

# FINANCIAL REPORTING OF THE CZECH STATE-FUNDED INSTITUTIONS

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## Abstract

The aim of the paper is to examine a current state of financial reporting of the state-funded institutions founded by the Czech ministries. The paper analyses firstly main principles and prescribed outputs of the state-funded institutions reporting, further it concentrates on an analysis of existing state-funded institutions founded by specific Czech ministries and their reporting outputs. As the most important outputs of financial reporting (mainly from the point of view of external users) financial statements are considered. For that reason the paper analyses the structure of financial statements of above described state-funded institutions that are released on regular base to external users from 2011. The paper also presents a brief review of the state-funded institutions and their prevailing economic activities. As main data sources the Ministry of finance of the Czech Republic databases, relating regulations and scientific papers are used.

**Key words:** state-funded institution, contributory institution, financial reporting, state administration

**JEL Code:** H83, H11, H50

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## Introduction

State-funded institutions (also called contributory organizations) represent economic subjects that operate within the non-profit sector that may be understood as a part of national economy which does not operate primarily to make a profit and may encompass both public and private organizations (Pestoff, 1995). Non-profit sector in the Czech Republic includes traditionally various organizationally-legal types of subjects, among them also above mentioned state-funded institutions. They may be founded either by the state entities (mainly ministries), or municipalities. Founded by the state they usually provide elemental functions such as defence, health care or security for public or individuals. Organizations founded by municipalities then rather provide services for specific region or municipality. Basis legal framework of the state-

funded institutions founded by the state is created by the Act No 219/2000 Coll., on the Property of the Czech Republic and the Representation of the Czech Republic in Legal Relations, as amended. Financial principles are regulated by the Act No 218/2000 Coll., on Budgetary Rules and Amendments to Some Related Acts (Budgetary Rules), as amended.

For financial reporting purposes these subjects are included into a group of subjects called “vybrané účetní jednotky” (selected accounting units) that are obligated to reveal their financial statements in prescribed form from 2011 on regular basis (Vodáková, 2012). Before 2010 financial reporting of non-profit organizations varied across organizationally-legal types in the Czech Republic and financial accounting was organized mainly on the cash basis. In 2005 the Czech Republic similarly as other developed countries has decided to shift to the accrual basis also in the non-profit sector. Accounting reform was planned as a part of a complex public finance reform recommended also by European Commission and other international or supranational subjects. The whole process is known as a new public management (Hood, 1991) that should implement business-like elements to management of the public sector. From the beginning this process had its supporters (Box, 1999, Pina and Torres, 2002, Lüder and Jones, 2003) but also opponents (closely see Carlin, 2005). Nevertheless some academic disputes the process continues till nowadays.

It can be stated the Czech Republic successfully implemented the accrual basis formerly used mainly by businesses also to the public sector accounting and harmonized accounting rules across various parts of the public (or non-profit) sector till 2010 (Hrůza, Manes Rossi, 2016). As a consequence accounting data of various organizationally-legal types of subjects may be comparable and able to consolidate. An important step forward means also increase of accounting data transparency. Financial reports are published electronically from 2011. On the other hand various studies suggest that gathering and publishing of accounting data remains rather administrative issue without any wider utilization for managerial purposes (for example Sangers, 2012).

## **1 Methodology and data**

The paper deals with financial statements of the state-funded institutions that are founded by the central government subjects. Its content is divided into four parts. The first one (The Introduction) gives a brief insight and review of a historic development of financial reporting of the state-funded institutions. 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 the Czech state-funded institutions. Main research questions are following:

- What is obligatory extent and the structure of financial statements of the state-funded institutions and what are their relating duties?
- What is a current state in financial reporting of the Czech state-funded institutions (amount of reported units, their main activities, extent and authorization of financial statements)?

As basic scientific methods description, analysis, comparison and synthesis were used in the paper. With respect to a considerable scope of the Czech state-funded institutions (they represent the largest group of all organizationally-legal subjects included into selected accounting units – for example Vodáková 2012), the paper is limited only to the state-funded institutions founded by the Czech central government institutions. Presented figures then are limited to institutions founded by particular Czech ministries. There are several reasons for these limiting conditions. The first one lies in an importance of ministries as a significant consumer and redistributor of budgetary sources within the whole public sector. The second one is connected with our previous research orientation to the state administration.

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. An analysis of prevailing economic activities of the state-funded institutions comes from CZ-NACE (Classification of Economic Activities) that corresponds to EU NACE.

## **2 Main findings and discussion**

This chapter summarizes main findings of the paper. The first subchapter concentrates on financial reporting of the state-funded institutions from theoretical point of view. The second subchapter comments current state of financial reporting of the state-funded institutions founded by the Czech ministries in 2015 and 2016.

### **2.1 The structure and the content of financial statements, reporting duties**

From 2011 the Czech state-funded institutions founded by the state prepare compulsory financial statements as a set of standardized reports including the statement of financial position, the statement of financial performance, the notes, the statement of cash flow, and the statement of changes in owners' equity. The last two reports however are prepared only if the accounting unit accomplishes two criteria, i.e. total assets 40 mil Czech Crowns or higher and total revenue 80 mil Czech Crowns or higher. Criteria must be fulfilled for two subsequent accounting periods. Financial statements must be prepared consistently on the accrual basis and approved by the founder.

Obligatory forms of particular financial statements can be found in annexes to Decree No. 410/2009 Coll. to Act. No. 563/1991 Coll. on Accounting. Annexes 1, 2 and 5 (statement of financial position, statement of financial performance and notes) content besides the basic form also a modification for the state-funded institutions, annexes 3 and 4 (statement of cash flow and statements of changes in owners' equity) include only basic form for all types of accounting units. Main information concerning assets and liabilities is encompassed in the statement of financial position, supplemental information can be found in the notes. Main information relating to revenue and expenses is contained in the statement of financial performance. It comes from generic classification of revenue and expenses, moreover, revenue and expenses must be reported separately for main activities and economic (also 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. Supplemental revenue and expenses information again should be described in the notes. The statement of cash flow and the statement of changes in owners' equity are prepared according to uniform pattern and only in the above described cases.

Comparing the forms of statements we can state a high similarity between the state-funded institution and its founder. Certain differences may be found in the statement of financial position in the part B. III. Short-term financial assets and C. Owners' equity. These modifications partly comes from different role of the founder as a redistributor and main guarantor of financial sources within the group of units and partly from different subjectivity and economic or legal rules. Statement of financial performance differs in the part A. IV. And B. IV. and V. when the state-funded institutions do not record revenue and expenses concerning fees and sharing taxes. As for notes the statements differs in the part concerning

owners' equity (funds) not only in comparison with the founder but also with the state-funded institutions founded by municipalities. Generally it can be said that financial statements of the state-funded institutions and the other selected accounting units are harmonized as for the content and the form and regularly revealed by electronic way on the server administered by the Ministry of the finance of the Czech Republic.

**Tab. 1: An overview of the Czech state-funded institutions**

Ministry	Number of the state-funded institutions	Prevailing CZ NACE (Number of units)	Full financial statements	Limited financial statements	Approved / non approved 2015 statements
Ministry of Foreign Affairs (MoFA)	4	74900 (2)	2	2	3 / 1
Ministry of Defence (MoD)	9	86100 (4) 93120 (3)	5	4	9 / 0
Ministry of Finance (MoF)	0	0	0	0	0
Ministry of Labour and Social Affairs (MoLaSA)	7	87302 (3)	4	3	7 / 0
Ministry of Interior (MoI)	4	x	3	1	4 / 0
Ministry of Environment (MoE)	7	91040 (4)	5	2	6 / 1
Ministry of Regional Development (MoRD)	2	x	2	0	2 / 0
Ministry of Industry and Trade (MoIaT)	5	70220 (2)	3	2	5 / 0
Ministry of Transportation (MoT)	2	x	2	0	2 / 0
Ministry of Agriculture (MoA)	10	01430 (3) 71200 (3)	5	5	10 / 0
Ministry of Education, Youth and Sports (MoEYaS)	77	87900 (57) 85200 (8) 85599 (3) 85322 (3)	5	72	77 / 0
Ministry of Culture (MoC)	29	91020 (17) 91010 (7) 91030 (4)	13	16	29 / 0
Ministry of Health (MoH)	46	86100 (38) 86901 (4)	37	9	46 / 0
Ministry of Justice (MoJ)	3	55200 (3)	0	3	3 / 0
Total	205	x	86	119	203 / 2

Source: MoF (2017), online: <http://monitor.statnipokladna.cz/2017/>

Financial statements of the state-funded institutions must be controlled and authorized by the founder, the exact procedure is regulated by relating guidelines. The state-funded institutions are further obliged to reveal their financial statements by the way of the Ministry of finance of the Czech Republic in the Central system of accounting information of the state (CSUIS).

Act. No. 563/1991 Coll. on Accounting, as amended excludes all selected accounting units from the obligation to verify their financial statements by external audit which may be questionable because authorization as it was stated before is prescribed only by founder and these units may dispose of relatively significant sources. A certain role of external control may play Czech Republic Supreme Audit Office at present. This situation however is relatively common also in other countries and partly criticised (for example see Lüder and Jones, 2003).

## **2.2 Current state of financial reporting of the state-funded institutions**

As table 1 implies the Czech ministries manage 205 state-funded institutions in total while their amount vary significantly among particular ministries. Three ministries manage together approximately 73 % of all state-funded institutions. The highest portion of them were founded by MoEYaS (77, i.e. about 37.6 %), MoH (46, i.e. 22.4 %) and MoC (29, i.e. 14.1 %). On the other hand, MoF reports no state-funded unit at present, MoRD and MoT present 2 state-funded institutions (1.0 %) and MoJ 3 (1.5 %).

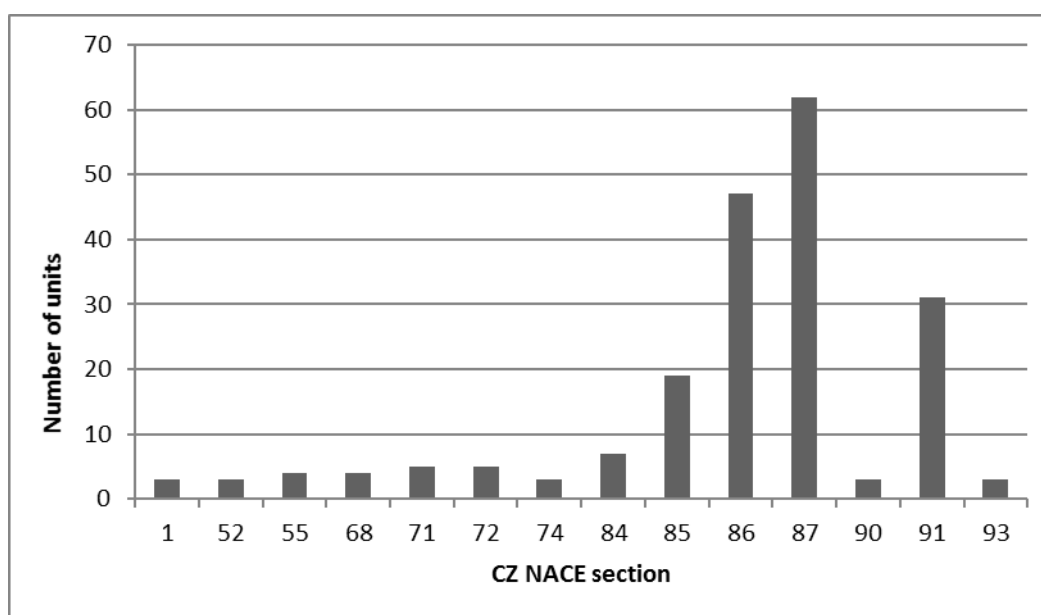
Further the survey was focused on the type of prevailing economic activities of examined state-funded institutions according to CZ-NACE which corresponds to relating EU NACE. In 3 cases (MoI, MoRD, MoT) was not possible to identify any prevailing activity because of low number of units and their varying specialization. Generally the highest number of units provide other social care services (CZ NACE 87900), i.e. mainly 57 units (27.8 %) included into MoEYaS). Mostly they represent diagnostic, educational, remedial and other institutes. 38 units (18.5 %) that are founded by MoH render institutional health care (CZ NACE 86100). They mainly represent special, general and faculty hospitals. 17 units (8.3 %) belong to MoC and render service of museums (CZ NACE 91020), closely see table 1. Besides the same NACE activity may be rendered by more state-funded institutions.

Figure 1 shows frequency of CZ NACE sections within the state-funded institutions in general. As you can see the most frequent seems long-term social care (NACE section 87), i.e. 62 units (30.2 %) in total, medical care, i.e. 47 units (22.9 %, NACE section 86), library,

museum, archives and other cultural facilities (NACE 91, 31 units, i.e. 15.1 %), and education (NACE section 85, 19 units in total, i.e. 9.3 %). Described economic activities and relating units create almost 78 % of the total. Further we recorded public administration and defence (NACE 84, 7 units), research and development (NACE 72, 5 units), architectonic and engineering activities, technical analysis (NACE 71, 5 units), accommodation (NACE 55, 4 units) and others.

As table 1 and also figure 1 suggest majority of activities of the state-funded units is linked to essential or very important public services with very limited possibility of any radical restriction. In many cases they draw significant public sources naturally so that the question of fair and true financial reporting seems to be very urgent. Further these easily accessible data still are not used for managerial purposes sufficiently as our previous research suggests. Also Šimonová and Novák (2016) seems to confirm this idea. Because of its importance mainly the area of social services is examined in this context. Průša and Langhamrová (2016) or Halásková and Halásková (2015) solve the provider, quality and availability assessment of social and health public services. At this context accounting data may serve as a good base for evaluation process especially if they are supplemented by any sufficient system of managerial (cost) accounting. They should supplement qualitative indicators.

**Fig. 1: CZ NACE overview of the Czech state-funded institutions**



Source: MoF (2017), online: <http://monitor.statnipokladna.cz/2017/>

As for the extent of financial statement it was found that 86 units (42.0 %) prepare financial statements as a full set of 5 statements (the statement of cash flow and the statement of changes in owners' equity included). On the other hand majority of units, i.e. 119 (58 %) do not fulfil or exceed formerly described criteria and so that prepare limited financial statements (without these two documents) which may weaken information capability slightly.

Further it was found that vast majority of units (203, 99.0 %) presented financial statements in a required shape for 2015 and so they were authorized by the founder. Only in 2 cases (1 % of units) financial statements were not authorized. These units belong to department MoFA and MoE. On the other hand as it was stated the founder belong to the same interest group.

## **Conclusion**

The paper analyses financial reporting of the state-funded institutions that are founded by the Czech ministries. In 2016 ministries managed 205 institutions that prepared their financial statements consistently on the accrual basis. Financial statements are harmonized not only with statements of founders but also across the public sector units. In 42 % of cases financial statements were prepared in their full version (5 statements supplemented by budgetary reports). In 58 % of cases were prepared limited version (3 statements). In 99 % of cases financial statements were authorized by founders, on the other hand an absence of external audit of financial statements may be debatable.

Prevailing economic activities of examined institutions are social, health care and cultural services. Further questionable point reminds insufficient utilization of accounting data for purposes of internal management.

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