_____

THE RELATIONSHIP BETWEEN CASH HOLDINGS AND THE QUALITY OF INTERNAL CONTROL OVER FINANCIAL REPORTING OF LISTED COMPANIES IN BOMBAY STOCK EXCHANGE

Dr. T. Biju[1] and Hamid Ravan Paknoodezh[2]
[1]**Assistant Professor in Commerce , BJM College, Chavara, Kollam, India .**
[2]**Research Scholar , FMN College, Kollam, India.**

ABSTRACT

The purpose of this study used to be to check out the relationship between cash holdings and the quality of internal control over financial reporting of listed companies in the Bombay Stock Exchange. In order to achieve the targets of this study, three hypotheses have been developed. In order to test this hypothesis, a sample of fifty-five listed corporations in the Bombay Stock Exchange at some point of the years 2009 to 2017 have been selected the use of the playoff systematic sampling. The improved money drift was the impartial variable and the structured variable was defined as the pleasant of financial reporting. In addition to optimized money flow, representing the variable prices as a moderating variable and the company's measurement and financial leverage were viewed as the control variable. For hypothesis testing, multivariate regression analysis was used to panel statistics and information was once analyzed using the software program Meanwhile Eviews7. The effects of statistical analysis and hypothesis testing indicated that there was once an extensive relationship between cash holdings and the first-rate of internal manage over economic reporting. Financial reporting had a good sized relationship with the high-quality of inner manager of the cost. In addition, there was once a relationship between the cash holdings and the excellent of internal manage over monetary reporting.

KEY WORDS : Quality of Internal Control over Financial Reporting, Cash Flow, Representing Costs.

INTRODUCTION

From the view of the profit-driven director, whether or not to spend or shop the income money flow is an ultra-modern query in relation to extra hobby prices or greater flexibility in the future. While the nice of the funding is often delayed after an event is detected and massive cash, reserves can be a vital criterion for shareholders judgment. Money grant allotted a huge proportion of its assets. Typically, managers are looking for a stage of cash holdings due to the benefits and disadvantages of cash holdings, which are optimal. Companies are looking for the highest quality stage of liquidity due to a lack of liquidity, major losses to the employer does now not enter, on the other hand, the extra money holdings, and this case does not leave out opportunities, the degree of liquidity in the corporate target, however in accordance to small print of the variety of agencies and exclusive time periods are different. Internal controls are set up from the environmental control, accounting and management approaches and insurance policies to create a sensible assurance of attaining the goals of the business enterprise in the future.

Agency relationships and the expenses related to them have been widely studied in the literature of the economic companies. Agency relationships are contractual between two or more folks representing the owner, the person appointed as a consultant to the authority delegated to him to decide. As a result,

_____

_____

shareholders ought to incur expenses in order to align the interests of executives with them. Since such expenses arise due to the formation of the business enterprise relationship; it is referred to as company fees (Jensen and Mac Ling, 1976). Cash flows play a central function in making financial decisions. Also, historical data associated with money drift can help to control the accuracy of past critiques and the relationship between business things to do and future show receipts and payments. Companies hold a sure percentage of their assets in cash. In addition, many organizations have expanded their level of money assets (Tavakolnia and Tirgari, 2014). Two governing theories are primarily based on the maintenance of cash, exchange concept and the theory of the hierarchy. According to the TOT, the most beneficial stages of money holdings are set primarily based on corporations to balance the advantages and charges of preserving cash (Ferreira and Vilela, 2004).

THEORETICAL FOUNDATIONS
Internal control: such as the control of environment, accounting and control methods and insurance policies to create a lifelike assurance of achieving the dreams of the enterprise in the future. These targets include:
1) safety of assets towards waste, fraud and effectivity.
2) to improve the accuracy and reliability of accounting statistics and working.
3) encouraging personnel to examine the coverage.
4) judging the performance of the operations in all components of the organization (Ghorbani, 2011).
Internal manipulate follows four targets that one of them is the reliability of monetary reporting; these controls are designed to obtain the inner controls over financial reporting.

The definition which was once supplied by using the SEC of inside controls over financial reporting is as follows:
1. It is a manner which is led by using the managing director / Chief Operative, Chief Financial Officer or human beings with similar tasks deliberate by way of the board of directors, so that administration and different personnel to grant lifelike assurance concerning the reliability of monetary reporting and statements external monetary reporting in accordance with typically common accounting principles, and encompass policies and techniques that are?
2. Documents related to the protection of archives that suggests reasonable, accurate and truthful trading and the assets of the company.
3. Reasonable assurance that the transactions, in a way are suitable to prepare the financial statements in accordance with many times typical accounting ideas favour to be registered and all receipts and repayments the organization made solely on the basis of management authority and the board of directors.
4. Reasonable assurance involving prevention or well-timed detection of schooling and the establishment of unauthorized use of business enterprise assets, a cloth influence on the financial statements is that it provides.

BACKGROUND OF THE RESEARCH
Lin et al (2011) examined the function of internal audit in exposing the weaknesses of their cases. On the influence of employees on interior controls confirmed straightforward and in a position personnel in the exercising of sturdy controls over financial reporting to help manage and limit problems in the internal controls within the organization.

Moradi et al (2014) tried to discover danger factors affecting the possibility of fraud in financial reporting from the viewpoint of auditors and examine theirs have an impact on the company's financial performance. The motive of this lookup was to identify elements that have an effect on the possibility of fraud in the reporting of economic statements from the perspective of auditors and managers. Findings suggested that the there used to be a huge relationship amongst the prevalence of fraud characteristics of

_____

_____

the management, compliance management, interior controls and requirements in force, hazard elements were associated with market conditions and industry characteristics, operational, liquidity and financial steadiness and the opportunity of fraud. The consequences confirmed a sizeable relationship between firm overall performance (the fee of return on assets, operating money flow, return on fairness and returns) and the threat of fraud.

Nurafkan (2012) examined the relationship between statistics asymmetry and cash holdings in the listed companies in the Bombay Stock Exchange. The consequences show that groups with greater records asymmetry maintain greater money and asymmetry than companies that have a lower statistics asymmetry, and also, the companies surveyed in the Bombay Stock Exchange had no distinction earlier than the announcement of the profit.

MATERIALS AND METHODS

This learn about sought to study the relationship between the top of the line cash float and the company's stock price, it can be stated that this learns about was once an applied lookup the usage of the post-planed match and the impartial variables can't be manipulated, it was informal and correlation in the method. The study population used to be covered as listed corporations in the Bombay Stock Exchange, in the duration of 2009 to 2017. Samples were chosen using the removal of systematic sampling.

-The give up of its fiscal 12 months used to be ending in March.
- Participating in the course of the financial yr has not changed.
- The credit first-rate of company disclosure and economic information was available.
- Shares had been studied all through the learn about the period.

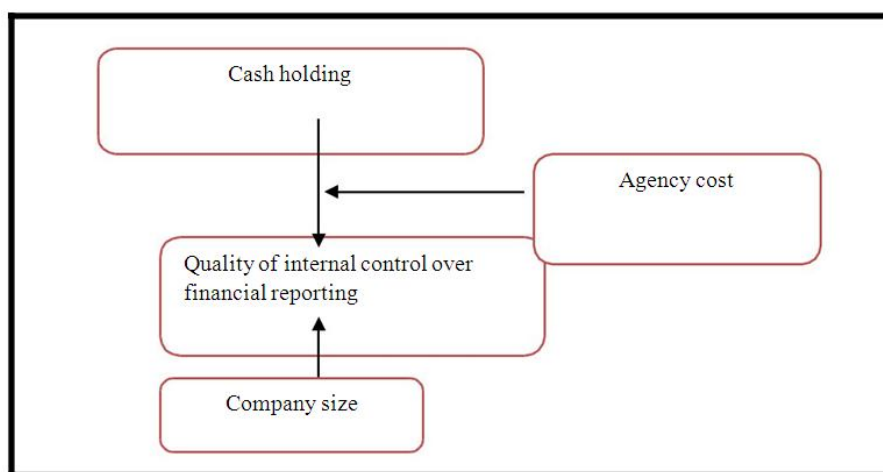According to the criteria, 55 companies were selected.

Figure 1. Conceptual models and variables.

In this study, the following models were used to test and to measure the hypotheses, the following model was used:

$$ICFR_{it} = \beta_0 + \beta_1 OC_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \varepsilon_{it}$$

$$ICFR_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \varepsilon_{it}$$

$$ICFR_{it} = \beta_0 + \beta_1 OC_{it} + \beta_2 AC + \beta_3 OC * AC + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \varepsilon_{it}$$

_____

_____

RESULTS

Table 1. Estimated regression results

Model	$ICFR_{it} = \beta_0 +$	$\beta_1 OC_{it} + \beta_2 SIZE_{it}$	$+ \beta_3 LEV_{it} + \varepsilon_{it}$
Variables	Coefficients	Statistic t	Significant level
Constant coefficients	2616.256	9.864	0.000
Cash flow	-20.027	-4.718	0.000
Company size	-83396	-	0.000
Financial leverage	12805.73	0.253	0.800
F statistic		15.543	
The possibility of statistic F		00.0	
Durbin-Watson statistic		2.087	
The coefficient of determination	0.503		
Adjusted coefficient	0.451		

According to the results, F-test for the first hypothesis can be viewed in the table, the level was equal to zero and much less, than the important stage of α, therefore, the null speculation was rejected, F-test at 95 per cent also was once rejected. Therefore, the mannequin used to be great and there used to be a linear relationship between the based and impartial variables. The coefficient of dedication was once equal to 0.503, which capacity that independent variables on the established variable defined 50% of changes. The price of the coefficient of dedication represented the explanatory energy of the model in the established variable, which was once defined by means of the independent variable. The subsequent necessary problem was the element of fabric error in the independent model. Durbin-Watson statistic used to be used to observe the case due to the fact the quantity used to be between 1.5 and 2.5, so, it can be concluded that no error factors in the model had been substantially correlated with each behavioral and independent variables. The Durbin-Watson facts were once equal to 2.07 and used to be positioned at a desirable level (between 1.5 and 2.5). According to the outcomes presented in Table, 1 as maintained variable of money rate was negative (-20.027) and thinking about the significance level of t (0.0) as an end result of the tremendous cash holding and the exception of inside control, there used to be a tremendous inverse relationship between them and the monetary reporting and accordingly confirm the first speculation is the widespread level of 95% capability that the satisfactory of inner control, financial reporting of money flow.

The second hypothesis test

Quality of internal control over financial reporting had a significant relationship with the agency's cost. For the second hypothesis, we have the following model

$$ICFR_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \varepsilon_{it,}$$

_____

_____

Table 2. Estimated regression results.

Model	$ICFR_{it} = \beta_0 + \beta_1$	$AC_{it} + \beta_2 SIZE_{it} +$	$\beta_3 LEV_{it} + \varepsilon_{it}$
Variables	Coefficients	Statistic t	Significant level
Constant coefficients	2834.109	9.155	0.000
Agency costs	-28861.331	-7.439	0.000
Company size	-78748	-8.099	0.000
Financial leverage	13996	0.277	0.781
size of the company		15.688	
Financial leverage		0.00	
F statistic		15.668	
The possibility of statistic F		00.0	
Durbin-Watson statistic		2.012	
The coefficient of determination		0.404	
Adjusted coefficient		0.353	

According to the results, F-test for the 2d hypothesis can be seen in the table, the level used to be equal to zero and less than the significance degree of α, therefore, the null hypothesis used to be rejected, F-test at ninety-five per cent additionally rejected. Therefore, the model was once large, there was a linear relationship between the established and unbiased variables vast, and there is a linear relationship between the independent and dependent variables. The coefficient of willpower was once equal to 0.404, which means that impartial variables on the structured variable explained 40% of the changes. The cost of the coefficient of willpower represents the explanatory energy of the model in the dependent variable explained by the independent variable. The subsequent essential issue used to be a factor of fabric error in the unbiased model. Durbin-Watson statistic was used to have a look at the case because the quantity was between 1.5 and 2.5, hence, it can be concluded that there were no error aspects in the mannequin, which used to be substantially correlated with both behavioral and unbiased of every other. The Durbin-Watson statistic was once equal to 2.01 and at an acceptable degree (between 1.5 and 2.5). According to the consequences introduced in Table 2 variable of organization value component was terrible (-28861.331) and in accordance to the stage of test t (0.0) used to be significance, so, the result between price and pleasant of inner manipulate over economic reporting used to be great and had an inverse relationship with them. Therefore, the second hypothesis was once confirmed at an importance level of 95% ability that there was a significant relationship between the best of interior manipulate and monetary reporting costs.

_____

_____

The third hypothesis testing

The agency's cost was effective in the maintenance of internal control over financial reporting quality. For the third hypothesis, we will study the following models:

$$ICFR_{it} = \beta_0 + \beta_1 OC_{it} + \beta_2 AC + \beta_3 OC * AC + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \varepsilon_{it}$$

Table 3. Estimated regression results

Model	$CFR_{it} = \beta_0 + \beta_1 OC_{it} + \beta_2 AC + \beta_3 OC * AC + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \varepsilon_{it}$		
Variables	Coefficients	Statistic t	Significant level
Constant coefficients	15842.45	8.885	0.000
Cash flow	-19.035	-3.537	0.000
Agency costs	-26489	-4.373	0.000
Multiplying cash of agencies costs	-54147.35	-5.167	0.000
Company size	-77892	-7.734	0.000
Financial leverage	12632	0.249	0.803
F statistic		15.054	
The possibility of statistic F		00.0	
Durbin-Watson statistic		1.985	
The coefficient of determination		0.705	
Adjusted coefficient		0.651	

According to the results, F-test for the 0.33 speculation can be seen in the table, the degree was equal to zero and much less than the important stage of α, therefore, the null speculation was once rejected, F-test at 95 per cent also rejected. Therefore, the mannequin was enormous and there was a linear relationship between the established and independent variables tremendous and there is a linear relationship between the impartial and based variables. The coefficient of determination was equal to 0.705, which skill that impartial variables on the based variable explained 70% of changes. The value of the coefficient of willpower represents the explanatory strength of the mannequin in the based variable defined

_____

_____

via the unbiased variable. The next necessary issue used to be a thing of material error in the independent model. Durbin-Watson statistic used to be used to study the case due to the fact the amount used to be between 1.5 and 2.5, hence, it can be concluded that there were no error factors in the model which used to be extensively correlated with each behavioural and independent of each other. The Durbin-Watson statistic was once equal to 1.98 and at a suited level (between 1.5 and 2.5). According to the effects presented in Table 2 variable of organization price factor was bad (-54147.35) and according to the degree of take a look at t (0.0) was significance, so, the end result between value and pleasant of inner manipulate over financial reporting was once large and had an inverse relationship with them. Therefore, the third hypothesis was verified at a magnitude stage of 95% skill that there was a giant relationship between the agency's value and the relationship between the fantastic of inside control and economic reporting costs.

CONCLUSION
Recommendations based on the results of the hypotheses
1. It is recommended to customers of the monetary statements in making monetary decisions, optimize money go with the flow reflect consideration on the effective factors affecting the satisfactory of interior control over economic reporting.
2. Cash prices represented the relationship between affectivity and pleasant of interior control over economic reporting which was once advantageous due to the investors' interest to the charges of representation in the capital market of Iran whereas the results of studies in overseas countries showed that agency costs, has attracted the interest of investors.
3. It is advocated that the critical measures to describe the employer fees of financial decisions and to inform buyers that it is a variety of functions must be considered.
4. Companies' managers are endorsed to go the famous train of money glide (liquidity) for many years to emphasize the importance of inner manipulate over economic reporting quality. In case of negligence, in this case, the degradation of internal control over economic reporting resulting in reputation and fee in the market due to their neglect undermined and the overall performance will not be necessary.

REFERENCES
Ferreira MA, Villa A, 2004. Why do firms hold cash? Evidence from emu countries, European financial management, 10 (2): 295–319.

Garcia-Teruel PJ, Martinez-Solano P, Sanchez-ballista JP, 2008. accruals quality and corporate cash holdings, journal of accounting and finance, 49: 95–115.

Ghorbani M, 2011. Paper audit reporting internal controls at small businesses in the implementation of Section 404 of Sarbanes - Oxley, Journal of Accounting, 237: 60-63.

Lin S, Pizzini M, Vargus M, Bardhan IR, 2011. The role of the internal audit function in the disclosure of material weaknesses, accounting review, 86 287-323.

Moradi J, Rostami R, Zare R, 2014. Identification of risk factors affecting the likelihood of fraud in financial reporting from the perspective of auditors and review their impact on the financial performance of the company "Journal of Accounting progress Shiraz University, 6 (1).

Tavakolnia E, Tirgar M, 2014. Financial leverage, cash holdings and the value of listed companies in Bombay Stock Exchange: non-linear and hierarchical relationships, Journal of Management Accounting, 7 (22).

Hamid Ravan Paknoodezh
Research Scholar , FMN College, Kollam, India.

_____