APPLICATION OF FINANCIAL MANAGEMENT AND CONTROL IN INSTITUTIONS OF EDUCATION IN THE REPUBLIC OF SERBIA

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Abstract

Purpose: Only the accurate financial statements are the basis for making correct business decisions in every organization and also in the educational institutions in the Republic of Serbia. The obligation of the public sector is to implement them. Therefore, it is necessary to design an educational institution mechanisms that will manage the budget intended for this purpose through well designed internal controls. This is the way to achieve planned costs in the future.

Methodology/Approach: the authors analyze the following elements in this paper: duration/level of established financial management in educational institutions; curriculum for implementation and training of employees in order to establish financial management on a legally satisfactory level; access to initial training of teachers and other employees in educational institutions in the Republic of Serbia.

Findings: Financial Management and Control (FMC) is a system of internal controls based on the concept of risk management that is established by the managers of public funds users. The system includes all business transactions, cash flows, tender procedures and contracts, assets and liabilities in accordance with the law and regulations. The progressive or comprehensive implementation of financial management and control in education institutions requires time, and innovation can take into account the following: a change in - a way of doing ("process innovation"), a change in the context in which employee training is introduced. This analysis will show whether the financial management system exists in educational institutions, what kind of work process they have derived from and how the employed teachers in the Republic of Serbia perform their work. It will also show what are the main differences in the systems of individual regions in Europe and are there historical, political and cultural reasons for these possible differences. It should enable understanding of common issues, dilemmas and controversies related to FMC.

Research limitations/implications: Coordinated synergy of educational institutions, state government and legal regulations is an important requirement for unified treatment of the work process. The legal obligation of implementation the project of the FMC system not only stimulate better control of the costs of the budgetary operations of the Republic of Serbia, but also become the key element of an innovative solution that encourages the creation of new ideas.

Originality/Value of paper: The benefit from the establishing the FMC system, is both for the management and employees of the educational institutions to perform their work better. The Government of the Republic of Serbia has specifically defined the problem of establishing and implementing this new management method in the public sector through the Strategy of Development. The Law on the Budget System of the Republic of Serbia stipulates that the manager is responsible for the implementation of the FMC system. This approach enables us to make all the necessary documents and implement them into regular activities. At the same time we could see the differences in relation to the same institutions of the countries in the region.

Keywords: educational institutions, financial management and control, budget, internal controls, costs.
1 INTRODUCTION

Untimely recording of business events and their incorrect classification result in the inaccuracy of the financial statements. On the other hand, insufficiently controlled financial statements can provide various types of frauds that, in addition to the inaccuracy of the financial statements, lead to incorrect business decisions. Scandals and failures in companies seriously damaged the confidence of investors in the late nineties [1]. The results of these decisions lead to consequences that may be catastrophic for the operation of each institution. Their negative significance is especially evident when it comes to institutions financed from the budget (such as education institutions) because the consequences directly reflect the state budget. Therefore, the solution provided by the implementation of financial management and control has a great role and importance.

2 METHODOLOGY

This survey is anonymous. The survey results are used for internal research, in order to write a scientific research article, and some survey sheets make be business secrets. Please, assess the degree of importance of individual items by putting characters × in one field in each row, assign a score of 1 to 5 for that item. Score 1 mark the least important grade of the item, which is gradually increasing to the maximum value with grade 5. Please assign your grades in terms of the relative importance of particular features, i.e. a lower score does not mean the absolute irrelevance of an item, but only that it is in your opinion of a lower degree in relation to others.

| Institution name: educational institutions. | 1 | 2 | 3 | 4 | 5 |
| Importance of the general features: (Rate 1 to 5, 1 - not enough, 2 - poor, 3 - medium, 4 - sufficient, 5 - more than enough) |  |  |  |  |  |
| 1. Assess whether the business in your institution is regulated by procedures? | x |  |  |  |  |
| 2. What is the proportion of issed procedures in the work of your institution? | x |  |  |  |  |
| 3. Is there work-related training in your institution? |  | x |  |  |  |
| 4. How many employees apply the issued procedures in their work? |  | x |  |  |  |
| 5. Have you had employee training about the establishment of FMC? |  | x |  |  |  |
| 6. Assess how much the training prepared you for working in FMC? |  | x |  |  |  |
| 7. Assess how well the law has been complied when implementing FMC in your institution? |  | x |  |  |  |
| 8. Assess the application of internal control by COSO model in your institution? |  | x |  |  |  |
| 9. Assess how well the compliance component of the control environment in the implementation of FMC in your institution is complied? |  | x |  |  |  |
| 10. Assess how much the risk management component of FMC implementation in your institution is complied? |  | x |  |  |  |
| 11. Evaluate the extent to which the monitoring component of the FMC implementation in your institution is complied? |  | x |  |  |  |
| 12. Assess how well the information and communication components are complied when implementing FMC in your institution? |  | x |  |  |  |
| 13. Assess how well the monitoring and evaluation components of FMC implementation in your institution have been observed? |  | x |  |  |  |
| 14. Assess how much the FMC application has preserved the assets and other resources of your institution from negative business? |  | x |  |  |  |
| 15. Assess how FMC application has led to the increasing of responsibility in the performance of business results? |  | x |  |  |  |
| 16. How much the implementation of FMC helps a timely delivery of financial statements? | x | x |  |  |  |
| 17. Assess how FMC has helped to implement the activities in a proper and effective way? | x |  |  |  |  |
| 18. How much did the experience of other institutions in the implementation of FMC help you? | x |  |  |  |  |
| 19. Assess how much the implemented FMC has affected cost reduction in the future? | x |  |  |  |  |
| 20. How much implementation of FMC influenced the achievement of your business goals? | x |  |  |  |  |
| 21. How much the implementation of FMC has helped in the realization of the plan? | x |  |  |  |  |
22. How much FMC implementation has helped risk management at your institution?  
23. How much the control system has reduced the risk to an acceptable level?  
24. Assess is the established FMC system adequately monitored.  
25. Assess the compliance of educational institutions, the state, and legislation in the implementation of FMC.  
26. How much FMC implementation helped the controlling budget expenses?  

27. Is the application of procedures in your institution assessed by certified auditors?  
   Answer: 64.35% answered yes.  
28. Is the implementation of the FMC system a legal obligation?  
   Answer: In some institutions FMC is a legal obligation, while in others is not.  
29. Write the number of years of FMC application in your institution  
   Answer: different (from 1-5 years)  
30. Is there cooperation between you and other institutions in implementing FMC?  
   Answer: cooperation between the mark and the medium-sufficient.  

3 RESULTS  
The practical application of the FMC system in the institutions of education, the assessment of the degree of applicability of used procedures and guidelines in their business activities, the application of legislation, are some of the methods that, in addition to the precision of the financial statements, are the only true way of unifying the work process in state educational institutions. Therefore, the results of this survey are the following:  

3.1 Application of FUK in the Republic of Serbia  
The environment in which the institutions of education in the Republic of Serbia operate are liable to daily changes: both economic and social, as well as political. What is necessary for their survival is the ability of management to be ready to adapt itself quickly to changing circumstances. This implies that management is able to anticipate a change of circumstances and to respond adequately to it, or to manage the risks that such changes bring. At the same time, this implies that all circumstances that may arise and which may affect badly to the achievement of the objectives of the education institution are anticipated, and that internal control procedures are designed and redirected to the business processes and risks associated with them.

Management of institutions, and their business processes as well, often lead to their restructuring. Restructuring, among other things, can be caused by legal regulations (for example: the process of separating certain business functions such as purchasing and payments). In this case, it is necessary that the implementation of FMC harmonize the updating of its control framework in accordance with the restructuring process, and in that way it will provide its full contribution. FMC system in education institutions reviews, evaluates, modifies outdated and creates new controls in the context of the goals and risks that accompany them. One thing is certain: any development of the internal financial control system is accompanied by a parallel development of the risk management process.
The FMC system in the Republic of Serbia is increasingly finding its practical application every day. First of all, the implementation of FMC in the Republic of Serbia is a legal obligation in all budget institutions, and consequently in the educational institutions.

First of all, the use of FMC system was found in production and service trade institutions, as well as in the institutions of another branch, but recently is more important in educational institutions. The FMC system must be implemented with the ultimate goal: to provide reliable reporting in order to prevent any deliberate and unintended fraud in the financial statements in the future. Financial Reporting Fraud (FRF) is any deliberate concealment or gross violation of generally accepted accounting principles (GAAP) which substantially affects the credibility of information in any financial statement [3].

The implementation of a reliable FMC system in practice begins with one intention - to achieve reliable financial management and control in the educational institution. The process usually has the following main steps:

1. **Organization of FMC in the following way:**
   - find and evaluate the overall internal control system in an educational institution;
   - Implement the internal control program in an educational institution and coordinate it;
   - demonstrate the importance of implementing FMC in the educational institution and raising the awareness of employees about it;
     - identify weaknesses and monitor them;
     - confirm the necessary corrections and implement them;
     - ensure that all employees are informed of current policies;
     - ensure that all employees pass the necessary internal control training;
   - Provide central administrative reporting.

2. **Preparation of the action plan for the implementation**, development and sustainability of the FMC system in the educational institution for monitoring the progress of various activities that make the assessment and improvement process. It is impractical to suggest a standard division into processes that will hold true for organizations generally. Each organization is significantly unique. It will be necessary for chief audit executives to brainstorm with their colleague auditors, with management and even with the audit committee of the board in order to identify the principal business processes of their organization [4] in order to be placed under financial management and control.

3. **Self-assessment and understanding** the present situation. It includes: a methodology for self-assessment, completing the Questionnaire for self-assessment, collecting evidence and documentation, management documentation and a case study. In this step, the COSO model is assessed (all 5 internal control components are evaluated): control environment, risk assessment, control activities, information and communication, and monitoring. The COSO framework provides broad guidelines on the design of adequate controls across organizations.
However, adequate of controls is compromised by managements limitation to comprehensively of its employees [5].

4. Institution segmentation- involves the preparation of a list of key financial systems in which each of them becomes the subject of a risk assessment. At the same time, operational and administrative areas are observed. The FMC process takes place at two levels: at the level of the organization and at the level of key financial systems

5. Risk assessment. The risk is everything that can jeopardize the achievement of the goal of educational institutions. The effective internal control system and the effectiveness of crime prevention programs depend on the success of the risk assessment [6]. In order to achieve this, it is necessary to identify all risks, place them in the risk register, carry out a risk assessment, rank the key financial systems in relation to risks, solve it by putting it under control Internal control checks (analyzes) - steps:
   o Identification of existing control activities,
   o Analysis of the control environment,
   o Documentation of existing control activities,
   o The expected price controls,
   o Control testing.

The results of the application of the outcome control tests are used for the final assessment of the control risk and determination of those control procedures that the auditor can rely on in the audit of the financial statements [7].

6. Corrective activities include assessing the effectiveness of controls, assessing their shortcomings, preparing the correction of the action plan, implementing the action plan and monitoring it in order to minimize any future losses;

7. The FMC report assesses the internal control program. The report includes areas where there are no internal controls or they are inadequate, areas that have controls but do not function adequately or have extra controls in the educational institution.

3.2 Application of FMC in the Republic of Serbia and surrounding countries

Analyzing the answers in the Questionnaire resulted in the following conclusions:

- Business in educational institutions in surrounding countries, including the Republic of Serbia, is partly based on written procedures, although there are still a number of countries that have just started this activity;
- Compliance with the prescribed procedures, where they exist, is quite different (from the lowest to the highest grades). The reason may be the poor training of the employees
- What is encouraging is that the results of the survey have shown that training has been carried out in all countries where FMC is established. This activity is rated as useful by the middle grade as it provides assistance in its implementation;
- The application of the legislation and the COSO model in the implementation of the FMC was assessed very differently (from the lowest to the highest grades), which indicates its nonunified application. The causes are:
  o the COSO model components of the control environment, risk management, information, communication, monitoring and evaluation are mostly complied. The estimate of their compliance is on medium level;
  o the component of control activity in FMC implementation in education institutions is complied, but at the same time it is necessary to take certain steps to put this component under a stronger control framework;
- Where the FUK system was implemented, the highest score is noticed and its application definitely preserved the assets and other resources of the institution from negative business. On the other hand, this is still not the case with educational institutions in some countries that are in the initial phase of implementing the FMC system, which significantly shrinks the average of the overall assessment of the surrounding countries.
The impact of FMC implementation on increasing the accountability of responsible persons has been assessed differently. The average score given by this analysis is medium;

Something higher rating estimated FMC assistance in timely submission of financial statements, while a higher grade estimated its assistance to implement the activities in a proper, efficient and effective way, while the experience of others was valuable assistance. On the other hand, this is not the case in educational institutions which are in the initial phase of implementing FMC;

Implementation of FMC helps to reduce costs in the future;

Its help is also reflected in the achievement of business objectives;

The highest assessment rating is the help when implementing FMC in risk management because risks can be placed under the control on an acceptable level, which is of great importance for each institution, and also educational one;

The procedures used to implement FMC in educational institutions in all surveyed countries in the region, as well as in the Republic of Serbia, are assessed by certified assessors mainly with a high grade, which is an excellent pre-condition for its successful implementation. At the same time, it can be concluded from the survey that there is still a certain number of countries where this activity is assessed with a medium grade and there is a need for its improvement which can be achieved by the internal control which prescribe permanent monitoring;

Although the survey did not show the obligation of implementing FMC in all countries, we think it should be;

When it comes to information about the number of years FMC is in operation, the survey has shown that FMC in each country in the region is implemented (as in the Republic of Serbia), but it is clearly seen that its implementation is 60% of cases of a more recent date (the most common assessment is 1), while for the remaining 40% of the FMC implementation there is a long period;

When it comes to cooperation with other state institutions, the answers have shown that 50% of the responded countries are developing successful cooperation with state institutions and local self-government, while for the remaining 50% cooperation is still in the beginning;

The established system of financial management and control is most evaluated in the following way:

Table 2. FMC Rating

<table>
<thead>
<tr>
<th>State Institutions</th>
<th>State Audit</th>
<th>Principals in educational Institution</th>
<th>Superior stuffs</th>
<th>Internal Audit</th>
<th>Internal Control</th>
<th>Professional persons implementing FMC</th>
<th>No one</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

4 CONCLUSIONS

After observing the facts based on conducted anonymous surveys of employees in educational institutions in the Republic of Serbia and countries in the area with general observation, certain recommendations are also presented:

- In the part of the countries where the FMC system was implemented, in addition to the above-mentioned positive sides it provides as well as the cost reduction system, there has been considerable harmonization of educational institutions, state institutions and legal regulations expressed in the reduction and control of the budgetary costs of each state. Here is the significance assistance of FMC, especially when the public is interested in the costs of the state budget. The Republic of Serbia is also working intensively on the implementation of this process and will continue in the future. As a result, the Ministry of Finance has been organizing and maintaining free trainings for employees who are interested in financial management and control and internal audit in the public sector for several years. After training and practical work, the Ministry of Finance organizes professional exam in order to enable interested persons to engage themselves professionally in this area by obtaining a license;
In countries that have just started implementing the FMC in educational institutions, it is seen that they have accepted this process, understood its advantages and will eventually see its increasing importance. It is therefore necessary to establish a permanent monitoring. The measure taken by the Republic of Serbia in this direction is reflected in the new Regulation on the Professional Development of Authorized Internal Auditors in the Public Sector published in the Official Gazette No. 15, March 8, 2019.

Considering the Questionnaire contains estimates of 1-5, the average estimate of the level of the FMC established in countries in region is lower based on the results of an anonymous survey and needs to be improved. The way in which an improvement can be achieved is to introduce internal control that will reduce or eliminate the risk. Additional staff training is necessary so to raise awareness to a certain level, and then introduce a legal reporting obligation at a more frequent level than the present one. This is one of the possible solutions.

The legal obligation of implementing the FMC system stimulates the control of the costs of the budgetary operations of the Republic of Serbia at a higher quality and more secure level. At the same time, it becomes a key element of an innovative solution that encourages the creation of new ideas, supported by certain technologies and changes in all work processes, the unification of which will significantly accelerate successful cooperation, first between educational institutions and then state governments. In this way, the cooperation between educational institutions in region so FMC indicates to its very significant importance.

REFERENCES