Accounting system in Croatian public health care sector: Current state and improvement perspectives

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Introduction

- The purpose of this paper is to present empirical evidence on the current state and functional adequacy of the accounting and financial reporting system as well as the evidence on the perception about the accounting information quality level in meeting Croatian public sector health care management needs.

Current accounting system in NHS

- Modified accrual basis
- The basic features of accounting system show that it is impossible to directly confront revenues and the associated expenses, which is a fundamental premise for expressing real financial results.
- The expenditures incurred in the operation of earning income during the reporting period are recognized immediately after the occurrence, while in order for revenues to be recognized, claims must be charged.
- Economic course of business is hereby directly dependent on the financial progress.
- Thus, financial performance and liquidity of a public health care institution is directly dependent on the liquidity of a "dominant buyer" of health services, i.e. CHIF, and the founder who, within the framework of decentralization, finances certain expenses.
- Consequently, health institutions are left without internal financing source in the form of accrued depreciation.

Research methodology

- The principal area of research is to present the current opinion of accountants and financial officers in Croatian public health care institutions (hospitals) about research questions.
- To determine all of the above, an empirical survey using questionnaires was done in December 2015 and January 2016 in all Croatian public hospitals in order to gather the necessary data.
- The questionnaires were sent by e-mail in an online form to accountant and financial officers in 57 public hospitals. Out of 57 public hospitals (59.65%) 34 responded to the questionnaire.

- In this part, the authors have studied following main research questions:

RQ1: *How do the accountants and financial officers today assess the quality of the public health care accounting and financial reporting system?*

RQ2: *Are the accountants and financial officers in public health care institutions (hospitals) ready for the implementation of accrual accounting basis?*

RQ3: *What do they see as a main constraint in implementation of accrual accounting basis?*

Share of participants in total number of public hospitals

Type of hospital	Number of hospital	Number of responded hospitals	Percentage of participant hospitals in total number (%)
CHC, CH, C	10	5	50.00
General hospitals	21	13	61.90
Specialized hospitals	26	16	61.54
Total	57	34	59.65

- The sample representativeness was tested by using Goodness-of-fit Chi-squared statistical test.
- The test has shown that the sample's distribution is not statistically significantly different from the distribution within the population of 57 Croatian hospitals (empirical Chi-square = 0.1896, degrees of freedom = 2, p-value = 0.9096).

Research results

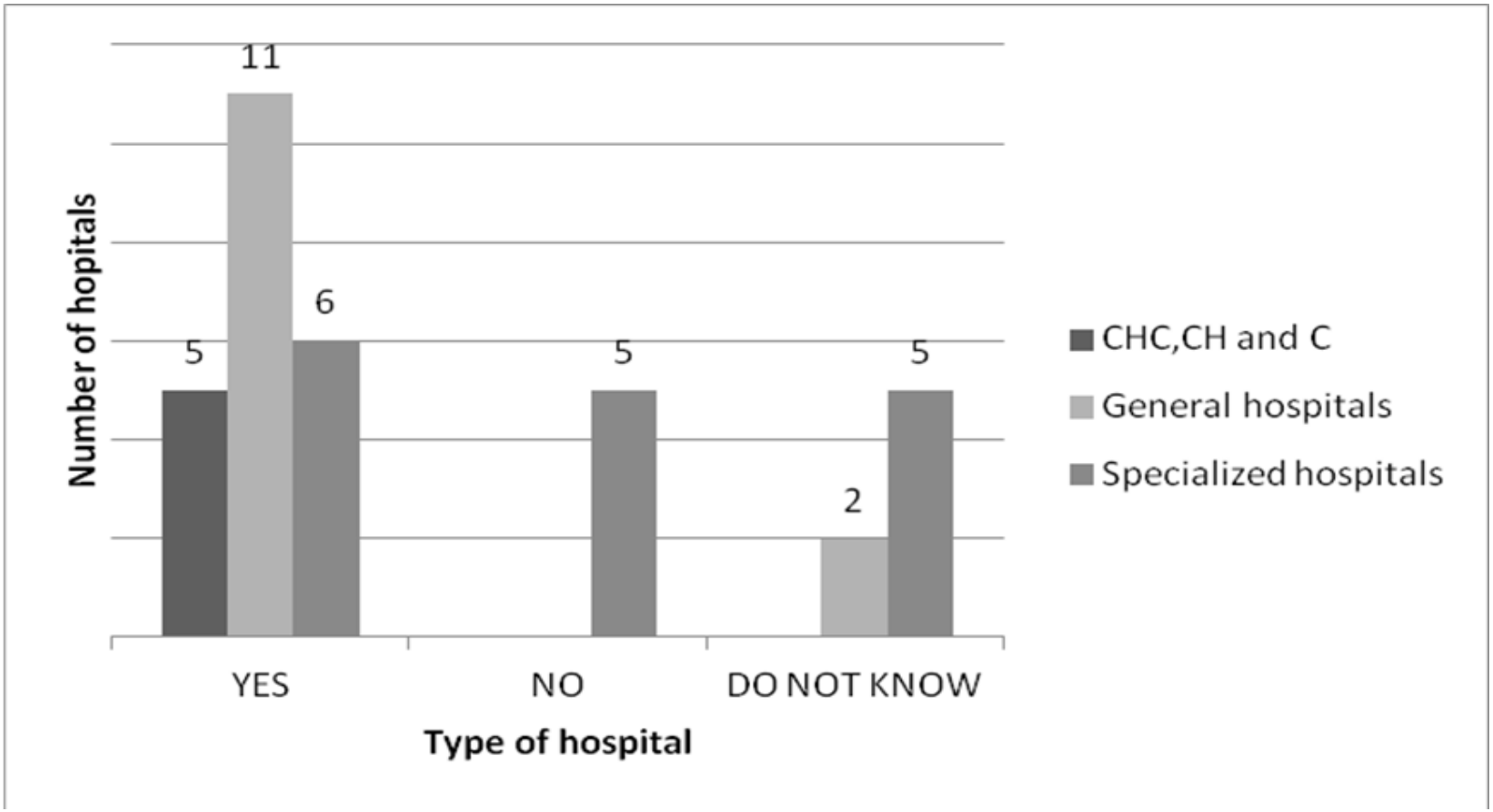
- The answer to the first research question, the authors focused on a series of 20 specific subquestions about certain elements of the financial statements, the applied accounting basis and the usability of accounting information for management and reporting of business and the wider environment.
- To the subquestion: *Whether your financial statements fairly represent the financial position and performance of the institution*, as much as 82% of respondents said *yes* and *mostly yes*.

- Also, 76% of respondents believe that the content, structure and dynamics of financial reporting is adequate for public health activities.
- On the scale of 1 to 5, the highest grade about the usefulness of individual financial statements to assess the financial position and operations of the institution respondents gave to the Statement of liabilities (average score is 4.28), while the lowest grade was given to Cash flow statement (average score is 3, 14).
- When assessing the usefulness of external financial reports for decision-making and management, 38% of respondents consider it significant; while 53% see it as only partially significant.
- As many as 60% of internal and external users of accounting information consider financial statements understandable, ranking its intelligibility with 4 or 5.
- Even 70-80% of respondents asses with high grades the reliability of the information contained in the financial statements as well as their comparability in the context of activities and time course.

- Looking at the results of the research and ranking the importance of reason for using the prescribed system of financial reporting, it is visible that the most important reason for using prescribed financial reporting system is meeting with the statutory reporting obligations (rank 4, 97).
- Then follows the execution of the financial plan (rank 4,45), external and internal audit and control (rank 4,43), then the successful conduction of business policy (rank 3,90) followed by benchmarking with other equivalent institutions (rank 3,38) and finally promotion of institution (rank 3,11).

- To answer on the second research question, accountants and financial officers in public hospitals were asked to state whether the current accounting system should be improved with the implementation of accrual accounting basis in public hospitals.
- 65% out of all accountants and financial officers who participated in the study believe that current accounting system should be improved with the implementation of accrual accounting system that would expand the scale of available accounting information.

Accountants and financial officer's opinion about implementation of accrual accounting basis in public hospitals accounting system



- Third research question is investigating what accountants and financial officers see as main constraint in implementation of accrual accounting basis.
- Again, authors asked about their perception on constrains.

Constrains in implementation of accrual accounting basis

Constrains	Response structure (%)					Aver age	Standard deviation	Rang
	1	2	3	4	5			
Human resources	6.3	6.3	21.9	31.3	34.4	3.81	1.176	5
Financial resources	3.1	9.4	18.8	37.5	31.3	3.84	1.081	4
IT support	3.2	3.2	22.6	38.7	32.3	3.94	0.998	3
The long duration and complexity of the process	0.0	6.3	34.4	34.4	25.0	3.78	0.906	6
Political and legislative support	0.0	3.1	25.0	31.3	40.6	4.09	0.893	2
Support of administration and management of hospitals	0.0	0.0	20.0	20.0	60.0	4.40	0.814	1

Conclusion

- The qualitative analysis determines that the existent accounting model of public health care institutes based on modified accrual basis does not allow for the confrontation of revenues and expenses and capitalization of the costs of acquiring fixed assets.
- Consequently this can lead to unrealistic statements of financial results, especially in cases of financial delays.
- Furthermore, fixed assets costs cannot be systematically allocated to cost centres and cost units.
- In capital-intensive activities, like health care activities are becoming, this can greatly distort the overall cost management and measuring the effectiveness of some cost centres.
- It can therefore be concluded that the existing accounting system does not provide fully reliable information basis necessary to make economic decisions as well as effective control over public assets.