

The Impact of Internal Auditing on Financial Planning in Public Educational Institutions

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In the study we focused on the primary school, which is the most represented among all of public educational institution. The main document in financial planning is financial plan. It should have mandatory components of the content. Our past studies in Slovenia indicate that the content of financial plans in primary schools is not legally adequate. For this purpose we decided to research the hypothesis that "The internal audit affects on the legally adequacy of the financial plan." This hypothesis was tested with the chi-square test. We seek to determine relationship of two variables, namely, if there is a correlation between the number of audits and legally adequacy of the financial plan in primary school. The results are presented with the contingency table. We surveyed a population of 451 primary schools in Slovenia, of which was on our survey responded 148 or 32.82% of primary schools, which represents our sample. Based on the chi-square test result, which was 1.86 ($p = 0.395$), we were unable to confirm the connection between the legally adequacy of the financial plan and the frequency of audits. We find that internal auditors are not so consistent in reviewing compliance of institutions with the regulations, otherwise they would have to draw attention to the deficiencies of financial plan contents. In our opinion auditors should introduce checking procedures for verifying the appropriateness of the legally adequacy of contents in the financing plan.

Keywords: auditing, financial plan, educational institution, school, management.

1 Introduction

The financial plan is a result of financial planning in public educational institutions. It is a mandatory document which must be prepared by a public educational institution in Slovenia. We focused on the primary (elementary) schools, which are the most represented among all of public educational institution in Slovenia. Primary schools focus on the sources of funding, such as funding sources from the Ministry of Education, local communities, parents, market activities and other sources. Sources of funding are mostly public, so they must be used specifically for the operation of the educational institution and they should be planned in yearly financial plan.

Internal audit in public educational institutions and also in primary schools is also obligatory and it should be made in accordance with Slovenian regulations. Ingredients of financial plan are legally required, but no one checked whether the contents of the financial plans of public educational institutions is adequate.

One of the tasks of internal auditors is to check compliance of financial plans with legislation. Therefore, we anticipate that internal auditors have an impact on substantially adequate financial plans. The purpose of this paper to present a theoretical and legal view of primary schools, financial planning, school management, internal auditing and impact of internal audits on legally adequate financial plans in schools.

2 Primary public educational institutions

Primary education in Slovenia is governed by the Law on Primary School, which defines the following objectives (Law on Primary School, Article 2):

- ensuring quality universal education for the entire population;
- promoting the coherent physical, cognitive, emotional, moral, spiritual and social development of the individual, taking into account developmental principles;
- enabling the student's personal development according to his abilities and interests, including the development of his positive self-image;
- acquiring the potential for a further educational and career path, with an emphasis on competence for lifelong learning;
- education and training for sustainable development and for active participation in a democratic society, which includes deeper knowledge and responsible attitude towards oneself, your health, towards other people, your own and other cultures, the natural and social environment of future generations;
- developing awareness of nationality and national identity, the knowledge of the history of Slovenes, their cultural and natural heritage, and the promotion of civic responsibility;
- education for common cultural and civilizational values that originate from the European tradition;
- education for respect and cooperation, for accepting differences and mutual tolerance, for respect human rights and fundamental freedoms;
- developing literacy and understanding in textual, natural sciences, mathematics, information, social sciences and arts fields;
- developing literacy and the ability to understand and communicate in the Slovenian language, in areas that are defined as ethnically mixed, as well as in the Italian and Hungarian languages;
- developing the ability to communicate in foreign languages;
- developing awareness of the complexity and interdependence of phenomena and the critical power of judgment;
- achieving internationally comparable standards of knowledge;
- developing talents and training for understanding and experiencing works of art and for expression in various artistic fields;
- developing entrepreneurship as a personal stance in the effective action, innovation and creativity of the student.

Focus of our study is school year september2010/august2011 and primary public school education, because the expenditures for formal education were in 2011 the highest and the primary education have all ten years the highest expenditures in formal public education. They reached in 2011 the highest level with of 884 million EUR in last ten years (see Table 1). In the adopted state budget of the Republic of Slovenia for the year 2011 (Ministry of Finance RS, 2011) there were planned expenditure in the amount of 10.376 billion EUR, out of which public education received 2.053 billion EUR. This makes public education the second biggest budgetary fund user of public resources, right after the Ministry of Finance.

Table 1: Total public expenditure for public education by levels of education in Slovenia

| Year | Total (% of GDP) | Total (in billion EUR) | Preschool education (in billion EUR) | Primary education (in billion EUR) | Secondary education (in billion EUR) | Tertiary education (in billion EUR) |
|------|------------------|------------------------|--------------------------------------|------------------------------------|--------------------------------------|-------------------------------------|
| 2006 | 5.7 | 1.774 | 0.054 | 0.887 | 0.443 | 0.390 |
| 2007 | 5.1 | 1.783 | 0.157 | 0.807 | 0.401 | 0.418 |
| 2008 | 5.2 | 1.937 | 0.182 | 0.876 | 0.427 | 0.451 |
| 2009 | 5.7 | 2.013 | 0.201 | 0.886 | 0.442 | 0.483 |
| 2010 | 5.7 | 2.016 | 0.207 | 0.882 | 0.444 | 0.484 |
| 2011 | 5.7 | 2.053 | 0.231 | 0.884 | 0.438 | 0.496 |
| 2012 | 5.7 | 2.037 | 0.353 | 0.870 | 0.379 | 0.432 |
| 2013 | 5.5 | 1.971 | 0.350 | 0.844 | 0.372 | 0.404 |
| 2014 | 5.3 | 1.991 | 0.373 | 0.863 | 0.361 | 0.393 |
| 2015 | 4.9 | 1.907 | 0.330 | 0.829 | 0.367 | 0.379 |

Source: Statistical Office RS and authors' calculation.

In school year 2011/12 there were 451 primary schools in Slovenia, according to the Slovenian Ministry of Education. However, if we include subsidiary schools, there are 786 of them (Ministry of Education, Science, Culture and Sport 2012). In the school year 2011/12, elementary school was attended by 159,675 children.

According to the data of Eurostat the average total expenditure for public education in countries of European Union was 5% of GDP in 2006, 4.95% of GDP in 2007, 5.08% of GDP in 2008, 5.41% in 2009 and 5.41% in 2010, 5.25 in 2011, 5.3% in 2012, 5.0% in 2014, 4.9% of GDP in 2015, Slovenia was always above average, unless in 2015 (see Table 1).

3 Financial planning and school management

Even in educational institutions, financial planning becomes more and more important mainly due to increased controls, reporting needs (annual report) and in efforts for better schooling.

School management today represents the leadership of the school, namely the director in/or, headteacher, assistant headteacher, head of unit or branch office. School management must plan strategically and implement the strategies in financial plan. It must determine the level of service quality, the image of the school, the way of monitoring and achieving planned goals, responsibilities of employees in achieving quality policy, and providing sufficient and appropriate means for achieving of that quality (Žvorc 2013).

Financial planning is the first step towards managing the organization and the manager's basic obligation at all levels. A key role in the financial planning process in educational institutions have the headteacher (principal) and accountant.

In practice, we find both the opponents and supporters of planning. Critics point out, among other things, that planning and plans transform people and their behavior into the machine's operation - his spontaneity, intuition and freedom suffer. It is believed that planning is not possible, since it is not possible to predict the future. The non-profit organization manager argues the need for planning by the fact that the relevant legislation requires a kind of annual plan as a basis for obtaining financial resources from the state or municipal budget. In addition to legal reasons, organizational planning has deeper substantive reasons to be aware of (Pučko 2005, 13).

The literature review also uses different theories about effects of planning on the institution's performance, they are classified into two groups, positive and negative effects. First, Kljajič (2003, 34-35) and Žvorc (2013) states the surveys, which have confirmed a positive effect of financial planning on organization management, and also the ones that have rejected the thesis on the correlation between planning or stronger formality in planning and the success of the organisation. Positive effects of planning on the organisation's performance have been confirmed by the following surveys (Žvorc 2013):

- planning has increased economic performance of organisations in terms of bigger sales and profits (Ackelsberg and Arlow 1985, according to Kljajič 2003, 34);
- long-term success of the organisations is linked to its strategic planning (LuAnn Ricketts Gaskill, Howard E. Von Auken and Ronald A. Manning 1993, according to Kljajič 2003, 34);
- high-tech companies, which have been planning, had better performance (Maureen Berry 1998, according to Kljajič 2003, 34);
- organisations with better developed planning had better performance results (Jeffrey S. Bracker, Barbara W. Keats and John N. Pearson 1988, according to Kljajič 2003, 34);
- better quality of planning is linked to company's sales growth (Leslie W. Rue and Nabil A. Ibrahim 1997, according to Kljajič 2003, 35).

And second, surveys, which rejected the correlation between planning or stronger formality in planning and the success of the organisation, are:

- stronger formality of planning has not been correlated to better success (Lon H. Addams, William H. Baker and Brian Davis 1993, according to Kljajič 2003, 35);
- formal definition of the mission does not have an effect on better performance of organisations (Colm O'Gorman and Doran 1999, according to Kljajič 2003, 35);
- planning in organisations has not been positively correlated to return on investment (Rue and Ibrahim 1997, according to Kljajič 2003, 35);
- profitability of companies with business plan has not exceeded the profitability of companies without plan, just the opposite (Jeffrey C. Shuman, John J. Shaw and Gerald Sussman 1985, according to Kljajič 2003, 35).

Manager or the so-called headteacher in primary school is the one to whom stakeholders, founders or superiors entrust to control the organization or work, in order to effectively and efficiently achieve their goals. He has to master the appropriate knowledge, he must have the ability to lead people, be honest, reliable and ethical (Tavčar 2006, 23-26). Communications between colleagues, between management and performers and communicating with pupils are also important (Širec 1999, 127-131).

Planning is one of the most important management functions in public educational institution. In order not to leave events accidentally, they need to be planned in a certain way. Management cannot allow its institution to depend solely or mainly on coincidences. On the contrary, one of its primary tasks is to take care, to achieve its fundamental goals, which are permanent and cannot be adapted daily to random events in the environment. Management should provide, what will most likely happen in the environment of the organization, it must specify in detail the objectives for a certain period and the path to them, what is not and should not be avoided (Pucko 2005, 13).

Trnavčević (2008, 140) and Žvorc (2013) says that the headteacher is the pedagogical and management body of the school. His tasks include managerial approaches, such as planning, decision making, organizing and managing.

Management is the process of managing the institution to achieve goals, but it can also be the body of the company that carries it out, or all the managers in the company. The task of headteacher relates to management of assets, employment of people and their orientation towards the achievement of

outcomes and gain positive results. To achieve the results, it is necessary to conduct business (to design, plan, conclude transactions, organize activities, engage resources and people, manage assets ...), the essence of which is decision-making, related to the responsibility for the consequences of decisions. To lead people to outcomes means to give instructions or orders to them to perform activities (Kralj 2003, 30).

The headteacher of primary school carry out the following tasks related to the content of the financial plan (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 primary schools;
- 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.

The aim of the occupation of the public educational institution, and therefore also public primary schools is non-profit.

Public institution is managed by council composed of representatives of the founder, staff and users and the public concerned (Law on Institutions, Art. 29). 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 (Horvat, Martinčič 2016).

One of the definitions is that the plan is a comprehensive, formal quotation, which quantifies and identifies future business activities in a future financial period. It refers to a pre-defined reporting units for a certain future period and is quantified (Heitger, Organ, Matulich 1996, 289).

Financial plan determines the profit or loss in planning revenues and costs for the school's calendar year. It is prepared in accordance with the law and in accordance with the municipality's and ministry of education's requirements.

The main types of financial outcomes in public institution are:

- surplus revenue over expenditure, this is a positive operating result, which is determined as the difference between the higher revenues and lower expenses legal entities in the accounting period and it is abbreviated as surplus;
- excess of expenditure over revenue, this is a negative operating result, which is determined as the difference between higher expenditures and lower revenues of legal entities in the accounting period and it is abbreviated as deficit (Janc 2012, 12).

For budget users, the surplus is allocated in accordance with the law and the decision of the founder, on the same basis the deficit is also covered. When surplus is determined, it will be allocated, in accordance with sectoral legislation, mostly for an activity carried out by an indirect budget user, in individual cases, the founder decides to transfer the surplus to the founder's account, which is the state or municipality budget. When deficit is determined the founder may decide to cover it in the current year with an additional transfer of funds from the budget, whether to transfer the deficit to the next accounting period or to introduce other measures to improve the situation (Janc 2012, 12).

The main mandatory components of the financial plan are (Horvat and Žvorc 2015, 76):

- preliminary accounting statement – revenue and expenditure statement,
- preliminary accounting statement – revenue and expenditure statement by the cash flow,
- basic information about the school with a summary of objectives and strategies,
- annual objectives,
- legislative and other basis,
- basic starting points for planning,
- explanations of planned financial categories,
- all revenue and expenditure by sources,
- investment and maintenance plan,
- human resources plan,
- training plan,
- preliminary accounting statements include data for last, current and next year,
- preliminary accounting statements, prepared according to economic classification of accounts.

4 Financial planning and auditing

The managing bodies of public institutions, also of the Slovenian public educational institutions, are responsible for the establishment, operation, control and continuous improvement of the system of financial management to the surplus of revenues over expenditures, setting internal controls, reviewed by internal auditors. The responsibility of internal auditors is defined in the Public Finance Act, the Regulations on the Guidelines for the Coordinated Operation of the Public Internal Financial Control (Article 10) and other regulations.

»Auditing is broadly defined as a systematic procedure for the impartial acquisition and evaluation of evidence relating to formal claims of economic activity and events to determine the degree of coherence of these formal assertions with established standards and reporting the results to interested users« (Taylor and Glezen 1996, 32-33).

Auditing is predominantly correctional, on base of expert renewal of executive planed control that was performed subsequently. It involves designing and evaluating evidence on claims related to the subject of supervision and reporting on findings to interested users in order to take appropriate action on its basis. It is about determining the feasibility of states and processes, shows a credit rating, and proposes improvements (Bergant 2010, 104).

Auditing is most often classified according to the objectives of its operation. Taylor and Glezen (1996, 34), according to the objectives of its operation, classified auditing as:

- auditing of financial statements (collection of evidence on official statements in an entity's financial statements and use of this evidence to verify their compliance with generally accepted accounting principles and standards);
- auditing compliance with regulations (verification of compliance with laws, guidelines and other regulations in the course of business);

- auditing of the business (systematic review of the organization's performance with respect to certain objectives, in order to evaluate the achievements of its operation, to identify the possibilities for improvement and to develop recommendations to the management for further operations).

Taylor and Glezen (1996, 35-37) classify the audit also according to the usual connection between the individual or the group that audits, with the auditee:

- external audit, which carried out by external auditors on the basis of contracts and are not regular or contractual employees of the company, in which they are auditing;

- to internal auditing, which is a service activity within the company and independently assesses its performance. Internal audit, as a rule, involves a special service outside the accounting department of the company, and may also be with external experts.

The external audit comprises a revision of the financial statements and specific audit areas (special-purpose audit, checking of pre-budget information). The internal audit judges the compliance of a company with regulations and business audits.

An external audit, also called a commercial audit, is legally defined in the Auditing Act. It is performed by external auditors, which is usually a revision of the accounting records. The auditors assess the accounting procedures applied and assess the accuracy of the data on the basis of the review of accounting documents. Based on these assessments, give an opinion on the reality and objectivity of the assets, their sources and the results of operations, which are shown in the accounting records.

Supervision of all budget users (public institutions) is carried out with internal and external control. The external control of the public sector is carried out by the National Assembly of the Republic of Slovenia at the state level, implemented locally by the municipal council, the external state audit is carried out by the Court of Audit of the Republic of Slovenia, and the Office for Budgetary Control of the Ministry of Finance is inspecting. The internal control of public finances comprises a system of financial management, internal controls and internal auditing (Cerar, 2009).

In primary schools, we only meet with an internal audit, which forms the basis of a proper and successful system of internal controls. Internal controls are the whole planning and management of the leadership and all employees in order to manage risks and ensure the achievement of goals. Individual internal controls are carried out by all employees, depending on the workplace, tasks, accountability and responsibilities.

Internal auditing is an independent and impartial activity of giving assurance and advice. It is intended to increase the benefits and improve the functioning of the organization. It helps the organization to achieve its goals by promoting a thoughtful, orderly way of evaluating and improving the performance of risk management procedures and its control and governance (Slovenian Institute of Auditors, 2003).

Internal Audit is defined in the Public Finance Act (Article 100) as "Internal Auditing provides independent checking of financial management and control systems and consulting management on how to improve their efficiency."

Legal bases of internal audit are:

- Public Finance Act (Article 100),

- Rules on guidelines for the coordinated functioning of the internal control of public finances (Official Gazette of the Republic of Slovenia, Nr. 72/2002, Article 2)

- guidelines for state internal auditing (Ministry of Finance of Republic of Slovenia 2003) and

- internal act of the budget user (public institution).

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).

The goal of the internal audit is to assist the management in ensuring sound financial management and internal controls and advising on improving their efficiency. From the internal audit of the receipt, the head teacher gets assurance that internal controls are set up to operate and that risks are managed at an acceptable level.

As already explained, budget users are obliged to provide internal audit in accordance with Article 10 of the Rules on guidelines for the harmonized operation of the internal control system of public finances (Official Gazette of RS, No. 72/2002). Budget users whose budget exceeds EUR 2,086,463.03 shall be obliged to provide internal audit at least once a year and other budget users at least once for a period of three years.

An internal audit can be organized in several ways, as its own internal audit service, as a joint internal audit service, organized by several budgetary staff weak and therefore inadequate to the actual needs of providing assurance on internal controls of users together, and as outsourcing of internal auditing. The internal audit is performed by internal auditors who, according to Article 100a of the Public Finance Act, are designated with title as the State internal auditor or a Certified national internal auditor. Primary schools for internal audit usually hire external internal auditors who perform the audit on based on a contract or the municipality make internal auditing.

The Budget Supervision Office of the Republic of Slovenia notes that, in contrast to regulations, internal auditing in Slovenia is still not guaranteed as an organizational unit to all users of the budget." Only larger direct users of the state budget have internal audit services as an organizational unit, e.g. ministries. The users of the budget (paragraph 2 of Article 19 of the Public Finance Act), for example, ministries are obliged to organize internal audit services for their own needs and for the needs of bodies within their competence (Government of the Republic of Slovenia 2011).

Internal audit in primary school provides a municipality as a founder of school, if this is not possible, however, the school hired outsourced internal audit.

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 Public Finance Act).

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 primary school (Vidovič, Milatović, Hren, 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.

Internal auditors are expected among others to apply and uphold the principles in supervising financial plans in accordance with Code of Ethics of Institute of Internal Auditors. First, with the integrity internal auditors establishes trust and thus provides the basis for reliance on their judgment (Institute of Internal Auditors, 2009). Second, with the objectivity internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments (Institute of Internal Auditors, 2009). Third, they should be confidential to respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so (Institute of Internal Auditors, 2009). And, fourth, with competency internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services (Institute of Internal Auditors, 2009).

When internal auditing is finished, management of the public educational institution must in conjunction with the accounting officer to ensure that there 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 primary school, 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 primary school. Primary school of public primary school 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).

Internal auditor is an expert from outside the school who is helping to find irregularities in school's financial and accounting activities, one of them is financial planning.

5 The research

The aim of the research is to check, whether the internal audit affects on the legally adequacy of financial plans for the year 2014. According to our information such survey in our country has not been made yet. Our study from the past (Horvat and Žvorc 2015, 76) and practice in Slovenia indicate that the content of financial plans in primary schools is not adequate (Horvat and Žvorc 2015, 76). Using a questionnaire survey we surveyed a population of 451 primary schools in Slovenia, of which was on our survey responded 148 or 32.82% of primary schools. They represent our sample.

For these purpose we decided to research this hypothesis: "The internal audit affects on the legally adequacy of the financial plan in primary schools."

Audit is one of the forms of internal control of budget users. Budget users are obliged to provide internal auditing once a year or, once in a period of three years, depending on the size of public educational institution. Since auditors also review financial plans, they point out irregularities and propose improvements, we wanted to determine whether the schools where audits are carried out have

legally more appropriate financial plans. Respondents were asked how often internal auditor was engaged in school's operations. The answers that they chose were once per 1 year per year, once per 3 years, more than per 3 years, or never. We investigated whether the schools where audits were more often conducted, have more legally adequate financial plans.

The hypothesis was tested with the chi-square test. We seek to determine relationship of two variables, if there is a correlation between the number of audits and legally adequacy of the financial plan in primary school. The results are presented with the contingency table. The number of audits we anticipated are: once a year, once in every 3 years, more than 3 years and never. Concerning the number of audits carried out, we derived from legal requirements that determine internal audit, depending on the size of the institution, once a year or at least once every three years.

In the case of legally adequacy of the plan we assumed that it is legally complete or incomplete, and therefore these values are 0 or 1. Completely legally adequate plan is one whose content is in accordance with the mandatory components of the financial plan, which was determined by means of legislation, municipality's requirements and ministry of education's requirement.

Table 2: The contingency table: Relation of frequency of internal audits and legally adequacy of financial plans

| Number of internal audits | | | | Total |
|------------------------------------|------------|---------------------------------------|-------------------------------------|---------|
| | | The legally incomplete financial plan | The legally complete financial plan | |
| Once per 1 year | Number | 42 | 7 | 49 |
| | Percentage | 35.00% | 25.00% | 33.10% |
| Once per three years | Number | 56 | 13 | 69 |
| | Percentage | 46.70% | 46.40% | 46.60% |
| Less then per three years or never | Number | 22 | 8 | 30 |
| | Percentage | 18.30% | 28.60% | 20.30% |
| Total | Number | 120 | 28 | 148 |
| | Percentage | 100.00% | 100.00% | 100.00% |

Source: Authors' calculation

We assumed that schools that have more frequently performed internal audits are preparing more legally adequate financial plans. We have to identified the relationship between variables the number of internal audits and the legally adequacy of the financial plan. Due to the small number of those who don't have an internal audit, we have to merged position "more than three years" and "never" into "more than per 3 years or never." The survey data showed the following.

Table 3: Conection of the audit and the legally appropriateness of the financial plan: Hi square test

| | |
|-------------|-------|
| hi- kvadrat | 1.86 |
| g | 2 |
| p | 0.395 |

Based on the chi-square test result, which was 1.86 ($p = 0.395$), we were unable to confirm the connection between the frequency of internal audits and legally adequacy of the financial plan. We

have found that internal auditors are not so consistent in reviewing compliance of institutions with the regulations, otherwise they would have to draw attention to the deficiencies of financial plan contents. For example, 42 schools have legally inadequate financial plan though they have internal audits once per year and just seven schools have legally adequate financial plan and audits once per year. Further 56 schools have legally inadequate financial plan though they have internal audits once per three years and just 13 schools have legally adequate financial plan and audits once per three years. In our opinion auditors should introduce checking procedures for verifying the appropriateness of contents with laws and legal requirements in the financial plan.

The hypothesis that audits influence the legally adequacy of the financial plan is therefore rejected.

6 Conclusion

We examined the impact of internal auditing on the legally adequacy of financial plans. We assumed that schools that have more frequently performed internal audits are preparing more legally complete financial plans. Our study did not confirm that more frequent internal auditing influence on the legally adequacy of financial plans.

We find that internal auditors are not so consistent in reviewing compliance of institutions with the regulations for the content of financial plans, otherwise they would have to draw attention to the deficiencies of financial plan contents. In our opinion auditors should introduce checking procedures for verifying the appropriateness of mandatory contents in the financial plans. Financial plan is a very important financial and accounting document of the school, namely, they are part of municipalities' budget and part of the state's budget. They all compose public money. If schools do not plan their activities in financial view in the legally appropriate way also municipalities' and state's budget are prepared in appropriate way.

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