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MANAGEMENT AUDIT IN PUBLIC FINANCE ENTITIES

Summary: The paper concerns the system of management audit in public finance entities. The origin and essence of management audit in public finance are presented, as well as the standards for management audit developed by the Minister of Finance. Management audit is also demonstrated as a management function. Problems with creating and improving systems of management audit in public finance entities are indicated against this background.

Key words: public finance, public finance entities, management audit.

1. Introduction

Every public finance entity ought to operate efficiently, and fulfil the tasks ascribed to it as well as achieve specified goals effectively. In order to satisfy these expectations entities need to be skilfully managed with the employment of appropriate instruments. The necessity to streamline the management systems in public finance entities is a consequence of striving to improve the quality of the provided services. Such an improvement should concern the formalisation and communicativeness of determining goals and tasks, as well as the regular evaluation of the progress thereof.

The necessity to improve management systems was the premise for implementing the Act on the management audit of public finance entities. The management audit includes all aspects of the activity and is an instrument for managing public finance entities. It is related to determining and achieving goals and performing tasks by organisation units. Owing to that, the implementation of the solutions functioning in economic entities brings the management system in public administration closer to the managerial management model.

The aim of the paper is to show the essence and tasks as well as the scope of legal regulations of management audit in public finance entities. To achieve this goal the analysis of legal regulations governing management audit in Poland was conducted.

2. The origin and essence of management audit in the public sector

Management audit in public sector entities is not a completely new solution. It replaced the financial audit which had functioned until 2009 – since the act on amending the act on public finance introduced in 2001. Financial audit was, in turn,

a form of internal audit in public finance entities. Internal audit had been earlier defined by the organisation INTOSAI (International Organization of Supreme Audit Institutions).

INTOSAI is an autonomous, independent and apolitical organisation, whose aim is to support its members in fulfilling the principal task, that is the public sector audit and ensuring reasonable public finance management. INTOSAI issues international guidelines and prepares methodology for various audit fields in public administration. Additionally, it conducts trainings and facilitates information and experience exchange among its members in accordance with the motto: Experientia mutua omnibus prodest, i.e. mutual experience benefits all [www.bip.nik.gov.pl; www.intosai.org].

According to the definition by INTOSAI, internal audit is an integrated process performed by the management board of the entity and its employees, designed to provide for the risk and obtain a reasonable assurance that the activities of the entity are oriented towards fulfilling its mission. At the same time, management audit ought to help the entity achieve the following goals:

- pursuing cost-efficient, effective and efficient activity in an orderly and ethical manner,
- fulfilling duties which involve responsibility,
- acting in accordance with the law and other regulations,
- securing resources against their loss, improper usage and damage.

The essence of internal audit in public finance entities in Poland was specified by the Supreme Audit Office (NIK). Pursuant to the uniform standards issued by NIK, internal audit is an integral process influenced by the management board of the entity and its staff, aimed at reasonable assurance that the activity of the entity is oriented towards fulfilling its mission. Internal audit refers to risk and is supposed to help the entity achieve goals, such as:

- pursuing an orderly, ethical, effective, cost-efficient, and efficient activity,
- fulfilling duties which involve responsibility,
- acting in accordance with the law and regulations,
- securing resources against their loss, improper usage and damage.

The definition of internal audit adopted by the Supreme Audit Office is a modification of the definition prepared by INTOSAI. Attention should be given to the fact that a significant element of the presented definitions of internal audit is the mission of the entity. However, the term "mission of the entity" is absent from the definition of financial audit in public finance entities. Financial audit in public finance entities was defined as actions related to processes connected with collecting and distributing public funds and property management.

The purpose of financial audit in public finance entities was:

- 1) to conduct the preliminary purposefulness of incurring financial liabilities and to incur expenses,
- 2) to examine and compare the actual state with the required state within the scope of collecting and gathering public funds, incurring financial liabilities and incurring expenses from public funds,

3) to execute the financial management and apply procedures concerning the process of collecting and gathering public funds.

Financial audit focused on those areas of the operation of entities which had a financial dimension and were concerned with the resources of the entity. It was not, however, directly connected with fulfilling the mission and goals of the public finance entities. This was the reason for introducing management audit through the act on public finance of 27 August 2009 instead of the financial audit functioning until that time.

In the new act on public finance management audit was defined as "all actions undertaken for ensuring the accomplishment of goals and tasks in a lawful, effective, economical and timely manner" (art. 68, par. 2). Management audit in public finance entities is an element of the entity management system. The management includes above all specifying goals and tasks of the entity, while the management audit process accounts for checking whether they are properly executed.

The task of management audit in public finance entities is ensuring that the following goals are accomplished:

- conformity of actions with legal regulations and internal procedures,
- effectiveness of actions,
- reliability of reports,
- security of resources.
- observance and promotion of the principles of ethical conduct,
- effectiveness of information flow,
- risk management.

This is not an exhaustive list of the tasks of management audit in public finance entities. Depending on the specificity and conditions of the operation of a particular entity, it may be extended by additional goals.

The following persons shall be liable for the management audit system in the public administration entities (Act on public finance art. 69 par. 1):

- 1) the minister in the government administration divisions managed by them,
- 2) the commune head, mayor, president of the city, chairman of the management board of the local government entity,
 - 3) the manager of the entity.

Thus, the liability for management audit in the public sector is distributed into two levels. The first level comprises managers of entities (point 3), whereas the second level – single-person bodies enumerated in points 1 and 2.

Management audit is supposed to help the public finance entity achieve its goals concerned with the activity pursuant to the law, and achieve effectiveness. It should also secure the entity against the loss of resources and prevent wastage thereof. Moreover, management audit shall ensure the activity of the entity in accordance with the law and other regulations. Ensuring reliability of financial reports prepared by the entity is also significant. In general, management audit shall help the entity achieve what it has intended to and avoid obstacles in these attempts.

3. Standards of management audit in public finance entities

The body coordinating management audit in public finance entities is the Minister of Finance. The responsibility of the Minister of Finance is above all issuing and spreading management audit standards which are compliant with the international standards with this respect. The purpose of the standards is to promote common principles enabling the creation and implementation of an efficient model of the management audit system in various public finance entities.

The management audit standards do not constitute legal regulations applicable to all public finance entities. They are, however, certain guidelines which determine the requirements presented to management audit systems and the tips for the managers of these entities. Management audit standards are the basis for developing, monitoring and improving management audit systems in public finance entities.

Certain international standards and guidelines were accounted for when developing management audit standards for public finance entities. These are the following:

- reports prepared by COSO (Committee of Sponsoring Organizations of the Treadway Commission): "Internal Audit – Integrated Framework" and "Enterprise Risk Management",
- "Guidelines for Internal Audit Standards for the Public Sector" prepared by INTOSAI,
- "The Revised Internal Audit Standard for Effective Management SEC" adopted by the European Commission.

The Minister of Finance developed 22 management audit standards for the public finance entities. They are presented in Table 1.

Management audit standards for public finance entities were divided into five groups of issues. They are as follows:

- A. Internal environment.
- B. Risk management.
- C. Audit mechanisms.
- D. Information and communication.
- E. Monitoring and evaluation.

The enumerated groups of standards concern all crucial areas of management audit. They are interrelated and complement each other, thus creating a consistent management audit system. Moreover, management audit standards are integrated with the process of managing public administration entities. Owing to that, management audit system and the current activities of the entity interweave, and the former exists as a result of the need to improve its operation [Kontrola wewnętrzna... 1999, p. 24-25].

The standards listed in Table 1 ordered guidelines for conducting management audit in public finance entities. They are subordinate to the principal aim and detailed tasks of management audit. Their application when creating management audit

Table 1. Management audit standards for public finance entities

Standard number	
	(A) – Internal environment
Standard 1.	Observing ethical values
Standard 2.	Professional competences
Standard 3.	Organisational structure
Standard 4.	Delegation of authority
	(B) – Risk management
Standard 5.	Mission
Standard 6.	Determining goals and tasks, monitoring and evaluating their execution
Standard 7.	Risk identification
Standard 8.	Risk analysis
Standard 9.	Response to risk
	(C) – Audit mechanisms
Standard 10.	Recording management audit system
Standard 11.	Supervision
Standard 12.	Activity continuity
Standard 13.	Securing resources
Standard 14.	Detailed audit mechanisms related to financial and economic operations
Standard 15.	Audit mechanisms related to IT systems
	(D) – Information and communication
Standard 16.	Current information
Standard 17.	Internal communication
Standard 18.	External communication
	(E) – Monitoring and evaluation
Standard 19.	Monitoring management audit system
Standard 20.	Self-evaluation Self-evaluation
Standard 21.	Evaluating management audit system through internal audit
Standard 22.	Obtaining assurance of the state of management audit

Source: Communication no. 23 of the Minister of Finance of 16 December 2009 on management audit for the public finance sector.

systems makes the latter more effective. The introduction of the standards is a response to high demand on the part of the managers of public finance entities who are responsible for creating management audit systems.

4. Management audit versus audit as a management function

Management audit is an element of the organisation management process, including public finance entities. The management process may be presented from the angle of management functions. Management functions reflect specific management areas

comprising sets of repetitive actions and management decisions taken, which aim at achieving the goals of a given organisation.

The literature related to management distinguishes a certain diversity of positions as to the number and content of management functions. However, the opinion that efficient organisation management requires four basic functions: planning, organising, motivating and auditing prevails. Each of those functions ought to be made precise through distinguishing the tasks and actions which reflect the subjective and objective scope of operation of an organisation. Management functions are present in interrelations and compose the management process. The whole management cycle is closed by the auditing function.

Audit as a management function is an organised activity which is performed in a regular manner and which includes certain stages. The initial stage of the audit process is determining the standards and system for evaluating achievements of the organisation. The measurement of the achieved results, the type of which depends on the nature of the entity's activity, is performed with the use of specific measures. Subsequently, the obtained results of the activity are compared with the determined standards and goals. If the goals have not been achieved and the standards have been violated, appropriate adjustment measures are taken, which may consist in changing the manner of conduct. At times, if the adopted standards and models are considered inappropriate or too difficult or too easy to achieve, they need to be revised.

The analysis of the definitions, tasks and standards of management audit in public finance entities presented in the previous points of the paper allows to draw several fundamental conclusions:

- 1) management audit is a process comprising a set of actions performed regularly and not occasionally.
- 2) management audit is an instrument which serves achieving the goals of the entity's activity,
- 3) management audit is a system consisting of various elements which are mutually integrated and subordinated to achieving the superior aim,
- 4) management audit is performed by the management staff of various levels of the public finance sector,
- 5) management audit has appropriate tools at its disposal for achieving its goals in various areas of the entity's activity,
- 6) management audit provides the management with the mere assurance that the goals of the entity are being achieved but it does not provide them with absolute certainty.

The presented elements of management audit indicate a broad scope of audit actions. They also constitute the basis for its proper organisation in public finance entities. They may also be indicators for the evaluation of the effectiveness of management audit in various entities.

Management audit is a system comprising various instruments and procedures which should ensure such a manner of the entity's activity that allows the achievement

of its goals. This is performed through monitoring the progress of the activity on an ongoing basis, periodical reporting of the achievements and undertaking adjustment measures directed at eliminating irregularities. The essence of management audit is ensuring the compliance of the course of the activity with the arrangements specified in the plans and achieving the assumed goals. Management audit is thus a significant element of the system for controlling the activity of public finance entities, and not for mere supervising and monitoring its course.

Management audit in public finance entities is both a functional and administrative audit in nature. Management audit is also a functional audit since it is connected with fulfilling the management function and it consists in determining the actual state, comparing it to the desired state and performing the analysis of the identified irregularities. Management audit is an administrative audit since it is performed by the management of the entity and is directed at periodical audit of the activity in every organisational unit.

It is not possible to indicate one universal model of the management audit system which would be appropriate for all public finance entities. Individual entities fulfil specific tasks and additionally their mode of action may be diverse. Therefore, when designing a management audit system for a particular entity, the following considerations for its activity need to be taken into account [Nowak 2009, p. 300-301]:

- the size of the entity,
- the object of its activity,
- the type of performed tasks,
- the organisational structure,
- the work organisation manner,
- the management style,
- the planning system,
- the local considerations for the activity.

When developing the management audit system of the entity, a range of choices and decisions need to be made [Kaura 2002, p. 16-17]:

- 1) determining the scope and goals of the audit,
- 2) identifying the crucial factors which influence the achievements of the entity,
- 3) establishing the manner of measuring the achievements, their deviations from the expected (planned) achievements and the evaluation of the significance of the deviations,
 - 4) recognising, verifying and selecting alternative controlling actions,
- 5) indicating the most appropriate instruments, techniques and systems, and the manners of the implementation thereof,
- 6) developing a system for collecting information on the achievements and their monitoring, as well as reviewing reports,
- 7) indicating types of adjustment measures in order to eliminate the occurring irregularities.

A well-organised management audit is integrated with the management process and constitutes a significant element of the process. Management audit and the current activity of the entity interweave, the former resulting from the premises of reasonable management. Management audit is effective provided that it is an integral component incorporated in the system of managing a public finance entity.

5. Conclusion

Management audit in public finance entities in Poland is a new element of the system for managing thereof. It replaced the formerly operating financial audit, which had referred only to the financial aspects of the activity of entities. This is an important change in terms of quality since the scope of management audit is significantly broader than that of financial audit. Moreover, the goals of financial audit are different as they concern fulfilling the assumptions of public finance entities.

The management audit system involves various actions taken by the management of public finance entities within the scope of monitoring the current activity and achieving the assumed goals. The actions are directly oriented towards the inside, and their aim is to influence the behaviours of the employees in a desired direction, i.e. in order to achieve the increase in the effectiveness of the activity and the improvement of the effectiveness of executing the assumed goals. Management audit is directed more at constant improvement and efficiency of the public administration activity than at counteracting the arising irregularities.

The role of management audit is particularly significant in managing large public finance entities. Such entities sometimes face the necessity to improve organisational structures in order to adapt them to new conditions in which public administration is supposed to function. Thus, the actions of the management staff should be also oriented on implementing more modern management instruments, one of which is undoubtedly management audit.

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KONTROLA ZARZĄDCZA W JEDNOSTKACH SEKTORA FINANSÓW PUBLICZNYCH

Streszczenie: Artykuł dotyczy systemu kontroli zarządczej w jednostkach sektora finansów publicznych. Przedstawiono genezę oraz istotę kontroli zarządczej w sektorze publicznym. Zaprezentowano standardy kontroli zarządczej opracowane przez Ministra Finansów. Ukazano także kontrolę zarządczą jako funkcję zarządzania. Na tym tle wskazano problemy tworzenia i doskonalenia systemów kontroli zarządczej w jednostkach sektora finansów publicznych.