

# The Influence of Management on Quality of the Annual Report of Public Institution

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*Abstract.* The annual report is made of business and financial part, containing the financial statements with annexes and notes. Public library in Slovenia is a separate legal entity of public law in the field of cultural activities, which acts as a public institution when it carries out library activities for at least 10.000 inhabitants. The quality of annual report of public institution is affected by different influential factors. Namely, in the preparation and supervision of the annual report the main support to the management are the accountant and internal auditor. Management of public institution prepares the business part of the annual report and it is legally responsible for financial report and for the establishment of internal audit, however accountant prepares the financial part of the annual report. We investigated three influential factors of quality of public libraries' annual reports: (1) whether the participation of the management of the public library in preparing the annual report affects the quality of the annual report; (2) whether the educational level of accountant affects the quality of the annual report and (3) whether they implement internal audit compliance of the content of the annual report with the regulations. The quality of the annual report has been defined as a compatibility of the annual report content with the regulations in 2013. We sent a questionnaire to all 58 libraries registered in Slovenia, to which has been fully responded by 51 libraries. We find out with the empirical research, that annual reports are more consistent in those public libraries, where the educational structure of accountants is level VII/1 (high school) or higher. The findings also shows that the content of the annual report is more consistent in those public libraries, where the management participates in its preparation. We also empirically improved that, in more than a half of public libraries internal audit of consistency of annual reports with directions of the regulations wasn't yet performed. We suggest that the management of libraries supervise the annual reports' quality through internal audit of these reports and cooperation with the accountant.

*Keywords:* annual report, public libraries, management, accounting, auditing.

## 1 Introduction

The annual report is one of the main documents of the business, which organizations are required by regulations to prepare for external users of these reports.

For reporting is typically that improves informing and thereby facilitating the decision-making management of each organization (Babic and Biloslavo 2012, p. A14). According to research of consultancy firm KPMG, the importance of reporting to external users in the world is rising (Babic and Biloslavo 2012, p. A14). The need for annual reporting is based on the knowledge that the company with financial statements do not provide sufficient quality and comprehensive information for the interested public, who wishes to obtain complete information on the operation of individual organizations (such as public libraries). For this purpose, it is also necessary to provide qualitative or quantitative information. We can therefore say that annual reporting is a framework that allows authentic and meaningful report, with whom an organisation can accomplish the need for information

of the interested public and thereby increasing the business value of the company (Babic and Biloslavo 2012, A14).

According to Babic and Biloslavo (2012, p. A15) annual reports give organizations the opportunity to provide information to wider public and thereby the organization may result in greater business value. Since the annual reports provide information to the local community, environmental groups, regulators and employees of institutions governed by public law, they are predominantly made wider than other reports that are intended only for a narrow group of interested public. In practice this means that in preparing the annual report should be taken the fact that affect on the quality of annual reporting, and it is important to emphasize the competence of employees for preparing a quality annual reports (Martinčić 2014, 22).

The role and the importance of annual reporting are related with the following facts (Babic and Biloslavo 2012, p. A15)

- company has to present its financial results publicly in their annual reports;
- rising demands for transparency in the presentation of data is perceived, where not only present financial result, but the creation of value on the social and environmental spheres regarding the fact that due to a number of corporate scandals in the world, consequently decreasing confidence in the leadership of corporations.

## **2 The annual report of the public library**

The annual report is a comprehensive document on the operations, which must be prepared by companies and organizations that derive revenue from the state budget (budget users). In this paper we will focus on the content of the annual reports of public libraries, which are determined by different rules, applicable to all public libraries. Content of the annual reports is responsibility of the management of company or budget user.

Public libraries are the so-called indirect budget users and public institutions, so the content of their annual reports are primarily different due to the source of funding, since public libraries acquire the majority of the revenue from the state or municipal budget, while the company acquire most of the revenues in the market (Horvat, Martinčić 2015, 288).

Public institution can be established by a state, municipality or other public entity, sometimes in cofounding. As is clear from Article 3 by the Law on institutions, public institutions were established to provide the public services. Public services are activities of special social significance, their continuous and undisturbed operation is in the public interest, and therefore, basis of a law or decree, provided by the state, municipality or city.

Depending on the types of users libraries are divided on public, school, academic, special, and at the National Library (Libraries Act 2001, Art. 7). Schools, academic and special libraries are not independent legal entities. Public Library is an independent legal entity under public law in the field of cultural activities, established as a public institution, if carried out library services framework for 10,000 or more inhabitants, otherwise is a unit of independent legal entities. The founder of the public library is a municipality and belongs under the Ministry of Culture (Libraries Act 2001, Art. 19). The municipality and the ministry are also the main funder of activities of public libraries, therefore, they derive revenues for its operations from the county or municipal budget, from the ministry responsible for culture, and from the state budget. In terms of the budget public libraries are indirect users of budget. As it follows from paragraphs 97 and 99 of the Law on Public Finance (2011, Art. 97 and 99) public libraries are obliged to submit the annual report for the previous year together with explanations to competent mayor no later than the last day of February. Public libraries are also obliged to submit

an annual report to the Agency for Public Legal Records and Related Services (APLRS/AJPES) no later than the last day of February for the previous financial year, which is apparent from Article 51 of the Accounting Act (1999, Art. 51).

Annual reports are one of the key instruments for implementing the financial responsibilities of management and represent a mechanism by which the public sector is accountable for responsible and economical use of public funds (Odainkey and Simpson 2013, p. 4), it is essential that the content are properly presented. General public and media are expecting a wider substantive and financial information on cost-effectiveness and impact of public projects (International Child Development Initiative 2012). The annual report of the public library should contains two main parts, business report and financial report (Rules on Drawing up Annual Reports for the Budget, Budget users and other public entities 2011, Art. 4).

Below we present in detail the requirements of the main provisions for the content of business and the financial report of the public library.

Business report contains information about the activities of public library in current calendar year and achieving plans in the same year. The business report comprises of:

- General part:

- Presentation of the public institution
- Short description of development
- Presentation of the management
- Presentation of important authorities
- Short review of activities
- Short description of economic, monetary, fiscal and other influences
- Information reports on the implementation of programs, activities, projects

-Specific part: Report on attained objectives and results

- Legal bases that explain the scope of indirect users
- Long-term objectives
- Annual objectives
- Assessment of success in attaining the set objectives with indicators according to activities
- Occurrence of eventual impermissible and unexpected consequences in program implementation
- Assessment of success in attaining the set objectives in comparison with the achieved objectives
- Assessment of economy and efficiency of management
- Assessment of internal financial monitoring system functioning
- Explanations according to sections in which the set objectives were not attained and why
- Assessment of management affect on economy, social condition, environmental protection, regional development, etc.
- Other explanations that contain staffing and investment analyses

In business reports practice, organizations show the following problems in their preparation (Bergant, 2007; adapted from Martinčič, 2014, p. 26):

- contents of the business and content of the financial report are often mixed, it is unclear where to display various information;
- determine what level of detail and the information has to be disclosed in the context of the analysis of the annual report;
- annual reports are increasingly burdened by the data which are not necessary for the disclosure to potential users, which in turn affects, the growth of the reports and information, being perceived as

lower quality and unbalance business reports. According to Bosman and Malthus (2014, 38), the length of annual reports in New Zealand in 2012 soared to 92 pages, with 23 pages more than in 2004.

The second part of the annual report is the financial report, which consists of financial statements and notes to them. The main financial statements are balance sheet and statement of revenue and expenses.

According to the acts on annual reports to the Act of Accounting, the compulsory appendices to financial statements are:

- Table entitled Situation and changes in intangible fixed assets and tangible fixed assets,
- Table entitled Situation and changes in long-term equity capital investments and loans.
- Statement of revenue and expenses of defined users according to the cash flow principle,
- Statement of receivables and investments account of definite users,
- Statement of financing account of definite users.

Written notes to financial statements include the following information according to Slovenian Accounting Standards (Rules on Drawing up Annual Reports for the Budget, Budget users and other public entities 2011, Act. 26):

- Criteria if they were used for delimitation of revenue and expenses to the public service activity and the activity of the sale of goods and services on the market;
- Purposes for which long-term provisions were formed, and the formation and usage of long-term provisions according to purposes;
- Reasons for stating an excess of expenses over revenue in balance sheet and statement of revenue and expenses;
- Method used for the valuation of inventories of finished products and work-in-progress;
- Data on unpaid receivables and the measures for their payment or the reasons for not paying them;
- Data on liabilities that are due by the end of the financial year and the reasons for not paying them;
- Sources of funds used for investments in tangible fixed assets, intangible fixed assets and long-term investments (equity capital investments and loans);
- Free cash flow investments;
- Reasons for important changes in fixed assets;
- Types of items that are included in the amount stated in off-balance-sheet accounts records;
- Data on important tangible fixed assets and intangible fixed assets that are already fully written off but are still used for performing the activity, and
- Other matters that are important for a complete presentation of operations and assets of the users of the uniform chart of accounts.

The surplus of revenues over expenses should be, as an institution, used solely for the performance and development activities, if not in act of founding provided otherwise (Article 48 of the Law on Institutions).

Public libraries also provide written accounting information or written disclosures according to Slovenian Accounting Standards within the framework of notes and they refer to the disclosure of data stated in the balance sheet, the statement of revenue and expenses and appendices to the statements.

In addition to these regulations, various users of annual reports, such as the municipality, the Ministry of Culture, State institutions, professional associations and other users (readers) of annual reports also can affect on the content with their requirements. However, these users provide requirements and guidelines for drawing up the annual reports only for the specific content in those who are interested in (Horvat, Martinčič 2015, 291).

Among the factors of quality assessment of annual report and thereby greater readability and attractiveness are (Horvat 2000, p. 54):

- general impression: which estimate the appearance of the annual report;
  - content of annual report, where we assess whether its content following the logical order and system, so first of all identify the achievements of the previous year, and then present a report to the CEO, define the activity of the company and then in the last part presents the annual financial report;
  - front page, we estimate if the front page is interesting and attractive for a potential reader to become a real reader;
  - text (content), we estimate if the annual report can be readable and grammatically correct;
  - typography, which should enable the reader that at first glance identifies a hierarchy of content, where is a clear dividing line between the beginning of a new chapter or subchapter;
  - Photos and illustrations where we assess how well they complement the key message;
  - Graphs, where we estimated content and style, as well as how graphs complement the content (text).
- It should be noted that the graphs must be equipped with titles that reflect the essence of the information presented.

Following Arvidsson (2011, p. 279), it has recently been increased the emphasis on disclosure of non-financial data in the business report. According to Michalski-Karl et al. (2009, p. 179) clearly disclosed information in the annual report increasing business transparency and contain great potential to increase the benefits of the public concerned, to carry out or modify pledged activities.

### **3 The role of management in the preparation of the annual report**

The aim of the occupation of the public institution, and therefore also public libraries is non-profit. Public institute is managed by council composed of representatives of the founder, staff and users and the public concerned (Article 29 of the Law on Institutions). Managing body of the institution is director or another individual authority (for example, the headmaster), which organizes and manages the work and operations of the institution, presents and represents the institution and is responsible for the legality of the institution.

Any management is responsible for the legality of operations and regard with this to prevention and detection of business, which is non-compliant with legal norms. Management in doing so can help with the following policies and procedures (Koletnik and Kolar, 2008, 110-111):

- monitors the regulatory requirements and provides methods that enable compliance with legal regulations;
- monitors the regulatory requirements and provides methods that enable compliance with legal regulations;
- caring for proper arrangement and operation of internal control;
- develops, publishes, and respects a code of business conduct of all employees in the company;
- providing staff development and care for understanding and compliance with the code of conduct;
- monitors compliance with the code of business conduct and do disciplinary action against employees who do not abide;
- employ appropriate expert to assist in the establishing and monitoring of the prescribed solution;
- caring for an updated list of important rules and interpretations that must be respected in the business.

Highest Management (Director) of public libraries carry out the following tasks related to the content of the annual report (Horvat 2014, 40):

- is responsible for the legality of work and thereby to finance kindergarten public libraries;

- is responsible for the targeted use of funding sources;
- prepares developmental, financial, investment plan, annual work plan and other programs of public libraries;
- ensure conditions for the realization of plans and is responsible for their execution;
- prepare and adopt internal regulations of public libraries in accordance with the act of founding that is in connection with the financing of libraries (rules on accounting, rules on the movement of accounting documents, the act of systematization of jobs, a code of ethical conduct in kindergartens);
- proposes and implements the conclusions of the Institute council, such as the decision to use the surplus of income over expenditure;
- provides the conditions for the implementation of the development plan and other plans;
- produces annual report of the institution, where, reports about use of the funds and sources of financing for the current year, on the achievement of goals and objectives of internal controls;
- encourages and planning professional education and training of employees;
- performs other work under current regulations, general acts of the institution, orders of the council, founder and Ministry of Education.

How are the tasks of management related to the content of the annual report? A dedicated use of sources of funding means that the library obtain sources of funding from the municipality and the Ministry of Culture for specific business purposes, such as staff salaries, maintenance of the investment, the purchase of books, etc. Sources of funding are recorded as revenue in the financial statement of revenue and expenditure, which is the financial report. Internal rules determine the direction and responsibility for the preparation of financial statements in the financial report, there is also clear whether the library creates a surplus or deficit. The implementation of plans, training of employees is shown in the business report.

In management is also an assistant director, under the authority of the director, he represents the library and is responsible for the legality of operations in the absence of the director. Assistant director (Horvat 2014, 40):

- participates in checking of incoming invoices and related documents;
- participate in decision-making of use of the funds;
- assist the director and participate in the preparation of the annual work plan;
- participates in the preparation of program for development libraries;
- participates in planning and monitoring the implementation of financial plans;
- assist in the preparation and implementation of the annual program of education employees in the library;
- monitors and guides development projects;
- assists and participates in the preparation of internal policies for the library;
- collects needs and ordering supplies and services for the public service;
- keep records of the distribution of materials, small inventory and fixed assets in the public service;
- preparing proposals for professional training;
- performs other work following the annual work plan of public library principals and guidance;
- assist in the preparation of the business report;
- be answerable to director.

Among other tasks, the assistant director emphasize invoices received, most from suppliers of materials and services, they are shown as liabilities in the financial statements. In the case of invoices received in a public institution, such as the public library is an important role of internal control that checked by the internal auditor.



#### **4 The role of accountant in the preparation of the annual report**

For the post of accounting officer is under Slovenian law requires at least VII / 1 degree. Accountant knows very well the operational work in all phases of preparation of the annual report. That means (Horvat 2014, 42):

- regularly monitors legislation on financial accounting matters, and used it in preparation of the annual report of the public library;
- planning of operating costs;
- planning of sources of financing investment;
- planning sources of financing activities;
- with the leadership of the public library is preparing draft financial plan of public library;
- analyzing the financial results of library
- with the leadership produces a draft annual report, and in this context, draw up a balance sheet, income and expenditure account and the notes;
- produces internal bookkeeping documents;
- recorded events in business books;
- controls the analytical records with the general ledger;
- keep the general ledger and auxiliary ledger;
- is responsible for the timely and proper payment of invoices received;
- coordinates the outstanding items;
- issuing invoices,
- keep a book of issued invoices;
- verify the accuracy and correctness of issued invoices and bills;
- checking timeliness of settlement issued invoices and bills;
- regulate matters concerning the organization, which carries out payment transactions (Public Payments Administration - PPA);
- archive documents related to the work and tasks of financing activities in respect of statutory deadlines;
- performs other tasks according to the instructions of management;
- be answerable to director

All the accountant tasks directly affect on financial statements and the financial section of annual report. Among other tasks, accountant emphasizes verification of the correctness and timeliness of payments accounts, which is related to internal controls in the library, checked by the internal auditor.

Besides management and accounting officer, bookkeeper indirectly affect on the content of the annual report of the Library, which means that (Horvat 2014, 43):

- prepares data and analyzes for the planning activities of the institution;
- assists in making analyzes;
- help or independently produces statistical reports;
- preparing the documents and recorded in subsidiary ledgers;
- is responsible for the control of incoming invoices issued on the basis of contracts concluded with suppliers;
- produces a variety of applications;
- recorded payment and care for the reminder in case of late payment;
- keep the program of small inventory and registry of tangible fixed assets;
- prepares the data for the general ledger and coordinate the analytical accounts with the general ledger;
- keep the carrying of documentation;
- keep material accountancy;
- for urgent works replaces an accountant;

- performs other tasks in accordance with the laws and regulations, internal regulations of the institution and on the instructions of accountants and director;
- be answerable to accounting officer and director.

For the post of bookkeeper is under Slovenian law requires a minimum of V or VI level of education.

## **5 The role of internal auditor in the preparation of the annual report**

After the Dehaan et al. (2013, p. 1027), internal audit is a way of controlling of budget spending and has influence on the improvement of:

- Reporting: preparation of quality annual reports,
- Understanding of the financial part of the report by the interested public.

Since the annual report of public library is via websites APLRS/AJPES publicly available, this is a form of an informal supervision of operations of public libraries, also easily readable by the general public.

The so-called formal control over the operations of public libraries is done by the internal auditor.

The legal basis for the implementation of the internal audit for public institution are (Horvat 2014, 8):

- Public Finance Act (Article 100)
- Regulation on guidelines for coordinated functioning of the public internal financial control (Article 2)
- national guidelines for internal auditing (Ministry of Finance, 2003)
- Internal Rules of the budget user.

The Public Finance Act 2002 (PFA-C) established a formal basis for the internal control of public finances. On this basis, the Minister of Finance, issued the Regulation on guidelines for the harmonious functioning of the public internal financial control (Official Gazette of RS, No. 72/2002).

Taylor and Glezen (1996, 35-37) auditing regardless of relationship with the auditee and auditor is sort on:

- External audit by external auditors on the basis of contracts (not in a contractual relationship with the auditee);
- Internal audit performed by the auditors in the context of specific services outside the accounting department, which operates independently and impartially, or external experts.

Management of the public library is responsible for the establishment, operation, control and continuous improvement of the system of financial management and internal controls and internal auditing. Their responsibility is determined in accordance with the Public Finance Act, the Rules on guidelines for the coordinated operation of the public internal financial control (Article 10) and the other rules, methodologies and standards for financial management and internal controls prescribed by the Budget Supervision Office.

Internal audit in public libraries provides a community founder, if this is not possible, however, the library hired outsourced internal audit. Budget users whose annual budget exceeds 2,086,463.03 euros, are required to provide internal auditing at least once a year, while other budget users at least once within a period of three years.



Internal auditing provides an independent verification of financial management systems (management) and controls and consultancy for management to improve their effectiveness (Article 100 of the Law on Public Finance).

National guidelines for internal auditing determine the internal audit as a tool. By which the head or the Managing Authority of the budget user, and senior management from an independent source gets the assurance that internal controls meet their objectives and that the risks are controlled at an acceptable level. Subjects of internal auditing are all systems, processes, events and activities of budget user (Guidelines for State Internal Auditing, 2003).

Effective internal audit is the first line of defense against inappropriate use or bad governance of public funds, as can be seen in the annual report of the public library (Vidovič, Milatović, Horseradish, 2001, pp. 41-42).

The purpose of internal auditing can be (Regulations on the Internal Audit in Direct Spending Budget RS, 2011):

- investigate and evaluate the adequacy, effectiveness and quality of the internal control system,
- providing a reliable and creditable information,
- ensuring compliance with policies, plans, laws and regulations,
- protection of property,
- ensuring the efficient and effective use of resources,
- achievement of stated goals and objectives relating to operations or programs, and continuous improvement of the implementation of the basic business functions of direct budget user.

Particularly emphasized ensuring the compliance of the annual report with the policies, plans, laws and regulations

After checking that the annual report is in compliance with the rules, the internal auditor reports it promptly to management and after the completion of the audit (Horvat 2014, 59).

The purpose of the ongoing report is to inform the auditee of problematic findings of the internal audit, which could be promptly corrected by the auditee. Upon completion of internal audit, internal auditor shall draft audit reports reviewed by the revised public library, and propose any comments and additions.

After that, the internal auditor prepares a final audit report which will be forwarded to accounting officer, the director, assistant director and mayor. This report has added auditor's findings, which evaluates them in a manner as shown in the table below (Horvat 2014, 60).

Management of the public library must in conjunction with the accounting officer to ensure that they were, based on the recommendations of the internal auditor, implemented the corrective measures. Privacy policies for the coordinated operation of the system of internal control of public finances in Article 17 obliges the budget users, including the public library, on the basis of reports, findings and recommendations of the internal auditors within a period of no longer than 90 days, to adopt an action plan for removing of the identified irregularities in the operation or deficiencies and weaknesses in the internal control system, and notify the internal auditor service with responsive report. Implementation of the recommendations is responsibility of management of the public library. General library must to report in the Business Report on the findings of the internal audit and what measures it has taken to eliminate irregularities in the operation, identified by the internal auditor. Elimination of irregularities directly affect to the content of the annual report (Horvat 2014, 61).

## 6 The Research

In each public library, annual report reflects the operations of each library and is a key document that is publicly available to a wider range of the public (Martinčić 2014, 13). Transparent method of preparation of annual reports and ensuring the quality information is therefore even more important. According to the survey Beattie, Dhanani and Jones (2008, 181), the annual reports are the key document for public relations. From the perspective of the appropriate presentation annual reports should be structured and formulated with an emphasis on graphics and content display.

### *6.1 The purpose of the research and the methods*

Annual reports are one of the key instruments for implementing the financial responsibility of the director and represent a mechanism by which the public sector be responsible for reasonable and economical use of public funds (Odainkey and Simpson 2013, 4), it is essential that content was properly presented. After the Ryan, et. al. (2002, 63), the annual report of the Australian public sector entities was promoted as the appropriate instrument to address accountability.

In recent years, there is a growing need for transparency of the use of financial resources in organizations. General public, or more broadly, the media expect substantive and financial information on cost-effectiveness and impact of public institutions (International Child Development Initiative 2012, 5).

According to research Skaife and Wangerin (2013, 719-743) low quality of financial reporting impact on business, such as higher insurance premiums. The survey at the same time showed that due to the low-level reporting collapsed almost 14% of all trades. The survey Dehan, Hodge and Stevlin (2013, 1055) has shown that the improvement in financial reporting in capital markets impact on the providing of quality information because managers can manipulate the financial statements in accordance with their personal interests, but it damages the reputation. Details of another research shows that organizations with a higher reputation have less likely of non-compliance content in annual reports, because they are aware of the importance of reputation in the market (Cao, Myers and Omer 2012, 983). In preparation and supervision of the annual reports the main support of management are accountant and internal auditor. Management is following the Law on Accountancy responsible for the content and thus affects on the quality of the content of annual reports. On the quality of the content of annual reports could also be affected by the accounting officer, as is determined by the law on accounting and systematization of jobs and internal auditor (as the Law on Public Finance). These are the three factors or internal entities of the public library, we believe that have influence on the quality of annual reports. With this research we want to investigate whether they affect the on quality of the content of the annual report.

Further, our aim is to evaluate hypothesis:

H1 : The more is management involved in preparing the content of the annual report, the higher is the quality of the annual reports of public libraries.

H2: The level of education of accountant impacts on the quality of annual reports of public libraries.

H3: In more than half of the surveyed public libraries have not been implemented internal audit compliance of the content of the annual report with the provisions of regulations.

The annual report is quality, when it contains all the information in the financial and accounting work required by the regulations, or if the content of the annual report is consistent with the regulations. From the perspective of the quality of data and information, it must be ensured that the annual report containing with the rules prescribed specific content, same time the information for the reader is understandable and comparable with other organizations.

The entire population of the survey represent all public libraries in the Republic of Slovenia. According to the latest statistics, in 2012, Slovenia had 58 public libraries (Library, 2014). In 2014 we sent a survey to all public libraries in Slovenia in order to verify the above hypothesis, the 51 public libraries has responded. These represent a survey sample. In the case of this study we used the survey method by which we collected data for statistical analysis.

Hypothesis 1 was tested by Spearman correlation, with two questions from the survey (first question was: “With a rating from 1 to 5 evaluate the participation of the management in preparing the content of the annual report”, while score 1 means "minimum" and score 5 "maximum participation". The second question was: “What is your opinion about ensuring compliance of content with the regulations regarding to rules on the composition of the annual reports?” The answer to this question have been possible by rating from 1 to 5, where 1 means the "minimum" and 5 "maximum". The hypothesis was confirmed at the significance level less then 0.05.

Hypothesis 2 was examined by nonparametric Mann-Whitney U-test for independent samples. We compared the average of the second survey question (which is stated in the hypothesis 1) by level of education (level VII / 1 or more and less than the level VII / 1). If it is shown the difference at the significance level less then 0.05 and the average of conformity at higher education is higher, we confirmed the hypothesis.

Hypothesis 3 was tested by chi-square test. Poll question was: “Have you ever performed an internal audit of the content of the annual report?” The possible answer was "yes" or "no." We calculated the shares and verify whether the answer is YES and NO differ at significance level less then 0.05. If the difference was found, and it is more than 50% represented answer is NO, we confirmed the hypothesis.

## **6.2 The results of the research**

For the purposes of statistical verification we tested the first hypothesis. We wanted to know whether the participation of management affects on the quality of the annual report and compatibility of the annual report with the regulations. To verify the hypothesis we used the Spearman correlation. This test was used because we want to determine the relationship between variables and because the distribution of the data is not normal. To test the normality we used the Kolmogorov-Smirnov test as shown in Table 1.

Table 1: Test of data distribution between the participation of management in preparing the content of the annual report and compliance of content with the regulations (The quality of the annual report)

Statistics	Participation of management in preparing the content of the annual report	The compatibility of the annual report with the regulations (the quality of the annual report)
N	51	51
Kolmogorov-Smirnov Z	1,702	0,680
p-value	0,006	0,744

Based on Spearman's correlation is shown in Table 2, which is 0.492 ( $p = 0.0001$ ), we can confirm the statistical correlation between participation of management and compliance the content of the annual report with the regulations.

Table 2: Correlation between the participation of the Director in preparing the content of the annual report and compliance of content with the regulations (the quality of the Annual Report)

Statistics			Participation of management in preparing the content of the annual report	The compatibility of the annual report with the regulations (the quality of the Annual Report))
Spearman rho	Participation of management in preparing the content of the annual report	Correlation coefficient	1,000	0,492*
		p-value		0,000
		N	51	51
	The compatibility of the annual report with the regulations	Correlation coefficient	0,492*	1,000
		p-value	0,000	
		N	51	51

\* The correlation is statistically significant at the 0.01 level.

Based on the result obtained we confirm the first hypothesis.

Further, we tested second hypothesis. We investigated the link between the education of accountants and compliance of content of the annual report with the regulations (the quality of the annual report). We wanted to verify if the annual report is substantively consistent in public libraries, where accountants have a high degree of education (VII / 1) or more. We assumed that the content of the annual report is more coherent with rules in those public libraries where the level of education of accountants is VII / 1 degree or more. To verify the second hypothesis we used the nonparametric Mann-Whitney U test, because we want to check the difference in averages between the two groups. As the dependent variable, on ordinal level data distribution, is not normal to test the normality, we used the Kolmogorov-Smirnov test as shown in Table 3.

Table 3: Test of data distribution between the level of education of accountants (VII / 1 or more) and consistency the content of annual reports with the regulations

Statistics	Consistency between the content of annual reports with the regulations
Kolmogor-Smirnov Z	2,061 <sup>1</sup>
p-value	0,000

The data in Table 4 shows that the average score of conformity content of the annual report with the regulations of 30.27 at level of education lower than the high (VII / 1) degree, and 37.18 at high (VII / 1) degrees or more.

<sup>1</sup> Spremenljivka, ki deli: izobrazba.

Table 4: Accountant's education and consistency of the content of the annual report with the regulations

Education of Accountants	N	Minimum	Maksimum	Average	Standard deviation
Lower than the high (VII/1 degrees)	26	18,00	39,00	30,27	5,45
High (VII/1 degrees) or more	11	26,00	43,00	37,18	5,04
Total	37	18,00	43,00	32,32	6,16

Based on the Mann-Whitney U statistics shown in Table 5 of this task, which amounts to 44,500 ( $p = 0.001$ ), we can confirm the statistical correlation between the level of education of accountants and compliance of content with the regulations (quality of annual reports).

Table 5: Mann-Whitney U test

Statistics	Consistency between the content of annual reports with the regulations
Mann-Whitney U	44,500 <sup>2</sup>
Z	-3,287
p-value	0,001

Based on the result obtained we confirm the hypothesis.

Among the potential factors that could affect the substantive conformity of the annual reports with the regulations we could also implement internal audit of compliance of the annual report with the regulations. That would increase the quality of the content of the annual report. So, further, we tested the third hypothesis: In more than half of the surveyed public libraries have not been implemented internal audit compliance of the content of the annual report with the provisions of regulations.

Table 6 shows information about the implementation of internal audit of content of the annual report. Data show that 43 (84.3%) of public libraries has not yet carried out an internal audit of content of annual report. While only 8 (15.7%) public libraries have already carried out an internal audit of content of the annual report.

Table 6: Internal audit content of the annual report

Have you ever performed an internal audit of content of the annual report?		Frekvency	%
Valid	Yes	8	15,7
	No	43	84,3
	Total	51	100,0

The chi-square test, as shown in Table 7, we examined whether the percentages of the responses from the sample can be generalized also to a population.

<sup>2</sup> Spremenljivka, ki deli: Izobrazba

Table 7: Performing of internal audit of annual report's content

Statistics	Have you ever performed an internal audit of content of the annual report?
Chi-square	24,020
df	1
p-value	,000

Since the p-value was less than 0.05, we can verify the data in the table 7 and that can be generalized to the entire population. Based on the result obtained we confirm the hypothesis.

## 7 Conclusion

The paper deals with the factors that affect on the compatibility of the annual reports with the regulations in public libraries in Slovenia. As we assumed, internal entities are main factors, in accordance with the regulation, that have the most influence on the content of annual reports and thus on their quality.

Research has shown that the content of annual reports are more consistent with the regulations in those public libraries where management is involved in the preparation of the annual report and where the educational structure of accountants is VII / 1 degree or higher. We also found that more than half of the surveyed public libraries have not been carried out internal audit of compliance of the content of the annual report with the provisions of regulations. Therefore, we propose to raise awareness of public libraries primarily for management and internal auditors to do its work on the preparation and verification of annual reports which affect on their higher quality. This will increase the reputation in the public and less likelihood of non-compliance content of annual reports with the requirements. Annual report of the public library is the only document of the operations, which is accessible free of charge to the general public.

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