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**CHALLENGES FACED BY MODERN ACCOUNTING
AS A SCIENTIFIC DISCIPLINE.
FOUR PLANE REFLECTIONS**

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Key words: accounting, scientific discipline, ethics, commercialization of knowledge, data processing, thinking about accounting.

A b s t r a c t

The following text presents the author's four plane reflections in relation to modern accounting as a scientific discipline. This science is becoming increasingly significant in the world at present, which is due to the fact that: (1) the accounting science (scientific discipline) is an applied science, i.e. the one that considerably enriches the accounting practice, important not only for the company which deals with accounting, (2) its research spectrum is presently extraordinarily comprehensive as it focuses on many aspects, including the social and behavioural ones, which are important for accounting.

Bearing in mind that accounting in real terms in the context of the worldwide standardisation trend in the author's opinion is one of the most original systems and the one which demands exceptional professionalism from among all the information systems related to human activity, the author shares her reflections with reader on the tasks of the scientific discipline dealing with this kind of accounting in a methodical and scientific way.

The planes of deliberations have been determined by: (1) unlimited data processing revolution, (2) the imperative of opposition to the traditional perception of accounting, (3) commercialisation of scientific research results, (4) ethics in scientific research.

**O WYZWANIACH STOJĄCYCH PRZED WSPÓŁCZESNĄ RACHUNKOWOŚCIĄ JAKO
DYSCYPLINĄ NAUKOWĄ. CZTERY PŁASZCZYZNY PRZEMYŚLEŃ**

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Słowa kluczowe: rachunkowość, dyscyplina naukowa, etyka, komercjalizacja wiedzy, przetwarzanie danych, myślenie o rachunkowości.

Abstrakt

W artykule przedstawiono cztery płaszczyzny przemyśleń Autorki dotyczących współczesnej rachunkowości jako dyscypliny naukowej. Nauki, która – w świecie i to szczególnie obecnie – nabiera ogromnego znaczenia. Dzieje się tak ze względu na fakt, że: (1) nauka o rachunkowości (dyscyplina naukowa) jest nauką tzw. stosowaną, tj. istotnie wzbogacającą praktykę rachunkowości, ważną dla rozwoju nie tylko przedsiębiorstwa, które tę rachunkowość prowadzi, (2) jej spectrum badawcze jest współcześnie wyjątkowo szerokie, ponieważ koncentruje się na wielu aspektach (w tym także społecznych i behawioralnych) ważnych dla rachunkowości.

Mając na uwadze, że rachunkowość w praktyce – w kontekście ogólnoswiatowego trendu jej standaryzacji, w opinii Autorki, jest najbardziej oryginalnym i wymagającym wyjątkowego profesjonalizmu systemem informacyjnym ze wszystkich znanych i odnoszących się do działalności człowieka, Autorka dzieli się swoimi przemyśleniami na temat zadań dyscypliny naukowej, która taką właśnie rachunkowością zajmuje się metodycznie, naukowo.

Płaszczyzny dla rozważań wyznaczono przez: (1) rewolucję nieograniczonego przetwarzania danych, (2) imperatyw przeciwstawiania się stereotypowemu myśleniu o rachunkowości, (3) komercjalizację wyników badań naukowych, (4) etykę w badaniach naukowych.

Introduction

The modern world is frequently referred to as an information era. It means that the information and its attributes like usefulness, credibility, accessibility and the way of application determine human activities and have an impact on the appraisal of their effects and further planning of the activities. The information of this nature seems to be ubiquitous and of great intensity. However, they are mingled with unreliable information, which only introduces noise and often performs peculiar diversifying functions. In the information era the ability to select it is of the utmost importance and the conviction of its accuracy cannot be overestimated.

Accounting as an information system is located within the family of systems functioning in the contemporary world and generally regarded to be a system generating information of high quality parameters. A distinctive feature of accounting is the fact that it provides processed information acquired on the basis of elementary source materials. The processing follows clearly defined methods and is subordinated to the aspiration for creation of reliable information aggregates. The significance of processing is multi-dimensional and essential. For these reasons, accounting as a practical discipline as well as a scientific discipline in the information era has an important role to perform: an information role in practice and an epistemological role in science.

The article identifies and discusses synthetically four reflection planes. They are presented below with regard to accounting as a scientific discipline. They are based on the observation in the area of: (1) the development of technology connected with data processing, (2) stereotyped perception of the

economic significance of accounting (harmful for accounting), (3) trends connected with conducting science for the commercialisation of scientific research results, (4) ethics significant in the scientific research¹. The basic method used in the process of writing was a critical analysis own observations of phenomena which occurred over some decades and now are important for accounting as a science.

PLANE 1 – unlimited data processing revolution²

Every „time”, century and era have their distinguishing features. The contemporary time is absolutely unique for a number of reasons. One of them is the unlimited data processing revolution, which is not indifferent also for accounting, which deals with data processing on daily basis.

This revolution results from three trends (See more: PŁOSZAJSKI 2013, pp. 5–10; see also: *Przerażony kameleon* 2005): calculation capacity exponential growth, broad access to it and a dramatic price decline. Data processing is becoming the cheapest way to solve management problems and it is so intensive that it rapidly changes the business model of companies and institutions.

„Databases of the state of the human world”, the so-called Big Data and their processing are changing also a broadly perceived cognitive process. Although the data are collected in different configurations, they may be processed simultaneously. The purpose of the processing is to search for the sense hidden in the data!

It may also be noted that „in the old model when data were difficult to acquire and their processing was costly, companies had to decide which data were necessary for them, i.e. they had to determine the structure of their database system before they started to collect them. Presently, the collection, analysis and storing are very cheap. [...] A dramatically declining cost of data

¹ The presented reflections were born and then reinforced together with the observation of parallel changes in the area of data processing, substantive changes on a global scale in the accounting related laws as well as the behaviour of practitioners and scientists in the area of accounting. The author has already expressed her opinion on accounting, see for example the last publication on this subject: (KARMAŃSKA 2013a). In the form presented in this text the author's observations are presented together for the first time, with references being made to earlier publications, where a given problem was discussed in a broader context.

² The observations below indicate the necessity for the extension of scope of research to be undertaken at present within the area of accounting as a scientific discipline, with the reason resulting from a tremendous progress in data processing technology. Broader context and examples of research done in Poland now, see: KARMAŃSKA (2013a).

collection and processing allows for the solution to the calculation tasks which were economically unjustified or seemed impossible yesterday. [...] In the new model, in which data are easily accessible and their processing cheap, it is possible to completely convert the sequence hypothesis – data collection so far followed in science and business. In this „structureless search” huge databases are built by means of collection of all the available data and only then questions are asked. And even these questions are often not necessary. The methods used today allow for a simultaneous analysis and search in many databases of different quality in search of unexpected correlations. We do not need a clearly formulated research hypothesis – we can wait for its later appearance. (Paradoxically, only this process may appear to be true research. Albert Einstein once said that if we knew what it was we were doing (i.e. searching), it would not be called research – see P. PŁOSZAJSKI). In the self-updating world of the sixth wave of entity Internet and computer revolution, it will change our way of learning. We will be able to make predictions without any prior model building and theory creation”. [...] As a result of this computer revolution company’s resources become elements of the information system able to collect and process data, communicate, cooperate with other entities, and even adjust and automatically react to any changes in the environment. These „intelligent” resources will improve the quality of processes, give new features to products and create new business models. A company is becoming a full-time data analysis laboratory. The purpose is to analyse every transaction and all the conclusions drawn from the customer interaction in order to maximally shorten the waiting time for the data and be able to make decisions in real time” (PŁOSZAJSKI 2013).

The above synthesis, in my opinion, outlines the world which we are witnessing and which is unimaginably changing. The world in which accounting has undoubtedly its own place, as it is the most original system and the one which demands exceptional professionalism from among all the information systems related to human activity which I know. It has such a unique ability to inform about the past and future of a business entity, which can operate thanks to the human initiative and business skills. It has also another feature: it is used by a powerful group of stakeholders whose impact, from every time perspective, is not indifferent for the fortune of not only business entities or country economies but also for the whole world. Like any other system, accounting has its information inputs, processing procedures and information outputs. It has always (for centuries) had them, but nowadays in every element of the accounting information system there is much to happen. It results from the fact that the environment which makes use of the accounting system wants to know more and more in order to operate in the

conditions in which remaining in the modern economy requires knowledge and important competence like the knowledge management skill. Accounting information outputs are growing, which changes not only their formal relations, they require the application of new approaches to determine values included in them, they are completed by new elements, also narrative. All of it translates into the information scope and quality. Good quality is to be ensured at every stage of operation. It is worth noting that in order to cope with tasks of modern accounting, people connected with it have to possess a comprehensive knowledge of economics, finance, management and law as well as many others than competence „knowledge”, including the so-called soft competences.

This world does require from everybody active behaviour and openness to changes from which there is no retreat. It means that also accounting has to verify (possibly not only in business) some emerging important areas and new generation information solutions. It is the time, I think, in which the science of accounting will have extremely much to say due to the rise in significance of management information meeting definite quality features, intensified in different aspects. Firstly, it will be necessary to examine the accounting environment in the area of economics, finance and management, which are the scientific disciplines as well as the practice examined by them that will first react to „the new”, changing the models of how to do business. Secondly, it is the science of accounting not the accounting practice that will (or should) determine a number of new attributes of the accounting information system which could do well in the conditions in which the usual features are: (1) information bulk, including financial available free of charge and online, (2) necessity for data selection and examination of their reliability also online, (3) threat of information manipulation (also financial), possible actually every day.

New conditions from researchers coming from many scientific disciplines require a scientific exploration, which is related also to accountants. In order to make this exploration cognitive, the human environment should approve the paradigms whose recognition will allow for further research. If it is not possible (and such a situation cannot be taken into account at present), a discussion about them is advisable.

In view of the aforementioned, it is recommendable that conclusions should be drawn to determine new conditions, scientific *status quo* of such concepts which are thought to be paradigms nowadays or which aspire to be called paradigms. In this connection, the environment scientifically connected with accounting should be aware of the features of the knowledge based economy (information era) as these are the features which as a matter of fact will decide about the recognition legitimacy of well-known accounting paradigms.

The accounting challenges posed by the information era are of a diversified nature. Irrespective of the fact whether their weight is closer to financial reporting or cost management, they emphasize more distinctly than ever before in the accounting history a great significance of this discipline for the corporate management. There may be an impression of a huge synergy and mutual interdependence of the corporate management sciences with the science and practice of this discipline. These relations give rise to the need for research in the area of accounting, which in the era of accounting always have to possess (1) an interdisciplinary context, and their results should be useful in practice.

In order to be useful, accounting research results have to (2) satisfy the needs of wide circles of stakeholders and corporate managers. They should even (3) exceed their expectations, and anyway, (4) they should consider primarily the need for a deep penetration of the nature and determinants of business activity in order to determine, through the modelling of the phenomena appearing in it, the ways of possibly most reliable presentation of their effects and explain the causes of the observed trends.

It results from the above that when undertaking new directions of research in the area of accounting it seems absolutely indispensable to determine what eventually they are supposed to serve. It is indispensable, although not all research in different disciplines was conducted at the moment when it was well known what purposes their potential results may serve. Research is often initiated only in order to answer the question: What would happen if? However, the situation in accounting is different. The scope of impact is enormous, though confined to business activity. The functions performed by it result from the ancillary role ascribed to it by business administration sciences. Paradoxically, everything that improves accounting improves corporate management as well. Obviously, there is a feedback between the company management and its accounting. And it is to determine the goals of accounting research. It is the hub of a new search for the ways of how to reflect and analyse the broadly perceived effects of accounting and the ways of early warning systems (both through the use of management accounting tools and financial accounting concepts).

PLANE 2 – the imperative of opposition to the traditional perception of accounting³

It is worth pointing to the fact that the world of business which does not penetrate the problems of accounting as accounting scientists do, and treat it rather as a system terminologically hermetic and necessary to run in a business entity for formal reasons (because the law requires it), depreciates the information value of accounting and the work done by people connected with it. It is usually thought that there is a Dt or Ct in the same place for centuries. Thus, nothing interesting can occur and nothing has really occurred. Not to mention the fact that in such an opinion, accounting has really one task: to keep register and make calculation in the public and legal area, or possibly to monitor the state of dues and liabilities as well as the balances of bank accounts. It becomes more exciting when notions like *creative accounting*, *aggressive accounting* or even *toxic accounting* appear. These are successive labels given by those who make use of their authority in business and evoke this sort of creativity forgetting that it is them to be responsible for the authenticity and quality of data generated in the accounting system.

The thinking stereotype outlined above to frequently come across in practice as well as among people who professionally explore broadly the economic practice on many planes (I do not mean accounting itself), has unpleasant consequences for both the accounting practice and accounting as a scientific discipline.

In practice, people dealing with accounting are identified with the function of „bookkeeper” and usually in a technical sense. It is thought that they make everyone’s life difficult as they require some signatures, announce that there is no money, that costs are too high and incomes too low, that losses are being generated instead of profits. The people who can hear that get irritated because they cannot tell expenditure from costs, incomes from inflows, and they clearly associate depreciation, profit and its division with money. They do not want to worry that their decisions have an impact on the volume of costs (for example fixed costs), which they are not even aware of. They want to pay low taxes and achieve high profits, labelling their decisions with slogans of *sustainable growth* or *social corporate responsibility*. They treat accounting support as meeting one of the duties indispensable to do business.

³ The observations below indicate the necessity for the extension of the scope of research to be conducted at present within the area of accounting as a scientific discipline also in order to clearly determine the identity of the accounting information system and confirm its unquestioned role in the economic growth on a micro- and macroeconomic scale as well as on the global scale. On the contemporary trends of the accounting practice development, the related opportunities and threats as well as the perception of accounting – despite stereotyped ways of thinking – as a system of high qualitative features see e.g.: (KARMAŃSKA 2013c).

Although luckily, there are also different attitudes towards accounting (presented by business managers to be spelled by capital M), there is a new challenge for accounting as a scientific discipline – the need to prove the necessity for debunking a stereotyped way of thinking about accounting. Accounting as a scientific discipline should do this not only for the accounting itself, but primarily for business, which is becoming increasingly global and cannot dynamically and sustainably develop without possessing enough financial information. This financial information is: (a) more and more complex in terms of the assessment methodology of particular categories, (b) very detailed as determined by absolute transparency of the conducted business, (c) characterising different, important for the decision making process, areas of financial and operational risk, and in every case (d) qualitatively dependent on the professionalism and business ethics of accountants. In order to understand and confirm the accuracy of this statement, an effort should be made to have a look at about 3.000 pages of the text of the International Financial Reporting Standards and the accompanying interpretations, describing the rules and requirements in the area of contemporary accounting practice.

PLANE 3 – commercialisation of research results⁴

The significance of changes in the present day scientific world is reflected in the practice of creation of the so-called Technology Transfer Centres. Such centres are founded primarily in scientific entities and universities. The major role of such centres is to undertake actions leading to the sales of free transfer of results of research and development work.

A Technology Transfer Centre completes its tasks in particular through⁵: (1) examination of intellectual property with regard to the obtaining and retaining of legal protection, (2) examination of the commercialised potential of intellectual property, (3) making reports including the results of examination of intellectual property, (4) finding an investor interested in the use of intellectual property (5) setting the form and conditions of commercialisation, in particular through negotiations and conclusion of appropriate agreements, (6) cooperation with external companies and institutions, (7) application of

⁴ The observations below indicate the necessity for the extension of the scope of research to be undertaken at present within the area of accounting as a scientific discipline irrespective of the possibility of commercialisation (i.e. sale of research results). They are presented here because the creation of the so-called Technology Transfer Centres in scientific entities and universities becomes an opportunity on the one hand and threat to the development of science on the other.

⁵ Cf. e.g.: Order no. 10 of 27 February 2013 on founding the Technology Transfer Centre. Rector of the Warsaw School of Economics, ZOWA-0161/ZR-10-67/13.

agreements concluded as a consequence of intellectual property commercialisation, (8) conclusion of agreements on the use of property owned by the institution in which the research was conducted used to commercialise scientific and development as well as provision of scientific and research results, (9) register of commercialised intellectual property.

The review of standard tasks completed by the Technology Transfer Centre indicates the importance of the problem connected not only with copyright, but primarily with the importance of the features of scientific research results which make it possible to treat them as in a scientific (research) institution as a peculiar ready-made product having a value of practical usefulness.

It seems, on the one hand that doing research with an assumption of finding something to be sold or donated may be a good driving mechanism for the development of science in a given area. On the other hand, it may pose a real threat to research, which primarily should be conducted exclusively due to clearly scientific reasons. It may be stated that we are watching science (perceived as an autonomous part of culture serving the explanation of the functioning of the world a human being lives in) become an area of more and more commercialisation.

The answer to the question whether it is good or not is not really that simple. To a large extent it depends on the scientific discipline in the context of which a possible commercialisation is considered. The observations below are related exclusively to accounting as a scientific discipline.

At the beginning, it is worth mentioning that the modern economic determinants – global and information at the same time – constitute a potential which favours new directions of development of accounting as a scientific discipline. It results from:

- dynamism of changes in the business environment, stimulating to search for better concepts and ways of analysing and reflecting business activity,
- freedom (including language) and time of information flow/ exchange of information allowing for quick business communication,
- aspiration to create the world accounting model, which is reflected by the awareness of necessity for cooperation of world institutions and organisations connected with accounting.

At the same time however, the above mentioned determinants may impose some limitation with regard to the scope and desire of conducting scientific research in the area of accounting due to:

- dynamism in the business environment makes concepts, research results and tools used permanently, completely or partially outdated,
- freedom (including language) and time of information flow/ exchange of information favours information noise and hinders the application of the „quality filter”,

– aspiration to create the world accounting model is in turn susceptible to the impact of *pressure groups* or *interest groups*, to yield to the pressure of representatives of different business environments of different countries participating in institutions and organisations determining the conceptual framework of the world accounting.

In these difficult conditions, with no sense of stability anywhere, the work in the area of accounting cannot be considered an easy task. Thorough research takes a lot of time, absorbs a lot of energy and intellectual effort and requires substantial sacrifice, determination and perseverance. Its result is never known in advance. And it is a generally recognised standard in the world of science that if the research is to serve the development of a certain discipline (in this case accounting), it should contribute to it some novel elements, enrich its workshop and conceptually develop its analytical framework. Coping with these requirements, especially nowadays, is becoming a serious challenge for the environment scientifically connected with accounting. In the time of commercialisation it is worth bearing in mind a timeless mission connected with it: „truly scientific work for the sake of true science”.

The criteria of research quality appraisal with regard to accounting have hardly ever been explicitly defined. When reviewing or appraising research results, one does it subjectively, being customarily guided by a well perceived contribution to science. The appraisal requires primarily that the scientific research in the area of accounting should, first, clearly specify: (a) substantive reasons for the conducted research, (b) the so-far conceptual findings of other researchers dealing with this area (whenever the research is a continuation and not a pioneering work). Second, the research should penetrate the analysed problem multiaspectedly in the most comprehensive approach from the accounting perspective but respectively in the context of finance, economics and management. Third, it should present the author’s own analysis of the problem under consideration. Fourth, it should be concluded with a properly sorted out study presenting the research results and the outline of further possible areas or directions of research based on the conclusions and solutions achieved, and fifth the popularisation of research results.

As presented at the beginning, nowadays, there is a strong tendency to undertake research whose research may be, putting it bluntly, sold, which is called commercialisation in a more politically correct way. It is difficult to generalise whether or not this trend is right. Certainly, it is entirely „safe” for the development of knowledge in some areas important for the broadly perceived economic growth. Certain threats may refer also to accounting. People dealing with accounting as a scientific discipline can effortlessly notice them. They can also notice that some research done in this discipline of

knowledge is not subject to commercialisation due to the holistic approach to certain accounting related aspects. (A good example of research which may be considered valuable in the cognitive sense and at the same time the research not to be subject to commercialisation is for example *Grounded Theory of Accounting Development. Based on the Case Study of Armenia*, the research I began in October 2013 at the Gavar State University, Armenia).

Bearing in mind the aforementioned observations, it should be emphasized that an accounting researcher (like possibly researchers in other fields) in the era of the knowledge based economy should be primarily characterised by a humble attitude to knowledge and the aspiration to diligently explore it. The commercialisation of research results should not dominate or obscure this attitude. Understanding the „laws that govern the world”, I think that the maintenance of an appropriate research attitude in the area of accounting as a scientific discipline requires not only being aware of the scientific mission but also striking a happy medium, which may be reflected in researcher’s desire to keep balance between conducting research subordinated and unsubordinated to commercialisation.

PLANE 4 – Ethics in scientific research in the area of accounting⁶

The researcher’s attitude is inseparably connected with behavioural ethics. The problem is becoming even more transparent if wrong behaviours in the research environment are mentioned here.

Ethicists formulate many definitions and devote numerous scientific studies to it. Nevertheless, each of us is able to declare whether something is ethical or not. It is so because in real terms ethics means the whole of the evaluations and moral standards accepted in a given environment. These standards may differ in time and space. There are many factors to determine their composition. Ethics as a specified list of moral standards is not an intrinsic being. It always refers to human actions and attitudes, whose immanent attribute it should be as a matter of principle.

About ethics – in the broadest sense – one can speak as a generally accepted and impeccable human behaviour with regard to other people, situations, phenomena and objects which directly or indirectly will affect the appraisals,

⁶ The observations below indicate the necessity for conducting research within the area of accounting as a scientific discipline with maintaining an ethical research attitude. Unquestionably, ethical behaviours in the area of accounting translate into the accounting practice. On the significance of professional ethics in the accounting practice see: (KARMAŃSKA 2009) and (*Kodeks etyki zawodowej w rachunkowości*, 2013).

undertaken or abandoned actions of other people. Ethics begins with a man and eventually focuses on another man or group of people. Every human action may be appraised in terms of ethics, even if the undertaken action is not aimed directly at people, as for example conducting scientific research, making a financial report or marking an examination paper.

External appraisals and mental effects of human actions may be conducted only by another man or the doer responsible for the behaviour or action if he is aware of his ethical or unethical attributes. It is worth emphasizing that these attributes to a large extent depend on the cultural determinants of the environment in which human actions and behaviour are regarded as ethical or unethical.

Approaching the problem in a methodical way, there may be two kinds of factors determining the ethical attitude of a researcher in the area of accounting mentioned:

- exogenous factors, which result from all sort of codes or legal standards worked out by experts in different fields and imposing the behavioural standards also on this researcher,
- endogenous factors, which are connected with internal (personal) code predetermined by cultural factors or the natural environment as well other environments including economic.

The ethical attitude of the person conducting a scientific research is a resultant of a degree to which he accepts exogenous ethical and moral codes and endogenous honesty and „clarity of conscience”, which together may cause that in the ethical aspect this person will be appraised not on the basis of the research results (which reflect the research potential and not ethics) but on the basis of the way the research has been conducted and presented. I think that every researcher in accounting or other areas feels whether he behaves ethically or not. However, one should be aware that different people’s „ethical sensors” may have different „sensitivity”, which eventually results in the necessity of explicit speaking about ethical research attitudes.

Accounting as a scientific discipline has a strong impact on the accounting practice through the conducted research and creation of theories and models adequate to the dynamically changing management conditions. The period during which accounting was supposed to deal only with the generalisation of practice is over now. It may be stated that there has also been a change in the direction of flow of ethical patterns in the accounting related activities. At the beginning the accounting practice penetrated science and shaped scientific research standards. At present, the scientific research standards affect the accounting practice much more strongly than for example 20 years ago. What may be considered to be a model useful in practice, as a rule is first born in the sphere of science. As a consequence, within the practice of accounting also

ethical standards are to a large extent determined by the science of this discipline.

Thus, exerting an appropriately strong impact on ethics in scientific research is very well grounded. It cannot be unnoticed that the researcher's attitude may be strongly affected not only by the qualitative changes in the way scientific research is conducted, the availability of source information and opportunity to process it, but also the aforementioned commercialisation of research results, which is tempting and creates opportunities to disobey the rules of ethical work and ethical scientific cooperation.

However, the publication *Dobre obyczaje w nauce* (*Decency in science*) says⁷:

Unlike other creative activities, science is presently a cooperative and general social undertaking. It is elevated to the level of factors deciding about the development of mankind and the world, about the fortunes of countries and nations in the 21st century. It imposes on the scientists a duty getting young scientists accustomed to and instilling in them the principles of good quality work and decency. It also results in a duty of pointing out those who disobey these rules.

The set of decencies quoted here creates exogenous standards of professional ethics. Research workers are ascribed a high rank in the social hierarchy and perceived as authority in social life. In this way, a demanding framework is set which should accommodate 100% of the „internal professional personality code of every scientist”, i.e. endogenous professional ethical standards.

Decency in science refers to practically all functions performed by a research worker⁸. In order to realise what behaviours of a research worker will be considered ethical, it is enough to present only general principles. Their specification is as follows (Excerpts from *Dobre obyczaje w nauce* 2001):

1. The research worker is bound to the universal ethical principles, in particular the rules of decency in science.

2. The research worker cannot demand from his co-workers or subordinates a behaviour contrary to the principles of decency in science.

⁷ In the preface to *Dobre obyczaje w nauce. Zbiór zasad i wytycznych* (2001, p. 4). The principles included in „Decency in science” result from many discussions in the academic environment in Poland, a similar document prepared in 2000 for the European Union by European Science Foundation, discussions paragraph by paragraph and point by point as well as voting on the approved version of the text. This kind of action of formulating guidelines and hints is held in the whole world in different ways. It is about the maintenance of the reliability and accuracy of science, about the ethos of scientist and the social confidence to science. Ibid.

⁸ They include ethical standards grouped in the following way: (1) General Principles, (2) Research worker as a creator, (3) Research worker as a master and manager, (4) Research worker as a teacher, (5) Research worker as a reviewer, (6) Research worker as an expert, (7) Research worker as a propagator of knowledge, (8) Research worker as a member of society and international community.

3. The research workers cannot excuse his behaviour contrary to the principles of decency in science with obedience or loyalty.

4. In a situation when the use of decency in science clashes with other generally accepted systems of value, the research worker should make a choice according to his conscience and make a personal decision with regard to every individual moral conflict.

5. The research worker recognizes education as an important part of culture and defends it against unjustified charges.

6. The research worker is obliged to combat the improper use of scientific achievements and the use of them against people.

7. The research worker should continually broaden and deepen his knowledge and improve skills.

8. The research worker is obliged to have a critical approach.

9. The research worker should defend their freedom. (Freedom of education means freedom of choice of problems to deal with, freedom to choose the method of solution, and primarily freedom of thought and freedom speech).

10. The research worker condemns the use of non-scientific criteria in science, and is full of reserve not contempt with regard to the problems which are not included in science yet.

11. The research worker does not act maliciously to damage the reputation of a fellow research worker.

12. The research worker does not make the quality of his work dependent on remuneration, but has the right demand fair remuneration for his work.

13. The research worker has a special responsibility to spread, in his environment personally and through institutions and scientific organizations, the principles of diligent scientific work, to fight scientific dishonesty or behaviour against decency.

The above imperatives should constitute „stone tablets” for everybody dealing with or intending to do research. It refers to all the scientific disciplines, so accounting may be by no means an exception.

Conclusion

At present, accounting as a scientific discipline is going, like economics, finance and management, through a difficult period. A period in which these disciplines are searching for their identity and verifying scientific paradigms. The era of the knowledge based economy has brought the unprecedented conditions. Earlier theories describing the world of business and, more comprehensively the whole economy, appeared doubtful or insufficient in relation to the fact that the world practically in every aspect of its functioning has been

dominated by *information*. Accounting is an important system in this information based world. The scientific research on how such a system should work in order to effectively serve not only individual business entities and countries, but also in a broader sense, a further sustainable economic development of the world, is becoming an unquestioned mission of accounting as a scientific discipline. Scientific research confined only to a single business entity and its accounting is currently absolutely insufficient. Accounting and the related legal standards are an element of the macroeconomic and global policy.

In view of such conditions accounting as a scientific discipline faces numerous challenges. This text attempts to bring them closer on four planes; they are seemingly distant but in real terms they are strongly connected.

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INTEGRATED REPORTING AND THE DIRECTIONS OF ITS DEVELOPMENT

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Key words: integrated reporting, management commentary, social accounting.

Abstract

The aim of the paper is to present the concept of integrated reporting. Its aim is to explain to the stakeholders how value is created by a company with the use of its resources and relations as well as interactions with the external environment. The integrated reporting framework has been developed by the International Integrated Reporting Council, and the reason for this was the economic crisis. It seems that in view of the limitations of traditional financial accounting, it is advisable for companies to start practicing integrated reporting. This issue is also worth addressing within contemporary accounting research.

SPRAWOZDAWCZOŚĆ ZINTEGROWANA I KIERUNKI JEJ ROZWOJU

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Słowa kluczowe: sprawozdawczość zintegrowana, sprawozdanie z działalności, rachunkowość społeczna.

Abstrakt

W opracowaniu przedstawiono koncepcję sprawozdawczości zintegrowanej. Jej celem jest dostarczenie interesariuszom informacji o tym, jak przedsiębiorstwo tworzy wartość, wykorzystując dostępne zasoby i relacje oraz wchodząc w interakcje ze środowiskiem zewnętrznym. Wytyczne jej sporządzania opracowano w *International Integrated Reporting Council*, a przyczyną powstania był kryzys ekonomiczny. Wydaje się, że w obliczu ograniczeń tradycyjnej rachunkowości finansowej wskazane jest rozpoczęcie praktykowania zintegrowanej sprawozdawczości przez spółki. Warto także podejmować ten problem w ramach współczesnych nurtów badawczych rachunkowości.

Introduction

Integrated reporting is a process founded on a comprehensible approach to a company's economic, social and environmental performance. It results in a periodically published integrated report informing the stakeholders how an organization's strategy, governance, performance and prospects contribute to the creation of its value in the context of the external environment. There are two basic principles underlying the development of the concept of integrated reporting, namely, accountability and transparency.

Reference to accountability and attempts at translating this term into Polish can be found in the papers of many authors (Among others BURZYM 2008, p. 83, DOBIJA 2003, p. 10, FRANEK 2013, p. 99, GABRUSEWICZ 2010, p. 36, JABŁOŃSKI 2013, p. 70, KOSMALA McLULLICH et al. 2005, p. 71, MUĆKO 2008, p. 16, SZOT-GABRYŚ 2013, p. 94). *Rozliczalność* and *odpowiedzialność* are the most commonly used Polish equivalents of the term. Accountability is understood as the company's obligation to report to the stakeholders on the actions taken and thereby accounting for the results obtained. The obligation results from the fact that the company receives consent to act (legitimacy) from the public, resulting in its taking responsibility for the effects obtained including not only the financial, but also social and environmental ones.

Transparency refers to the way companies disclose information to external users. Accounting regulations in conjunction with the concept of accountability aim at ensuring that the information presented by the company reflects its actual (true) situation. Transparency in the process of an entity's communication with the environment makes the real and comprehensive information on its performance be provided in an appropriate form and in due course to all interested parties. It is ensured by various regulations and guidelines forming companies' information policies. These include the guidelines for integrated reporting, published in December 2013.

The aim of the paper is to present the concept of integrated reporting and to indicate the premises for its further development and wider application in accounting. The author has reviewed the literature on the subject paying particular attention to the guidelines in question and papers of selected authors related to them.

Guidelines for integrated reporting

On August 2, 2010, the International Integrated Reporting Committee (IIRC) was created and its objective was to develop a global framework for integrated reporting which could be used worldwide¹. The guidelines combine

financial, environmental, social and governance information in a clear, concise, consistent and comparable form. They use the principles-based approach due to the need for ensuring a sufficient degree of comparability of presented information while preserving the flexibility which results from the specific circumstances under which different organizations may operate and carry out the process of value creation.

In December 2013 IIRC presented the final version of the integrated reporting framework. The document consists of two major parts and four chapters. Its overall structure is presented in Figure 1.

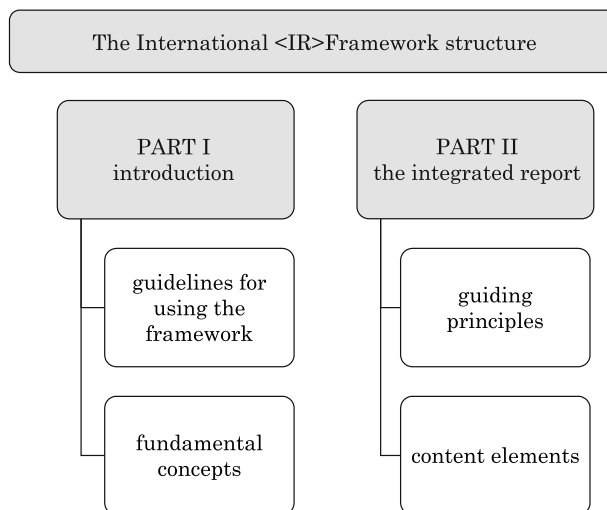


Fig. 1. The International <IR>Framework overall structure

Source: The International <IR>Framework (2013).

The chapter which deals with the guidelines for the framework application discusses the following problems:

- integrated report definition, its purpose and users,
- objective of the framework,
- form of report and relationship with other information,
- responsibility for an integrated report.

Other issues, such as fundamental concepts, guiding principles and content elements are briefly characterized in Table 1.

¹ Cf. KRASODOMSKA (2012a). At present Committee operates under the name International Integrated Reporting Council.

Table 1

The fundamental concepts, guiding principles and content elements of The International <IR>Framework

Fundamental concepts	the capitals: – financial – manufactured – intellectual – human – social and relationship – natural and the value creation process
Guiding principles	– strategic focus and future orientation – connectivity of information – stakeholder relationships – materiality – conciseness – reliability and completeness – consistency and comparability
Content elements	– organizational overview and external environment – governance – business model – risks and opportunities – strategy and resource allocation – performance – outlook – basis of preparation and presentation – general reporting guidance

Source: The International <IR>Framework (2013).

At the core of the framework there lies the concept according to which the company uses resources and relationships (referred to as capitals) and interacts with the external environment to create value in the short, medium and long term. The ability to create value allows the company to provide the suppliers of capital with return on investment and has a number of social and environmental consequences. All relevant information related to this process is reflected in the integrated report. Its development is in line with the use of new technologies which makes it easier to use by the stakeholders, although it is not intended to be just a simple summary of information provided elsewhere e.g. in financial statements, a sustainability report, or on a corporate website.

Many accounting professionals are involved in the development of the integrated reporting framework. The Board of the IIRC comprises I. Ball, former Chief Executive Officer of IFAC Principal Advisor at IFAC and Chairman of CIPFA International and P. Druckman, formerly a Director of the UK Financial Reporting Council and President of the Institute of Chartered Accountants in England and Wales (ICAEW). The Council includes representatives of the IIRC's member organizations, such as AICPA, ACCA, CIMA, BDO,

Ernst Young, Deloitte, IASB, ICAEW, IFAC, KPMG and PwC. In addition to the involvement of accounting specialists in the development of IR framework, other reasons can be indicated for its inclusion in the current accounting research. These are:

- the use of management commentary as a place for presenting information included in the framework,
- reference to social accounting, which is recognized as an accounting discipline,
- interest in the concept shown by Polish authors representing the accounting discipline.

Management commentary as supplement of the information presented in financial statements

Integrated reporting is a response to the changes that have occurred in the companies' operation in recent years. They are due to the rise in the importance of intangible factors of their success which are not presented in the financial statements and a growing belief that their social and environmental impacts affect their financial results. The reporting provides financial and non-financial information concerning the results of the company's activities useful to users in decision-making processes. Thus its objectives are consistent with the main objective of accounting and its most important – informative – function. Financial statements, in the current form, do not meet the utility requirements. Nowadays, users (stakeholders) often rely on additional sources of information, such as management commentary in order to make decisions. This commentary can be regarded as a „connector” between the integrated reporting and traditionally understood accounting that provides financial information. Management report is the subject of the provisions of the accounting Act (art. 49), the new accounting directive of the European Union (Dyrektywa Parlamentu Europejskiego i Rady 2013/34/UE, art. 19), the IASB guidelines (*Praktyczne stanowisko* 2011) and the Accounting Standards Committee (*Krajowy standard rachunkowości nr 8*, 2013). According to some authors' opinion it is „a report on the borderline of accounting” (MUĆKO, HOŃKO 2013). However, when integrated with financial statements, it supplements and complements presented information (in particular with regard to the problems that cannot be contained therein due to existing constraints) and at the same time is a source of relevant forward looking information also derived from the accounting system (SOBAŃSKA 2013). One of the stages of integrated reporting implementation can be presenting the information included in the management commentary guidelines (*Towards Integrated Re-*

porting 2011, p. 20). Wider coverage of the information relating to the environment, social issues and workers, respect for human rights and tackling corruption is also proposed in the draft amendments to the recently adopted directive of the European Union (DADACZ 2014, p. 8).

Integrated reporting and social accounting

Basing on the existing literature on integrated reporting, it may be assumed that this is an innovative concept. Its provisions are, however, consistent with the problems undertaken within the framework of the social accounting² that flourished in the 1970s in the United States. Although it does not belong to the mainstream accounting research, it is considered to be its important area, which was reflected in the fact that it took up a separate section during the Annual European Accounting Association Congress (EAA)³.

The definition of social accounting which is probably one of the most widely cited in the literature on the subject is that by GRAY et al. (1987 as cited in CROWTHER 2000, p. 26). It describes social accounting as the process of informing different groups of stakeholders and the general public about the social and environmental impact of economic activities. It requires extending the obligations of the companies beyond the traditional provision of financial reports to the owners of capital, in particular shareholders. The need for this is based on the premise that companies have other obligations than making money for shareholders.

The social accounting referred to, should not be equated with the social accounting understood as a statistical-economic discipline. Also, it should not be assumed that it concerns separate social reports prepared by companies apart from the annual reports. Research on problems from its scope had started 30 years before the Global Reporting Initiative (GRI) was created as an organization that develops standards for report preparation and they were based on the information disclosed by the companies on a voluntary basis in the annual reports beside the financial statements.

The pioneers of social accounting include Gray, Owen, Mathews, Guthrie and Parker (GORDON 2007, p. 30). Related issues were also undertaken by a few Polish authors in the 1980s. They pointed out in their studies that there was the need to include social and environmental issues in the near future in the framework of the accounting principles/standards. JAGLIŃSKA (1984, pp. 18, 19) deemed it necessary to develop „new general accounting principles

² Also called social responsibility accounting or social and environmental accounting.

³ During the Congress in Paris in 2013, 79 papers on the topic of Social and Environmental Accounting were presented, which in terms of popularity puts it in the 5th place out of 10; one of the 9 plenary sessions was also devoted to the social accounting issues.

taking into account also social aspects of business performance apart from the economic ones". Similarly, in 1993, Burzym forecast that IASC would develop standards covering the issue of „accounting for social responsibility and, in particular, issues related to the protection and restitution of the environment [...] This will be the result of accounting adjustments to meet the needs arising from socio-economic changes occurring in the world today” (BURZYM 1993, p. 19). It can be stated, that after 20 years the world of accounting lived to see the development of such standard in the form of IIRC framework. More importantly, the standards do not hold independent of financial reporting and are not limited to separate thematic issues. Their aim is to provide a holistic picture of organizations’ performance.

Integrated reporting in Polish authors’ research

Integrated reporting is the subject of research conducted not only by foreign but also Polish authors representing mostly the Accounting Departments, which allows it to be recognized as one of the trends of contemporary accounting research (Table 2).

Table 2
The authors dealing with the problem of integrated reporting in the years 2011–2013

Author, publication year(s)	Authors’ affiliation
ELJASIAK (2011)	Department of Accounting, University of Gdansk
JAWORSKA (2011)	Department of Managerial Economics and Accounting, West Pomeranian University of Technology in Szczecin
JĘDRZEJKA (2012)	Department of Finance and Bank Accounting, University of Lodz
KOBIELA-PIONNIER (2012, 2013)	Department of Corporate Finance, Warsaw School of Economics
KRASODOMSKA (2012a, 2012b, 2013a, 2013b)	Department of Financial Accounting, Cracow University of Economics
MARCINKOWSKA (2012)	The Institute for Finance, Banking and Insurance, Department of Banking, University of Lodz
SOBCZYK (2012, 2013)	Department of Accounting, University of Social Sciences, Łódź
BAK (2013)	Department of Finance and Accounting, Wrocław University of Economics
PASZKIEWICZ (2013)	Department of Accounting University of Gdansk
SAMELAK (2013)	Department of Accounting, Poznan University of Economics
SZCZEPANKIEWICZ (2013)	Department of Accounting, Poznan University of Economics
ZUCHEWICZ (2013)	Department of Finance and Accounting, Wrocław University of Economics
ANIOŁ (2013)	National Chamber of Statutory Auditors, Regional Branch in Poznan

Source: author’s own elaboration.

As indicated by the information contained in the table, the authors' interest in issues of integrated reporting began in 2011 and has been growing ever since. The author of the paper lists in the table only the names of the authors whose articles referring to the concept of integrated reporting she is familiar with. It should be noted that these author as well as others whose names have not been mentioned have written important papers concerning similar issues such as the relations between corporate social responsibility and accounting.

Increased interest in the changes in companies' reporting in the context of the corporate social responsibility concept, sustainable development and integrated reporting can also be observed when analyzing issues discussed by the participants of the annual Nationwide Congress of Accounting Departments. It is also worth mentioning the initiative to establish the Polish Association of Sustainable Development in Finance and Accounting.

Conclusion

As Mattessich wrote in 1994 (1994 as cited in BURZYM 2008, p. 79): „[...] the need for the settlement of the liability (accountability) will exist as long as we do not become angels. It also appears that in some circumstances, this feature of our discipline [...] becomes more significant than others. It's not hard to predict because the era of irresponsibility (both in administration and in business), which overwhelmed us over the past decades is, fortunately, coming to an end – either people will become more responsible, or there will be economic chaos which will probably be replaced by a new era of greater responsibility”.

Referring to the above remarks, one can risk a statement that the predicted chaos turned into the 2008 economic crisis, and „the era of greater responsibility”, which followed, is associated with increased transparency and changes in the approach to business reporting. A leading concept in this regard is the idea of integrated reporting proposed by the IIRC. This reporting shows a consistent picture of companies' achievements and meets the needs of users. Its product – the integrated report – provides financial and non-financial information which is not subject to legal regulations but is frequently used also for managerial purposes. Its coherent presentation demonstrates adaptation of accounting to the changing conditions in which businesses operate.

In the light of the above, it seems appropriate to suggest that companies should start reporting according to the IIRC framework. It is also time non-financial, non-measurable problems were recognized within the framework of accounting science as an expression of its evolution.

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BALANCE SHEET AND TAX ASPECTS OF BANK DEBT REMISSION

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Key words: bank accounting, bank debts, release from debt, receivables remission.

A b s t r a c t

Tax and balance sheet aspects of bank debt redemption. This paper is devoted to the redemption of bank liabilities, which constitutes one of the tools used by banks in the re-structuring of borrowers' debts. This is not an optimal form of shaping the relationship between the creditor and the debtor but under certain conditions, in the case of a partial redemption or redemption of a certain components of the debt, it may at least partially off-set the outstanding claims of the creditor. From the point of view of the banks, in the case of debt relief, tax laws should be considered restrictive as they contain a very limited cost catalogue qualifying them to be considered as revenue costs. From the perspective of the balance sheet, liability redemption tends to be the most neutral because the banks are obligated to perform regular write-downs on receivables. Debt redemption usually occurs after possible execution alternatives against the debtor have been pursued, and therefore when a full write-down has been created on bank's liability.

BILANSOWE I PODATKOWE ASPEKTY UMORZENIA WIERZYTELNOŚCI BANKOWYCH

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Słowo kluczowe: rachunkowość bankowa, wierzytelności bankowe, zwolnienie z długu, umorzenie wierzytelności.

A b s t r a k t

Artykuł poświęcono umorzeniu wierzytelności bankowych, które jest jednym z narzędzi stosowanych przez banki w procesie restrukturyzacji zadłużenia kredytobiorców. Nie jest to optymalna forma ukształtowania relacji między wierzycielem a dłużnikiem, pod pewnymi warunkami

jednak, w przypadku umorzenia częściowego lub niektórych składników zadłużenia, może ona przynajmniej w części zniwelować niezaspokojone roszczenia wierzyciela. Z punktu widzenia banków w przypadku zwolnienia z długu przepisy podatkowe należy uznać za restrykcyjne, ponieważ zawarty jest w nich bardzo ograniczony katalog kosztów uprawniający do zaliczenia ich w skład kosztów uzyskania przychodu. Z bilansowego punktu widzenia umorzenie wierzytelności jest najczęściej neutralne, ponieważ banki są zobowiązane do bieżącego dokonywania odpisów aktualizacyjnych na należności. Zwolnienie z długu występuje często po wykorzystaniu możliwości egzekucyjnych w stosunku do dłużnika, wówczas więc, gdy na wierzytelność banku utworzono pełny odpis aktualizacyjny.

Introduction

Bank debt remission (release from the debt¹) is one of tools used by banks in the process of restructuring of indebtedness these institutions are not able to recover. The reasons for this state of affairs can be traced back to both unreliability of debtors themselves, caused by aware intention not to repay their liabilities, and factors beyond their control, either as a result of careless or incompetent action of banks themselves, which, as a result of improper creditworthiness assessment, inadequate collateral in relation to the risk borne or too late debt collection actions are not able to recover their receivables, and the probability to change this state of affairs is equal to or close to zero.

According to the data of the Polish Financial Supervision Authority as of 31.12.2013, the share of overdue receivables towards the non – financial sector in the whole portfolio of receivables amounted to 5.8%, which should be considered a value that does not threaten the stability of the bank sector, however, the share of receivables overdue for more than 180 days (doubtful and lost receivables) was 49.5% of the overall balance of these receivables (KNF 2014). For instance, in 2000 these ratios amounted to 15.3% and 70.0%, respectively (NBP 2001). The value of endangered receivables at the end of 2013 was al-most PLN 98 billion; including doubtful and lost receivables amounted to PLN 48.5 billion, which justifies the importance of the subject undertaken.

For obvious reasons, receivables remission is not an optimum form of final cooperation between the bank and the debtor, however, under some conditions, in the case of partial remission or remission of some debt components, release from debt may, at least partly, reduce losses sustained by the bank. The purpose of the article is to point out the differences in the approach to the issue

¹ In the article the following terms are used interchangeably: bank debt or receivables remission, release from debt or release from obligations.

of debt remission in the area of accounting, focused on reliable and faithful economic image, and in the tax law, which – substantially – does not acknowledge negative effects of the economic risk borne. The applied research methods include studies of literature, legal acts and judicial decisions related to the adopted issues.

Debt remission in civil law

The notion of debt remission has not been defined on the ground of domestic and inter-national balance sheet law as well as tax regulations. It should be thus implied, according to system interpretation, that remission corresponds to the structure of release from debt, included in the Polish Civil Code, which in Article 508 says that a debt expires when the creditor release the debtor from debt, and the debtor accepts this release (k.c. 1964).

Contrary to what the name may suggest, release from debt is not a unilateral legal activity, since it may arise only as a result of a contract concluded between the creditor and the debtor. The constitutive condition of release from debt is not only declaration of the creditor, but also active action on the part of the debtor, who is obliged to accept the generally beneficial solution. The reference here is made to the „generally” beneficial solution for the debtor, since after signing the contract of debt expiry, they are released from the need to pay the benefit (WIŚNIEWSKI 2013). Although the legislator has not reserved a specific form for the contract of release from debt, it is difficult to imagine a situation when it takes the oral form. It seems that since the contract with the bank (e.g. credit facility contract) must be made in writing, then *per analogiam*, release from debt also should have a written form (Prawo bankowe 1997). It is very important from the point of view of banks, since it often happens that contacts with unreliable debtors are difficult or there is no contact at all. At this point, it is necessary to point out that release from debt may be paid or free-of-charge.

Unless the parties have agreed otherwise, it should be assumed that debt expires as of concluding the contract with *ex nunc* effect. A different moment may refer both to a prior or later date.

Contractual release from debt includes in principle the whole debt, however, the bank in consultation with the debtor may reduce it, for example to interest. Along with debt expiry also accessory rights expire, in particular pledge and surety, however, not the other way round: debt does not expire, in spite of release of the pledger or guarantor. Owing to tax consequences, we should also differentiate between a contract of release from debt and a contract whereby the creditor undertook not to claim from the debtor due benefit. In

the latter case, the contract does not lead to debt expiry, but only prohibits the creditor to seek claims in a certain way or time, or even at all (WIŚNIEWSKI 2013).

It is also possible to consider behaviour of the creditor towards the debtor similar to re-lease from debt, on the ground of procedural law. Pursuant to Article 203 § 1 of the Code of Civil Procedure (k.p.c. 1964), a lawsuit may be withdrawn without permission of the defendant (the debtor), if the withdrawal is connected with renunciation of claims by the plaintiff (the bank). As it was pointed out by the Supreme Court (Wyrok Sądu Najwyższego z 3 lutego 2009 r.), withdrawal of the lawsuit renouncing the claim has double effect: trial and material. Withdrawal of the lawsuit as trial activity means resignation from trial continuation, while the consequence of waiver of claims is release from debt that will never be the object of trial again, which does not mean release from debt regulated by Article 508 of the Polish Civil Code.

To sum up the above discussion, depending on the purpose and method of shaping the contractual relation between the creditor and the debtor, a contract can be qualified as resulting in release from debt, or not meeting such a condition. This condition is of essential importance for tax recognition of reduced debt.

Corporate income tax and accounting

The provisions of the Corporate Income Tax Act do not contain the definition of revenue (uopdp 1992). In Article 12, section 1, item 1–10 of this regulation, the legislator indicated only examples of benefits categories, the receipt of which creates taxable revenue. These are in particular the value of amortized or overdue debts, including credits and loans, except for amortized loans from the Labor Fund. At the same time, the Act reserves that revenue does not include amounts which constitute the equivalent of remitted debts, including credits and loans, if remission is connected with the following events (Article 12 section 4 item 8):

- a) bank settlement procedure as defined by the regulations on financial restructuring of companies and banks,
- b) bankruptcy procedure with the possibility of entering into arrangement,
- c) execution of a restructuring program on the basis of separate acts.

Substantially, the value of economic benefit in the form of credit or loan remission leads, on the part of the debtor, to taxable revenue, and an exception from this rule are situations enumerated in Article 12, section 4 items 4–20. Pursuant to the structure of re-lease from debt in the Polish Civil Code, tax revenue can be created at the debtor's no sooner than as of concluding the

contract with the bank. Until that time debt is not remitted, since the creditor is bound only by the offer submitted to the debtor, namely then the bank might conduct actions related to seeking debt repayment.

In bank practice, often during ordering credit portfolio, understood as cessation of showing bank receivables in the accounting books, it may lead to bad debt write-off. This is not, however, debt remission as defined by Article 508 of the Polish Civil Code, because it is a unilateral action of the bank which has no association with release from debt. It results from the fact that the debt lost for which a full intentional reserve was created without reducing reserve base with approved security, as well as interest derecognized to the account of overdue interest, have no effect on the economic image of the entity. In such a situation we should remember about simultaneous removal from off-balance sheet register the assets used as collateral (e.g. mortgage on property).

At this point, we should also point out that taxable revenue is not created in two situations: deferment of interest payment deadlines or commission and reduction in interest and even abandoning calculating interest in a given period, or spreading payments of interest or capital according to another schedule than stipulated in the original credit contract. These activities do not result in remission of receivables, and only alter the way of the credit contract implementation.

It is different in the case of the debtor concluding a settlement with the creditor. Since Corporate Income Tax Act limits the catalogue of events not being revenue, a civil-law settlement or a settlement before the court creates benefits for the debtor. On the grounds of the tax regulations, the basis for taxation should be the difference between the estimated expenses prior to the date of concluding the settlement and following its concluding. The reference here is made to expenses, since the subject of settlement may be also remission of part of credit capital and not only interest and other bank receivables.

The consequences of component parts of credit debt remission

In each debt of credit nature² we can distinguish:

- a) capital, namely the principal amount of debt,
- b) interest – charged (unpaid) and capitalized that after capitalization increase the credit capital,
- c) costs of debt collection procedure, in particular adjudged and recognized as due taxable revenue.

² Including: debt acquired by bank, debt limits, debts under cheques and bills of exchange, used guarantees.

Pursuant to Article 12, section 1, item 3 of the Corporate Income Tax Act, revenues related to business activities earned in a financial year are deemed due revenue, even if they have not been earned yet, after excluding returned goods and granted discounts. The category of due revenue related to business operations undoubtedly includes interests from credits or loans that are charged by banks. Due revenue are receivables constituting the effect of economic activities of the taxpayer, the payment of which they could request from the other party to the contract and these revenues will be due even if the taxpayer does not receive them or resigns from them or defers term of payment (Wyrok Wojewódzkiego Sądu Administracyjnego w Opolu z 22 kwietnia 2009 r.). With regard to this revenue category, tax regulations do not provide for their memorial examination, since pursuant to Article 12 section 4 item 2 of Corporate Income Tax Act, due revenue do not include calculated amounts but not received interest, including from granted credits or loans. Therefore, a question arises whether the value of amortized interest on the part of the debtor is taxable revenue. Despite the lack of formal legal basis, it should be assumed that, in accordance with the principle of tax neutrality, interests charged will not cause tax effects neither on the part of the creditor, nor on the part of the debtor. Such a conclusion, although not referring to a general principle, may be drawn from one of interpretations of the Ministry of Finance, stating that since there is not created intentional interest provision, its remission or distribution into installments does not have a tax effect (pismo Ministerstwa Finansów z 23 czerwca 1993 r.).

We should treat capitalized interest differently, since this interest becomes part of the capital, so debt remission creates benefits for the debtor, which means that capitalized interest will be taxed.

The third constituent part of the amortized debt, causing tax consequences on the part of the debtor, are costs adjudged by the court for the benefit of the creditor. These costs are subject to taxation on the cash basis (Article 3a of the Corporate Income Tax Act), so on the date of their receipt they will not generate the obligation of the debtor to present revenue for taxation.

Relatively rare events, but actually reported in banking practice of the author, were voluntary payments made by the debtor as repayment of a remitted debt, even several years after signing the contract. The reasons for this state of affairs were improved debtor's financial standing and, first of all, the intention to re-initiate economic contacts with the bank, which amortized the debt before. It is an interesting issue as both in the civil law and tax regulations there are no regulations in this scope. A question should be asked: what debt repayment may occur since debt expired before? The answer seems simple and obvious: since on the date of effective release from debt it ceased to exist, there is no ground for legal basis for „historical” consideration of the debtor to

operate. In the case of the bank accepting any repayment under the non-existing debt, the amount should be refunded to the payer because in other case a charge of unjustified enrichment may be filed (Article 405 of the Polish Civil Code). In practice „good will of the bank” may be presented by a bank accepting cash from other legal titles, depending on the amount of repayment. This may be both disproportionately high, in relation to other, amount of commission or fee under given new debt, or significantly higher amount of interest paid in advance than used by the bank on average.

Banks keeping accounting on the basis of the Accounting Act (uor 1994) are obliged to conduct revaluation pursuant to the Regulation of the Minister of Finance concerning the rules of establishment of provisions for risk associated with banks operations (rozporządzenie Ministra Finansów w sprawie zasad tworzenia... 2008). On the other hand, banks keeping accounting based on the International Accounting Standards (IAS-MSR) are obliged to determine as at each balance sheet date whether there are objective evidence of debt impairment. Write-down for expressed in value debt surplus over its recoverable value will be made in the case of the mentioned objective premises for impairment whose broad catalogue is included in IAS 39 and the Regulation of Ministry of Finance (MSR 39 2008). The premises of impairment mostly occur as the effect of many events which occurred from the date of initial recognition of asset until the balance sheet date. The measurement of value of debt at risk should be credible enough to reflect current, as of the balance sheet date, and expected changes in cash flows between the bank ↔ the debtor (POPOWSKA, WĄSOWSKI 2008). The principles binding so far do not stipulate including losses expected at valuation of financial instruments. It is supposed to change in 2015 (WISZNIOWSKI 2013).

Tax law, on the whole, does not consider specific purpose provisions (receivable write-offs) for tax deductible costs (Article 26 of the Corporate Income Tax Act). However, it should be noted that if a given credit debt a specific purpose provision was established on the date debt remission, it should be terminated, which, depending on the tax assignment of costs, should be reflected in tax statement. When the provision was previously classified as tax deductible costs (e.g. documented unsuccessful debt collection), these costs will be reduced and simultaneously increased, but only in the event when the amortized debt amount is deductible costs.

Debt remission and personal income tax

The Personal Income Tax Act refers to natural persons not running business operations and people who run such operations (uopdf 1991). In

general, taxation covers all sources of revenue, except for these that are defined as „tax free” (Article 21, 52, 52a and 52c) and those whose tax collection was abandoned (Ordynacja podatkowa 1997). It can be said that economic benefit in the form of debt remission will generate for the taxpayer, being a natural person, benefit in the form of revenue for taxation.

In the case of entrepreneurs, the value of amortized credit debts or under incurred loans is revenue on business operations (Wyrok Naczelnego Sądu Administracyjnego z 28 maja 1999 r.). An exception from this rule is a situation when remission applies to bankruptcy procedure with the possibility of entering into arrangement as defined by the Bankruptcy and Reorganization Law (poin 2003). This principle applies also to people using the taxation in the form of lump sum on recorded revenues (Wyrok Naczelnego Sądu Administracyjnego z 28 stycznia 1998 r.).

Analyzing the issues of credit debt remission with regard to natural persons not running business operations, due to open scope and very general description of events regarded as tax revenue, the indication of sources of revenue should be settled. The Act does not acknowledge debt remission as a source of revenue in the case of natural persons not running business operations, however, in its content it indicates release referring to student grants given by banks on the basis of separate regulations (uopiks 1998). Since the legislators' will was release of strictly defined cases of debt remission, it should be assumed that in other cases remission will create value subject to taxation.

Owing to the complexity of restructured debt, the practical problem related to their reduction is assessment whether remission of each debt component has the same tax effect. While credit capital remission should not cause larger controversy, doubts may be raised by the bank's resignation from charged interest. It is expressed in conflicting with jurisdiction assessment of tax qualifications by tax offices (Wyrok Naczelnego Sądu Administracyjnego z 14 listopada 2000 r.). Since only the paid interest is tax deductible costs, interests charged should not be the subject of taxation. Tax offices are of different opinion, although in this case we may indicate different interpretations. This conflict of views may lead to misunderstandings between banks and their clients, who are subject to indebtedness restructuring. A bank that takes into account the interest of its client and ensures, at the same time, its tax safety, when transferring information about the resignation from part of interest charged, is exposed, at the same time, to misunderstanding of the problem by the debtor, which may hinder effective and beneficial for both parties procedure, completion of restructuring procedure.

Conclusion

As opposed to the balance sheet approach, tax effects of credit debt remission have a complex and often ambiguous character, which results from the lack of precise tax regulations. The operation of a bank without appropriate legal examination, expressed even in individual inquiry to the Tax Office, stimulates the risk of making mistake and exposure to charges of acting only in its own interest. As far as the balance sheet is concerned the debt waivers is beneficial for banks because it enforces an order in the records of claims contained in the resources of those entities. Even though this action, assuming a correct previous update of receivables, does not affect the final profit or loss (although it may affect the outcome of tax) ultimately, due to the waiver and cadastral reduction of debt it improves the so-called arrears rate, which describes the relationship between impaired loans and the total loan portfolio. The debtor's point of view however, is quite different. The rules and tax interpretations are often vague or contradictory which may consequently result in the Tax Authority's interpretation of the debt waiver as a taxable income.

In the light of the presented discussion, banks should incline towards other solutions than debt remission, e.g. bad debt remission, on the basis of ineffective enforcement steps. Not only has such an approach to the problem has a positive impact on any possible tax obligations of the bank, but it does not generate negative effects for debtors.

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THE PROBLEMS ASSOCIATED WITH PREPARATION OF DISAGGREGATED INFORMATION

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Key words: IFRS, segment reporting, management accounting.

Abstract

In this article the author discusses the problems associated with the preparation of disaggregated information. These problems include: identification of segments, measuring segment profitability, internal prices, and measuring segment assets.

PROBLEMY ZWIĄZANE Z UJAWNIANIEM INFORMACJI O SEGMENTACH

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Abstrakt

W artykule zaprezentowano problemy związane ze sporządzaniem informacji w podziale na segmenty, do których zaliczono: identyfikację segmentów, pomiar zyskowności segmentów, ceny wewnętrzne, pomiar aktywów segmentu.

Introduction

The core principle of segment reporting is to disclose information about different areas of business activities, such as the types of products and services, groups of customers, distribution channels or geographic areas. This information enables managers and investors to analyse segments separately, thereby

supporting the decision-making process (GAMBLE, SIMMS 2010, p. 85). Segment reporting makes a contribution to improving the reporting potential of financial statements and the internal reporting used for decision making and management control. Segmentation of activities gained particular significance in financial statements in connection with the frequency of mergers. It is true that they have been a common phenomenon in the business community for decades. But initially mergers did not have a significant importance from the point of view of financial reporting, because their goal was to achieve growth within a company's basic lines of business. Nowadays, most mergers concern companies engaged in unrelated businesses. This increasing diversification has led the accounting profession to question the adequacy of financial statements of „conglomerates”¹.

Mergers mean a reduction in the amount of information available to investors, because one company ceases to prepare financial statements. In addition, the surviving company prepares financial statements reporting only the results of total operations. On the other hand, investors would like to obtain information not only about the settlement of the merger, but also would like to receive separate information about the activities of the merged companies. This information should be detailed enough to enable financial analysts to appraise past performance and future prospects and opportunities for growth (LARSEN 2006, p. 541).

The aim of the article is to present the problems associated with the preparation of segment information.

The basic issues in segment reporting

Four basic issues of segments reporting are highlighted in the literature of management accounting (OTONKUE et al. 2009, pp. 3–6, LARSON et al. 1990, pp. 1010–1011):

1. Identification of the segment – it is not possible or desirable to define the segment, due to the fact that there are many possible criteria for dividing a company: products and goods, distribution channels, production processes, conditions of competition.

The management board is the best source of information about criteria used to split the company into segments because of its knowledge of the company structure. For the purpose of external segment reporting, the company should be divided into enough segments to show the basic areas in

¹ The term „conglomerate” is used to describe a company that diversifies to different activities by acquisitions or mergers. Diversification results from internal expansion and development.

which it operates, but it should not be divided into so many segments that the information becomes confusing.

2. The measurement of segment profit or loss – segment results can be measured in different ways. The choice depends on many factors: the degree of decentralization, the skills of heads of functional areas and responsibility centres, the quality of the accounting system, the types of business conducted by a company.

Even if each segment operates as a highly independent unit, there is still a problem of common expenses, i.e. expenses related to more than one segment. During the preparation of internal reports by segments, management must decide which expenses are to be allocated to particular segments and which are to be left unallocated. For allocated expenses the most reasonable basis for allocation must be determined.

3. Determining the level of internal prices – segment results should include the effects of intersegment transactions, which are eliminated when financial statements are prepared. Disclosing such transactions is important because it means increasing the revenues of the supplying (selling) segment and increasing the expenses of the receiving (buying) segment. The internal price should be determined at a level which will allow proper presentation of the profitability of both supplying and receiving segments.

4. The measurement of segment assets – segment assets, as well as segment results, can be determined at different levels. This is because some assets can be easily allocated to different segments, as they are used solely by one segment, while other assets are used by more than one segment. Depending on the assumed basis for allocating common assets to segments, one can get different values of segment assets. To report assets in each segment, a reasonable basis must be determined for allocating common assets to segments that benefit from them.

Identification of significant segments

Segment reporting for external purposes should have the same structure as internal segment reporting. However, internal segment reporting adopts several criteria of disaggregation of information and accounting values, because the information requirements of the subjects to whom it is addressed are different. From the point of view of external reporting, information provided to the chief operating decision maker is important. This means that companies need an integrated reporting system which can provide the necessary information for producing different segment reports.

Of particular interest to top management and division heads is the segmentation of information by strategic business units (SBU), business subsystems corresponding to responsibility centres which present strategic management problems to such an extent that they require the formulation of a competitive strategy. Segment reporting by SBU also provides information on the performance of key variables for the success of the competitive strategies formulated for each business. Table 1 presents a model that includes the following levels of data aggregation.

Table 1

Levels of data aggregation in segment reporting

Cost centre	Profit or investment centre	Operating segment	Strategic business unit
Cost centre 1	profit or investment centre 1	segment 1	SBU 1
Cost centre 2			
Cost centre 3	profit or investment centre 2	segment 2	SBU 2
Cost centre 4			
Cost centre 5	profit or investment centre 3	segment 3	SBU n
Cost centre 6			
Cost centre 7			
Cost centre 8	profit or investment centre 4	segment n	SBU n
Cost centre 9			
Cost centre 10	profit or investment centre n	financial statements	strategic report
Cost centre n			
Report for cost centre	report for profit or investment centre	financial statements	strategic report

Source: Own study based on DOMENICO (2006, p. 7).

According to IFRS 8, segment information is obtained via increasing levels of aggregation. In the beginning expenses, revenues, assets and liabilities are allocated to different responsibility centers. This stage takes place wholly within internal reporting. Then, responsibility centers are aggregated to operating segments, and then reporting segments are selected, i.e. the segments presented in the financial statements.

Thus, aggregation increases from segmentation by responsibility centres – from more elementary cost centres to more complex profit and investment centres – until it reaches the operating segments disclosed in the financial statements and reported to the managers of the SBU. In this model the expenses included in reports intended for the managers of the most elementary cost centres are added and supplemented by revenues. In this way profit centre

reports are obtained. A reporting system of this kind overcomes the distinction between internal and external segment reporting and allows the production of segment reports suitable for satisfying different information requirements (DOMENICO 2006, pp. 6, 7).

An operating segment may coincide with a profit centre, as long as that business unit has the following characteristics enumerated in paragraph 5 of IFRS 8:

- It is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity).
- Its operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance.
- It makes available discrete financial information (KARWOWSKI, ŚWIDERSKA 2009).

In addition, it is necessary to verify the characteristics of a reportable segment laid down in paragraph 12–16 of IFRS 8.

The aggregation of several segments resulting from internal reporting for external reporting purposes may be useful for satisfying the need for greater synthesis in financial statements with respect to the internal one. Thanks to this, investors receive a clear picture with regard to the different areas of operations. This need justifies the aggregation of segments that are similar in terms of profitability and risk. In turn, two or more reporting segments can also be contained in one SBU.

External and internal segment reporting must be considered as a subsystem of overall reporting used by management for decision making. Segment reporting is achieved by attributing accounting values to responsibility centres and, through subsequent aggregations, to reportable segments. By overcoming the distinction between internal and external segment reporting, there is a reduction in the asymmetry between the level of information available to management and investors. It increases stakeholders' confidence and, consequently, the entity can exploit advantages such as a reduced cost of capital. Also the reporting process is simplified and the cost of producing external reports is diminished. On the other hand management has the necessary information during the accounting period to exercise control of segment performance and to make choices aimed at improving results and reducing segment risk.

The measurement of profitability segments

Another problem associated with internal segment reporting is the measurement of segment results. Segment results are determined using segmented income statement, and are particularly useful in assessing the segment as a profit centre. Segment results can be the basis for comparisons of one segment to another and actual results to those expected (DRURY 2013, pp. 327, 328).

There are four possibilities for reporting the results of operations by business segment (FESS 2012, p. 2):

- all sales revenues and expenses divided by segment,
- only sales revenue, cost of goods sold, gross profit or loss on sales, direct operating expenses by segment,
- only sales revenue, cost of goods sold, gross profit or loss on sales by segment,
- only sales revenue by segment.

Of the four possibilities – the segment income statement reporting all revenues and expenses appears to be not only impractical from an accounting standpoint, but also unrealistic for many conglomerates. Such reporting means the allocation of all expenses to separate segments. In practice, in many cases this requires estimates, assumptions and arbitrary allocation. This type of information would not only impact on users of the financial statements, but could also be misleading for them. The other three reporting capabilities avoid the problem of arbitrary allocation of common expenses to segments.

In segment reports, a distinction should be drawn between traceable and common expenses (according to the direct cost approach). The traceable expenses of a segment are expenses that are incurred because of the existence of the segment and if the segment was eliminated, the expenses would disappear. Common expenses are expenses that relate to more than one segment. Even if the segment was entirely eliminated, there would be no change in common expenses. Traceable expenses should be assigned to segments. Common expenses should be treated in a manner that managers consider most appropriate in pursuit of the overall objective of segment financial reporting. In particular, if no cause-and-effect relation exists between common expenses and the activity in any particular segment, then any allocation of these expenses to segments is completely arbitrary and can be endlessly debated by segment managers (BREWER et al. 2005, p. 428). The best solution is to assume that common expenses are allocated to segments presented in financial statements, if an enterprise apportions common expenses for the purpose of internal reporting. If allocating common expenses in

financial statements is misleading, they should be deducted from total segment results (KIESO et al. 2008, p. 1296).

Managers of conglomerates accept reporting of sales revenue by segments, but express opposition to disclosure of business segment results. They oppose it because the results of segments are especially useful to competitors. According to this view, disclosing too many company secrets can be detrimental to the company. However, presenting information about sales revenues by segment without information about segment expenses does not enable financial analysts to make any meaningful analysis of conglomerates. Without information about expenses analysts cannot determine whether segments with high profits are subsidizing other segments, that is, whether the company is achieving the highest possible corporate profit.

According to the third solution, a conglomerate reports sales revenue, cost of goods sold and gross profit or loss on sales by segments. A more detailed method of reporting segment information includes sales revenue, cost of goods sold, gross profit or loss on sales by segments, direct operating expenses and segment operating profit or loss by segments. Such segmented income statement, which is illustrated in table 2, indicates the contribution made by each segment to profitability of the entire company.

Table 2
Scheme of segment income statement according to the third possibility

Segment	A	B	Total
Revenues from external customers	XXX	XXX	XXX
Revenues from transactions with other operating segments of the same entity	XXX	XXX	XXX
Cost of goods sold	<u>XXX</u>	<u>XXX</u>	<u>XXX</u>
Gross profit or loss on sales	XXX	XXX	XXX
Segment expenses	<u>XXX</u>	<u>XXX</u>	<u>XXX</u>
Segment profit or loss	XXX	XXX	XXX
Operating common expenses	-	-	<u>XXX</u>
Operating profit or loss	-	-	XXX
Interest income or expenses	-	-	<u>XXX</u>
Gross profit or loss	-	-	XXX
Income tax expense	-	-	<u>XXX</u>
Net profit or loss	-	-	XXX

Source: Own study.

Internal prices between segments

Another problem associated with internal segment reporting is determination of internal prices at a level that properly presents the profitability of the supplying and the receiving segments. At the beginning of the last century, the Chief Operating Officer of United Motors pointed out the necessity of setting the internal price at the market price, in order to motivate managers of business units to work efficiently. Since 1918, when United Motors was acquired by General Motors, there was no possibility of using market prices, making it impossible to calculate the rate of return on investments (ROI). Prices of materials transferred from one unit to another were set at cost plus a predetermined percentage of profit. At the same time in order to avoid a situation where the supplying segment has high production expenses, the operations of this segment were analysed and compared with expenses of competitors.

In the 1950s, economists began to emphasize the importance of internal prices determined at the level of opportunity cost. In the case of a perfectly competitive market, the opportunity cost is the market price, because the supplying segment loses sales revenue to external customers when there is an internal transfer. According to economists, in the absence of a market for the transferred goods, the optimal internal price should be set at marginal cost (JOHNSON, KAPLAN 1991, pp. 166–168).

An internal pricing system is used to provide information that is useful for evaluating the managerial and economic performance of segments. The internal price represents an expense to the receiving segment and a revenue to the supplying segment. Transactions between segments can be shown in financial statements in a number of ways. They will be illustrated based on the example of the consolidated financial statements of *ABC*, whose revenues amounted to 600,000 PLN (OTONKUE et al. 2009, pp. 5, 6). Sales revenues of segments are presented in table 3. Possible solutions are presented in tables 4 and 5.

Table 3

Sales of segments in the *ABC* group (in thousands PLN)

Segment	Sales outside the group	Sales to segment A	Sales to segment B	Sales to segment C	Total
A	250	0	70	60	380
B	220	80	0	90	390
C	130	40	30	0	200
Total	600	120	100	150	970

Source: Own study based on OTONKUE et al. (2009, p. 5).

Table 4
Presentation of segment sales within the *ABC* group (in thousands PLN) – first solution

Segment	Sales outside the group	Intersegment sales	Total sales
<i>A</i>	250	130	380
<i>B</i>	220	170	390
<i>C</i>	130	70	200
Total	600	370	970

Source: Own study based on OTONKUE et al. (2009, p. 6).

Table 5
Presentation of segment sales within the *ABC* group (in thousands PLN) – second solution, third solution, fourth solution

Second solution	Sales outside the group
Segment <i>A</i>	250
Segment <i>B</i>	220
Segment <i>C</i>	130
Total	600
Third solution	Sales
Segment <i>A</i>	380
Segment <i>B</i>	390
Segment <i>C</i>	200
Total sales of segments	970
Total intersegment sales	370
Total	600
Fourth solution	Sales
Segment <i>A</i>	260
Segment <i>B</i>	290
Segment <i>C</i>	50
Total	600

Source: Own study based on OTONKUE et al. (2009, p. 5, 6).

In the first solution internal and external sales are presented separately. In the second solution intersegment sales are deducted from the total sales of the supplying segment, so that segment sales represent its sales to third parties. This tends to understate the total level of activity of the supplying segments. In the third solution intersegment sales are deducted from the total figure of all segments. This presentation gives a clearer picture of the level of activity of each segment, but does not show which segment is interacting and in which direction. In the fourth solution intersegment sales are deducted from sales of purchasing segments, so that segment sales represent the extent to which sales

have been generated within the segment. This approach gives information about the extent to which sales are attributable to the activities of segments but requires careful interpretation and conceals the extent of segment dependence.

Identification of segment assets

The task of investment centre managers is to achieve two main goals. Firstly, managers should achieve an appropriate return on investment (ROI). Secondly, they should invest in new assets if the minimum ROI is obtained. This means that the aim of linking profit with assets is to motivate the managers of investment centres and business units to achieve at least the assumed return. It means that determination of the value of segment assets is important. Many assets can be easily assigned to a particular segment because they are used exclusively by this segment. Other assets are used by more than one segment, which means that a reasonable base for allocating common assets to segments must be specified. In contrast, the assets relating to general activities should not be included in segment assets unless they bring significant benefits in terms of the segment. However, any arbitrary allocation of assets should be avoided (YOUNG 2008, p. 227).

In determining the level of assets that a segment uses responsibility should be assigned for common assets, such as cash, buildings, and equipment and commonly created assets such as accounts receivable. Then the value of these assets should be determined (ATKINSON et al. 2004, p. 550). There are many costing alternatives: historical cost, net book value, replacement cost or net realizable value. Most companies use the net book value approach, because managers generally view consistency as the most important consideration.

The assets base used in the formula of ROI is typically computed as the average of the operating assets between the beginning and the end of the year. Operating assets include cash, accounts receivable, inventory, plant and equipment, and other assets held for productive use in the organization. Examples of assets that would not be included in the operating assets category are land held for future use, an investment in another company, or a building rented to someone else (BREWER et al. 2005, p. 429, 430).

Conclusions

IFRS 8 has introduced the so-called management approach, according to which the identification of reportable segments and the measurement of items reported under operating segments should be based on internal reporting

targeted to managers that enable them to make decisions about allocating resources to segments and assess the results of their operations. The opinion that segment reports should not be based solely on information from financial accounting, comes from the view that rules are lacking related to segments, in particular:

- principles for the identification of segments,
- internal (transfer) prices between segments,
- basis for the assignment of revenues, expenses, assets, and liabilities to segments.

No regulation requires the use of management accounting, which includes the above-mentioned issues. However, the solutions in this area are often not clear.

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MANAGING AN ENTERPRISE AND ETHICAL DILEMMAS IN ACCOUNTANCY

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Key words: ethics, accounting, financial reporting, management, conflict of interest, ethical dilemmas.

Abstract

The purpose of this article is to present the correlation between management of an economic entity and the development of ethical accounting dilemmas in the era of high-risk business.

In the globalisation era and recurring economic crises, realisation of the objectives of a company takes place under high risk conditions. It is therefore necessary to use a proper management system. The necessary condition for making all decisions is to have relevant information. The value and relevance of these decisions depend on the quality of information which they have been based on. Lack of ethics in accounting has a direct impact on the company's management, which is based on information generated by the accounting system of the company. Ethical dilemmas arising in accounting are also ethical dilemmas arising in the process of business management.

ZARZĄDZANIE PRZEDSIĘBIORSTWEM A DYLEMATY ETYCZNE W RACHUNKOWOŚCI

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Słowa kluczowe: etyka, rachunkowość, sprawozdawczość finansowa, zarządzanie, konflikt interesów, dylematy etyczne.

Abstrakt

Celem artykułu jest przedstawienie związku między zarządzaniem organizacją gospodarczą a powstawaniem dylematów etycznych w rachunkowości w dobie wysokiego ryzyka prowadzenia działalności gospodarczej.

W dobie globalizacji i powtarzających się kryzysów gospodarczych realizacja celów przez przedsiębiorstwa odbywa się w warunkach wysokiego ryzyka. Konieczne jest zatem stosowanie

odpowiedniego systemu zarządzania. Warunkiem koniecznym do podejmowania wszystkich decyzji jest posiadanie odpowiednich informacji. Wartość i trafność tych decyzji zależy od jakości informacji będących ich podstawą. Brak etyki w rachunkowości ma bezpośrednio wpływ na zarządzanie przedsiębiorstwem, którego podstawą są informacje generowane przez system rachunkowości w przedsiębiorstwie. Dylematy etyczne powstałe w rachunkowości są również dylematami etycznymi powstającymi w procesie zarządzania przedsiębiorstwem.

Introduction

Each entity engaged in economic activity under free market conditions should set goals as well as the means and methods to achieve them. Therefore, it can be assumed that the aim of the company is to maximise its market value determined by the co-necessity of its survival and development (SAWICKI 2009, p. 9). In contrast, economic activity is to continue making a variety of decisions, which result in a choice between certain action variants (NOWAK 2009, p. 28). A prerequisite for making these decisions is to have relevant information. In economic activity, the main source of information is the accounting department of the company. Therefore, accounting is the basic source of obtaining information about the economic and financial situation of the company for its internal and external users.

The purpose of this article is to present the correlation between the management of an economic entity and the development of ethical dilemmas in accounting in the era of high-risk business.

The introduction presents the reason for taking up the subject, the purpose of the article and the applied research methods. The first section, based on the specialist literature, describes the relationship between managing an economic organisation and a conflict of interest as well as its impact on the formation of ethical dilemmas in business. The second section, based on both the subject literature and international research, shows a strong link between the formation of ethical dilemmas in accounting and business management. The ending is a summary of the considerations contained in the article and an evaluation of the implementation of the article's goal.

Conflicts of interest and the management in the enterprise

Implementation of the basic objectives of the company, i.e. raising its market value and achieving the best financial results, is fraught with difficulties that each company needs to face. According to K. SAWICKI (2009, p. 10) these difficulties include:

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- the high risk of doing business in the global economy,
 - the rapidly changing pace of "modern" technologies,
 - extending the R&D implementation period,
 - shortening the "product life" period,
 - increasing costs related to environmental protection,
 - growing costs of acquiring natural resources as a result of their rapid shrinkage,
 - significant fluctuations in exchange rates,
 - emerging inflation phenomenon,
 - increasing competition on the local and international markets,
 - speculative takeover of companies,
 - difficulties in obtaining credit,
 - high fiscal burden on the state budget.

In the globalisation era and recurring economic crises, realisation of the objectives of the company takes place under high risk conditions. It is therefore necessary to use a proper management system. R.W. GRIFFIN (2005, p. 6) defines the management system as a set of activities (embracing planning and making decisions, organising, leading, *i.e.*, managing and controlling people), directed at organizational resources (human, financial, material and information) performed with the intention of achieving organizational objectives efficiently and effectively. Conducting economic activity is to continue making decisions as a result of which the managers, on the basis of available information, make a specific choice of – in their opinion – the best option (NOWAK 2009, p. 28).

In making any decision, managers should also consider the moral judgment of the situation and decision. Economic activities are dominated by complex practical situations where a moral judgment is rarely a bivalent assessment. Very often – in the course of decision-making – a choice needs to be made between the good of one group and the good of another one, between a benefit now and in the future, between environmental protection and the provision of jobs, etc. (LEWICKA-STRZALECKA 2001). This means that in the course of decision-making, boards of business entities face various conflicts of interest. According to A. LEWICKA-STRZALECKA (2014), a conflict of interest occurs when a person (or organisation) requires – as a result of external circumstances or own load-bearing activities – dual loyalty, which means it should meet objectives whose simultaneous achievement is not possible in a certain situation. This means that a conflict of interest exists when a person (or organisation) works for their own benefit or the benefit of a certain entity to which it has commitments, while also acting against the interest of another entity to which it should also be loyal (LEWICKA-STRZALECKA 2014). It can therefore be concluded that ethical dilemmas in economic activity occur when

we are dealing with a conflict of interest, since each decision is a choice between the interests of one entity and a lack of interest in the second entity.

Decision-makers in companies have to deal with different types of ethical dilemmas. Kidder distinguishes four types of dilemmas, calling them paradigms (GASPARSKI 2010):

- truth versus loyalty,
- individual versus society,
- short-term versus long-term,
- justice versus mercy.

It is possible to assign every ethical dilemma occurring in the process of managing a business leads to at least one of the above-described types (paradigms) of ethical dilemmas. Dealing with the conflict of interest, depending on the dilemma, the decision-maker must select, for example, between presenting the actual state of affairs and the loyalty to the employer, or between his personal interest and the company's interest, etc.

Unethical actions in accounting, their impact on the information derived from the accounting system and the emergence of conflicts of interests in decision-making processes in companies

The necessary condition for making all decisions is to have relevant information. The value and relevance of these decisions depend on the quality of information which they have been based on. The information underlying the decisions come from internal sources, such as accounting records, financial reports for external and internal purposes, internal control reports, as well as from external sources, such as stock exchange quotations, exchange rates, audit reviews and reports, etc. According to K. SAWICKI (2010, p. 12), managing a company is a collection of sequential decision-making sets based on processing the information which lead to decision-making in instable conditions. This means that in an era of continuous crises and growing competition, management boards of enterprises are under constant pressure. Table 1 presents the results of Ernst & Young's (EY) research on the types of pressures exerted on workers and managements of companies in European countries¹.

¹ Department of Fraud Risk Management of Ernst & Young annually conducts research relating to fraud, which then is placed in the form of reports on company websites at <<http://www.blog.ey.pl/audytsledczy/>>. Research of Economic Abuses is carried out every year. In the even-numbered years, the world research is carried out, in odd-numbered years – in Europe. In the European study, the EY researchers conducted interviews with the staff of about 25 countries – by phone, online or in person. The respondents were employed in listed companies, international companies or in those which employed over 1000 people. Interviews in all countries were conducted in local languages. The research methodology is included in each report.

Table 1
Types of pressure exerted on the management and employees in enterprises

Types of pressure exerted on businesses	Percentage of answers given*	
	2009	2011
Increased pressure on cost reduction	64	60
Increased pressure on revenue growth	31	35
Job loss	40	31
Increased pressure on profitability growth	22	26
Increased pressure on compliance with regulations	no answers	24
None of the above	9	7

* The sum of the answers exceeds 100% because respondents could have chosen more than one answer.

Source: own study based on: *European fraud survey 2009 Is integrity a casualty of the downturn?* (2009), *European fraud survey 2011 Recovery, regulation and integrity* (2011).

The data in Table 1 show that most of the types of pressure exerted on the boards of companies can have an impact on the accounting and, more specifically, on the information which will be generated in the form of various reports, which will, in turn, form the basis for decision-making by both internal and external users.

According to the MSRF (See: *Auditing Standards Board ASA 240...* 2010) and SAS (See: *SAS No 99 – Consideration of Fraud...* 2007), fraud in accounting is based on a so-called „fraud triangle”, which is shown in Figure 1.

In analysing the information contained in Figure 1 and the results presented in Table 1, it can be concluded that managers are subject to great pressure, both by external and internal factors and also have the greatest opportunity for unethical behaviour due to their position in the company.

Figure 2 presents the results of research conducted in 2009 by EY² on the risk of fraud due to the position in the hierarchy of the company.

The presented data show that the risk of fraud in an economic activity is mostly related to senior and middle management (67%). This is also largely affected by the fact that there is tacit approval for activities that – in the name of saving the company – produce better results. They are seen as a justifiable action, as evidenced by the data in Table 2.

² These results also confirm the published studies on the risk of fraud in business activity conducted since 1996 by the *Association of Certified Fraud Examiners (ACFE)*, which monitors this type of phenomenon around the world and promotes measures to detect and prevent it.

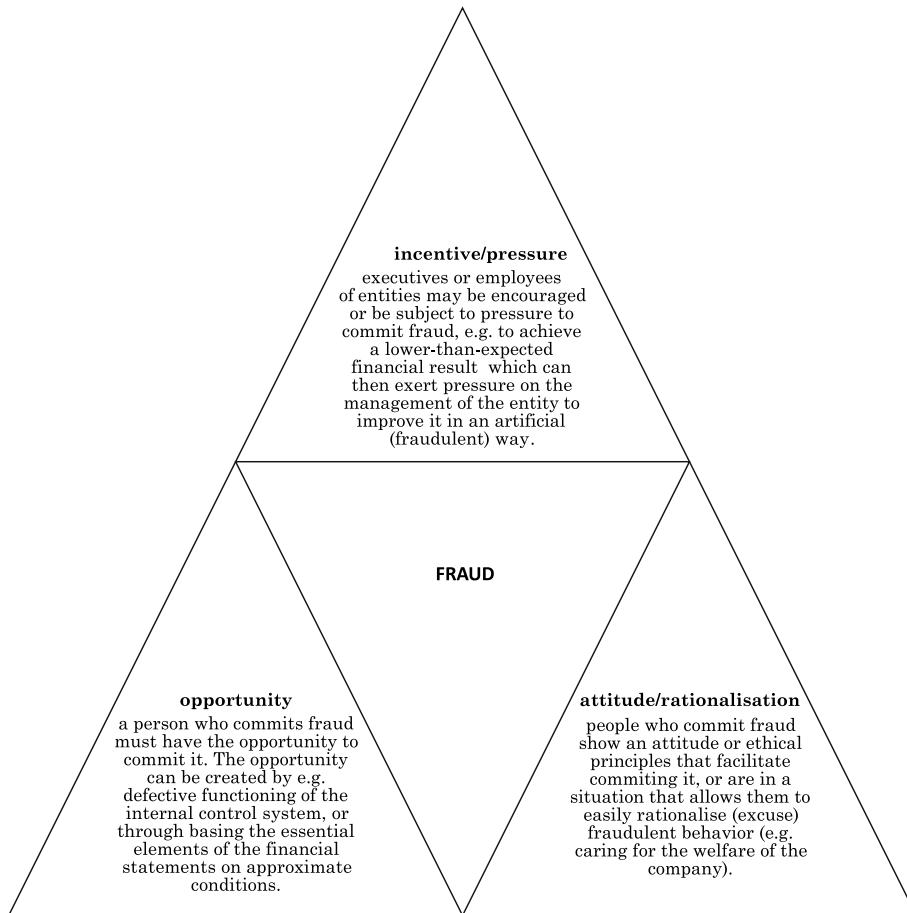


Fig. 1. Fraud triangle

Source: own study based on HOLDA, NOWAK (2003, p. 126).

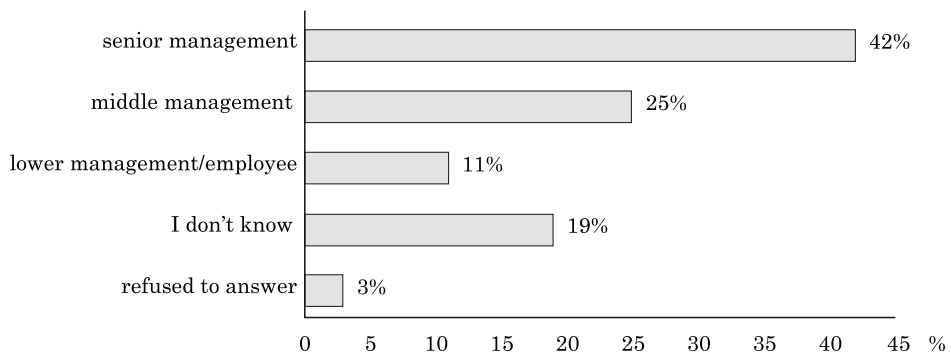


Fig. 2. Risk of fraud due to the position in the hierarchy of the company

Source: own study based on *European fraud survey 2009 Is integrity a casualty of the downturn?* (2009).

Table 2
Accepted unethical actions to rescue the company from a crisis or help to achieve growth

Unethical actions	Percentage of answers given*	
	2009	2011
Financial benefits in order to gain/retain customers	25	18
Gifts to gain/retain customers	24	24
Entertainment to gain/retain customers	19	21
Giving false financial results	8	4
None of the above	41	53
I do not know	12	6

* The sum of the answers exceeds 100% because respondents could have chosen more than one answer.

Source: owns study based on: *European fraud survey 2009 Is integrity a casualty of the downturn?* (2009), *European fraud survey 2011 Recovery, regulation and integrity* (2011).

The data show that consent to give false financial results decreased in 2011 compared to 2009 by half and was 4%, which is a very positive development. However, the fact that there is an acceptance of the falsification of financial data can be dangerous for users of financial reports and security of business transactions. The data resulting from accounting is necessary for decision-making in business. Thus, in the hands of dishonest accounting management it can be a very dangerous tool for fraud. This is because such information does not show economic events or the financial situation of the company as they are, but shows them according to the wishes of the company management (BROOKS 1988).

If the management of an entity wants to give a „false positive” image of the company, it may use different practices, such as (SCHNEIDER 1988, PIŁAT 2008, WIŚNIEWSKA 2005):

- count undelivered services or unsold products as income,
- demonstrate the highest possible profit,
- do not create reserves or write-downs,
- reduce the depreciation of fixed assets,
- reduce the value of accruals.

Achieving a „positive” company image may have an impact on the following (KUHLMANN 1994, p. 47):

- creditors will be inclined to maintain or increase the standby credit,
- shareholders encouraged by the results will acquire new shares,
- employees will have the impression that their salaries are assured by the company,
- customers will acquire the belief that the company ensures uninterrupted implementation of services and contracts.

By contrast, the aim of „deterioration of the image” of the company, i.e. presenting the financial status and performance of the company in a way that seems worse than it actually may be include avoiding or reducing tax liability, not disclosing the actual profits or losses, lowering the price of shares in order to discourage small shareholders and encouraging them to dispose of the shares at low prices for the larger shareholders, or – in the case of closing the company and distributing its assets – paying the outgoing shareholders the smallest amounts of liquidated shares possible (KUHLMANN 1994, p. 47).

A „seemingly negative” image of the company’s situation can be represented by (SCHNEIDER 1988):

- demonstrating the lowest possible profit,
- maintaining write-down or profit-sharing payments as low as possible,
- maintaining a fixed percentage dividend in the long run despite achieving relatively higher profits,
- demonstrating losses,
- demonstrating lack of financial liquidity,
- increasing the depreciation of assets,
- creating high provisions for doubtful debtors, unreasonable according to real risk.

Besides presenting a better or worse image of a company than it is in reality, we also encounter a situation called „neutral adulteration”, which involves demonstrating abnormal individual assets and capital or a profit and loss account. A characteristic feature of such fraud is a correct overall balance of assets and liabilities as well as the profit and loss balance (ŚNIEŻEK, WIATR 2004).

The practice of „neutral adulteration” of the company’s image consists of (SCHNEIDER 1988):

- offsetting positions uncorrelated as to the subject matter,
- transferring non-liquid elements to liquid elements,
- not entering a separate item for settlements with questionable debtors, but putting it as the total amount of receivable accounts,
- artificial liquefaction of assets, e.g. by obtaining cheques or bills of exchange from dubious debtors with no intention of releasing them into circulation, in order to provide in this way a higher value in the balance sheet under „other funds” instead of under the „dubious debtors”.

As a result of these actions, a conflict of interest is created among market participants regarding the data provided by the accounting department, which is the basis for the formation of ethical dilemmas in accounting. The effects of such a conflict of interest tend to be far-reaching, as confirmed by numerous examples (ENRON, Parmalat, World Com, etc.) (SURDYKOWSKA 2012, pp. 186–192, 207). A conflict of interest manifests itself in different forms and

Table 3

Examples of unethical accounting

Examples of unethical/fraud actions in accounting	Impact of unethical actions on information from the accounting system	Examples of emerging conflicts of interest		Dilemma type
		interest for one entity	no interest for the second entity	
<p>Assigning fixed assets as expenditures</p> <p>Lack of liquidating totally used assets</p> <p>Unjustified change of inventory valuation methods</p> <p>Retention of redundant or obsolete inventory – no writedowns</p> <p>Not creating reserves</p> <p>Using the <i>per saldo</i> method in the statement balances</p> <p>Records of deposits and withdrawals of cash on hand</p> <p>Wrong inclusion of unpaid contributions in equity</p> <p>No adjustment of equity from the revaluation of the sale/liquidation of fixed assets subject to revaluation</p> <p>Recognition of revenues/expenses in the fiscal year, which do not apply</p> <p>Not posting of wages for a given year, the payment of which was made in the following year</p>	<p>unreliable data in the financial statements:</p> <ul style="list-style-type: none"> - underestimated/overestimated revenue state, - underestimated/better/worse financial result - incorrect value of fixed assets - incorrect inventory in the unit - lack of provisions for anticipated losses - demonstrating overdue receivables in the financial statements - demonstrating erroneous cash flow - budgets based on incorrect data - implementation of budgets inconsistent with reality - unreal financial plans - financial analysis of the company based on incorrect information - calculation of prices of products/services based on erroneous financial data 	<p>obtaining a loan by the entity</p> <p>reduced tax burden</p> <p>obtaining a bonus by the management for achieving high performance/execution of existing plans</p> <p>maintaining a high level of employment</p> <p>extension of employment contracts</p> <p>acquiring high salaries for the board</p> <p>attracting new investors</p> <p>obtaining funds for the current survival</p> <p>signing new contracts</p> <p>signing a contract for the supply of materials/commodities/services for production</p>	<p>losses of the bank due to misguided loans, which may cause e.g. tightening the rules in acquiring loans by other businesses for financing development and operations</p> <p>no inflow of funds to the state budget, which may affect, e.g. a decrease of unemployment benefits or health care expenditures, etc.</p> <p>additional costs deepening the plight of enterprises</p> <p>rewarding unsuitable people</p> <p>loss of jobs of the workforce</p> <p>high labour costs</p> <p>deepening financial difficulties</p> <p>- lack of liquidity</p> <p>overemployment</p> <p>continuation of hiring the wrong people</p> <p>loss of the invested capital</p> <p>saving the liquidity in the short term – bankruptcy in the future</p> <p>lack of orders</p> <p>loss of customers</p> <p>no payment for delivery</p> <p>financial difficulties of suppliers</p> <p>losing jobs by employees</p> <p>at suppliers – lack of financial liquidity</p>	<p>individual versus society</p> <p>truth versus loyalty</p> <p>justice versus mercy</p> <p>short-term versus long-term</p>

Source: own study. The examples presented in Table 3 are only a small part of the situations encountered in practice by the author of the article in the years 2000 to 2013 in her experience of working as an auditor.

occurs at all levels of economic, political, administrative, scientific and other activities (LEWICKA-STRZAŁECKA 2010).

Table 3 presents examples of unethical actions in accounting, their impact on information from the accounting system and the emergence of conflicts of interests in decision-making.

The presented data show that the unethical actions in accounting of a single company, through decisions of its management, have a great impact, not only on the entity to which they relate, but also the security of business transactions. What seems to be beneficial for one entity does not necessarily bring positive effects to the other entity.

Summary

Companies are forced to operate under difficult economic conditions. In the face of constant change and market instability it is essential to support the decisions taken by the management with reliable information. Accounting is considered to be the most important part of the enterprise's information system. S. SKRZYWAN (1948, p. 11) defines accounting as „[...] all accounting methods and procedures, systematic and casual, used in the enterprise in order to create a basis for management decisions”. It follows that accounting provides economic information necessary for decision-making at every level of management. According to E. BURZYM (2005, p. 22) regulations and reporting of financial accounting oriented to rational decision making needs to be included in the so-called „ethical infrastructure”, which has an impact on reducing pathological and anti-social phenomena in the company. Lack of ethics in accounting has a direct impact on the company's management, which is based on information generated by the accounting system of the company. Ethical dilemmas arising in accounting are also ethical dilemmas arising in the process of business management.

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PERFORMANCE MEASUREMENT IN THE INTERNAL AUDIT DEPARTMENTS IN POLAND – THE STATE OF THE ART AND PROSPECTS FOR DEVELOPMENT*

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Key words: internal audit, performance measurement, efficiency, effectiveness.

A b s t r a c t

The paper reports the major results of a study of performance measurement of internal auditing in various organizations operating in Poland in 2013 and prospects for development. The research implies that many internal audit departments formally do not measure performance, while others do measure, but only informally. Many times satisfaction indicators of key internal audit stakeholders are not identified, the information on performance is not reported to anyone apart from the internal audit staff, and the information is not used for continuous improvement. The most often used performance measures in practice are focused on measuring effectiveness of audit processes and impact of internal audit services on organizations' performance. In addition there are internal audit efficiency and output measured. Quality measures are less common. Stakeholders, scope and usage of performance measurement are related to various organizational characteristics. Many respondents have declared that in future will start and formalize performance measurement and based on it they will improve internal audit performance. In future performance measurement will be more focused on internal audit quality and value added.

POMIAR WYNIKÓW DZIAŁALNOŚCI W KOMÓRKACH AUDYTU WEWNĘTRZNEGO W POLSCE – AKTUALNY STAN WIEDZY I PERSPEKTYWY ROZWOJU

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Słowa kluczowe: audyt wewnętrzny, pomiar wyników, efektywność, skuteczność.

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Abstrakt

W artykule przedstawiono najważniejsze wyniki badań nad działalnością audytu wewnętrznego w różnych organizacjach działających w Polsce w 2013 roku oraz perspektywy jego rozwoju. Z badania wynika, że wiele komórek audytu wewnętrznego formalnie nie mierzy wyników działalności, a inni robią to, ale tylko nieformalnie. Często nie określa się wyznaczników satysfakcji podstawowych interesariuszy audytu wewnętrznego, nie przekazuje informacji o wynikach nikomu poza pracownikami komórki oraz nie wykorzystuje tych informacji w celu ciągłego doskonalenia. W praktyce najczęściej stosuje się zorientowane na pomiar skuteczności mierniki dotyczące procesów oraz wpływu usług audytu wewnętrznego na działalność organizacji. Na dodatek mierzy się efektywność oraz wyniki audytu wewnętrznego. Mniej powszechne są mierniki dotyczące jakości. Interesariusze, zakres i wykorzystanie pomiaru wyników zależy od różnych cech organizacji. Wielu respondentów zadeklarowało, że w przyszłości rozpocznie i sformalizuje pomiar wyników działalności oraz na tej podstawie będzie poprawiać wyniki audytu wewnętrznego. W przyszłości pomiar w większym stopniu będzie koncentrować się na jakości oraz wartości dodanej audytu wewnętrznego.

Introduction

Internal audit plays a very important role both in the organizational supervision and in the operating activity of organizations. When effectively implemented, functioning and managed, it is an essential element that supports organizations in achieving their objectives. Organizations with an effective internal audit have a better ability to identify the business activity risk as well as detect inefficient business processes and systems in order to take appropriate remedies and ultimately implement the process of continuous improvement of the institution (BIELIŃSKA-DUSZA p. 67, DUBIS et al. 2013). Thus, in order to gain and retain the confidence of key stakeholders, internal auditors have to measure the results of their activity in order to monitor and evaluate its effectiveness and efficiency, and then introduce necessary changes.

The research of BURNABA et al. (2007) showed that the auditors in different countries used different methods for measuring the results of their work. Based on their research, HILL et al. (2009) found that only few internal audit departments used any form of measuring the impact of their work on the organization, i.e. the value added by an internal audit department. Therefore, they postulated that although the measurement of the added value is not easy, it should be, in their opinion, the ultimate goal for performance measurement in the internal audit departments. Subsequently, questionnaire surveys conducted by CHEN, LIN (2011, p. 49) showed that the value added by an internal audit department should be understood primarily as the contribution of the internal audit to improvement in the functioning of control processes, as well as corporate governance and risk management process, which is perceived by the board, executive management and other stakeholders. They also found that although an effective use of resources was

an important issue for internal auditors, the impact of their work on the organization was crucial for increasing the value added by an internal audit department for the organization.

In order to contribute to this body of knowledge, the aim of this study was to determine the main characteristics of performance measurement in Internal Audit Departments in Poland such as the stakeholders, the scope and the use of measurement results.

Research methodology and sample

Empirical data for this study were obtained from two sources, with the use of a postal and electronic questionnaire on the SurveyMonkey website. The questionnaire consisted of open-ended, semi open-ended and closed-ended questions. As a whole it focusses on internal audit's: performance measurement, self-assessment, effectiveness, performance improvements, rewards and role of audit committees. Only a minor part of it was utilized for the present study. The data were collected from June to September 2013. The study addressed 2077 internal auditors, 1057 from the public finance sector and 1020 from private sector. The internal auditors listed in the current address base of the Ministry of Finance were sent postal questionnaires. The internal auditors who belong to the Polish Chapter of the Institute of Internal Auditors received email with link to the electronic questionnaire.

Ultimately, 500 organizations operating in Poland participated in the survey. Out of them, 43% were government administration entities, 39% local government entities and their organizational units, while private companies accounted for 9%. Demographic data were not provided by 9% of the respondents. As a result, the response rate for the entities from the public finance sector alone amounted to nearly 40%. The study involved 23 types of entities from the public finance sector with different tasks and organizational and legal forms. This group may include commune offices (19%), district governor's offices (10%), offices of cities with district status (7%), state government budget entities (6%), universities (5%), and ministries (4%). In addition, the sample included also companies from 12 industries, mainly those conducting financial and insurance activities (4%). The respondents included internal auditors (63%), heads of internal audit (24%) and other audit specialists (4%). Service providers accounted for only 0.5% of the respondents.

One-third of the surveyed organizations employed up to 150 people, 41% of them were organizations employing from 151 to 1200 people, while 16% employed over 1200 people. Primarily medium-sized and large entities took part in the survey. Only one quarter of them had annual costs or expenses at a level lower than PLN 50 million. In the case of 22% of the respondents, this

level was PLN 51–200 million. 26% of them exceeded the level of PLN 200 million in terms of costs or expenses. One in five of the internal audit departments surveyed¹ have been operating for more than 10 years. Half of the respondents have been working in a given organization for a period from 6 to 10 years. 19% of the respondents worked for no longer than 5 years. Audit micro-departments (up to 2 full-time auditors) constituted the most numerous group covered by the survey (69%). Small departments (from 2 to 5 full-time auditors) accounted for 10%, while big departments (over 5 full-time auditors) – for 9%. Thanks to a large number of the organizations that participated in the survey and their variety, it can be concluded that the survey shows the picture of the current state of the internal audit in Poland in 2013.

Stakeholders in internal audit performance measurements

Practice advisories for internal auditors (DUBIS et al. 2013) recommend identifying the major internal and external stakeholders, who may directly or indirectly rely on the work of the internal audit, to whom it can bring benefits, or who support internal audit activities. As seen in Figure 1, the results of measurement of the internal audit performance are provided mainly to internal stakeholders, as expected. This group includes audit committees, executive management, employees or heads of internal audit in a parent entity or a capital group.

A detailed analysis of the results of the survey showed that all the managers of the internal audit departments covered by the survey, who

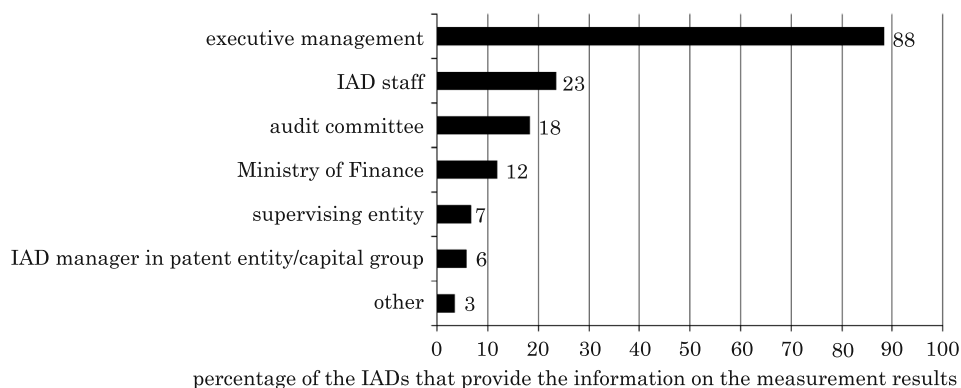


Fig. 1. Stakeholders in internal audit performance measurements

Source: own study based on the survey results.

¹ The term „internal audit unit” (abbreviation: IAU) is used in relation to independent internal audit positions, units composed of multiple persons, and external service providers.

participated in meetings of audit committees, provided the results of internal audit performance measurements to the internal audit committee. Thus, as expected, the audit committee, if established, always plays the role of the main stakeholder in internal audit activities. Members of the executive management are treated a bit differently. Although the executive management is indicated as the primary stakeholder most often, 12% of the internal audit departments, which measure the results, do not send information about the internal audit performance to them, but directly to the head of the internal audit unit of the parent entity, the capital group or the supervising entity.

From the interpretation of the Standard 1110 it appears that the heads of internal audit should functionally report to the board, which means that they must inform the audit committee about the results of their work, but there is no such obligation in towards the executive management. However, in 84% of the organizations, in which audit committees are established, the measurement results are provided not only to the board but also to the executive management. These data confirm the observations made by Hill, et al. (2009), which may indicate how acceptance and good relations with the executive management are important for internal auditors.

84% of IADs in the government administration and 9% of IADs in local governments indicated the Ministry of Finance² or a supervising entity as their external stakeholders. Other answers were the department of finance, management control coordinator, quality manager or quality management unit, as well as the Supreme Chamber of Control. In addition, some auditors from the private sector indicated chartered accountants. Finally, 8% of the IADs, which measure the results, do not provide such information to anyone. These are government administration units and local government units. Additionally, the determinants for the satisfaction of the audit committee were not defined at all in 18% of IADs, while the determinants for the satisfaction of the executive management were not specified in 13% of them.

The scope of the internal audit performance measurements

Measuring internal audit performance systematically is essential for determining whether the internal audit achieves its objectives in accordance with best practices and standards. The scope of measurements can be defined as the

² Every year, the Public Finance Audit Sector Department at the Ministry of Finance prepares a report on the functioning of the internal audit and the management control in units of the public finance, as well as a report entitled „Internal audit benchmarking in units of the public finance sector“. However, these reports are prepared only on the basis of information obtained from government administration units.

number and type of performance measures. However, in the first turn, internal auditors answered the question whether they measure the performance at all. In Poland, only 72% of IADs use performance measures, but 8% of them do it informally. This result is very similar to that obtained by HILL et al. (2009), who analysed organizations of various sizes in different industries in Austin, Texas. From their studies it appears that 71% of internal audit departments established performance measures. A detailed analysis of the answers obtained revealed that in Poland the performance is measured by 76% of IADs with 0-2 full-time auditors, 92% with 2-5 full-time auditors, 89% with more than 5 full-time auditors, while only 21% of the respondents did not provide any information about the employment. These data are partly confirmed by the results of the statistical analysis carried out by HILL et al. (2009), which revealed that large IADs were more likely to measure the performance than the small ones. On the other hand, the fact that 12% of IADs in Poland declare that in the future they will develop formal performance measures can be assessed positively. This is more than in other countries, as shown by the results obtained by HILL et al. (2012), where only 7% of the respondents had such intentions.

The number of the performance measures used

Figure 2 shows the number of the internal audit performance measures used. 72% of the IADs, which measure the performance, use from two to six performance measures. Most often only 5 performance measures are used. Only 20% of the IADs, which measure the performance, use more than 7 measures. In turn, 8% of the IADs, which measure the performance, use only 1 measure for this purpose.

A more thorough analysis showed, as expected, that there were significant differences in this regard between various organizations. On average, the highest number of measures is used by the private sector organizations (\bar{X} 6.3), slightly less – by government administration units (\bar{X} 5.3), while the least – by local government units (\bar{X} 4.5). The larger the internal audit unit, the more performance measures it uses: \bar{X} 4.8 – IAU with 0-2 full-time auditors, \bar{X} 5,0 – IAU with over 2 but less than 5 full-time auditors, \bar{X} 6,8 – IAU with over 5 full-time auditors. In the private sector, listed companies use more measure of the internal audit performance (\bar{X} 7.2) than those not listed on the stock exchange (\bar{X} 4.7). In addition, parent companies in capital groups use more performance measures (\bar{X} 8.4) than their daughter companies (\bar{X} 6.18) or autonomous entities (\bar{X} 6.16).

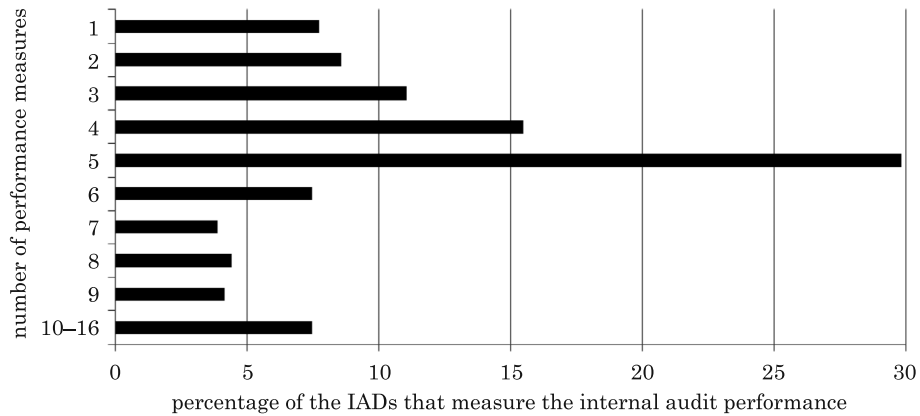


Fig. 2. The number of the internal audit performance measures used

Source: as under Fig. 1.

Types of performance measures

Table 1 shows the most commonly used types of internal audit performance measures. It can be clearly seen that half of the most commonly used performance measures, as in the studies by CHEN, LIN (2011)³, are focused on measuring the effectiveness and impact of internal audit services on the organization. This group of measures include: assessment of the degree of the audit plan execution, acceptance and implementation of recommendations, ensuring the rationality of the management control, auditees satisfaction as measured by surveys.

Table 1
Types of performance measures most commonly used by the internal audit departments that measure the performance

Measure	IAU [%]
Degree of completion of the annual audit plan	81
Ratio of the time of assurance and consulting tasks to the total working time	50
Timeliness in the execution of tasks	46
Assurance as to the rationality of the management control	44
Ratio of the implemented recommendations to the accepted recommendations	43
The number of significant audit findings	38
The level of satisfaction of the audited with the audit performance as measured with the questionnaire surveys	38
Ratio of the planned number of hours for execution of the assurance or consulting tasks to the actual number of hours spent for these tasks	32

Source: as under Fig. 1.

³ Performed on a sample of 13,582 internal auditors from 107 countries.

In addition, the group of the most commonly used performance measures, as in the studies by HILL et al. (2012), included two measures oriented at the measuring efficiency of the working time utilisation. These are: the percentage of the time spent on executing the assurance and consulting services in relation to the total working time and the ratio of the planned number of hours for executing the assurance and consulting services to the actual number of hours spent on them. Furthermore, the observations made by HILL et al. (2009) that internal auditors are very reluctant to measure the effectiveness of their work using financial measures, such as the cost of auditor's working hour, prove to be true.

When comparing the results obtained with the result of the studies by BURNABA et al. (2007, pp. 197–199), it can be seen that internal audit performance in Poland is still very frequently measured by the number of significant audit findings. However, the estimation of savings and the improvements resulting from the implementation of recommendations are the measures that are not as common as it appeared from the findings of BURNABA et al. (2007, pp. 197–199).

Every second internal auditor, who measures the internal audit performance, focuses on the timeliness in the task execution. Whereas, in the studies by CHEN, LIN (2011) this factor is only at the seventh position among the performance measure most commonly used around the world.

When asked about the five most important performance measures that could be used on the basis of available information, the internal auditors generally pointed to the same measures that were included in Table 1. The measures, which are perceived as important, but currently are used more rarely, are also noteworthy. They include: the results of an external quality assessments, the satisfaction of the audit committee and/or executive management from the results of the internal audit activity, costs savings/avoidance of potential costs and improvements as a result of the implementation of recommendations, the number of requests from the executive management to perform assurance and consulting services, or the activeness in providing information about organizational governance, risk and control. Apart from the last one, all these were in the first five most commonly used performance measures worldwide according to BURNABA et al. (2007), CHEN, LIN (2011), HILL et al. (2012). Hence, it can be concluded that internal auditors notice that measuring the quality and the value added by the internal audit department are more important than it results from the current practice, but for some reasons such measurements have not been done sufficiently so far.

The use of internal audit performance measurements

Performance measurements can be carried out in a continuous or discrete way. Standard 1311 (definition of the internal audit, 2012, p. 44) requires that internal auditors should use performance measures to monitor activities of internal audit departments on a current basis and should conduct periodical self-assessments. Periodic assessments may cover both the value added for the organization and the measurement system itself in terms of its adequacy and timeliness (*Definicja audytu wewnętrznego.*, 2012, p. 132). From this study it appears that only 20% of IADs assess the performance measures on a current basis, while 33% of IADs do this as a part of a periodic self-assessment conducted usually once a year.

In addition, the studies by HILL et al. (2012) suggested that successful internal assessments could provide measurable improvements in internal audit processes, which can be identified, implemented, reported and monitored in terms of their implementation, use and results. This study shows that 77% of the IADs, which measure performance, use the information on their performance for making relevant improvements in the internal audit activity, while 16% of such IADs are planning to start such a process in the future.

Conclusions

This study indicates that 36% of IADs in Poland do not have formally developed performance measures. Although 72% of IADs measure their performance, 8% of IADs do this in an informal way. The determinants for the satisfaction of the audit committee were not defined in 18% of IADs, while the determinants for the satisfaction of the executive management were not specified in 13% of them. 8% of IADs do not provide such information to anyone other than the audit staff, and only 77% of the IADs, which measure the performance, use it to improve the internal audit activity.

In general, the most complex performance measurement systems are in place in large IADs functioning in parent companies and capital groups listed on the stock exchange, while the simplest ones are typical of single-person internal audit departments in local government entities or in companies that are not listed on the stock exchange. Furthermore, the most commonly used measures, in contrast to the results obtained by HILL et al. (2009), are the measures oriented at measuring effectiveness, which concern the impact of internal audit services on the organization and audit processes. The measures oriented at measuring the audit effectiveness and the audit outcomes are also

used quite frequently. On the other hand, the quality measures are not used as often as in the USA (HILL et al. 2009).

A different scope of the performance measures used in Poland as compared with the scope resulting from the earlier studies may result from three different reasons. Firstly, the internal audit practice may have changed. Seven years have already passed from the first survey. Secondly, the structure of the organizations that took part in these surveys was different, so the auditing practice in these organizations could also vary. Thirdly, there may be significant differences in the internal audit practices in individual countries, which result not only from cultural differences. In the study conducted by BURNABA et al. (2007), Poland was in one group with 12 other countries.

It is a positive fact that 12% of the IADs declared the will to develop formal performance measures in the future, while 14% of them, based on the results of measurement, plan to make relevant changes in the internal audit activity. The future measurements will focus more on the quality and added value of the internal audit.

This descriptive analysis of the condition and the development prospects does not give answers to some important questions. For example, it would be good to know what the relationship between the scope of the internal audit performance measurements and the specific character of a given unit from the public finance sector is. In addition, a question could also be raised, to what extent the motivation systems for internal auditors are associated with their performance. Although a statistical analysis aimed at testing relevant hypotheses has already been performed, these results will be published in (BEDNAREK 2014) due to the volume restrictions for this paper.

Finally, it must be emphasized that such a questionnaire survey has its limitations. The price for obtaining a general picture based on a large number of organizations is that the data are captured only in a single moment of time. It is not possible to record the learning process and its internal dynamics for each individual organization. In addition, the information quickly becomes outdated when carrying out the proper statistical analysis, which is often time-consuming. Nevertheless, as long as we are aware of these limitations, a cross-sectional analysis can make the research results statistically significant and universal, which cannot be achieved in any other way.

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CONTROLLING AS AN INFORMATION SOURCE IN RISK MANAGEMENT PROCESS

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Key words: controlling, risk, risk management process, budgeting, information system.

A b s t r a k t

An increasingly visible tool in identifying risk is controlling. Its tasks include collecting, processing, and analyzing information. Thus, in the stage of identifying the risk management process, controlling should supply management with information regarding the impacts of risks on particular departments of the company. The purpose of this article was to emphasize the role of controlling in the risk management process within an organization. This objective was achieved through a study of literature from research conducted in the field. Over the course of this study, the value of controlling and its role in the risk management process were revealed. Also, the role of budgeting was shown to be a key tool of controlling in the process of risk management. The implementation of controlling in a company permits full use of information and enables the use of modern management techniques, thereby facilitating making good decisions to rectify or mitigate risk for a specific organization or unit.

CONTROLLING JAKO ŹRÓDŁO INFORMACJI W PROCESIE ZARZĄDZANIA RYZYKIEM

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Słowa kluczowe: controlling, ryzyko, proces zarządzania ryzykiem, budżetowanie, system informacyjny.

A b s t r a k t

Coraz częściej zauważalnym narzędziem przy identyfikowaniu ryzyka jest controlling. Do jego zadań należy między innymi gromadzenie, przetwarzanie i analiza informacji, dlatego też na etapie identyfikacji procesu zarządzania ryzykiem controlling powinien być głównym narzędziem zasilającym kierownictwo w informacje o ryzyku, mającym oddziaływanie na poszczególne piony przedsiębiorstwa.

Celem artykułu było wskazanie roli controllingu jako źródła informacji w procesie zarządzania ryzykiem w przedsiębiorstwie. Cel został zrealizowany dzięki przeprowadzonym studiom literaturowym z przedmiotowego zakresu. W toku prowadzonych rozważań wskazano miejsce i określono rolę controllingu w procesie zarządzania ryzykiem. Ponadto wykazano rolę budżetowania jako głównego narzędzia controllingu w tym procesie.

Wdrożenie w przedsiębiorstwie controllingu pozwala na dysponowanie pełną informacją, posługiwanie się nowoczesnymi technikami zarządzania oraz podejmowaniem trafnych decyzji niwelujących bądź zmniejszających ryzyko w działalności danej jednostki.

Introduction

The rapidity of changes of economic conditions, harsh domestic and global competition, unsatisfactory economic development and growing complexity of problems are the features of the environment in which economic entities have to operate. Moreover, growing possibilities of choice and alternatives that the board of a company faces result in a greater risk of mistakes in decision making, the effects of which may be both long-lasting and difficult to correct. The above factors entail that economic entities adapt to market economy realities, involving implementation of modern management tools to ensure the existence of the company and the increase the profitability of employed capital. In the view of approaching changes, when the market struggle is not only about the development of the company but also about its survival, information is the basic asset allowing for expanding the knowledge on the entity's environment. The emerging risk requires that the board skilfully lead the entity, using suitable tools as information sources. Controlling is undoubtedly one of these instruments.

The key feature of controlling is the minimization of the level of uncertainty in the decision making process by measuring, analyzing and forecasting key decision parameters. In this respect, controlling can be defined as a risk management tool (KAPCIA 2002, p. 241). In a number of companies it is assumed that the implementation of controlling as an effective means of fighting the increasing environment variability will let the company avoid many problems and attain competitive advantage due to monitoring and identification of diverse threats that appear together with civilizational, social and economic development, as well as in the circumstances of economy globalization.

The main purpose if this article is to present the role of controlling as a source of information in the risk management process. The subject literature analysis within the scope of management accounting and risk management was used in order to achieve the indicated purpose. The study was divided into three phases: 1) Indicating the core of risk management process; 2) Discussing

controlling in respect of risk; 3) Employing budgeting as the main controlling tool in the risk management process. Our analysis is aimed at answering the following research question: In what way does the controlling supply information to the decision-making bodies of a company and how does it support risk management process in the given entity? Inference was based on deduction.

The core of risk management process

Striving for predetermined goals is laden with execution risk, therefore, assessing risk is crucial. From the point of view of a company, the definition of risk is slightly different than from the common view. In everyday language, risk is usually defined as a threat or danger resulting from incidents that do not depend on us, or as something resulting from the decisions taken. For a company, however, risk is a basic element of the environment in which the company operates – although the existence of risk means the uncertainty of the future results, it can equally be a source of losses and profits. This is because the existence of risk may involve the occurrence of both better and worse results than the expected ones (TARCZYŃSKI 2001, p. 15). In the subject literature one can find a number of definitions of risk, interpreting it in various ways. T. Kufel claims that risk is a probability of the occurrence of any action, or of the lack of it, the result of which may be a detriment to possessions, or an image of a given entity; or that it is a probability of the occurrence of an incident that will interrupt attaining goals and tasks (KIZIUKIEWICZ 2007, p. 63). K. Jajuga, on the other hand, gives an alternative definition of risk, viewing it from two points of view. Firstly, as a threat, i.e., a probability that the desired effect will not be achieved. Secondly, the scholar observes the possibility of arriving at a result different from the desired one and thus, risk is seen as a chance and a threat (JAJUGA 2007, p. 13).

A situation in which the interest rate is the determinative factor may serve as an example. The influence of the interest rate on values of some assets and liabilities, e.g., on a credit with a variable interest rate, may be diverse. Depending on the type of the economic entity and the course of changes of the interest rate value, the risk connected with it may exert both positive and negative influence on the market participants (KIZIUKIEWICZ 2007, p. 64).

The diversity of the interpretations of risk results in its numerous types. Due to restrictions concerning the volume of this study, only the types crucial for reaching the goal of this article is presented. From the point of view of the information indispensable to making decisions in a company, risk can be of operational and strategic type. A comprehensive list of these is given in table 1.

Table 1

Types of risk in an entity

	Type of risk	Characteristics
Strategic risk	political	connected with political incidents and decisions taken in the country.
	social	connected with the behaviour of the citizens, with rules of culture and tradition.
	legal	means a threat for the entity's operation and results from changing laws or various interpretations of them.
	of an interest rate	results from the value of the connection of some assets and liabilities with the changes of interest rates.
	environmental	concerns the environmental consequences of achieving the goals of the organisation, e.g., energy efficiency, noise, pollution.
Operational risk	financial	it is connected with financial planning and control.
	legal	concerns the possible breach of law.
	occupational	connected with the characteristics of a specific occupation.
	physical	concerns fire, safety, accident prevention, etc.
	contractual	connected with not providing the services or not delivering the goods by the deliverer in accordance with the price and specification agreed.
	technological	concerns the company being dependent on the equipment used, e.g., IT systems.
	managerial	results from human fallibility or intentional negative behaviour.
	of human resources	concerns workers' negligence or fraud.

Source: own study based on (KIZIUKIEWICZ 2007, p. 64, 65; *Zarządzanie...*, p. 35, 36).

The diversity of the risk types that the company is subject to means that, for the board, the crucial ability is to predict changes in the environment, as well as the analysis of internal and external information together with taking rational actions on this basis. In practice, it means conscious risk management.

The above-mentioned process is defined as a logical and systemic method of creating the context, identification, analysis, evaluation, operation, control and information about the risk in a way that enables the organization to minimize loss and maximize opportunity (*Zarządzanie...*, p. 7). Risk management involves the use of systemic methods during the entire process, including the identifying and analyzing the risk, as well as influencing the stated risk. Moreover, this management creates the basis for controlling and analysing the risk, as well as for communication of the groups of workers inside and around the company (KACZMAREK 2010, p. 19).

Risk management is divided into five phases:

- Phase I – Defining the framework of the process
- Phase II – Identification of the risk
- Phase II – Analysis of the risk

- Phase IV – Evaluation of the risk
- Phase V – Influencing the risk

Defining the framework is crucial in order to carry out the risk management process efficiently. Most importantly, one needs to determine the scope and parameters of risk management implementation. Internal conditions should also be taken into consideration, e.g., the strategy of the company, its policy, structure and values, as well as external ones, e.g., cultural, political, social, legal or economic circumstances. Moreover, responsibility and competence, the scope of study, the method and criteria of risk management have to be settled (KACZMAREK 2010, p. 19).

The defined framework will be a basis for identifying the risk within the organization. Risk identification means pointing to areas which may cause irregularities. Such identification should be carried out at least once a year. In addition, there should be established an acceptable level of risk at which the company may constantly aim. Risk identification is done either top-down (by the board or the high-rank managers) or grass-roots (by the medium-rank managers and the rest of workers) and based on, among others, the following methods: 1) brainstorming; 2) SWOT analysis; 3) surveys among workers; 4) the experience of the company. One should remember, however, that one, perfect method does not exist. Establishing their combination and adjusting to the specificity of a given company may be the solution. In addition, it is important to maintain an appropriate level of knowledge about risk and incorporate the risk identification process into the main operational processes of the company.

Controlling is an instrument which is increasingly noticeable in risk identification. Usually, it is assumed that controlling is used to gather, process and analyze information coming from the company's environment and from the internal organizational units of the company. This is the reason why at this phase of the risk management process, controlling should provide the board with information about the risk influencing specific units of the company.

After identifying the essential risk types, evaluation of the probability of their occurrence and their relative relevance is another phase. One can employ various solutions here: from quality evaluations, to detailed mathematical quantitative evaluations so that management can decide which of the potentially risky incidents pose the greatest threat to the company (MOELLER 2011, p. 164).

Risk analysis lies in understanding the nature, reasons and result of the identified risk. The evaluation is carried out in order to demonstrate the efficacy of internal control mechanisms used for decreasing the risk, as well as to emphasize the serious risk which can be hidden despite operating control mechanisms.

A risk evaluation score matrix can be an instrument of risk management. Two variables are used: the influence of risk on the company and the probability of risk occurrence. The product of these two variables equals the score evaluation for the given risk.

The risk management process finishes with taking the decision about influencing the risk. It is connected with taking specific actions mitigating the identified risk as well as selecting the strategy of influencing the risk.

The following procedure is possible (cf. KACZMAREK 2010, p. 27):

- Risk avoidance – deciding not to take the risk and suspending the process or activities connected with it,
- Minimizing the risk – removing the source of threats, limiting the probability of occurring risk and its results,
- Risk transfer – e.g., taking out an insurance,
- Risk acceptance – accepting the probability of incurring the risk, especially if there appears an opportunity of gaining a profit.

An efficient risk management process is connected with monitoring the identified risk in order to determine whether it changes or not. Moreover, for the board of the given entity, a functional information and communication system within risk management is essential, and within that system, controlling plays a crucial role.

Controlling with respect to risk

An efficient risk management process requires incorporation into the company management process. It needs to be emphasized, however, that the management process is effective only if the board has a set of essential instruments at their disposal. Controlling is one such instruments.

Management control has been subject to a number of inconsistent approaches and interpretations. A significant group among the definitions emphasize the coordinating function of controlling. W. KRÜGER defines controlling as „a system of agreed means, rules, goals, methods and techniques serving the intersystemic control and the control of goals concerning the results” (KRÜGER 1979, p. 161). P. Horvath, on the other hand, presents controlling as an integrated subsystem of management, creating and coordinating controlling, planning and information supplying, supporting adaptation and coordination of the entire system (HORVATH 1998, p. 111).

The separation of management subsystems reveals a need for coordination between, and integration of, them into a single coherent information system, i.e., controlling.

H. Steinmann and G. Schreyogg define controlling as a „methodological managerial task, which is aimed at the efficient development of organizational structures, processes, motivators, information-systems, and roles, which supports senior management in the formulation of plans, and which requires effective coordination between two key processes: planning and control” (STEINRNANN, SCHREYOGG 1986, pp. 747–765). K. Wierzbicki expands the scope of controlling to include the coordination of specific activities in the field of management, particularly in planning and control, the collection and processing of information, and the selection and training of personnel (WIERZBICKI 1994, pp. 8, 9). On the other hand, J. Weber asserts that the three most important facets of controlling are the control of information, the philosophy of management, and the coordination of processes and systems (WEBER 2001 pp. 19–23).

Controlling is a modern method of managing a company. It is realized by creating and updating the architecture of planning systems, constructing indicators and measures of financial evaluation, and preparing information for current and future strategic decision-making. It is used by managers in planning, controlling, coordinating, collecting information, and communicating business needs and objectives (KACZMAREK 2010, p. 168).

The authors of these definitions emphasize the pursuit of controlling systems to secure business objectives. The main priorities of such a system are coordination and control. In many definitions controlling is primarily the coordination of the major functions of management, including planning and executing of business strategy and managing the process for supplying information. The coordination of these processes is possible only if the enterprise has defined objectives and a plan to achieve them.

Therefore, it can be concluded that the risk management process is a subset of controlling. This process is realized by identifying, analyzing, evaluating, steering, managing, and reporting risk in both strategic and operational areas. An important task in this context is the functional coordination of the controlling system within an organization with the business environment (KACZMAREK 2010, pp. 168, 169).

Considering that controlling systems are typically developed in response to the needs of particular business unit managers, it is also important to determine the information needs of all levels of management, especially those of individuals (or teams) who steer the company.

The information supplied by controlling systems facilitates formulation of policies, planning and control of a company, and decision-making (risk reduction). The multifunctionality of this information, used for everything from planning to coordinating and steering activities to motivating employees, demonstrates the value and inherent complexity of controlling systems.

An important aspect in the process of risk management is maintaining a sufficiently adequate database. Undoubtedly, a key role in database management is controlling. Controlling systems provide necessary information for decision-making at every level of management and facilitate timely and effective steering of activities. Thus, these applications not only help govern and shape management functions, i.e., planning, organization, motivation and control, but they also permit the development of subsystems to support risk management processes via ancillary coordination or information systems. This relationship is illustrated in Figure 1.

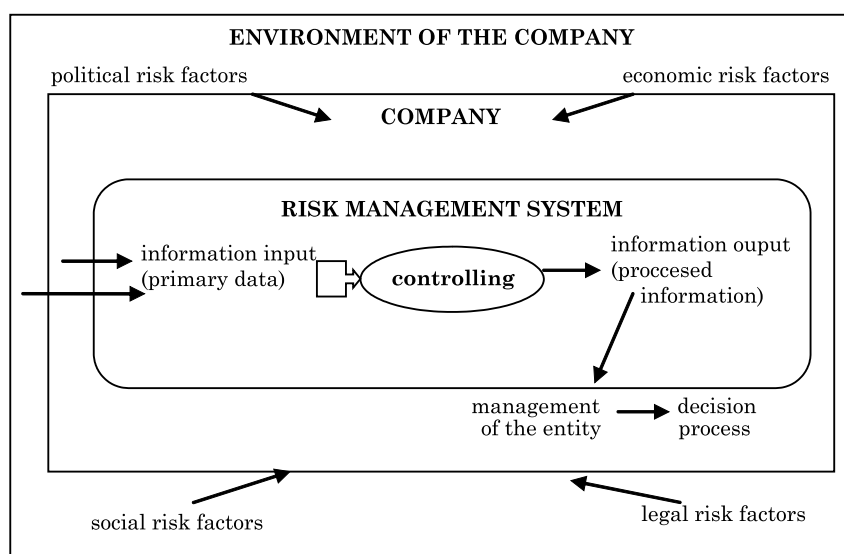


Fig. 1. System of information processing through controlling

Source: own study based on (NOWAK 2008, p. 26).

A risk management system operates in a specific environment in which there are a number of risk factors that affect a company. „Raw” data that is entered into the database is queried by controlling system applications that perform various analyses, converting the data into actionable output information. This supplies managers with information about sources of risk for the entity, supporting the decision-making process.

Implementation of controlling requires the coordination of planning, control, and information systems, which facilitates the governance of the activities necessary to achieve the assigned objectives. This need for coordination is also a product of the relationship between the company and the business environment, as well as the dependences between and within individual management systems.

In Polish enterprises, coordination processes often take place in a random, unorganized way, without clearly defined competences or delegation of responsibilities. This results in a need to establish a system of coordination, connecting various levels of management and providing senior management with information needed for better decision-making, helping the organization achieve its corporate objectives. Controlling alone can play a large role in the construction of an effective system of coordination (WIERZBICKI 1994b, p. 12). The coordination function of controlling distinguishes it from other management systems, because unlike the other systems, the coordination function is the main objective of a controlling system. Coordination can be broadly defined as the orientation of individual activities for a specific purpose (CZUBAKOWSKA 2000, p. 9). Coordination requires the cooperation of all the subsystems of a company. It allows managers to detect any inconsistencies, contradictions, and unrealistic plans (SKULLS 1998, p. 34).

Appropriate corporate conditions must be maintained or created for process control coordination to be effective. Efficient achievement of objectives is not possible without harmonizing the tasks and activities of separate entities of a company. Coordination makes sense only if it relates to clearly formulated and achievable goals. These requirements are not always met. In small companies goals are usually formulated top down/centrally, while in larger organizations they are the result of a „tender” of individual decision-makers.

Coordination involves identifying the most critical processes/functions of the company and recognizing deviations that can cause „bottlenecks”. Coordination also involves the harmonization of strategic planning with operational planning and the inclusion of lower levels of management to formulate strategies (SCHROEDER 1989, p. 29). Recognizing these key characteristics of coordination is necessary for successful implementation of controlling.

The use of budgeting as a key tool of controlling in the risk management process

Budgeting is considered to be among the classic controlling tools that allow management to minimize business risk (*Managerial Accounting* 1997, pp. 195). In the past, budgeting was the only form of „controlling” (GOLISZEWSKI 1996, p. 26, STEJSKAL 1995, p. 108), helping to forecast costs and revenues for a given period. Nowadays, with the increased complexity of the activities of economic entities, the budget is considered to be the main tool for both managing and controlling, supporting decision-making and priority-setting for the use of resources. Also, budgeting, which is a method of monitoring progress in achieving corporate objectives, is a basic tool for internal control.

Quantifying the cost/benefit of corporate initiatives helps managers to predict and avoid problems, reducing risks to the business. In addition, quantitative expressions of defined goals and action plans provide metrics used to gauge performance. A budget provides expectations and limitations to responsible individuals, who will consciously strive to meet the expectations under the prescribed limitations.

Planning in a company is necessary for three main reasons: the complexity of enterprise activities, the uncertainty of the future and continuously evolving risks associated with this uncertainty, and the time delay between making decisions and the consequences of those decisions. Therefore, effective business management requires the development of forward-looking business plans, which are necessary to steer, and maintain the financial health of, the company.

Plans can be categorized by functionality (BUCZKOWSKA 2003, p. 106):

- operational plans, concerning real processes taking place within an enterprise, such as procurement, production, sales, employment, etc. These plans form the basis of tangible output models to create cost plans, financial plans, and feasibility studies.

- financial plans, concerning revenues, costs, investments, and financing activities. Financial plans minimize the risk of insolvency and periodic shortages or overages of cash.

Planning coordination plays an important role in the planning process, with a main task of linking strategic planning with operative planning and linking individual partial plans in a comprehensive plan. The coordination of partial plans, and the combined impact of them in the comprehensive plan, takes into account the competition between these plans for scarce company resources and establishes the functional and temporal relationships between them. The effectiveness of planning depends not only on identifying the correct targets, tools, and procedures, but also on effectively controlling the implementation of the plan.

The form of control is distinguished by its nature and intended purpose (WIERZBICKI 1994b, pp. 11–25):

- initial control (ex ante), regarding plans (intentions, budgets, decisions) with different time horizons, with particular regard to feasibility, risks, possible dangers, etc.,

- current control (operational), concerning the implementation of current initiatives, which forms the basis for immediate responses to emerging threats and dangers,

- retrospective control (ex post), which is associated with the assessment of results achieved in terms of goals and objectives,

- sporadic control, related to selected issues or problems arising from emerging needs.

Comparing actual results to expected ones reveals the magnitude of deviations, which are the basis for taking corrective actions. There can be many reasons for variations: unrealistic goals, the use of substitute materials, equipment failure, deterioration, fluctuating price levels, etc. (CZUBAKOWSKA 2000, p. 33).

These forms of control are considered managerial functions only if they are used to adjust operations as needed to achieve the stated objectives, or reduce inconsistencies within allowable limits. If the control ends at the time of measurement and evaluation of results (to identify the extent and causes of deviations), then it ceases to remain a management function and loses much of its substantive value.

It should be emphasized that medium and long term planning procedures and methods help to reduce future uncertainty, and thereby also reduce the risk arising from future operating conditions and enterprise development.

Conclusion

In conclusion, it should be noted that rapidly changing business conditions faced by enterprise managers are forcing them to employ modern procedures and methods of planning and control practices. These modern practices help to reduce the uncertainty and risk arising from future operating conditions and help to optimize decision-making.

Risk management aims to increase the likelihood of achieving target objectives. The risk management process should be documented and updated on, at least, an annual basis. Identified risks should be analyzed to determine the likelihood and magnitude of outcomes (SMOLEN 2014, p. 498).

In the context of risk management implementation within a company, the controlling system provides managers with „full” information, uses modern techniques of management, and supports decision-making in enterprise management processes.

Since controlling systems are not directly regulated, but are tailored to the information needs of companies, a fundamental feature of the information generated by these systems is its relevance to, and usefulness in, making decisions to rectify or mitigate risk for a specific organization or unit.

Risk management is an important issue for all organizations, both in the private and public sectors. Therefore, each organization should be aware of the risks associated with its activities and apply tools to manage this risk. Undoubtedly, one such tool is a controlling system.

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GUIDELINES FOR TEXT PREPARATION FOR THE “OLSZTYN ECONOMIC JOURNAL”

The “Olsztyn Economic Journal” (ISSN 1897–2721) is a scientific magazine published in English at the Faculty of Economic Sciences of the University of Warmia and Mazury in Olsztyn. During the years 2007–2012 the magazine was published semi-annually and as of 2013 it was transformed into a quarterly. It publishes scientific papers of methodical, review and empirical nature in economic sciences. The Olsztyn Economic Journal is published by the University of Warmia and Mazury in Olsztyn Publishing House. The printed format is the primary form of the magazine. Additionally, all numbers of the magazine are available also in the electronic format on the website: <http://www.uwm.edu.pl/wne/oj.php>, <http://wydawnictwo.uwm.edu.pl> (subpage Czytelnia).

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Kos C. 1997. *Marketing produktów żywnościowych*. PWRiL, Warszawa.

Collective papers: Dbajmy o właściwe suszarnictwo ziarna. Red. K. Lewin 1982. T. 1. PWN, Warszawa.

When use is made of a particular **part or chapter only**: Lenartowicz M. 1963. Opis bibliograficzny. W: *Metodyka bibliograficzna*. SBP, Warszawa, s. 6–16.

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Tomczyk Z. 1996. *Wynalazczość i racjonalizacja źródłem postępu technicznego*. Gosp. Narod., 6: 21–25.

Unpublished papers: Malicki K. 1990. *Ubój świń*. Instytut Żywienia Zwierząt ART, Olsztyn (typewritten text).

Kowalski H. 1992. *Wychów cieląt*. Katedra Hodowli Bydła ART, Olsztyn (doctoral dissertation).

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