

CONTROLLING ACTIVITIES IN LOCAL MUNICIPALITIES

Ing. Zoltán Šeben

PhD., Univerzita J. Selyeho

E-mail: sebenz@ujssk

Abstract

Controlling activities are nowadays spread in many areas. Local government is not the exception. Municipalities manage through executive bodies considerable amount of financial resources. Therefore, it is important to know and adequately apply the controlling to these institutions. Where is the controlling and what are the main controlling duties, these are the main questions to which we seek answers in the publication on the basis of primary and secondary research.

Keywords: controlling, local government, controlling duties

JEL classification: H7

Introduction

In a daily press we can read about the activities of several municipalities, which have a great impact on the municipality budget. Therefore it is very useful to implement functioning controlling, which can identify the positive and negative departures from plan in the area of different sources.

Figure 1 shows the five Slovakian town's annual budget for 2015. Bratislava is the capital city, it has a biggest budget. Košice is the second largest town, also called metropolis. Other towns are in the category to 100 000 000 Euros.

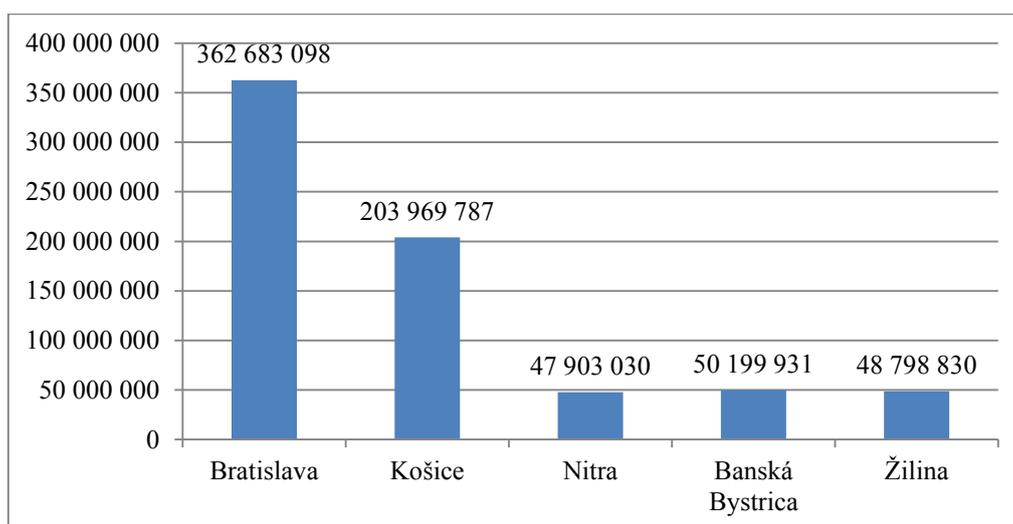


Figure 1: Selected town's annual budget (in Euros, 2015)

Source: own procession according to official web pages of the towns, online, 2015.

Local territorial self-government in Slovakia are municipalities and their respective associations. Municipality (town, village) is a separate territorial and administrative unit of the Slovak Republic, bringing together people who have their permanent residence there (Slovak republic Constitution, 1992).

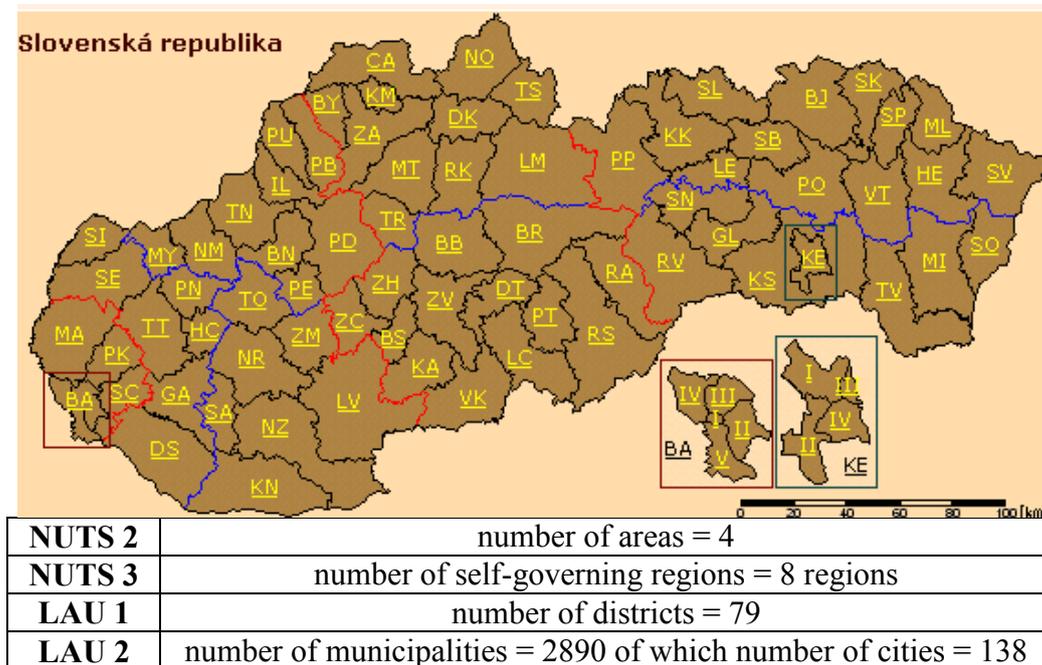


Figure 2: Territorial and administrative division of Slovak Republic

Source: Statistical office of Slovak republic: Municipality statistics, 2015, online, modified by author

Notice: NUTS is Nomenclature of Territorial Units for Statistics. LAU is Local Administrative Unit.

As we can see on the figure 2, the whole Slovak Republic is divided into 4 higher territorial area of which boundaries are marked in red color on the map. The following sectionalization can be seen with the help of blue colored lane lines - Slovakia is at NUTS 3 level divided into 8 self-governing regions, which are called by the Constitution *vyššie územné celky* (Higher Territorial Units), abbr. *VÚC*. The municipalities are defined at the level LAU 2 of the NUTS. These municipalities are spread into 79 districts, which are marked on the map by yellow double character, for example ZA is Žilina district.

Horváth&Partners understand controlling as an integral part of the institution efforts to achieve setting goals through a comprehensive tool for supporting management, which is based on planning, controlling and systematic provision of information. Among the controlling concept, there is a controller too, who is person carrying out the controlling activities (Möhlenbruch, Meier, 1998).

In this paper the attention is focused on the area of controlling in local municipalities.

Material and Methods

In the paper are used the methods of analysis, observation and personal interviewing. The outcomes of personal interviews are presented in results and discussion part. The respondents were people, who are active in municipality controlling.

In this part of the paper is firstly described the activity table (where are the activities and who is involved), then follows the observational part aiming to answer the question what are the required skills of controllers in Slovakian praxis.

Blore, Devas and Slater (2004) wrote in their book about the internal capacity in the conditions of municipalities. According to authors it is necessary to identify, where financial decisions are made and where financial information is held and analysed. Authors agree that it is useful to examine who is involved at what level of which activity in the financial management of a municipality. As the result of these activities can be named as activity table. It identifies who is involved in parts of the financial activity cycle and at what level. The authors defined the following internal actors of activity table:

- F: finance officer and staff
- M: elected members (councilors)
- E: executive (such as a mayor)
- D: departmental heads
- S: seconded finance staff (to departments)

Table 1: Activity table

Level	Financial function				
	Revenue	Budgeting	Cost control	Accounting	Investing
Strategic thinking	F,M,E	F,E	E,F	F,E	E,M,F
Making choices	E,F	E,M,F,D	D	D,S	E,M,D
Setting targets	E,F	F,D	D	F,S	D
Implementing targets	F	F,D,S	D	F,S	D
Reviewing performance	E,F	E,F,M	F	F,E	E

Source: Blore, Devas, Slater: Municipalities and finance: a sourcebook and capacity building, 2004.

The table 1 shows, that the departmental heads play an overwhelming role in cost control activities. If we look at the Slovakian municipality praxis, we can state, that there are not much examples on self-controlling departments with departmental heads in the municipality organizational structures. In the group of the largest cities by population Bratislava (417 389 inhabitants), Košice (235 850 inhabitants), Nitra (80 947 inhabitants), Banská Bystrica (77 787 inhabitants), only in the case of Bratislava as capital city we can find a separate unit for budget, financial flows and controlling (number 60.6 in figure 3) in the organizational structure of the Bratislava town-council. This unit is inferior to financial department (number 60 in figure 3), which is managed by one of the six deputy directors (number 87 in figure 3). Deputy directors are responded to director of Bratislava town-council.

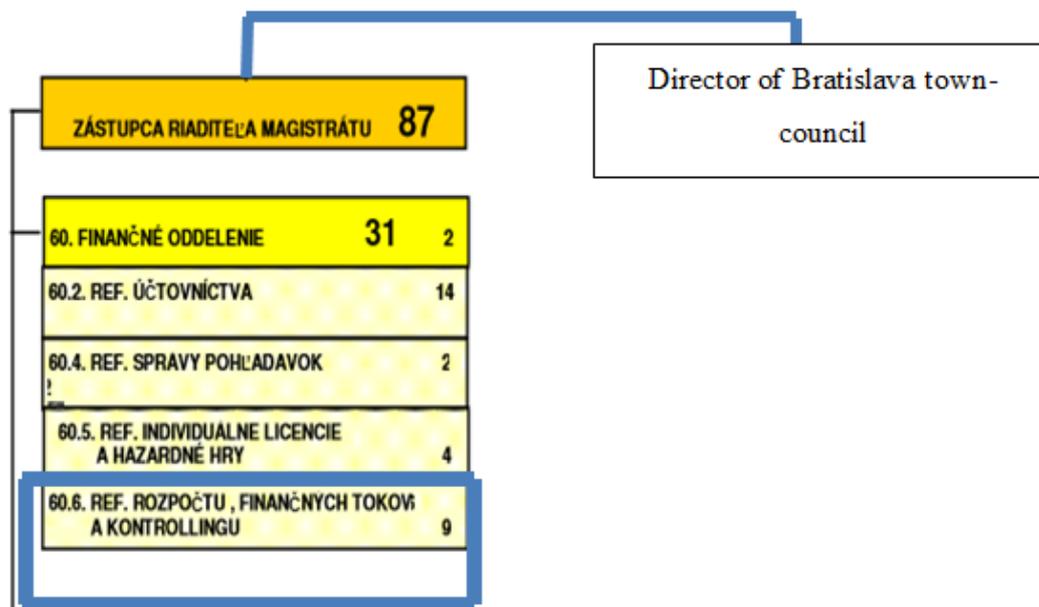


Figure 3: Selected part of the organizational structure of the Bratislava town-council
 Source: Bratislava town-council, 2015, online, modified by author

The unit for budget, financial flows and controlling is mainly responsible for:

- creating the capital city budget with its programs,
- information transferring in the area of the budget to the information system NORIS,
- complex financing of the capital city including its organizations, realization of financial policy of Bratislava,
- reporting on budget management of the capital city,
- preparing financial outputs in the form of statistics and reports for financial institutions, the Ministry of Finance, Statistical Office of the Slovak Republic, and the Recycling Fund,
- working out short- and medium-term analyzes, forecasts and reports required for decision-making and management of capital city and its organizations,
- preparing an annual Cash flow plan for the capital city, monitoring its development and implementation,
- communicating with the bank – loans and account management, term deposits, searching for new funding possibilities for the capital city activities,
- monitoring and interpretation of the monthly results,
- creation and updating of directives and guidelines for controlling,
- maintaining of data for the purposes of controlling in the information system of the capital city,
- developing and optimization of the reporting system (Bratislava town, 2015, online).

The required skills of controllers in Slovakian praxis, this is another consequential area for study. The official portal for job offers – www.profesia.sk can help us to get answers. Within an economy, finance and accounting section there are published the offers in the area of controlling. In the group of the usually desired expertize are the following: University education, English and German advanced language skills, knowledge of finance and controlling processes, advanced Excel skills, SAP knowledge, knowledge of GAAP, excellent analytical skills and solution oriented mind, accuracy and attention to details, knowledge of valuation processes, Certified public accountant or other financial certification is advantage (Portal for job offers, 2015).

Results and Discussion

Our research was based on interviews. Experts at local governments have been interviewed, who carry out controlling tasks at local governments on a daily basis. It has been revealed, while processing responses, that the interviewees in each case provide local government's management with information, help their work, and carry out their control activities. In the case of small local governments the emphases are put on the control tasks and consultancy is provided to the local governments' administrators.

They participate in local council meetings, where they report about their control activities. The main task of chief controllers is to control the financial situation of municipal organizations and legal entities. In addition, they are entitled to control people who manage the village/town assets, or receive money from the municipal budget, where their authority is restricted to asset and financial control. Their task is to control law observation and to preserve efficiency and thrift.

The interviewees summarized the controlling aims in the following way: providing information on management via reporting based on the existing criteria. The aim is to help the decision-making process, revealing mismanagement, suggesting measures for improvement, complying with the relevant laws and regulations, efficient and economical use of assets and funds. Further aim is, of course, to avoid financial manipulation and improper asset management. In our opinion, it is essential to carry out systematic and regular monitoring in order to correct the errors in the shortest possible time. If the aim is to meet the budget limits, then it is very important to monitor the expenditures continuously. The importance of controlling activities is explained with long-term and short-term decision-making support and also with the support of effective municipal asset management.

When carrying out controlling tasks the use of IT systems, software is inevitable; the gathered information can be easily processed, evaluated and stored. MS EXCEL is available for executing certain controlling tasks, since standardized software has not been developed for local governments. The necessary data are provided by the municipal accounting software. The chart elements are filled manually. MS WORD helps with text editing and processing.

When the controlling experts were asked about tools, they unanimously emphasized their own experience and knowledge. Their reports should be understandable and clear-cut, as they are aimed for different target groups. The interviewees regularly take part in training programs and courses. It is important to exchange experience with their colleagues and to study the new literature in the field as well as the new laws passed.

Instead of known controlling models and methodologies they prefer the methodology issued by the Ministry of Finance of the Slovak Republic, and taught in the courses organized by the Ministry. They also try to meet the requirements stated by the management.

It has been observed that both the big and the small local governments face very similar problems while carrying out controlling tasks. The interviewees have mentioned the insufficient control mechanisms, follow-up inspections, and meeting the budget limits. The scarce financial resources make it impossible to meet the municipal budgets. Another weakness is the problematic interpretations of contract terms and conditions. It has also been mentioned that the accountants face high professional expectations, so the constant learning and training is needed.

They contribute to effective decision-making process with their meticulous reports and summaries, such as three-year budget evaluations, municipal annual budget, annual report, and debt balance sheet. All the carried out controls are recorded. The records contain the object of the control, the period, the people involved, statement of facts, and suggestions for improvement. The local government management must be informed about all the details of the records, and the management is entitled to comment on it; the presented documents can be a ledger, a balance sheet, an income statement, accounts, bank statements, expert opinions, reports.

The interviewees think that carrying out controlling tasks greatly contribute to the achievement of local government's goals. The key to success is the efficient controlling activity. The employees of Controlling Department firmly believe that their gathered data and detailed analyses contribute to everyday decision-making and operative management activities.

Conclusion

On which level is the controlling implemented and what the controlling duties are, these were the focus points of the paper. We can identify controlling activities in municipality area, but in the view of organizational structure schemes, the Bratislava is one in the category of biggest cities, which provides proof of existing self unit for budget, financial flows and controlling. This unit is a smaller part of financial department. This does not mean that in other cities and villages are not realized controlling activities, they are, but not through centralized controlling department or unit.

Controllers are common employees, who are active in the financial questions, accounting and budget creating. The most required skills for controllers are language and analytical skills, knowledge of finance, accounting and controlling processes and Excel skills.

Our interviewees agree, that controlling activities significantly contribute to the achievement of municipalities' goals.

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