

## MANAGEMENT CONTROL IN LOCAL GOVERNMENT UNITS – THEORY AND PRACTICE

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**Purpose:** The purpose of the work is: 1) to show the essence and importance of management control in its theoretical assumptions; 2) to present distortions of its essence in practice, including shortcomings, barriers, and related challenges; 3) to identify key instruments that can contribute to the proper implementation of management control.

**Design/methodology/approach:** The scope of the work is determined by its objectives, which were achieved through the appropriately selected structure of the work, subordinated to their implementation, and the research methods used. The work uses research methods and techniques developed in the social sciences, in particular, legal-dogmatic analysis.

**Findings:** Management control is a mandatory internal control of a managerial nature. To determine its essence, it is necessary to reach both the Law on Public Finance and the standards of management control. Despite the numerous advantages and benefits of management control, it does not function properly in many local government units. Despite different approaches to its implementation, almost every local government unit has documents/actions and procedures to support its implementation, a good foundation for the existence of functional management control. There are also numerous shortcomings and problems, such as the lack of self-assessment of management control, failure to set measures for achieving goals and objectives, errors in documents, etc. In this context, it is crucial to provide systemic support to local government units, if only by offering training, promoting good practices, and helping them make greater use of modern technologies.

**Research limitations/implications:** Fully showing the shortcomings, challenges, and their scale requires in-depth quantitative research.

**Originality/value:** This article is addressed to both theoreticians and practitioners dealing with management control issues.

**Keywords:** management control, internal audit, local government units.

**Category of the paper:** research paper.

## 1. Introduction

Despite the 15 years since the introduction of management control (MC) in local government units (LGU), its functioning still does not fulfill theoretical assumptions. Management control does not bring about achievable benefits because they are not recognized or ignored. Even cursory analysis and observation allow us to conclude that in many local government units, management control is perceived as a bureaucratic obligation, the implementation of which is reduced to the necessary fulfillment of statutory requirements. In such cases, we are dealing with management control „in documents” (procedure MC), although it should function as management control „in action” (functional MC).

The purpose of the article is: 1) to show the essence and importance of management control in its theoretical assumptions, 2) to present distortions of its essence in practice – shortcomings, barriers, and related challenges, and 3) to identify key instruments that can contribute to the proper implementation of management control. The structure of the work was subordinated to the realization of individual specific objectives.

The work lays the groundwork (preparation) for the next planned stage of research, which will be detailed quantitative research; one of the latest is a study conducted by P. Sołtyk (2018). The work uses research methods and techniques developed in the social sciences, including legal-dogmatic analysis.

## 2. The essence and importance of management control in local government units

Management control is a tool introduced into the Polish legal system by the Act of 27.08.2009 on public finance (ie: OJ 2024, item 1530 as amended). In the literature from the first years of its operation, one can find many attempts to define it and indicate its characteristics. Management control is indicated, among other things, as a tool:

- „interior arrangement” of public management, which includes solutions for „increasing efficiency in realizing the mission (goals) of public authority” (Kulesza, Sześciło, 2013, p. 149),
- raising the degree of confidence that the entity's tasks and goals are being carried out effectively and in accordance with the law, all thanks to its components, such as identifying and managing risks and improving the flow of information and documents, among others (see MF, 2016).

Basically, these definitions point out that management control:

- is integrated into the day-to-day operations of the entity (Szostak, 2010),
- involves the continuous or cyclical performance of managerial activities (Matysek, 2011),
- concerns management processes (Chojna-Duch, 2010).

Today, management control is defined similarly (see Dobrowolski, 2022; Szulin, 2021; Fleszer, 2021). However, the question is still relevant and valid: What is its essence?

When looking for the essence of management control, one should first turn to the legal provisions of the Law on Public Finance. Already, Article 68(1) defines what constitutes management control and why certain activities are undertaken as part of it. According to this provision, management control encompasses all actions that are taken to ensure that goals and tasks are achieved, so that the goals are achieved and the tasks are carried out in a lawful, efficient, economical, and timely manner (Mituś, 2017). Subsequent provisions, i.e., Articles 68(2) and 69(1) of the Law on Public Finance, indicate: what activities are included in the scope of management control; what these activities should be characterized by; and what benefits management control provides. According to them, management control includes those activities that will contribute to the achievement of goals and objectives, and the activities themselves should be adequate, effective, and efficient. In turn, among the many benefits that management control offers, one can point out that it provides assurance that the entity's activities are carried out in accordance with the law and internal procedures, and the actions taken are effective and efficient and protect the entity's resources (Mituś, 2017). At the same time, what specific actions should be taken to ensure the realization of goals and tasks are indicated by the Management Control Standards (Announcement No. 23 of the Minister of Finance dated December 16, 2009 on management control standards for the public finance sector, Official Journal of the Ministry of Finance, No. 15, item 84), which propose specific solutions in five areas of the entity's functioning. This legislative approach means that understanding the essence of management control and the benefits it can bring requires reaching not only the Law on Public Finance, but also to other acts/documents (e.g., Announcement No. 6 of the Minister of Finance of December 6, 2012 on detailed guidelines for the public finance sector on planning and risk management (Official Journal of the Ministry of Finance, item 56), and above all to management control standards.

The goals and objectives that are the key to management control should be defined on the basis of the Law on Public Finance. At the same time, it seems that their conceptual scope cannot be limited only to the goals and tasks referred to in Article 70(2) of the Public Finance Act (elements of the entity's activity plan), i.e., to organizational goals and tasks. This is supported, for example, by the fact that not every unit is obliged to draw up an activity plan, and a broader conceptualization of goals and tasks makes it possible to formulate them not only in relation to specific tasks or groups of them, but also to the entire activity of the unit or individual areas of its functioning (Mituś, 2017; see also Mituś, 2018).

Management control encompasses both instruments and mechanisms of a control nature for monitoring the achievement of goals and objectives, as well as tools and mechanisms of a management nature, which is the system for setting and achieving goals and objectives. Therefore, management control is a kind of symbiosis of internal control and management instruments (Mituś, 2017). However, its basic and even leading component is internal control, which is an integral part of management in the entity (see Budzeń, 2015). Such an approach results from the scope and manner of its regulation, and is also justified by the specifics of the entities required to implement it.

The introduction of management control changes the culture of local government entities, from a culture of executing the law to a culture of achieving results (Ignacy, 2016). Management control, by imposing solutions to increase the efficiency and effectiveness of the management of the entity's resources (see Wojciechowski et al., 2023), has introduced instruments for making the right decisions in the complex realities of modern management (Fedchenko et al., 2023). This is served by, among other things, the availability of up-to-date and reliable information and the analysis of data obtained in the monitoring process.

Analyzing the various instruments and mechanisms of management control, it should be noted that they are primarily managerial, controlling, and safeguarding against adverse events that may affect the achievement of goals and objectives (Mituś, 2017). The essence of management control is that it „ensures” (provides assurance, guarantees):

- a) realization of goals and objectives in a lawful, efficient, economical and timely manner. Here, the legislator uses the phrase „ensure” rather than „serve”, which indicates the need to achieve a certain result of the action, rather than just striving for due diligence (see Mituś, 2017),
- b) the proper functioning of the entity as a whole and within a certain scope of its activities.

In order for management control to fully fulfill its function and actually provide „assurance” it must be treated as a tool that brings concrete benefits (see MF, 2016). This is possible when management control is embedded in the structure and tasks of the entity and when it combines and organizes the elements of proper functioning of the entity. Thus, the effectiveness of management control comes from the combination of the entity's management (organizational component) and its performance of public tasks (material component).

### **3. Barriers and challenges in the implementation of management control in local government units**

Management control is supposed to be a system tailored to a given unit („custom-made”), created on the basis of applicable laws and standards and guidelines, indicating organizational and management solutions that strengthen the unit institutionally (Ćwiklicki, Mituś, 2015).

Such an approach is reasonable because, in areas covered by management control standards, soft regulations work better.

After 15 years of management control in local government units, a variety of shortcomings and problems are still encountered, among which we can point out.

- 1) Variety of approaches to management control – many local government units view MC as an additional, bureaucratic, and unnecessary tool. In such units, its functioning is reduced only to the formal fulfillment of a statutory requirement, and the actions taken appear to be sham („for show”).
- 2) Insufficient understanding of the essence of management control – the effectiveness and proper functioning of the MC requires an understanding of its role and functions. The lack of this understanding leads to the perception that management control is overly formalized. Although risk estimation, metrics and indicators, self-assessment, and task monitoring have been introduced in many local government units, these activities are not actually implemented in practice.
- 3) Incomplete implementation of management control solutions / dominance of financial control – as a kind of heir to financial control, management control, instead of covering all areas of the entity's activities, is quite often limited only to control of its financial management.
- 4) Inadequate identification of risks – an important element of MC is the correct identification of risks and their effective management, which is still a challenge in practice in many units (Sołtyk, 2018).
- 5) Problems with implementation of management control mechanisms/adherence to standards – difficulties in implementing and adhering to MC standards may be due to their nature as soft law solutions, which means that they are not treated as mandatory.
- 6) The need for continuous improvement and adaptation – an indispensable feature of MC is its continuous implementation, improvement, and adaptation to changing needs and conditions (Józwiak, 2023). Although this feature determines the effectiveness of management control, the need to constantly respond to changes taking place is quite a challenge for many units.

The actual state of operation of management control in Poland seems unsatisfactory. Based on observations and interviews with local government employees, this is the picture of management control that emerges: many employees are not familiar with the entity's goals and deadlines for achieving them; they are not familiar with the measures and indicators of the goals and tasks/results achieved, which makes it impossible to monitor the progress and pace of their achievement. Even if risk identification is carried out in the unit, many employees often lack knowledge of what happens next; has a risk register been drawn up or have measures been taken to reduce it to an acceptable level?

A review of the implementation of management control standards in each management area allows the following observations to be made:

- A. Internal environment – there are usually written ethical principles in units, and this is confirmed by codes of ethics, bylaws, or guidelines on how to deal with situations of unethical behavior.
- B. Goals and risk management – in general, many employees do not see the benefit in setting goals and objectives. Risk management, on the other hand, is given more attention, as most units have introduced detailed guidelines for identifying and managing risks. It seems that several years of experience in this area have led to the acquisition of the ability to identify risks that are relevant to the unit.
- C. Control mechanisms – this is the most noticeable manifestation of management control in the entity, although it is often reduced only to the existence of internal documents and procedures for the effective and efficient performance of tasks - these are both general regulations, such as „Management control in ...”, and specific solutions concerning, for example, the security of communication and information systems.
- D. Information and communication – the basic shortcoming of this area is the multiplicity of information and communication solutions, which can lead to chaos. This state of affairs is often compounded by the poor quality of information and its transmission with delay, which hinders decision-making and management of the unit.
- E. Monitoring and evaluation – documenting the review of management control procedures seems to be implemented only in some units. Internal audit is most often cited in this area.

Interesting conclusions and assumptions can be drawn by analyzing management control in internal documents/acts of the units. These should primarily include:

- a) The document on the functioning of management control in the eleven – almost every unit has a document pinning down the functioning of management control. Attempts to embed management control in the organizational structure of the unit can be seen in it.
- b) Organizational bylaws – the existence of management control is often indicated in the organizational bylaws, which should be standard. The bylaws as an act of internal management provide an opportunity to quickly change its provisions and adapt the organization of the unit/office to the tasks carried out and the goals set.
- c) Development strategies – define the vision, mission, and directions of activities, being a point of reference for the set goals and tasks.
- d) Report on the state of the LGU – contain information on the execution of the budget and the status of tasks in various areas of activity, implementation of strategies and implementation of programs.

Analysis of these documents/acts allows us to assess whether management control is embedded in the entity's management system. Generalizing, the analysis of these documents makes it possible to assess whether they are consistent with each other and whether the obligations contained in them are reflected in other official documents and publicly available sources of information.

#### **4. Internal control and audit and the attitude of the entity manager as an opportunity for the development of management control**

Taking on the problems identified above will help increase the efficiency and effectiveness of management in local government units. Although management control in its scope includes many instruments and components, only some of them can contribute to overcoming the difficulties that have arisen. These include:

a) Internal audit.

Internal audit is an independent and objective activity that supports the head of the entity in achieving its goals and objectives through systematic evaluation of management control and advisory activities (Art. 272(1) of the Law on Public Finance). In the context of auditing, it is worth noting the issue of auditors' independence and objectivity, both functionally and organizationally. Although this independence and objectivity is guaranteed by certain legal solutions, including the legal status of the auditor, in practice this independence can be violated. A fundamental problem is the scope of the auditor's permissible advisory activities, which can lead to too deep involvement of the auditor in the entity's activities and thus undermine his objectivity (see Ogórek, 2023).

b) Institutional internal control.

Internal control plays an important role in local government units (see Jagielski, 2018) and is a practical dimension of management control. Functioning in the offices of local government units, the organizational units or positions for internal control (the so-called classical institutional internal control) are part and manifestation of management control. However, the absence of such control in an entity makes management control even more perceived as a formal obligation, limited to documents such as „Management Control in Municipality X”. This does not mean, however, that it is wrong to create a formal framework. However, the formal framework for taking action should not just be created but should translate into actions that bring tangible benefits. Unfortunately, only half of LGUs have internal institutional control.

In addition to internal control, one of the most recognizable management control instruments for employees is risk estimation. The problem, however, is that many of them do not see the benefit in it, treating it merely as a formal requirement that no one

needs. As a result, what emerges is an understanding of management control as a classic follow-up control, rather than the continuous, ongoing control that management control is, which includes self-control, functional control exercised by a supervisor, and institutional control carried out by an employee or control unit. The lack of understanding of the essence of management control leads to a limitation of its potential as a tool to support effective management of the entity.

c) Attitude and role of the head of the unit.

According to Article 69 (1) of the Law on Public Finance, management control operates at two levels in local government units, that is, at the level of the unit (eg, budget unit [office], school) and at the level of the local government unit. Responsible for the functioning of management control at level I is the head of the unit, and at level II the head of the unit is the mayor (mayor, city president), the head of the district, and the head of the province, who are simultaneously responsible (as managers) for the functioning of management control at level I in their subordinate office. As a result, the LGU office acts as the center for the implementation, coordination, and monitoring of management control activities in the entire local government unit (Mituś, 2017).

If the person responsible for the operation of management control sees the benefits of it, then it will be implemented to the fullest, as his will affect the lower levels of the organizational structure. It is the head of the entity that manages its activities, sets its goals and objectives, and implements them in accordance with the approved plans. Only when the goals and objectives are formulated at the level of the entire unit can they be detailed at lower levels of the organizational structure. The problem arises when the head of the unit does not see the benefits of management control. In such cases, it is highly likely that the employees of the office/unit will not implement it either. Of course, it is possible to imagine a situation where employees at lower levels, seeing the advantages and benefits of management control, will, for example, formulate goals and objectives. However, in such a case, will management control bring as much benefit as it could if it operated throughout the entity? One can also imagine a situation in which the role and tasks of the head of the entity, e.g. the mayor in terms of management control are taken over by the secretary of the municipality or the treasurer. But then the question arises as to whether their vision of goals and objectives and their implementation will coincide with that of the head of the unit? Therefore, the most correct solution is for the unit manager to formulate goals and objectives in cooperation with the unit's management or with lower-level management.



## 5. Summary

Management control is a mandatory internal control of a managerial nature (MF, 2012). Despite its many undoubted advantages and benefits, it does not function properly in many local government units. However, despite its many shortcomings and deficiencies, as well as different approaches to fulfilling the obligations of management control, there are areas that favor its viable functioning. These include: various types of documents/internal acts regarding the management control system in the unit; internal procedures included in these documents/acts; detailed responsibilities of employees and organizational units, etc. However, one should not forget about the lack of implementation of many important elements of management control, such as the lack of self-assessment, the lack of setting yardsticks or errors in documents, etc.

A key issue for change is systemic support of local government units through various types of activities, especially training, workshops, or good practices demonstrating the benefits of management control - this lays the groundwork for a change in approach to make management control a functional tool that realistically supports the efficiency and effectiveness of operations. Additional levels of support include basing management control on internal institutional control, making greater use of modern information and communication technologies for communication and reporting, and considering new legal solutions or even additional management control standards.

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