INVESTIGATING THE RELATION BETWEEN INTERNAL CONTROL SYSTEM AND FINANCIAL PERFORMANCE OF TELECOMMUNICATION COMPANY OF GOLESTAN PROVINCE

Morteza Shokoohi¹, Parviz Saeidi², Shima kazemi Malekmahoudi³

Internal Auditor Telecommunication Company of Golestan & MA Accounting Islamic Azad University, Gorgan, Iran¹

Department of management and Accounting Gorgan Branch, Islamic Azad University, Gorgan, Iran²

Deputy of Research & Technology, Golestan University of Medical Sciences & Ph.D Student of Educational Management, Islamic Azad University, Gorgan, Iran³

Abstract:

This study aimed to investigate existence of a relation between the internal control system and financial performance of Telecommunication Company of Golestan province. In the term of purpose, research method was applicable and in the term of implementation method it was descriptive correlation. Internal control system included five elements (control environment, control activities, risk evaluation, internal auditing and communication and information). It was totally considered as independent variable and financial performance was considered as dependent variable in this research. Tools of this research were questionnaires including forty nine questions in two parts consisted of general and specific questions. The sample size was 70 individuals of faculty members, deputies, managers, heads of office staff and towns and also financial staff of the province which were gathered randomly and according to the Morgan table. Questionnaires were examined using the SPSS software. Findings showed that there was significant and positive relation between internal control system and financial performance of the Telecommunication Company of Golestan province. Thus it can be said that existence of internal control system influences financial performance positively and an internal control system seems to be necessary for effective performance.

Key words: internal control system, financial performance, Telecommunication Company of Golestan Province

Corresponding author: parviz saeidi², Department of management and Accounting Gorgan Branch, Islamic Azad University, Gorgan, Iran, Email: dr.parvizsaeedi@yahoo.com.

Introduction:

One of the best methods against violation is the existence of an effective internal control system which is used to manage Telecommunication and preserve the values. Successful organizations know how to use opportunities and fight threatens. In many cases, this work is done through effective deployment of controls and improving the performance. Internal control is the integral part of strategic system of an organization. It is also the ability of managing the risk which is managed by the
Leadership institute. Other staff are inspired and observed in order to exploit opportunities and fight threatens to achieve organization’s goals (IFAC (International Federation of Accountants) 1, 2012, 4).

Stakeholders and entitled persons in organizations and companies as the users of financial information always tend to be aware of policies, procedures and arrangements that managers have adopted in order to protect assets of the organization against abuse, theft, to make data reliable, and also to encourage the staff to comply with the requirements and regulations. Organizations have consistently faced with uncertainty in achieving their strategic, operational and other goals. But they can’t decide that which level of risk they face in order to achieve the goals. Internal control system and right evaluation of the risk can contribute organizations in order to make decisions about the level of encountered risks and implementation of necessary controls to achieve the goals. In many of the organizations internal control system exists as written instructions and procedures. But these instructions and procedures might not be accepted and considered sufficiently. Internal controls function efficiently only when they and related risks to them have been realized clearly by the individuals of the organization. Thus controls should be documented and announced through formal and informal channels for the elements of management system who are supposed to make them operational not only as separate controls but also as integrated controls. Appropriate documentation and announcement is extremely vital for the effectiveness of internal control. During the documentation and announcements of controls, applicability and discernment of procedures and policies should be regarded. Successful organizations know how to exploit opportunities and fight against threatens. This is done by deployment effective controls and improvement of performance in many cases (Rahmany, 2013, 85).

This paper aimed to determine the relation between internal control system and financial performance of Telecommunication Company of Golestan province. Internal control includes five elements: control environment, control activities of risk evaluation process of business unit, information and communication systems and monitoring the controls (Hayes et al, 2005, 231).

Internal control is a phrase usually applied to describe how management ensures that an organization corresponds with its financial and other goals. Internal control systems not only contribute effectiveness of management but also they are among important duties of the board of directors (Verschoor, 1999, 408).

Financial controls include abstract measures like Return on Investment (ROI) for evaluating performance of managers in the business level. These measures are similar to what Ouchi (1980) and Eisenhardt (1985) indicated as the result control. Therefore high level managers establish financial goals for each business and measure managers’ performance of business levels according to these goals. This approach can be complicated when mutual dependency degree between business units is high. Thus emphasis on financial controls requires that performance of each sector is largely independent. As a result control environment forms the public space and culture of business unit by influencing control awareness of the staff. This element is considered as the basis of other elements (Maham, 1989, 3).

Control environment influences control activities, information and communication systems and monitoring the activities. Organization’s goals come true to some extent all over the control environment if they are executed effectively and efficiently and its results lead to honesty and intelligence in control, establishment of a positive and gentle language in the high level of
organization extensively in all steps through defining policies and methods which usually include a written regulation of professional behavior. This promulgates mutual values, cooperative moral and pursuing goals of the company. Kamaly Zare, 2012, 265, according to the Stoner’s research (2003), mentioned performance regarding ability to perform efficiently, profitability, growth keeping and reaction to environment opportunities and threatens. In agreement with this idea Solenburg and Anderson (1995) claimed that performance is measured by finding that how much a business unit uses resources efficiently in achieving his goals. This amount is obtained achievement by an individual, team, organization or process (1999EFQM).

Rahmany (2013) in a research entitled evaluating and improving internal control in organizations realized that organizations should have a clear reporting to stakeholders inside and out of the organization about the structure and performance of internal controls system, risk management and his strategy. Moreover organizations should define a policy to gather reactions of different stakeholders to internal control system. Mohammad Pour and Shahraby (2013) in a research entitled “internal auditing, effective strategic corporate tool” realized that internal auditing is an important tool for effective management of resources of each business; it provides new approach to offer auditing products and services that managers need increasingly to receive these consultative services to face current complicated condition. Vadiei and Kuchaky (2008) in a research entitled “effectiveness of internal control system from the perspective of independent auditors and its effect on auditing process” concluded that internal controls are effective in companies and evaluating effectiveness of controls done by the independent auditing is not considered as the basis of auditing operation. Khmish (2013) in a study entitled “the relation between internal control and organizational financial performance of the staff of the Zangbar Bank in Tanzania” concluded that applied internal control among Bank staff is satisfactory and effective and accompanies good level of organizational performance; they also concluded that there was a significant relation between internal controls and organizational financial performance. Mohammad Abdy (2013) in a study entitled “performance of internal auditing and internal control system in money transferring companies in Malaysia” concluded that internal auditing performance of the company was effective and there were some limitations about the separation of duties. Sarrens et al (2011) in a research entitled “effects of monitoring internal auditing performance” concluded that these effects can evaluate current amount of internal auditing performance of the companies; it also can evaluate the role of internal auditing in administrating company’s affaires. Fadzil et al (2005) in a study entitled “internal auditing methods and internal control system” concluded that performance of auditing and considerable reports of auditing are effective from the aspects of control activities on internal control system.

Method of the research:

The research method is applicable in the term of purpose, descriptive in the term of nature and survey in the term of method. The sample size was 70 individuals which included officials related to management and the staff who worked at financial management according to Morgan table. Tools of collecting data were questionnaires. In the first part of questionnaires, demographic information of individuals such as age, sex, work experiences, education degree and individual’s position of respondents were arranged. Second part consisted of main elements of internal control system (such as control environment, control activities, risk evaluation, communication and information and internal auditing) and it also consisted of elements of financial performance in the company which
were distributed and collected between individuals of the sample after formal content assurance and calculated Cronbach’s alpha reliability of 76%. First part consisted of 5 questions and second part consisted of 44 questions. Five-point Likert Scale (from 1 to 5 and from low to very high) was used in order to measure information related to each dimension of the study. In this research, collected data was analyzed by the SPSS software and descriptive statistical tests were used in order to prepare and arrange tables, frequency chart, frequency percentage, and average and standard deviation; and Spearman correlation test was used in order to analyze data.

Findings:

In the current study regarding describing data, 82.9% were male and 17.1% were female.

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Frequency</th>
<th>Sex</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/9</td>
<td>58</td>
<td>Male</td>
</tr>
<tr>
<td>1/17</td>
<td>12</td>
<td>Female</td>
</tr>
<tr>
<td>1/100</td>
<td>7</td>
<td>Total</td>
</tr>
</tbody>
</table>

Moreover 85.7% of the total respondents had bachelor degree and 14.3% had Master of Science degree.

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Frequency</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/90</td>
<td>70</td>
<td>Bachelor</td>
</tr>
<tr>
<td>3/14</td>
<td>72</td>
<td>Master of Science</td>
</tr>
<tr>
<td>1/100</td>
<td>7</td>
<td>Total</td>
</tr>
</tbody>
</table>

Findings:

Regarding this issue that the main hypothesis of the research was to investigate the relation between internal control system and financial performance, the results showed that there was a positive relation between internal control system and financial performance. We can realize the positivity of the hypothesis regarding correlation coefficient of 0.246 and standard deviation of 0.04. Thus H0 hypothesis (there is no relation between internal control system and financial performance) is rejected and H1 hypothesis (there is a relation between internal control system and financial performance) is confirmed.

Table 4-13- correlation coefficient and standard deviation of internal control system with financial performance
Test result: regarding this issue that calculated significance level is less than 0.05, the zero hypotheses is rejected and there is correlation between internal control system and financial performance in the telecommunication company of Golestan province. Regarding test results (the value of correlation is equal to 0.246 and significant), it can be said that there is a positive and significant relation between internal control system and financial performance of the telecommunication company of Golestan province. This indicates that any increase in the variable of internal control system causes increase in the variable of financial performance and vice versa.

Table 4-14: Summarized statistics of the model between internal control system and financial performance of the telecommunication Company of Golestan province

<table>
<thead>
<tr>
<th>Variables</th>
<th>Determination coefficient</th>
<th>Correlation coefficient</th>
<th>Value of correlation coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal control system and financial performance</td>
<td>0.06</td>
<td>0.246</td>
<td>0.04</td>
</tr>
</tbody>
</table>

Regarding summarized table of model, it is seen that correlation coefficient between internal control system and financial performance in the Telecommunication Company of Golestan province is equal to 0.246 and determination coefficient is equal to 0.06. In other words, the internal control system accounts for 6 percent of the financial performance of Telecommunication Company of Golestan province.

Discussion and conclusion:

In the current study we investigated findings in the field of internal control system and its relation with financial performance of Telecommunication Company of Golestan province. Totally 82.9% of respondents were male and 17.1% of them were female.

Education degree of 85.7% of statistical sample was bachelor and education of 14.3% of them was Master of Science.

Age of 5.7% of statistical sample was between 26-35 years, 41.4% of them were between 36-45 years old and 52.9% of them were between 46-55 years old. As a result, regarding performed investigation and results of this research according to the collected information by the questionnaires, there is a positive and significant relation between internal control system and financial performance with the reliability of 95%, correlation coefficient of 0.246 and standard deviation of 0.04; thus in agreement with performed researches by Tunji(2013), Khmish(2013), Maza Saida and Cita Zabde(2013), Frazer(2012), Mihaela and Iulian(2012), Sultana and Haque(2011), Mavanda(2008) and Chye(2007), the mentioned hypothesis is confirmed.

References

- Rahmany, Halime, 2013, evaluating and improving internal control in organizations, the journal of auditing, No.64, pages 78-86.
- Kamaly Zare, Ali, 2012. Internal auditing of reliable services, auditing organization.
- Maham, Keyhan, 1989, independent auditing and internal controls, Accountant Journal, No. 147, Pages 3-7.
- Vadieie, Mohamad Hossein and Kuchaky, Seyed Majid, 2008, evaluating effectiveness of internal control system from the perspective of independent auditors and its effect on auditing process, the journal of development and investment, No. 2, Pages 127-148.
- Frazer Linval, The Effect Of Internal Control On The Operating Activities Of Small Restaurants, Journal of Business & Economics Research Volume 7, Number 0, pp. 204-814
- Khmish. Ali www.academia.edu
- Mavanda, Ssuuna Pius. effects of internal control systems on financial performance in an institution of higher learning in Aganda, pp. 1-15
- CHYE ONG HOCK, The Impact Of Oversight Mechanisms On Quality Internal Control And Its Relationship With Firm Operating Performance
- IFAC-International Federation of Accountants, Evaluating and Improving Internal Control in Organizations, pp. 1-7