https://doi.org/ 10.7251/EMC2002431S
UDK: 005.591.4:336.71(497.11)
Datum prijema rada: 17. avgust 2020.
Submission Date: August 17, 2020
Datum prihvatanja rada: 04. decembar 2020.
Acceptance Date: December 04, 2020
Časopis za ekonomiju i tržišne komunikacije
Economy and Market Communication Review
Godina/Vol. **X** • Br./No. **II**
str./pp. 431-451

PREGLEDNI NAUČNI RAD / OVERVIEW SCIENTIFIC PAPER

RISK MANAGEMENT AS A PART OF THE INTERNAL SYSTEM OF FINANCIAL CONTROLS – PRACTICE IN THE PUBLIC SECTOR OF SERBIA

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Abstract: *The opting for the European integration process, the Republic of Serbia is obliged, through pre-accession negotiations, to ensure the construction of an effective financial management and control system. In this way, public administration reform is supported through an innovative approach to governance that implies efficiency, effectiveness, economy and transparency in the use of public funds, the creation of a management culture based on effective risk relief mechanisms and the prerequisites for achieving the set business goals. The aim of the paper is to look at the interaction of proactive risk management as a component of financial management and control, through the prism of setting goals and assessing risks related to those goals, within the categories related to business, reporting and compliance with laws and regulations. The initial phase of the research is the assessment of the current state of internal control mechanisms and the established risk management system based on the SAI audit reports and the Report on the established financial management and control of the Central Harmonization Unit of the Ministry of Finance of the Republic of Serbia. Research problems in empirical research are expressed by a series of questions to which selected respondents from the RS public administration gave answers, which relate to the component of risk assessment in achieving goals in relation to business, reporting and compliance with laws and regulations. To determine the measure of the connection between the formalization of the risk management process and the quality of goal and risk management, Spearman 's rank correlation was used as a measure of connection Result of the analysis provide guidance for overcoming key barriers and recommendations for improving the quality of management, through formalizing the risk management process, in order to achieve the set goals.*

Keywords: *financial management and control, risk management, public sector, quality standards*

JEL Clasiffication*: L38, M14, O22, P43*

INTRODUCTION

Modern business trends, especially the development of financial management and control, require public companies to pay more attention to the risks and their impact on the overall business. How much the process will be developed depends on the support of the management of the public companies, but also on the established regulatory framework. The purpose of today's accounting systems is to provide validated and proven accounting data used in the preparation of static, point-in-time statements of financial condition published in audited financial statements based, primarily, on the prevailing fair values of assets and liabilities. (Grody&Hughes, 2016) Legislative solutions in the public sector of the Republic of Serbia prescribe the principles of risk management through the establishment of financial management and control as a overall process of identifying, assessing and monitoring risks, taking into account the objectives of budget users, and taking necessary actions to reduce risk (Official Gazette of RS, 72/ 2019). To make the risk management an integral part of the planning and decision-making process, it is imperative that each budget user builds a business culture in which the evangelical risks will be considered in the preparation of planning documents (strategic, operational and financial plans), and communication of identified risks be part of the day-to-day business of decision makers, as decision makers must have information about the risks associated with them (Ministy of Finance RS, 2019).

There is a noticeable trend in the development of awareness of the necessity of risk management in the business decision-making process, but also of the consideration of the effectiveness of the overall risk management system by internal audit. This trend is not accidental, because risks are inevitable in day-to-day business and modern business decision-making recognizes it as a vital component in the decision-making process. However, there is a dearth of practice-focused research on risk management within the public service, particularly on the integration of risk management (Rana, et.al., 2019) Planning, strategies and goals are directly reflected in the risks and effects that they may have on the operations of public companies. As far as risk management is developed, so are control activities, which are aimed at ensuring the achievement of the set goals, not only the achievement of legality and regularity

The research is part of a project by the Institute of Economics and Law in cooperation with the State Audit Institution, in which five researchers participated in order to provide guidelines for more efficient establishment of the entire system of financial management and control. In developing the research, the authors used audit reports and reports on established financial management and control submitted to the Central Harmonization Unit of the Ministry of Finance of the Republic of Serbia. The focus of the analysis was on directors of public companies and financial managers as responsible for establishing internal control mechanisms. and risk management processes as components of the financial management and control system. The research was conducted in order to obtain the missing information on the effective way of establishing internal control mechanisms through the analysis of respondents' answers, with an emphasis on risk management and problems faced by public sector managers in establishing these systems. The authors describe the primary insight into the obtained research results, based on which they indicate the principles that should be focused on for the effective establishment of a risk management system. From the operational point of view, the adoption and efficient functioning of risk management is important in relation to the achievement of set goals, which is confirmed through the results of the research.

The aim of this paper is to address this topic from the point of view of raising the quality of management, measured by the level of quality of the risk management process. The basic research question and research problem starts from the fact that there is a significant correlation of mitigation of identified and accepted business risks related to strategic and operational goals with introducing a modern model of internal control mechanisms and their establishment in the complete structure of the organization.

The research is based on the hypotheses H1. That there is a significant correlation between clearly set goals that represent what the organization wants to achieve with established control mechanisms and a risk management system that considers what is needed to achieve the goals and H2. that there is a significant correlation between the degree of orderliness of the reporting process in the organization with the goal and risk management system.

We considering the analysis of these issues based on the facts from previous research, as from the report of the Ministry of Finance, that in the public sector of Serbia the system of financial management and control, as well as risk management processes is on early stage of development. The aim of this paper is to perceive this topic from the perspective of raising the quality of management, as measured by the level of quality of the risk management process.

The authors intended to identify, through considering risk management processes as a component of internal control mechanisms, through analyzing the effectiveness of that component's functioning, so that methods can be used to improve business processes through appropriate structured information and through appropriate "risk management" tools, and increase awareness of to them. Risk assessment is the identification and analysis of relevant risks in relation to the achievement of goals, the inherently an integral part of the goal management process (planning and reporting), and the risk management process itself is perceive through the development of formalization process, on the basis of which we will try to determine the degree of contribution to the management processes.

UNDERSTANDING AND THE NECESSITY OF RISK MANAGEMENT

Risk management provides public company executives with an effective mechanism to ensure that all levels of the organization are focused on achieving their goals. It is very important that risk management becomes an integral part of the management process, above all the planning and decision making process (Spasenic et.al, 2019) It is a continuous cycle that includes: assessing the probability of risk occurrence, taking action in response to risks, documenting data on the most significant risks, monitoring and reporting on risks.

The essential question that arises when analyzing the desired performance of public companies as a function of risk is how the risk management process is established, how developed it is, and whether it is able to contribute to the quality of business decisions. Risk has no real form unless we relate it to our own management, which is what we are trying to achieve. The risks of achieving goals affect us by distracting us from success and stopping us from reaching our intended results or goals (Picket, 2004).

Traditional understandings of internal control in public companies have been based on the notion that only internal audit should identify the negative tendencies caused by realized risks in business. Looking at trends that are defined as a segment of best business practice, internal audit, instead of the primary role of identifying deficiencies and threats to the organization, ranks only third in the defense system. This view is based on the concept of "Three lines of defense" -

"The Three Lines of Defense Model" which is based on the positioning of all relevant factors in the organization and thus clearly defines the role and responsibility of management for risk management, the role of organizational units, but also the role of internal audits (IFAC, 2011). It is important to emphasize the separation of risk management and internal audit functions, while paying particular attention to the extent and with what opinions the internal audit outlines its perceive when it comes to advising and assuring leaderships of risk and the management of risk.

Developed risk management enables to be made the quality decisions , the better planning and optimization of resources available, dealing with priorities and avoiding any problems that may arise in achieving the set goals (Wideman, 1995). For these reasons, when setting goals and making business decisions, it is important to timely consider the key risks and events that may cause difficulties in achieving the goals, and accordingly take action to address the issues

Risk can be defined as the possibility of events that may adversely affect the achievement of the set goals, or as a threat to the successful achievement of the goals (Smith & Merrit, 2002). Missed opportunities to achieve goals are also considered a risk. There is no definitive list of all the risks that may affect the achievement of the set business objectives in public companies.

COSO Risk Assessment Guidelines

The most widely used model of establishing internal control and risk management systems in the world and here is the COSO model. The COSO guidelines pertaining to the risk assessment component provide an excellent opportunity to define and achieve the organization's goals related to business, reporting and compliance with laws and regulations. Today's level of development of the COSO model or COSO „cube" illustrates risk management as a central part of the overall model and risk management (Rittenberg & Martens, 2012). The central part of the COSO model is the risk management process. Risk management has recently been prescribed by ISO standards, the ISO 31,000: 2009 standard, but it has not yet found wider application in Serbia. At its core, ISO 30001 is based on the COSO risk management model, as one of the basic models of modern ERM (Enterprise Risk Management) models (Živkov, 2012).

According to the COSO framework, a prerequisite for risk assessment is to clearly define the goals associated with different organizational levels. These objectives are aligned with the strategic direction that sets the basis for the risk assessment.

When considering strategic priorities, the management of organization should identify and evaluate risks in relation to (COSO, 2013a):

- Consistency of goals and strategic priorities;
- Determination of risk tolerance for targets;
- Consistency between established goals and established laws, rules, regulations and standards applicable in the organization;
- Definition of the category of goals in terms of: which are specific, can be evaluated or monitored, can be achieved, are relevant and time-limited;
- Consistency of goals with external circumstances;
- Approving goals within the goal setting process.

It is very important for management to be categorical in defining the goals of all categories of the organization. Defining business goals is important not only from the point of view of strategic planning, but they can also contribute to better management and reduction of organization risk. Reporting objectives relate to the compilation of reports covering reliability, timeliness, transparency or other conditions set by executives or by regulatory bodies (Stanišić et al., 2016)

This category includes external financial reporting and external non-financial reporting. The objectives of external reporting are set in accordance with the laws, rules, regulations, standards established by legislative bodies or accounting regulations (Veledar&Letica, 2020).The objectives of internal reporting are set in accordance with strategic and operational plans, that is, with the requirements of executives or boards of directors.

The reports that management submits to the board of directors should be consistent with the areas they cover, to ensure a balanced assessment of significant risks and the effectiveness of the internal control system in managing those risks. Any significant and identified failures and deficiencies of control must be addressed in those reports, including the impact they have or may have on the organization as well as actions to correct them (Picket, 2004).

Risk management is not a separate activity, but is a part of the regular activities of the heads of public entities and heads of organizational units responsible for management in the field of finance and human resources (Stamatović et.al., 2016). Once the risks have been identified, it is necessary to evaluate how they will be ranked, then the priorities should be determined and information provided to make decisions about the risks to be addressed. A distinction needs to be made between risk and uncertainty. Initially, there is always uncertainty, which can be turned into risk by estimating the likelihood that the defined parameters will be met within the set limit values.

Therefore, risk analysis and measurement should be performed to manage it. Risks are assessed on the basis of impact and probability. The risk assessment addresses the following issues related to identified risks:
- What is the probability that a risk will occur, or what is the expected frequency of such a risk?
- What are the consequences if a risk occurs?
- Are there any control measures in place that minimize the consequences or the likelihood of identified risks?
- How reliable are these measures? What happens if they are not effective?

Impact assessment involves assessing the consequences if the risk is realized. So impact assessment does not take into account the likelihood, it merely answers the question of what will happen if a particular event comes to fruition (Meiss. et. al., 2017) After assessing the impact or consequences, the probability of an event is estimated. So, it is estimated how likely it is that a risk, as a rule, an adverse event, will materialize. The COSO framework defines in detail the points that need to be focused that can help management determine if this principle is present and working.

Integration of risk management as a component of internal controls

With the setting goals, financial and operational plans and other expectations, public sector organizations define control criteria. The control exists to maintain activities at the level of expectations. Its role is to manage and reduce risk, not to eliminate it (Todorović-Dudić et.al., 2016). Therefore, the internal control system aims primarily to reduce the likelihood of a risk event occurring.

In order to achieve an effective financial management and control system, a good understanding of the risk management processes and how they work is necessary. The reason for this is that the way risk management depends on the effectiveness of the internal control system, that is, on the organization's ability to recognize the risks that affect or could affect the operations of the public sector organization (Rana et.al., 2019)

Empirical determination of the contribution of formalization of the risk management process in the context of established control mechanisms

With the subject of the research theme, the basic research question relates to the existence of a significant correlation between formalizing the risk management process as a component of the financial management system and control with the overall quality of management in the organization. The key question arises - how much management and employees of public sector organizations understand the internal control system, as well as the correctness of using the COSO control model related to the risk assessment component. In this paper, we have addressed the structure of the COSO component of the Risk Assessment framework, namely the existence and efficiency of functioning and the extent to which it contributes to the effective functioning of financial management and control and the achievement of the organization's objectives.

In preparing the research for the purposes of this paper, we used secondary sources of information (reports of the State Audit Institution and reports submitted to the Central Harmonization Unit of the RS Ministry of Finance) and the Internet, on the basis of which we could conclude that users of public funds are in the initial phase of adopting a risk management methodology and that the existing control systems are established primarily to ensure the legality of the business. Control systems are not sufficiently focused on managing risks that may affect the achievement of other general goals of the organization.

The research was conducted within the Institute of Economics and Law from Belgrade, with the instructions of State Audit Institution experts. Guidelines for researchers were also audit reports from previous years, in order to assess how much responsible persons in the public sector have improved risk management processes and the interaction of these processes with financial management and control, given that the establishment of these systems is a legal obligation of public funds users (Official Gazette of RS, 72/ 2019). The survey was conducted in two cycles, during May and October 2019. It included an analysis of the established risk management mechanisms as well as the overall process of financial management and control in local governments and public companies in Serbia. The results of the analysis are based on the responses of employees in the local self-government units from 63 LS (52.7%), who sent a questionnaire response, out of 120 local governments to whom the questionnaire was sent, 34 public companies that responded to the questionnaire as participants of the lecture . The focus of the analysis of this paper was the sectors for finance in local governments in Serbia and the directors and chiefs of finance in public utilities, who should monitor all activities in their organization, as well as whether control activities are functioning properly, whether risks and opportunities are adequately addressed in order to achieve the set goals in the strategic documents as well as in the operational plans.

The choice of questions in the survey questionnaire was made in a similar fashion to the COSO model for assessment of the control environment (COSO, 2010). Based on the responses from the questionnaires and interviews conducted with the directors and heads of finance who participated during the two lecture cycles, we wanted to evaluate the current level of development of the established internal controls in the Republic of Serbia, as well as finding the most favorable model of a combination of control mechanisms that will enable effective risk management.

In planning this research, the researchers had in mind based on previous audit reports that the development of risk management systems is different among users of public funds. Differences certainly arise from the different organizational structure and size of direct and indirect users of budget funds, but not only for these reasons. An important reason can certainly lie in knowing the possibilities, that is, information, but also the willingness and desire to improve the management process.

The aim of this paper is to look at the way in which the component of the COSO framework "Risk Assessment" contributes to the effectiveness of internal controls in order to achieve the goals of the organization. Through research questions the focus of analysis was on the principles of risk assessment with focal points attached to each principle. Among the elements of goal and risk management, there are certainly the most important processes on the way to achieving the goals: the planning process, the reporting process and the risk management process itself, which together make up a comprehensive risk management process. As part of internal control mechanisms, risk management processes relate to the organization's goals that form the basis on which risk assessment approaches are applied and performed and on which control activities are identified (COSO, 2013a).

Risk management processes are a key part of the management process (IFAC, 2011). In presenting the principles of risk assessment, we have also emphasized the need to formalize the risk management process with a view to their substantive application. In this case, we can talk about a systematic approach to risk management. Based on the above assumptions, we formulated the questions in the questionnaire, on the basis of which we found that there is a significant correlation between the formal establishment of the risk management process, with the overall management system of risk and goals.

The correlation is expressed by the ratio of the answers obtained to the question whether one of the following risk management models is implemented in your organization:

1. COSO; 2.ISO 31,000; 3. Are there indications of their imminent implementation; 4. There is no risk management process.

The second part of the questionnaire concerned risk assessments with focused points related to each principle (clear definition of objectives, compliance of objectives, compliance with laws and regulations, risk tolerance, time compliance, compliance with changes in the external environment).

Based at the results of the answers to the question, which risk management model is implemented in the organization, it was concluded that 11 of the 34 public companies surveyed have a formalized risk management process, or a third of the companies in our sample, which represents a low percentage of formalization of the risk management process. The COSO model has been implemented in all 11 companies, and in addition ISO: 31000 has been implemented in 6 companies (out of these 11). At the same time, 16 organizations intend to introduce a risk management process, while there is no formal risk management process in the remaining public companies.

Determining the measure of the connection between the existence of formalization of the risk management process with the quality of goal and risk management. Infectious statistics were used to determine the correlation of the variables and to compare the groups on the variables. Spearman's rank correlation was used as a measure of correlation. To approximate the height of the correlation between the two variables, the following table is used: r = from 0.00 to ± 0.20 means no or negligible correlation; r = from 0.20 to ± 0.40 means easy connection; r = from 0.40 to ± 0.70 means actual significant correlation and r = from 0.70 to ± 1.00 means high or very high correlation

Programs were used for statistical data processing are MS Excel Office 2007 and SPSS (Statistical Package for the Social Sciences) Trial version -17.

Table 1. Spearman's rank correlation of the contribution of implemented risk management models to the quality of management of business objectives, including reporting objectives

A measure of the connection between the formalization of the risk management process and the quality of goal management	Implemented risk management model (COSO; ISO: 31000)			There is no formal risk management process		
	N	Ps	p	N	Ps	p
Does the organization have goals in writing form	27	.354**	0.001	7	0.553	0.021
Is the achievement of goals monitored regularly?	26	.277*	0.012	7	0.323	0.12
Does the organization identify risks as a threat to achieving goals	27	.395**	0	7	0.171	0.151
Does the organization consider the possibility of fraud when assessing the risk of achieving goals	25	.220**	0.05	7	0.063	0.206
Does the organization set reporting goals related to reliability, timeliness, and transparency	27	.402**	0.004	7	.303*	0.006
Does the organization set goals related to compliance with laws and regulations	27	.504**	0.002	7	.311**	0.005

Source: authors

A statistically significant correlation is determined under the existence of the following conditions: (ro) $\rho S \geq 0.200$ under the condition when $p < 0.05$ or $p < 0.01$, ie when the data are marked with * or **. Based on that, we believe that we have managed to confirm both hypotheses with statistical methods.

Spearman's rank correlation determined that there is a statistically significant correlation between the implemented risk management models with the quality of goal management. Public companies that have formalized some of the known models of risk management process also have better results in the entire process of managing goals and risks. From the table we conclude that companies that have implemented risk management models regularly monitor the achievement of business objectives ($\rho s = .277$ *, $p < 0.01$). Also, a significant correlation is noticeable when it comes to goals related to reporting ($ps = .504$ **, $p < 0.01$).

For companies that do not have a formal risk management process, we find that they follow the goals related to reporting and the goals related to compliance with laws and regulations. We can conclude that a higher degree of introduction of management standards results in greater orderliness of business processes for which detailed descriptions are prescribed, including the flow of documentation, decision-making steps, deadlines for completion of work and established control mechanisms.

When it is about the local self-governments of 59 local governments that returned the questionnaire, their answers are mostly in the form of reasoning, or they are individual answers to only part of the questions asked, because they do not have established risk management models. In the explanations given on the last page of the questionnaire, 42 local governments responded that they had initially adopted a risk management methodology but had not yet put in place a risk management system that included identifying, assessing and controlling potential events and situations that could have an adverse effect on achievement of goals, that is, they did not adopt a risk management strategy and establish a risk register. Of the remaining local governments, 8 have a risk management strategy that is aligned with their specificities, but they do not have a monitoring system in place at all stages of implementation or have implemented control standards. The remaining 6 local governments do not have a formal risk management process.

Based on the received answers, we can conclude that it is necessary to regulate or formalize the risk management process, of course, and not only formalize it but essentially implement it based on the agreed rules. That is, if there are no formalized rules and no organized management of the risk process, then management is reduced to a case-by-case situation or from need to need (Mokler, 1984). Systematic approach to risk management, implies a set of formalized procedures and defined control standards, thereby establishing a correlation between the established system of financial management and control with the processes of risk management in order to quality management and achievement of business goals.

Traditional understandings in public sector management have been based on the view that the most effective way is to increase security and reduce risk by improvement of organizational processes with increased awareness about surroundings state.When looking at trends that are defined as a segment of best business practice, it is very important for public sector entities to put in place an effective risk management system, otherwise they may find themselves spending huge amounts of resources to eliminate the effects of adverse events. In essence, the goal of an effective risk management system when it comes to quality management in the public sector is to achieve the set goals (Maksimović&Stamatović, 2018).

RISK ASSESSMENT PRINCIPLES IN THE CONTEXT OF FINANCIAL MANAGEMENT AND CONTROL

Risk management is defined through the establishment of a financial management and control system as a complete process for identifying, assessing and monitoring risks, taking into account the objectives of budget users and taking the necessary actions to reduce risk (Ministy of Finance RS, 2019).

A prerequisite for a possible risk assessment is a clear definition of the objectives and the necessary actions to be taken to mitigate the risk through the application of financial management and control systems. If public companies do not have an effective way of managing risks, the cost of eliminating the consequences is high. All these goals must be in line with the budget and business strategy of the company. In this way, the impacts become the consequences that the risks have on the goals. Good risk management systems have business goals in mind when thinking about risk. Public sector environment is characterized with peculiar and unique challenges such as limited resources, excessive bureaucratic bottleneck, inadequate human and technological capacity, nepotism, political aggressiveness and will, corruption, misappropriation of fund, silo mentality, competing needs and priority and infrastructural backlogs etc. (Ojo, 2019)

Bad systems hiding targets outside the model, or define them as something that is considered peripheral to the task of assessing the impact of risk (Malbašić&-Janković, 2006). In reality, this is not so simple. The very act of setting goals is based on real and perceived risks and this is the uncertainty of the future. In order to recognize this, we can slightly adapt the risk model to make the risk component interactive, so that the goals that are set against uncertainty are an inherent part of the organizational climate.

Another concept to consider is that risk, in the context of achieving goals, has both a positive and a negative side. We call this threat and opportunities, and it means that it can be linked to forces that have a negative impact on the targets and are therefore a threat. “On the other hand, positive risk is an opportunity that is achievable but can be missed or neglected, which means that we do not exceed expectations (Picket, 2004). Thus, risk management, in part, involves establishing better controls where needed and getting rid of excessive controls that slow down procedures too much. “In other words, it should be ensured that controls are focused, worthwhile and meaningful (Beke-Trivunac&Antić, 2013).

Some “professionalization” of the risk management process is required, which is reflected in a clearly defined risk management methodology, documenting the risk information, their type, likelihood of occurrence and impact assessment, establishing a risk register, introducing a risk reporting system, borrowing persons responsible for risk monitoring, developing risk management strategies and the like.

Risk management has a long history complicated by the variations in the use of the term "risk" (Carlsson-Wall et.al., 2019). It is important to emphasize that each sector manager at his or her level is responsible for managing risks, which means identifying the most significant risks and taking action to minimize them.

Risk management is, among other things, a tool to help managers anticipate and respond to changes in circumstances. The persons which collect the risk on sector levelrecord them in risk registers but cannot replace risk management executives.

It is important to emphasize that risk management is a particularly systematic activity that, as an additional integrated upgrade, improves business processes and through special measures reduces uncertainty and the possibility of adverse events (IFAC, 2011).

Risk management has recently been prescribed by ISO standards, the ISO 31,000: 2009 standard, but it has not yet found wider application in Serbia. At its core, ISO 30001 is based on the COSO risk management model, as one of the core models of modern ERM (Enterprise Risk Management) models (Rittenberg & Martens, 2012). The standard emphasizes continuous communication between all participants in the process, complete responsibility for risks, complete integration of the risk management process with the management structure, and more. In our view, the schematic of the ISO 31,000 standard for risk management, as opposed to the COSO model, more clearly indicates the need for continuous control and analysis, as well as communication at all stages of the risk management process. In accordance with the COSO risk management framework, the risk management cycle consists of the following elements, namely activities: goal setting; risk identification and assessment, risk management and monitoring and reporting (COSO, 2010).

Objectives can be divided in different ways, one of them being divided into strategic goals (at the institution / PO level these are general and specific goals) and operational goals related to programs, operational work plans and business processes (Durst et.al., 2018) In addition to the risks related to the operations of public companies, insighted into the strategic documents enables on the vertical and the horizontal level to obtain information on the most significant risks of stakeholders with whom jointly implement programs and projects in order to achieve the set goals. These programs and projects identify the most significant risks, the way information is exchanged on identified risks and the measures taken to mitigate them (Mazur, 2010). At the level of local self-governments, the most important thing is to clearly define the goals, which will also condition the creation of activities that the municipality plans to implement in order to improve its work.

Risk management is not a separate activity, but is part of the regular activities of the heads of public entities and heads of organizational units responsible for management in the field of finance and human resources (Hinna et.al, 2018). Financial management and control, as part of internal financial controls, is a system of internal controls that identifies and is responsible for the entity's managers, and which, through risk management, provides a reasonable assurance that the entity's budgetary and other resources will be used properly, cost-effectively , effective and efficient (Ministy of Finance RS, 2019). In order to establish an adequate risk management system, an entity manager should:

- Determine the person in charge of coordinating the establishment and implementation of risk management processes at the entity level.
- Establish an obligation to establish risk register on the entity level and on organizational unit.

In adequate establishment risk management processes are importance it has been adopt Internal acts (process books) that describe all significant business processes and activities carried out in organizational units and which include documentation on the flow of financial and other transactions, audit reports, persons responsible for implementation, manner and deadlines for implementation of individual activities (Nketekete et.al., 2016)

Risk management involves specific methods and techniques for dealing with known risks, determining responsibility for a risk problems, and estimating the costs and time needed to solve the risk (Valter, 2009). The goal of risk management is to reduce the likelihood of a potential event occurring and its negative impact. The probability and impact will be reduced by choosing the right risk response. Risk response planning is a process in which options are developed and activities are identified to accept risk and reduce threats to achieve goals. Risk responses represent planned activities that will only be undertaken in the event of a risk actually occurring, and strategies developed to manage negative (threat) or positive (opportunity) risks.

In some cases, an acceptable level of risk can be determined and measured in advance, for example with a financial impact. Management decides not to accept a financial loss greater than a certain amount of budget allocated to a specific program. The impact and probability based risk assessment approach should be used in a simple way. Given that assessment is mainly based on subjective assessment, this approach should be seen more as a way of initiating a discussion of risks rather than as a means of establishing a precise “level of risk” (Beke-Trivunac et.al., 2012). It is important to understand the reasons behind the estimated risk and to determine whether further research is needed based on that information.

After this phase of the risk management process, the risk register is supplemented by data on the adopted risk management strategies, description of activities for the implementation of the selected strategy, necessary resources and time for their implementation, risk holders (responsible person for managing a specific risk), and their responsibilities, reserve plans, residual and secondary risks (after certain primary risk response activities have been undertaken (Green Book, 2003). In addition to the risk register, the risk management plan must be updated and appropriate risk management contracts concluded (property and people insurance contract, service contract, etc.) The problem is how to choose the optimal response to a particular critical risk. influence the choice of risk response: the quality and availability of the resources needed, as well as by policy and risk management procedures that more or less allow managers the freedom to decide (Kerzner, 2003).

In order to make it easier for risks to be monitored and to provide systematic risk information, information on the most significant risks should be documented. It is recommended that all budget users record (document) the most significant risks in their planning documents. When drafting strategic documents when defining goals, the most significant risks associated with those goals should be mentioned (Maksimović&Stamatović, 2018).

The risk identification and assessment form contains detailed information on all risks (inherent risk assessment, evaluation of the effectiveness of existing controls, residual risk assessment). The risks register for which the level of residual risk is assessed as unacceptable is entered in the risk register, and it is proposed to introduce additional control mechanisms, since the existing controls are not efficient enough to deal with such risks (Moloi, 2016). The information in the risk register is used to produce reports and briefs that are submitted to the management of the institution. In addition to critical risks, other significant risks that require monitoring can be listed in the risk register and may be helpful in regular reporting. The individual risks that a public company identifies are not independent of one another and are usually grouped together. For example, there are more risks that can be grouped as “resource risks” and other risks that can be grouped as “legality and correctness” risks. Some risks relate to multiple public company goals. Risk typology can be used to help risk grouping. (Parashkevova, 2020).

This grouping gives the risk areas assigned to the responsible managers, and they monitor their area, monitor the development of an appropriate control environment and report on it. This way communication for each type of risk can be improved. All of the above can be the basis for developing a risk management strategy. The risk register is maintained at the organizational unit level. In further development of the risk management process and depending on the needs of the institution, a unique risk register can be introduced at the institution level, and the person is charged with keeping and updating the risk register.

Risk management requires continuous monitoring to identify any changes in risk in a timely manner (eg the emergence of new risks and possible opportunities that arise with risks). As the business, economic and legislative environment is constantly changing, there is a change in risk and priority goals (Mandzila & Zéghal, 2016).Therefore, identified risks should be reviewed and revised on a regular basis in order to take timely response measures. Monitoring involves regular management and monitoring activities and other activities that employees undertake in carrying out their daily work and in implementing measures to address perceived weaknesses and difficulties, to new individual activities, procedures and processes (Drljača&Bešker, 2010).

Everyone in their public company sector identifies the risks and takes the necessary measures to mitigate or eliminate them. The next higher instance in the company is passed that information about the risks that are significant at that level of management. We stated earlier that risks are determined at the sector / service level. Risks are addressed at this level, and risks that need to be addressed by senior management are passed to the management level. At the sector / service level, those responsible for risk manage on average 10 to 15 of the most significant risks for which they are responsible. At the management level, managers also manage 10 to 15 major risks. At the level of the budget user, on average, there will be 10 to 15 most significant risks, which will be the result of identifying risks from a bottom-up approach, but also other risks that can be identified by the highest management structure (Directorate for Central Harmonization, 2012).

The heads of organizational units prepare an annual report on the activities related to risk management and submit to the person in charge of financial management and control, who, at the request of the manager, prepares a consolidated report on risk management at the level of the budget user. The consolidated report provides an overview of the activities undertaken in the risk management process and an overview of the most significant risks from the risk registers of the organizational units of the institution.

The part of the consolidated report relating to activities undertaken to establish the risk management process is an integral part of the Annual Report on the Financial Management and Control System. It is also necessary to determine ways of communicating and exchanging information on identified risks at all levels and among all employees within a public company, as well as whether there is coordination in the risk management process.

In spite of all modern knowledge about risk management, even in a highly instutionally regulated environment, effective risk management practices are lacking, which can have a major impact on the organization. According to an OECD study (OECDE, 2010), generally accepted international risk management standards are still lacking. Some national standards have not yet been harmonized. When drafting their national standards, countries generally rely on the risk management standards recommended by COSO and Turnbull (RIMS, 2011). COSO and Turnbull, are generally acceptable for internal control of financial reporting, but do not yet have sufficiently clear guidelines for implementing the model in complex business conditions (multiple operational risks). The mentioned models do not provide a clear enough approach to solving problems in real conditions, the shortcomings are reflected primarily in the insufficient connection of risk with the strategy, also the definitions of particular risks are often short and not sufficiently clear, the interest in ensuring the soundness of the risk management process is not sufficiently developed, and more.

CONCLUSION

Every business entity in the economy as well as in the public sector faces external and internal risks, which must be assessed. Proactive risk management is achieved with the optimal combination of different risk prevention measures, all with the aim of achieving the best results. Studying risk management as a process with specific stages in order to achieve the set goals is closely linked to control mechanisms. Control systems only make sense if they encourage management to take the desired behavior, or to take corrective action. Identifying and analyzing risk is an ongoing iterative process that is performed to enhance an organization's ability to achieve its goals. The results of the research identify risks as the weakest link in the management processes in the public sector of Serbia, and through a comprehensive risk analysis it is clearly emphasized that for the quality of management it is necessary to formalize the risk management process, of course, and not only formalize it but essentially apply it based on the agreed rules. Then we can talk about a systematic approach to risk management. In this paper, we have covered risk management as just one component of the financial management and control system, through a situational analysis that must be started, but with the intention of pointing out a clear position regarding control standards, as well as formalizing the risk management process. Risk management allows explicit incorporation of risks and opportunities through established processes and procedures of internal control mechanisms through established risk management policies and strategic orientation. After analyzing the current state of risk management in the public sector of Serbia, we must notice it still continue a reactive and financially oriented approach, regardless of the legislation, since all laws are enacted, adopted and applicable to all users of public funds. Common misunderstanding, misinformation and inadequate knowledge of employees are generally cited as a common problem among all users of public funds, in order to be able a proactive, strategic and business-oriented approach to risk management can be implemented. In this respect, there is a great need to look at this problem from a short and long term perspective, taking into account the commitments made in the EU accession process, and above all in order to improve the quality of governance.

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