

THE EFFECT OF INTERNAL AUDITING ON IMPROVE PERFORMANCE OF COMPANY LISTED IN TEHRAN STOCK EXCHANGE

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Abstract: In the present, impact of internal audit on strengthening internal controls in the National Iranian Oil Company has been investigated. Exchange and non-Exchange organizations and companies and case studies including SAIPA and SAIPAPRESS Automobile Manufacturing Group have been investigated and data collected using questionnaire and statistical analysis. According to calculations and analysis we reach conclusions as follows: Internal audit affects strengthening companies' financial performances (in the form of consulting and reliability services. Internal audit affects strengthening companies' financial performance in the form of providing consulting services. Internal auditing affects strengthening companies' financial performance in the form of providing reliability services. Providing consulting services has closer relation with internal audit than reliability services.

Keywords: Internal Auditing, Tehran Stock Exchange, internal controls, Financial Performance

1. INTRODUCTION

Internal audit is one of the pillars of modern organizations; and mutual understanding of the requirements and functions of internal audit staff and different levels of the organization managers will help the organization to achieve its goals. Many managers look traditionally at internal audit and do not ensure about its importance in the organization, while many changes have been made in functions and organizational roles of internal audit. Internal audit, as well as other parts of the organization, should act towards organizational goals effectively and help to create added value to the organization to. In the present study it has been tried to explain managers' impressions about the role of internal audit and its effectiveness on financial performance of companies. In recent decades, several different definitions have been presented for internal audit of organizations by

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authorities and experts in finance and accounting. Based on section 61 of Iran Auditing Standards, internal audit means assessment function that occurs within the entity by its employees in order to service to this entity and is one of the main pillars in internal control. Based on the latest definition has been provided by Institute of Internal Auditors (IIA) in the framework of its international standards in October 2008, "internal audit is an assurance and consulting activity which is independent and impartial in order to add value and improve performance of an organization, that helps organizations to achieve their goals by creating a disciplined approach to evaluate and improve the effectiveness of risk, control and governance processes management." Assurance services consist of subjective and objective examination of evidences with the aim of independent evaluation of risk, control and governance management processes. This evaluation includes finance, performance, compliance and security systems. Therefore, assurance services have guaranteed impartial assessment of evidences by internal audit to independent comment or conclusion about a process, system or other internal audit issues. The nature and range of assurance tasks is determined by internal audit. Consulting services include consulting activities and related services that its nature and range are provided to the company in order to add value and improve the processes of risk, control and governance management, without management responsibilities to take by internal auditors.

Consulting services have proposal and advisory nature and usually are done due to request of internal audit client. The nature and range of consulting services is a function of agreement between client and internal auditor. Unfortunately, most organizations have set the task of internal audit to assess the adequacy of internal controls and the reliability of financial statements information. But now, as it can be seen from this definition, range of internal audit activities is expanded much more. They engage to study the efficiency of operations, reliability of information technology, effectiveness and efficiency of business transactions inside and outside the country, help to improve processes, company operations and monitoring customers' satisfactions. This new duty takes place besides the old one which was searching and discovery of fraud. In other words, the range of their activities has significantly exceeded financial control environment and traditional stewardship role. Since this time, internal auditors also have understood the situation and decided to go further than their supportive role and play a more dynamic and fundamental role in the management structure, and offer a variety of services. The management has also showed good responses to services provided by them, and internal auditors have played more important role in improving the operations. This new role was also more valuable to management, because internal auditors have often recommended more useful advices than independent auditors; and even more importantly, the findings will remain in the organization and will not be published.

In general, internal audit evaluates design and effectiveness of control system. A well-designed internal control system ensures that the objectives will be accomplished with reasonable costs. An efficient control system is a system that accomplishes what is objective in each design phase. Internal audit ensures the proper functioning of managers in the interest of the organization by reviewing and evaluating the performance of units and subsidiaries. Comprehensive range of internal audit activities, periodic and implicitly review by internal auditors and establishment of internal audit unit in the organization, are made internal audit as an appropriate and qualified authority to monitor and evaluate management decisions.

What managers should be aware is that internal audit will be effective just with having four general conditions, including: 1) meet the needs of stakeholders; 2) achieve the capacity of the best level (class); 3) use of applicable professional standards; 4) measuring results. However, these conditions are considered too general. Internal audit approach should be systematic, logical and including control methods and final check. Sufficient institutional independence and impartiality causes that internal audit services have been provide better, although some ones argue that impartiality practically is a myth and achieve a true impartiality is unattainable due to economic characteristics and pressures. But, the issue is that it should be tried to be in best possible position. Since effectiveness range of internal auditor activities depends on him superior admissibility, so relatively high organizational position and unlimited support of upper management is essential for internal audit. Internal auditors should have a position aligned with the executives directors and do not be as their staffs. It should also be noted that if internal auditors were able to effectively do their jobs, it is due to management support because they have a common goal. But having an exclusive, privileged and relatively high position in the organization chart will not effectively solve problems automatically. Usually internal auditors need the support of the CEO. In leading organizations, usually a strong executive director supports his staffs and leads them out. In the first step, auditor requires the support of him. Also the manager can expect to benefit significantly from audit services. Managers often are specialist in a specific field. Internal auditor should start his activities in the field which manager is familiar with and this is the best opportunity that can demonstrate his ability. The head of internal audit also should provide the internal audit program in consultation with the senior management of the organization. Internal auditor must adjust scheduling of internal auditing with the coordination and consultation of management of units under review, except in rare cases where a without-notice proceeding is one of audit requirements. Consulting with the management can turn fields for internal auditors which are under special attention of management. The findings of internal auditing shall be confidential and shared only with managers who are directly responsible for the unit under review, unless

they have explicitly agreed to discuss the issue further. Also, auditor report should be provided after negotiations with management. Such negotiations are essential to establish a good and cordial relationship between internal auditor and management. Internal audit is one of today's organizations pillars which help mutual recognize of needs and functions of internal audit staffs and managers of organization to achieve their goals. Managers must be aware of the functions of different parts of the organization in order to demand various executive and informative demands and needs, and evaluate parts. Internal audit is one of important pillars of every daring organization which wants successfully go forward in today's competitive and growing business environment. In the present study, managers realization of internal audit have been studied at different academic levels in various organizations and the efficacy of their realization on financial performance of companies have been analyzed (development of internal audit, Mashayekhi, A.).

1.1. The Importance and Necessity of Study

Unfortunately, managers are reluctant to use services of internal auditors unless they convinced that their services are worth. Therefore, auditors should also show that they can do tasks that are expected from them. All successful managers are seeking to good results especially in categories which their effectiveness is measured. Sales manager is interested in improving sales performance, product manager wants to maximize production and CEO calls for maximum profit. Knowing how move forward is one of characteristics of good managers. They want to regular perform tasks which they are responsible for, or want to know where problematic points are when no problem exists, and how they can be eliminated or at least kept constant. Understanding that one of the objectives of internal audit is to help management achieve their goals and plans is a great help to mutual understanding and cooperation between managers of different levels of the organization and internal auditors. Lack of sufficient awareness of managers from the role and importance of internal audit and its function in line with organization goals and their responsibilities is one of the most important organizational factors of lack of development in use of internal audit in organizations. Managers also should know that the domain of internal audit activities is all activities of the organization, without any limitation, and internal auditor has the authority for access to all documents, assets and staff to audit effectively and could done his responsibilities in a way that is right and proper. Internal auditor also must be able to recognize the needs of his beneficiaries so he should listen to their needs. CEO should ensure that internal audit reports are considered adequately. Internal auditor must ensure that necessary measures have been taken on recommendations of internal audit or management is aware of the risk arising from not being applied them and has been accepted it. Lack of

executive support to follow up on internal audit reports is one of the most important institutional barriers in the lack of development of internal audit in organizations. Internal auditor needs to trust those that are communicated with him to be able to do properly perform all his tasks. Close working relationships create the possibility that an internal audit be accepted and its recommendations will also be used, but the internal auditor must not allow that his impartiality be flawed.

Who are the inspectors? Since internal audit services takes into account all parts of the organization, there are several groups that are allowed to assess the performance of internal audit. Except the head of internal audit who is necessarily concerned with all aspects of internal audit function, each of these groups has different expectations and interests and therefore is considered the internal audit function in different aspects. The board of directors of the organization is the most influential group that will assess the performance of internal audit.

The board of directors always wants to have an affective internal audit and be sure that there is no significant weakness in internal control system of the organization due to their overall responsibilities. Many organizations, according to the regulations, are obligated to have an audit committee or another form of non-executive department, or they have decided to keep it. One of the main tasks of this committee or department is evaluation of internal audit performance. Non-executive investigating department pays attention to those supportive points and details that board of directors or CEO is considered about. For example, this department wants to measure progress of the organization work compared with programs, costs, and the major and important findings of internal auditing, chief executive officers (senior managers) as well as evaluate internal audit function to make sure that the internal audit function increases efficiency and effectiveness of the organization activities. senior managers to do this, evaluate the value of internal audit work with respect to the type, number and quality of audit reports, and especially are seek to ensure that the internal audit recommendations improves organization performance effectively. However, they assess the costs and efficiency of internal auditing to ensure about correct use of resources that they gave to internal audit.

Evaluating the performance of the internal audit unit does not limited to intra-organizational groups. Independent auditors assess the performance of internal audit to determine extent of their reliance on the work of internal audit; and also they consider weaknesses of internal control system which internal auditors have discovered and reported during their auditing. In addition to independent auditors, other regulatory authorities such as supervision department of higher education institutions also concern about the performance of internal auditors as this group focuses on considering professional standards (by internal auditors). Finally the head of internal auditing should evaluate all aspects of the internal auditing performance to ensure all groups mentioned above that the internal audit unit

performance is economic, efficient and effective. Since most Iranian agencies are practically governmental or quasi-governmental or related to institutions under the influence of government, so the private sector is also following the same trend with the lack of an accountability culture and also a lack of public tendency to disclose problems within the company. All these issues have faded the importance of internal audit. On the other hand, most managers believe in this slogan that "everything is going well" and there is discipline rehabilitation system rather than meritocracy in most companies, despite the fact that there is a panel named "internal audit unit" in all agencies and institutions, internal audit has been removed from its rightful place in Iran. Obviously with such a description the presence or lack of it has not certain impact on transparency and reporting, just as in all banks involved in recent corruption apparently, some of them had an audit committee in addition to internal audit but hesitate to even a disclosure line or a risk assessment! As a result further and more effective researches are essential in this field.

2. LITERATURE REVIEW

Husseini, M. H. (2001) has investigated the effect of internal audit in the gas industry of Iran, which is one of the most important industries in Iran and is in the energy sector. Agha Jafari, M. (2001) has investigated the effectiveness of internal audit at the National Iranian Oil Company. In this regard, the connection (importance) of each factors identified in this study on the effectiveness of internal audit was evaluated. Mahmudi, A. (2007) has investigated the effectiveness of internal audit on Iranian Banking System, Panahian, H. (2011) has investigated the effectiveness of internal audit on strengthening of internal controls, Chi Chen *et al.* (2003) have carried out a study entitled the effectiveness of internal audit on overall performance of Taiwanese companies. The past studies mostly had focused on the effects of internal audit on companies (or a case study) or the effect of internal audit on strengthening internal controlling, but the present study has been tried to analyze managers understanding from the role of internal audit and its effects on financial performance of companies and traditional view of managers to internal auditing in companies listed or do not listed on Stock Exchange.

Organizational complexity and expansion of business transactions in most countries has caused that managers of profit and nonprofit firms establish an internal audit unit according to their responsibilities to achieve organizational goals and to ensure optimal guidance of all resources. Enterprises have found that internal audit unit is necessary in order to achieve procedures and adherence to policies and guidelines, due to continuation of its corporation with the firm, persistence and following-up to fix defects. Historical review of background of internal auditing in Iran indicates that despite the changes in the economic and professional environment of accounting due to lack of support of high-level managers of staff and lack of necessary coordination between internal audit operations and

management needs, fundamental changes has not taken place in this profession yet. Accordingly, many experts in accounting and auditing profession in Iran claim that internal audit profession regarding the issues mentioned above, cannot meet the need of management; but developments and changes in recent decades has led to appeal about the vision and missions of this profession. An effort to more interact of internal audit with managers of business units is one of these changes. Each unit of the organization needs some features in its activity environment to be effective and efficient. Professional interactions and relationships of internal auditors, as one of the important parts of the organization, with other managers is an important factor in achieving the objectives of internal audit and next in the organization taking advantage of it. Internal auditors and managers of different parts of the organization should carefully be aware of duties, functions and the mutual benefits of each other.

Internal auditors must act in accordance with professional standards and always try to maintain their independence and impartiality. Range of activities, procedures and internal audit responsibilities in the organization and the manner of reporting should be clear and competent individuals and groups constantly to assess the performance of internal audit. Managers also should use the results of internal audit activities to improve the organization and modify performances. Mutual recognition of functions and needs of internal audit staff and managers of different levels of the organization will help the organization to achieve its goals.

Generally, internal audit historically has passed three time stages:

- 1- Traditional internal audit
- 2- Modern internal audit.
- 3- Neo-modern internal audit.

Traditional internal audit: In the first stage, internal audit was just about financial management services and its job was not more than quality control of accounting operations. In other words the product of internal auditors work was quality control of accounting and financial managers were their customers.

Modern internal audit: At this stage, the objective was developing professional services and expanding the market. At this stage, services such as control all internal operations and consulting services were provided to management and therefore serve up to management became the slogan of internal audit.

Neo-modern internal audit: Neo-modern internal audit is actually the modified version of modern audit. Neo-modern outlook of internal audit is a common activity in the center of a delicate and complex activity within a few major groups of applicants for this type of service. These groups include the board of directors, senior management, operational management and even independent auditors.

Many managers still look traditionally at internal audit and do not sure enough about its role and importance in the organization, while many changes have been made in internal audit functions and organizational roles.

Internal audit also need to act effectively toward objectives the organization like other parts of the organization and help to create added value to the organization. Therefore, mutual interaction between management and internal auditors is an undeniable necessity in order to achieve higher goals of the organization.

In the present study has been tried to investigate managers understanding of internal audit at different academic levels and their efficiency on financial performance of companies has been analyzed (Reza Masjedi, H., 2011).

Husseini, M. H. (2001) has investigated the effect of internal audit in the gas industry of Iran, which is one of most important industries in Iran and is in the energy sector. This study shows that internal audit is not effective in gas industry of Iran. In other word, the objectives of internal audit were not achieved in gas industry of Iran (Husseini, 2001). Agha Jafari, M. (2001) has investigated the effectiveness of internal audit at the National Iranian Oil Company. In this regard, the connection (importance) of each factors identified in this study on the effectiveness of internal audit was evaluated. Results have indicated that in internal audit of National Iranian Oil Company following factors are followed: independence of internal audit from activities and operations they attend, determined objectives, inclusion of financial aspects of internal controls, using elite staff in science and experiments, written procedures to perform audit operations, compliance with existing guidelines, adherence to professional standards of behavior and regulations (Mahmudi, 2007). Chi Chen *et al.* (2003) have concluded that the internal audit has an impact on performance of Taiwanese companies and the value of these effects is directly related to poor performance of the company board. Also it has played the greater role in the control of senior managers who are independent and professional. In the present impact of internal audit on strengthening internal controls in the National Iranian Oil Company has been investigated.

3. RESEARCH HYPOTHESIS

Main hypothesis: Internal audit affects strengthening financial performance of companies (in the form of consulting and reliability services)

First sub hypothesis: Internal audit affects strengthening companies' financial performance in the form of providing consulting services.

Second sub hypothesis: Internal audit affects strengthening companies' financial performance in the form of providing reliability services.

4. METHODOLOGY

Research Program

According to new approach of the association of internal auditors to the expectations of the board of directors from internal audit, researcher has plotted a questionnaire in the field of consulting and reassuring services that the “full effect” and “good effect” has been interpreted as agreed options and “relative impact” and “low impact” and “no effect” has been interpreted as the opposite view.

A main hypothesis called “internal audit affects strengthening the financial performance of the companies (in the form of consulting and reassurance services)” and two sub-hypotheses have been used in this study:

- **First sub hypothesis:** Internal audit affects strengthening companies’ financial performance in the form of providing consulting services.
- **Second sub hypothesis:** Internal audit affects strengthening companies’ financial performance in the form of providing reliability services.

Also the researcher designed a questionnaire including 6 general questions and 20 professional questions to collect data from statistical population include beneficiaries of companies listed or do not listed on Stock Exchange, case study: SAIPA and SAIPAPRESS companies.

Also the specific objectives of the research (including ideal, general, especial and practical goals) are as follows:

- ❖ Comments of four levels including: diploma, bachelor, master and PhD in financial and non-financial degrees.
- ❖ Investigate comments of four categories including: the head of audit, senior supervisor, supervisor and auditor.
- ❖ Investigate the relationship between comments of individuals and their job satisfaction.
- ❖ Investigate comments of managers in or out of Stock Exchange.
- ❖ A part of data used in this study collected from library study, questionnaire and auditing case studies as well statistical tests have been used.

Statistical Population and Data Collection

Exchange and non-Exchange organizations and companies and case studies including SAIPA and SAIPAPRESS Automobile Manufacturing Group have been investigated and data collected using questionnaire and statistical analysis(Sample questionnaire is presented in the appendix).

Statistical Methods

Descriptive statistics is used to data collection and writing questionnaire; and inferential statistics is used to analysis and data mining. Use of statistical and nonparametric indices is important and inevitable in data analysis.

Also, statistical methods are used as follows:

- 1- Frequency and percentage
- 2- Correlation coefficient (interpretation of significance)
- 3- T-test – SPSS software

Descriptive Statistics

To understand the situation of samples at first the descriptive statistics of study participants is presented:

In descriptive statistics section at first frequency table has been created for characteristics of the statistical population (age, organizational post, experience in management, job experience, job satisfaction and academic degree) and partly, the samples have been described. Then it has been attempted to analysis data collected from the questionnaire according to research objectives and to gain knowledge from the statistical population. Descriptive statistics methods are used such as frequency, frequency percentage, median, mean, standard deviation, variance and mode. The results are as follows:

1. The maximum age of respondent people was 45 to 50 years old and the minimum age was 25 to 30 years old.
2. The most frequent and lowest frequent academic degree of people were undergraduate and PhD, respectively.
3. Most respondents were managers and less numbers of them were companies' auditors.
4. Most respondents to the questionnaire had 15 to 25 years work experience and the lowest had 5 to 10 years.
5. Academic degree 80% was correlated with the job of respondents.
6. Most respondents were satisfied with their jobs.

Evaluating Hypotheses

As mentioned before, the questionnaire is the main tool to data collection in order to evaluate research hypotheses. After evaluating reliability of questionnaires using Cronbach's Alpha (Cronbach's Alpha coefficient has been used to determine one-dimensional attitudes, beliefs etc.; in fact we want to know how much responders understand equally of the same questions); a method should be choose to convert

qualitative responses into quantities in order to evaluate their results. Likert scale is used where responses range from very high to very low, in order to test hypotheses and variables. Weights of very high and very low options are 1 and 5, respectively, therefore weights from 1 to 3 reject null hypothesis so confirm the correlation between variables; as well 4 and 5 weights confirm null hypothesis and reject correlation between variables. To investigate hypotheses, the average of responses of managers etc. has been determined and has been compared with above items. After collecting the questionnaires, they have been entered into SPSS software to analyze data.

Table 1
Quantities equivalent to qualitative terms

<i>Quantitative responses</i>	<i>Qualitative responses</i>
Very low	5
Low	4
Mean	3
High	2
Very high	1

Evaluating the Main Hypothesis

❖ *Internal audit affects strengthening the financial performance of companies*

The main hypothesis says that there is a question: does internal audit affect strengthening the financial performance of companies? In this hypothesis, strengthening financial performance is independent variable and internal audit function is dependent variable that is designed to measure the effectiveness of internal audit on strengthening company performance. To achieve results, the hypothesis is defined according to two specificity, consulting and reassurance services, and the following questions are asked:

- ❖ First sub hypothesis: Internal audit affects strengthening companies' financial performance in the form of providing consulting services.
- ❖ Second sub hypothesis: Internal audit affects strengthening companies' financial performance in the form of providing reliability services.

And questions are as follows:

1. How can we offer more transparent financial statements through the provision of consulting services by internal audit?
2. How can we offer reliable and more efficient financial statements by providing assurance services of internal audit unit?
3. What is the relationship between attitude of managers and effectiveness of internal audit?

4. Is internal audit necessary to organizations? Why?
5. How can affect the effectiveness of internal audit on financial performance of companies?

To measure the effectiveness of internal audit on strengthening company performance, a questionnaire including 20 questions has been written which divided into two parts, first 6 questions are related to the first sub-hypothesis, and questions 7-20 are related to the second sub-hypothesis; our main hypothesis response will be the sum of these two sub-hypotheses.

Test assumption

$$\begin{cases} H_0 = \mu \geq 2.5 \\ H_1 = \mu < 2.5 \end{cases}$$

μ is the average of responses to questions related to hypothesis.

Results of answering questions related to first hypothesis are presented in following table:

T-statistics	Significant level	Average	Standard deviation	Confidence interval in 95%	
				Maximum	Minimum
11.068	0.000	1.6790	0.6676	-0.9686	-0.6734

Statistical Analysis

According to table above the average answers to questions related to first hypothesis is 1.6790 which although is less than the average of t-statistics, 2.5, but actually is a very high value to test variables. Also obtained significant level is 0.000 which indicates that the hypothesis is significant in 95%. Residuum of average answers and the test theoretical average is 0.8910 which is a high value. Therefore, table above represents that internal audit affects strengthening financial performance of companies, and managers have shown a positive approach.

Evaluating the First Sub-hypothesis

Internal audit affects strengthening companies' financial performance in the form of providing consulting services.

This hypothesis asks: does internal audit affect strengthening the financial performance of companies in the form of consulting services? In this hypothesis, consulting service is independent variable and internal audit function effectiveness is dependent variable that is designed to measure the effectiveness of internal audit on strengthening company performance.

To measure effectiveness of direct consulting services on strengthening the financial performance of companies, questions 1-6 of questionnaire have been written and the question of hypothesis is answered using data analysis.

Test assumption

$$\begin{cases} H_0 = \mu \geq 2.5 \\ H_1 = \mu < 2.5 \end{cases}$$

μ is the average of responses to questions related to the hypothesis.

Results of answering questions related to first hypothesis are presented in following table:

<i>Total</i>	<i>Very low</i>	<i>Low</i>	<i>Mean</i>	<i>High</i>	<i>Very high</i>	<i>Hypothesis</i>
81	1	1	6	40	33	1

<i>T-statistics</i>	<i>Significant level</i>	<i>Average</i>	<i>Standard deviation</i>	<i>Confidence interval in 95%</i>	
				<i>Maximum</i>	<i>Minimum</i>
8.205	0.000	1.8272	0.7380	-0.8360	-5.096

Statistical Analysis for the First Hypothesis

According to table above the average answers to questions related to the first hypothesis is 1.8272 which although is less than the average of t-statistics, 2.5, but actually is a very high value to test variables. Also obtained significant level is 0.000 which indicates that the hypothesis is significant in 95%. Residuum of average answers and the test theoretical average is 0.6728 which is a high value. Therefore, table above represents that internal audit affects strengthening financial performance of companies, and managers have shown a positive approach.

Evaluating the Second Hypothesis

Internal audit affects strengthening companies' financial performance in the form of providing reliability services

This hypothesis asks: does internal audit affect strengthening the financial performance of companies in the form of reliability services? In this hypothesis, reliability service is independent variable and internal audit function effectiveness is dependent variable that is designed to measure the effectiveness of internal audit on strengthening company performance.

To measure effectiveness of reliability services on strengthening the financial performance of companies, questions 7-20 of questionnaire have been written and the question of hypothesis is answered using data analysis.

Test Assumption

$$\begin{cases} H_0 = \mu \geq 2.5 \\ H_1 = \mu < 2.5 \end{cases}$$

μ is the average of responses to questions related to the hypothesis.

Results of answering questions related to the first hypothesis are presented in following table:

Total	Very low	Low	Mean	High	Very high	Hypothesis
81	1	1	6	40	33	1

T-statistics	Significant level	Average	Standard deviation	Confidence interval in 95%	
				Maximum	Minimum
8.205	0.000	1.9506	0.7380	-0.8360	-5.096

Statistical Analysis for the Second Hypothesis

According to table above the average answers to questions related to the second hypothesis is 1.9506 which although is less than the average of t-statistics, 2.5, but actually is a very high value to test variables. Also obtained significant level is 0.000 which indicates that the hypothesis is significant in 95%. Residuum of average answers and the test theoretical average is 0.54938 which is a high value. Therefore, table above represents that internal audit affects strengthening financial performance of companies, and managers have shown a positive approach.

Correlation Coefficient of Hypotheses

One basic definition in statistics is definition of correlation and relation between two variables. Generally, the degree of dependence between two variables is defined as correlation. The direction of correlation may be also required by researchers. There are many different types of correlation coefficients in statistics and each of them measures the correlation between two variables according to data type and conditions of variables. Thus, due to the importance of selecting the right correlation coefficient for a case, here all types of correlation have been defined and it has been tried to imply the time of using these coefficients and the method of calculating them in one of statistical softwares. Correlation coefficients vary from -1 to 1, and the relation between two variables can be positive or negative, for example income and car price of a person or a typist skill and his typing errors on a page.

There are remarkable points about correlation coefficient that is important to mention. The correlation coefficient is a symmetrical relation, if the correlation

coefficient is closer to 1 two variables are more dependent, but note that this dependence does not mean that there is a cause and effect relation and correlation coefficient does not determine which variable is cause and which one is effect; but if other variables also affect the dependent variable then their covariance might have a wrong influence on the correlation coefficient. Also, to generalize correlation coefficient, non-linear relation between two correlated variables can be investigated while correlation coefficient wrongly does not show that. Correlation coefficient also can be used to assess errors in data, including sub-intervals or artificial sections in data domain that if the relation between data increased with increasing variables, then correlation coefficient can be used as criteria of non-covariance 1.

Evaluating correlation coefficients of the hypotheses

The first sub-hypothesis correlation coefficient

- ❖ Internal auditing affects strengthening companies' financial performance in the form of providing consulting services.

Table of the first sub-hypothesis correlation coefficient

	<i>Sub-hypothesis</i>	<i>Analysis</i>
First	Correlation coefficient	0.919
	Significant level	0.000
	Number of questionnaires	81

According to table above it can be understood that correlation coefficient of the first sub-hypothesis is 0.919 which is close to 1 so it can be said that two variables are very closely correlated.

Thus, it can be concluded that: Internal audit affects strengthening companies' financial performance in the form of providing consulting services. In addition, there is a direct and very close relation between internal audit and providing consulting services.

The Second Sub-hypothesis Correlation Coefficient

- Internal audit affects strengthening companies' financial performance in the form of providing reliability services

Table of the second sub-hypothesis correlation coefficient

	<i>Sub-hypothesis</i>	<i>Analysis</i>
Second	Correlation coefficient	0.906
	Significant level	0.000
	Number of questionnaires	81

According to table above it can be understood that correlation coefficient of the second sub-hypothesis is 0.906 which is close to 1 so it can be said that two variables are very closely correlated.

Thus, it can be concluded that:

Internal audit affects strengthening companies' financial performance in the form of providing reliability services.

And there is a direct and very close relation between internal audit and providing reliability services.

Totally, based on correlation coefficient analysis it can be said that: providing consulting services has closer and more reliable relation with internal audit than reliability services.

5. CONCLUSION

Internal audit is an independent function, reliable ensuring, impartial and consulting with the aim of creating added value and improving performance of the organization. Internal auditing with a regular and methodical approach helps organization to achieve its goals and improve the effectiveness of risk management processes, controls and corporate governance. The role of internal audit in the form of consulting and reliability services is very positive and helps managers to achieve their company or organization goals.

According to calculations and analysis we reach conclusions as follows:

- Internal audit affects strengthening companies' financial performances (in the form of consulting and reliability services).
- Internal audit affects strengthening companies' financial performance in the form of providing consulting services.
- Internal auditing affects strengthening companies' financial performance in the form of providing reliability services.
- Providing consulting services has closer relation with internal audit than reliability services.

Also, to answer the research questions we can say that:

- a. Internal audit can only be effective under the supervision of uncharged board members. Considering that companies listed on Stock Exchange are obliged to provide interim reports, if internal audit is appreciated and legal and Stock requirements support its, shareholder could have more confidence in the interim reports.
- b. Since executive and non-executive managers are responsible for financial, administrative and legal risks and compliance with legal requirements to

perform their stewardship responsibility to investors, argue that internal audit is necessary as a part of internal control system.

- c. Today, evaluation of efficiency, effectiveness and cost effectiveness must be a part of normal management process of every business in the public and private sectors and managers consider evaluating performance as one of their responsibilities for monitoring activities and independent assessment of managers' performances using internal auditing by independent internal audit unit.
- d. Internal audit should be considered as a quite independent and impartial process. The aim of internal auditing is not the criticism of current operation, but its purpose is evaluating operation through cooperation with the management and staff, and also developing a program to improve the operation. The most effective approach to achieve this aim is cooperation with client employees in the fields where they have necessary knowledge of weaknesses and at the same time are willing to cooperate. The concept of audit function should be considered as an internal review program to make economic and efficient organization operations in order to reach increase results.

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