

ESSENCE AND SIGNIFICANCE OF MANAGEMENT CONTROL IN PUBLIC SECTOR IN POLAND

Edyta Bielińska-Dusza

Cracow University of Economics, Department of Strategic Analysis, ul. Rakowicka 16, 31-510 Kraków, Poland

E-mail: edytadusza@gmail.com; bielins@uek.krakow.pl

Abstract. Business operations become more and more complex and the ability to adapt to changes in the internal and external environment and effectively counteract various kinds of frauds and pathologies determines their success. Therefore, the basis for long-term development becomes an adequately designed management system which considers the internal control system within which management control exists. The functioning of effective internal control system depends on several factors, e.g., the dynamics of changes in the environment, increasing organization complexity, unreliability of the organization and the need to delegate responsibilities. The last factor that must be mentioned is the continuous need for business improvement. Therefore, the purpose of this article is to characterize the internal control system of a company and take into consideration management control operating in the public sector in Poland from 1 January 2010. The article also discusses issues related to the essence of internal control, its evolution. The contemporary significance of control and its forms is also addressed.

Keywords: control, internal control, management control, system of internal control.

Jel: H83, M42.

1. Introduction

The environment forces companies to continuously adapt to changing conditions. On the one hand, businesses try to catch up with these changes, on the other hand they try to foresee and often create them. It seems that the adaptation character of this adjustment is often no longer sufficient. More and more often recognition is given to enterprises' inventive – creative behaviours. Undoubtedly, a properly operating internal control system plays an important part. For this reason, among others, management control has been introduced in the public sector from 1 January 2010. Therefore, the

purpose of this article is to characterize the internal control system of a company considering management control. The article also discusses issues related to the essence of internal control, its evolution. The issue of control significance and its forms is also mentioned.

2. Essence of internal control

Each activity requires undertaking constant or periodical control activities. Therefore, if we consider the development of control, we notice a great dynamics of changes and a heterogeneous scope of tasks and functions. Over the years, one thing is beyond all doubt: there is still a strong demand for an effective control system ¹.

However, over a few dozen years of the 20th century, control in the context of economic development in Poland was clearly transforming. There appeared many concepts which tried to catch up with the changing economic situation. We may mention several characteristic periods.

The 1970s (Kuc 2007) is a period of standardization of basic terms and identification of major control tasks and functions. The principle that internal control is an integral element of the management process and the conditions that must be met to ensure its effectiveness were formulated. This period is characterized by determining the types of control, control test criteria and possible relations between organizational components of a company and the elements of the internal control system.

The 1980s and the implementation of the economic reform principles had a significant impact on the form of control. The distinction between control understood as an integral company system (supervision and self-control) and institutional control, performed by internal control units and social organizations has been introduced.

The 1990s is a period of further development of internal control on contemporary foundations. Through active participation of managers in implementing control functions it became a significant management tool, especially since companies transformed into independent entities operating in a turbulent environment. Control faced new complex tasks in connection with it. *Ex ante* control and the nature of preventive-advisory tasks was mentioned more and more often, while *ex post* control was mentioned less and less frequently. However, in view of the economic

¹ As early as 1916, the precursor of the classic theory of organization H. Fayol classified and described administrative activities (corresponding in contemporary terminology to management functions), including the function of control whose task is make sure that everything takes place according to the agreed regulations and issued orders. H. Fayol believed that control applies to everything – things, people and actions (Fayol 1926).

On the other hand, H. L. Châtelier (1926) understood the essence of this function in the company in a broader sense and brought it to controlling the achieved results by comparing them with the intended objective, drawing conclusions from particular stages of actions and introducing corrections related to the objectives, conditions, the behaviour plan and its implementation and control (Châtelier 1926).

transformation, control still did not meet the expectations. The managers more and more often looked for new tools that would make it possible for them to obtain information necessary to make decisions.

One should, however, state that the changes in the organization's environment over the years caused both growth of interest in control and its development. The views on the essence of control as a management function also continuously evolved and contributed to its development. Control has become an important instrument participating in shaping organization management.

An almost historical significance of control function can be noticed. Clear changes in the perception of the role and significance of control in the management of organizations can be noticed no sooner than from the 20th century. These changes caused the transformation of companies and mainly meant decentralization and increasing delegation of rights (Cabała 2002).

Moreover, various forms of control meant not only to check any activities, projects or processes with the implementation of planned objectives but also to protect the company against any type of abuses were created over the years. And so control ceased to be of significance only as a tool of dominance and admonition and it began to be treated as a management tool instrument.

Also at present, further continuation of control evolution can be noticed, e.g. by introducing management control in the public sector. However, to fully understand the essence of control, in the first place we will present the essence of management control in the legislator's intention. In the further part, we will review the subject literature and present selected definitions and its different forms and compare internal control with management control.

3. Management control in light of Polish legal regulations

On the basis of the public finance law valid until the end of 2009, the public finance sector units operating in Poland were obliged to conduct financial control. Financial control was concerned with processes related both to collecting and distributing public funds and property management. Financial control includes conducting an initial assessment of the purposefulness of incurring financial obligations and making expenses, testing and comparing the actual condition with the required condition concerning the processes of collecting and gathering public funds, incurring financial obligations and making expenses from public funds, granting public orders and returning public funds, conducting financial management and applying procedures concerning the processes covered by control. The public finance sector unit's manager bears responsibility for performing duties related to financial control. The manager was obliged to determine in writing the financial control procedure and ensure its implementation.

On the other hand, the new public finance law (Act of... 2009), entering into force as of 1 January 2010, replaces financial control with management control which includes all activities taken in order to ensure realization of objectives and tasks in a manner consistent with the law, effective, economical and timely.

The basic objectives include:

- 1) compliance of operations with legal regulations and internal procedures;
- 2) efficiency and effectiveness of activities;
- 3) credibility of reports;
- 4) protection of resources;
- 5) compliance with and promotion of principles of ethical behaviour;
- 6) efficiency and effectiveness of information flow;
- 7) risk management.

It should also be emphasized that the legislator has defined the responsibility for the process of management control implementation. This responsibility is determined for particular levels. One level – functioning within the government administration (government administration department level), the other level of local government units (JST) for which the commune head (mayor, city mayor), prefect or province marshal is responsible. On the other hand, the manager bears responsibility within the administered unit.

The management control area has been discussed in the published Management Control Standards and includes the following elements (ANNOUNCEMENT... 2009):

- internal environment which applies to unit management system and its organization as a whole and covers such elements as: honesty and other ethical values, management and employee professional competencies (level of knowledge, skills and experience), scope of tasks, rights and responsibilities of particular organizational units, identification of the so-called sensitive tasks (namely those where the issued decision is related to the official's high level of discretion),
- risk management, used to increase the probability of achieving unit objectives through: determining and monitoring the implementation of tasks, identification of risk, risk analysis, reaction to risk and remedy actions; it thus means focus on identifying and measuring opportunities and threats related to unit operational plans of measurable objectives defined for the purposes of strategic documents, task budget,
- control mechanisms constituting an answer to a specific risk which the unit intends to reduce through: documenting this control's system, documenting, recording and approving (authorization) business operations, dividing key obligations, verifying business operations before and after implementation and also through inventory-

taking, supervision within the business hierarchy, recording deviations from procedures, instructions or guidelines, continuity of operations, selective and controlled access of people to financial, material and information resources (protection resources) and through IT system control mechanisms such as control of access to IT and system software resources, control of creation and changes in applications and control of access to particular applications, division of obligations enabling detection and correction of errors, ensuring continuity of IT system operation;

- information and communication concerning providing unit employees with access to information necessary for them to perform their duties and providing effective system of internal and external communication – ensuring flow of information and its proper understanding by the recipients;
- monitoring and evaluation of the control system from the point of view of the current assessment of the control system effectiveness and its particular elements, solving any emerging problems by all employees according to their competences, including through self-assessment and internal audit (Sola 2009; Kowalczyk 2010; Mazurek, Knedler 2010; Puchacz 2010; Sławińska-Tomtala 2010).

The legislator, by defining the term of management control and its functions in the abovementioned areas, intends to improve management in the entire public sector, based on both theoretical and practical solutions within the private sector.

In such aspect, management control may support unit managers in effective management. It is also important that management control is associated with task budgeting tools. Therefore, management control standards consider instructions with regard to determining objectives, tasks and measures helpful in task budgeting.

Why the functioning of management control is important and how it is different from internal control. We will try to settle this problem in the publication below.

4. Internal control vs management control

In the encyclopaedic perspective, control means checking whether the actual condition of something agrees with the desired condition and determining possible deviations, watching over the correct course of something (Dunaj 1996).

The analysis of both the subject literature allows to draw a conclusion that the term “control” is used in a **narrow** or **broad** meaning.

Control in the narrow meaning is – according to L. Krzyżanowski’s (1994) definition – a set of activities consisting in comparing actual conditions with tasks, ruling about deviations and formulating recommendations, without incorporating them into the corrective and regulatory procedure scope which belong to the functions preceding it. In connection with the above, control is a process in which the managers

ensure that the resources are obtained and used effectively and efficiently to achieve the organization's objectives (Zieleniewski 1981). Its task is to compare the result of an action with the objective and formulate recommendations with regard to possible improvements. Making decisions correcting the arisen deviations is not included in the scope of its tasks. This means that control in this perspective does not interfere in the tested object but only formulates conclusions and recommendations (Cabała 2002). Control understood in this way is also called **institutional control**.

It should be pointed out that the narrow understanding of control in the Anglo – Saxon literature is used to determine institutional control, referred to as *audi* or *internal audi* (Saunders 2003; J. Płoskonka *et al.* 2005).

Control in the broad meaning is defined as a systematic activity aiming to determine the standards of effectiveness when planning objectives, to design feedback information systems, to compare feedback and actual results with defined standards, to determine whether deviations occur and to measure their significance and take any activities necessary to ensure that all resources of an organization have been most effectively and efficiently used to achieve its objectives (Stoner *et al.* 1997). The purpose of this type of control will be not only recording the achieved results, comparing them with the assumed plans but also influencing the decisions concerning undertaking corrective actions. Such perspective of control will prove its functional nature which means that it is realized on the current basis by each level of management. The subject literature refers to it as **functional control** (Koźmiński, Piotrowski 2002), as opposed to control in the narrow meaning, which is characterized by the institutional aspect. This means that the control activities are implemented by specially separated internal organizational units operating within the organizational structure of a company or by external units.

Functional control (control in the broad meaning) is referred to in the Anglo - Saxon literature as *control* or *internal control* (Saunders 2003).

However, at present *ex post* control is no longer sufficient, because its function is always secondary in relation to planning. Depending on its skills, it discloses facts, events, consequences but does not create them. Although changes and corrections are made based on its recommendations, they do not have the nature of primary, initiating activities.

Pressure on efficiency and effectiveness of management results in the fact that control is expected to predict and counteract errors. For this reason, at present the attention is paid to the anticipative (*ex ante*) character of control whose essence consists in predicting negative events and creating possibility of counteracting the effects of at least some of them (Kuc 2007).

Therefore, among others, the obligation to implement management control has been introduced in the public sector, which in a certain way would constitute a system of

control and cover both *ex post* and *ex ante* activities with the scope of its functions. Table 1 below presents the comparison of internal and management control.

Table 1. Comparison of internal and management control

Comparison criterion	Internal control	Management control
Essence	Diagnostic-regulatory process or management function.	Diagnostic-regulatory process or management function.
	<p>May have the form of:</p> <p>1. Control in the narrow meaning (referred to as institutional control or review), consisting in conducting diagnostic projects.</p> <p>2. Control in the broad meaning (also referred to as functional control or supervision), consisting in implementing regulatory decisions.</p> <p>Ascertains irregularities.</p>	<p>The essence of management control are activities within ensuring the realization of objectives and tasks in a manner consistent with the law, effective, economical and timely.</p> <p>Ascertains irregularities, cautions, improves.</p>
Objective	Disclosure of irregularities and errors, indication of ways to eliminate negative phenomena or protecting against them (diagnostic dimension) and undertaking activities leading a given system to the assumed condition (regulatory dimension).	Supporting management in the management process from the point of view of achieving objectives and disclosure of irregularities and indication of ways to eliminate them.
Time horizon	Actions focused on the past.	Actions focused on the past and the future.
Character of actions	Partial. <i>post factum</i> actions in reaction to unfavourable phenomenon symptoms.	System. Prevents unfavourable phenomena.
Type of actions	<p>Actions focused on detecting the perpetrator of irregularities; ascertains faults and proposes their repair.</p> <p>The tasks performed by institutional control are independent from one another and if they relate to several various organizational units they require agreements on higher levels of company hierarchy.</p>	<p>Actions focused on coordination as well as detecting irregularities; ascertaining faults and proposing their repair.</p> <p>The tasks are centralized in an interdisciplinary organizational unit.</p>
Task area	The area of tasks performed by institutional control does not cover the full functional scope of company operations. The tasks only apply to	It includes actions related to the implementation of objectives and company

	selected functions (e.g. quality, economic inspection, OHS).	operation functions, adjusted to the needs of a given unit.
Structural solution	<p>Institutional relation.</p> <p>Institutional control is implemented by various organizational units of a company, usually unrelated with one another neither in terms of hierarchy nor function (e.g. organization and control department, quality control department, economic inspection department, OHS department). They operate independently of one another and are not organized into a coherent whole.</p> <p>Functional control is implemented by all managers of organizational units of a company and collective bodies.</p> <p>Institutional control requires establishing separate organizational units which are dispersed in the organizational structure of the company, located at various levels in the hierarchy and in various organizational sections.</p> <p>The person responsible – the manager of an organizational unit.</p>	<p>Institutional relation.</p> <p>Organized in permanent organizational units or depending on the adopted organizational solution.</p> <p>Constitutes an organized, coherent whole.</p> <p>Functioning within the existing organizational units for control or audit or establishing a separate organizational unit subordinate to the chief management of a company.</p> <p>The person responsible – the manager of an organizational unit, head of a unit.</p>
Flexibility of actions	Low.	High.
Character of conclusions	Within institutional control, diagnostic conclusions are formulated and improvement directions are prepared.	Identified irregularities are formulated as post-control diagnostic conclusions and eliminated by making regulatory decisions aiming at bringing the examined problem to the assumed condition.

Source: prepared by the author on the basis of: Sierpińska, Niedbała 2000; Nesterak 2003; Knedler, Stasik 2006; Act of. 2009; Sola 2009; Kowalczyk 2010.

Control and management control are different notions from the point of view of the scope of tasks, functions and time. While control focuses on past tasks, management control is focused on the future, but focuses also on tasks from the past. The intention to introduce management control into public sector units aims at, as it seems, creating a certain type of control system, which will include in its scope both *post fatu* actions and these related to the strategic aspect, namely concerning the future.

Implementing management control in the public sector nowadays becomes a necessity. Building an effective control system requires, among others, creating relevant organizational and hierarchical structures, operational procedures, internal instructions as well as division of responsibility and method of work which will allow maximum reduction of errors and losses in the company.

However, it should be remembered that even the most rationally planned manner of behaviour does not guarantee success if it is not supported by a relevant system of control. We also should not overestimate its significance, since it is not a cure-all for all management irregularities and errors. These systems are created by people and for people, and thus there is a risk that they will be modified exactly by those people in an improper manner. Undoubtedly however, they may constitute a helpful tool in the implementation of assumed objectives.

5. Conclusions

The effectiveness of company operations depends on a number of factors. One of them is an efficiently functioning internal control system taking into account e.g. various forms of control like e.g. management control. However, it should be emphasized that the diversity of control forms does not constitute a cure-all for all irregularities of an organization.

Additionally, it can be seen that, owing to the functioning of various control forms, various kinds of organizational, methodological or practical problems may be generated. An improperly functioning internal control system may in addition generate high costs or even losses.

It is also worth mentioning that, owing to the effectiveness of management, these instruments should cooperate and harmonize to achieve a better result. Let us remember that a broader look at the existence of control in a company should broaden the company possibilities.

References

Act of 27 August 2009 on public finance, *Journal of Laws* 157:(1240).

Announcement No. 23 of the Minister of Finance of 16 December 2009 on the standards of management control for the public finance sector 9(70).

Cabała, P. 2002. *System kontroli w zarządzaniu przedsiębiorstwem, Pomocnicze materiały dydaktyczne*. Wyd. AE. Cracow.

Châtelier, H. L. 1926. *Filozofia systemu Taylora*. Warsaw Institute of Scientific Organization at the Museum of Industry and Agriculture. 82 p.

Dunaj, B. 1996. *Słownik współczesnego języka polskiego*. Warsaw: Wilga.

Fayol, H. 1926. *Administracja przemysłowa i ogólna*. Warsaw: Institute of Scientific Organization at the Museum of Industry and Agriculture.

- Grundey, D. 2008. Audit System: Development and Problems, *Transformations in Business & Economics* 7(3):192–196.
- Knedler, K.; Stasik, M. 2006. *Audyt wewnętrzny w praktyce. Audyt operacyjny i finansowy*. Łódź: PAR.
- Kowalczyk, E. 2010. *Kontrola zarządcza w jednostce sektora finansów publicznych. Wzory instrukcji i procedur*, Wrocław: Presscom.
- Koźmiński, A. K.; Piotrowski, W. 2002. *Zarządzanie. Teoria i praktyk.*, Fifth Edition. Warsaw: PWN.
- Krzyżanowski, L. 1994. *Podstawy nauk o organizacji i zarządzaniu*. Second Edition. Warsaw: PWN.
- Kuc, B. R. 2007. *Kontrola wewnętrzna w sektorze publicznym. Kierunki zmian* Warsaw: PWN.
- Châtelier, H. L. 1926. *Filozofia systemu Taylora*. Warsaw: Institute of Scientific Organization at the Museum of Industry and Agriculture.
- Mazurek, A.; Knedler, K. 2010. *Kontrola zarządcza-ujęcie praktyczne*. Warsaw: HANDIKAP.
- Nesterak, J. 2003. *Controlling. System oceny centrów odpowiedzialności*. Cracow: Anvix.
- Płoskonka, J. (Ed.). 2005. *Glosariusz terminów dotyczących kontroli i audytu w administracji publicznej*. 2005. Warsaw: NIK.
- Puchacz, K. 2010. *Nowe standardy kontroli zarządczej w jednostkach sektora finansów publicznych*. Warsaw: ODDK.
- Saunders, E. J. 2003. *Audyt i kontrola wewnętrzna w przedsiębiorstwach*. Second Edition. Częstochowa: PIKW – Edukator.
- Sierpińska, M.; Niedbała, B. 2000. *System controllingu operacyjnego w przedsiębiorstwie*. Cracow: Wyd. AE.
- Sławińska-Tomtala, E. 2010. *Kontrola zarządcza w sektorze publicznym*. Warsaw: CH Beck.
- Sola, M. 2009. *Kontrola zarządcza w administracji samorządowej: standardy i sposoby praktycznej realizacji*. Warsaw: MUNCIPIUM.
- Stoner, J. A.; Freeman, R. E.; Gilbert, D. R. 1997. *Kierowanie*. Warsaw: PWE.
- Zieleniewski, J. 1981. *Organizacja i zarządzani*. Seventh Edition. Warsaw: PWN.

VALDYMO KONTROLĖS VIEŠAJAME SEKTORIUJE ESMĖ IR REIKŠMĖ LENKIJOJE

E. Bielińska-Dusza

Santrauka

Verslo operacijos tampa vis sudėtingesnės, o gebėjimas prisitaikyti prie vidaus ir išorės aplinkos pokyčių bei efektyviai kovoti su įvairių rūšių sukčiavimais ir patologijomis nulemia jų sėkmę. Ilgalaikio vystymosi pagrindu tampa tinkamai suprojektuota valdymo sistema, kuri atsižvelgia į vidaus kontrolės sistemą, esančią sudėtine valdymo kontrolės dalimi. Veiksmingas vidaus kontrolės sistemos funkcionavimas priklauso nuo keleto veiksnių, tokių kaip aplinkos pokyčių dinamika, vis sudėtingesniu tampančio organizacijos valdymo, nepasitikėjimo organizacija ir poreikio deleguoti atsakomybę. Būtina paminėti ir kitą svarbų veiksnių – nuolatinį verslo gerinimo poreikį. Todėl šio straipsnio tikslas – charakterizuoti organizacijos vidaus kontrolės sistemą ir apibūdinti valdymo kontrolės nuo 2010 m. sausio 1 d. vykdymą viešajame sektoriuje Lenkijoje. Straipsnyje taip pat aptariami su vidaus kontrolės esme, jos raida susiję klausimai. Be to, straipsnyje akcentuojama šiuolaikinės kontrolės reikšmė bei jos formos.

Reikšminiai žodžiai: kontrolė, vidinė kontrolė, valdymo kontrolė, vidinė kontrolės sistema.

Edita BIELIŃSKA-DUSZA. PhD, is an assistant in the Department of Strategic Analysis, Cracow University of Economics, since 2001. Subject of thesis is “Internal Audit System in managing enterprise”. The author of scientific publications focusing on issues of management, internal audit, international business and human resources. Participated in conferences on issues of internal audit and international management. Research interests: strategic management, internal audit of organizations, business management and improvement methods, human resource management.