

IMPROVING THE MANAGEMENT OF THE COMPANY ESTABLISHING MECHANISMS INTERNAL CONTROL IN SERBIA

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Abstract

Countries that are in transition, the transition from one great epoch to another, changing their socio-economic structure, habits, organization, introduced the achievements that are regarded as dominant in the systems to which they aspire to join. It is clear that we are talking about countries like the Republic of Serbia by coming close to the EU. In the above transitional situations, in addition to the classic problems related to EU accession are observed and some others such as the future of globalization. They are not alone, reveals other changes such as very dynamic changes in the markets, especially in the capital markets. In such circumstances, equity holders and investors and management is needed is an opinion on the financial statements of companies which are the subject of their interest.

Investors increasingly require the best possible protection, high-quality and timely information on important events in companies, which want to eventually buy or invest in them. An opinion on the financial statements of companies are included in the audit reports. In recent decades, more and more developing various forms of control and audit in companies. They are different external audit taking place at the beginning of the year, which relate to the previous period as dominant, but it is growing from year to year and implementation of internal audits in various forms of heterogeneous enterprises.

Regardless of the form of revision of their preparation and certify qualified auditors within its scope of work. Consequently, the auditors could be viewed as intermediaries between the legal entities responsible for the issuance of the financial statements and external stakeholders. They perform their tasks independently, objectively and with a great deal of independence in their work, in order to provide the necessary information to the users of audit reports. The author highlights the importance of improving financial reporting based on internal control mechanisms, but also the importance of internal audit in all companies from the countries in transition, with special emphasis on the Republic of Serbia.

Key Words: internal audit, financial statements, management.

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1. Introduction

Countries in the context of accession to the EU must make continuous adjustment of its legal system to the current EU system. The scope of the audit (external and internal audits), generally speaking depends on the regulations of the national economy, then on the law governing accounting, and at the end of the law that frame audits. The auditor's opinion is necessary in order to ensure the credibility of financial statements. Observing I focus audit can be seen that the audit activity essentially activities related to financial statements submitted to the management in the ordinary course of business operation activities.

The revision is in essence for testing financial statements, information on the operations, business records and other documents in order to obtain a reliable opinion on the economic and financial situation of the client. [1] A number of authors audit as a process of providing a certificate of reliability of the information contained in the financial statements prepared in accordance with generally accepted accounting principles or other rules [2]. The objective of the audit of the financial statements, which are made in accordance with international accounting policies should be such as to enable the auditor's opinion on these financial statements [3].

Only a revision is intended for a wide range of users such as tax authorities, business owners, investors, governments, employees, managers, and other stakeholders. BASE is important to note that in all the audit reports should be indicated in the preparation of the audit report responsible company management, and the auditor is not to blame for the prevention or detection of fraud in companies where it conducts audits. Accordingly, the external auditor is the last line of defense, of fraud. If there is a fraud, management is responsible and obligated to fraud detected by an efficient and built internal control systems of the enterprise [4].

National laws on auditing in countries such as Croatian (which is already in the EU), Serbia (who wants to become an EU member) and others, perform continuous adjustment, so what are accepted international auditing standards to EU member states. This situation is the practical implementation of audit principles, auditing standards and the other is especially present in Serbia, especially from the second half of 2013.

All activities related to the audit should have audit plan is necessary to make timely prediction of using the work of other auditors and experts [5]. Internal audit can be viewed in two basic range. The first is with the companies in which they take place the same processes are functioning. Another scope is wide level, including observation of the wider society and the state, and includes observation of the entire public sector of a country. Depending on the desired level of system security, company size and other criteria, a number of companies formed an internal audit, as well as a separate entity.

Personnel who perform work in the company's internal controls should be continuously educated and trained, to all transactions in the course of the current work process carried out in the manner prescribed by [6]. While monitoring the internal audit should be pointed out that the professionalization of work, breaks autarchy production companies and affects the connection to a global society. [7] In times of crisis on the economy, in particular to take charge of the planning and control expenses, especially in the public sector, with the aim of obtaining the benefits of management accounting. [8] Large companies should take into account and on other matters such example. the value of bit rates and their movements in its financial statements, reporting to anything more realistic in their reports [9]. It should be noted that the assumption of the financial statements, the going concern basis, that the primary objective is that the company will continue in business for the foreseeable future [10].

Financial statements should be prepared in accordance to generally accepted accounting principles or other rules. International accounting standards envisage leaving the possibility of applying multiple methods to allow you a more equitable financial reporting of the company's assets managed by the management. One method that is mostly applied in advanced economies, estimating the entire property of the company fair value method.

Internal audit work in the enterprise can be viewed via the response to the three most common target internal audit in enterprises. The objectives of the audit internal provide answers to three key questions internal auditors should submit management:

- explain the role of internal audit in the individual enterprise,
- explain how to improve and maintain the quality of work of internal auditors and
- to compare the role of internal and external auditors, primarily by defining how each of them gather evidence within its scope of work assigned to him.

Audit principles are the basic rules of conduct of the audit profession and serve as a basis for designing audit standards. Audit principles can be presented in several fields of observation:

- such as the principle of legality,
- Ethics,
- Independence,

- Expertise and others.

2. The importance of the financial statements

Countries in transition have to accept positive solutions financial reporting developed countries and the EU. In this paper, the authors give a picture of eligible organizations preparing financial statements in Figure No. 1

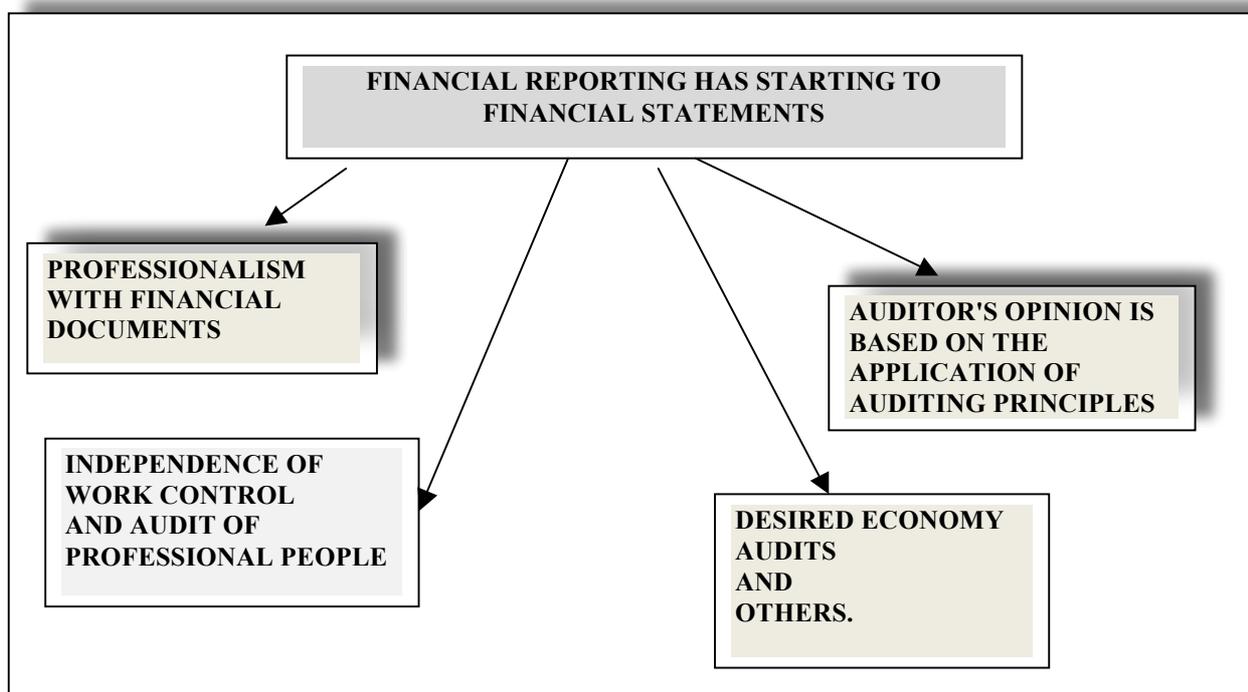


Figure 1: The preparation of the report which form the basis of further audit action

Source: *Original figure, 2015.*

Quality of internal audit depends on the application of the rules, but also from the full engagement of the auditor as well as professional work. Professionalism depends largely on the attitude and objectivity of the courts of auditors, quality considerations in the application of auditing standards, as well as from the impact and practicality of audit recommendations.

Internal audit has no role inspection. Internal audit is a necessary collaboration of employees and management in order to obtain a sufficient amount of truthful information needed to perform the duties of the audit. The best way to maintain an atmosphere of mutual trust and cooperation is that the internal audit adopt a participatory approach to their work and aims to be transparent at all times maintain professional relationships.

The auditor's professional judgment remains a basic characteristic with respect to:

- revision should be adapted to the circumstances in the audited entity and is based on an estimate of audit risk;
- provide opinions on internal controls is not the only objective of the audit in the public sector;
- to examine the structure of corporate governance in the audited entity and test performance management (performance) in the medium term should become equally important;
- audit findings should be presented in a timely report to ensure timely undertaking of appropriate actions.

3. The aim of the internal control and audit in the transition countries, with the possible organization in the Republic of Serbia

The aim of the internal control and audit is to reduce risk by prescribing the procedures that will contribute to reduce business risk to an acceptable level. The authors are exemplary illustrations of the main risks that can be displayed as a starting point for further research using inter alia the work [11], in order to systematize the basic framework of the impact on the company, modifying the cited work and adapting it to the requirements in 2015.

Table No. 1: Basic criteria possible impact on the company and the presentation of risk in Serbia

No.	The criteria for assessing the financial condition	Interval observation	Risk assessment
1	Br. given the lack of liquidity in the last 12 months	Up to 7 days	1
		From 8-30 days	2
		Over 30 days	3
2	The gearing ratios (the ratio of total loans and equity)	Less than or equal to 1	1
		from 1-2	2
		Over 2	3
3	Profitability ratios (ratio of net income and operating income)	Above 10%	1
		Between 0 and 10%	2
		Actual loss	3

Source: Copyright 2015 calculation.

The potential impact of activity on the risk management in Serbia

Apart from the general impact on the company can be affected by other important factors. Authors are given in Table 2 show some impacts that are characteristic of the activity in which companies conduct their business. This consideration is important because it reduces unnecessary risks, analyzes are easy to handle and cost effective for a short time can be detected more potential important points of risk.

Table No 2: Impacts of activities on risk assessment in Serbia

No.	Name of sectors / activities	Risk assessment
1	Public sector companies	1
2	Finance and insurance	1
3	Manufacturing	2
4	Wholesale and retail	2
5	Traffic	2
6	Mining	2
7	Agriculture	3
8	Forestry and fishing	3
9	Companies in bankruptcy	3
10	Other	3

Source: Copyright 2015 calculation.

In addition, to regulate the issue of business risk, it is necessary to take into account the values of the company, it is necessary to take into account the issues of harmonization of enterprise value [12], [13], [14], [15] and [16].

The authors point out that there is no universal model to show the effect of the size of risk on the company's operations. Especially such a model is difficult to make the transition countries like the Republic of Serbia. This work points out the importance of potentiating the risk to the company through analysis of more heterogeneous impacts. In order to analyze issues of internal control and audit in business, it is necessary to point out that the growing importance of proper management of administration will be as better organization of internal controls and internal audits.

4. Conclusion

In this paper authors tried to identify and represent only basic heterogeneous influences on business operations, with the aim to minimize the risk. The article pointed out that the activities of internal control and audit should be adapted to the circumstances, primarily those related to the subject at work be done audits. In addition to respecting "the circumstances", should take account of the audit risk to an opinion on internal control in the medium and long term optimal anything real. Audit findings should be timely and presented in an intelligible form of reporting to management and administration. This allows you to take relevant action, primarily enterprise management, and other users.

All this we can talk about it and that an effective internal control system should have the characteristics of establishing a standard measure of success achieved, should analyze and compare results achieved in relation to the standards, takes into account the program of corrective actions and reviews and revises standards. Authors are given to the public in this paper for consideration by the company with specific indicators, which is not introduced in their business internal control and auditing.

In addition to the results shown in this paper the possible risks to the company's operations, namely:

- general factors of impact
- the impact of activities.

The basic idea of the authors was to show the real risk is evaluated by the business segments of the company. It should be emphasized that the risk is very high in all segments, and the little there is only related to the activities of the public sector, which can be viewed as a monopoly of the company related to business enterprises established by the local government. Recommendation internal auditor would be to immediately introduce internal control and revision was in the company. In addition to these basic ideas that would be presented to management, the other is that after the introduction of internal audit establishment of periodic and annual monitoring and comparing the situation before and after the introduction of audit.

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