Abstract. Public educational institutions are mostly financed by state, local communities and parents. Their main costs are costs of salaries, costs of material, costs of services and amortization. These costs are used for the day-to-day activities of the institution as well as for investments and investment maintenance. The costs should be, as required by law, carefully planned within financial plan and reported in annual report. Public educational institutions, including their costs, should be supervised by the internal auditor who ensures the legality of costs. The purpose of this paper is to show results of internal auditing of the costs’ legality in a public educational institution, together with its specifics. Authors focused on Slovenian legislation and Slovenian case of pre-school educational institutions, which, due to use of public money and due to educating small children, must take care especially on using money and formation of costs. The findings can help management of a public educational institution together with internal auditors to understand the functioning of educational programs in the context of costs legality of incurred.

Keywords: costs, educational institution, internal audit, management.

1. INTRODUCTION

In Slovenia, the formation of costs in public educational institutions is regulated by legislation, but we note the gap in concrete aspects of costing. It is also possible to detect the research gap on this subject in the literature to the best of our knowledge, as there are many articles on the quality of the audit.

The main costs in public educational institutions are wages, material, services and amortization. They are regulated by law and related regulations and by financial plans and internal acts of the organization. Internal audit of public finances is the obligation in Slovenian public institutions. Among the main tasks related to the internal audit are verification of internal controls and risks. As [1] state, the best method for checking internal controls within costs’ spending is the framework COSO II. Other EU member states also have an internal and external control of finances in place [1]. COSO is an international operational framework or a tool for setting up and evaluation of the risks within an organization. It has been developed by Committee of Sponsoring Organizations of the TradeWay Commissions. As [2] state, the organization with a high-quality internal control in risks together with better auditing has higher opportunities for further development and existence. The COSO II auditing method identifies key components which should be carefully used in auditing. These are: control of environment, setting goals, recognition of risk events from management side, risk assessment, risk control, communication, and monitoring. As [3] state, the “components of an effective internal control system are described using the framework designed by COSO and have been selected because they have been identified as underpinning quality corporate governance». As one of the studies shows, organization’s management prefers working towards ensuring predictable costs [4], therefore we want to accurately illustrate the internal auditing of the correctness of costs.

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RESEARCH QUESTION AND METHODS

The following research question has been designed: Which risks of costs do not comply with regulations for educational public institution?

In our study we made internal auditing with using components within COSO II framework. We wanted to find out which risks could be hidden inside each component of COSO II, and which internal controls or actions should be taken by an organization in order to have costs in line with regulations. Risks within the sixth component of COSO II relate to specific costs of an organization, so we have identified potential specific risks in this component and checked them. Risks within other components have been determined with the help of regulation on internal control of public finances in Slovenia (in Slovenia the main regulations are Law on preschool educations, Public finance Act, Guidelines for State Internal Auditing, Rulebook on the methodology for pricing programs in kindergartens, Rulebook on norms and personnel conditions, Act for Accounting).

3. RESULTS

Below, the results of a singular study of an internal audit case of costs in a public educational institution in the first half of the calendar year 2018 are shown. The risks inside of each component of COSO II, together with the fact which internal controls or actions should be taken to reduce the risk of unregulated costs in the observed organization are exhibited.

First component of COSO II - Risk of internal environment:
In the organization, the following risks have been checked. At each risk, the activities or internal controls that we verified, have been recorded in order to verify whether the organization provided if the risk related to the illegality of the costs would not materialize.

- Risk of misallocation of authorization and responsibilities in the process of creation of organizational costs: It has been found out that the following internal acts are in place and adopted: act on the job classification system, the accounting rules, rules on circulation of accounting documents.
- Risk of unsettled system of replacing responsible persons in the process of creating costs within organization: It has been found out that a register of presence and absence is regulated.
- Risk of failure in performing tasks for implementing the objectives of the organization: It has been found out that the annual work plan, the financial plan, and the annual report, which all contain tasks for the implementation of the objectives, are adopted. This is also possible to be found out from the sample of the minutes of management board’s sessions.
- The risk that the organizational structure, responsibilities and competencies of employees in the organization are not clearly defined: It has been found out that these are regulated in the adopted internal act on the job classification system.
- Risk of inadequate number of employees and qualifications for creation of organizational costs: Based on the number of enrolled children in the educational institution, it has been found out that the number of employees for the implementation of all activities and internal control procedures in the field of formation of the costs of organization’s activities, is as it is required by the norms.
Second component of COSO II: Risk of inappropriate goals. Here, three additional risks have been checked:

- Risk of non-existence of long-term and short-term goals: It has been figured out that they are written in the development plan, in the annual work plan, in the educational plan and also in the financial plan of the organization.
- Risk of non-rescheduling of long-term and short-term objectives: Based on interviews and reviews of the main documents on the operation of the organization, we find that there are no interim reports on tracking the achievement of targets or other similar reports.
- The risk that the employees are not familiar with the long-term and short-term goals of the kindergarten: From the meeting minutes, conference minutes, annual work plan and pedagogical obligations, it has been found out that the employees are acquainted with these goals.

Third component of COSO II: The risk of not recognizing risky events by the management. Here one additional risk has been tested:

- The risk that management does not detect unwanted events related to the process of generating the costs of the activities as well as the proper use of organizational costs: It has been figured that these risks are defined in the risk register and in the annual report.

Fourth component of COSO II: Risk of inadequate risk assessment. Here, four additional risks have been checked:

- Risk that the organization does not yet have a risk register established: It has been figured out that the risk register had been produced and signed.
- Risk that the organization does not review and update the risk register: It has been figured out that the risk register has been updated since December 2017.
- Risk that the organization does not have a risk register within the audited area: It has been found out that the risk register has also been conducted on the legality of the organization's costs.
- Risks that employees, participating in organizational costs, are not aware of the risks associated with organizational costs: It has been found out that there are signatures of employees involved in the process of creating costs of activities, in internal acts and in the register of risks in the field of formation of costs within activities of the organization.

Fifth component of COSO II: Risk of inadequate risk assessment. Here, one risk has been checked:

- Risks that no specific risk response and neither internal controls on the legitimacy of organization costs are defined: It has been figured out that this is determined in the risk register, the annual report, the internal auditor’s report of the previous year, as well as in the reports of other supervisory authorities (Budget Supervision Office, ...).

Sixth component of COSO II:

- Risk of inadequate controlling activities of the organization. Here, the risks in several phases of the legality of organization’s costs have been checked: from cost planning, provision of cash for dedicated costs, and cash management up to the use of cash for legitimate costs defined by law [5]:

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Initial phase: planning and preparation of bases for formation of cots:

- Risk of inadequate planning documents, meaning that the organization does not have planning documents: It has been found out that there are development plans, annual work plan, financial plans, and a contract with the municipality on financing activities.
- Risk of inadequate internal instructions / policies relating to the financing of activities, meaning that the organization does not have these instructions or policies: It has been found out that there are accounting rules, the rules on circulation of accounting documents, the act on the systematization of jobs, and the founding act.

 Provision of cash funds:

- The risk that the provision of cash (claim settlement and maintenance) is not carried out in accordance with the financial plan: It has been found out that there is no formal evidence of this.
- The risk that an invoice is formally and / or in substance inadequate: It has been found out that invoices exist for the municipality, the ministry and the renter of premises, where the sample of invoice is formally and in substance compliant with the legislation.
- Risk of not sending invoices in a timely manner: It has been found out that there is a time record of invoices for the municipality, the ministry and the renter of the premises.
- Risk of incorrect recording and disclosure of funds received: It has been found out that there are adequate accounting records.
- Risk of no monitoring of money transfer: It has been found out that there are weekly printouts of inflows and outflows of amounts to the sub-account at the Public Payments Administration (hereinafter referred to as the PPA), where payment transactions take place.
- Risk of non-recovery of receivables from sent invoices: It has been found out that there are instructions on the recovery of claims and Prints of Open Call Forms.
- Risks that there are no records and adequate posting of receivables: It has been checked that there is a group of accounts named “12 - short-term receivables to customers” and instructions for the recovery of claims.

Cash management:

- Risk that the organization does not monitor the solvency and needs of the activity: It has been found out that there is no document containing records of plans and the realization of the cash flow plan.

Use of cash:

- Risk of unintentional use of cash: On the basis of documents and interviews has been found out that the authorizations and confirmations of the regularity of the underlying transactions have been established.
- The risk that the record of employees for the purpose of paying salaries is not complete and not signed: It has been found out that there are monthly records of employees, signed by the management of the organization.
- Risk of incorrect input of data as the basis for calculation of wages: It has been found out that software-program control is in place when entering data.
- Risk of irregularities in the payment of salaries and the recording of salaries in the general ledger: On the sample of salaries it has been found out that the correct calculation of salary is recorded in the general ledger.
- Risk of non-establishment of a record of collecting needs and procurement of material, small inventory and services for the performance of public services: It has been found out that a record of procurement of material, small inventory and services is provided for.
• Risk of receipt of invoices from suppliers without appropriate accompanying and validated documentation: Based on documentation and interviews, it is established that the authorizations and confirmations of the accuracy of the business events have been established, the separation of the duties of incompatible events with the internal rules has been established, and the management of the book of received invoices is in place.

• Risks in the payment of invoices to suppliers, such as failure to approve business events; incorrect input of data as the basis for paying invoices to suppliers; late payment: It has been found out that there are signatures for the authorization of business events; that on the sample of invoices correct entry of data is established which are the basis for payment of invoices to suppliers; Timely payments are identified on the sample of invoices.

• Risk of incorrect book-keeping of received supplier receipts: It has been found out that software-program control of data entry in analytical records and general ledger accounts is in place.

• Risk of incorrect book-keeping of paid suppliers’ accounts: It has been found out that software-program control of payment orders for the PPA and the recording of material payments, fine inventory and services according to the rules for public educational institutions, are established.

• Risk of receipt of invoices from investment providers and investment maintenance without appropriate supporting documents and approved documentation: The sample of accounts showed that the authorizations and confirmations of the regularity of the business events have been established and that the management of the book of received invoices is in place.

• Risk of incorrect book-keeping of paid-in investment company accounts: Software-program control of payment orders for the PPA and record keeping of investment payments and investment maintenance according to the rules for public educational institutions has been established.

Final phase: Reporting:

• The risk that the content and dealing with the annual report are not in accordance with the regulations: Compliance of the content of the annual report with the legislation has been checked. It has been found out that its content is appropriate for the annual report to be considered at a meeting of the council of the institute within the relevant deadline and that there is a decision of the board of the adoption of the annual report.

• Risks that there is no business analysis available and that the organization does not monitor and compare regularly the planned and achieved revenues and expenses / costs: There is no analysis of operations in the annual report, nor are there any monthly or other interim reports on the operations of the organization.

Seventh component of COSO II: Risk of inadequate information and communication:

• The risk that external information and communication of the management is ineffective: Based on the records of the organization, it has been found out that the management communicates with parents’ council, council of the institution, mayor, department of social services in the municipality, and with the ministry responsible for education.

Eighth component of COSO II: Risk of inadequate monitoring of all internal control components:

• The risk that the management of organization does not take into account the findings of other controls: Based on reports, it has been found out that the management takes into account findings of internal auditors and adopts recommendations of the latest internal
audit. Controls by institutions such as the Budget Control Office, School Inspection and the Court of Auditors have not been performed in the organization in the observed period. The organization also performs self-assessments.

CONCLUSION

Our study showed that the organization do not comply with the regulations in the following areas of costs’ risks: does not have interim reports on the achievement of objectives, does not compare the provision of cash with the financial plan, has no reports on the realization of the cash flow plan and it does not have an analysis of operations in the annual report, nor does it have monthly or other interim reports on the operations of the organization.

This paper contributes to the literature of both internal audit and management studies and represents one of the first effort to examine the costs and their legality in public educational institutions. »This lends reason to believe that auditing which is organized according to certain principles has potential to contribute to well-functioning public administrations«, state in [6]. These institutions should use public money from the government and from their municipalities and from parents and other entities in proper and legitimate way. The findings in the paper would encourage them how to do that and also implies further research in costs’ reporting and analytical system improvements in public educational institutions.

REFERENCES: