

IMPACT OF INTERNAL AUDIT IN MANAGEMENT PERFORMANCE

IN IRAN INSURANCE INDUSTRY

MOHAMMAD JAVAD TAHERI TIKDARI

Expert, Kerman Supreme Audit Court, Iran

ABSTRACT

This research objective is the study of Impact of internal audit in management performance in Iran insurance industry. The managers of the insurance industry of Iran, in the branches are the statistical population. Based on the calculations, 70 people were selected as the statistical sample. In the questionnaire, Likert 5 point scale is used. Using the Cronbach's alpha coefficient, the validity of the questionnaire was confirmed. Using the Cronbach's alpha coefficient, the validity of the questionnaire was confirmed. Internal audit was in improvement of internal control. Internal audit characteristics are effectively on management performance, through improved internal control. Structural and environmental factors of auditing have the most effect.

KEYWORDS: Iran Insurance, Questionnaire & Factors of Auditing

INTRODUCTION

Insurances are considered one of the most important institutions of the financial system of a country's economy, and by offering diversified financial and insurance services, it plays a decisive role in the economic growth. The role of insurances in financial intermediation is very important and it will have positive effects on investment and economic growth, and the necessary conditions to achieve sustainable economic development of the country will be provided. Otherwise, they will have a lot of potential to be affected by the potential problems, arising from inefficient management. So, the issue of management and insurance supervision, especially when they would be affected from large state-owned management, will be an important issue in the economy.

Inefficient management of insurance has a negative impact on economic growth and economic development, and it has a lot of capital from the right economic cycle. In the insurance system, the appropriate internal control is the fundamental basis for safe and secure insurance and efficient management. Protection of resources and assets of credit union was against any damage, loss, misuse and embezzlement. It should be noted that, internal audit has traditionally been considered, a part of the internal control system, which through analysis and evaluation of internal controls, helps the management in performance of its duties. The internal audit unit should evaluate and report the sufficiency of internal control system, in terms of effectiveness and efficiency in the use of insurance resources. Today, one of the most obvious signs of weakness, in the regulatory system of state-owned insurances, particularly in internal audit, is the new discovered large fraud of insurances. Nowadays, the use of internal audit services, for the protection of an organization's assets, preventing and detecting errors and improving the management of the organization's affairs is a necessity. The aim of this study is to evaluate the effectiveness of internal audit, in achieving the goals of management in the public sector and the factors affecting this effectiveness, which is given the importance of the insurances, a case study is done at insurance. The reason for the selection of insurance is the recent events and news regarding the manipulation, falsification or alteration of

accounting documents or other records, for the purpose of obtaining illegal financial benefits, misuse or theft of assets, misrepresentation of financial effects of transactions or removal of documents, registration of transactions without supporting documentation (structuring transactions) and incorrect application of accounting procedures in insurances. That's according to this affair, and consultation with insurance affairs experts and specialists, this issue will be investigated in Iran insurances.

MODEL

The model has been developed to measure the internal audit impact on management performance, based on the following form, where the internal control intermediate variable is used.

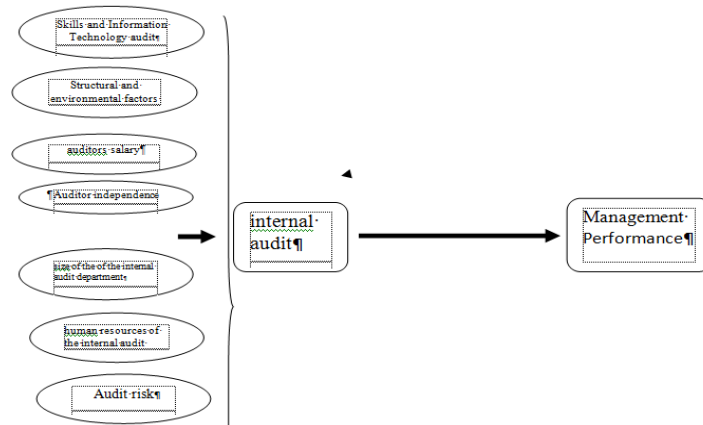


Figure1: Model of Research

In this study, internal auditor is an independent variable and Management Performance as a dependent variable.

Research Hypothesis

Assumptions examined in the study are as follows:

Internal audit in Iran insurance, is not effective in Managing Performance

The small internal audit department is the reason for failure in improvement of Management Performance in Iran insurance.

METHOD

The method of data collection is using a Likert scale questionnaire and the spatial scope of the research is the insurance industry in Iran, and a random sample of employees of the financial insurance sector, has been selected. In this study, to analyze and test the hypothesis, the structural equation modeling (SEM) is used.

Research Background

Up to now in Iran, the field research which explicitly investigates the effect of internal audit on improvement of management, in state-owned insurances has been found.

Testing the Reliability of Questionnaire

Validation of questions about the questionnaire items is based on the software output as the table (1).

Table: Cronbach's Alpha Coefficient of Variables

Items	Cronbach's Alpha Coefficient
Skills and Information Technology of audit	0.717
Structural and environmental factors of auditing	0.652
Salary and allowances of auditors	0.912
Auditors independence	0.833
The size of the internal audit department	0.917
Human resources department of internal audit	0.787
Auditing risk	0.948
Internal audit	0.984
Management performance	0.686

As can be seen in all cases the reliability of the questionnaire is unacceptable level and above it.

The Analysis of the Nature of the Research Variables and the Tests

The analysis of the nature of the research variables and the tests

The aim of the study is to evaluate the effectiveness of the Management performance in the improvement of internal control in Iran insurance. So the research deals with a two or multi-variable problem with analysis of structural equation. Since the multivariate problem is of correlation type and the measurement scale of research variables is distance, so the best method for the analysis and test of the research hypotheses is the analysis of structural equation.

For using structural equation analysis, some assumptions must be justifiable. Interval measurement scale, normal distribution of the variables studied, linear relationship between dependent and independent variables and lack of linear relationship between the independent variables with each other, is the required assumptions for this test. Variable distribution with Kolmogorov Smirnov test (null hypothesis is the normality of the data), and results have been shown in Table 2.

Table2: Normality of the Data

Variable	Kolmogorov-Smirnov Statistics	The Significance Level	Test Result
Skills and Information Technology of audit	0.984	0.301	Distribution of society is normal
Structural and environmental factors of auditing	1.483	0.077	Distribution of society is normal
Salary and allowances of auditors	1.276	0.134	Distribution of society is normal
Auditors independence	1.422	0.065	Distribution of society is normal
The size of the internal audit department	1.171	0.212	Distribution of society is normal
Human resources of department of internal audit	1.364	0.088	Distribution of society is normal
Auditing risk	0.833	0.590	Distribution of society is normal
Internal audit	0.933	0.510	Distribution of society is normal
Management performance	0.966	0.323	Distribution of society is normal

The confidence level is 95 percent

Estimation of Model by Using SEM

For analysis, after entering the raw information of questionnaire in SPSS software for normality and reliability, the data for analysis, were entered by using the smart PLS software. In the next step, the research model was included in the software and finally the model output was extracted. According to the obtained results, the extracted relationship between latent variables is, shown in Table 3:

Table 3: Results Sem

Coefficients Of Tracks				
Track		Estimation	Standard Deviation	Statistic
internal audit	Skills and information technology of auditing	0.959	0.282	3.401*
internal audit	structural and environmental factors of auditing	1.131	0.214	5.291*
internal audit	the salary and allowances of auditors	1.011	0.249	4.055*
internal audit	the independence of auditors	0.956	0.254	3.766*
internal audit	the size of the internal audit department	0.961	0.227	4.238 *
internal audit	human resources of internal audit department	0.694	0.264	2.634 *
internal audit	auditing risk	1.110	0.346	3.210 *
management performane	internal audit	0.991	0.068	24.565*

Parameters Marked with an Asterisk in the Significance Level of 5% are Significant

It should be noted that the difference of observed and expected abundance is meaningful and Residual Variance and covariance (RMSEA) is relatively small, we can say that the model have good process. Based on the above table, the following results will be achieved on the basis of respondents' views:

There is a significant relationship between internal audit and the Management performance.

CONCLUSIONS AND RECOMMENDATIONS

The research results are as follows

- There is a significant relationship between the skills and information technology audit and Management performance.
- There is a significant relationship between structural and environmental factors and Management performance.
- There is a significant relationship between the salaries and allowances of auditors and Management performance.
- There is a significant relationship between the independent auditors and Management performance.
- There is a significant relationship between the size of the internal audit department and Management performance.
- There is a significant relationship between the human resources department of internal audit and Management performance.
- There is a significant relationship between audit risk and Management performance.

So there is a significant relationship between internal audit and the Management performance

The Basel Committee recommends that the laws should clearly define the responsibilities and tasks of the internal audit unit and required powers of the staff of audit unit to be anticipated, so that enable them to have an unlimited access to all documents, assets, records and files of employees and managers, which they deem necessary for the performance of their tasks and responsibilities.

Therefore, the status of the internal audit staff should be in such a way that they can effectively. Senior managers of insurances or business firms, have the duty to consider and support seriously the status and position of the internal audit unit staffs in terms of organizational structure in such Skills and Information Technology of audit, Structural and environmental factors of auditing, Salary and allowances of auditors, Auditor's independence, The size of the internal audit department, Human resources of the department of internal audit & Auditing risk supported.

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