COMPARATIVE DIFFERENTATION IN AUDIT: CASE STUDY – REPUBLIC OF SERBIA AND EUROPEAN COUNTIRES

Nikola Vidović
Faculty of economics, University of Belgrade, Serbia, vidovicnikola.finance@gmail.com
Hatidža Beriša
Military academy, University of defence, Serbia, berisa.hatidza@gmail.com
Milenko Dželetović
Faculty of security studies, University of Belgrade, Serbia, milenkodz@telekom.rs

Abstract: The paper gives a review of the significance and specificity of the audit process with a focus primarily on the public sector and the entities that represent the state apparatus that is subject to audit, but also on the aspects of its functioning in the private sector and on the business of companies in both the Republic of Serbia and the countries of Europe. The comparative analysis of terminology, organization and classification of audits shows the differentiation characteristics and the position of the Republic of Serbia in relation to European countries, as well as how it affects the application and extent of the operation of international accounting standards, international auditing standards and international financial reporting standards in the analyzed countries. Audit as an objective, systematic and complex process of gathering information and evidence, determining the real state of the company, from one country to another is interpreted differently by the professional public, and the paper emphasizes the similarities and differences of conceptual interpretation and operation of the same.
Keywords: audit, concept, classification, Republic of Serbia, Europe.

1. INTRODUCTION

Observing from a global perspective, for the associations of accountants and auditors of developed countries, auditing is a systematic process of objective collection and evaluation of evidence related to the statements of the company's management about economic activities and events, in order to determine the degree of agreement of those statements (assertions) with established criteria, and the obtained delivered the results to interested users (S. Kukoleča, 1990). Harmonization and connection of states and the application of international standards to entities and subjects of national economies contributes to the coordination of countries with higher institutions of international and world communities, and easier access of the same to higher instance of control with the aim of more correct and successful business, in accordance with regulations. From that aspect, the research in the paper highlights the specificities of auditing in different countries and how the action affects the states in exercising control over the economy, and at the same time the subjects themselves within their organizations. The work was approached methodologically through a comparative analysis of the application of standards in the audit and the legal regulation regulating the audit.

2. CONCEPTUAL INTERPRETATION OF THE AUDIT

Auditing is a complex process that enables determining the reliability and consistency of summarized, recorded and classified financial data. The necessity and need for it is based on the large volume of business transactions (IBM, 2013) and compliance with complex international accounting standards. Although accounting is closely related, on the other hand, it differs from auditing, because it is a process of recording, classifying and summarizing economic events that would help management make decisions based on sound financial data (Nigrini, 2011). Auditing means collecting and evaluating evidence in order to determine whether the financial statements have been prepared in accordance with accounting standards and whether the information related to the state of assets, liabilities, capital and business results present a realistic picture of the company. The term audit is quite broad to be understood in a general sense, it is defined as a means by which one person is convinced by another person of the quality, condition and status of a subject matter that this other person examined. The need for an audit arises because the first-mentioned person is in doubt or doubt about the quality or status of the relevant subject matter, and is not personally able to remove that doubt or doubt (Tom Lee, 1993). According to the International Auditing Standard (IAS) "Objective and general principles of auditing financial statements" the following definition of auditing is given: "The objective of auditing financial statements is to enable the auditor to express an opinion on whether the financial statements, in all material respects, have been prepared in accordance with an identified framework for financial reporting". (IFAC, 2006). The audit must be carried out objectively, which means that the auditor should perform his work in an honest manner, eliminating the possibility of bias when expressing his opinion. Given that auditing deals with obtaining and evaluating evidence, we can say that auditing is a research process, while audit evidence is information that serves the auditor when assessing whether the reports correspond to established standards. An audit is a process in which a competent, independent person accumulates and evaluates evidence of quantifiable information related to a specific economic entity, for the purpose of determining and reporting the degree of correspondence between quantifiable information and predetermined criteria (A. A. Arens, et al, 1998) Auditing as a process of investigation, also implies the existence of clearly defined criteria, according to which an independent person, that is, an auditor evaluates and gives an opinion. When it comes to financial statements as the subject of an audit, the first criterion is the accounting standards that represent the basis, framework and guide for any regulation of accounting-reporting matter. operations of the business entity carried out by internal and external bodies.

3. CLASSIFICATION

Audit, as a systematic, complex and objective process, can be classified according to the entity that performs the audit and the subject of the audit examination. The classification of the audit according to the entity that performs it, also represents a global view of the division of the audit. Audit, as a form of supervision with a special subject of audit and methodology, considering the institutional form, can be internal audit, external audit and state audit (audit of the public sector).

Internal audit is an advisory activity that provides independent, at the same time, objective assurance, with the purpose of contributing to the improvement of the operations of the users of the funds. The internal audit process itself helps the user to achieve his goals, by systematically and disciplinedly assessing and evaluating risk management, controls and management of funds at his disposal ("Official Gazette of RS" no. 99/11 and 106/13). A rapid development and a more serious understanding of the importance of the theory and practical application of internal audit has been recorded since the forties of the last century in developed market economies (Rammamoorti, 2003, Varga, 2005, Gupta and Rai, 1992; Ridley and Chambers, 1998), when the transition from material to the system audit cycle (McNamee and McNamee, 1995), where at the same time the number of certified auditors and internal audit units, with different approaches to business problems, grew (Ridley and Chambers, 1998; Deloitte, 2005). In this period, a great degree of differentiation can be observed in the spectrum from basic, i.e., basic to traditional characteristics, both in the approach to internal audit, and in the business itself, the scope of work, reporting flows. Based on the statement of the Institute of Internal Auditors (IIA), as a leading international professional association (Varga, 2005), the most significant changes in the direction and focus of internal auditing in developed countries in recent decades concern: concentration on financial auditing in the seventies of the last century, professionalism, globalization , continuing education and certification as key drivers during the 1980s, expanding the function of the profession to include business consulting and other support services and taking an adjunct approach in the 1990s, and in line with the recent effort to improve corporate governance practices, emphasizing the quality of internal controls in order to improve the entire operation of the business entity. It should examine and evaluate the existing composition of internal controls, and at the same time evaluate the effectiveness of a certain business entity or composition. Internal audit provides a report on the results of the examination and based on it, provides the company's management with certain proposals (Meigs, 1988). An external audit is an independent examination of the objectivity and reality of financial reports, financial transactions or business operations of the audited entity, with the expression of an opinion as to whether the financial reports have been prepared and presented in accordance with the intended framework for financial reporting. External audit is the procedure of examining and evaluating the business of an economic entity, which is carried out by expert, independent auditors authorized for that work (Akrap et al., 2009). Authorized auditors, who are not employees of the company or the subject in which the audit procedure is carried out, perform an external audit of the same (Crnković, Mioč, Mahaček, 2010). Otherwise, the principle of independence of the audit process is directly violated. External auditing is intended primarily for external users, and it primarily examines the reality and objectivity of financial reports (Akrap et al., 2009). The state audit represents the audit of public expenditures and revenues, financial reports and financial transactions of state sector units, state enterprises founded by the state itself. The state audit is understood by the professional public as an inseparable part of the regulatory system, and it is not a goal in itself, but it should be used to detect deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough, in order to made it possible to take the necessary corrective measures in order to prevent or at least make it more difficult for negative consequences to arise due to the irresponsible behavior of individuals in government. Representing one of the most important control mechanisms of proper and efficient use of public funds in democratically governed countries is state audit or public sector audit. State audit can be defined as a special type of parliamentary control of the legality of spending public financial resources and management of public assets performed by competent state bodies and institutions. Therefore, the institutions that audit the public sector represent one of the most important instruments of parliamentary control. Both in countries with a developed market economy and institutions of a democratic parliamentary system, as well as in medium-developed ones, such as the Republic of Serbia and transition countries, the state audit institution plays a significant role in achieving the stability of the country's financial system. With its audit reports, the state audit institution should instill confidence in the citizens of the country and other stakeholders. In a professional sense, the state audit institution should be independent in performing tasks within its jurisdiction, both from the executive power and from the parliament, which establishes it and to which it submits audit reports and reports on its work. In almost all EU countries, the state audit of public expenditures has been introduced and is highly developed. In Austria, audits are carried out at the local or regional level of public expenditure. The main state audit authority manages audit activities: training of auditors, proposing audit methods, providing expert instructions to auditors, controlling the work of auditors. With regard to the audit of public expenditures, special institutions have been established for this audit, in comparison with the world in the global and developed countries of Europe in: England - National Audit Office, Germany - German Federal Supreme Audit Office, China - Chinese National Audit Office, Hungary - Hungary State Audit Service, Croatia - Croatian State Audit Service, Bulgaria - State Financial Control, Greece - Greek Supreme Audit Office, Japan - Japanese Audit Authority. Other countries have the same or similar auditing institutions. All these audit institutions are organized into the International Organization of Top Audit Institutions (INTOSAI). This international organization is an autonomous, independent and non-political organization based in Vienna and founded with the aim of exchanging ideas and audit practices between national/state audit institutions (D. Simić and D. Simić, 2011).

Table 1. Audit institutions and international classification of audit and reporting procedures in European countries

Group No.	Country	Indicator				
		Public publication of financial statements and auditor's opinions	The central state administration prepares an annual financial report	The SAI audits the annual financial reports of the Central State Administration	Focus of the audit on reliability / compliance	The SAI's audit opinion also focuses on compliance
1	Albania	☐	☐	☐	Compliance	No
2	Luxemburg	☐	☐	☐	Both	Multiple opinions are given on both aspects
3	Bulgaria	☐	☐	☐	Both	State administration - no, ministries only about reliability
4	Belgium	☐	☐	☐	Compliance	No
5	Austria	☐	☐	☐	Both	They do not provide an audit opinion
6	BiH, Croatia, Denmark, Finland, France, Hungary, Ireland, Italy, Lithuania, North Macedonia, Holland, Portugal, Romania, Slovenia, Slovakia, Spain, Turkey	☐	☐	☐	Both	Both
7	Cyprus, Czech Republic, Germany, Latvia, Malta, Sweden	☐	☐	☐	Both	Compliance
8	Poland	☐	☐	☐	Only for budget	For financial report - no, for budget - yes;
9	Greece	☐	☐	☐	Both	Compliance

Source: Analysis and research by the Danish Audit Office on the issue of audit opinions and reports in European countries and authors

The audit of the public sector, as a special type of parliamentary control activity, is focused on the control of the reports that the executive submits to the parliament on the spending of public funds and the management of public assets, then on the legality of the work of those bodies, as well as on the economy, efficiency and effectiveness of collecting and spending financial public funds and management of public assets and liabilities, which are the responsibility of state bodies and institutions. However, the audit of the public sector is not limited only to the implementation of the audit, but also refers to other tasks that are closely related to the audit, which relate to strengthening the responsibility of public office holders and other responsible persons for the disposal of public funds, assistance in introducing and improving the system internal controls for legal entities, detection of fraud and corruption in the public sector and counseling. As the main goal of the state audit is to efficiently and economically obtain sufficient, adequate and reliable evidence for expressing an opinion on the financial statements, regularity and expediency of the operations of public sector entities, according to the purpose of the audit conducted by the SAI, they can be classified into three basic groups: financial audit, compliance audit and performance audit.
Audit of financial statements - financial audit and audit of business compliance with regulations - audit of compliance overlap in practice, considering that in the public sector audit it is almost impossible to perform a quality

financial audit without an audit of compliance, precisely because of the specificity of both the subject of the audit and the subjects of the audit. work regulated by numerous regulations. The audit of financial statements is the procedure of checking and evaluating financial statements, as well as the data and methods used in the preparation of financial statements, on the basis of which an independent expert opinion is given on whether the financial statements in all materially significant aspects give a true and fair view of the financial situation and of the results of the business of a legal entity in accordance with the relevant regulation for the preparation of financial statements ("Official Gazette of RS", No. 62/2013). In EU member states, there are three types, that is, organizational models of the supreme audit institution that audits within the framework of the public sector and all entities that are an integral part of it. The following table shows the organization models of the Supreme Audit Institution in European countries.

Table 2. Models of organizing supreme audit institutions in European countries

Group No.	Country and year of establishment	Judicial body	Chief State Auditor	Board
1	Serbia (2005), Montenegro (2004), Germany (1714), Holland (1447)	□	□	□
2	BiH (2000), North Macedonia (1999), Albania, Great Britain (1314), Denmark, Finland (1824), Norway (1814), Iceland	□	□	□
3	Greece (1862), Turkey, France (1318), Belgium (1830), Spain (1436), Portugal (1933), Italy (1862)	□	□	□

Source: Authors

Regulatory criteria can be generally accepted accounting principles (International Accounting Standards - IAS, International Financial Reporting Standards - IFRS), as well as other criteria, principles and guidelines. If the classification of the audit of the public sector (Stanojević Lj. and Vidovič Z., 2014) is carried out according to the subject of the audit, then in addition to the three basic types of audits, there are audits of budgets and programs aimed at objectives, audit of contracts, audit of procurement, audit of privatization, audit of public debt and environmental audit.
A compliance audit (compliance audit) determines the level of compliance with government regulations, specific internal or external rules, laws or contracts. This type of audit is most often performed when one party wants to make sure that the other party is complying with the law or pre-established criteria or standards. (D.Ricchiute, 1989)
A compliance audit or an audit of compliance with rules and regulations aims to determine whether the company's operations are in compliance with certain rules, policies and regulations (contracts, laws, government regulations) defined by a higher authority. This audit also has the task of determining whether individual organizational units within the company comply with the company's internal rules and policies, whereby the prescribed internal rules and policies serve as criteria for determining compliance.
The expediency audit seeks to examine the entire operation of a company in order to measure its economic performance. The audit of business expediency implies a systematic insight and analysis of all or individual business activities of the company in order to evaluate the success of the business of the entire company or a certain organizational part. The purpose of this audit is to determine the efficiency and profitability of the business in order to identify areas and activities that need to be improved. This type of audit is the most difficult, because the efficiency and profitability criteria are not established objectively and clearly as adopted accounting principles. Although this type of audit is the most complex, at the same time expensive and takes a long time, it has recently gained importance and has a tendency to increase. Expediency audit is flexible in terms of choice of subjects, methods and opinions. It is not a review of the regularity of business where the form of opinion is determined in advance. It is an independent, one-time, non-repetitive, and wide-ranging survey of species, so it is open to judgment and interpretation. Audit of expediency is not carried out in the private sector, but only in the public sector, by its nature it is a complex audit, it is not based on a standardized finding, and its implementation requires high professional knowledge and skills and extensive experience. This type of audit is recent, and many countries still do not carry out feasibility audits.

4. ANALYSIS OF THE AUDIT PROCESS AND ORGANIZATION OF INSTITUTIONS IN THE WESTERN BALKAN COUNTRIES

In Bosnia and Herzegovina, according to the Law on the Audit of the Institutions of BiH, the audit is performed by the Office for the Audit of the Institutions of BiH, established in 2000 and headquartered in Sarajevo. The Audit Office conducts financial audits, checking the financial statements and related accounts of the institutions, with the aim of assessing whether the financial statements are reliable and whether the balance sheets fully reflect the results of budget execution. The office also assesses whether the Institution's management follows all valid regulations, whether funds are used for appropriate purposes and evaluates financial management, internal audit functions and internal control systems. The Audit Office, among other things, audits and issues an opinion on the annual budget execution report every year, and audits the performance, i.e. checks the economy, efficiency and effectiveness of the public sector entity's operations. The Office for the Audit of BiH Institutions is managed by the Auditor General, who is responsible for the duties and powers given to the Audit Office by the Law on the Audit of BiH Institutions. An important body is also the Coordination Board - Audit Institution, which was established in accordance with the Law on the Audit of Institutions of BiH, the Law on the Audit of Institutions in the Federation of BiH and the Law on the Audit of the Public Sector of the Republika Srpska. The Coordinating Board makes decisions by consensus, with each audit office having one vote.

The state audit of Republika Srpska is regulated by the Law on Audit, adopted in 1999. State audit in Republika Srpska is performed by the Main Public Sector Audit Service of Republika Srpska. The institution is organized in accordance with the Law. It does not have a supreme body, but a chief auditor and a deputy. In its work, the institution relies on IAS, IFRS, INTOSAI standards and the IFAC Code of Ethics, in addition to the Law on Auditing and accompanying acts. In October 2005, the new Law on Auditing the Public Sector of the Republic of Srpska was adopted. The reports of the Main Service for Auditing the Public Sector of the Republic of Srpska are reviewed by the Parliamentary Commission, i.e. the aforementioned Audit Committee, which consists of members from all parties.

In the Republic of Croatia, state audit is regulated by the Law from 2003, which defines audit as a procedure for examining financial transactions that represent state expenditures in terms of the legally prescribed use of funds. The audit is carried out by the State Audit Office (DUR), which was established in 1993 and started its activities in 1994. The State Audit Office is organized as a single institution with a Central Office in Zagreb and 20 regional offices located in county centers. Regional offices perform audits of local self-governments and public companies located in the area of local self-government where the office was established. This kind of decentralized system is adapted to the number and placement of audit subjects, which achieves greater performance and rationality in business. The Chief State Auditor also has its own advisory body - the Expert Council, which consists of the deputy and assistants of the Chief State Auditor, as well as external independent experts from the fields of economics, law, auditing and finance, professors of the University of Zagreb. The audit is carried out in compliance with the procedures established by audit standards, includes an assessment of the economic performance of the activity and the achieved goals from the respective programs, and is performed by authorized state auditors with a professional accountant's certificate. The State Audit Office submits annual reports on audits to the Croatian Parliament, to which it is directly accountable.

In the Republic of Montenegro, the field of state audit is regulated by the Constitution of Montenegro, the Law on the State Audit Institution and by-laws, which include: Rules of Procedure of the State Audit Institution, Instructions on the Methodology of the State Audit Institution, Code of Ethics for civil servants and officials in the State Audit Institution, as and the Rulebook on the method of taking the state auditor exam and the Rulebook on the program for taking the state auditor exam. The Parliament of Montenegro, by adopting the Law on the State Audit Institution ("Official Gazette of the Republic of Montenegro", 2004), establishes the State Audit Institution of the Republic of Montenegro as an institutional, external, independent, professional and objective control of the spending of budget funds and the management of state assets in Montenegro. The main goal of the audit is to obtain a report and important facts about the legality, i.e. regularity, then the effectiveness and efficiency of the business of the subject of the audit. The audit task is primarily accomplished by auditing the legality of the final budget account, the so-called financial audit, and by auditing the effectiveness, legality and efficiency of budget, property and economic management business so-called performance audit.

In the Republic of Slovenia, the field of state audit is regulated by the Law on the Audit Court and the Rules of Procedure of the Audit Court of the Republic of Slovenia. The Court of Accounts of the Republic of Slovenia, as the highest body of control of the state budget and public spending, is also regulated by the Constitution. The aforementioned Law regulates its organization, obligations and powers, as an independent body. The Audit Court is an independent and autonomous institution in relation to other state bodies. Publicity of the institution's work is regulated by the Law as well as the Rules of Procedure. By publishing the annual reports that are submitted to the Parliament for adoption, the publicity of the work is ensured, as well as all the information related to the work of this Institution that is public. The report is discussed at the sessions of the competent committee, which are open to media representatives.

5. CONCLUSIONS

On the basis of everything stated, the conclusion emerges that the audit itself has become an indispensable segment in the control of business management, organization and assets in many countries of Europe, but also in Serbia. Although apparently the interpretations of the term and classification of audit by the professional public differ to a certain extent and have a certain degree of deviation, all countries have accepted international audit standards and organize their state systems and public sector according to the regulation. The contribution and importance of the audit process, and especially taking into account the aspect of state audit in the overall control by the state, represents the improvement of the management of public funds and the promotion of the responsibility of the executive power both in the Republic of Serbia and in the countries of Europe, as well as a more effective fight against corruption, which is related to cash flows from the use of public funds.

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