

Investigating the effective factors on role of Internal Auditing in Accepted Corporations in Tehran Stock Exchange

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Abstract

The current research has done to investigate the effective factors on size of Internal Auditing role in Accepted Corporations in Tehran Stock Exchange. Statistical Population is included all of Accepted Corporations in Tehran Stock Exchange in during of 2010- 2015. Sampling method was systematic (screening) omission and 104 firms were selected as statistical sample. Research data was performed by referring to financial statements, explanatory noted, weekly report and magazine of stock exchange by using RahavardNovin and TadbirPardaz software. Data was analysed by combined data. The results showed that in first hypothesis, auditory committee had significant effect on role of internal auditing. In second hypothesis, specifications of internal auditing and its mission (human resource and operational auditing on role of internal auditing had positive effect on it. In third hypothesis, auditing complicated technology (IT auditing was positive effect on role of internal auditing) in fourth hypothesis, specifications of organization (internal properties on size of internal auditing role was positive and significant effect on role of internal auditing and Financial industrials was not significant effect on role of internal auditing on role of internal auditing).

Key words: Internal auditing, Auditory committee, Mission of internal auditing, Auditing complicated technology, Specification of organization, Accepted corporations in Tehran stock exchange

INTRODUCTION

Now, domain of internal auditing was developed more than past. In internal auditing, efficiency of operation and manner of information technology was discussed. Internal auditors found new roles in organization as for new function which was accepted and welcomed by management of commercial unit. One of the forwarding challenges was that they had not suitable organizational placement and their tasks were not recognized as clearly. Of course, it is not performed because of culture of companies.

Auditing committee is one of the boards of directors committee. Its first role is to offer financial information to shareholders and control systems by boards of directory and auditing process. On the formation of auditing committee, the question here does formation of auditing committee communicate with restoration of quality and financial reporting? In this field, many studies analyse agency theory to stimulate company from auditing committee. Pinkas (1989), Rosbarski and Wang (1989) found that separation of management from company is low compared with companies form auditing committee arbitrary. Its theoretical background is found in agency theory. According to agency theory, shareholders and creditors obtain maximal interest as owners and do as their representatives. There is potential force for opportunities behaviour by it which losses. The shareholders are not able to see actions of management because of separation between ownership and management (Jensen and Meckling, 1976). Therefore, the controls are located by shareholders to prevent management from following their aims. The aim of controls is to harmonize motivations

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of managers and shareholders and constrain activities by managers.

Auditing committee is example from controls in firm strategy. This committee is important section of decision for internal supervision.

Statement and Importance of Research

Firstly, we commence with developing conceptual model which is reflection of complete searching and interview with variety managers (hereinafter named CAE) in many industries. By using insights and landscapes, our conceptual model consists of four factors to determine size of internal auditing 1) specifications of auditing committee, 2) specifications and missions of internal auditing 3) absolute activities by others (including infra-organization suppliers and warranty provided with other roles and 4) specifications of organization, they try to know that does their investment suitable in internal auditing or not, practically, organizations estimate it accurately (including GAIN database of compared industrial counterparts), often, their analysis influences on size of organization (including properties, income and number of staff) and their industrial classification (including Price Waterhouse Company, Pwc 2011, Internal Auditing Institute IIA 2011). Often, they don't consider yield of role of internal auditing or aims of internal auditing and strategies of Human Resource which factors on role of internal auditing.

SOX necessities powerful role for internal auditors and current standards encourage supervision committee in public auditing (PCAOB) on internal auditing. PCAOB encourages abroad auditors to work of internal auditors (PCAOB 2007). Internal auditors play vital role in risk investment management (Bealsy et al, 2008) and perform supervision works, Marks² (2009) and participate in legal investigations. The changes stimulate Human Resource and budgeting and importance of internal auditing for post-SOX period.

Each of supervision committee shows framework of organizational commitment than their company, we anticipate that offer great commitment than internal auditing role. Therefore, it is anticipated that there is positive relation for each of specifications.

Research Background

Castanheira et al (2009) performed research by identification of factors pertain to internal auditing based on risk and concluded that in auditing yearly program, it is significant to apply strategy based on risk in internal firms and companies affiliated to Portugal stock exchange. They concluded that there is powerful relationship between auditing planning

based on risk and private and financial organizations and there is separate plan for it.

They stated that internal auditing is to assemble risk management in small organizations in financial section.

El-Hussein E. El-Masry, Kathryn A. Hansen (2008) count more than 70 effective factors on quality of documents and state that internal auditing is effective on some factors of documents.

Sarens, G. and de Beelde (2006) compared internal auditing operations of Belgium and United States and found that role of internal auditing was special and changes rapidly. Belgium internal auditors were premier to identify higher risk and establish official risk systems. In United States, theories of internal auditors provide valuable data for revising internal control and disclosure of its legal necessities of Sarabens Oaxley 2002.

Jamee and Rostamian (2006) performed research named effect of financial speciality for members of auditing committee on predication interest and found that one of the important role is to predicate financial statements in the form of future interest. In other side, in order to increase quality of financial reporting, it is imperative to restore strategy system. One of the main steps of company strategy is to comprehend and understand members of committee, value of financial reporting and auditing, in this research, by using regression analysis, 95 companies accepted in Tehran stock exchange, the results showed that financial speciality has negative relationship with predication of interest.

Bazrafshan et al (2015) performed research named meta-analysis for independence of auditing committee and quality reporting which its aim is to perform meta-analysis for independence of auditing committee and quality of financial reporting. Although, in scientific research domain, it is possible to anticipate that independent auditing committee restores financial reporting but results are with conflicts. The modifying factors are applied in order to integrate results and meta-analysis method has been used on quantitative methods. The results on time period 2000-2013 showed that the studies are conflict. In regard to identify factors, quality of financial reporting and statistics are reported and the scales are seen. There is significant relationship between auditing quality and points whereas; there is significant relationship between quality of accruals, non-normal yield and fake.

Azad and Bakhtiar (2011) in research named place of auditing committee, internal auditing and internal controls in corporation system showed that internal control and

internal auditing are considered in terms of corporation strategy and use of internal auditing services is important for control and play important role.

Research Hypotheses

Auditory committee has significant effect on size of internal auditing role

Specification of internal auditing and its mission has significant effect on size of internal auditing role

Auditing complicated technology has significant effect on size of internal auditing role

Specification of organization has significant effect on size of internal auditing role

Regression Pattern of Hypothesis

In order to discuss effective factors on role of internal auditing in Accepted Corporations in Tehran Stock Exchange, multiple linear regression model has been used.

Internal Audit $IT = \beta_0 + \beta_1$ (Audit Committee) $it + \beta_2$ (F&MIA) $it + \beta_3$ (IT) $it + \beta_4$ (FO) $it + \beta_5$ (SIZE) $it + \beta_6$ (Private Sector) $it + \beta_7$ (listed companies) $it + \beta_8$ (Type of Activity) $it + \epsilon$

Manner of Estimation Variables

Dependent Variable (internal auditing)

Everton et al model has been used to calculate variables.

Dependent variable is natural logarithm hypothesis including CAE in internal auditing (IA hypothesis) and complementary test by using natural logarithm for internal auditing.

Independent Variable

(Auditing committee, specifications and mission of internal auditing, auditing complicated technology, IT, specification of organization)

We estimate four specifications of auditing committee. Firstly, we consider number of members of auditing committee (size of CAE), secondly, we consider number of sessions of auditing committee (AC sessions), if auditing committee has yearly session in which variable equals to 1 and if holds year twice equals 2 and if sessions held as seasonal, equal to 3 and if held 5 to 10 equals to 4 and if more than 10 equal to 5, but, thirdly, we consider number of sessions between auditing committee, CAE, ACE and CAE and if session is held as yearly, in which variable equals to 1 and if held year twice equal to 2 and if sessions held as seasonal equal to 3 and if held between 5 to 10, equal to 4 and if more than 10, equal to 4, fourthly, does auditing committee confirm role of internal auditing or not? (AC confirms IA

budget) and if doesn't confirm it equals to 1 and determines it equal to 0, we predicate that quality indicator of company equals to auditing committee and pertinent to IA.

We estimate variable as for different specifications for internal auditing. Firstly, we estimate nature of Human Resource model for internal auditing. Secondly, measure percent of staff of internal auditing including CAE (CIA %), but we don't targeted predicate on relationship between variable and IA staff, thirdly, we measure number of average of background with IA, fourthly, we measure number of years employed CAE in organization (organizational CAE), fifthly, we estimate unit in which each of sections has been used and use of variable has been expressed.

We estimate four models in which number of sessions for year considered. If session of committee has been determined, scale of session will be considered. If sessions held year twice, equal to 2 and is more than 4, equal to 3 and if sessions held between 5 and 10, equal to 5, secondly, number of sessions shall be considered as second scale and equal to number of sessions in which held as yearly, the question is that does auditing committee confirm role of monetary scale, we predicate that indicator and symbol of company is related with auditing committee that is more sessions and more staff.

We estimate variable as for role of internal auditing. Firstly, we measure nature of Human Resource for internal auditing. Secondly, we measure percent of staff including CAE, we don't predicate CAE in relation with variable and IA staff, thirdly, and we estimate number of staff of IA. We estimate years of background CAE (organizational experience CAE), fifthly, we estimate unit in which role of continuous role of internal auditing shall be considered and self-evaluation control, extract data and acceptance of SOX shall be used. We don't predicate in relation with role of auditing on technology of IA.

Descriptive Statistics

Test of Research Hypotheses

First Hypothesis

Auditory committee has significant effect on size of internal auditing role

Combined regression model is positive as for role of internal auditing (0.149) since t statistics (0.000) is significant. It shows that auditing committee has positive and significant effect on auditing committee. Among controllable variables in first hypothesis, each four variables are more than 0.05 as result, it did not influence on role of internal auditing. The results F statistics show model is significant and as for Durbin-Watson test (2.098) which

Table 1: Descriptive statistics

| | Size of internal auditing | Auditing committee | Human force | Operational auditing | Financial auditing | IT Auditing | IT safety |
|----------------|---------------------------|--------------------|-------------|----------------------|--------------------|-------------|-----------|
| Average | 0/286 | 3/317 | 0/774 | 0/505 | 0/059 | 0/736 | 0/59 |
| Variance | 0/041 | 1/203 | 0/175 | 0/25 | 0/056 | 0/195 | 0/242 |
| Limit | 1/05 | 5 | 1 | 1 | 1 | 1 | 1 |
| Smallest value | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Greatest value | 1/05 | 5 | 1 | 1 | 1 | 1 | 1 |

Table 2: Results of model estimation for first hypothesis

| Variable | Symbol | Dependent variable: Size of internal auditing role | | |
|------------------------------|--------|--|--------------|---------|
| | | Coefficient | T statistics | p-value |
| Fixed value | C | -0/124 | -2/062 | 0/04 |
| Auditing committee | X1 | 0/149 | 34/96 | 0/000 |
| Company size | SIZE | -0/004 | -1/403 | 0/161 |
| Rate of growth opportunities | MBV | 0/01 | 0/791 | 0/429 |
| Financial leverage | LEV | 0/004 | 0/917 | 0/36 |
| Company age | AGE | -0/004 | -1/012 | 0/312 |
| R | 0/797 | | | |
| Modified R ² | 0/754 | | | |
| Durbin-Watson | 2/098 | | | |
| F statistics | 18/464 | | | |
| p-value | 0/000 | | | |

Table 3: Results of model estimation for second hypothesis

| Variable | Symbol | Dependent variable: Size of internal auditing | | |
|------------------------------|--------|---|--------------|---------|
| | | Coefficient | T statistics | p-value |
| Fixed value | C | 0/148 | 2/195 | 0/029 |
| Human resource | X21 | 0/088 | 6/133 | 0/000 |
| Mission operational auditing | X22 | 0/259 | 20/017 | 0/000 |
| Mission Financial auditing | X23 | -0/087 | -4/084 | 0/000 |
| Company size | SIZE | -0/002 | -0/537 | 0/592 |
| Rate of growth opportunities | MBV | 0/011 | 0/759 | 0/448 |
| Financial leverage | LEV | 0/003 | 0/581 | 0/562 |
| Company age | AGE | -0/006 | -1/462 | 0/144 |
| R ² | 0/729 | | | |
| Modified R ² | 0/67 | | | |
| Durbin-Watson | 2/196 | | | |
| F statistics | 12/41 | | | |
| p-value | 0/000 | | | |

is between 1.5 to 2.5, it lacks correlation. As well, results pertain to modified coefficient; nearly 75% of changes are derived from auditing committee and first hypothesis was confirmed.

Second Hypothesis

Specification of internal auditing and its mission has significant effect on size of internal auditing role

Table 4: Results of model estimation for third hypothesis

| Variable | Symbol | Dependent variable: Size of internal auditing role | | |
|------------------------------|--------|--|--------------|---------|
| | | Coefficient | T statistics | p-value |
| Fixed value | C | 0/259 | 3/034 | 0/003 |
| IT auditing | X31 | 0/26 | 17/167 | 0/000 |
| IT safety | X32 | -0/007 | -0/512 | 0/609 |
| Company size | SIZE | -0/008 | -2/101 | 0/036 |
| Rate of growth opportunities | MBV | 0/013 | 0/742 | 0/458 |
| Financial leverage | LEV | 0/005 | 0/818 | 0/414 |
| Company age | AGE | -0/001 | -0/152 | 0/879 |
| R ² | 0/563 | | | |
| Modified R ² | 0/469 | | | |
| Durbin-Watson | 2/141 | | | |
| F statistics | 5/998 | | | |
| p-value | 0/000 | | | |

Table 5: Results of model estimation for fourth hypothesis

| Variable | Symbol | Dependent variable: Size of internal auditing role | | |
|------------------------------|--------|--|--------------|---------|
| | | Coefficient | T statistics | p-value |
| Fixed value | C | 0/25 | 4/333 | 0/000 |
| Internal Investment | X41 | 0/908 | 27/055 | 0/000 |
| Financial industries | X42 | 0/045 | 1/533 | 0/126 |
| Company size | SIZE | -0/005 | -1/74 | 0/083 |
| Rate of growth opportunities | MBV | -0/008 | -0/703 | 0/482 |
| Financial leverage | LEV | -0/002 | -0/497 | 0/619 |
| Company age | AGE | 0/003 | 0/768 | 0/443 |
| R ² | 0/801 | | | |
| Modified R ² | 0/756 | | | |
| Durbin-Watson | 2/169 | | | |
| F statistics | 18/07 | | | |
| p-value | 0/000 | | | |

Combined regression model of fixed effects of human resource effect and Mission operational auditing is positive on size of internal auditing role (0.088) and (0.259) and Mission Financial auditing is negative on size of internal auditing role (-0.087) according to the t statistics (0.000) is significant. This subject shows that Human Resource and mission operational auditing have positive and significant effect on size of internal auditing role. Mission Financial auditing has negative and significant effect on size of

internal auditing role. Among control variables of this research in second hypothesis, each four variables are more than 0.05 as result, it did not influence on role of internal auditing. The results F statistics show model is significant and as for Durbin-Watson test (2.196) which is between 1.5 to 2.5, it lacks correlation. As well, results pertain to modified coefficient; nearly 67% of changes are derived from Specification of internal auditing and its mission. According to significance of specification of internal auditing and its mission on size of internal auditing role the second hypothesis was not rejected and it was confirmed.

Third Hypothesis

Auditing complicated technology has significant effect on size of internal auditing role.

Combined regression model of fixed effects of IT auditing effect is positive on size of internal auditing role (0.26) based on the t statistics (0.000) is significant. IT safety is negative on size of internal auditing role (-0.007), based on the t statistics (0.609) is not significant. This subject shows that IT auditing has positive and significant effect on size of internal auditing role. IT safety has not significant effect on size of internal auditing role. Among control variables of this research in third hypothesis, each three variables (Rate of growth opportunities, financial leverage, Company age) are more than 0.05 as result, it did not influence on role of internal auditing. The results F statistics show model is significant and as for Durbin-Watson test (2.141) which is between 1.5 to 2.5, it lacks correlation. As well, results pertain to modified coefficient; nearly 47% of changes are derived from size of internal auditing role is based on Auditing complicated technology. According to significance of Auditing complicated technology on size of internal auditing role the third hypothesis was not rejected and it was confirmed.

Fourth Hypothesis

Specification of organization has significant effect on size of internal auditing role

Combined regression model of fixed effects of Internal Investments effects is positive on size of internal auditing role (0.908), based on the t statistics (0.000) is significant. Financial industries is positive on size of internal auditing role (0.045), based on the t statistics (0.126) is not significant. This subject shows that Internal Investments has positive and significant effect on size of internal auditing role. Financial industries have not significant effect on size of internal auditing role. Among control variables of this research in fourth hypothesis, each variables are more than 0.05 as result, it did not influence on role of internal auditing. The results F statistics show that model is significant and as for Durbin-Watson test (2.169) which

is between 1.5 to 2.5, it lacks correlation. As well, results pertain to modified coefficient; nearly 76% of changes are derived from size of internal auditing role is based on Specification of organization. According to significance of Specification of organization on size of internal auditing role the fourth hypothesis was not rejected and it was confirmed.

CONCLUSION

The purpose of this study was investigate the auditory committee on size of internal auditing role in Accepted Corporations in Tehran Stock Exchange. For doing this research 104 firms in period of time 2010- 2015 was investigated. For testing the research Hypotheses by using the combined regression model of fixed effects has been used. The results showed that in first hypothesis, auditory committee had significant effect on role of internal auditing. In second hypothesis, specifications of internal auditing and its mission (human resource and operational auditing on role of internal auditing had positive effect on it. In third hypothesis, auditing complicated technology (IT auditing was positive effect on role of internal auditing) in fourth hypothesis, specifications of organization (internal properties on size of internal auditing role was positive and significant effect on role of internal auditing and Financial industries was not significant effect on role of internal auditing on role of internal auditing).

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