

REVENUE AND EXPENSES REPORTING IN THE CZECH STATE ADMINISTRATION UNITS

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Abstract

This paper deals with revenue and expenses reporting in the area of the Czech state administration. Proceeding public finance reform encompasses also the reform of the public sector financial accounting. Thanks to the reform financial statements of the Czech public sector units are prepared under the accrual basis compulsory from 2011. Among others it means that external and internal users dispose of standardised financial statements with accrued revenue and expenses data at present. These data are harmonised among the public sector units in large measure and may serve to mutual comparison and managerial decision making generally. The paper firstly comments a current state of revenue and expenses financial reporting in the Czech state administration from theoretical point of view. Further it analyses and compares total revenue and total expenses figures recorded by selected state administration units, i.e. particular Czech ministries. As main data sources scientific papers, legal regulations and the Ministry of Finance of the Czech Republic databases were used.

Key words: revenue, expense, state administration, ministry

JEL Code: H 83, H 11, H 50

Introduction

Traditionally the public sector units prepared accounting data under the cash basis and the same state prevailed in the budget area. This situation started to change at the end of 80th of the last century in connection with a growth of the public sector indebtedness and the new public management implementation. Hood (1991) for example characterized this process among the first as an attempt to introduce performance indicators to the public sector, to decrease expenses of the public sector activities and to improve financial control. In this connection a barrier of insufficient data sources has arisen because information concerning past events was rather limited. Under the cash basis mostly budget incomes and outcomes

(expenditures) were recorded. As a consequence some kind of expenses, revenues and other data were lacking and revenue and expenses were not accrued.

Therefore roughly from 90th of the last century developed countries have decided to implement approved business accounting methodology also to the area of the public sector and switch from the cash to the accrual basis in accounting. This process was methodically supported by some international or supranational organizations such as OECD, International Federation of Accountants or later by European Commission and it had both supporters and opponents from the very beginning. Among the supporters may be mentioned for example Box (1999) or Pina and Torres (2002) who advocate the accrual basis and possible advantages of accrued accounting information they see in improved management, control and analytical process. Lüder and Jones (2003) then support theoretically European reforming process and compare it in single countries.

Carlin (2005) on the other hand summarizes main arguments of the accrual accounting opponents. Mainly they lie in an argument that both business and the public sector have significantly different aims, markets and nature of sources. Further there exist some remarks to possible distortions in the case of business accounting appraisal methods application to the public sector area, a weak link between data transparency and real performance improvement or better budget sources allocation.

Nevertheless the above mentioned arguments the accrual basis was implemented gradually to financial accounting of practically all developed countries till present days which improved information capability of accounting data provably. There exist also some studies from the area of the state administration (Catusus, Gronlund, 2005 or Fountain et al., 2004). On the other hand the cash basis still remains in the area of the budget process setting which makes budget planning harder (Blöndal, 2003 or later Vodáková, 2012).

The Czech Republic similarly as other developed countries has decided to implement the accrual basis to the public sector accounting in 2005 when an intention of the integrated state finance system creation was announced for the first time officially. Till 2010 a basic legislative framework of the accounting reform was set which encompasses amendments of the Act No. 563/1991 Coll. on Accounting, several executive decrees and concurrently created accounting standards. In 2011 financial statements of the public sector units were prepared under the accrual basis for period of 2010 for the first time (Hrůza a Valouch, 2014). Moreover these data were released to the public via the internet which influenced their transparency positively. Almost 20 thousand accounting units from the area of the state and the local administration have inserted financial statements to this integrated system and they

used the same accounting methodology which enabled mutual comparison and integration. The system was further supplemented by new accounting and other (mostly budgeting) data and it is at various external users disposal.

It can be stated that thanks to the accounting reform, the information capability of accounting data increases evidently. Accrued revenue and expenses data are supplemented by formerly unregistered items. The question remains whether these data are used for managerial purposes of the state administration decision-makers on various levels of management sufficiently (Sanger, 2012).

1 Methodology and data

This paper deals with revenue and expenses reporting in the area of the Czech state administration, more precisely Czech ministries. Its content is divided into four parts. The first one (the Introduction) gives a brief review of a historic development of financial accounting and reporting of revenue and expenses in the public sector. The second part (Chapter 1) describes the aim of the paper, used scientific methods, limiting conditions and main data sources. The third part (Chapter 2) summarizes main findings of the paper and comments some questionable points. Brief conclusions then are formulated in the last part (Conclusion).

The aim of the paper is to find out a real situation in financial reporting of revenue and expenses of the state administration units. Main research questions are following:

- What is obligatory structure and the content of revenue and expenses data reported in financial statements of the state administration units?
- What are current trends of revenue and expenses data development in particular ministries of the Czech Republic?

As basic scientific methods description, analysis, comparison and synthesis were used in the paper. With respect to a considerable extent of the public sector the paper is limited to the state administration only. Presented figures then are limited to particular ministries. There are several reasons for these limiting conditions. The first one lies in an importance of the state administration (particularly ministries) as a significant consumer and redistributor of budgetary sources within the whole public sector. The second one is connected with previous research orientation and possibility of factual and time comparison.

As main data sources scientific papers relating to financial reporting of the public sector units were used for review of historical development. Further relating legal regulations

and the Ministry of Finance of the Czech Republic databases were analysed, compared and summarised for the purposes of Chapter 2 findings.

2 Main findings and discussion

This chapter summarizes main findings of the paper. The first subchapter concentrates on revenue and expenses reporting in financial statements of the state administration units from theoretical point of view. The second subchapter comments current trends of revenue and expenses development in specific ministries.

2.1 The structure and the content of reported revenue and expenses data

From 2011 the state administration units prepare compulsorily financial statements as a set of standardized reports including statement of financial position, statement of financial performance, notes, statement of cash flow, and statement of changes in owners' equity. These statements are prepared consistently under the accrual basis and they are released electronically via the Ministry of the Finance of the Czech Republic web portal for external users' utilization.

Main information relating to revenue and expenses is contained in the statement of financial performance. Obligatory form of the statement is included in Annex 2 to Decree No. 410/2009 Coll. This decree determines generic classification of revenue and expenses, obligatory sequence and the content of revenue and expenses items. Further the decree prescribes to the state administration units to report revenue and expenses separately for main activities and economic (business) activities. As main activities are regarded activities for that accounting unit was constituted. Economic activities include business, complementary or side activities. Not only revenue and expenses but also net income must be recorded separately for main and economic activities while identical generic classification of revenue and expenses is used for both types of activities.

Generic classification separates revenue and expenses into four groups, i.e. operational, financial, relating to transfers, relating to taxes and fees. Unlike businesses the public sector units report revenue and expenses separately and the net income is stated at the end of the statement. Income tax is situated at the end of expenses items. Operational expenses include among others material cost, energies, utilities, services, salaries and wages, insurance, depreciations, repair and maintenance, taxes and others. Operational revenue may encompass sales of services, goods or product, sales of the long-term assets, fees or others.

Revenue and expenses data may be found also in other parts of financial statements. For example statement of financial position contains depreciations and provisions in a separate column of assets. Unlike a statement of financial performance net income in the statement of financial position is presented as one figure (in total for main and economic activities). Also statement of cash flow and statement of changes in owners' equity include some revenue and expenses relating data (depreciations, provisions, dividends, sale of the long-term assets, differences in valuation, corrections).

An important source of revenue and expenses data or their completion and explanation may be found in notes. In this part of financial statements used depreciation methods, provisions, revenue and expenses concerning revaluation to real value and other facts are explained. Besides, one special part of notes is devoted to additional information to the statement of financial performance. Accounting the fact that personal cost represents very important part of the total expenses also additional information concerning their components may be beneficial for external users and so these data are also published in separated part of notes.

To summarize this part of the paper it can be stated that the range of reported revenue and expenses data enlarges and their information capability increases thanks to used accrual methodology. Also data transparency improves significantly thanks to release of revenue and expenses data to external user via internet pages. Financial accounting methodology was harmonized across the whole public sector and it became closer to accounting of businesses which enables mutual time and cross sectoral comparison. The Czech accounting regulations for the public sector entities seem to follow recommended international generally accepted principles relatively closely. Financial statements of the state administration units are presented electronically to external users via the Ministry of the Finance of the Czech Republic web portal and they are supplemented by other (mostly budgetary) data. The system offers also some additional analysis to users.

2.2 Current trends of revenue and expenses data

Table 1 demonstrates revenue data of particular Czech ministries for medium-time horizon of four years. Revenue data are counted as total revenue of main activities in mil Czech Crowns. Economic (business) activities are not included. These activities are recorded and presented separately in the statement of financial performance and if we take into consideration the mission and character of specific activities of ministries it can be supposed that economic (business) activities should not be somehow substantial. Three ministries, i.e. Ministry of

Finance, Ministry of Regional Development and Ministry of Industry and Trade report even no economic (business) activity. In the rest of ministries economic activities figures are non-essential.

Revenue absolute values differ significantly among particular ministries, which their specific mission and activities imply. Mutual comparison of absolute values would not be relevant. Absolutely highest figures of revenue were recorded by Ministry of Finance (926.6 billion Czech crowns in 2015). Mainly they were created by taxes, i.e. value added tax, income taxes, consumption tax. The second highest values (404.4 billion Czech crowns in 2015) relate to Ministry of Labour and Social Affairs and mainly they are created by social insurance. On the other hand the lowest values were achieved in the case of Ministry of Foreign Affairs (1.4 billion Czech crowns in 2015) and Ministry of Justice (3.9 billion Czech crowns in 2015).

Tab. 1: Total revenue of Czech ministries (mil Czech Crowns)

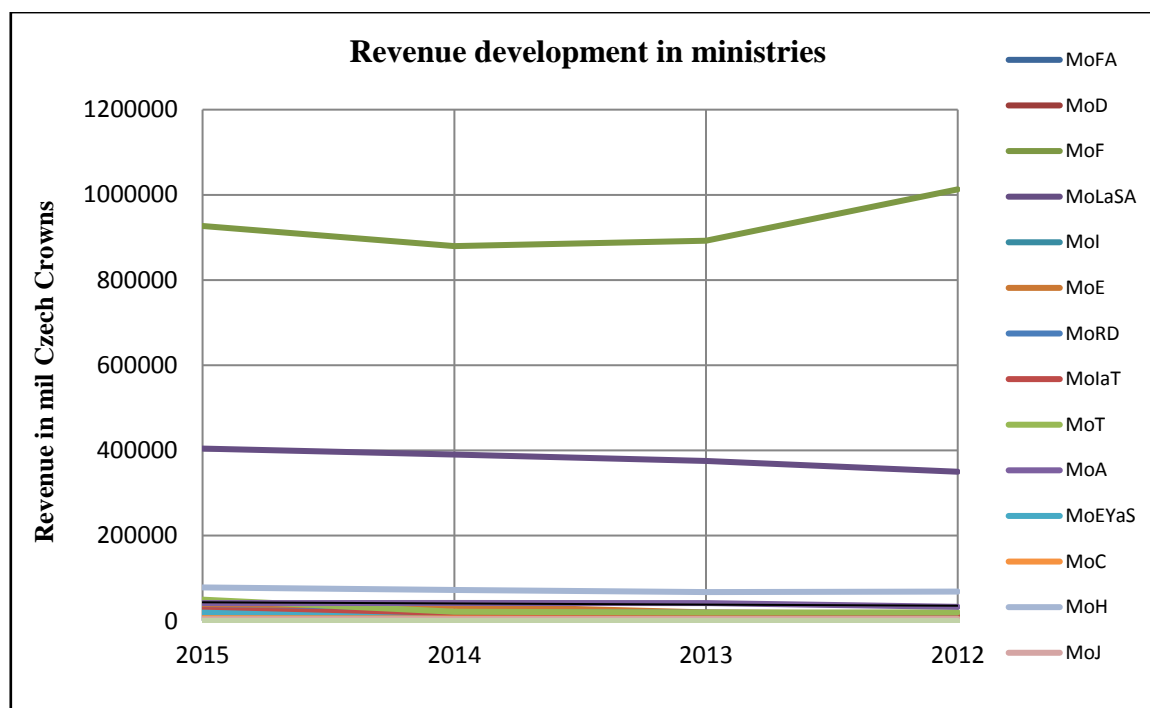
Ministry	2015	2014	2013	2012
Ministry of Foreign Affairs (MoFA)	1 433	1 349	1 427	1 814
Ministry of Defence (MoD)	10 219	9 375	11 249	10 400
Ministry of Finance (MoF)	926 582	879 689	892 544	1 012 867
Ministry of Labour and Social Affairs (MoLaSA)	404 398	390 132	375 559	350 020
Ministry of Interior (MoI)	9 964	8 801	8 287	9 188
Ministry of Environment (MoE)	28 373	35 160	19 803	16 308
Ministry of Regional Development (MoRD)	25 158	19 662	19 218	16 978
Ministry of Industry and Trade (MoIaT)	25 265	15 979	17 603	14 767
Ministry of Transportation (MoT)	49 822	21 416	19 517	19 856
Ministry of Agriculture (MoA)	41 694	42 036	41 470	32 921
Ministry of Education, Youth and Sports (MoEYaS)	19 341	4 411	4 360	4 535
Ministry of Culture (MoC)	6 400	5 486	5 199	4 942
Ministry of Health (MoH)	78 465	72 544	67 563	68 972
Ministry of Justice (MoJ)	3 857	4 052	3 874	3 914
Total revenue from main activities	1 630 971	1 510 090	1 487 673	1 567 482

Source: MoF (2016), online: <http://monitor.statnipokladna.cz/2016/>

As for medium-term trend of main activities revenue development it can be stated that revenue values are relatively stable in majority of ministries. Total revenue reached the highest value in 2015 (1 631 billion Czech crowns) when it increased between 2015 and 2012 by 63.5 billion Czech crowns. Major change (decrease) of revenue values was recorded in MoF between 2013 and 2012 and it was caused by reduction of tax revenue probably. The

trend of revenue values in the case of MoLaSA or MoT is markedly increasing, also MoEYaS increased revenues in 2015 in comparison with 2014 considerably. Revenue of main activities trend is depicted in figure 1.

Fig. 1: Revenue trends in Czech ministries for medium-term horizon



Source: own with MoF (2016) data utilization, online: <http://monitor.statnipokladna.cz/2016/>

As table 2 implies also expenses figures differ significantly among particular ministries. Expenses values are again counted as total and relating only main activities as it was above commented. Total expenses relating to main activities reached 1 700 billion Czech crowns in 2015. Highest expenses values were recorded by MoLaSA (535.7 billion in 2015 – mainly transfers expenses), MoF (493.3 billion in 2015 – mainly taxes and transfers expenses) and MoEYaS (149.9 billion). Transfers encompass variable shifts of financial sources from public budget and abroad. MoLaSA and MoF expenses together represent approximately 61 % of total expenses of all ministries. The lowest expenses values were recorded by MoFA.

Figure 2 demonstrates closely medium-term trends in expenses development. Total expenses decreased by 32.9 billion Czech crowns between 2012 and 2015. Chiefly it was caused by MoF (169.7 billion). While in the case of MoF, MoA and MoC main expenses trend is decreasing, in all other cases expenses are growing within traced time period. The

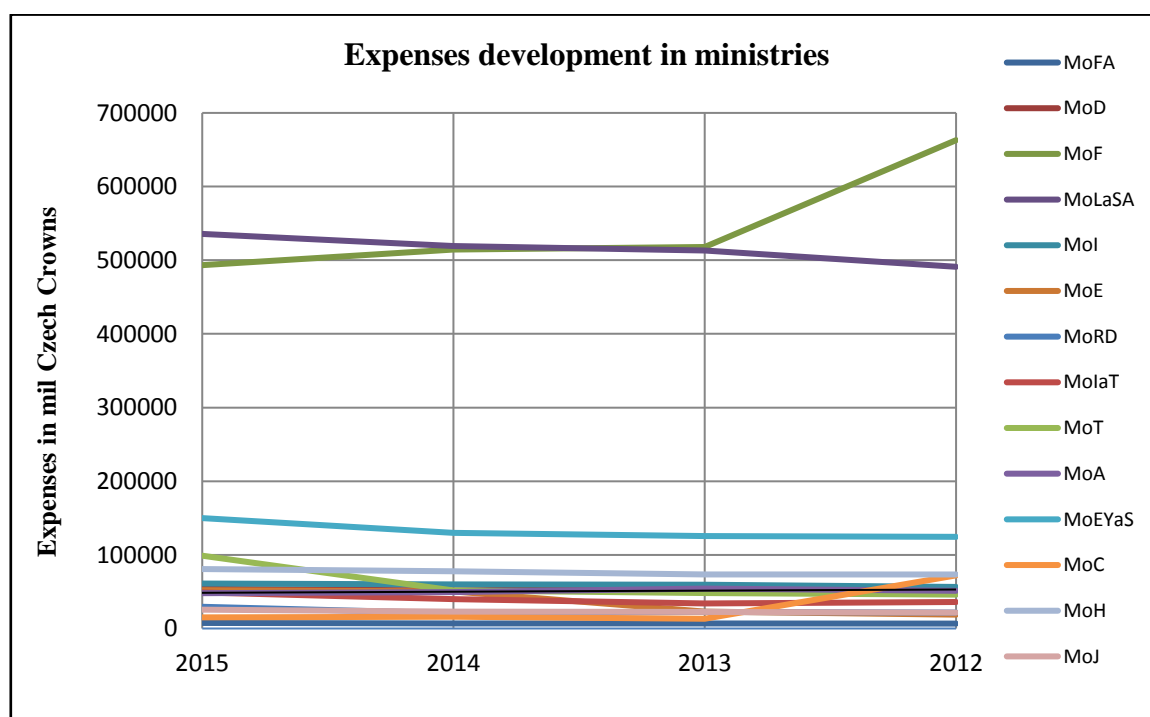
highest increase concerns MoLaSA (44.6 billion as compared with 2012), MoT (52.9 billion) and MoE (33.1 billion Czech crowns).

Tab. 2: Total expenses of Czech ministries (mil Czech Crowns)

Ministry	2015	2014	2013	2012
Ministry of Foreign Affairs (MoFA)	7 553	6 767	6 679	6 660
Ministry of Defence (MoD)	53 998	51 546	56 152	50 648
Ministry of Finance (MoF)	493 326	514 422	518 060	662 992
Ministry of Labour and Social Affairs (MoLaSA)	535 736	519 254	513 005	491 109
Ministry of Interior (MoI)	61 031	59 698	59 665	56 448
Ministry of Environment (MoE)	52 009	50 269	22 746	18 857
Ministry of Regional Development (MoRD)	29 494	20 758	22 671	21 502
Ministry of Industry and Trade (MoIaT)	48 895	39 935	34 010	35 891
Ministry of Transportation (MoT)	98 864	51 666	48 190	46 014
Ministry of Agriculture (MoA)	47 952	49 394	54 222	51 283
Ministry of Education, Youth and Sports (MoEYaS)	149 890	129 914	125 624	124 451
Ministry of Culture (MoC)	15 046	15 792	13 231	72 127
Ministry of Health (MoH)	80 699	77 612	73 409	73 433
Ministry of Justice (MoJ)	25 585	22 990	22 372	21 606
Total expenses from main activities	1 700 082	1 610 017	1 570 036	1 733 021

Source: MoF (2016), online: <http://monitor.statnipokladna.cz/2016/>

Fig. 2: Expenses trends in Czech ministries for medium-term horizon



Source: own with MoF (2016) data utilization, online: <http://monitor.statnipokladna.cz/2016/>

Of course deeper insight into revenue and expenses data and their generic development would be needed to evaluate current trends more precisely but even so it is evident revenue and expenses data may serve as relevant source of information for decision makers. They are accrued, harmonized and accessible which enables mutual comparison and utilization for various purposes such as planning, evaluating or standard setting. Moreover medium-term time series are available from 2011 to 2015 now. The Government of the Czech Republic for example intend to use expenses data for purposes of performance evaluation (closely in Vodáková (2015)). On the other hand data utilization for budget setting purposes remains rather debatable because of different (cash) methodology used for budget preparation.

Conclusion

Revenue and expenses data are recorded consistently under the accrual basis and regularly released for external users' utilization from 2011. These data are relevant and well applicable for managerial purposes. As subchapter 2.1 implies Czech revenue and expenses accounting methodology follows EU recommendations relatively closely. Subchapter 2.2 then indicates that revenue and expenses medium-term trend is relatively stable. The highest values of revenue and expenses were recorded in the Ministry of Finance and the Ministry of Labour and Social Affairs. Revenue and expenses data may be used for planning, standard setting or performance evaluation purpose successfully. On the other hand mutual comparison of revenue and expenses among particular ministries is limited mostly because of their unique missions. Also different accounting and budgeting methodology is slightly debatable.

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