Presenting a Model for Measuring the Quality of Internal Control Structures for Tehran Stock Exchange Companies[1]

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Research Paper

INTRODUCTION

Internal control is a system designed to ensure that a company's operations are efficient and effective, financial reporting is accurate, and the company complies with applicable laws and regulations. It is a set of processes, procedures, and structures put in place by management to safeguard assets, prevent fraud and errors, and ensure that the company's objectives are achieved.

Effective internal control is essential for companies to achieve their short-term and long-term goals, maintain financial strength, and increase profitability. It also helps companies respond to unexpected events and provide appropriate responses to stakeholders such as shareholders, the government, and creditors.

In Iran, the Board of Directors of the Tehran Stock Exchange approved guidelines for internal controls on February 16, 2012, to evaluate the effectiveness of internal control structures, protect the rights of small shareholders, prevent unwanted events, and develop transparency in the securities market. However, there is no specific and accurate model for assessing the quality of internal control structures based on the country's

environmental conditions, and compliance with these guidelines is only mandatory for companies listed on the Tehran Stock Exchange.

Therefore, it is difficult to measure the quality of internal control on the performance of companies and the quality of internal audit services. Failure to achieve this goal could potentially lead to a trade-off between benefits and costs, resulting in companies foregoing the implementation of effective internal control structures.

MATERIALS AND METHODS

The present research is exploratory in terms of its objective and descriptive in terms of its approach in the field of foundational research. The geographical scope of the study is the companies listed on the Tehran Stock Exchange and its subject area is determining the quality measurement indicators of internal control structures. The research was conducted in 1401. Initially, the dimensions, components, and quality measurement indicators of internal control structures were identified based on a review of the literature, and in the next stage, 36 experts were interviewed and surveyed to identify the final quality measurement indicators of internal control structures. The expert group members in this study consisted of university professors (with teaching and practical experience in accounting and auditing fields), internal audit managers, members of auditing committees of listed companies, and relevant managers in auditing institutions providing independent audit and internal audit services. The Fuzzy Delphi approach was used to screen the quality measurement indicators of internal control structures, and the final indicators were identified by expert consensus. A 7-point Likert scale was used for the fuzzy modeling of the quality measurement indicators of internal control structures, where a threshold of 0.7 was considered for the acceptance and approval of the indicators. Therefore, when the score of the indicators is higher than 0.7, they are approved**.**

RESULTS AND DISCUSSION

Based on the theoretical foundations of internal control quality and a review of the literature on relevant research, as well as interviews with 36 experts, 131 indicators related to measuring the quality of internal control structure were identified. These proposed indicators were presented for expert survey using the fuzzy Delphi method. The results of the expert survey using the fuzzy Delphi method were obtained in two stages. In the first stage, 131 indicators were introduced through the fuzzy Delphi method, of which 27 indicators were eliminated in the first stage and 8 new indicators were proposed by the experts. In the second stage of the fuzzy Delphi method, 111 indicators were presented, and all indicators were ultimately approved by the experts. The final indicators of internal control

structure quality were classified into three dimensions: environmental, structural-executive, and results.

CONCLUSION

In the present study, quality measurement indicators for internal control structures were identified and then appropriately classified into components and dimensions. Based on the findings of the study, the quality of internal control structures was classified into three environmental, structural-executive, and results dimensions. The environmental dimension includes three components (1- the cultural, social, and economic system of the company's activity location, 2- the legal, political, and economic structure governing the company, and 3- the general structure of the company) and twenty indicators, referring to the company's environmental climate, including honesty and transparency, accountability and responsiveness, professional behavior system in the company, ownership concentration, industry complexity, general cultural, economic, and livelihood conditions of the people in the company's activity location, economic conditions of the country, including inflation rate, capital market development and efficiency, and the existence of supervision by specific bodies over the company such as the central bank, the accounting court, the central insurance, and the inspection organization, and so on.

The structural-executive dimension includes four components (1- board of directors structure, 2- board of directors specialized committees, 3- senior management structure of the company, and 4- internal monitoring structure within the company) and fifty-eight indicators that refer to the characteristics of the board of directors members, including the number of board of directors members, the presence of the real owner as a board of directors member, the average tenure of board of directors members, the ratio of mandatory members, the separation of the board of directors' chairman post from the managing director, the election of the board of directors' chairman from among the non-mandatory members, the absence of the company's highest financial officer in the board of directors, and so on, the characteristics of the audit committee, including the number of members, educational level, experience, and so on, the characteristics of the risk committee, including the number of members, relevance, and qualification, the characteristics of the appointment committee, the characteristics of the compensation committee, the characteristics of the risk management unit, and the internal audit unit, and the characteristics of the auditing institution.

The result dimension includes five components (1- Internal Control Evaluation Report, 2- Independent Auditor's Report, 3- Company Compliance with Laws and Regulations, 4- Company Tax and Insurance Structure, and 5- Transparency and Reporting Quality - Company Fairness

and Justice) and 33 indicators, which refer to items such as annual internal control evaluation reports by the board of directors, the type of board of directors report and its opinion, the readability of the reports and the provision of accurate and complete information, the type of independent auditor's report and its paragraphs, and so on.

This model can be practically used in regulatory structures of the stock exchange organization. Furthermore, this model can be used as a basis for assessing the appropriate performance of companies in their success in implementing internal controls by shareholders.