

The State of Public Enterprise Financial Reporting in Serbia

Miroslav Milojević^{1*}

¹ RSM Serbia d.o.o. Belgrade, Serbia

ABSTRACT

Serbian public enterprises bear a strong general pressure initiated on the account of unsatisfactory quality of services they provide and difficulties related to their ability to service the costs. A discrepancy between general public expectations and actual performances of these entities is transformed into a systematic search for conditions that would enable their reform and further development. However, this issue is very complex and it is based on important qualities of organisational structure and functioning of public enterprises. Moreover, it to an extent merges with another issue - that of the quality of financial reporting. In that respect, this paper presents financial statements in the context of characteristics of public enterprises and their environment, and outlines the directions of changes aimed at their improvement

Key words: *reforms, institutions, public enterprises, financial reporting, financial reporting oversight*

JEL Classification: L26, G32

INTRODUCTION

Financial reporting is a specific outcome of the total economic and social circumstances of a society in which is prepared and presented. It is a phenomenon of a particular subtlety whose establishing, maintaining and enhancing necessitate meeting numerous conditions and whose high quality is sustained only if numerous harmonised forms of influence are exerted. It reflects all circumstances under which it emerges and functions and requires a constant and undivided attention. A state of financial reporting has been marked as a significant supporting factor to economic growth; for that purpose, the World Bank created a special programme (ROSC) and formed a special institution for monitoring the state of financial reporting in individual countries. All these efforts are aimed at strengthening the quality of financial information.

Only permanent monitoring and reporting on the state of financial reporting, along with adequate responsive actions on financial statements, contributes to its sustaining and improving. In the absence of these conditions, benefits derived from financial reporting are easily lost. This paper focuses on the factors determining the state of financial reporting of public enterprises in Serbia and presents general economic circumstances under which financial reporting is performed; weaknesses of financial reporting; and, lastly, the prospects for its further development.

GENERAL CONDITIONS

Financial reporting is always considered having in mind the general conditions that determine it. Financial reporting is a complex meta-phenomenon in the economy, which incorporates the

* E-mail: miroslav.milojevic@rsm.rs

conditions that determine it and the state of all protagonists in the reporting chain, who are both producers/presenters and supervisors of those who maintain financial reporting discipline. General conditions of financial reporting encompass all major characteristics of a society in which they are formed as an outcome of all historically acquired circumstances and views pervading the reality of financial reporting. In that sense, it can be argued that circumstances of financial reporting are the reflection of the circumstances existing in a society and its economy.

Serbia has been undergoing transition towards the market economy for only less than two decades and it still deeply feels the consequences of its recent traumatic past. These less than two decades were preceded by a decade of bloody wars and general negligence. While the world was improving and constantly enhancing its standards, all standards in Serbia were destroyed and, as a result, building foundations of market economy started only at the beginning of the first decade of this century. From a historical perspective, this is a very short period, since institutionalisation of a society requires a several-decades long establishing in practice. That period in Serbia was marked by a provision of significant aid from the mentors from the West, who have been building their own institutionalised market societies for centuries. Needless to say, there are considerable difficulties concerning adoption of a new manner of economic and social life, but also there are difficulties concerning adaptation of the existing models, which are not a product of the Serbian experience, but come from the West. Serbia started accepting the new orientation and institutionalisation without relying on its own experience and without a predisposition for their acceptance and application.

Political and economic aims as the framework of financial reporting

Serbia has set its main aims, which can be defined as catching up with the world and, particularly, integration into the EU. Within this orientation, important factors are political and economic frameworks Serbia establishes for the purpose of organisation of its society.

The political direction of Serbia's course was established at the very beginning of this century, after casting off the socialist method of organisation and severe frustrations caused by dissolution of Yugoslavia and a decade-long agony characterised by disorientation and wars in former Yugoslavia. Immediately after the change of government in 2000, a declarative policy change towards the building of a market economy society took place, and after that, towards an actual institutionalisation and practicing life based on new foundations. The efforts in the new direction were supported by advice and material aid provided by the EU and other countries.

The economic direction of building a new system was marked as a free market economy, which involves discarding the old concepts of economy and founding entirely new ones. The economic values were set in a reverse direction in comparison to the previous period: instead of focusing on people, the system was focused on economic contribution; instead of a system of settling things by mutual agreement and negotiations, free-market competition was introduced; instead of collectivism, individualism was instituted; instead of self-management administrative framework, a voluminous market society regulations came into force; economic sustainability gained primacy over the social one. The results of these efforts are building and implementation of a completely new institutional system, one that channels the behaviour of economic protagonists in a completely new way.

Political and economic frameworks became a sign of everything that was wanted as a new reality. At the same time, they set a new touchstone by which every step in the society and economy is measured. These aims represent a considerable challenge, one that is overcome with great difficulties, since it is necessary to give up deeply entrenched habits and adopt new ones that yet need to be understood, adopted and practised and whose benefits yet need to be recognised.

Real economic circumstances

A real economic basis considerably determines all occurrences in a society. The assessment of the impact of the economic reality in the previous decade, never before completely presented, indicates the following:

The Serbian economy is very weak and not even in 2018 did it attain its 1989 state. Its recovery is the slowest in the region. In 2017, the gross domestic product (GDP) amounted to EUR 31,184 million. In the period between 2006 and 2016, the growth rate peaked in 2007, when it amounted to nearly 5.9%. With the emergence of the world economic crises, the Serbian economy began to deteriorate significantly. The highest GDP drop was recorded in 2009 when it amounted to - 3.1%, while the negative rate was also recorded in 2012 and 2014 when the downslide amounted to - 1% and -1.8% respectively (10, <https://www.nbs.rs/internet/cirilica/80/index.html>). GDP per capita is very low, it is clearly seen from the National Bank of Serbia's data for the period 2006 – 2007 that it dropped significantly in 2009 and 2010, recovered in 2011, then dropped again twice – in 2012 and 2014. To illustrate the above, in 2006 GDP per capita amounted to EUR 4,586, while in 2017 reached the amount of EUR 4,998 (10).

The causes of such state of things are: firstly, a long hesitance to undergo transition, which started in 2000, after the overthrow of a long-maintained socialist system. During 1990's, when most countries recorded high growth rates, Serbia experienced a colossal drop, since it completely turned its back to progress. The losses suffered as a result of rejecting to accept the necessary reorientation were immense. Secondly, the devastating consequences of the NATO-imposed war, when the country's available economic resources were demolished, making it impossible in most cases to restart production. Serbia had a quite strong industrial sector, which represented an important factor of economic security. Thirdly, the large number of young people left the country during 1990's, a trend that continued in the following period, resulting in the fact that Serbia lost a significant development potential. The trend of young people leaving the country in search for better conditions also continued in the liberalisation period. Fourthly, Serbia has an aged population. According to the 2011 census, the average age of population is 42.2 years, while 20% of the population is older than 65, which ranks Serbia on the list of 10 countries with the oldest population in the world. Fifthly, as a non-institutionalised country, Serbia suffers additional losses. Lack of order that is constantly suppressed is deeply rooted, while its protagonists slowly and with difficulties discard the habits that support such state of affairs. Sixthly, corruption is deeply rooted and generally affects the society at all levels. This takes its toll in form of significant GDP losses.

Economic circumstances determine the totality of occurrences in the entire society, above all social consciousness of its political and economic protagonists. Undeveloped economy is reflected in undeveloped representations of economic concepts, which as a result has a weak stimulus coming for the sphere of mind. This inadequate social consciousness should be understood in two ways, as a product of circumstances and as a brake that halts the desperately needed faster progress.

Institutional circumstances

During the last decade, a complete institutional re-arrangement has been accomplished. New institutions have been conformed to the EU standards, created according to the EU models and introduced with a strong assistance by the World Bank and the EU. All institutional circumstances have an impact on the quality of financial reporting in a society. Given below are the main characteristics of institutionalisation in the light of corporate financial reporting with an emphasis on public enterprises.

The starting point for regulations in corporate financial reporting is the legal framework. All economic regulations affect public enterprises, some fundamentally, some marginally, some of them generally, some specifically. Listed below are cardinal laws and, in outlines, their relevance for corporate financial reporting of public enterprises.

The primary law in this sense is the Law on Economic Entities, which stipulates a group of the most important determinants for constitution and functioning of economic entities. This law was last amended in 2018. Those amendments introduced many innovations; however, financial reporting was not subject to any significant changes. The amended provisions of the law demonstrated the adherence of Serbia to further changes, testifying to a genuine convergence with the EU framework.

The 2016 Law on Public Enterprises introduced a number of novelties that affect constitution and management of public enterprises. Among many novelties, two are of central importance. The first one was introduced in the management sector. It brought about corporatisation and institutionalisation of internal audit and the audit committee. The other one is an introduction of significant reporting novelties. Both groups of measures imply a considerable improvement of the quality of reporting content, as well as of the institutions functioning in the framework of public enterprises. The real changes were effected in the field of financial reporting, implemented by the Ministry of Economy and encompassing a number of new forms.

The Accounting Law and the Audit Law have the most immediate impact on financial reporting. Introduced in 2013, they are based on no longer effective EU acts. These acts treat public enterprises as any other economic entity, which they really are. Public enterprises must conform to the above regulations, while the provisions of the Law on Public Enterprises represent special forms applicable only to public enterprises. Public enterprises are categorised as entities of public interest, therefore the provisions of the Audit Law stipulate that all public enterprises, regardless of their size, must engage an auditor for the purpose of issuing an opinion on financial information presented in their financial statements. Public enterprises in Serbia are legally obliged to submit annual financial statements, along with statistical financial reports, to the Business Registers Agency, while special long-term and short-term plans should be submitted to the Ministry of Economy.

THE STATE OF PUBLIC ENTERPRISES AND THE QUALITY OF FINANCIAL REPORTING

The real state of affairs is shaped by both legal means and practical actions. The aims direct the reality, and the reality has its capacity to adopt what is imposed by those aims, but also to resist it, as a result of inconsonance between interested parties and officially defined interests. The following pages interpret the state of reality in the light of several most important characteristics.

Inadequate structural organisation

Structural organisation of public enterprises is predetermined by legal solutions. These solutions are adopted as a part of general efforts to conduct an organisation of public enterprises introduced an actual corporate structure, that is, a truly modern solution. That solution represents a formal compliance with the law, while essentially nothing incessant reform, in which it is recognised that the structural organisation of public enterprises must be continuously improved and solutions that are the best prerequisites for a desired efficiency must be found. Although public enterprises are mostly associated with massive property, infrastructure, they are primarily intangible creation in which management structure plays an important role. New solutions for the structural have changed. Those enterprises remained a field in which the will of a ruling party is demonstrated. Their envoys are those who actually govern, while evading all the requirements of the law and failing to meet expectations of the public.

Corporatisation of public enterprises means introduction of a new dimension which is capable of producing results only if adequately treated. It means a group of measures by which such values are set, directions given, conditions organised that enable acting towards the chosen directions and aims and, lastly, by which actions towards attaining goals are controlled. Corporate governance is above management; hence, a serious problem occurs related to interference of the former into the activities of the latter. In normal circumstances, this is not tolerable and it produces not only derogation of the management motivation and limits its operating scopes, but also represents an attack on responsible behaviour and efficiency of work of public enterprises. Corporate governance is an agent of public interest and it is under ever-increasing public scrutiny, which shall certainly not subside (2,90).

All issues related to insufficiently profiled structure of public enterprises are reflected in financial reporting. Corporate governance and corporatisation are directly related. More powerful corporate governance bodies are necessary prerequisite for strengthening the quality of public enterprise financial reporting.

Firstly, corporate bodies are based on transparency, which is attained by transparent reporting. A more agile role of corporate governance would mean more pressure on management that its information becomes more transparent. In the absence of the above, a lower level of transparency occurs as an important characteristic of financial reports. Secondly, in large majority of cases the internal audit function is not established in those enterprises. Internal audit is a key element in that respect. Without this function, there is no supervision over internal control systems of public enterprises and, consequently, no supervision of financial reporting in its entirety. A lower level of control means a higher possibility of existence of deficiencies in financial statements, that is, lower level of reliability of financial information.

Insufficient market orientation

Public enterprises are associated with public life, providing conditions for life and sustainability and development of quality of life. They are defined as enterprises, as market entities that are subject to general economic principles of doing business, on the one hand, but also as factors of the quality of life in a society, on the other. A dual nature of their aims leaves space for alternative placement of emphasis on their being a market and general social instrument. The former function becomes dominant when the ownership is undergoing privatisation and the latter when the ownership belongs to the state. Serbian public enterprises are exposed to pressure to become organised in form of an economic entity, believing that it will bring betterment. The powers of mistrust towards the private ownership base their opinion on the fact that private ownership will marginalise public interest; the powers in favour of privatisation derive their arguments from the insufficient efficiency and low quality of public enterprises held by the state. It is an undeniable fact that Serbian public enterprises operate with abnormally low prices and that in present conditions citizens with low purchasing power are not capable of bearing higher price of services.

In any case, the market aspect here symbolises a request to organise production of public sector goods and services in a more rational manner, the request to rationalise all production factors, to cut high payroll costs which are the result of unproductive hiring, and to apply optimisation rules on all assets with respect to their aims and tasks. In addition, it is also an undeniable fact that management in public enterprises is not making a sufficient effort to increase productivity and general efficiency, because, among other things, conditions that would lead them into that direction, control them and stimulate economically, have not been met yet.

In any case, the Law on Public Enterprises includes a provision on their aims which states that public enterprises operate, among other things, in order to generate profit. In the countries in the region, public enterprises have a status of an economic entity in its true sense, as it is the case with

any other economic entity. It is certain that in this respect we must harmonise ourselves with the requirements of EU regulations.

Financial reporting suffers consequences from an insufficient market orientation of public enterprises. The elements of negative impact on the quality of financial reporting are not only the mere fact that these enterprises have not enhanced the market criteria of evaluation of all items in financial statements, but also the fact that they are not sufficiently supervised by those who define the success criteria. The authorities that supervise financial reporting (local self-government units, the ministry of economy and the ministry of finance) do not have capacities (they do not have established clear control instruments, while in cases where such instruments exist relevant procedures are not applied; they do not have a well-qualified staff or resources) to perform its expected and legally stipulated function; hence, they become direct causes of low-quality financial and non-financial reporting of public enterprises.

Insufficient efficiency

Public enterprises are driven by capital. Capital employed in public sector is a part of the total capital of a society and there is no reason why (with specific restrictions) it should not function based on principle of maximising yield on capital. Yield on capital in the economy and yield on capital in public enterprises are considered important elements of any comparison made between public and commercial sector. And the records state that public sector attains far lower results in comparison to those achieved by the commercial sector.

The causes of inefficiency are looked for in the input. In this area, many facts can be observed: inappropriately high number of employees in comparison to what is actually required; inadequate structure with respect to long-term and short-term assets, excessive equipment, irrational use of materials and many others. Under the condition of controlled service prices, cost-effectiveness is attained by means of rationalisation of input. The perception of the public is that public enterprises are not trying to keep the costs down. Studies support this opinion.

Inadequate efficiency produces unsatisfactory results and their joint effect impairs the integrity of financial statements. Low efficiency is a phenomenon manifested in many respects and accompanied by low salaries of public enterprise employees and general dissatisfaction. An inefficient company will hardly be able to attract highly-qualified professionals, who represent a necessary precondition for quality financial reporting.

Poor financial standing

Poor financial standing most clearly manifests itself in insolvency. It is a well-known fact that public enterprises are heavily indebted, borrowed money both excessively and without any criteria, and, as a result of burden of debts and inability to repay them, entered a deeper and deeper crisis. The situation is the gravest in large state enterprises (Srbija Gas, RTB Bor, Železnice Srbije), which place a heavy burden to a Serbian budget. Such a difficult burden that the World Bank placed it under its scrutiny, analysed and determined the ways how to organise and remove them as generators of state indebtedness, but also as driving forces of insolvency chain, as a result of their own inability to service debts in due time. A similar situation, although a far less severe, exists in many public utility enterprises.

There is a complex of causes of insolvency, starting from structural factors to daily behaviour concerning disposal of liquid assets. Sometimes it happens that in the beginning public enterprises do not have sufficient liquid assets, that is, not enough current assets. It is an initial handicapping factor. In other cases, inobservance of financing rules (in particular, financing investments from current assets) devastates operating financial ability of an enterprise. Whatever

the cause is, it is an undeniable fact that public enterprises in Serbia suffer from a chronic lack of current assets, that is, they are chronically insolvent.

Poor financial standing in itself represents a threat to integrity of financial reporting, which is clearly stated in several financial reporting and audit standards. Those threats have such long-reaching implications that endanger the going concern assumption. Other consequences are that such enterprises, for the purpose of improving unfavourable picture, are brought under pressure to apply fraudulent accounting practices, which means falsifying financial statements. Management, whose reputation depends on financial constitution and financial success of public enterprises they run, is under pressure to search for and find all possible ways to avoid presentation of a real situation. Furthermore, this pressure represents a threat to accounting professionals to find illegal solutions and in such manner deviate from the standards of presentation of financial information. Another fact related to such state is that well-qualified accounting professionals leave public enterprises, as a result of both jeopardizing their professional integrity and poor working conditions.

Poor reputation

All problems related to economic weaknesses of public enterprises create a precondition for their poor reputation. Enterprises that do not enjoy good reputation in public can hardly attract management and professionals with high aspirations. The rule is: the higher the reputation is, the higher the power to attract is.

Insufficient human resource attracting power has a reversal effect on weakening the position in economic organisation and efficiency. Poor reputation is a meta-phenomenon, based on all tangible and intangible circumstances of functioning of public enterprises. Poor reputation in the mind of people is immediately linked with dubious financial statements. Poor reputation is a synonym for general weaknesses, hence the weakness of accounting and finance function. If this function is deficient, it is immediately assumed that its products – financial statements – are poor.

Poorly-coordinated financial reporting institutions

There is a number of factors that are above public enterprises, whose activities, if complied with regulations, would significantly contribute to accomplishing functions of public enterprises and, consequently, financial reporting. Those factors are the following: the State Audit Institution, the Ministry of Economy, the Ministry of Finance, the Property Management Directorate, investigating bodies and legal authorities. It is a generally-known fact that they suffer from significant weakness, which leaves an ample space for their improvement.

The exception to the above is the State Audit Institution, which acts according to standards, undergoes constant coordination with European institutions and produces its findings, which are worth only to the extent they are applied. For financial statements of public enterprises, the condition of organisation of publicly-owned assets is important, which means functioning of all factors responsible for their management and control. The State Audit Institution, in its document 'Disposal of immovable property owned by the Republic of Serbia', stated on the first page of its report: 'The Republic of Serbia does not have accurate data on the number and value of its immovable property, as a result of lack of action by the competent authorities and users and shortcomings of regulations. The Republic of Serbia's Property Directorate has not established uniform records of immovable property owned by the Republic of Serbia...' (5.3). The Report did not produce a strong impact in reality, as no one acted according to its findings and recommendations. To describe conditions in all institutions mentioned in this Report is futile. Not only had the State Audit Institution drawn attention to these institutions. A glance at the 2018 European Commission Report for Serbia (4) can give clear signals with respect to who is resisting the calls for improvement.

In public sector an action is taken only if willingness from the top echelons exists (and usually it does not) and in case of prosecution of those who do not observe the law (which hardly ever happens). The consequences of non-existence of the records on capital assets, such is immovable property, are immense. Absence of established records and adequate valuation represent a heavy blow to the integrity of financial statements of owners and users of publicly owned property.

IMPENDING CHANGES

'Most politics have market implications. As money is getting short, the manoeuvre space for holders of political decisions is getting smaller' claims Bovaird and Loeffler and continue saying that with the crisis 'imperatives for reforms in public sector become more sluggish, while the fact remains that reforms of public services must be governed in a cost-effective and efficient manner (1.16). As a country that strives towards integration in the EU system, Serbia will be under relentless pressure to reform public sector and public enterprises in particular. This is also emphasised in all documents of the World Bank, International Monetary Fund and the EU which addressed these issues in Serbia. When considering what is to be done in order to improve the quality of financial reporting, the answer leads to two paths: the first is strengthening the economic position of public enterprises, while the other concerns measures aimed at strengthening the conditions for quality financial reporting. The former is the primary field of action, whereas the latter is to a large extent conditioned by the results in the primary field of action. Let us call the first group of measures strengthening the capacity of public enterprises, while the second can be named strengthening financial reporting.

Strengthening the capacities of public enterprises

The key issue is what the structural organisation of public enterprises is, that is, what are the aims and strategies of their use. Structural organisation is based on strategies and aims, stipulated by laws that regulate them. These laws are the assumption on which these enterprises are based. In many respects, legal requirements are met and public enterprises are converged with EU requirements. The issues related to the implementation of legal provisions, addressed in this paper, remain to be resolved.

Strengthening the capacities of public enterprises through reforms

Reforms and reforms. That means constant introduction of novelties into structural organisation and behaviour of public enterprises. The aim of all these activities is to improve their performances. Remedies for inefficiency of public enterprises are extensively discussed and solutions are searched for. As a possible solution, privatisation is frequently mentioned. To privatise public enterprises or not? It is a question that has been lingering for decades among public, expert circles and in governments' agendas. Impression is created that they are the only two solutions available, whereas this is not the case. D. Detter and S. Foelster in their book, which was a planetary bestseller last year, clearly claims that the above discussions fail to mention and oversee – the right option. It concerns 'the quality of public property management' (1.12) as a strangely overlooked factor, a factor with a decisive role on whether the use of public property will produce the effects that it is able to produce. Only effectively structured management of public property can reduce to a minimum impact of corruption, dysfunctionality and miserable results of its use.

Strengthening the capacities is related to all conditions which can become, by means of better management, a factor of improving the quality of services and more efficient and effective use of resources which it has at disposal. The 2016 European Commission Report for Serbia emphasises the unfinished process of reforming public enterprises (6.41), but also high susceptibility of privatisation processes to corruption. Serbian public enterprises are awaiting many reforms,



many of which were previously marked but not implemented. The list of impending reforms includes:

- *Consolidation of publicly-owned property* Consolidation of publicly-owned property has not been finished. There are many deficiencies in this respect and many losses which are not presented to public (7.21). Despite substantial donations and institutionalisation, there are a number of deficiencies and problems observed in the special report prepared after performed assessments.
- *Strengthening the market nature of public enterprises.* This is a problem that still remains and resolving of which is constantly insisted on. The model for its solution can be found in the countries in the region.
- *Introduction of corporate governance.* In this area, much has been done and much has been defined by the law. What creates the problem is the fact that legislation is only formally adopted, while in fact everything remained as it was. Much additional initiative and the more active role of the competent minister are required, as well as by-law regulation and supervision.
- *Strengthening the founder's function.* The founders of public enterprises are mainly active when they insist on receiving a half of a profit payment. The founder does not possess a capacity to run public enterprises. It has no built-up bodies, no management and control instruments, it is not structured for that function. Pressures aimed at bringing about a reform are expected in this area. Reforms are not focused only on internal changes in public enterprises, but also on all external bodies which are a significant factor of guiding, controlling and restraint.
- *Professionalization of management.* A problem of management professionalization is still of current relevance, and concerns the issue of the status of political parties and corporate governance.
- *Depoliticization has not been accomplished.* Public enterprises are in the hands of political parties and there is no decisive power in sight which would be able to break the bond between the political parties and public enterprises. As long as there are no new mechanisms for separation between political parties and public enterprises, there will be many problems. Management must have a status that is dependent on economic results and not on loyalty to political parties.
- *Activation of potential of public-private partnership.* No legal conditions have been created for this activation; there is no clear and transparent way for initiating this partnership, potential protagonists are insecure; therefore no improvement in this area.

Strengthening of the financial reporting factor

The 2018 European Commission Report for Serbia emphasises the non-conformity between the Serbian financial reporting system and EU legislation and the need for a further compliance with the requirements of *aquis communautaire* (6.58). The ROSC Report examines in detail (3.122-130) circumstances of financial reporting in Serbia and outlines the directions for further reforming of financial reporting (3.52). According to the National Strategy of Corporate Reporting and Audit 2011-2018 (9), the year 2018 has been marked as a year in which domestic financial reporting legislation is to be conformed with the EU legislation.

It is the end of the year, the conformation process is in progress, but the results are still lacking. The following changes in the field of strengthening financial reporting are to be effected:

- *Compliance with the EU legislation.* New accounting and audit EU directives adopted in 2013 were not introduced into domestic legislation, this issue is on the agenda and legal

compliance is to be performed, which will be followed by institutional changes and coordination of practical protagonists performed on new foundations.

- *Strengthening the reporting capacities of public enterprises.* Poor effectiveness and low salaries and incentives for accounting professionals cannot be an attracting power for well-qualified accounting staff. Financially strong enterprises can also be attractive for accountants.
- *Stricter supervision of financial reporting.* Poor supervision over financial reporting of public enterprises. There is no supervising body which would focus attention on the quality of financial information of public enterprises; hence, a poor discipline of financial reporting.
- *Stricter inspection of financial statements.* Financial statements of public enterprises have many irregularities, no one is addressing these issues; irregularities are not found out and the perpetrators are not indicated.
- *Stricter prosecution of those who present irregular financial statements.* Legal authorities are not involved in this field, they have neither capacities nor willingness to address these issues; therefore, far more agility is expected in future from legal authorities, which requires creating proper conditions.
- *Stronger awareness of importance of financial statements.* All previously emphasised circumstances related to public enterprise financial reporting indicate that this field is much neglected, and in such conditions protagonists have neither the awareness nor understanding of importance of financial information. The World Bank noticed this fact and formed a special programme for raising awareness on financial reporting. However, raising awareness depends on all the above-mentioned factors, and their activation is a significant driving force leading into this direction.

To sum up, the quality of public enterprises' financial statements is a very complex issue, which means that it is necessary to work at all levels and in a coordinated manner. Only when completion of measures and their coordination are attained, a progress in this field can be expected.

REFERENCES

- Bovaird, T., Loeffler, E.** (2009). *Public Management and Governance*, Routledge, London
- Busarac, R.** (2018). Nova rešenja u zakonu o privrednim društvima i korporativno upravljanje u javnim preduzećima, *REVIZOR* Vol 21 No 83/2018
- CFRR**, Report on the Observance of Standards and Codes on Accounting and Auditing, Republic of Serbia 2015
- Detter, D., S. Foelster.** (2015). *The Public Wealth of Nations: How Management of Public Assets Can Boost or Bust Economic Growth*, Palgrave Macmillan, London, 2015
- DRI**, Godišnji izveštaj o radu Državne revizorske institucije (<http://www.dri.rs/документи/годишњи-извештаји-о-раду.43.html>)
- European Commission**, Serbia 2018 report - <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-serbia-report.pdf>
- Milojević, M.** (2018). Finansijsko izveštajne promene u Srbiji 2018, *REVIZOR*, Vol 21 No 83/2018
- Milojević, M.** (2017). Sređivanje imovine u javnoj svojini, *REVIZOR*, Vol 20 No 78/2017
- Nacionalna strategija za unapređenje korporativnog finansijskog izveštavanja i revizije 2011 – 2010, ministarstvo finansija Srbije
- Statistika NBS** / <https://www.nbs.rs/internet/cirilica/80/index.html>

Article history:	Received: November 25, 2018
	Accepted: December 19, 2018