

Financial Report of the Croatian National Tourist Board without financial statements

Bajo, Anto

Source / Izvornik: **Press releases, 2015, 8, 1 - 4**

Journal article, Published version

Rad u časopisu, Objavljena verzija rada (izdavačev PDF)

<https://doi.org/10.3326/pr.2015.82>

Permanent link / Trajna poveznica: <https://urn.nsk.hr/urn:nbn:hr:242:557111>

Rights / Prava: [Attribution-NonCommercial-NoDerivatives 4.0 International/Imenovanje-Nekomercijalno-Bez prerada 4.0 međunarodna](#)

Download date / Datum preuzimanja: **2023-06-07**



Repository / Repozitorij:

[Institute of Public Finance Repository](#)

PRESS RELEASES

Financial Report of the Croatian National Tourist Board without financial statements

ANTO BAJO, PHD, Institute of Public Finance, Zagreb

On May 8, 2015, the Croatian National Tourist Board (CNTB) submitted its 2014 Financial Report to the Parliamentary Finance and Central Budget Committee and Tourism Committee. The „only“ fault of the report is that it lacks financial statements (the income statement and the balance sheet). The Financial Report is actually an incomplete annual business report. But this is not the main problem.

The CNTB is not legally required to report to Parliament on its financial operations. Even without being legally required to do so, the CNTB has, since 2013, submitted annual financial reports to the parliament's members of the Tourism Committee and Finance and Budget Committee. The former Committee has launched an initiative to discuss the reports by Parliament at plenary meetings. Regrettably, this has still not happened, although there are numerous arguments for such a discussion.

The CNTB's 2014 Financial Report lacks financial statements (the form requirement is satisfied, but the content is missing). The CNTB's Main Office has published a report which provides no information on either the Board's financial operations or its business performance. The report lacks information on hiring movements and reasons for new hirings. Moreover, there are no data available from the balance sheet of payables and receivables, neither is there a detailed overview of revenues and expenditures or data on the achieved business results. It is not clear how and for what purposes the amounts from the budget plan are adjusted through budget revisions. According to indexes, there have been considerable mismatches between the plans (or budget revisions) and outturns in all years since 2012, as most budget items have not been realised in the amounts planned. There are even no comparisons with the previous years' data which would provide an insight into the policy changes that have caused changes in finances.

The CNTB budget is in constant surplus. The CNTB's 2014 budget revenue stood at HRK 351m, exceeding the expenditure by HRK 80m. The CNTB generally runs surpluses which increase annually and are transferred from year to year. The surplus of HRK 47.7m, accumulated in 2012, rose to HRK 91.8m in 2013 but dropped again to HRK 80m in 2014 (Table 1). The constant surplus transfers are due to extremely inefficient planning, as confirmed by constant financial plan revisions. The revisions are required due to deviations from the work programme and financial plan by more than 5%¹. Regrettably, revisions occur at the end of the year (usually in November or December), when it is impossible to reallocate the surpluses to programme-related activities.

¹ Article 62, paragraph 5 of the Act on Tourist Boards and the Promotion of Croatian Tourism.

The CNTB has no single information system in place. Despite the plans to do so in 2012, the CNTB has still not established a single tourist check-in and check-out information system and the statistical processing of these data at the level of local tourist boards (TB). What has been established, however, is a system for collecting statistical information on the realised tourist turnover (the arrivals and overnight stays of domestic and foreign tourists), but not a system of keeping a list of tourists, tourist tax collection control and data processing at the level of all TBs. The lack of such an information system makes it impossible to get insight into the financial operations of all TBs and to prepare a consolidated business report.

There is no consolidated financial report for TBs. As shown by data from the Ministry of Tourism's Register, in addition to the Main Office of the CNTB, there are 296 TBs (21 in the Zagreb County and the City of Zagreb, 114 in other cities, 135 in municipalities, 15 at the town level, 10 regional TBs and one island TB - that of the island of Krk). The key problem is that, in addition to a lack of a CNTB information system, there is no consolidated income statement or a balance sheet of all TBs. The CNTB Report contains information on the Main Office only and not on TBs. For example, there is no information on the size and structure of the TBs' assets and liabilities, in particular claims for uncollected tourist taxes and membership fees. This structural deficiency is the consequence of poor financial records of TBs, and especially of inadequate coordination and cooperation among relevant institutions (CNTB, local TBs, Ministry of Tourism and Tax Administration). The data provided by the State Audit Office (which in 2014 conducted a financial audit of efficiency of TBs for 2012-13) give an insight into the overall budget of TBs. In 2013, TBs generated total revenues of HRK 785m and produced a surplus in the amount of HRK 70m (Table 2). The overall business results of all TBs were positive, with the bulk of revenues coming from tourist taxes, membership fees and donations. On the expenditure side, material expenditures and expenditures for employees predominated, making up about 70% of total expenditures).

Irregularities in the accounting operations. TBs are obliged to set up business books and keep accounts in line with the Regulation on Accounting of Non-profit Organisations. The State Audit Office has found weaknesses in the recording of business events in business books, deficiencies in the list of assets and liabilities and in the reconciliation between the book balance and the actual balance established in the list. Some business events have not been recorded on the basis of authentic, valid, verified and previously checked bookkeeping documents, or recorded according to accounts from the chart of accounts. Part of the assets has neither been recorded in business books nor stated in financial statements, etc. All this shows that there are serious structural problems with the records, organisation and financial operations of TBs which have an annual cash flow of about HRK 780m. And that is not all.

The existing system of monitoring and collecting tourist membership fees is inefficient. The activities related to the record-keeping, calculation and collection of membership fees from legal and natural persons are carried out by the Tax Administration, pursuant to the Act on Tourist Board Membership Fees.² The audit has found that the Tax Administration does not provide data to TBs in the manner prescribed by the Act. The TBs do not keep records of their members, claims for membership fees or measures taken to collect them. The Tax Administration only submits annual data on the total number of members liable to pay the fees, on the calculation and collection of the fees from legal and natural persons, as well as on collections for previous periods to the TBs in municipalities and cities, instead of submitting them on a monthly basis.

Tourist boards have no efficient tourist tax collection systems in place. In early 2012, claims for uncollected tourist taxes stood at HRK 26.9m. TBs have taken various measures to solve this problem: they entered into payment agreements, instituted pre-bankruptcy settlement and enforcement proceedings and tried to collect tourist tax receivables by converting the claims into stakes in the equity capital of the companies participating in a pre-bankruptcy settlement. According to the 2012 audit findings, TBs failed to record their tourist tax claims in the business books and state them in their financial statements, whereas some TBs failed to keep lists of persons subject to registration and to take

² The membership fee is the joint revenue of TBs, distributed, pursuant to legal provisions, among the TBs in cities and municipalities, county TBs and the CNTB. Prior to the distribution among the TBs, 3% of the collected fees is paid to the Tax Administration (for the costs of record-keeping, calculating and collecting the fees, including the submission of data), whereas 7.5 % is paid to a special account of the CNTB. The remaining funds (currently 100%) are allocated as follows: 65% to the TBs in cities or municipalities, 25% to the CNTB and 10% to county TBs. After the total distribution, a tourist board receives 58.2% of the collected fees.

measures to collect their tourist tax receivables. It should be noted that the supervision of the tourist tax collection was carried out by the State Inspectorate until the end of 2013, and since 2014, it has been within the competence of the Ministry of Finance, Customs Administration.

There is a need for improvements in the work of tourist boards. The Tax Administration is required to submit to the TBs monthly records on the calculation and collection of membership fees. The TBs should establish the records of their members and membership fee payments and receivables, with a view to monitoring the collection, i.e. receivables from membership fees, and, in cooperation with the Tax Administration, they should take measures to step up the collection efficiency. The TBs should set up uniform computer records of tourist tax receivables and state these receivables in their financial statements. A step in the right direction should also be to promote cooperation and coordination among the Ministry of Tourism, CNTB and TBs in local self-government units, as well as the Tax Administration.

The CNTB must adopt efficiency measures to compare the results of their activities with invested funds. With the help of an information system to be established, the CNTB should coordinate the operations of local TBs and the financing of their programme activities. Both the CNTB and all the TBs should be subject to public procurement regulations. The CNTB should state the costs of its foreign representative offices for both the current year and the previous five years. The same should apply for promotion and marketing programme costs (which are highly variable). An obligation should be imposed to prepare three-year budget plans in compliance with the Government's Economic and Fiscal Policy Guidelines.

The Ministry of Finance has helped improve the transparency of operations of tourist boards. The CNTB and TBs in local self-government units submit their annual financial statements to the Ministry of Finance, State Audit Office and the Financial Agency. As from 2015, the TBs' financial statements have been publicly available in the [register of non-profit organisations](#) on the website of the Ministry of Finance of the Republic of Croatia.

Croatia is a tourist destination. The financial performance of tourism industry can certainly be influenced by the activities of the CNTB, TBs and relevant ministries. Regrettably, the results of programme activities of the CNTB and local TBs have not been presented to Parliament and the Government, as their financial impact on tourism development cannot be measured. There are no business indicators for TBs, neither is there an obligation to prepare multiple-year plans. TBs have poor record-keeping and revenue collection systems, and the records of business events in their business books are underdeveloped. As shown by the CNTB's financial statements (2012-2014) and the State Audit Office findings, the TBs network is not organisationally connected and is poorly coordinated. Given the inability to establish the financial performance and get an insight into the assets and liabilities, it can be concluded that the TB system is burdened with structural problems which hamper the development of tourism in Croatia.

Table 1. Revenues and expenditures of the CNTB, 2012-14 (in million HRK)

	2012	2013	2014
Tourist tax	101.6	104.0	107.6
Membership fees	57.0	61.9	63.0
National budget	89.0	89.0	80.8
Other revenues	9.1	6.8	8.2
Revenues transferred from previous year	6.7	31.0	91.8
A. Total revenues	263.4	292.7	351.4
Product improvement	14.6		
Marketing infrastructure	2.5		
Communication tactics	43.9		
Advertising	102.3		
Offices, representative offices and branches	48.7		
Internal marketing	2.7		
Supervision and training	0.9		
Communication of values		98.4	
Distribution and sale of values		25.4	

Marketing infrastructure	3.8		
Value design	5.2		
Internal marketing	3.8		
Financial support to underdeveloped tourist areas	10.1		
Administrative expenses	50.6		16.1
Other	3.6		3.1
Development of supply and destination management			25.0
Strategic planning and marketing			146.3
Public relations			10.9
Sales promotion			32.0
Representative offices abroad			37.9
B. Total expenditure	215.7	200.9	271.4
Surplus/deficit (A-B)	47.7	91.8	80.0

Source: Annual Financial Statements of the GNTB, 2012-14.

Table 2. Revenues and expenditures of all tourist boards in Croatia, 2012-13 (in million HRK)

	2012	2013
Revenues from membership fees	183	200
Revenues from sojourn taxes	367	378
Revenues from donations	167	144
Revenues from the sale of goods and services	7	8
Other revenues	27	55
A. Total revenues	751	785
Expenditures for employees	107	110
Material expenditures	458	438
Financial expenditures	13	10
Donations	90	91
Other expenditures	55	63
B. Total expenditures	724	711
Surplus/deficit (A-B)	28	74

Source: State Audit Office, 2014.