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THE ASSESSMENT OF QUALITY AND USEFULNESS OF EXTERNAL FINANCIAL REPORTS AT PUBLIC HIGHER EDUCATION INSTITUTIONS – CASE OF CROATIA

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PRESENTATION STRUCTURE

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INTRODUCTION - MOTIVATION AND SCOPE

The **aim** of this paper is to investigate the quality and usefulness of **external financial reports at Croatian public higher education institutions for the purpose of management.**

Previous studies have pointed out the fact that external financial reports

- are prepared in accordance with the legal reporting requirements and
- have the required structure and content that are unified for all budgetary entities and
- do not reflect the specifics of higher education institutions.

But however, there is no studies about usage of external financial reports for management purposes.

In that context, the **authors have conducted empirical research based on the survey questionnaire at public higher education institutions in Croatia.**

FINANCIAL REPORTING IN CROATIA – NORMATIVE FRAMEWORK

In defining the budget and budgetary relations in Croatia, the starting points are determined by the Budget Act and the Amendments to the Budget Act.

Budget Act is applied to:

- the state budget and
- the budgets of local government and,
- to their budgetary and extra-budgetary users.
- *Register of Budgetary Users and Extra-budgetary Users which unambiguously and consistently classified all budgetary users and extra-budgetary users of the state budget and budgetary users and extra-budgetary users of the budgets of local and regional government units.*

The budget processes relate to budget formulation, adoption, budget execution and supervision of the budget.

The system is unified and prescribes the application of the same rules for all users.

It does not include the specifics of individual sectors nor does it allow specific exemptions.

FINANCIAL REPORTING IN CROATIA – NORMATIVE FRAMEWORK

The reporting system is separated into two sets of reports:

1. the Semi-annual and Annual Budget Execution Reports - prescribed in the Budget Act and the Ordinance on Semi-annual and Annual Budget Execution Reports and

2. Financial Reports (General Purpose Financial Reports) prescribed in the Budget Act and the Ordinance on Financial Reporting in Budget Accounting.

Budget Execution Reports are produced to make the government accountable for the execution of the budget and are subject to approval by Parliament.

These reports are closely related to the execution of the budget and their structure follows the content and structure of the budget itself.

FINANCIAL REPORTING IN CROATIA – NORMATIVE FRAMEWORK

Budgetary accounting is conducted based on the principle of double-entry bookkeeping and according to the schedule of accounts in the chart of accounts, as well as rules for recording transactions and events.

The budget accounting framework unified and uniformly defined for all reporting entities.

The Budget Act states that budgetary accounting should be based on International Public Sector Accounting Standards - IPSAS.

However, budgetary accounting is not based on the direct application of IPSAS.

Budgetary accounting is based on the **modified accrual basis**, with the specificity of the financial statement elements of recognition and measurement.

FINANCIAL REPORTING IN CROATIA – NORMATIVE FRAMEWORK

Financial reporting is prescribed

- as mandatory,
- the form and content of financial reports,
- the periods covered by the reports,
- as well as liabilities and deadlines for their submission.

The analytical financial reporting framework is universal and enable the consolidation of financial reports.

Financial reports are drafted on the following forms:

- - **Balance Sheet** - Form BIL;
- - **Report on revenues, expenses, receipts and expenditures** - Form PR-RAS;
- - **Report on expenditure according to functional classification** - Form RAS-FUNKCIJSKI;
- - **Report of changes in the value and volume of assets and liabilities** - Form P-VRIO;
- - **Report on liabilities** - Form OBVEZE.

EMPIRICAL RESEARCH - Research methodology and data

Research methodology is based on the survey questionnaire that was conducted in the year 2016 among the Heads of Accounting at Croatian public HEIs.

In Croatia there was **104 public HEIs** and therefore our data were collected taken into account the whole population instead of sample. The questionnaire was sent by post.

The main aim of the questionnaire was to analyse and evaluate quality and usefulness of accounting information systems obtained from external financial reports and budgetary accounting.

Therefore, the questionnaire was divided into the following parts:

- A. General information about the higher education institution;***
- B. Assessment of usefulness and quality of external financial reporting;***
- C. The development of internal accounting and internal reporting.***

For the purpose of this paper focus was put on part A and part B.

EMPIRICAL RESEARCH - Research questions

The main aim of the paper was to research usefulness of the external financial reports for the purpose of decision making and management.

Four research questions for Croatian public HEIs:

Q1) How useful are the financial reports at HEIs?

Q2) What are the most important purposes of financial reports usage at HEIs?

Q3) In which areas of decision making process does management use information from financial reports?

Q4) What are the most important constraints of implementing the accounting information system reform at HEIs?

All research questions were tested for Croatian higher education institutions.

For the purpose of statistical analysis, we have used descriptive and inferential statistics.

A response rate for questionnaire at Croatian public HEIs was **33,65% (35 out of total 104 public HEI's)**.

EMPIRICAL RESEARCH - Research results

Q1) How useful are the financial reports at HEIs?

We have tested the hypothesis that most of respondents think that the usefulness of existing financial reporting system for the purpose of decision making and management is partial or small.

It is assumed that more than 50% of Heads of accounting think that the usefulness of existing financial reporting system for the purpose of decision making and management is partial or small.

Thus the test hypotheses are: $H_0 \dots p \leq 0.50$, $H_1 \dots p > 0.50$.

Conducted statistical test confirmed that assumption.

We can accept the assumption that the percentage of Heads of accounting who believe that the usefulness of existing financial reporting system for the purpose of decision making and management is partial or small is higher than 50%.

Figure 1: Z Test of Hypothesis for the Proportion

Source: authors' calculations

Data	
Null Hypothesis $p =$	0,5
Level of Significance	0,05
Number of Items of Interest	25
Sample Size	33
Intermediate Calculations	
Sample Proportion	0,757575758
Standard Error	0,0870
Z Test Statistic	2,9593
Upper-Tail Test	
Upper Critical Value	1,6449
p-Value	0,0015
Reject the null hypothesis	

EMPIRICAL RESEARCH - Research results

Q2) What are the most important purposes of financial reports usage at HEIs?

The respondents were asked to assess on Likert scale from 1 to 5 different purposes of the financial reports.

The most important purpose of financial reports by management **is for compliance with legal requirements regarding reporting (M 4,54)**, followed by **the external and internal audit and control purpose (M 4,12)**

All other suggested purposes means goes somewhere around 3 which stands for moderately important.

Figure 2: Descriptive statistics for usage of financial reports for different purposes

Source: authors' calculations

Category	Management use financial reports for different purposes (1 not important, 5 very important)					
	as an important source of information for decision making prices and management	for compliance with legal requirements regarding reporting	to monitor the execution of financial plan	for comparison with other higher education institutions	for informing wider public and for promotion of the institution	for the purpose of external and internal audit and control
Number of HEIs	32	35	35	32	33	33
Mean	3,34	4,54	3,63	2,88	2,94	4,12
Standard deviation	1,33	0,89	1,14	0,91	1,14	0,96
Coefficient of variation	39,91	19,50	31,41	31,55	38,92	23,30
Median	3,00	5,00	4,00	3,00	3,00	4,00
Mode	3	5	4	3	3	5

Q3) In which areas of decision making process does management use information from financial reports?

The highest average grades were given for the following decision making processes:

- **to monitor the effectiveness of the services provided and fiscal responsibility (M 4,06) and**
- **for planning, calculation and control of costs (M 4,00).**

The lowest average grades were given:

- **for determination of prices for provided services (M 2,74),**
- **for decision making about employment (M 2,69) and**
- **for performance measurement (M 3,03).**

Figure 3: Descriptive statistics for usage of information from financial accounting and financial reporting for decision making process

Source: authors' calculations

Usage of information from financial accounting and financial reporting for decision making process (1 = not used at all, 2 = mainly not used, 3 = neither used nor not used, 4 = mainly used, 5 = completely used)							
Category	For allocation of resource from the budget	For the approval of the implementation of individual programs	For determination of prices for provided services	For asset procurement	For planning, calculation and control of costs	For decision making about employment	To monitor the effectiveness of the services provided and fiscal responsibility
Number of HEIs	35	35	34	35	35	35	35
Mean	3,54	3,69	2,74	3,80	4,00	2,69	4,06
Standard deviation	1,22	0,96	1,11	1,08	1,03	1,23	0,97
Coefficient of variation	34,46	26,13	40,56	28,40	25,72	45,84	23,87
Median	4	4	3	4	4	3	4
Mod	4	4	3	4	4	4	5

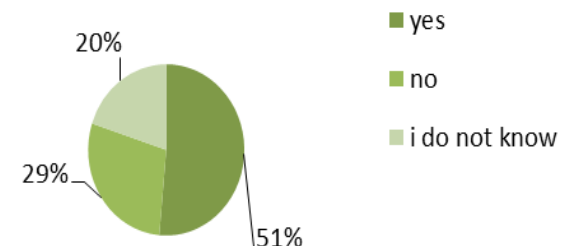
EMPIRICAL RESEARCH - Research results

We ask respondents what is their opinion regarding the need to change/ improve existing budgetary accounting and financial reporting in order to expand the scope of available accounting information.

It is obvious that most of respondents (51%) are affirmative in relation to the need for improvement of existing budgetary and financial reporting.

Figure 4: Need to improve existing budgetary accounting and financial reporting

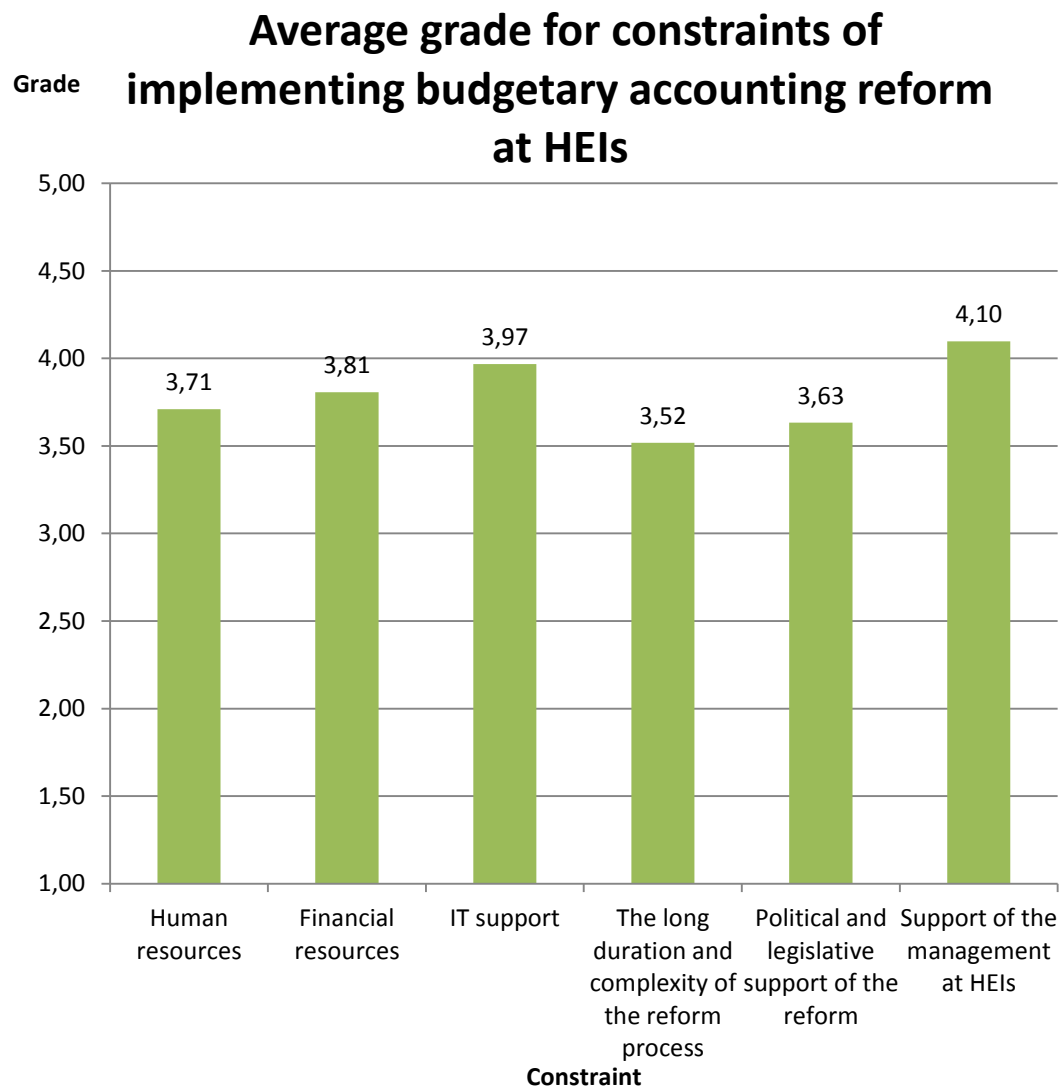
**Is it necessary to change/
improve existing budgetary
accounting and financial
reporting in order to expand...**



Q4) What are the most important constraints of implementing the accounting information system reform at HEIs?

It can be concluded that according to opinions of the Heads of accounting in the sample, the support of the management at HEIs is assessed with the highest average grade.

Average grades for other constraints are between 3 and 4 on the level of significance.



Discussion

From the obtained research results it can be concluded

- existing financial reporting system at Croatian public HEIs is not fully useful for decision making process and management and
- still the most important is to satisfy legal requirements regarding reporting and audit.

Regarding the usage of information from financial accounting and financial reports, research results have shown that management uses financial reports most often to monitor the effectiveness of the services provided and fiscal responsibility and for planning, calculation and control of costs.

From the conducted survey it can be concluded that the usage of financial reports for decision making process and management is perceptibly underestimated, since it is mainly being used to satisfy normative requirements regarding reporting.

However, most of respondents agree that it is necessary to implement budgetary accounting and financial reporting reform in order to expand the scope of available accounting information.

Research results have also shown that management support is most important constraint of aforementioned reform.



Thank you for your attention