

## CERTIFICATION OF INTERNAL AUDITORS IN THE PUBLIC SECTOR IN THE REPUBLIC OF SERBIA, ADVANTAGES AND DISADVANTAGES

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**Abstract:** Every business entity in the public sector, as a user of public funds, should have a high position on the importance of the appropriate way of spending these funds to improve the overall well-being of citizens and achieve the trust entrusted to them. However, the absence of awareness and the existence of actions to the detriment of citizens is not uncommon, but for the benefit of a certain individual or group of individuals who thus directly or indirectly misuse public funds and public beavers, gaining illegal benefits. One of the ways to prevent and mitigate the negative consequences of such actions is the internal audit function, which can detect irregularities in the operations of public entities and act preventively as a deterrent function whose existence would deter potential perpetrators from illegal actions. Audit as a service of independent professional assurance requires a high degree of professional qualification and professional qualification from persons engaged in the subject tasks to maintain a high degree of independence, expertise, the reputation of the audit profession and audit role in the financial management and control system all stakeholders. The audit serves to compensate with its independent, objective and professional assurance of the existence of a gap in expectations that arises between the stakeholders and the managers of the business organization in question. In the context of the public sector, the key stakeholder in the state is the owner of the business organization in question, all citizens of the Republic of Serbia as taxpayers and financiers of state expenditures. Therefore, it is important that persons engaged in the audit profession in the public sector activity in the function of the citizens of the Republic of Serbia, performing control activities and independent assurance services, taking care of the regularity and efficiency of operations of state organizations. For that to be possible, it is necessary to ensure the existence of relevant and appropriate criteria for the selection of professional practitioners for engagement in auditing activities in the public sector. The subject of this paper is the analysis of the issue of certification of persons engaged in auditing in the public sector in the Republic of Serbia by performing a comparative analysis of conditions and programs for acquiring professional titles in the field of internal audit most often represented in the Republic of Serbia and its advantages and disadvantages. The main conclusion is that there are differences in the conditions and programs for acquiring professional titles, which are most pronounced in the domain of the number of exams taken, as well as the average time required to acquire a professional title.

**Keywords:** audit; public sector; certification.

### 1. INTRODUCTION

Persons engaged in internal audit work in the public sector are in an environment that, to put it mildly, can be characterized as challenging. Their role is specifically because they are in the function of all citizens and their professional integrity should ensure compliance with internal acts (Lillis, 1999) and material accuracy of reporting and management of public funds given to the management and use of business entities in which workers are engaged. Acker & Bouckaert, 2019). In essence, auditing as an independent professional assurance service requires a high degree of professional qualification and professional competence from persons engaged in the subject tasks to preserve a high degree of independence, expertise, the reputation of the audit profession and audit role in the financial management and control system. trust with all stakeholders. The audit serves to compensate with its independent, objective and professional assurance for the existence of a gap in expectations that arises between the stakeholders and the managers of the business organization in question (Johnsen et al., 2019). In the context of the public sector, the key stakeholder in the state is the owner of the business organization in question, i.e. all citizens of the Republic of Serbia as taxpayers and financiers of state expenditures (Jakovljević & Jakovljević, 2021). Therefore, it is important that persons engaged in auditing activities in the public sector activity in the function of citizens of the Republic of Serbia, performing control activities and independent assurance services, taking care of the regularity and efficiency of state organizations (Jakovljević, 2021a). To make this possible, it is necessary to ensure the existence of relevant and appropriate criteria and benchmarks for the selection of professional practitioners for engagement in public sector auditing (Brown et al., 2014).

Every business entity in the public sector, as a user of public funds, should have a high position on the importance of the appropriate way of spending these funds to improve the overall well-being of citizens and achieve trustworthiness (Abu Hasan et al., 2013). However, the absence of awareness and the existence of actions to the detriment of citizens is not uncommon, but for the benefit of a certain individual or group of individuals who thus

directly or indirectly misuse public funds and public beavers, gaining illegal benefits. One of the ways to prevent and mitigate the negative consequences of such actions is the internal audit function, which can detect irregularities in the operations of public entities and act preventively as a deterrent function whose existence would deter potential perpetrators from illegal actions. Internal audit in the public sector should refer to an independent function that serves to assess the internal controls of the business entity (Jakovljević, 2021b), processes, methods, activities and results of work. The internal audit function can help ensure compliance with the various laws applicable to the business entity concerned. Every user of public funds must prepare their reports and records by applicable legislation (Curtis et al., 2009). The purpose of an internal audit is to verify the effectiveness and efficiency of the operations of the entities concerned in terms of compliance with the internal standards set by the organization. The entity in question may have a set of internal rules such as the procurement of goods and services, the payment of salaries to employees and payment. Internal audits can thus help to find out whether employees comply with internal standards and legislation (Torres et al., 2019). Internal audit departments can effectively assist in detecting problems or certain inefficiencies and taking the necessary corrective steps. Internal audits can identify any employee fraud, such as embezzlement or otherwise. It can identify whether there are intentional cost overruns, or in the context of users of public funds in conducting public procurement, whether a particular supplier has an advantage over other cheap suppliers. It can test most of the significant risks and potential threats to business (Jakovljević, 2021c). The internal audit function can ensure that the organization can enforce laws and regulations on time (Jeppesen, 2018). The audit provides a degree of certainty and helps manage risk arising from fraud, abuse of power or any other form of non-compliance with legislation (Jeremić, et al., 2021). The internal auditor provides management with an objective assessment of risks and threats. Management can improve its operational and financial performance by meeting the recommendations of the internal auditor (Heald, 2018).

Internal audit in the public sector in the Republic of Serbia is still definitely in the phase of organizational implementation, and there are still a large number of public entities that do not have an established internal audit function, although it is their legal obligation. As the main reason for this phenomenon, the leaders of public entities usually cite the lack of financial resources and the lack of qualified interested staff to fill vacancies in internal audits in the public sector (Lapsley & Pong, 2000). The organization that performs accreditation and issuance of professional certificates for independent work on internal audit activities in the public sector in the Republic of Serbia is the Ministry of Finance, i.e. the sector called the Harmonization Unit. They conduct training and conduct examinations with interested candidates, after which they monitor and control their work on performing two independent audit engagements for one year. However, due to the lack of trained staff, many people work in internal audits in the public sector without any professional certificate, but some have certificates from other professional organizations, especially the certificate of certified internal auditor issued by the Chamber of Certified Auditors of Serbia. the internal auditor issued by the Institute of Internal Auditors. The subject of this paper is the analysis of the issue of certification of persons engaged in auditing in the public sector in the Republic of Serbia by performing a comparative analysis of conditions and programs for acquiring professional titles in the field of internal audit most often represented in the Republic of Serbia.

## **2. CONDITIONS FOR ACQUIRING PROFESSIONAL TITLES**

Acquiring professional titles in the accounting and auditing profession is not easy and in most cases is a multi-year process. The very act of obtaining professional certificates requires a certain amount of time and dedication to meet the defined conditions. The issue of nostrification is particularly complex and will be discussed in another paper. In the Republic of Serbia, the certification of certified internal auditors in the public sector is carried out by the Ministry of Finance, which is also in charge of promoting the profession. The Rulebook on the Conditions and Procedure for Taking the Examination for Acquiring the Title of Certified Internal Auditor in the Public Sector defines the conditions for acquiring this title and they are given in the table below. In addition to the Ministry of Finance and the Chamber of Certified Auditors, it conducts certification of internal auditors for the title of certified internal auditor, which is based on taking four exams. At the same time, several professional practitioners engaged in internal audits in the public sector have a Certified Internal Auditor - CIA certificate, which is taken at the Institute of Internal Auditors, the largest international organization of internal auditors in the world.

**Table 1: Conditions for acquiring professional titles**

Ministry of Finance Certified internal auditor in the public sector	Chamber of Certified Auditors Certified internal auditor	Institute of internal auditors Certified internal auditor
1. to have a university degree 2. have at least three years of relevant work experience in internal audit or related matters 3. that he/she is employed in internal audit activities in the public sector 4. to have a certificate of completed training and conducted two independent audit engagements 5. that he has not been convicted of criminal offences	1. to have a university degree 2. to have at least three years of work experience in internal audit or statutory auditor and at least five years in accounting 3. that he has not been convicted of criminal offences 4. to have passed the exams according to the program of the Chamber of Certified Auditors	1. to have a university degree 2. to have at least one year of work experience in internal audit or related activities for a master's degree holder, at least two years for bachelor's degree holders and at least five years for lower-level diploma holders if they are active practitioners in internal audit. 3. to have passed the exams according to the program of the Institute of Internal Auditors

Source: Author based on available locations listed in the footnotes

Based on the above table, there is a noticeable difference in terms of the number of conditions where the Ministry of Finance leads with five defined conditions, one of which is not noticeable in other certification organizations, and refers to two independent audit engagements. This may suggest the need for a person to be employed in auditing at the time of obtaining the certificate, which may be considered redundant, and this is confirmed by the fact that other relevant certification organizations do not have such a condition for acquiring a similar professional title. At the same time, there is already an established condition in the field of relevant work experience, lasting at least three years in internal audit or related work, which draws attention to the fact that candidates for this professional title must have relevant work experience, considered sufficient or satisfactory. All three certification organizations require a condition in the field of having a university degree, but none of them emphasizes whether that degree must be in the field of economics and related fields or not. Such a conceptual determinant of this condition can confuse potential candidates for acquiring professional titles and create space for manipulation.

The most flexible in the field of required work experience is the Institute of Internal Auditors, which provides more opportunities and at the same time recognizes a higher degree of study as work experience, which can be considered a great advantage. To issue a certified auditor's certificate, he requires that the requested person has work experience in internal audit or related work, ranging from one to five years for issuing certificates. Thus, at least one year of work experience is required for a master's degree holder, at least two years of work experience are required for bachelor's degree holders and at least five years of work experience are required for lower-level diploma holders if they are active practitioners in internal audit. This is generally a very acceptable solution because it evaluates the results achieved in the field of formal university education and recognizes them as relevant work experience. However, the problem with all three certification organizations may be that the requirements for higher education are too general. Namely, none of the three analyzed certification organizations has defined what kind of educational program they accept as relevant, which means that graduates of any faculty and any field can become certified internal auditors if they meet other prescribed conditions. The existence of such generality in this segment and the absence of more detailed determinants can impair the quality of the auditing profession in the second term, because it equates the status of accounting and auditing students with students of other fields, such as geology or mining. Because the knowledge acquired by graduates of accounting and auditing is a valuable element in the professional career of an internal auditor and it is not difficult to notice its lack in graduates of other fields, which suggests that a more detailed determination is necessary for this condition.

### 3. PROFESSIONAL CERTIFICATION DEGREE PROGRAMS

Curricula for exams for obtaining professional certificates in the field of internal audit differ in all three analyzed organizations. The number of basic topics is not the same, and the Chamber of Certified Auditors, which has as many as 24 basic topics, is at the forefront in their detail. The Ministry of Finance identified 19 basic topics, and the Institute of Internal Auditors identified 14 basic topics. In essence, in general, the topics are very similar and deal with the same issues, but some topics are very important, and which are not present in all analyzed certification

organizations. One of them is information technology, which is present in the list of basic topics at the Chamber of Certified Auditors and the Institute of Internal Auditors and is not available at the Ministry of Finance. The absence of the topic of information technology today, especially in the post-pandemic period, can be a matter of serious concern and can lead to the creation of insufficient professional staff in internal audits in the public sector. Information technologies are extremely important in the internal audit process and their understanding is necessary to establish an effective internal audit system in the public sector.

**Table 2. Programs for acquiring professional titles**

Ministry of Finance	Chamber of Certified Auditors	IIA
Certified internal auditor in the public sector	Certified internal auditor	CIA
Internal audit standards, policies and environment - International standards of professional practice - Code of ethics - Planning - Personnel selection, training and professional development - Quality assurance policy - Policy of embezzlement, irregularities and illegalities - Regulations in the field of internal financial control in the public sector Conducting internal audit - Basic types of audit - Conducting a system audit Internal audit skills and techniques - Determining and presenting the business process - Basic documentation and working papers - Sampling, testing and analysis techniques - Techniques and skills for conducting conversations - Structure, purpose and preparation of reports - Structure, purpose and development of the plan for the implementation of recommendations Risk management and internal control in the public sector - Introduction to internal financial control in the public sector - Integrated internal control framework COSO model - Risk management system - Control control system	The role and activities of the internal auditor in the management and identification of risks and controls - Compliance with the requirements of internal audit standards - Planning based on risk assessment in determining internal audit priorities - Understanding the role of internal audit in the management system - Execution of other roles, tasks and responsibilities of internal audit - Elements of risk knowledge in management and control - Engagement plan Performing internal audit - Performing an audit task - Performing specific tasks - Consulting engagements - Supervision the results of the tasks - Recognize the elements of embezzlement - Auxiliary means in performing internal audit Business analysis and information technology - Business processes - Financial accounting and finance - Management Accounting - Regulation, legislation and economics - Information Technology Business management skills - Strategic management - Global business environment - Organizational behaviour - Management skills - Negotiation and contracting	Part 1 - Basics of internal audit - Independence and objectivity - Expertise and due diligence - Quality assurance and improvement programs - Risk management and control - Risk of fraud Part 2 - Management of internal audit activities - Engagement planning - Implementation of engagement - Communicating results and monitoring progress Part 3 - Business ability - Information security - Information Technology - Financial management
It is taken as 1 exam	It is taken as 4 exams	It is taken as 3 exams

Source: Author based on available locations listed in the footnotes

Another important topic can be information security. It is in the list of basic topics from the curriculum according to the program of the Institute of Internal Auditors, and at the same time, it is not in the remaining two analyzed certification organizations. In the audit process, it is important to preserve the confidentiality and security of data that members of the audit team come to during the audit engagement and they have a professional duty to maintain information security at a satisfactory level while taking into account the need for disclosure. Essentially, the Chamber of Certified Auditors and the Ministry of Finance, although they do not have information security treated

as a separate topic, they probably pay some attention to it during the elaboration of the Code of Ethics. The third important topic can be consulting engagements. It is in the list of basic topics from the curriculum according to the program of the Chamber of Certified Auditors, and at the same time, it is not in the remaining two analyzed certification organizations. Consulting activities can be a source of threats to the independence of persons engaged in internal audit work and should have a place in the list of basic literature and be processed in a relevant and appropriate manner. When all the above is taken into account, the Ministry of Finance lags in the topicality of the topics covered in the basic list of topics from the curriculum for professional certification of persons in internal audit, but the domain of subtopics, additional topics and continuing professional education is not considered it should be taken with a grain of salt and one should be careful when interpreting it.

There is a significant difference in the number of exams that are paid as well as the estimated time for preparation and taking all exams. The Ministry of Finance takes only one exam in two public exams per year to obtain a certificate of certified internal auditor in the public sector, and the preparatory training for it lasts two weeks. The complete opposite is on the other side of the Chamber of Certified Auditors, where four exams are taken in two exam periods per year, and the estimated time for taking all exams is about a year. In the middle is the Institute of Internal Auditors, which requires taking three exams, and there are no deadlines because online taking is possible at any time, which is probably the most favourable solution.

## 5. CONCLUSION

Essentially, the public sector internal audit function can help public entities achieve their goals by installing a quality (Baker et al., 2014), disciplined and systematic approach to risk assessment and improving the efficiency and effectiveness of the threat management and control process. Johnsen et al., 2001). It fulfils its function by performing analyzes and recommendations based on the consideration of internal and external data and business processes (Khan & Hoque, 2016). Individuals engaged in internal audit work in the public sector who have a continuing commitment to accountability (Judge et al., 2010), integrity and independence can provide added value to public entity management through a range of useful and useful advice (Pollitt & Summa, 1997). The scope of the public sector internal audit function can be very broad and can include a variety of topics such as managing internal procedures and processes, managing organizational functions (Ellword & Garcia-Lacalle, 2012) and improving the efficiency of business operations and the reliability and soundness of internal financial reporting (Bringselius, 2018). Internal auditors are not responsible for the implemented or undertaken activities of public entities (Hay & Cordery, 2018). They advise management and administrative and supervisory bodies on how to better exercise their competencies and responsibilities (Jeppesen, 2012).

By examining the differences, we determined that the conditions and the list of basic topics of the curriculum have both advantages and disadvantages and that the conclusion made based on data from one certification organization cannot be fully applied to other professional organizations without adjustments and additional considerations. Another important dimension besides the mentioned two is the price of the program for acquiring a professional title. The price is an important element and in cases when the costs of taking the exam and the accompanying costs are borne by the candidate, it can be a factor of slowing down or even in certain cases discouraging the application for taking the exam. In the case of the Ministry of Finance, it, together with the employer who registers its employee for training and exams, bears the entire cost, and the candidate only has to listen carefully to the lessons and prepare well for the exams. However, as much as this is a positive phenomenon from the aspect of the financial benefit of the candidate for acquiring a professional title, it produces significant problems because the candidate cannot apply independently, pay and obtain a professional certificate, but must be employed by a user of public funds and to be referred by the head of that entity for training for the certificate of internal auditor. On the other hand, the Chamber of Certified Auditors and the Institute of Internal Auditors do not have such problems and requirements and candidates apply and pay for exams, and if the employer shows goodwill, he takes over part or all of the costs. At the Chamber of Certified Auditors, the price per exam is 250 euros in dinars, which with the accompanying costs is approximately 1,200 to 1,500 euros in dinars, if of course all exams are passed from the first time. Each subsequent deposit implies a re-payment of the same price. At the Institute of Internal Auditors, the price per exam is 280 euros for members for the first exam, 395 euros for non-members and 230 euros for students, 230 euros for members for the second exam, 345 euros for non-members and 180 euros for students and 230 euros for the third exam members, 345 euros for non-members and 180 euros for students, which together with the application amounting to 115 euros for members, 230 euros for non-members and 65 euros for students in the total amount ranging from 655 to 855 euros depending on candidate status.

At the same time, the issue of mutual nostrification can be interesting. The Ministry of Finance does not validate that other certificates and training and exams are required. The Chamber of Certified Auditors nostrifies the certificates obtained at the Institute of Internal Auditors, and the Institute of Internal Auditors does not recognize exams passed



by the Ministry of Finance and the Chamber of Certified Auditors. In general, it is an indisputable fact that as a consequence of the existence of low salaries in auditing in the public sector and the lack of interest of employers in financing professional development and professional development in the context of continuing education and improving knowledge and business There is a lack of sufficient quality and professional staff who find their employment mostly in the private sector. Stricter criteria in the field of required qualifications would certainly increase the level of expertise of persons engaged in auditing in the public sector, but would also lead to an increase in the problem of finding qualified practitioners to fill vacancies, due to significantly worse working conditions in the private sector.

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