

Corporate governance, current regulation in the Czech Republic, publication of information about emergency situations

Robert Jurka¹, Jaroslava Roubíčková²

¹ University of Economics, Prague
Faculty of Finance and Accounting, Department of Financial Accounting and Auditing
Winston Churchill Sq 1938/4, 13067 Prague, Czech Republic
E-mail: robert.jurka@vse.cz

² University of Economics, Prague
Faculty of Finance and Accounting, Department of Financial Accounting and Auditing
Winston Churchill Sq 1938/4, 13067 Prague, Czech Republic
E-mail: jaroslava.roubickova@vse.cz

Abstract: This piece deals with the issue related to corporate governance, namely in two ways. First, it deals with changes in legislative and other fields governing the given topic in the Czech Republic between 2019 and 2020. At the same time, a very current topic is included here, namely the emergency situation with the consequences of a global pandemic of COVID-19 and the reaction of companies' management to the measures taken in relation to the impact on further development of their activities (going concern).

Keywords: *corporate governance, corporate governance manual, best practice, annual report, covid-19*

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1 Introduction

Corporate governance and compliance strive for responsible, qualified, and transparent business management, which focuses on the long-term success of the company and the protection of interests of the groups involved. Corporate governance is a system by which the company is managed and controlled. It defines the distribution of rights and obligations between the company's parties involved such as shareholders, executive management, the company's bodies, employees, and customers. Source: 2019 annual report of Skoda Auto, a.s).

A published annual report should include transparent information. The annual report is a reflection of each company. Each year, individual companies present the results of their activities and other important information there. The annual reports, thus, include data related to the administration and management of the company. Source: Jurka (2018), https://insis.vse.cz/auth/zp/zp_portal.pl?zp=35447;;historie=1;historie=1;vedouci=128

The aim of this piece is to get acquainted with the current situation in the business environment, in the regulation of corporate governance, in published information in the Czech Republic and the impact of emergency measures in relation to COVID-19 in the conditions between 2019 and the end of July 2020.

2 Methodology and Data

Available resources related to the preparation of the handbook for corporate governance in the Czech Republic constituted the object of examination. An exceptional event in the

first quarter of 2020 comprised the emergency situation caused by the global pandemic of COVID-19 and these circumstances required subsequent measures, which should have been accepted and published.

Impacts of COVID-19 should have been described by the management of the accounting unit in the annual report at least in the part relating to the facts which occurred only after the balance sheet date and constitute a mandatory requirement of the annual report pursuant to Section 21 (2)(a) of Act No. 563/1991 Coll., on Accounting, as amended (hereinafter referred to as 'AoA'). These requirements were published in the Recommendation of the Chamber of Auditors of the Czech Republic for auditors when issuing auditor's reports for financial statements for the financial year ending 31 December 2019 and later in relation to COVID-19 in the Czech Republic. Source: (<https://www.kacr.cz/covid-191>).

Published and audited data from the companies' annual reports for the period of 2019 available by the end of July 2020 were assessed as transparent by random selection. This concerned companies with different scope of activities, i.e., production and assembly of car parts and accessories; production of motor vehicle parts; assembly, repairs and reconstruction of cooling equipment and heating pumps; production of keyboard instruments, intermediation of business activities and services, purchase of goods for the purposes of its further resale and sale; purchase of goods for the purposes of its further resale and sale in the field of industrial fertilizers, agrochemicals, agricultural products and materials for chemical production and further holding of investments; services of land check-in of travellers, air planes, cargo and mail for additional airlines; insurance services; ensuring of congresses, symposia, trade fairs, exhibitions and other social events, ensuring of artistic and cultural events, hospitality activities, lease of immovables, flats and non-residential premises.

The data analysed comprise initial information on the expected development. What the reality and consequences are for the further development of the global economy and the activities of individual companies, will be significantly under the influence of the current situation.

3 Results and Discussion

3.1 Corporate governance changes in the Czech Republic during 2019 and part of 2020

Neither last year nor this year there were many legislative changes or other changes concerning the issue of corporate governance in the Czech Republic. For the purposes of the article, we have selected two areas that deserve increased attention – preparation of corporate governance manual and new remuneration policy.

3.1.1 Corporate governance manual

The Czech Institute of Directors is an independent non-profit organisation founded in 1998. It deals with corporate corporate governance, for corporations. It strives to promote worldwide proven standards – Best Practice – of corporate governance in the Czech Republic. Based on Mrs. Monika Zahálková, executive director, the Czech Institute of Directors will work during 2021 on a manual that will help companies with better orientation of corporate governance and changes that will be brought not only by the amendment of business corporations regulation. This manual will be not only for owners or shareholders, but also for management and members of elected bodies. The manual should, e.g., provide answers to questions related to:

- what agenda the supervisory board should have;
- how to set up relations between the Board of Directors and the Supervisory Board.

It is expected that this manual will be released during the second half of 2020.

Source: https://mailchi.mp/4a040405edce/cjn_2_2019-1074841.

3.1.2 New remuneration policy

On 22 August 2019, it was published in the Czech Collection of Laws under No. 204/2019 Coll. a law amending certain laws in connection with the promotion of the exercise of shareholders' rights. In this connection new rules for the remuneration policy of members of boards of directors, supervisory or administrative boards, members of top management were introduced. Companies whose shares are publicly traded on stock exchanges will have to draw up a policy for the remuneration of members of the company's elected bodies and publish reports on the remuneration of individual members of the company's bodies (the remuneration policy will need to include e.g. all information on both fixed and variable components of remuneration).

If the company's management does not submit a remuneration policy to the General Meeting for approval, then the members of the Board of Directors, or the Board of Directors, will perform their functions free of charge.

The remuneration policy will be submitted by management for approval whenever there is a material change or at least every four years. If approved by the general meeting, the company will have to publish it on its website and keep it there for the entire time it will apply it.

Companies will also have to prepare a clear and comprehensible report on all remuneration received by members of selected bodies and publish it on the internet. Source: <https://www.zlato.cz/z-domova/firmy-akciemi-trhu-budou-muset-mit-zasady-odmenovani/>.

3.2 COVID-19 and published information

In companies where the scope of activities comprise activities that are not significantly affected by COVID-19, as a general rule, the description is in the following form in the annual report in the same way as in the attachment to the financial statement. By selection, the published information is attached from the sample of selected companies.

3.2.1 After the financial statement date, there were no significant events that would materially affect the amount of assets, liabilities, financial situation, and economic results as of 31 December 2019.

The company's management is closely monitoring the situation related to COVID-19 and seeks ways to minimise the impact of this pandemic on the company's activities. Nevertheless, the company was forced to suspend production in the months of March and April 2020.

Management of the company considered the potential impacts of COVID-19 on its activities and conducting business and concluded that they do not have a significant impact on the assumption of unlimited term of the business. Given this fact the financial statement as of 31 December 2019 was prepared provided that the company continues to be able to pursue its activities.

Source: <https://or.justice.cz/ias/ui/vypis-sl-firma?subjektId=472955>.

3.2.2 For 2020, we expect the continuation of uncertainty in our sector in Europe, which is supported by the Covid-19 situation. In accordance with the mentioned priority of the health protection of our employees, we have implemented all available protective measures in a timely manner and thus ensured the continuation of production without significant restrictions. For this reason, we continue to adapt to the seasonality of customer demand, increasing productivity in the areas of purchasing and manufacturing and purchasing, and we also continue to modernise our production processes through investments in production automation.

Source: <https://or.justice.cz/ias/ui/vypis-sl-firma?subjektId=578476>

3.2.3 As the situation is unstable and develops rapidly, it is not possible to estimate the potential impact on the company. The potential impact of the epidemic on the company's macroeconomic forecasts, position, and results will be taken into account in 2020. This situation does not affect the fact that the company will continue to operate as an undertaking with an unlimited term.

Source: <https://or.justice.cz/ias/ui/vypis-sl-firma?subjektId=525681>

3.2.4 In the context of the current situation of the spread of COVID-19 infection and related negative impacts on the air transport sector, there is a high risk of decrease in revenues compared to the planned estimates. Following the declaration of a state of emergency by the government of the Czech Republic and the related restrictions on the travel of Czech citizens abroad and foreign citizens to the Czech Republic, the activities of a number of airlines operating flights from/to Prague were restricted. Management of the company reacts flexibly to the situation that occurred by cost-saving measures in order to minimise the impact on the company's economic activities. However, should the situation that has occurred last for a longer period of time, it is likely to have a negative impact on the economic result of the current year. The company considers the outbreak of this pandemic to be a follow-up event that does not lead to the adjustment of accounting reports. Any impact on macroeconomic forecasts, our position and results will be included in the provisions and reserves in the 2020 period.

Source: <https://or.justice.cz/ias/ui/vypis-sl-firma?subjektId=699478>

3.2.5 Komerční pojišťovna has implemented a number of measures to ensure proper operation in accordance with prepared operational risk management procedures and business continuity plans. Measures include quarantine rules and working from home.

The company seeks to simplify processes of winding-up, negotiation, communication with clients and other necessary activities to maintain the company's continued duration, knowing that no regulatory requirements on the part of the company towards our clients may be violated. Furthermore, the company regularly informs clients of any measures affecting them (e.g. restrictions on the availability of branches of the insurance company or restrictions on the operation of the client service). As the current situation limits the possibilities of negotiating a new deal, we are preparing a portal for clients and other solutions (including allowing contracts to be negotiated remotely) that would reduce such an impact.

The insurance company currently ensures all its operational activities. The economic impacts will depend on the intensity and duration of the epidemic phase of the spread of the corona virus that causes COVID-19 disease. The slowdown in economic activity is expected to lead to lower numbers of newly concluded insurance contracts, as well as increases in insurance claims.

Source: <https://or.justice.cz/ias/ui/vypis-sl-detail?dokument=61736027&subjektId=467120&spis=75898>

3.2.6 At the time of publication of the financial statements, management experienced a significant decrease in sales, which it assesses as temporary. A crisis crew has been established and an emergency plan has been agreed, including emergency measures to ensure the minimised operation of all our buildings and energy facilities. The congress tourism and hotel industry sectors are completely subdued in the Czech Republic at the moment. The company realises its business activities only in the area of long-term leases of office space and rental of parking lots. The business partners, who insist on cancelling their events, are refunded the advance payments provided.

The Company's management considered impacts of COVID-19 on its activities and business and concluded that it is currently unable to reliably quantify, in particular, when the conditions for starting a standard business will be created. For this reason, a crisis variant of the outlook has been prepared, in which the operation of our facilities will no longer be restored in 2020 and the start-up of the hotel and congress activity is planned for 2021. Even if, under this crisis scenario, the company loses up to 80% of its revenues for 2020, the management finds that the situation arisen does not have a significant impact on the assumption of the continuous duration of the company.

Source: <https://or.justice.cz/ias/ui/vypis-sl-firma?subjektId=577953>

Conclusions

On one hand, the results of the data analysed confirm the state of regulation in the field of corporate governance and the impact of complete emergency measures in response to the COVID-19 pandemic in 2020 and related measures to maintain the assumption of going concern in the activities of companies. It will be interesting to continuously assess the impact of the adopted and published proposals for emergency action procedures and what the shift is in corporate governance regulation in the Czech Republic after the 2020 financial year.

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