IMPACT OF SCHEMES ON THE FORMATION OF FINANCIAL STATEMENTS IN THE PUBLIC SECTOR

ABSTRACT: Users of public funds are required by law to prepare financial reports, which provide information on the financial position, results, and changes needed by management in making their economic decisions. The government of the Republic of Serbia continued with the public financial management reform program for the period 2021-2025, which, among other objectives, includes a special focus on improving accounting in the public sector by applying international public sector accounting standards (IPSAS). These standards will achieve greater transparency of reporting because they will provide information on the assets, liabilities, net assets, income, and expenditures of the entire public sector using the accrual basis of accounting.

The strategic goal of accounting in the public sector of the Republic of Serbia is the full implementation of IPSAS by 2034. To achieve this goal, we need to unify the accounting software of

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the budget users, the main books, auxiliaries for easier business, and consolidation. Automation of postings in the treasury's general book and compilation of financial reports will also be necessary. We will achieve more reliable and objective financial reporting by improving information technology to incorporate criminal schemes, which will help us detect errors well and provide sufficient perspective, whether intentional or unintentional, and contribute to more economic, efficient, and effective management of public funds. In this endeavor, a young scientific discipline, forensic audit, will help us with many specificities.

The government and its institutions are interested in information on the efficiency of using allocated resources to define fiscal policy and to maintain statistical records on national income and other data necessary for leading the policy of development of the national economy.

**Key words:** schemes, audit, financial reporting, public sector, Accounting Standards, forensic audit

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**INTRODUCTION**

With the Public Financial Management Reform Program for the period 2021-2025, the Government of the Republic of Serbia has continued the reforms of the public financial management subsystem initiated in the previous five-year period. The general goal is to achieve a sustainable budget with stable public debt relative to GDP (Gross Domestic Product). Achieving this goal includes a specific objective - improving accounting in the public sector by applying the International Public Sector Accounting Standards (IPSAS).

A key element of good governance is the transparency of public finances, which is achieved by applying IPSAS and publicly presenting financial reports covering all entities in the public sector. The application of International Accounting Standards and international statistical standards in public sector accounting enables detailed reporting and presentation of financial statements with information on program performance, all aimed at making quality decisions.

The responsibility for using public funds increases with the application of international accounting standards, leading to more economical, efficient, and effective public fund management. Transparency in reporting is achieved through the application of IPSAS, as using the accrual accounting basis...
provides information on the assets, liabilities, net assets, revenues, and expenses of the entire public sector. "Implementing accrual accounting primarily requires establishing cash basis accounting and reporting in accordance with IPSAS on a cash basis." (https://www.trezor.gov.rs)⁴

Significant improvement in the quality of financial statements will be achieved with IPSAS, together with the required disclosure of information. IPSAS requirements for presenting financial information on a cash basis, along with disclosure and accounting policies, lead to a transition to the accrual accounting basis in the public sector. The strategic goal of public sector accounting in the Republic of Serbia is the full implementation of IPSAS by 2034. Financial reporting using IPSAS provides information and ensures international comparability, as it is uniform and understandable to a wider range of users and, most importantly, to funds from foreign sources. Financial reporting is of great importance to investors and other participants in the financial market, influencing decisions related to the allocation of their resources, as well as to regulatory bodies and many other users. The trust of all these users in “the transparency, integrity, and quality of financial reporting is crucial for global financial stability and balanced economic growth.” (Zajmi, 2013. pp. 60-68) ⁵

ROLE AND SIGNIFICANCE OF FINANCIAL REPORTING IN THE PUBLIC SECTOR

Users of public funds compile financial statements to provide information about the financial position, results, and changes necessary for management to make their economic decisions. Similarly, the Final Budget Statement of the Republic of Serbia (Financial Report) portrays the success of the Government of the Republic of Serbia and illustrates the results of its management of resources entrusted to it by the Assembly and all citizens.

The integral parts of financial statements are interrelated, as they present the same financial positions from different perspectives in the forms of a set of financial statements.

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⁴ https://www.trezor.gov.rs
Table 1. Comparative overview of amounts stated in financial positions in financial statement forms

<table>
<thead>
<tr>
<th>No.</th>
<th>Account Description</th>
<th>Amount</th>
<th>Account Description</th>
<th>Amount</th>
<th>Account Description</th>
<th>Amount</th>
<th>Account Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>70000</td>
<td>80000</td>
<td>2001 - Current income and revenue from the sale of non-financial assets</td>
<td>803.072</td>
<td>4001 - Cash inflows</td>
<td>803.072</td>
<td>5001 - Current income and revenue from the sale of non-financial assets</td>
<td>803.072</td>
</tr>
<tr>
<td>2</td>
<td>70000</td>
<td>80000</td>
<td>2002 - Current income</td>
<td>788.234</td>
<td>4002 - Current income</td>
<td>788.234</td>
<td>5002 - Current income</td>
<td>788.234</td>
</tr>
<tr>
<td>3</td>
<td>80000</td>
<td>50000</td>
<td>2104 - Revenue from the sale of non-financial assets</td>
<td>14.838</td>
<td>3002 - Revenue from the sale of non-financial assets</td>
<td>14.838</td>
<td>5104 - Revenue from the sale of non-financial assets</td>
<td>14.838</td>
</tr>
<tr>
<td>4</td>
<td>40000</td>
<td>50000</td>
<td>2129 - Current expenses and expenditures for non-financial assets</td>
<td>789.111</td>
<td>4169 - Cash outflows</td>
<td>789.111</td>
<td>5170 - Current expenses and expenditures for non-financial assets</td>
<td>789.111</td>
</tr>
<tr>
<td>5</td>
<td>40000</td>
<td>50000</td>
<td>2130 - Current expenses</td>
<td>769.972</td>
<td>4170 - Current expenses</td>
<td>769.972</td>
<td>5171 - Current expenses</td>
<td>769.972</td>
</tr>
<tr>
<td>6</td>
<td>50000</td>
<td>60000</td>
<td>2298 - Expenditures for non-financial assets</td>
<td>19.139</td>
<td>3068 - Expenditures for non-financial assets</td>
<td>19.139</td>
<td>5339 - Expenditures for non-financial assets</td>
<td>19.139</td>
</tr>
<tr>
<td>7</td>
<td>32112</td>
<td>1225</td>
<td>Excess of income and revenue - surplus</td>
<td>13.961</td>
<td>2355 - Excess of income and revenue - surplus</td>
<td>13.961</td>
<td>5434 - Excess of income and revenue - budget surplus</td>
<td>13.961</td>
</tr>
<tr>
<td>8</td>
<td></td>
<td></td>
<td>4430 - Excess of cash inflows</td>
<td>13.961</td>
<td>5440 - Excess of cash inflows</td>
<td>13.961</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td></td>
<td></td>
<td>4431 - Cash balance at the beginning of the year</td>
<td>11.020</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td></td>
<td></td>
<td>4432 - Correction of cash outflows for the amount of expenses paid not recorded through classes 400000, 500000, 600000</td>
<td>943</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>12108</td>
<td>24.038</td>
<td>Cash, precious metals, securities</td>
<td>24.038</td>
<td>4438 - Cash balance at the end of the year (8+9+10)</td>
<td>24.038</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Source: Author Dimitrijević and another, 2013.)

To gain an understanding of users of public funds and their financial position and business success, it is necessary to be able to read and analyze data and information from the financial report as a whole. For example, having a positive financial result (surplus) in the income statement does not...
automatically mean that the public funds user is performing well because the surplus may serve to increase funding sources and cover losses from the previous year, as seen in the balance sheet. Also, if we examine the result within the cash flow statement, we can assess whether the public funds user will operate successfully in the future.

For a comprehensive analysis of data and information from the set of financial statements, additional notes, explanations, justifications, tabular presentations, etc., are compiled to provide specific assessments and to indicate any risks related to the operation of public funds users. Financial statements will be of high quality if they meet formal and material correctness. Formal correctness implies that public funds users have applied IFRS (International Financial Reporting Standards) as well as relevant legal regulations in the Republic of Serbia (Budget System Law, Accounting Law, Regulation on Budgetary Accounting, Rulebook on the Method of Preparation, Compilation, and Submission of Financial Statements of Budget Funds Users, Users of Funds of Mandatory Social Insurance Organizations, and Budget Funds, Rulebook on the Standard Classification Framework and Chart of Accounts for the Budget System, Rulebook on the Content and Form of Financial Statement Forms for Companies, Cooperatives, and Entrepreneurs, etc.) when preparing financial statements.

In the Republic of Serbia, it is also prescribed that "the Government regulates in more detail budgetary accounting and the manner of keeping the consolidated treasury account. The Minister regulates the manner of keeping budgetary accounting and the content and method of financial reporting for direct and indirect users of budget funds, users of funds of mandatory social insurance organizations and budget funds of the Republic of Serbia and local governments, and may issue special instructions on financial reporting for certain state administration bodies. The Minister determines the method of reporting on total revenues and receipts and total expenditures and payments for the treasuries of local governments. The Minister regulates the method of preparation, compilation, and submission of financial statements for direct and indirect users of budget funds, users of funds of mandatory social insurance organizations, and budget funds of the Republic of Serbia and local governments." (Law on the Budget System, Article 75.)

The Budget System Law prescribes the obligation to prepare for the application of International Public Sector Accounting Standards (IPSAS) for all public funds users, except for public enterprises and other organizational forms in the public sector that apply International Accounting Standards (IAS). Three measures are planned to improve public sector accounting with the application of IPSAS: "1. Analysis of the current state of public sector accounting and the development and implementation of a Plan for the improvement of public sector accounting; 2. Improvement of the professional
3. Improvement of the coverage of accounting data through the application of international public sector accounting standards. (https://www.trezor.gov.rs)

To implement these measures, strategic decisions for improving public sector accounting and activities for their implementation need to be made. The improvement of accounting will be achieved by enhancing personnel, national regulations, and information support. To implement the Public Financial Management Reform Program (PFMRP) for the period 2021-2025, the Republic of Serbia has adopted an action plan for the specified period, defining institutions responsible for implementing measures and partners in carrying out activities, setting deadlines for completing activities, estimating total financial resources by sources (funding source, connection with the program budget), and conducting a risk analysis for implementing PFMRP 2021-2025. Material correctness relates to the coverage and assessment of the effects of business events and transactions in accordance with generally accepted accounting principles, principles of proper balancing, accounting conventions, rules, and practices. International Financial Reporting Standards provide a framework for the preparation and presentation of financial statements. Therefore, they are intended for the public interested in the content of the information being presented, which must be verifiable, timely, and understandable.

To achieve the goals of financial reporting, public funds users need to adhere to generally accepted accounting principles or principles. Principles represent accounting conventions that ensure financial statements are reliable, understandable, and comparable, all to provide an information basis for making business decisions. The following principles hold a special place:

1. Consistency Principle: Requires the consistent application of selected valuation rules from period to period, with changes allowed only if new circumstances justify them from the perspective of accurate reporting.
2. Prudence Principle: Aims to protect creditors and prevent overestimation of a company's net assets. This includes the realization principle (only realized gains are considered) and the impairment principle (all possible obligations and potential losses must be considered).
3. Accruals Concept: Transactions are recognized at the time of occurrence, giving priority to the moment of revenue generation, and expenses are linked to the revenues for which they occurred.
4. Individual Assessment Principle: Components of assets and liabilities should be assessed separately.
1-23) Considering the emphasis placed on the financial reporting of public sector entities, we must mention the concept of stewardship of other people's assets and the concept of public accountability. In the Republic of Serbia, this concept is equated with the term "rukovodjenje," which translates to management. This may not be the most fortunate solution because the phrase "stewardship of other people's assets" has a much broader meaning and more accurately reflects the essence of the concept. According to Higson, in its earliest form, stewardship of other people's assets represented guardianship over goods on behalf of another person, with the aim of preventing theft and fraud. (Ermić-Đođić, J., and another, 2017, pp. 224-246)

The assets managed by public sector entities are entrusted to selected individuals for administration, and these individuals should respect the requirements of the concept of stewardship of other people's assets when preparing and presenting financial reports. Based on the information presented in the reports, users of financial statements will assess whether the entity's management has acted as responsible stewards of public assets.

The quality of financial reports depends on the quality of the established accounting system. The government's accounting system can consist of two interconnected subsystems: budgetary accounting, which tracks the implementation of the adopted budget, and accounting focused on the reporting entity (local self-government, the entire general sector of the state, etc.), encompassing all resources, obligations, and performance elements of the entity.

Financial statements of users of public funds that encompass all accounting elements (revenues, expenses, assets, liabilities, and net assets), in line with the strategy of the Government of Serbia, should be prepared in accordance with IPSAS. State accounting should track assets, liabilities, net assets, revenues, and expenses on one hand, and budgetary elements on the other hand.

In the Republic of Serbia, cash basis is used for budget adoption and reporting (with certain modifications). "Simultaneously, for financial reporting purposes until 2033, cash basis is envisaged, and then a transition to accrual basis." (https://www.trezor.gov.rs)

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7 Davidson, V. (1983). Weil: Handbook of Modern Accounting, Third Edition, McGraw-Hill, pp. 1-23. Most principles have emerged from accounting and financial reporting practice, and more recently from the activities of bodies such as the International Accounting Standards Board (IASB), the International Federation of Accountants (IFAC), bodies and commissions of the Council of the European Union.
The treasury's general ledger contains, in addition to budgetary and other accounting elements (assets and liabilities, as well as part of revenues and expenses), as stated in Article 11 of the Budget System Law: Transactions and business events, including revenues and expenses, as well as changes in assets, liabilities, and capital, are recorded in the treasury's general ledger in accordance with the chart of accounts and at the budget classification level. The accounting software applications of budget users should be standardized in terms of forming the structure of journals, general ledger, subsidiary ledgers to facilitate business monitoring, enable consolidation, reduce the possibility of errors, and automate entries in the Treasury's general ledger and the preparation of financial statements.

SCHEMES IN FORENSIC AUDIT

Forensic audit, as a young scientific discipline, is rich in many specific features. What sets it apart and makes it distinctive are the criminal schemes. Regardless of the advancements in information technology, criminal schemes are categorized in a way that they can still sufficiently and insightfully uncover errors, whether intentional or unintentional. The Association of Certified Fraud Examiners (ACFE) has provided the following classification of criminal schemes.

1. Financial statement fraud,
2. Asset misappropriation, and
3. Corruption. (Singleton, and another, 2010., p. 112.)

IMPACT OF SCHEMES ON THE FORMATION OF FINANCIAL STATEMENTS IN THE PUBLIC SECTOR

When discussing schemes, each one is equally important and holds significant importance both in academia and in practice. Due to the relevance of the topic, the decision is to consider the first mentioned scheme in this classification, which examines fraudulent activities in financial statements, and assess its impact on financial reporting. When we talk about the preparation of financial statements and the influence of these types of schemes on them, we primarily refer to the tangible and intangible assets of the

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enterprise and the potential for their misuse. It is essential to emphasize that if we discover a fraudulent activity during the preparation of financial statements, "the trace of the criminal act is followed back to its root or beginning, regardless of when it was committed." (Petković, 2010, pp.192.)

While legal regulations, ethical codes, and International Accounting Standards emphasize the importance of financial statements and the need for the information they contain to be truthful, objective, and accurate, it is not uncommon for this narrative to show a completely opposite side. It remains only to determine whether errors in financial statements resulted from insufficient knowledge during their preparation, accidental mistakes, or intentional deception. It should be noted that the primary focus of financial reporting is "to provide reasonable assurance about the existence or non-existence of material misstatements in the financial statements, regardless of the reasons." (Lekić, adn another, 2018., pp.157.)

Table 2. A brief test of some well-known symptoms of criminal activities includes the following controls

<table>
<thead>
<tr>
<th>Serial No. Controls</th>
<th>Type of Control</th>
<th>Result with evidence</th>
<th>Date</th>
<th>Person who conducted the audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Check incoming invoices with the same number</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Check outgoing invoices with the same number</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Check the regular sequence of invoice numbers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Check the regular sequence of book entry numbers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Compare quantities on the delivery note with the quantity on the invoice</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Compare the earmarked spending of funds with the implementation of the approved plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Compare the realization of positions in the approved procurement plan and positions in the approved financial plan (annual business plan)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Check the implementation of contracts with tender documentation and invoices and delivery notes</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Source: authors)

The test model can serve as an example of best practices both in the public sector and in the industry for detecting fraudulent activities. By applying this well-designed test model, symptoms of fraudulent activities in financial statements can be more likely identified. The questions in the test model have been carefully crafted based on the experience of over 200 checks. The way they are defined also represents controls that can prevent these activities. The result of the presented test model, after being applied in the practice of any legal entity, significantly assists in both detecting fraudulent activities and achieving more reliable and objective financial reporting, thereby fulfilling legal obligations. At the same time, it serves as a warning sign for specific fraudulent schemes. (Eremić-Đođić, 2020., pp 49.) The designed test model is of great significance both in scientific research and in practice.

CONCLUSION

The global community should collaborate on establishing financial standards and harmonizing International Financial Reporting Standards (IFRS) with the Generally Accepted Accounting Principles (GAAP) in the United States to achieve transparent financial reporting. Transparency, integrity, and the quality of financial reporting are crucial for global financial stability and economic growth. The plan for improving accounting in the public sector in the Republic of Serbia, as a planned activity, will significantly strengthen the public sector accounting system to align with international standards. All users of public funds are required to publish financial plans for the next year, work information, as well as final accounts and financial reports on their website for budget transparency.

The Government of Serbia has committed to transitioning from cash to accrual basis primarily for the benefit of entities in the public sector of the Republic of Serbia. Guidelines for public sector entities must be developed to transition from cash to accrual basis. The Government of Serbia's commitment is to transition to IPSAS on an accrual basis, so it would be most rational to align this report immediately with IPSAS 2 – Cash Flow Statements. The Ministry of Finance, or the Treasury Directorate, should adopt regulations on accounting policies as the basis for recording business transactions and events. Accounting information is used by internal and external users (management, employees, capital owners - current and potential investors; creditors and other lenders; suppliers; customers; government, its bodies, and institutions; unions; consumers; the general public). Investors, based on financial statements, make

decisions about withdrawing, retaining, or increasing invested capital. The government and its institutions are interested in information about the efficiency of allocated resources to define fiscal policy, keep statistical records on national income, and other data necessary for the development policy of the national economy. The government is responsible for public administration operations and achieving its goals, and the final budget statement of the Republic of Serbia informs the public about state activities. Significant importance in implementing planning and control activities lies in decision-making information, i.e., the overall management process. Financial statements should be prepared in accordance with specific principles and financial reporting principles. Adhering to these principles will ensure truthful and objective reporting, leading to decisions based on them being adequate. Investors and creditors make relevant investment decisions using information from financial statements, thereby reducing the risk of their own business.

To make financial statements as realistic, precise, and accurate as possible, it is necessary to apply fraudulent schemes in financial statements. The proposed test model in this paper represents preventive controls that, when implemented, influence the quality of financial reporting for every legal entity in the public sector. A high-quality financial reporting system is a prerequisite for the functioning of financial markets and the increase of societal well-being.

REZIME
UTICAJ ŠEMATA NA FORMIRANJE FINANSIJSKIH IZVEŠTAJA U JAVNOM SEKTORU

Korisnici javnih sredstava obavezni su da po zakonu sačinjavaju finansijske izveštaje, koji obezbeđuju informacije o finansijskom položaju, rezultatima i promenama koje su potrebne rukovodstvu u donošenju njihovih ekonomskih odluka. Vlada Republike Srbije je nastavila sa programom reforme upravljanja javnim finansijama za period 2021-2025.godine, koji između ostalog obuhvata i poseban cilj - unapređenje računovodstva u javnom sektoru primenom međunarodnih računovodstvenih standarda za javni sektor (ipsas). Ovim standardima će se postići veća transparetnost izveštavanja, jer ćemo korišćenjem obračunske računovodstvene osnove dobiti informacije o imovini, obavezama, neto imovini, prihodima i rashodima celokupnog javnog sektora. Strateški cilj računovodstva u javnom sektoru Republike Srbije je potpuna implementacija ipsas do 2034. godine. Da bi smo kao država ispunili ovaj cilj potrebno je aplikacije računovodstvenog softvera budžetskih korisnika unificirati u pogledu formiranja strukture dnevnika, glavne knjige, pomoćnih knjiga kako bi se lakše pratilo poslovanje, sačinjava b
konsolidacije i na taj način bi došlo do smanjenja mogućnosti nastanka grešaka kao i do automatizacije knjiženja u glavnoj knjizi trezora i sačinjavanja finsansijskih izveštaja. Pouzdanije i objektivnije finsansijsko izveštavanje ćemo postići ukoliko unapredimo informacione tehnologije, na način da ugradimo kriminalne šeme kojima ćemo dobro i dovoljno pronicljivo otkriti greške: namerne ili nenamerne i doprineti ekonomičnijem, efikasnijem i efektivnijem upravljanju javnim sredstvima. U ovome će nam pomoći mlada naučna disciplina koja obiluje mnogim specifičnostima - forenzička revizija. Vlada i njene institucije interesuju informacije o efikasnosti korišćenja alociranih resursa radi definisanja fiskalne politike, vođenja statističke evidencije o nacionalnom dohotku i drugim podacima neophodnim za vođenje politike razvoja nacionalne privrede.

*Ključne reči:* šeme, revizije, finsansijsko izveštavanje, javni sektor, međunarodni standardi, forenzička revizija

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