



## САВЕЗ РАЧУНОВОЂА И РЕВИЗОРА СРБИЈЕ

Serbian Association of Accountants and Auditors

### How to reduce fraud and protect investors and creditors with special reference to the Law on Accounting and the quality of financial statements in Serbia

ROUND TABLE DEBATE, BELGRADE, October 7, 2014

*Serbian Association of Accountants and Auditors (SAAA)*, as a full member of the International Federation of Accountants (IFAC) and European Federation of Accountants (FEE), along with the membership of several thousand professional accountants and auditors, organized this round table on the new and newest accounting regulations and their negative effect on the investment environment, and economic growth, as well as on the dramatic increase of burden on the economy. Representatives of the Ministry of Finance, Ministry of Economy, National Bank of Serbia, Tax Administration, faculties of economics, associations of internal auditors, sections of auditors, Institute of accounting and auditing, representatives of business, representatives of the Association of Providers of Accounting Services, and other representatives of the professional and general public, were invited to this event. The round table was not attended by the representatives of the relevant ministries.

#### VIEWS OF ORGANIZERS AND PARTICIPANTS

In June, 2013, a new Law on Accounting („RS Official Gazette“, No.62/13) was adopted on the base of void EU Directives within an urgent assembly procedure and, naturally, without substantial public debate. The very Law proposal was harshly criticized by the profession, business, academic institutions and wider professional public as inapplicable, inconsistent with the International Financial Reporting Standards and the current EU directives, a “distorted” act that substantially downgrades financial reporting, and imposes unnecessary tasks and additional high expenses to the economic entities. **Objectively, the current accounting regulations that is being discussed is, according to the participants, an obstacle on Serbia’s path to Europe.**

Unfortunately, the already common practice of non-transparent enactment of laws “behind closed doors“, under the guise of “urgent“ procedures, resulted in the adoption of even worse bylaws that greatly impair the investment environment, cause damage to the Republic of Serbia, and bring new expenses to the economic entities amounting to several hundred millions of Euros annually, for which there is no reasonable justification.

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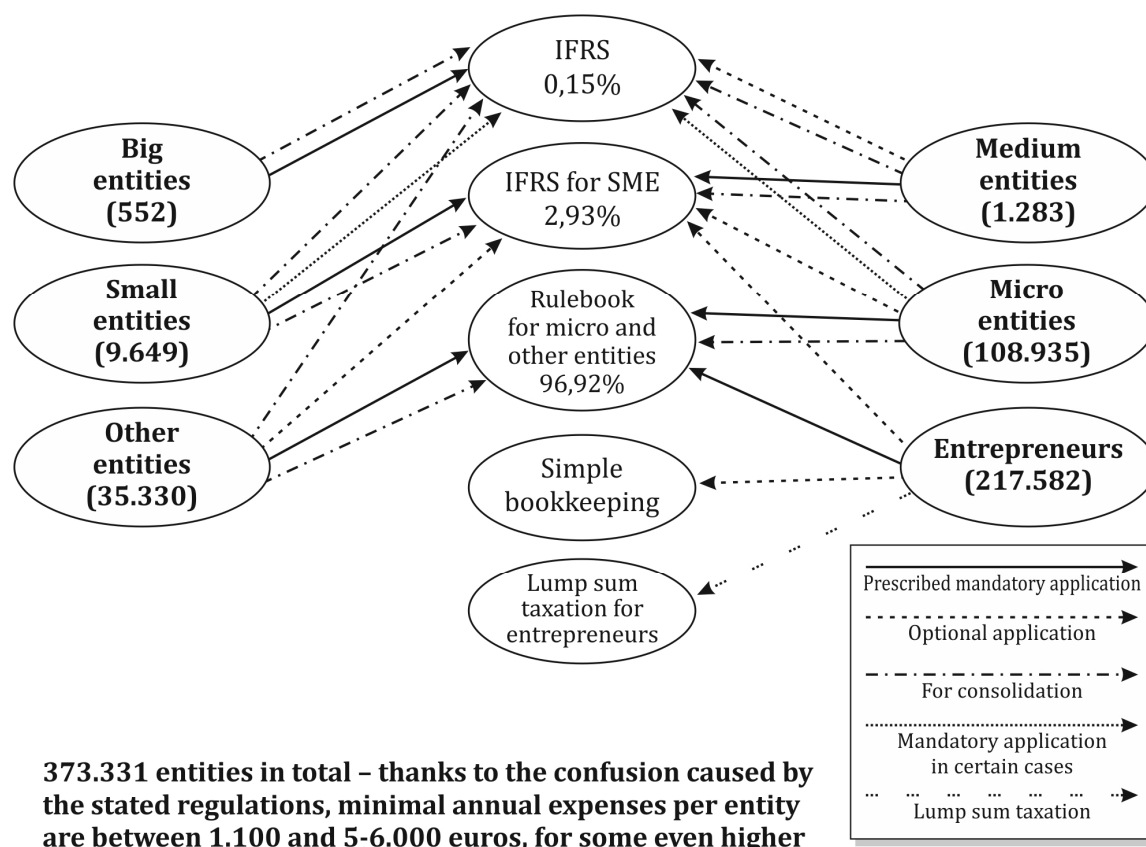
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SAAA has timely and on several occasions alarmed the responsible Ministry of Finance, particularly Ministers Mladjan Dinkic and Lazar Krstić about these issues, but, with no success.

Contrary to the practice of all EU members and countries candidates for the EU accession, and after more than 10 years of full implementation of the International Financial Reporting Standards (IFRS) which, as the best worldwide rules in accountancy and financial reporting, provide global financial comparability and transparency, legislators in Serbia decided to oblige or direct as much as 97% of legal and other entities to the application of some kind of national rulebooks<sup>1</sup>, compiled by a group of “experts” unknown to the professional public, as a set of vague, incomplete and haphazardly compiled rules.

In this way, instead of the consistent application of the International Financial Reporting Standards (IFRS) for large companies and the application of a simplified International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) a confusion was introduced to Serbia, regarding the financial reporting (Figure No.1) where, in fact, no-one knows anymore what is being applied.

**Figure 1** (Source: Explanation of the Law Proposal, The Serbian Business Registers Agency (SBRA) website)



1 Rulebook on the Chart of Accounts and the content of accounts for business companies, cooperatives and entrepreneurs;  
Rulebook on the content and forms of financial statements for business companies, cooperatives and entrepreneurs;  
Rulebook on the method of recognition, evaluation, presentation and disclosure of positions in financial statements of micro and other legal entities, Rulebook on the Chart of Accounts for other legal entities

The obvious confusion was additionally increased by regulations applied to the preparation of consolidated financial statements where all variations of the preparation of separate financial statements are really possible (depending on the size of group members) as well as variations in the preparation of consolidated financial statements (depending on the size of the group). In most cases, **this means that legal entities will be forced to actually keep double or even triple business records and to prepare several different financial statements.**

The transition to a great number of various bases of financial reporting – as much as four different bases, (not including special rules for the public sector, banks, insurance companies, financial institutions, providers of financial leases, voluntary pension funds, companies for voluntary pension fund management, investment funds, stock exchanges and broker-dealers), and particularly introduction of some „domestic“ rulebooks in place of the standards, are definitely not going to improve the investment climate, since the investors which Serbia seeks to attract, rely on comparable, transparent and clear business records and statements, above all. On the other hand, the state is losing any insight into economic developments and trends, both for different time periods and for different industries and economic entities. **The introduction of a great number of reporting bases poses a particularly complex problem, also due to annual transition of legal entities into different categories (from micro to small entities, and vice versa) which require the change of accounting software, Charts of Accounts and financial statements forms every year, which significantly and further increases expenses for economic entities and entrepreneurs.**

By passing such bylaws, regulators made an effort to impose high, additional, while unreasonable expenses. New Chart of Accounts was adopted without actual need, and its greatest “revolutionary“ change is the increased number of accounts, as well as the unnecessary introduction of a separate Chart of Accounts for “other legal entities” (non-profit organizations, sports clubs, associations of citizens, political parties, etc.). Such separation does not bring any real benefits, but it does bring a huge expense increase due to the required change of accounting software and the purchase of new ones. This is especially a burden for accounting firms which provide bookkeeping and financial reporting services for the economic entities, since they will need to have at least two accounting software applications, which will, along with the application of two Charts of Accounts, in many ways make their work more difficult and more expensive. Another problem is that a large part of the so-called “other legal entities“ are large systems (e.g., the Automobile and Motorcycle Association of Serbia (AMSS), Hunting Association, Serbian Chamber of Commerce, sports club Crvena Zvezda, sports club Partizan, etc.), some of which have their subsidiary companies, so they will need to simultaneously apply different financial reporting bases, software, Charts of Accounts, and financial statement structures, which imposes additional (double) unnecessary expenses. Also a big problem is placed before legal entities - members of various international bodies, which literally have to apply two, or even more accounting.

To make it more absurd, during the current year, the legislator passed another set of bylaws, meaning that three different Charts of Accounts are being applied simultaneously in Serbia for the private sector, which increases the total number of the Charts of Accounts applied at the same time in Serbia to 14, and is probably a sort of infamous world record.

**Figure 2:** Charts of Accounts and reporting bases currently in effect

#### 14 DIFFERENT CHARTS OF ACCOUNTS

(1) Chart of accounts for companies, cooperatives and entrepreneurs	(7) Financial leasing providers
(2) New Chart of accounts for companies, cooperatives and entrepreneurs	(8) Voluntary pension funds
(3) Newest Chart of accounts for companies, cooperatives and entrepreneurs	(9) Voluntary pension fund management companies
(4) Other entities	(10) Stock markets
(5) Banks and other financial institutions	(11) Brokerage operations
(6) Insurance companies	(12) Investments funds
	(13) National Bank of Serbia
	(14) Public sector

The situation is made even worse by the forms of financial statements created on the basis of bad law and bylaws. The new forms prescribed in the beginning of this year were replaced in September, eight months later, by the “newest forms”, thus continuing the confusion in financial reporting, which is one of the reasons for the organization of this round table.

The latest prescribed form of the balance sheet has 137 positions, instead of the previous 50 – to remind you, the international standards require only 30 positions, all in order to decrease the burden of financial reporting. Instead of a single income statement, which had 34 positions, two forms have been introduced - Balance Sheet with 69 positions and Statement of Other Comprehensive Income with 28 positions. Therefore, the number of statements and positions has been increased again - from 34 to a total of 97 positions, while at the same time, the international standards, which seem to have been completely abandoned by Serbian legislature, absolutely allow the implementation of a unified and simpler form.

**Figure 3:** Noncompliance between accounting regulations in Serbia and international standards

	<b>International Accounting Standards</b>	<b>Rulebook in effect in 2013</b> (RS Official Gazette, 114/06... and 118/12)	<b>New Rulebook</b> (RS Official Gazette 118/13)	<b>Newest Rulebook</b> (RS Official Gazette, 95/14)
<b>Balance sheet</b> (number of items)	30	50	124	137
<b>Income statement</b> (number of items)	33	34	92	97

The basic problem with the introduction of new forms of financial statements is the unnecessary introduction of extensive breakdown that has no practical purpose, yet it further burdens both firms and accountants.

**In addition to inappropriate size of the balance sheet, the item of loss above capital has been transferred from the assets to the liabilities, by which this very important information for potential investors has been moved to the "background". Furthermore, the balance sheet of business companies**

**contains some unnecessary items that do not exist for these entities; capital cannot be adequately stated in the separate balance sheet of the business company, while in the consolidated balance sheet, a certain item is included twice in the capital. The statement of changes in equity is also unduly oversized, and as such unclear.**

In addition, while preparing the financial statements for 2014, all entities will literally have to re-compile the financial statements for 2013 in accordance with the newly prescribed forms, in order to fulfill the legal obligation regarding the presentation of comparative figures for the previous year. Thus, when they are preparing the financial statements for 2014, the accountants will, with no good reason, have to perform a double job that requires twice as much time. This will of course cost - but the expenses will be borne by the economy and other taxpayers, not the (ir)responsible state administration.

Compliance has not even been achieved with regard to the implementation of the new structure of accounts and new forms of financial statements. Namely, the new Chart of Accounts has been in effect since the beginning of 2014, and the most recent Chart of Accounts is effective as of September or the end of December 2014, while new forms of financial statements apply only as of the end of 2014. Therefore, all entities that prepare interim or mid-period financial statements during 2014 must keep parallel accounting records in accordance with multiple, different Charts of accounts (old, new and newest). Again, there is the multiplication of work and expenses. The number of such entities that bear the expenses of the negligence of state administration and incompetence of so-called “experts” is rather high - these include all public-owned companies, all joint stock companies, all legal entities with foreign capital that are preparing interim statements. A particular problem will arise for the entities that, during 2014, for various reasons (merger, division, bankruptcy, liquidation, restructuring) are obligated to prepare mid-period financial statements, as they will literally have to re-record all transactions - and of course again at additional expenses. **These additional expenses presented in the table below, which are imposed on the economy, are measured in hundreds of millions of euros, but the creators of this harmful accounting legislation apparently go by the old Serbian adage – someone else’s beaten back does not hurt!**

**Table 1:** Costs resulting from the introduction of new and newest bylaws

No.	Description	Number of users	Cost per unit (EUR)	Total expenses (EUR)
1	Change of software necessary for the introduction of a new Chart of Accounts for the economy (all registered economic entities)	110,000	150	16,500,000
2	Change of software necessary for the introduction of a new Chart of Accounts for the economy (all registered economic entities)	110,000	150	16,500,000
3	Change of software necessary for the introduction of a new Chart of Accounts for the entrepreneurs not subjected to lump-sum taxation	106,000	150	15,900,000
4	Change of software necessary for the introduction of a new Chart of Accounts for the entrepreneurs not subjected to lump-sum taxation	106,000	150	15,900,000

5	Purchase of new software because of the introduction of new Chart of Accounts for “other entities” (all registered associations, political organizations, trade unions, funds, foundations, sports societies etc.)	32,000	350	11,200,000
6	Purchase of necessary handbooks for the implementation of the new and newest Chart of Accounts for economic entities	110,000	180	19,800,000
7	Purchase of necessary handbooks for the implementation of the new Chart of Accounts for other entities	16,000	80	1,280,000
8	Training of accountants for the implementation of the new and newest Chart of Accounts for economic entities	110,000	180	19,800,000
9	Training of accountants for the implementation of the new Chart of Accounts for “other entities”	16,000	120	1,920,000
10	Change of the rulebook on accounting for economic entities, entrepreneurs and other entities	248,000	100	24,800,000
11	Development of new accounting policies for economic entities, entrepreneurs and other entities	248,000	100	24,800,000
12	Costs of re-entering the transactions from the old to the new and to the newest Chart of Accounts	248,000	120	29,760,000
13	Preparation of comparative data due to the changes of the format of financial statements for economic entities, entrepreneurs and other entities (in actual fact, this is the repeated, double preparation of financial statements for 2013)	248,000	100	24,800,000
14	Costs of additional work on the preparation of financial statements due to more complex scheme of financial statements forms (every year)	248,000	100	24,800,000
15	Costs of additional work on the preparation of financial statements due to incompliance with international standards (for reporting to banks, investors and foreign partners)	10,000	800	8,000,000
	<b>TOTAL ADDITIONAL ANNUAL EXPENSES</b>			<b>255,760,000</b>

Table 1 provides an overview of minimum expenses and it is certain that the estimated annual expenses would be significantly higher, which could be avoided by the postponement of the application of regulations until the passing of new regulations, harmonized with the International standards and EU directives.

The main reason for creating these bad solutions is inadequate Law on Accounting, which was adopted on the base of void directives of the European Union, since at the moment of its adoption the new EU directive has already been adopted. **One of the biggest oversights (regretfully) of the current Law on Accounting is that it totally ignores the international professional regulation and the accountancy profession, or more than 40,000 professional accountants in Serbia. According to this law, anybody can work as an accountant, though it is a highly skilled profession, or found an accounting firm, which is not the case with lawyers, doctors, engineers and many other professions. This imposes a number of legitimate questions: what is the purpose of international standards of ethics and education; what is the purpose of the International Federation of Accountants with millions of professional accountants and its mission as a creator and setter of international standards and their implementation at the national level; why are there accounting departments in secondary, higher and academic education institutions, if not for purposes of standardization and quality of financial reporting?**

**In the entire world there is no such an example of blatant disregard toward the already impoverished economy, that after 10 years of application of International Standards, it is forced to go back to distorted domestic regulations, with the imposition of additional expenses. What makes this approach even more incomprehensible is that these, incomplete and unenforceable accounting regulations, due to the disastrous provisions, lack of supervision and control, and unprotected accounting profession, are completely eroding the financial reporting system with extremely negative consequences: utmost lack of confidence in the financial and audit reports, the growth of the gray economy, corruption, tax evasion, misappropriation, looting of property, money laundering and other fraudulent activities. That is most certainly something that the government does not want and the creators of accounting regulations must not be allowed to do.**

## **SUMMARY**

1. Law on Accounting Act was created contrary to the requirements of global standards, on the basis of void European Union Directives;
2. Law on Accounting provides several reporting bases, IFRS (International Financial Reporting Standards), IFRS for SMEs (International Standard for small and medium entities) and the Rulebook of the Ministry of Finance **which represents a set of incomplete, unclear and undefined principles, rules, methods and procedures of recognition, valuation and disclosure, which are predominantly opposed to IAS/IFRS, and required for almost 97% of legal persons and other entities.** By adopting such provisions the legislator has broken the unity of Serbian market and thus harmed the transparency of financial reporting;
3. Law on Accounting completely ignores (does not mention) the main creators of the quality of financial statements, i.e. international professional regulations though it was translated and published, or professional accountants (in Serbia there are more than 40,000), whose path of development consisting of acquiring knowledge, professional skills, ethics and attitudes, has lead from secondary schools, to colleges and universities, and continues through permanent education provided by the professional organization that is a member of the International Federation of Accountants (IFAC);
4. The maker of the Law on Accounting ignores the activities of the International Federation of Accountants (IFAC) and the European Federation of Accountants (FEE) aimed at the global harmonization of financial reporting. As a result, financial statements in Serbia are nontransparent and unsuitable for potential investors, creditors and business partners;
5. The existence of multiple Charts of Accounts, leads directly to the break-up of a united Serbian market, prevents the evaluation of macroeconomic indicators, which threatens the reliability of planning budget revenues.
6. New Law on Accounting and the bylaws enacted thereunder, impose additional expenses on the Serbian economy in amount of several hundred million euros, while providing a fertile ground for the gray economy and various financial irregularities.

## PROPOSAL

**Taking into consideration the above stated, the participants of the round table propose:**

- 1. Repeal of bylaws<sup>2</sup> adopted pursuant to the Law on Accounting ("Official Gazette of RS", no. 62/13). Urgent adoption of the new Law on Accounting at which development should be included: professional organizations – members of the international regulatory bodies, academic institutions that deal with economics, business representatives and other organizations and institutions interested in the quality of financial reporting. Until the adoption of new laws, the bylaws that were applicable to the preparation of financial statements for 2013, should be applied;**
2. Consistent application of a set of international standards and related professional regulations of the International Federation of Accountants (IFAC);
3. Recognition of professional accountants, members of Serbian Association of Accountants and Auditors, the International Federation of Accountants and the European Federation of Accountants, in the same way that it is done in the rest of the world;
4. Legal and professional protection and accountability of professional accountant - Chief of Accounting, supervision and control of their work;
5. The legal protection and accountability of the entities - providers of accounting services, in accordance with the IFAC Code of Ethics for Professional Accountants and the International Federation of Accountants International Standard on Quality Control.

**The acceptance of these proposals would prevent the further collapse of the achieved standardization of financial reporting and at the same time protect business and other entities and entrepreneurs from huge and unneeded expenses. The creation of new accounting regulations based on global and European standards would result in the improvement of financial reporting, the restoration of confidence in financial statements, prevention of gray economy and other fraudulent activities, and protection of all forms of property, investors, creditors and in particular the interests of the state.**

Serbian Association of Accountants and Auditors

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<sup>2</sup> Rulebook on the Chart of Accounts and the content of accounts in the Chart of accounts for business companies, cooperatives and entrepreneurs ("RS Official Gazette", No.95/14);  
Rulebook on the content and forms of financial statements for business companies, cooperatives and entrepreneurs ("RS Official Gazette", No.95/14);  
Rulebook on the Chart of Accounts the content of accounts in the Chart of accounts for other legal entities, ("RS Official Gazette", No. 24/14)  
Rulebook on the content and layout of financial reports for other legal entities, ("RS Official Gazette", No. 24/14)  
Rulebook on the method of recognition, evaluation, presentation and disclosure of positions in financial statements of micro and other legal entities, ("RS Official Gazette", No. 118/13 and 95/14)  
Rulebook on the content of positions in the Statistical Report form for business companies, cooperatives and entrepreneurs ("RS Official Gazette", No.118/13)