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RELIABILITY OF FINANCIAL STATEMENTS OF OTHER PUBLIC FUND USERS IN SERBIA

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***Abstract:** The paper analyzes the reliability of financial reporting in one part of the public sector in Serbia, which consists of other users of public funds, included in the consolidated treasury account. It is a special group of various institutions, which are neither budget users nor public companies. It also includes sectoral, non-profit, regulatory bodies and agencies, which manage a large part of public funds. Due to insufficient harmonization of sectoral regulations with changes in financial regulations for the public sector, the reliability of their financial reporting is questioned, especially in the case of the ordered rapid change in the chart of accounts. In parallel with this issue, the reform of public financial management is underway, which is based on a gradual transition from cash to the accounting basis of all users of public funds and accounting standards for the public sector. These two processes currently run independently of each other, although they should be unique. The change of the chart of accounts must not be reduced only to the technical transfer of positions in the business books of users, because it has a deeper meaning and consequences. The paper, on the example of one of the regulatory agencies, tests the hypothesis that rapid changes in the chart of accounts due to the transition from cash to the accrual basis do not increase, but undermine the reliability of financial statements. At the same time, the circumstances under which this can be avoided and the reform implemented in a more efficient manner are*

***Keywords:** financial reporting, chart of accounts, users of public funds, cash basis, accounting basis.*

1. INTRODUCTION

Public sector accounting systems in the Republic of Serbia have never had a uniform practice when it comes to applying the cash or accrual basis. Different accounting frameworks were applied at different institutions, the financial statements were monitored and harmonized with the requirements of either budget accounting or accounting for companies and cooperatives, or other legal entities. This inconsistent practice had its own prehistory, specific to the different groups of legal entities in question. Over time, and depending on the individual laws under which certain legal entities operate, there have been transfers from one group to another, such as a budget direct or indirect user to one of the groups of users of public funds. All the mentioned users of budget or public funds are included in a single system of accounts - the consolidated treasury account, which is maintained at the state level in the Treasury Administration within the Ministry of Finance. They are classified into several groups: budget holders (budgets of the Republic and APV, cities, municipalities), direct budget users (ministries, administrations, directorates), indirect budget users (courts, prosecutor's offices, schools), other users of public funds (regulatory bodies and agencies, commissions, institutes, utility companies), other users of public funds (public companies), organizations for obligatory social insurance and users of funds of the Republic Health Insurance Fund.

This paper pays special attention to the most diverse group, called "other users of public funds", and within it - independent regulatory bodies and agencies. This is due to the fact that precisely because of the diversity in the functioning and laws on the basis of which they were formed, it is easier to see the problems in the implementation of the initiated public financial management reform, and especially the unreliability of financial reporting in the context of changing the chart of accounts. The reform of public finances gives priority to the accounting basis, and one of the reasons is the greater reliability of the founders' reporting. The main hypothesis in the paper is that rapid changes in the chart of accounts due to the transition from cash to the accrual basis do not increase, but undermine the reliability of financial statements. This will be shown on the example of one of the agencies - the Regulatory Agency for Electronic Communications and Postal Services, where in 2017 an urgent transition from cash to accounting was made, by order of the State Audit Institution (SAI). This example was chosen because of its comprehensiveness, because everything that theoretically accompanies the change from cash to the accrual basis happened in practice. Not only that, but all the "traps" of this transition have become visible, which was not implemented within the mentioned reform and the planned gradual unification of the accounting systems of certain parts of the public sector. In

such conditions, is it realistic to expect reliable financial reports and, ultimately, strong regulatory institutions, with the same vision with which they were founded? The paper will propose certain measures that should be taken in order to avoid such phenomena, and the reform of public financial management was indeed, in the essential, and not only the formal sense.

2. REVIEW OF LITERATURE

In the last twenty years, the number of countries in the world that replace the cash accounting basis with the accounting one has been growing (Cavanagh at all., 2016). There is a tendency that with the level of development of the country, the time required for the transition to the accounting basis is shortened. The usual procedure for this is the adoption of appropriate legislative acts and the development of transition action plans. In the Republic of Serbia, this issue is also addressed and announced in the Public Financial Management Reform Program 2016-2020 (Ministry of Finance, 2015: 37-43). The final accounts at the republic level include only direct budget users and exclude some indirect budget users and social security funds, which is planned to be consolidated. However, it is interesting not to mention at all other users of public funds (independent agencies and regulatory bodies) who, through the surplus they pay into the budget, appear on the side of the republic's budget revenues within non-tax revenues. This was also confirmed in the report of the Fiscal Council (2019: 4), where high payments were identified in this position, but their origin was not explained. Only in the period 2015-2018 non-tax revenues exceeded the planned amount by about 115 billion dinars. A total of 110 billion dinars (planned around 60 billion dinars) was collected from state-owned companies and public agencies in that period, but there is no data on the details of payments. The final accounts do not disclose which companies and agencies paid exactly into the budget, or in what amount. One of such agencies was RATEL, which paid a surplus of around 10 billion dinars in the entire period from its establishment in 2005 until 2018, which is not seen in the structure of payments at the mentioned budget position. This was not seen in the aforementioned reports, either when the cash basis was represented or when it was changed to the accrual basis, although the accrual basis is considered to be more informative. For the state as the founder of such institutions and the main user of information from financial statements, there should be at least two primary interests. The first is the assessment of the capacity of taxation based on profit tax and value added tax, and the second is economic modeling. (Jovic, 2016: st 45).

In its Program of Public Finance Reforms from 2016-2020, the Government of the Republic of Serbia opted for the accounting basis, due to

greater transparency in the financial reports of users of public funds. This includes compliance with International Public Sector Accounting Standards (IPSAS). The whole process involves the multi-stage development of accounting policies according to IPSAS standards, which will leave enough time for their gradual adoption through the training of accountants. It is also planned that the state reports for 2020 will be the first in full compliance with IPSAS standards for the accounting basis. External oversight of public finances would be continuously performed by the SAI, which was introduced as an independent institution in public finances in 2005. It should oversee about 11,000 public sector entities. Contrary to such ambitious plans, in reality it happened that an important part of the public sector was not included in the right way, the action plan did not come to life in practice in the right sense, and thus the gradual transition to another chart of accounts. The essence of the transition was still not seen, but the form, the relevant legal regulations did not even try to harmonize, so as a result, unreliable financial reports occurred. As proof of this unreliability, the SAI provided audit opinions en masse with reservations (www.dri.rs).

In countries that introduce the accounting basis in the public sector, the influence of three types of factors on this decision has been observed: legal, economic and political (Agburuga, 2018). The unbreakable connection of the accounting system in the public sector of the country with the economic environment was also noticed. This means that the accounting system reflects the situation in the economic environment in which the system operates. When this is understood, as well as that accounting is not just a technical list of some accounts, then it is quite understandable that in case there are dysfunctions in that environment, even the accounting system cannot be reliable. Some of the authors, having in mind the above, give preference to the cash basis (Pessina and Steccolini, 2003). The most important thing is that the country has a clear idea of what it wants from the reform, ie the transition from one accounting basis to another, as well as the awareness of the consequences of that transition. The information in the financial statements should ultimately be reliable, timely, consistent and relevant to the end users, and in particular to the state as the most important user.

According to the international accounting standard IFRS 15, and respecting the principle of causality, the accounting basis implies that income and expenses are allocated to the period in which they were incurred, regardless of whether there was a collection or payment from the account. On the other hand, according to the Regulation on Budget Accounting (2006), revenues are calculated only in the amount in which they were collected and expenditures in the amount paid, without taking into account the causality, ie the moment of realization. Practically, the result is equal to

the balance of cash flows, which is equal to the surplus that is transferred to the budget. It is clear from this, even without going into more detailed items on the income and expenditure side of the financial statements on one or another basis, that the business result cannot be the same. The difference is in the unrealized and expected payments and disbursements, on which further financial planning and budgeting of a specific entity depends. Financial statements will not be equally informative, but that does not mean that they are not necessarily equally reliable. Reliability is expected from them first, and how much information will be acceptable depends on the requirements of the environment.

According to Gnanarajah (2014: 4), the advantage of the cash basis is that it is easier to track, more reliable monitoring of finances and reduced the presence of errors due to the assessment of individual positions. On the other hand, there are shortcomings in giving a narrower financial picture, which should therefore be supplemented by an insight into the balances on the accrual accounts. With the calculation basis, the advantage is precisely in that informatively broader financial picture, but that is why position estimates, more demanding and complex software tools, as well as greater training of accounting staff are needed.

3. BASIS FOR FINANCIAL REPORTING IN THE PUBLIC SECTOR IN THE REPUBLIC OF SERBIA

Reliability of financial reporting is one of the basic characteristics of good financial statements, and the chart of accounts, as a list of accounts, is the basis for their preparation. The chart of accounts should be in line with national public sector financial regulations and international accounting and financial reporting standards for the public sector or enterprise and cooperative standards or budget regulations if budget accounting is applied.

In Serbia, over the past decades, there have been several changes in legislation regarding accounting and auditing and changes in the concept of recording business changes in the public sector. Until 2003, there was an accounting basis, and then cash was introduced (Regulation on Budget Accounting, 2003). In later years, there have been changes in the coverage of institutions in the public sector to which one or the other accounting basis refers, but no regulation has so far stated and separated this. Some regulations and laws sporadically list the institutions to which the regulation applies, but comprehensiveness has never been achieved that would bring clear rules of conduct to all parts of the public sector. Thus, today in the public sector we have the application of both cash and accounting bases, but also their modifications. What does the choice of basics depend on? Since no user of public funds can independently decide on his status, because he is the

founder of the state, and if he does not use (directly or indirectly) budget funds, it is necessary to follow the norms of the sectoral law under which he was founded. There should be a closer determination of which accounting system is used, ie whether the chart of accounts for companies and cooperatives, other legal entities or budget users is applied. This further determines the application of the appropriate basis - cash or accounting, which affects the type and quality of financial statements that are ultimately submitted to the founder. Unfortunately, in practice, it happens that such determinants in sectoral laws are usually absent or unclear, so a subsequent interpretation by the legislator is necessary.

With the change of the structure of the executive power, and if the law itself is not changed, there is a possibility that the originally obtained interpretation will also change. In the previous period, this often happened with a group of independent regulatory bodies and agencies, which will be discussed in more detail in the following chapters. It is in this segment that it becomes clear what some authors have drawn attention to, that the accounting system of a country is influenced by both economic and legal and political factors. If reliable financial reporting is desired, priority should certainly be given to economic reasons, and other factors should only be their strong support leading to a common goal.

3.1. PUBLIC FINANCE MANAGEMENT REFORM IN THE REPUBLIC OF SERBIA

The Public Financial Management Reform Program from 2016-2020 (2015) envisages the phased introduction of financial reporting on an accrual basis, but according to international standards for the public sector - IPSAS. Table 1 shows all phases and deadlines for their implementation, with the ultimate goal to "improve the completeness and comprehensiveness of accounting information" (Mera 17, p 40).

Table 1. Gradual systematic transition to calculation accounting

Activities	Deadline
Establishment of the council for setting standards for accounting in the state sector	II quarter 2016
Conduct an analysis of inconsistencies between current accounting practices and IPSAS standards for calculation accounting	II quarter 2016
Preparation of a realistic roadmap for the transition to full calculation accounting in the state sector	II quarter 2016
Revision of the regulatory framework to align with calculation accounting standards across the state sector	IV quarter 2020

Preparation of accounting policies in accordance with IPSAS	II quarter 2019
Preparation of financial statements in accordance with IPSAS	IV quarter 2020
Improving accounting solutions in FMIS and other IT support systems for calculation accounting	I quarter 2017
Ensuring capacity building for accounting staff to transition to calculation accounting	IV quarter 2020

The period covered by this program has almost expired, and the realization of the mentioned activities has not taken place, as planned. Due to the fact that this program did not cover all public sector institutions, there could be no analysis of the inconsistency of their accounting systems, nor a plan for a gradual transition to the accounting basis according to IPSAS standards, which would end with training of accounting staff in the public sector. In contrast, during the duration of this program (2016-2020), audits of financial statements by SAIs in some public sector institutions (which is a positive, regular activity of SAI) and the ordering of urgent transition to the accrual basis on the chart of accounts for companies and cooperatives, but not according to IPSAS for the public sector (which is not in line with this measure 17 on gradual and systematic transition to the accrual basis). This contradiction in the procedure was especially pronounced in the group of "other users of public funds", and within it in most regulatory bodies and agencies, which will be discussed in more detail below. Needless to say, apart from the fact that the transition program is well thought out, the accounting basis according to IPSAS standards will remain only a good idea, because in the practice of the public sector, different accounting systems will still exist.

4. OTHER USERS OF PUBLIC FUNDS

According to the Ordinance on the list of users of public funds (2019, Article 1), all users of public funds are classified into several groups:

- Direct users of the budget of the Republic of Serbia and local levels of government,
- Indirect budget users,
- Beneficiaries of funds of organizations for compulsory social insurance, public agencies, organizations to which regulations on public agencies apply or are controlled by the state,

- Other users of public funds included in the system of consolidated treasury account, based on data from the Business Registers Agency, ie the appropriate register,
- Other users of public funds that are not included in the system of the consolidated treasury account, and belong to the public sector.

A particularly interesting group are "other users of public funds", which currently consists of about forty different institutions, agencies and regulatory bodies. They do not belong to either direct or indirect budget users and deal with development, professional or regulatory affairs of general interest. They were established according to different sectoral laws, with different market goals (regulation, protection of competition, export crediting, deposit insurance, maritime transport, development funds, ...) and did not have uniform accounting systems. Although they had the supervision of various line ministries (for information, telecommunications, trade, transport, energy, finance, ...) depending on the sector to which they belonged, their financial statements were audited by the DRI.

Despite the fact that these institutions are classified in the same group, there were no the same legal solutions for their financing, and therefore for reporting. This is especially true for regulatory agencies and bodies that have the obligation to transfer the surplus to the budgets of the republic and the APV. Amendments to the Law on Budget System (2015) failed to define accounting systems and the manner of their changes in a uniform manner, as was done within the group to which public companies belong. There are also funds and directorates at the local level, and as of December 1, 2016, it is prescribed for all of them that they are no longer indirect users of budget funds. Thus, they were obliged to harmonize their accounting records with the Law on Accounting (2013). In contrast, this was not prescribed for "other users of public funds", among whom there were immediately those who received budget accounting and cash basis, and not accrual accounting according to the Law on Accounting. This harmonization is not only the transfer of the balance of individual accounts from one chart of accounts to another, but through activities related to both financial and status issues: separation of legal entity by size, defining the type of financial statements, drafting regulations and other acts to implement this change, submission of financial reports to APR and not to the Treasury as before. Of particular importance was the determination of the status of a legal entity in terms of whether you should be treated as a newly established legal entity or not. This is due to the fact that the financial statements require the presentation of data for the previous business year, and this again entails a change in the accounting system for at least two years back, due to the initial balances that are transferred from the previous year. There was no such obligation in the

group of public companies, so they were allowed to act as if they were a newly established company when changing the chart of accounts. Unfortunately, for the group of "other users of public funds" there were no rules derived from the regulations on the budget system, so the interpretations were reduced to individual norms from sectoral laws and the Law on Public Agencies.

This phenomenon has led to later problems in the treatment of basic positions where there are differences in the transition from cash to accrual basis, due to the application of international accounting standards for small and medium enterprises. Positions that were particularly problematic were: calculation of depreciation (due to the assessment of the remaining useful life of fixed assets), adjustment of capital and position of results. This became apparent only after audits conducted by the DRI in a number of regulatory bodies and agencies. However, apart from the statements on the need to change the chart of accounts and correct numerous errors in the reports, there was no systematic approach - the adoption of uniform regulations that would essentially define the status of regulatory bodies and agencies and thus their financial reporting.

4.1. REGULATORY BODIES AND AGENCIES

Regulatory bodies and agencies in Serbia were mostly established at the same time, in the early 2000s, following the example of EU regulations, with the intention of strengthening the institutions of the system in the field of regulation of a particular sector. They were established by special laws (Law on Electronic Communications, Law on Electronic Media, Law on Energy,...), as non-profit organizations but with the obligation to pay the surplus to the budgets of Serbia and AP Vojvodina or, in rare cases, keep it in the account and transfer it to next business year. Conceptually, they did not fit into any group of budget users, but they were in the consolidated state account. The essence of their financial operations was mainly the cash accounting basis and, accordingly, the budget chart of accounts, which provided for the presentation of surplus and not profit. Formally, in practice, all chart of accounts existed: budget, for companies and cooperatives, as well as for other legal entities.

The state assisted some regulatory bodies during the establishment by giving them a loan from the budget, so they were first classified as budget users and registered with the commercial court and not with the APR. As a logical consequence of that status, they received the obligation to apply the cash basis and the budget chart of accounts. Due to revenues, which did not have the treatment of public revenues, but were collected from various types of fees of market participants, regulatory bodies were mostly exempted from

the obligation to pay profit tax. In the true sense of the word, they could not even make a profit, because they were founded as non-profit organizations. Given that they operated according to sectoral laws and that the financial side of their status has not changed over the years, the Ministry of Finance did not request a change in the chart of accounts even when some of the sectoral laws changed after a few years. Even when sectoral laws (eg the Law on Electronic Communications, 2010) introduced a norm to apply regulations on public agencies to everything not defined by those laws, even though regulatory bodies and agencies were not public agencies (Law on Public Agencies, 2005). Regulations on public agencies pointed to the chart of accounts for companies and cooperatives, because public agencies in accounting terms were equated with the category of public companies and reported profit, as a basis for taxation. Thus, at first glance, the basic change of the norm, there are big future problems in the application of financial reporting in this part of the public sector. Subsequent interpretation by the DRI, also an independent institution, required a complete change in the basis for reporting - the transition to the accounting basis and the application of international accounting standards for companies and cooperatives, ie the other chart of accounts.

Prior to the DRI intervention, several regulatory agencies (eg the Electronic Media Regulatory Authority, the Traffic Safety Agency) had a chart of accounts for other legal entities, and one (RATEL) for budget users, ie a cash accounting basis. In addition, several other regulatory bodies still have a cash accounting basis, but the SAI has so far not audited their financial statements. If so, it is not known what the auditor's opinion would be regarding the transition to the accrual basis of accounting. Table 2 provides DRI opinions for 14 regulatory bodies and agencies, in the period 2011-2018 (www.dri.rs). It can be seen that no opinion was positive, and that in most cases a change in the chart of accounts was requested.

Table 2. DRI opinion on financial statements of regulatory bodies and agencies

Title of the regulatory	DRI opinion
Deposit Insurance Agency	With reserve, for 2011
Bankruptcy Trustee Licensing Agency,	With reserve, for 2016
Agency for Business Registers	With reserve, for 2016.
Export Insurance and Financing Agency of the Republic of Serbia	Abstaining from opinions for 2012. Wrong chart of accounts, from 2015-2018, independent auditor's opinion with reserve
Development Agency of Serbia	With a reserve in 2017. Transition

	from the chart of accounts for other legal entities to the chart of accounts for companies and cooperatives ordered
Privatization Dispute Management Agency	Cash basis, no opinion by DRI.
Regulatory body for electronic media	With a reserve for 2016. The transition from the chart of accounts for other legal entities to the chart of accounts for companies and cooperatives has been ordered
Agency for Medicines and Medical Devices of Serbia	With a reserve for 2012
Accreditation Agency for Health Institutions of Serbia	Negative in 2017
Traffic Safety Agency	Abstaining from opinions for 2017. The transition from cash to accounting basis is ordered
Port Management Agency	Cash basis, no opinion by DRI
Energy Agency of the Republic of Serbia	With reserve for 2016
Commission for Protection of Competition	Cash basis, DRI did not perform audit
Regulatory Agency for Electronic Communications and Postal Services - RATEL	With reserve in 2018. The transition from cash to calculation basis ordered

Given that these are institutions that mainly transfer the surplus to the state budget, it would be desirable and realistic for the financial reports to be reliable and the information submitted to the founder to be true. After such a pessimistic picture in Table 2, the report was corrected, according to the procedure ordered by the DRI. Most of them succeeded, but the question of further sustainability of such reporting arises. Due to insufficient transparency of financial data on their websites and the inability of the DRI to audit the same users every year, the continuity in achieving the reliability of reporting is lost. The system should not be based only on the principle of control and error correction measures, but should basically have clear frameworks in which it will move and will not enter business zones subject to different interpretations. Therefore, clear norms are needed for the financial operations of all regulatory bodies and agencies, in accordance with the regulations for the public sector, as long as they are an integral part of it.

4.2. RATEL EXAMPLE

From the group of "other users of public funds", the example of RATEL, which was established by the Law on Telecommunications (2005) and its status has not been changed by the new Law on Electronic Communications (2010), is particularly indicative. RATEL is a regulatory agency but not a public agency, although regulations on public agencies apply to it where something is not regulated by that sectoral law. The area of financial reporting is regulated in such a way that the regulations on accounting and auditing are applied and that it is subject to both independent external audits and the DRI. The surplus was regularly paid into the budgets of RS and APV with the purpose of developing the field of electronic communications. Table 3 provides an overview of the financial results of RATEL's operations from its establishment in 2005 to 2018 (www.ratel.rs), where the account framework for companies and cooperatives has been applied for the last two years and shows net profit instead of surplus, although the legal the norm on the presentation of results remained unchanged in all previous years. However, what has changed is the reliability of the financial statements, and therefore the same result. (Report of DRI, 2019.).

Table 3. RATEL financial result from 2005-2018 Mil. RSD

Year	Suficit (cash basis)	Neto profit (calculation basis)	Opinion of the independent auditor
2005.	(13)	-	Positive
2006.	115	-	Positive
2007.	233	-	Positive
2008.	681	-	Positive
2009.	1.264	-	Positive
2010.	1.249	-	Positive
2011.	601	-	Positive o
2012.	684	-	Positive
2013.	869	-	Positive o
2014.	1.019	-	Positive
2015.	1.076	-	Positive o
2016.	1.058	-	Positive
2017.	-	1.107	Positive, with the suggestion to re-analyze the result
2018.	-	1.296	With reserve (both DRI and the

			independent auditor)
Total	8.936	2.403	

RATEL has never been liable to pay income tax. Even at the time of its establishment in 2005, using a loan from the Serbian budget, for the next few years it was classified as a direct budget user. The chart of accounts based on cash did not change even when it was transferred from the group of budget users in 2009 to the category of users of public funds. Nothing changed until 2016. when the DRI ordered an immediate transition to the accrual basis, not for the reasons stated in the Public Finance Reform Program, but for reasons indirectly derived from the individual sectoral law and the Law on Public Agencies. The entire business period of RATEL from 2005-2016. in which the opinions of independent auditors were always positive and the Ministry of Finance had no objections to the status of the chart of accounts and the manner of reporting, has now been changed. No other act regulating this area has been amended, neither in the sectoral sense nor in the area of public sector finance. It also did not refer to the Law on Budget System (2019), which introduces a gradual obligation to switch to the accrual basis in the public sector. Coincidentally, the Law on Electronic Communications did not change at that time, but if it did, and if any connection with the regulations on public agencies was dropped, would the chart of accounts be "returned" to the cash basis? Although this seems technically very easy to do, it is essentially complex and entails a number of consequences in reporting, primarily in the categories: capital, depreciation, profit / loss and income and expenses. Regulations on public agencies have been placed above regulations on the independence of regulatory bodies, above the opinion of the previous Ministry of Finance, and above regulations introducing international accounting standards for the public sector. This scenario necessarily had its consequences in practice. The reliability of financial reporting has been lost, and thus the meaning of the transition to another accounting basis. This is confirmed by numerous irregularities that the DRI pointed out in the Report on the Audit of Financial Statements for 2018 (DRI, 2019) after the transition to another chart of accounts. The main remarks referred precisely to the positions that were discussed during the transition from one chart of accounts to another:

- DRI did not have access to the official document on the determined value of capital on the day of the transition to the chart of accounts for companies, cooperatives and entrepreneurs which would confirm the value of the reported, both share capital and retained earnings. Also, the DRI was not able to be convinced of the accuracy of the recorded corrections within the retained earnings during 2017 through alternative audit procedures.

- The amount of reported share capital and retained earnings in previous years refers to the effect of the transition from budget accounting to accounting for companies on January 1, 2017.
- The Agency recorded identified material errors from previous years as revenue in 2018, which is contrary to Section 10 of IFRS for SMEs - Accounting Policies, Estimates and Errors. Given the above, the Agency, when compiling the financial statements for 2018, overestimated the business results for 2018 and underestimated the retained earnings of previous years.

Additional objections related to the need to re-list fixed assets and assess their value (and related depreciation), as well as to unreliable accounting software, which did not ensure proper migration from one accounting system to another.

From the above, the hypothesis that a quick transition to another chart of accounts leads to unreliable financial statements is completely confirmed. The change in the chart of accounts could not be reduced only to technical transfer of accounts and filling in other forms of financial statements, but there were profound changes in the business and accounting system, which could not be done satisfactorily in the short term. New accounting software could not be procured immediately, account plans could be adjusted and all postings made retroactively (including initial balances from the previous period on another basis), while maintaining adequate treatment of capital, depreciation and results. Above all, the accounting staff was not trained to become professional to work in another in a short period of time after many years of working in one accounting system. After more than 10 years of financial reporting, the measure of reliability of which has always been the positive opinion of the external auditor, after the change in the chart of accounts, for the first time the auditor's opinion was "with reservations". The same happened with other institutions that changed the chart of accounts. All of the above might have been reduced to isolated cases in the public finance system, had it not been for the simultaneous process of public finance management reform that envisioned something completely different. Apparently, the reform in one part of the public sector began to flow in the opposite direction, which increasingly distanced itself from reliable financial reporting.

How are such flows to be prevented? First of all, systemically, similar to what was imagined in the reform program, but it was not realized to the necessary extent. This includes the following:

- Repeat the analysis of the current situation in all public sector institutions.

- Define clear goals and realistic deadlines for all activities, which should be consistently adhered to.
- Formulate uniform legal norms in the field of public finances, which will apply to all segments of the public sector, including "other users of public funds".
 - Harmonize all sectoral laws in detail with public finance regulations.
 - Adopt binding standards to be applied throughout the public sector.
 - Train accounting staff to work in the new system environment, with the support of appropriate software tools.
 - Increase the transparency of financial information throughout the public sector.

In increasing the reliability of financial reporting and achieving its sustainability, priority should always be given to economic factors.

5. CONCLUSION

The initiated public financial management reform in 2015 was based on the need to gradually unify the accounting base of all institutions and financial reporting on an accrual basis for the public sector, which was planned for 2020. At the same time, in some segments of the public sector, such as "other users of public funds", processes contrary to this reform have taken place. With most regulatory bodies and agencies, the DRI has ordered urgent changes to existing chart of accounts (mainly on a cash basis) and the application of international standards for companies and cooperatives. Regulations on public agencies are placed above the regulations on the independence of regulatory bodies, which are not public agencies, above the opinion of the Ministry of Finance and above the regulations introducing international accounting standards for the public sector. The reliability of financial reporting has been lost, and thus the meaning of the transition to another accounting basis. The initial hypothesis, that the reliability of financial reporting is impaired by the rapid transition from cash to accrual accounting, was confirmed on the example of RATEL. The measure of reliability was the "dissenting opinion" by the DRI, after the transition to another accounting basis. In practice, all the problems of quick transition to another chart of accounts have come to the fore, which are also mentioned in theory, regarding positions: capital, opening balance, depreciation, valuation of income, expenses and results. Additionally, the problem was the transition to new accounting software and insufficient training of accounting staff.

It is exactly in this segment that it becomes clear what some authors have drawn attention to, and that is that the accounting system is influenced by three types of factors: economic, legal and political. If reliable financial

reporting is desired, priority should certainly be given to economic factors. The other two factors should be strong support in the same direction.

Although the financial regulations for the public sector in the Republic of Serbia are very extensive, in practice a number of shortcomings come to the fore: insufficient precision of norms; inconsistency between acts at the level of the public sector and individual sectoral regulations; the absence of a systematic approach for all segments of the public sector, so there is a risk of different interpretations of regulations and the consequences depend on who interprets them; unclear final targets for financial reporting (only surplus, only profit and profit tax or something else) which affects the level of their reliability; insufficient transparency in financial reporting, so the founder does not have a clear insight into the structure of individual items of the state budget revenues; insufficient professional capacity of accounting staff in public sector institutions. To overcome this, the state needs to set a clear goal. If this is indeed the accounting basis as stated in the public financial management reform program, then the manner and deadlines for the transition should be specified, which will be binding for all institutions, including independent ones. One of the most important steps in this transition is to raise the professional capacity of staff at all stages of this process, with the support of appropriate software solutions for accounting and financial reporting in the public sector.

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