A Aeb in the Obstanes and Problems in the Implementation of Operational Audit in Iran

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The focus of inquiries on the key proceedings of organization, then identifying the operations' weaknesses and providing suggestions for improving managers’ performances is an important issue which ensures the next progress of the organization. This task can be done through the “Operational Audit”. In fact the operational audit is the evolved form of internal audit that is done with wider domain than the financial statements audit. However, the nature of operational audit requires facing more problems and obstacles in front of its enforcement progress. The goal of present research is examining and evaluating the most important obstacles and difficulties in the implementation of operational audit in Iran's economic system from the viewpoint of auditing institutes administrators. In this case, some hypotheses have been done by relying on theoretical topics and studying related performed researches. In the following, a sample has been chosen from a wide statistical population consists of active auditing institutes administrators in Iran economic system. Then data were organized in the form of 6 variables and to test hypotheses, Binominal test was applied. The research methods have been descriptive-survey type and the time period of research is specified to 2013. The results of research suggest that there are basic problems and obstacles relating to the implementation of operational audit, that could be a notification for poor performance of responsible organizations and mainly legislators; these obstacles and problems can be divided into: (1) lack of legal requirements (2) the lack of deep recognition of companies managers about operational audit and the benefits of its implementation (3) the low effectiveness of “operational audit comprehensive guide” as the instructions for work performance and also lack of specified, common and acceptable criteria for evaluation of performance (4) unprofessional implementation of the operational audit by lots of young auditing institutes.

INTRODUCTION

Maximizing stock value of the companies requires efficient and active markets and the stock exchange market does this by equipping and guiding the savings to productive economic investments [3]. By separating the ownership of company and management, accumulate considerable financial resources by accumulation of low capitals. In accordance with agency theory in appropriate, effective and efficient usage of these resources by managers to achieve the aim of maximizing the wealth of company ownership, it is possible to be created some benefits-contradiction between them. The present study by selecting a good statistical sample of audit managers aims to evaluate all the barriers and problems of implementation of operational audit in economic system with focus on the companies listed on TSE.

Accordingly, it is tried to answer these questions: from the perspective of auditing institutes managers, what the obstacles and problems are there in practical implementation of operational audit in Iran's economic system?... Despite the existence of operational specialist manpower for implementing operational audit, why is the operational audit less attended in action? How is the performance of responsible and legislative organizations evaluated in the field of operational audit? ...

Theoretical Basics of the Study:

By a brief view to three classifications of the countries to non-developed, developing and developed countries, it is found that the main criterion of development is the development of its industrial section of the
countries, not developing religion, ethics and other issues. Thus, development of each country is a reflection of high output of existing industrial companies in that country whether they are organized by the local experts of that country or by the foreign experts and craftsmen [19]. Now, we can say that the companies in each country play an important role in its economic dynamics, so attracted many studies. Such of these researches is Meckling and Jensen research that defines the company as a set of complex contracts, whom be given it legal entity [9]. As each group of beneficiaries have specific, different and contradictory benefits and goals with each other, so to avoid difference and do balance between them and fulfilling their satisfaction that is the necessary factor of formation, stability and development of capital market, we should find a solution. The corporate governance is raised for such balance. The important point is considering the main content of corporate governance and its implementation tools. The issue of “operational auditing” is raised and it can be considered as a guiding tool for effective use of provided resources and it can be serious warning in the wastage of that resources and the lack of efficiency and effectiveness.

**Operational Audit:**

Private companies are a part of Iran economy. As privatization in accordance with article 44 of constitution is accelerated, the necessity of high quality audit of financial statements of the companies to accept their stock in TSE is necessary [15]. Operational audit started where financial auditors didn’t only resorted to the investigation of the accuracy of information and this question was raised that why financial events are done? And is it necessary to do those? Operational audit is a procedure by which the auditors defines the managers to what extent the resources given to them as trust in the most economical and efficient way to achieve the most effective operation results [17]. Various terms and definitions are presented for operational audit but there is no considerable difference from conceptual aspects between them. In Iran, audit organization defined operational audit as: “operational audit is regular and organized process of evaluation of effectiveness, efficiency and economic of organization operation and report of the results of evaluation with the practical recommendations to the qualified people to improve operation”[16]. Operational audit consists of three components of effectiveness, efficiency and economical aspects and it is of great importance. Operational audit is the true example of management counseling services with some of the audit features of financial statements. Operational audit process is done in six stages. These stages are: (1) Planning; (2) Formulating audit plan; (3) Operation execution; (4) Evaluation of the results and presenting recommendations; (5) Reporting and (6) pursue [16].

**Review of Literature:**

Approximately we can call 1875 as the starting point of the operational audit and know countries such as German, the United Kingdom, Canada and the United States as the starter of this movement [5]. But the official starting point of the operational audit concept is the publishing governmental organization auditing standards, in 1972 by Supreme Audit Court of the United States [17]. In recent years, in Iran the government is moved to operational budgeting. The change of budget system of Iran to operational budgeting caused that its audit system is changed from traditional (compliance) audit to operational audit. Supreme audit court as the specialized and independent source of the main budge of Iran presented a framework entitled “operational audit and its reporting”. Also, in Iran, operational audit standards published by USA supreme audit court is translated in journal 127 of audit organization entitled “Government Audit Standards” is including operational audit definitions, standards of operational audit reporting and execution of operation. In addition to these actions, various studies are conducted on operational audit in Iran and each one is important. Rapid growth of operational audit in its theoretical basis is indebted to these researches in a short period. Some of the views of this issue are as followings:

Gendron et al showed that how public auditors can make their comments and claims about evaluating of government performance in the specialized format [6]. Loi and Quek created a combination pattern of operational audit and organization strategy in their research in order to reduce the risk and revenue management. This article shows that the correlation of auditing processes and organizational conditions are essentially useful for both companies and auditors [11]. Sakai has introduced a model in his research which is useful in evaluating the operational audit report and the result of management performance [18]. Executive problems of operational audit are studied in government executive organizations from the view of managers and experts of supreme audit court. The results showed that weakness of specialized skill of auditors in operations, unsuitable report from the accounting system, the lack of evaluation index of government performance and the lack of managers' information from the benefits of operational audit are the most important executive barriers of operational audit in the related organizations [4].

In another study in response to the question whether the auditors have the required specialization and knowledge for operational audit of government organizations? Is there any justification about the operational audit goals adequately? The results showed that at confidence interval 95%, the hypotheses are supported [1]. Logically, it can be said that the results of the present study can be effective in justification of the contradictory results of the mentioned researches. In the research by Maham et al, three factors: (1) social - cultural, (2)
economic (3) and technical have been introduced as the important implementation and developing barriers of operational audit [12]. To find the relationship between operational budgeting and operational audit in a study of Ghadimpour and Tarighi, the results of the study showed that although operational audit principles in government and private sector are similar, but the implementation of operational audit in government sector is of great importance; because non-profit nature of government organizations is a necessary and sufficient condition for operational audit execution singly [7].

The role of operational audit in strategic management is considered in a different study. In this study, the stages of strategic management were explained as: (I) the formulation of strategy, (II) execution of strategy and (III) strategic evaluation. Later, operational audit is introduced as a valuable issue and useful tool for strategic evaluation stage.

The present study emphasized on the fact that as organization managers can’t wait a long time to achieve final results and it is possible that it loses the resources, opportunities and facilities; Thus in evaluation strategy stage by the aim of operational audit it be taken required correcting decisions to achieve the determined goals of the organization [9]. So important issue than ever is attention to content of operational audit and emphasis on its existing barriers and problems to implement this item in order to run it in the companies listed in Tehran Stock Exchange (TSE) which is unfortunately less considered in Iran.

**Study Method:**

In this study, for the theoretical framework and review of literature and formulation of hypotheses, deductive method is used and for hypotheses test and generalization of the results to population, the inductive approach be used. The type of present study is applied and the kind of study method is descriptive-survey. Expost facto was used in this study and in another words the researcher has no control over the collected data. The required data collection methods for the present study were library and field. In library method, the required theoretical information was provided from some resources as books, journals, professional article and in field method, by some instruments as interview and questionnaire, the study required data were collected.

The validity and reliability of the measures in data collection process for effectiveness of the study is the main condition. The most famous index for questionnaire reliability evaluation is "Cronbach’s alpha" [2]. In the present study, its figure is (α=0.972) and it shows high reliability of the questionnaire. The statistical population of the study was including the managers of active auditing institutes of Iran how met at least once operational audit experience. By voluntary (available) sampling method, 108 people were selected. As statistical techniques are affected considerably by the scale of the study variables and as variables scale of this study is ordinal, thus non-parametric statistical techniques namely binominal test is applied.

**Hypotheses:**

This study is including one main hypothesis and five sub-hypotheses as followings:

Main hypothesis: “From the view of auditing institutes managers, the barriers of implementations of operational audit to run in the companies listed in TSE is considerable.”

Sub-hypothesis (1): “the responsible and legislative organizations have not had enough attention for making the operational audit mandatory.”

Sub-hypothesis (2): “managers of the companies do not have enough cognition about the benefits of the operational audit implementation.”

Sub-hypothesis (3): “the comprehensive guide of operational audit has been inefficient in guidance operational audit projects and does not offer common and acceptable criteria for judgment and commenting.”

Sub-hypothesis (4): “most of the auditing institutes proceed to accept unconsidered and unprofessional operational audit projects.”

Sub-hypothesis (5): “The practical experiences and skill level of operational auditors is low.”

**Study Variables:**

As the present study consists of five sub-hypotheses, so to evaluate each of them, one (Oi) variable is used. To evaluate the main hypothesis of the study, the (O), variable is used and it is sum of all (Oi) variables. The variables of the present study are descriptive and have ordinal scale and they have five items which includes: (1) very low, (2) low, (3) average, (4) high, and (5) very high. As in Binomial distribution, study sample is divided into two groups (G1 and G2), therefore Oi variable is measured as following:

\[
O_i = P_{G2} = \frac{n_G \cdot n_2}{n} = \frac{G_2}{n} = \frac{n-G_1}{n}
\]

Here: \(O_i\) is the amount effect of (i) barrier in existing operational audit. \(P_{G2}\) is the ratio of people located in the second group of statistical sample; \(G_1\) is the first group of statistical sample and include the people with responses: very low (n1), low (n2) and average (n3). \(G_2\) is the second group of study sample and includes the
people with responses: much (n₁), very much (n₂) and n denoted sample size. In this part, (i) is a feature with each of sub-hypotheses and it includes values from 1 to 5.

Based on these explanations, the people who expressed much (n₁) and very much (n₂) responses, they considered barrier and problem (i) as effective. The statistical hypotheses are following:

\[
\begin{align*}
H_0 \cdot \Pr & = P_0 \\
H_1 \cdot \Pr & = P_0
\end{align*}
\Rightarrow \begin{align*}
P_{c1} < P_3 & \rightarrow \text{condition(I)} \\
P_{c1} > P_3 & \rightarrow \text{condition(II)}
\end{align*}
\Rightarrow \begin{align*}
\text{Support} & \Rightarrow \text{Reject}
\end{align*}
\quad (2)
\]

In statistical tests of the present study the basis ratio is (P₀ = 50%). In these tests, study hypothesis is rejected if statistical hypothesis H₁ and condition (II) are fulfilled. The mentioned method is called “equal-unequal” assumption and it is the basis of calculations of SPSS software of binomial test and it is current for all of assumptions of the present study.

Results of the Study:

Data analysis is a multi-state process in which the collected data are summarized, classified and processed. In this process, statistical techniques play important role in inferences and generalizations. By careful attention in the information of tables 1&2 and the comparison of the significance level with study error level (α=5%), we can support all the hypotheses of the study with 95% confidence interval. It should be noted that according to the general rule of “detail to total”, when all sub-hypotheses be supported, so the main hypothesis of research be verified too.

Table 1: The Results of Descriptive Statistics.

<table>
<thead>
<tr>
<th></th>
<th>O 1</th>
<th>O 2</th>
<th>O 3</th>
<th>O 4</th>
<th>O 5</th>
<th>O A</th>
</tr>
</thead>
<tbody>
<tr>
<td>G1</td>
<td>0</td>
<td>18</td>
<td>32</td>
<td>48</td>
<td>24</td>
<td>122</td>
</tr>
<tr>
<td>G2</td>
<td>108</td>
<td>90</td>
<td>76</td>
<td>60</td>
<td>84</td>
<td>418</td>
</tr>
<tr>
<td>Sum</td>
<td>108</td>
<td>108</td>
<td>108</td>
<td>108</td>
<td>108</td>
<td>540</td>
</tr>
</tbody>
</table>

Table 2: The Results of Binominal Test.

<table>
<thead>
<tr>
<th></th>
<th>O 1</th>
<th>O 2</th>
<th>O 3</th>
<th>O 4</th>
<th>O 5</th>
<th>O A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sig</td>
<td>0.00</td>
<td>0.00</td>
<td>0.290</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>α</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td>Acceptable:</td>
<td>H₁ &amp; Con(I)</td>
<td>H₁ &amp; Con(I)</td>
<td>H₀</td>
<td>H₁ &amp; Con(I)</td>
<td>H₁ &amp; Con(I)</td>
<td>H₁ &amp; Con(I)</td>
</tr>
<tr>
<td>Final Result:</td>
<td>Supported</td>
<td>Supported</td>
<td>Supported</td>
<td>Supported</td>
<td>Supported</td>
<td>Supported</td>
</tr>
</tbody>
</table>

Discussion and Conclusion:

The purpose of this research is reviewing the obstacles and problems of operational audit implementation in Iran economic system with a focus on the companies listed on Tehran stock exchange (TSE). The results of this research indicates that: (1) legislative organizations have neglected approving the rules relating to operational audit implementation in any possible reason including the lack of sufficient recognition of operational audit and also the lack of understanding its implementation importance; (2) due to the lack of deep understanding of the benefits of the operational audit implementation and in any other reasons such as maintaining ones’ position in the company and the axioms of the agency theory, the companies’ managers didn’t accept the risks of operational audit implementation against it benefits; (3) the comprehensive guide of operational audit could not attract the comments of auditors community as a work map of auditors in providing specified and acceptable criteria for the judging and evaluating of the performance; in other words, existing defects were so that the statistical sample members have consented in describing it as an executive barrier and problem; (4) many of young auditing institutes inevitably have proceeded to sign the operational audit contracts in order to maintain their life in the competition market for some reasons as: not having a proper share of the market and the high organizational costs, while unfortunately they have the least level of knowledge and practical experiences in this field. These institutes with their unconsidered adoption and unprofessional performance have caused the customers’ despondency and lack of satisfaction and finally will have negative effect on the growing process of operational audit; (5) by collecting factors above, it can be expected that the numbers of offers for operational audit projects will be gradually decreased and in this condition even despite the existence of auditors with high level of theoretical knowledge, because the fields of operational audit practical implementation are not provided, therefore the low level of operational auditors’ practical experiences [and even the low numbers of these people] should be expected as a new problem and obstacle. According to the earned results of the variable (O5) from the
 Iranian auditors have declared their practical experiences in low level. Besides this issue shows the honesty and braveness of Iranian auditors but it also represents an authentic culture of Iranian people. This culture says that: “every Iranian always represents his scientific and experiences level less than what it really is to maintain others’ scientific position”. As it can be seen, the effect of this culture has highly defaced the measurement of the variable (O5). So we can’t directly rely on the results variable measurements (O5), but to approve or reject the related hypothesis we have to judge based on the results of other hypotheses.

**The Recommendations of the Study Results:**

The existence of many problems and obstacles that were dealt with during this research is a clear reason that the practical implementation of operational audit can’t reach to generality, so that to implement this type of auditing it is necessary to be taken a long way. Now regarding to available problems and obstacles some offers are recommended:

A) To apply operational audit in the country’s economy system by using of legal tracts, we have to provide the necessary conditions already. (A-1) In order to increase the “knowledge and proficiency” level of current auditors who are acting in the field of operational audit, handling training courses on behalf of the auditing organization can be effective and efficient. (A-2) But in order to increase the “knowledge and proficiency” level of country’s future auditors, the role of ministry of science and auditing professors of universities can’t be denied. Therefore the emphasis is on these two issues.

B) To promote the practical experiences of operational auditors, in addition to the role of accounting professors of universities in harnessing the obstacle as the lack of deep recognition of managers towards operational audit [and consequently increasing the demand for performing operational audit] we can emphasize on the role of the stock exchange organization and other legislative authorities. Undoubtedly increase of operational auditors’ practical experiences depends on the increase of administrative projects numbers. In fact, the existence of legal requirements is the warranty of increasing numbers of operational audit administrative projects and therefore it will be followed by the promotion of auditors’ practical experiences.

C) Paying attention to the “acculturating” especially “financial health and moral culture”, and before it the realization of ”culture of error acceptance and awarding compensation opportunity” is very important in the process of getting the operational audit executed. The issue that how this culture is implemented, is not the subject of the present research, but anyway, the lack of attention to it as a required and necessary condition result to stop the implementation of the operational audit process, because the operational audit causes the highlighting of the weak performance for unqualified managers. These managers that may include a great community, [in accordance with the agency theory] to maintain their positions in the company will run to stop operational audit process or divert its direction or they will have negative effect on the work results by their precluding. But if the culture of “error acceptance” governs the economic region of the country and also managers assure that the “sufficient opportunity” will be given to them in order to compensate the committed errors, therefore, not only they don’t spend their time on resistance and positioning against to operational auditors, but also they will be to try to achieve the goals of the company which is under their administration with all powers.

D) Using of the legal requirements if done correctly not only fulfill the category of operational audit, but also it be noted acculturating. For example, if a legal article expresses ”The general managers of companies that run the operational audit sequentially and voluntarily under their administration in the office, they can remain on their positions with their authorities for other three years after the last done operational audit, this law in fact gives managers the "compensation opportunity", therefore, it fulfills not only the operational audit but also identically ascertain the culture of “error compensation opportunity”. However the shareholders of company don’t lose their authorities to employ more qualified managers, the legislator can premise the operational audit implementation to be rely on the shareholders’ vote, in other words if the shareholders vote the implementation of operational audit it means they have kept the current manager in his position for three years and have foreclosed their right to expel him in the ordinary conditions, but if the shareholders don’t vote the implementation of operational audit this means that they can dismiss the respective manager from his position (but if the last period of his compensation opportunity [three years] has been ended). Establishing legal requirements as described above can easily remove the root of all matters and problems in front of the operational audit implementation.

E) The results of research suggest that unconsidered adoption and unprofessional implementation of the operational audit has happened by many young auditing institutes in the competition market so that this issue has caused the operational audit to get away from the main purpose and content and have negative effect on adoption and implementation of operational audit by other qualified institutes. In this way, it’s recommended to the legislators to have more attention on the issue of auditors’ independence in codifying the laws and political decision-making. For example, provides the conditions and filters to institutes that are going to accept and sign the contract of operational audit or for making the work more specialized it is recommended to the legislative organizations to distinct the administrative institutes of operational audit projects from other auditing institutes.
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