



САВЕЗ РАЧУНОВОЂА И РЕВИЗОРА СРБИЈЕ

Serbian Association of Accountants and Auditors

47th SYMPOSIUM CONCLUSIONS SYMPOSIUM COMMITTEE

Traditional 47th Symposium Accounting and Business Finance in Contemporary Conditions organized by the Serbian Association of Accountants and Auditors was held May 26 to 28, 2016, in Zlatibor - titled "*Implications of Financial Reporting on the Economic Activity in the Republic of Serbia*". The Symposium was in the form of a scientific conference with international participation.

At this supreme scientific meeting of the accounting profession in Serbia, co-organized by the Faculties of Economics of the Universities in Belgrade, Nis, Kragujevac, Novi Sad and Kosovska Mitrovica, with participation of representatives of state and private universities of economic orientation, professional accountants in business, professional accountants from the public sector and accounting companies and agencies from Serbia, Republika Srpska, Montenegro, Macedonia and Bulgaria, the main issues of accounting and the accountancy profession were discussed. Competent authors presented 19 scientific papers, systematized in three thematic fields: *The reliability of financial statements for the purposes of decision-making process, Controlling as a concept of efficient management, and Quality of financial reporting in the public sector*. All the papers have been published in the magazine Accounting.

Based on the papers presented by the authors, and the discussions, the conclusions were suggested to the conference participants, and were unanimously adopted. The conclusions are listed below.

1. Analysis of the economic performance during the period 2007-2014 indicates that **the economy as a whole has been exposed to a high risk of insolvency, and consequently, of bankruptcy**. Mainly, this is the result of a lack of profitability and lack of competitiveness of the Serbian economy, which prevents significant investments and necessary growth. Low business efficiency, insufficient productive capacity, an increase in borrowing and high financial expenses are a huge problem. The lack of financial discipline has resulted in the existence of a large number of companies not meeting their obligations, thus threatening the healthy parts of the economy.



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2. The recovery of the Serbian economy implies creating a motivating business environment, structural reforms and export-oriented investments. Long-term sustainable economic growth can be provided only by a healthy economy with a high level of competitiveness. The business environment cannot be favorably assessed, if there is more than **27,000 companies in the economy with no employees**, which generate more than 28 billion of losses (21% of the total net loss of the economy in 2014), and **when only about 56% of enterprises in 2014 has shown profit**, if in a large number of companies **loss is above the level of capital**, and if **more than 50,000 accounts are blocked**.

3. The situation in the segment of financial reporting, as an important determinant of the business environment, is very disturbing. Financial reporting system, according to the current legislation provides financial statements that are not comparable in time and national frames, are not comparable at the international level, or with the relevant global and regional regulations. **More than 1/5 of companies (22.4%) do not submit (or submit incorrect) financial statements**. In today's financial reporting system, unlike any so far, **the regulator leaves room for manipulation**, thus making the possibility that the same reports differ depending on whether they are submitted for statistical purposes (which are, in sum, incomplete and inaccurate) or for other external users. The instability of financial reporting, which can be best seen from the fact that **in 20 years five Laws on Accounting have been enacted**, creates additional uncertainty for investors.

4. The essential problem is a **systematic marginalization and erosion of the accounting profession** by ignoring the need for a professional accountant to demonstrate his or her competence through mandatory certification, in compliance with international education standards. With clear authorizations and responsibilities, a competent accountant could be expected to **care about and protect all users of financial statements, including the protection of state interests** by providing quality reports. Unjustifiably biased legislation that divides the profession to the ineligible (accountancy profession, globally-recognized) and eligible (auditing profession, artificially derived from the accountancy profession) poses a serious obstacle to the achievement of the required quality. Even in the case of a perfect legislation, which is not the case, the quality cannot be achieved without professional accountants who are key to preparing and presenting quality financial statements. **Complete liberalization of the accounting services market has undermined one of the oldest professions** in the very basis of which there is the judgement competence, based on the specific knowledge, intellectual values and ethical behavior of professional accountants in practice. Such competencies are not inherent to just anyone, however, the legislation gives the right to virtually anyone to deal with such public interest matters. This is not the case in any other profession acting in the public interest, such as law, medicine and the like.

5. **It is imperative to urgently establish a quality financial reporting system** which would be theoretically founded, in compliance with international regulations, which would restore confidence in the financial statements, enable their comparability and understandability to foreign investors and finally restore credibility of the accounting profession largely undermined by unprofessional and irresponsible behavior of the regulators. This requires **a redesigning of legislative and regulatory framework of financial reporting in accordance with international standards and EU directives**, reassertion of the status of the accounting profession, appreciation of the internationally recognized status of the national professional organization, a full member of the IFAC, redefining the status, powers and responsibilities of the National Commission for

Accounting and arranging the public oversight of the accounting profession and its services in accordance with international developments.

6. In general, the state develops a need to strengthen its regulatory role, usually after the onset of major financial scandals. However, **excessive interference with the accounting profession**, especially in the absence of robust infrastructural support and due to lack of competence, may create a serious **long-term damage to the profession and to the national economy**, which is the case in Serbia. Ensuring the quality of financial reporting is imperative, but it cannot be achieved by reckless regulatory intervention, rather, by cooperating with professional organizations - members of the International Federation of Accountants and the European Federation of Accountants and independent accounting institutions that are interested in the quality of financial reporting.

7. “Grey economy” is one of the biggest enemies of the faster development of the national economy. Combating the “grey economy” would improve the business environment, which would as result, have an increase in the number of enterprises, number of employees and increase in budgeted income. Accounting, as a sort of guardian of the property and confidence, is a natural adversary of “the grey economy” Unfortunately, **national program for combating “the grey economy” does not recognize the importance of accounting and the accounting profession** in this field.

8. Application of international standards and a set of supporting regulations (which have been excluded by the latest Law on Accounting) secures investor confidence in the financial statements. Their application enables the harmonization of the national accounting reporting practice with the widely accepted international ones in order to achieve a true and fair reporting. In this context, for example, the requirements of IFRS 9 contribute to the creation of the conditions for financial system stabilization of the national economy. Its application could have an impact on the cost of capital, lending and investment policies of financial institutions and their overall lending activity. Full implementation of IAS 19 - *Employee Benefits*, the implementation of which is complex, requires harmonization of labor, pension and tax legislation with the standards’ requirements, which would bring us closer to the common international practice.

9. Financial hedging enables management to use derivatives in order to stabilize results and cash flows of the company they manage, thereby increasing its value by reducing the uncertainty and the cost of capital. This requires the creation of conditions for **transparent reporting on the consequences that hedge transactions have on the financial position of the company and its effective yield**. It is expected that the new criteria and procedures for evaluating the effectiveness of hedge transactions of the considerably more flexible approach to the inclusion of hedge transactions, contained within the IFRS 9, will stimulate more companies to adopt new hedging strategies and to apply the rules of hedge accounting. However, when applying the new model, care should be taken, because great flexibility brings a higher degree of judgment and subjectivity, which can reduce the level of reliability of the financial statements.

10. The development of communication and information technologies enable the advancement of **digital financial reporting that contributes to the business information being available to everyone, anywhere and at any time**. A key role in the process of providing this kind of reporting rests on the application of international XBRL standard for the exchange of business information. Digitization of financial reporting is manifested in a series of business and social benefits associated with the gathering, storage and exchange of financial and business information, as well as in significant cost savings. Experience shows that the most important role in the acceptance of this project is that of the state,

which should bring relevant regulations, and of professional organizations, which play an important role in the education of professional accountants. Unfortunately such a project lacks the support of the state and key stakeholders in the process of reporting.

11. The need for controlling is very pronounced in the companies in Serbia, especially if we take into account that a large number of companies have unsatisfactory profitability, insufficient operating income, unsatisfactory profit margins and low turnover, which clearly indicates that the quality of business management is at a low level. Dissemination of information supply derived from controlling should contribute to higher quality decision-making and better company results. Although the implementation of controlling in Serbia has been modest and reduced to its presence in companies with the majority of foreign capital, the encouraging fact is that the awareness has been raised on the need of controlling in most companies, and that there has been a growing need for hiring a larger number of employees who possess such skills. Its application in practice requires continuing education, whereby a great role is placed upon educational institutions and professional accounting organizations, as suggested by the international standards of education and ethics.

12. Segment information, which enables consideration of sources of income and exposure of company departments to risks, **is essential for investment analysis and decision-making by investors**, just as they are **crucial for managers in the process of managing disperse business portfolio of more complex enterprises**. A significant turning point in this area is investors' advocating of the implementation of the so-called approach management in the process of external segment reporting, as a result of their desire to see things in this area from the perspective of company managers. The problem in this field is that the new Law on Accounting has reduced the number of subjects to segment reporting, by restricting the use of "great standards" only to large companies and public companies and in addition by raising the criterion for company classification. Thus, complex business entities which are not subject to reporting according to the "great standards" are exempted from publishing such information.

13. Continuous pressure of the owners on the management in terms of creating added value in a very unstable environment influence the **controlling to be seen as a necessity, not as one possible option**. The trends surrounding controlling are business partnerships between managers and controllers, development of the so-called ecological controlling, development of the controlling of intangible assets in terms of composing the review of knowledge, managing large volumes of data, strategic analysis necessary for the development and implementation of corporate and business strategies, managing enterprise effectiveness, as well as the focus on information relevant to the capital market.

14. Controlling as a process has a significant role in the public sector, but this role is not sufficiently recognized today, resulting in its insufficient application in practice. Its character is primarily reflected in establishing the so-called second line of defense in the process of ensuring the functioning of internal financial controls in the public sector, particularly those in the financial management and control segments. Holders of the process of establishment and development of controlling must be highest level managers, relying thereby on their controllers, who must rise above the official requirement of financial reporting and focus attention to supporting management activities, in order to realize the aims of financial management and control.

15. Internal Control in the public sector should contribute to the improvement of the quality of management in the process of allocation of public resources, improvement of the efficiency of use of funds and more efficient risk management. The establishment of internal financial control in the public sector, a system developed by the European

Commission, is one of the conditions contained in the negotiation chapter 32, and harmonization in this area with the EU acquis and the relevant international standards is necessary. However, the fact is that numerous subjects to statutory audit have not established internal control and internal audit, many of them have not even provided in their taxonomies for the positions of internal control and audit, while those who have established these systems have problems in functioning. In addition, the scope of their work is mainly in the domain of ensuring compliance with the laws and regulations, and is not sufficiently focused on risk management.

16. Current organization of budgetary accounting and rules on which it relies do not meet the information requirements of the public because financial statements generated by budgetary accounting are unreliable, incomplete and incomparable, and because of the unreconciled records in the part of budget revenues and expenditures between the responsible entity, namely the Ministry of Finance, and other budget users. **The main cause of insufficient quality of financial reporting in budgetary accounting, is the existing legal framework and ignoring the significance of professional regulation.** Key problems are unreconciled records, lack of uniformity of recording transactions, inconsistent application of accounting policies or their absence, as well as inadequate systems of internal control and financial management. A separate problem is discrepancy between laws and bylaws, and the fact that none of the legal and sub-legal acts precisely define the responsibility for unreliable reports.

17. Application of the program-based budgeting model enables efficient measuring of the public sector performance. For this purpose, cash-based financial reporting must give way to the application of IPSASs with the full implementation of accrual basis of accounting. Thus, relevant information would be provided for measuring performance, and also comparable information for controlling the execution of specific programs and projects.


18. Financial reporting of health care institutions, as well as with all other budget users, is characterized by inconsistency, inaccuracy and lack of harmonization of national regulations. This suggests that in this area convergence is required between national regulation and international legislation, which in turn implies a shift from cash to accrual basis of accounting. Achieving the required quality of financial reporting in this area **requires adequate education of professional accountants in the public sector, which is much cheaper than the costs incurred as a result of the low quality financial reporting.**

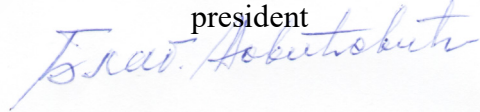
19. Taking into account all the above mentioned, **it is necessary to conduct an urgent reform of the financial reporting system in the public sector**, or to change the existing legislative framework governing the budgetary accounting. In this context, it is necessary to standardize and harmonize financial reporting through the application of the international public sector accounting standards, to organize transparent accrual-based budgetary accounting, arrange accounting records in terms of ensuring completeness and reliability, and fully recognize and promote the role and responsibilities of professional accountants.

In order to standardize the accounting of the real and the public sectors, we support the earlier initiatives No. 161, dated December 13, 2012, for the regulation of financial reporting system by the Serbian Association of Accountants and Auditors (SAAA) submitted to the Ministry of Finance, which is supported by: the state faculties of economics, private universities and higher education schools of economic orientations, economic associations and other professional associations. The initiative was published in the journal "Voice of accountants", No. 21 and 22 in 2013, which was submitted to relevant

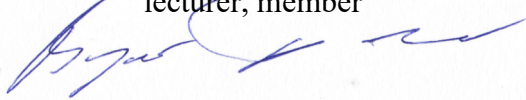
regulatory authorities and other entities interested in the quality of financial statements, and is attached to the Conclusions of the 47th Symposium of the SAAA.

Conclusions Committee


Dejan Malinic, PhD, University lecturer,
president

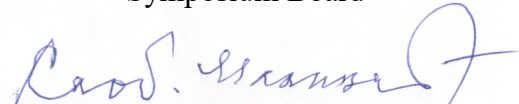


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