

## THE IMPORTANCE OF ESTABLISHING A LEGAL FRAMEWORK AND OTHER INTERNAL AUDIT WORK, ESPECIALLY IN THE WORK OF THE TRANSITION COUNTRIES LIKE THE REPUBLIC OF SERBIA

**SLOBODAN POPOVIĆ**

ASSISTANT PROFESSOR, INTERNAL AUDITOR,  
JKP GRADSKO ZELENILLO, SUTJESKA 2, 21000 NOVI SAD, SERBIA,  
[slobodan.popovic49@gmail.com](mailto:slobodan.popovic49@gmail.com)

**DRAGAN ĐURANOVIĆ**

ASSOCIATE PROFESSOR, UNIVERSITY OF NOVI SAD,  
FACULTY OF ECONOMICS IN SUBOTICA, SEGEDINSKI PUT 9-11, 24000 SUBOTICA,  
SERBIA,  
[gandra.dj@hotmail.com](mailto:gandra.dj@hotmail.com)

**OLJA MUNITLAK IVANOVIĆ**

SENIOR RESEARCH FELLOW INSTITUTE OF ECONOMIC SCIENCES BELGRADE  
ZMAJ JOVINA 2, 11000 BEOGRAD, SERBIA  
[oljaivanovic@eunet.rs](mailto:oljaivanovic@eunet.rs)

**RANKO MIJIĆ**

ASSISTANT PROFESSOR, COLLEGE OF ECONOMICS AND STATISTICS PRIJEDOR,  
MITROPOLITA ZIMONJIĆA BB,  
79000 PRIJEDOR, BOSNA AND HERCEGOVINA,  
[gandra.dj@hotmail.com](mailto:gandra.dj@hotmail.com)

**VRHOVAC DRAZEN**

THE HEAD OF THE BRANCH OFFICE PRIJEDOR, RS  
PENSION FUND, ZARKA ZGONJANINA 10, PRIJEDOR,  
BOSNIA AND HERZEGOVINA [drazen.vrhovac@fondpiors.org](mailto:drazen.vrhovac@fondpiors.org)

### **Abstract**

*Internal auditing the objective examination of evidence provides assurance on the adequacy and functioning of the existing processes of risk management, control and management of the organization, as well as the fact that you mentioned processes are functioning as intended, allowing achievement of the goals of the organization.*

*This allows for better functioning of any company, and it is of great importance for the functioning of the public sector especially in transition countries. In addition to the aforementioned account must be taken and to whom it is intended for internal audit. Internal audit is submitted to top management in the form of internal audit reports, but I state authorities such as the Ministry of Finance sector internal control and audit.*

*Top management if it is to achieve progress must take into account the internal audit, opinion and findings of the internal auditor, and must provide guidance in their work, which are in accordance with the legislation.*

**Keywords:** internal control, modeling, efficiency, documentation.

**Classification JEL :** M41

### **1. Introduction**

Corporate governance requires the application of new ways of management [1], which requires the existence of indirect leadership [2] way of thinking, which is primarily aimed at improving the management of the enterprises. This is particularly evident in the public sector medium-sized enterprises. Such a way of thinking and the use of solutions leadership in economy is present in the corporate system [3] developed countries, and this way the mapping and in transition economies. Thus corporate governance [4] leaves a trace, and in other parts of an organization and how, a large number of enterprises, primarily utilizing the principles corporate financial management [5], we have to acknowledge that in general a large number of heterogeneous legal entities.

Management should monitor performance to be satisfied that the activities are carried out optimally economical, efficient and effective. In this context, internal controls and internal audits [6], [7], [8], [9] should give result primarily of quality control, but these activities should be built into the system, every company that has pretensions development.

Management should establish requirements for data related to the various activities as well as their use. Relevant data can be in the form of statistics, calculus, analysis and reports, and can be prepared regularly, if the management of demands, or only in emergency situations. Data related to management are reviewed regularly to confirm that they correspond to the needs and to be used effectively. Data related to the management include measures and indicators of performance (performance) in terms of efficiency, cost-effectiveness and quality of services, which includes identifying the inputs (investment), including the costs and results (output) in relation to the objectives. The results of monitoring provide the basis for future measures and should be linked to the procedures for correcting or customizing activities.

Described in chronological flow should be reflected at the end of the financial year result in some kind of business. At the end of the financial year, companies that are in the system audit performed by external audit [11], [12], noting that the same framework that serves to reduce the large number of heterogeneous risk [13].

## 2. The importance of determining the requests for documentation internal auditor in the Republic of Serbia

The legal framework for the submission of documentation in existence of basic documents such as the Law on Budget System ("Off. Gazette of RS", no. 54/2009, 73/2010, 101/2010, 101/2011, 93/2012, 62/2013, 63/2013-corr., 108/2013, 142/2014, 68/2015-dr. law and 103/2015) [14]. In addition there must I be respected: the existence of the Rules on the common criteria for organization and standards and methodological guidelines for the conduct and reporting of internal audit in the public sector ("Off. Gazette of RS "no. 99/11 and 106/13) [15].

Table No.1. Showing framework regulating the work of internal auditors in the Republic of Serbia

Serial number	The existence of a legal framework	Where were published	Note recorded by the internal auditor
1.	Law on Budget System	"Off. Gazette of RS", Nos. 54/2009, 73/2010, 101/2010, 101/2011, 93/2012, 62/2013, 63/2013 corr., 108/2013, 142/2014, 68/2015-other. 103/2015 and law"	
2.	Regulations on common criteria for organization and standards and methodological guidelines for the conduct and reporting of internal audit in the public sector	"Off. Gazette of RS "no. 99/11 and 106/13	
3.	Internal Audit Charter companies	NO. _____ From the date when it was adopted _____ years	
4.	Authority given to the internal auditor by Directors	NO. _____ From the date when it was adopted _____ years	

Source: Authors.

It is important to emphasize that it must prescribe the time limit in which to submit the required documentation internal auditor, as well as the time limit within which an internal auditor must submit a report of what was found and what was stated in its audit report.

### 3. Practical model organization structure of internal audit in real companies in the Republic of Serbia

Starting internal audit begins by advising organizational part of the company that will execute the internal auditor internal audit, which is a subject of the audit: Public procurement of low value for the period from 01.01.2015. to 30.06.2016.

It must be noted when the audit will be carried out, namely, the internal auditor of the company, its function is to whom I will submit the findings of the internal auditor. In addition the same procedure following numbers allocated by internal audit pertaining to internal audit working papers.

The following table shows the authors give a practical example of the organization's internal audit medium enterprises, which is taken as a model of good behavior that I have grounds for the application in a number of companies in transition countries joining the EU, such as the Republic of Serbia.

Table No.2. **Only the review of public procurement which is the subject of internal audit of the company/model**

Serial number	The subject of internal auditors	Full data Internal Auditor	Whom shall submit a report of the internal auditor	period audited	Number under which internal audit leads internal audit
1.	The public procurement of low value 2015.	XX	director	01.01.2015. to 30.06.2016.	<b>RD-IR 1/09.09.2016</b>
2.	The public procurement of low value 2016.	XX	Ministry of Finance Sector for internal control and audit	01.01.2015. to 30.06.2016.	<b>RD-IR 2/09.09.2016</b>

**Source:** Authors.

The present model can be used to display the accomplishment of the tasks of the audit of the Public Procurement of low value for that period. On this occasion, it is necessary that the internal auditor submit the following documents:

- The public procurement of low value 2015.
- The public procurement of low value 2016.

All public procurement of low value 2016., noting that this review only looks at the period 01.01.2016. Until 30.06.2016., i.e. those that you begin and which formed the necessary documentation, and for which the start of the signed approval of the director of the company where they perform internal audits.

### 4. Highlight notes Internal Auditor

The internal auditor of your actions I like to work on the basis of previously adopted the Charter of Internal Audit and Authorizations, and the following is to inform you that an internal auditor to perform internal audit, and which is subject to audit, for example: public procurement of low value for the period from 01.01.2015. to 30.06.2016. The audit will carry out an internal auditor of the company, and then the states who will be provided, for example, the Ministry of Finance, the Department for internal control and internal audit, based on the displayed Powers of a given financial year, for example, signed by the Secretary of State.

In order to implement review procedures, internal auditor suggests I pointed out that it is necessary to agree regarding the terms for meetings (roughly three in September 2016), and which may optionally be present and the worker CHU of the Ministry of Finance of the Republic of Serbia.

The purpose of this meeting with you and your staff's consideration of the objectives, scope and audit procedures, as well as providing answers to the questions that you want to emphasize in particular in connection with the revision of the system. The exact time and date of the meeting will subsequently agree to comply with the obligations of the participants and was informed of the internal auditor with basic activities.

#### **4. 1. Highlighting the importance of documenting**

The importance of documentation resulting from the internal audit tasks include the recording of data and transactions that are used in business. It is necessary to establish good standards for documentation that will support the implementation of activities and ensure business continuity in case of unexpected interruption. Documentation includes storing data in electronic and other forms. The data must be available, a good system of archiving and search of documents is crucial.

Work performed by the enterprise must be sufficiently well documented to management, external auditors and other persons viewing system enables to monitor current operations and transactions, and to identify errors, misuse or poor job. Decisions, authorizations, transactions, checks and other data should be clearly documented and relevant documentation adequately guarded.

The standard documents and forms can be used to maintain the consistency of the procedures and legal requirements. Standard forms are often used to control the value of the transaction or the movement. Such documentation should be carefully designed to fulfill its purpose.

#### **4.2. Emphasizing the importance of the completeness and accuracy**

- Transactions should be mislabeled as close to "place of origin";
- transactions should be inspected at appropriate stages of processing;
- checks should be done by officers who are not involved in activities that are checked.

Common controls that confirm completeness and credibility include the following checks sequences, comparisons with appropriate documentation, control totals, mathematical check, and re-process the transaction.

#### **4.3. Physical control**

Include safeguarding the assets and data. They relate to the overall physical environment in which the system works. Basic categories include:

- Access control such as workers in the security, identification cards, passwords, computer codes;
- physical verification of assets and records, for example. Check inventory, checking security;
- controls related to environmental protection, such as thermostats, health and safety inspections;
- geographical position or place where the activities are carried out in the building, and the safekeeping of assets and documentation.

### **5. Conclusions**

Modern management require new ways of applying organization, which contain a high level of control mechanisms, and easily imposed imperatively the question of who and how will conduct an internal, control and other tasks in order to improve governance. One way is to improve the management of forming part of internal audit. This is especially important for budget users, and in the coming years in many transition countries like the Republic of Serbia is expected to increase the number of legal entities that would be practical to introduce internal audit into its working. So is essential for the mentioned countries, because they are on the road the EU should introduce a functional internal audit.

Reducing the risk at all levels of governance, the basic decisions for the introduction of internal audit. In order to carry this out must be a legal framework, which affects the reduction of risks at all levels of heterogeneous entities. In addition, it is necessary to measure the performance and functional performance with responsible behavior with the means at its disposal and manages management, particularly in the public sector, but also necessary to take into account a number of recommendations from the EU. There are a few simple things in preparing recommendations.

This is necessary because, recommendations should:

- be based on reliable information;
- relating to the causes underlying the problem, and not just the symptoms;
- accurately describe what should be done;
- propose a person who will be required to take certain measures;
- Be clear, concise and simple;

- be unambiguous;
- be achievable;
- Refer to the specific action, or any recommendations should refer to one question.

Legal provisions should be interpreted as a regular activity in all businesses, particularly in the public sector. Thus the financial management and control come to the fore and are used in heterogeneous entities, especially in the case of public enterprises of the Republic of Serbia, the results of which the authors describe in this paper.

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