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## **CONTROLLING FUNCTIONING IN BUDGET UNITS – SELECTED ELEMENTS<sup>1</sup>**

**The article raises the issues of controlling functioning in the selected towns having the status of a district in Poland. Efficient controlling functioning supported with appropriate tools improves the effectiveness of the unit and enables undertaking more apt decisions by the management staff. Despite measurable benefits that controlling delivers, it is not as widespread in the public sector as in the private one. In the analysed units, in spite of the fact that the terminology of controlling is not used, still by making any reports, calculation of measures (indicators) and deviations as well as monitoring and management control, the units implement its elements. The article presents the importance of controlling, and indicates its tasks and functions. Also, controlling instruments, which were implemented in local government units, are described. The applied research methods include the overview of literature, source documents in examined units as well as individual in-depth interviews with the representatives of selected local government units.**

***Keywords:* controlling, local government units, performance budgeting, management control.**

**Introduction.** Controlling, operating for many years in companies of economic turnover is becoming also an instrument used in the public sector. This is conditioned by the execution of an increasing number of tasks, increased requirements of the local community and, above all, too low level of funds. Owing to insufficient financial funds, the units are forced to look for new solutions in terms of management as well as rationalisation of their expenses. The tool meeting the expectations in the above area may prove to be controlling. Implementation of controlling in local government units opens new perspectives with regard to controlling all internal flows of services and costs and their control. Management staff will be provided with sound base for taking more effective decisions, and will increase the opportunity to ensure high quality of the services provided as well as efficient costs management. However, this is not an easy implementation and it is not possible to directly adapt it from the private sector. Local government units

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are trying to adjust it to the specific needs and possibilities, implementing its elements or tools.

Tasks executed by controlling instruments, used in towns with the district status that contribute to the improvement in efficiency, such as: management control, cost account, internal audit or task-related budgeting system, have both common characteristics as well as separate functions. This applies particularly to the scope of time horizon, planning and control tasks coordination and advisory tasks concerning the efficiency of management and rationalisation of decision-making process. Proper use of controlling requires at the same time not only change in the attitude of the management staff and the employees implementing designated goals and tasks, but also a broader than before decentralisation of internal management as well as specification of liability centres in a given organisational unit. It is worth mentioning that controlling in public administration has no formal and legal regulations that are present in the case of other instruments affecting the effectiveness in managing, such as management control, or task-related budget in governmental units. The purpose of the article is to present the needs as well as the possibilities of controlling implementation along with its instruments in local government units. Implementation of controlling as a complex management system will make it possible for units to increase the effectiveness and rationality of spending cash, thereby improving their economic situation

**Controlling – essence and importance.** In local government units there are elements of controlling that definitely increase the rationalisation of the management process over management areas with particular focus on the efficiency of spending limited public funds. Rationality with regard to public funds management as well as the relevance of the decisions made depend to a significant extent on the optimum information of controlling tools, enabling therefore local government units effective implementation of most of the needs of the local community. This way, efficient management based on defined instruments facilitates achieving the assumed goals and tasks, particularly related to fulfilling social needs. It is worth implementing modern management instruments that will make it easier for managerial bodies to detect possible "bottlenecks" as well as develop new organisational solutions enabling improvement both in the management efficiency at the need to optimise costs as well as efficiency of implementation of set tasks before local government units.

Controlling is a term present both in literature as well as practice, especially with regard to private sector units where it has already become a quite common phenomenon. It is used in various units of different structures, areas of operation or financial and HR possibilities. In spite of the fact that it has been operating relatively long, still there is no uniform definition, which also

emphasises the matching phrase "everyone has their own image about what controlling means or what it should mean, but everyone means something else" [1, p. 12].

According to the Vollmuth's definition, controlling is an instrument of supporting a given unit in planning, controlling as well as managing. As the navigator of the unit, it provides necessary information that will make it possible to find the best way to achieve the goals that have been laid out [2, p. 15].

On the other hand, Horvath presents controlling as the system coordinating the processes of planning, controlling as well as supplying with information and enabling thereby to control the whole system from the point of view of the goals set [3, p. 22].

J. Nesterak has made a review of both world literature as well as national literature, presenting in publications a set of definitions of controlling among the authors of the above subject matter [4, pp. 23-25, 28-29]. It results from the above that the definition of controlling not only among Polish authors, but also in the world is a substantial problem. Technically, as many authors involved in controlling, as many definitions and views about it. However, one may distinguish one common feature concerning focusing on improving the management system, which as a consequence is reflected in raising the effectiveness of the unit using the controlling system.

The role of controlling is to develop and introduce a complex system for optimum use of measures owned to raise the efficiency of business entity functioning, simultaneously enabling quick response to changes in environment [5, p. 74]. Such a perspective of controlling puts it in a position of an organisational unit management subsystem, under which the planning, control and information functions are implemented enabling proper development, adaptation and coordination of any activities comprising the whole of management system of a given organisational unit. [6, p. 15].

Controlling has developed in the practice of American management, where there was the need to use accounting in the processes of planning and control. Its notion as well as essence come from the word *control*, which means verifying, checking, but also planning steering or regulating. It means that this is not only verifying, but also preventing as well as eliminating unwanted phenomena. Implementation of controlling consists thus, first of all, in detecting the arisen deviations and their correction with simultaneous indication of the reasons.

Using the methods of controlling, a unit may indicate bottlenecks that significantly affect achieving the set goals as well as significantly eliminate the weakest links hindering proper unit management.

The main tasks of controlling include planning, namely determination of goals of the unit, control of their implementation as well as management consisting in carrying out corrective actions [2, p. 15]. For this reason, it is slowly becoming more important in the management of local government units that, in spite of not operating under the pressure of competition, must more and more consider the economic factor, especially at limited financial measures. The definitions mentioned reflect the essence of controlling also for the needs of public administration, because controlling in these organisations shall be understood as an instrument first of all supporting the complex management process.

Controlling in local government units mostly applies to the preparation of information as well as numeric data based on budget implementation with indication of deviations in order to improve the coordination of the planning process, steering and taking decisions aiming at effective attainment of the budget objectives and strategic goals of the local government. Controlling in the local government is a process enabling more effective management over the town or a commune, organising and coordinating certain actions in terms of planning and controlling as well as collecting and processing information [7, p. 175].

The basic functions of controlling in local government units include planning (indication of the way to achieve goals at the resources owned), verifying, (deviations testing *ex post*<sup>2</sup> and *ex ante*<sup>3</sup>, measurement of achieving objectives), steering and regulation (reaction to the results of control in the form of activities improving the level of plan execution or verification of planning indicators or adopted for evaluation of standards) and providing information [8, pp. 62-65].

Implementation of controlling to public administration involves changes throughout the entire system of its functioning as well as modern procedure as regards employees, first of all, at managerial levels. The introduction of controlling requires the creation of an appropriate subsystem of the unit achievements measurement that tests the effectiveness of performance of tasks as well as the degree of implementation of the set standards. For proper use of controlling it is necessary to have an optimum selection of qualitative indicators of measurement from the point of view of both formulating as well as assessing the level of implementation of substantive objectives and tasks. Controlling, through its tools, creates for the local government units new possibilities within the range of planning and controlling as well as facilitates efficient resources management. In addition, through a system of forecasting and analysing deviations, it becomes a

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<sup>2</sup> execution to the plan or benchmark standards.

<sup>3</sup> forecast for acceptable standards.

necessary warning system. The controlling system in local government units can be based on focus on purposes as well as setting out measures of achieving objectives, comparing the actual condition with the declared one as well as making corrections of deviations and taking precautions (contingency plans permitting the performance of independent correction of actions) [9, p. 21].

**Controlling in local government units.** Controlling is differently perceived by the examined local government units. However, in most units controlling is identified with control, deviations testing, reports, statements as well as procedures verification. Also, in accordance with the responses of the examined units, controlling can be translated into management control in local government units, external and internal audit, internal control and an efficiency part of the task-oriented budget. Some units believe, however, that there is no controlling in the local government.

From the point of view of the public sector, it may be indicated that controlling is an element of management system, dealing with shaping and coordination of planning processes, verifying, monitoring and provision with information. Controlling includes continuous actions used for achieving the intended goals, consisting in monitoring and coordination of organisation and its members functioning [10, p. 17]. For the needs of the local government, it is possible to indicate also the definition describing controlling as a system (tool, method) whose aim is the construction of a measurable set of necessary information ensuring making an objective assessment of the degree of tasks being implemented as well as facilitating the coordination of designated plans [11, pp. 174-175].

The aforementioned definition also includes tools which are used obligatorily – management control<sup>4</sup> as well as optionally – task-related budget<sup>5</sup>, by local government units. Introducing the obligation to implement management control into public sector units was the result of pursuit to implement solutions supporting and improving management focused on setting and implementation of objectives. Also, it tests the degree of achieving and obtaining the intended effects along with their monitoring. On the contrary, task-related budgeting system is an instrument supporting the good management over the unit process as well as it is a tool for planning and

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<sup>4</sup> Management control was introduced by the Act on Public Finances. It is a set of activities whose undertaking will enable to ensure the implementation of the assumed goals and tasks of the unit effectively, reasonably, timely.

<sup>5</sup> Task-related budgeting system is treated as public expenses management by means of assumed goals and achieved outcomes, measured with goals achievement meters. It was introduced by an Act on Public Finances to government units, in local government units it is a voluntarily used system.

monitoring the execution of public tasks. It is a particularly interesting solution with huge potential guarantees of rationality that will enable a considerable improvement in the situation of local government units. Traditional budget does not meet the controlling requirements in planning, since it indicates no goal to be achieved or the costs related to the implementation of particular tasks. Task-related budget is, on the other hand, a definitely better solution, since in accordance with the idea of controlling, it assigns to certain tasks, subtasks and activities specific goals, costs and efficiency measures along with the dates of their measurement.

In examined units that implemented the above two instruments, controlling is perceived as an instrument for checking, whether the tasks performed by the unit and objectives that it achieves are effective. It also tests whether the effect has been attained with an appropriate level of outlays, namely whether they are not too large in relation to the obtained result. It therefore provides an answer to a question: could it be done cheaper, which is tantamount to obtaining the same effect at lower costs.

In such an understanding, the management control aspect refers to the effectiveness part of the task-related budgeting system, since the area of analysis of these two instruments includes all the critical elements having effect on the results of functioning of a units as a whole. Under this perspective, controlling is understood as effectiveness measurement of the examined goals, tasks and the costs of their implementation by means of specially designated measures (indicators). Controlling, for it to play its role, must take into account the unit's objectives, and, at the same time support the process of their creation providing the criterion of transparency and consistency. In the above situation, a common denominator of the task-related budgeting system, managerial controlling, and, as a consequence, controlling is the measurement of achievements manifesting itself in defining goals and relevant selection of measures which will set the degree (the level) of pursuance of a given goal. In terms of managerial control, the planning aspect along with declared goals for implementation shall constitute the basis for correct assessment of the operations of local government units. On the other hand, under the task-related budgeting system, the designated measures of implementation of acceptable goals are associated with the level of budget funds. In turn, controlling by measures is able to test whether the expenses (costs) borne for the implementation of tasks are not too large as regards the effects achieved using these outlays.

Therefore, we may state that the budgeting system valid in local government units is to no avail. Controlling must be present in the form of making any assessments, analyses, evaluation or monitoring. The budgeting system thus becomes an integral element of controlling that serves to set the goals to be achieved for different liability centres.

Aspiration to improve local government units' functioning must transform into an idea in the form of an instrument that enables effective use of a great amount of data flowing from the system of budgeting concerning tasks, their costs, measures and indicators. The decisive role may be played by one that sees from the side the goals that may be completed and the costs of achieving them. It may perform benchmarking (comparison) as well as assessment in terms of rationality and effectiveness confirming or denying the previous way of performing tasks in pursuit of achieving the agreed goal. If no such assessment is made by the appointed controller, the whole task-related budget has no point. Persons alone, who carry out particular tasks will not want to disclose all the data in the scope of costs, or material aspect of performing assumed goals owing to the fear against the consequences of possible negative evaluation.

In the examined units there is no such controlling present as a whole, as data are not analysed, and if they are, they are not translated into decisions. The tool is not used in a schematic manner, therefore there is no evaluation of the effectiveness of that instrument. Definitely there are necessary analyses missing of the designated indicators and measures and especially the use of conclusions to improve the decision-making process. Nonetheless, some elements of controlling may be observed in the examined local government units in the form of monthly reports indicating the level of engagement of the expenses budget implementation, especially under the task-oriented budget as well as reporting daily with regard to town finances management.

Controlling is often defined and understood as the control over the performance of tasks (goals) in relation to a plan with verification of the reasons of possible deviations. Formally, the examined entities have no controlling implemented which as for now technically depends on the invention persons responsible for the economy of a given local government unit. Therefore, some units draw up controlling tables: performance schedule of expenditures and income (plan – execution – expected execution – deviations – reasons for deviations) which shows shortages and surplus in the budget along with a description of the reasons. The above statements are drawn up in a monthly perspective, once every six months as well as annually.

In some of the examined local government units there are formed and used controlling indicators, by means of which it is possible to identify the degree of execution of public tasks as well as the assumed goals and, as a result, assess the functioning of the unit in a given time horizon. And so on

the example of one of largest of the examined towns, there operate the following indicators used to assess the activity of its districts<sup>6</sup>:

- index of self-financing in the studied period (own income in total (100%) /total expenses of the district),
- indicator of collection of property tax (arrears under real estate tax /receivables under real estate tax in total) that makes it possible to assess to what extent the calculated income on property tax affects the income,
- indicator of collection under income for rent and lease of property (outstanding receivables under the rental and lease /receivables under the rental and lease in total) that makes it possible to assess to what extent the calculated income for rent and lease of property affect the income,
- the number of implemented EU projects in the examined period (number of projects),
- amount of expenditures for a student in elementary school in the studied period - it indicates the amount of incurred expenses for each student in elementary school in the studied period,
- amount of expenditures for a student in junior high school in the studied period - it indicates the amount of incurred expenses for each student in junior high school in the studied period,
- amount of expenditures for a student in high school and high school with specialisation in the studied period - it indicates the amount of incurred expenses for each student in high school in the studied period,
- share of expenses related to municipal resource management in income for rent of the real estate, town-owned flats, business premises, garages and advertising surface in the studied period - it defines to what extent the obtained income from rent of the municipal resource are "used" to cover the expenses associated with maintenance of these resources.
- dynamics of overdue receivables indicates the way the level of overdue receivables has changed

The purpose of the above controlling indicators is to obtain credible information for conduct comparative analysis of particular districts of the town in the agreed research periods. This will enable the supreme unit to order districts into nine categories based on the aforementioned indicators and develop a collective ranking. The presented reports will enable, among others, to compare the designated parameters between districts, following which in-depth analyses are initiated by the Administrators of Districts towards the identification of the reasons of differences in the obtained levels of these indicators.

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<sup>6</sup> Internal documents of one of the examined by the author local government units



Controlling should work already at the internal stage, which means that controlling activities are supposed to proceed at the person directly managing a given task or process in charge of its correct implementation. Then, the director of a specified department analyses, assesses as well as rations material and human resources in relation to a particular task.

Such a situation seldom takes place, not to mention that it practically does not occur. As it was indicated above, the human factor engaged in the implementation of a given task is afraid of undesirable effects of own analyses and assessments. In this situation it is best to introduce to the unit a specialist in the field of controlling from the outside, who will provide proper analyses on the basis of collected data draw conclusions that will be reflected in the support for management in the difficult decision making process. It may be concluded that in this case controlling in local government units gains importance as a system of support for management by coordinating the decisions of management in terms of assumed goals and has an advisory function by helping, expressing opinions and indicating the desired directions of operation [12, p. 64].

Controlling may become a complex instrument of finances management of local government units that by such actions as planning, steering as well as controlling gives the managers the possibility to perform the assumed goals and can contribute to supporting the process of public service execution [13, p. 2]. Therefore, local government units should apply it as a coordinating instrument in all fields of their operation.

**Conclusion.** The management process in local government units is an extremely important aspect, since it determines not only efficient functioning, but also financial stability as regards public means. It also has a strong effect on the maintenance of stabilisation actually the whole economy of the public sector, and, at the same time on the improvement in the conditions of the society's life. Therefore, what is extremely important is permanent improvement in the management process through the implementation of modern supporting tools.

Controlling in local government units is relatively new but increasingly popular idea in management, which may successfully be used both in large as well as smaller organisations. The main condition for controlling implementation is effective and efficiently operating IT system, tailored to the needs of a specific entity. However, the use of even a perfect software will not bring the expected effects with solid foundation – reliable data provided by budget accounting. Under the conditions of controlling operation, accounting becomes information base for the purposes of management, to a significant extent deciding about the effectiveness of the implemented public tasks. As a result of controlling implementation with the whole system of its tools, in

particular IT tools, local government units have an opportunity to improve their management system and perform a wide range of public tasks with the use of principles of rational management.

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## **FUNKCJONOWANIE CONTROLLINGU W JEDNOSTKACH BUDŻETOWYCH – WYBRANE ELEMENTY**

**Artykuł podejmuje problematykę funkcjonowania controllingu w wybranych miastach na prawach powiatu w Polsce. Sprawne działanie controllingu wspomagane odpowiednimi narzędziami poprawia efektywność jednostki oraz pozwala na podejmowanie trafniejszych decyzji przez kadrę zarządzającą. W analizowanych jednostkach, mimo że nie jest używana terminologia controllingu, to jednak poprzez dokonywanie wszelkich raportów, obliczanie mierników (wskaźników) i odchyłeń oraz monitorowanie i kontrolę zarządczą, jednostki implementują jego elementy. W artykule zaprezentowano znaczenie controllingu oraz wskazano na jego zadania i funkcje. Opisano również instrumenty controllingu, które zostały zaimplementowane w jednostkach samorządu terytorialnego. Wykorzystano takie metody badawcze jak przegląd literatury, dokumentów źródłowych w badanych jednostkach oraz indywidualne wywiady**

potębione z przedstawicielami wybranych jednostek samorządu terytorialnego.

**Słowa kluczowe:** controlling, jednostka samorządu terytorialnego, budżet zadaniowy, kontrola zarządcza.

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### **ФУНКЦІОНУВАННЯ КОНТРОЛІНГУ В БЮДЖЕТНИХ УСТАНОВАХ: ВИБРАНІ АСПЕКТИ**

Стаття стосується проблематики функціонування контролінгу в окремих містах, що існують на правах повіту у Польщі. Ефективне застосування контролінгу при його підтримці відповідними інструментами підвищує ефективність установи, а також дозволяє приймати більш ефективні рі-

и на те, що термінологія контролінгу у досліджуваних установах не застосовувалася, формування звітів, розрахунок різноманітних вимірників (показників) і відхилень, а також моніторинг та внутрішній контроль свідчать про впровадження елементів контролінгу у державному секторі. У статті на-

того, окреслено інструменти контролінгу, які були впроваджені в органах місцевого самоврядування. У статті застосовано такі наукові методи як огляд літератури у досліджуваних установах, а також персональні інтерв'ю з представниками окремих органів місцевого самоврядування.

**Ключові слова:** контролінг, орган місцевого самоврядування, бюджетне завдання, внутрішній контроль.

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