



## Evaluation of the effect of internal audit on the performance of branches of

### National Bank of Zahedan

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## Evaluation of the effect of internal audit on the performance of branches of National Bank of Zahedan

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### **Abstract**

The purpose of this study was to investigate the effect of internal audit on the performance of the Melli bank branches of Zahedan. The research method was descriptive correlational. The statistical population of this research includes all 322 employees in Zahedan City in 2017, that by using random sampling, 135 people were selected as the sample and internal audit inventory questionnaire and organizational performance questionnaire Hersey and Goldsmith were performed on them. This research is a causal and comparative study and the data collection tool is a questionnaire with closed-ended questions. The obtained data were analyzed using Pearson correlation coefficient of independent t-distribution and the research hypotheses were analyzed. Findings indicate that there is a positive and significant relationship between employee audit, employees' ability and personnel discipline, customer satisfaction, customer satisfaction, organizational behavior, and individual development of employees. Improvement in internal accounting also improves organizational performance.

**Keywords:** internal audit, staff performance, staff ability, organizational behavior, Melli bank, Zahedan city



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#### **Introduction**

The growth of investment in a country will lead to increased production, which will lead to economic growth in that country. One of the least costly methods of financing is the issue of shares and extending the ownership of the company, which requires the capital market to be secured and attracting investors' trust and confidence and protecting their rights. Due to the advancement of science, increased competition, customer-oriented imperatives, and changes in the business environment, including increased risk and emphasis on intellectual capital, corporate governance and organizational patterns changed looking for that (3). One of the most important issues facing today's societies is public trust. The category of performance in all ages and centuries has been one of the most important issues of human life, and over time, its importance has been added. Governments try to increase staff performance, because, by reducing public performance, the likelihood of public participation in political processes is reduced, and the withdrawal of citizens from government support makes legitimacy of democratic governance problematic. For this reason, the issue of performance has become a very important axis in the literature on public administration (7).

#### **1- Internal audit**

##### **1-1- Definitions and concepts**

Internal audit is known as one of the corporate governance keys, whose role has evolved over time. Evolution in the economic environment of Iran, especially in recent years, have led corporate governance to be considered as a further regulatory mechanism, one of its components is the audit committee and the subset of that internal audit unit, and has a determining role in financial reporting and validity of Financial faces (14). Research suggests that corporate governance has a positive impact on the quality and effectiveness of independent auditing, which is the main pillar of this system, especially its audit committee (7). The definition provided by the Association of Internal Auditors (IIA) in 2001 states:

" Internal auditing is an independent and neutral assurance and advisory activity designed to create value added and improve the operations of an organization. Internal auditing helps the organization achieve its goals by adopting a systematic approach to assess and improve the effectiveness of risk management processes, internal control, and corporate governance. "(15)



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Although internal and independent auditing tasks are separate, there are plenty of opportunities to work together to enhance results such as raising the quality of the audit and the economic benefits. International Standard No. 610 is dedicated to assessing the internal audit unit and the relationship between independent and internal auditors. However, the role and responsibilities of independent auditing are different from internal audits, but there are many points of sharing between these two responsibilities. The shared dimensions of these two responsibilities create a considerable scope for cooperation with mutual interests. The most common joint actions of both groups of auditors are the assessment of the internal control system and the evaluation of the financial reporting function of the company (18). In fact, professional audit standards have confirmed the potential partnership that internal audit can have in an independent audit. This collaboration can be carried out either through internal auditors as an assistant under the supervision of independent auditors or independently through a review of the work. The key factor in this collaboration is the quality of service (IA) (14). Considering the economic and political Evolutions as well as the new capital structure, the expansion of capital markets, and the thought of separation of ownership from management, the social role of accounting is beyond the control of a management tool and thus internal audit as a management control tool has enjoyed considerable significance. The management of the organization must make sure that it is adequately addressed to the internal audit reports. The internal auditor must ensure that the internal audit recommendations, actions taken, or management are aware of and accept the risk of inaccuracy. (8)

**Righteousness and Impartiality of the Internal Auditor:**

One of the most important aspects of Internal Audit is the internal auditor's righteousness and impartiality. Therefore, in order to maintain and unprotect the internal audit unit, all efforts should be made, including the absence of any conflict of interest or bias, the preservation of impartiality, the ineffectiveness of intrusion, participation managing with internal auditors about important changes in internal control systems, suggesting by internal auditors about control standards, and not assuming non-audit duties. (9)

#### **1-2- Professional competence in internal audit**

According to part A of the professional behavior act, the concept of professional competence includes two basic aspects:



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A. To obtain professional qualifications - The acquisition of professional qualifications requires higher education, which is completed in accordance with the rules of professional associations through special training, apprenticeship, examinations and professional experience (16).

B. Maintaining Professional qualifications - Maintaining professional qualifications requires continuous knowledge of the profession's changing and evolution, in particular the implementation of a program that ensures that professional services are provided in a quality and in accordance with professional standards (12).

#### **1-3- Conflict of interest in internal audit**

The conflict of interests is any relationship that does not or may not seem to be in the best interests of the institutional unit. The conflict of interest damages a person's ability to impartially conduct his duties and responsibilities. Conflict of interest is a situation in which the personal and professional interests of the internal auditor who are in a state of trust are in conflict. This conflict of interest may be impartial and impede the responsibilities of the internal auditor (18).

#### **1-4- Internal Audit Independence**

The main factor for the internal audit's empowering is independence. Management should recognize this factor and ensure the internal auditing position in the organizational structure rather than the independence of the internal audit unit. The internal audit characteristics must be such as to make it clear that the internal audit is not affected by any unauthorized influence that may limit or change the scope of the investigation or its work, or can significantly affect the decision on the content of the reports submitted to the management.

#### **1-5- targets of internal audit**

The target of the internal audit is to help management ensure that all the above factors be implemented or followed as it should. However, the main target of internal audit is to assess how the tasks are delegated to the various units of the institution. (5) Internal audit staff is usually supervised by another CEO or senior official. This high position in the organizational structure of the institution ensures that internal auditors have access to most of the institution's units. It is necessary for internal auditors to be independent of heads of departments and managers who audit their work (13)

Independence of internal audit is realized in the following ways:

- Independence in terms of access



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The head of the internal audit must have direct access to the senior management of the organization CEO and board of managers and non-executive reviewers of the organization, and can report freely to them (14).

- Independence in terms of reporting

The head of the internal audit must be able to submit his / her reports without deletion and with his / her name and signature.

- Independence in terms of organizational activities

Internal audit should be fully independent of all financial and administrative systems of the organization. The involvement of internal audit in the executive systems and organization plans should be limited to the followings:

A- Offer to establish internal controls for system revisions with existing projects by designing new systems by creating new projects;

B- Evaluation of proposed controls for specific projects;

C- Evaluation of existing control systems and decision making process;

The internal audit unit should not be responsible for deploying new systems or engaging in tasks that are usually required to review them (5).

- Independence in terms of voting

Internal audit should deal with issues without any kind of bias and have such an organizational position that it can make its decisions and opinions in a neutral manner (13)

#### **1-6- Domain of internal audit**

The domain of internal audit is often misleadingly confined to financial issues. But with regard to target internal audit, the domain of internal audit includes all aspects of internal control, whether financial or non-financial. The emphasis of internal audit on any particular control indicates the amount of risk and damage that can happen to the organization. Financial losses can result from waste - negligence - fraud or other causes. While the risk of financial loss is very important, this is not the only risk that internal audit is concerned with. For example, the risk of negative promotions can lead to irreparable damage to the organization (12).

The domain of the audit and the targets of the internal audit unit vary considerably depending on the size and structure of the unit and its management needs. Typically, internal audit activities include one or more of the following:



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1. The evaluation of internal accounting and control systems, the establishment of proper accounting and control systems, is one of the responsibilities of management that requires proper monitoring and control. The management of the unit under review is usually entrusted with the task of checking these systems, monitoring and controlling their implementation and providing corrective suggestions specifically to the internal audit unit.

2. Investigation financial and operational reports: This investigation can evaluate the bases used to identify measure, classify and report such information, as well as to conduct a specific investigation (including extensive testing, transactions and account balances and methods) for each item or specific operation.

3. Investigation of the cost-effectiveness, efficiency and effectiveness of the operation of the economic unit, including the non-financial controls of the unit

4. Investigate the Observation of the rules, regulations, and other external requirements and policies, management guidelines and other requirements within the organization (14)

The domain of internal auditors' work is not limited to activities and financial events of a single economic unit, but also includes the examination and evaluation of the impact of the internal accounting and administrative control system. That is why internal auditors can be considered as a powerful management arm in managing and controlling the quality and efficiency of economic units from material (profitable) and spiritual aspects (human resources). Although the economic value of internal audit, like other sources, depends on the capacity of managers to use the potential of this tool to be effective and valuable in achieving the organization's goals, it should not be forgotten that internal audit is also considered as a part of an organizational group work not as a distinct job of accounting officer. Because internal audit is a blend of the control and planning process in the management information system, its internal audit work ensures the profitability and continuity of economic activities and the provision of job security for staff, and ultimately recognizes the limits of managers' performance and their ongoing efforts. However, the independence, qualification and ability of internal auditors can be considered as an economic source with a great deal of future interest if their position and orientation be considered and used optimally.

## **2- Staff performance**

### **2-1- Definitions and Concepts**



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In the current era, the dramatic changes in knowledge management have inevitably existed the evaluation system; in that the lack of a system of evaluation in different aspects of the organization, including the evaluation of the use of resources and facilities, staff, targets and strategies; as one of the symptoms of diseases of the organization. Each organization has an overwhelming need for an evaluation system in order to be aware of the desirability and quality of its activities: in complex and dynamic environments. On the other hand, the lack of an evaluation system and control in a system means that it is not communicating with the environment inside and outside the organization, which the consequences are aging and eventually the death of the organization. The phenomenon of organizational death may not be felt by high executives of organizations as a result of their sudden failure. But studies show that the lack of a feedback system makes it impossible to make the necessary reforms for growth, development and improvement of the organization's activities, eventually it is a phenomenon of organizational death. (5) The issue of performance evaluation has been many years ago challenging researchers and users. In the past, business organizations only used financial indicators as performance measurement tools; until, Kaplan & Norton, in the early 1980s, after examining and evaluating management accounting systems, cited many of the inefficiencies of this information for performance of evaluation Organizations that this inefficiency was due to the increasing complexity of organizations, the dynamics of the environment and market competition (4)

Therefore, the use of performance evaluation systems that rely solely on financial indicators can cause problems for the organization; some of them are as follows:

Since financial indicators are not related to the organization's strategies, they may conflict with the strategic targets of the organization and lead to problems in formulating the strategy. For example, excessive use of the "rate of return on capital" can only lead to short-term improvements. Traditional measures such as cost efficiency and desirability can push managers to pay attention to short-term outcomes and therefore there is no move towards improvement. Financial Indicators do not give a detailed account of the cost of processes, products, and customers, and only emphasize the process of control over the entire system (13) there are many definitions of "performance evaluation". In order to properly understand each phenomenon or subject, it is necessary to define that phenomenon to a common understanding. The issue of performance evaluation is not an exception. It should be noted that according to relative similarity, the concept



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of evaluation should be defined in the dimension of staff, then in the dimension of the use of resources and facilities, and ultimately in the form of an organization.

Warder and Davis believe that performance evaluation is a process in which the performance of the employee is measured and, when done correctly, the staff, supervisors, managers, and ultimately the organization will benefit from it. Casio describes the performance evaluation as a systematic description of the strengths and weaknesses of the individual or group's performance in the relationship with the tasks assigned. Performance evaluation is defined in the dimension of how resources and facilities are used in terms of performance indicators. If, in the simplest definition, we consider the ratio of input to output, efficiency, the performance evaluation system measures the efficiency of management decisions regarding the optimal use of resources and facilities (16) Performance evaluation in an organizational dimension is usually synonymous with the effectiveness of activities. The effectiveness of achieving targets and programs is measured by the efficiency of activities and operations. (8)

In general, the evaluation of performance refers to the process of measurement and evaluation the performance of devices in specified periods, in which the expectations and judging Indicators are clearly and precisely communicated to the evaluated device. » (10)

To understand the concept of performance evaluation, we must first understand the concept of performance. Performance refers to the degree to which duties fulfil the occupation of an employee (17). And shows how an employee fulfils the requirements of a job. Performance is often considered to be "effort" that refers to energy expenditure, but performance is measured based on the results of activities. For example, a student may be trying hard to prepare for the test but receive a low score. In this case a lot of efforts have been made, but performance has been low.

According to Bayers-Werro, the performance of individuals in a situation can be regarded as the result of the interaction between: (a) effort, (b) abilities, and (c) perceptions of the role. The "effort" that comes from arousal refers to the amount of energy (physical or mental) that a person uses in a task. "Abilities" are personal characteristics used in the pursuit of a job, and "perceptions of the role" refer to the paths that people believe should guide their efforts to carry out their occupation .Nov and others (2008) recognize performance due to personal characteristics, skills, and the like. As Figure 1 shows, these characteristics turn into objective results through staff behavior. In fact,





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staff, if only has knowledge, skills, abilities and other essential features for doing a job can show their behavior.

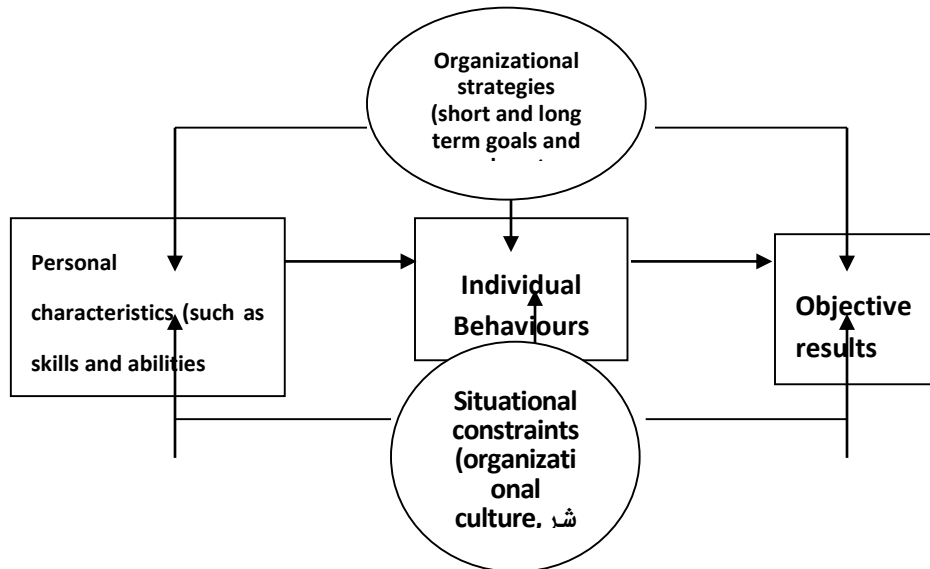


Figure 1: Performance evaluation model in organizations (14)

Another key component of the Nov et al model is organizational strategy. Often, the link between performance management and the organization's strategies and targets is ignored. Finally, the mentioned model points out those situational constraints also play an essential role in the performance of individuals. As already mentioned, people may behave appropriately but do not get the right results. Therefore, staff must have specific characteristics to perform a set of behaviours and achieve some results, and in order to gain competitive advantages, features, behaviours and outcomes must be tied to organizational strategies.

With these interpretations, performance evaluation can be defined as the process of evaluating and communicating with the staff on how to carry out a job and establish a program for its improvement (Bayers & Row, 2008, p. 345). In this case, performance evaluation not only allows employees to know how their performance is, but also affects the level of their future effort and path.

Carl et al. (2000) also have defined performance evaluation as a continuous process of evaluating and managing human behavior and output in the workplace. According to Fot and Hook (1999), staff evaluation is an official process for measuring and providing feedback to staff about their characteristics and how they conduct their activities, as well as recognizing their potentials to flourish in the future.



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### 3- Methodology of research

One of the features of a scientific study that its target is finding the truth, is the use of an appropriate research method and the choice of the appropriate research method depends on the targets, the nature and subject of the research, and on the execution facilities, and the target of the research is to seek easy and accurate access to the research questions. (7) Without scientific methodology, the results of the study and relevant analyses will not be valid and generalizable. In this research, a descriptive and correlation method has been used with regard to the subject and target research that is the role of internal audit on the performance of Melli bank branches of Zahedan city. The statistical population of this research includes all 322 staff in Zahedan City in 2017. In this research, the organizational performance questionnaire of Hersey and Goldsmith (2006) and the researcher-made internal audit questionnaire were used. In this research, descriptive and inferential methods have been analyzed for the obtained data. At descriptive level, descriptive statistics were used for statistical indicators such as average and standard deviation, and Pearson's correlation coefficient was used for inferential statistics to answer the research questions. It should be noted that all statistical calculations were performed by using SPSS version 21 software

### 4 - Analysing the information

In this chapter, based on the results and the data obtained from the tests, these results are presented as statistical tables and will be analyzed and inferred by using statistical formulas.

#### 4-1- Demographic information

- education

In the following table the level of education of sample individuals has been shown.

Table 1: Frequency distribution of sample statisticians based on education level

percentage	Number	Level of Education
17	24	Diploma
23.3	32	Associate Degree
58.3	80	Bachelor
100	135	Total



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As shown in the table, 20% of individuals have diploma, 23.3% associate degree and 58.8% of them have a bachelor's degree.

- Age of people

The table below shows the age information of the sample population.

Table 2 - Frequency of sample people based on age

percentage	number	age
16.6	20	20-30
64.6	88	30-40
20.6	28	40-50
100	135	total

Based on the findings, 16.6% of people aged 20-30 years old, 64.6% of people between 30 and 40 years old had 20.6% of people between the ages of 40 and 50.

- service record

The table below shows information about service record of sample individuals.

Table 3 - Frequency distribution of sample individuals based on service record

percentage	number	service record
33.3	40	5-10
16.6	20	10-15
30.6	42	15-20
25	34	More than 20
100	135	total

Based on the data of the table above, 33.3% of people have a service record of 5 to 10 years, 16.6% have a record of 10 to 15 years, 30.6% of people 15 to 20 years, and 25% of people have a service record of 20 years and above

- Descriptive indicators of main research variables



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Table (4) gives general information on the statistical indicators of the research variables (which are obtained through the average score of the questions of each variable), which includes the central tendency indicators and dispersion tendency indicators.

Table 4 - Descriptive statistical indicators of main variables of research

dispersion tendency indicators			central tendency indicators		variable
variation domain	Variance	Standard deviation	middle	average	
60.2	0.318	0.564	3.18	3.25	internal audit
5.08	1.641	1.281	3.58	3.56	Organizational Performance

#### 4-2- Analysis of data

##### A. The main hypothesis

- Internal audit has a significant effect on the performance of Melli bank staff in Zahedan city branches.

Table 5 - Model summary and regression coefficients related to the effect of internal audit on staff performance

Sig	T	F	R2	R	variable
0.000	9.82	78.132	0.483	0.571	internal audit
					staff performance

According to information of table 5, it can be said that the overall correlation between the independent internal audit variable and the staff performance variable is  $R = 0.571$ , that indicates the intensity of positive correlation between variables. Also, according to the rate of change (coefficient of determination), for each unit of change in the internal audit, staff performance is 483  $R^2 = 0.483$ , or 48%, which indicates that the independent variable can well explain 48% of the variance of the dependent variable, which, given the F value and the significance level of the



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model, show the effect of internal audit on the staff performance. Also, with the value of T, it can be said that the amount of internal audit on staff performance is positive and significant. Therefore, internal audit improves with the increase of internal audit, staff performance of Zahedan Branch Banks and vice versa.

#### B-Sub-hypotheses

- Internal audit has a significant effect on staff ability.

Table 6 - Model summary and regression coefficients related to the effect of internal audit and ability level

Sig	T	F	R2	R	variable
0.000	46.12	453.21	0.54	0.432	ability level
					internal audit

According to Table 6, we can say that the overall correlation between the independent variable of the ability and the internal audit variable is  $R = 0.432$ , which indicates the intensity of the positive correlation between the variables. Also, according to the rate of change (coefficient of determination), for each unit change in the ability level, staff performance is  $R^2 = 0.54$ , or 54 Percent, which indicates that the independent variable can well explain 54 Percent of the variance of the dependent variable, which, with respect to the F value and the significance level of the model, shows the effect of internal audit on ability. Also, with the value of T, it can be said that internal audit has a positive and significant effect on staff 'ability. Therefore, internal audit has a significant effect on staff' ability and will improve with increasing staffing capacity audit of Melli banks of Zahedan Branch and vice versa.

- Internal audit has a significant effect on staff' performance clarity.

Table 7- Summary of model and coefficients of regression related to internal audit and the level of staff performance clarity.



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Sig	T	F	R2	R	variable
0.000	5.45	231.43	0.341	0.561	internal audit
					staff discipline

According to information of table 7, it can be said that the overall correlation between the internal audit variable and the dependent variable of staff's job discipline is 561 R = 0, which indicates the intensity of the positive correlation between variables. Also, with regard to the degree of change (coefficient of determination), per unit of change in the internal audit, the staff discipline is 341 R2 = 0, or 34 Percent, which indicates that the independent variable can well explain 34 Percent of the variance of the dependent variable, which, with respect to the F value and the significance level of the model, shows the effect of internal audit on the staff's job discipline. Also, with the value of T, it can be said that the amount of internal audit is positive and significant for staff 'job discipline and with increasing internal audit, the staff' job discipline of Zahedan Melli Bank Branches staff is improving and vice versa.

- Internal audit value has a significant effect on the attitude of the staff of Melli bank branches in Zahedan city towards the client.

Table 8 - Model summary and coefficients of regression related to the effect of internal audit on how staff behave

Sig	T	F	R2	R	variable
0.000	54.9	354.81	0.436	0.871	internal audit
					The positive behavior of the staff to the client

According to Table 8, it can be said that the overall correlation between the independent variable internal audit and the dependent variable of staff behavior to the client is equal to 871 R = 0, which



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indicates the intensity of the positive correlation between the variables. Also, with regard to the degree of change (coefficient of determination), per unit of change in the internal audit, the attitude of the staff to the client is 436  $R^2 = 0$ , or 43 Percent, which indicates that the independent variable can well explain 34 Percent of the variance of the dependent variable, which, with respect to the F value and the significance level of the model, indicates the effect of internal audit on the behavior of the staff to the client. Also, with the value of T, we can say that internal audit has positive and significant effect on the staff and the client. Therefore, with the increase of internal audit, the staff of the Melli banks branches of Zahedan will improve with the client and vice versa.

- Internal audit has a significant effect on organizational behavior and individual development of staff.

Table 9 - Model summary and correlation coefficients related to internal audit and organizational behavior and individual development

Sig	T	F	R <sup>2</sup>	R	variable
0.000	10.21	547.31	0.632	0.791	internal audit
					organizational behavior and individual development of staff

According to Table 9, it can be said that the overall correlation between the independent variable of internal audit and the dependent variable of organizational behavior and individual development of staff is equal to 791  $R = 0$ , which indicates the intensity of positive correlation between variables. Also, with regard to the degree of change (coefficient of determination), per unit changes in internal audit, organizational behavior and individual development of staff at 632  $R^2 = 0$ , or 63 Percent, which indicates that the independent variable has been able to explain 63 Percent of the variance of the dependent variable in a good way, which according to the F value and the significance level of the model indicate the effect of the internal audit level on organizational behavior and individual development of staff. Also, with the obtained value of T, it can be said that the amount of internal audit on organizational behavior and individual development of staff is



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positive and significant. Therefore, with increasing internal audit, organizational behavior and individual development of staff of Melli bank branches of Zahedan will improve and vice versa.

#### 5- Conclusion and suggestions

As shown in the table above, 20% of the diploma students, 23.3% Associate degree and 58.8% have a bachelor's degree. Based on the data from Table 4-2, 16.6% of people aged 20-30 years, 64.6% of people aged 30 to 40 years old had 20.6% of people between the ages of 40 and 50. Also, according to the findings of the research, it can be said that the amount of internal audit on staff performance with 571  $R = 0$ , and staff ability with 432  $R = 0$ , and staff job discipline with 561  $R = 0$ , and the positive behavior of the staff with the client with  $R = 0.871$  and organizational behavior and individual development of staff with 791  $R = 0$ , has a positive and meaningful relationship and improves organizational performance by improving internal accounting.

It is suggested due to the targets and Hypotheses of the research

The philosophy and mechanisms of internal audit for all staff are well understood, the greater the understanding of the principles of internal audit as one of the key factors in staff performance, the process of operations is well designed and affected by stakeholders, employee functions Measured and guided in a clear manner, staff evaluation is done with earnestness, and the impact of the evaluation on specific performance improvements be explained.

Educational materials should be prepared and set up tailored to the tasks and missions of the staff and in the direction of targets of the organization, to train staff to understand their values with the organization, to train their staff performance assessment methods, and to teach new ways of working in team and team making. Identifying the issue among the working group takes place in the organization, train the indicators and performance management measures to the teams.

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