

Impact of Efficacious Internal Controls on Audit Process: Auditors' Perspective

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Abstract

This paper aims to identify and determine the impact of effective internal controls on audit process. The research was conducted through a survey of Iranian Audit Organization's Auditors. The designed questionnaire was sent to respondents after analyzing the reliability and validity. 104 questionnaires were received. Collected questionnaires and formulated hypotheses were analyzed and examined by SPSS and LISREL statistical software. The results obtained from the analysis showed that though the internal controls do not reduce the audit time and cost, but they can reduce incidental auditing during the period. The results also indicate that the effectiveness of internal controls can enhance the quality of audit, and increase the detection of significant errors and distortions. It can also increase the credibility of financial statements.

Keywords: Effective Internal Controls, Auditors' Perspective, Audit Process, Incidental Auditing

1. Introduction

Internal controls are a set of measures which are performed by the managers in order to ensure relatively confidence about proper implementation of affairs and compatibility to the imposed regulations and policies so that operation's efficiency and usefulness is increased and predetermined goals are achieved (Mohammadi, 2008). In other words, internal controls include organization's plan and coordination of all procedures listed in an organization which are prescribed to protect the assets, deal with accuracy and reliability of accounting data, promote and encourage efficient operations management to comply with the managerial procedures (Ghorbani, 2007).

Since most management decisions are adopted based on financial information of accounting system, presence of strong internal control system guarantees reliability of accounting information, which is basis for making such decisions. Also, strong internal controls influence the way of auditing by the auditors. The more powerful are the internal controls, significant distortion risks are reduced and thus auditing risk is also decreased. Current study aims at investigating that if internal controls can be effective on audit process including time, cost, quality, significant error detection, and validation of audit reports. Significance of this study is in this way that internal controls system is associated with audit and it is expected that effective internal controls can justify audit motivation and highlight significance of internal controls and its direct relationship with audit process.

1. Statement of Problem

One of the necessities of auditing case is presence of effective internal controls. Internal control is considered as effective if the board of directors and management are ensured logically concerning following cases:

- Awareness about achievement to operational goals of the economic unit
- Preparing reliable financial statements
- Complying with respective regulations

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Managers of the institutes and organizations pay considerable attention to internal control systems, because managers are aware that in case of lack of effective internal control system, realization of the company's major mission, profitability preservation and minimizing unexpected events would be highly difficult. Internal control is very important in the perspective of independent auditors, because limits, type and implementation of internal controls is crucial in determining audit methods and volume of auditor's auditing, and independent auditors can adopt decisions regarding financial reports following investigation of internal control (Arbab Soleymani, 2008). Thus, the problem is that if effective internal controls lead to reduction of time, costs, and incidental auditing in audit process, and if effective internal controls influence increasing audit quality, detection of significant errors and distortions, and validating financial statements.

2. Theoretical Framework

In the past, concept of internal control was confined to internal inspection. In 1949, the American Institute of Certified Public Accountants (AICPA) defined internal control as the organization's plan and all accepted coordinated measures and methods within the business to protect the assets, deal with accuracy and reliability of accounting data, promote efficient operations and comply with the managerial procedures (Ghanbarian, 2011).

Internal Controls – Integrated Framework (COSO)

COSO stands for The Committee of Sponsoring Organizations of the Treadway Commission (COSO). It is a private organization which was voluntarily developed for improvement of financial reporting quality using business ethics, effective internal controls and corporate governance. COSO was originally established in 1985 for supporting "National Commission on Fraudulent Financial Reporting" (NCFRR), which is often referred to as Treadway Commission. COSO defines internal control as a process which is influenced by the board of directors of the business unit, management, and other staffs, and it is formulated for assuring achievement of operational effectiveness and efficiency goals, reliability of financial reporting, and compliance with administrative regulations (Rahmani, 2007).

COSO working group in 2004 formulated and provide its second journal in relation with internal controls entitled as "integrated framework for organizational risk management". According to definition of COSO, "institution's risk management is the process which is streamered by the board of directors, management, and staffs of the economic unit and it is utilized in strategy setting within the company" (Akhoondzadeh, 2011).

Internal Controls in 2002 - Sarbense-Oxely Act (SOX)

Congress of America enacted Sarbense-Oxely Act (SOX) in 2002 in reaction to accounting scandals of Enron Company and Arthur Andersen Audit Institute. Section 404 in this act about internal control necessitates that internal controls report should be prepared annually by the management and it should include management assessment of effectiveness of internal control structure and financial reporting procedures (Hochberg et al., 2009).

Internal Control Elements

- Control Environment: Control environment expresses climate of the organization. This fundamental element provides order and structure for all other internal control elements. Control environment principles include integrity and ethical values, management philosophy and operating style, organizational structure, commitment to financial reporting competencies, authority and responsibility and human resources.
- Risk Assessment: Risk assessment is to identify and analyze the risks affecting achievement of goals and establish the basis for determining how to achieve effective risk management.
- Control Activities: Control activities are policies and procedures which help management assurance about performing guidelines. Control activities include a various range of activities such as approval, authorization, verification, reconciliation, performance monitoring, asset protection and separation of duties.
- Information and Communications Every business needs proper financial and non-financial information in connection with internal and external events which should be available to those who need it in the form and time frame.
- Monitoring: Internal control system and controls application varies over the time. It can be as a result of entry of new employees, changing effectiveness of implementation of procedures and supervision, time, and resource limitations or changes in the conditions for which the internal control system was originally designed. Thus, the management should determine if internal control system application in its original way is effective or not (Ghanbarian, 2011).

3. Review of Literature

Clay and Haskin (1981) raised this question: can internal auditors reduce cost of independent audit? Results of studies suggest that most companies demand high quality for internal audit, and tolerate high costs for achievement of this goal. Also, most of financial managers of the audit companies felt that internal audit is an independent task toward the organization, thus, utilization of internal audit findings by other independent auditors should be developed so that independent audit costs can be reduced.

Findings by Hung and Han (1995) showed that with increase in skill of internal auditors, independent auditors can rely more on them. In fact, due to presence of these features, volume and time of independent audit work is reduced and hence audit cost is reduced. Donald LMini (1996) in his work entitled "Internal Control and Auditing Program Modification" investigated internal control quality in prevention of offenses - with the exception of conspiracy resulting offences – and its relationship with auditing program modification. Research findings showed internal controls assessment during audit in the companies leads to auditing program modification. Cohen, Krishnamoorthy, and Wright (2002) in their work studied corporate governance impacts on audit process. They stated that in order to have effective governance factors on auditing programs, firstly corporate governance strength should be properly identified and assessed. Then, these documents and evidences are used for developing auditing program. If the governance structure is strong, auditor can reduce case size and tests of costly content.

Ioan-Ovidiu Spatacean (2012) in his research entitled "Addressing Fraud Risk by Testing the Effectiveness of Internal Control over Financial Reporting Case of Romanian Financial Investment Companies" showed that internal controls have considerable impact on reliability of prepared financial statements and significantly influence investment decisions. Hence, auditors should properly evaluate fraud risk factors. His research findings showed that increased effectiveness of internal controls reduces fraud risk in financial assets. Sadeghi (1997) in his work entitled "Impact of Management Letter of Independent Auditors on Internal Control System Companies Investigated by Audit Organization" found that in case of negligence of independent auditors to weak points in internal controls of the companies, audit report would not be reliable. Thus, weak points in the system should be identified and management of the business unit should be informed in order to eliminate them.

Vadiee and Koochaki (2008) studied effectiveness of internal controls system. Their research question was as follows: is internal controls system in companies applied for preventing from occurrence of errors, distortions and offenses in an effective and efficient manner? In other words, they investigated if internal control system is effective in the view of independent auditor or not. In addition, if assessment of auditor about internal control system influences audit process? Results of this research showed that internal controls in the companies are not effective and assessment of independent auditors about effectiveness of controls is not basis for audit operation.

Taghi Nataj and Bahramian (2011) in their work entitled "Evaluation of Internal Controls Effectiveness in Investment Company" investigated test application regarding internal controls effectiveness in Investment Company in order to evaluate optimal use of economic, human and social resources. Investment Company of the study was selected as a practical model for determining internal controls system effectiveness based on COSO approach. Research findings showed evaluation of internal controls' effectiveness, which was obtained through implementation of practical model and using COSO plan, was reliable. Maham and Takroosta (2012) investigated obstacles for internal controls evaluation in independent audit. In this research, low fee audit contracts, poor academic education, lack of appropriate audit procedures, traditional commercial units, cost of assessment of internal controls and lack of professional training were rated as obstacles in evaluation of internal controls respectively.

4. Research Hypotheses

1. Effective internal controls reduce audit time.
2. Effective internal controls reduce audit cost.
3. Effective internal controls reduce incidental auditing during audit period.
4. Effective internal controls increase audit quality.
5. Effective internal controls increase detection significant errors and distortions.
6. Effective internal controls increase reliability of financial statements.

Methodology

Current research is applied research work and survey is used as research method, in which written questionnaire is used. The questionnaire contains items which provide information needed for testing research hypotheses. In this research, all senior managers, supervisors, senior auditors (n = 230) in Audit Organization constitute statistical population. The questionnaires were sent via post and email or through direct distribution. Sample size was calculated using Cochran formula. Population size was selected as 230, and accordingly sample size was calculated as 144. Finally, 104 questionnaires were returned out of 144 ones. Data and information of the research were collected using library and field methods. The designed questionnaire contains 4 descriptive items and 28 specialized items and five-point Likert scale was used for scoring.

$$n = \frac{\frac{z^2 pq}{d^2}}{1 + \frac{1}{N} \left(\frac{z^2 pq}{d^2} - 1 \right)}$$

Technical Features of Research Tool

Reliability of Research Tool

In this research, Cronbach alpha method was used for determining reliability of the questionnaire and it was calculated for each of subtests of the questionnaire. Alpha coefficient was calculated using following formula:

$$r_{\alpha} = \frac{J}{J - 1} \left(1 - \frac{\sum_{j=1}^n s_j^2}{S^2} \right)$$

Number of subsets of questionnaire items or test = J, Jth subtest variance = S_j², Variance of total questionnaire or test = S²

Table 1: Cronbach alpha for questionnaire of internal controls affecting audit

Variable	Cronbach alpha coefficient
Reduction of audit process time	0.766
Reduction of audit operation costs	0.762
Reduction of incidental auditing	0.774
Increasing audit quality	0.709
Increasing detection of significant errors & distortions	0.816
Increasing reliability of financial statements	0.809
Total coefficient	0.811

Therefore, considering coefficient of variables and total coefficient is above 0.8, reliability of the questionnaire is supported.

Validity of Research Tool

In order to determine validity of research tool, validity of questionnaire items was examined based on structural equations model (SEM), and test items were examined using ideas and guides of some experts, which denote acceptable content validity of the test.

Factor Analysis for Identifying Latent Variables and Construct Validity

Factor analysis is used for data reduction or identification of structure. Aim of data reduction is eliminating additional variables from data file and aim of structure identification is investigating latent relationship between variables. It should be noted in order to reduce variables and considering them as latent variable, obtained factor loading should be above 0.3. Factor loading in this research is identified above 0.5. In conducting factor analysis, adequacy of the sampling can be ensured using Bartlett test (Momeni and Faal Ghayoom, 2007).

There are various methods for examining data adequacy for factor analysis including Kaiser-Meyer-Olkin (KMO), value of which varies between 0 and 1. If KMO is above 0.70, the correlations in data are suitable for factor analysis. Considering Table 2, it can be concluded that data is suitable for factor analysis.

Table 2: KMO index and Bartlett's test of sphericity extracted for first-order effective internal controls

Statistical Index		Value
KMO Index		0.788
Bartlett's test of sphericity	Statistics	2318.74
	Degree of freedom	378
	Probability (sig.)	0.000

Table 3: Factor matrix (rotated correlation) exploratory factor analysis extracted for first-order effective internal controls

Component	Overlap	Extracted Factors					
		Increased quality	Reduced time	Increased reliability	Cost reduction	Increasing error detection	Reduction of incidental auditing
Item 1	0.700	0.054	0.832	0.025	-0.024	-0.038	0.056
Item 2	0.628	-0.012	0.742	-0.023	0.150	-0.180	0.145
Item 3	0.878	0.090	0.919	0.010	0.088	-0.020	0.134
Item 4	0.882	0.054	0.923	0.041	0.093	-0.039	0.128
Item 5	0.870	0.127	0.913	-0.008	0.057	-0.032	0.126
Item 6	0.773	0.001	0.083	-0.047	0.874	-0.014	0.002
Item 7	0.852	0.101	0.079	-0.104	0.906	-0.047	0.024
Item 8	0.795	0.051	0.096	-0.059	0.878	-0.024	-0.085
Item 9	0.779	0.179	0.075	-0.119	0.853	0.003	0.013
Item 10	0.669	0.346	0.151	-0.061	-0.046	0.049	0.720
Item 11	0.829	0.153	0.110	0.095	-0.067	0.105	0.877
Item 12	0.723	0.217	0.194	0.102	0.146	0.040	0.777
Item 13	0.796	0.152	0.146	0.093	-0.078	0.053	0.857
Item 14	0.847	0.887	0.084	0.034	0.096	-0.011	0.205
Item 15	0.794	0.874	0.073	0.088	0.049	0.018	0.123
Item 16	0.798	0.851	0.031	0.003	0.105	0.026	0.248
Item 17	0.713	0.837	0.088	0.012	0.026	-0.019	0.067
Item 18	0.869	0.898	0.025	0.126	0.074	0.023	0.201
Item 19	0.587	0.104	0.071	-0.028	0.012	0.754	0.043
Item 20	0.780	-0.006	0.007	-0.122	-0.062	0.872	0.026
Item 21	0.647	0.033	-0.158	-0.093	-0.150	0.768	0.017
Item 22	0.701	0.030	-0.109	-0.016	0.029	0.825	0.083
Item 23	0.540	-0.215	-0.143	0.034	0.292	0.619	0.064
Item 24	0.423	0.076	0.089	0.624	-0.122	0.058	-0.034
Item 25	0.685	-0.097	-0.083	0.805	0.065	-0.094	0.087
Item 26	0.740	-0.086	-0.027	0.835	0.097	-0.148	0.056
Item 27	0.883	0.198	0.028	0.889	-0.211	-0.044	0.076
Item 28	0.883	0.198	0.028	0.889	-0.211	-0.044	0.076

According to above table, extracted components are classified in 6 main groups for effective internal controls. Looking at factor loading related to these factors shows that validity is obtained, because factor loading of the items is above 0.5 with their factors and it is smaller than 0.5 with other factors.

7. Data Analysis

Investigating Data Normality Using Kolmogorov-Smirnov Test (K- S)

In order to use statistical techniques, firstly normal and non-normal distribution of collected data is tested, because if data have normal distribution, parametric tests can be used for testing hypotheses. To this end, results obtained from Kolmogorov-Smirnov test (K- S) regarding dependent and independent variables are investigated in this section. According to the obtained results, suitable tests are selected for investigating and testing research hypotheses.

Considering results of the following table, if significance level is larger than error level, null hypothesis is supported, and if significance level is smaller than error level, alternative hypothesis is supported.

Table 4: Result of normality test for research variables

Factor	Sig. level	Error level	Conclusion
Reduction of audit process time	0.621	0.05	Normal
Reduction of audit operation costs	0.874	0.05	Normal
Reduction of incidental auditing	0.531	0.05	Normal
Increasing audit quality	0.228	0.05	Normal
Increasing detection of significant errors	0.854	0.05	Normal
Increasing reliability of financial statements	0.574	0.05	Normal

Since significance level for all components is larger than error level 0.05, thus variables have normal distribution and parametric tests are used for testing research hypotheses.

Testing Research Hypothesis

Considering data obtained from research and using one-sample test, hypotheses 1 – 6 are tested and investigated.

H1: Effective internal controls reduce audit time.

In order to investigate hypotheses, one sample average test was used. Results of this analysis are given in Table 5. As observed, sig. level is 0.229 which is larger than $\alpha = 0.05$, thus research hypothesis is not supported. That is, at error level 5 percent it cannot be claimed that effective internal controls reduce audit time.

Table 5: One sample average test for H1 ($H_0 : \mu = 3$)

Variable	No.	Mean	SD	Mean error distortion
Reduction of audit process time	104	2.9346	0.55069	0.05400

Variable	Test value = 3					
	T statistics	Degree of freedom	Sig. level	Mean difference	Confidence level 95% for mean difference	
					Lower limit	Upper limit
Reduction of audit process time	-1.211	103	0.229	0.06538	-0.1725	0.0417

H2: Effective internal controls reduce audit costs.

As observed in Table 6, sig. level is 0.763 which is larger than $\alpha = 0.05$, thus research hypothesis is not supported. That is, at error level 5 percent it cannot be claimed that effective internal controls reduce audit costs.

Table 6: One sample average test for H2 ($H_0 : \mu = 3$)

Variable	No.	Mean	SD	Mean error distortion
Reduction of audit process cost	104	3.0168	0.56738	0.05564

Variable	Test value = 3					
	T statistics	Degree of freedom	Sig. level	Mean difference	Confidence level 95% for mean difference	
					Lower limit	Upper limit
Reduction of audit process cost	0.302	103	0.763	0.01683	-0.0935	0.1272

H3: Effective internal controls reduce incidental auditing during audit period.

As observed in Table 7, sig. level is 0.000 which is smaller than $\alpha = 0.05$, thus research hypothesis is supported. On the other hand, positive upper and lower limit of confidence interval suggests research hypothesis support. That it, at error level 5 percent it can be claimed that effective internal controls reduce incidental auditing during audit period.

Table 7: One sample average test for H3 ($H_0 : \mu = 3$)

Variable	No.	Mean	SD	Mean error distortion
Reduction of audit process cost	104	3.6250	0.50723	0.04974

Variable	Test value = 3					
	T statistics	Degree of freedom	Sig. level	Mean difference	Confidence level 95% for mean difference	
					Lower limit	Upper limit
Reduction of audit process cost	12.566	103	0.00	0.62500	0.5264	0.7236

H4: Effective internal controls increase audit quality.

As observed in Table 8, sig. level is 0.000 which is smaller than $\alpha = 0.05$, thus research hypothesis is supported. On the other hand, positive upper and lower limit of confidence interval suggests research hypothesis support. That it, at error level 5 percent it can be claimed that effective internal controls increase audit quality.

Table 8: One sample average test for H4 ($H_0 : \mu = 3$)

Variable	No.	Mean	SD	Mean error distortion
Increasing audit quality	104	3.6404	0.47736	0.04681

Variable	Test value = 3					
	T statistics	Degree of freedom	Sig. level	Mean difference	Confidence level 95% for mean difference	
					Lower limit	Upper limit
Increasing audit quality	13.681	103	0.000	0.64038	0.5476	0.7332

H5: Effective internal controls increase detection of significant errors and distortions.

As observed in Table 9, sig. level is 0.000 which is smaller than $\alpha = 0.05$, thus research hypothesis is supported. On the other hand, positive upper and lower limit of confidence interval suggests research hypothesis support. That it, at error level 5 percent it can be claimed that effective internal controls increase detection significant errors and distortions.

Table 9: One sample average test for H5 ($H_0 : \mu = 3$)

Variable	No.	Mean	SD	Mean error distortion
increasing detection of significant errors & distortions	104	3.5654	0.43751	0.04290

Variable	Test value = 3					
	T statistics	Degree of freedom	Sig. level	Mean difference	Confidence level 95% for mean	
					Lower limit	Upper limit
increasing detection of significant errors & distortions	13.179	103	0.000	0.56538	0.4803	0.6505

H6: Effective internal controls increase reliability of financial statements.

As observed in Table 10, sig. level is 0.000 which is smaller than $\alpha = 0.05$, thus research hypothesis is supported. On the other hand, positive upper and lower limit of confidence interval suggests research hypothesis support. That it, at error level 5 percent it can be claimed that effective internal controls increase reliability of financial statements.

Table 10: One sample average test for H6 ($H_0 : \mu = 3$)

Variable	No.	Mean	SD	Mean error distortion
increasing reliability of financial statements	104	3.4942	0.46714	0.04581

Variable	Test value = 3					
	T statistics	Degree of freedom	Sig. level	Mean difference	Confidence level 95% for mean d	
					Lower limit	Upper limit
increasing reliability of financial statements	10.789	103	0.000	0.49423	0.4034	0.5851

Confirmatory Factor Analysis of Research Variables

In this section, results obtained from confirmatory factor analysis for each of research variables are given by AMOS software separately. It should be noted in order to reduce variables and considering them as latent variable, obtained factor loading should be above 0.3, and the model with optimal states is suitable model. The lower is chi square test, it is better, because this test indicates difference between data and model. Tests of Goodness of Fit Index (GFI) and Adjusted Goodness of Fit Index (AGFI) should be above 90 percent. RMSEA test should be as low as possible, because it is square mean of model errors.

Second Order Confirmatory Factor Analysis for Relationship between Internal Control Effectiveness and Audit Process

Second order factor analysis was used for reaching relationship between internal control effectiveness and audit process. Model fit indexes suggest that model is in relatively good fit, because degree of freedom of chi square is smaller than 3 and RMSEA is smaller than 0.08.

Figure 1 indicates measurement model for impact of internal controls affecting audit in auditor’s perspective in Audit Organization in second order standard estimation state. Results shown in the diagram indicate that the model is appropriate for internal control effectiveness and audit process, because most impact factors are above 0.3 denoting strong relationship between indexes and respective aspects. On the other hand, significance level of model (0.000) is smaller than 0.05 and RMSEA is 0.066 which is smaller than critical limit (0.08). Considering that model enjoys all conditions for suitable model fit, it can be stated the model has suitable fit in 95 percent confidence.

Fig 1.Measurement model for impact of internal controls affecting audit in auditor’s perspective in Audit Organization in second order standard estimation state

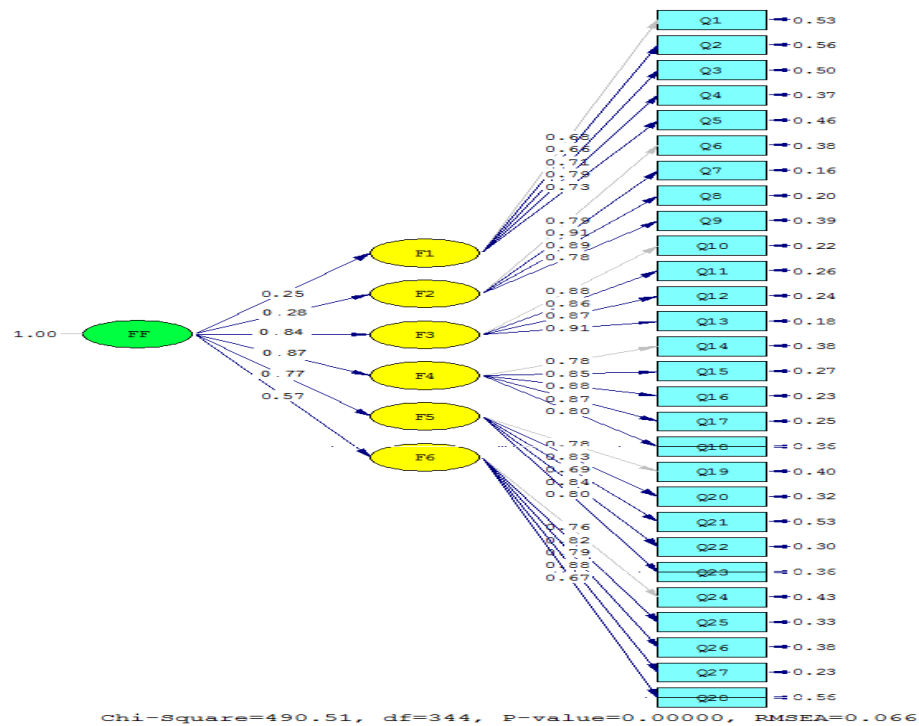
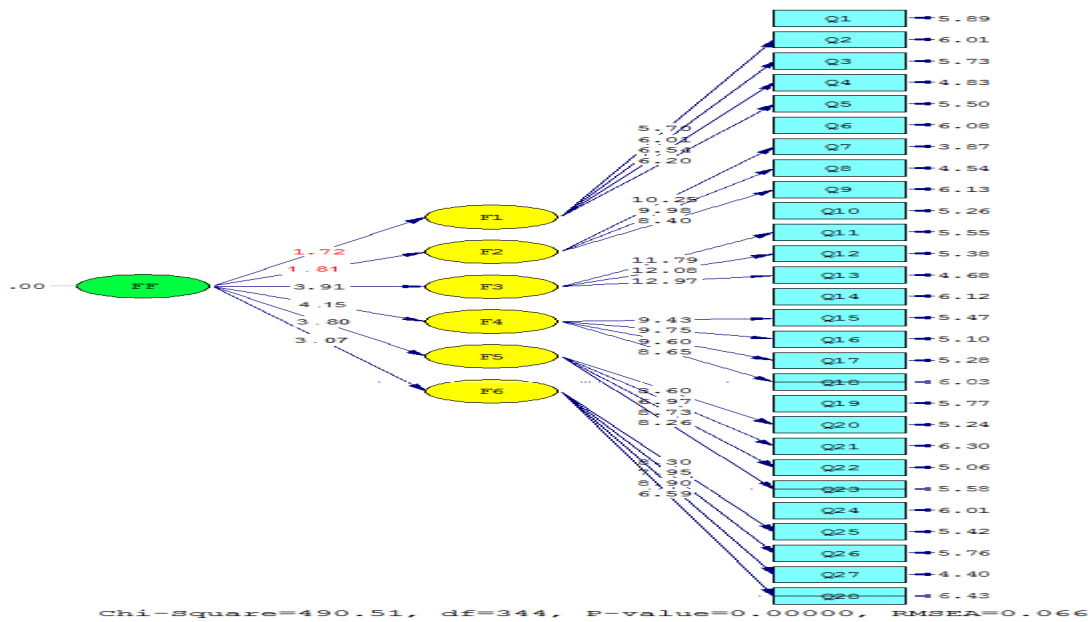


Fig 2.Measurement model for impact of internal controls affecting audit in auditor’s perspective in Audit Organization in second order significance value state



Results in Figure 2 supports significance of coefficients and parameters obtained in internal control impact measurement model in the view of auditors in Audit Organization for four factors (H3 – H6), because it is observed that all values of significance of indexes are larger than 1.96; however, significance value for H1 and H2 is smaller than 1.96 and thus H1 and H2 are rejected.

8. Conclusion, Discussion and Recommendations

Results of Hypothesis Testing

H1: This hypothesis was not supported. That is, it cannot be claimed that effective internal controls lead to time reduction in audit process. Hence, it is rejected. Findings of this hypothesis are not in consistency with findings by Hung and Han (1995).

H2: This hypothesis was not supported. That is, it cannot be claimed that effective internal controls lead to cost reduction in audit process. Hence, it is rejected. Findings of this hypothesis are not in consistency with findings by Clay and Haskin (1981).

H3: This hypothesis was supported. That is, it can be claimed that effective internal controls lead to reduction of incidental auditing during audit period. In the study by Cohen, Krishnamoorthy, and Wright (2002) studied corporate governance impacts on audit process. They stated that if the governance structure is strong, auditor can reduce case size and tests of costly content. Since presence of strong corporate governance suggests presence of effective internal controls in this research, it can be concluded results of this research are consistent with results obtained from this hypothesis.

H4: This hypothesis was supported. That is, it can be claimed that effective internal controls lead to increasing audit quality. It is consistent with findings by Abbott and Parker (2000). They concluded that presence of active and independent audit committees in institutes is associated with increased audit quality. Active and independent audit committee in the unit under auditing suggests presence of effective internal control in the unit.

H5: This hypothesis was supported. That is, it can be claimed that effective internal controls lead to increasing detection significant errors and distortions. It is consistent with findings by L Mini (1996) and Ioan-Ovidiu Spatacean (2012).

H6: This hypothesis was supported. That is, it can be claimed that effective internal controls lead to increasing reliability of financial statements. It is consistent with findings by Sadeghi (1997). He found that in case of negligence of independent auditors to weak points in internal controls of the companies, audit report would not be reliable. In other words, presence of effective controls has positive effect on auditor's report concerning reliability of financial statements. Also, it is consistent with findings by Ashbaugh et al. (2008) which stressed out that audit committees and effective internal control system increase quality of financial reporting and reliability of financial statements. Reliable reports are important for groups which have in contractual relationship with the company, and effective internal controls are crucial in achieving reliable reports (Kinney et al., 1990).

Securities and Exchange Organization has recently adopted and announced internal control guideline, and delivery of board of director's report about internal controls and delivery of independent auditor's report will be bound in the near future (Securities and Exchange Organization, 2012). This guideline was adopted by committee of standards and education; however, it will be finalized in board of directors of Securities and Exchange Organization. Overall, benefits of this guideline weight over its costs, because it leads to more transparency in information in stock exchange market and hence investors feel more trust in the companies.

Proper implementation of internal control in the organization does not guarantee success of the organization in a short-term approach, rather updating and effectiveness of controls in an efficient long-term strategy should be taken into account. However, in both short and long term approaches, the major role of managers is making all staff committed to development of internal control systems through interaction and training. Thus, employee participation through direct participation in designing internal control unit in the organization, especially in control and its processes identification phase, is very effective. In addition, it should be noted that internal controls do not guarantee success of economic unit and internal control is not solution for all potential and possible problems. Some limitations in the current research included:

1. Inherent limitation of questionnaire
2. Lack of possibility to investigate reasons for omitting uncompleted questionnaires
3. Lack of possibility to totally investigate accuracy of respondents to questionnaires

Recommendations for Future Works

1. It is suggested that value making and advisory roles of internal control in the organization is investigated.
2. Investigation of internal control status and dealing with internal controls by auditors in small and large companies

3. Investigation of corporate governance role and audit committee in increasing independence of independent auditors
4. Investigation of reasons for disbelief of managers in business units to necessity and establishment of effective internal control
5. Investigation of impact of continuous changes of business units' managers or lack of management stability on effectiveness of internal controls
6. Investigation of feasibility of auditor's report on effectiveness of internal controls governing financial reporting in business units in the country.

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