

Investigating Internal Controls in Investment Companies from the Viewpoint of Independent Auditors

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ABSTRACT

This research Analysis effective's internal controls in Investment companies from the viewpoint of independent auditors. Due to the special nature of investment firms and more complex transactions (Transactions online and furthers Transactions) and also lack Resources of internal controls that are responsive to investment firms, research in this area seems necessary. In this research using library resources and query and consulting firms, investment managers And the independent auditors are responsible for auditing investment companies, A questionnaire containing effective internal controls in companies and investments provided by the independent auditors to express their opinion. In this research, social statistic are Independent auditors That selected 100 people of Independent auditors as sample .This study was descriptive and questionnaires have been used for research purposes. According to the research, analyzed the statistics for the mean and a binomial test (ratio) by software SPSS is used. The results of Research Display list (Transactions Regulations adopted by the Board, Separation of duties, Periodic review by the Office of transactions and compliance with the CEO) of investment firms have effective internal controls.

KEYWORDS: Internal Controls, Investment Companies, Independent Auditors.

1. INTRODUCTION

The more and more development of investment in the stock of companies by securities results in growing of investment companies and investors. (1). Investment companies has special important and important activity of these companies are buy and sell of stocks, that now created online and future transaction in another words, the basic aim of financial reporting and offering financial reports, are satisfy the need of information of consumers, and investor are the basic user of this process. Information that made by financial reporting and satisfy the need of consumers when had the special quality characteristic. The important features of this information of this information include relationship, useable, comparable and understandable. Doing there features. For reach to ordered aim, producing orders, politics and methods by the managers of companies and organizations. The rightful and beneficiary persons as aster of financial information, surely motivated be aware of the condition of politics, methods, the way of prevention of abuse, stealing, be sure to data, and encouraging employees to observing rules.(1). Internal control is the important part of an organization that included casts, method and effective ways for access to skills, aims and destination and in another word protects of managing on the base of activity and also used as a first protective lined in support of assets, prevent, discover of the faults. In general, rightful and beneficiary persons in organizations and companies sought for answer to the key questions (2). Is management attention to the effective interior control system, interior control system of company, how many prevent of important fault?

According to the above mentioned issues, it can be understood that" the stated information in audit reports and various audit declarations play a significant role in the process of decision making and informed judgments of those who use these reports. (3, 4, 5 and 6)

According to the research, the research questions which have been posed by the researcher are as follows:

- 1) To what extent there is relationship between the 'internal controls' and investment companies?
- 2) To what extent there is relationship between the 'internal controls' and the independent auditors?

2- LITERATURE REVIEW

One of the important aims of reporting of financial reports is satisfy the information needs of users. The users of financial reports usually wanted to know that how much this principles observed in the financial reports. The want to know that the management use of which method for access to organizational aims?

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Is management pay attention to making a good and suitable interior control system?

Investment companies have important nature. The basic activity of these companies are buy and sell of stock and most of securities, that because of special nature of such companies and also online and future translations, exist of on interior control for increasing the ability of rely on of financial information is necessary, yet there aren't source for effective interior control in the investment companies. So performing a research in this field and showing the effective interior controls in the investment companies is very necessary.

One of the stage of auditing that performed by independent auditor, is evaluation of the interior control increased the rely on financial information and investigation for proving the vest of calculation performed in the lower level therefore using of the view of auditors for clearing the effective interior controls, seems more suitable.

This research seek for finding this subject that according to the special nature of investment companies, interior, controls can insure the users of financial information. Now it seems that from the view of management of the investment companies, traditional interior control systems couldn't prevent of fault and illegal activities, in another words in the recent gears financial markets changed very much, and buy transaction perform in the online form, and due to that this system cant used efficiently. The weak interior controls, not only increase the possibility of occurring faults in organization but also affect in the report of independent auditor and he cants offer very well his report about interior controls.

So, for performing the activities of managers in the good form and for attracting the view of rightful and beneficiary persons in the company and also the auditor can reports their research on the base of standards of audition, the interior control system must be design and perform according to the nature of company that the auditor can by use of it perform their ability very well. For the result of work that is the report of independent auditors report and is effective in the decision making of investors, we should follow the process from its beginning. That is the interior control performs effective so that be effective in the report of auditor and also in the male decision of investor. The aim of this research is showing the check list of the effective interior controls in the investment companies, that its results are clear in the investment companies. In companies that and the base of basic nature of the investment companies and become complicated of the stock of transaction in the form of online, which of the interior controls, of rely on financial information.

2-1 Internal Controls

Internal control is broadly defined as a process, affected by an entity's board of trustees, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations safeguarding of assets (7, 8, 9).

2-2 Investment Companies

Generally, an "investment company" is a company (corporation, business trust, partnership, or Limited Liability Company) that issues securities and is primarily engaged in the business of investing in securities. An investment company invests the money it receives from investors on a collective basis, and each investor shares in the profits and losses in proportion to the investor's interest in the investment company (10).

2-3 Independent Auditors

A certified public accountant who examines the financial records and business transactions of a company that he/she is not affiliated with. (11).

3- Research Background

Egnowa and other performed a research as a weakness in the interior controls and the cost of investment on the base of witness of part 404 of rule of Sarbanes exile. The findings of research showed that there is direct relationship between weakness in interior control and the cost of investment of companies, and if the controls be weakness, the cost of shareholder increased. In another words, investors haven't good idea about the companies with the weak interior controls, and felt that the risks of this investment in these companies is very high (12).

In 1997, Mr. Habib Jahangoshage Rezaee with guide of Dr Abbasshashy performed a research as a analyze investigation of the rate of auditor for interior controls of companies. In his research he seeks for this question, can auditor rely on interior control? For auditor, and this rely on is it result in decrease of the context tests? For generation information for test of hypothesizes we use of statistic analyze. Mr. Daraby in 2006, performed a

research as an analyze of the effect of supporting the accepted companies in the securities of Tehran in auditing reports performed in college of Azad – Islamic Tehran (12).

The results of this research indicated that there are direct relation between the weakness interior control in the asset parts, debts, the right of stock holders, income and cost and increasing in the aim of evaluation of effectiveness of interior controls in an investment company by Mr. Ali Asqar Bahramian in 2011 in the Emam-Hossein College, that in this research investigated the value of effectiveness of interior controls in 5 aspects such as control environment, control activities, evaluation the risk, information and relation and clearing in an investment company (1). In this research used of defined interior controls in the commissions of the supported organization of the tardy commission that called kuzo, that the result of this research showed that control environment and control activity aren't suitable form, but evaluation the risk, information and relations are suitable. In this research deal to investigation of the effectiveness of the interior control that are in an investment company, yet in this research because of lack of sources in the field of interior control that be effective in the investment company used of the view of independent auditor as experts in this field.

From the view of independent auditor what interior controls be effective in the increasing of rely on financial information in the investment companies?

From the view of theory, this research is related to the scope of the audition research that aimed for showing the effective interior controls in the investment companies. According to the method of performing research of generation information, the location scope of this research is the independent auditors.

4- MATERIALS AND METHODS

In this research, the method of research, because of test of hypothesizes, is in the form of priori and is in the scope of prove research of audition and a base of real information that achieved form the formal auditors. This research a kind of the data collection. Is peymayeshi, and the relations between dependent and independent variables, is from the kind of scientific. for theory fields and growing subject is from the library form and also asking of accepted investment companies, in the securities bourse and also audition organization and used of them that were the auditors of the investment companies. The wanted information collected by distributing questioner between independent auditors. In this study asked of them for explain their view about the effect of interior controls in the explaining the hypothesis of research. According to the subject of research and the method of performing it, the statistic society of this research is formal auditor. Now the number of formal auditor is 608 persons that this research considered it as a benchmark of statistic society.

In this research used of simple accidental sampling method according to it that the statistic society is limited and it was 608 people, with the confidence level? 5% and 10% attention, used of the following formal and the size of the sample is 84 persons.

For increasing the ability of rely on the result of sample research that it should be least 86 persons, used of 100 persons. In this research the wanted information for resting hypotheses, collected by offering questioner to the formal auditors. In the cited questioner asked of answerers that say their view about each of interior controls in the text. So the above questioner, effected to the independent in the questioner.

For measuring the anecdotal of questioner, there are different methods. The important of this because of the fact that unsuitable and a sufficient measuring can unvalued the scientific research. For determining it, questioner offered for the masters of college and auditor, and asked of them for judge, if the questions measured things that they have in mind. In this research for confidence of questioner used of the method of Cronbakh Alpha this method used for computing the interior balance of measurement tool such as questioner. A questioner be confidence if the amount of Cronbakh Alpha be more than 701% and how much it was close to1, its confidence be higher. For calculation of index of Cronbakh Alpha at first we should compute the variance of the number of any question and total variance. There fore of prepared questioner offered between 15 experts of the subject under investigation that the index of the computed Alpha by the software SPSS for this questioner be %839. If it was more than 0/7, we can say that they are valuable. It means that they aren't result of chance and accident and it was because of the effect of variable that was under testing. According to the kind of research, used of explain method and also 2 sentences test.

5- RESULT

The following table includes the hypothesis of research and results of 2 sentences test.

Table 1-hypothesis Test

Row	explanation	Agreeable rasion	Contrast rasion	result
1	Mediator agencies of transaction, determined by board of director and transactions perform just by the cited agencies	%91	%09	Accepted
2	Dividing duties between dealer, prove and holder of securities or the paper of sell and buy performed dividedly	%99	%07	Accepted
3	Regulation did by board of directors and determining the futures of the major transaction performed just by them	%98	%02	Accepted
4	Doing transaction sell and buy of securities possible just by the experts of (expert unit)	%97	%03	Accepted
5	If the company do for seller buy the stock of another company that accepted in the boars of securities, make decision is on the shoulder of manager of boars of company	0/87	0/13	Accepted
6	If the company do for buy or sell of stock in the major or an- major form of the company outside of bourse, make decision is on the shoulder of board of directors	0/97	0/03	Accepted
7	If the company do for buy or sell of stock in the major form of a company in the bourse, the offering of buying offered by manger director to board of director and they made decision.	0/98	0/02	Accepted
8	All of the documents of audition should be signed by producer confirmer.	0/89	0/11	Accepted
9	All of the issued documents should sign.	%87	0/13	Accepted
10	For all of the stocks sell and buy. Or future transaction, the papers of sell and buy received form agency, and for sign offer to the manager director.	%94	%06	Accepted
11	The original of the papers of sell and buy, maintain by the independent unit and its copy appendixes to the documents of audition.	0/94	0/6	Accepted
12	Manager director of company received the forms of transaction weekly from agency and adopted them with the confirmed papers of sell and buys and investigated their contrasts.	0/92	/08	Accepted
13	The forms of the received trans action such ad the above, adopted by manager director weekly with audition documents and investigated their controls.	0/92	0/08	Accepted
14	For sell and buy of another securities such as, portfolios, that publicized in the framework of the current rules in the country, manager director made- decision solely, and in the first session of the manager director, reported its report to the members.	0/82	0/18	Accepted
15	All of the sell and buy of the investment in the long- term stock, possible by the permission of manager- director.	0/100	0	Accepted
16-1	For investment in the house or land: sell and buy of house and land permit just by manager director	0/100	0	Accepted
16-2	The financial cards include asset features, the data of buy, and the find price.	0/96	0/04	Accepted
16-3	The documents of assets controlled very well by the director.	0/94	0/06	Accepted
16-4	Suitable dividne, s, s between people for responsibility of support of stable assets and also... keeping document of owner.	0/93	0/07	Accepted
16-5	Stable assets should be covered by insurance very well	0/90	0/10	Accepted
16-6	The document of ownership of these properties received by the name of company.	0/97	0/03	Accepted
16-7	Sell and buy of house and land performed by expert price, and the original document keep by independent unit and copy of them and the repot of evaluation, appendixes to it.	0/96	0/04	Accepted
16-8	The house or land that performed by company period, investigated by the independent person and adopted by documents of ownership.	0/93	0/07	Accepted
16-9	The changes of investment in the land and house by the permission of manager director, investigated by the independent persons.	0/92	0/08	Accepted
16-10	If the company wanted for buy the coin, security and also forks transaction buy the cited section permitted just by the manager director	0/98	0/02	Accepted
17	About the article 17, dividing duties between holder of coin or portfolio, recorder in the office, and a person who issues the related permission.	0/100	0	Accepted
18	About the article 17, the necessary guarantee from the holder of coin and portfolio, received.	0/99	0/01	Accepted
19	Counted by the independent persons and adopted by the office.	0/100	0	Accepted

Data Analysis

In order to analyze the data the following statistical methods have been deployed:

Estimating test validity:

"In order to estimate the validity of time sampling, retest validity method and Pearson correlation test were used and for validating scope sampling Cronbach α was employed (13,14).

Testing Hypotheses:

Test of correlation between variables

For testing the correlation between variables, correlation coefficient has been implemented.

Multiple Regressions

Multiple regressions have been implemented in order to test the hypotheses.

If the hypothesis of independence hypothesis of errors is rejected and there is correlation between errors, regression cannot be applied. Therefore, if this case occurs Durbin-Watson test will be employed to study the errors.

6- DISCUSSION

The offered questions and their test in the table 1, cleared, and the rate of accompany and contrast of it showed in it. Because question offered by experts, there are good agreement about them. As cited in the above section, suitable interior controls, is good aspect for confidence to information and insure to the user of financial information that the information of financial of company explain clearly and insure to the managers that the asset of company prevent of faultiness. In one the words one of the stage of audition of financial that performed by auditors. Proposed to the formal auditor and the organization that investigated in the field of controlling in the companies that has special important such as the investment companies, and produce check list for this company separately. It was proposed that performed the same research about interior control for financial organization and banks and another companies that have special nature.

Based on the hypothesis number one which indicates there is a direct relationship between internal control of the auditor and investment companies, which was also confirmed in this study, it is recommended that all auditors increase their level of knowledge about this important issue. So they can take action about internal controls more efficiently and clarify the issue.

According to the study two which states that there is a direct relationship between internal controls of the auditor and the quality of the audit report, which was also confirmed in this research, it is suggested that all auditors increase their knowledge about this issue since it is very important. As a result, they would be able to enhance the quality of the audit reports and clarify them.

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