

Financial Reporting of SOEs in Korea


Sung-Jin Park
Yonsei University

2024.12.4



PULSAR Program is co-funded by:

 Federal Ministry
Republic of Austria
Finance

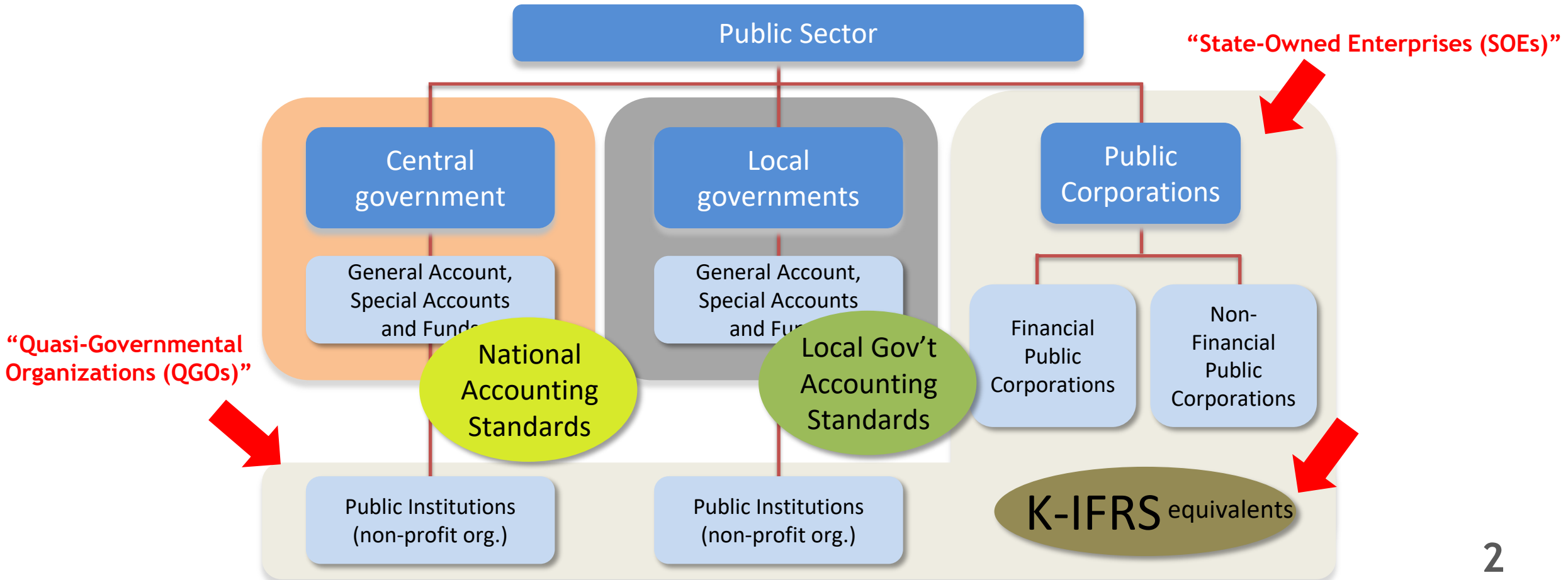
 Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

1. Financial Reporting of Public Sector Entities in Korea

State-Owned Enterprises and other Public Institutions



1.1 Ownership and Control of Public Sector Entities in Korea



← Public Nature
Private/Corporate Nature →

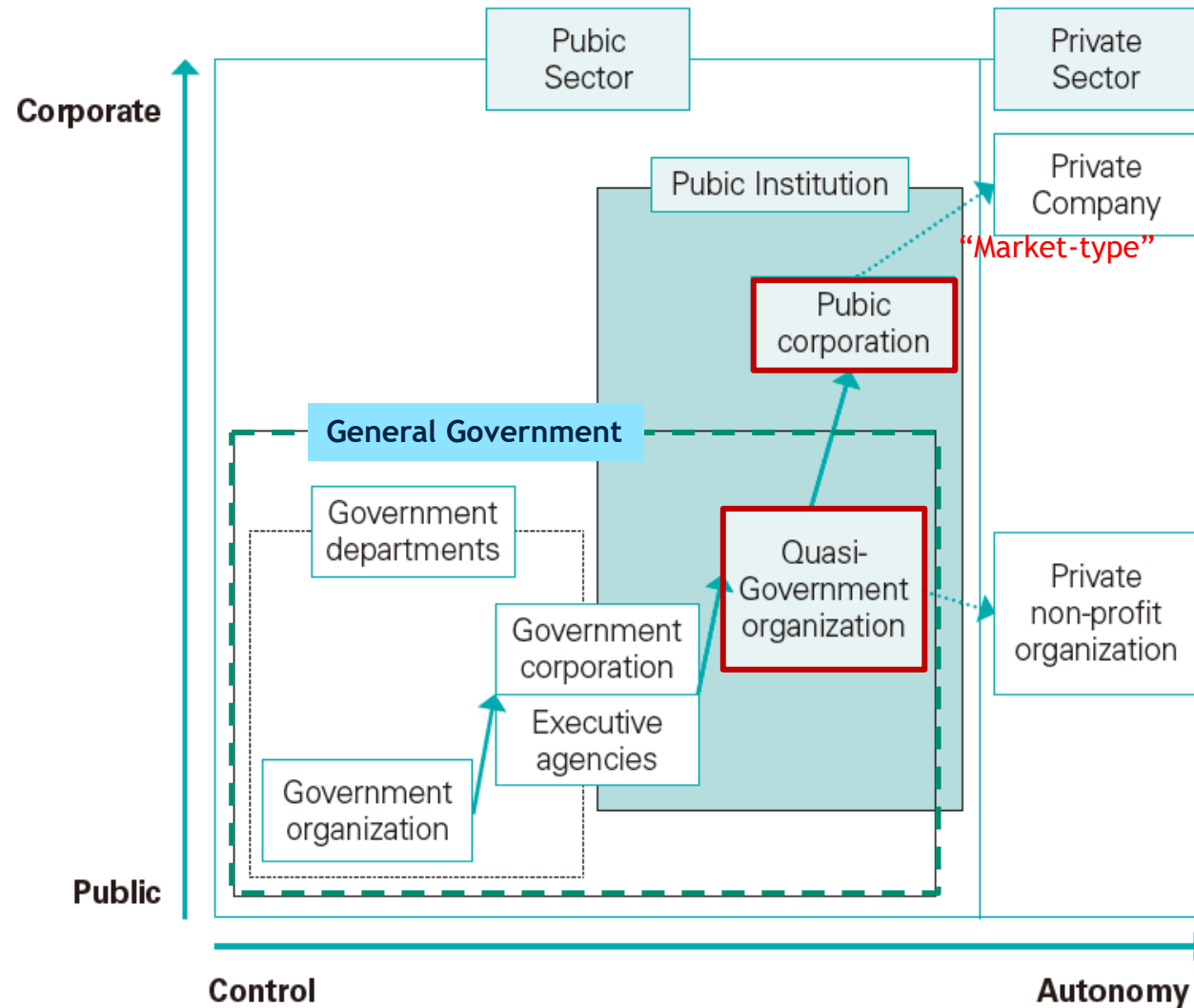
| Public sector | | | | | | Private sector | | | | |
|---|--|--|---------------------------------------|--------------------------------|---------------------------|--|-------------------------------|---|--|----------------------|
| Government sector | | | SOEs and QGOs | | | | Nonprofit sector | Profit sector | | |
| Government ministries (government enterprises) | Executive agencies | | Government-funded research institutes | QGOs | | SOEs | | Nongovernmental organizations (NGO) | Nonprofit organizations (NPO) | Private corporations |
| | Administration-type agencies | Corporate-type institutions (government enterprises) | | Commissioned-service-type QGOs | Fund-management-type QGOs | Quasi-market-type SOEs | Market-type SOEs | | | |
| MOEF | National Museum of Modern and Contemporary Art | National Police Hospital | KDI | KOTRA | National Pension Service | Korea Minting and Security Printing Corporation (KOMSCO) | Korea Gas Corporation (KOGAS) | People's Solidarity for Participatory Democracy | Korea Chamber of Commerce and Industry | |
| Korea Postal Service | | | | | | | | | | |

1.2 Classification of SOEs and QGOs



| Type | | Classification Criteria |
|---|---|--|
| (1) Public Corporations | | Public institutions <u>designated by the MOEF</u> with 300 employees, 20 billion KRW revenues, and 3 billion KRW assets or more |
| | | Self-generating revenue accounts for at least 50% of total revenue |
| | • Market-type public corporations | Asset size of 2 trillion KRW or more |
| | | Self-generating revenue accounts for at least 85% of total revenue |
| | • Quasi Market-type public corporations | Public Corp other than Market-type |
| (2) Quasi-Governmental Organizations | | Other public institutions with 300 employees, 20 billion KRW revenues, and 3 billion KRW assets or more |
| | | Self-generating revenue accounts for less than 50% of total revenue |
| | • Fund Management-type | Manage (or commissioned to manage) funds in accordance with the National Finance Act |
| | • Commissioned Service-type | QGOs other than Fund Management-type |
| Non-Classified Public Institutions | | Publicly funded by neither SOEs nor QGOs |

1.3 General Government Sector (GGS) vs. SOEs and QGOs in Korea



Classification and Ownership: Example



| | Conditions | Examples | | Shareholders | Ownership percentage |
|---|---|--|----------------------------------|----------------------------------|----------------------|
| 1 | An institution directly established pursuant to another Act with an investment by the Government. | Korea Credit Guarantee Fund, Korea Transportation Safety Authority, etc. | Incheon Port Authority | Ministry of Economy and Finance | 59.51% |
| 2 | An institution for which the amount of the Government grants (in cases of an institution to whom some affairs of the Government are directly commissioned, or a monopoly is granted, pursuant to statutes, the revenue earned from its commissioned affairs or monopoly shall be included; hereinafter the same shall apply) exceeds one-half of the amount of its total revenue. | Korea Gas Corporation, Korea Racing Authority, etc. | | Ministry of Oceans and Fisheries | 21.16% |
| | | | | Korea Ocean Business Corporation | 12.69% |
| | | | | Korea Development Bank | 3.32% |
| | | | | Export-Import Bank of Korea | 3.32% |
| 3 | An institution which <u>the Government holds at least 50/100 of the outstanding shares of, or secures de facto control over decision-making on policies through the exercise, etc. of the power to appoint executive officers with at least 30/100 of such outstanding shares</u> | Incheon Port Authority, Korea Tourism Organization, etc. | Korea Electric Power Corporation | Korean Government | 18.20% |
| 4 | An institution which the Government together with an institution falling under any of subparagraphs 1 through 3 hold at least <u>50/100 of the outstanding shares of, or secure de facto control over decision-making on policies through the exercise etc. of the power to appoint executive officers with at least thirty percent of such outstanding shares.</u> | Korea Electric Power Corporation, Korea District Heating Corporation, etc. | | Korea Development Bank | 32.90% |
| | | | | National Pension Service | 7.06% |
| | | | | Foreigner | 13.86% |
| 5 | An institution which a single institution, or two or more institutions, falling under any of subparagraphs 1 through 4, hold at least 50/100 of the outstanding shares of, or secure de facto control over decision-making on policies through the exercise, etc. of the power to appoint executive officers with at least 30/100 of such outstanding shares. | Korail Retail, Korea Southern Power Co, Ltd., etc. | Others | 27.98% | |

As of December 31, 2022

One Reporting Issue at Stake:

How to conduct consolidated financial reporting of SOEs and QGOs with “Control”

1.4 Budget and Accounting of SOEs and QGOs: Per AMPI



ACT ON THE MANAGEMENT OF PUBLIC INSTITUTIONS (AMPI)

SECTION 4 Budget and Accounting

Article 39 (Accounting Principles, etc.) (1) The accounting of a public corporation and a quasi-governmental institution **shall be based on accruals** to clearly show business performance and increases, decreases, and changes in assets.



Designed for “stewardship role” of accrual accounting (rather than decision usefulness)

1) Accounting Principles

- The accounting of public corporations and quasi-governmental institutions should be accrual-based to accurately show its business performance and the changes of assets and liabilities.
- The detailed accounting criteria should conform to the Rules for Accounting Affairs of Public Corporations and Quasi-governmental Institutions and should first be applied to the settlement of accounts for the first year of designation as public institutions and the budgets for the following year.

1.4 Budget and Accounting of SOEs and QGOs: Accounting Separation



OECD GUIDELINES ON CORPORATE GOVERNANCE OF STATE-OWNED ENTERPRISES

III. STATE-OWNED ENTERPRISES IN THE MARKETPLACE

ANNOTATIONS TO CHAPTER III: STATE-OWNED ENTERPRISES IN THE MARKETPLACE

III.C. Where SOEs carry out public service obligations, they should be transparently and specifically identified, allowing for an accurate attribution of costs and revenue.

“Where SOEs carry out public service obligations, it is particularly important to fully disclose all public service obligations, their reasoning, scope and related compensation or advantages. **A structural or accounting separation** of those activities should facilitate the process of identifying, costing and funding public service obligations accurately and transparently.”



1.4 Budget and Accounting of SOEs and QGOs: Accounting Separation



Accounting Rules of SOEs and QGOs in Korea

Accounting separation means preparing financial statements separately for each business unit with separate assets, liabilities, profits, and expenses based on financial sources and projects (commissioned by government or market-driven)

- Preparing comprehensive balance sheets after removing internal transactions between separate accounts and unrealized losses/profits

In 2016 the MOEF distributed the Accounting Separation Operation Guidelines for Public Institutions as part of the year's Budget Compilation Guidelines

- The Guidelines provided for the scope of application, division of business units, nature of businesses, information disclosure, and document quality control

An institution should ① divide itself into different business units considering the nature of each business and ② separate the accounting information among various business units

- The institution should establish the general criteria for the division of business units, prepare a draft division plan where each unit is separately identified considering its assets, liabilities, and profits, and consult with the MOEF

The Operation Guidelines require institutions to appoint an Accounting Separation Officer to ensure the accuracy of separate accounting documents and clarify where the responsibilities lie

- The head of an institution is required to designate the persons tasked with preparing, supervising, and verifying the separated accounting documents, respectively, and the person in charge of verification should be the individual heading the institution's financial department

Budgeting and Accounting of SOEs and QGOs: In General



2) Budget Compilation

- The budget proposal of each public institution for the following fiscal year should separately be compiled for its general provisions, the estimated income statement, the estimated balance sheet, and the financial plan.
 - The budget bill should be prepared in accordance with the business goals and the Guidelines for Budget Compilation of Public corporations and Quasi-governmental institutions and the head of the institution should submit the bill to the board of directors.
 - The submitted budget bill should be finalized by the resolution of the board of directors no later than the beginning of the following fiscal year before being reported to the Minister of Economy and Finance, the head of the competent ministry and the Chairperson of the Board of Audit and Inspection of Korea.
 - Once the budget is finalized, each public institution should establish its management plan accordingly.
 - Then, the public corporations among public institutions should submit the plan to the Minister of Economy and Finance and the head of the competent ministry within two months after the budget is finalized.

Budgeting and Accounting of SOEs and QGOs: In General



3) Settlement of Accounts

- Every public corporation and quasi-governmental institution should prepare statements on the settlement of accounts for the corresponding year, without delay, at the end of each fiscal year, and select an accounting firm to conduct an external audit.
- All public corporations should submit financial statements that include the opinion of an external accounting auditor and the accompanying documents to the Minister of Economy and Finance (the quasi-governmental institutions to the head of the competent ministry), no later than the last day of February of the following year, and shall finalize the settlement of accounts by obtaining the approval of the Minister no later than the last day of March.
- The finalized statements on the settlement of accounts should be submitted to the Board of Audit and Inspection of Korea, and the Board should inspect the statements and submit the results to the Minister of Economy and Finance by no later than July 31.
- The Minister should report the statement of accounts to the Cabinet Council and submit them to the National Assembly by no later than August 20.

“Performance Evaluation”

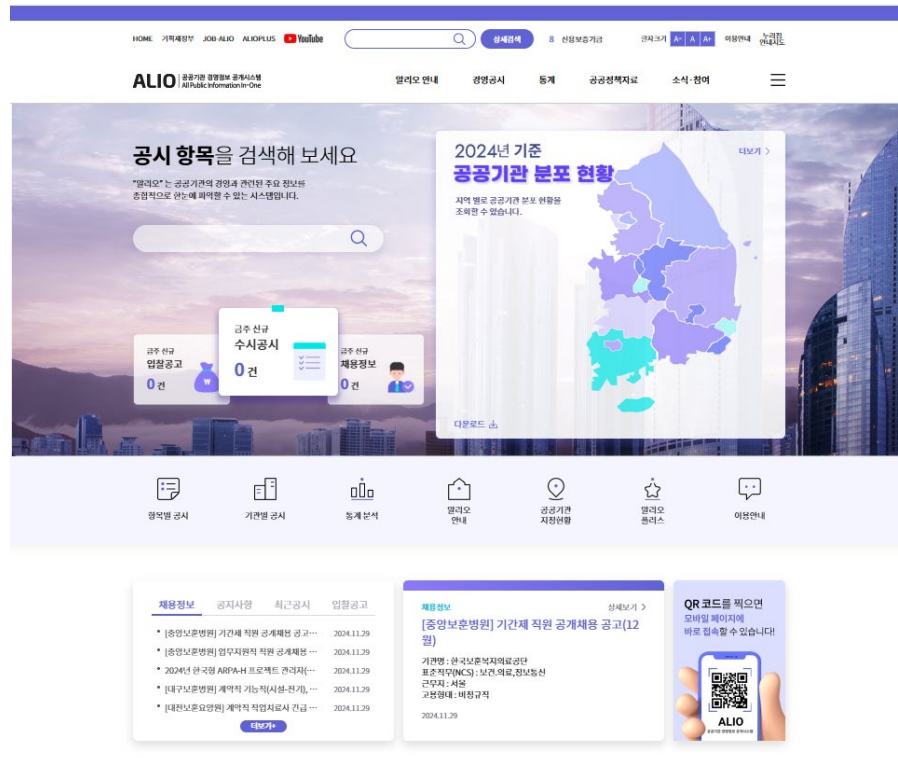
“Accountability”

1.5 Public Disclosure of SOEs and QGOs



ALIO (All Public Information in-One) - <http://alio.go.kr>

- Web-based integrated disclosure system for SOEs and QGOs
- Introduced by AMPI in 2007



1.5 Public Disclosure of SOEs and QGOs



Financial & Non-Financial Items for Disclosure through ALIO

General Operation Status (21 items)

- General information
- Recruitment status
- Expenses for fringe benefits
- Safety and information protection
- Human rights management (new)
- Board meeting minutes, etc.

➔ Management evaluation, organizational culture improvement, etc.

Financial Information (13 items)

- Condensed balanced sheet
- Condensed income statement
- Audit report
- Main business
- Investment and contribution
- Mid- to long-term financial management plans, etc.

➔ Management evaluation, organizational culture improvement, etc.

Evaluations (5 items)

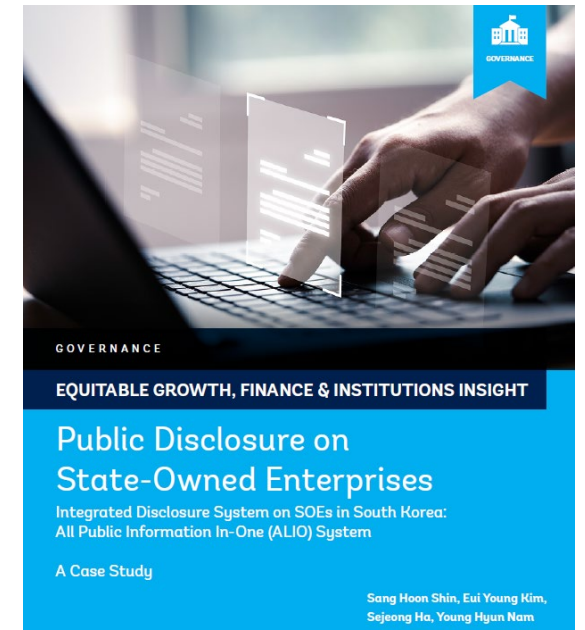
- Management evaluation
- Win-win growth evaluation (new)
- Integrity evaluation (new)
- Assembly and external evaluation
- Customer satisfaction survey

➔ Improving competitiveness and service delivery system

Information Disclosure (2 items)

- Contract information
- Research reports

➔ Contract transparency and improving the productivity of nation



1.5 Public Disclosure of SOEs and QGOs: Example



single statistic **composite statistics** Search

Institution selection (select a total of 36 detailed items)

Selection of disclosure items (Select a total of 3 detailed items) when designating up to the lowest item. Search is possible only data lookup

Select agency type

- public corporation (market type)
- Public enterprise (quasi-market type)
- Quasi-governmental institution
- Quasi-governmental agency
- Other public institutions

Choice of lead agency

- National Police Agency
- Ministry of Employment and Labor
- Fair Trade Commission
- Ministry of Science and ICT

Disclosure items

- number of employees
- New Recruitment
- executive salary
- Employee average
- Institution head business
- Employee benefits
- Operating status of other
- Safety Management
- Green Product Purchase

public tax items

detail 1

detail 2

detail 3

Green Product Purchase Performance

- Green Product

purchase performance / Green product purchase performance

- total purchase amount
- Green product purchase amount
- ratio

single statistic **composite statistics** Search **Search result 1** X

[To search again, please click the 'Search' tab.]

EXCEL Download

| NO | Institution name | organ type | Item | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | unit | Transition |
|-----|---|---------------------------------------|---|------|------|-------|-------|--------|------|-----------------|------------|
| One | Kangwon Land Co., Ltd. | public corporation (market type) | Green product purchase record > Green product purchase record > Total purchase amount | 0 | 0 | 2025 | 1,343 | 720 | - | one million won | |
| 2 | Kangwon Land Co., Ltd. | public corporation (market type) | Green product purchase record > Green product purchase record > Green product purchase amount | 0 | 0 | 1,715 | 1,163 | 324 | - | one million won | |
| 3 | Kangwon Land Co., Ltd. | public corporation (market type) | Green product purchase performance > Green product purchase performance > Ratio | 0 | 0 | 84 | 86 | -396 | - | % | |
| 58 | Korea Racing Association | Public enterprise (quasi-market type) | Green product purchase record > Green product purchase record > Total purchase amount | 0 | 0 | 5,909 | 1,541 | 2,108 | - | one million won | |
| 59 | Korea Racing Association | Public enterprise (quasi-market type) | Green product purchase record > Green product purchase record > Green product purchase amount | 0 | 0 | 5,319 | 1,369 | 801 | - | one million won | |
| 60 | Korea Racing Association | Public enterprise (quasi-market type) | Green product purchase performance > Green product purchase performance > Ratio | 0 | 0 | 90 | 88 | -1,607 | - | % | |
| 61 | Korea Broadcast Advertising Promotion Corporation | Public enterprise (quasi-market type) | Green product purchase record > Green product purchase record > Total purchase amount | 0 | 0 | 90 | 155 | 40 | - | one million won | |
| 62 | Korea Broadcast Advertising Promotion Corporation | Public enterprise (quasi-market type) | Green product purchase record > Green product purchase record > Green product purchase amount | 0 | 0 | 72 | 151 | 20 | - | one million won | |
| 63 | Korea Broadcast Advertising Promotion Corporation | Public enterprise (quasi-market type) | Green product purchase performance > Green product purchase performance > Ratio | 0 | 0 | 80 | 97 | -20 | - | % | |

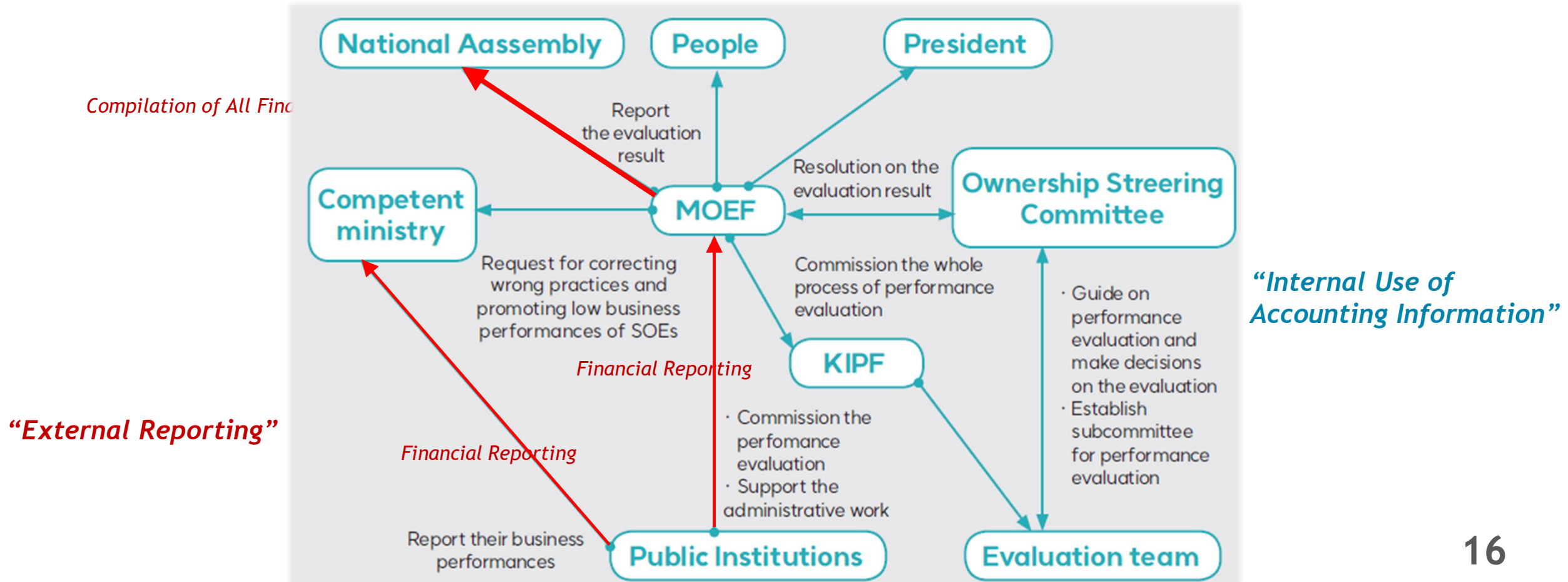
2. Annual Performance Evaluation of SOEs and QGOs in Korea

- The main purposes of the performance evaluation are as follows.
 - To improve management efficiency, accountability and motivation for goal achievement
 - To set clear targets(objectives) and to effectively deal with the principal-agent problems
 - To introduce competition and apply pressure to stimulate management innovation
 - To reflect the feedback from the evaluation results for management improvement
 - To enhance the transparency of management in public institutions

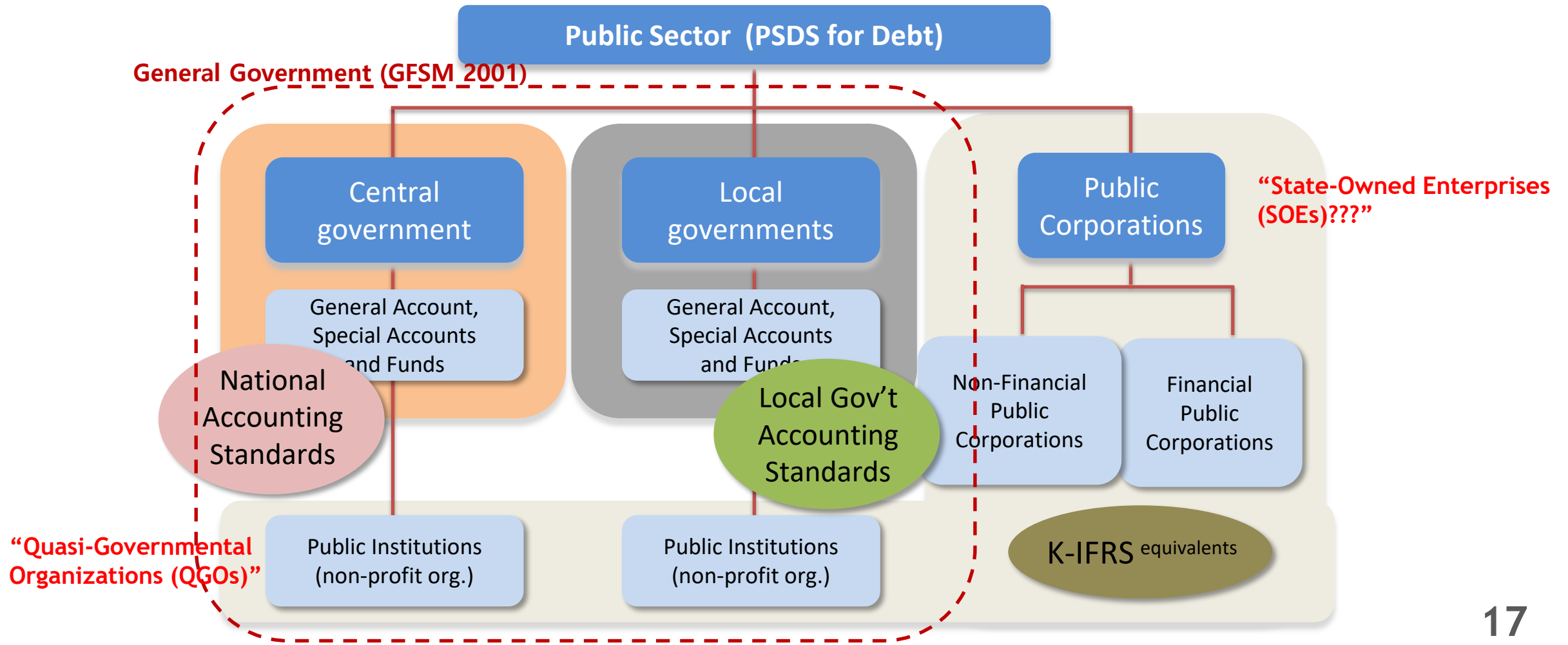
| Category | Main Indicators (weights) |
|-------------------------------|--|
| Management activities (55) | <ul style="list-style-type: none">• Business strategy & Leadership (9)• Implementation of social values (15)• Management of financial performance (20)• Management of organization and human resources (4)• Management of remuneration and employee welfare benefits (7) |
| Core business activities (45) | <ul style="list-style-type: none">• Integrated evaluation of core business plans, activities and performances (45) |
| Plus points(5) | <ul style="list-style-type: none">• Efforts and achievements in implementing innovation plans for public institutions submitted to the Ministry of Economy and Finance |

2. Annual Performance Evaluation of SOEs and QGOs in Korea

Structure of Annual Performance Evaluation



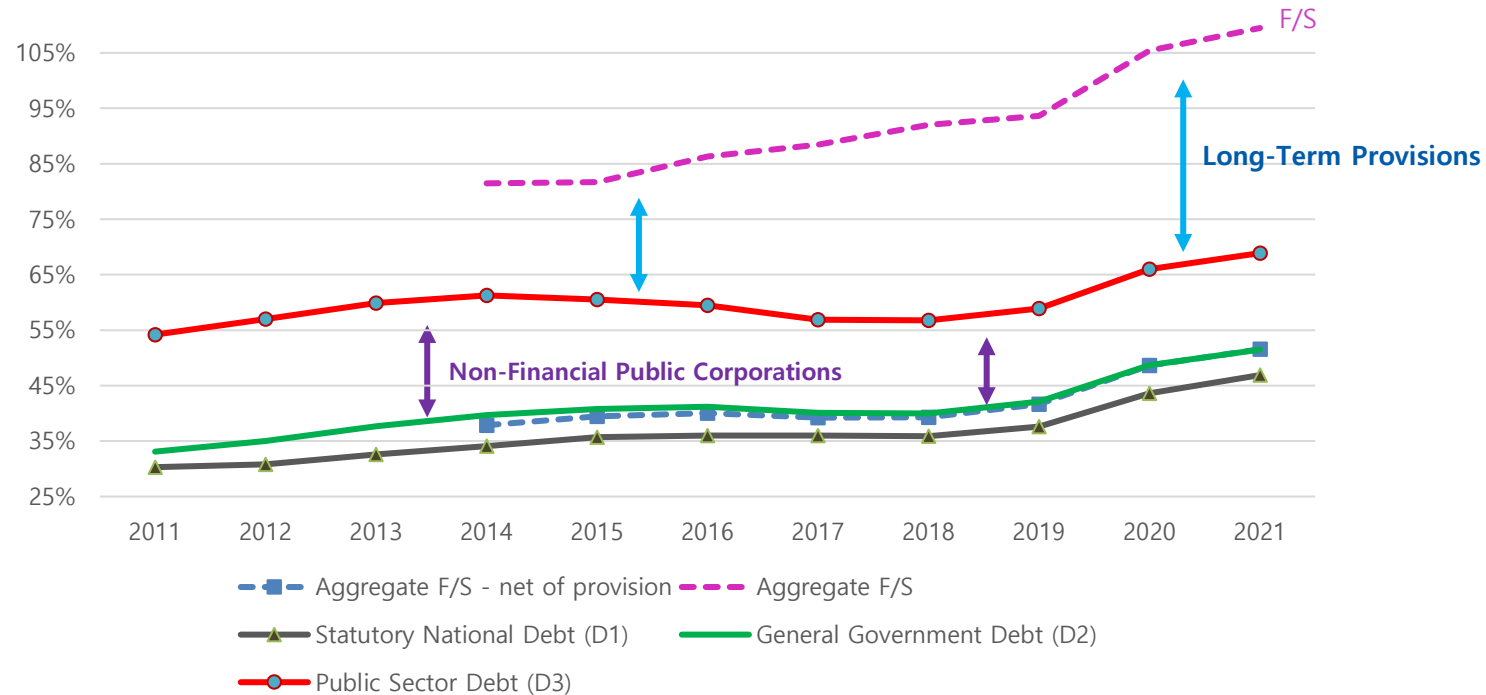
3. “Consolidation” of Financial Reports from SOEs and QGOs



3. “Consolidation” of Financial Reports from SOEs and QGOs



Public Sector Debts and Liabilities in Korea (% of GDP)



Source: openfiscaldata.go.kr & www.lofin365.go.kr & eduinfo.go.kr

“Consolidation for General Government + Consolidated Debt Information for Public Sector Entities (including SOEs and QGOs)”

- ◆ Aggregate (not consolidated) Liabilities from Financial Statements of Central Gov/Local Gov/Local Education (including QGOs)
- ◆ D1*: Statutory Debt (per National Finance Act) of National Budget and Funds (including Local External Debt)
- ◆ D2: General Government Debt per GFSM 2001 (excluding Public Corporation)
- ◆ D3: Public Sector Debt per PSDS (excluding Financial Public Corporation)
 - No Consolidated (Financial/Non-Financial) Asset Information

3. “Consolidation” of Financial Reports from SOEs and QGOs

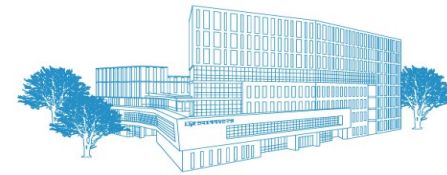


| Shareholders | Book Value of Capital (in Million KRW) | Ownership (%) |
|---|---|---------------|
| Korean Government | 584,209 | 18.20% |
| Korea Electric Power Corporation Korea Development Bank | 1,056,176 | 32.90% |
| National Pension Service | 212,195 | 6.61% |
| Foreigners | 434,635 | 13.54% |
| Others | 922,605 | 28.75% |
| As of 12/31/2023 | 3,209,820 | 100% |

| Shareholders | Book Value of Capital (in Million KRW) | Ownership (%) |
|--|---|---------------|
| Ministry of Economy and Finance | 21,844,494 | 91.30% |
| Ministry of Land, Infrastructure and Transport | 1,377,065 | 5.76% |
| Korea Development Bank | 440,000 | 1.84% |
| Ministry of Trade, Industry and Energy | 440,000 | 1.84% |
| Ministry of Oceans and Fisheries | 125,000 | 0.52% |
| Climate Response Fund | 140,000 | 0.58% |
| As of 12/31/2023 | 23,926,559 | 100% |



Enforcement Rule of
**Central Government
Accounting Standards**
September 2020



“No rules for Public Sector-Wide Consolidation of Financial Statement”



Article 32 (General Rules for Asset Measurement)

(1) The amounts of assets presented in the statement of financial position shall be determined based **on its acquisition cost**. However, the acquisition cost of bona vacantia (i.e., ownerless property), assets acquired in exchange with parties except for the central government accounting entity and assets acquired by contributions are measured at the fair value at acquisition.

3. “Consolidation” of Financial Reports from SOEs and QGOs



In search of technological solution for the lack of consolidated financial information of SOEs and QGOs by utilizing PIFRS (Public Institutions Financial Reporting System) - including Cross-Checking and Auto Error Correction functions



공공기관 결산자료 등록을 위한 로그인 화면입니다.
서비스 이용을 위해 로그인을 해주세요.

* 보안관련하여 http로 접속하신경우에 https로 접속을 부탁드립니다 아래링크를 클릭해주세요
<https://www.pifrs.go.kr>

3. 2024회계연도 결산 유의사항

라. PIFRS 시스템 전면 개편

XBRL 전면 도입, 오류 개선, 웹호환성·편의 기능 추가를 통한 사용성 개선

| As-Is | To-Be |
|---|--|
| <p>PIFRS 공공기관 결산시스템</p> <p>결산서 작성기</p> <ul style="list-style-type: none"> C/S 방식(설치형식) 수작업에 의한 오류 검증 주석 편집 기능 필요 이전 보고서 활용 불가 ⋮ XBRL 일부 서식에만 적용 <p>홈페이지</p> <ul style="list-style-type: none"> HTML4 형식 웹호환성 결여 진행 상황 확인 불가 반려요청 기능 필요 브라우저 호환성 결여 통계 기능 필요 ⋮ | <p>PIFRS 공공기관결산시스템</p> <p>결산서 작성기</p> <ul style="list-style-type: none"> Web 방식 어플리케이션 오류 검증 자동화 주석 편집의 자유도 제공 데이터 불러오기 제공 ⋮ XBRL 서식 전면 적용으로, 본문과 주석 간의 데이터 정합성 제공 <p>홈페이지</p> <ul style="list-style-type: none"> e-Gov 프레임워크 적용 웹표준-웹호환성 준수 대시보드, 모니터링 지원 승인 반려 요청 가능 지원 크로스 브라우저 지원 통계 기능 제공 ⋮ |

Kipf 한국조세재정연구원 | 21

Thank you!




CFRR >>
Centre for Financial
Reporting Reform



PULSAR Program is co-funded by:

 Federal Ministry
Republic of Austria
Finance

 Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO
