GFSM 2014	IPSAS CF	DIFFERENCES
REVENUE		
Revenue is an increase in net worth due to transactions.	Increases in the net financial position of the entity, other than increases arising from ownership contributions	IPSAS definition of revenue includes both revenue from transactions and other economic flows the changing net worth in GFSM 2014. Using the concept of "Total Revenue" from IPSAS and allowing these to be disaggregated into Revenue from transactions plus increases in net worth from OEF allows for consistency.
EXPENSE		
Expense is a decrease in net worth due to transactions	Decreases in the net financial position of the entity, other than decreases arising from ownership distributions.	IPSAS definition of revenue includes both expense from transactions and other economic flows the changing net worth in GFSM 2014. Using the concept of "Total Expense" from IPSAS and allowing these to be disaggregated into Expense from transactions plus decreases in net worth from OEF allows for consistency.
ASSETS		
An asset is a store of value representing a benefit or series of benefits accruing to the economic owner by holding or using the resource over time	A resource presently controlled by the entity as a result of a past event	Concept is the same, but coverage differs—IPSAS recognize in some instance contingent assets while GFSM 2014 will not recognize these due to the symmetry principle adhered to.
LIABILITIES		
A Liability is established when one unit (the debtor) is obliged, under specific circumstances, to provide funds or other resources to another unit (the creditor)	A present obligation of the entity for an outflow of resources that results from a past event	Concept is the same, but coverage differs—IPSAS recognize in some instance contingent liabilities while GFSM 2014 will not recognize these due to the symmetry principle adhered to. In addition, ownership contributions (equity) are included in GFSM 2014 liabilities.
OWNERSHIP CONTRIBUTIONS		
Equity consist of all instruments and records that acknowledge claims on the residual value of a corporation or quasi-corporation, after the claims of all creditors have been met.	Inflows/outflows of resources to/from an entity, contributed/distributed by external parties in their capacity as owners, which establish or increase/or return or decreased an interest in the net financial position of the entity	Equity is included in the liabilities according to GFS.

Appendix IV. Analysis of Paragraphs in Existing Budgetary CoA

CURRENT BUDGETARY REGULATIONS	IPSASs		GFSM14
<i>Revenues (cash receipts)</i>			<i>Revenue cash flows</i>
Paragraph 001 Receipts from natural persons' income tax	CF, IPSAS1	Revenue	Revenue, classified according to the basis on which the tax was levied.
	IPSAS 23 ¹	Revenue from non-exchange transactions	
	IPSAS 23	Taxes	
	IPSAS 23	Income Taxes	
Paragraph 078 Receipts from the disposal of property rights	CF, IPSAS1	Assets (disposal of) ²	Disposal of a non-financial asset classified according to the nature of the asset – usually fixed assets
	IPSAS 1 ³	Non-current assets	
	IPSAS 1, IPSAS 17 ⁴	Property, plant and equipment	
	IPSAS 17 ⁵	Land	
Paragraph 808 Receipts related to Treasury securities, credits and loans and other financial instruments on the domestic market	CF, IPSAS1	Liabilities (incurrence of)	Incurrence of a liability classified according to the instrument issued.
	IPSAS 1 ⁶	Non-current liabilities	
	IPSAS 1 ⁷	Financial liabilities	
<i>Expenditure (cash disbursements)</i>			<i>Expense cash flows</i>
Paragraph 255 Entity-specific grant from the budget for a State culture institution	CF, IPSAS1	Expense	Grants
	IPSAS 1 ⁸	Grants	
Paragraph 606 Expenditure for investment purchases of budgetary units 606004 Artillery equipment	CF, IPSAS 1	Assets (acquisition of)	Acquisition of non-financial assets classified according to the nature of the asset
	IPSAS 1	Non-current assets	
	IPSAS 1, IPSAS17 ⁹	Property, plant and equipment	
	IPSAS 17 ¹⁰	Military specialized equipment	
Paragraph 976 Redemption of Treasury bonds sold abroad	CF, IPSAS 1	Liabilities (settlement of)	Repayment of a liability classified according to the instrument repaid.
	IPSAS 1 ¹¹	Non-current liabilities	
	IPSAS 1 ¹²	Financial liabilities	

Source: MoF and mission staff

- 1/ IPSAS 23 provides for revenue from non-exchange transactions, and the class "Taxes" therein (showing separately major classes of taxes), to be disclosed either on the face, or in the notes to, the GPFSS.
- 2/ According to IPSASs, the disposal of an asset does not give rise to a revenue unless consideration received is higher than the carrying amount of the asset disposed (net of depreciation).
- 3/ IPSAS 1 provides for a property to be classified as a current asset if it is expected to be realized within twelve months after the reporting date.
- 4/ IPSAS 1 requires the class property, plant and equipment be presented on the face of the financial statements as a minimum disclosure requirement.
- 5/ IPSAS 17 sets separate disclosure requirements for the single classes of property, plant and equipment recognized in the financial statements.
- 6/ According to IPSAS 1, a financial liability can be classified as current liability if (a) it is due to be settled within twelve months after the reporting date; or (b) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.
- 7/ IPSAS 30 provides for separate disclosure of financial liabilities at fair value and financial liabilities at amortized cost.
- 8/ According to IPSAS 1, an entity shall present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.
- 9/ IPSAS 1 requires the class property, plant and equipment be presented on the face of the financial statements as a minimum disclosure requirement.
- 10/ IPSAS 17 sets separate disclosure requirements for the single classes of property, plant and equipment recognized in the financial statements.
- 11/ According to IPSAS 1, a financial liability can be classified as current liability if (a) it is due to be settled within twelve months after the reporting date; or (b) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.
- 12/ IPSAS 30 provides for separate disclosure of financial liabilities at fair value and financial liabilities at amortized cost.