This scientific monograph is closely linked to the studies conducted by the Department of Public Management and Social Sciences at the Faculty of Economics, the University of Economics in Katowice. It also reflects the key research areas of interest for the Editors of the publication, as well as the institutions they represent, i.e. the University of Economics in Katowice and the University of Bielsko-Biala.

The publication is a joint effort, with the contributions made by the researchers from many countries (the United States, the United Kingdom, Spain, China, Ukraine, Serbia, Slovakia, the Czech Republic, Chile, Italy and Poland), representing various institutions and scientific centres, whose observations and research findings are referred to in particular chapters.

The Editors hope that this publication may serve as an inspiration for our Readers, encouraging them to continue their work and research on risk in public management.

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University of Economics in Katowice

Public Risk Management

Tome I

Perspective of Theory and Practice

Edited by
Piotr TWOREK
Józef MYRCZEK

Publishing House of the University of Economics in Katowice

Scientific publication

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Katowice 2016

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Introduction

This scientific monograph is closely linked to the studies conducted by the Department of Public Management and Social Sciences at the Faculty of Economics, the University of Economics in Katowice. It also reflects the key research areas of interest for the Editors of the publication, as well as the institutions they represent, i.e. the University of Economics in Katowice and the University of Bielsko-Biala. Risk, as a cross-disciplinary category, becomes the subject of analysis for a variety of sciences, including business and technical ones. At the same time it constitutes both a conceptual category and a practical issue, which appears at the borderline between a number of scientific disciplines, such as finance, economics and management. Consequently, risk can be managed using an appropriate array of methods, which vary depending on the area in which the given risk may be experienced. No matter which risks are to be reviewed and evaluated, however, and what definition of risk is adopted, risk remains a demanding but highly quantifiable category. Scientists who explore this phenomenon all over the world have to be prepared to deal with many challenges and we, in our monograph, have attempted to focus on the ones which may be faced when examining risk in the public sector. In particular, considering the challenges that public organisations tend to be exposed to when carrying out management processes, it might be advisable to look at the solutions which are used in the commercial sector and think about their possible implementation in the public area. Commercial enterprises have long treated risk management as practical knowledge and corporations all over the world are required to act in the same way, therefore the tried and tested patterns from Enterprise Risk Management (ERM) are most likely to be suitable for application in Public Risk Management (PRM). The authors of this monograph advocate such solutions and the international experience in this field is presented in specific chapters. The publication is a joint effort, with the contributions made by the researchers from many countries (the United States, the United Kingdom, Spain, China, Ukraine, Serbia, Slovakia, the Czech Republic, Chile, Italy and Poland), representing various institutions and scientific centres, whose observations and research findings are referred to in particular chapters.

The opening paper, written by Piotr Tworek, introduces the Readers to public risk as a broadly understood concept. The three chapters offer a selection of studies which focus on methodology, results of empirical research and theoretical aspects. The authors also highlight the utilitarian benefits which may be derived from their studies, formulating, at the same time, specific methodological solutions.

The Editors would like to use this opportunity to thank all the people who have dedicated their time and effort to create the monograph and, in particular, the authors of the papers included here, as well as the reviewers for their valuable comments and suggestions. We hope that this publication may serve as an inspiration for our Readers, encouraging them to continue their work and research on risk in public management.

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Katowice, October 2016

Public Sector Risk Management

Understanding public risk

(*Piotr Tworek*[1])

1. Introduction

So far, neither in the theory nor in practice have there been any successful attempts to provide a clear and unambiguous definition of the category of public risk. In particular, the public character of an organisation manifests itself in four areas, i.e. social relations with the environment, distinguishing goals, structure and values (Kożuch, 2004). Risk is also embedded in these elements, being an integral part of the modern concept of New Public Management (NPM). Risk management in public organisations is the reflection of a modern approach to public management, as one of its underlying principles is business-like management, which is directly applicable to risk management as a function supporting overall management in a public organisation (Tworek, 2015a). If risk is to be managed efficiently and effectively, however, it first has to be understood and then clearly defined by public managers. In literature, some attempts to define risk in the public sector have been made by a number of authors (Young and Fone, 2001; Carmen and Dobrea, 2006; Spinki, 2012; Tworek, 2015a; 2015b), but due to the complexity of this notion, it has not been possible to come up with one universal definition, which could be commonly used and applied to any public organisation without any exceptions. Risk in public management is a multidimensional, multi-faceted, multi-field and, first of all, cross-disciplinary category. It is certainly a dynamic and common phenomenon, which is connected with a potential threat, loss or damage – usually with a wide range of impact – that occurs over time (Tworek, 2010). These are universal features, which are ascribed to risk as a scientific category, which was originally defined in 1921 by Knight, who made a distinction between risk and uncertainty (Knight, 1921). Uncertainty, as a non-measurable category, is also often associated with activities carried out by a public organisation.

However, irrespective of the way risk is understood in the public sector, risk management is a particularly challenging task and there is virtually no single procedure or all-purpose method which can be suitable for all public organisations operating all over the world. This is due to the service-oriented nature of

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Accounting as a relevant source of information for assessing the economic situation of the entity

(*Renáta Pakšiová*[19])

1. Introduction

The basis for the management decision-making is always an accountancy, either past-based (financial accounting), or future-predicting (management accounting). Risk has traditionally been defined in terms of the possibility of injury, danger, loss or other adverse consequences. Business sector and public sector have similar problems with recognising and analysing risks which we can find in accounting as a source of management information. Risk in management and accounting is identified in terms of valuation, distribution of recognised gain, cost-volume-profit analysis, cash flow, capital assets pricing models, etc.

2. Methodology

This text is oriented to an analysis of a risk management in organisations and a role of an accounting in a financial management and risk management, focusing on accounting as a relevant source of information for assessing the economic situation of the entity. It is followed by description problems with understanding important topics from accounting for management. In this text I apply epistemology as a basic method for researching this problem. Standard research methods, such as selection, analysis and synthesis, presenting basic methodical approach to paper processing are applied. I combine the obtained knowledge to form new, higher level of knowledge of researched problems. In particular, ways of understanding and explaining characteristics and recognition the risks of accounting like big management problems, the inductive-deductive and analytic-synthetic logical scientific methods are used. In the conclusion, I will highlight the importance of good understanding of accounting information (financial reporting) on the financial position and economic situation to provide information that is useful for accountability and decision-making purposes.

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3. Theoretical basis

Most disciplines in the field of management sooner or later experience the importance of forming their own theories, which would clarify the content of a specific discipline, its functionality and significance in a system of management. Accounting as part of the information system had relied on the historically understated need of every management system dependent on the power of accounting information for many years. Pragmatic and descriptive characteristics served that need at the outset. During the interwar period, several experts tried to elaborate the content characteristics of accounting information, which served as an attempt to a theoretical approach at such a level of abstraction, which was typical for other specific disciplines of management theories. Both the theory and practice of accounting prove the fact that the linkage between abstraction and concrete forms of events is multileveled and the interpretation of theoretical knowledge remains undoubtedly differentiated for various distinctive levels of management. Accounting as a discipline, a product of human practice, is not theoretically described as an exact system of several definitions and rules and the relations among them but abroad and comprehensive information about the financial situation of entity. The basis for the management decision-making is an accountancy, either past-based (financial accounting), or future-predicting (management accounting).

Accounting collects, processes and provides (reports) information on all the facts relating to the entity that can be expressed in monetary terms. These are essential for risk assessments in decisions taken by the management and other users of accounting information, for example investors.

The theory of accounting has never evolved for its own sake, but it has always been influenced by practical needs. Based on the relatedness of the theory of accounting to practice we can distinguish positive and normative theories of accounting. The basic philosophy of positive accounting theory starts from the preferences of positive experiences, results and methods of problem solving, which are reflected in the design of accounting based on the common law. The normative theory of accounting starts from the normative way of designing accounting and the sequential problem-solving which evolve throughout the application of legal norms. In the Europe countries the normative theory of accounting has been used predominantly in history and in the presence too, whereas in the process of harmonisation the positive theory of accounting has come into limelight due to the resilience and flexibility of its results.

4. The basic components of accounting

The basic components of accounting, important to assessment of financial situation of business entities, entail valuation and theories of balances.

Valuation in accounting represents a process related to the determination of a monetary sum, which is assigned, to an accounting item. Based on the fact that accounting is led in monetary units, it is obvious that valuation is the core issue of accounting. The chosen form of property valuation, liabilities, and the difference between assets and liabilities determine the content and predictability of almost every economic variable recorded and checked in accounting. These are the basic items of various analyses, which result in a set of variables characterising the economic conditions of a company.

Various valuation viewpoints induce the need for various price/cost applications. The chosen form of valuation depends on the observed target of valuation, i.e. different prices/costs can be assigned to the same asset. The right price is such a cost or valuation which most corresponds with the observed purpose (task) of valuation.

The fundamental *tasks* observed during the valuation process in financial accounting are as follows:

1. Value is set to ensure the future continuance of the company.
2. Value is set to calculate the economic results of management (returns, losses).
3. Value is set to protect creditors and shareholders.
4. Value is set to render the "condition" of the company with reference to accounting data.

Based on the efforts to fulfil the above-mentioned fundamental tasks observed through valuation, the following valuation models are being exploited at present:

- model of historical cost accounting,
- model of replacement costs (renewal costs, substitution costs),
- model of realisation costs,
- model of current values of anticipated cash flows.

Each model is applicable in theory in two variants:

- without calculating the fixed purchasing power of a monetary unit,
- with calculating the fixed purchasing power of a monetary unit.

The application of a particular model of valuation depends, to a great extent, on the day of valuation, on the object of valuation and on the entity valuating, as well as on the purposes observed through valuation.

Theories of balances, as part of accounting theories, focus on a primary question, namely, what kind of valuation in setting the balance guarantees the

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