ISSN 2278-3091
Volume 8, No.1.1, 2019
International Journal of Advanced Trends in Computer Science and Engineering
Available Online at http://www.warse.org/IJATCSE/static/pdf/file/ijatcse0381.12019.pdf
https://doi.org/10.30534/ijatcse/2019/0381.12019

Management Control Over Financial Reporting In The Local Government – Selected Issues

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ABSTRACT

Current regulations of the financial law create more possibilities of gradual shift from the administrative management of public organisations towards the managerial model by introducing the concept of management control to public sector entities. R. Szostak rightly indicates that the increased importance of management control is related with the managerial approach to public finance, particularly in terms of special stress on sufficiently effective spending of public funds [10]. The principal aim of this article is to present the issue of management control over budget reporting in the local government. The efficiency of operating in this area is of major importance in the present and future periods of financial economy management. It results from the fact that budget reporting participates in the realisation of the cardinal principle of transparency of public finance, which requires the system of preparing reports to operate with the respect to legal principles and internal regulations.

Key words: management control, public organisation, budget reporting, regional audit offices

1.INTRODUCTION

Effective and efficient management of entities of the public finance sector is one of the fundamental categories to perform the tasks of general interest. The managerial style, particularly in local governments, needs constant improvement. The concept of management control is an essentials tool assisting local decision-makers in day-to-day management of public organisations. The main reason why management control was implemented in public finance entities was the desire to change the old management model into a more modern one based, to a large extent, on setting objectives and managing risk.

The aim of this article is to present the importance of management control over budget reporting in local government entities. The research method adopted includes the review of literature, legal regulations, as well as the reports of the Regional Audit Office. The article indicates the most frequent dysfunctions disclosed by the Regional Audit Office caused by unreliable management control over budget reporting.

2. THE CONCEPT AND AIMS OF MANAGEMENT CONTROL IN THE SECTOR OF PUBLIC FINANCE

The literature review leads to a general conclusion that the term management control is defined in various ways. It comes from the fact that this concept is used interdisciplinarily by various scientific disciplines such as management, finance or public administration, in particular. Treating management control as internal control or financial control consequently causes that these concepts are often wrongly used as the same terms, which, of course, is contrary not only to the existing legal principles[1] but, most of all, to the philosophy itself and the examples of aims defined by the legislature in the text of the Act on Public Finance.

Management control is an organizational and legal solution prepared at one stage of developing the theory and practice of management, in reaction to management pathologies found in a given period [4]. According to American researcher R.N. Anthony, the term management control is “the process through which the managers are assured that the resources are obtained and used efficiently and effectively in order to achieve the objectives of the organisation” [1,15].

A more exhaustive definition of management control was presented by R.J. Mockler . According to him, “management control can be defined as a systematic effort by business management to compare performance to predetermined standards, plans or objectives in order to determine whether performance is in line with these standards and, presumably, in order to take any remedial action required to see that human and other corporate resources are being used in the most effective and efficient way possible in achieving corporate objectives” [5, 15].

J. Płoskonka thinks that the concept of control can be used in two meanings:

- functional – as a widely understood process of checking and assessing;
- management – as a management support system adopted by an entity (procedures, instructions, principles, mechanisms), which serves the management to be certain that the goals of the entity will be reached [8].

In the literature some authors emphasise that management control is a new institution of the system of public finance,

The necessity to introduce a modern management method in the entities of public finance sector resulted mainly from the need to change the existing administrative management model

[1] Art. 68 of the Act on Public Finance of 27 August 2009 (i.e., Journal of Laws of 2013, item 885 with amendments).

having no counterpart in the so-far applicable regulations, introducing an innovative quality in internal control regulations in the entities of public finance sector [14]. Actually this term Has appeared in the provisions of the financial law only recently, since management control as a normative institution appeared due to the amendment of the Act on Public Finance in 2009.

In the amended act, the regulations referring to management control and its coordination were defined in detail in a separate Chapter 6 including text sections from art. 68 to art. 71 of the Act on Public Finance. It appears from the justification to the proposed Act on Public Finance of 2009 that "in place of the existing term – financial control, the concept of management control in the entities of the public finance sector was introduced. The existing practice related to the notion of financial control in the regulations shows that it is identified exclusively with a purely financial aspect of entity operations. The intention of the draftsmen was that the management control should include all the aspects of the entity performance. The basic element of management control in

public administration is that each entity manager is responsible for implementing and monitoring these elements of management control so that the entity could achieve the set objectives in compliance with the law, in an efficient, economical and timely manner"[13].

According to the legal definition expressed in art. 68 of the Act on Public Finance, management control means all the actions taken to ensure that the objectives and tasks in compliance with the law are performed in an efficient, cost-effective and timely manner. This definition clearly and explicitly stresses the mission of management control. In this meaning management control is an ultramodern method of managing public organisations, whose well-established elements are financial control, self-improvement, constant and systematic monitoring of management processes, performing tasks of general interest, including cost-effectiveness, as well as constant improving staff qualifications. It should be added that the definition of management control formed by the legislature cannot be confused with actions reserved for financial control. It results mainly from the essence of financial control the main area of which are actions oriented at checking the consistency between the real situation and the state binding in a given area, on the basis of some predetermined criteria - mostly the criteria of legality and cost-effectiveness.

Management control is directly connected with managing entities operating In the public sector and it is to assure the realisation of set goals of the unit by maximising opportunities and minimising threats [9]. In the provisions of the Act on Public Finance the legislature expressed an open catalogue of objectives of management control. The aim of management control is to ensure, in particular:

– compliance of the performance with the principles of law and internal procedures;
– efficiency and effectiveness of operations;
– reliability of reports;
– protection of resources;
– observance and promotion of the principles of ethical conduct;
– efficiency and effectiveness of information flow;
– risk management.

Generally, the aim of management control is the continuous improvement of management and, consequently, the increase in efficiency and effectiveness of actions of all the entities of the public finance sector, departments of the governmental administration and local government entities, as well as organisational units. Hence, we can assume that the fundamental aim of management control is to apply various accessible techniques and modern methods of managing a public organisation so as to effectively limit the possibility of serious threat which may disrupt the organisation's performance. A management control system, implemented efficiently, should better ensure: [12].

– effective and structured, efficient performance;
– compliance with the internal policy;
– safeguarding the assets;
– enabling fraud and error detection on the on-going basis;
– reliability and integrity of records;
– enabling the timely preparation of reliable financial reports.

It should be emphasized that such complex organisation of an efficient and effective management control system requires contribution of the managerial staff of a public organisation, as well as of many other people having their share in performing public tasks. Moreover, the independent and objective internal audit highly supports a manager of a public organisation in performing management control appropriately.

1. 3.ORGANISATION AND MANAGERIAL STAFF'S RESPONSIBILITY FOR MANAGEMENT CONTROL

Pursuant to the financial law, management control in public finance operates on two levels. A public finance entity, i.e., level I of management control, is the basic level of management control in the whole sector of public finance. In an entity its manager is responsible for management control [7]. Moreover, at the local government level there should be management control on level II. At this level the head of the commune (the mayor or the president of the city), the head of the district or the head of the voivodeship is responsible for management control in the local government [7].

According to the contents of the letter of the Undersecretary of State in the Ministry of Finance of 29.01.2010, No.: DA6/4095/NWX/2010/775, the principles of the Act on Public Finance did not "provide any powers for heads of communes, mayors, presidents of cities, heads of districts and heads of voivodeships in relation to their subordinated or supervised units in relation to their responsibility for management control in the entity of the local government. These tasks should be performed within the framework and on the grounds of powers conferred in separate regulations" [7]. It is the entity manager who plays a dominant role in management control – particularly in organizing and monitoring the performance of tasks. Therefore, in order to ensure efficient performance of the management control system, apart from other tools available, the entity manager should: [3].

- review and, if necessary, redesign existing procedures and mechanisms of financial control (financial instructions and finance-related instructions) in order to ensure adequacy, efficiency and effectiveness of goals and tasks performed. It must be emphasised that it is not the most important to design and create procedures constituting the system of control (besides the statutory requirement to have them prepared, e.g., art. 10 of the Accounting Act). Contrary to frequently expressed opinions, the idea of management control is not to "produce" numerous internal procedures, but to manage the organisation in an innovative way;
- demand periodic reports on the process and findings of internal control from managers of organisational units, from the chief accountant, i.e., from people who in their job descriptions, were assigned control, verification and analytic functions. In order to make sure that the system works properly, the manager may demand some information about the gaps relating to the supervisory or control activities performed by the employees authorised to do so;
- define the scope, tasks and powers of deputies, including the chief accountant, in the area of conducting internal control, and oversee performance of their duties;
- conduct the analysis of documents, particularly draft plans, reports on budget implementation and financial or economic analyses;
- respond to information, recommendations of audits or conclusions of controls – both internal, as well as external, ones. On these bases direct steps should be taken to improve the system of internal control;
- order periodic self-assessment of management control and make periodic staff assessments.

According to the regulations of the Act on Public Finance, the only person responsible for adequate, efficient and effective management control in the local government is the head of the commune, the mayor, the president of the city or the board chairman of the local government entity. Managers of local government entities perform their duties in the area of management control and cannot delegate such responsibilities onto their staff. Effective delegation of responsibilities for budget reporting onto an employee does not mean that an entity manager is exempt from his accountability for the violation of public finance discipline.

In one of its judgments, the Provincial Administrative Court emphasized that "the entity manager, even if effectively delegates specific powers and duties onto his employees, does not get rid of the responsibility for the lack of management control. A contrary thesis would be against the existing legal principles and would lead to a conclusion that an entity manager might create such regulations and powers in the entity that he would be held responsible for nothing" [16].

4.IRREGULARITIES IN BUDGET REPORTING DISCLOSED BY REGIONAL AUDIT OFFICES

Control activities of Regional Audit Offices include financial management, as well as tax settlement and public procurement of local government entities and other entities having the financial means coming from the budgets of the above mentioned entities of the local government [11]. Audit Offices are guaranteed the right to control the financial management of local government entities, taking into account the criterion of purpose, reliability and cost-effectiveness, but only with regard to the tasks commissioned by the government administration, pursuant to acts of law or contracts concluded. One of the areas examined by auditors is accounting and budget reporting, as well as organizational issues.

From the figures presented in Table 1, it can be concluded that the number of irregularities in organizational issues disclosed in the years 2006 -2015 remains at a similar level, from 1321 cases in 2015 to 2064 cases in 2006. The irregularities in organisation in 2006 represented 12.4% of the total number of dysfunctions disclosed by auditors while in 2015 this share decreased slightly and amounted to 9.3%.

Table 1: NUMBER OF IRREGULARITIES IN FINANCIAL MANAGEMENT REVEALED BY REGIONAL AUDIT OFFICES IN THE YEARS 2006-2015

Specification	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total, of which:	**16 549**	**15 876**	**17 171**	**16 663**	**16 481**	**15 819**	**15 930**	**14 277**	**14 035**	**14 156**
organisation	2 064	1 916	1 862	1 833	1 552	1 282	1 373	1 214	1 263	1 321
Accounting and eporting	3 462	3 196	3 596	3 515	4 505	4 290	4 535	4 184	4 238	4 264
Other	11023	10 764	11713	11315	10 424	10247	10022	8879	8534	8571

Source: Prepared by the author on the basis of the data in the Reports on operations of Regional Audit Offices and budget execution by local government units in the years 2006 – 2015, National Board of Regional Audit Offices.

The figures presented in the table show that despite the introduction of management control in accounting and reporting to the entities of public finance sector in 2010, the number of dysfunctions grew considerably in comparison with the previous periods (3,515 in 2009 and 3,596 in 2008).

In 2015 irregularities in organisation, including management control, included, in particular: [9].

- lack or incorrect preparation of documents describing the adopted principles of accounting (including the corporate plan of accounts, the list of accounts ledgers used, documentation of the computerized data processing system);
- lack or incorrect application of management control mechanisms;
- failure to apply post-audit recommendations;
- failure to observe control procedures;
- failure or omission to conduct an audit in an entity if obliged to do so;
- failure to grant powers to act independently to managers of organisational units.

Similarly, a large number of irregularities was disclosed in accounting and reporting. The efficiency of these areas and relevant procedures have an important impact on management quality and presentation of information on financial situation and assets in financial reports. Of the data presented by the National Board of Regional Audit Offices, it can be concluded that in the course of the audit related to such issues as correct records of economic operations in the ledgers, preparing reports, collecting and storing financial and accounting documents, in 2015 as many as 4,264 cases of various irregularities were found. The dysfunctions revealed referred, in particular, to: [9].

- incorrect preparation of reports;
- unreliable way of keeping the ledgers;
- unsystematic keeping of the ledgers;
- uncheckable way of keeping the ledgers;
- untimely handing over the reports.

In recent years the number of irregularities remained at a similar level, i.e., from 4,505 cases in 2010 to 4,264 cases in 2015. They represented 30% of the total number of irregularities found in 2015. Similarly in earlier years the share of such irregularities remained at a fairly high level, i.e., 30% in 2014, 29.3% in 2013 and 28.4% in 2012. These alarming data confirm the continuing weakness of management control in very important areas for every public organization, such as accounting and reporting.

5.CONCLUSION

According to the conceptual framework, one of the basic aims of budget reporting is the on-going supply of information necessary for managerial decisions to be taken by local decision-makers and other bodies interested in the state of financial management of the local government entity. However, in order that the information provided by budget reports was useful in the process of financial management, it is essential to keep the system of recording economic and financial operations in the ledgers in accordance with the legal principles. Grouping individual financial categories according to the divisions stipulated in the budget classification is of key importance to meet the standards of reliability and credibility of budget reports.

One of the aims of management control is to assure that budget reports are credible, which means that figures presented in various types of budget reports (or elements of financial reports) come directly from properly kept accounting records with correctly defined classification scale and present an real-time picture of assets, finance and the degree of implementing the plan of revenue and expenditure, credit and debits, which is crucial for the periodic evaluation of budget or financial plan implementation by any local government entity. Considering the severity of dysfunctions disclosed by the auditors in budget reporting, the system of budget reporting should be improved so that it is simple and clear, as well as correlated with the system of financial and accounting recording [6].

Considerable risk of discrepancy in budget reporting may be reduced by introducing various mechanisms of control in the entity, as well as by implementing the internal audit in entities bound by law to do so.

6.SUMMARY

The article explores the problem of the importance of management control in budget reporting in local government entities. The article reviews the definitions of management control presented in the literature. Bearing in mind how important management control is for appropriate performance of public organisations, the most important aims were presented which should be fulfilled by the concept of management control. The article shows the most frequent irregularities disclosed in the local government entities by the Regional Audit Offices.

The aim of the article is to present the issue of management control in budget reporting in the local government. The efficiency of operating in this area is of major importance in the present and future periods of financial economy management. The achievement of this research aim required secondary analysis of the scientific literature, legal regulations, as well as the reports of Regional Audit Offices.

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