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EMPIRICAL RESEARCH ON THE EXTERNAL AUDIT OF BANKS IN SERBIA

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ABSTRACT: *The paper first explains the role, importance, and objectives of the external audit of banks through their most important definitions, thus illustrating the subject and aim of the research. The methodology of the research and data on the sample are presented afterwards. Results of the questionnaire survey which comprised 28 banks in the Republic of*

Serbia (RS) show what bankers prefer, and compared to global experience there is no significant difference. As a final point, the inherent limitations of the research and concluding remarks are presented.

KEY WORDS: *external audit, banks, financial reporting, independence, scepticism*

JEL CLASSIFICATION: M42

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1. THE SUBJECT AND AIM OF THE RESEARCH

The subject of the research is to determine how managers and employees in senior positions in banks perceive the role and importance of the external audit, and the aim is to provide suggestions for improving their perception, based on the answers to the questionnaire.

The importance of the research arises from the recent interest of academic researchers, practitioners, and regulators in the quality of external audit. This interest is the result of numerous financial scandals and the reaction of legislators and professionals to these scandals (Zhou, 2007).

External audit is a subsequent assessment of business events and is conducted on the basis of existing documentation (Martić, according to Ljubisavljević, 2000). An audit of financial statements is a systematic process of objective collection and evaluation of evidence regarding management's assertions on economic actions and events to the level of trust between those assertions and established criteria, and revealing of the results to interested users (Ljubisavljević, 2000). The definition includes the following six elements:

- 1) an audit should be planned and have the strategy of the phases of the audit process;
- 2) objectivity means the neutrality of the person who performs the audit, as well as the quality of the auditing;
- 3) the collection and evaluation of evidence is the instrument of obtaining facts and documents on which the audit findings and reports are based;
- 4) economic activities and events are business activities which are the subject of audit from which the auditor draws conclusions and findings;
- 5) audit is performed in accordance with the International Standards on Auditing, and examines whether the financial statements are prepared in accordance with the International Financial Reporting Standards, i.e., the Framework for Financial Reporting and applicable regulations;
- 6) in order to be useful, audit results are provided to all interested parties.

It can be concluded that the objective of each audit is to provide interested users with an opinion on financial statement compliance with established criteria. In this manner the audit increases the reliability of financial statements (Trejci, 1994). The external audit involves "checking the physical evidence and valuation of assets and examining the internal control's system to ensure the correct recording of transactions" (Kothari and Barone, 2006, p 374). As experts outside

the company, auditors review the information quality provided by management (Choi and Meek, 2008).

The task of external auditors is to determine, objectively and with a necessary dose of scepticism, whether there are significant errors in financial statements and, based on the current financial reporting standards, voice their opinion on whether the company's financial statements fairly represent its financial position and profitability. In the absence of audit, the users of financial statements would have reason to be sceptical of the information (Benston et al., 2006). External audit is a necessity in a society where crediting is widespread, in which bankruptcies happen on regular basis, and in which investors want to study the financial statements of numerous companies (Weirich and Churyk, 2010).

To ensure objectivity, auditors should be independent from their clients. The latest developmental trends in the audit worldwide are reflected in the separation of the audit function from other accounting and auditing services. Auditors are increasingly prohibited from providing bookkeeping and other services to an audit client. The well-known American Sarbanes-Oxley Act provides such a prohibition (Reimers, 2008). As a result of the recent reforms of corporate governance systems around the world, auditors do not report to the client's management team, which was previously the case, but to the client's audit committee, which is a part of the board. In order to provide an independent opinion on client's financial statements, the auditor must comply with the applicable auditing standards and conduct work with expertise, diligence, and integrity (Kothari and Barone, 2006).

All the banks in our country, unlike commercial companies, are liable for external audit. Therefore, the subject of the research refers to:

- a) the types of services provided by auditing companies;
- b) the reasons (conditionality) for the need for external audit;
- c) the bodies which affect the quality of external audit;
- d) the economic benefits of external audit, and
- e) the inherent limitations of external audit.

2. RESEARCH METHODOLOGY

Empirical research into the external audit of the banks began by collecting data, and ended by applying the research results in practice. The research consisted

of the following methods and analytic techniques (Milosavljević, Radosavljević, 2003):

1. Pre-research (data collection on the research subject);
2. Collecting data on empirical research;
3. Arranging the data collected;
4. Data processing and data analysis;
5. Conclusion and making findings; and
6. Recommendations for practice.

We have also used the following methods and procedures:

- a) general scientific methods (statistical, modelling method, and analytical-deductive method);
- b) specific scientific methods;
- c) the procedures of logical thinking;
- d) research methods (analytical and synthetic method, systemic thinking, abstraction-concretization, content analysis, classification, and induction).

The most common techniques and methods in the paper are the questionnaire, statistical method, and content analysis.

3. DATA ON THE SAMPLE

The analyzed sample comprised 28 of the 33 banks operating in Serbia (85%), which is almost all of the banks. Basic data on banks that make up the sample, from the year 2010, are given in Table 1.

Table 1. Basic data on the banks

Bank name	Number of employees	Total revenue (millions RSD)	Total assets (millions RSD)	Total capital (millions RSD)	Share capital (millions RSD)
Agrobanka	880	11,903	74,419	17,650	14,566
AIK banka	478	18,671	141,583	44,168	25,391
Alpha Bank Srbija	1,523	20,643	98,370	10,314	16,589
Banca Intesa	3,114	97,506	359,123	57,289	28,446
Banka Poštanska štedionica	1,667	9,440	32,221	10,025	4,577
Credit Agricole banka Srbija	963	4,070	28,673	7,737	12,095
Credy banka	387	7,306	47,409	2,122	2,774
Čačanska banka	389	1,129	10,935	4,041	2,188
Dunav banka	133	162	2,830	1,478	1,393
Erste Bank	992	10,455	62,132	11,259	10,164
Eurobank EFG	1,619	59,382	180,890	41,069	31,482
Hypo Alpe-Adria-Bank	816	29,500	144,598	31,617	14,319
Jugobanka Jugbanka	80	101	8,712	866	796
KBC banka	588	3,844	29,069	4,182	5,459
Komercijalna banka	3,101	32,930	255,868	41,054	28,463
Moskovska banka	51	257	2,519	711	1,235
NLB banka	649	7,122	51,038	7,430	6,085
Opportunity Banka	170	1,477	5,333	1,047	1,442
Piraeus Bank	555	14,024	56,147	10,644	11,212
ProCredit Bank	1,389	13,000	70,000	9,167	6,439
Raiffeisen banka	1,985	36,398	178,833	50,031	27,466
Razvojna banka Vojvodine	687	5,641	36,392	8,710	7,653
Societe Generale banka	1,246	16,591	102,576	21,750	12,897
Srpska banka	369	2,436	14,712	2,985	1,617
UniCredit Bank	925	42,700	166,982	32,073	17,858
Univerzal banka	475	5,453	35,056	6,448	4,643
Vojvođanska banka	2,238	9,058	91,886	21,282	16,338
Volksbank	470	5,394	83,041	16,642	13,679

Source: National Bank of Serbia and Serbian Business Registers Agency

According to the capital origin, 11 banks in the sample (39%) are domestic, while 17 (61%) are foreign. All the banks are divided into two equal strata of large and small banks. The division is based on a combination of three criteria commonly used in the literature and legislation (e.g., the Law on Accounting and Auditing of the Republic of Serbia and the IV EU Directive) to measure the size of a company: the number of employees, total revenue, and assets. Fifteen bank head offices (i.e., their managers), eleven bank subsidiaries, and two bank branches were surveyed. Table 2 shows the classification of banks that comprise the sample according to each of these aspects (capital origin, size, and surveyed organizational unit).

Table 2. Basic characteristics of the banks that comprise the sample

Bank name	Capital origin	Bank size	Surveyed organizational unit
Agrobanka	domestic	large	subsidiary
AIK banka	domestic	large	head office
Alpha Bank Srbija	foreign	large	subsidiary
Banca Intesa	foreign	large	branch
Banka Poštanska štedionica	domestic	large	head office
Credit Agricole banka Srbija	foreign	small	subsidiary
Credy banka	domestic	small	head office
Čačanska banka	domestic	small	head office
Dunav banka	domestic	small	head office
Erste Bank	foreign	large	subsidiary
Eurobank EFG	foreign	large	head office
Hypo Alpe-Adria-Bank	foreign	large	head office
Jugobanka Jugbanka	domestic	small	head office
KBC banka	foreign	small	subsidiary
Komercijalna banka	domestic	large	branch
Moskovska banka	foreign	small	head office
NLB banka	foreign	small	subsidiary
Opportunity Banka	foreign	small	head office
Piraeus Bank	foreign	small	subsidiary
ProCredit Bank	foreign	large	head office
Raiffeisen banka	foreign	large	subsidiary
Razvojna banka Vojvodine	domestic	small	head office
Societe Generale banka	foreign	large	head office
Srpska banka	domestic	small	subsidiary
UniCredit Bank	foreign	large	head office
Univerzal banka	domestic	small	subsidiary
Vojvodanska banka	foreign	large	subsidiary
Volksbank	foreign	small	head office

Source: National Bank of Serbia, Serbian Business Registers Agency and authors' survey data

Questions in the questionnaire are of the closed type, and some had to be answered by the following gradation on a scale of 1 to 5:

- 1 – I completely disagree
- 2 – I do not agree
- 3 – I cannot decide
- 4 – I agree
- 5 – I completely agree.

The gradation enabled a detailed analysis of bankers' opinions of the external audit.

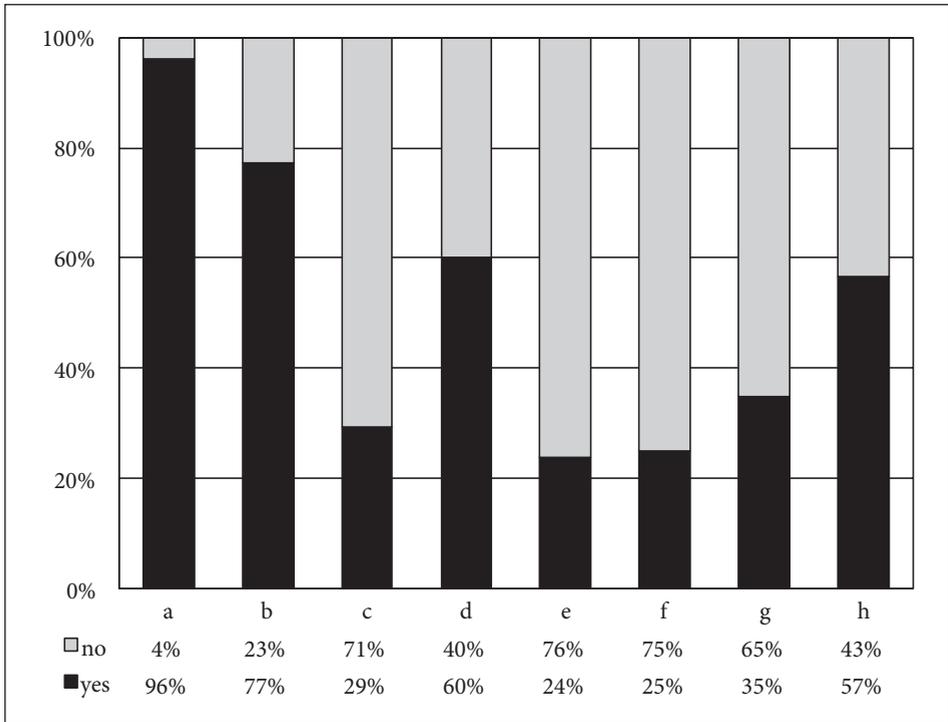
4. RESEARCH RESULTS

The primary service provided by an external auditor in a bank is the audit of financial statements. Secondary services, which are incompatible with the audit for the same client, are accounting, tax, consulting, etc. The services provided by the audit firms listed in the questionnaire are:

- a) the audit of financial statements;
- b) the review of other financial information;
- c) non-financial performance measures;
- d) the assessment of the risks facing the bank;
- e) traditional accounting services;
- f) tax calculation;
- g) management consulting; and
- h) advice in the event of insolvency and financial difficulties.

The following graph shows the responses of Serbian banks on services provided by auditors.

Graph 1. Services provided by auditors to the banks in Serbia



Source: Authors' survey data

The research results show that the primary service that auditors provide to banks in RS is the audit of financial statements, which is consistent with the theoretical research and practice of other countries. Next are the review of other financial information and the assessment of the risk facing the bank. Banks rarely use the services of tax calculation, non-financial performance measurement, and traditional accounting services.

The following table shows the analysis of the use of these services by origin and size of the bank.

Table 3. The use of auditor's services by banks

	Services							
	a	b	c	d	e	f	g	h
Sample size	26	22	17	20	21	20	20	23
Capital origin								
Domestic banks	91%	57%	40%	57%	29%	29%	17%	50%
Foreign banks	100%	87%	20%	62%	21%	23%	43%	60%
Cramer's V	0.234	0.328	0.150	0.043	0.079	0.061	0.252	0.096
Fisher's Test (2-tailed)	0.423	0.274	0.600	1.000	1.000	1.000	0.354	0.685
Bank size								
Large banks	92%	90%	29%	80%	20%	20%	40%	55%
Small banks	100%	67%	30%	40%	27%	30%	30%	58%
Cramer's V	0.200	0.277	0.015	0.408	0.085	0.115	0.105	0.038
Fisher's Test (2-tailed)	1.000	0.323	1.000	0.170	1.000	1.000	1.000	1.000

Source: Authors' survey data

The sample size, listed in Table 3, reflects the fact that not all the data on the use of every service by each bank in the sample were available. Therefore, the actual sample is less than 28 in the case of each of these services.

Table 3 shows that the review of other financial information (service b) and management consulting (service g) are more present in foreign banks than domestic banks. This is corroborated by the values of Cramer's contingency coefficient of 0.328 in the case of service b, and 0.252 in the case of service g, indicating the connection of medium intensity (Cramer's coefficient of 0.1 indicates a weak connection, 0.3 a medium connection, and 0.5 and over a strong connection). However, it should be noted that the values of Fisher's Exact Probability test are relatively high in both cases (0.274 for service b and 0.354 for service g), which indicates that there is a significant probability that the detected difference is only accidental, and the eventual change of the sample could lead to different results. Domestic banks show greater interest in the service of non-financial performance measures (service c), but Cramer's coefficient shows that the impact is of low intensity. Considering the relationship between bank size and the services used, we can conclude that the services of risk assessment (service d) and review of other financial information (service b) are more present in large banks, as evidenced by the values of Cramer's coefficient of 0.408 (in the case of service d) and 0.277 (in the case of service b). However, Fisher's test showed

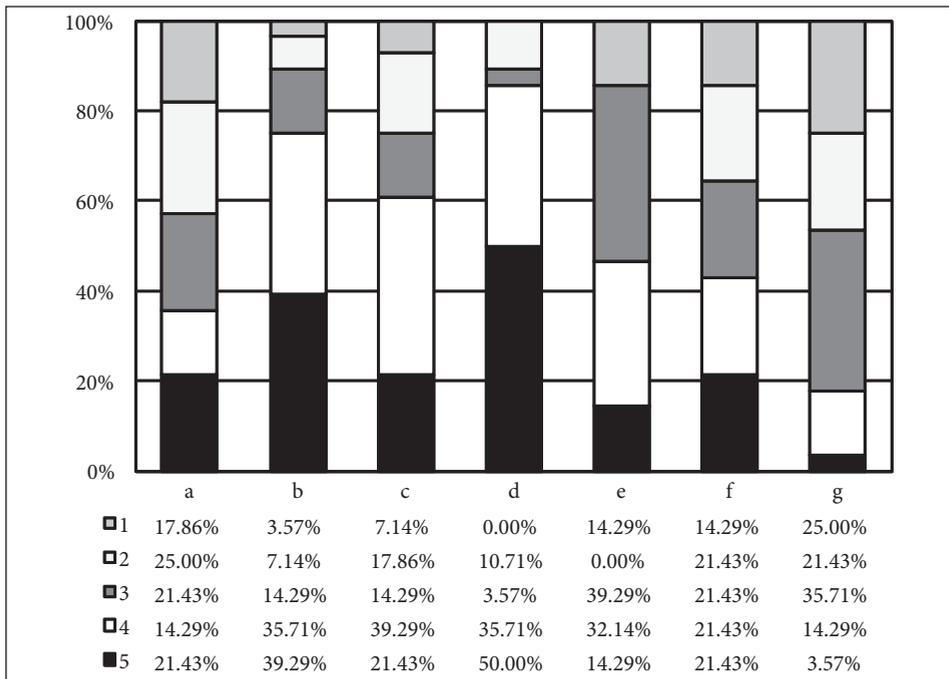
relatively high values again (0.170 for service d, and 0.323 for service b), which indicates that there is a significant probability that the detected difference is only accidental.

The following reasons for audit are listed in the questionnaire:

- a) owners suspect that directors might abuse their capital;
- b) investors need quality information for decision making;
- c) managers could present biased information in financial statements;
- d) financial statements are the basis for important business decisions made by numerous users;
- e) the complexity of information increases the risk of errors in financial statements;
- f) financial statement users do not have direct access to accounting information; and
- g) managers see the audit as a security in the event of litigation.

Managers in Serbian banks consider the following reasons to be the most important in the emergence of the need for external audit:

Graph 2. Conditionality of the external audit of banks in Serbia



Source: Authors' survey data

The average level of the respondents' agreement with the abovementioned statements, for all the banks and their individual categories, is shown in the following table.

Table 4. Conditionality of the external audit of banks in Serbia

	Attitude						
	a	b	c	d	e	f	g
Sample size	28	28	28	28	28	28	28
All banks	2.96	4.00	3.50	4.25	3.32	3.14	2.50
<u>Capital origin</u>							
Domestic banks (mean)	2.64	3.91	3.18	4.27	2.82	3.18	2.27
Foreign banks (mean)	3.18	4.06	3.71	4.24	3.65	3.12	2.65
η^2	0.035	0.005	0.045	0.000	0.120	0.001	0.027
p	0.337	0.729	0.280	0.923	0.070	0.907	0.406
<u>Bank size</u>							
Large banks (mean)	2.93	4.07	3.86	4.64	3.29	3.29	2.71
Small banks (mean)	3.00	3.93	3.14	3.86	3.36	3.00	2.29
η^2	0.001	0.004	0.087	0.171	0.001	0.011	0.037
p	0.898	0.736	0.127	0.029	0.877	0.594	0.329
<u>Organizational unit</u>							
Head office (mean)	2.27	3.67	3.20	3.93	3.00	2.93	2.33
subsidiary/branch (mean)	3.77	4.38	3.85	4.62	3.69	3.38	2.69
η^2	0.286	0.112	0.071	0.128	0.088	0.028	0.026
p	0.003	0.081	0.171	0.061	0.126	0.398	0.416

Source: Authors' survey data

The graph and table clearly show that bank managers perceive the primary factor for needing external audit to be the importance of financial information to many stakeholders for making economic decisions. Bank managers attach the least importance to auditing providing security in the event of litigation.

The managers of foreign-owned banks generally show a higher level of agreement with the preceding attitudes relative to the managers of domestic banks, and the most pronounced differences are in attitudes related to the owners' suspicions about the abuse of their capital by directors (attitude a), the risk of bias in

financial statements (attitude c), and the risk of errors in financial statements due to the complexity of information (attitude e). The implementation of Independent Samples T-test reveals a strong impact of capital origin on attitude e, as $\eta^2 = 0.120$ (η^2 of 0.01 indicates a weak impact, 0.06 a medium impact, and 0.14 a strong impact). The impact of the same factor on attitudes a and c is moderate, while its impact on other attitudes is small.

Agreement with the attitudes concerning the need for audit is generally greater for the managers of large banks than for the managers of small banks. The differences are most pronounced in attitude d, where a large impact was noted ($\eta^2 = 0.171$, with $p = 0.029$), suggesting that the managers of large banks are aware of the importance of financial statements in decision-making. The impact of bank size on attitudes related to the risk of bias in financial statements (attitude c) and the inability of financial statement users to achieve direct access to accounting information (attitude f) are moderate.

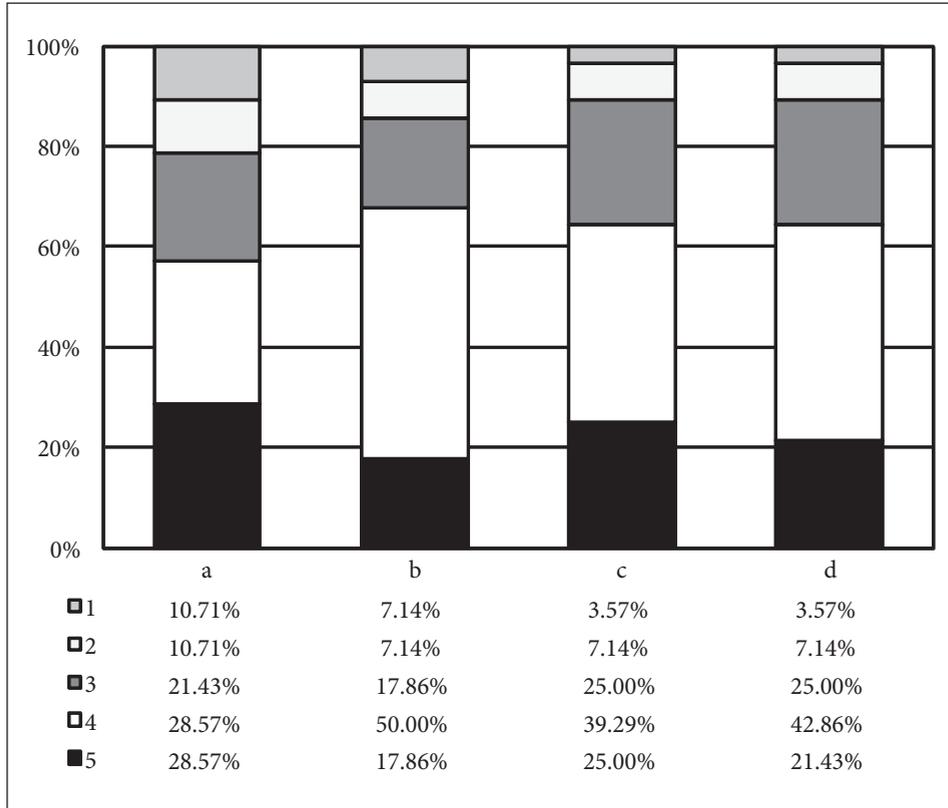
The managers of subsidiaries and branches show a greater degree of agreement with all these attitudes compared to the managers of head offices, and the most noticeable differences are in relation to attitude a. The high value of the indicator η^2 (0.286) shows the great impact of the organizational unit on managers' attitudes towards the suspicions of the owner. Belonging to the organizational unit explains 28.6% of variance of the agreement with this attitude, with $p = 0.003$. Thus, the managers of subsidiaries and branches attach much more importance to the owners' suspicion of management compared to the managers of head offices. The high impact of the organizational unit is detected in the attitudes concerning the importance of financial statements for decision-making (attitude d) and investors' needs for quality information (attitude b).

The responsibilities of auditors are well known to bank officials, but not to the public and the users of audit reports. In recent years, due to world economic scandals, auditors' responsibilities have been enlarged in order to reduce the gap between their expected and actual performance. The questionnaire asked if this environment has affected attitudes towards audits in recent years, through:

- a) paying attention to discovering fraud;
- b) increasing financial statement credibility;
- c) ensuring greater customer trust in financial statements; and
- d) assessing the bank's interactions with the environment – economic and social (e.g., assessing the bank's business profitability and viability).

The bankers' opinions are given in the following graph:

Graph 3. The impact of the environment on the audit of financial statements



Source: Authors' survey data

The following table shows the average of respondents' answers to the questions concerning the impact of environment, for all the banks and their individual categories (strata).

Table 5. The impact of the environment on the audit of financial statements

	Attitude			
	a	b	c	d
Sample size	28	28	28	28
All banks	3.54	3.64	3.75	3.71
<u>Capital origin</u>				
Domestic banks (mean)	3.18	3.45	3.73	3.27
Foreign banks (mean)	3.76	3.76	3.76	4.00
η^2	0.041	0.020	0.000	0.127
p	0.305	0.475	0.928	0.062
<u>Bank size</u>				
Large banks (mean)	4.14	4.07	4.00	3.86
Small banks (mean)	2.93	3.21	3.50	3.57
η^2	0.220	0.159	0.060	0.021
p	0.013	0.040	0.210	0.466
<u>Organizational unit</u>				
Head office (mean)	3.27	3.47	3.60	3.27
subsidiary/branch (mean)	3.85	3.85	3.92	4.23
η^2	0.050	0.031	0.025	0.234
p	0.254	0.371	0.423	0.009

Source: Authors' survey data

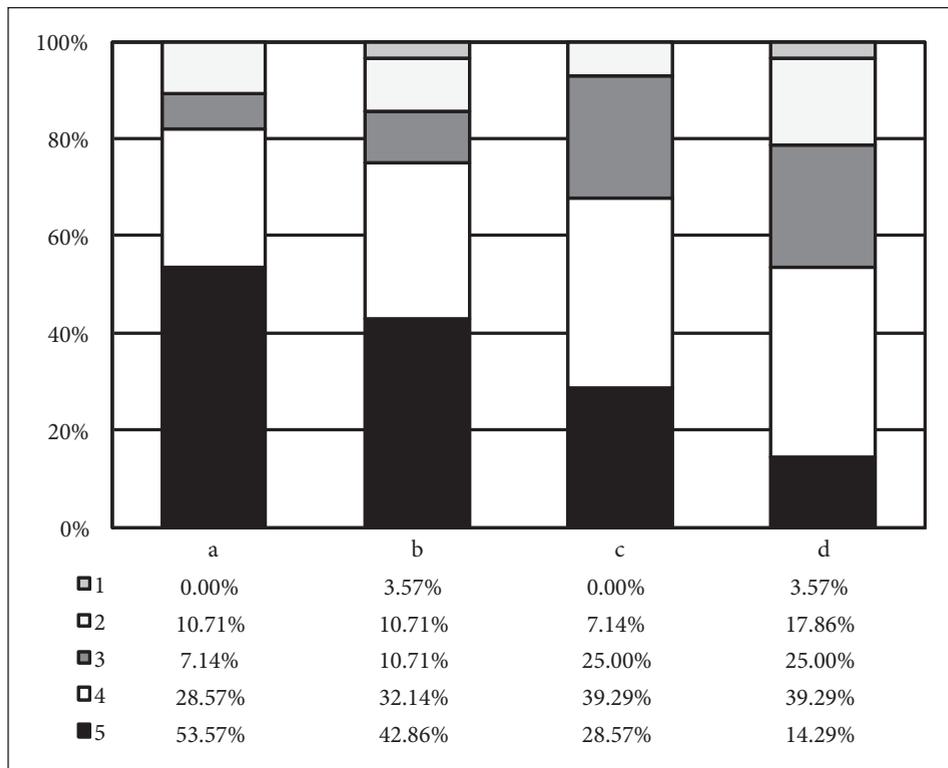
Based on these results we can conclude that most respondents believe that the changes that have occurred in recent years in the environment had a positive effect on reducing the gap between the expected and actual performance of auditors. Managers of foreign banks show a slightly higher level of agreement with all the attitudes compared to the managers of domestic banks, which is most evident in attitude d, banks' interaction with the environment. The managers of the large banks show a higher degree of agreement with all the attitudes than the managers of the small banks, and the difference is most conspicuous in the attention paid to detecting fraud (attitude a) and the increase of financial statement credibility (attitude b), where the impact of bank size on these attitudes is pronounced ($\eta^2 = 0.220$ for attitude a and $\eta^2 = 0.159$ for attitude b, with $p < 0.05$ in both cases). Managers of subsidiaries and branches show a higher degree of agreement with all the attitudes than the managers of head offices, and the difference is most pronounced in attitude d, with a fairly high η^2 (0.234) and $p < 0.05$.

In the Republic of Serbia the Chamber of Certified Auditors and the Ministry of Finance verify the quality of external auditing, as well as EU auditors regarding donations from the EU. The questionnaire asked which aspects of audit regulation these bodies best provide:

- prescribing professional bodies' standards and ethical codes;
- establishing an audit firm's system of quality control;
- continuing professional education by the accounting profession; and
- independent regulation of professional bodies by the state and taking disciplinary measures.

The replies of banks' management are shown in the following graph.

Graph 4. Aspects of audit regulation best provided by the regulating bodies



Source: Authors' survey data

The following table shows the average of respondents' answers to the questions concerning the impact of the environment, for all the banks and their individual categories (strata). The table shows bankers' belief that the quality of the audit depends on, in the following order:

- a) professional bodies,
- b) audit firms,
- c) the accounting profession, and
- d) the state.

Table 6. Bodies that ensure the quality of the audit of financial statements

	Attitude			
	a	b	c	d
Sample size	28	28	28	28
All banks	4.25	4.00	3.89	3.43
<u>Capital origin</u>				
Domestic banks (mean)	4.36	4.09	4.09	3.36
Foreign banks (mean)	4.18	3.94	3.76	3.47
η^2	0.009	0.004	0.031	0.002
p	0.639	0.744	0.368	0.810
<u>Bank size</u>				
Large banks (mean)	4.57	4.50	3.86	3.50
Small banks (mean)	3.93	3.50	3.93	3.36
η^2	0.106	0.194	0.002	0.005
p	0.091	0.019	0.841	0.731
<u>Organizational unit</u>				
Head office (mean)	4.00	3.67	3.87	3.20
subsidiary/branch (mean)	4.54	4.38	3.92	3.69
η^2	0.074	0.100	0.001	0.055
p	0.160	0.102	0.875	0.231

Source: Authors' survey data

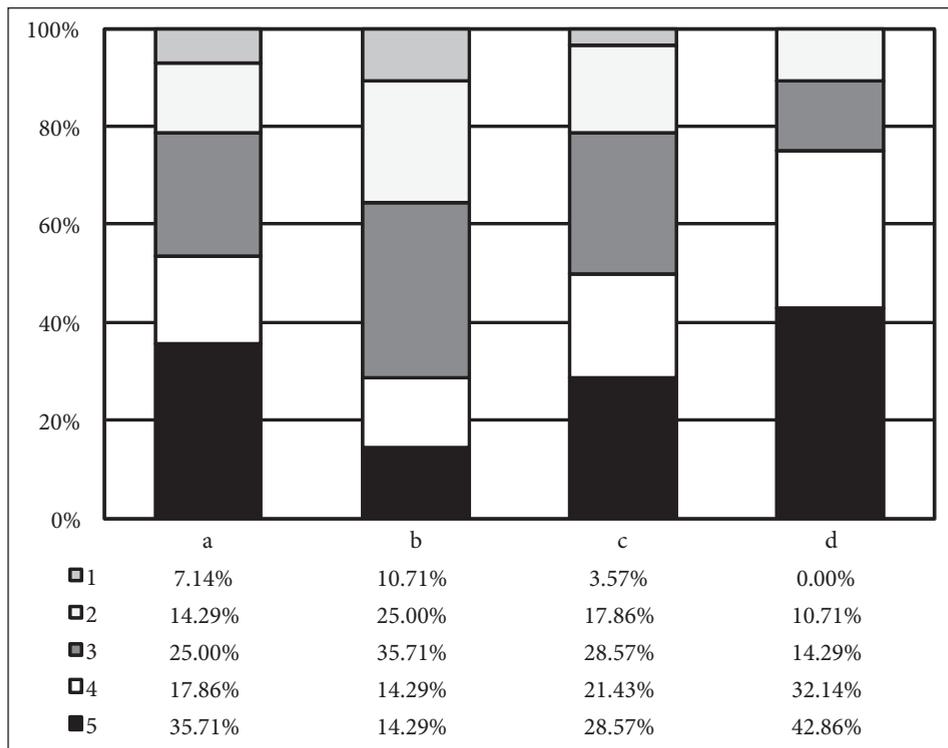
There is no obvious difference of opinion between the managers of domestic banks and managers of foreign banks on how to ensure audit quality. Managers of large banks, compared to managers of small banks, attach considerably more importance to the establishment of a system of quality control by the audit firms (attitude b), with $\eta^2 = 0.194$ and $p = 0.019$, and there is a moderate difference regarding the issue of the role of professional bodies. There are also differences

between the attitudes of managers of subsidiaries and branches, on the one hand, and managers of head offices, on the other hand, regarding the role of professional bodies and audit firms, in the sense that the managers of subsidiaries and branches attach greater importance to it.

The auditors are aware of the benefits of external audit, which is not the case with all of its users, including the banks. Their answers, presented in the following graph, demonstrate this. The economic benefits of the audit listed in the questionnaire are:

- a) it facilitates a bank's access to capital markets;
- b) it lowers the cost of raising capital for customers;
- c) it prevents accountancy and management inefficiency and fraud; and
- d) it contributes to the improvement of internal controls, risk assessment, and business efficiency of a bank.

Graph 5. The benefits of external audit



Source: Authors' survey data

The following table shows the average of respondents' answers to the questions concerning the economic benefits of external audit, for all the banks and their individual categories.

Table 7. The economic benefits of external audit

	Attitude			
	a	b	c	d
Sample size	28	28	28	28
All banks	3.61	2.96	3.54	4.07
<u>Capital origin</u>				
Domestic banks (mean)	3.64	3.09	3.82	4.18
Foreign banks (mean)	3.59	2.88	3.35	4.00
η^2	0.000	0.007	0.037	0.008
p	0.927	0.662	0.326	0.652
<u>Bank size</u>				
Large banks (mean)	3.64	3.14	3.36	4.07
Small banks (mean)	3.57	2.79	3.71	4.07
η^2	0.001	0.023	0.023	0.000
p	0.889	0.442	0.442	1.000
<u>Organizational unit</u>				
Head office (mean)	3.00	2.60	2.93	3.73
subsidiary/branch (mean)	4.31	3.38	4.23	4.46
η^2	0.255	0.110	0.301	0.142
p	0.006	0.085	0.003	0.050

Source: Authors' survey data

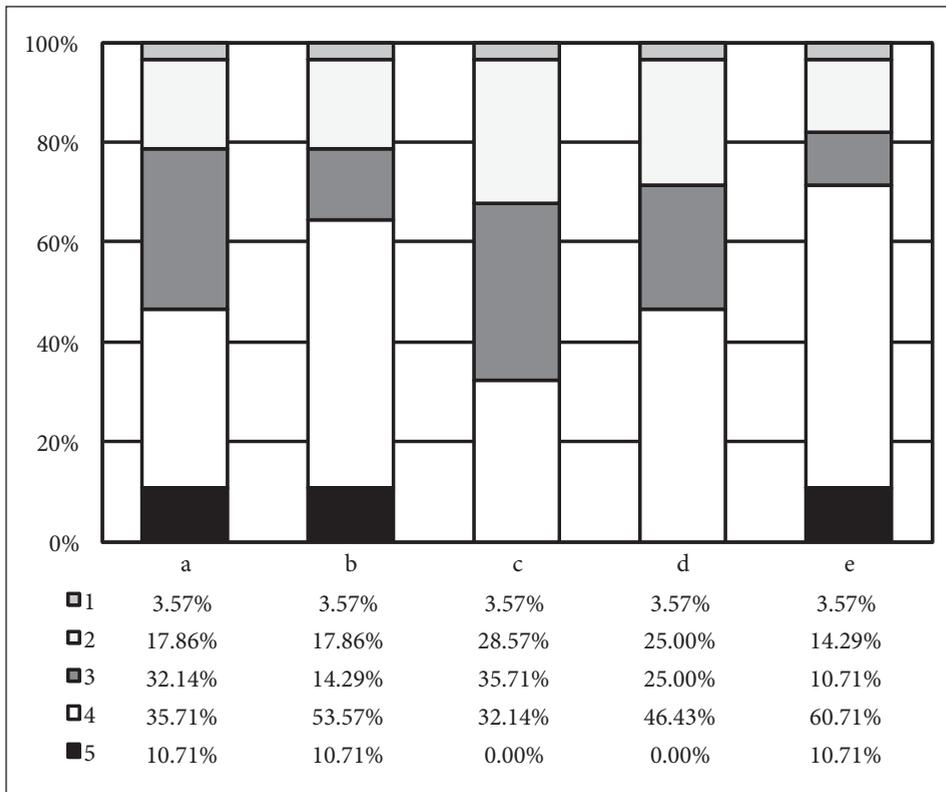
According to respondents, the most important benefit of external audit is its contribution to the improvement of a bank's internal controls, risk assessment, and business efficiency, while on average they have no attitude about the audit's ability to contribute to lowering the cost of capital. Capital origin and bank size, as shown in Table 7, do not have a big impact on managers' attitudes to the benefits of audit. Managers of subsidiaries and branches largely perceive the benefits of external audit in comparison to the managers of head offices, and the differences are most pronounced in terms of the prevention of inefficiency and fraud (attitude c), with $\eta^2 = 0.301$ and $p = 0.003$, as well as the capabilities of audit to facilitate the bank's access to capital (attitude a), with $\eta^2 = 0.255$ and $p = 0.006$.

The inherent limitations of external audit listed in the questionnaire are:

- the time gap between the balance sheet date and audit report presentation;
- audit testing by the method of sampling;
- excessive reliance on specialized computer packages;
- the forming of professional evaluations in highly specialized areas, and
- the standard form audit report.

Respondents' attitudes towards the limitations of external audit are presented in the following graph.

Graph 6. The limitations of external audit



Source: Authors' survey data

The average of the answers to questions about the limitations of external audit, for all the banks and their individual categories (strata), are given in the table below.

Table 8. The limitations of external audit

	Attitude				
	a	b	c	d	e
Sample size	28	28	28	28	28
All banks	3.32	3.50	2.96	3.14	3.61
<u>Capital origin</u>					
Domestic banks (mean)	3.27	3.09	2.82	3.09	3.27
Foreign banks (mean)	3.35	3.76	3.06	3.18	3.82
η^2	0.002	0.105	0.018	0.002	0.076
p	0.843	0.093	0.491	0.817	0.156
<u>Bank size</u>					
Large banks (mean)	3.64	3.71	3.14	3.50	3.93
Small banks (mean)	3.00	3.29	2.79	2.79	3.29
η^2	0.103	0.044	0.043	0.152	0.108
p	0.096	0.282	0.292	0.040	0.089
<u>Organizational unit</u>					
Head office (mean)	2.93	3.07	2.53	2.93	3.60
subsidiary/branch (mean)	3.77	4.00	3.46	3.38	3.62
η^2	0.173	0.220	0.286	0.061	0.000
p	0.028	0.012	0.003	0.207	0.968

Source: Authors' survey data

Bankers believe that a standard form audit report and testing by the method of sampling are the most inherent limitations. Testing by the method of sampling is by far the most serious limitation according to the managers of foreign banks, compared to the managers of domestic banks. The managers of large banks, compared to the managers of small banks, find that the forming of professional evaluations in highly specialized areas is a major limitation of the audit, with $\eta^2 = 0.152$ and $p = 0.04$. Furthermore, the managers of large banks, compared to the managers of small banks, find that the time distance between the balance sheet and audit report presentation is a somewhat more serious limitation. The managers of subsidiaries and branches attach more importance to the same problem compared to the managers of head offices ($\eta^2 = 0.173$ and $p = 0.028$). In addition, compared to the managers of head offices the managers of subsidiaries and branches believe that testing by the method of sampling ($\eta^2 = 0.220$ and $p = 0.012$) and excessive reliance on specialized computer packages ($\eta^2 = 0.286$ and $p = 0.003$) are greater limitations of the audit.

5. LIMITATIONS OF THE RESEARCH

The research on the external audit of Serbian banks had the following limitations:

- Not all the banks in the Republic of Serbia were included;
- Answers were not only provided by the head offices, but branches as well;
- Certain respondents did not understand some questions;
- Not all the respondents were from the sector of internal audit;
- None of the questionnaires could encompass all relevant areas of the research;
- All responses are convincing rather than definitive;
- Questions include a large dose of judgment by the auditor who composed them, and
- Drawing conclusions based on the collected responses of bank managers and bank employees in managerial positions depends on assessing the reality of their estimations.

Only five banks did not complete the questionnaire, citing lack of time and privacy.

6. FINAL REMARKS

The variety of answers to the questionnaire (which are based on the referenced American literature) shows that most bankers do not understand or disagree on the role and importance of external audit. Therefore, suggestions for overcoming the crisis in auditing theory and practice are:

- to improve the legislative audit regulation (the concept of self-regulation is not sustainable);
- to improve the quality and reliability of the process of independent audit (by improving the quality of audit record and by precise definition of the necessary qualifications of auditors);
- to strengthen the professional liability of auditors and standardize their ethical behaviour;
- to expand the standard forms of audit report with additional notifications and more complex forms of assurance;
- to increase the requirements for the disclosure of off-balance sheet transactions, and
- to manage bank's risks and create added value by increasing the value of its shares.

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