

Barnabás Reke

The controlling background of the financial management of municipalities

In the study, the controlling activities that affect the financial management of the municipalities were examined on the basis of the deep interviews and questionnaire-based surveys conducted with the staff members of the municipalities and their institutions. The purpose of the fact-finding research was to assess the extent to which the application of controlling gained ground in the evolution of the financial management of municipalities in 2005–2007. The purpose of the investigation is to lay the foundations for a controlling model which may contribute to the future expedience, efficiency and profitability of the financial management of the municipalities.

From among the number of conclusions drawn from the investigation, it should be highlighted that the answers to the questionnaire confirm the level of controlling knowledge of those who participated in the survey. The respondents primarily expect the application of controlling to improve the effectiveness of financial management and the transparency of the budget. Many accept the conclusion that measuring the performance of public services could reduce the dissatisfaction of society with public services. It is a general opinion that by developing efficiency and effectiveness calculations, the economic decisions could be better supported by cost data, as opposed to the current justifications mostly relying on income- and expense-based data.

THE PURPOSE OF CONTROLLING ACTIVITIES, THE CONTROLLING APPROACH

In the budgetary organizations, including the municipalities and the institutions controlled by them, the management of public funds has outstanding importance. The purpose of controlling work is to meet the requirements of being efficient,¹ effective,² and profitable³ in the context of managing public funds.

The importance of controlling was realized by the organizations of the private sector decades ago. They spent large sums of money on making the feedback process as efficient as possible. Unfortunately, this approach was incorporated into the financial management of the public sector, the municipalities and their institutions with significant delay, thus giving way to less efficient and often extravagant financing, to the lower and more bureaucratic standards of task performance.

The practical application of controlling should not lack a kind of controlling approach of the management, which had better be based on a certain model developed by the management. In *Table 1*, we have shown a possible, recommended controlling model.

By applying the controlling approach at the budgetary organizations:

- besides the traditional function of accounting [as regulated by Act C of 2000 and government decree No. 49/2000. (XII. 24.)], management accounting and controlling receive ever more significant roles,
- in planning, future is transformed into the present and this is also represented in the accounting records as appropriations, rather than “extrapolating the figures of the past into the future”,
- in controlling, the person-oriented direction is replaced by a process-oriented approach,
- the static system of information is replaced by dynamic information.

The responsibilities of controlling are the following:

- to get familiar, in due time, with those opportunities, risks and obstacles that are related to the performance of the tasks,
- to establish the tactical/strategic points that serve development and adjustment to the external requirements, by this, kind of supporting the activities performed by the management.

The point of controlling, besides the identification of the threats of financial management and the assessment of the risks⁶, is to select, supervise and document those critical points of the regulation where prevention can be implemented in the most efficient way possible.

EMPIRICAL RESEARCH, THE METHODOLOGY OF RESEARCH

The selected research method was greatly influenced by the fact that the information technological and methodological bases that would allow the practical introduction of applying public service controlling are not yet available for the municipalities and their institutions in the period under review. Accordingly, the research work is definitely of the explorative type.

The exploration and evaluation of the controlling applications used in the financial management of the municipalities and their institutions as one of the independent sub-systems of the public finances system have been defined as a

Table 1

CONTROLLING MODEL

OPERATIVE CONTROLLING In the short term: “profitability” ⁴ should be realized in the form of as many financial assets as possible	Owner’s need	STRATEGIC CONTROLLING In the long term: increasing assets by raising shareholder’s equity
OPERATIVE CONTROLLING Dynamic approach: by relying on the method of “profitability”	Methodology	STRATEGIC CONTROLLING Static approach: by relying on the method based on the balance sheet of the financial statements
OPERATIVE CONTROLLING Within the technical tasks: by using a method that is based on using the technical tasks or indicators that characterize the activities	Tools	STRATEGIC CONTROLLING In a regional environment ⁵ : based on the examination of the equilibrium, with the typical technical tasks and/or partial indicators, with mathematical modeling of multiple variables

EXAMINING THE CONDITIONS OF SUSTAINABLE GROWTH RATE

Source: own edition

fundamental objective. This means that it is the application of a management tool, i.e. public sector controlling by the municipalities and their institutions that is examined by the research. The form of the research is usually a questionnaire-based survey and the analysis of documents, it is an explorative, interpretative analysis.

QUESTIONNAIRE-BASED SURVEY AT THE MUNICIPALITIES AND THEIR INSTITUTIONS

The questionnaire-based survey was conducted on an 80-element sample, comprising the financial organizations of the municipalities and their institutions. The sample was compiled on the basis of random representativity. In the composition of the sample elements, the starting point was to assess the level of controlling-related knowledge of the financial experts and their subordinates who directly control and execute financial management and who fulfill financial positions at the municipalities and their institutions.

The questionnaire used in the research contains five groups of questions.

► In the first set of questions, controlling as the level of knowledge of the new method of ensuring efficient financial management was assessed. I have assessed the respondents' source of knowledge as to the application of controlling, their intentions to participate in controlling training programs in the future, as well as their needs for the practical application of controlling, in nominal scales of "yes or no". The opportunities for the qualitative improvement of the efficiency of financial management were examined in 10 groups of questions, on an ordinal, five-grade Likert-scale.

► The second group of questions contains the examinations related to the statements as to the need to apply controlling by the municipalities/institutions by relying on the five-grade ordinal Likert-scale.

► The third group of questions deals with the target hierarchical examination of the cost calculation practices applied by the municipalities/institutions.

► The fourth group of questions analyzes the system of technical tasks performed by the municipalities/institutions and the issue of the level of computerization of the IT system of their financial management.

► The fifth group of questions maps the situation in the planning system of the municipalities/institutions by applying various "yes or no" nominal scales and a 5-grade ordinal Likert-scale, through qualifying the currently applied planning practices.

► The sixth group of questions tests the questions of reporting and the accounting of assets on a "yes or no" nominal scale at the financial organizations of the municipalities/institutions.

I have coded the completed questionnaires by using the Statistica 6.0 program package, by relying on which I have developed a statistical database, in order to perform a further mathematical statistical analysis of the questionnaires. I have characterized the variables measured on the nominal scale by their frequencies, while those measured on the ordinal scale by the position indicators, i.e. by the middle value (arithmetic mean). By using these, as a start, I gave a description of the individual groups of variables in each case. Let us now see the outcome of the questionnaire-based survey.

CONTROLLING AS A NEW METHOD OF ENSURING EFFICIENT FINANCIAL MANAGEMENT

In the group of questions called "Controlling as a new method of ensuring efficient financial management", in the questions of the first group of the questionnaire, the respondents described whether they had ever heard of con-

rolling, and if so, from what source. Based on the responses, *Table 2* contains the level of each respondent's controlling knowledge, expressed as a percentage. A very high proportion of the respondents (90 percent) had already heard of controlling as a new method of ensuring efficient financial management before the survey had been conducted. The high rate of familiarity can be assessed as a favorable piece of information.

Table 2

THE RESPONDENTS' LEVEL OF FAMILIARITY WITH CONTROLLING

Responses	Frequency	Percent
No	8	10
Yes	72	90
Total	80	100

Then I went on with the examination by assessing the distribution of controlling knowledge by the various sources, as illustrated in *Table 3*. It is also worth observing how, from which source the respondents were informed of this method. From among the individual sources, colleagues were mentioned most often, which means that most of the respondents heard of controlling from their colleagues or acquaintances. Besides this, technical journals were also mentioned frequently. By taking the specific nature of the question, as well as the respondents into account, we can state that the technical journals also have a significant information-carrying role.

Table 3

SOURCES OF CONTROLLING-RELATED KNOWLEDGE (%)

	Yes	No
Scientific conference	22	78
In a scientific journal	28	72
TV/radio	12	88
In a technical journal	48	52
From colleagues	56	44

It turns out from the answers to the question whether they had earlier participated in an organized controlling training session that 34 percent of the respondents had already taken part in some organized training or further training program on controlling before the survey. A further 76 percent of the respondents did not yet attend a controlling course but as it turns out from the data indicated in *Table 4*, they would very probably, or definitely take part if the opportunity arose. The distribution of the responses among the predefined individual categories is shown by *Table 4*.

Table 4

INTENTIONS TO TAKE PART IN ORGANIZED CONTROLLING TRAINING (%)

Definitely	44
Probably yes	34
It depends on the circumstances	16
I do not yet know	4
No	2
Total	100

As an answer to the question whether they would like to apply controlling methods and techniques in their everyday work, 97 percent of the respondents said yes, they would like to use controlling as a method. All in all, it can be concluded that the attitude of the respondents to controlling indicates a positive approach, on the basis of their preliminary knowledge.

As regards the sub-points of the question "How do you think the application of controlling methods and techniques would help the financial management of the municipalities and the institutions controlled by them?", the respondents answered questions related to the applicability of the controlling methods. The answers to the questions could be scored from one to five, where five scores express absolute agreement, and so on. The value ranking developed from the scores given as answers represents the attitudes of the respondents to the

individual controlling methods and techniques. This is illustrated by the average values of *Table 5*. It can be concluded that the respondents mostly expect controlling to improve the efficiency of the financial management of the institutions and the transparency of the budget. Based on their preliminary knowledge of controlling and their presumptions, they think that an approach of financial management which is oriented at technical tasks/programs may efficiently support financial management within the institutional framework. The respondents agree on that controlling would improve transparency and controllability in the case of the process of performing technical tasks by the municipalities and their institutions as a service area.

Table 5

PRIORITY OF TASKS TO BE SOLVED BY THE APPLICATION OF CONTROLLING

Description of the tasks to be solved	Average
Improvement of the efficiency of financial management	4.3
Program-oriented planning	3.9
Transparency, controllability	3.9
Encouraging effect of performance measurement	3.8
Resource- and process-oriented approach	3.7
Employment of a controlling expert	3.7
Supporting the control activities of the management	3.5
Addition of a controlling module to the IT system	3.3
Incentive for providing quality public services (technical task)	3.1
The measurement of public service performance would enhance the satisfaction of society	2.8

There is also agreement on that, similarly to the corporate sector, the introduction of up-to-date management tools would greatly support the job of the decision-makers in managing the financial processes of the municipalities and their institutions as well. This is exactly because of this that the overwhelming majority of the respondents would happily employ a controller in the area that they man-

ge, if they had the opportunity. However, fewer of the respondents (but the average value of 2.8 is still significant) think that the measurement of public service performance would increase the satisfaction of society with the public services.

To sum up, through evaluating the answers, it can be stated that the respondents agreed with the statement according to which controlling improves the efficiency of the financial management of the municipalities and their institutions, it greatly contributes to transparency, controllability and program-oriented planning. Besides these correlations, it is well visible that the respondents also agree with the idea of setting up a controlling organization and the employment of a controller. It is yet another interesting correlation that those who think that controlling would encourage the activities of those taking part in the financial management of the municipalities and their institutions and would contribute to the more profitable performance of public (technical) tasks, also accept the conclusion that the measurement of performance could enhance social satisfaction with the public services.

THE NECESSITY OF APPLYING CONTROLLING

In the second part of the questionnaire, the necessity of the practical application of controlling was examined. The statements reflect the opinions of the financial managers and those reporting to them at the financial institutions and they deal with the presentation of the problematic areas of enforcing financial efficiency. In the first lines of *Table 6*, you can read the statements on the most problematic areas. Agreement or disagreement with the statements is well visible from the average values, in the ascending order of the variables.

Table 6

PRIORITY RANKING OF THE STATEMENTS PROVING THE NECESSITY OF CONTROLLING

Statements proving the necessity of controlling	Average
Well-founded financial decisions, from the aspect of efficiency	4.7
Existence of an independent controlling organization	4.4
Lack of management knowledge related to controlling	3.7
The information content of deviation analysis is satisfactory	3.6
The institutions that perform the technical tasks determine the need	3.5
Lack of management knowledge on the information advantages of controlling	3.5
The system of technical tasks fails to ensure transparency	3.5
Comparison of performing the appropriations	3.4
Centralized (so-called Treasury type) form of financial management	3.3
The information content of deviation analysis is satisfactory	2.7
Independence of financial organizations performing technical tasks	2.1

The lack of well-founded financial decisions from an efficiency aspect was indicated as the most problematic area. The respondents think that the existence of an independent controlling organization would greatly improve the assessment of the previous statement. The availability of the appropriate details of the technical tasks would provide a transparent budget, which seems to be supported by the 3.6 average of the statement “The information content of deviation analysis is satisfactory” and the 3.5 average value of “The system of technical tasks fails to ensure transparency”.

RENEWING THE METHOD OF COST CALCULATION

In the first part of the third group of questions of the questionnaire, the 9 targets to be reached

in connection with the usability of controlling within the municipality institutions were defined as target deficits (see Table 7). As the individual elements as targets are statements with absolutely different contents, it is a question how important these targets (target deficits) are for the respondents. If we determine the order of frequency, a priority ranking of the targets is determined by the individual average values for the individual answers. I have set up the order of the targets on the basis of the average scores. The ranking of the targets represents how important change is regarded in the area in question.

Table 7

THE NEED FOR RENEWING THE METHODS OF COST CALCULATION EXPRESSED AS THE AVERAGE OF RELEVANCE VALUES

Variables related to cost calculation	Average
Cost calculation as an effectiveness control	4.7
Cost calculation as an efficiency control	4.5
Regular comparison of appropriations and cashflow figures	4.2
Application of a cost calculation that provides a basis for the appropriations	3.9
Application of total cost calculation	3.3
Cost calculation in determining the optimum decisions	3.1
Making up for missing cost data	3.1
Cost calculation in evaluating the performance of the organizational units	2.6
Determining unit (specific) costs	2.5

It is obvious that the areas that need change the most, i.e. cost calculation as an effectiveness control and cost calculation as an efficiency control are waiting to be implemented. This need is in harmony with the spirit of government decree No. 193/2003. The respondents relatively underestimated the making up for missing cost data, although this is of special importance, as in the lack of such data, the calculated performance indicators are distort-

ed, and the decision-makers have not got sufficient information for making the right decisions.

Based on the answers to the questions aimed at assessing the general financial information, which are in the second part of the third group of questions, Table 8 answers the question on what financial management methods are used by the individual respondents for managing the economic processes.

It turns out from Table 8 that calculations are performed by relying on the traditional tools in the majority of budgetary institutions. It exerts a negative impact on improving the efficiency of financial management that, according to 66 percent of the respondents, in these organizations, no cost calculations or cost analyses are prepared. Furthermore, the costs are not broken down according to technical tasks, as stated by 76 percent of the respondents. 79 percent of the respondents say that no preliminary financial analyses are applied, and 91 percent are not aware of the significance of break-even point cost (expense) calculation.

Table 8

DISTRIBUTION OF RESPONSES TO QUESTIONS TOUCHING UPON GENERAL FINANCIAL INFORMATION (%)

	Yes	No
Use of norms	76	24
Application of unit cost calculation	68	32
Application of project budgeting	58	42
Preliminary provision of funds	55	45
Cost calculation on the unit level	34	66
Calculation of costs of technical tasks	24	76
Performance of preliminary fin.anal.	21	79
Application of break-even point analysis	9	91

It can be assessed as a positive phenomenon that the significance of norms is still high for each of the technical branches, which is proven by the 76 percent evaluation, as well as the 68 percent application of unit cost calculation.

THE SYSTEM OF TECHNICAL TASKS AND THE RELEVANT IT SYSTEM

From the answers to the questions on the system and IT system of the technical tasks, it turned out that there is a considerable difference of opinion between the institutional and program-oriented approaches to technical tasks.

Table 9

THE FUTURE METHOD OF THE REGISTRATION OF TECHNICAL TASKS (%)

Registry orientation	Cases
Program-oriented	36
Institution-oriented	64
Total	100

According to the data shown in Table 9, 36 percent of the respondents think that the technical tasks should be treated by using a much more program-oriented approach. However, two thirds, i.e. 64 percent of the respondents would continue to work in the traditional framework. By examining the choice between a program- and an institution-oriented approach more in depth, we can conclude that the financial managers think more in terms of a program-oriented approach, while the managers responsible for controlling the performance of the technical tasks continue to think in terms of an institution-oriented structure.

Examining the issues of the efficiency of the information flow, its automatization and the level of the available IT infrastructure, it can be concluded from the responses that the IT supply of the organizations, as well as the efficiency of the information flow are both good. 72 percent of the respondents work on a PC linked to some IT system, by which level it is already possible to ensure efficient IT support for the performance of up-to-date controlling activities.

THE SYSTEM OF PLANNING AS ONE OF THE FUNDAMENTAL PILLARS OF CONTROLLING

In this part of the questionnaire, I wished to assess the status of the practice of planning, by relying on the statements referring to the current status of the planning of the municipalities and their institutions, in a five-grade scale. The statements in *Table 10* focus on the weak points of planning, and the discrepancies that should be corrected. By qualifying the statements, we are also able to measure the respondents' abilities to identify problems, i.e. to what extent they are aware of the issues that are regarded as problems by the questionnaire. From the relevance averages generated from the answers to the questions, it can be concluded how important the solution of the problem in question is regarded by the respondents, and which are those areas where changes are the most urgent.

Table 10

EVALUATION OF THE CURRENT PLANNING SYSTEM

Statements	Average
There is no harmony between short- and long-term plans	4.7
Use of basis-approach procedures in practice	4.4
There is a traditional annual budgetary planning system	4.3
The connection btwn the resource planning model and PIR is not satisfactory	3.9
The significance of technical task-based plans is low	3.8
The level of integration of the IT system is inappropriate	3.6

The values exceeding 3.5 measured on the scale of 1–5 are strong enough for us to claim that the significant majority of the respondents agree with the statements and observations related to budgetary planning. In line with the

strength of agreement, it seems to be timely to renew the current practice of planning by developing and introducing a new planning system. In the future, the harmony between short- and long-term plans should be established and the existing, traditional, basis-approach planning system should be transformed.

In *Table 11*, the financial planning habits of the senior and mid-level managers of the budgetary organizations under review, as well as those of the executive organizations thereof were assessed.

Table 11

PLANNING HABITS, PLANNING PRACTICE (%)

	Yes	No
Annual budget planning	100	0.00
Preparation of liquidity plan	77	23
Preparation of other plans	67	33
Preparation of procurement plan	65	35
Planning of refurbishments	59	41
Planning of maintenance	55	45
Cash-flow planning	22	78
Strategic planning	18	82

82 percent of the respondents do not prepare any strategic plans, they focus on annual budgetary planning. The planning of liquidity and the required funds already shows a much better picture, with its 77 percent value. The preparation of cash-flow plans shows a very modest 22 percent rate. As regards the procurement, refurbishment, maintenance and other plans, the planning practices of municipalities and their institutions show a balanced positive situation. Accordingly, the practices of strategic planning and cash-flow planning should be strengthened in the future. In the course of the deep interviews, the respondents regard the necessity of strategic planning and cash-flow planning as important for the future and they do not think that strategic planning is replaceable by the application of the three-year rolling planning method.

THE PRACTICE OF ACTUAL-BUDGET ANALYSIS IN MUNICIPALITY BUDGETS

This group of questions of the questionnaire was aimed at mapping the use of controlling methods and techniques applied in the course of preparing the budgetary reports. The yes and no answers in *Table 12* refer to which plans, in what form and how are applied by the individual organizations. Apart from the structured manner of the comparison of budget and actual figures, as well as the budget report, all the variables show an unfavorable picture on the reporting tasks on the level of the organizational units. There is a significant backlog in the applicability of the controlling method in the accounting settlements by technical tasks, as well as in the area of analyzing indicators, reporting, planning and analysis by technical tasks and the expense owners. The analysis of indicators, which can be regarded as a traditional controlling tool, is not applied by as many as 75 percent of the respondents when evaluating the reports, by which they deprive themselves of a very important tool of analysis. The reason for this may be found in the underdeveloped reporting practices applied by the municipalities and their institutions, as well as the inappropriate level of IT support.

SUMMARY

The answers to the questionnaire largely support the controlling-related technical knowledge of the respondents who took part in the survey. Based on the answers given to the questions asked in the questionnaire, the respondents mainly expect controlling to improve the efficiency of financial management and the transparency of the budget. If they had the opportunity, the overwhelming majority of the respondents would be happy to employ a controller in their respective areas. The respondents think that the development and introduction of a controlling system were indispensable tasks in order to increase the efficiency of financial management and improve the performance of the technical tasks. The respondents think that a program-oriented financial approach would be able to give efficient help to financial management. A high number of the respondents accept the statement that the measurement of performances could improve the satisfaction of society with the standards of public services.

The majority of the respondents think that by the application of the management information system (MIS), the budgetary institutions have started using the opportunities provided by the modern information society, from which the widespread use of integrated controlling software and monitoring systems is not so far away. The development of a controlling thinking would trigger the application of modern cost accounting within the organizations, the clearer presentation of technical tasks and project costs, better-founded financial calculations and would at the same time contribute to the quality performance of the organization's planning, financial management and reporting tasks. By developing efficiency and effectiveness calculations, the financial decisions could be better supported by cost data, as opposed to the current justifications mostly based on income and expense figures.

Table 12

USE OF CONTROLLING METHODS IN THE REPORTS OF THE BUDGETARY ORGANIZATIONS (%)

	Yes	No
Comparison of budget and actual figures	95	5
Deviation analysis on a cause and effect basis	44	56
Agreement of report and plan structures	78	22
Accounting settlements by technical tasks	35	65
Use of indicators	49	51
Analysis of indicators	25	75
The annual financial plans are comprehensive	50	50
Detailed planning of technical tasks	43	57
Detailed planning of expense owners	25	75

By the application of an up-to-date, integrated management information system, it would become possible to ensure consistency

between the mandatory tasks, services and the available resources.

NOTES

- ¹ Economic efficiency: from government decree No. 193/2003 (XI. 26): the optimization of the costs of the resources used for performing a certain activity, by ensuring appropriate quality.
- ² Effectiveness: the correlation between the products, services and other deliverables produced in the course of a certain activity, as well as the funds used for their production.
- ³ Profitability: the extent to which the objectives of a certain activity are achieved, the correlation between the intended and actual effects of the activity.
- ⁴ Profitability, in this sense, is related to the evolution of the monetary and appropriation reserves, and the cashflow result of the potential entrepreneurial activity.
- ⁵ Regional environment: in this sense, it may include, for example, those institutions of the regional municipalities, the municipalities of the settlements, the small regions, the regions, etc. which perform specific tasks and manage their finances from the budget.
- ⁶ Risk assessment includes the estimation of risks, as well as the communication and management thereof.
- Estimation of risks: it may ensure that the criteria and guidelines that contribute to the safety of financial management rest on more solid, scientific foundations,
 - Communication of risks: here it means the exchange of risk-related information and opinions between those performing risk estimation, risk managers and other affected parties,
 - Management of risks: the activities whereby the alternative decisions are considered in view of the risk estimation, and if necessary, the appropriate regulatory options are selected and applied.

LITERATURE

- BODNÁR, V. (2001): Mire irányítják a vezetők figyelmét a controlling rendszerek? (What do controlling systems call managers' attention to?), *the journal 'Kontrolling', issue 1*
- CSILLAG, I. (2001): Közpénzek, átláthatóság, pénzügyi fegyelem – Konferencia a költségvetésről, Pénzügykutató Részvénytársaság, (Public funds, transparency, financial discipline – conference on the budget, Pénzügykutató Részvénytársaság, i.e. Financial Research Plc.), *Közgazdasági Szemle, issue 10*
- KÖRMENDI, L. – TÓTH, A.: (1996): Controlling a hazai vállalkozások gyakorlatában (Controlling in the practice of Hungarian companies), *TUDEX Kiadó KFT, 1. edition, Budapest, pp. 19, 20 and 150*
- LŐKÖS, L. – REKE, B.: (2006): A gazdaságosság, hatékonyság és eredményesség kérdésköre a közpénzen finanszírozott oktatásban, (The questions of efficiency, effectiveness and profitability in education financed from public funds), *Conference on the production of raw food materials, NYME-MÉK (Western Hungarian University-Hungarian Chamber of Architects), Óvár Science Day No. XXXI, Mosonmagyaróvár, October 5*
- REKE, B. (1995): Korszerű törvényekhez korszerű közgazdasági-elemző módszereket (Modern economic analysis methods for modern laws), *Számvitel és könyvvizsgálat, year 37, issue 11, pp. 477–485*
- REKE, B. (1997): Többváltozós elemzési módszerek hasznosításának lehetőségei a vezetői controlling munkában (The opportunities for using analysis methods with multiple variables in management controlling activities), *Social science journal Polvax, issue 2, pp. 13–27*