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CHOSEN COST MANAGEMENT PROCESSES IMPLEMENTED BY LOCAL GOVERNMENT UNITS

WYBRANE PROCESY ZARZĄDZANIA KOSZTAMI PROJEKTÓW REALIZOWANYCH PRZEZ JEDNOSTKI SAMORZĄDU TERYTORIALNEGO

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Streszczenie. Zgodnie z zasadą efektywnego wykorzystania środków publicznych działania jednostek samorządu terytorialnego powinny koncentrować się na optymalnym doborze metod i środków służących osiągnięciu założonych celów i zadań publicznych. Zadania realizowane przez JST w formie projektów, w tym projektów współfinansowanych z funduszy europejskich, wymagają więc stosowania wypracowanych w praktyce metod i narzędzi zarządzania projektami. Treść artykułu koncentruje się na jednym z zasadniczych obszarów zarządzania projektami, jakim jest zarządzanie kosztami projektów. Obejmuje ono procesy planowania kosztów zadań projektowych, ich monitorowania i kontroli. Ważne znaczenie na etapie realizacji projektu, jego rozliczenia i oceny ma wiarygodna dokumentacja. Jest ona podstawą ewidencji, rozliczenia i kontroli kosztów projektu, a w przypadku projektów współfinansowanych ze środków europejskich warunkiem uzyskania dofinansowania.

Key words: documenting costs, project, project management, project's costs.

Słowa kluczowe: dokumentacja kosztowa, koszty realizacji projektu, projekt, zarządzanie projektami.

INTRODUCTION

Due to the reforms of the nineties, local government (LGU) gained a wide array of powers to manage processes taking place in these entities. Independence is here focused on the effective use of public resources, which means that LGU, taking any financial action using public resources, keep in mind especially the following (The Public Finance Act, Art. Paragraph 44. 3):

- achieving the best effect from given input,
- optimally choosing methods and resources aiming at achieving complex goals.

The principle of spending public resources deliberately, efficiently and cost-effectively is applicable both in terms of current tasks¹ (projects) and investment tasks. As implementation of each project is associated with incurring certain costs and spending public resources, rational management of public resources requires determining a measuring system, and documenting costs of task (project) realisation. To this end, determining the processes of project costs' management is essential, including adequate instruments (tools and techniques) of planning, implementation monitoring, control, analysis and assessment of the

¹ In the public sector, design activity can also be regarded as task activity.

project. In practice, there is also the need for specific methodological solutions suited to the needs of the design activity², along with designing an adequate accounting system.

A specific group of projects implemented by public administration and local government units are projects financed by EU funds. The basis of receiving funding is an indication of the level and legitimacy of the increase in spending and the costs related to implementation of a given project, while the condition for using EU funds is a necessity of correct management of costs approved by the bodies monitoring and controlling project's implementation.

The goal of this article is to distinguish and characterise the processes of managing costs related to project realisation by local government units. For the needs of this article, the authors performed a review of "project" and "project management" definitions and on this basis they formulated a definition for the needs of a complex project's realisation.

MATERIALS AND METHODS

The article's development was preceded by literature related to the definition and nature of the costs of projects implemented by LGU. The project costs were examined in relation to the correct (effective, rational) management of projects realised by those units. The studied in this area concentrated on the determination of processes necessary for the efficient management of costs of implemented projects. In order to isolate the correct, according to the authors, processes various projects implemented by LGU were analysed. Conclusions were also drawn from the authors' own observations and experiences. The main method utilised in the article is source analysis and the method of deduction and induction.

PROJECT AND PROJECT MANAGEMENT

The terms "project" and "project management" possess certain features that require systematisation and comparison to determine their common points. They are variously defined in both colloquial terms and specialist literature (Table 1).

As an example, colloquially, the term "project" is associated with technical studies (drawings). The term is also similarly defined in dictionaries³. A test plan, program, idea presented before its acceptance is also called a project (Pszczółkowski 1978, Trotsky et al. 2003). In professional literature, in turn, the definitions of 'a project' focus of determining its features.

² The necessity of utilising a specific management accounting instrument for design activity and building systems of managerial project control is underlined in world science literature. The issue has also been reflected in practical standards. The signs of practitioners and theorists' interest in methodology problems in the field of design activity are e.g. defined thematic areas of project controlling and project management accounting, Polish and foreign literature studies and examples of application of in design activities in enterprises. For more, see Łada and Kozarkiewicz 2010, p. 50 and n.

³ As an example, a project is "a document including calculations, drawings etc. related to implementation of a certain project or device" (Dictionary of foreign words 1995).

Table 1. Review of chosen definitions of the terms “project” and “project management”

The author (source)	Project definition	The author (source)	Project management definition
Duncan W.R. 2009, p. 4.	Action taken to create a unique product or service	European project management. 2007, p. 21.	Utilisation of knowledge, skills, tools and methods used is the process of implementation of project goals
Kerzner H. 2005, p. 17.	An enterprise aiming to achieve a certain goal, requiring utilisation of resources and limited by time, costs and quality	Kerzner H. 2005, p. 18.	Planning, scheduling and control of a sequence of interrelated actions, allowing for effective implementation of project goals, in the way possibly most in line with the expectations of interested parties
European project management. 2007, p. 14.	Organised sequence of human action aimed at achieving certain outcome	Aid delivery methods. Volume I: Project cycle management guidelines. 2004, p. 8.	A set of activities undertaken to achieve a certain objective, accepted for realisation in a set time and within the funds of project budget
Trocki M., Grucza B., Ogoniek K. 2003, p. 18.	“(…) a unique (implemented once), complex undertaking performed in finite time period – with specific beginning and end – implemented in collaboration (with multiple entities), in a way relatively independent of repeatable business activity, with the help of special methods and techniques”	Łada M., Kozarkiewicz A. 2007, p. 12.	A sequential process of decision making related to the time of task completion, team management, resource management, funds management, limiting the risks, so that the given task (project) is realised within the requested timeframe and the required technical results are achieved
Dictionary of foreign words. 1995, p. 904.	1. Intended plan of action, proceeding, idea, intent 2. A plan a sketch of something, such as building, construction, project, an Act 3. A document containing calculations, drawings etc. for the implementation of an object or device	–	–
Lock D. 2009, p. 11.	A projection of ideas and actions related to a new undertaking	–	–

Source: own preparation.

They usually include:

- purposefulness,
- single and unique nature,
- being set within a timeframe,
- complexity, i.e. large size and scale of the activity, as well as implementation of substantial resources,
- being set within a budget.

In English, words project an undertaking and are usually used interchangeably⁴, although some works infer a difference between those terms (Grzeszczyk 2009, Kerzner 2005, Trocki et al. 2003). It's worth noting that the term “project” has grown in importance

⁴ In studies in the field of project management, interchangeable use of the terms “undertaking” and project”, as well as “undertaking management” and “project management” is usually accepted.. (Trocki et al. 2003).

under the conditions of fund absorption from the EU. Undertakings co-financed with EU funds, so-called European projects are presently a specific group of projects, as well as being the most popular form of using European funds. In this meaning, a project is the smallest distinguishable unit being a subject of the EU aid (Portal on EU Funding. Glossary <http://www.funduszeuropejskie.gov.pl/Sloownik/Strony/Projekt.aspx>).

Based on the presented definition, a set of strictly determined actions defined in terms of tasks, time, place, cost and other considerations can also be called a project. So a project can be understood as a set of activities distinguished from the sequence of routine activities of a unit. A project can be realised simultaneously with current activities, or apart from them, and it's good to consider the higher risk of this activity when compared to repeatable activities.

Project management, just like the term "project", is variously defined in professional literature. Having analysed the definitions of project management, they can be distinguished into general and specific (Table 1). The presented definitions of project management allow for the determination of this process as a set of activities aiming at planning, scheduling activities and resources, organising the implementation of the various activities of the project, ongoing control of their progress, as well as determination and analysis of the project activities' results. Project management is therefore about achieving set goals while optimally utilising resources: tangible, intangible, financial, human, time, and other.

The specificity of the defined concepts allows one to compare their essential common features (Fig. 1), i.e.:

- uniqueness, length of the project, and therefore a high risk related to uncertainty and unpredictability,
- complexity resulting in implementation difficulty,
- participation of contractors or clients resulting in dependence on external partners.

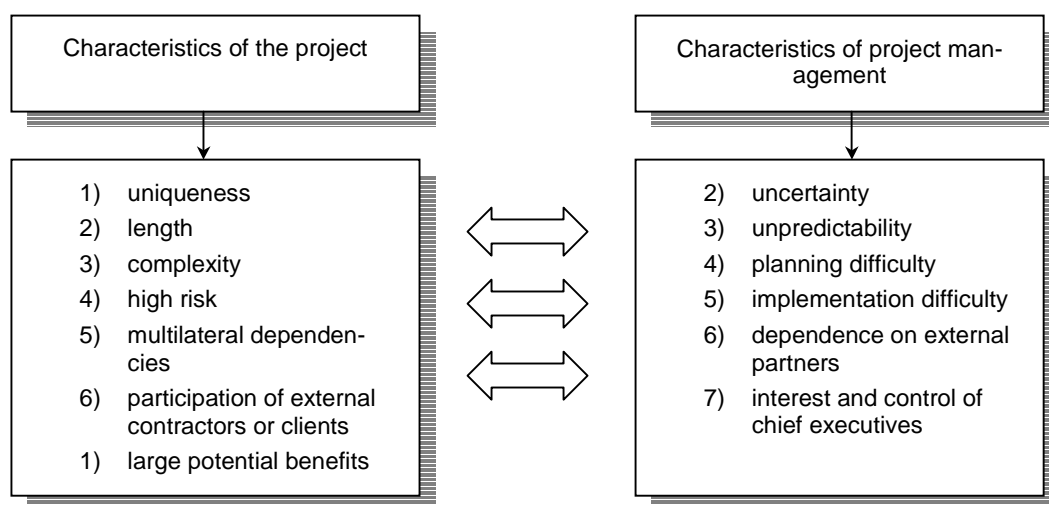


Fig. 1. Comparison of common features for the terms "project" and "project management"
Source: study based on Łada and Kozarkiewicz 2007.

The presented definitions of the terms “project” and “project management”, as well as the indicated features allow one to determine the most important processes of project management, including project cost management as the basic element of project implementation.

COST RECORDS AS THE SOURCE OF INFORMATION FOR THE NEEDS OF PROJECT COSTS MANAGEMENT

Various project management methods have been introduced into business practice. All of them concentrate on the same determinants, namely: project implementation time, achievement of its set objectives and its cost. Hence, an integral element of project management is management of its costs. The goal of project cost management is to ensure that the implemented project does not exceed a set budget. Therefore, project cost management includes:

- determining tangible, human and equipment (machine) resources needed for the project’s realisation,
- estimation of the utilisation costs of resources needed for the project’s realisation,
- budgeting project costs,
- budget change control.

In professional literature, project costs are defined as the value of unit resources used for project realisation, expressed in monetary units. Project costs are determined by the intended scope of a project, its quality, method and term of realisation, as well as other conditions of project implementation. Project costs are also effectively influenced by the way of acquisition and allocation of resources needed for the project’s implementation. Respective cost elements are dependent on the plans, decision, actions undertaken by stakeholders of a given project. Project costs are therefore an internal and highly individualised factor. It should be noted that in spite of project cost management focusing on the resources needed for the project’s realisation (their utilisation/contribution), it also relates to the costs of maintaining a subsequent “product” created during its realisation.

Because of the fact that local government units often finance implemented projects with EU funds, while defining the term of project realisation costs, one cannot omit provisions for the community law⁵, as well as their complementary national guidelines⁶. The starting point of defining project implementation costs is the criterion of their eligibility. As per this criterion, we distinguish (Fig. 2):

⁵ This law is regulated by: Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999 (UE OJ of 31 July 2006 L 210/25), Council Regulation (EC) No 1341/2008 of 18 December 2008 amending Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund for certain revenue-generating projects (UE OJ L 348, 24.12.2008).

⁶ Specifications of the general provisions concerning the use of European funds are: National guidelines on the eligibility of expenditure under the Structural Funds and the Cohesion Fund in the programming period 2007–2013. Guidelines of the Minister of Regional Development of 17 December 2008 and the Guidelines on selected issues.

1) eligible expenses, meaning expenses or costs incurred by the beneficiary related to project realisation under the Operational Program and the Regional Operational Program that qualify under the guidelines and procedures set out in the project financing agreement for reimbursement from a given program's funds,

2) non-eligible expenditure, meaning expenses or costs ineligible for reimbursement from the funds allocated to realisation of the Operational Program and the Regional Operational Program.

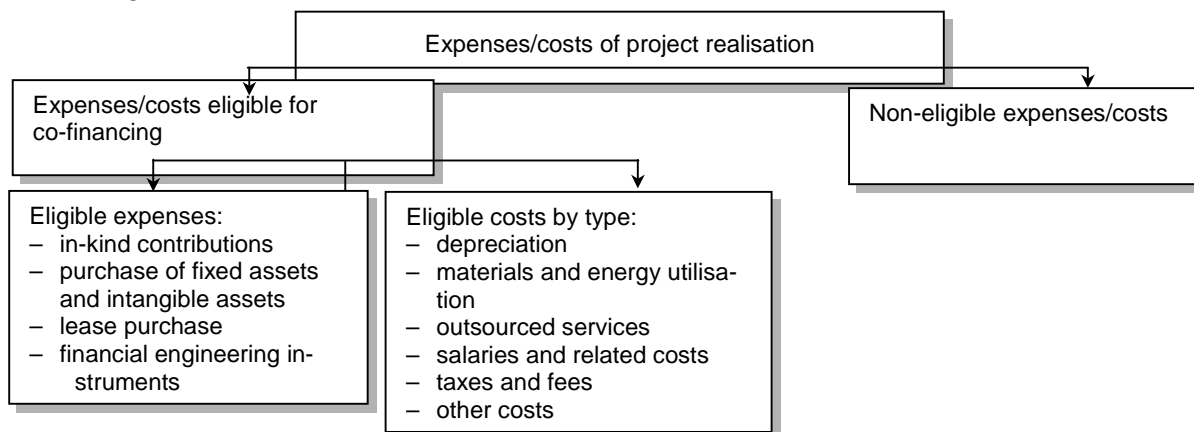


Fig. 2. Structure of expenditures/costs of project realisation

Source: own study based on: National guidelines ... 2008, p.16–33.

As is apparent from the given definitions, the financial resources spent by a local government unit in relation to project realisation can be distinguished as:

- 1) monetary expenditures and
- 2) accrual costs.

Expenditure qualifying for co-financing is one that meets the general rules of eligibility which result from certain conditions. Expenditure or costs that do not meet the general rules of eligibility for co-financing are ineligible expenditures and they have to be covered by the beneficiary. The conditions of costs' eligibility for co-financing and non-eligible costs are presented in Table 3.

It should be emphasised that the beneficiary is obliged to the proper spending all resources appointed to a given project, i.e. resources from EU funds and own resources to cover own contribution, including ineligible expenses. Thus, despite the costs ineligible for co-funding not being included in the reimbursement, they will be controlled, just like the eligible costs.

One of the main principles of cost' eligibility for European co-financing is the necessity of their proper documentation. As per the Act on accounting (Accounting Act 1994), each accounting document should be:

- a) reliable, consistent with reality,
- b) complete, including all the elements of a proper document,
- c) free of accounting errors.

Table 3. The conditions of costs' eligibility for co-financing and non-eligible costs

The conditions of costs' eligibility for co-financing	Costs non-eligible for co-financing
<ol style="list-style-type: none"> 1) Was incurred during the eligibility period, 2) Is consistent with the applicable provisions of community law and national law, 3) Is consistent with the provisions of the Operational Program and the Regional Operational Program, 4) Is necessary for the project realisation and was incurred in relation to the project realisation, and thus is of direct relevance, 5) Was carried out in an economical way, i.e. on the basis of efforts to achieve the desired result with the lowest expense, 6) Was properly documented, 7) Is not subject to exclusions set out by the Managing Authority in the contest documentation. 	<ol style="list-style-type: none"> 1) Indirect taxes, including tax on goods and services (VAT), which can be acquired under the provisions of the act on tax on goods and services (the Act on tax on goods and services in 2004), 2) Other operating costs associated with imposition of penalties and fines on an entity applying for co-funding, 3) Financial costs including: <ul style="list-style-type: none"> – interest on loans and borrowings, an interest on late payment, – the cost of credit, such as bank commission on the loan and interest charged on the loan in advance, – foreign exchange losses of balances expressed in foreign currencies. 4) Expenditure on: <ul style="list-style-type: none"> – purchase of fixed assets that have been co-financed in the past seven years prior to the purchase by the beneficiary from community or national grants, – purchase of land in excess of 10% of the total eligible project costs, – housing costs under projects co-financed by the Cohesion Fund, 5) Other costs that do not meet the conditions to qualify for eligible expenditure under each project.

Source: own study based on: National guidelines ... 2008, p.16–33.

Each document confirming expenditure committed or cost incurred should include at least:

a) identification of the type of proof by indicating its name and the symbol resulting from the force of the law, e.g. "a VAT invoice" or reinforced by business practice, such as "KP" (cash accepts), "Wb" (bank statement), "Pk" (accounting command), or "Rw" (internal outflows, issued materials), etc.,

b) identification number allowing for determination of the connection of the document and the accounting records,

c) names and addresses of the parties engaged in a business transaction,

d) the date of expenditure committed or cost incurred and the date of proof of creation if they differ,

e) subject of the operation giving raise to the cost incurred/expenditure committed,

f) value estimation of the operation size⁷,

g) signatures of the proof issuer and the person who accepted or returned the asset⁸,

⁷ Value of the operation size may be omitted in the accounting proof, when the computer program is able to evaluate quantitative data, confirmed by prints used.

h) a statement of verification eligibility of the proof for inclusion in the accounts by indicating the month, formulation in the accounting and signature of the person decreeing the document.

It should be noted that each document has to be prepared in Polish. In case of business transactions with a foreign counterpart, it could be prepared in a foreign language and currency⁹ but at the request of audit or auditor, it has to be translated into Polish.

Moreover, each document confirming expenditure committed/cost incurred is subject to control by an authorised person, in terms of content, formal and accounting requirements, it should also have an LGU treasurer's countersignature. In case of any irregularities, they should be shown as given proof or an annex to it, or amendments should be made in line with accepted principles.

Moreover, LGUs, when implementing projects co-financed with EU funds, are obliged to comply with specific rules set out in the individual agreements signed. Examples of documenting individual expenditures/costs of project realisation are given in Table 4.

Table 4. Methods of documenting expenditures/costs of project realisation of LGU, co-financed from the EU funds

No.	Expenditure /cost type	Supporting documents for expenditure/cost
1.	Purchase of fixed assets	<ol style="list-style-type: none"> 1. OT proof – "Adoption of a fixed asset," made based on: <ol style="list-style-type: none"> a) VAT invoice, bill, proof of delivery, other evidence relating to the adoption of a fixed asset – when purchasing a fixed asset requiring no installation, b) inventory accounting differences – in case of disclosure of the asset. 2. Re proof – „Internal outflows” – in case of extraction of a fixed asset from stock.
2.	Depreciation	<ol style="list-style-type: none"> 1. Accounting note, which is the basis for reimbursement of fixed assets and depreciation of intangible assets involved in the framework of the project. 2. Accounting command (PK) forming the basis for depreciation allowances' records.
3.	Materials utilised for the needs of realized project	<ol style="list-style-type: none"> 1. VAT invoice. 2. A list confirming the issue/acceptance of materials with detailed description of issued/accepted materials.
4.	Salaries	<ol style="list-style-type: none"> 1. Payroll with attachments that take into account the salaries for the project of those involved in its implementation or the account in case of a contract for specific work or mandate contract. 2. A statement of the amount of tax being withheld from individuals on the total amount of the payments made, including the salaries of those involved in the project, along with confirmation of payment of the entire amount of the tax.
5.	Social insurance contributions	<ol style="list-style-type: none"> 1. Accounting declaration of DRA social security contributions. 2. A statement of total social security contributions, i.e. paid by the employee and the employer for each employee involved in the project. 3. Proof of payment¹⁰ of the total amount of social security contributions shown in the declarations, and imposed on the employer.

⁸ Signatures can be substitutes by signs allowing for identification of these people, provided the accounting proof does not document the transfer or acceptance of an asset, transfer of ownership or perpetual usufruct of land, and is not a substitute proof. Signatures on insurance documents and securities issued can be mechanically reproduced.

⁹ Operation value expressed in foreign currency should be converted into Polish zloty at the rate applicable on the date of carrying out business operations. The conversion outcome should be placed directly on the proof, unless the accounting computer system allows for automatic conversion of foreign currencies into Polish zloty, and the conversion is confirmed by a proper print.

Table 4 (cont.)

No.	Expenditure /cost type	Supporting documents for expenditure/cost
6.	Travel expenses	<ol style="list-style-type: none"> 1. Business travel (trip) order. 2. Business travel settlement based on the supporting documents related to business travel: <ol style="list-style-type: none"> a) accommodation bills, b) tickets for the means of transport or vehicle mileage records if the employee used their private car for the trip.
7.	The costs of maintaining a bank account and banking costs	A bank statement confirming the expenditure incurred.

Source: study based on: Zajączkowska 2010, p. 161–167.

It should be noted that LGU, while implementing projects co-financed with foreign sources, are also obliged to create a set of other non-accounting documents, such as minutes of meetings, reports describing the purpose, course and result of a business trip, for the documentation of their expenditures/costs.

For the needs of implementation and carrying out of project execution control, reports are also essential. These are in the form of reports, summaries, charts, and other reports generated in different systems and with a different information capacity. The information presented in them can be directly derived from the accounting system, as well as collected and processed solely for the needs of a given project's management. As for the projects implemented by LGU, co-financed by the EU funds, reports take the form specified in regulations relating to a program in which the funding is granted.

CONCLUSION

Within the activities of local governments, like in the private sector, project activities are occurring more and more often. Among the project activities undertaken by LGU, there are numerous projects co-financed with EU funds. Undertakings under the European programs consist of identification of individual tasks and imposing economic and social development tax on them. The main element of such action is rational management of project costs.

Project cost management aims to effectively achieve a project objective while neutralising the influence of existing project limits and risks. The effectiveness of this undertaking is dependent on many factors, among which documentation of planning, operation and cost control processes play a major role.

The principles of project costs' documentation, presented in the article, are the basis for cost analysis of project implementation, i.e. planned and realised costs, formal and account-

¹⁰ The request for payment should include the date of submission of contributions to social security as the date of payment.

ing compliance of the documents in question with the books of account. Thus, they are the source of information for efficient and effective cost management of implemented projects. Moreover, these documents are the basis of recognising a given expenditure/cost as an eligible cost, which may be subject to reimbursement from EU funds, or to exclusion from co-financing due to non qualification. Thus, they are the basis for controlling projects co-financed with EU funds.

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