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# MANAGEMENT CONTROL AND ITS MAIN EFFICIENCY OBJECTIVES AND CHALLENGES IN THE MANAGEMENT PROCESS OF PUBLIC FINANCE ENTITIES*

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**Abstract.** One of the key elements of effective management in the public sector is management control, which acts as a system for monitoring and directing the organisation's activities. The article describes what management control is, what its objectives and measures are, as well as the challenges that may arise in its implementation. Bodies in the public finance sector function to fulfil the goals and objectives set for them. Management control is a management system designed to help them achieve these objectives. This

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system is described in the Public Finance Act (Article 68). According to it, management control is the totality of measures taken to ensure that objectives and tasks are achieved in a lawful, efficient, economical and timely manner. Management control is exercised through the cycle of achieving the entity's objectives and tasks, which consists of planning, day-to-day execution of tasks and monitoring. This cycle does not end and the monitoring stage is followed by another planning stage based on lessons learned.

**Keywords:** public finance; management control; process management; economic efficiency; management rationality; public finance law; New Public Management.

## INTRODUCTION

Management control is a systematic process to monitor and assess the performance of a public organisation in achieving its objectives. Although it is sometimes seen as unnecessary formalities, it is actually a key element of management, helping to identify possible irregularities, to align current activities with established plans, and to improve the efficiency of processes. Management control is not a predetermined, fixed system of activities. Its elements are flexible and can evolve over time, adapting to the changing conditions and needs of a particular entity. Crucial to its correct implementation is also the understanding that it is not a system of new, top-down, unadaptable measures. Rather, its essence is to utilise and possibly improve those constructs that already exist at the level of functioning of LGU's structures [Wojciechowski 2018, 6-8]. According to the Public Finance Act, the purpose of management control is to ensure, in particular: compliance of activities with legal provisions and internal procedures; effectiveness and efficiency of operations; reliability of reports; protection of resources; observance and promotion of ethical conduct; effectiveness and efficiency of information flow; risk management [Wołowiec, Skowron, and Cwynar 2023, 84-86].

Correctly implemented management control is therefore a guarantee that the organisation's individual activities are in line with its strategic objectives, which translates into the effectiveness of the public institution's mission. It also enables the optimal use of resources, such as people, finances or technology, which is crucial in the context of limited public funds. Management control also helps to catch potential irregularities at an early stage, making it easier to correct them and minimising the risk of damage to the organisation. It also makes it possible to identify areas that need to be optimised, leading to a more efficient functioning of the entity [Wołowiec 2021, 391-94]. In order for these objectives to be met, specific metrics need to be defined to show whether and to what extent the entity is achieving its objectives. They enable the progress and effectiveness of activities to be accurately monitored, so their correct construction is crucial throughout the management control process. Examples of measures in management control

may include: financial indicators: which assess the organisation's ability to manage its financial resources effectively; operational performance indicators: which measure the effectiveness of the institution's operational processes; customer satisfaction indicators: which measure the level of satisfaction of public service beneficiaries; staff performance indicators: which assess the efficiency and commitment of staff; indicators of plan implementation, e.g. number of cultural events realised [Wołowiec 2022, 28-29].

## 1. PURPOSE OF ARTICLE, CRITERIA OF ANALYSIS AND RESEARCH METHODOLOGY

The social sciences use the typical methods found in the social sciences and humanities, i.e.: the study of documents (legal acts, expert reports, opinions, analyses), comparative methods (scientific articles, reports, analyses derived from linguistic, grammatical and historical interpretation) and case studies. The result of cognitive research is new claims or theories. The article is written according to the traditional methods used in legal research sciences, linguistic analysis (dogmatic-legal method and linguistic-logical method), and comparative (comparative) and economic method of legal analysis.

Induction was used as the main research method. It involves drawing general conclusions or establishing regularities on the basis of an analysis of empirically established phenomena and processes. It is a type of inference based on details about the general properties of a phenomenon or object. The application of this method requires the assumption that only facts can form the basis of scientific inference. These facts are real-life situations (social, legal or organisational). Inductive methods include various types of analysis, expert opinion, statistical data and scientific documents used in social research. In addition, the paper makes use of two general research methods, i.e. analytical and synthetic methods, which are characterised by a particular approach to the study of reality. Analytical treats reality as a collection of individual, specific features and events. Following this research method involves breaking down the object of study into parts and examining each part separately or detecting the components of that object. The disadvantage of the analytical method is the over-exposure of details, sometimes causing the whole object of study to be lost from view. This hinders full and objective cognition of reality, which is admittedly a collection of independent partial elements, but at the same time a set of parts closely related to each other in a limited whole.

The article takes the form of an analysis of the management control process in the system of public finance sector entities. It analyses legal, organisational and efficiency issues focused on economic rationality and the improvement of public management processes.

## 2. THE CONCEPT OF MANAGEMENT CONTROL AS AN ECONOMIC AND LEGAL PROCESS

The obligation to establish an adequate system of public financial management and to protect public funds against fraud has found its legal anchorage in Chapter 6, Article 325 of the Treaty on the Functioning of the European Union.[1] The current concept of control in the public finance sector follows the implementation of the EC concept. It is based on three key pillars. The first is managerial accountability of managers in public administration (managerial accountability) combined with adequate financial management supported by a system of controls. The second pillar is based on the functioning of an independent internal audit. The third pillar comprises the establishment and operation of a central harmonisation unit, which deals, *inter alia*, with the development of standards and methodologies for the two previous phases.[2]

An important element of the analysis is the notion of internal institutional control is understood as those control activities that are performed by an authorised employee, a human team or a specially designated control unit within the structure of a given organisation. Functional internal control is the activity performed at each stage of management by managers at different stages of the public management [Antoniak 2012, 21]. The concept of internal control is unfortunately often identified with the concept of internal audit, by reference to the term internal audit. As it stands today, the concept of management control has replaced the concept of internal control and consumed the concept of financial control. The latter was present in the Public Finance Act, but even before the 2009 amendment, which introduced the concept and elements of management control in Article 68. It should also be mentioned that even before the 2009 amendment to the Public Finance Act came into force, financial control was treated as a special type of control (mostly internal), the subject of which are financial phenomena and processes. The concept of management control therefore has a clear, even already in its name, reference to management. At the same time, the essence of these regulations is the organisation of a management system, one of the elements of which is control. As J. Płoskonka points out, the management control system is a set of all activities aimed at achieving results in a lawful, effective and efficient manner [Płoskonka 2013, 43]. Financial control in Poland was already included in the 1998 Public Finance Act. As a result

[1] Treaty on the Functioning of the European Union of 13 December 2007, Official Journal of the EU C 202, 7.06.2016, 47-360.

[2] See Ministerstwo Finansów. Departament Audytu Sektora Finansów Publicznych Kontrola zarządcza w sektorze finansów publicznych. Istota, unormowania prawne i otoczenie, Warszawa 2012, p. 28.

of the amendment to the Act in 2001, in Article 35a, it included, in its then shape, ensuring compliance with control procedures and carrying out preliminary assessment of the advisability of assuming financial obligations and making expenditures, as well as control of collecting and accumulating public funds, assuming financial obligations and their expenditure, including public procurement and reimbursement of public funds. Such a concept of control had a significant drawback, as it limited the scope of matters covered by the aforementioned provisions, as it lacked the key issue for the concept of control, namely accounting for responsibility for the overall management of the organisation in the context of its objectives [Wojciechowski, Skrzypek-Ahmed, Ivashko, et al. 2023, 842-46].

## 3. MANAGEMENT CONTROL OBJECTIVES IN ECONOMIC AND LEGAL TERMS

From the point of view of the public finance law system, Article 68(2) of the Public Finance Act indicates that the purpose of management control is to ensure in particular: compliance of activities with the law and internal procedures, efficiency and effectiveness of activities, reliability of reports, protection of resources, observance and promotion of principles of ethical conduct, efficiency and effectiveness of information flow, risk management. Attention should be drawn here to the vague nature of these terms, as well as to the phrase "in particular", through which the legislator left the possibility of a broad understanding of the objectives of management control while indicating the general directions of control, but at the same time caused the possibility of problems of interpretation of what should be subject to control and what is already beyond this scope. The overriding objective of management control is to continuously improve management, the consequence of which is to increase the efficiency and effectiveness of the operation of individual units of the public finance sector, government administration departments and local government units. Characteristic of the current management control model is the accentuation of the individual responsibility of the manager (public accountability). The management control system is therefore intended to facilitate the management of public finance sector institutions, so that this management is characterised by an orderly [ibid., 845-47].

Management control in its assumptions therefore refers to the self-improvement of the organisation, the continuous diagnosis, monitoring and improvement of the organisation's processes. It is not possible to consider that there is a standardised control implementation path common to all units and that it will ever be possible to reach the stage of "implementation" of management control. Indeed, entity management is not a project that can ever be considered completed. As such, management control is intended to encompass all aspects

of an entity's activities and it is the responsibility of the manager to implement and monitor the elements of control to ensure that the entity achieves its objectives in a legal, economical and timely manner [Lipiec-Warzecha 2011].

Management control is an integral part of effective management in any organisation. Its main purpose is to monitor and grade activities and processes to ensure the achievement of objectives and improve the efficiency of operations. In this article we will discuss the main objectives of management control and what benefits it can bring to an organisation. One of the main objectives of management control is to ensure compliance with the organisation's objectives. By monitoring activities and processes on a systematic basis, management control makes it possible to identify any deviations from the stated objectives and take appropriate corrective action. This enables the organisation to effectively implement its strategy and achieve its intended results.

Management control also aims to optimise the use of the organisation's resources. By monitoring and analysing activities, management control identifies areas where efficiency and effectiveness in the use of resources can be improved. This enables the organisation to achieve greater efficiency and savings, resulting in improved financial outcomes. Management control is also important in ensuring an organisation's compliance with laws and regulations. In today's business environment, there are many laws and regulations that organisations must comply with. Management control allows monitoring and rating of activities to ensure compliance with these laws and regulations. In doing so, the organisation avoids the risk of penalties and sanctions and maintains its reputation for integrity and accountability. Management control is also important in identifying and managing risks. Through the systematic monitoring of activities and processes, management control allows potential hazards and risks to be identified and appropriate preventive action to be taken. This enables the organisation to minimise the risk of adverse events and to manage risks effectively [Wołowiec 2017, 31-34]. Management control also aims to improve the quality and efficiency of the organisation's processes. By monitoring and assessing activities, management control identifies areas where improvements and enhancements can be made. This enables the organisation to achieve higher quality products and services, increase customer satisfaction and improve the efficiency of operations [Cienkowski and Wołowiec 2014, 33-38].

## 4. RISK IDENTIFICATION IN MANAGEMENT CONTROL

The most important issue from the point of view of management control is risk identification. Risk in this case should be understood as the possibility of an event occurring that will negatively affect the achievement of the goals and objectives of the units of the public finance sector. However,

merely locating a risk is not sufficient to counteract its negative effects. For this purpose, procedures and policies known as risk management have been adopted. By identifying risks and determining appropriate responses to them, there is a greater likelihood of achieving management control objectives. This stage plays an important role, as perceiving a given risk will allow the effective counteraction of the [Wolski 2019]. When identifying risks, it is important to name them correctly and then find appropriate countermeasures to implement in the future. Management control standards recommend that assurance on the state of control for the previous year should be confirmed annually in the form of a statement (Communication of the Minister of Finance on management control standards for the public finance sector). In order to facilitate the preparation of the statement, the Ordinance of the Minister of Finance of 2 December 2010 prepared a model statement to be filled in (Ordinance of the Minister of Finance on the model statement on the state of management control). The statement prepared in this way is divided into three sections. Section I presents the grade of the state of management control and is further divided into 4 parts to be completed in specific cases. Parts A, B or C are to be completed depending on the outcome of the grade of action taken.

According to the management control standards, risk management must be embedded in the entity's mission and strategy. It should address all goals and objectives and every area of the entity's activities. The purpose of the risk management process is to identify potential factors and events that may affect the entity, and to analyse the potential impact of the risks and keep the risks at a defined level while ensuring the achievement of the entity's stated goals and objectives. This is achieved by [Dmowski, Bogacki, and Wołowiec 2019, 138-42]: recognition – that is, identifying risks, determining the types of risks that are associated with the activities of the entity and measuring them; grading risks and their materiality, using a specific scale; risk management, which involves examining the efficiency and effectiveness of the actions taken through a system of institutional and external control; risk management control, the essence of the actions taken is to grade the methods used to reduce risks leading to the effective and efficient implementation of the objectives and tasks imposed.

For example, for public finance units, the most important type of risk is operational risk and legal risk. Operational risk, which covers two areas of activity: the financial area, where this risk is a risk having a fundamental impact on the activity, here we can mainly talk about liquidity risk and result risk. The second area of operational risk is technical and organisational risk. Legal risk can be defined as the likelihood of suffering material and non-material losses arising, *inter alia*, as a result of incorrect or late drafting or enactment of legislation; instability of legal regulations; changes in case

law; incorrect conclusion of contracts; or adverse decisions of courts. A very important aspect of identification is the development of different scenarios of situation development and the analysis of their influence on the formation of the results of the individual. It should be added that the assessment of the total risk, understood as the magnitude of individual risks, the probability of their occurrence and the correlation between them, is crucial for risk management [Wołowiec, Skowron, and Cwynar 2023, 84-87].

Defining strategies for risk and developing remedial plans or actions creates options, the implementation of which will avoid or reduce risk and limit its impact on the organization and its processes. We also update our plans according to the changing legal and economic situation in the organization and its surroundings. For each identified risk, the unit manager determines the planned preventive measures and the actions we will take in case it occurs. In the risk management strategy, we define what the probability of a given risk is and how it affects the company. The planning of the reaction allows you to avoid the surprise of the appearance of risk (its materialization). We can respond to risk or combinations of risk in the following ways: avoiding – usually changing an aspect of a project in such a way that the threat cannot be affected or not at all; reducing – reducing the likelihood of an event occurring or limiting the impact of an event on the project's objectives; developing a contingency plan – developing a plan for actions that will be taken when the risk arises that will reduce the impact of the risk on the project's objectives; transferring – transferring responsibility for some of the financial effects of a risk (as in insurance) to a third party; and accepting – making a conscious decision not to respond to the threat. Monitoring and control is a continuous process. In the risk management strategy, we define the frequency of risk control. We implement appropriate remedial actions and adopted response plans to limit the risk. We are constantly evaluating the actions so far in terms of expected effects. We correct them on the basis of achieved results and conclusions and record experiences. We periodically monitor identified risks and assess the adequacy of adopted strategies to reduce them in relation to the current situation in the project and its environment [Wołowiec and Bogacki 2021, 101-104].

## 5. NON-ACCESSION OR IMPROPER EXECUTION OF MANAGEMENT CONTROL PROCESS

Article 18c of the Act defines violations of public finance discipline related to improper management control. What is management control, we will learn from the Act of 27 September 2009 on public finances. In accordance with its Article 68(1) management control in public finance units is the totality of actions taken to ensure the achievement of objectives and tasks in

a lawful, efficient, cost-effective and timely manner. In U.S. 2 of the same article, the legislator indicated that the objective of management control is to ensure in particular: compliance with legal provisions and internal procedures, effectiveness and effectiveness of operations, reliability of reports, protection of resources, compliance with and promotion of ethical conduct, efficiency and effectiveness of information flow and risk management. This means that management control is a management system that allows you to perform tasks in the best possible way and realize the set goals. This system takes into account the legal environment (authorities and responsibilities and deadlines), available resources (human, financial, material) and their potential, information management and risk. It is important to ensure that the management system functions effectively and delivers the expected results in the form of proper execution of tasks. The legislator does not prejudge the form in which management control is carried out (whether it is a highly formalised, holistic system of internal rules detailing the mechanisms for decision-making or the implementation of individual actions, or a more flexible formula based on internal rules relating only to key tasks, in areas which need to be specified by other standards), recognising that decisions in this area should be left to the persons responsible for the unit of the public finance sector, who, depending on the size of the unit, the number of tasks assigned to it, its potential and previous experience, can select the appropriate tools to build a management control system that will meet their needs [Sulikowska 2012, 127-29].

It is worth noting that the Public Finance Act imposes the obligation of adequate, effective and effective management control, *inter alia*, on the head of the unit as well as the governor, the mayor, the city president, the chairman of the local government unit (Article 69(1)(2) and (3) of the Public Finance Act) and in this respect coincides with the subjective scope of the new Law of 2009 (Article 4(1)(1) and (2)). Additional help in clarifying the concept of "management control", and indirectly also in determining the scope of violations described in the commented provision, are the standards of management control for the public finance sector published by the Minister of Finance. However, those who expect ready-made solutions to adapt to the needs of each unit of the public finance sector forming a system of management control are mistaken. Standards – as indicated in the document itself – are an orderly set of guidelines to assist in the creation, evaluation and improvement of management control. From the point of view of public finance discipline, the standards can be a model for verifying the obligation to ensure adequate management control by detailing individual concepts and indicating the expectations that the Minister of Finance attaches to the persons responsible for management control in the public finance unit. However, it is worth adding that by the decision of the legislator the standards were issued in the

form of a communication from the Minister of Finance and are not a universally applicable law, but only a set of guidelines to promote the implementation of a coherent and uniform model [Zawadzka-Pąk 2015, 299-300].

The breach of public finance discipline defined in the provision in question, consisting in a failure to perform or inadequate performance of management control obligations, does not imply that liability is incurred in every case in which irregularities are identified in the establishment and operation of management control in a given unit. What is important is the link of the aforementioned irregularity to the specific errors and breaches identified in the operation of the entity. If such a link is not proven, the possible failures in management control are irrelevant. At the same time, it is possible to imagine a situation in which, despite the elaborate tools of the management control system, compliant with the standards and adequate to the situation of the entity, one of the errors referred to in the commented provision occurs. There would then be no breach, as there is no failure to perform or inadequate performance of management control duties. In summary, the violation described in Article 18c of the commented Act consists, so to speak, of two elements: the occurrence of one of the enumerated errors/irregularities in the operation of the entity and the non-performance or improper performance of management control duties by the head of that entity, and, in addition, there must be a connection between these elements [Skrzypek-Ahmed, Bogacki, Halemba, et al. 2023, 789-95].

The catalogue of faults and irregularities specified by the legislator may be divided into those relating directly to the management of public funds (depletion of receipts, expenditure in excess of the plan, incurring an obligation without authorisation, failure to perform an obligation on time, an act or omission resulting in a financial sanction) and those relating to public procurement and provisions on a concession agreement for public works or services. It is worth noting here that the indicated errors/irregularities themselves also constitute a violation of the public finance discipline under other provisions of the commented Act, however, in order to assert liability pursuant to Article 18c of the Public Finance Act it is sufficient to establish the mere fact of the occurrence of these mistakes [Jastrzębski, Majek, and Ćwik 2023, 826-31].

In conclusion, the pursuit of liability for a breach of public finance discipline for failure to perform or inadequately perform management control obligations is limited in subject matter (to the head of the entity) and subject matter (if it affects at least one of the enumerated irregularities in the operation of the entity). The key is to demonstrate the link between the failures identified in the entity and the absence or failures of management control mechanisms. Supplementing the catalogue of violations with management control irregularities is a kind of drawing attention to the need to

create and improve the management control system in units of the public finance sector, and the list of errors that may result in liability on this account is intended to illustrate the impact of effective and adequate management control on the functioning of the public unit [Bożek 2022].

## CONCLUSIONS

The quality of public finance (QPF) is a multidimensional phenomenon that affects the effectiveness of actions undertaken in the public sector and thus the final shape of public services and the level of satisfaction of their beneficiaries. QPF is positively correlated with the phenomena of growth and development and thus shapes the competitiveness of the state and its economy. The issue of the quality of public finances is particularly important in the context of globalisation and demographic change, given the direction and size of the allocation of public expenditure. The concept of the quality of public finances is an issue that evolves and is systematically reviewed, especially in terms of the previously unidentified correlations between the QPF and economic growth and the macroeconomic policy of the country. The quality of public finances is broadly defined as a multi-dimensional concept encompassing all actions within the fiscal policy framework of the state and supporting actions aimed at achieving the objective of ensuring long-term economic growth.

In a narrow sense, the concept of public finance quality is seen as an accident of interrelated elements influenced by: the size of the public sector, the balanced fiscal situation, the structure and efficiency of public expenditure, the structure and efficiency of public revenue, public finance decisions affecting market functioning and business development. The quality of public finances implies the performance indicators achieved in the public finance sector, affecting public sector performance, and is determined by the quality of governance and by the legislation adopted by the country that regulates the functioning of the public sector. The organizational environment affects the decision-making mechanism in the public sector and makes the likelihood of the phenomenon of moral hazard and inefficient spending of public funds very high in this sector. Modern public finances are affected by many dysfunctions. From the point of view of the quality of public finances and the rational management of public funds, it is important: 1) the proper formation of the structure of public income and expenditure (including by achieving the desired level of income and expenditure independence, verifying the validity of legally determined expenditure, rationalisation of sources of own income); 2) the establishment of a rational level of public deficit and its financing strategy (including the choice of effective methods of calculating and servicing the debt limits, selecting efficient sources of

financing, minimising the cost of servicing the debt); 3) the harmonization and clarification of budgetary reporting rules, – the creation of conditions for effective intersectoral cooperation; 4) the comprehensive implementation of management principles by objectives and rules of performance management, – the improvement of the effectiveness of control and audit in public sector units, linked to the enforcement of responsibility for the performance of public officials; 5) the creation of a legal and functional framework ensuring the implementation of the principles of material and formal unity in public finance units.

Control mechanisms have been and will continue to be an integral part of the management processes, allowing to prevent the occurrence of negative phenomena and to respond effectively in the event of disruptions in the managed institution. Management control is supposed to cover the totality of actions taken to ensure the achievement of the objectives and tasks of the State in a lawful, efficient, economical and timely manner. In addition, in their assumptions, these activities should promote the self-improvement of the organization, continuity of diagnosis, monitoring and improvement of the processes implemented by the organization. As a result, management control should therefore serve to increase the efficiency and effectiveness of the operation of the entire Polish public administration and promote the accounting of the effects of these actions. Through the use of management control, the management of a given unit has the opportunity to efficiently obtain information about what and, above all, for what reason may not work or which measures, despite their inclusion in the activities of the unit, do not bring the intended effects, i.e. improvement of functioning. Most elements of management control, including goals and standards, are not new in the Polish public administration. Management control does not in principle create new and hitherto unknown management requirements in the field of administration. One of the commentators on the new solutions in the field of management control, P. Walczak, pointed out that "Management control as a normative institution constitutes – as already indicated – a new element in the public finance system, which can no longer be said about the actions taken within it. The management of public finance units required the development of specific procedures, mechanisms, instruments or standards to be applied in the management process of a given entity, as in the case of any organisational structure functioning to achieve certain objectives. Control mechanisms have been and will continue to be an integral part of the management processes, allowing to prevent negative phenomena and to respond effectively when disturbances occur in the managed structure. Management control mechanisms are intended to support the performance of tasks and objectives by entities in the public finance sector, while respecting the criteria for the performance of public tasks. Such mechanisms have been formed

in all units of the public sector during its years of operation. The management control standards announced by the Minister of Finance are being implemented to a significant extent, and the date of 1.01.2010 is not the beginning of their achievement. Control in this sense is one of the functions of management, alongside planning, organisation and management, playing a supporting role towards them" [Walczak 2010, 486].

The role of the management control standards was to set general lines of action and benchmarks, the achievement of which should be taken into account by those responsible within the entity for implementing the system. The standards do not set out specific responsibilities, do not describe the required behaviours, do not give specific mandates for internal regulations. They are a set of general guidelines describing the management control model. It is the responsibility of individual unit managers to define the needs and adapt the control system to the specifics of the public unit.

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