

THE IMPROVEMENT OF THE FINANCIAL MANAGEMENT AND CONTROL IN THE MINISTRY OF DEFENCE OF THE REPUBLIC OF SERBIA

Milan Milunović*
Milena Knežević**
Nikola Kovačević***

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The system of the financial management and control (hereinafter referred to as: FMC) in the public sector and the Ministry of Defence of the RS (hereinafter referred to as: MoD) should focus on the principles of economy, efficiency, effectiveness and publicity, with the legal use of public funds, aimed at supporting the management in business improvement. Hence, it is necessary to continuously improve the FMC, not to allow problems to arise, but to detect potential risks through controls and take preventive actions, in order to improve business.

The objective of the paper is to emphasize the importance of the financial management and control in the public sector, and also in the Ministry of Defence as one of its ministries. Methodologically, analyses and syntheses, comparisons, inductions and deductions of business and FMC for the last five years in the public sector of the RS are included.

On the basis of this research and the considered functioning of the FMC, good and bad experiences in normative regulation and in practice, problems have been identified with proposals for its improvement in the public sector and in the MoD of the RS. The improvement proposal has been made by analysing the reports of the Ministry of Finance and the State Audit Institution (hereinafter referred to as: SAI), by researching the operations and functioning of the FMC in the MoD.

Key words: *financial management, control, risks, preventive action, improvement, public sector of RS*

* Military Academy, University of Defence in Belgrade, Belgrade, Republic of Serbia, 0208luna@gmail.com

** Military Academy, University of Defence in Belgrade, Belgrade, Republic of Serbia

*** Military Academy, University of Defence in Belgrade, Belgrade, Republic of Serbia

Introduction

The objective of this research is the improvement of the FMC in the public sector and the MoD through an analytical approach to the existing FMC system and finding new solutions for its improvement, but as a component of internal financial control (hereinafter referred to as: IFC) in the public sector. The system of financial and non-financial controls includes risk management, the creation of a prerequisite for the efficient achievement of the goals of the public funds users (hereinafter referred to as: PFU), which affects the increase in economy, efficiency and effectiveness of the entire public sector and, ultimately, the fiscal system in the RS. The improvement of the FMC contributes to a fiscal and any other responsibility of managers and all employees, and the establishment of its efficient system in the RS is an integral part of the pre-accession negotiations in the process of the EU integration.

The responsibility for the establishment, implementation and development of the FMC system in the MoD is, first of all, the responsibility of managers, but the implementation itself is the responsibility of all employees in all work processes and business procedures.

The subject of the research includes the analysis of the implementation and development of the FMC system, i.e. improvement that will enable its better functioning, finding proposals for improving, primarily, the economy, efficiency and effectiveness of the established FMC system in the public sector and the MoD of the RS. The results of the research should contribute to the improvement of the functioning of this system, which has been implemented in the public sector and the MoD of the RS.

The introduction of the financial management and control in the public sector of the Republic of Serbia

Internal financial control was originally created and introduced in the US. Namely, the requirements of corporate management require a modern world standard of internal control. As a result, the Committee of Sponsoring Organizations (COSO)¹ - the National Commission on Fraudulent Financial Reporting (also known as the Treadway Commission) published in 1992 the document called *Internal control - an integrated framework*, which defines internal control and five interrelated components that make up internal control. A new revised framework was published in 2013. The aforementioned control was taken over from the US by the European Union, and the RS took it over through Chapter 32 - Financial supervision, as one of 35 chapters in the process of the accession of the RS to the European Union.

The internal financial control in the public sector represents the entire system of financial and other controls established by a head of an organization in the public sector, for the purpose of successful management and achievement of the

¹ Committee of Sponsoring Organizations - COSO, founded in the US in 1985.

organization's goals. Moreover, the IFC in the public sector includes the entire system established by the Government to control the use of budget funds.²

The system of internal controls is decisive for the efficient operation of any organization. Control activities include written procedures and processes that should ensure the achievement of the organization's business goals. They are established to provide *reasonable assurance* that potential risks, which threaten the achievement of business objectives are limited to an acceptable level. Controls should be conducted throughout the entire organization, at all levels and functions, such as: approvals, transfer of authority, checks, harmonizations, review of work results, asset security, separation of duties, etc.³

According to the provisions of the Law on the Budget System of the Republic of Serbia, the Ministry of Defence of the Republic of Serbia is the direct user of budget funds and, accordingly, it implements all provisions of internal and other forms of financial management control defined by law and other regulations.

The functioning of the financial management and control in the Ministry of Defence of the Republic of Serbia

The FMC system is established in accordance with the adopted regulations that define the establishment and development of the IFC system in the public sector of the RS. The financial operations in the Ministry of Defence are more closely defined by the Regulation on the financial operations in the Ministry of Defence and the Serbian Armed Forces⁴ and the Regulation on the material operations in the Ministry of Defence and the Serbian Armed Forces⁵, organizational orders and procedures.

The authorizing officers who implement it, as well as all employees, are responsible for establishing internal control⁶ in the defence system. The Ministry of Defence, as a direct budget user, is obliged to execute budget in the manner defined by the Law on the Budget System, the Regulation on the Budget Execution System and other by-laws.

The process of internal control is carried out continuously in the operations of budget users through formal, substantive and calculation control of the accuracy of an accounting document and accompanying documentation.

² Leko, V.: "Vrhovna državna revizija javnih sredstava", Pravni fakultet, Beograd, 2008, p. 304.

³ Žugić R., Milunović M., Stanković S., *Osnovi revizije i kontrole*, Medija centar "Obrana", 2020, pp. 167-170.

⁴ Ministry of Defence of the RS, "Regulation on the financial operations in the Ministry of Defence and the Serbian Armed Forces", "OMG", no. 17/11, 3/13, 12/14, 9/17 and 41/20, with Annex 14, Belgrade, 2011, Articles 103-112.

⁵ Ministry of Defence of the RS, "Regulation on the material operations in the Ministry of Defence and the Serbian Armed Forces", "OMG", no. 29/14, Belgrade, 2014.

⁶ Kostić, R. O., Žugić, R., Radojković, M., *Interna finansijska kontrola i finansijsko upravljanje u javnom sektoru i njihova uloga u sistemu odbrane*. Vojno delo, 66(3), pp. 238-254, 2014. <https://doi.org/10.5937/vojdelo1403238k>

There are the following forms of the internal financial control in the Ministry of Defence and the Serbian Armed Forces:

- supervision - current, daily control of funds and work, performed by the authorizing officers;
- control of legality, accuracy and development of documents on business change, performed by bookkeepers;
- control in the Accounting Centre;
- defence inspection affairs in the Defence Inspectorate;
- detection and documentation of criminal acts of organized crime, money laundering and corruption (abuse of official position, influence peddling, receiving and giving bribe) performed by the Military Security Agency and the Military Police.⁷

The Budget and Finance Sector, as a part of the Ministry of Defence, executes its financial and accounting function. The organization and responsibilities of this Sector are defined by the existing rules and regulations.

Furthermore, the Budget and Finance Sector, as an organizational unit of the Ministry of Defence responsible for budget and finance, among other things, evaluates the material and financial operations of the commands, units and institutions of the Serbian Armed Forces and the organizational parts of the Ministry of Defence in accordance with the regulation on the evaluation of the organizational parts of the Ministry of Defence and the Serbian Armed Forces, gives guidelines for the development of the business information system and defines the form of a report for the needs of the financial management and control.⁸

Therefore, the Budget and Finance Sector, i.e. the financial service in the Ministry of Defence, in the description of its responsibilities, performs preliminary control of accounting documents and procedures, while their subsequent control is performed by other bodies within the Ministry of Defence, such as the Inspectorate.

The analysis of the situation and problems of the financial management and control in the public sector of the Republic of Serbia

The obligation to establish the FMC for the PFU is defined by the Law on the Budget System, as the obligation of the CHU of the Ministry of Finance to perform tasks of harmonization and coordination of the IFC in the public sector. Ministries, as direct budget users⁹ of the RS, are obliged to establish an adequate system of internal

⁷ Žugić, R., Kostić, R. i Radojković, M., *“Interna finansijska kontrola i finansijsko upravljanje u javnom sektoru i njihova uloga u sistemu odbrane”*, Vojno delo, Beograd, jesen/2014, p. 250.

⁸ Radivojević, M., Tešanović, B., *“Sistem interne kontrole i revizije u Ministarstvu odbrane i Vojsci Srbije”*, Bezbednost 2/2020.

⁹ Vladislavljević, V., Pešić, H., *Budžetska procedura u Republici Srbiji-izrada, donošenje i usvajanje završnog računa budžeta*. Oditor, 4(2)/2018, 90-100.
<https://doi.org/10.5937/Oditor1802090V>

controls that will enable them to effectively manage risks and achieve business goals in accordance with regulations, budget and good financial management, i.e. in accordance with the principles of economy, efficiency and effectiveness.

The state of the IFC in the public sector of the RS is presented in the Consolidated Annual Statement, which is prepared and published by the Ministry of Finance on its website. Moreover, the SAI includes the functioning of the IFC in its annual audit reports.

The indicators from the consolidated annual statements on the state of the IFC in the public sector of the RS for ministries with bodies in the administration, directorate and inspectorate for the last five years (2016–2020) are systematized in Table 1.

Table 1 – *The state of the IFC in the public sector of the RS for ministries in the period from 2016 to 2020*

AREAS OF BUSINESS	YEARLY RECOMMENDATIONS					2020/2016
	2016	2017	2018	2019	2020	
Internal rules and procedures	2492	2214	2587	3405	2761	110.79
Planning	328	310	370	390	240	73.16
Salaries and income	184	180	255	170	113	61.41
Public procurement and contracting	598	741	595	637	450	75.25
Employees, salaries and allowances	470	411	460	529	377	80.21
Payment and funds transfer	202	180	255	244	159	78.71
Accounting records and financial reporting	622	555	568	590	678	109.00
Information systems	159	215	184	213	190	119.49
TOTAL	5055	4806	5274	6178	4968	98.27

Source: The Consolidated Annual Statement on the state of the IFC in the public sector of the RS, from 2016 to 2020.¹⁰

Analysing the methodologically presented indicators in eight business areas, the following conclusions have been reached:

– in three areas of business, the number of recommendations grew by over 100%, in 5 areas it decreased and amounts to 61% to 79%, which is good, so there are no excessive jumps or falls, but relative stability is present, which in the overall average number of recommendations records a slight decline for the considered period and amounts to 98.27% (Table 1);

– the greatest number of recommendations was given in 2019 (6,178), and in other years that number amounted to around 5,000 recommendations;

¹⁰ Ministry of Finance of the RS, "Consolidated Annual Statement on the state of the IFC in the public sector of the RS from 2016 to 2020".

- it is worrisome that the greatest number of recommendations was given in the field of internal rules and procedures, then in the field of public procurement, bookkeeping, salaries and payment;
- recommendations in the field of planning have special importance because they indicate omissions, which is certainly not good for institutions in the public sector and
- it is worrisome that similar indicators were defined during the analysis of the aforementioned recommendations 10 years ago.¹¹

Analysing the total recommendations that have been systematised for the last five years (2016–2020), it means that most of them from previous years have been eliminated, which indicates that managers accepted them and implemented the agreed recommendations (Table 2).

Table 2 – *The elimination of the IFC recommendations in the public sector of the RS for ministries in the period from 2016 to 2020*

YEARLY RECOMMENDATIONS	2016	2017	2018	2019	2020	TOTAL
Number of given recommendations	5,055	4,806	5,274	6,178	4,968	26,281
Number of removed recommendations (the rest are within the due date)	3,407	4,379	4,740	3,943	2,972	19,441
% given/removed recommendations	67	91	90	64	60	73.97

Source: The Consolidated Annual Statement on the state of the IFC in the public sector of the RS from 2016 to 2020.¹²

It is characteristic that the percentage of removed recommendations ranged from 60 to 91, but that the due date for the remaining recommendations did not expire. However, it is not good that in the last two years the percentage of removed recommendations fell to 64 and 60, which indicates an increase in those that have not been removed. Therefore, it is necessary that the recommendations whose deadlines have not expired are fully implemented, which would indicate the consistency and improvement of the work of institutions in the public sector.

It is very important to point out that in the latest analysed Consolidated Annual Statement for 2020, the Ministry of Defence is not mentioned in negative contexts, which represents positive progress in the field of the FMC.

¹¹ Žugić, R., Milunović, M., Stanković, S., "Osnovi revizije i kontrole", Medija centar "Obrana", Beograd, 2020, pp. 239-240.

¹² Ministry of Finance of the RS, "Consolidated Annual Statement on the state of the IFC in the public sector of the RS from 2016 to 2020".

In addition to the analysis of the consolidated annual statements on the state of the IFC in the public sector and the MoD, as a very important indicator of the success of the FMC, reports on the work of the SAI on audits¹³ in the public sector and the MoD in the period from 2017 to 2021 have also been analysed.

The State Audit Institution is the highest authority for auditing public funds in the Republic of Serbia, established by the Law in 2005. In November 2008, it became a full member of the International Organization of Supreme Audit Institutions (INTOSAI), and a part of the European Organization of Supreme Audit Institutions (EUROSAI) on June 23, 2009¹⁴.

This institution carries out its competence of auditing, advising the public funds users, the manner of reporting to the National Assembly, the organization and structure of the Institution, the way of providing the work publicity, the manner of decision-making and other issues of importance for the work of the Institution.¹⁵ For the efficient and effective implementation of audit, it is necessary for the SAI to perform certain activities¹⁶, which are listed in Figure 1.

Обезбедити да је руководство ДРИ спремно да подржи спровођење ових активности:		
Одлучити које стандарде ревидирања применити	Саставити ревизијски приручник са детаљним описима поступака који морају бити усклађени са стандардима ревизије	Успоставити поступке потврђивања, контроле и осигурања квалитета који обезбеђују доследну примену ревизијског приручника

Figure 1 – The activities that the SAI should perform for the efficient and effective implementation of audit

¹³ Kostić, R., *Revizija ostvarivanja ciljeva budžetskih programa*. Održivi razvoj, 2(1), pp. 41-52, 2020. <https://doi.org/10.5937/OdrRaz2001041K>

¹⁴ www.dri.rs, accessed on April 29, 2021.

¹⁵ Knežević, M., Nikolić, S., Neševski, A., *Kontrola budžeta u funkciji civilne demokratske kontrole Vojske u RS*, Vojno delo, Beograd, 03/21, pp. 115-116.

¹⁶ Stanojević, S., et al., *Teorija državne revizije*, Centar za ekonomska i finansijska istraživanja, Kragujevac, 2018, p.14.

At the beginning of the considered period, i.e. in 2017, in its Report on audit¹⁷ for that year in the public sector and the MoD, the SAI made the main remark that the FMC system was not established properly, that is, that its functioning does not provide business operations in accordance with the goals of the FMC system.

The analysis of the Report on audit in the public sector and the MoD for 2018 indicated that the SAI had made a total of 2,098 recommendations. The greatest number of recommendations is related to the fields of expenditures and expenses, legality and their spending, and also in relation to monitoring the execution of expenditures and, at the same time, reaching the given goals of the organization.

The implementation of recommendations has caused positive effects through the improvement of financial reporting, the improvement of internal controls and the increased compliance with regulations, the reduction of expenditures, the increase of income and through other benefits for citizens. In addition to the listed effects that can be expressed financially, the subjects of audit have adopted many internal acts (rules, decisions, instructions, etc.), and based on their implementation, great savings, more objective financial reporting and other benefits are expected in the following years.¹⁸

The Ministry of Defence, as a part of the public sector of the RS, has prepared detailed descriptions of business processes, the flow of documentation, steps in decision-making, as well as deadlines for the completion of work and has established mechanisms to control whether the defined detailed work procedures are available to all employees, as well as to whether distribution of duties is provided.

For 2019, the SAI gave a total of 1,221 recommendations in its Work Report, which is more than twice less in comparison to the previous year. However, as a very important fact, this report states that the mechanisms of the FMC system for measuring the organization's performance, that is, the relation of expenditures with the organization's goals, have not yet been established.

The financial management and control are intended primarily to provide compliance with legal and institutional requirements, to promote the concept of "value for money", as well as the high-quality standards of corporate management and appropriate behaviour, and to ensure real accountability and good systems of internal control.¹⁹

The Ministry of Defence has drafted a decision appointing a manager responsible for the FMC, as well as a working group and persons responsible for the FMC in the organizational units of the Ministry. In addition, an action plan for the establishment of the FMC system has been adopted, maps of business processes have been made, the Strategy on risk management and the Register of strategic risks of the Ministry of Defence and the Serbian Armed Forces have been developed.

¹⁷ Kovačević, M., Trandafilović, J., Kalač, D., *Revizijski aspekti izvršenja budžeta*. Oditor, 5(1)/2019, pp. 93-105. <https://doi.org/10.5937/Oditor1901091K>

¹⁸ State Audit Institution, *Report on the work of the SAI for 2018*, Belgrade, 2019, p. 52 and 53.

¹⁹ Ministry of Finance of the RS, *Manual for Financial Management and Control*, Belgrade, 2020, pp. 6-8.

A total of 1,749 recommendations have been identified through the analysis of the SAI Work Report for 2020. The implementation of the recommendations has caused positive effects through the improvement of financial reporting, internal controls and increased compliance with regulations, reduction of expenditures, increase of income and through other benefits for citizens.²⁰

At the end of the considered period, the SAI gave a total of 1,403 recommendations to audit subjects in the 2021 Work Report in order to eliminate irregularities and improve internal controls. The greatest number of recommendations is related to the fields of expenditures and costs - 21.36%, and in the field of the FMC - 19.42% of the total number of the recommendations.

In the revised systems, it has been noticed that the tone and attitude of managers and responsible persons is positive, that it promotes morale, integrity and good practice, that employees have the appropriate skills and experience to perform tasks and show a tendency to follow procedures and develop discipline, that the key goals and risks are identified, monitored and analysed, and that the existing control activities provide assurance that their implementation is provided.

In essence, the main disadvantage of most controlled entities of the public sector is the lack of the relation between expenditures and the organization's goals, that is, the absence of mechanisms for measuring the organizations' performance.

Therefore, the progress in the FMC system for the considered period in the public sector of the RS is obvious, and there are no irregularities in the MoD. However, the SAI has identified certain risks in its recommendations, which may affect inaccurate and irregular reporting.²¹

Within the Budget and Finance Sector of the Ministry of Defence, there is the Accounting Centre as a separate unit, which primarily controls documents in the field of financial operations submitted by units and institutions of the Ministry of Defence and the Serbian Armed Forces, practically immediately before the payment order is entered into the Treasury of the Republic of Serbia. In this way, the Accounting Centre, as the second level of control, practically provides security of all units of the MoD in the control of financial operations. It is important to point out that a new accounting information system (hereinafter referred to as: AIS) is currently being introduced in the Ministry of Defence, which will enable the units and institutions of the MoD and the Serbian Armed Forces to electronically make and enter payment orders in the AIS itself. However, the AIS is made in a way that the essential control of documentation is carried out by the units and institutions of the Ministry of Defence and the Serbian Armed Forces, which will not submit documentation to the Accounting Centre, but will only enter a payment order into the AIS, which the Accounting Centre will control without attached documentation. An exception is made for "major procurements" for the needs of the MoD and the Serbian Armed Forces, where along with the order entered in the AIS, the accompanying documentation will be submitted as an attachment to the order. The new AIS will speed up the creation and entry of

²⁰ State Audit Institution, "Report on the work of the SAI for 2020", Belgrade, 2021, p. 69.

²¹ State Audit Institution, "Recommendations from the Report on the Audit of the Financial Statements of the MoD for 2018, Number: 400-205/2019-03/13", Belgrade, 2019.

payment orders into the AIS and the Treasury of the Republic of Serbia, i.e. documentation will no longer be delivered by post, but, on the other hand, the burden of responsibility for control will be transferred from the Accounting Centre to the units and institutions of the MoD and the Serbian Armed Forces, which will create the need to strengthen personnel of the financial service of the units and institutions of the MoD and the Serbian Armed Forces.

The Defence Inspectorate is defined as an administrative body within the Ministry of Defence and, among other things, it performs inspection supervision of material and financial operations, as well as the implementation of budget principles²² in all organizational units of the MoD and the Serbian Armed Forces.

Internal audit is organized within the Section for Internal Audit as a narrow internal organizational unit of the MoD, which is directly subordinated to the Minister of Defence.

In any case, all the abovementioned units of the MoD, by control, supervision and audit they perform, contribute and help the MoD management in the improvement of the operations and FMC. It is generally believed that the MoD management implements the concept of management responsibility and that it expects all forms of controls in the system to help it perform tasks, in order to achieve its goals, operating in a correct, economical, effective and efficient manner.²³

Therefore, due to all of the abovementioned, it is necessary to take adequate measures in order to improve the functioning of the FMC and the entire business in the MoD.

The proposals for the improvement of the financial management and control in the Ministry of Defence of the Republic of Serbia

The proposals for the improvement of the FMC in the public sector and the Ministry of Defence have been made on the basis of the analysis of the consolidated annual statements of the Ministry of Finance in the considered period, as well as the annual reports of the SAI for the public sector and the Ministry of Defence of the RS. It is very important to point out that the FMC has been established in the public sector and that the MoD leads in certain segments.

The key proposals for improving the FMC system are:

- it is necessary that recommendations, whose deadlines have not expired, be fully implemented, which would improve the work of institutions in the public sector;
- the introduction of the obligation to report to the CHU on the action according to given recommendations would affect the greater efficiency of internal controls;
- raise the level of awareness and responsibility of managers and all employees and
- develop cooperation and work on the improvement of internal controls and the exchange of good practice with the EU and neighbouring countries.

²² Pešić, H., Miljković, M., *Održivost budžetskih načela i procedura*, Održivi razvoj, 2(2)/2020, pp. 15-29. <https://doi.org/10.5937/OdrRaz2002015P>

²³ Radivojević, M., Tešanović, B., "Sistem interne kontrole i revizije u Ministarstvu odbrane i Vojsci Srbije", *Bezbednost* 2/2020.

Furthermore, in the latest Consolidated Report for 2020, the CHU of the Ministry of Finance came to certain conclusions that indicate problems and improvement in the functioning of the FMC, which are common to all users of the public sector in the RS. Those are:

- the lack of personnel capacity;
- the insufficient competence of employees, who are delegated tasks in the field of the FMC, as well as managers at all levels;
- the need to develop methodological materials and tools that are adapted to different types of users and the specifics of organizations, the character of their activities and
- the need for greater exchange of experience of the same categories of the PFU, networking of persons who operationally deal with the FMC system;
- the lack of knowledge and skills for the development and implementation of the FMC tools - maps of business processes, charts of flow and internal procedures, adequate definition of the organization's goals and, in relation to them, identification of risks and development of a risk register and risk management strategy;
- inadequately set goals of business processes and measurability criteria;
- inadequate relation of some business activities;
- the need to ensure and raise the quality of the system.²⁴

In addition to the abovementioned, the Ministry of Finance has published the Guidelines for the Management of Irregularities, in order to help the managers of the public funds users – PFU to establish a system for detecting and solving irregularities, as well as the Guidelines for the FMC for the small PFU (rules and practices in the public sector of the RS in response to some of COSO principles and monitoring the implementation by the CHU).²⁵

In order for the MoD to maintain, and partly to improve the achieved level of the FMC, continuous work is necessary, because, otherwise, the mistakes that have occurred in other public sector entities will also occur in the MoD.

In addition to the abovementioned proposals, by studying the functioning of the FMC in the MoD, and due to the problems present in business, it is necessary to implement the following improvement:

- continuously work on improving risk management, i.e. update them regularly (a characteristic example is the risks that occurred during the pandemic caused by the COVID-19 virus);
- regularly update the action plan and Strategy for continuous improvement of the FMC system;
- continuously conduct training of all persons who are performing key duties for the functioning of the FMC system in the MoD, and remind all employees of the MoD, through joint training, of the importance of the FMC system;
- implement the guidelines of the Ministry of Finance for the FMC;

²⁴ Ministry of Finance of the RS, "Consolidated Annual Statement on the State of the IFC in the public sector of the RS for 2020", Belgrade, 2021.

²⁵ Milunović, M., *Unapređenje FUK u sistemu odbrane*, Vojno delo, Beograd, zima/2010, p. 273.

- unify work and business procedures for funds users at all levels in the Ministry of Defence and the Serbian Armed Forces;
- implement “lessons learned” in order to prevent embezzlement;
- conduct recruitment a timely manner, especially persons in managerial positions because employees in an organization are the main factor of the proper functioning of the FMC system in the MoD²⁶;
- with the introduction of the AIS in the Ministry of Defence and the Serbian Armed Forces, it is necessary to strengthen personnel of the financial service of the units and institutions of the Ministry of Defence and the Serbian Armed Forces and
- through controls and exchange of experiences, assess risks in a timely manner in order to reduce losses, prevent embezzlement and improve economy, efficiency and effectiveness.

The result that should be constantly strived for is the improvement and modernization of the public finance management system, with the focus on the implementation of the consolidated methodologies and procedures of the IFC in the public sector, in accordance with international standards and good practice in the world and the EU, as well as the implementation of good practice in the improvement of the FMC in the public sector and the Ministry of Defence of the Republic of Serbia.

Conclusion

The research has shown that the FMC system in the public sector and the MoD of the RS is implemented by managers and all employees. It is developed in accordance with the needs and the existing environment, in order to conduct business in a proper, ethical, economic, effective and efficient manner, and in compliance with laws, regulations, policies, plans and procedures. The FMC system seeks to protect property and other resources, strengthen responsibility, timely and accurately report on financial and all other aspects of business in the public sector and the Ministry of Defence of the RS.

The implementation of the FMC system is not reduced to “formalism”, in the sense of developing strategies, action plans and other documents, without their practical implementation. The development of the FMC requires continuous work on raising the awareness of managers and employees about responsibility and its improvement.

For the FMC system to produce real effects, it should be implemented from the highest management levels to the lowest executive level. Through it, the economic effects of all the decisions made are monitored and it enables an overview of potential risks, in order to avoid problems in the future.

Continuous training of all participants in the FMC development process has to be carried out through direct communication, exchange of experiences and organization of practical workshops.

²⁶ Milunović, M., Kovačević, N., stručni rad na KŠU: “Finansijsko upravljanje i kontrola u Ministarstvu odbrane i Vojski Srbije”, Univerzitet odbrane, Beograd, 2022, p. 59.

The CHU of the Ministry of Finance of the RS has the special responsibility, which, through its activities, should contribute to better implementation and improvement of the FMC system.

The focus of controls should be shifted from legality and regularity to economy, efficiency and effectiveness of business, which will make the FMC system function more easily, dealing less with irregularities in business, and acting more preventively and in an advisory capacity towards management. In this way, risks in business will be reduced, and the management will be helped in making decisions that will give greater economic effects, and ultimately, the efficiency, economy and publicity in the work of the public sector will increase.

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Summary

The financial management and control system is a novelty and is being established in the Ministry of Defence in accordance with the adopted regulations that define the establishment and development of the internal financial control system in the public sector of the Republic of Serbia. The internal controls of the financial operations in the Ministry of Defence are defined by legal and by-legal regulations of the Republic of Serbia, as well as the internal regulations of the Ministry. The internal control of the financial operations in the Ministry of Defence is more closely defined by the Regulation on the financial operations in the Ministry of Defence and the Serbian Armed Forces and the Regulation on the material operations in the Ministry of Defence and the Serbian Armed Forces, organizational orders of units and institutions and internal procedures.

On the basis of the analysed consolidated statements of the Ministry of Finance and the Report on the work of the State Audit Institution in the considered periods, in relation to the progress in the introduction of the financial management and control, the progress of the Ministry of Defence has been noticed in relation to the rest of the public sector in the Republic of Serbia.

The financial management and control in the Ministry of Defence, as a part of the public sector of the Republic of Serbia, is intended to provide compliance with legal and institutional requirements, and primarily to promote the concept of “value for money”.

Based on the studied functioning of the financial management and control in the Ministry of Defence, it has been noticed that the economy, efficiency and effectiveness in the work of the financial service bodies of the units and institutions of the Ministry of Defence and the Serbian Armed Forces have improved. Moreover, it has been noticed that there are necessary laws, regulations and procedures that are important for the improvement of the financial operations in the Ministry of Defence.

Namely, procedures have been introduced that facilitate the operations of the financial service bodies in the Ministry of Defence and the Serbian Armed Forces, and it also defines responsibility according to functions and economic classification accounts. The function holders and, accordingly, economic classification accounts have been introduced. In this way, not only responsibility is provided, but also a way to plan and implement the development of functions in the Ministry of Defence and the Serbian Armed Forces in accordance with the goals of the development of the defence system. Relating the effects of development to spending financial resources is an imperative for the introduction of the financial management in the public sector.

In addition to the defined function holders, the Ministry of Defence has defined authorities by a special internal act for all authorizing officers of the defence system. The spending of financial resources is executed in accordance with the given authorities, which is subject to control by the Ministry of Defence and the Serbian Armed Forces.

Furthermore, in addition to the given authorities for the legal and task-oriented spending of financial resources, it is necessary to plan expenditures, and also to implement all existing regulations, both in the Republic of Serbia and internally in the Ministry of Defence and the Serbian Armed Forces. This means that spending financial resources of the defence system should be task-oriented and legal.

In addition to improving the financial management and control in the Ministry of Defence, the goal is to reduce losses, prevent embezzlement and achieve greater economic effects. On the basis of the studied functioning of the financial management and control in the Republic of Serbia and the Ministry of Defence, it can be concluded that it is necessary to avoid the noticed problems and implement the best experiences and proposed solutions.

Key words: financial management, control, risks, preventive action, improvement, public sector of RS

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