

## **INTERNAL AUDIT OF THE AGRICULTURE EDUCATIONAL INSTITUTION**

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*The programmes, activities, buildings and other material conditions in the public agriculture educational institution are financed mostly by public financial resources, such as state's and municipality's money. It is important that this money is used properly. For this reason the public agriculture school has to have internal controls in using money. The internal auditor is the only person who can assess if internal controls of using money are appropriate. The purpose of this paper is to show results of auditing of agriculture high school with its specifics. We focused on Slovenia case of secondary school and Slovenian legislation. The research was of a qualitative nature. The case study was performed by using the audit method of COSO, with the emphasis on control environment, and analysis of secondary written documents and unstructured interviews. It can help the management of the public educational institution and the internal auditors in getting to know and understanding the functioning of school programs in the context of using acquired financial sources.*

**Key words:** *internal audit, school, agriculture, COSO.*

## **ВНУТРЕННИЙ АУДИТ СЕЛЬСКОХОЗЯЙСТВЕННОГО УЧЕБНОГО ЗАВЕДЕНИЯ**

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*Программы, мероприятия, здания и другие материальные условия в государственном сельскохозяйственном учебном заведении финансируются главным образом за счет государственных финансовых ресурсов, таких, как государственные и муниципальные средства. Важно, чтобы эти деньги использовались правильно. По этой причине государственная сельскохозяйственная школа должна иметь внутренний контроль в использовании денег. Внутренний аудитор является единственным лицом, которое может оценить целесообразность внутреннего контроля над использованием денежных средств. Цель данной работы – показать результаты аудита сельскохозяйственной Высшей школы с ее спецификой. Мы сосредоточились на словенском деле о средней школе и словенском законодательстве. Исследование носило качественный характер. Тематическое исследование выполнено с использованием метода аудита COSO с акцентом на контрольную среду, анализ вторичных письменных документов и неструктурированных интервью. Это может помочь руководству государственного образовательного учреждения и внутренним аудиторам*

*лучше узнать и понять функционирование школьных программ в контексте использования приобретенных финансовых источников.*

**Ключевые слова:** *внутренний аудит, школа, сельское хозяйство, COSO.*

The founder of agriculture secondary school in Slovenia is ministry of education as a representative of state and the school on its behalf carries out an activity for which it is established by a decree or by the founding act. High school is established as a secondary school, which educates pupils to be navigation technicians or ship mechanic technician. The school educates future agriculture workers, farmers... Education usually takes place in specialized classrooms, in laboratories, out of classes etc.

## **Introduction**

The ministry of education as a founder is obliged to provide financial and material conditions for performing the agriculture high school's activity. The purpose of the school's activity is not to achieve profit, but to perform a public service. Besides the funds of the founder, other sources for financing educational programs, such as municipality's funds and payments of parents, are used. So, high school is public institution and budget user, it uses finances mostly from state and municipality. Finance's of each public educational institution in Slovenia should be audited (supervised) to see if public money is used correctly.

We will focus on Slovenia case of agriculture (high) secondary school and Slovenian legislation, but a lot of public secondary schools in European Union have similar financing of their programmes. It can help the management of the public educational institution and the internal auditor in getting to know and understanding the functioning of school programs in the context of using acquired financial sources in the context of control environment.

## **Financing secondary school**

Education systems must ensure that all citizens of the European Union are equipped with the knowledge, skills and competences needed to meet the challenges of their future work place. Because of that, it is very important that all governments of EU countries invest in education (Galetic, 2015, p. 222).

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

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

Namely, studies show that stakeholders of secondary schools lacked the necessary resources and commitment to implement and evaluate plans in financial terms (Namango, Bichanga, 2014).

Public high school in Slovenia is mostly a state's budget user. Using financial resources demands preparation of the financial plan of financing the programmes, requires consideration and understanding of the Public Finance Act, Law on

Accounting Guidance on the preparation of financial plans for state and municipal budgets and the Rules on drawing up of annual reports. The Public Finance Act defines the financial plan as an act of a budget user, which provides its revenues and other receipts and expenditure and other expenses for a period of one year. The financial plan is also defined as the projection of the future operation of the budget user or company in a predetermined period.

There are quite definitions, the focus was at one of them, which is most commonly found in the literature. Financing of the institution refers to the following stages (Rebernik, Repovž, 2000, pp. 67-68):

- acquisition of financial resources (funding), which means any cash inflow into the company, which is the result of transformation of material or other forms of assets. This can involve money from outside sources or money from operating business;
- the use of cash acquired (investment) represents the transformation of cash in the non-monetary forms;
- management of funds, which means sensible and intelligent use of the acquired assets, in order to maximize impact through earnings or through cash flow that the company would make more smooth in operation – it comes to provide liquidity and solvency of the company;
- return of the funds received (the loan - principal plus interest), which is the conclusion
- circular movement of funds which is one of the fundamental tasks of the financial function;
- allocating of financial results, which is allocating business results expressed in cash at

individual participants (owners, employees, state ...).

From these definitions follows the fundamental importance of the financing of the institution, which is using the necessary funds timely and its rational use. The scope of our research is public institution, so we will focus on the main stage of financing: using of financial resources in process of financing the public institution. For this stage of the finance process we plan the internal audit activities.

### **Internal auditing**

It is important for the internal auditor to understand the area under review, because the finance process is the scope of our paper and case study of internal audit assignment.

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.

Internal auditor uses for internal audit assignment the so-called COSO 2 method. COSO is an international operational framework or a tool for setting up and evaluation of the internal control system in the organisation. It is developed by Committee of Sponsoring Organizations of the TradeWay Commissions. Koletnik and Kolar state (2008, p. 112) that the organisation with a high-quality internal control and better auditing has greater opportunities for development and existence.

COSO II identifies the key components of internal control; these are the control environment, setting business objectives in accordance with the strategy and acceptable risk, identification of events, risk assessment, responding to risks, control activities, information and communication, monitoring. On the revised field internal auditor trials and evaluates these basic components of COSO II, we will focus on one of them, it is the control environment.

As Cohen says (2007), the best practice of internal financial controls within finance spending use COSO II as a framework of checking internal controls. Other EU member states also have in place an internal and external control of finances (Cohen, 2007, p. 34).

The theoretical aspect of limited ingredients that we usually need for a practical demonstration of the implementation of internal audit will be presented below.

### **Research methodology**

We will focus on a singular study of an internal audit case of financing a social entity, and this is the public secondary school in Slovenia. According to the research methodology, the results can help the management of the public educational institutions and the internal auditors in getting to know and understanding the functioning of the social entity in the context of its financing. As one of the studies shows, that the organization's management prefers working towards to ensuring predictable funding sources (Graham, 2005, p. 3),so we want to accurately illustrate the process of financing of the public secondary school.

We set the following research question:

*How internal controls in using financial resources inthe public secondary school works?*

The research will be of a qualitative nature. The case study is combined with some of empirical materials. It will be performed by using the audit method of internal control surveys, it is COSO 2, inside of this method we will use analysis of secondary written documents, unstructured interviews and the selections of a non-statistical sample of documents or data or employees in 2017. These are methods how we will find out how internal controls of financing in the public secondary school work.

We want to get a wider insight into the studied phenomenon, because a combination of several methods, data sources, theoretical assumptions in one survey provides a better understanding of the studied problem, it is a strategy that increases the width, depth, complexity / ... / findings of each study (Vogrinc, 2008, p. 114).

According to our best knowledge from theory and practice, such case study in Slovenia was not yet.

## **Results and discussion**

The case study will be conducted from the point of view of the internal auditor. In this case study, we give concrete results from the internal audit of the functioning of internal controls in the public secondary school for one of the main components of the international model COSO 2, which was applied to the institution: it is control environment.

In the continuation of this paper we provide some of the more important results from the internal audit of one of the main components of the model COSO 2, the control environment, whereby the financing of the activities of the public secondary school is revised in order to obtain the appropriate ground for providing assurance about properly established and functioning internal controls.

### **Evaluation of the control environment of the agriculture school**

Following the COSO 2 audit method, we examined the control environment of the financing the public secondary school from the perspective of the internal auditor. Evaluation of the control environment of the school it means the evaluation of irreproachableness and ethical values, commitment to the skills and human resources management, philosophy of leading, organisational structure and responsibility. From the examination of the control environment we find out, how much employees are aware of the need for internal control, how the control environment ensures the possibilities for the operation of internal controls in the field of financing activities of the public secondary school, and what basis it represents for the functioning of the other components of the COSO 2.

We pass over the following findings by the components of the control environment:

- *Irreproachableness and ethical values:* The public agriculture secondary school has passed a Code of Ethics which has been signed by the headteacher, which is internal control at the level of the organization. The Code is divided into four basic areas of employee's responsibility, who are directly or indirectly involved in the care of the students within the public secondary school. The workers responsibilities in the public secondary school are: responsibility to the children, responsibility to the parents and families, responsibility to work organization and colleagues, responsibility to the wider community. The employees of the public secondary school are familiar with the above-mentioned code at the annual conference of all employees in the public secondary school, which is evident from the records of the conclusions of the annual conference and from the sample of 5 signed employment contracts, where the employees commit themselves to comply with the aforementioned code. From the interviews of randomly selected 4 employees (teacher, cook, business secretary, counselor), we understand, that the employees are aware that they must respect integrity and ethical values, and that there are measures in case of non-compliance with the said code. The latter is examined on a sample of 10 records of weekly board meetings, with one record containing an increase in awareness in the case that the public secondary school

staff must separate what they say on behalf of the institution from their own opinion. The result is, that internal controls in the field of integrity and ethical values are assessed as appropriate.

- *Commitment to the skills and human resources management*: the public agriculture secondary school is at the level of the organization ready and has a so-called act on the job classification system signed by the headteacher, which is updated with the law on organization and financing of education, which explicitly stipulates, that the systematization of the public secondary school jobs is determined by the headteacher (director) in agreement with the founder, on the basis of prescribed norms and standards (rulebook on norms and personnel conditions for performing pre-school education activities). After examining the act on job systematisation we have learned, that it is in line with the aforementioned regulations and that it is adopted at the school council. When examining internal controls at the level of the process, we find out that the act on the systematization of jobs, the rules on accounting and book of rules on the circulation of accounting defined system of authorizations and responsibilities of the following working posts of employees in the process of financing activities: head teacher, assistant head teacher, accountant, bookkeeper, business secretary. We check the performance of the authorization system in the next steps. On the last page of the Rules on Accounting and the Rules on the circulation of bookkeeping documents with their own signature, the above mentioned employees confirmed, that they are familiar with the said rules; we also find the latter on the basis of interviews with them. The act on the job classification system also defines the replacement during the absence (who replaces who), we also check the operation by taking the month of August for 2016 and checking the presence and the replacement of employees participating in the financing process we check the presence and replacement of employees who are involved in the activities financing process of the public secondary school. During this period, the headteacher is absent (fourteen days in the month of August) and was replaced by the assistant director and vice versa, the bookkeeper replaced the accountant, as determined in the act. From the presence and absence records it is evident that the absences are planned, which ensures the smooth running of the work process. We consider the internal controls appropriate.
- *Philosophy of leading and way of functioning*: on the basis of an interview with the headteacher we verify, if he is aware that risk management, internal control and internal auditing for the public secondary school is a useful process, and we come to see that the headteacher possesses this awareness, he has acquired it primarily by various training courses for school principals and the public secondary schools. From the interview we also find out that the headteacher, together with the headteacher's assistant, plans tasks in the public secondary school with the intent to achieve the objectives of the public secondary school, this is evident from the annual work plans for school years 2017/2018 and 2016/2017, and a financial plan prepared for the calendar year 2016. Both plans are confirmed by the founder (ministry of education) and the council of the institute. The headteacher occasionally discusses the tasks and objectives on

regular weekly councils, as can be seen from the sample of records of 10 weekly council meetings. We evaluate internal controls as appropriate.

- *Organisational structure*: The organizational structure of the public agriculture secondary school is determined in accordance with the act of the systematisation of jobs and the rules on norms and personnel conditions for performing activities of pre-school education, and this is handled appropriate. These regulations are also specify the number, qualifications and replacement of employees in the process of financing the activities of the public secondary school. We compare the job description, as recorded by the rules on job classification system, with the actual occupation of the workplace, so we learn the following: the level and the direction of the professional education, special conditions or additional skills and competences, organizational field or occupation, type and extent of the responsibility of civil servants occupying the post, and working conditions and other attributes and characteristics. From the interview with the headteacher we learn, that he realises the responsibility and dedication of employees involved in the process of financing activities of the public secondary school. We evaluate internal controls as appropriate.
- *Responsibility*: According to the Public Finance Act, the public agriculture secondary school must prepare a so called annual report on the achieved objectives and results, where among other things it reports on an annual basis an assessment of the functioning of the internal financial control system, where it actually briefly reports on the situation in the field of risk management, internal control and internal auditing, but it also reports on risk management in the work report for the school year. An annual reporting is set up, both reports are discussed by the board of the institution when the school year or calendar year is concluded. We find that there is no regular reporting within the school or calendar years for employees to whom risks and internal controls apply, therefore we are assessing this internal control as partially appropriate.

## **Conclusion**

The results of internal auditing of using public financial resources in the public secondary school shows, that internal controls in financing the school are appropriate, except in one place. We find that the public secondary school is monitoring financial objectives only once per year, in the eight-month business report. Therefore, we recommend to the school to monitor financial objectives and financial results each quarter of the year. For future research we recommend to make comparisons of this research with other countries and other agriculture secondary schools.

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