Scope of the Assessment of the Internal Control Systems in the Jordanian Industrial Companies

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Abstract
The current research aims at evaluating the reality of the audit, internal control in order to detect the current deficiencies in the auditing and the internal control systems of the private Jordanian companies. Thus, the significance of this research comes from identifying the core purpose of the internal auditing system as well as discussing the nature of auditing and control methods which are used by these companies. For this purpose, the study employed a descriptive analytical method. Consequently, the study induced that the administrations of the Jordanian private companies are mainly relying on the internal control in their organizational structure, as well as the used internal system is found to be effective.
Keywords: Internal Auditing, Jordanian Companies, Internal Control System.

1. Introduction
Due to the large size of projects as well as the multiplicity of their activities and operations, it became necessary for the auditing process to be completed and detailed in order to become merely a test audit that is based on the statistical sample method and performance of multiple tests. For instance, the sample size and the number of tests, which are conducted by auditors, are relying on the strength of the audit and internal control system of the organization.

Therefore, auditors are supposed to a good background about audit and internal control system, which are used by organizations. This could help them to determine the audit and sampling method, then it is obvious how far is the importance of the existence of internal control system within firms and their effect on Audit work efficiency. Moreover, the current research is mainly focusing on discussing audit and internal control systems and their objectives as well. Additionally, the study aims to highlights main reasons behind the development of audit and internal control systems, and thereafter elaborating the assessment of audit and internal control systems within firms.

1.1 The Study problem
Recently, it was suggested that the absence of the proper application of audit and internal control in corporate systems, leads to weaken these systems, as well as hidden the real financial position of the company. Therefore, this research aims at explaining the audit and internal control systems deficiencies which are existed in the Jordanian companies. The study will also endeavor to evaluate the audit and internal control of the Jordanian private companies.

1.2 The Study Importance
Given the large number of projects and its multiple activities, internal audit within large companies captured a great importance leading to the necessary reliance on the availability of internal audit by organizations and companies so as it could ensure good work performance and commitment to the higher administration's policies. At the same time, proper audit and internal control systems provide security factor. That is achieved through preventing errors and deception. Moreover, the importance of this research is to discuss the nature of internal audit and its evaluation, in addition to explaining the nature of audit and control methods which are applied in the Jordanian private companies.

1.3 The Study objectives
The current research aims at attaining the set of the following objectives:
1. Evaluate the audit and internal control systems in the Jordanian private companies.
2. Identify the deficiencies in the audit and internal control systems.
3. Identify the relationship between review risk and audit and internal control efficiency.

1.4 Assumptions
The main aim of this research will be achieved through testing the following main and sub-hypotheses:

- **Main Assumption**
  ▪ The audit and internal control systems within the firms are below the required level.

The above main assumption is divided into the following sub-hypotheses:
1. Companies' administrations do not have internal control systems.
2. Accounting departments do not use revealed cash receipts in their record books.
3. Absence of control methods on invoices models.
4. Absence of invoices audit to ensure its accounting authentication.
5. Absence of efficient control methods on mail reception.

1.5 The Study Methodology

The current research was primarily based on the descriptive and analytical approach in dealing with study problems and the proof of its hypotheses for its suitability for the purposes of this study. The study also was relied on the descriptive analytical approach in the practical aspect depending on the replies of the study sample in order to reach the expected results. The population of this research encompasses the Jordanian industrial companies, in order to evaluate the internal control systems, which are used by these companies.

2. Literature review

- Abuali (2005) studied the evaluation of internal control systems within Industrial Public shareholding companies, where his study covered 35 companies. The study aimed to assess the strength degree of internal control, accounting and administrative systems as well as to examine the relationship between the strength degree of such used control systems and corporations size in terms of capital and staff numbers. It also aimed to study the internal control procedures and the level of interest shown by the industrial companies in administrative aspects of internal control. As a result, the study concluded that the number of companies that do not receive reports relating to the assessment of internal control system of the internal auditor amounted to 30 companies which accounted for almost 86% of the study sample.

- Al-Khreisat (2007) studies the evaluation of the effectiveness of the internal audit function in the public shareholding industrial companies, the aim of the study was to identify the objectives of the internal audit job and its procedures and scope of work within the public shareholding industrial companies in order to evaluate the degree of effectiveness of the internal audit job in such companies through the actual application of the procedures and goals carried out compared with the literature of the audit and standards of professional performance of The American Institute of CPAs in the United States in 1978. As well as to identify obstacles to the application of the internal audit function effectively by knowing the weaknesses and shortcomings in the implementation of the objectives, procedures and methods. And thus make suggestions and recommendations to address such constraints in order to activate its role.

- Al-Adgham (2006) studied the evaluation of internal control on direct credit facilities within commercial banks. The study aimed to assess the strength of internal control system on direct credit facilities, where credit facilities are considered of the most important and dangerous cash products in banks. The study concluded that commercial banks are different, as there are significant differences among them in terms of the strength degree of its applied internal control systems on direct credit facilities.

- Suleiman (2005) aimed to develop the internal audit services quality standards, in order to meet the needs of the overall quality of industrial firms. As well as to identify the importance of the internal audit job in the economic activity environment, which enforced the use of the concept of comprehensive quality systems as a strategy to meet the challenges of this environment and to clarify the accounting implications of this concept on this profession. However, some of 22 industrial companies have been selected as a random sample out of 68 companies representing the total global companies (pharmaceutical industry). The percentage of companies subject to this study was 29.4%, where the study adopted the multivariate analysis methodology. The study proved that the results of the study showed right assumptions, especially regarding the importance of proposed standards to assess the quality of internal audit services where it includes partially 21 standards and 16 standards at the macro level, which has the highest capability to explain the variation in the level of internal audit on services quality. The study also showed that there was a significant correlation between the achievement of quality assurance programs and obtaining quality certificates by the companies which means the increased importance of internal audit job in these companies. However, this study was only dedicated for trying to develop the internal audit services quality standards, in order to meet the needs of the overall quality of industrial firms without discussing the efficiency and affectivity of internal audit systems as a factor affecting the achievement of overall quality assurance programs in commercial banks.

- Cahil (2006) aimed to identify the contact relationship between the internal audits with the Audit Committee at the bank of the Republic of Ireland over the last ten years until 1998, in addition to the

focus on the correlation between effectiveness of internal audit with the audit system committee. The researcher used information taken from reports published by the financial controller and the General Auditor and the Parliament Committee of Public Accounting. He also used the descriptive technique for parliamentarian questioning, he also followed the reports issued by the inspector of the Supreme Court. Study population consists of (Clearing Bank in the Republic of Ireland and follow-up of the Bank over the last ten years until 1998). The study concluded that the Audit system committee is provided by the high administration by the reference on which they depend in using their internal audit systems, issued by the Head of Internal Audit systems to raise the performance of the directors and officers of the bank.

- Red Rama and Raghunaudan (2004) aimed to provide experimental evidence about the small firms using audit system and recent changes in the financial market and in the audit system at the stock exchange. The study has adopted the corporate partners' interview method. The study population consisted of a set of audit-system companies, where the sample was made up of a set of audit system companies in USA. After the use of the appropriate analysis, the study concluded that the local and regional audit-system companies and - because of the imposed taxes - all the audit system operations imposed by the (SEC) were stopped, whereas eight companies only imposed taxes. The researcher found that the main reason for using the audit system in Exchange Commission Securities is the deep perception of the administration through the accounts committee of public companies designated by the (SEC).

- Al Twaijry (2004) aimed to investigate the internal auditors' performance in the Arabian Gulf regions as well as to identify the key characteristics affecting the quality of performance. The researcher developed a questionnaire distributed to 158 auditors, in companies adopted the internal audit systems. (116) questionnaires were returned back. The study population consisted of the internal audit-system companies in the Arab Gulf states, whereas samples of Saudi companies were selected. The study found that the majority of audit operations were drafted in a professional manner when the auditing process is well organized. The study has also highlighted the strong impact of the large size of companies on the performance of internal audit within companies.

- Gerrit and Ignace (2004) aimed to address the broader nature of the internal audit system represented by the evolution of the practice, which was confirmed by the revised definitions of internal audit systems, and under the new professional framework of practice. Where this study was based on six extended cases, it has focused on the quality of internal audit systems services of the companies in Belgium, as well as the consultations that could be provided by the managers of the internal audit systems to the companies in Belgium, so it add value to such companies, through the identification of the impact of three variables, namely, (reporting relationships, corporate governance and internal control system). The results showed that the work of most internal audit systems present in the form of groups of quality services and consulting activities.

3. The Study Findings
3.1 Statistical Analysis
After applying the study tool, the study sample responses were collected, and their responses turned into abstract scores, then frequencies, percentages, means, standard deviations were calculated. Then the (T-test) techniques was has used in order to find out the main differences between the study sample individuals responses in terms of internal control systems according to the paragraphs of the questionnaire, at a statistical significance (α=0.05).

3.2 The questionnaires' Results
Table number one in appendix "A" shows the analysis of the questions, which are listed in the questionnaire, where the Means and Standard Deviations were calculated from the responses the respondents. The level of importance was also determined for these paragraphs based on the average of the opinions. According to the table we can conclude the following:

Means and S.D of Respondents
The questions of the questionnaire were of high degree of importance, where it have obtained an arithmetic mean above (3), with the exception of questions (26, 30,23, 24,25) as it had a low degree of importance with an arithmetic mean equal to or less than (3).
The study findings indicate that the questions (1, 2, 3, 4) came in the first ranks where it represented a high importance for the members of the study sample. As the arithmetic mean for the opinions ranged between (4.50 - 4.70), as well the trend of the answers by respondents of the study sample was in favor of the answer (Strongly agree) for the questions:

| The company's administration adopts internal control system? |
| The organizational structure of the company includes a special department for internal control? |
| A person who is concerned with cash is able to reach the records of cash movement? |
| All cash are deposited at the bank on a daily basis? |

The study findings indicate that the questions (23, 24, 25) occupied the last rank as it represented a medium importance for respondents. As the arithmetic mean of the opinions ranged between (2.90 - 2.95) for these questions. As well, the trend of answers shown by the respondents were in favor of the answer (I agree) in terms of the questions:

| Bills or invoices are audited to ensure its accountability? |
| Recording in the general ledger and sub-ledger should be of two different copies of one document? |
| Sales returns and allowances are supported with serial numbered documents? |

3.3 The Study Assumptions

To examine the main assumption, the (T- test) was used for the assumption mean (3) to see if there was a statistically significant difference between the means of the study sample individuals' estimations against internal control systems within firms. For the results of this assumption, see Table number two in appendix "A". The (calculated T-value) was equal to (11.943) at p-value of (0.000) which is less than the specified value (α=0.05). Which indicates the presence of significant differences; this means that there are statistically significant differences between internal control systems in the firms. Thus we reject the study.

First Sub-hypothesis

To examine this assumption "Administrations at companies does not use Internal Control System", the (T- test) has been used for the assumption mean (3) to see if there was a statistically significant differences between the means of the study sample individuals' estimations against internal control systems within firms. For the results of this assumption see table number three in appendix "A". The (calculated T-value) was equal to (18.55) at p-value of (0.000) which is less than the specified value (α=0.05). Which indicates the presence of significant differences; this means that there are statistically significant differences between firms in terms of the adoption of internal control system. Thus we reject the study hypothesis (assumption).

The Second Sub-hypothesis

To examine this assumption, (T- test) has been used for the assumption mean (3) to see if there was a statistically significant differences between the means of the study sample individuals' estimations against internal control systems within firms. For the results of this hypothesis, see table 4 in appendix "A". The (calculated T-value) was equal to (14.622) at p-value of (0.000) which is less than the specified value (α=0.05). Which indicates the presence of significant differences; this means that there are statistically significant differences between firms in terms of the use of the Accounting department or section of cash receipts statements in its entry in the books. Thus we reject the study hypothesis.

The Third Sub-hypothesis

To examine this assumption, (T- test) has been used for the assumption mean (3) to see if there was a statistically significant differences between the means of the study sample individuals' estimations against the presence of Control methods on invoices forms. For the results of this hypothesis, see table 5 in appendix "A". The (calculated T-value) was equal to (13.388) at p-value of (0.000) which is less than the specified value (α=0.05). Which indicates the presence of significant differences, this means that there are statistically significant differences in terms of presence of control methods on invoices forms, Thus we reject the study hypothesis.

The Fourth Sub-hypothesis

Invoices are not subject to audit to ensure its accountability

To examine this assumption, (T- test) has been used for the assumption mean (3) to see if there was a statistically significant differences between the means of the study sample individuals' estimations against the audit of invoices to ensure its accountability. For the results of this hypothesis, see table six in appendix "A". The (calculated T-value) was equal to (0.957) at p-value of (0.350) which is greater than the specified value (α=0.05). Which indicates the absence of significant differences, this means that there are no statistically significant differences in terms of audit of invoices to ensure its accountability. Thus we accept the study hypothesis.

The Fifth Sub-hypothesis

Absence of effective control methods on mail receipt

To examine this assumption, (T- test) has been used for the assumption mean (3) to see if there was a statistically significant differences between the means of the study sample individuals' estimations against the presence of effective control methods on mail receipt. For the results of this hypothesis, see table seven in appendix "A". The (calculated T-value) was equal to (3.870) at p-value of (0.001) which is less than the specified value (α=0.05). Which indicates that there are significant differences; this means that there are statistically significant differences in terms of the mail receipt?

4. The Study's Conclusions and Recommendations

4.1 The Study Conclusions

This study has reached the following results:

1. Company's administration adopts an internal control system; as well there is a special administration for the internal control within the organizational structure.
2. It has been concluded that the person who is concerned with the cash is able to reach the cash movement records. Further, there was a special credit department, which was separated from the sales department.
3. There was an evidence for the invoices accountability check or audit by the company, however at unacceptable degree was an investigator in the company, but not so much accepted, as well as the entry in both the General Ledger and sub-ledger as well as supporting the sales returns and withdrawals by serial-numbers documents.
4. The internal control systems levels were accepted.
5. The company relies on an internal control system.
6. Accounting department uses cash receipts statements in its entry in the books.
7. There are control methods on billing forms.
8. Invoices are not audited to ensure its accountability.
9. There are no effective control means upon receipt of the mail.

4.2 Recommendations

This study provides the following recommendations:-

1. The need to work on updating the internal control system in a company, in consistent with the requirements of daily work.
2. The need for establishing a special administration responsible for internal control in a company, provided that such an administration shall enjoy a particular independence.
3. Establishing a special audit system for the invoices to be accountability audited.
4. The need for administrative separation between credit and sales divisions.
5. Establishing an effective mechanism to monitor the mail and to detect errors as soon as possible.

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Appendix A

Table 1: The Analysis of the Questions

No.	Question	Mean	Standard deviation	Degree of importance
1	The company's administration adopts internal control system?	4.70	0.470	1
2	The organizational structure of the company includes a special department for internal control?	4.60	0.503	2
3	A person who is concerned with cash is able to reach the records of cash movement ?	4.50	0.513	3
4	All cash are deposited at the bank on a daily basis?	4.50	0.513	4
14	Credit section is separate from the sales section?	4.40	0.598	5
6	Accounting department or section uses cash receipts statements in its entry in the books?	4.35	0.745	6
7	Provide a copy of the deposit slip, approved by the Bank and entered the value of the deposited amount, to someone other than the treasurer?	4.30	0.571	7
8	A bank statement and disbursed checks (attached) to a person other than the treasurer?	4.30	0.657	8
10	There are effective means of control over the receipt of mail?	4.30	0.470	9
13	The Credit Department shall approve the sales on credit before shipping the goods to the customers?	4.30	0.571	10
15	Sales prices are determined based on the approved price list?	4.30	0.571	11
5	A daily statement of collected cash receipts from clients is prepared?	4.25	0.786	12
11	Cash discount granted to customers is checked periodically by other employees working under the supervision of the treasurer?	4.25	0.444	13
9	A daily cash receipts statement is used to enter the payment in the subledger books of the customers' accounts ?	4.15	0.587	14
12	Adjustment of cash receipts with deposit slips ?	3.65	0.988	15
27	Mails envelopes are opened by someone other than the treasurer or bookkeeper?	3.65	1.137	16
18	Shipping orders forms are used with serial numbers?	3.45	0.999	17
20	The shipping department prepares Shipping vouchers with serial numbers before the goods are released from the stores?	3.45	1.191	18
29	Matching cash receipts list with cash deposits on daily basis?	3.45	0.887	19
17	There are control methods over the billing forms?	3.35	0.988	20
19	There are control methods over the shipping orders forms ?	3.35	1.137	21
16	Bills forms used with serial numbers?	3.25	1.070	22
21	There are control methods over the shipping vouchers ?	3.20	1.152	23
22	Matching shipping orders, shipping slips and invoices before the sales are entered in the accounting records?	3.20	1.005	24
28	Does the competent person who open mails envelopes prepare a daily cash receipts (checks) statement?	3.20	1.056	25
31	Cash receipts are recorded in each of the general ledger and sub-ledger of customer accounts from different two documents?	3.20	1.240	26
32	Matching the balances of accounts receivable in the sub-ledger periodically with the general ledger account?	3.15	0.988	27
26	Returns and allowances shall be approved by a competent employee?	3.00	1.076	28
30	Matching the statement of cash receipts and deposit slips with the receivable accounts in the cash accounts and accounts payable in the customers' accounts?	3.00	1.026	29
23	Bills or invoices are audited to ensure its accountability?	2.95	1.146	30
24	Recording in the general ledger and sub-ledger should be of two different copies of one document?	2.95	1.146	31
25	Sales returns and allowances are supported with serial numbered documents?	2.90	1.119	32

Table 2: Results of the Main Assumption

Calculated T-value	Degree of freedom	Level of Significance
11.943	19	0.000

Table 3: Results of the First Sub-Hypothesis

Calculated T-value	Degree of freedom	Level of Significance
18.550	19	0.000

Table 4: Results of the Two Sub-hypothesis

Calculated T-value	Degree of freedom	Level of Significance
14.622	19	0.000

Table5: Results of the Third Sub-Hypothesis

Calculated T-value	Degree of freedom	Level of Significance
13.388	19	0.000

Table 6: Results of the Fourth Sub-Hypothesis

Calculated T-value	Degree of freedom	Level of Significance
0.957	19	0.350

Table 7: Results of the Fifth Sub-Hypothesis

Calculated T-value	Degree of freedom	Level of Significance
3.870	19	0.001