

## **The Relationship between Performance Audit and Management Tendency to Strive towards Organizational Goals Achievement**

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**Abstract:** Applying different controls to increase the effectiveness, efficiency and economic advantage is of great importance in today's world, and the success of organizations and businesses greatly depends on the success of an organization management and staff in realization of this issue. On one hand, achieving an efficient and effective operation is the main responsibility of the management and the structure of organization management systems, and management control systems need to be designed to achieve such an objective. Performance audit is considered as a clear example of management consulting services that help the company to achieve efficient and effective business operations. This kind of audit involves a systematic review of an organization's activities or a certain part of it in order to achieve specific goals. Performance audit, meanwhile strengthening the positive aspects of management, leads to solving the problems, overcoming the difficulties and improvement of management quality of business units, and in other words, this type of auditing will evaluate and improve the effectiveness, economy advantage and efficiency in the operating procedures of an organization by identifying the opportunities and problematic areas. In this study, the researcher examines the relationship between performance audit and the management willingness to strive towards achieving organizational objectives and follows the point whether the performance audit is able to encourage and increase the management efforts toward organizational goals by its controls and procedures or vice versa? The results from statistical data analysis show that all the research hypotheses are accepted; in other words, according to the opinions of respondents, there is a significant relationship between performance audit and the management willingness to strive towards achieving organizational objectives.

**Key words:** Performance audit, Effectiveness, Efficiency, Economic advantage, Organizational goals

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### **INTRODUCTION**

In a world with breathless and intense competition among companies and firms in various areas of economic activities, whether in private sector or in public and governmental sectors to achieve objectives, economic advantage consideration, savings and costs control on one hand, and increasing the effectiveness and efficiency (i.e., doing good things and do the work well) on the other hand, have become vital for all businesses; therefore, most of the organizations are now looking to improve the aforementioned conditions (Ellsworth H. Morse, 1971). In summary, applying various controls to increase the efficiency and cost effectiveness in today's world is of great economic importance, and the success of organizations and enterprises greatly depends on the success of management and staff of an organization in realizing such goals (Megs, 1989).

Knowledge management is defined as effective and sufficient use of resources to achieve organizational goals that such resources usually include capital, labor and resources available to the organization. A manager should plan, organize and control the organization's operations in order to achieve maximum benefit. In today's world, responsible and leading managers do their best to essentially ensure the close monitoring and objective evaluation on their tasks to remain strong and preponderant against their facing issues and problems and do their jobs properly and timely. Therefore, they should never vacillate in utilizing the services of experts and professionals outside their organization to identify the problems and provide solutions for them so that they can achieve ever greater success by using such services (Brown, Williams and Gallagher, 1982).

#### ***Performance Audit:***

U.S. Government Auditing Standards in 1994 defines performance audit as follows:

Performance audit is a targeted and systematic for preparation of an independent evaluation of the performance and activities of governmental organizations to improve public accountability as well as facilitate the decision making of units (Colin Carnal, Maxwell, 1988).

Some believe that performance audit includes evaluating the resources to which financial information are assigned, that is, it determines whether the key transactions are being controlled correctly to be able to provide accurate and reliable information to sources inside and outside the company (H. Smith, Charles et al., 1972).

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In *Megz* definition, the performance audit has two aspects:

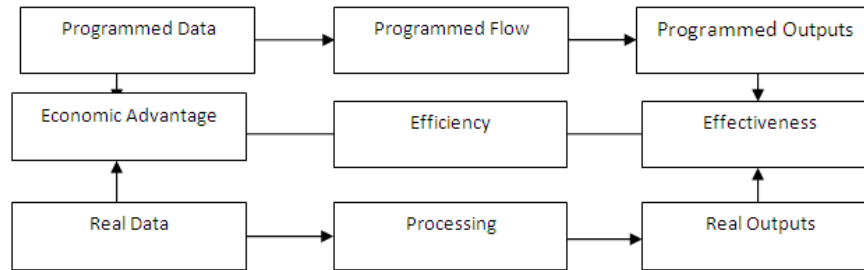
- Operational Audit (Management Audit): It evaluates the efficiency of using resources and investigates the structure and management internal systems.
- Plan Audit (Effectiveness Audit): It investigates how to observe enacted laws and regulations with the approved plan and evaluates the program in regard with actual progress or the result of completed work of the unit (Richard H. et al., 1980).

In another definition, performance audit is an orderly and regular process that assesses the efficiency, effectiveness, considering the economic efficiencies of an organization and management controls framework and discussed the assessment results report associated with suggestions and corrective recommendations to competent people, which will ultimately lead to optimal utilization of organizational resources and productivity enhancement (Herry R. Rider, 1994).

**Overall Process Of Performance Audit (Operational):**

In Iran, operational audit, in accordance with the Operational Audit Committee of Iran Audit Organization, is performed in seven steps as follows (A. Chambers G. Rako, 1997):

1. Planning
2. Audit program developing
3. Implementing the operation
4. Results assessment
5. Developing recommendations
6. Reporting
7. Follow up



**Fig. 1:** The relationship between the concepts of performance audit

**Research Methodology:**

For this study, first, the general concepts on the subject were collected through studying articles and scientific books in the library, and then, data was collected via questionnaires. The research methodology used in this research was field and library method. In this study, in order to become acquainted with the subject, we first performed primary studies and wrote theoretical basics and described issues related to domestic and foreign literature in the fields of performance auditing, and in continue, we tested the hypotheses and extended the results to the community following designing a standardized questionnaire, distributing among the members of sample population and summarizing the referred questionnaires. Then, using descriptive statistics and frequency tables and appropriate diagrams, the data was described. The t - student test was used in inferential section in order to confirm or not to confirm the hypotheses, and the statistical analyses were performed using SPSS18 software.

**Research Hypotheses:**

Doing this research, a main hypothesis and four sub-hypotheses were studied by the researcher as follows:

**Main hypotheses:**

There is a significant relationship between performance audit and increased management effort to achieve organizational goals.

**First sub-hypothesis:**

Auditor's opinion on identifying opportunities and improvement the company's operational activities has an influence on increasing the management efforts towards achieving organizational goals.

**Second sub-hypothesis:**

Auditor's opinion on identifying problematic areas and providing solutions for their improvement has an influence on increasing management efforts towards achieving organizational goals.

**Third sub-hypothesis:**

Auditor's opinion on identifying, evaluation and deployment of management controlling- information systems has an influence on increasing management efforts towards achieving organizational goals.

**Fourth sub-hypothesis:**

Auditor's opinion on identifying destinations, company's policies and operational objectives has an influence on increasing management efforts towards achieving organizational goals.

**Research Background:**

In the United States, the Department of Management Consulting Services of American Association of Certified Accountants was established in 1987 in order to investigate on operational audit. This section discussed the issue and emphasized in its report that referring audit to describe such services might be misleading. They expressed that such services are considered as management consulting services, which involve a systematic review of an organization's activities or a certain part of them in order to achieve specific goals. Thus, considering two issues including consulting services and methodical study, it can be acknowledged that providing these services is performed by investigating of the organization's activities and not by its auditing. Since the independent auditors are always asked to provide such services using their technical skills and considering that similar activities are performed in many processes of financial audit and operational audit, as a result, the word "audit" is generally used to describe this type of operation rather than "review" (W.A. Broadus, et al., 1998).

In another study in 1989, Megz divided the performance audit into two parts and defined each component as follows:

- Operational Audit (Management Audit): It is defined as evaluating the efficiency of using resources, and investigating the internal structure and management systems.
- Program Audit (Effectiveness Audit): It reviews how to observe enacted laws and regulations with approved plan, and evaluates the program with actual progress or the result of done work of the unit (Khatami, Mohammad Ali, 1997).

In a survey conducted in 1997 by Tongeren, a member of the Operational Audit Committee and Certified Management Accountants Society of America, the objective of using operational audit by companies is as follows:

- Pushing the operation towards optimality through performance audit
- Identifying the opportunities
- Providing recommendations effective on improvement of operations

Also, management performance is even-handed evaluated given the set of facilities and the limiting factors of activities, and the rate of efficiency, effectiveness and economic advantage of unit operations as well as structural conditions of managerial controls, including administrative, institutional and controlling structures are measured (Bani Fatima Kashi, MR, 2004).

**Statistical Community and Sample:**

Statistical population of this study included the members of the board of directors and managers of industrial companies registered in Tehran Stock Exchange; the statistical sample included 479 questionnaires that were distributed among the population. 314 questionnaires were collected that 289 questionnaires had been fully completed, which were considered as the test basis (samples).

In this study, if the success or confirmation ratios of the research hypotheses and their failure or rejection ratios are estimated respectively as 80% and 20% (i.e., p and q would be respectively as 80% and 20%, meaning, these percentages are hypothetical and have been estimated based on the results of preliminary studies and conducted surveys). With 95% confidence and estimation error less than 5%, the following formula can be used to estimate the sample:

$$n = \frac{N \times Z_{\alpha}^2 \times pq}{(N \times d^2) + (Z_{\alpha}^2 \times pq)}$$

$$d = Z_{\alpha}^2 \times \sqrt{\frac{pq}{N}}$$

Wherein:

N = Population size based on distributed questionnaires equal to 479 subjects (including 152 board members, 168 senior managers and 159 executives)

n = Sample size

P = Ratio of hypotheses success

Q = Ratio of hypotheses failure

D = Estimated error of sample

In this study, in addition to measures performed to increase apparent validity, the questionnaire was tested formally. Prior to distribution of questionnaire in the statistical population, the questionnaires were distributed among 10 experienced managers. Then, the Cronbach's alpha coefficient was calculated, which is used to assess the questionnaire validity. The Cronbach's alpha value was calculated as 78.2%, which indicated that the questionnaire has an acceptable structural validity.

**Testing the Hypotheses:**

The results obtained from data scattering testing and the results from testing the research hypotheses are given in summary in Table 1 and Table 2, respectively:

**Table 1:** Data distribution test results

	N	Mean	Std. Deviation	Std. Mean
Auditor's opinion impact about opportunities on management motivation	2 89	3.83	1.095	.163
Auditor's opinion impact about opportunities on management motivation	2 89	3.91	.874	.130
Auditor's opinion impact about control system on management motivation	2 89	3.62	.806	.120
Identifying the objectives and increasing the management incentive	2 89	3.67	.879	.131

**Table 2:** T-test results of the research hypotheses

	t	Sig. (2-tailed)	Mean difference	95% Confidence Interval of the Difference	
First hypothesis	5.092	.000	.933	.60	1.26
Second hypothesis	6.990	.000	.911	.65	1.17
Third hypothesis	5.179	.000	.622	.38	.86
Fourth hypothesis	5.087	.000	.667	.40	.93

Given that the relationship of  $0/05$  p-value =  $0/00 < \alpha = 0/05$  is establish in all hypotheses we can conclude that all the research hypotheses have been confirmed.

**Conclusions and Recommendations:**

According to the results obtained in the present study and testing the discussed hypotheses, some suggestions regarding better results in the research are provided in the following:

- The main objective of identifying opportunities and improvement of operational activities is to achieve long-term and short-term goals of the company. This means that by identifying opportunities and the potentials of the company and providing them to the management and decision-making bodies, the way for making rational decisions and improvement of company activities will be paved. This advantage of performance audit causes the improvement of operational activities and thereby the satisfaction of the company owners, which leads to create the motivation in managers and increasing their efforts; therefore, with more attention to this issue by operational auditors, the results could be more useful.
- When the operational auditor identifies the vulnerable and weak points in the system and reports them to the management, he does not mean to cavil and fuss, but it is consulting attempt in order to improve the system performance and to achieve the predetermined goals; thus more attention to this feature of performance audit would be more useful.
- The current study shows that assessment of the management performance by higher management as well as using compensation methods of services and their encouragement and punishment by considering the results of performed evaluations can be effective in motivating the managers and enhancement of their efforts for optimum utilization of available possibilities and resources.
- In the fourth hypothesis, identifying policies, destinations and operational goals of the company by the auditor and providing them to the management can be effective in aligning the goals of management and the company and causes the increased efforts of management to achieve the organizational goals.

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