

Reform of Public Sector Accounting in the Czech Republic

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Accrual or Cash Base in CR?

OECD and others indicate cash base for public sector entities in CR – it is mistake due to incorrect information for OECD provided by one Czech accounting representative in early 1990s. Czech accounting for majority of public sector entities is traditionally accrual for many decades.

Degree of Accrual

Degree of Accrual in CR public sector entities (according to J.L.Chan):

- **Before reform:**
 - some entities moderate/strong accrual
 - some entities strong accrual
- **After reform:**
 - all entities strong accrual

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Objective of Reform

- To develop accounting of the state
- To provide relevant information about economic position of the state and public sector entities
- To avoid inconsistency among entities
- To prepare financial statements of the CR
- Integrated electronization and digitizing of accounting and reporting
- Support for Czech Statistical Office

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Legislation and standardization of public sector accounting

- **Accounting Law** (amendment 2008)
- **Orders:**
 - 1) Accounting, financial reporting (2009)
 - 2) Technical arrangements (2009)
 - 3) Consolidation (draft)
 - 4) Reconciliation and stocktaking
etc...
- **Czech Accounting Standards (for public sector entities)** (up to now – only 4 standards)

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Changes in Accounting and Financial Reporting

- Depreciation of long-term non-financial assets for all entities
- Impairment of assets
- Accruals and deferrals
- Heritage assets (cost /if available/ or CZK 1,-)
- Long-term assets held for sale – fair value
- Provisions
- Off balance sheet reporting
- etc...

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Consolidated Financial Statements of the Czech Republic (draft)

1. Companies, cooperatives etc. under influence of the state
2. Czech Radio
3. Czech TV
4. Czech National Bank
5. Regional Councils of Cohesion Regions
6. Health Insurance Companies
7. Land Fund of Czech Republic
8. Superior Subgroup 'Governmental'
9. Superior Subgroup 'Municipality'

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Superior Subgroups

- A. Superior Subgroup
'Governmental'**
- B. Superior Subgroup
'Municipality'**

Superior Subgroup ,Governmental‘

1. Consolidating entity of CR (i.e. parts of Ministry of Finance, General Customs Directory and Tax Directories outside of budget heading ,Ministry of Finance‘
2. Governmental Subgroups

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Superior Subgroup ,Municipality“

1. Regional Subgroups (7)
2. Subgroup Prague

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Consolidated Subgroups of CR (obligatory)

- Governmental subgroups
- Regional subgroups (incl. Prague)
- Municipal subgroups

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Entities of Governmental Subgroups

1. Consolidating Entity of Governmental Subgroup – administrator of section of budget national (Ministry)
2. Entities founded by „1.“ as:
 - Organizational components of state
 - Contributory (semi-budgetary) organizations
 - Public funds
 - School entities
 - Public not-for-profit medical institutions
 - Public research institutes
 - Generally Beneficial Companies
 - Public Universities

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Entities of Regional Subgroups

1. Consolidating Entity Region (or Prague)
2. Entities founded by Region or Prague, as:
 - Contributory (semi-budgetary) organizations
 - School entities
 - Public not-for-profit medical institutions
 - Public research institutes
 - Generally Beneficial Companies
3. Companies, cooperatives etc. under influence of region or Prague
4. Municipal Subgroups

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Entities of Municipal Subgroups

1. Consolidating Entity Municipality
2. Entities founded by Municipality, as:
 - Contributory (semi-budgetary) organizations
 - School entities
 - Public not-for-profit medical institutions
 - Public research institutes
 - Generally Beneficial Companies
3. Companies, cooperatives etc. under influence of municipality

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Control

,Control' exists if consolidating entity

- Controls consolidated entity, based on interest or agreement;
- Is founder of consolidated entity; or
- Is entitled to manage consolidated entity, based on other relations.

Relationships between state and municipality (!) or other (!) state institution are always control.

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Significant influence

Significant influence – consolidating entity has significant (i.e. more than 20%) interest in government, decision making and management of ,consolidated' entity, but not control because other entity controls this ,consolidated' entity.

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Joint Control

- Joint control – consolidating entity jointly (equally divided) controls consolidated entity in agreement with other one or more entities. Joint control isn't control or significant influence.

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Methods of Consolidation of CR

- Full consolidation – control
- Proportional consolidation – joint control
- Significant influence – equity method

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Financial Statements of CR

- General statement of assets and liabilities
- General statement of expenses and revenues
- Statement of cash flow (indirect method)
- Notes

(n.b.: word-for-word translation)

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Financial Statements of Public Sector Entities

- Balance sheet
- Profit or loss statement
- Cash flow statement
- Statement of changes in equity
- Notes

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Problems of Reform

- Lack of concept (state vs. municipality, control vs. other criteria etc...)
- Technical difficulties (complicated data transfer and processing)
- Qualification of employees in PSE accounting service
- Subordination of data processing to requirements of Statistic
- etc...

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Thank you...

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