

**Research Article**

## **EVALUATION THE EFFECTIVENESS OF INTERNET AUDIT IN SAMA TECHNICAL VOCATIONAL INSTITUTE OF ISLAMIC AZAD UNIVERSITY**

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### **ABSTRACT**

The internal audit is traditionally considered as a part of internal control system which helps the management of enterprises with playing their roles through evaluating and investigating the internal controls. However, a development has been made in internal auditing in recent decades concurrent with the introduction of a new idea as the "corporate steering" or "corporate steering" in the management literature. When this concept created in corporate literature, it was said that the internal audit was an integral part of "corporate steering" system. In simple word, the corporate steering is a mechanism which plays the role of leading and controlling the organization for its own purposes of the main objective as the value creation for shareholders. In this paper, the researcher seeks to investigate this issue according to the importance of internal audit in effectiveness and facilitation of organizational objectives based on different dimensions and he has concluded that the internal audit becomes more effective in organizations be relying on the scientific principles and utilization of new theories, and thus the need for internal audit is more felt in organizations by further intensities and strengths.

**Keywords:** *Internal Audit, Effectiveness, Organizational Steering*

### **INTRODUCTION**

The internal audit is now considered one as one of the most important units of organizations in financial issues. Nowadays, the internal audit has been able to be effective more in organizations by relying on the scientific principles and utilization of new theories and thus it can be implemented in the organizations with more intensities and strengths.

This shift attributed to the internal audit depends on several factors. Due to the increasing competition and financial constraints and also the desire to promote a variety of financial issues as well as the existence of threats, the internal audit is taken more into the account. The internal auditing profession has become more important in recent years. Despite the fact that the internal auditors' activities and interventions were limited to evaluation and control of limited cases, a wide range of activities and service has become developed in this industry (Raeisi, 2004).

A part of these substantial and growing changes results from the expansion and complexity of organizations and the pressure due to the lack of resources and increased competition in organizations, and the threats and risks in financial, administrative and commercial fields, which severely threaten the organizational policies and objectives. Due to the importance of protection, control, and preservation of accounts and effective management of institutions and enterprises because of the developed management profession, the internal audit profession has been more into account.

The internal audit profession can consistently lead to the continual improvement in the organization by effective contribution to the assessment of internal controls, and advice and review of financial statements (Mehrani, 2002).

The prevention of making the weak and non-scientific decisions based on the inaccurate and untimely information or ensuring the proper use of assets, protecting the organization against the effects of non-compliance with rules and regulations, preventing the mistakes and fraud and improving the methods, adding the value, and improving the organizational operation are only achievable by establishment of an effective internal audit system in organizations.

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In fact, the review of successful organizations and institutions indicates that the utilization of an efficient and modern internal audit system as well as the internal auditors with updated audit knowledge is among the factors contributing to the success of organization (Anderson, 2004).

Undoubtedly, despite the growing competition among the educational institutions inside and outside the country as well as the increased level of demands and public awareness, the expectation of provided service and the increased quality of education all indicate the need for existence of an efficient management system in these institutions. Therefore, the effective internal audit services can contribute to the further success in these conditions.

### **History of Internal Audit**

Despite the fact that the internal audit is practically implemented for centuries, it is considered as a new profession only since 50 or 60 years ago. The Institute of Internal Auditors in North America was founded in 1941 when 25 internal auditors felt the need for establishing such an organization to exchanging the information and protecting their profession interests. The internal audit was then quickly accepted and supported by managers and institutions in the world and played the new roles in any decade from the 1950s to the beginning of new millennium. In short, internal audit played the role of investigating and reviewing the events or official documents in the 1950s.

- In the 1950s, the internal audit played the role of investigating the accounting records and reviewing the events or official document.
- In the 1960s, the internal audit played the role of recognizing the compliance of system and corporate procedures.
- In the 1970s, this role was changed to the examination of procedures.
- In the 1980s, the internal audit played the role of assessing the internal controls.
- In the 1990s, the role of internal audit was changed to the re-report on the internal control system.

Interestingly, due to the vital importance of internal audit, the changes of role have been year-to-year at the beginning of the new millennium as follows:

- The risk management in 2000.
- The assessment of risk management in 2001.
- The reassurance about the risk management and control in 2002.
- The value added service, etc, in 2003.

### **Definition of Internal Audit**

Since the executive and non-executive directors are in charge of types of risks in the field of financial, administrative and commercial fields and compliance with legal requirements for performing their stewardship task to capital owners, they consider the existence of internal audit essential as a part of internal control system (Yeganeh, 2009).

The board of the American Institute of Internal Auditors adopted the following definition of internal audit in June 1999.

"The internal audit is an independent objective and consulting activity which is designed to create the value added as well as improving the organizational operation. This activity helps the organization to achieve the goals by providing a systematic and regular approach to evaluate and improve the effectiveness of risk management, control and governance process" (Edwardo, 2008).

Kasiri (2009) has provided the following definition of internal audit:

"The internal auditing is traditionally considered as a part of internal control system which helps the enterprise management to play their tasks through evaluation of internal controls (Kasiri, 2009).

### **Internal Audit Objectives**

Given the definition of internal audit, it is worth noting that the internal control service is created for providing the service for an organization, it covers all components of organization, and its existence makes the administration of organization possible in an efficient and economic procedure. In other words, the existence of an internal control system enables the organization to achieve its goals and programs. Therefore, the purposes and scope of internal control system are predetermined based on the objectives and programs of organization. The purposes and scope of internal audit as a part of internal control

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system, is predetermined by this way. The internal audit objectives have inseparable connection to the purposes and programs of organization (Mahmoudian, 2009).

Furthermore, it is noteworthy that the internal audit activities are done in different cultural and legal environments, in organizations with different goals, size and structures and by people inside or outside the organization. Such these differences may affect the operation of internal audit in any environment.

However, the following cases can be mentioned for establishment of a strong internal control system:

- Implementing the policies and processes of organization.
- Identifying and educating the principles and values of organization.
- Obeying the laws and regulations.
- Accuracy and reliability of financial statements and other released information.
- Effective management by human resources and other resources.
- Observing the social issues including the environment.

The aim of internal audit is to help the manager to ensure that all of the above-mentioned cases are implemented properly.

However, the main objective of internal audit is to evaluate the way of doing the tasks assigned to different units of institute. The internal audit employees are under the supervision of a senior manager or director. This top position in the organizational structure of institution ensures that the internal auditors have access to most of the units in the institution. The internal auditors need to be independent of administrators and managers who audit them (Khodarahmi, 2007).

### **Internal Audit Tasks**

The internal audit is responsible for continuous investigation and evaluation of internal control system.

The Auditing Standard No. 61 of Iran represents the internal audit tasks as follows:

It is an impartial evaluation activity and a part of control environment of studied unit and is responsible to providing the service for unit.

The internal audit has the following responsibilities:

- Monitoring the internal controls and providing the recommendations for its improvement.
- Controlling the operational and financial reports.
- Investigating the economy, efficiency and effectiveness of financial and non-financial operations
- Investigating the compliance with laws and regulations, policies and guidelines of management

As mentioned, the achievement of organizational objectives is the internal audit's main goal. The organization also provides the controls to achieve the aims (Tamannaeei, 2009).

### **Internal Auditor's Independence**

The independence is the main factor to enable the internal audit. The management should recognize this factor and ensure the internal auditor's independence by providing the appropriate position of internal audit in organizational structure. The internal control process, in which the internal audit is an element, monitors the entire organization, thus the internal audit should be connected to the highest authority in the organization based on the rules. In governmental organizations, the board chairman has extensive responsibilities and great power. The internal auditor should be connected to the highest position, namely the board, in terms of position, access to all departments in an organization, and also he should be able to connect the higher position and report whenever he feels the risk or any deviation from each issue under his own responsibility (Omidvar, 2010).

The internal audit independence is achieved as follows:

#### **1. The independence in terms of access**

The head of internal audit should have the direct access to the CEO including the senior manager, board and non-executive evaluators in the organization and thus report them freely.

#### **2. Independence in terms of reporting**

The head of internal audit should provide his reports without eliminating any issue and with his name and signature.

#### **3. Independence in terms of organizational activities**

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The internal audit should have the full independence on all financial and administrative systems in the organization. The involvement of internal audit in operating systems and programs of organization should be limited to the following cases:

- A- Offering the suggestion about the establishment of internal controls for revision of existing systems or projects or designing the new systems or projects;
- B- Evaluating the proposed controls for specific projects;
- C- Evaluating the existing controls of decision process and systems

The internal audit unit should not be responsible for establishment of new systems or engaged in activities which are required to evaluate them (Soleimani, 2007).

#### **4. Independence in terms of vote**

The internal auditor should deal with the issues without any partiality and have such an organizational position under which he able to decide and make recommendations impartially.

### **Scope of Internal Audit**

The scope of internal audit is often mistakenly thought to be confined to financial issues, but according to the purpose of internal audit, the scope of internal audit covers all aspects of internal control including the financial and non-financial ones.

The emphasis of internal audit on any particular symptom control indicates the rate of risk to the organization. The financial losses can be caused by the losses, negligence, fraud, or other cases. Despite the fact that the line of financial loss is very important, this is not the only risk to which the internal audit should pay attention, for instance, the risk of advertisements can cause the irreparable damages to organization.

Some of the major systems, which are under the coverage of internal audit, are as follows:

#### **1- Financial systems:**

- Financial accounting;
- Management and budgeting accounting;
- Forecasting and business planning;
- Salary and wage;
- Cash payment methods

#### **2- Management systems:**

- Strategic planning;
- Operation control;
- Evaluation of investments;
- Management of information systems;
- Personnel and human resources systems

#### **3- Operating systems:**

- Staff employment;
- Place rent;
- Management of holding the lectures and seminars (Ratliff, 2008)

### **Managers' Enough Knowledge and Mutual Agreement with Internal Auditors**

Understanding this issue, which is one of the objectives of internal audit and assists the management to achieve their goals and programs, is a big help to make the mutual agreement between the managers at different levels of organization with internal auditors. The managers' lack of knowledge of importance and role of internal audit and its performance in line with the objectives of organization and their responsibilities is one of the important organizational factors in the lack of utilization of internal audit in their work. The managers should also know that all activities of organization are the scope of activity in internal auditing unit without any limitation; and the internal audit has the authority to access all documents, assets and employees in the organization to implement the audit effectively and thus enable the auditor to carry on his responsibilities properly. The internal auditor should also have the ability to understand the stakeholders' needs. The organizational management should ensure that the adequate attention is paid on the internal audit reports. The internal auditor should ensure that the necessary

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measures are taken on the internal audit recommendations, or the management has understood the risk of failing to apply them and accepted it. The lack of executive support for follow-up of internal audit reports is one of the most important organizational barriers in the lack of developed internal audit of organizations. The internal auditor needs to trust the individuals with whom he communicates in order to be able to perform all the tasks properly. Due to the close working relations, the internal audit operation will be accepted and thus its recommendations will be made, but the internal auditor should not allow distorting his impartiality in this regard (Delavari, 2007).

#### **Audit Committee and its Necessity**

The main need for audit committee was created in the 1970's. Since 2000, this committee has been played the major role in corporate governance. The collapse of corporations was the most important factor in its emergence (Hassas, 2006). An audit committee, which is chosen by the board and is independent of management and its responsibilities are approved by the board, is a supervisory unit consisting of the non-executive board members and can help to make the effective improvement and implementation of internal controls. If the audit committee seems independent and impartial, it can have the major impact on the reports by the independent auditors as well as the reduction in their wages (Soleimani, 2007).

#### **Audit Committee Responsibilities**

The audit committee duties and responsibilities, which are approved by the board, differ from one company to another, but the infrastructure of purposes in any audit committee includes the following cases:

- Evaluating the processes associated with the control and risk environment;
- Supervising the financial reporting process;
- Evaluating the independent and internal audit processes

Furthermore, the audit committee is responsible for offering the selection of independent auditor to the board, ensuring the safety and quality of accounting procedures and internal control, and monitoring the independent auditors' independence of management (Amjadian, 2008).

#### **Communications of Audit Committee with Internal Audit**

The audit committee should be involved in the development of internal audit mission and goals in order to ensure the proper role of this unit.

The audit committee and internal audit manager should have the unrestricted access to each other. This committee should participate in selection, promotion and dismissal of audit manager and help to determine the competencies, the reporting hierarchy, making the necessary connections, and his wage and salary (Yeganeh, 2009).

The way of establishing the close relationship between the audit committee and internal audit unit is a major practical problem. The audit committee members are usually selected from the non-executive administrators and have often a plenty of professional responsibilities. Their work and responsibility places are far from the company and they only hold the meeting only once or twice a year. In this case, it is difficult for audit committee to manage the internal audit unit. Therefore, the internal audit unit is generally administered under the supervision of the managing director. The audit committee often collaborate with the senior management in managing this unit of organization by approving the appointments and dismissals of directors in internal audit units, investigating and approving the work program, supplying the manpower and budget (costs) of internal audit unit, and investigating and approving the work program, supplying the manpower and budget (costs) of internal audit unit and evaluating the internal auditors' performance. There is essentially a reporting relationship between the internal audit unit and audit committee. Typically, the managing director is responsible for administrating the internal audit unit and its performance by participation of audit committee.

#### **Discussion**

The internal audit is an independent evaluation unit in a company to handle the activities as the service provider for company. This unit is a kind of management control which perform the duties through effectiveness measurement and evaluation of other controls (Davidson, 2008). Furthermore, the objective of internal audit is to assist the management to ensure that all of the above-mentioned cases are properly



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done. However, the main objective of internal audit is to evaluate the way of doing the tasks assigned to different units of institute. Nowadays, the internal audit has been able to be effective more in organizations by relying on the scientific principles and utilization of new theories and thus it can be implemented in the organizations with more intensities and strengths. This shift attributed to the internal audit depends on several factors. Due to the increasing competition and financial constraints and also the desire to promote a variety of financial issues as well as the existence of threats, the internal audit is taken more into the account than any other time.

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