

# A Study of Evaluating the Internal Controls within Accounting Firms

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## **Abstract**

Internal controlling factors mainly include factors environmental or cultural factors, risk assessment, information technology, controlling activities and monitoring of the firm. This internal controlling factor works for enhancing the performance of a business organization. Hence, this study evaluates the role of internal controlling factors on an accounting firm. This study highlighted those internal factors of an accounting firm that improve the accountability, work structure and operational efficiency of an accounting firm. This study similarly applies 'Theory of systems' for analyzing the role of internal factors. The study concluded that with the help of cloud computing and intelligent automated accounting systems a firm can effectively manage the accounting process.

**Key words:** Accounting Policies, Internal Factors, Information Technology, Accounting Firm, Risk Reduction

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## **INTRODUCTION**

### **Introduction**

Internal controls refer to the set of strategies and techniques used by a company to reduce the risks associated with the management procedure. Internal controlling factors are mainly designed for reducing the risks associated with the accounting process. The accounting sector of business management is the main body that controls the accountability of the firm's profit. This study aims to evaluate the role of internal controlling factors on an accounting firm.

### **Research Objectives**

The main aim/objective of this article is to evaluate the role of internal controlling factors on an accounting firm. In order to reach the aim, the researcher has developed several objectives for the study. These are:

- To identify the different types of internal controlling factors on an accounting firm.

- To analyses the importance of these internal controlling factors in reducing the risks on an accounting firm.
- To justify the relation between technological adaptation with the effectiveness of internal controlling factors on an accounting firm

### Research Questions

In order to meet the research objectives, the researcher has provided three significant research questions for this study and tries to answer them through this article. These research questions are:

1. What are the different types of internal controlling factors on an accounting firm?
2. How do internal controlling factors play a unique role in reducing the risks on an accounting firm?
3. In which manner technological adaptation impacts the effectiveness of internal controlling factors on an accounting firm?

### Background

Internal controlling factors are mainly designed for reducing the risks associated with the accounting process. In an accounting firm, the employees are mainly responsible for managing the financial information of the organization. Accounting management of a firm mainly plays a key important role in helping the managers to calculate the accountability of the profit earned by an organization. Through managing the effectiveness of the internal controlling factors, a firm can enhance its performance level. The internal controlling factor of a business organization mainly depends on five key elements .

**1. The first element is ‘environmental control’ which can include**

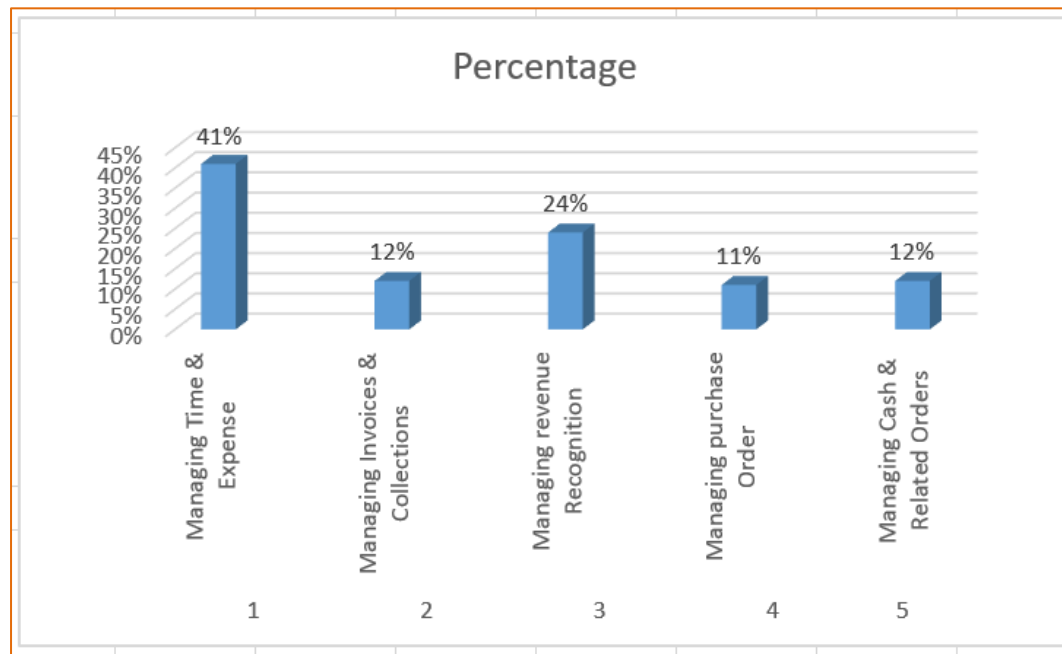
- ethical values,
- language beliefs,
- and cultural values.

**The other element includes:-**

2. risk assessment,
3. information and technology,
4. controlling activities
5. and monitoring the firm process.

**Table 1: Role of Accounting Firm**

S.No.	Particulars	Percentage
1	Managing Time & Expense	41%
2	Managing Invoices & Collections	12%
3	Managing revenue Recognition	24%
4	Managing purchase Order	11%
5	Managing Cash & Related Orders	12%



**Figure 1: Role of Accounting Firm**

From figure 1, it can be observed in the business management process the accounting firm plays a significant role. Through managing accounting services, a firm can manage its time & expenses, invoices & collections, managing cash, managing purchase orders etc. On the other hand, these accounting firms play a unique role to manage revenue generation and profit calculation.

## LITERATURE REVIEW

### Introduction

In the literature review chapter, the researcher has aim to discuss the core concept of internal controlling factor assessment in improving the efficiency level of the accounting firm. In addition to that, in this portion of the article, the researcher has included a theory to identify the role of internal controlling factors.

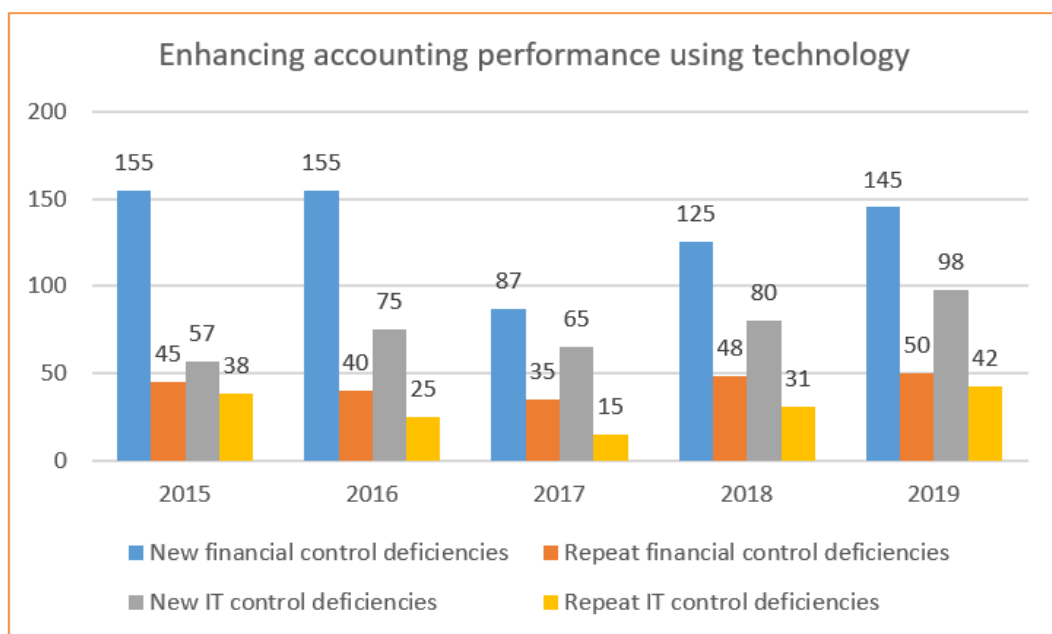
In a study conducted by Abdi (2015) showed that internal control rules provide exactly eight internal control frameworks. Organizational management, segregation of duties, physical management, personal management, supervisory management, arithmetic and accounting management, approval and approval, and management management, approval and approval, and management management are practical for any organization or institution. is needed. The Accounting Standards (SAS) also makes it clear that internal controls can be classified as either accounting or administrative controls. Accounting management focuses on the institution's plan and all coordinated techniques and strategies implemented in terms of protecting assets and updating the integrity of financial records. Management controls include the organization's organization and all coordinated processes and policies related to operational effectiveness and compliance with management approaches and obligations. Ofori (2011) shows that the internal control of is basically classified into a control environment & control method or exercise. Statement of Auditing Standards (SAS, 30).

**Effects of Technology on Internal controlling Measures Within Accounting Firms**

In today's world technology plays a unique role in every sector of life. In the business, technological processes are generally used for enhancing the performance level of the employees and to reduce the risks associated with the business management process. Technology has implemented several advantages and strategies for accounting management. With the technological adaptation, many organizations have started using cloud computing software for accounting. In addition to that several machine learning and mobile accounting, applications have reduced the level of risks in the accounting process.

**Table 2 : Enhancing Accounting Performance Using Technology**

Year	New financial control deficiencies	Repeat financial control deficiencies	New IT control deficiencies	Repeat IT control deficiencies
2015	155	45	57	38
2016	155	40	75	25
2017	87	35	65	15
2018	125	48	80	31
2019	145	50	98	42

**Figure 2 : Enhancing Accounting Performance Using Technology**

From figure 2 the data has been taken from extensive review literature on the basis of various published articles related to banking transactions. From the above graph 2, it can be observed that technology plays a significant role in enhancing the financial and accounting factors or operations of a business organization. From the figure, it can be observed that where the use of information technology factor is less the financial deficit of that organization similarly increased. Hence, it can be stated that with the improvement of technological services a firm can similarly enhance its accounting performances.

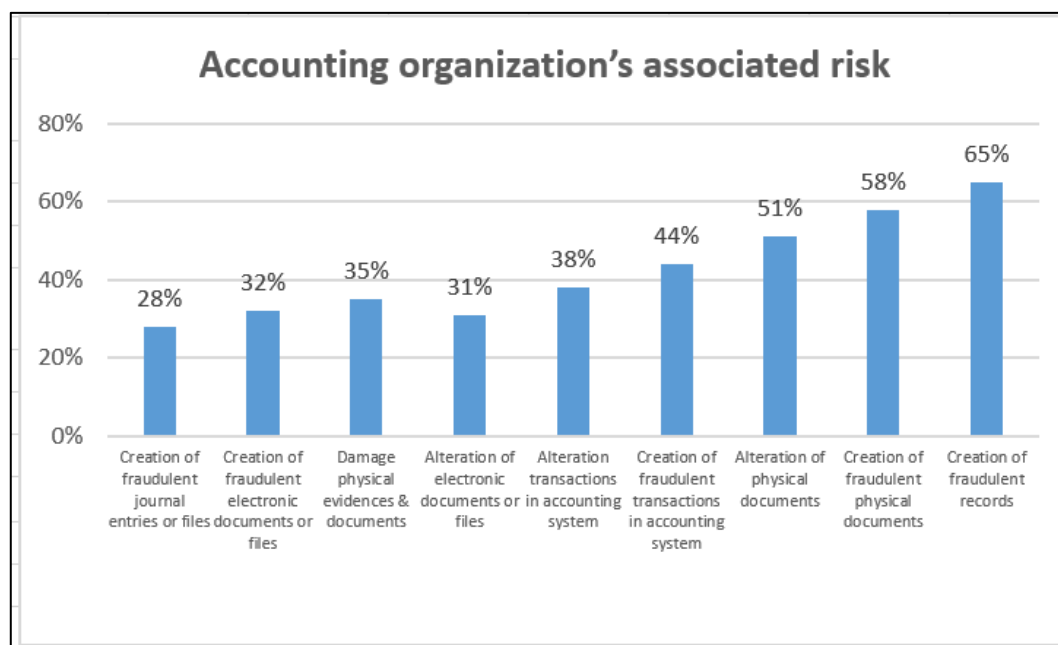
Using technology generally helps the accounting firm in reducing the risks associated with the accounting process. Internal controlling factors of an organization similarly help to increase the profitability of the business organizations. Hence, there is a significant role of technology in managing the accounting procedure.

### Impacts of Internal Controls in Risk Management

Internal controlling factors mainly refer to the strategies or plans used in accounting services for enhancing the performance level of the finance organization. Through enhancing the power of internal controlling factors, a firm can reduce the risks associated with the business management process. The major elements that act as the internal controlling factor of accounting are environmental or cultural factors, risk assessment, information and technology, controlling activities and monitoring of the firm process.

**Table 3: Accounting Organization's Associated Risk**

Risk Factors	%
Creation of fraudulent journal entries or files	28%
Creation of fraudulent electronic documents or files	32%
Damage physical evidences & documents	35%
Alteration of electronic documents or files	31%
Alteration transactions in accounting system	38%
Creation of fraudulent transactions in accounting system	44%
Alteration of physical documents	51%
Creation of fraudulent physical documents	58%
Creation of fraudulent records	65%



**Figure 3: Accounting Organization's Associated Risk**

In the accounting organization there are several risks associated with the business management process. Figure 3 highlights the major frauds or risks associated with accounting services & with the help of an internal controlling factors assessment, the firm can reduce these risk factors and can enhance the performance level of the business organization.

## Theory

### Theory of Systems



**Figure 4: Internal System Components**

‘Theory of systems’ was first established by Harvey and Brown in 1998 (Rozario & Vasarhelyi, 2018). This theory highlights that the internal controlling system is effective for managing the organization’s effectiveness and productivity. An effective internal controlling system is an important process that accumulates all the resources and information for measuring the performance level of the organization (Putra, Saitri & Gunadi, 2019). This theory highlights that the accounting system, control management procedure and environmental control are the major internal controlling factors of an accounting firm as shown in figure 4.

## METHODOLOGY

Research approach generally indicates the set of data collection and data analysis strategies used in the study. According to Pahlavan (2018), the selection of the appropriate research method would help the researcher in directing the whole work in a particular direction. The research method is useful for selecting the right strategy for data collection and data analysis. In this research, the researcher has applied the secondary qualitative research method. In order to perform this method, the researcher has chosen to collect qualitative information from various secondary sources. Secondary sources generally include already published books, articles, journals or business reports (Kravet, McVay & Weber, 2018). The researcher has randomly selected 10 articles or journals from various online sources with the help of a random sampling technique.

In addition to that, the researcher has chosen a secondary qualitative analysis technique for analyzing the collected data of the research. The researcher has run a PRISMA test and selected 4 articles for the Thematic analysis. PRISMA test generally helps a researcher to choose appropriate secondary data or journals from a huge number of articles (Kokina & Blanchette *et al.* 2019). This method is broadly used in secondary qualitative research. Based on the four articles the researcher has developed two significant themes associated with the research topic. Similarly, identified several codes from it that would be necessary for further analysis regarding the research topic.

## RESULT

### Quality review

No.	Authors	Study Design	Number of Resources	Measured Outcomes	Result	Quality Review
1.	Gao & Zhang, (2019)	Qualitative	25	To evaluate the importance of organizational culture and customer experience as an internal factor	This study indicates that the firm can increase their productivity through managing the internal factors.	High
2.	Haapamäki & Sihvonen, (2019)	Quantitative	50	To examine the role of organizational culture in the accounting strategies	This study concluded that organizational culture and employee behavior effectively controls the organizational performance.	Low
3.	Huang & Vasarhelyi, (2019)	Qualitative	35	To developing cloud computing services and systems for enhancing the account process.	This study concludes that cloud computing software of accounting can reduce the chances of risks.	Moderate



4.	Kokina & Blanchette, (2019)	Qualitative	60	To evaluate the effect of accounting information system in enhancing the [financial performance quality of an organization.	This study shows that accounting information technology can increase the ability of the firm to reduce risks.	High
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**Table 1: Quality review**  
(Developed by Researcher)

### Thematic coding

No.	Author	Code	Themes
1.	Gao & Zhang, (2019) Haapamäki & Sihvonen, (2019)	Internal Factors Accounting Policies Financial	Internal controlling Factors Positively Impact the Business Organization
2	Huang & Vasarhelyi, (2019) Kokina & Blanchette, (2019)	Technology Accounting Firm Risk Reduction	Influence of Technology Plays a Significant Role in Reducing the Risks of Accounting firms

**Table 2: Thematic coding**  
(Developed by Researcher)

### Thematic analysis

#### Internal controlling Factors Positively Impacts the Business Organization

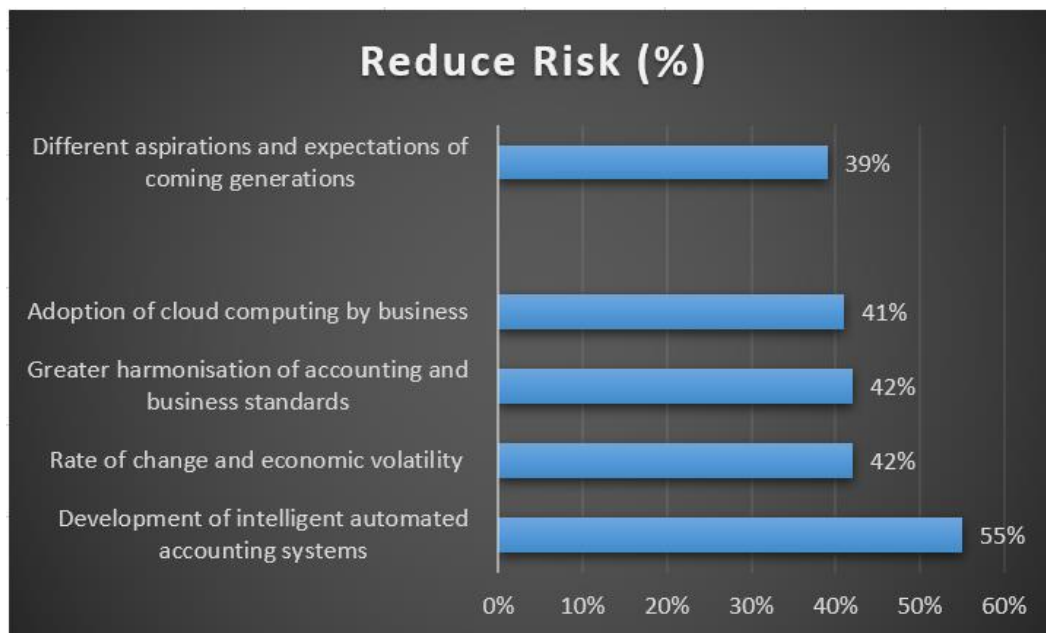
Accounting management of a firm mainly plays a key important role in helping the managers to calculate the accountability of the profit earned by an organization. The efficiency of the accounting firm mainly depends upon internal controlling factors (Ezenwoke *et al.* 2019). Internal controlling factors mainly include factors like environmental or cultural factors, risk assessment, information and technology, controlling activities and monitoring of the firm process. Management of internal controlling factors positively impacts the accounting process. The main benefit of this internal controlling factors assessment helps to reduce the audit fees. In addition to that this process mainly aims to reduce the errors in the business process. Hence, this system includes several technologies to improve the accounting process (Cheng, Goh & Kim, 2018). Similarly, these internal factors improve the accountability, work structure and operational efficiency of an accounting firm. This system similarly helps in solving the tasks within the given time period by maintaining the rules and guidelines.



**Technology Plays a Significant Role in Reducing the Risks of Accounting Firm:-**  
Technology plays an important role in every sector. With the help of technological adaptation, the firm can improve its efficiency.

**Table 3: Technologies Used in Reducing Risks in a Firm**

Different Technologies Used	Reduce Risk (%)
Development of intelligent automated accounting systems	55%
Rate of change and economic volatility	42%
Greater harmonisation of accounting and business standards	42%
Adoption of cloud computing by business	41%
Different aspirations and expectations of coming generations	39%



**Figure 5: Technologies Used in Reducing Risks in a Firm**

From figure 5 (Cheng *et al.* 2018) it can be concluded that by implementing several strategies firm tropes to reduce the accounting risks. 55% of the global business organization has implemented intelligent automated accounting system for improving the performance level of the accounting firm. On the other hand, 41% of business organization uses cloud computing in the accounting processes for reducing the chances of error in the accounting process (Chen, 2018). Technology plays an important role in enhancing the productivity level of accountants and similarly decreases the involvement of human interferences in the accounting process reducing the risk of losses. The majority of accounting firms use several software for reducing errors in the accounting process.

## Discussion

With the help of thematic analysis, the researcher has developed two significant themes related to the internal controlling factor management of an accounting firm. Those two themes are internal controlling factors that positively impact the business organization and technology plays a significant role in reducing the risks of accounting firms. From the thematic analysis, it can be observed that internal factors generally reflect the techniques or policies that control the effectiveness of the business management process of an organization. These internal controlling factors mainly control the effectiveness of an accounting firm (Chang *et al.* 2019). Company rules, procedures, resources and types of machinery are the main internal controlling factor. The business organization mainly includes the internal controlling factor assessment program for reducing the risks associated with the business, protecting the assets, ensuring compliance and managing the financial data of that company (Ayoub *et al.* 2019). From the analysis, it similarly can be highlighted that technology plays an important role in managing the accounting processes of a business organization and tries to reduce the error in the accounting process. Business organizations use cloud computing software and intelligent automated accounting system for reducing the chances of errors in business management.

## CONCLUSION

Hence, from the overall conclusion it can be observed that through controlling the internal factors the business organization can reduce the chances of errors in the accounting process. The accountability of the business's organization, data management and profitability mainly depend upon the performance level of the accounting firm. This study concluded that through controlling the internal factors the accounting firm can reduce the chances of errors, prevent fraud, protect data and resources efficiently manage expenses and secure outside funding respectively. This study identified several controlling measurements of internal factors that can enhance the accounting performance of the business organization. Those are effective work distribution among the employees, effectively controlling and supervising the overall business process, managing audits and running balance trials respectively. On the other hand, this study similarly put emphasizes the importance of technological adaptation in enhancing the performance level of the business organization. This study highlights that with the help of cloud computing software and intelligent automated accounting systems a firm can effectively manage the accounting process.

## Limitations

During this study the research has similarly faced several limitations that have created several literature gaps in this research. The main limitation faced by the research is the time constraint. Due to less time, the researcher ignored several detailed analyses of the research topic. Another limitation of this study states that the researcher has only included secondary qualitative analysis. However, by implementing a quantitative method the researcher can add more significant and scientific value to the research topic.

## FUTURE SCOPE

This respective study emphasizes the role of accounting in enhancing business performance. This study mainly aims on analyzing the role of internal controlling factors in reducing the risks associated with the business process. Hence, this study is beneficial for every organization in identifying the risks associated with the accounting process. Similarly, it would be beneficial for the accounting firm to effectively use the internal factors that control the accounting process. This study is similarly beneficial for the students of business management and accountancy for developing their knowledge regarding the factors that control the accounting process of a business organization.

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