The Relationship between Internal Control System on Financial Performance from the View of Financial Affairs Employees of Medical Sciences University of Golestan

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Abstract

In the current competitive environment, the increasing development and complexity of economic units, problems of achieving resources and its allocation and tendency of investors and owners to awareness of management performance in protection of assets and achieving micro and macro goals have caused that the establishment of an effective system of internal control in organizations is considered. To achieve goals namely in business units including profitability and its coherence and movement to eliminate abnormal events, organizations need an effective internal control based on goals and missions of organization. This study aimed to evaluate the relationship between internal control system with financial performance of Medical Sciences University of Golestan. The present study is cross section (descriptive-analytical). The study population is financial affairs employees of Gorgan city as 112. By Cochran’s formula, 86 people are selected by random sampling method. The data collection measure is a questionnaire including two parts, first part is regarding demographic data and second part regarding the questionnaire of researchers in Uganda University is based on two scales of internal control and financial performance in University. The reliability of questionnaire in this study is 0.88 with Cronbach’s alpha. For analysis, statistical tests are used as descriptive, frequency and mean and inferential statistics as t-test and Pearson. The findings showed that from the view of financial employees of University, there was a positive and significant association between internal control system and financial performance in Medical Sciences University of Golestan and dimensions of internal control had association with control environment, control activities and internal audit with financial performance.

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1- Introduction

In most of organizations, internal control system is as written instructions and procedures. It is possible that these procedures are not accepted well. Internal controls work effectively, if thy and their relevant risks are perceived clearly by organization members. Thus, controls should be informed not only separately but also as uniform via form and informal channels in managerial systems operationalizing them. Beneficiaries in organizations and companies as financial information users tend to be informed of quality of policies, procedures and arrangements taken by managers and authorities to protect the assets and benefits of organization against misuse and reliability of data and encouraging employees to observe approved rules can be taken into attention. Generally, beneficiaries in organizations and companies attempt to find an answer to the following key questions.

1- Does management consider implementation of a good and effective internal control system?

2- Does internal control system avoid significant mistakes? (1)

Providing reliable financial information for users via audited financial statements can lead to relative assurance or acceptability of the information and figures for proper decisions. For such opinion, auditors should investigate the activities and other required evidences. The evaluation of effectiveness of internal control to be sure of lack of wasting equity is one of the most important stages in audit process and plays an important role in auditor judgement to financial statements (2).

To achieve their strategic, operational and other goals, organizations are encountered with ambiguity. They can not decide whether which risks await them to achieve the goals. Internal control system and appropriate evaluation of risk can help the organizations to take decisions about risks and implementation of required control to achieve the goals. Without clear recognition of potential outcomes of organization goals, we can not encountered risks. Thus, decision makers need reliable and relevant information provided by internal control system to implement their operational and strategic plans as effective. In the past years, internal control is considered as a single concept. In recent years, internal control is considered as a uniform concept. Internal control has the highest effectiveness. Thus, risk management and internal control should be considered as two sides of a coin. Risk management identifies threats, opportunities and controls regarding coping threats and benefits of opportunities. The sustainable success of an organization depends upon the fact that to which extent, the organization can integrate risk management and internal control with a wide system called strategic system as the inseparable sector of general activities and
decision making processes of organization. Effectiveness integrity can lead to an internal control system, risk management and strategic management in organization (3). Top management of Medical Sciences University of Golestan to achieve pre-defined goals needs planning and resources and to achieve goals, it requires establishment of communication systems between affiliated units. Internal control is used for assurance of management of assets protection to avoid probable misuse and assurance of costs. The university should use an internal audit unit to observe policy and achieving goals. This study aimed to determine the relationship between internal control system and financial performance from the view of employees of financial affairs of Medical Sciences University of Golestan, the relationship between control activities and internal audit with financial performance from the view of employees of financial affairs of Medical Sciences University of Golestan.

2- Literature Review
The review of literature can be the guidance of correct implementation of study and awareness of review of literature and results in this field and similar fields in Iran and the world. Hejazi and Esmailikia (2013) in a study “The impact of planning systems of organization resources on effectiveness of internal controls regarding financial reporting from 120 programming companies presenting planning systems listed on TSE during 2008-2011. They founded that the companies with resources planning systems are less probable to have internal control weakness compared to the control of companies without resources planning systems. The companies at loss with acquisition and merger activities in that period have low market value and establishment life of resources planning systems was short in them and it was less probable to have weakness in internal control system and experienced low level of weakness (4).
Rahimian and Tavakolnia (2012) in a study “The role of internal audit in quality of internal control system” found that trial control guided executive management of system to the direction to be sure of achieving organization goals and internal audit by evaluation of internal controls and recommendations about operation improvement can be useful in direction organization to achieve its goals (5). Maham and Takhirsta (2012) in a study “recognition of barriers of evaluation of internal control in independent audit among partners of audit institutions member of certified accountants association in Iran found that low fee of audit contracts, weakness of academic training, lack of suitable audit instructions, traditional systems of business units, lack of close evaluation of internal controls and weakness of professional training are the most important barriers of evaluation of internal controls in independent audit in Iran (6).
Yegane and Natajmalekshah (2006) in a field study “The relationship between internal control report and decision making of users, all stakeholders in capital market working in executive, research and
educational sectors in three groups of investment, certified accountants and auditors of public closely held companies in Iran as performed by questionnaire. They found that at first report of internal controls from the view of all user groups increased quality (value) of published information of company namely from the dimension of information reliability, second providing the report of internal controls as base don law, improved transparency of financial reporting. Finally, all groups responded that audit of internal control report increased its validity (7).

Matary et al., (2014) in a study “The impact of internal auditor and company performance” found that performance of internal auditor was very important and it was considered as a key element in company and efficiency of internal auditor was useful in development of work of company as financial reports reflected the effective quality of internal auditors (8).

Abdimohammadi (2013) in a study “performance of internal auditor and internal control system in money transferring companies in Malaysia” found that performance of internal auditor of company was effective and there were some limitations in duties separation (9). Mihaela and Iulian (2012) in a study “Internal Control and the Impact on Corporate Governance, in Romanian Listed Companies” found that effective internal control led into fair presentation of financial statements and increase of self-confidence of shareholders to financial statements. Control risk is one of the risks not being eliminated by an auditor and it can be controlled (12).

3- Methodology

Based on the purpose of study, determination of the relationship between internal control of system and financial performance is based on survey-descriptive design. The study population is employees of financial affairs of Gorgan city in Medical Sciences University of Golestan as 112. 86 people are selected by random sampling method. The data collection measure is a questionnaire including two parts, first part is regarding demographic data and second part regarding the questionnaire of researchers in Uganda University is based on two scales of internal control and financial performance in University. The reliability of questionnaire in this study is 0.88 with Cronbach’s alpha. Then, the questionnaire is distributed among sample people and is collected. These questionnaires are composed of 2 sections of internal control in company including control environment, internal auditor and control activities and financial performance consisting of 35 questions. To measure data of each dimensions, five-item Likert scale (1-5 and from low to very much) is used. The data are coded after collection and entered computer by SPSS 16. Relevant statistical tests are used for analysis. In descriptive statistics, frequency, standard deviation and mean and inferential statistics, t-test, ANOVA and Pearson are used.
4- Results & Discussion

Table 1- The relationship between internal control system and financial performance

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<th>Significance level</th>
<th>Correlation</th>
<th>Internal control system with financial performance</th>
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<tr>
<td>0.025</td>
<td>**0.706</td>
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As shown in Table 1, based on Pearson test results, we can say from the view of financial employees of University, there is a positive and significant association between internal control and financial performance in Medical Sciences University of Golestan. This shows that any increase in internal control system can increase financial performance.

Table 2- The relationship between financial performance and control dimensions of internal control system

<table>
<thead>
<tr>
<th>Significance level</th>
<th>Correlation</th>
<th>Environment control with financial performance</th>
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<tbody>
<tr>
<td>0.000</td>
<td>**0.562</td>
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</table>

As shown in Table 2, based on Pearson test results, we can say from the view of financial employees of University, there is a positive and significant association between control of environment of internal control and financial performance in Medical Sciences University of Golestan. This shows that any increase in internal environmental control can increase financial performance.

Table 3- The relationship between financial performance and control activities of internal control system

<table>
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<th>Significance level</th>
<th>Correlation</th>
<th>Control activities with financial performance</th>
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<tbody>
<tr>
<td>0.000</td>
<td>**0.660</td>
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As shown in Table 3, based on Pearson test results, we can say from the view of financial employees of University, there is a positive and significant association between control activities of internal control and financial performance in Medical Sciences University of Golestan. This shows that any increase in control activities can increase financial performance.
Table 4- The relationship between financial performance and internal audit of internal control system

<table>
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<th>Significance level</th>
<th>Correlation</th>
<th>Internal audit with financial performance</th>
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<tr>
<td></td>
<td><strong>0.609</strong></td>
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<td>0.000</td>
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As shown in Table 4, based on Pearson test results, we can say from the view of financial employees of University, there is a positive and significant association between internal auditor of internal control and financial performance in Medical Sciences University of Golestan. This shows that any increase in internal control system can increase financial performance.

The findings showed that from the view of financial employees of University, there was a positive and significant association between internal control system and financial performance in Medical Sciences University of Golestan and dimensions of internal control had association with control environment, control activities and internal audit with financial performance.

5- Conclusion

The results of this study consistent with the studies of local and internal researches, Hejazi and Esmailikia (2013) in study “The impact of planning systems of organization resources on effectiveness of internal controls regarding financial reporting from 120 programming companies presenting planning systems listed on TSE during 2008-2011”, Rahimian and Tavakolnia (2012) in study “The role of internal audit in quality of internal control system”, Maham and Tarkusta (2012) in study “recognition of barriers of evaluation of internal control in independent audit among partners of audit institutions member of certified accountants association in Iran”, Yegane and Natajmalekshah (2006) in study “The relationship between internal control report and decision making of users, all stakeholders in capital market working in executive, research and educational sectors in three groups of investment, certified accountants and auditors of public closely held companies in Iran as performed by questionnaire”, Matary et al., (2014) in study “The impact of internal auditor and company performance” Abdimohammadi (2013) in study “performance of internal auditor and internal control system in money transferring companies in Malaysia” Mihaela and Iulian (2012) in study “Internal Control and the Impact on Corporate Governance, in Romanian Listed Companies” emphasize on the importance of internal control system on financial performance. Based on the results of study, we can say based on the significance of financial performance and statements in trust of customers and shareholders and survival of organizations,
companies, institutions and universities, effective internal control can increase reliability and trust, effectiveness and productivity.

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References


