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Dejan Malinić
University of Belgrade
Faculty of Economics
Department of Accounting and Business Finance

Vlade Milićević
University of Belgrade
Faculty of Economics
Department of Accounting and Business Finance

Milan Glišić
University of Belgrade
Faculty of Economics
Department of Accounting and Business Finance

LEGAL AND PROFESSIONAL REGULATIONS AS DETERMINANTS OF THE QUALITY OF FINANCIAL REPORTING: EMPIRICAL RESEARCH*

Zakonska i profesionalna regulativa kao determinanta kvaliteta finansijskog izveštavanja - empirijska istraživanja

Abstract

The quality of financial reporting has always been a topic of lively discussions. It has attracted attention even in developed countries with good accounting infrastructure, mainly due to the emergence of huge financial scandals that have been usually associated with creative (fraudulent) accounting. A poor quality of financial reporting presents a particular problem in underdeveloped countries, which often do not have an adequate supporting infrastructure. The resulting implications are inefficient and unreliable legal solutions, inconsistent changes in the normative base, incomparability of financial statements, absence of independent oversight institutions or their dysfunctional structure, and weak protection of the public interest.

Bearing in mind the unsatisfactory situation in the field of financial reporting in the Republic of Serbia, this paper focuses on three objectives. The first objective is to call attention to the importance of high-quality financial reporting, not only for the accounting profession, but primarily for ensuring the greater certainty for investors, efficient functioning of capital markets and the prosperity of national economies. In this context, we have identified key pillars of financial reporting infrastructure which are essential for achieving the required level of quality in this field. The second objective is to point out the roles and responsibilities of different participants in the chain of financial reporting in the development of high-quality legal and professional regulations. Finally, the third objective is to demonstrate the inefficiency of certain legal solutions based on the results of empirical research on the attitudes of professional accountants toward the quality of legal and professional regulations, as well as to analyze the prospects for overcoming such a situation.

Keywords: *financial reporting quality, pillars of quality, legislation, professional regulations, accounting profession, ethics, public interest, accountability, comparability*

Sažetak

Rasprave o kvalitetu sistema finansijskog izveštavanja su uvek aktuelne. One su aktuelne i u razvijenim zemljama koje imaju dobru računovodstvenu infrastrukturu i često su podstaknute pojavom velikih finansijskih skandala koji su najčešće praćeni kreativnim (prevarnim) finansijskim izveštavanjem. Poseban problem predstavlja nedovoljan kvalitet finansijskog izveštavanja u nedovoljno razvijenim zemljama, gde često ne postoji kvalitetna infrastrukturna osnova. Prateće manifestacije su loša i nestabilna zakonska rešenja, nekonzistentne promene normativne osnove, neuporedivost finansijskih izveštaja, nepostojanje ili nefunkcionalno postavljanje nezavisnih nadzornih institucija i loša zaštita javnog interesa.

Imajući u vidu nezadovoljavajuće stanje na području finansijskog izveštavanja u Republici Srbiji, u osnovi ovog rada smo postavili tri cilja. Prvi cilj je vezan za podsećanje na važnost kvalitetnog finansijskog izveštavanja, ne samo za računovodstvenu profesiju, već prvenstveno za sigurnost investitora, funkcionisanje tržišta kapitala i prosperitet nacionalnih ekonomija. U tom kontekstu razmotreni su ključni stubovi finansijskog izveštavanja koji čine neophodnu infrastrukturnu osnovu za dostizanje potrebnog kvaliteta na ovom području. Drugi cilj je vezan za ukazivanje na nadležnosti i odgovornosti različitih učesnika u lancu finansijskog izveštavanja za stvaranje kvalitetne zakonske i profesionalne regulative. Konačno, treći cilj je da se kroz rezultate empirijskih istraživanja, koja su zasnovana na stavovima profesionalnih računovođa o kvalitetu postojeće zakonske i profesionalne računovodstvene regulative, ukaže na (ne)prihvatljivost pojedinih zakonskih rešenja i mogućnosti prevazilaženja takvog stanja.

Ključne reči: *kvalitet finansijskog izveštavanja, stubovi kvaliteta, zakonska regulativa, profesionalna regulativa, računovodstvena profesija, etika, javni interes, odgovornost, uporedivost*

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Introduction

Changes in environment, including the globalization of markets for goods, services and capital, structural changes in the economy driven by the shift from a traditional to a knowledge-based economy, growing complexity of business transactions, increased demands on financial reporting, and attempts to distort economic reality in financial statements, have made the process of financial reporting far more complex. Bearing in mind the importance of financial reporting in both private and public sector, it is quite understandable why the issue of the quality of financial reporting has sparked a great deal of interest all over the world. It is well known that financial reporting has a significant role in providing more certainty for investors, attracting foreign investment, developing capital markets and stimulating economic growth. The role of financial reporting in the public sector is equally important, as it contributes to the efficient allocation of scarce resources, the prevention of corruption and protection of the public interest. Contemporary trends in the field of financial reporting involve intensive efforts toward the convergence of accounting standards, institution building on national, regional and global level, raising the quality of education and providing a continuing education with the aim of improving the professional skills and competencies of accountants, etc.

Underdeveloped countries, such as the Republic of Serbia (hereinafter referred to as the RS), are faced with somewhat more complicated situation because there is often not enough understanding of the importance of financial reporting or there is a complete absence of the key institutional prerequisites for the development of high-quality financial reporting system. There are several factors that impede the development of a reliable financial reporting system in the Republic of Serbia, such as: frequent changes in legal regulations, lack of awareness about the global achievements in the field of financial reporting, problems regarding the adoption and application of global regulations (International Financial Reporting Standards – IFRS/International Accounting Standards – IAS and International Financial Reporting Standards for Small and Medium-Sized Enterprises – IFRS for SMEs) and regional regulations (EU directives), disunity and a lack of mutual respect among key participants in the chain of financial reporting, inadequately established and dysfunctional institutions which ought to guarantee the normal functioning of financial reporting, a complete liberalization of the accounting services market, and disregard of the public interest.

Taking into account the gravity of the aforementioned problems as well as the inability to analyze all their aspects in this kind of scientific work, in this paper we primarily focus on some issues relating to the financial reporting infrastructure or the key pillars of the quality of financial reporting. More specifically, our attention is particularly directed to two pillars which are considered the main prerequisites for the development of a high-quality financial reporting system, i.e. the legal and professional regulations as important factors of the quality of financial reporting in every country. They largely determine the relevance and reliability of financial statements, on the basis of which all stakeholders of a company (owners, creditors, business partners, management, government bodies and the general public), make their economic decisions. Of course, the need for protecting the public interest raises a question about the accountability and responsibility for the functioning of the financial reporting system.

The accounting profession has the primary responsibility for the application of legal and professional regulations in the process of financial reporting. In doing so, its mission is to ensure the reliability and reliability of the published accounting information. Therefore, it has every right to judge the quality of the relevant regulations that are applied in the process of preparing and presenting financial statements. Thus, our research is focused on identifying the attitudes of professional accountants toward the quality of the existing legal and professional regulations of financial reporting in the RS. Accordingly, the research questions are defined as follows:

1. How does the application of IFRS/IAS affect the comparability of financial statements of domestic and foreign companies and their ability to attract foreign investment?

2. What is the impact of the existence of 13 charts of accounts, overly extensive financial statement forms, and a large number of normative bases for the valuation of balance sheet items on the work of professional accountants and the quality of financial statements?
3. Should all entities be allowed to apply full IFRS/IAS and IFRS for SMEs? Is there a need for a special rulebook on the manner of recognition, valuation, presentation and disclosure of items in the financial statements for microenterprises?
4. What are the implications of inadequate legal solutions, frequent changes in laws and lack of updated translations of IAS/IFRS for the quality of financial statements, costs of their preparation and the public perception of the accounting profession?

Our intention is to examine the issue of the financial reporting quality by means of empirical research, i.e. from a completely new perspective in relation to the theoretical criticism from academic researchers or apologetic attitudes of regulators. Therefore, we think that the analysis of the attitudes of professional accountants, who are directly tasked with the application of the imposed accounting regulations, is of considerable importance.

Key determinants of the quality of financial reporting

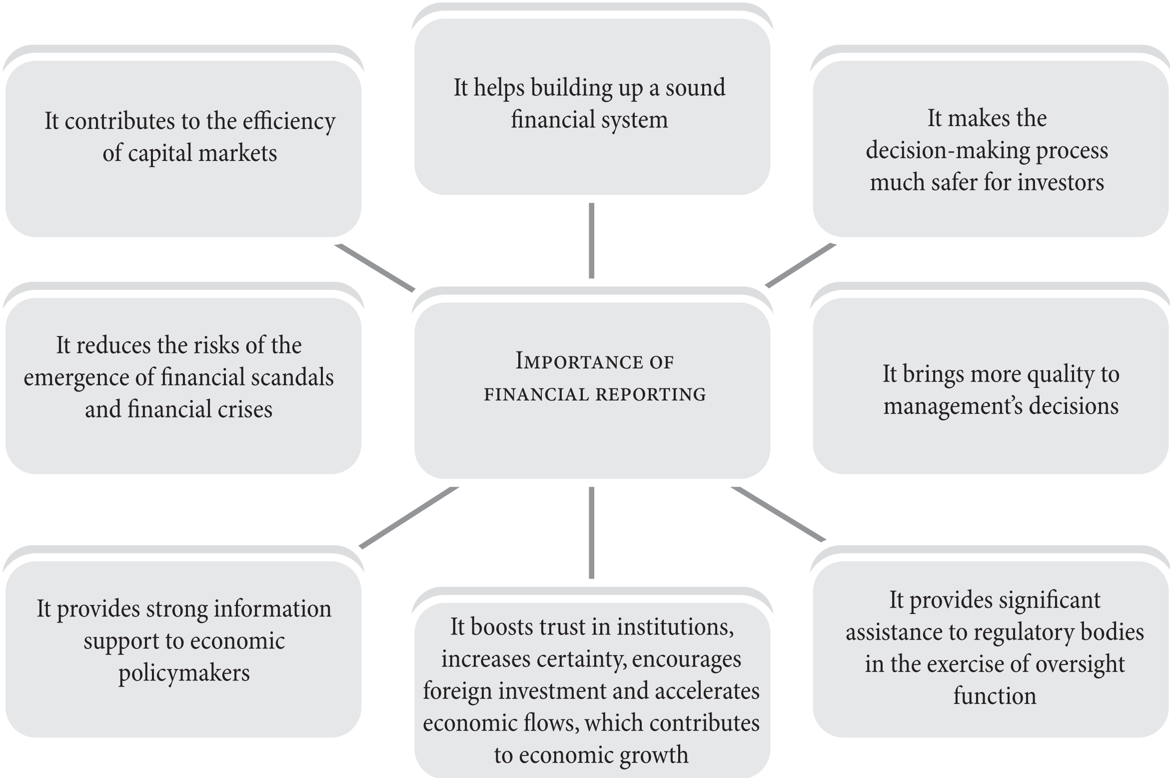
The quality of financial reporting has attracted a great deal of attention, especially in developed countries, which points to the awareness of the importance of accounting information to various individual interest groups in the private and public sector, but also to the national economy as a whole. Given the aforementioned, it comes as no surprise that the accounting profession is highly positioned in the economy and society. Unfortunately, the examples of high-quality financial reporting are rarely noticed outside the accounting profession. But, when there is a lack of quality financial reporting and when its consequences become visible, then the problem of the quality goes far beyond the scope of the accounting profession. In such circumstances, investors and other stakeholders, capital market, financial system and national economy are likely to suffer serious damage.[1] Restoring the lost credibility of the accounting profession is a challenging and costly process.

The importance of financial reporting stems from the underlying objectives of this system. According to the conceptual framework: "The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit" [4, p. 8]. Given the significance of the reporting entities for the functioning of the national economy, it becomes clear that the role of financial reporting surpasses the explicitly enumerated interests of capital providers. A lack of trust in the process of financial reporting jeopardizes the functioning of the capital market, threatens the financial system stability, increases risks and the cost of capital, and erodes the growth of companies, sectors and the national economy as a whole. Simply put, financial reporting is a prerequisite for an efficient functioning of the market economy. The main effects of financial reporting are systematized in Figure 1.

Figure 1 can at least give us some insight into the importance of financial reporting, which today no one calls into question. "Investing and lending, particularly in the private sector, is a vital part of national wealth creation. In the public sector, governments and donors want to be sure that the money they provide is used for its intended purpose. In both sectors, good financial information and professional ethical standards help to reduce the likelihood for corruption and improve governance, and therefore make more money available for poverty reduction" [5, p. 6]. Poor-quality financial reporting leaves the legacy of the investors' mistrust in the institutional mechanisms that are supposed to enable the development of an efficient financial reporting

1 For example, the loss in market capitalization incurred due to fraudulent financial statements of the companies WorldCom, Quest, Tyco and Global Crossing was estimated at around USD 460 billion, of which the bankruptcy of only one company, i.e. WorldCom, triggered a loss of USD 175 billion and 60,000 jobs in 65 countries, while the pension funds were left with worthless stocks, despite the fact that their value once had amounted to USD 25 billion. For more details, see: [11, p.278].

Figure 1: The importance of financial reporting



system, which results in a drop in economic growth. The essence of financial reporting is most vividly described by the words of Martin Gruell, CFO and a member of the Management Board, Raiffeisen Bank International AG: "No transparency, no trust → no trust, no credit → no credit, no investment → no investment, no growth! There is a simple logic: corporate governance and financial reporting are an essential building block for financial intermediation, foreign investment, and sustainable economic development." The role of high-quality financial reporting in the mitigation of information asymmetry, the development of capital markets, the financial system stability and the functioning of regulatory bodies is quite obvious, so there is no need for further elaboration.

With a view to gaining a better understanding of the essence of accounting information, it is important to emphasize that this type of information is quite specific in comparison to other business information. Its specificity comes from its regularity (in terms of regularity of reporting), its public character (in terms of public availability), and the consequent public accountability of all participants in the chain of financial reporting for the protection of public interests. All those who rely on the information provided in financial statements are expecting impartiality, honesty, integrity and professional conduct from the parties responsible for ensuring the quality of this system. Protection of the public interest must be given the highest priority in this field [8, pp. 18-20].

Unfortunately, not all the participants in the chain of financial reporting have the same sense of responsibility when it comes to the creation of necessary preconditions for the development of a high-quality financial reporting system. Insufficient understanding of the root of the problem due to a lack of competence of those responsible for the financial reporting quality and the supremacy of interest groups that reap benefits from a poor-quality financial reporting, pose a serious threat to the quality of financial reporting. Of course, this is especially true of underdeveloped countries that do not have sufficiently developed capital markets, stable regulatory framework and well-established institutions. Besides, if we take into account a widespread adverse selection in the field of human resources in institutions which make an integral part of the chain of financial reporting, then the risks become even more apparent.

Financial reporting system is an integral part of the financial infrastructure of every economy, and as such, it contributes significantly to the development of sound national and international financial systems. However, a financial reporting system has its own infrastructure which determines its quality. In this regard, it is advisable to follow the examples of best practice applied in the countries with a rich accounting tradition. Accordingly, we have decided to present the infrastructure of financial reporting quality that consists of six pillars (Figure 2), defined in IFAC's document "Tools and resources to support the development of the accounting profession" [5, p. 14].

All of these pillars must be equally strong in order to preserve public confidence in financial statements. If any of them becomes weaker, then the financial reporting system is compromised and the risks for users of accounting information increase. Given that the subject matter of our paper is primarily related to the legal and professional accounting regulations, the main emphasis will be on the first two pillars.

The state (specifically, the government as a holder of executive power) has a key role in establishing high-quality financial reporting system. The government has the legislative power which allows it to set up the initial strategic framework that may stimulate or inhibit the development of high-quality financial reporting. The legislative power entails the ability to establish the key determinants, such as the standardization of normative base (the choice between regional and global regulations and national accounting regulations), establishment of public oversight bodies, definition of the legal status of professional organizations, selection of the criteria for the classification of entities and the alignment of reporting requirements with those criteria, mandatory audit, mandatory certification of professional accountants, mandatory continuing professional education and the like. Moreover, in order to create the environment that would discourage creative and dishonest accounting and promote high-quality financial reporting, the government has to cultivate good relationships with professional accounting associations with the aim of achieving synergetic effects in the process of improving the financial reporting quality.

Nowadays, no country should lose sight of the global trends that shape the development of financial reporting system. These trends primarily refer to: the globalization of markets for goods, services and capital which creates the need for the adoption of international financial reporting regulations; a global shift from a traditional toward a knowledge-based economy due to which the financial reporting model tends to converge to the operational reporting model that also requires non-financial information; a growing insistence on the reporting on the corporate social responsibility, which implies the need for extended financial statements; and a greater responsibility of the state in the area of financial reporting, with a special focus on the protection of the public interest. In this regard, we must point out that wrong key legal solutions have an irreversible character and lead to adverse effects in the long term. It is certain that the weakening of this pillar can practically destroy the entire construction of the financial reporting quality.

The second pillar of the quality relates to the application of internationally comparable financial reporting standards. A strategic approach in the process

Figure 2: Pillars of financial reporting quality

of providing high-quality and internationally comparable financial reporting system requires a firm reliance on regional (the EU Directives) and global regulations (IFRS and IFRS for SMEs). Geographical position in Europe and political commitment to EU integration are imposing the compliance with the standards of conduct in place within this regional community, which also relates to the field of financial reporting.

However, global professional regulations have gained momentum to such a large extent that they cannot be ignored on regional or national level. The process of harmonization of professional and legal accounting regulations mainly involves the rejection of some national solutions and the adoption of global ones. More precisely, we refer to the application of the International Financial Reporting Standards (IFRS) and the International Financial Reporting Standards for Small and Medium-Sized Enterprises (IFRS for SMEs). Leaving aside the scope of their application, we must emphasize that the very adoption of international financial reporting standards brings numerous benefits, such as:

- International reporting standards reflect the world's best practice in this field and, accordingly, they are certainly far more efficient than the national standards, which usually cannot be properly implemented in underdeveloped countries due to a lack of capacity;
- Availability of financial statements that are comparable and understandable to investors reduces their preparation costs, ensures a greater transparency in the capital markets, reduces the risk of adverse selection, and increases certainty for investors, which contributes to a more efficient allocation of capital;
- Financial statements prepared in compliance with international standards help foreign investors to assess risks more efficiently as well as to make better decisions, which streamlines the inflows of FDI and portfolio investment;
- Transparent financial reporting contributes to the development of the domestic capital market, which helps companies gain a better access to sources of funding, improve their competitiveness in the financial market and reduce the cost of capital;
- By applying international standards, companies can more easily access the global capital markets in order to find the most affordable sources of funding;[2]
- The application of international standards keeps different interest groups from lobbying for the inconsistent application of financial reporting standards. In this manner, it protects the independence and credibility of the accounting profession and prevents the potential abuses that give rise to creative accounting, which definitely enhances the second pillar of financial reporting quality;
- As far as the current setting in the RS is concerned, the application of international standards in business practice is to enable the harmonization of accounting practice with the education of accountants at the country's leading universities, which certainly contributes to a higher quality of services provided by professional accountants.

Considering the foregoing facts, it does not come as a surprise that the vision of global accounting standards has been publicly supported by relevant international institutions, such as the G20, World Bank (WB), International Monetary Fund (IMF), Basel Committee on Banking Supervision (BCBS), International Organization of Securities Commissions (IOSCO), and International Federation of Accountants (IFAC).[3] Excluding the jurisdictions that permit or require the application of IFRS standards and IAS standards for at least some entities and those which are undergoing the process of transition to IFRS/IAS (24 jurisdictions), "…119 jurisdictions require IFRS Standards for all or most domestic publicly accountable entities (listed companies and financial institutions) in their capital markets" [10, p. 28]. On the basis of a thorough analysis of the results of almost 100 academic studies, it can be concluded that the majority of research studies "provide evidence that IFRS Standards have improved efficiency of capital market operations and promoted cross-border investment" [14].

2 Organization for Economic Co-operation and Development (OECD) estimates that worldwide Foreign Direct Investment (FDI) outflows in 2014 were US$1.415 trillion. The historically highest level was in 2007 (US$2.447 trillion) [16].

3 For more details, see: [15].

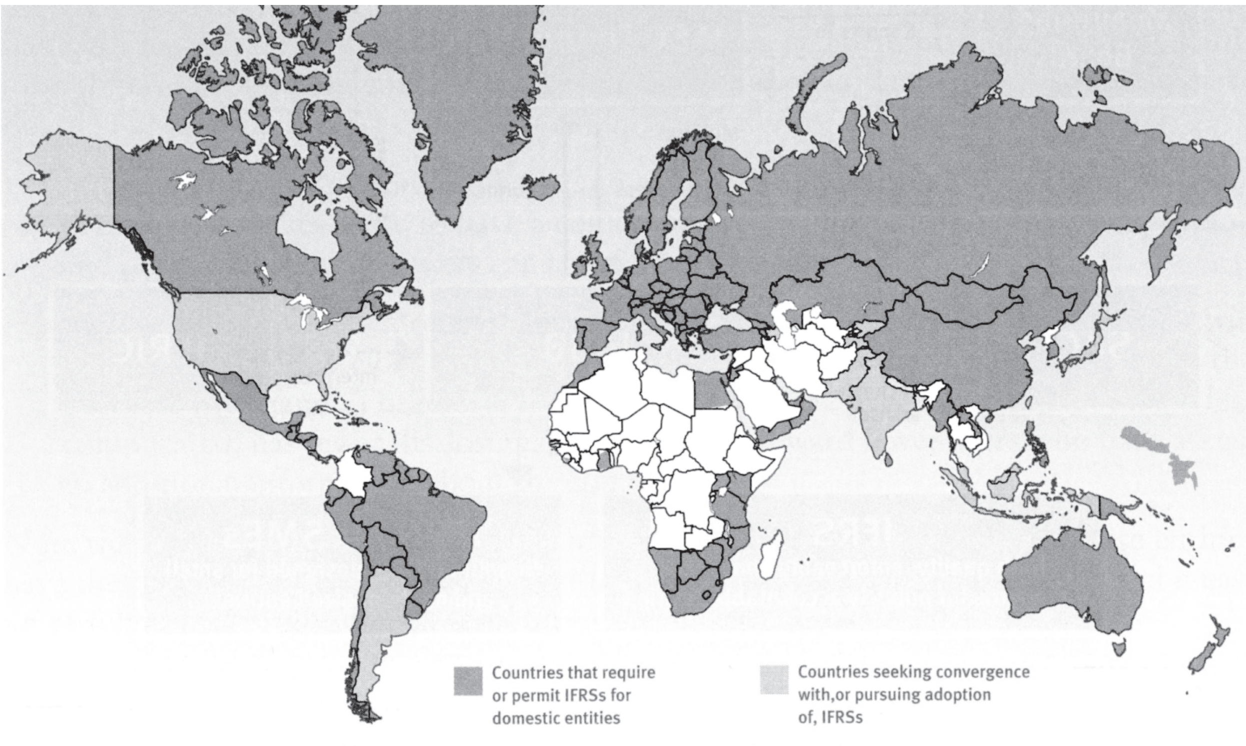
To provide a better insight into the worldwide acceptance of international accounting standards, we will illustrate the situation in this area in 2010 in Figure 3.

Today, there are several relevant international institutions that deal with the issues of harmonization and promotion of international accounting standards. The most important among them are: International Accounting Standards Board (IASB), Commission of the European Union (EU), International Organization of Securities Commissions (IOSCO), International Federation of Accountants (IFAC), United Nations Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), a part of United Nations Conference on Trade and Development (UNCTAD) and Organization for Economic Cooperation and Development Working Group on Accounting Standards (OECD Working Group) [1, pp. 250-276]. Besides, we should also mention the efforts toward the convergence of IFRS with US and Japanese GAAP [12, pp. 104-105]. One of the main objectives is to eliminate regulatory barriers to international capital flows. In such circumstances, for the countries like Serbia there is no dilemma about whether to apply the international professional standards or not, but how to do so. Otherwise, the fragility of the second pillar might trigger the collapse of the entire infrastructure.

The other pillars of financial reporting are equally important. The application of auditing standards (the third pillar) is aimed at building confidence of the existing and potential investors in information contained in financial statements. More confidence contributes to greater certainty for investors and energizes the processes in capital markets. A greater level of investment fosters economic growth and employment.

The accounting profession (the fourth pillar) is highly positioned in the society, among other things, as a result of the fact that professional accountants, who serve the public interest, take part in public practice as business accountants, public sector accountants, auditors in the private and public sector, and consultants. The accounting profession has a considerable role in the following areas: harmonization of national accounting practice with international best practice of financial reporting, promotion of professional practice, promotion of ethical behavior and implementation of the Code of Ethics, continuing education, the certification of accountants and auditors, development of the quality assurance programs and

Figure 3: Countries that allow or use IFRS or are seeking convergence



Source: [6, p. 16]

members' interests protection programs, promotion of the development of accounting profession and professional conduct of accountants, etc.

Given the changes in the structure of the economy, the existence of numerous and very complex transactions as well as increased demands in terms of the scope of financial reporting, it is evident that the education and training of professional accountants (the fifth pillar) are key to maintaining the quality of financial reporting. We should not lose sight of the fact that the accountability of professional accountants is directly related to the implementation of accounting regulations in a legal and ethically acceptable manner, the protection of interests of all stakeholders of a company against the consequences of financial scandals, more efficient and effective use of scarce resources in the public sector, the championship of anti-fraud and anti-corruption behavior in the public sector for the sake of a better protection of citizens' rights, etc. By strengthening confidence in the financial reporting system, professional accountants encourage investors to new investment and invigorate processes in the capital market as well as the growth of individual entities and the national economy. Maintaining the required level of competence of professional accountants is not possible without continuing professional development.

Finally, monitoring and enforcement (the sixth pillar) should ensure the desired level of security and the highest level of compliance with the adopted regulations in the field of financial reporting. In addition to the public authorities, the regulatory bodies such as the central bank or the securities commission, which are in charge of some financial entities, also have significant roles in these processes. However, it is particularly important to emphasize the role of public oversight bodies which, through efficient monitoring of accounting and auditing practices, should contribute to maintaining and improving the quality of financial reporting system.

Unfortunately, more thorough elaboration of the last four pillars is beyond the scope of this paper. In the next sections of the paper, we will focus on the legal and professional accounting regulations or, more precisely, on the parties responsible for the establishment and strengthening of the first two pillars, as well as on the results of the empirical research on the quality of financial reporting in the Republic of Serbia.

Accountability for the financial reporting quality in the RS

The fundamental lack of understanding of the significance of financial reporting in the RS has resulted in its reduction to a formal obligation of submitting financial statements no later than the expiration day of a deadline specified by the law, without serious consideration of their structure, substance or their comparability with their equivalents in advanced economies [9]. The completion of the regulatory framework of financial reporting has not been possible due to a constant ignorance of international practice, numerous flaws in the existing regulations, bad decisions in terms of certain legal solutions, as well as a blatant disregard for the institutions that are supposed to monitor the financial reporting quality. Bearing in mind that the state holds the legislative power, it is obvious that it is the most responsible for the current situation, because it has not always had a clear vision of the development in this field, which would be followed by other actors in the pyramid of responsibility of financial reporting. Here we primarily refer to the national regulatory bodies, professional organizations, and the independent public oversight bodies. Naturally, if we move down to the level of a company, the actors who cannot escape the responsibility include managers, audit committees, but also professional accountants and auditors.

Setting up a long-term sustainable system in the RS has failed due to the fact that the state, which bears the greatest responsibility for the financial reporting quality, has not seriously realized the fact that there is no appropriate alternative to the harmonization of financial reporting at the global level. Instead, there have been attempts to delay or slow down the efforts in this direction by claiming, among other things, that the RS is still in the process of transition, and that some "more important" issues need to be addressed before the regulation of financial reporting can take place. Consequently, the issue of the harmonization of financial reporting has, consciously or unconsciously, remained on the sidelines of the whole process without any serious analysis of the effects of such a situation. The presence of international institutions contributes to keeping this process open, but there is no sign of a decisive step toward the convergence of the financial reporting system with the standards applied in the countries from which the consultants come, mainly due to the reluctance of the state to replace certain national solutions with the generally accepted global standards.

Despite a clearly expressed need for the application of full IFRS/IAS in the recent versions of the Law on Accounting, the compliance is only partial, both in terms of the categories of taxpayers and the actual application of standards. Translations of all standards are not yet available, while the versions of available translations are often incompatible with the current IASB versions of standards. The lack of full compliance is a result of the absence of a clear division of responsibilities for the translation of standards, inefficiency in translating, as well as the delays in the implementation of international professional regulations. The process of harmonization with international regulations has been additionally hampered by some parts of the national regulations, particularly by the Rulebook on the manner of recognition, measurement, presentation and disclosure of items in the individual statements of micro and other legal entities (which relates to almost 90% of legal entities whose financial statements are processed in 2015) [13], and the Regulation on budget accounting in the public sector, unfamiliar to the practices of the countries in which the financial reporting is put on a well-deserved pedestal.

Serbia's efforts to become a member of the European Union (EU) have further strengthened the need for the harmonization of financial reporting, but also made it more difficult to achieve. In fact, this commitment has posed an additional challenge for regulators, i.e. the harmonization of the financial reporting system with EU regulations. The existing differences between global professional regulations and EU regulations have brought about further confusion. Although the differences are not insurmountable, the disorientation of lawmakers in this process has led to the fact that the existing Law on Accounting does not comply with the Directive 2013/34/EU3 [2], which was passed in the same year as the Law on Accounting.

Frequent changes in legislation continually create instability of national regulations of financial reporting, thus exposing the users of accounting information to unnecessary risks and the business entities to unnecessary and high costs, which could be largely avoided. In fact, over the last 20 years, more precisely, from 1993 to 2013, five laws on accounting were passed, the last of which practically derogated the financial reporting system by prescribing, among other things, formally and essentially, incomparable forms of financial statements. These laws often proposed the solutions which are theoretically unknown and/or abandoned long ago by the developed countries, which we publicly embrace as our "role models". Therefore, we should not be surprised by a recent assessment by the European Commission which suggests that further efforts are needed to achieve compliance of the national regulations with the aforementioned EU Directive from 2013 [3].

Owing to the forgoing facts, the form and substance of the existing financial statements, as the main sources of publicly available information on the financial position, performance and changes in the financial position, are not compliant with IFRS/IAS or EU directives on accounting. What is worse, even their theoretical basis could be questioned, which particularly applies to the existing form of Income Statement.[4] This fact speaks volumes about our progress at the moment, although there were a few relatively successful years in which we somehow managed to bring our financial statement forms closer to good business practice and, after a long period of time, make them transparent and readable to users. But, with the latest "innovated" schemes of financial statements, we returned several decades back, thus causing direct damage to the users of accounting information who, due to the clumsy decisions of the main regulator, cannot make the comparisons of performance across time and space, in the absence of which it is impossible to perform any serious analysis that lies at the core of many operational and strategic decisions of key stakeholders.

4 Detailed elaboration of these problems is beyond the scope of this paper, for more information see: [7, pp 30-59]

The problem of the absence of more decisive harmonization of the financial reporting system in the RS is also a result of weak institutions lacking the required level of independence and competence, with seriously damaged credibility among the accounting professionals and the general public. This situation is largely due to the fact that these institutions have been inadequately established from the very beginning, and therefore often dysfunctional and dependent on political structures. For example, the core business of the Public Audit Oversight Board and the National Commission for Accounting should be the development and care of the quality of financial reporting system. However, the Public Audit Oversight Board was in fact institutionalized as a public authority and its independence is compromised beforehand. Besides, the Board does not have adequate powers or necessary infrastructure, it is deprived of the most important instruments by means of which it could act, since its technical assistance is provided by the Chamber of Auditors, being itself the subject to control. Furthermore, the existence of the National Commission for Accounting is essentially insignificant if its statutory responsibilities and accountability are legally derogated and lack strict and predefined criteria that can ensure competent membership and independent work of this important regulator of financial reporting. In addition, there is a need for the Securities Commission to be more actively involved in the creation of legal and professional regulations in order to fulfill the financial reporting requirements placed upon participants in the capital market. Good examples of the commitment to the development of financial reporting are the International Organization of Securities Commissions (IOSCO) and the US Securities and Exchange Commission (SEC).

Disunity and lack of coordination among institutions only deepen the listed problems. When selective appreciation of the key actors in the process of financial reporting is added, then it becomes clear how much this situation is unsustainable, and that such destructive environment cannot provide fertile ground for the improvement of the quality of financial statements.

By enabling the total liberalization of the accounting services market which allows that anybody, regardless of education, can provide the accounting services in the RS, the main regulator has made it clear how much it cares about the quality of financial reporting system. At the same time, the process of certification of professional accountants has for decades been unnecessarily complicated and departed from its main purpose, i.e. the continuous improvement of the quality of the accounting and auditing profession. Besides, if we take into account the complete liberalization of higher education and formal equalization of diplomas without scrutinizing the substantive content of the curricula, we can see to what extent the financial reporting system has been damaged. Everywhere in the world there is a positive selection in the professions of public interest, and it is usually entrusted to the institutions which are truly independent and have a very long tradition. The same steps should have been taken in the RS a long time ago in order to create reliable mechanisms that would be able to keep away from accounting practice all those who violate the laws and disregard the ethical standards of the profession.

Assessment of the quality of legal and professional regulations of financial reporting in the Republic of Serbia: Empirical findings

Based on the empirical research involving 583 professional accountants, in this part of the paper we will analyze their attitudes toward the quality of legal and professional regulations of financial reporting. We will examine whether these attitudes are influenced by the work experience of professional accountants, the nature of business activity performed by their employer, the size of the employer and its legal form. In the end, we will calculate the so-called quality score of the legal and professional regulations, which takes values from 0 to 1, with the values closer to zero indicating a low quality of the relevant regulations.

Methodological framework of the research

Before we present the empirical findings, let us first describe the sample and applied research methods. The research is based on the data collected by the Serbian Association of Accountants and Auditors after conducting a survey among professional accountants in the second half of June,

2016. The questionnaire was completed by 583 members of the accounting profession. Some of them are employed in companies and financial institutions, while others are employed in accounting agencies. The accountants who participated in the survey are employed in entities of different sizes and legal forms, and they have different levels of work experience. The questionnaire was filled out directly in the field in most cities (Subotica, Niš, Požarevac, Pirot, Sremska Mitrovica, Vršac, Novi Sad, Sombor, Kragujevac, Pančevo, Bačka Palanka, Zrenjanin, Novi Sad, Belgrade, Kruševac and Kikinda), but also in electronic form available on the website of SAAA. All of the aforementioned facts point to a satisfactory representativeness of the collected data and samples, which has a positive impact on the relevance of the empirical findings. Description of the sample is provided in Figure 4.

It can be seen that the sample consists mainly of professional accountants with more than 10 years of work experience, which also contributes to the relevance of obtained empirical findings. Most of the respondents are employed in companies or financial institutions. Their employer is most often a microenterprise, and the prevailing legal form of the employer within the sample is a limited liability company.

The questionnaire, which was created by the Serbian Association of Accountants and Auditors, includes 31 closed questions. The questions relate to the quality of financial reporting in the RS. The response to each question is graded using a five-point Likert scale (1 – completely disagree, 2 – disagree, 3 – slightly agree, 4 – mostly agree, 5 – completely agree).

The subject of the analysis in this paper does not cover all the questions contained in the questionnaire, but only those listed in Table 1. These questions are aimed at assessing the attitudes of professional accountants toward the quality of legal and professional regulations in the area

Figure 4: Description of the sample

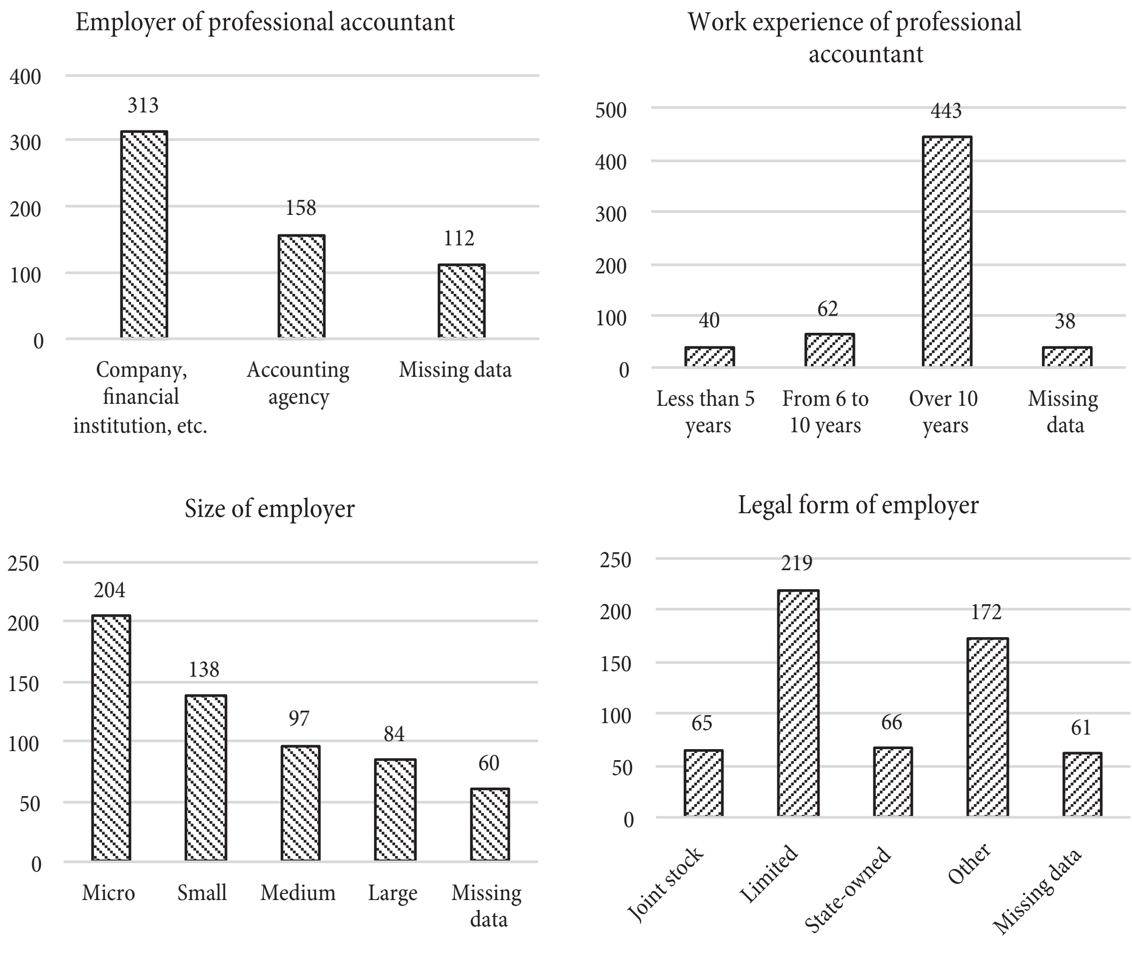


Table 1: Attitudes of professional accountants toward the quality of legal and professional regulations of financial reporting in the RS

		Frequency distribution of responses					
		Completely disagree	Disagree	Slightly agree	Mostly agree	Completely agree	Missing data
	Statements	1	2	3	4	5	
1.	Poor legislative solutions have led to the deterioration of accounting and accountancy profession, and endangered public interest.	1	5	44	79	439	15
2.	Frequent changes in the Law on Accounting (and audit) increase the costs of financial reporting for reporting entities and all users.	1	8	50	98	401	25
3.	Implementation of IFRS and IFRS for SMEs requires stable and quality professional regulations (without frequent changes).	1	6	50	86	418	22
4.	A high number of measurement bases does not contribute to the reliability of reporting, while it increases cost and demands more effort from the accountant.	3	17	84	134	309	36
5.	The lack of updated translations of IFRS, IFRS for SMEs and supporting regulations hinders the quality work of accountants and auditors.	2	20	84	125	321	31
6.	The application of IAS/IFRS increases comparability of information on national, regional and international level.	10	16	76	118	320	43
7.	The application of IAS/IFRS increases competitiveness of the companies that want to do business on foreign markets.	12	15	78	126	310	42
8.	The application of IAS/IFRS helps state bodies, government agencies and companies attract foreign investments.	15	24	87	139	274	44
9.	The application of IAS/IFRS and supporting regulations increases the trust of foreign investors and the quality of financial reporting.	14	17	84	147	281	40
10.	All entities, regardless of their classification, should be allowed to apply full IFRS, which would result in the decrease of the amount of work, number of mistakes, costs of transition from one category of classification to another, and costs of consolidation.	12	29	97	111	302	32
11.	The rulebook for the valuation of items for micro and other entities does not provide all the necessary information for the recording of operational changes, without the usage of IFRS for SMEs.	10	33	133	141	215	51
12.	Since the IFRS for SMEs is in use, there is no need for the special rulebook for micro and other entities.	25	39	106	125	237	51
13.	The existence of 13 charts of accounts makes it more difficult for the accountant to do his or her job, because the balance sheet positions in all entities have the same essence and terms of recognition.	3	9	45	92	398	36
14.	The existing financial statement forms, because they are too big and contain errors, do not serve their purpose.	3	38	94	121	290	37
15.	If the scope of financial statements was decreased, there would no longer be a need for special forms of financial statements for particular reporting entities.	5	33	83	136	289	37

Source: [9]

of financial reporting in the RS. There are 15 questions. Table 1 also shows frequency distribution of the responses to these questions given by professional accountants.

The processing and analysis of the obtained responses were carried out by applying the methods of descriptive statistics and the methods of statistical hypotheses testing. Besides parametric methods, the second group also involved the use of appropriate non-parametric methods that are based on less strict assumptions about the type and distribution of analyzed data. Namely, non-parametric tests, such as the Wilcoxon-Mann-Whitney test or the Kruskal-Wallis test, could be used not only for analyzing interval data but also for ordinal data, which may not be normally distributed. There is no doubt that the character of information which is obtained using the Likert-type scale in rating responses tends to be ordinal rather than interval. As a result of the fact that there are a growing number of authors that treat such data as quasi-interval, in this paper we also apply the parametric methods like the t-test and the one-way ANOVA.

The results of descriptive statistics

The results of descriptive statistics analysis of the professional accountants' responses to the above-mentioned 15 questions are displayed in Table 2. The table contains the measures of central tendency (mean, median and mode), the measures of dispersion of the obtained responses (standard deviation and interquartile range), as well as the coefficients of skewness and kurtosis relative to distributions of those responses.

It can be clearly seen that all distributions are negatively skewed (skewness < 0). The mean of the responses to each of 15 questions is lower than the median, which is lower or equal to the mode. The mode values indicate that professional accountants in most cases completely agree with the statements on the quality of legal and professional regulations formulated in the questionnaire. The value of the median is 4 (they mostly agree with the statements) or 5 (they completely agree with the statements), while the mean ranges from 3.96 to 4.67. Dispersion of responses is not considerable. Standard deviation varies from 0.67 to 1.17, while the interquartile range varies between the levels 0 and 2 on the Likert scale. Besides, it is also noticeable that most of the distributions are leptokurtic (kurtosis > 3), except the distributions of the responses to the questions 11, 12 and 14, which are platykurtic (kurtosis < 3). Higher kurtosis entails a larger grouping of data around the mean and, consequently, a lower standard deviation.

What conclusions about the quality of legal and professional regulations of financial reporting could be drawn based on the presented results of descriptive statistics analysis of the professional accountants' responses? These conclusions could be systematized as follows:

1. The application of IAS/IFRS increases the comparability of accounting information released by domestic and foreign companies. On the one hand, it contributes to increased competitiveness of domestic companies on foreign markets and, on the other, it makes it easier for the public authorities to attract foreign investment, since it builds the foreign investors' trust in the quality of financial reporting. These conclusions are based on the results of descriptive statistical analysis of the responses to the questions 6, 7, 8 and 9. The means associated with the responses to these questions do not fall below 4.17, while the values of median and mode are equal to 5 (complete agreement). At the same time, the responses are not significantly dispersed.

Table 2: Descriptive statistics

Statements	Mean	Median	Mode	Standard deviation	Interquartile range	Skewness	Kurtosis
1.	4.67	5	5	0.67	0	-2.10	7.00
2.	4.59	5	5	0.73	1	-1.79	5.64
3.	4.63	5	5	0.71	1	-1.90	6.01
4.	4.33	5	5	0.88	1	-1.16	3.60
5.	4.35	5	5	0.89	1	-1.17	3.45
6.	4.34	5	5	0.95	1	-1.44	4.58
7.	4.31	5	5	0.97	1	-1.42	4.58
8.	4.17	5	5	1.03	1	-1.20	3.83
9.	4.22	5	5	0.99	1	-1.29	4.25
10.	4.20	5	5	1.05	2	-1.15	3.46
11.	3.97	4	5	1.04	2	-0.69	2.69
12.	3.96	4	5	1.17	2	-0.91	2.91
13.	4.60	5	5	0.76	1	-2.01	6.89
14.	4.20	5	5	1.00	1	-0.97	2.85
15.	4.23	5	5	0.98	1	-1.10	3.33

Standard deviations do not exceed 1.03, and interquartile ranges are equal to the level 1 on the Likert scale.

2. The existence of 13 charts of accounts, cumbersome financial statement forms and a large number of normative bases for the valuation of balance sheet items make it more difficult for the professional accountants to do their job, increase the costs of financial reporting and undermine the quality of financial statements (the questions 4, 13, 14 and 15). The mean calculated for the responses to each of these questions does not fall below 4.20, while the median and the mode are equal to 5 (complete agreement). Moreover, the dispersion of responses is not large. Standard deviations do not exceed 1, and interquartile ranges are equal to the level 1 on the Likert scale.
3. All entities, regardless of their size, should be allowed to apply full IFRS, which would decrease workload, number of errors, and costs of the consolidation of financial statements or the transition of an entity from one category of classification to another. There is no need for a special rulebook on the manner of recognition, valuation, presentation and disclosure of items in the financial statements for micro entities. These conclusions are based on the results of descriptive statistical analysis of the responses to the questions 10, 11 and 12. For each of these questions the mode is 5 (complete agreement), the median is at least 4 (agreement to a great extent), and the value of the mean is around 4. Variability of responses is slightly larger in comparison to the previous cases. Standard deviations exceed 1, while interquartile ranges are equal to 2.
4. Poor quality legislation, frequent changes in laws and inadequate translation of IFRS lead to increased costs of financial reporting and adversely affect the application of IAS/IFRS, the quality of financial statements, and the public perception of the accounting profession (questions: 1, 2, 3 and 5). The means of the responses to these questions are greater than 4.34, and the values of the median and the mode are equal to 5 (complete agreement). Variability of responses is low. Standard deviations are below 1, while the interquartile ranges are equal to 0 or 1.

As we can see, professional accountants positively evaluate the quality of professional regulations inherent in IAS/IFRS. The problem is caused by the solutions imposed by laws and bylaws that have failed to ensure the efficient implementation of professional regulations. They are unstable and subject to frequent changes. Also, these solutions allow the circumvention of IFRS and IFRS for SMEs by the so-called microenterprises which, according to the data from 2015, make up 89% of the total number of enterprises in the RS [13]. Besides, their share in the total number of employees, assets and income of the economy at the end of 2015 amounted to 22%, 19% and 12%, respectively [13]. So, the existing regulatory framework allows a significant part of economic activities to be recorded without complying with IAS/IFRS, which is considered to be one of its major flaws.

Conformity in professional accountants' attitudes toward the quality of legal and professional regulations of financial reporting in the Republic of Serbia

In this section we will examine whether the different groups of professional accountants share the same attitudes toward the quality of legal and professional regulations of financial reporting in the RS. Are such attitudes influenced by the work experience of professional accountants, the nature of business activity by their employer (provision of accounting services vs. manufacturing, retailing or finance), the size of the employer (small, medium-sized or large enterprise) or its legal form (joint stock company, limited liability company, state-owned company or other legal forms)? To what extent are the attitudes across the accounting profession compact, stable and uniform? Do different groups of professional accountants have different opinions on the quality of regulatory framework in the field of financial reporting? The answers to these questions can be found in Table 3, which includes the results of the parametric test of equality of the means of two or more independent samples (t-test and one-way ANOVA), as well as the results of corresponding non-parametric tests (Wilcoxon-Mann-Whitney test and Kruskal-Wallis test).

As can be seen from Table 3, the results of the two independent samples t-test and Wilcoxon-Mann-Whitney test reveal that the attitudes of professional accountants employed in accounting agencies, companies and financial institutions regarding the quality of legal and professional regulations of financial reporting converge to a great extent. The p-values are lower than the significance level of 5% only for the questions 2, 4, 13 and 14, which means that in those cases we can reject the null hypothesis of t-test about the equality of the means of two samples (professional accountants from accounting agencies vs. professional accountants from companies and financial institutions), as well as the null hypothesis of Wilcoxon-Mann-Whitney test that the samples come from the same population.

Furthermore, the results of one-way ANOVA and Kruskal-Wallis test point to a high level of conformity in the attitudes of professional accountants that have different work experience. The null hypothesis of the one-way analysis of variance (one-way ANOVA) about the equality of the means of three samples (professional accountants with less than 5 years of work experience, professional accountants with 5-10 years of work experience and professional accountants with more than 10 years of work experience), as well as the null hypothesis of Kruskal-Wallis test, according to which the samples belong to the same population, can be rejected only when it comes to the question 15. The p-values for this question are lower than the significance level of 5%.

The one-way ANOVA has found somewhat larger differences in the attitudes among professional accountants that work in enterprises of different sizes. As the p-values are less than 5% for the questions 2, 4, 6, 10 and 13, then we can reject the null hypothesis about the equality of the means of four samples (professional accountants from microenterprises, professional accountants from small enterprises, professional accountants from medium-sized enterprises and professional accountants from large enterprises). Contrary to the one-way ANOVA, the Kruskal-Wallis test indicates the existence of differences in the attitudes of professional accountants only with regard to the question 10.

Finally, both the one-way ANOVA and Kruskal-Wallis test point to a high level of conformity in the attitudes of

Table 3: Testing of the conformity in attitudes among different groups of professional accountants toward the quality of legal and professional regulations of financial reporting in the RS

Statements	Employer				Work experience				Size of employer				Legal form of employer			
	Two independent samples t-test		Wilcoxon-Mann-Whitney test		One-way ANOVA		Kruskal-Wallis test		One-way ANOVA		Kruskal-Wallis test		One-way ANOVA		Kruskal-Wallis test	
	t statistic	p-value	z statistic	p-value	F statistic	p-value	χ2 statistic	p-value	F statistic	p-value	χ2 statistic	p-value	F statistic	p-value	χ2 statistic	p-value
1.	-1.74	0.08	-1.74	0.08	0.44	0.65	0.47	0.79	2.19	0.09	4.13	0.25	0.09	0.97	0.63	0.89
2.	-3.32	0.00	-3.30	0.00	0.23	0.79	0.86	0.65	3.34	0.02	6.20	0.10	0.35	0.79	0.58	0.90
3.	-0.84	0.40	-0.89	0.38	0.39	0.67	0.61	0.74	0.34	0.80	0.18	0.98	0.29	0.84	0.81	0.85
4.	-2.38	0.02	-2.58	0.01	1.16	0.31	1.66	0.44	2.99	0.03	7.27	0.06	0.44	0.72	1.68	0.64
5.	-1.37	0.17	-1.56	0.12	0.19	0.83	1.07	0.58	0.21	0.89	0.62	0.89	0.67	0.57	0.59	0.90
6.	1.29	0.20	0.47	0.64	2.52	0.08	3.13	0.21	2.99	0.03	4.25	0.24	2.41	0.07	5.03	0.17
7.	0.83	0.41	0.45	0.65	0.61	0.54	1.02	0.60	1.46	0.22	2.88	0.41	0.84	0.47	0.82	0.84
8.	0.73	0.47	0.26	0.80	2.27	0.10	3.92	0.14	0.60	0.62	0.86	0.84	0.80	0.50	2.65	0.45
9.	1.40	0.16	0.97	0.33	0.99	0.37	1.73	0.42	1.70	0.17	3.61	0.31	0.77	0.51	2.29	0.51
10.	1.37	0.17	1.33	0.18	0.13	0.88	0.09	0.96	3.65	0.01	8.43	0.04	3.30	0.02	6.78	0.08
11.	-0.06	0.95	-0.43	0.67	1.47	0.23	3.13	0.21	0.89	0.45	1.00	0.80	0.81	0.49	2.48	0.48
12.	0.51	0.61	-0.04	0.97	0.76	0.47	0.71	0.70	1.67	0.17	2.42	0.49	1.39	0.24	2.36	0.50
13.	-1.52	0.13	-2.37	0.02	1.42	0.24	0.87	0.65	2.73	0.04	6.57	0.09	0.72	0.54	1.01	0.80
14.	-2.97	0.00	-3.48	0.00	0.51	0.60	0.36	0.83	2.39	0.07	6.85	0.08	0.81	0.49	1.67	0.64
15.	-1.33	0.18	-1.82	0.07	3.85	0.02	6.24	0.04	1.47	0.22	3.41	0.33	2.07	0.10	3.84	0.28

professional accountants employed in companies that have different legal forms (joint stock company, limited liability company, state-owned company and other legal forms). The one-way ANOVA signals the existence of certain differences in responses given by professional accountants to the question 10, while the Kruskal-Wallis test shows that there is a wide agreement on this matter among the members of the accounting profession.

Despite the findings of some of the aforementioned tests, the results of descriptive statistics, displayed in Table 4, show that the attitudes across the accounting profession are pretty much compact and uniform. This analysis covers only the questions to which, according to the results of the previous tests, the members of the accounting profession have given statistically different responses. We can observe that there are no significant differences between the means, medians, standard deviations and interquartile ranges calculated for the responses of different groups of professional accountants to the questions 2, 4, 6, 10, 13, 14 and 15.

The fact that supports the previous observation about homogeneity and conformity in the attitudes across the accounting profession is that, at the significance level of 1%, it is possible to reject the null hypotheses of t-test and Wilcoxon-Mann-Whitney test only for the questions 2 and 14.

So, the conclusions on the quality of regulatory framework of financial reporting that have been formulated after the descriptive statistics analysis of the responses of professional accountants presented in Table 2 seem quite robust. They reflect the prevailing opinion of all groups of professional accountants, no matter how these groups are defined. There are no significant differences in opinions between professional accountants from agencies and those

Table 4: Descriptive statistics analysis of the conformity in attitudes among different groups of professional accountants toward the quality of legal and professional regulations of financial reporting in the RS

Panel A.

Statements	Employer							
	Company, financial institution, etc.				Accounting agency			
	m1	sd2	p503	iqr4	m	sd	p50	iqr
2.	4.51	0.80	5.00	1.00	4.75	0.57	5.00	0.00
4.	4.27	0.91	5.00	1.00	4.49	0.82	5.00	1.00
13.	4.60	0.71	5.00	1.00	4.71	0.72	5.00	0.00
14.	4.10	1.00	4.00	2.00	4.39	0.96	5.00	1.00

Panel B.

Statements	Work experience											
	Less than 5 years				From 6 to 10 years				Over 10 years			
	m	sd	p50	iqr	m	sd	p50	iqr	m	sd	p50	iqr
15.	3.85	1.08	4.00	2.00	4.39	0.85	5.00	1.00	4.23	0.97	5.00	1.00

Panel C.

Statements	Size of employer															
	Micro				Small				Medium				Large			
	m	sd	p50	iqr	m	sd	p50	iqr	m	sd	p50	iqr	m	sd	p50	iqr
2.	4.68	0.62	5.00	0.00	4.57	0.78	5.00	1.00	4.38	0.85	5.00	1.00	4.60	0.75	5.00	1.00
4.	4.45	0.80	5.00	1.00	4.32	0.93	5.00	1.00	4.16	0.93	4.00	1.00	4.17	0.97	5.00	2.00
6.	4.19	1.09	5.00	2.00	4.33	0.94	5.00	1.00	4.40	0.84	5.00	1.00	4.56	0.73	5.00	1.00
10.	4.05	1.11	4.00	2.00	4.13	1.15	5.00	2.00	4.30	0.92	5.00	1.00	4.48	0.86	5.00	1.00
13.	4.71	0.68	5.00	0.00	4.49	0.87	5.00	1.00	4.52	0.75	5.00	1.00	4.54	0.76	5.00	1.00

Panel D.

Statements	Legal form of employer															
	Joint stock				Limited				State-owned				Other			
	m	sd	p50	iqr	m	sd	p50	iqr	m	sd	p50	iqr	m	sd	p50	iqr
10.	4.38	0.88	5.00	1.00	4.23	1.05	5.00	2.00	4.40	0.89	5.00	1.00	4.01	1.15	4.00	2.00

1 Mean 2 Standard deviation 3 Median 4 Interquartile range

who work in the companies or financial institutions. Work experience, the size of the employer and its legal form do not have a considerable impact on the abovementioned conclusions.

Quality score of legal and professional regulations of financial reporting in the Republic of Serbia

On the basis of the available data we will also try to calculate the quality score for the legal and professional regulations of financial reporting in the RS. In this regard, we will first carry out the conversion of qualitative data into quantitative data. The response of a professional accountant i to a question j ($r_{i,j}$) is converted into an equivalent number on a scale of 1 to 5, according to the scheme which is presented at the top of Table 1. Namely, the response "Completely disagree" is converted into the number 1, while the response "Completely agree" is replaced by the number 5. Between these two attitudes, there are also three more responses which take the values of 2, 3 and 4. Missing data is replaced by the number 3, which is in the middle of a scale of 1-5.

After the quantification of responses, all the responses should be divided into two groups. The question j will belong to the group A if the response to that question, which is "Completely agree", indicates a low quality of regulatory framework of financial reporting. Group A consists of the questions 1, 2, 3, 4, 5, 10, 11, 12, 13, 14 and 15. As far as other questions are concerned, the response "Completely agree" is an indication of a high quality of regulations. They belong to the group B.

In the next step, it is necessary to calculate the quality score of legal and professional regulations of financial reporting for each respondent, which is done according to the following formula:

$$Quality\ score_i = \frac{\sum_{j\in A}\left(1 - \frac{r_{i,j}-1}{4}\right) + \sum_{j\in B}\left(\frac{r_{i,j}-1}{4}\right)}{15}$$

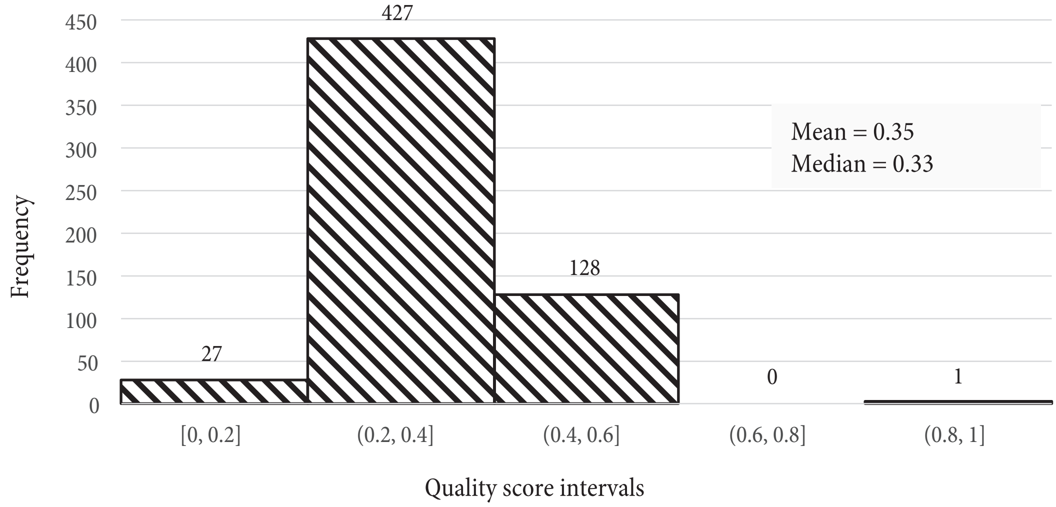
Score takes values from 0 to 1, with the values closer to zero (one) indicating a low (high) quality of regulations. Frequency distribution of the score and its mean and median are shown in Figure 5.

Figure 5 shows that the distribution is skewed to the right. The mean and the median of the score are 0.35 and 0.33, respectively. The highest value of the score is 0.8, which is attributed by only one respondent. The lowest value is zero. The score ranging from 0 to 0.2 is recorded for 27 respondents. For most surveyed professional accountants (427), the value of the score ranges between 0.2 and 0.4, which indicates that the prevailing opinion of professional accountants is that the quality of the overall regulations of financial reporting in the Republic of Serbia is poor.

Conclusion

The establishment of an appropriate infrastructure support is a prerequisite for the development of a high-quality financial reporting system. Such infrastructure support consists of six pillars of the financial reporting quality: statutory framework, accounting standards, auditing

Figure 5: Frequency distribution of the quality score of the regulatory framework of financial reporting in the RS



standards, accounting profession and ethics, education and training, and monitoring and enforcement. Each of these pillars is so important that neglecting any of them may lead to the collapse of the entire architecture aimed at reinforcing the financial reporting quality. However, if the wrong choices are made in the fields of legal and professional regulations, then the efforts made in other fields (pillars) toward achieving the required quality of financial reporting may go down the drain.

The empirical research has led to several important conclusions. Firstly, the application of IFRS/IAS increases the comparability of accounting information published by domestic and foreign companies and the certainty for investors, which helps domestic companies improve their competitiveness on foreign markets, and opens the door to more FDI. Secondly, the existence of a large number of charts of accounts (13), overly extensive content of the existing financial statement forms and a large number of normative bases for the valuation of balance sheet items complicate the work of professional accountants, increase the cost of financial reporting and adversely affect the quality of financial statements. Thirdly, all entities, regardless of their size, should be allowed to apply full IFRS/IAS or IFRS for SMEs, which would decrease the amount of work, number of errors, and the costs of the consolidation of financial statements or the transition of an entity from one category of classification to another. Fourthly, unsatisfactory legal solutions, frequent changes in laws and inadequate translation of IFRS/IAS increase the cost of financial reporting, and have negative effects on the application of IFRS/IAS, the quality of financial statements and the public perception of the accounting profession. Fifthly, there are no striking differences in the opinions between professional accountants from the accounting agencies and those working in the companies or financial institutions. Also, the factors such as work experience, the size of the employer and its legal form do not have a significant impact on the aforementioned conclusions.

The empirical research has unequivocally confirmed the prevailing opinion of professional accountants that the quality of the overall financial reporting regulations in the Republic of Serbia is at a very low level. Realistically speaking, this finding does not seem surprising. However, it should not be regarded as a proof that the situation in the field of financial reporting in the Republic of Serbia is very bad, and that serious damage was done because the relevant institutions failed to do their job, especially in the last couple of years. This finding should primarily serve as a serious warning to those who have the authority and responsibility for the ongoing process of changing the existing regulations in the field of financial reporting. Truth be told, the very fact that the changes in the previously adopted regulations have been initiated faster than ever before is a clear signal of how not to behave when it comes to the protection of the public interest.

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Dejan Malinic

is Full Professor at the Faculty of Economics, University of Belgrade. He teaches courses in Management Accounting and Financial Statement Analysis (undergraduate studies) as well as Policy of Income and Strategic Controlling (master studies), and Advanced Management Accounting and Strategic Management Accounting (doctoral studies). So far he has published two books: Policy of Company's Income and Divisional Accounting. He is the co-author of university textbook Management Accounting. He is the co-author and the editor of a book Financial Markets and the co-author of monograph The Financial Performance Measurement in the Telecommunications – The Case of Serbia. Moreover, he has published more than hundred scientific and research papers in the fields of management accounting, corporate finance and financial reporting. He was a member of the Accounting Board in Serbian Association of Accountants and Auditors. He is also a member of the Board Executives of Serbian Economists Association, and the Editorial Board of Journal Economics of an Enterprise. Since 2004 to 2011 he was a member of Securities Commission of Republic of Serbia. He is a certified public accountant.

Vlade Milićević

is Full Professor at the Faculty of Economics, University of Belgrade. He has been teaching Management Accounting on undergraduate studies. Furthermore, he is the lecturer of Strategic Controlling and Profit Policy on master studies and Management Accounting II and Strategic Management Accounting on PhD studies. Additionally, professor Milicevic has been engaged as the vice-dean for finance and organization at the Faculty since May 2006. Professor Milicevic is known as the author of books Cost Accounting and Business Decision Making and Strategic Management Accounting, and as the co-author of books Management Accounting and Financial Markets. Furthermore, he has written numerous articles related to accounting, financial management and auditing, as well as some outstanding papers for several conferences in that field.

Milan Glišić

is Teaching Assistant at the Faculty of Economics, University of Belgrade, where he teaches Management Accounting. He received his master's degree in Accounting, Audit and Corporate Finance in 2010 from the Faculty of Economics, University of Belgrade. Currently, he is a doctoral student at the same faculty. Areas of his interest are performance measurement, cost accounting, financial statements analysis and valuation. He is a CFA Charterholder and a member of CFA Institute. He worked as a financial analyst in the investment fund management companies Delta Investments and Focus Invest. He is married and has two daughters, Nina and Maša.