

# *Risk management in management control*

## *Opinion on the example of selected institution of public finance sector in Poland*

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**Introduction by Polish legislature the obligation to implement the management control by sphere of public finance sector units has led to look at their operations through new perspective. One of the major challenges that management control introduces was widely understood issue of risk management. It was a kind of revolution in the activities of these units, which often necessitated the use of business management solutions. (Abstract)**

*Management control, risk management (key words)*

### I. INTRODUCTION

From the beginning of 2010 came into force the amended Public Finance Act, which introduced regulations related to management control in the public finance sector in Poland. These rules replace the previously existing regulations related to financial control in these units. At first look, the new rules can certainly be argued that there is an extension of audit objectives in the public finance sector.

The Public Finance Act of 2005 defines the financial control of the processes associated with the accumulation and allocation of public funds and property management [1]. It was associated primarily with the exercise to evaluate the validity of the conclusion of the financial commitments and disbursements, financial management, compliance and assess the correctness of the associated procedures.

Management control in accordance with the provisions of the Public Finance Act of 2009 is defined as the totality of measures taken to ensure that the objectives and tasks in accordance with the law, effective – in this cost-effective- and timely manner [2]. Financial control became part of the management control. Act defines the objectives of management control, which include being complied with law and procedures, efficiency, conservation, promotion of ethical conduct, efficiency of information flow and additionally introduces risk management [3].

This last point has become a major nuisance of units obliged to implement new solutions. Broader perspective of the management control to financial one shows clearly that risk management must include not only the identification, analysis and respond to risk factors (and not just financial), but also must be linked to tasks of the unit, to the objectives that must be realized and assessing the efficiency of the operation [4]. Units of public finance sector starting to prepare to adapt to the new legislation signaled to parent institutions and advisory firms need for training on the new guidelines, with particular

emphasis on risk management dimension. Aim of this study is to present the essence of risk management understanding in the context of management control - the case of local units of designated institution in Silesian Voivodeship.

### II. THE UNDERSTANDING OF RISK MANAGEMENT ON THE EXAMPLE OF UNITS OF SELECTED INSTITUTION

The presented example of understanding of risk management assumptions made by the legislature in the management control was conducted in fourteen local units of selected institution in Silesian Voivodeship (not allowed to make public its name). It should be stipulated that the survey was conducted in a very specific point of the time for that institution and its local units. This was the period just prior to the introduction of solutions for the management control in these units, and shortly after that, as representatives of these units took part in training on the assumptions of the control conducted by the Ministry of Finance. Managers of these fourteen field offices in the Silesia region were asked about two issues: what areas of institution activity should be subject to risk management?; what solutions should be applied in these areas?

In nine cases, responded that the risk management in the unit should cover all dimensions of its activities (64.29% responses); in one case, answered that it should be applied only to target areas identified by legislature (related to the objects of the institution; 7.14% responses); in four cases distinguished financial area of the institution (28,57 % responses).

For questions about the used solutions in risk management in five cases respondents could not identify any (35,71% responses); in four cases (28.58% responses) indicated the solution to the financial reporting; and in five other cases (35.71% responses) indicated the other solutions.

TABLE I. RISK MANAGEMENT AREAS IN UNITS INDICATED BY RESPONDENTS

Identified areas of risk management	Answers	
	Number of responses	Percentage of responses
All dimensions of activity	9	64,29 %
Targeted areas of the unit designated by the legislature	1	7,14%
The finance of the unit	4	28,57%

TABLE II. APPLIED SOLUTIONS TO MANAGE RISK ACCORDING TO RESPONDENTS

Appropriate solutions for risk management	Answers	
	Number of responses	Percentage of responses
No indications	5	35,71%
Financial reporting	4	28,58%
Other answers	5	35,71%

Present very interesting indications of the respondents regarding the potential use of risk management solutions according to its indicated areas.

TABLE III. RISK MANAGEMENT SOLUTIONS IN ALL AREAS OF UNIT ACTIVITY ACCORDING TO RESPONDENTS

Appropriate solutions to manage risk in this group	Answers	
	Number of responses	Percentage of responses (in this group)
No indications	3	33,33%
Financial reporting	4	44,45%
Other answers	2	22,22%

TABLE IV. RISK MANAGEMENT SOLUTIONS IN THE SPHERE OF THE ORGANIZATION'S ACTIVITY RELATED TO STATUTORY OBJECTIVES ACCORDING TO RESPONDENTS

Appropriate solutions to manage risk in this group	Answers	
	Number of responses	Percentage of responses (in this group)
No indications	1	100%

TABLE V. RISK MANAGEMENT SOLUTIONS IN FINANCIAL ACTIVITY OF THE UNIT ACCORDING TO RESPONDENTS

Appropriate solutions to manage risk in this group	Answers	
	Number of responses	Percentage of responses (in this group)
No indications	1	25%
Financial reporting	2	50%
Other answers	1	25%

In the expression of *other answers* in the dimension of risk management solutions indicated in all areas of units activity respondents distinguished employee evaluation, a formal division of responsibilities, supervision of superiors over subordinates, as well as the existing formal procedures in units. In case of risk management solutions covering the area of statutory objectives the expression of *other answers* means

(according to respondents) formal procedures and the card of service contractor (tool related to public procurement).

### III. CONCLUSIONS

Analysis of the data points to some key aspects of the understanding of risk management in management control by surveyed units. First, the vast majority of respondents stressed the importance of financial area (not just pointing to it as the only area for the implementation of risk management in the unit, but also highlighting its importance in the indication of the risk management associated with all activities of units). In both cases, it was pointed mainly to the formal financial reporting as a solution in the framework of risk management.

Such an indication, on the other hand, may represent the attachment to the existing previously solutions for the financial control used in the Polish public sector. This may indicate the importance of problem-related funding from the central budget for implementation of actions in units. Lessons learned by author of this article with the cooperation of public finance sector units indicate that it is common belief among them that funds aren't allocated properly to ensure the functioning and implementation of the objectives imposed on them by law.

Third, the respondents after the training in the field of management control were largely aware that it should cover the whole operation of the unit (64.29% of respondents), but they have a problem to point solutions for risk management. One third of them in this case (33.33%) could not identify them at all and 44.45% indicate only the solutions for financial reporting. These facts can confirm that the issue of risk management as an area of management control is main problem for units from the public finance sector.

Further interviews after the survey was conducted with representatives of institution revealed that in finance sector units consternation followed the introduction of new legislation. The Act does not state a specific method of analysis of risk, its assessment, risk response. There was need for external advice in implementing new solutions. This allowed units of public finance sector refer to the solutions used in business and implement them in their own purposes. Unfortunately it seems (to the feelings of respondents) that implemented solutions were mainly to fill the legal requirements rather than become useful tool of managing the operation in the units.

### REFERENCES

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