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SPECIFICS OF FINANCIAL REPORTING IN SPECIAL HOSPITALS IN SERBIA

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Abstract

Accounting information, intended for internal or external users, provide the necessary basis of financial reporting. Topicality of financial reporting specifics' display, has led to the need for this paper to show the differences between the accounting of the private and public sector, and thus through the specifics of financial reporting of public sector, to point to the case of special hospitals in Serbia. Given that there are specifics of accounting in the public sector, and that special hospitals are a part of the public sector in Serbia, the paper pays special attention to financial reporting in special hospitals in Serbia, i.e. in Serbian spas. In accordance with the aforementioned, the aim of this paper is to consider the difference between the accounting of the private and public sector, as well as more detailed emphasis on the specifics of financial reporting of special hospitals.

Keywords: *financial reporting, public sector, special hospitals*

Introduction

Having in mind that the accounting has been developing for thousands of years through a variety of forms depending on the mode of social organization and forms of individual entities, below the differences are made and the basic specifics of accounting in the private and public sector are highlighted. For the purposes of this paper, it is important to point out that the definition of the public sector also went through a series of forms and the final definition of the public sector was helped by international regulations determining the practice of accounting and auditing. These are

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the International Accounting Standards for the public sector and according to them the "public sector refers to national governments, regional authorities, local government (city and municipal) and similar state entities (agencies, boards, commissions...)."

In the private sector, financial reporting provides understanding of the financial position and performance of company's operations and the extent to which the main goal, generating a profit, is accomplished. The aim of the audit is to create a judgment on the accuracy of the company's account and thus provide assurance that the realized gain is reasonable, or "true and fair" by reviewing the success of the company.

In contrast, in the public sector, the financial statements may, at best, provide only half of the same story. They essentially show a report what the government or public sector organizations spent their money on. They do not show how much the government or public sector organizations were successful in achieving their objectives, through the provision of basic services to citizens and in the wider sense improving their well-being. Therefore, these objectives are outside the scope of the financial statements of the government and public sector organizations. However, these reports nevertheless provide an essential role in facilitating the accountability of government to parliament and the country as a whole, as well as accountability of public sector organizations to the interested users.

The financial statements may provide information on the concise economic information and thus users faced with too much information can often find themselves in situations that, trying to use them in the process of business decision-making, they ignore the importance of key information required (Knežević et al., 2012).

The financial statements are usually designed for general purposes and not adapted to any particular group of users, so that some information may be irrelevant to one type of the users, but relevant for the other. It is essential that users apply different types of analyses in order to identify information relevant to the decision making (Mitrović & Vučić, 2015; Mitrović et al., 2015; Knežević & Mitrović, 2015).

Special hospitals in Serbia are specialized in certain specific points and areas of treatment, and thus, in addition to various cities where they are located, special hospitals represent significant institutions in spas in

Serbia. For example, in Serbia there are several specialized hospitals operating in spas, such as: in Sijarinska Banja, Soko Banja, Vranjska Banja, Bukovička Banja, Ribarska Banja, Banja Koviljača, Kuršumlijska Banja, Banja Kanjiža, Mataruška Banja, Vrnjačka Banja and other spas.

The paper starts with highlighting the differences between accounting in the private and public sectors, after that the attention in the paper is devoted to the financial reporting of special hospitals, which are part of the public sector in Serbia.

The differences between accounting in the private and public sector

Most organizations in the public sector are aimed at making profit, because they are mainly focused on the sale of goods and provision of services to the public, so that the concept of gain for which the private sector financial statements are designed, is not relevant.

The financial statements of the private sector are provided primarily, at least for the shareholders of a given subject. The stakeholders of organizations from the public sector are a less discrete group of people and can include all citizens of a country.

The budget (usually created annually by the parliament or other legislature) is central for the responsibility in the public sector. Thus, the primary financial statement is usually a comparison between the agreed budget and actual payments and receipts by the government during the year.

For these reasons, the majority of public sector organizations prepare financial statements which have a completely different format than those compiled by the private sector. Therefore there is a special chart of accounts used for the budget system. The following Table 1 shows the chart of accounts for the private sector and the budget system.

Table 1: Chart of accounts for the budget system and the private sector

<i>Chart of accounts for the budget system</i>		<i>Chart of accounts for the private sector</i>	
<i>Class</i>	<i>Class title</i>	<i>Class</i>	<i>Class title</i>
Class 000000	NONFINANCIAL ASSETS	Class 0	ENTERED BUT UNPAID CAPITAL AND FIXED ASSETS
Class 100000	FINANCIAL ASSETS	Class 1	INVENTORIES AND FIXED ASSETS INTENDED FOR SALE
Class 200000	LIABILITIES	Class 2	SHORT-TERM RECEIVABLES AND INVESTMENTS, CASH AND ACCRUED INCOME
Class 300000	CAPITAL DETERMINATION OF RESULTS OF OPERATIONS AND OFF BALANCE SHEET ITEMS	Class 3	CAPITAL
Class 400000	CURRENT EXPENSES	Class 4	LONG-TERM PROVISIONS, LIABILITIES AND ACCRUALS
Class 500000	EXPENDITURES FOR NON-FINANCIAL ASSETS	Class 5	EXPENDITURES
Class 600000	OUTFLOWS FOR REPAYMENT OF PRINCIPAL AND PURCHASE OF FINANCIAL ASSETS	Class 6	INCOMES
Class 700000	CURRENT INCOMES	Class 7	OPENING AND CLOSING SHEET AND INCOME STATEMENT
Class 800000	INCOME FROM SALE OF NONFINANCIAL ASSETS	Class 8	OFF BALANCE SHEET RECORDS
Class 900000	INCOME FROM LENDING AND SALE OF FINANCIAL ASSETS	Class 9	COST AND OUTPUT ACCOUNTING

Sources: *Regulations on Standard Classification Framework and Chart of Accounts for the budget system* “RS Official Gazette” no. 103/11, 10/12, 18/12, 95/12, 99/12, 22/13, 48/13, 61/13, 63/13 - correction, 106/13, 120/13, 20/14, 64/14, 81/14, 117/14, 128/14, 131/14 and 32 / 15- and *Rules on chart of accounts and content of accounts for companies, cooperatives and entrepreneurs*, “Official Gazette of RS”. 95/2014

Further differences between accounting of the private sector and the public sector are summarized in Table 2.

Table 2: Differences between accounting of the private sector and the public sector

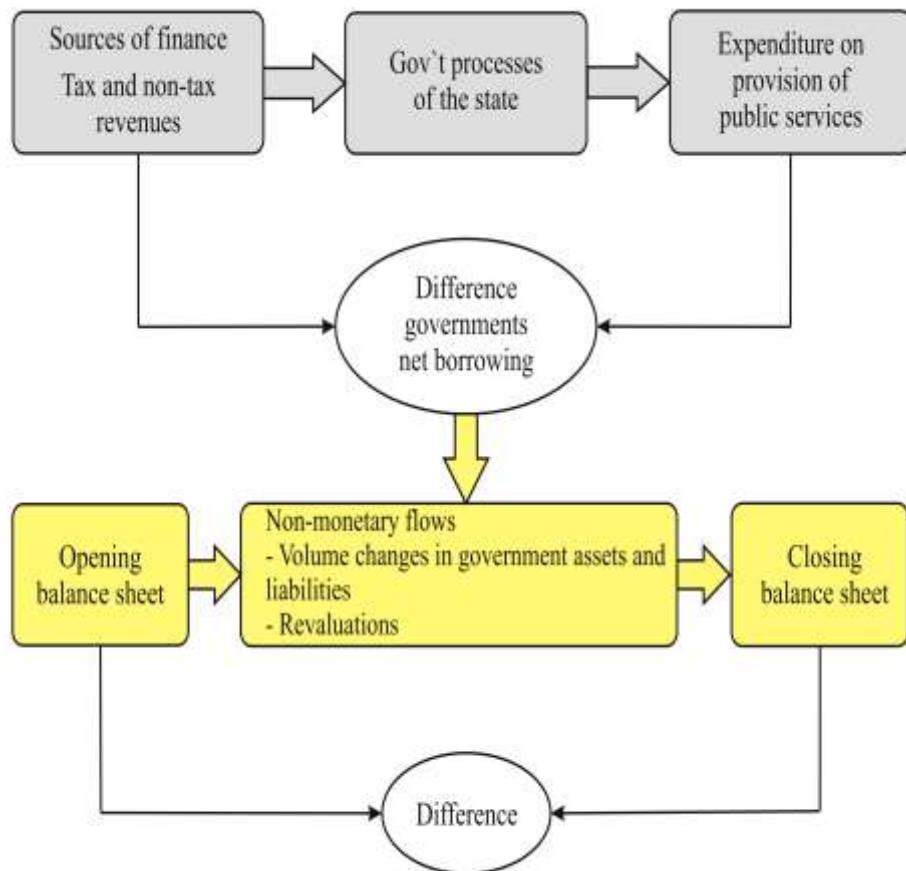
	Accountability to	Accountability mechanism	Accountability for	Leadership
Private	Shareholder	Annual General Meeting	Global	Director leadership
Public	Parliament/legislature	Anytime	Single/global	Political leadership

Source: Bogdanor, V. (2001): *Civil Service Reform: A PPMA report*, London: Public Policy and Management Association

The differences can be viewed directly in the management and accountability, as in private companies, the accounting system must support the management process, where shareholders hold responsible the managers of the company at the annual general meeting of the company (legal form - joint stock company) when the financial statements are proposed for approval. Individual decisions and policies of enterprise managers cannot be called into question, as opposed to public sector organizations, where officials of the public sector can be questioned at any time, where special measures to be taken and provision of a certain calculation for these measures are required.

It explains why the model of accrual accounting is dominant in the private sector – it provides a universal model amount input in the same units for any kind of work, and a common indicator of the performance - a profit. This model and the simple performance measure simply do not exist in the public sector. According to the International Federation of Accountants (IFAC), full accrual accounting is the system that recognizes transactions and events when they happen regardless of the inflows and outflows of cash. Incomes reflect the amounts due during the year, regardless of whether they are collected/paid for or not. Expenses reflect the amount of inventories and services "consumed" during the year, regardless of whether they are paid for that period. Cost of funds are deferred and recognized when the funds are used to provide services. For the public sector it is not that easy to build a universal input-output model. The basic problem is that the output is a simple provision of services and that it is not expressed in monetary units. An attempt to develop an accounting model for the public sector is shown in Figure 1.

Figure 1: Accounting model for the public sector



Source: Parry, M. (2005): *Accrual Accounting for National Governments, ICGFM Public Fund Digest, Vol. V, No. 2. 60-67.* <http://www.icgfm.org>, (15 February 2016).

It may be noted that this model, although being less stylish than the model of the economic entity, provides a framework for the public sector. Although financial inflows and outflows are not directly related, they are still controlled by the government, and therefore are the requirement for borrowing and are an important measure.

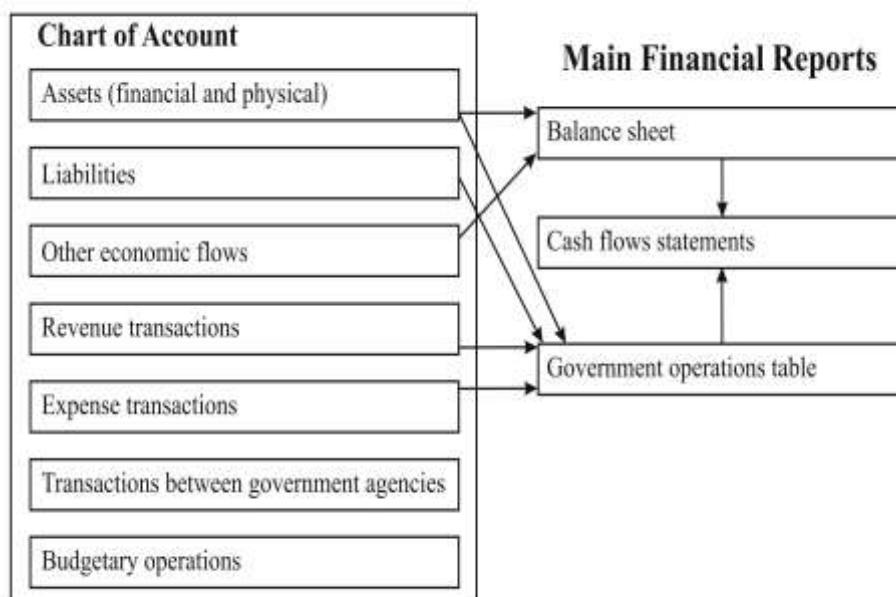
Specifics of financial reporting in special hospitals in Serbia

In the private sector, users of accounting information are, in addition to all levels of management in the company, a number of external users, due

to the successful implementation of management activities. External users are primarily interested in the basic financial statements of the company, of which mainly the balance sheet, profit and loss statement, cash flow statement and statement of changes in equity, and less for the notes to the financial statements (Mitrović & Vučić, 2015). The objective of financial statements is to provide information about the financial position (balance sheet), success (profit and loss), the use of financial resources (cash flow statement), changes in equity (statement of changes in equity) and accompanying notes (Stanković et al., 2012).

Accounting for the public sector needs has undergone a broad and radical reform through the introduction of accrual accounting by governments and other public sector bodies as widespread in the world (Newberry, 2001; Barton, 2005; Ellwood, 2008). Figure 2 shows the most frequently used accounts and financial reporting of public sector.

Figure 2: Chart of most frequently used accounts and financial reporting of public sector



Source: Allen, R. & Tommasi, D. (eds). (2001): *Managing Public Expenditure: A Reference Book for Transition Countries*, Paris: OECD., p.296.

According to the Law on budget system, the annual balance sheet includes:

1. the annual financial report on the execution of the budget, with additional notes, explanations and justifications;
2. the annual financial report on the execution of the plan of organizations for mandatory social insurance, as well as the annual consolidated financial report of the Health Insurance Fund with additional notes, explanations and justifications;
3. external audit report.

Annual financial statements must be consistent with the content and classification of the budget, i.e. plan, provided that the financial results in these reports are determined in accordance with International accounting standards for the public sector - cash basis.

Financial reporting in special hospitals includes, in addition to comparisons between the agreed budget and actual payments and receipts by the government during the year and display of realized own funds in the context of the sale of goods and services.

The final account of special hospitals on reviewing business practices of specialized hospitals, consists of a set of reports consisting of:

- Balance Sheet,
- Revenues and expenditures balance,
- Report on capital expenditures and income,
- Cash Flow Statement,
- Report on budget execution,
- State of the arrears to suppliers,
- Overdue payments by the health institution,
- Deviations from the cash flow,
- Form for participation and refunds and
- Form BO-paid and refunds related to the charges that are recorded within the group 414100.

Special hospitals also submit quarterly reports, and concretely the quarterly report of the health institutions in the Republic of Serbia comprises:

- Report on budget execution,
- Deviations from the cash flow,
- Form for participation and refunds and

- Form BO-paid and refunds related to the charges that are recorded within the group 414100.

Budget Execution Report lists the total revenues and receipts and total expenditure and expenses and based on it the determination of results is made through the possibility of expressing the excess revenues and income - the budget surplus, or deficit of revenues and earnings - the budget deficit. In addition to quarterly reports, the special hospitals also submit the daily statements.

Planning and budgeting are important management activities in organizations regardless of whether they belong to the private or public sector. In particular, budgets allow managers to plan their business activities and identify expectations for the future, evaluate financial performance in a timely manner and to ensure that business activities are conducted in a manner that is in line with expectations.

Planning involves the entire process of preparing for the future, while budgeting is an accounting process that connects the planning and control functions. Accounting planning is a part of the integral planning process. The budget is equally important from the standpoint of effective management of the organization, regardless of the type of organization in question, profit or non-profit organization in the public or private sector (Knezević et al., 2014).

In accordance with the foregoing, the special hospitals prepare financial plans, through drafting of the projected income statement, comprising the planned revenues and receipts and expenditures and expenses on the basis of the size of the projected surplus or deficit.

Financial management and accounting information play an increasingly significant role in the management of hospitals and the level of their departments (Ellwood, 2008). According to the survey by Pettersen & Solstad (2014: 372), based on a study examining the use of accounting information in the management of hospitals in Norway, the use of accounting information in the budgeting process involves the following according to the order of importance:

1. The action plans;
2. Budgets from previous years;
3. Financial statements of the last year;
4. Cost analysis according to positions;
5. The budget is based on factors outside the organization;

6. Long-term plans and strategies;
7. Analysis of medical practice;
8. Future health care activities;

If we look at the core purpose of public sector financial reporting, a part of which are the special hospitals, it can be said that the primary objective is the management of financial resources, revenues and income, expenditures and expenses, assets and liabilities, and in this sense, the funds received by the state and actual own funds.

Thus, according to Allen & Tommasi (2001: 317-318), financial reporting should respond to issues concerning the integrity of the budget, operational performance, and system management and control. In this sense, it is perceived whether the resources are used in accordance with the legal authority and mandatory terms, how much the programs cost and how they are financed, what the obligations arising from their execution are, then whether the financial position has improved or worsened, whether there are systems to ensure effective compliance with the budget and financial regulations, proper management of resources, adequate performance and more.

As for planning and policy formulation of special hospitals, the reports should provide information on current programs and main objectives, and can also be used as a source of information for interested users. Since the special hospitals are under the scope of the relevant ministry within the government and organizations (HIF - Republic Health Insurance Fund), as the interested users of the primary level, there are different bodies within the ministries and many other people outside the government, individual citizens, the media, enterprises, universities, non-governmental organizations and other stakeholders, investors and lenders.

In addition to the foregoing, it is important to mention internal control as well as a useful management tool for assessing the effectiveness of planning and organization and management, since special hospitals should also identify and develop appropriate control framework to support effective management (Lakicević et al., 2012).

The International Organization of Supreme Audit Institutions (International Organisation of Supreme Audit Institutions - INTOSAI) adopted the approach and definition of the Committee of Sponsoring Organizations of the Treadway Commission (Committee of Sponsoring

Organizations of the Treadway Commission- COSO) as the basis for the definition of control of the public sector. The definition³ offered by INTOSAI, says: "Internal control of the public sector is a comprehensive process that involves the management and all employees in the control of the public sector, which aims to manage the risks to provide reasonable assurance that the realization of the mission of control of the public sector is to achieve the following general objectives:

- performing operations in a proper, ethical, economical and effective manner;
- accountability for the successful achievement of tasks;
- compliance of operations with laws and regulations;
- protection of assets and other resources against losses caused by abuse and mismanagement."

According to Article 81 of the Law on Budget System (Financial Management and Control), users of public funds establish financial management and control, implemented through policies, procedures and activities with the task to provide reasonable assurance that its objectives will be achieved through:

1. operations in accordance with regulations, internal policies and contracts;
2. the reality and integrity of financial and business reports;
3. economic, efficient and effective use of resources;
4. protection of resources and data (information).

Internal control serves management in ensuring the accuracy and reliability of accounting information, because the decisions made by management are also based in great extent on the information provided by the accounting system (Stanković et al., 2013).

3 Guidelines for Internal control standards in the public sector (INTOSAI 2001), p. 6.

Table 3: The risks of financial reporting, control objectives and typical controls

Control objectives	Risks (typical and other known risks)	Typical controls
Safety	<ul style="list-style-type: none"> • Uncontrolled access to financial records change • Uncontrolled access to working papers and pre-accounting records • Uncontrolled disclosure of system information such as lists of entry and payroll 	Access control - A well-functioning general ledger
Regularity	<ul style="list-style-type: none"> • Failure to follow or non-compliance with international financial reporting standards (IFRS) • The inadequacy of the user instructions and other aspects of the control environment 	Preset formats for accounts. - Precise formats and disclosures in the user guide
Timeliness	<ul style="list-style-type: none"> • Failure of fulfillment of legal and managerial reporting deadlines. • Reputational risk 	- Legal time limits - Schedule
Completeness	<ul style="list-style-type: none"> • Total budget does not comply with the overall approved. • Non-inclusion of transactions 	- Reconciliation between the budget and reports
Measurability	<ul style="list-style-type: none"> • Misclassification of accounting transactions • Misclassification of approved budget data • Transactions do not add up correctly 	Manuals and instructions represent the classification for reporting - Laws and Regulations prescribe formats and reports
Accountability	<ul style="list-style-type: none"> • A negative comment or opinion of the external audit 	- Presentation of the reports to managers and parliament

Source: Internal Audit Manual of the Republic of Serbia, the third part, Audit programs and guidance through audit, (April 2013), p. 202.

Statutory financial reporting is the key aspect of the strategic responsibility for the KJS. Reports and accounts are audited by an

external audit - The State Audit Institution (SAI). External audit is tasked with to give an opinion in the official report on the fairness of the presentation of accounts, while internal audit discusses the process, to ensure the control of management, and the risks in the process of preparation. Internal audit can reasonably make recommendations for improvements of the very process of the financial statements preparation. Typical risks and controls that the auditor can expect with system evaluation are shown in Table 3, and the expected control may relate to more than one risk and they can be mitigated by the existence of more than one control.

Conclusion

Bearing in mind that there are differences between the accounting of private and public sector, this paper has only presented the particularities related to accounting of the public sector, through the comparative analysis, and thus highlighted the differences in comparison to the private sector.

Through the very purpose of compiling the reports, interested users and the entire process of preparation and submission of financial statements, accounting of public sector are very different from those of the private sector. Bearing in mind that there are differences in almost all segments of accounting, further in the paper we elaborated on the specifics of financial reporting of specialist hospitals in Serbia, which form a part of the public sector.

Through a series of accounts and financial reporting, then by displaying the basic purpose of compiling the accounts and financial statements of specialized hospitals stakeholders, the specific nature the special hospitals possess, as part of health care institutions has been pointed out.

Thus, according to the practice of special hospitals in Serbia, it has been shown that these are the reports that make up the final account; and further, which are the parts of quarterly reports and what is the daily report. Additionally, the importance of planning and internal control, as well as highly useful instruments of adequate management have been emphasized.

Once again we want to emphasize the importance of special hospitals, and in particular the importance that these organizations, which are a part of

the public sector in Serbia, have for the development of spas in Serbia where they are often located. In this regard, highlighting the differences between accounting in the private and public sector, and the specifics of financial reporting of special hospitals, contribute to improving the informational role for many interested users, ranging from service users of special hospitals, to interested investors.

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