

Functioning of the Second Level Management Control in Light of the Declarations Made by the Polish Local Self-Government

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Abstract

Entities operating in the public finance sector have recently started facing the challenge of implementing management control mechanisms. In order to successfully handle this task, it is not enough just to involve managers and employees of the given organisation, but it is also necessary to foster conditions favourable to improving management processes for public entities. Since management control is a rather new instrument of the public finance system, the need for ongoing monitoring of the progress taking place in the sphere of its implementation in individual institutions is becoming more and more evident. Bearing the foregoing in mind, the authors of the article has attempted to assess the extent of the management control implementation in local self-government bodies by analysing the declarations made by the these institutions pertaining to the management control status for the years 2010–2011.

Keywords: management control, public finance, local self-government bodies

Introduction

New challenges related to how local self-government bodies function, being the consequences of the current market economy order based on competitiveness and entrepreneurship, have particularly grown in importance within recent years. And even though the tasks of local self-government bodies as well as the means to accomplish them change on an ongoing basis, the very nature of self-government, namely the satisfaction of local needs, remains unaltered. However, confronting the limited resources of local self-government bodies with the inhabitants' needs inevitably leads to a conflict, since it is impossible to satisfy the needs of all members of the given local community to the fullest extent (Stiglitz 2004). Therefore the key problem is not the mere purpose

of the self-government's activity, but more and more often the capability to accomplish it efficiently.

The goal of this article is to assess the progress in the management control implementation in local self-government bodies. The information background which has enabled conclusions to be drawn in this respect are the relevant declarations made with regard to the management control status as of the years 2010–2011.

Assessment criteria for the extent of the management control implementation in entities operating in the public finance sector

Management control is still a fairly new instrument of the public finance system, governed by the provisions of the public finance act. Its main function is to enhance the processes of managing public entities from a clearly defined perspective of attaining individual public goals while maintaining specific standards in terms of the way in which tasks are performed (Walczak 2012). The solutions applied in this sphere are primarily assumed to extend the supervision of public expenses and enable maintaining continuity of the tasks being performed (Sławińska-Tomtała 2012; Olejniczak 2012).

In the early 1980s the traditional public administration began to change rapidly (Zawicki 2011) as a result of the accelerating series of global changes in the world. Low effectiveness of public institutions in times of economic and political crisis were placing new pressures on governments but also created new opportunities for governmental transformation (Lynn 2006). Many developed countries (Australia, Canada, New Zealand, UK and USA) started to pick up the pieces and search for new, more effective ways of meeting social needs (Kettl 2000). Interest in public sector reforms gradually spread to Canada, Netherlands and other developing countries of Western Europe (Lubińska 2009; Osborne and Gaebler 1992). As a result the term “New Public Management” (NPM) was coined (Hood 1989). NPM referred to public administration as an important element of civil society networks (in the broader sense), remaining in the interaction with the members (individuals, groups) of civil society (in the narrow sense) through appropriate participatory procedures and close collaboration with stakeholders. New public management reforms were based on some basic assumptions such as: (i) promoting competition in the area of service delivery, (ii) measuring the activity and focus on results and financial results rather than on inputs, (iii) mission oriented aims and management instead of activities only based on compliance with rules and regulations, (iv) preventing problems by anticipating them. The new paradigm emphasized the fact that the administration is filling instructions, while management is achieving results (Hughes 1994). According to NPM entrepreneurial spirit should transform the public sector and thus improve the efficiency of actions taken by public institutions. One of the instruments that should be used to improve the quality of public management is management control.

In accordance with article 68 of the act of 27th August 2009 on public finance in Poland, the management control over the entities operating in the

public finance sector comprises a set of actions undertaken in order to ensure that the given objective and tasks are completed in a fully legal, efficient, economical and punctual manner. Moreover, the regulations applicable in this respect stress that the said objectives and tasks should be performed:

1. in compliance with the law,
2. efficiently (by ensuring the best possible correlation between expenses and outcomes),
3. economically (by ensuring the lowest attainable cost for the objectives and tasks to be performed assuming appropriate quality),
4. punctually (by completing the objectives and tasks in due time, with no expenditure increase or quality decline).

The obligation to implement the means of management control has been imposed on all entities operating in the public finance sector, regardless of the subject of their activity, their legal form or the amount of funds spent. According to the statutory definition, management control is every action of an entity, and all the principles applicable therein, which serve the purpose of ensuring completion of objectives and tasks. Functioning of adequate, successful and efficient management control is included in the scope of duties of:

- a minister, in the administrative departments managed by the former,
- a commune head, a commune and town mayor, a chairman of the local administrative unit's managing body,
- a manager of the given entity.

Due to the specificity of the national territorial division of Poland, the management control function is performed on two levels:

- a) on the level of organisational units established to perform tasks (level I),
- b) on the level of local self-government bodies considered as an entirety (level II).

Management control sanctioned by the public finance act of 2009 substituted the formerly applied notion of financial control which functioned under the provisions of the previous public finance act of 30th June 2005. This, however, did not relieve the relevant entities from the obligation to implement financial control, since it should be stressed that the notion of management control also comprises financial aspects of the functioning and control of the given entity. Hence management control may be analysed in two dimensions. In the institutional dimension, performance of management control is required at each stage of management, starting from the top tier of the commune head, district governor or province marshal, through medium-level managers, independent employees, down to ordinary officers who also participate in the management

control scheme by means of self-control. The second dimension of control is built of all sorts of standards, procedures, policies and action plans implemented by an entity as well as all the principles defining the scope of activity of institutional units.

In terms of the management control implementation, the standards of management control published by the Ministry of Finance, establishing the basic requirements of its execution, are of particular importance, since their purpose is to develop a coherent and uniform management control model conforming with internationally recognised solutions applied in this sphere, entailing the specificity of and the conditions under which the given implementing unit operates (Gumińska et al. 2012). The aforementioned standards have been collated under five groups to form a selection of guidelines providing managers of public finance entities with general assumptions they should rely on while creating a management control system. The management control standards as well as their constituents and characteristics have been described in detail in the relevant Announcement of the Minister of Finance (Announcement no. 23 of the Minister of Finance of 16th December 2009 on management control standards for the public finance sector (Official Gazette of the Republic of Poland Monitor Polski, no. 15, item 84).

- a) 1st Group of standards (A) – internal environment.
- b) 2nd Group of standards (B) – Objectives and risk management.
- c) 3rd Group of standards (C) – Control mechanisms.
- d) 4th Group of standards (D) – Information and communication.
- e) 5th Group of standards (E) – Monitoring and assessment.

It should be stressed that, while providing the standards to form the grounds for the management control performance, the legislator has not defined a selection of actions necessary to implement the former under specific conditions. It is therefore evident that these standards are essentially of general nature, and their function is to establish common principles to be applied in all entities operating in the public finance sector (Puchacz 2010). Consequently, no detailed instruments dedicated to the management control implementation have emerged on the level of local self-government bodies. Most authors commenting upon this subject share the opinion that the lack of such a predefined selection should not preclude the implementation of management control, and in this respect, individual entities should follow the principles of legality, punctuality, economic soundness and efficiency (Filipiak 2012). However, by no means does it change the fact that under the current conditions, individual entities implement selected procedures which limits the possibility to analyse the activities undertaken in the scope of the management control implementation. And since management control is a rather new instrument of the public finance system, hence the need for ongoing monitoring of the progress taking place in the sphere of its implementation in individual institutions, which is becoming more and more evident and which may be used to answer the following questions:

- a) What efforts are undertaken in the scope of implementation of the management control mechanisms?
- b) What kinds of information are used to provide the grounds for verification of the control actions performed?
- c) What are the barriers encountered in terms of the implementation of control procedures?

The problems discussed provide a framework of research subjects, an analysis of which requires information grounds to be defined, so that their verification is possible. Under the current conditions, they mainly result from the documents drawn up according to statutory requirements. By the end of November each year, local self-government bodies are obliged to develop a plan of controlling operations assumed for the following year. What the said plan should entail in particular is the determination of objectives assigned to individual control tasks along with indication of sub-tasks whose purpose is to accomplish the relevant objectives as well as measures enabling the extent to which the given objective has been completed to be established. Also, by the end of April each year, every duly authorised entity must draw up a progress report on the control activity plan execution and submit declarations on the management control status for the preceding year.

The latter is a document of particular importance, as it provides grounds for a statement of the management control status for the given entity. It is an intentional and relevant document which enables the control to be handled adequately to the needs as well as in a reliable and systemic manner (Announcement of the Minister of Finance of 2009). In the Regulation of 2nd December 2010 (source: Official Journal of Laws, no. 238, item 1581 of 2010), the Minister of Finance established a template for a declaration of the management control status which, therefore, became the basic form of documentation of the works undertaken in the scope of management control. As regards the foregoing, it constitutes the fundamental, although indirect information basis enabling conclusions to be formulated on the progress of the implementation in individual entities.

Assessment of the management control implementation extent in local self-government bodies – results of the studies conducted

In order to analyse the extent to which management control is applied, studies on the second management control level were conducted. The complex nature of the phenomena presented within the thematic scope of the project, required a diversified set of techniques and research methods, enabling collection of data referring to self-government units, in particular relating to objectives and principles of their operation. The implementation of the indicated research approach required conducting comprehensive research including

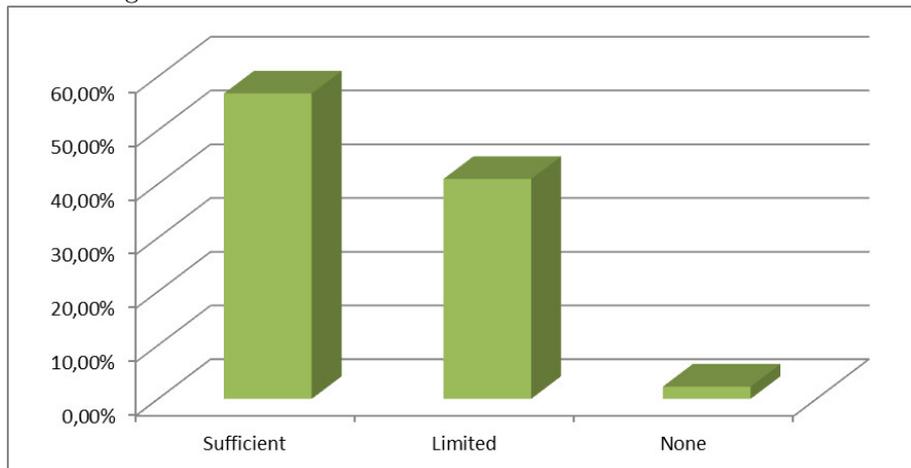
- a) desk research (including analysis of domestic and international literature devoted to management control in the public sector that has been pub-

lished up to date and analysis of self-government units operation within economic, social, political, legal-financial and technological aspects).

- b) empirical research (a survey addressed to the self-government units in Poland aimed at obtaining data describing the extent of management control implementation in the public sector).

The main sources of information used in the studies were the declarations made in accordance with article 70, section 3 of the public finance act of 27th August 2009 (Official Journal of Laws, no. 157, item 1240, as amended) on the management control status in the years 2010–2011. The studies comprised 44 entities. Due to a large size of the population studied in the relevant entities, the sample was chosen by a simple random selection (Babbie 2004). The results obtained have been illustrated below.

Figure 1. Extent of adequate, successful and efficient management control functioning

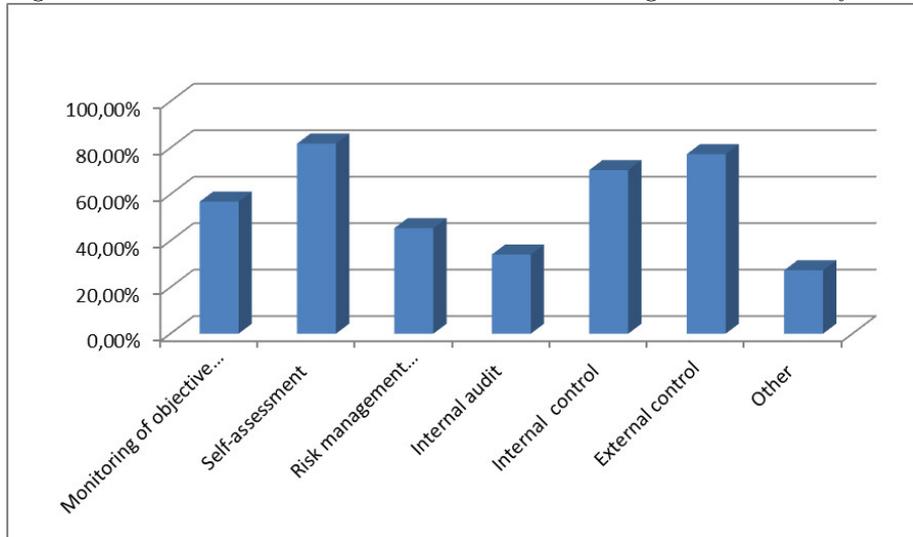


Source: Author's own study based on the study results obtained

The analysis of the information provided in the declarations on the management control status implies that a decided majority of the entities concerned (i.e. 57%) declared that the management control was functioning at least to a limited extent. The only example of an entity where the management control scheme was not functioning was the assessment conducted by the Municipal Office of Unisław for the year 2010. However, it should be stressed that the assessment of the extent to which the system functions is of declarative nature, and to a considerable degree, it is based on a subjective impression of the manager making the declaration. For neither the forms being submitted, nor the literature of the subject and the current practice of management control application have provided any measurable criteria; the compliance with which would entitle the given entity manager to declare to what extent the management control functions is sufficient or limited. Therefore, bearing the

discretionary nature of the above declarations in mind, what seems to be more important is the information provided in the declarations pertaining to individual aspects of management control.

Figure 2. Sources of information used under the management control system



Source: Author's own study based on the study results obtained

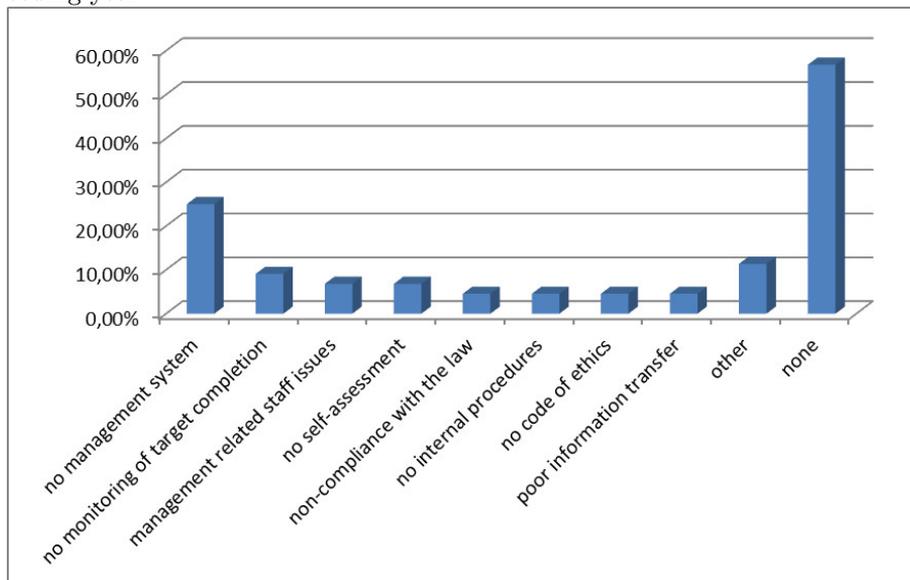
The main information source taken into consideration while assessing the extent to which the management control functions was the self-assessment (more than 80% of responses). This observation is a reference to the aforementioned largely discretionary nature of the assessment provided in the form, since self-assessment, which should essentially rely on pre-established management control standards for the public finance sector in its current form, does not provide any explicit indicators enabling the process studied to be monitored in the entities of the second level management control. Another significant fact in this respect is also the lesser importance attached to monitoring of the objective and task completion as well as the risk management process, being the information areas which, due to their nature, constitute the essential conditions for the effectiveness of actions taken.

To a limited extent, the entities studied also highlighted the application of other information sources than those proposed in the form (only 27% of responses). However, there are some among them which are worth stressing, as they may provide a significant informative support for the management control process when following a good model adopted in other entities. These are separate declarations made by managers and directors of organisational units, ongoing supervision of subordinate units or a report from a review of surveys containing information obtained from inhabitants.

The statement provided in the declaration with regard to the status of management control in the given entity automatically requires indication of barriers

and obstacles encountered in the implementation process by individual entities.

Figure 3. Reservations to the functioning of management control in the preceding year



Source: Author's own study based on the study results obtained

The most common reservation among those stated in the declarations pertaining to the way management control functions is the lack of risk management system implemented in the entity (25% of those surveyed). The lack of appropriate solutions in this respect makes it difficult to prepare task performance procedures and suitable control mechanisms enabling the expected efficiency of management control to be attained. The process of risk identification and analysis being advanced and documented, and the resulting risk register established on such a basis were only declared in one entity studied, i.e. the Municipal Office of Godów.

However, what is striking is the fact that the entities studied usually did not mention any reservations as to the current state of matters, which may be either evidence their actual absence, or prove low awareness of the managing personnel with regard to the problems related to implementation of the management control system.

A significant signal explaining this issue is the set of actions mentioned as those undertaken in the preceding year in order to improve the functioning of management control. In as many as 90% of the entities studied, no such activity aimed at implementation of suitable procedures was specified. This fact clearly contradicts the reservations previously declared with regard to the extent to which the management control functions. According to the information provided in Table 1, such doubts were mentioned in the declarations submitted by representatives of nearly 42% of the entities studied. Therefore, the lacking

efforts in response to the lack of confidence in the adequacy, successfulness and efficiency of the management control in place clearly imply that the awareness of individual entities to the need for introduction of changes should be assessed negatively. Among the rare examples of the actions actually declared as undertaken, the respondents mentioned documenting the risk identification and analysis process, maintaining the risk register, introduction of the CAF self-assessment model and ordinances adopted with regard to implementation of the management control principles. One should also mention some other efforts described, namely those which consisted in making procedures and standards more detailed with reference to the actual needs of the given entity, which may be interpreted as yet another proof of the general nature of the statutory regulations and guidelines imposed by central authorities.

The limited scope of the efforts undertaken implied the need for enquiring about the scope of actions planned by individual entities for the near future, aimed at improvement of the management control functioning. In this respect, most of those surveyed mentioned two groups of actions aimed at:

- a) Information transfer improvement within the organisation (e.g. rearrangement of the organisational structure, regular meetings with administration officers and the managing personnel in order to monitor and identify issues and seek solutions);
- b) Personnel quality improvement (e.g. employee training, self-assessment);
- c) Enhancement of the risk management system (documenting the risk identification and analysis process, determination of the number and types of risks encountered at the entity, defining ways to handle the risk).

However, it is striking that, at the same time, nearly 41% of the entities studied declared no need for any new actions aimed at improving management control.

Conclusions

Three years after the new public finance act was enacted, management control still seems to be one of the most poorly explored obligations imposed on self-governmental institutions. In the current organisational and legal format, management control is an open selection of permissible solutions, promoting experimentation with tools and procedures. Due to the lack of explicit and transparent interpretation of what management control is and what it should become, functioning next to good practices and well-proven solutions, there are many distortions emerging, making its basic sense obscure.

The conclusions drawn in the article prove that:

- a) there are no objective criteria enabling assessment of the progress in the management control implementation,

- b) the statement of the extent to which management control functions, as provided in the declarations, is largely of declarative nature, as it is based on subjective impressions of the person drawing up the declaration,
- c) the awareness of the management control system specificity and the need for the expected changes to take place among the managing personnel is low.

From the perspective of both theoreticians and practitioners, it means an ongoing challenge of seeking an answer to the questions about the best possible way to satisfy the relevant requirements and to conform with the principles of management control, and about the available instruments to be used for those purposes. The general nature of the management control standards being formulated is not making it any easier for the implementation of specific solutions applied to conform with the principles adopted. The implementation of management control under the framework of public finance reform is but one of the signs of changes which may be jointly referred to as a transformation from the culture of following the law towards the culture of pursuing results.

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