

Supreme audit court of auditors' insights on operational audit challenges

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ABSTRACT

This paper presents an empirical study to find out the possible barriers on implementing operational audit. The proposed study distributes some questionnaires among supreme audit court of auditors and analyzes the questions. The results indicate that many governmental organizations are not strongly committed to rules and regulations. There are not sufficient standards on auditing programs and many governmental agencies do not even use operational budgeting system since they are not aware of the benefits of such system. There are some of the most important challenges of having operational accounting and paper suggests some guidelines for having better regulation on removing the main barriers.

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1. Introduction

Operational auditing plays an important role on many big institutions where several transactions held on a daily basis. Operational auditing is not just providing consultation, but the skill sets of an experienced operational auditor. Internal auditors regularly evaluate controls and impact organizational units well beyond the financial reporting. Their expertise, disciplined approach to evaluating controls brings real value for their organizations. During the past few years, there have been changes on definitions of various terms of auditing. Internal Auditing, for instance, has been redefined, operational auditing, a comprehensive method used among professional organizations, is undergoing a transformation from a very broadly defined to a highly focused assessment of organization risk, capability and performance. Traditional audit steps such as preliminary surveys have been replaced by collaborative risk assessment. Audits of organizational functions using standardized checklists have also been replaced by cross functional teams using some modern management tools from quality management and process reengineering.

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There is no doubt that operational auditing could significantly affect the performance of any organization and there are many evidences to believe that operational auditing could reduce many possible feudal transactions. An efficient auditing program normally reduces different risk associated with inspections of various accounts (Lines & Nicholson, 1994). Efficient operational auditing normally depends on a good organizational structure, where authority and responsibility for all phases of operations are precisely defined. A good and comprehensive auditory system usually represents on time process of transactions, which could contribute to all operations and helps organizations for a sustainable growth. There are literally many studies associated with challenges on having good auditing plans (Abidin et al., 2010).

Blume and Voigt (2011) are believed to be the first who assessed the economic factors of differences in organizational design of supreme audit institutions (SAIs) on a cross-country basis. They estimated the influences on three groups of economic variables including fiscal policy, government effectiveness and corruption, and productivity. The study gathered data from 40 countries and reported that differences in the independence, the implementation record, the mandate and the organizational model of the SAIs would not seem to have any clear-cut effect on any of the three groups of dependent variables. However, they reported an exception, which was perceived levels of corruption and they were substantially higher if the SAI were structured along the court model of auditing.

Schelker and Eichenberger (2010) investigated the role of independent auditing institutions with an extended mandate to audit the budget draft and individual policy proposals. They argued that such auditors could improve transparency and prepare essential information on the effect of policy proposals on common pool resources, which helps reduce unnecessary expenditures. They empirically investigated the effect of such auditors on fiscal policy at the Swiss local level. In fact, those auditors who could assess and criticize policy proposals substantially reduce the general tax burden and public expenditures. The results were similar for various datasets and robust to different changes in the econometric specification.

Jennings et al. (2008) reported the results of an empirical survey in which 57 sitting United States judges took part in a behavioral experiment to evaluate the credibility of the financial reporting process and the legal risk auditors bear under conditions where they provided an internal control audit report (vs. no report) under two corporate governance environments. They reported that internal control audits could provide enhanced assurance that intentional misstatements do not exist. They also explained how to present elevated protection to the public.

Chung et al. (2010) compared the status of auditors' legal liability to third parties in 7 countries. They investigated recent regulation, legislation, and case law as well as pronouncements from national accounting and auditing bodies. They reported that common law countries including the United States, Canada, the United Kingdom, Australia, and New Zealand had enacted legislative reforms, which directly or indirectly increased auditors' liability. In contrast, civil law countries such as Germany and France did not mandate legislative or regulatory reforms.

Radcliffe (2008) investigated government auditing observations regarding the "public secret", or "knowing what not to know" with the concept of analysis as defacement. Radcliffe explored the consequences of auditors in effect keeping public secrets, based on the findings of a performance audit of the Cleveland (Ohio) City Public Schools as an exemplar.

Giroux and Cassell (2011) investigated the changing patterns in the economic and institutional risk environment during the past few years and studied differences using empirical surrogates as measures of relative audit risk. They investigated competitive, economic, and regulatory differences over time. They reported cyclical patterns of relative audit risk, which were parallel regulatory, economic and institutional changes over the period.

Numata and Takeda (2010) investigated the effect of accounting fraud by Kanebo and the resulting penalties on Kanebo and its auditor, ChuoAoyama, on the stock prices of clients of ChuoAoyama and the other Big four auditors in Japan. Their study provided an opportunity to examine whether loss of an auditors' reputation matters without an insurance rationale. They reported that the announcements of poor audit quality had substantially decreased the stock prices of clients of ChuoAoyama and, to a lesser extent, stock prices of the clients of the other Big 4 auditors.

Guénin-Paracini and Gendron (2010) performed a comprehensive auditing study and explained that the functioning and the sustaining of economic order are predicated on the production and reproduction of mythologies and not just by rationality of market. Lima and Magrini (2010) investigated the Brazilian audit Tribunal's role in improving the federal environmental licensing process.

The present study investigates why many Iranian governmental agencies fail to use operational accounting. On the contrary to many other studies, we only focus on gathering insights from top managers who work for supreme audit court. The orientation of this work first presents details of our survey in section 2. Section 3 presents details of our finding and finally concluding remarks are given in the last to summarize the contribution of the paper.

2. The proposed study

The proposed study investigates the main challenges on having efficient operational budgeting planning in governmental agencies. The study uses the following formula to calculate the minimum number of sample size,

$$n = \frac{N \times z_{\alpha/2}^2 \times p \times q}{\varepsilon^2 \times (N - 1) + z_{\alpha/2}^2 \times p \times q}, \quad (1)$$

where N is the population size, $p = 1 - q$ represents the yes/no categories, $z_{\alpha/2}$ is CDF of normal distribution and finally ε is the error term. Since we have $p = 0.5$, $z_{\alpha/2} = 1.96$ and $N = 500$, the number of sample size is calculated as $n = 375$. In our survey, we selected 190 regular auditors, 127 senior auditors, 111 chief auditors, 55 senior chief auditors. There were also 17 top managers who helped us by filling the questionnaires. There are four hypotheses associated with the proposed study of this paper, which are as follows,

1. The lack of legitimate law based on the main components of operational auditing including economic, efficient and effectiveness methods is considered as one of the main challenges of using such operational auditing.
2. The lack of a good and practical standard is considered as one of the main challenges of using operational auditing among executive managers.
3. When there is no operational budgeting, there will be no motivation on executing operational auditing among executive managers.
4. The lack of a good awareness is one of the main barriers of using operational auditing among different people including executive managers.

The questionnaire has been designed using Likert scale (Likert, 1932) and Cronbach Alpha (Cronbach, 1951) was calculated as 0.85, which validated the results. Next we present the results of our survey using Chi-Square test.

3. The results

To complete the survey, we have used Chi-Square test to examine the tests and Table 1 shows details of our finding.

Table 1

The results of Chi-Square for four hypotheses

Hypothesis	Explanation	χ^2	Critical region	Null hypothesis
H1	The lack of a good regulation on forcing firms to provide operational auditing	629.82	21.0265	Reject
H2	The lack of sufficient standards to support operational auditing	462.59	21.0261	Reject
H3	The lack of existence of operational budgeting in organization	673.49	21.0261	Reject
H4	The lack of a good awareness of the advantages of operational auditing in organizations	129.17	21.0261	Reject

As we can observe from the results of Table 1, all null hypotheses have been rejected in favor of alternative ones but we need to also rank all these hypotheses for possible future action and use Freedman test (Friedman, 1937-1940) to rank them. Fig. 1 shows details of our ranking.

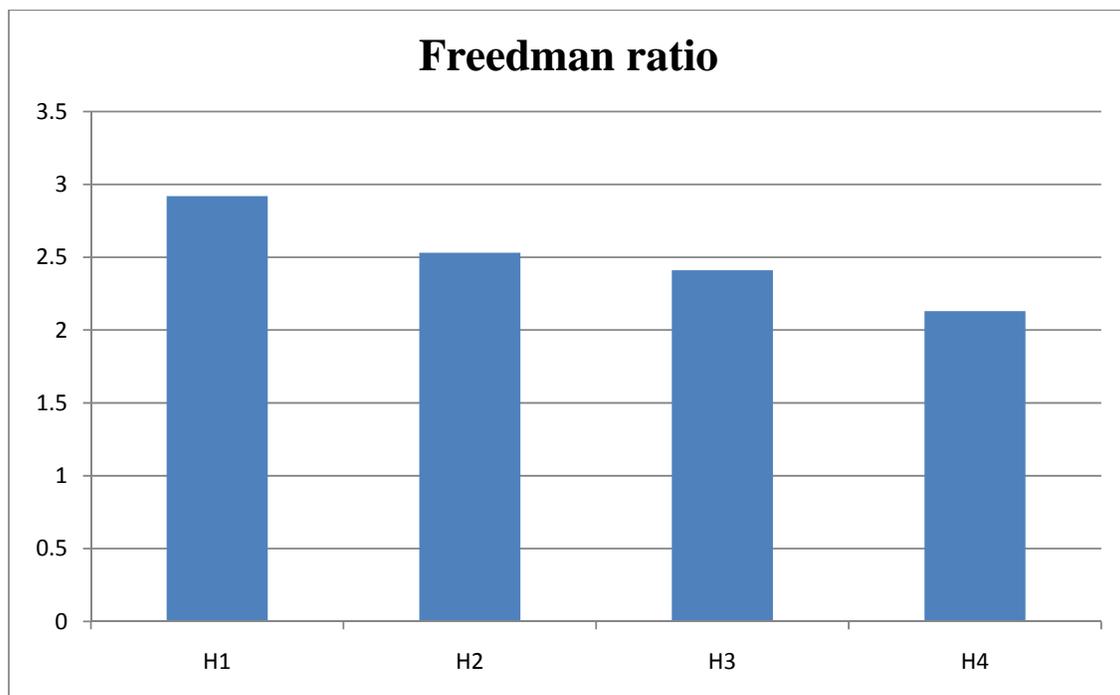


Fig. 1. The results of Freedman test

As we can observe from the results of Fig. 1, the lack of a good regulation on forcing firms to provide operational auditing is the most important item challenging operational auditing. The lack of sufficient standards to support operational auditing is the second most important reason to use operational auditing. Our Freedman test result also confirms that when there is no operational budgeting, there will be no motivation on executing operational auditing among executive managers.

In Iran, many governmental agencies do not presently have any operational auditing and this itself could create some challenges. Finally, the lack of a good awareness of the advantages of operational auditing in organizations is the last important item on using operational auditing.

We could suggest that local government of Iran setup some regulation to force governmental agencies and organizations to start using operational auditing systems. The regulations normally must go to Parliament and details of the regulations must be discussed and approved before any other actions are taken. Presently, there is no transparent standard for operational auditing in Iran and it is not easy to adopt traditional existing standard.

The author believes that supreme audit court of auditors must act as initiatives to start setting up some new regulations. The government must insist on using operational auditing in the country and create some motivations for different agencies to develop these regulations. Finally, it is very unfortunate to see that many top managers of governmental agencies are not familiar with the basic concept of operational auditing. Therefore, we need to encourage them to participate managers in some short courses or MBA programs to become familiar with fundamentals of these issues.

4. Conclusions

In this paper, we have presented an empirical study to discover the possible barriers on implementing operational audit. The proposed study distributed some questionnaires among supreme audit court of auditors and analyzed the questions. The results indicated that many governmental organizations were not strongly committed to rules and regulations. In addition, when there was no operational budgeting, there would be no motivation on executing operational auditing among executive managers. There were not sufficient standards on auditing programs and many governmental agencies do not even use operational auditing system since they were not aware of the benefits of such system. There are some of the most important challenges of having operational auditing and paper suggests some guidelines for having better regulation on removing the main barriers.

We have suggested that local government of Iran setup some regulations to force governmental agencies and organizations to start using operational auditing systems. The author believes that supreme audit court of auditors must act as initiatives to start setting up some new regulations. The government must emphasis on using operational auditing in the country and it must create some motivations for different agencies to develop these regulations. Finally, it is very unfortunate to see that many top managers of governmental agencies are not familiar with the basic concept of operational auditing. Therefore, we need to encourage managers to participate in some short courses or MBA programs to become familiar with fundamentals of these issues.

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