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## **THE IMPACTS OF IMPROVED MONITORING BY THE AUDIT COURT ON THE IMPLEMENTATION OF PERFORMANCE AUDIT**

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### **ABSTRACT**

The purpose of this study was to determine the impact of improved monitoring by the GAO, on the implementation of performance audit, to achieve this objective, the target population, included the executive organizations of Mahabad city from which 71 patients, finance employees, accountant, senior accountant and finance director, were selected. Data collection procedure in this study is the five-option Likert type questionnaire through which we test the research hypotheses with 25 questions. This study has one main and four sub-hypothesis, in which the Kolmogorov-Smirnov test is used examining the normality of the study variables, the Pearson correlation coefficient is used for examining the relationship between the dependent and independent variables and the simple linear regression analysis is used for examining the statistical methods used in this study. The results of the linear regression analysis indicated that through improved monitoring by the Audit Court, the possibility of performance audit, economy, efficiency and management controls increase, therefore all the research hypotheses were confirmed.

**Keywords:** *Performance Audit, the Audit Court, Improved Monitoring*

### **INTRODUCTION**

As societies develop, expectations of people become more and more varied and they demand more responsiveness from the authorities. The organizations develop and get more complicated and thus having bureaucracy is inevitable. On the other hand, the level of people's trust in government organizations has decreased and there can be seen levels of distrust and uncertainty in the people toward them. Some experts believe that corruption and illegal activities done by the managers of the organizations are the cause of the mentioned distrust. Others believe it to be due to the inability of the organizations to be responsive.

Responsiveness, whose root is in respecting human rights, can be viewed at several areas and levels. In the state level, authorities should be responsive to the people for the duties held by them. Controlling and supervising the financial system of the state in order to be responsive to the people is one of the main duties of the Islamic Consultative Assembly. The most part of the supervision is done through the Supreme Audit Court, being one of the sub-divisions of the Islamic Consultative Assembly (Safari, 2011). As the improving management in the organizations especially in the public sector is of high importance, it is necessary for the managers to establish universal management control systems and constantly evaluate the efficiency, the economic benefits and effectiveness. For this purpose, the management auditors, like financial auditors, can play an important role in improving and empowering these systems. Therefore, the desired auditing of the government sector is met when organizations are equipped with plans and the goals and desired results which are to be obtained are clearly defined. Thus, performance auditing is a clear expression of considering economic benefits, efficiency and effectiveness in the function of all the big and small organizations.

Utilizing decent and proper methods of managing in an optimum use of human resources especially in the public sector is a conscionable responsibility, a rational duty, and a canonical and national obligation, and, in the macro level, leads to the preservation of the existing resources and gaining more benefits. Limited resources and facilities, the quality and amount of the services and products provided, an increase in the competition, the necessity to do things right and to be responsive has caused the managers put considerable focus and close attention on an effective and efficient performance while considering the economic benefits. In such circumstances, the managers feel obligated to make use of the human

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resources such that the mid- and long-term goals of the organization are met with the least expenses without compromising the quality (Khodagarmy, 2001).

The limited resources and facilities on one hand, and the goals of the mid- and long-term economic and social plans for the purpose of growth and development, and making sure about the right administration of plans and activities in the public sector as the largest and the most influential economic sector on the other hand, has made it inevitable to have an effective, efficient and economic access to resources and thus establishing the operations auditing in this sector seems necessary.

About the operations auditing being ignored in the Supreme Audit Court, one should mention that operations auditing in the public sector is much more important, more fundamental and more effective than financial supervision since the planning and improving the plans is done based on the operations reports. Additionally, due the variety in the non-financial activities, this type of auditing is much more complicated than the financial one. But the results it provides are far more effective and efficient in making the operation coherent because they consider the past, the present and the future of the plan while in financial auditing, only the financial activities done in the past are investigated. Furthermore, the financial performance does not always keep up with physical progress (Mousavi and Nikbakht, 2012).

Supervision is of high importance in Islam such that the two key and valuable principles called enjoining good and forbidding wrong are referred to as general supervision and advising the Islamic governors and the authorities is considered to be a duty for everyone.

With the formation of the arguments on separation of possession from management and the emergence of a contradiction between the benefits of the possessors and managers, the evaluation of companies and managers performances receive considerable attention from different sectors like creditors, possessors, government and even managers (Evans and Weir, 1995). Supervision and control means to inspect and observe how an operation is administered comparing the desired situation with the changes and corrections on the operation in order to prevent diversions from the organizational goals (Shams, 2012). Controlling and supervising measures are means of identifying, preventing and decreasing the barriers to the fulfilling of organizational goals. The managers should take effective and efficient measures to control and supervise. While taking controlling measures, the managers must gain the most benefits with the least expenses. The managers should apply the measures on the business procedures and systems, and the allocation of the resources among the controlling measures should be carried out based on their level of importance or on the fact that how well they can decrease or prevent the risk (Dinapoli, 2007).

The supervising method by the Supreme Audit Court in Iran is not the same as any financial supervision organizations in other countries, and, unlike most of the countries that have a supreme auditing organization or delegations; it is not solely an auditing organization.

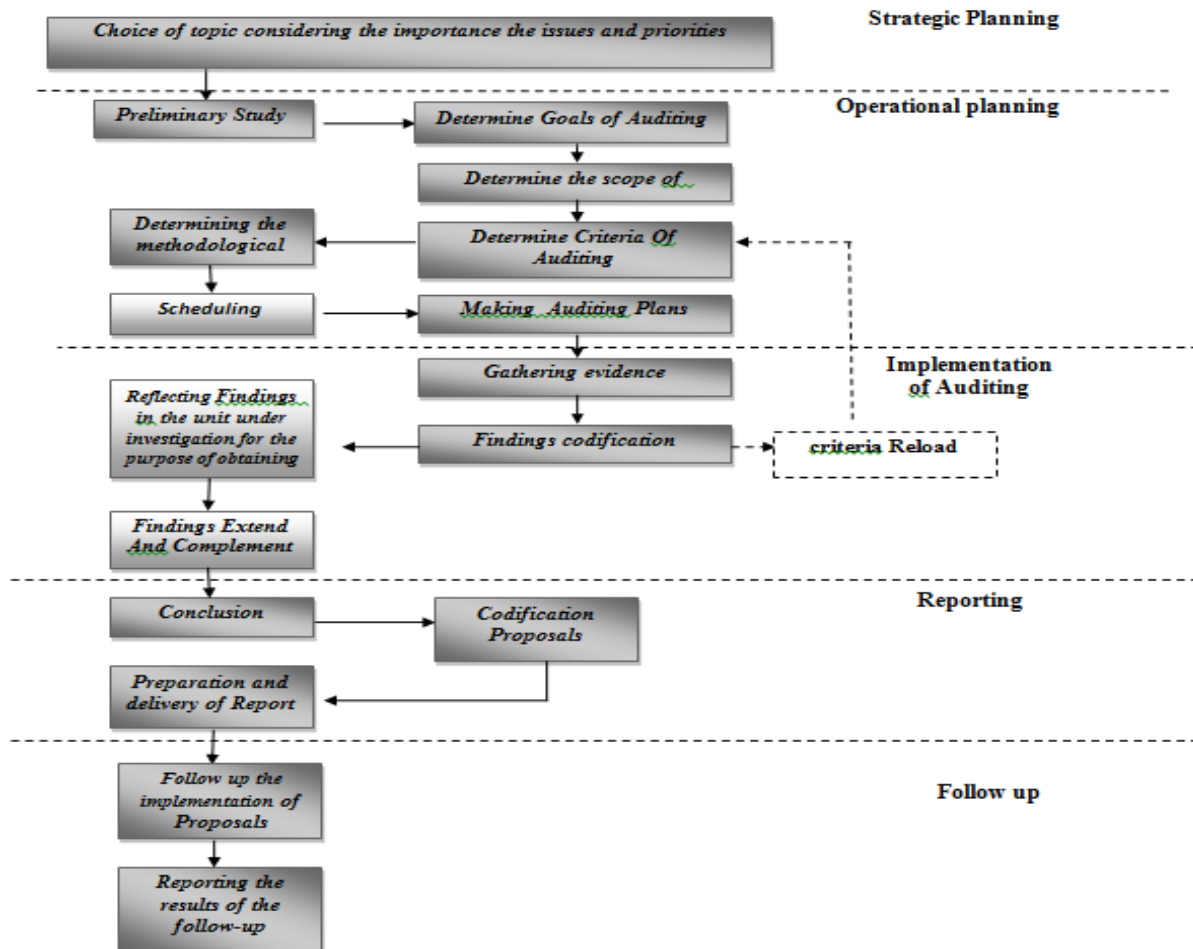
- It is not a court, in its specific definition, like ones in some countries. The Supreme Audit Court is financial supervision organization belonging to the Islamic Consultative Assembly.
- It is not related to the Judicial System. It has juridical procedures like the ones in the prosecutors' offices and courts.
- Although under the organic allegiance of the Legislature, it is functionally independent and not obligated to follow the parliament's orders, unless they are made and directed in the framework of law.
- Although benefiting from an integrated structure, the juridical-like departments are separated from the auditing and technical ones and are independent from each other in performance (Arabian, 2011).

The Supreme Audit Court has duties including:

- The right to investigate all financial affairs in the country and specifying obligations for all authorities within the Islamic Republic, organizations, administrations, and all the individuals and the organizations using the national budget with direct responsiveness to the Court's correspondences.
- Investigating, any financial delinquencies and differences by the related agents in the government when administering laws and regulations as stated.
- Auditing and investigating all accounts of incomes and expenses and other payments and receiving and financial statements of organizations to check the conformity with financial laws and regulations and other related obligatory laws and principles.

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- Investigating the balance of the properties and possessions account
- Declaration on the necessity of an internal controlling group or on the insufficiency of the current controlling groups in the organizations under investigation considering the auditing reports and the investigation done before for preservation of treasury (Shahbazi, 1994).



**Figure 2: Overall process performance audit (The Court of audit executive committee of performance auditing, 2013)**

Performance auditing is a good example of management consulting services that may have some of the characteristics of auditing the financial statements. This type of auditing involves a smart study of the activities of an organization or part of it in achieving the specified goal (Rahimian, 2003).

Performance auditing is the systematic process of evaluating the effectiveness, efficiency and the economic benefits of the operation under the control and report of the management and users can apply the results of the evaluations accompanied by suggestions in order to improve the operation (Boynton *et al.*, 2006).

Determining the criteria for operations auditing includes:

a. **Economic benefits:** As the economic benefits is defined (decreasing the expenses of the resources being used to do an activity keeping a decent quality), the auditor should investigate the economic benefits related to the achievement of various resources including physical, financial and human resources that whether or not the right resources are gained with proper expenses and in appropriate place and time. The auditor should identify the evaluation of the economic benefits considering the goals or the advice of the organization under investigation.

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b. **Efficiency:** It is related to the resources are utilized and it is often a domestic subject within the organizations. Efficiency refers to the relationship between the data and the output. Examples of efficiency are the ratio of a hospital bed and the ratio of the number a machine working hours to the products in a company. Determining the standards of evaluating efficiency requires three steps:

- Identifying the data and the output
- Relating different data to the output
- Determining the standards of evaluating efficiency

c. **Effectiveness:** effectiveness is defined as up to what level an organization, a plan or a project reaches specified goals. Effectiveness comes with combinations like operations effectiveness, plan effectiveness, management effectiveness, etc. Indeed, the goals are composed of several levels. Some goals may be of one level (like the workers' goals in a workshop), while some others are of other levels (like the workshop attendant) (The Court of Audit Executive Committee of performance Auditing, 2011).

Evans and Weir (1995) in their study titled *The Processes of Decision-Making, Supervision, Motivation and Performance in Big Companies*, Evans and Weir concluded that the level of supervision on the managers and using section payment performance has a significant influence on performance.

In a study done in the Supreme Audit Court in Australia in 1985, the findings indicated that hiring employees with BA and higher is useful when they are sufficiently trained and that just carrying around a degree or certificate does not suffice. 1. The academic materials should be related to the government auditing, and 2. Most of the auditing and educational institutions ignore the informational and scientific needs.

Anderson and Nilsson (2011) in their MA thesis titled *Operations or Financial Auditing? The Role of Selected Auditors in Sweden Municipalities*, Anderson and Nilson concluded that there is more information about financial auditing than any other measurement factor in the reports by the selected auditors in Sweden municipalities. The political departments do not provide more information about financial auditing in their auditing reports than the other departments. The political departments do not provide more information about performance auditing their auditing reports than the other departments. There is a specified relationship between the municipalities using the auditing reports and the information available for them. Bigger municipalities have more information about operations auditing than the smaller ones.

### **Hypotheses**

**Main hypothesis:** Improving the supervision on administrations causes precise operations auditing.

### **Secondary Hypotheses**

1. Improving the supervision on administrations causes economic benefits.
2. Improving the supervision on administrations causes efficiency in operations auditing.
3. Improving the supervision on administrations causes effectiveness in operations auditing.
4. Improving the supervision on administrations causes a better control of the management.

## **MATERIALS AND METHODS**

### **Methodology**

This is an applied study and it is methodologically descriptive-correlational. The statistical population includes the administrations staff in Mahabad. In this study, the sample population is selected through a sampling method where, because the number of the members of the population is limited, all the accountants and financial managers and the staff related to the financial, budget and credit affairs in the organizations were considered. For this purpose, a questionnaire was prepared with 25 questions and 75 of them were distributed and then collected.

One needs some means of gathering information when doing researches and each research requires its own specific ones. In this research, the statistical population included all the accountants, financial managers and staff related to related to the financial, budget and credit affairs in organizations in Mahabad that were willing to cooperate. In order to test the pre-specified hypotheses in the research, the supervision improvement questionnaire in the court was used.

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**RESULTS AND DISCUSSION**

**Results**

According to the descriptive statistics in the study, 88.7% of the respondents are men and 11.3 of them are women. 2.8% of the respondents are aged between 25-29, 23.9% between 34-30, 29.6% between 35-39, 33.8% between 40-44, and 9.9% between 45-60. 2.8% of the respondents have diploma, 19.7% have foundation degree, 59.2% have BA, and 18.3% have MA and higher. 62% of the respondents had graduated in Accounting, 28.2% in Management, 4.2% in Economics, and 5.6% in other majors. 16.9% of the respondents had working experiences of between 1-9 years, 19.17% between 10-14 years, 33.8% between 15-19, and 29.6% between 20-30 years.

Pierson correlation tests were used to test the hypotheses and the questions. The results and the findings obtained through the hypotheses tests are shown in Table 1.

**Table 1: Summary of results of research hypotheses**

Test result	R <sup>2</sup>	correlation coefficient	Sig	Hypotheses text	Research hypotheses
Confirmed and positive correlation	0/398	0/631	0/000	improvement in the supervision on the administrations leads to the accomplishment of performance auditing	The main hypothesis
Confirmed and positive correlation	0/136	0/385	0/001	Improving the supervision on administrations causes economic benefits.	The first sub-hypothesis
Confirmed and positive correlation	0/102	0/319	0/007	Improving the supervision on administrations causes effectiveness in operations auditing	The second sub-hypothesis
Confirmed and positive correlation	0/137	0/370	0/001	Improving the supervision on administrations causes efficiency in operations auditing.	The third sub-hypothesis
Confirmed and positive correlation	0/183	0/428	0/000	Improving the supervision on administrations causes a better control of the	The fourth sub-hypothesis

The collection and the analysis of the data revealed that the improvement in the supervision on the administrations leads to the accomplishment of performance auditing. According to the significance level of 0.00 and lower than 0.05 and with the confidence level of 95%, there was proven to be positive and direct relationship between operations auditing and improvement in supervision, and the hypothesis was confirmed. The linear regression results showed that with an improvement in supervision on administrations, the accomplishment of operations auditing increases. Therefore, the auditors in the Supreme Audit Court should provide more appropriate backgrounds and better supervision for the auditing to be accomplished in the governmental administrations, and the process supervision on administrations should be gradually changed into a mechanized and electronic one, and additionally, there people should be more informed about the advantages of improving supervision on the accomplishment of operations auditing in the administrations.

To test the hypotheses, Pierson correlation method and linear regression test were used. With the collection and the analysis of the data and with the significance level being lower than 0.05 for all the hypotheses, it was shown that improving supervision on administrations has a direct relationship with economic benefits, effectiveness, efficiency and management control. The results of the linear regression showed that with improving the supervision on the administrations, the economic benefits, effectiveness and efficiency of performance auditing increases and the management control is improved. So one may conclude that the higher the level of the supervision by the Supreme Audit Court and the Islamic Consultative Assembly is, the higher the economic benefits, effectiveness and efficiency is. Performance

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auditing is a modern management tool getting more complicated through time, to improve the level of services provided by the government from general security to economic growth and development. With an increase in the three indexes of operations auditing, it can be accomplished more easily and there will be found the least barriers or limitations before it.

In his research titled “A Pathology of Accomplishing Operations Auditing by the Supreme Audit Court, and some Suggestions to Improve It” in 2011, Hassan Jouypa concluded that the lack of qualification and authority in the Supreme Audit Court, inappropriate budgeting system, an inappropriate system for gathering and preserving the statistics, the lack of clarity in the managers’ responsiveness to the auditors, the lack of trained and skillful auditors, and juridical limitations are the preventives to the accomplishments of operations auditing in the Supreme Audit Court and in case they are eliminated, one can expect the operations auditing to be accomplished thoroughly and appropriately.

In his study titled “A study of the Preventives of the Accomplishment of Operations Auditing in the Administrations from the Viewpoints of Managers and Experts in the Supreme Audit Court”, Heidar Farzaneh found out that the lack of expertise in the auditors in operations auditing, inappropriate operations reporting by the accounting system in the administrations, the lack of indexes of evaluating operation, and the lack of managers’ awareness about the advantages of operations auditing are the most important preventives of the accomplishment of operations auditing, and he also notes that the management control operations should be only carried out in a way to reach economic benefits, effectiveness and efficiency in the operations through all the management system within the organization.

In their research titled “A study of the problems of the Supreme Audit Court in auditing administrations from the Viewpoints of Financial Managers and Accountants”, Nikbakht and Mousavi Sangcheshmeh concluded that the lack of constant and enough training for the auditors in the Court, too much work for few auditors, the lack of knowledge and experiences of the financial managers and auditors, the lack of support from the authorities in the Supreme Audit Court are the main preventives for the auditing of the Court. On the four hypotheses, there is no significant difference between the viewpoints of the financial managers and accountants.

### **Conclusion**

The main focus of the study is to investigate the relationship between operations auditing and improvement in the supervision by the Supreme Audit Court. The results obtained through testing the main and the secondary hypotheses confirm the relationships assumed in the study.

Considering what was discussed, the hypotheses are confirmed. All the dependent variables are directly related to the independent variable, and improvement in the supervision has a positive influence on all the auditing elements. Therefore, better opportunities should be provided for operations auditing that helps administrations improve through a better improvement by the Court. Operations auditing helps administrations and managers identify and overcome their problems, and also get useful advice to improve operations.

### **Suggestions**

In order to improve supervision on administrations, the Supreme Audit Court should make the methods used up to date; start teaching the auditors the modern operations auditing approaches based on the specified goals, and should employ experienced and skillful experts in every area in order to make it possible to evaluate the performance of the administrations in the specified area.

Regarding the first secondary hypothesis, the following suggestions are given: with an improvement in supervision by the Supreme Audit Court, the auditors should investigate the economic benefits in relation to benefits of all kinds like physical, financial and human benefits. Are the resources appropriate, are they the right amount, are they obtained with the right cost and in the right time and place or not? The economic benefits should be determined with higher supervision and a better evaluation considering the goals or advice of the organization under investigation.

Regarding the next secondary hypothesis, the following suggestions are given: identifying the indexes to evaluate the performance and the standards confirmed by the professional in the administrations with a close cooperation and supervision of Management and Planning Organization of Iran, as one of the

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resources to determine the performance evaluation criteria and the how well the specified goals are achieved, that can be a criteria for the auditors when evaluating the effectiveness of the administrations.

To improve the supervision by the Supreme Audit Court along with the efficiency of operations auditing, the cost of the activities and the outputs of the administrations should be calculated scientifically and precisely in order for the auditors to be able to closely investigate the corruptions and generally the efficiency of the activities done by the organizations. Here, a system should be developed for keeping the statistics and financial information of the administrations to estimate the costs precisely. Also, the basis of the accounting should change from moderated cash to accrual basis in order to evaluate the performance of the administrations.

Regarding the fourth secondary hypothesis the following suggestions are given: the Supreme Audit Court should try to evaluate the policies of the organization through close supervision in order to decide whether or not they match the authority and the duties of the organization, and also to evaluate whether or not the management controls and approaches for accomplishing the policies are planned as the top managers wanted it to be for the efficiency and economic benefits.

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