

**INTERNAL AUDITORS' CHARACTERISTICS AND CORPORATE  
GOVERNANCE ON THE PERFORMANCE OF INTERNAL AUDITORS IN  
THAILAND PUBLIC LIMITED COMPANY**

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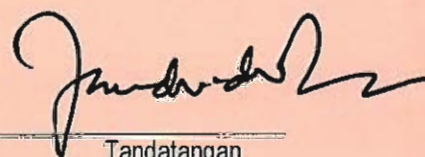
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## ABSTRACT

The issue of performance of internal auditors is important since Thailand was also affected by the accounting scandals. The expanded scope in the definition of internal auditing and new regulatory requirements such as the Sarbanes-Oxley Act has increased the demands on internal auditing. This study was conducted to examine the factors that influence the internal auditors' characteristics and corporate governance on the performance of internal auditors in Thailand public limited companies. To achieve this objective, seven hypotheses were formulated based on previous studies and the agency theory. Survey questionnaires were sent to the Chief Audit Executives to determine their effectiveness on their performance based on the professional standards issued by the *International Professional Practices Framework* indicators. A total of 520 questionnaires were distributed, but only 146 were usable. The questionnaire was designed to collect information on internal auditors' characteristics and corporate governance factors. Internal auditors' characteristics were represented by demographic profile, regulation compliance awareness, adoption of internal auditing standards, audit professionalism and communication skills while corporate governance was represented by board of director and audit committee. Multiple regression was used to test the relationship between the variables. Three out of the seven variables which have affected the performance of internal auditors were audit professionalism, communication skills and audit committee. Demographic profile, regulation compliance awareness and adoption of internal auditing standards do not have significant influence on performance of internal auditors. The results of this study show that there is an implication on the practice low compliance, lack of awareness of standards and non-adoption of *International Professional Practices Framework*. This study serves as an important catalyst for further research and discussion in this area. More importantly, there is lack of research in Thailand concerning the relationship between internal audit functions with the performance of internal auditors.

**Keywords:** internal auditors, corporate governance, Thailand Public Limited Company

## ABSTRAK

Isu prestasi juruaudit dalaman penting kerana Thailand merupakan antara negara yang turut terjejas akibat skandal perakaunan. Peluasan skop definisi audit dalaman dan kewujudan peraturan baharu seperti Akta *Sarbanes-Oxley* telah meningkatkan permintaan pengauditan dalaman. Kajian ini telah dijalankan untuk menilai faktor yang mempengaruhi ciri juruaudit dalaman dan tadbir urus korporat bagi menentukan prestasi juruaudit dalaman di syarikat awam berhad di Thailand. Demi mencapai objektif kajian, sebanyak tujuh hipotesis dibentuk berdasarkan kajian lampau serta dibantu Teori Agensi. Soal selidik dalam bentuk tinjauan telah diedarkan kepada Ketua Eksekutif Audit bagi menilai keberkesanan prestasi juruaudit mengikut indikator piawaian profesional yang dikeluarkan *International Professional Practices Framework*. Sebanyak 520 borang soal selidik telah diedarkan, tetapi hanya 146 yang boleh digunakan. Soal selidik ini bertujuan mendapatkan maklumat mengenai ciri juruaudit dalaman serta faktor tadbir urus korporat. Ciri juruaudit dalaman dinilai berdasarkan profil demografi, kesedaran pematuan peraturan, amalan berdasarkan piawaian audit dalaman, profesionalisme pengauditan dan kemahiran komunikasi, manakala ciri tadbir urus korporat dinilai melalui lembaga pengarah dan jawatankuasa pengauditan. Kaedah regresi berganda digunakan untuk menguji hubung kait antara pemboleh ubah kajian ini. Tiga daripada tujuh pemboleh ubah menunjukkan hubung kait terhadap prestasi juruaudit dalaman: profesionalisme, kemahiran komunikasi dan jawatankuasa pengauditan. Profil demografi, kesedaran pematuan peraturan dan amalan berdasarkan piawaian audit dalaman tidak memberi kesan signifikan terhadap prestasi juruaudit dalaman. Keputusan kajian menunjukkan terdapat implikasi terhadap pelaksanaan tahap pematuan peraturan yang rendah, pengurangan tahap kesedaran piawaian pengauditan serta amalan tidak mematuhi indikator *International Professional Practices Framework*. Kajian ini menyediakan landasan bagi penyelidikan dan perbincangan lanjutan bidang ini. Lebih utama lagi, terdapat jumlah kajian yang terhad di Thailand mengenai hubungan langsung fungsi pengauditan dengan prestasi juruaudit dalaman.

**Kata kunci:** Juruaudit dalaman, tadbir urus korporat, Syarikat Awam Berhad di Thailand



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## **LIST OF ABBREVIATIONS**

<b>Abbreviation</b>	<b>Full List</b>
AC	Audit Committee
AICPA	American Institute of Certified Public Accountants
ANOVA	Analysis of Variance
ACCIIA	The Asian Confederation of Institutes of Internal Auditors
CAEs	Chief Audit Executives
CBOK	Common Body of Knowledge
CIA	Certified Internal Accountant
CISA	Certified Information Systems Auditor
CPA	Certified Public Accountant
FAP	The Federation of Accounting Professions
FASB	Financial Accounting Standard Board
FSRC	Financial Statements Review Committee
GAAP	Generally Accepted Accounting Practice
GAAS	Generally Accepted Auditing Standards
IAASB	International Auditing and Assurance Standards Board
IAF	Internal Audit Function
ICAEW	Institute of Chartered Accountants in England and Wales
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IA	Internal Auditing
IIA	Institute of Internal Audit
INTOSAI	International Organisation of Supreme Audit Institutions
IPPF	International Professional Practices Framework
ISA	International Standard on Auditing
KPMG	Klynveld Peat Marwick Goerdeler
OECD	The Organization for Economic Co-operation and Development
PCAOB	Public Companies Accounting Oversight Board
PLC	Public Limited Companies

PPF	Professional Practices Framework
PWC	PriceWaterhouseCoopers
SAS	Statement on Auditing Standards
SEC	Securities and Exchange Commission
SET	The Stock Exchange of Thailand
SOX	Sarbanes-Oxley Act
SPSS	Statistical Package of Social Sciences
TA	Tax Auditor
TAS	Thai Accounting Standards
USA	United State of America
VIF	Variance Inflation Factor



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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 Background of the Study**

Internal auditing must effectively demonstrate its value as a key component of the organisation's governance framework. Examples of strong audit activity will show relevant and reliable performance measures. Establishing performance measures is crucial in determining if an audit activity and its goals are met with the objectives and whether they are consistent with the highest quality practices and standards. This offers direction on measuring the effectiveness of internal audit activities and the customer service level delivered to stakeholders.

The sources to consider when recognising significant performance effectiveness measurements of the internal audit activities include International Professional Practices Framework (IPPF), the internal audit mission and charter, The Institute of Internal Audit (IIA), audit plans and strategies, the internal audit charter and mission, and applicable regulations and laws (IIA, 2010). A main part of the IPPF is mandatory guidance and strongly recommended guidance. An indication of the internal audit department's effectiveness is therefore compliance with IPPF.

Global business scandals have prompted the responsibilities of management and organisation fiduciaries in the particular subjects of governance, control and risk management, as well as brought about additional legislation and regulation. As the

notorious collapse of energy trader, WorldCom and Enron, both internal and external auditing professions have been required to perform their jobs scrupulously (Vinten, 2001). Thus, international regulation plays a significant role in this process.

In the East Asia region, several countries such as Malaysia and Thailand have made serious efforts to improve accounting and reporting standards during the 1990s. However, many of the accounting and auditing standards in Thailand and the region are generally compatible with the standards issued by the International Accounting Standard Committee (Alba, Claessens and Djankov, 1998).

The corporate collapses of Enron in the 2001 have focused on the audit profession. The corporate failures provoked alterations at both international and national levels to assurance and auditing standards, and related laws to address stakeholder concerns arising from the corporate collapses (KPMG, 2006). In response to this, the Stock Exchange of Thailand made a pronouncement promulgating new regulations of corporate governance in order to control Thai listed companies. The effectiveness of corporate governance helps ensure the appropriate works the managers of the companies perform to protect shareholders' rights and welfare (Gramling, Maletta, Schneider and Churchet, 2004).

In Thailand, corporate governance has been recognised since the national financial crisis in 1997. Since its relevant to a firm's value, investor confidence and the sustainable overall growth, Thai government has attempted to build the good

corporate governance in order to strengthen Thai economy, maintain investor confidence and maximise the country's level of competitiveness (Calkoen, 2012).

The government's national agenda has included corporate governance in 2002 under the Capital Market Master Plan (The SET Thailand, 2013). This plan emphasised on good corporate governance. The comprehensiveness and compatibility of the Principles of Corporate Governance of the Organisation for Economic Co-operation and Development (OECD) of Thailand then were relevantly revised in 2006 based on The World Bank recommendations (The SET Thailand, 2013).

The role of internal auditing in corporate governance has increased more attention in Thailand. The Stock Exchange of Thailand required that Thai listed companies must provide the adequate internal control and the internal auditing effectiveness and corporate governance in 1998. The purpose of the new standards is to improve investor confidence and improve the quality and credibility of audited financial reports. Therefore, auditors must to be trained in the application of the new standards to achieve these aims (ASIC, 2006). When the auditor has mistakenly conducted the audit and there is a serious distortion of the financial statements that is not shown in the audit report, audit failure arises (Arens, Elder and Beasley, 2002). As long as the auditor has complied with Generally Accepted Auditing Standards, audit failure does not arise regardless of the accuracy and fairness of the financial statements (Tackett, Wolf and Claypoo, 2004). Auditing requires that the director of internal auditing must establish the strategy to fulfill the internal audit's responsibilities by ensuing the implementation of the Sarbanes-Oxley Act of 2002 and IIA's International

Standards for the Professional Practice of Internal Auditing (IIA) (Rama, Martin, Newman and Constance, 2002).

The stress of the Internal Audit Function (IAF) in the late 1990s was more counseling partner with management prior to the condition for compliance with the requirement of the SOX in the USA and similar laws in other countries (Roth and Espersen, 2003). Internal auditors made appraisals of controls over operational systems as well. Organisations are developing in their need for different types of internal audit influence in reacting to the technological and regulatory change factors. In the USA, the SOX (2002) legislative brought about widespread regulatory requirements for a better and more effective documented system of internal controls over financial reporting in publicly listed companies.

The creation of PCAOB intends to reform the financial reporting systems and auditing of internal control systems. The main PCAOB objectives are to improve reliable financial reporting and to build up investor confidence after the business scandals and accounting failures in early 2000s. Many organisations requested assistance from their IAFs due to the SOX (2002) regulatory requirements. The auditors' work primarily involved in compliance regarding the adequacy of main controls to support the publicly held companies' increased reporting and governance requirements. SOX work mainly emphasised control compliance, yet it required internal auditors to run consulting activities such as control system design.

There was a study conducted on the internal auditing practice by the IIA Research Foundation's (IIARF's) (2010) and Common Body of Knowledge (CBOK) Global Internal Audit Survey. The study on the internal auditing practice states that the professional focus of internal auditors will continue another major change in the next five years. CBOK's survey is broken down into five reports that provide an outline of the internal auditing practice around the world. The survey suggests views on the way the profession has changed in the previous few years; the types of skills, knowledge, technologies that current auditors have practitioner conformance with the internal auditing role and The IIA's International Professional Practices Framework within the organisation (IIARF's, 2010).

The CBOK results show that modern internal auditors' skills are developing because of the new roles they must take on in today's business environment. The CBOK (2006) study was commissioned by the IIA. The study engaged worldwide researchers to understand the growing scope of internal audit practice better. There were three related literature reviews resulted from the study. Allegrini, D'Onaza, Paape, Melville and Sarens, (2006) made the internal auditing literature review of the European literature, Cooper, Leung and Wong (2006) studied the related review in the Asia Pacific countries, while Hass, Abdomohammadi and Burnaby, (2006) reviewed the internal auditing literature from the USA. These reviews aimed at documenting the alterations of internal audit resulted from changing international business practices.

Bailey and James's (2011) review of the core competencies of internal auditing (part of the 2010 CBOK study) revealed the evolving nature of the IAF as practiced on a worldwide basis. The top five competencies identified in the study are problem identification and solution skills, communication skills, staying alongside with regulatory and industry changes and professional standards, understanding the business as a sound basis for identifying emerging risk and control issues, and enterprise risk management, both from an organisational viewpoint as well as performing risk-based audit planning. These highly rated skills indicate that many IAFs are formulating skill sets that are broader, and perhaps, more value-added to their organisation than assisting in the annual financial statement audit.

The CBOK case study is regarding to internal auditing in Australia and the Asia-Pacific region. The IIA report stated that the Asian Confederation of Institutes of Internal Auditors (ACIIA, 2006) purposely provides leadership for the internal auditing profession. It also provides the coordination for development and expansion in the Asian region. The purposes in the report are the adoption of international and regional best practices, the improvement of the standards, and the internal auditing professional practices. Jackson (2008) claims that regardless of their offshore or domestic assignments, internal auditors are facing the ever-expanding and worldwide workplace challenges. Despite having to follow diverse control frameworks, internal auditors have to follow the same professional standards, ethics and guidance offered by the IIA (Jackson, 2008). Internal auditors from different countries may be different in their characteristics for the standards and their compliance because they may have different educational and professional backgrounds.



In Thailand, the problem of different languages is the main problem. Translation of the IFRS standards into national languages for Thailand is a necessary step before IFRS standards can be considered to be the national standards for accounting. Instead, other Asian countries like Singapore, Malaysia, and the Philippines can apply the English version of IFRS standards without the need to translate, as they already use English as their second language or use English as an official language. Other than the language problem, the other weaknesses of Asian countries' accounting and auditing professions are still considered as young and immature. This is due to the growth of the professions in accounting and auditing in Asian countries which is considered very slow as opposed to western countries (Leung and Cooper, 2009).

The current study investigates the auditor characteristic, auditing standard regulators and setters with respect to recent audit reforms. Therefore, this study intends to find out whether the created quality assurances really provide assurances to the public that all auditors uphold a high level of competence in public practice. Internal auditors are also required to regularly cultivate new skills and obtain new audit tools and technologies that include the types of skills, tools, techniques and compliance with the Standards.

## **1.1 Problem Statement**

In the past 10 years, studies have revealed that the auditing profession has had to manage a lot of challenges such as corporate governance on the performance of internal auditors (Mactosh, 2010; Smith, 2002). These failures of business are not new phenomenas. Exposed cases of the recent past, such as WorldCom and Enron among others have drawn increasing attention to the auditing profession. This has cumulatively and negatively impacted how informed opinion views the auditing profession and financial reporting.

The issues on accounting scandals have arised regarding auditors and accountants in general. The requirement for public accounting companies in all countries to meet a minimum level of competency was intensified by the trend toward business globalisation. The expanded scope in the internal auditing definition (The IIA, 2004) and new regulatory requirements such as the Sarbanes-Oxley Act 2002 in the USA have brought about more demands on internal auditing. The IIA commissioned the 2006 Common Body of Knowledge study in 2006. The study involved worldwide researchers “to better recognise the growing scope of internal audit practice” (Cooper, Leung and Wong, 2006).

After the experience of Asian financial crisis in Thailand in 1997, there were many corporate scandals such as Picnic (Thailand) limited company. These include non-compliance with business, failures, and misconducts such as non-compliance of business operating conduct, failure of financial document submission, failure to hold securities for executives and directors, and false information (Calkoen, 2013). The

Thai corporate governance debated on questions regarding political, public and private reform. Both national and international economists argued about the most effective solutions to recover Thailand's imperfect infrastructure of corporate governance. The Stock Exchange of Thailand (SET) (2002) issued the SET Code of Best Practice for Directors of Listed Companies to support as the good corporate governance guideline. The Committee on Enhancing Efficiency and Standard Performance (1997) for the private and public sector was suggested to improve the standard management system and outcomes for Thailand. This first step aims to improve operation and tries to begin best practices in addition to system of good governance for Thailand's administrative system. Thailand's experience toward public company limited reforms and illustrates Thailand's perspective focusing on innovative policy which aims to improve the public company limited achievement as a whole.

Nowadays, many organisations have implement performance audit by auditors to ensure or review their performance only in terms of effectiveness. However, evaluation of performance is part of managing performance. According to the IIA's seminar on "Performance Management System for Internal Auditors" in Bangkok, Thailand (2013), Deja Sirisuwthideja (Chairman of the Institute of Internal Auditor of Thailand) said "Lack of staff capability and adequately trained auditors who are capable of applying knowledge of the performance audits is still small." The performance of internal auditors in private sector uses economy to determine performance in addition to effectiveness as it has been used in the previous researches.

As such, auditors in Thailand public limited companies are the target in this study. This might provide insights on the internal auditing practice and how it has changed. This might also provide insights on the activities being completed by internal auditors and the skills, knowledge, and technologies used to do these activities, and information about internal audit's role within organisations, regulations, cultural issues and professional competencies. Hopefully, competent internal auditors will address their initial audit experience, and by attending information training courses.

Therefore, this research places performance of internal auditor on effectiveness for Thailand public limited companies.

## **1.2 Research Questions**

On the basis of the problem statement, this study is led by two major research questions:

1. What is the relationship between the internal auditors' characteristics (demographic profile, regulation compliance awareness, adoption of internal auditing standards, audit professionalism, and communication skills) on the performance of internal auditors in Thailand public limited companies?
2. What is the relationship between the corporate governance (Board of Director and Audit Committee) on the performance of internal auditors in Thailand public limited companies?

### **1.3 Research Objectives**

The objectives of the study are as follows:

1. To examine the relationship between the internal auditors' characteristics (demographic profile, regulation compliance awareness, adoption of internal auditing standards, audit professionalism, and communication skills) on the performance of internal auditors in Thailand public limited companies.
2. To examine the relationship between the corporate governance (Board of Director and Audit Committee) on the performance of internal auditors in Thailand public limited companies.

### **1.4 Significance of Study**

The significance of the study can be viewed through the theoretical and practical perspectives.

From the theoretical principals performed as auditors, which in many agencies; principals do not have the expertise and skills to check whether agents have completed their tasks. Principals (more and more nowadays) need expert auditors when they encounter with the asymmetries of information.

From the practical perspective, this study concerns to the extent of the internal auditors' characteristics and corporate governance on the performance of internal auditors in Thailand public limited companies. This study could provide

measurement of how effectively public service outcome are being achieved and a basis for good performance audit practices.

Prior studies of performance attributed in internal auditing have been conducted in a single country and single culture. The availability of data from many countries in the CBOK (2006) database makes it possible to extend the literature to multiple countries in various cultural clusters. This investigation is important because the internal auditing profession has developed as a global profession. As declared in the IIA's Code of Ethics (2008), the standards for internal auditing are authoritative. All members performing internal audits world-wide must follow and comply with them (IIA, 2008).

This study distributes empirical evidence as to the scope of the performance of internal auditors' adherence to IPPF (2009) of the Institute of Internal Audit (IIA) became effective. The IPPF is both the improvement of the Professional Practice Framework (PPF) and the fundamental of the profession of internal auditing. It is the outcome of careful study, deliberation, and consultation about the basic principles of internal auditing.

As in the literature reviews, there is a weak point in the study of internal audit. There are not many research studies on the subject of internal audit in Asia Pacific, but to the knowledge of the researcher, there is not much research done regarding Thailand's internal auditor. Therefore, it is about time to earnestly study the problem of internal audit. Hence, this study will concentrate on this subject. Hopefully, this

study will provide insights of the internal auditors' measure the effectiveness should monitor and evaluate their performance.

### **1.5 Scope of Study**

This study is only limited to the internal auditors in Thailand public limited companies.

### **1.6 Definition of Terms**

For the purpose of the research study, the following terms will be utilized:

- 1. Internal Auditors:** Internal auditors is an underlying of a firm charged with proving independent and objectives appraisals of the firm's financial and effective business activities, and also provide appraisals of operational effectiveness and will commonly report to the highest levels of management of how to improve the generally structure and practices of the firm.
- 2. Internal Auditors' Characteristics:** Internal auditors' characteristics as determined by the regulation compliance awareness, adoption of internal auditing standards, audit professionalism and communication skills.
- 3. Demographic Profile:** Demographic profile refers to the internal auditor's gender, age and job position.



- 4. Regulation Compliance Awareness:** Regulation compliance awareness is the ability to follow all relevant standards or laws that rigorously built and preserve operational standard accurately and transparency with firm image and stakeholder acceptance on internal audit practice (Thaweechan and Ussahawanitchkit, 2011).
- 5. Adoption of Internal Audition Standards:** Adoption of Internal Auditing Standards is ability to conform all relevant of International Professional Practices Framework (IPPF) (2009), which includes definition of internal auditing, standards and code of ethics, attribute and performance standards, and practice advisories.
- 6. Auditing Professionalism:** Auditing professionalism is when the auditor could practice following the auditing standard and corresponds with client or stakeholder anticipation in terms of professional auditing. The audit professionalism must have proficiency such as skill, knowledge and experience to practice (Prachsriphum and Suwanatada, 2011).
- 7. Communication Skills:** It refers to interpersonal, listening, written and oral communication skills needed by auditors to assist in the understanding of audit outcomes and the skill to achieve their responsibilities effectively (Smith, 2005).

- 8. Corporate Governance:** The corporate governance includes elements of social responsibilities, ethical business practices, issues mentioning to internal and external audit transparency, managers' responsibility for the accuracy of information presented in financial reports.
- 9. Board of Directors:** The Board of Directors is the group of individuals who are charged with running the corporation. The board of directors is the key player in corporate governance by regulators and existence a necessary monitoring device to try to approve that problems that may be brought about by the principle-agent relationships are minimised.
- 10. Board Size:** Board Size is considered as an important characteristic that affects the effectiveness of the board in monitoring management. The organization to function effectively requires a board that is small in size.
- 11. Audit Committee:** Audit Committee is commonly responsible for oversight of auditing matters involving to the company's financial reporting (Brown, 2009). The audit committee has its roles in overseeing and monitoring financial reporting process, internal controls, rules compliance and auditing process (Lin, 2008; Sori, 2007).

**12. Audit Committee Size:** Audit Committee Size is a critical determinant of Audit committee effectiveness and it is calculated by the number of audit committee members. The audit committee's smaller size allows it to carry out its responsibilities in a more manageable environment.

**13. Performance Auditors:** Performance auditors must have a clear understanding of the objectives, the effectiveness of operation, and compliance with laws, regulations and policies, audit standards and process. Performance measurement includes establishment of standards and indicators to which management and staff are held accountable.

**14. Effectiveness:** The effectiveness of performance of internal auditors measurement view by the internal audit activity. The effectiveness of performance of internal auditors is based on professional standards issued by the International Professional Practices Framework (IPPF) (2009).

**15. Private Sector:** The part of the economy, and is run by individuals and businesses for profit. The private sector contains all for-profit companies that are not owned or performed by the government.

**16. Thailand Public Limited Companies:** A Public Limited Company (PLC) is a listed company on the Stock Exchange in Thailand.

## **1.7 Organisation of the Study**

This study is organised into 5 chapters. Chapter 1 provides the background of the study, problem statement, research questions, research objectives, significance of study, scope of the study and definitions of terms.

Chapter 2 contains literature review and prior research that are correlated to this study. The review offered in this chapter contains the introduction, overview of internal auditing, performance of internal auditors, internal auditor's characteristics, demographic profile, regulation compliance awareness, adoption of internal auditing standards, auditing professionalism, communication skills, corporate governance and agency theory.

Chapter 3 describes the research framework employed in the study. Hypotheses development, research methodology Hypotheses development, research design, sample and data collection, research instrumentation, operational definition and measurement of the variables and method of data analysis are also discussed in this chapter.

Chapter 4 provides the data analysis results relating to the internal auditors' characteristics and corporate governance on the performance of internal auditors in Thailand public limited companies. The tests of the research hypotheses using descriptive and inferential analyses are then discussed.

Chapter 5 provides discussions of the results of hypotheses tests illustrated in Chapter 4, recapitulation of major finding, implication and discussions of the study, the study limitation and suggestions for future research are also considered in this chapter.

## **CHAPTRE TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

The literature overview relating to the topic investigated, Internal Auditors' Characteristics and Corporate Governance on the Performance of Internal Auditors in Thailand Public Limited Company, is presented in this chapter. This chapter consists of internal auditing, overview of internal auditing, internal auditors' characteristics, demographic profile, regulation compliance awareness, adoption of internal auditing standards, audit professionalism and communication skills, corporate governance and agency theory.

#### **2.1 Overview of Internal Auditing**

Internal auditing (IA) links the business and the process of financial reporting of not-for-profit providers and corporations (Reynolds, 2000). The objective of internal auditing is to enhance effectiveness of organisations via constructive criticism. The four key components of IA are: (1) written records verification; (2) policy analysis; (3) the completeness and reasoning of internal services, procedures and staffing evaluation to reassure the appropriateness and efficiency of the policies of an organisation; and (4) reports of recommendation for the improvement of management (Eden and Moriah, 1996). Internal auditing has transformed into a crucial control mechanism in both private and public organisations (Edan and Moriah, 1996). By providing tailored solutions to companies' situations and needs,

internal audit services, therefore, assist companies in refining the value and performance of the internal audit operation.

Internal auditing is an agent for improving the effectiveness of an organisation. It provides understanding and suggestions from the business processes as well as data analysis and evaluation. Internal auditing reviews the following topics: operational goals and objectives, policy and regulation compliance, the information integrity and reliability, assets safeguarding, and the effective and economical use of resources. Internal auditing also includes financial activities and operations such as production, system, marketing, human resources and engineering (IIAUK, 2009).

A review of literature relevant to a specific performance auditing may often be useful. A literature review permits the auditor to obtain a better comprehension of the area to be audited while providing understanding into potential problems that may need to be considered. Furthermore, the literature may offer potential solutions or “best practices” to problems or suggest ideas on ways to improve performance/compliance or ways to collect and analyse data. The literature review may as well offer benchmarks against which program or activity to be audited can be compared. A review of literature could possibly reveal compliance matters not formerly considered by the auditor such as laws or regulations.



Internal auditing activity also ought to assess and put in the progress of risk management, governance and control, where the Institute of Internal Auditors (2004) identifies the reliability and advising role of internal auditing in corporate governance.

Corporate governance and internal auditing have turn out to be a major public concern. In this concept, international guidelines recognise that effective corporation of internal auditing and corporate governance is a basis of competitive benefit and increases performance (Karagiorgos, Drogalas, Gotsamanis and Ampakoudis, 2010). Ever since World War II, internal auditing has developed rapidly. Formerly, an audit function fundamentally in regards to financial and accounting concerns; however, it states the full scope of operating activities at present. In this way, it performs correspondingly with all kinds of assurance and counseling services. The internal auditing was developed progressively by the decentralised and expanded size of organisations and their operations which are more complex and sophisticated. The result is in requirement for an objective, independent process of assessing and enhancing risk management, control, and governance process. Consequently, the following is the IIA's (2002) internal auditing meaning:

*Internal auditing is an independent, objective assurance and consulting activity intended to include value and enhance an organisation's operations. It helps an organisation achieve its objectives by bringing an orderly, disciplined methodology to evaluate and improve the effectiveness of risk management, control and governance process.*

The recent meaning of internal auditing is protected in an extensive Professional Practices Framework (IIA, 2002a). The Professional Practices Framework is a fundamental outline of how the internal auditing knowledge and the suitable direction agree together. There are three categories of guidance in The Professional Practice Framework: Standards and Ethics (mandatory guidance), Practice Advisories (strongly recommended), and Development and Practice Aids (Ramamoorti, 2003).

The IIA's Statement of Responsibilities of the Internal Auditor was published in 1990. The Statement of Responsibilities of the Internal Auditor explained that internal auditing is accomplished in different surroundings and inside organisations which differ in size, structure, and purpose with additional differences of numerous customs and laws within each individual country. The differences could possibly influence the internal auditing practice in every setting. Therefore, the environment in which the internal auditing department performs given responsibilities will govern the execution of the Professional Practice of Internal Auditing standards (IIA, 2002).

With the concepts defined in the mandatory guidance, the compliance of The Professional Practices Framework (2004) is the initial responsibilities necessary for internal auditors. The guidance may support in understanding the standards, employ the standards in certain internal audit environment, or be appropriate to internal auditors in a particular geographical zone, industry or audit specialty (IIA, 2004). Code of Ethics (1999) stated that the Institute of Internal Auditors and Certified

Internal Auditors members shall embrace appropriate methods to follow the standards for Professional Practice of Internal Auditing.

Considerations of public policy have given to the enhanced status and extended scopes of internal auditing. For example, the Sabanes-Oxley Act of 2002 obliges management and external auditors to write reports on how effective the internal controls are over financial reporting. According to the IIA's Professional Standard 300- Scope of Work; the extent of internal auditing ought to incorporate the investigation and assessment of the sufficiency and effectiveness of the organisation's internal control system and the performance quality in completing given responsibilities.

In Thailand, internal auditing encounter many difficulties and opportunities including progressively difficult and universal technology, a requirement for new skills, organisational structures, needs for a growing range of services, and growing competition and globalisation. Internal auditing is emerging different approaches to cope with the difficulties and are being more provoking (Mutchler, 2003).

Internal auditors in public audit firms are confronting extreme difficulties in achieving audit tasks (Snead and Harred, 1991). Thus, audit firms in Thailand need to be careful on the offering performance incentives because the incentives influence the job output quality. Performance incentives may decrease job turnover and increase auditors' skills and knowledge to assist them in completing different job complexities.

Internal auditors are encouraged to have accountability on individual part of an audit activity to be able to keep their clients and users' trust. Hence, the purpose of an audit activity in Thailand public limited company needs adequate competent evidences so that it can run effectively. Accountability is defined as social and psychological stimulation done to confirm one's obligation. Cloyd (1997) found the empirical evidence that accountability could increase the audit quality. Auditors have to monitor, to learn, and to implement standards and new regulations continuously.

The internal audit concept has long been examined in many different issues. Yet, general subjects of internal audit researches are focused on the setting of corporate governance and agency theory of the diminishing agency issues (Sumritsakun, 2009). The firm internal auditors with more experience and independence have more time to assist the external auditors. Thus, the firms will have lower cost on external audit fees.

Based on the literature reviews, there are certain weak points in the internal audit study. In Asia Pacific, there are not many researches on the internal audit issue. Particularly, there is no research in the Thailand context (Cooper, Leung and Wong, 2006). Thus, this time we ought to truly consider the problem of internal audit especially in the context of Thailand.

The internal audit idea highlights on the ways that lead to internal auditing achievement. It offers the new methods or strategies which help enhance effectiveness of internal audit activity. At last, the influence to the effectiveness of

organisation process leads the business to achievement, particularly in a rapid developing country like Thailand.

Internal auditing raises the activities used to increase value to the company and enhance organisation's operations, according to The Institute of Internal Auditors (2009). Internal auditors must be independent and ready to offer and constructive, objective and independent view. They need to be equipped with an outstanding varied mix of knowledge and skills.

Professional standards followed by internal auditors advise them how best to perform their work. The Global Institute of Internal Auditors creates a legitimate guidance. The guidance is called The International Standards for the Professional Practice of Internal Auditing. It contains both strongly recommended and mandatory guidance. The later comprises of the Definition of Internal Audition and International Standards and Code of Ethics.

## **2.2 Performance of Internal Auditors**

Performance of internal auditors can be encountered with significant diversity and vagueness in their work. They need skills in examining activities and management practices. They can be faced with the need to become familiar with organisational contexts and subject matters.

Performance of internal auditors must comprise of a distinct understanding of the objectives and priorities of any area subject to audit in order to be effective. They must have an understanding of the policies for the planning and conduct of audits, audit methodology, and audit standards and process. The auditor complies with auditing benchmarks issued by a suitable authority to decide what performance information is required, acquires the essential data, and makes a performance audit report that exhibits measured performance by the auditor.

Recently, performance measurement obtained rational attention in internal auditing because it establishes one of the most essential managerial functions (Rupsys and Boguslauskas, 2007). With objective basis, performance measurement evaluates to what extent the efficiency of public resources and being used and to what extent the effectiveness of public service outcomes are being achieved (Tudor, 2007).

In terms of the objectives of performance of internal auditors, authors are usually consent that the performance ought to examine the auditee's records (Morin, 2001; Parker and Guthrie, 1991; Hatherly and Parker, 1990). The performance of internal auditors expresses their opinions on how they think the management of the public/private sector entity has utilised resources to attain to the goals of the entity. Likewise, the performance of internal auditor forms a view on the adequacy of the internal control procedures used to attain to the goals of the entity in terms of effectiveness. Arens, Best, Shailer, Fiedler and Arens (2005) made a review of methods to evaluate the effectiveness and the operating procedures of the organisation.

Cohen and Sayag (2010) study the relationship of professional and organisational characteristics with the internal auditors' performance and analyse how to possibly create the effectiveness of internal auditing through these factors. The personal and corporate characteristics were analysed regarding their ability to influence auditing performance indicators. In regards to internal audit performance and professional characteristics, the requirements are undoubtedly set out in the IIA's International Standards for Professional Practice of Internal Auditing. Since 1970s, these supportive standards and their guidelines have been constantly expanded worldwide. They illustrate "best practice" internal auditing and are going to remain revised by international teams to exhibit the needs of internal auditing and the organisations in which they deliver services.

The Common Body of Knowledge (CBOK) (2006) studies were parts of a continuing world-wide research. In order for auditors to perform their profession with care and additional values to organisations, and how internal auditing is practices world-wide, the research identifies the significance of what internal auditors certainly need to know. As a result of this, the internal auditors need to constantly develop new skills and acquire whole new audit tools and innovations (Burnaby and Hass, 2009).

Currently necessary for internal auditors, the database of CBOK (2006) incorporates compliance with the standards and the sorts of skills, tools, and techniques respondents. The future of internal auditors is how they must perform their jobs to improve auditing effectiveness (Burnaby and Hass, 2009). The CBOK (2006) can be utilised in several ways. First, it is utilised to enhance the comprehension of present

situation of internal auditing practice. Second, it can help forecast the desire for new standards, skills, tools, and innovations. Last, it offers approaches to advance the development of worldwide performance of internal auditing and standardisation (Burnaby and Hass, 2009).

The development of the CBOK (2006) database by the IIA, provides a unique opportunity to identify important performance attributed from internal auditing. The literature on performance attributed from internal auditing has focused almost entirely on internal auditor objectivity. Brody and Lowe (2000) discuss the implications of the evolving roles of internal auditors for their objectivity and Schneider (2003) presents empirical data on how stock ownership and incentive compensation affect the objectivity of internal auditors. As Sarens (2009) argues, numerous other performance attributes that can affect the practice of internal auditing have received almost no attention in the internal auditing literature.

Audit firms are utilising standards and guidelines to create professional development programs that enhance auditor performance in audits. On the other hand, the research on accounting recommends that present training methodologies are insufficient to state this preferred improvement in the performance (Carpenter, Durtschi and Gaynor, 2006). Everwijn, Bomers and Knubben (1993) suggest that to attain effective professional auditor development, auditors' knowledge and ability applied in the new standards need to be improved.



Mui (2009) established that the determinants of auditor expertise for audit tasks other than risk detection that were mentioned in literature such as continuous learning, certification, practical experience, data analysis skills, communication skills, analytical reasoning are as well applicable to the task for detecting risk. Moreover, the task for risk detection requires the internal auditor to possess unique capabilities in addition to the determination established in technical skills, mentoring, and teamwork performance (Mui, 2009).

Ljubisavljevic and Jovanovic (2011) by assessing the management process, the internal audit provides appropriate recommendations to improve it by fulfilling the following objectives (from the framework of professional activity, Croatian Institute of Internal Auditors, 2011):

- promoting appropriate ethical values and principles within the organisation.
- ensuring effective performance management and establishing responsibilities in the company.
- effective communication of information on risks and control to the relevant parts of the company.
- communication of information and effective activities coordination to board members, management, and external and internal auditors.

By offering a discipline and systemic approach to improve and evaluate the effectiveness and equity of company business, a well-organised internal audit helps management to implement strategy and achieve mission and corporate objective (Spencer, 2005).

### **2.2.1 Effectiveness**

Effectiveness means achievement of the objectives or targets of an organisation (Khan, 1988). It evaluates the relationship between expected target and actual result from the implementation of programs, projects, functions and activities. Effectiveness is principally a goal-achievement concept. It is related with the relationship between goals or objectives and outputs. Audit effectiveness refers to a result of auditor's professional practices, activities, responsibilities, and duties by complying with audit standards, goals, policies, and objectives (Phapruke and Phaithun, 2011).

Effectiveness is concerned with the reflection of the achievement of, or the degree to which outputs achieve the planned or desired objectives of public and private sector entity. Consequently, effectiveness can be considered by concentrating on the relationship between the outputs and the objectives of public and private sector entity. With respect to effectiveness, the performance auditor may emphasise on an entity's objectives and evaluate the contribution of the outputs towards the entity's objectives achievement.

Arena and Azzone (2009) studied 153 Italian companies to identify the main indicators of internal auditing effectiveness. The authors' findings revealed that the effectiveness of internal auditing is affected by the auditing team's characteristics, the auditing processes and activities, and the relationships between internal auditing and others within the organisation. Numerous prior academic studies have focused on the need for employees to be appropriately practiced if a high level of internal

audit effectiveness is to be achieved (Mulugeta, 2008; Mihret and Yismaw, 2007; Brierley, 2003; Gwilliam and El-Nafabi, 2002; Brierley, 2001; Schyf, 2000).

Internal auditor effectiveness had been related to different issues by other authors. The issues focused on IA outputs, outcomes and processes. Some of the authors' related IA effectiveness with the IA procedures quality such as the ability to execute, communicate, and plan audit findings or the compliance level with IIA standards (Fadzil, Hasnah, and Muhamad, 2005).

The following situations generate a positive response to the internal auditor when evaluating the internal auditing operation's effectiveness. First, the internal auditor reviews the accomplishment of the auditees' goals and finds no problems and surface after the review. Second, the internal auditor audits and discovers problems. Lastly, the internal auditor prescribes answers for the issues, and the arrangements resolve the issue. Accord to the statement above (Dittenhofer, 2001), it is clear that a wide variety of aspects and all the components on which audit activities have impact were addressed in the outcomes. These include corporate performances and effectiveness of the audited processes.

The audit of effectiveness will therefore concentrate on outputs, results or impacts. Thus, auditors should identify potential risks to achieving effectiveness and thereby develop audit questions. Auditors are encouraged to consider effectiveness as an element of the analysis whenever possible (Waring and Morgan, 2007). Sarens (2009) based on Gramling, Maletta, Schneider and Church (2004) suggested that IA

function positively impacting on corporate governance quality can be considered effective. This IA quality can also be linked to the processes of internal control and the capacity to monitor and improve risk management.

Hence, internal auditors should measure their effectiveness by checking and reporting on the level of customer service given to internal audit stakeholders, giving direction on making a performance measurement process, and recognising key performance measures.

### **2.3 Internal Auditors' Characteristics and Performance of Internal Auditors**

The internal auditors have characteristics with precise reference to their skills. In general, the skills of internal auditors can be illustrated into two classes: behavioural and cognitive skills (Gardner, Pickett and Brewer, 2000). Technical competences are included in the cognitive skills.

Behavioural skills refer to interpersonal ability and communication (Gardner, Pickett and Brewer, 2000). These skills can significantly impact the quality observed by the auditees. Technical skills confirm better ability to provide advice in order to improve the system of internal control (Mat Zain and Subramaniam, 2007; Brody and Lowe, 2000), to deal with complex and disagreeing situations, to complete audits, and to search for reliable solutions based on prior experiences (Mat Zain and Subramaniam, 2007; Flesher and Zanzig, 2000).

Auditors require behavioural skills to establish a good relation with their auditees. Interpersonal and communication skills, therefore, encourage the ability to effectively complete their responsibilities and the understanding of audit findings (Smith, 2005). By improving the distinguishment of auditors' role within the organisation, both behavioural and cognitive competencies of auditors can further enhance the IA team's effectiveness.

Personal characteristics of the auditor can be expected to influence auditors' professional judgments (Ashton, Kleinmuntz, Sullivan and Tomassini, 1988). These personality traits are described as "chronic motives and orientations postulated to drive cognition and behavior across a variety of situations" (Bargh, 1990). Situational and individual characteristics play a major role in ethical decision-making. There are evidences that show how auditors confronted several different social pressures that perhaps affect their capability to judge in conflict situations.

Internal auditors' competence refers to the attributes involving both personal qualifications of internal auditors and the function operation of internal audit. In terms of assessment, the individual auditor characteristics are more significant than how the department of internal audit operates. Three internal auditor characteristics were discussed in prior studies; quality of work performed, objectivity, and quality factors of competence without anticipating significant difference of these 3 factors (DeZoort, Houston, and Peters, 2001). It is essential to recognize how internal auditors' attributes as found in the standards of professional auditing, internal

auditors' characteristics influence external auditors' evaluation of the quality of internal audit function and the degree of reliance.

The attempts to identify the expertise of the internal auditors' characteristics have been made. Many literature references suggest that experience makes an expert (Ashton, 1991). Shanteau (1987) identified a set of psychological characteristics possessed by expert decision makers. The range of these characteristics varies from "outward confidence" and "communication skills" to "stress tolerance" and "ability to adapt", plus "content knowledge."

Professional internal auditors possess many other common characteristics besides achieving the duties designated in the internal auditing definition. Inherent in its best professionalism, these characteristics define the levels to which the internal auditors should seek the level of respect to which the board and management pay the internal audit functions and the degree of value the internal auditors are able to give to the ethical operations of their organisation.

The model of auditor expertise characteristics, founded on Shanteau's Model (1987), consists of ability and knowledge. Knowledge is defined as characteristics of internal auditors deal with selectivity, relevant information, adaptability, exceptions, automatic, and content knowledge (Libby and Luft, 1993). These characteristics in Shanteau (1987) showed generic descriptions for all types of experts. Yet, some characteristics might be emphasised more to certain professions.

Table 2.1 represents the focus of studies on internal auditors' characteristics where most of the variables are used in the evaluation of internal auditors' characteristics.

Table 2.1

*Summary of Research concerning the Internal Auditors' Characteristics and Performance of Internal Auditors.*

No.	Author	Respondent used	Location and Number of Items	Result
1.	Kent, Munro and Gambling (2006)	Internal Auditors	Australia 1	1. communication skills
2.	Shimshack (2007)	Managers	USA 1	1. regulation compliance awareness
2.	Hutchinson (2009)	Internal Auditors	Malaysia 2	1. professional certifications 2. demographic profile
3.	IIA (2010)	Internal Auditors	IIA members and nonmembers in over 107 countries. 2	1. demographics 2. internal audit profession
4.	Ho and Marion (2010)	Internal Auditors	Hong Kong 1	1. demographic
5.	Avram (2011)	Internal Auditors	Romania 1	1. Adoption of internal standards

Table 2.1 (Continued)

No.	Author	Respondent used	Location and Number of Items	Result
6	Steinbart, Raschke, Gal and Dilla (2011)	Internal Auditors	U.S.A 3	1. demographic 2. audit professionalism 3. communication skills
7.	Arena and Azzone (2011)	CAE	Italy 2	1. communication skills 2. professional certifications
8.	Ebaid (2011)	Internal Auditors	Egypt 1	1. Demographic profile
9.	Suphatsorn and Phapruke (2011)	Internal Auditors	Thailand 1	1. Regulation Compliance Awareness

### 2.3.1 Demographic Profile and Performance of Internal Auditors

The demographic profiles consist of age, gender, organisational tenure, educational level, position within the organisations, and the organisation type (services and others).

Colbert and Kwon (2000) augmented this line of request to analyse what factors are concerned with internal auditor expertise characteristics, they discovered:

- demographic variables of tenure and gender
- job characteristics of skill diversity and feedback
- organisational characteristics of organisational reliability and care, promotional opportunity, attitude, and instrumental communication to all are significantly correlated to auditor expertise characteristics.



One requirement for an audit is to have a professional worker that all possesses the training, required education, professional accounting/auditing qualification and experience to perform audits needed by its mandate (AI-Twajiray, 2003). Auditors are obliged to meet with the professional standards and minimum requirement of continuing education issued by their applicable professional organisations and the IIA (2008). To be defined as a human resource, Bou-Raad (2000) debated that a high level of education is necessary for an auditor to possess.

Demographic factors may influence the performance of internal auditors. These studies analysed different variables such as present position (Ahmad, 2009; Fadzil et al., 2005). The current study recommends that demographic individualities may cause a differential behaviour. Classical demographic measures found significance in the study include certification (Moyes and Baker, 2009), position (Moyes and Baker, 2009), age, (Brennan and Kelly, 2007), gender (Ricaud, 2006), experience (Smith, 2005).

Due to additional increased attachment, organisational tenure and age are supposed to be positively related to professional and organisational commitment (Kwon and Bank, 2004). Males and higher education levels of employees are thought to be less committed based on their alternative employment opportunities perception (Kwon and Banks, 2004).

Organisations not only need to review the qualification of their auditors carefully but also need to appreciate characteristics of success, both behavioural and demographic, within the shifting environment of internal audit performance (Ricaud, 2006; Kwon and Banks, 2004).

Previous study illustrates that the audit role needs frequent communication with management and all functions and levels of personnel. Within the function of internal audit, these persons, enjoying such contacts and a less stressful working environment, should preferably be positioned for success rather than other personnel. A more complex set of skills is required as internal auditors become more involved in testing, evaluation and reporting (Nagy and Cenker, 2007; Hass, 2006; Gramling et al., 2004; Kwon and Banks, 2004).

### **2.3.2 Regulation Compliance Awareness and Performance of Internal Auditors**

The primary driver for audit requirements and forming data refers to regulations. Most organisations are contented with their current ability to meet auditing requirement and compliance. The compliance audit can also be viewed as a performance improvement tool where the organisation advantages a better understanding of how it compares to specified measures in order to increase the standard of its environmental management (Filkins, 2008).

Compliance denotes conformity and adherence to plans, policies, procedures, regulations, contracts, laws or other requirements by the Institute of Internal Auditors (2004). The Chief Audit Executive (CAE) has the responsibility to ensure that the audit department they lead obeyed the internal auditing standards.

A compliance audit has a purpose to make sure that the auditee is complied the procedures, regulations and rules set by certain higher authority. Due to the widespread regulation by higher government authorities, it is found rather common in governmental units' audit (Arens and Loebbeck, 2000).

The most concerned audit regulation is in the area of ensuring the competency and independency of auditors. Audit regulation consists of four essential components as of any regulatory system. These are an involvement with the setting, adoption, implementation of standards and monitoring and enforcement processes. Such standards are ensured and applied in practice.

Internal auditors' utilisation complies with the IIA Standards for the Professional Practice of Internal auditing (Standards) and the Practice Advisories which offer effective guidance for the Standards implementation (Sadler, Marais and Fourie, 2008). The developed standards serve the following purpose (IIA, 2007):

- to draw essential principles which represent how internal auditing ought to be.
- to offer an outline for promoting and performing an extensive range of value-added International Auditing and Assurance Standards.
- to create the internal audit performance evaluation basis.

- to encourage improved organisational operations and processes.

The current improvement of international audit regulation is identified with the developing vitality of worldwide investors who request financial reports that are arranged and audited in agreement with universally recognised international standards. The International Auditing and Assurance Standards Board (IAASB) set International Standards on Auditing (ISAs). The standard-setting board is independent unit. The unit works within the Internal Federation of Accountants (IFAC). The board requires public oversight by international regulators.

In a changing workplace, the management's requirements and expectations on audit professionals and finance to value-added are a result from the need for regulatory compliance. The requirement for leadership skills of internal auditors has increased due to the changing role of internal auditors (IIAS, 2008). There are many regulations obligatory to submission and compliance such as international accounting standard, Sarbanes-Oxley Act, corporate governance, regulation of firms listed in stock exchange.

Listed firms need to have a compliance implement to accomplish their legal responsibilities as well as satisfying their management as success professional (Caplan, Janvrin and Kurtenbach, 2007). Furthermore, regulation compliance awareness forces organisation into searching beyond not only for stakeholder group but other interest group as well (Patricia, 2009). Hence, the awareness of regulation

compliance is a powerful and possibly inflexible tool. It can relate to the company building the effectiveness of internal audit mechanism.

New regulations, such as the SOX (2002) have heightened internal auditing. The internal auditing was moved to the front of executive consciousness and corporate governance. Internal audit is now being seen as the “go-go” group. In addition, management is more open to changes and recognition of those individuals who support minimising the negative outcomes of disruption brought on by the new regulations (Gray, 2004).

Traditionally, numerous issues, regarding compliance with international standards, were not significantly focused at the international level. These issues reflected a wide range of factors. The factors include a limited level of accessible resources, the need to increase the numbers of countries implementing the standards, the clear setting of responsibilities for regulation, compliance, and oversight activities at the international level, and professional peer review and traditions of self-regulation (Humpherey and Loft, 2009).

DeFond (2010) study provides insight from auditors and regulators as to their reaction to major reforms in the period after their implementation. As such, it contributes to a developing body of academic literature that inspects the various influences of reforms motivated by the corporate failures of early this century, and the issue of related costs.

Data privacy and protection standards were mainly established due to regulatory compliance. Database Audit and Compliance survey, according to the responses to the SANS 2007, demonstrates a vital need for tools and methods in order to supervise regulations compliance and protect sensitive information in databases (Filkins, 2008). According to the survey, the perceptions of an organisation concerning their status contrast from how compliant they actually are. Most respondents (87 percent) view data privacy and its protection as essential or very essential to their organisations. During the past three years, the desire to protect sensitive data, stated by 82 percent of the respondents, has increased in organisational awareness. In general, the survey respondents (70 percent) state that they meet basic internal standards or regulatory for compliance well. However, just 39 percent of the respondents feel that they have a true handle on a data mapping. Another 25 percent of the correspondents states that they have no models for data classification or active data classification initiative underway (Filkins, 2008).

It is distinct from the survey that most organisations are subject to more than one regulation. The regulation is affecting the controls that were placed on sensitive data. The data auditing and regulatory compliance compulsory for their firm to run business is considered by 60 percent of the correspondents.

### **2.3.3 Adoption of Internal Auditing Standards and Performance of Internal Auditors**

The IIA is a global professional organisation. It globally offers leadership to internal auditors through certifications and training, developing international relationship and setting standards, enhancing professional requirement, defining principles of audit, and promoting internal audit quality of organisations (IIA, 2010).

The IIA sets standard that ought to guide the internal auditors in achieving their duties. Internal auditing requires defined standards. This adds to the improvement of professional audit services. In 2009, the IIA approved a new International Standards of Practices for the Professional Exercise of Internal Auditing. Approved in 1999 in relation to the previous version, the main alterations are related to the grouping of standards and norms into different sets according to the mandatory degree and the progresses in the institute's own process such as the definition of a minimum period of three years in which norms should be reviewed. Since the members of IIA are from 165 countries worldwide, it is possible that differences in practice exist. These differences are such as extent of Internal Auditing Standards utilization and compliance with parts of standards.

Before the Sarbanes-Oxley Act, internal auditing activities focused on detection rather than prevention, Roth (2002) stressed that, internal auditors have changed their approach from confrontation to partnership and from control to risk and started focusing on advisory activities. According to Hass, Abdolmohammadi and Burnaby (2006), these changed are necessary to react to the complex internal and external

environment of modern organisations, which is caused by the influence of regulation, technology, and other variables.

In several countries, the adoption of International Standards (IASs) needs standard setters to understand the diverse commercial and regulatory environments in many countries. Barth, Landsman and Lang (2005) observed 21 countries, excluding Thailand, that have been compulsory to implement accounting measurements using IASs to offer shareholders with investment information. Significant differences of compliance levels were found in previous studies.

According to the Standards, the internal audit functions (IAF) must assess and add to the enhancement of, specially, governance, control process and risk management, operations and systems (IIA, 2009). Standard-setting bodies worldwide expend substantial resources in developing professional standards for the audit services performance. Internal auditors follow the International Standards for the Professional Practice of Internal Auditing. These standards set the bar for professionalism in regard to key component of a charter and annual audit arrangement, the nature of internal audit activity, criteria for evaluating performance, and ways of conducting an engagement and communicating results.

Rossiter (2007) suggests that the internal audit practices' evaluation should consider the following aspects: (i) operational improvement and addition of value of the company (ii) continuous improvement of the auditing activities and the adoption of best practices (iii) compliance with the applicable laws, regulations, and industrial or



governmental standards (iv) contribution to the corporate governance, risk management, and internal control processes (v) obligation to the standards and ethical code of the IIA and (iv) adequacy of the main standard, objectives, policies, and procedures of the internal auditing activities.

All members of the IIA that perform IAAs are obliged to comply with the Standards and the Code of Ethics. The direction written in the Practice Advisories is intensely prescribed and supported by the IIA. The Standards comprises of Attribute Standards and Performance Standards (IIA, 2007). The Standards demonstrate that “Internal auditors ought to have the knowledge, skills, and other competencies expected to perform their individual responsibilities. The activity of internal audit ought to collectively have or acquire the skills, knowledge, and other competencies necessary to achieve its responsibilities” (IIA Standard 1210.C1, 2009).

The Standards particularly take these practices into consideration, “The chief audit executive ought to get competent advice and support if the internal audit staff fail to offer the knowledge, skills, or other competencies expected to perform all or part of the engagement” (IIA Standard 1210.A1, 2009). The Standards do not expand on the need for evaluating individual auditors’ performances, even though it discusses monitoring IAF quality as a whole.

The Professional Practice Framework (PPF) of the IIA (2005) comprises of “the Definition of Internal Auditing, International Standards, Code of Ethics for the Professional Practices of Internal Auditing, and Practice Advisories.” Compliance

with the IIA's Standards and Code of Ethics is compulsory for internal auditing services providers. Direction on the Standards application is given in the IIA's Practice Advisories are allowed and strongly suggested by the IIA.

Okibo and Kamau (2012) survey had an inquiry for the audit departments in the corporations owned by states. They were asked whether they have implemented the Internal Professional Practice Framework (IPPF). This information infers that only 41.70 percent of the internal audit units interviewed was under required obligation to follow the quality assurance standards because of the way they had already adopted the IPPF. The rest 58.3 percent were only required to agree with the standards as a best practice. The relationship between adoption of IPPF and compliance level is significant. This implies that the adoption of the IPPF has a positive influence on compliance with quality assurance standards.

#### **2.3.4 Audit Professionalism and Performance of Internal Auditors**

As a Framework of Internal Auditors (IIA, 2001), a profession is defined as:

“A calling requiring specialised knowledge and often long and intensive preparation including instruction in skills and methods as well as scholarly principles underlying the skills and methods, maintaining by force of organisation or concerted opinion, high standards of achievement and conduct, and committing its members to continued study and to a kind of work which has for its prime purpose the rendering of a public service.”

The Institute of Internal Auditors manages the internal audit profession. All professionals of internal audit are suggested by the Institute's International Standards for the Professional Practice of Internal Auditing (IIA Standards). Moreover, training is offered to internal auditors by the institute. The institute also certifies that the internal auditors meet an acceptable level of proficiency. The work of the Institute provides a comprehensive foundation for internal auditors to meet the new challenges.

Based on IIA's professional expertise and its members' and other parties' comments, the Internal Auditing Standards was developed by the IIA Professional Standards Committee (Moeller, 2009). The Internal Auditing Standards are part of the International Professional Practices Framework (IPPF). There are 5 distributed sections in IPPF. They are definition of internal auditing, code of ethics for internal auditors, attribute standards, performance standards, and practice advisories (Okibo and Kamau, 2012).

The IIA (2010) refers to auditor's proficiency as the requirement for internal auditor to have the knowledge, skills and other competencies necessary to achieve their individual responsibilities. Practice Advisory 1210-1, on Proficiency, states that the internal audit activity together must have or gain the skills, knowledge and other competencies necessary to carry out its responsibilities.

According to the IIA's Code of Ethics, competency is required for the services internal auditors offer. The statement in Code of Ethics Rule 4.1 describes that internal auditors should captivate just in those services that they have the vital knowledge, skills, and experience. The statement in Code of Ethic Rule 4.3 describes that internal auditors shall consistently develop their proficiency and the effectiveness and quality of their services. Internal auditors may spend certain period of time every year on progressing professional education to build up their internal audit competencies. Internal auditors may improve their core competencies, benefit their organisations and expand their opportunities for career progression. This can be done by recognising and raking their core competencies and organising its development process around them.

Audit professionalism also refers to auditors' fondness to utilise personal professional judgment in responsible for auditing assignments (Askary, 2006). It requires the care, sustainability, professional self-regulations and self-forces. It is positively related with audit effectiveness.

Auditors with more professionalism tend to do finest audit practices, activities and responsibilities to improve audit effectiveness, obtain audit performance, and audit achievement (Phapruke and Phaithun, 2011). Also, audit professionalism is perceived as a profession that demanded distinctive skills, motivations and efforts. It is a definable body of knowledge, specialised and advanced education, standards for practices, a code of ethics, a method for disciplining members, a formal organisation and public acceptances (Phapruke and Phaithun, 2011).

Auditors with more professionalism definitely present their knowledge, judgments, competencies, and skills through reporting valuable audit activities and practices for achieving stakeholders' acceptance, creditability and reliability. Then, audit professionalism potentially encourages auditors to advance better audit outcomes via effectiveness in their audit practices (Phapruke and Phaithun, 2011).

Skills, knowledge and experience necessary in internal audit services performance are applied by internal auditors. Auditors are not allowed to advertise their services in the higher audit professionalism level. Moreover, audit professionalism is committed with the concept of true and fair audit practices (Jayalakshmy, Seetharaman, Khong and Tan, 2005). Audit experience refers to distinctive knowledge of an auditor, capabilities and competencies that ensure professional auditing practices. It also improves the abilities of an auditor to process information, initiate subsequent actions, and make mental comparisons of alternative solutions (Chung, Monroe and Gary, 2000).

This concept supports auditors to improve and develop the existing auditing practices in order to develop auditors' professionalism for attaining their effectiveness. Then, auditors are likely to be concerned with their independence, professional values and ethical standards. Therefore, audit professionalism has a positive influence with significance on audit effectiveness, performance, success, existence, and sustainability.

### **2.3.5 Communication Skills and Performance of Internal Auditors**

Communication is a behavioural skill affecting the successful performance of the internal audit assignment (Summers, 2005). Behavioural skills, such as inter-personal skill, are necessary for auditors to establish a relation with their auditees. Communication and interpersonal skills encourage the comprehension of audit findings and the comprehension of audit findings and how effectively responsibility is achieved (Smith, 2005). Sarens (2009) shows behavioural characteristics, such as communication abilities and interpersonal relationships, as important in recognising the internal auditing quality.

As indicated by The Institute of Internal Auditors Australia, South Pacific and Asia, Conference SOPAC (2001), maintaining and enhancing skills are crucial if internal auditors want to be a significant part of the corporate governance arrangements in the long run. The internal audit skill requirement ought to be adjusted in accordance with the related needs of management, the organisation's risk profile and its business nature. The changing effort and role of internal audit activity anticipates a wider scope of competencies than needed for traditional internal audit. It likewise needs to express the conformation of its audit teams in the event that it is to attempt an extensive range of activities.

The inter-personal skills that internal auditors ought to have are the following: people skills; listening skills; empathy; communication; motivation and team management. Koller (2003) stated that the ability to communicate in English is greatly important. This statement is true for the Internal Auditors of Southern Africa (IIA-SA)

qualification framework (IIA, 2000). The requirement for internal audit process illustrates that all of the above mentioned inter-personal skills are utilised.

As expressed by The American Institute of Certified Public Accountants (AICPA, 2004), the followings are the key components relating to communication skills that are required:

- 1) Effectively organises and presents meaningful information to the receiving party, states concepts and information with conciseness and clarity when speaking and writing. Receives and starts appropriate indirect and direct messages when reading, listening, speaking and writing, uses interpersonal skills to support powerful interaction, places data in proper context when reading, listening, speaking and writing, chooses legitimate media for information accumulation or dissemination.
- 2) Auditors are required to have outstanding communication skills for their profession. Auditors require listening, interpersonal, written and oral communication skills to support comprehension of audit findings and their ability to attain their responsibilities successfully (Smith, 2005). Mark (2001) stated that internal auditors must audit faster with more emphasis on real-time risk and controls consulting. The auditors need not only to achieve technical tasks but must also communicate effectively with internal and clients from outside their company.

It is an essential part of internal auditors' improvement prospective to improve their communication skills effectively. Internal auditors are required to have highly improved levels of communication skill to become successful in their profession (Smith, 2005). Piehl (2003) mentions that the improvement of communication skills is required to go further than oral and written skills. Communication is considered to be the major emphasis for the future accountant generation. Piehl (2003) recommends that accountants must possess on-going professional education, technological proficiency, and the credentials that disclose their ability.

Bailey and James (2011) review of the core competencies of internal auditing (part of the 2010 CBOK study) revealed the evolving nature of the IAF as practiced on a worldwide basis. The top five competencies identified in the study are (1) communication skills, (2) problem identification and solution skills, (3) staying abreast of industry and regulatory changes, and professional standards, (4) understanding the business as a sound basis for identifying emerging risk and control issues, and (5) enterprise risk management, both from an organisational viewpoint as well as performing risk-based audit planning. These highly rated skills indicate that many IAFs are formulating skill sets that are broader, and perhaps, more value-added to their organisation than assisting in the annual financial statement audit.

Well-developed interpersonal skills are required for auditor to possess. Interpersonal is characterised as being, concerning to, or connecting relations between persons” (Orsini, 2000). Interpersonal skills are perceived as the way individuals interact with other. Seigel (2000) described that interpersonal skills are vital. Not only they ought



to be able to affect people but they need to also be comfortable with co-workers at a variety of levels. Interpersonal skills likewise include working effectively within teams. Internal auditors can possibly develop their interpersonal skills by taking part in role-playing circumstances (Orsini, 2000). In every part of the audit process, advanced communication skills are necessarily required. Internal auditors need to have exceedingly advanced oral and writing skills for successful communication with management, auditees and co-workers (Smith, 2005).

Interpersonal skills, most frequently cited, were competency necessary in entry level job advertisement in 10 metropolitan areas' newspapers (North and Worth, 2004). 80% of advertisements stated that candidates should have solid interpersonal skills. Likewise, 49% of advertisement found for entry levels involved requirements for basic communication skills such as listening, reading, writing, and speaking. Additional evidence recommends that all occupational fields employers perceive more value on employees' communication skills than their technical skills.

An internal auditor is required to be multi-skilled to have the capacity to add values of the service for the firm. In Standard 1210 of the Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA) (2004a), it stated that internal auditors ought to have the knowledge, skills, and other competencies required to complete their individual responsibilities. The standards require that the engagement results are communicated by internal auditors. In the Standard 2410 (Criteria for Communicating, include the engagement's objectives and scope, conclusions, recommendations and action plans should be included in

these communications (IIA, 2004). The internal auditor's general conclusions and opinion of the engagement should also be included in the communication of these viewpoints.

Prior research was directed into the above mentioned viewpoints of communication utilised by internal auditors. Moreover, the findings are summarised in the following discussion. The Standard 1220 stated that the requirement for due professional care suggested that internal auditors implement the care and skill expected of a reasonably prudent and competent internal auditor" (IIA, 2004).

Communication structures a significant part of the internal auditors' competency prerequisites. Internal auditing activities are almost certainly to be led by groups of internal auditors. Each auditor will make a particular input to the team's competencies.

Internal auditors are required to communicate in effective manner in order to successfully complete their responsibilities. Also, there exist certain constraints. These existing constraints are caused by different home languages and cultural backgrounds, conflicting approaches to resolution of conflict situations and so on.

The internal auditors need to effectively consider and manage these constraints. Du Preez (2005) mentioned on the literature study discovering that English is the business language in South Africa even though English is the home language of only 8.2% of people in South Africa. This supportive finding argues that tertiary

institutions shall contain more modules of English communication skills in the curricula.

Substantial communication levels with management are required for successful auditors. Auditors can acquire knowledge. The knowledge will extraordinarily assist audit evaluations as high communication levels are enhanced with management. Management and the board of directors are obliged to listen to its internal auditors for the effectiveness of communication. Management and the board of directors gain a better comprehension of auditors and the particular audit findings by listening (Masters, 2001). Internal auditors must listen and comprehend what management is telling to completely understand management's goals (Plumy and Dudley, 2002). The ability to take direction is also an important communication skill for internal auditors.

The effectiveness of internal audit relies upon the internal auditors' communication skills with the company's management and the users of audit results (Plumy and Dudley, 2002). Internal auditors should have adequate communication skills to help them achieve their responsibilities in a professional and effective manner.

## **2.4 Corporate Governance and Performance of Internal Auditors**

Khan (2011) illustrates that corporate governance as a general term refers to the processes, customs, policies, laws and institutions that regulates the organisations and corporations in the way they act, administer and control their operations. It is required to accomplish the organisation's goals and manage the stakeholders'

relationship including the shareholders and board of directors. It as well works with the individuals' accountability via a mechanism which decreases the principal-agent issue in the organisation (Khan, 2011).

Corporate governance is an important component in enhancing economic growth and efficiency and developing confidence of the investor (OECD Principles, 2004). Corporate governance is the process by which shareholders, creditors and other firm stakeholders apply an impact on manager's decisions. Anglo-Saxon concept of "corporate governance" refers to the system which is directing and controlling companies (Cadbury Committee, 1992).

A wider range of definition was developed by The Organisation for Economic Co-operation and Development (OECD, 1999):

*Corporate governance...includes a set of relationships between a company's management, its board, its shareholders, and other stakeholders. Corporate governance also offers the structure through which the objectives of the company are set, and the method of accomplishing those goals and monitoring performance are determined. Good corporate governance ought to offer appropriate incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and shall facilitate effective monitoring...*

The broader definition mentioned above refers to the concepts of incentives, goal congruence, control and monitoring. Internal audit activity and governance principles also apply to both not-for-profit and governmental activities.

The term corporate governance was defined as the public and private institutes that govern the relationship between the stakeholders and the corporate managers by using regulations, laws, and the business practices (Oman, 2001).

The corporate governance challenges and issues in Africa were reviewed by Okeahalam and Akinboade (2003). Okeahalam and Akinboade (2003) illustrated that corporate governance is closely concerned with the organisation practices, systems, process and rules of governing institutions. Therefore, it is necessary to determine those relationships. Specifically, those relationships create, regulate or determine the nature of relationship via their relationships. The corporate governance implication exhibits that companies shall seek balance between the shareholders' interests and all levels of stakeholders in organisation.

Good governance in a firm is a tool for organisational strategy and the key to performance. The corporate governance purposes to increase the firm performance and to harmonize the various interest groups (Morariu, Mitea, Stoian and Crecana, 2009).

Internal auditing and corporate governance have now become a matter of major public concern. Many latest occasions have employed corporate governance problems as a highest level of alarm for the international financial institutions and business community. According to Sarbanes-Oxley Act (2002) Enron, Global Crossing, WorldCom and Adelphi Communications, the following are the most

recent cases that brought about an urgent examination and revisit on the present improvement of corporate governance.

The internal auditing contribution to corporate governance is portrayed via marking off the association between the corporate governance key elements and internal audit. In fact, the Board of Directors has been recognised as a main player in corporate governance, by governance committee and regulators worldwide (ASX, 2003; USA Congress, 2002).

Governance is defined by the Institute of Internal Auditors (IIA) as “Group of structures and operations established by the Board of Directors to guide and define the organisation’s follow-up activities and management towards achieving its purposes.” Directors, corporate managers and owners have begun to know that advantages are available. The advantages can accrue from having a good structure of corporate governance. It supports the increase in share price and facilitates the organisation in obtaining capital.

The definition of corporate governance included in the International Standard is similar. However, it adds some elements of the system: governance consists of structures and processes achieved by the board so as to direct, monitor, manage and inform the organisation activities towards organisation’s objectives achievement (IIA, 2004).

In literature, the concept of corporate governance includes components of social responsibility, ethical business practices, issues referring to internal and external audit transparency, managers' responsibility for the accuracy of information presented in financial reports (Maria, 2012). Corporate governance was defined by Monks and Minow (2001) as the existing correlation between numerous participants in finding the setting and performance of corporations. And the participants refer to shareholders, management and the board of directors.

Using the Public Oversight Board's perspectives, corporate governance was defined as those oversight activities taken charge of by audit committee and the board of directors. These activities help ensure the integrity of financial reporting process (Cohen and Hanno, 2000). This governance view emphasises on the control activities and environment. Corporate governance was defined by Roe (2004) as the relationship at the top of the firm including the stockholder, the board of directors, and the senior managers.

Ori (2003) illustrated that the effective corporate governance issuer requires a practice emphasised perspectives of directors, the chief executive officer and senior management. These people must always be dedicated to business success and its long term sustainability by maintaining the highest standards of responsibility and ethics.

In recent years, studies on corporate governance have centred their consideration to the role of maintaining the transparent and accountable financial reporting. For example, presenting new regulations on corporate governance to enhance the quality

of financial reporting (Cohen, Dey and Lys, 2008) and the enhancement of quality of internal audit function (IAF) (Allgerini, 2006; Cooper and Leung, 2006).


Previous research (as discussed above) indicates that internal auditing plays a vital role in effective corporate governance. The effectiveness of internal audit helps the company to operate in accordance with standards and regulations by evaluating a specific controls and procedures and ensure that those charged with governance that internal company processes are adequate and functional. It is recommended that effective internal auditing in organisations requires the work to be of a high standard, quoting the IIA's international standards as an example of what should be required by audit committees.

#### **2.4.2 Board of Directors and Performance of Internal Auditors**

The board of directors is considered as a significant institution in the governance of current corporations. In the problems of corporate control, agency theory views corporate governance mechanisms specifically the board of directors as being a crucial monitoring tool. This offers an attempt to ensure that issues possibly brought about by the principal-agent relationships is diminished (Mallin, 2007; Moldoveanu and Martin, 2001).

The Board of Directors has been known as an important player in corporate governance by governance committees and regulators worldwide (ASX, 2003; USA Congress, 2002). Due to the fact that the Board of Directors has responsibility for the entity's goals accomplishment, the contribution of internal auditor is to deliver





information to that group (Colbert, 2002). Thus, internal audit's role is crucial to assisting the Board of Directors in its governance self-assessment.

Due to lack of available resources in terms of time and professional knowledge, the shareholders delegate their managing function to the board of directors, which thereby acts as their agent and is subject to reporting obligations (Semler, 1995). Likewise, internal control is assigned to either the board of directors. Internal auditor is usually an intra-company (staff) department, which performs audit and advisory services for the management at all levels of the company. Through the provision of effective support to the management in the framework of bonding and monitoring, performance of internal auditors constitutes an important element of the company's internal corporate governance (Freidank & Pasternack, 2011; Sarens & Abdolmohammadi, 2011).

The growing interest in the effect of board of directors' characteristics is because of the board's roles in providing connection to other resource dependencies (Balta, 2008; Bathula, 2008). Many research have tried to recognise the boards of directors' attributes or mechanisms that lead to better corporate performance and strategic decision-making (Maharaj, 2009; Balta, 2008; Kajola, 2008; Barako, 2006; Van den Berghe and Baelden, 2005).

In Asia, Young, Ahlstrom, Bruton and Chan (2001) found that the board of overseas Chinese firms' resource dependence function in Taiwan and Hong Kong is more distinct than service and control functions, which they characterise the social norms

and institutional environments facing these firms. Further empirical studies to compare the effect on firm performance of the boards' various functions will be remarkable.

Table 2.2 represents the focus of studies on corporate governance where most of the variables are used in the evaluation of corporate governance.

Table 2.2

*Summary of Research concerning the corporate governance and Performance of Internal Auditors*

No.	Author	Respondent used	Location and Number of Items	Result
1.	Felo, Krishnamurthy and Solieri (2003)	Audit Committees	USA 1	1. size of the audit committee
2.	Guest (2009)	Managers	UK 1	1. board size
3.	Topak (2011)	Manager	Turkey 1	1. board size
4.	Alzoubi and Selamat (2012)	Senior Manager	Malaysia 2	1. board size 2.audit committee size
5.	Vo and Phan (2013)	Managerss	Vietnam 1	1. the size of board
6.	Soliman and Ragab (2014)	Managers	Egypt 1	1. audit committee size

#### **2.4.1.1 Board Size and Performance of Internal Auditors**

The size of board differs from organisation to organisation. This depends on several factors such as the type, size, the board culture and its work nature. Every organisation is diverse and ideal board size may not be suggested as a norm. The organisation to function effectively requires a board that is small in size where every board member has a significant role to play and also need a board which is large enough so that the work of the board is done with diversity of experiences.

In 2007 and 2009, there were fewer directors in total on their boards in better performing companies. This was most true for Hong Kong, the USA and Europe. Board size had the strongest correlation with share price performance of all the components of board composition examined.

Wu (2000) finds that board size diminished on average over this period and that the decline can be clarified at least partly by pressure from active investors such as CalPERS. A number of recent papers (Coles, 2008; Guest, 2008; Linck, 2008; Boone, 2007; Lehn, 2004) exhibit that board size is regulated by firm specific variables, such as firm size, Tobin's Q and profitability. Preceding researches have been seriously criticised for not sufficiently controlling for endogeneity problems because firm performance has an undesirable influence on board size (Wintoki, 2007).

#### **2.4.2 Audit Committee and Performance of Internal Auditors**

Audit committee (AC) assists as a communication link for the relationship between external and internal auditors and the board of directors. Their activities consist of reviewing general scope of the audit, reviewing of nominated auditors, the audit results, internal financial controls, and publication financial information. Certainly, the existence of company audit committee would offer a serious oversight of the company's auditing and financial reporting processes (Walker, 2004).

AC is usually established as a committee to the Board. It has a primary reporting line to the board. Thus, AC supports the Board by giving objective advice on problems concerning risk, control and governance of the organisation (IIA, 2004). AC can be defined as chosen members of firms who are active in overseeing the companies accounting and financial reporting policies and practices.

The AC may carry out or authorise inquiries into any concerns within the Committee's extent of responsibilities, as definite by this Charter, and shall have direct access to the independent auditor as well as anyone in the company.

DeZoort, Hermanson and Archambeault (2002) mention that the effective oversight tends to have limited achievement due to the fact that audit committees have insufficient knowledge of the organisation's operations, deal with "complex but inadequate second-hand information" and meet infrequently. DeZoort et al. (2002) defines an effective AC as follows: "An effective AC had eligible members with the ability and resources to care for stakeholder benefits by ensuring consistent financial

reporting, risk management and internal controls through its industrious oversight efforts.” Nevertheless, various factors moving the performance of AC need to be addressed in order to optimise their effectiveness and achieve their objectives.

The AC monitoring of IA could as well offer the assistance in identifying problems in IA itself and provide improvement opportunities. If IA informs the AC, the communication of managerial problems to the top levels of the company is assisted, as well as its role within the organisation is reinforced too (Goodwin and Yeo, 2001; Braiotta, 1999).

The relationship between the AC and the internal auditor is a crucial one, with a mutual strengthening of each other’s function. In other words, the AC can support the internal audit function, and internal auditors can, in turn, be an essential resource to the audit committee as it tries to complete its responsibilities (Turley and Zaman, 2004). Based upon their AC charters and reports analysis, Carcello (2002) discovered that disclosures propose a likely under-emphasis of internal audit, although internal audit can be beneficial resource for the AC.

Goodwin (2003) found similar results in a chief internal auditor’s survey from New Zealand and Australia. On the other hand, O’Leary and Stewart (2007), in a study of the ethical decision making of Australian internal auditors, discovered that the effective AC’s existence had slight effect on internal auditors’ perception of their readiness to perform purposefully. Mat Zain and Subramaniam’s (2007) study of eleven organisations’ heads of internal audit in Malaysia shows the importance of the

AC's influential position in developing internal audit objectivity. The study discloses that internal auditors place substantial trust in AC to adopt the main questioning role in more formal settings.

The significance of the AC can be found in monitoring the efficiency of internal control. The AC can assist the Board in the implementation, monitoring and follow good corporate governance practices of which advantage the company and stakeholders (Saibaba and Ansari, 2011).

In recent years, ACs has taken a significant governance role in overseeing and coordinating the communications between external auditor, management, and internal auditors. AC is such a subcommittee under corporate governance framework to which the board delegates some of its oversight responsibilities.

Gramling (2004) emphasised that “a value relationship between the AC and the internal audit function (IAF) also works towards giving the IAF with a proper environment and support system for completing its own governance related activities. In addition, corporate governance guidelines and listing rules obviously identify the governance role played by ACs in improving the relationship between management, internal auditors and external auditors (Smith, 2003; Blue Ribbon Committee, 1999). As such, ACs can be seen as a key protection mechanism for internal auditors in managing their skilled objectivity.

An AC's responsibilities consist of ensuring quality accounting policies, internal control, and the independent and effective role of outside auditors to prevent fraud, foresee financial risks and encourage accurate, high quality and timely disclosure of financial and other material information to the board, to the public markets, and to shareholders (Mohamad and Sori, 2001).

Internal audit function offers a substantial level of security to the AC. Internal auditor's knowledge about risk management and internal control, combined with inter-personal skills and behavior, their domestic position, familiarity with the company and staff provides a key source of comfort to the audit committee (Sarens, 2009).

Vanasco (1994) argued that there seems to be a general agreement among researchers in the field and numerous international and national organisations that ACs offer important advantages to the public, investors, corporation, and regulatory agencies.

Many studies documented presence of effective AC decreasing financial frauds and disputes in the company as well as ensure earning information to the stakeholders. AC's significance on firm's earnings and return has been noted in many studies. Chen, Duh and Shiue (2008) found that the establishment of AC is positively related with higher earning return existence and firm's earning and informativeness. An effective AC minimises agency problem by decreasing information asymmetry

between owners and management and also acts as a safeguard of stakeholders' interest.

#### **2.4.2.1 Audit Committee Size and Performance of Internal Auditors**

AC size is a critical determinant of AC effectiveness. Vafeas (2007) discovered a relationship that is positive between AC size and audit fees. This result demonstrates that the demand for audit increase as the size of the AC increases.

DeZoort et al. (2002) propose that AC size measured as the number of AC members will have a positive influence on AC effectiveness. Therefore, it is likely that ACs with a sufficient number of members have preferred resource over smaller ACs.

Pucheta-Martinez and Fuentes (2007) documented positive relationship between size of AC and quality of financial reporting. A large AC may not necessarily bring about more effective functioning as more members in an AC may lead to unnecessary debates and delay the decision, even though AC size is influenced by the size of the company and the board of directors (Lin, Xiao and Tang 2008).

### **2.5 The Agency Theory**

Agency theory argues that internal auditing provides assistance in maintaining cost efficient agreement between managers and owners. Hence, the internal auditing is similar to other intervention mechanisms such as external audit and financial reporting (Saren, 2007).



Adams (1994) states that agency theory provides support in clarifying the companies' existence of internal auditing. However, it can as well assist in providing a significant explanation of the internal auditor's characteristic with the performance of internal auditors. The information asymmetry is expected to create a larger internal audit function (Sarens, 2007). More personnel representing a much different range of competences and communication skills in a broader function of internal audit will be expected. These will be able to reduce a greater range area of problems in information asymmetry (Sarens, 2007). Additionally the range of the covered work of internal audit would be larger in a rather bigger than in a smaller function (Mat Zain, 2006).

Agency theory usually accepts that these relationships of principals and agents will be arranged by a conflict of interests between the principal's and the agent's. The agent therefore will be motivated to seek their own goals (Sundaramurthy and Lewis, 2003). When the agent's behaviour is not controlled or limited, then the principal's goals tend not to be achieved. Agency relationship can also be defined as a prescribed process whereby owners deputy some of their authorities and responsibilities to a team involving of expert member(s) and expect them to practice their expertise in the best interest of firm's operational achievement (Mohiuddin and Karbhari, 2010).

The perception of a principal-agent relationship can be viewed as a contract under which one or more persons (the principal(s)) engage another person (the agent). This contract lets the agent perform some service on their behalf. The service includes

appointing some decision making authority to the agent. These relationships are rather normal. For example, a client (principal) might employ a lawyer (agent) to defend his case. Although example depicts relationships in a private setting, the relationships of principals and agents also normally happen within organisations such as internal auditors and the organization (Jensen and Meckling, 1976).

The essential notion of this agency theory is that there is a conflict of interest between owner and management. Chrisman, Chu and Litz (2004) stated that the conflict emerges from information asymmetry between owners' and managers and there exists a gap between them. DeZoort et al. (2002) discussed that in order to solve the conflict rooting from agency relationship; the board must expect the oversight role of observing CEO and other managers. The board needs to approve firm's strategies and assessing control system as well.

As indicated by The Institute of Chartered Accountants in England and Wales (ICAEW) (2005), auditors carry on as agents to principals when providing an audit. This relationship, thus, brings with it similar matters related to confidence and trust as for the director-shareholder relationship. This relationship stimulates questions about who is assigned to audit. If one or more principals, such as an owner, involve another person (for example internal auditor) as their steward or agent to complete an on-their-behalf service (ICAEW, 2005), this service performance leads to the delegation of some decision-making authority to the agent. This assigned responsibility by the principal and the resulting division of labour are helpful in supporting an efficient and productive economy. Nonetheless, the delegation means

that the principal must give trust to an agent to behave in the principal's ultimate interests.

Agency theory recognises board of director and audit committee monitoring roles as playing a key role in mitigation agent-principle conflict. Monks and Minow (2004) on boards are the link between the people who provide capital (the shareholders) and the people who use that capital to create value (the managers)". Thus, this study focuses on the arrangements of internal audit function of Thailand public limited company in response to the pressure from supervisory agencies. Their impacts on performance of internal auditors are also evaluated through agency theory recently proposed.

Moreover, this study purposed agency theory to clarify the internal audit existence, the nature of the internal audit function and the specific approach adopted by internal auditors to their work. It can also forecast how the internal audit function tends to be influenced by the internal auditors' characteristics and corporate governance of the company. Thus, agency theory offers a foundation for invaluable research. This can be beneficial to both the profession of internal auditing and the academic community.

It is clear that audits serve a fundamental purpose in promoting confidence and trust in certain financial information in financial statements. The principal-agent conflict as depicted through agency theory is of particular importance in this respect and sheds light on the development of the internal audit in Thailand over the centuries. Concern about trust and the reliability of financial information helps to explain why

the internal audit is seen as an important mechanism for shareholders to help ensure that the directors are running the company in the shareholders' best interests.

## **2.6 Chapter Summary**

This chapter review literatures that relates to internal auditors in Thailand, internal auditors' characteristics, demographic profile, regulation compliance awareness, adoption of internal auditing standards, audit professionalism, communication skills, corporate governance and agency theory.

This chapter also reviews literatures relevant to a specific performance of internal auditors to gain a better understanding of the area to be audited while providing understanding into potential problems that may need to be considered. Corporate governance also relates to the ability to access the objective of assuring accountability and improving performance of internal auditors. Hence, without corporate governance there must be problems regarding the performance related to the internal auditors in the future. Furthermore, the literature may offer potential solutions or "best practices" to problems or suggest ideas on ways to improve performance/compliance.

## **CHAPTER THREE**

### **RESEARCH FRAMEWORK AND METHODOLOGY**

#### **3.0 Introduction**

The methods and procedures of used in this study are described in this chapter. The study has the following purposes: to analyse the current utilisation of auditor performance within the auditing profession; and to examine if the internal auditors are able to continuously identify and adopt new best practice and all internal quality assessments which include “continuing performance monitoring of the internal audit activity.”

#### **3.1 Research Framework**

The independent variables of this study are the internal auditors’ characteristics and the corporate governance. These are the independent variables. The performances of internal auditors are the dependent variable. The definitions of each characteristic are shown in the framework. They are discussed in the following sections. The research study’s framework is shown in Figure 3.1.

## Independent Variable

## Dependent Variable

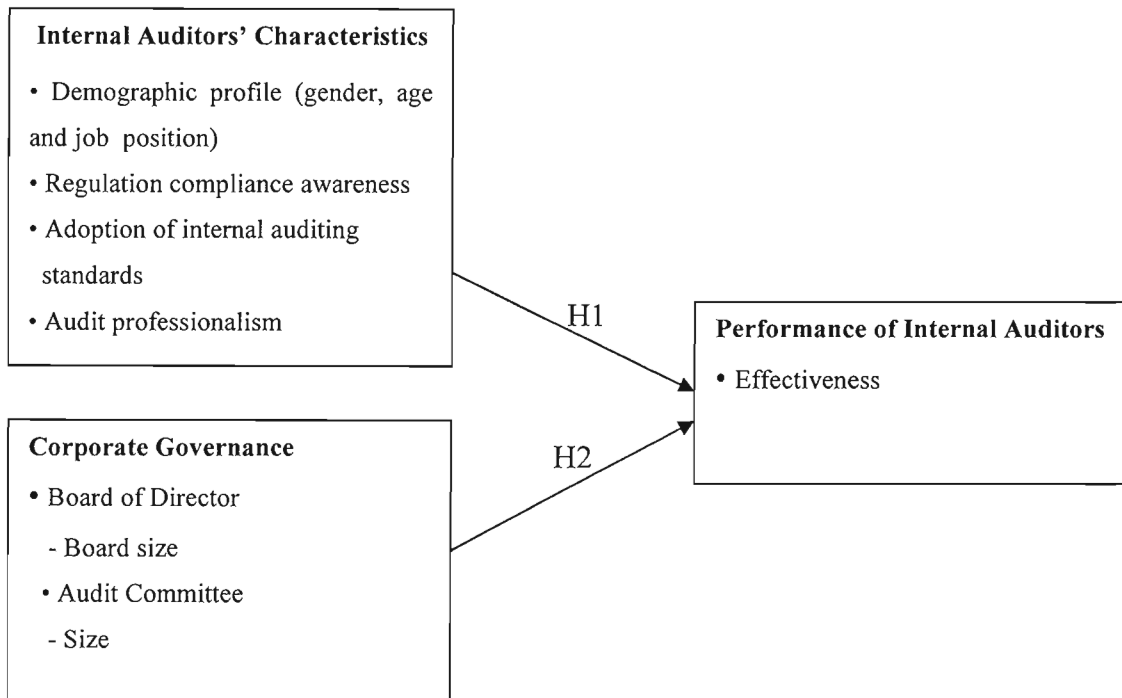


Figure 3.1  
Research Framework

Figure 3.1 shows the relationship between internal auditors' characteristics and performance of internal auditors and the relationship between corporate governance and performance of internal auditors. It shows how internal auditors' characteristics of the public service outcomes are being effectively achieved and corporate governance could influence the performance of internal auditors, which relates to the ability to access the objectives of assuring accountability.

The proposed model is based on assumption in the agency theory. Agency theory, an economic theory of accountability, is beneficial. It offers assistance in explaining the development of the audit. Jensen and Meckling (1976) states the agency theory

assumes that a firm contains a link of contracts connecting the owners of cost-effective resources (the principals) and managers (the agents) who are charged with using and controlling those resources.

Additionally, agency theory offers a theoretical framework that is beneficial for the research in the function of internal auditing. Purposes of the agency theory explain and forecast the internal audit existence. It explains the responsibilities and roles given to internal auditors by the organisation and forecast how the function of internal audit is possibly be affected by organisational change.

The agency theory stated that the board of directors and audit committee might mitigate agency problems leading to reduced agency cost by aligning the interests of controlling owners with those of the company. This study can be interpreted in these mechanisms as practices or regulations resulting from coercion by legislators who impose certain practices in order to improve organisational effectiveness. Lee (2009) suggested that the context of corporate governance is under the agency theory.

### **3.2 Hypotheses Development**

The research hypotheses address the internal auditors' characteristics factors such as (i) demographic profile (ii) regulation compliance awareness (iii) adoption of internal auditing (iv) audit professionalism and (v) communication skills. It also address the corporate governance related factors that (i) Board of Director and (ii) Audit Committee. In relation to the performance of internal auditors, the variable is

effectiveness. The independent variable factors may have impacts on their capabilities of internal auditors.

These factors are related to the IIA (2009) International Professional Practices Framework (IPPF). The conceptual framework's IPPF that provides powerful guidance stated by the Institute of Internal Auditors. As a reliable, international, guidance-setting body, the IIA offers internal audit professionals globally with powerful guidance prepared in the IPPF as obligatory guidance and strongly suggested guidance. As such, the internal auditor is necessary to retain the competencies such as skills, knowledge and others to achieve their specific responsibilities (IPPF attribute standard 1212 Proficiency, 2009).

Concerning corporate governance, internal auditing is assisting the Board of Director and Audit Committee to effectively perform its responsibilities (IPPF, 2009). Previous researches and literatures were reviewed to recognise if the internal auditors' characteristic comply with the IPPF in this study (2009).

### **3.2.1 Performance of Internal Auditors**

Performance measurement provides an objective basis for evaluating how effectively public service outcomes are being achieved. The importance of performance information denotes how well performance measures are associated with objectives and goals, and how beneficial they are for decision making and for accountability by management. Effectiveness denotes how well current performance measures are



defined, and whether the measuring data are correct and precise enough for an accountability and decision making.

Therefore, internal auditors should manage and conduct their performance effectively and provides a basis for good performance audit practices. Hence, the internal auditors should offer relevant information as far as the implementation and consequences of the public and private activities are concerned regarding to their performance. Further to that the Stock Exchange of Thailand required that Thai listed companies must provide the adequate internal control and the internal auditing effectiveness. Critical success factors of the internal auditor performance are necessary to gain the internal audit function effectiveness.

### **3.2.2 Internal Auditors' Characteristics and Performance of Internal Auditors**

Professional internal auditors have several other mutual characteristics to achieve the duties stated in the internal auditing definition. These characteristics describe the level of professionalism at its best, and they are inherent in internal audit practitioners. It is essential to inspect the demographics and other characteristics of the internal auditor population to evaluate the critical skills necessary for long term strategic position of the profession in order to provide the greatest value to the organisation.

An internal auditor's characteristics include demographic profile, regulation compliance awareness, adoption of internal auditing standards, audit professionalism, communication skills and corporate governance that is related to audit committee and

board of director. These are the attributes of public limited company internal auditors and implications for future direction of the profession.

### **3.2.2.1 Demographic Profile and Performance of Internal Auditors**

Demography is one of the reasons affecting work performance (Palakurthi and Parks, 2000). Gender (Ricaud, 2006), age (Brennan and Kelly, 2007), organisational tenure, job position (Moyes and Baker, 2009) were among studied demographic variables. In terms of correlation between gender and work performance, stated that gender did not have a significant effect on work performance (Shaiful Anuar, 2009; Igbaria and Shayo, 2007).

Smedley and Whitten (2006) recommended that age difference was also expected to be a possible factor for work performance. Shultz and Adam (2007) also revealed that there were significant differences among age groups relating to work performance. Kujalla, Remes, Tammelin and Laitined (2005) highlighted that younger people are poor on work performance.

Institute of Internal Auditors' (IIA) (2012) coordinating representative provided the Fundamental Interpersonal Relationship Orientation-Behavior (FIRO-B). This was done by random selection of internal auditors (internal) of corporations located in the US Southeastern and Western areas. The test aim was to find the differences between external and internal auditors, important demographic differences concerning age and certification, In this case, the external auditors' average age represented in a profile was similar to that in the research testified by

Oxner and Oxner (2006), Kwon and Banks (2004) and Siegel (2000). These studies stated that the internal auditor's average age was significantly older in the profile.

Besides age, education level, gender, and income, job position is another variable that has been studied. Lee, Geon and Benedict (2009) discovered that there is difference between top and middle managers in work performance. The result shows that job position has significantly affected work performance.

From the discussion above, hypothesis is as follows:

Hypothesis 1a: There is a significant difference between demographic profile (gender, age and job position) of internal auditors and the performance of internal auditors.

#### **3.2.2.2 Regulation Compliance Awareness and Performance of Internal Auditors**

Many regulations are obligatory to submission and compliance such as international accounting standard, Sarbanes-Oxley Act, corporate governance, regulation of companies listed in stock exchange. Therefore, regulation compliance awareness is a potentially rigid and dynamic tool; it can relate to strong structuring internal audit mechanism effectiveness.

Hass (2006) suggests that the Sarbanes-Oxley Act's (2002) additional regulatory requirements directed to more internal audits emphasise more on compliance works than the case earlier to the issuance of the act. Roth (2002), however, focuses on

compliance that could possibly be value-added depending upon the situation. This reason would direct to an argument that in organisations where regulatory requirements are restrictive, compliance audits debatably are more value-added than the internal audit's consulting emphasis.

Other research studies have illustrated the extensive adoption of self-regulatory structures to signal, and apparently to encourage compliance with financial regulation (Krawiec, 2003; Langevoort, 2002; McCaffrey and Hart, 1998).

Previous research into regulatory compliance has shown that compliance is a subtle and complex process. Parker (2002) has observed that clearly from a regulator's perspective. It is too unsophisticated to think that compliance is basically about regulators comparing the process the actual behavior conforms with or measures up to the requirements of published rules or standards. Parker (2002) shows how enforcement agencies need to understand the complexities of compliance, and how to evaluate compliance before they can design appropriate enforcement approaches.

Al-Twaijry, Brierley and Gwillian (2003) explain that internal auditor can be of benefit to organisations by ensuring compliance to policies, rules, and regulations, which are largely of a financial nature, and by working in partnership with management to help improve operations and manage risk. Arena et al. (2006) provide evidence that companies which apply strict regulations, greater focus tends to be accorded to compliance audit.

A complete database was established in the 2010 IIA Global Internal Audit survey. From over 107 countries of respondents, it included over 13,500 useable responses. There were five reports resulted from the survey responses analysis. The analysis provided valuable information to academics, chief audit executives (CAEs), internal audit practitioners and others to improve their process of decision-making relating to training, staffing and career development, compliance with The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), the evolving roles of activities and competencies of the internal audit (IIA, 2010).

Most important responses from internal audit staff, there was a presentation about CAEs and in the report. The 2010 survey results show that 70% of the respondents presently work for an organisation where the internal audit activity is obligatory by law and/or by regulation (stock listing rules) (IIA, 2010).

Within listed companies (77%) and the government group/ public sector (77%), regulatory requirements to consist of an activity of internal audit are most widespread. This is consistent with the 2006 survey. Both of these groups do not support important changes to the regulatory situation in the following five years. The explanation to this is by the fact that these organisations have previously been affected by major changes in legal/regulatory requirements in the past decade, where many corporate governance codes and listing requirements have been available both internationally and nationally (IIA, 2010).

From the discussion above, hypothesis is as follows:

Hypothesis 1b: There is a significant relationship between regulation compliance awareness and the performance of internal auditors.

### **3.2.2.3 Adoption of Internal Auditing Standards and Performance of Internal Auditors**

The Internal Standards adopting is primarily steered by its policy aiming for adopting those Standards. The standards enable the Institute members to declare compliance with the International Standards due to the engagements of their professions.

The Standards for the Professional Practice of Internal Auditing (IIA, 2004) consists of three main objectives: educating appropriate groups about the internal auditing role and responsibilities; making a foundation for performance measurement available; and enhancing the internal auditing practice.

The Asian Confederation of Institutes of Internal Auditors (ACIIA, 2006) intends to offer leadership for the internal auditing profession and to co-ordinate the enhancement and development in the Asian region. Its objectives enlisted consist of improving the practices and standards of the profession and the implementation of regional and international internal auditing best practices (ACIIA, 2006).

Code of Ethics exemplifies that all internal auditors ought to perform internal auditing services according to the International Standards for the Professional Practice of Internal Auditing. Those internal auditors who do not comply with the

Standards due to laws and regulations must therefore state in their reports (IIA, 2005).

Compliance with the Standards and IIA's Code of Ethics is compulsory for those who offer internal auditing services (Burnaby, 2009). Direction on the Standards application is given in the IIA's Practice Advisories. These are endorsed and strongly suggested by the IIA as the IIA's Code of Ethics that they must be complied by those that offer internal auditing services. The IIA's Code of Ethics requires that internal auditors offer internal auditing services following the Standards (IIA, 2005). By staff level, it is shown that the USA, Canadian and Latin American respondents had no significant difference. However, partial compliance with all the Standards from the Latin American respondents was significantly more than the respondents from the USA and Canada.

The Common Body of Knowledge (CBOK) 2006 worldwide investigation directed by the IIA shows that adapting the standards with a high percent (more than 75%). This usage was supported by a considerably less percentage of internal auditors. Moreover, these auditors confirm full compliance for Standard 1300 Quality Assurance and Improvement Program. The most fully complied standards are Standard 1000 Purpose, Authority, and Responsibility in New Zealand (69%). On the other hand, 72% of Japanese respondents incompletely followed Standards 2200 Engagement Planning and 2300 Performing the Engagement. The responses from all countries were positive When respondents were inquired whether the Standards or

the Practice Advisories offer sufficient guidance, there were positive responses from all countries.

The IIA's 2011 Standards (IIA, 2011a) altered some of the explanations with two additional new performance standards and numerous practice advisories. These extra standards did not show the significant alteration of the internal audits' responsibilities in the achievement of their duties.

From the discussion above, hypothesis is as follows:

Hypothesis 1c: There is a positive relationship between adoption of internal auditing standards of internal auditors and the performance of internal auditors.

#### **3.2.2.4 Audit Professionalism and Performance of Internal Auditors**

Audit professionalism is auditors' preference to provide individual professional judgment in doing auditing tasks (Askary and Saeed, 2006). Most of the word related to expertise of auditor profession is based on training and practical experience obtained especially from auditing (Gramling and Stone, 2001).

Al-Twaijry et al. (2003) suggested that an audit needs a professional staff to perform the all assigned auditing tasks by the mandate, and the professional staff needs to have the required education, experience, training, and professional qualifications.



The requirements of minimum continuing education and professional standards issued by the IIA (2008) and their significant professional organisations are necessary for auditors to comply with. According to Bou-Raad (2000), the diverse skills required signify a key challenge to professional bodies, management, and tertiary as institution.

The audit professionalism was defined by Prachsriphurn and Suwannatada (2011) as the auditor who could follow and carry out the auditing standard and correspond with the expectation of the stakeholder or client in regards to professional audit activities. Therefore, the audit professionalism needs proficiency (experience, skill, knowledge) to operation practice. This study suggests that audit professionalism is positively related to the consequence variables (client trustworthiness and audit image).

From the discussion above, hypothesis is as follows:

Hypothesis 1d: There is a positive relationship between audit professionalism (skill, knowledge and experience) and the performance of internal auditors.

#### **3.2.2.5 Communication Skills and Performance of Internal Auditors**

Internal auditors require some of competencies such as communication skills. In order to be successful in their work, internal auditors are required to write, speak and listen effectively (Lewis and Graham, 2003). Lewis and Graham (2003) regarded listening skills as the most important of the above three listed skills. Internal auditors should apply listening skills in everything they do throughout the process of internal auditing.

Internal auditors are required by IPPF practice advisory 1210 *Proficiency* (2009) to be skilled in ‘keeping pleasing relationships with engagement customers, meeting with people, and understanding human relations. Additionally, internal auditors are required to possess oral and written communication skills to communicate clearly and effectively.

Some researchers (Smith, 2005; Sawyer, 2003; Loss, 2000) agreed to the opinion that internal auditors must have exceptional communication skills to succeed and advance in the international marketplace that is changing and complex.

Practice advisory 2420-1: Quality of communications of the SPPIA (2009) recommends that “communications be concise, accurate, clear, objective, constructive, complete and timely” (IIA, 2004).

In every situation, internal auditors must recognise and know how to effectively communicate at each different level of communication (Sawyer, 2003). Effective auditors must have substantial levels of communication with management. When high levels of communication are developed with management, auditors can acquire knowledge which will significantly support audit evaluations. Fadzil, Hasnah and Muhamad (2005) found that the audit work performance and scope greatly affect the communication and information perspectives of the internal control system.

From the discussion above, hypothesis is as follows:

Hypothesis 1e: There is a positive relationship between communication skills and the performance of internal auditors.

### **3.2.3 Corporate Governance and Performance of Internal Auditors**

Previous research on corporate governance signifies the Board of Director's effectiveness for ensuring the prosperity of the company and the important role of the board in the strategic orientation of corporations (Barroso, 2011).

Effectiveness of corporate governance can be assessed by internal audit. Fauver and Fuerst (2006) showed that employee representation in boards delivering value for high quality corporate operational knowledge in making decisions and provide a powerful mean to monitor and reduce agency costs in a company. Based on Gramling et al. (2004) and Sarens (2009) suggested that the measurement of IA's effectiveness can be made once the quality of IA function "has a positive influence on the corporate governance quality".

#### **3.2.3.1 Board of Director Size and Performance of Internal Auditors**

Corporate governance consists of a relationship set among shareholders, management, board of directors and other stakeholders. Good corporate governance not only shall offer appropriate incentives to both of the management and the Board of Directors of the company to seek the achievement of the goals involving the company's and shareholders' interest but should also facilitate effective control (OECD, 2004).

The board of directors is responsible for ensuring the establishment and implementation of a training program supporting high ethical standards within the firm. Within the corporate governance framework of OECD members, a detailed

process outlining the board of directors' selection, compensation, and evaluation disclosed to shareholders is also expected (OECD, 2007).

The board of directors is the highest-level of the mechanisms in the organisation since they possess the ultimate power to compensate the decisions that are made through the top management. Board size is believed to be the basic aspect of effective decision making. Vafeas (2005) suggested that the board size and its performance had a non-linear relationship. Both too small and too large of the board size is likely to make it ineffective. Previous studies have shown that small boards are more effective because the directors can communicate better among them, as well as easy to manage (Vafeas, 2005; Xie et al., 2003).

The size of the board is also considered as an important characteristic. This characteristic affects how effective the board monitors the management. The greater the number of the board members it is, the more the management's monitoring activity there is (Loderer and Peyer, 2002).

In the listed firms in Malaysia and Singapore, Mak and Yuanto (2003) discovered that the highest firm valuation happens when the board consists of five directors. This number was comparatively small in those markets. Coles (2008) found that the firm valued affected by the board size is positive for large firms. Therefore, an ideal value maximizing outcome for those firms may come from large board size.

While, Chan and Li (2008), Mustafa (2006), Ahmadu (2005) and De Andres (2005) found that larger boards are associated with poorer performance. Beiner, Drobetz, Schmid, and Zimmermann (2004), Limpaphayom and Connelly (2006) and Bhagat and Black (2002) found no significant relationship between firm performance and board size.

From the above discussion, the following is the hypothesis:

Hypothesis 2a: There is a positive relationship between the Board of Director (board size) and the performance of internal auditors.

### **3.2.3.2 Audit Committee Size and Performance of Internal Auditors**

The audit committees' responsibility includes providing supervision over the internal control system and the financial reporting process and the internal controls system. Regulators such as the SEC offer more effective monitoring by encouraging audit committees to depend on thoroughly on both the internal and external auditors.

Starting with the 1999 Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (BRC), more formalised methods were taken to improve and issue explicit suggestions that audit committees could report to improve their effectiveness (Myers and Ziegenfuss, 2006). It is necessary for the audit committees to take more responsibility in regards to corporate governance. This can be done by supervising the matters on internal control and financial reporting. Moreover, Goh's (2009) research suggested that the internal control problems are more likely to be solved in a will-time manner when the audit committee's quality regarding its independence, size, and expertise is higher.

It appears that the audit committee size is one of the significant characteristics that contribute to its effectiveness. If the audit committee size is too small then an insufficient number of directors to serve the committee occurred and thus decrease its monitoring effectiveness (Vafeas, 2005). On the other hand, when a committee size is too large, the directors' performance may decline because of the coordination and process problems and hence, highlight another reason for weak monitoring (Vafeas, 2005). The perfect average of the audit committee size is between 3 and 4 members (Vafeas, 2005; Abbott et al., 2004; Xie et al., 2003). Therefore, evidence from the previous suggested that the firms with large audit committee are more effective in monitoring the management.

Pucheta-Martinez and Fuentes (2007) discovered that the size of audit committee and ratio of independent member affect the possibility that firms received appropriate audit report due to error or non-compliance qualification.

A statistical finding illustrated that the relationship between the audit committee size of fraud and non-fraud firms showed no significant difference, Farber (2005). The relationship of audit committee size with earnings management (Bedard, 2004; Xie, 2003) and audit the interim financial disclosure level was also found insignificant (Mangena and Pike, 2005).

From the discussion above, the following is the hypothesis:

Hypothesis 2b: There is a positive relationship between the audit committee (size) and the performance of internal auditors.

### **3.3Methodology**

#### **3.3.1 Research Design**

The basic research design utilized for this study is a survey design. There is a set of data collection: primary data. The collection of primary data collection is accomplished through the use of a mail survey instrument. Data is collected from the mail survey instrument (questionnaire) is divided into three components. The first component regarding the measurement of the demographic profile is sent to the CAEs or Head of Internal Auditing Department. The second component of the questionnaire is sent to the CAEs or Head of Internal Auditing Department for the measurement of the performance of internal auditors. The third component of the questionnaire is sent to the CAEs or Head of Internal Auditing Department for the measurement of the auditors' characteristics.

#### **3.3.2 Sample and Data Collection**

##### **3.3.2.1 Sample**

The population used in this study is the Chief Audit Executives (CAEs) or Head of Internal Auditing Department in the public limited companies of Thailand in 2013. The total number of companies for the year 2013 is 520. The year 2013 was chosen due to the availability and the current status of the data. The questionnaire is sent to all population (520 companies) of this study.

### **3.3.2.2 Data Collection**

Primary data is used in this study. It is collected by using mailed questionnaires to obtain internal auditors' perspectives concerning the attributes of the internal auditors' characteristics and the performance of internal auditors (mailed surveys with follow-up on non-respondents by telephone).

### **3.3.2.3 Unit of Analysis**

The unit of analysis defined in this study is the internal audit department in the public limited companies, Thailand in 2013.

### **3.3.3 Research Instrument**

The structure of the internal auditors' characteristics consists of demographic profile, regulation compliance awareness, adoption of internal auditing standards, audit professionalism, and communication skills. The structure addresses the corporate governance that is Board of Director and Audit Committee in relation to the performance of internal auditors with the elements of the seven dimensions. These were obtained from review of the literatures as discussed in Chapter 2 using the auditor in the public companies in Thailand, the seven main dimensions and its elements. A checklist was prepared and it consists of two sections as follows:

#### **Section I – Performance of Internal Auditors**

- Effectiveness



## **Section II – Auditors’ Characteristics**

- Demographic profile
- Regulation compliance awareness
- Adoption of internal auditing standards
- Audit professionalism
- Communication skills

## **Section III – Corporate Governance**

- Board of Director
- Audit Committee

The instrument used for this research is the mailed survey questionnaire as attached in Appendix A. After obtaining all of the attributes and completing the pre-test, the questionnaires were designed to obtain the primary data pertaining to:

1. Demographic Profile (Part 1)
2. Performance of Internal Auditors (Part 2)
3. Internal Auditors’ Characteristic (Part 3)
4. Corporate Governance (Part 4)

Appendix A shows these questionnaires that were mailed to the CAEs (Head of the Internal Audit Department). The CAEs were requested to provide their answers on a five-point Likert scale for the opinion they place on each of the items pertaining to the policy, communication channel and recipients. The attributes serving as the bases for the items in this scale were:

1. Effectiveness = (Part 2), items 1-5.
2. Regulation Compliance Awareness = (Part 3), items 1-6.
3. Adoption of Internal Auditing Standards = (Part 3), items 1-4.
4. Audit Professionalism = (Part 3), items 1-19.
5. Communication Skills = (Part 3), items 1-7.
6. Board of Director = (Part 4), items 1-8.
7. Audit Committee = (Part 4), items 1-9.

The points were: (1) Strongly Disagree (2) Disagree (3) Neither Agree nor Disagree (4) Agree and (5) Strongly Agree.

### **3.3.4 Operational Definition and Measurement of the Variables**

The following sections involve the discussion related to the definition of variables used throughout the study covering the dependent and the independent variables. In essence, the dependent variable that is the performance of internal auditors would be based on effectiveness performance evaluation. Effectiveness is used when the correlation between the intentional and actual impacts of an activity achieved.

The independent variables consist of the internal auditors' characteristic factors such as demographic profile, regulation compliance awareness, adoption of internal auditing standards, audit professionalism and communication skills and address the corporate governance related factors such as Board of Director and Audit Committee. The following measurements are used for the independent variables:

a. Effectiveness:

- (i) The internal auditors established a good knowledge of the subject.
- (ii) The internal auditors established an objective approach and professionalism.
- (iii) Recommendations were practical, realistic, and cost-effective.
- (iv) Internal audit has made a valuable involvement to the reaching of the entity's objectives.
- (v) The internal auditor(s) were assessed internal audit's overall performance.

b. Demographic Profile:

- (i) The demographic characteristics of interest consist of gender, age and job position.
- (ii) Males and employees with higher education levels.
- (iii) Highly experienced (for those in practice) and hold at least one license or certification.
- (iv) Internal audit's working practices were efficiently supported by up-to-date Internal Audit Manual.

c. Regulation Compliance Awareness:

- (i) Ability to conform all important laws or standards that were rigorously constructed and to preserve operational standard accurately and transparency.
- (ii) Audit regulation has concerns and involvement with the standards implementation, adoption and setting through enforcement processes ensuring that such standards are applied in practice.

(iii) An independent standard-setting board working within the International Federation of Accountant (IFAC) and subject to public oversight by international regulators.

(iv) Regulation compliance awareness is a powerful and potentially rigid tool, it can link to firm building the effectiveness of internal audit mechanism.

d. Adoption of Internal Auditing Standards:

(i) Internal auditors' use and compliance with the IIA Standards for the Professional Practice of Internal Auditing (Standards) as well as the Practice Advisories.

(ii) Practical guidance for the implementation of the Standards Auditor professional development, both auditor knowledge and auditors' ability to apply the new standards need to be developed.

(iii) The attribute and performance standards were augmented by the individual implementation standards and the nature of internal services.

(iv) Compliance with the IIA's Code of Ethics and Standards is compulsory for those who run the services of internal auditing.

e. Audit Professionalism:

(i) The internal audit activity must be independent.

(ii) Internal auditors must be objective in performing their work.

(iii) Objectivity is a key factor for internal audit activities to add value.

(iv) Internal audit activities were credible within their organisations.

(v) Internal auditors must possess proficiency (skill, knowledge, experience) to operate practice.

(vi) Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor.

(vii) Internal auditors enhance their knowledge, skills and experience through continuing professional development.

(viii) Internal auditors' preference to use individual and professional judgment in doing auditing tasks (Askary and Saeed, 2006).

(ix) The internal audit activity's plans and resource requirements and ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

(x) The internal audit activity assists the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

f. Communication Skills:

(i) Expresses concepts and information with lucidity and conciseness when speaking and writing.

(ii) Internal auditors communicate the engagement result and reports communicating the results of each completed performance audit.

(iii) Internal auditors attend all the audit committee meeting in order to communicate regarding any issues related to their work.

(iv) Evaluate the strength of internal audit's process to monitor the status of open matters/recommendations.

(v) The internal audit activity is free from interference in determining the scope of internal auditing performing.

(vi) The Chief Audit Executive (CAE) communicates and interacts directly with the board.

(vii) Uses interpersonal skills to facilitate effective interaction.

h. Board of Director:

(i) Understands the objectives, vision, and mission of the firm.

(ii) Monitors finance and other indicators throughout the year, and takes suitable action as required.

(iii) Has an effective process for maintaining its size and compositions to provide appropriate expertise and experience to meet the best interests of the firm.

(iv) Receives appropriate advice and counsel from management.

i. Audit Committee:

(i) Supervise internal audit performance by ensuring that the organisation has an internal audit charter.

(ii) Represent in the audit committee includes finance and accounting, industry-specific knowledge, and internal and external auditing.

(iii) Ensure more effective control of accounting and financial processes.

(iv) Review risk assessment, audit plans, and audit results.

### **3.3.5 Method of Data Analysis**

This study used both descriptive and inferential analyses.

### **3.3.5.1 Descriptive Analysis**

Descriptive analysis was used to understand the general profiles of respondents. Statistical measures are employed to state the features of a set of data. Various items belong in this portion of statistics such as: The average, or measure of center consisting of the mean or midrange and the spread of a data set can be measured with the standard deviation. For this data, the frequencies and percentage is used for computation.

### **3.3.5.2 Inferential Analysis**

#### **a) Factor Analysis**

Factor analysis is a more desirable choice than principal components analysis. Components analysis is simply a method of data reduction. Therefore factor analysis helps to reduce a substantial number of variables to a significant, manageable, and interpretable set of factors (Sekaran, 2010). When a researcher has a set of variables and questions that these variables are completely interrelated, factor analysis can then be used to clear up the linear relationships into their separate patterns (Zikmund, 2003).

The researcher designed the questionnaire according to previous questionnaires are adopted for this study from the IIA, 2010 and ANAO, 2011 and literature review. The instrument was pre-test where the CAEs were requested to review the survey primarily for questions clarity and time requirement to complete the survey.

## **b) Test of Reliability of the Instrument**

Reliability denotes the consistency or accuracy of the survey instrument. It is a degree of the ability of a specific technique to steadily produce the same result when applied continually to the same object (Babbie, 2001; and Pollard, 2004). To ensure reliability of the survey instrument, a pretest of the instrument is conducted using 30 of the Chief Audit Executives (CAEs) or Head of Internal Auditing Department in the public companies limited, Thailand in 2013. The pre-test groups were asked to review the primary survey for clarity of questions and to make sure that the respondents really understood the questions.

Cronbach's alpha is one of today's most popular used reliability statistics (Cronbach, 1951). Cronbach's alpha identifies the items' internal consistency or average correlation in a survey instrument to measure its reliability (Sekaran, 2010).

Cronbach's alpha is a coefficient of internal consistency ("reliability"). It is mostly used when there are multiple Likert questions in a survey/questionnaire that from a scale, and there is a requirement to determine whether the scale is reliable. Each question is a 5-point Likert item from "strongly disagree" to "strongly agree". Thus, a Cronbach's alpha was run on a sample size to understand if all questions in this questionnaire are able to measure the same potential variable with reliability (so a Likert scale could be made). Furthermore, the questionnaire was translated into Thai language by the researcher and reviewed by the expert in the field of English linguistics who is familiar with technical terms in specific areas.



To insist the instrument reliability, the researcher applied it on a sample of thirty Chief Audit Executives (CAEs). The instrument reliability used in this study was tested by Cronbach’s alpha. By the purpose of this study, Cronbach’s alpha values of .7 and above are considered to be reliable (Nunnally & Bernstein, 1994). Alpha values of .7 and above indicates homogenous items measuring the same construct. Sekaran (2010) suggested that alpha value of .5 would be considered the lower value of acceptability. The reliability results were as follows:

Table 3.1  
*Cronbach's alpha test*

Variables	No. of Items	Cronbach's Alpha
Performance of internal auditors	5	.911
Regulation compliance awareness	6	.751
Adoption of internal auditing standards	4	.779
Audit professionalism	19	.949
Communication skills	7	.876
Board of director	8	.924
Audit committee	9	.917

In addition to that, researcher also conducted normality and linearity test after collecting the data from the population of the study (520 respondents).

**c) Correlation Analysis**

The utilisation of correlation analysis aims at describing the direction and strength of the relationship between two variables (Hair, Money, Samouel and Page, 2007). The relationship is between the performance of internal auditors and internal auditors’

characteristics and the corporate governance. Correlation is the degree of relationship between two sets of information.

Correlation analysis is accommodating in revealing whether there is a positive or negative relationship between the independent and dependent variables. A positive correlation exists as one variable decreases, the other variable also decreases and vice versa. In statistics, a perfect positive correlation is represented by the value +1.00, while a 0.00 shows no correlation, and a -1.00 shows a perfect negative correlation.

#### **d) Multiple Regression Analysis**

A statistical technique used to analyse the effect of two or more independent variables on a single interval-scaled dependent variable is multiple regression analysis (Zikmund, 2000).

### **3.4 Chapter Summary**

Past literatures and research have identified the factors of performance of internal auditors and the factors affecting the effectiveness of the public limited companies in Thailand. This research used survey instruments to collect data to examine internal auditors' characteristics and corporate governance related to factors which influence performance of internal auditors. The Chief Audit Executives (CAEs) in Thailand public limited companies are the respondents for this study.

## **CHAPTER FOUR**

### **ANALYSIS AND FINDINGS**

#### **4.0 Introduction**

The purpose of this chapter is to present the data analysis results relating to the investigated topic: Internal auditors' characteristics and corporate governance on the performance of internal auditors in Thailand public limited companies. This chapter covers descriptive as well as inferential statistics germane to the purpose of this study. The basic function of this chapter is to provide information on the data analysis. Following the introduction, the response rates and the demographic profiles are first discussed. This is followed by the factor analysis for the regulation compliance awareness, adoption of internal auditing standards, audit professionalism, communication skills, board of director, audit committee and discussion of the tests performed to demonstrate the internal validity of the instrument and establish subject response consistency. The tests of the research hypotheses using descriptive and inferential analyses are then discussed. The summary shows the activities and procedures deliberated in this chapter.

#### **4.1 Responses Profile**

The subject used in this study was internal auditors of Thailand public limited companies. Instrument used is the questionnaire on Internal Auditors' Characteristics to internal auditors in Thailand public limited companies, which was mailed to the respective companies.

Table 4.1a illustrates information on population and return rates of the questionnaires delivered to the Chief Audit Executives (CAEs) or Head of Internal Auditing Department in Thailand public limited companies. Of the 520 questionnaires administered (total 520 companies), 475 subjects were contacted. However, only 146 responses were obtained originating a response rate of 30.74% (see Table 4.1a). 45 surveys were undelivered because either the firms had relocated the corporate offices to other buildings or absence of in-house internal audit functions since the firms had outsourced its internal auditing function to the accounting or external audit firms.

Table 4.1a  
*Summary of Response Rates*

Questionnaires administrated	520
Undelivered	45
Subjects contacted	475
Number of not responses	329
Number of responses	146
% of response rates (146/475)	30.74%

The demographic data was collected from each subject and the data was gathered to ask a specific research question. It gives a comprehension to the subjects and assists in interpreting the analysis results. The demographic variables are qualification, current position, experience in auditing, and professional accounting/auditing qualification under Thailand public limited companies.

Outlines of the demographic data collected from the Chief Audit Executives (CAEs) are shown in Table 4.1b below:

Table 4.1b

*Summary of Demographic Data on Respondents from Chief Audit Executives (CAEs)*

<b>Demographic</b>	<b>Characteristics</b>	<b>Frequency</b>	<b>Percentage</b>
Gender	Male	69	47.30
	Female	77	52.70
Qualification	Certificate/Diploma	1	0.70
	Bachelor Degree	64	43.80
	Master Degree	81	55.50
Current Position	CAEs	111	76.00
	others	35	24.00
Experience in Auditing	< 5 years	52	35.60
	5-10 years	48	32.90
	> 10 years	46	31.50
Professional Accounting/Auditing qualification	Professional qualifications (CPA,CIA,CISA,TA and other)	58	39.70
	No professional qualifications	88	60.30

Majority of the respondents that is 47.30% (69) are male while 52.70% (77) are female. About 43.80% (64) have a bachelor degree, 55.50% (81) are master's degree holders while 0.70% (1) are either certificate or diploma holders. The result as per Figure 4.1b illustrates that the percentage of the internal auditors with masters' degree is higher than the percentage of the internal auditors holding diploma and bachelors' degree. From this result, it is observed that the percentage of internal auditors who have the masters' degree is higher than the percentage of the internal auditors who have bachelor's degree.

About 76.00% (111) of internal auditors currently hold the position as a Chief Audit Executives, while 24.00% (35) are others. Regarding the experience in auditing, about 35.60% (52) of the respondents with less than 5 years of experience, 32.90% (48) have 5 to 10 years of experience, and 31.50% (46) have more than 10 years of

experience in auditing. This result shows that the internal auditors do not have sufficient experience required in the performance of the internal auditors. About 39.70% (58) of the respondents have professional qualifications from various professional bodies such as CPA, CIA, CISA, TA and others (CPIA, CPIAT and CIAT) while 60.30% (88) do not have any professional qualifications. The qualification, experience in auditing and experience in accounting are not strong to fulfill the performance of internal auditors.

## 4.2 Descriptive Statistics

Descriptive statistics for this study includes minimum, maximum, mean, and standard deviations. As mentioned in the previous section, all the variables (regulation compliance awareness, adoption of internal auditing standards, audit professionalism, communication skills, board of director and audit committee), are hence measured using a five-points Likert scale. The summary of the descriptive of the variables is shown in Table 4.2 below:

Table 4.2  
*Descriptive Statistics of the Variables*

Variables	Total of the Items	Mean of the Items		Total Mean	Standard Deviation
		Minimum	Maximum		
Performance of Internal auditors	5	2.60	5.00	4.12	0.61
Regulation compliance awareness	3	3.00	5.00	4.53	0.56
Adoption of internal auditing standards	3	3.00	5.00	4.35	0.64
Audit professionalism	8	3.00	5.00	4.29	0.60
Communication skills	4	2.50	5.00	4.41	0.62
Board of director	8	3.25	5.00	4.29	0.52
Audit committee	9	3.11	5.00	4.22	0.55

Table 4.2 presents the mean values of all variables which are between 4.12 and 4.53 with the average standard deviation ranging from .52 to .64. The standard deviation is lower than 1.0 as suggested for the data variability. The meaning of respondents were very consistent in their opinions (Hair et al., 2010).

The performance of internal auditors shows that the mean is between 2.60 to 5.00 for each item (5 items). The result of the performance of internal auditors items is considered high with the mean value of 4.12. For the regulation compliance awareness, the result exhibits that the mean is between 3.00 and 5.00 for each item (3 items). The result of the regulation compliance awareness items is considered highest with the mean value of 4.53. For the statistic scores for the adoption of internal auditing standards, the mean is between 3.00 and 5.00 for each item (3 items) but the total mean is 4.35. The result shows that the respondents perceived the practice of the adoptions of internal auditing important. The audit professionalism exhibits that the mean is between 3.00 and 5.00 for each item (8 items) but the total mean is 4.29. The result of communication skills items is considered high with the mean value of 4.41 while the mean is between 2.50 and 5.00 for each item (4 items). The results show that the respondents perceived the practice of communication skills important. They indicate a high level of the effect on the performance of internal auditors.

The descriptive statistic for the board of director exhibits that the mean is between 3.25 and 5.00 for each item (8 items). Once more, the score (total mean) is 4.29. This shows that the respondents considered the board of director vital to the internal auditors' characteristics. Lastly, the statistic score for the audit committee exhibits

that the mean is between 3.11 and 5.00 for each item (9 items) but the total mean is 4.22. These results show that the respondents perceived the audit committee important. They indicate a high level of the effect on the performance of internal auditors.

### **4.3 Goodness of Data**

Validity and reliability tests were carried out on all constructs. The meaning of validity is the degree that the instrument measures and reliability referring to the instrument ability to give steady results in repetitive uses and the degree of consistency assessment between multiple measurements of a variable (Zikmund, 2000).

#### **4.3.1 Factor Analysis**

Factor analysis offers a construct validity measure of the instrument. It is definitely one important data analysis step that factor analysis is mainly intended to comprehend the fundamental dimensions or anticipated dimensionality of variables in a projected model or relationships in empirical research (Hair, Anderson, Tatham, Black and Babin, 2010).

The following sections explore the factor analysis results by principal elements with varimax rotation methods. The factors identification criteria are that eigenvalues must be greater than 1 and that they each have at least 1 item to ensure stability. To find out how many components meet up this criterion, we need to examine the total variance explained. Only 33 items that makes up the 100% of extracted six (6)



factors with 1 or more of eigenvalue are mutually explained 66.16% of the items variations. All six (6) factors were retained (see Table 4.3.1b).

Before doing the factor analysis, it was important to examine the data matrix for adequate correlations to justify the factor analysis application. Two basic guidelines to help check the correlations are the Kaiser-Meyer-Olkin (KMO) and the Bartlett test of sphericity. The Kaiser-Meyer-Olkin (KMO) states that a measure of sampling adequacy needs to be as large as possible. It values can range from 0 to 1, where 1 indicates that each variables is entirely forecasted with no error by the other variables (Hair et al., 2010).

KMO designated levels are the followings: .08 or above, meritorious; .70 or above, middling; .60 or above, mediocre; .50 or above, miserable; and below .50, unacceptable. The sampling adequacy values measurement must exceed .50 before taking the factor analysis. The Barlett Test of Sphericity is the measure that indicates whether sufficient correlations are found with the variables to proceed (Hair et al., 2010). A significant Bartlett's test of sphericity (sig. <.05) is required to perform factor analysis.

Table 4.3.1a  
*Kaiser-Meyer-Olkin (KMO) and Bartlett's Test*

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.882
Bartlett's Test of Sphericity	Approx. Chi-Square	4282.441
	Df	595
	Sig.	.000

Table 4.3.1a reveals the results that the value for Kaiser Meyer Okline (KMO) of 0.882 is greater than 0.6. It is meritorious, which indicates that the sample is fundamentally qualified for factor analysis. The Barlett's Test of Sphericity was significant at a level of .000. This supports the factorability of the correlation matrix. The principal component factor analysis extracted six (6) factors with eigenvalue of 1 or more. This explained 66.16% of the variations in the items shown in Table 4.3.1b below. All six (6) factors were retained as per table below.

Table 4.3.1b  
*Principal-Components Analysis for Internal Auditors' Characteristics*

Factor	Eigenvalues	Percentage of Variance	Cumulative Percentage
1	10.99	33.31	33.31
2	5.03	15.24	48.55
3	1.91	5.78	54.33
4	1.51	4.58	58.90
5	1.29	3.90	62.80
6	1.11	3.36	66.16

Table 4.3.1b illustrates the summary of the six (6) factors loadings after varimax with Kaiser Normalisation rotation. The items loading are greater than 0.50 on each factor. The percentage of variance was explained by each factor. As suggested by Hair et al. (2010) for a sample of 146, the “cut-off” point selected for significant loading is .50 and above in this study.

Table 4.3.1c shows the six (6) factors loadings and the items for the internal auditors' characteristics and corporate governance components.

Table 4.3.1c

*Factor Loading of Internal Auditors' Characteristics*

Factor	Title and Items Loading greater than 0.50	Loading	Percentage of Variance
1	Audit professionalism		17.14
	a. The internal auditors enhance the other competencies through continuing development of their profession.	.897	
	b. The internal auditors enhance their skills through continuing development of their profession.	.895	
	c. The internal auditors enhance their knowledge through continuing development of their profession.	.855	
	d. The professional judgment used in planning and performing audits and in reporting the results.	.776	
	e. The staff assigned to conduct the audit jointly possesses adequate professional competence for the required tasks.	.702	
	f. The chief audit executive (CAE) ensures that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.	.642	
	g. Internal auditors possess the knowledge required to perform their individual responsibilities.	.628	
	h. The internal auditors apply the expected care and skills of a reasonable, prudent and competent internal auditor.	.582	
2	Audit committee		32.22
	a. The audit committee review audit plans.	.788	
	b. The audit committee review audit results.	.779	
	c. The audit committee representing in external auditing.	.745	
	d. The audit committee representing in industry specific knowledge.	.723	
	e. The audit committee representing in internal auditing.	.706	
	f. The audit committee review risk assessment.	.658	
	g. The audit committee ensures more effective control of accounting and financial process.	.637	

Table 4.3.1c (Continued)

Factor	Title and Items Loading greater than 0.50	Loading	Percentage of Variance
3	Board of director		45.31
	a. The board of director understands the objectives of the firm.	.755	
	b. The board of director understands the mission of the firm.	.735	
	c. The board of director understands the vision of the firm.	.710	
	d. The board of director monitors financial indicators all through the year, and takes required appropriate action.	.707	
	e. The board of director monitors other indicators all through the year, and takes required appropriate action.	.679	
	f. The board of director provides an effective process for maintaining its size and compositions to offer appropriate expertise and experience to meet the firm's best interests.	.623	
	g. The board of director provides an effective process for maintaining its compositions to offer appropriate expertise and experience to meet the firm's best interests.	.569	
4	Regulation compliance awareness		53.07
	a. The internal audit activity officially defined in a charter, reliable with the Standards, and permitted by the board.	.828	
	b. The assurance services nature is defined in the audit charter.	.788	
	c. Compliance with the International Standards for the Professional Practice of Internal Auditing (standards) is a major factor for your internal audit activity to include value to the process of governance.	.641	
5	Communication skills		59.72
	a. The engagement result is communicated by the internal auditors.	.838	
	b. The internal auditors are able to state information and concepts with clarity and conciseness when speaking and writing.	.687	
	c. The auditors provide reports communicating the results of each completed performance audit.	.596	
6	Adoption of internal auditing standards		66.16
	a. The nature of internal audit services and the individual implementation standards are used to add the attribute and performance standards.	.795	
	b. Internal auditors use and comply with the IIA Standards for the Professional Practice of Internal Auditing (standards) as well as the Practice Advisories.	.658	
	c. Ability to conform all relevant standards or laws and to preserve operational standard accurately and transparency	.509	

From Table 4.3.1c, the six (6) factors loadings ranging from 0.509 to 0.897 were presented for the internal auditors characteristic-related factors. All the six (6) factors are named accordingly to their descriptions where the first factor contains eight (8) items that illustrate information about audit committee, accounted for 17.14% of the total variance. The second factor contains seven (7) items that illustrate information about audit professionalism, accounted for 32.22% of the total variance. The third factor consists of seven (7) items regarding the board of director, accounted for 45.31% of the total variance. The fourth (4) factor is regulation compliance awareness and it contains three (3) items, accounted for 53.07% of the total variance. The fifth (5) factors consist of three (3) items regarding the communication skills, accounted for 59.72% of the total variance. The last factor consists of three (3) items regarding the adoption of internal auditing standards accounted for 66.16% of the total variance.

#### **4.3.2 Test of Reliability of the Instrument**

The estimation of reliability is provided by the coefficient alpha to measure a set of items' internal consistency (Nunnally, 1978). Cronbach's Alpha is able to be considered as a totally adequate indication of the internal consistency and of reliability (Sekaran, 2010). Thus, the questionnaire was tested for reliability.

The reliability of the instrument was used in this study. The study was tested using Cronbach's Alpha using the SPSS 21 model. There is a rule of thumb that is commonly accepted. The rule is an alpha of 0.7 although the number can possibly

reduce to 0.60 in exploratory research (Hair et al., 2010). Therefore, this study used the reliability after using the construct validity (factor analysis).

Table 4.3.2a represents the result of the reliability test for each of the internal auditors' characteristics components.

Table 4.3.2a  
*Test of Reliability of Data: Internal Auditors' Characteristics*

<b>The auditors' characteristics Item</b>	<b>No. of Items</b>	<b>No. of Item Deleted</b>	<b>Cronbach's Alpha</b>
Performance of internal auditors	3	2	.784
Regulation compliance awareness	3	3	.800
Adoption of internal auditing standards	3	1	.796
Audit professionalism	8	11	.784
Communication skills	4	1	.773
Board of director	8	-	.768
Audit committee	9	-	.789

The Cronbach's Alpha values ranges between 0.768 and 0.800. Therefore, seven (7) factors (factor 1 to factor 7) fulfilled the minimum requirement level of reliability. Thus, the discovered alpha values for each scale show that each factor is an adequately reliable measure.

#### 4.3.3 Correlation Analysis

Correlation is used to state the linear relationship between two variables on their strength and direction (Hair et al., 2010). Correlation analysis was executed on the six (6) independent variables and the performance of internal auditors as the dependent variable. Pearson correlation was employed to explore the relationship among all the independent variables (regulation compliance awareness, adoption of internal auditing standards, audit professionalism, communication skills, board of director, and audit committee) and dependent variable (performance of internal auditors). There were two important issues that had to be determined in this test: (1) whether the correlation coefficient is statistically significant which was considered by the p-value, and (2) that the strength of the relationship was acceptable which was considered by the r-value.

To achieve this, the bivariate associations used the Bivariate Correlations technique. The Bivariate Correlations technique calculates Pearson's correlation coefficient with significant levels (Hair et al., 2010). Pearson correlation measures the strength of the relationship between two variables. Correlations measure how variables or rank orders are related. The correlation measurement is determined by the coefficient of correlation ( $r$ ). Its value ranges from + 1.0 to -1.0. This indicates the strength of relationship. In general,  $r > 0$  shows positive relationship,  $r < 0$  shows negative relationship while  $r = 0$  shows no relationship (or that the variables are independent and not related) (Olak and Chiu, 1998). An absolute negative correlation is explained when  $r = 0$ . When coefficients are closer to +1.0 and -1.0, the strength of the relationship between the variables is greater.

When a correlation that is significant at the 0.01 level, it indicates a 99% definitely that the correlation between the two variables is not random. It also indicates a 95% definitely at the 0.05 level.

Table 4.3.3a provides a summary of the results from the correlation analysis. In this study, the calculation of the Pearson correlation coefficients was implemented to get an understanding of the relationship between all the variables.

Table 4.3.3a  
*The Result Summary of the Pearson Correlation*

	regulation	adoption	profession	Comm.	committee	director	performance
regulation	1						
adoption	.553**	1					
profession	.474**	.567**	1				
communication	.395**	.460**	.635**	1			
board	.334**	.262**	.340**	.435**	1		
committee	.336**	.302**	.276**	.332**	.818**	1	
performance	.361**	.464**	.696**	.623**	.304**	.332**	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

The values of the correlation coefficients (r) had shown in Table 4.3.3a indicate the strength of the relationship between variables. The common interpretation of this statement explains that anything greater than 0.5 is considered large, 0.5 to 0.3 is considered moderate and 0.3 to 0.1 is considered small.

Overall, the above results identify the relationship between each of the variables. Referring to the above results, these correlations indicate that the independent and dependent variables show a significant relationship in the multiple regressions. Moreover, the purpose of using Pearson Correlation is to explain the correlation



among the studied variables. It is unable to predict how much regulation compliance awareness, adoption of internal auditing standards, audit professionalism, communication skills, board of director, and audit committee contributed toward performance of internal auditors. Therefore, multiple regression analysis was carried out and is discussed in the following section.

#### **4.4 Multiple Regression Analysis**

One of multivariate statistical techniques is multiple regression analysis. This is valuable to determine the relationship between a single dependent variable and a set of independent variables. Multiple regression examines the relationships among independent variables in their prediction of the dependent measure (Hair et al., 2010).

Multiple regression analysis describes to what extent the variance of the criterion (dependent) variable is linked to the predictor (independent) variables (Zikmund et al., 2010). This analysis was executed to understand the relationship between internal auditors' characteristics and corporate governance on performance of internal auditors in this study. Furthermore, it is also intended to find out the predictive power of independent variables (regulation compliance awareness, adoption of internal auditing standards, audit professionalism, communication skills, board of director, and audit committee) toward the dependent variable (performance of internal auditors).

Prior to testing the hypotheses as mentioned earlier, the data were examined to confirm that the assumptions for testing hypotheses were established. The main assumptions investigated were: normality, linearity, homoscedasticity, and multicollinearity (Hair et al., 2010). The evaluation on these assumptions revealed no significant violation.

Table 4.4a  
*The Skewness and Kurtosis Result for Each Variable*

Variables	Range	
	Skewness	Kurtosis
Regulation compliance awareness	-.529	-.955
Adoption of internal auditing standards	-.349	-.580
Audit professionalism	-.134	-.477
Communication skills	-.235	-1.036
Board of director	.610	-1.011
Audit committee	.485	-.733

The skewness was between -.134 to -.529, not larger than +1 or smaller than -1, and the kurtosis was between -.477 to -1.036, not exceeding +3 and below -3 (sees Table 4.4a). The histogram and the normality probability plot (P-P plots) of the regression standardised residual indicated that the normality was verified (see Figure 4.1 and 4.2). The tolerance value and variance inflation factor (VIF) were checked to identify the problem of multicollinearity. It was also found that the tolerance value of all variables was not less than .20 and the VIF value less than 10 which indicated that there was not a problem of multicollinearity (see Table 4.4.b). The linearity, homoscedasticity and the independence of the error terms were examined by investigating the scatter plot of the residuals. It was also found that there was no clear relationship between the residual and the predicted value which confirmed the linearity, homoscedasticity and the independence of residuals (see Figure 4.1).

The reason for testing the linearity is that correlation represents only the linear association between variables, and nonlinear effects will not be represented in the correlation value (Hair et al., 2010). Therefore, the relationship between two metric variables portraying the joint values of each observation in a two-dimensional graph is represented in a scatterplot. A scatterplot of the independent and dependent variable must illustrate the dotted line that is the normal line. This shows the existence of a normality assumption of the variables. A histogram of the distribution of the residuals was plotted to test the data linearity assumption of the regression model. The distribution estimated a normal curve, suggesting that the data conform to the normality assumption. Besides, the regression model residuals were plotted against the predicted value of the performance of internal auditors. They were also plotted against each explanatory variable to determine whether the error terms of the model had constant variance.

Figure 4.1 displays no relationship between the predicted values and the residual. This refers that assumptions of linearity and homogeneity of data are established.

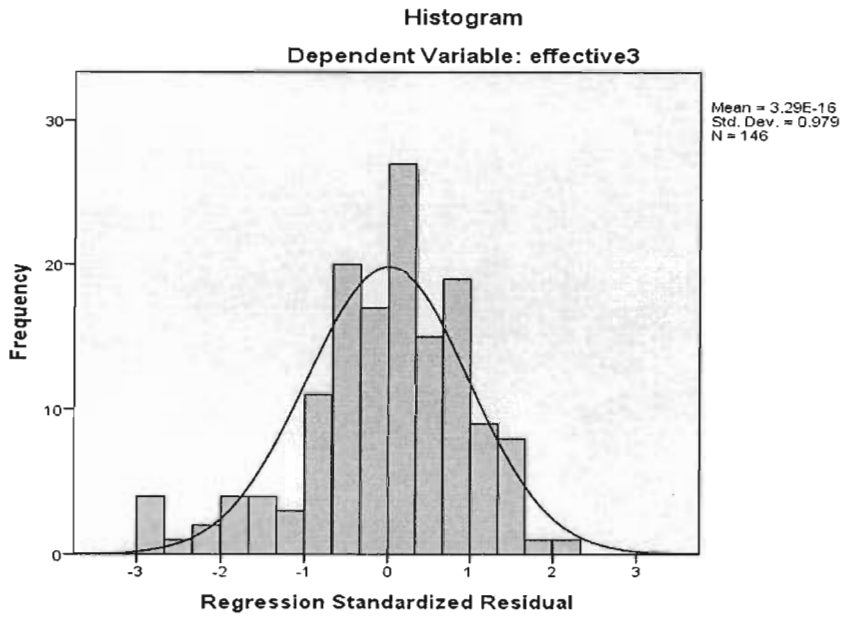


Figure 4.1  
*Histogram of the Regression Residuals*

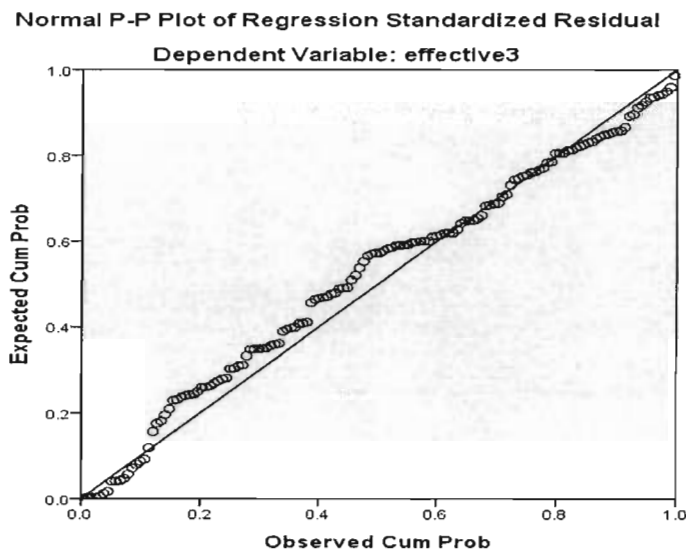


Figure 4.2  
*Normality Testing Using Normal Probability Plot*

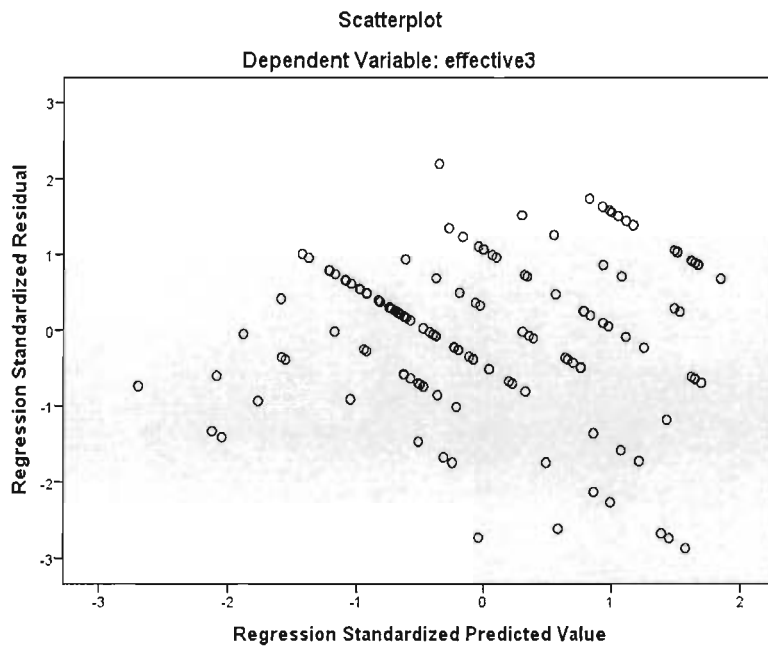


Figure 4.3  
*Scatterplot of the Residuals*

Regression analyses were conducted in order to address the other research objectives on the relationship between auditors’ characteristics and performance of internal auditors. The data were first investigated to find out whether there is any severe violation from the fundamental assumptions for the regression analysis, namely linearity, normality and homoscedasticity prior to conducting the regression analysis (Hair et al., 2010).

The first assumption is linearity. It is evaluated through an analysis of partial regression plots. Figure 4.1 contains the plots of the relationship between a single independent variable to the dependent variable. Visual examination of the plots illustrates that there was no obvious U-shaped or other curvilinear relationship. Therefore, the assumption of linearity for all the independent variable is established.

Secondly, the assumption on homoscedasticity was tested. As suggested by Hair et al. (2010), the existence of homoscedasticity and diagnosis is done by plotting the residuals against the predicted dependent values and comparing them to the null plot. Figure 4.3 contains the scatter plots which displayed no discernible patterns. Therefore, this output indicates homoscedasticity in the multivariate case (the set of independent variables).

Finally, the examination for the assumption on normality is done by reviewing the normal probability-plot (p-p) of the residuals. Figure 4.2 contains the normal p-p plot, which displayed that the values descend along the diagonal with no significant or systematic departures. This indicates that the residuals are normally distributed.

Prior to conducting the regression of independent variables on dependent variable, the tolerance values and the variance inflation factor (VIF) for all the independent variables are examined to identify multicollinearity.

Table 4.4b  
*Testing for Multicollinearity*

Variables	Tolerance value	VIF
Regulation compliance awareness	.630	1.587
Adoption of internal auditing standards	.556	1.800
Audit professionalism	.475	2.104
Communication skills	.505	1.981
Board of director	.309	3.241
Audit committee	.313	3.198

When the independent variables are too high related, multicollinearity problem exists (Hair et al., 2010). Adequate values of collinearity are considered when the tolerance

value is more than .10 or the VIF value is less than 10 (Hair et al., 2010). The tolerance and VIF values shown in the Table 4.4b, the tolerance value is more than 0.1 and VIF value is less than 10. This shows that the variables are free from multicollinearity problem in the multiple regression model.

#### 4.5 One-Way Analysis of Variance (ANOVA) and T-Test

Table 4.5.1a  
*T-Test for Differences among the Mean Response of Gender of Internal Auditors' Characteristics Related to Performance of Internal Auditors*

Variable	Male			Female			t	P
	N	Mean	S.D	N	Mean	S.D		
Performance of internal auditors	69	16.68	2.111	77	16.56	1.618	.396	0.692

H1a<sub>1</sub>: There is a significant difference between gender of internal auditors and the performance of internal auditors.

Table 4.5.1a shows the t-test for differences among the mean responses of gender of internal auditors' characteristics related to performance of internal auditors. The results showed there is no significant difference of mean response existed among gender of internal auditors' characteristics and performance of internal auditors ( $P > 0.05$ ). Therefore, the null hypothesis was rejected at 0.05 level.

The relationship between gender of internal auditors' characteristics and the performance of internal auditors does not show significance difference at 0.05 level.

Table 4.5.1b  
*One Way Analysis of Variance for Differences among the Mean Response of Age of Internal Auditors' Characteristics Related to Performance of Internal Auditors*

<b>Age</b>	<b>Sum of Square</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>P</b>
Between Groups	26.694	4	6.673	1.978	0.101
Within Groups	475.827	141	3.375		
Total	502.521	145			

H1a<sub>2</sub>: There is a significant difference between age of internal auditors' characteristics and the performance of internal auditors.

Table 4.5.1b shows the differences among the mean responses of age of internal auditors' characteristics related to performance of internal auditors. The results showed there is no significant difference of mean response existed among age of internal auditors' characteristics and performance of internal auditors ( $P = 0.101$ ). Therefore the null hypothesis was rejected at 0.05 level.

The relationship between age of internal auditors' characteristics and the performance of internal auditors does not show significance difference at 0.05 level.

Table 4.5.1c  
*One Way Analysis of Variance for Differences among the Mean Response of Job Position of Internal Auditors' Characteristics Related to Performance of Internal Auditors*

<b>Job position</b>	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>P</b>
Between Groups	15.104	3	5.035	1.467	0.226
Within Groups	487.416	142	3.433		
Total	502.521	145			



H1a<sub>3</sub>: There is a significant difference between job position of internal auditors' characteristics and the performance of internal auditors.

Table 4.5.1c shows the differences among the mean responses of job position of internal auditors' characteristics related to performance of internal auditors. The results showed there is no significant difference of mean response existed among job of position of internal auditors' characteristics and performance of internal auditors ( $P = 0.226$ ). Therefore, the null hypothesis was rejected at 0.05 level.

The relationship between job position of internal auditors' characteristics and the performance of internal auditors does not show significance difference at 0.05 level.

Table 4.5.1d  
*Summary of all results of One-Way Analysis of Variance, T-Test for Differences among the Mean Responses of Performance of Internal Auditors*

Decision Factors	ANOVA Result	Hypothesis
<u>Demographic Factors</u>		
Age	Insignificant	Not supported
Job position	Insignificant	Not supported
Gender	Insignificant	Not supported

#### 4.6 Hypotheses Testing

Multiple regression analysis describes to what extent the variance of the criterion (dependent) variable is linked to the predictor (independent) variables (Zikmund et al., 2010). For this study, this analysis was performed to understand the relationship between internal auditors' characteristics on performance of internal auditors. In order to test the hypotheses, regression analysis and hierarchical regression analysis

were utilised. The multiple regression was employed to test hypotheses H1 and H2 in this study. The following table presents the results of the statistical tests of the hypotheses to address the research objectives.

In step one, the hypotheses (H1b, H1c, H1d, H1e, H2a and H2b) were examined with multiple regression analysis by regressing internal auditors' characteristics (regulation compliance awareness, adoption of internal auditing standards, audit professionalism, communication skills, board of director and audit committee) and dependent variable (performance of internal auditors). Based on the results, out of the four dimensions of internal auditors' characteristics, six hypotheses (H1b, H1c, H1d, H1e, H2a, and H2b) have a significant effect on performance of internal auditors (see Table 4.6a).

Table 4.6a  
*Regression Coefficient*

Model	Coefficients <sup>a</sup>			t	Sig.
	Unstandardised Coefficients		Standardised Coefficients		
	B	Std. Error	Beta		
(Constant)	3.126	1.391		2.247	.026
regulation	-.032	.096	-.024	-.333	.739
adoption	.066	.092	.056	.716	.475
profession	.269	.041	.555	6.578	.000*
communication	.167	.077	.177	2.158	.033*
director	-.083	.058	-.148	-1.413	.160
committee	.098	.048	.212	2.037	.044*

a. Dependent Variable: performance of internal auditors \* at 0.05 significant level

Model of the study is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + e$$

$Y$  = dependent variables (performance of internal auditors)

$a$  = constant

$b$  = corresponding linear

$X$  = independent variables (regulation, adoption, profession, communication, director and committee)

$e$  = residual error term.

The performance of internal auditors = 3.126 - 0.032 (regulation compliance awareness) + 0.066 (adoption of internal auditing standards) + 0.269 (audit professionalism) + 0.167 (communication skills) - 0.083 (board of director) + 0.098 (audit committee)

The standardised regression coefficients (the beta) value is a measure of how strong each predictor variable affects the criterion (dependent) variable. The measurement of beta is done in units of standard deviation. In multiple regression, the direction of the relationship between variables is interpreted by explore the signs (plus or minus) of the B coefficients. If a B coefficient is positive, then the relationship of this variable with the dependent variable is positive. If the B coefficient is negative then the relationship is negative. If the B coefficient is equal to 0, there is certainly no relationship between the variables.

In this study, the largest beta coefficient is .555, which is the total for audit professionalism. This means that this variable shows the strongest contribution to the dependent variable. An audit professionalism has a significant value less than .05 (significant = .000). Thus, this variable makes a significantly exceptional contribution to the prediction of the dependent (performance of internal auditors).

The beta value for total communication skills was slightly less than .177 (significant = .033) indicating that it makes less contribution. The beta value for total audit committee was slightly less .212 (significant = .044) indicating that it makes less contribution. On the other hand, regulation compliance awareness has -.024 (significant = .739), adoption of internal auditing standards has .056 (significant = .475), and the board of director was also slightly less -.148 (significant = .160). The board of director and the regulation compliance awareness are negatively influenced by the performance of internal auditors. Therefore, these variables are not making a significant unique contribution to the prediction of the dependent variable (performance of internal auditors) because the significant values are greater than .05.

$R^2$  (R Square) is a statistical measure of how close the data are to the fitted regression line (Hair et al., 2010).  $R^2$  is also mentioned to as the coefficient of purpose. In this study,  $R^2$  is employed to indicate the share of the variance of the dependent variable (performance of internal auditors) due to the joint effect of the independent variable (regulation compliance awareness, adoption of internal auditing standards, audit professionalism, communication skills, board of director, and audit committee). If  $R^2$  is equal to 1, it means that there is a perfect linear relationship between the dependent and the independent variables. On the other hand, if  $R^2$  equals to 0, it means that there is no linear relationship between the dependent and the independent variables.

Table 4.6b shows a summary of regression results. The adjusted coefficient of determination ( $R^2$ ) indicates that .509 (50.9%) of the variation in the dependent variable is explained by variations in the independent variables. This present the variation in the performance of internal auditors was statistically explained by the regression equation. This  $R^2$  was statistically highly significant, with  $F = 26.073$  and  $p < .000$ . Thus, the general expression in the form of regression equation is stated as follows:

The six (6) predictor variables were observed to positively correlate to the performance of internal auditors (the dependent variable) as indicated by the positive R value of .728 in Table 4.6b.

Table 4.6b  
*Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.728a	.530	.509	1.304

a. Predictors: (Constant), committee, profession, regulation, adoption, communication, director

b. Dependent Variable: The performance of internal auditors

As shown in Table 4.6c, the model is statistically significant ( $F = 26.073$ ) (Sig.  $F = 0.000$ ,  $p < 0.05$ ). Therefore, the model can be explained by 50.9% of the variation in the performance of internal auditors (Adjusted  $R^2$  of .509) (see Table 4.6b) indicates there is a linear relationship between the dependent and independent variables. Thus, the model is considered good.

Table 4.6c  
*Model Summary*

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	266.090	6	44.348	26.073	.000b
	Residual	236.431	139	1.701		
	Total	502.521	145			

a. Dependent Variable: performance

b. Predictors: (Constant), committee, profession, regulation, adoption, communication, director

#### 4.6.1 Hypothesis 1:

H1b: There is a significant relationship between the regulation compliance awareness and the performance of internal auditors.

Table 4.6a shows that the internal auditors' characteristics do not have a significant influence on the regulation compliance awareness. (Beta = -.024, Sig. F = .739 that is  $p > 0.05$ ). An increase in the independent variable, regulation compliance awareness, is expected a change of -.024 in the dependent variable, which is the performance of internal auditors. The direction of this relationship is negative. Nevertheless, an examination of the t-values ( $t = -333$ ,  $p > 0.05$ ) indicates that regulation compliance awareness do not provide the improvement of the performance of internal auditors. This also suggests that regulation compliance awareness is not significant to the performance of internal auditors; hence, the null hypothesis 1b is rejected.

H1c: There is a positive relationship between the adoption of internal auditing standards of internal auditors and the performance of internal auditors.

Referring to Table 4.6a, the coefficient of adoption of internal auditing standards of internal auditors is .056, which is also significant at 0.05 probability level (Beta = .056, Sig. F = .475 that is  $> 0.05$ ). An increase in the independent variable, adoption of internal auditing standards of internal auditors, is expected a change of .056 in the dependent variable, which is the performance of internal auditors. This relationship has a positive direction. However, an examination of the t-values ( $t = .716$ ,  $p > 0.05$ ) shows that the adoption of internal auditing standards of internal auditors do not contribute to the improvement of the performance of internal auditors. This also suggests that the adoption of internal auditing standards of internal auditors is not significant to the performance of internal auditors; hence, the null hypothesis 1c is rejected.

H1d: There is a positive relationship between the audit professionalism and the performance of internal auditors.

Referring to Table 4.6a, the coefficient of audit professionalism is .555, which is also significant at 0.05 probability level (Beta = .555, Sig. F = .000 that is  $p < 0.05$ ). An increase in audit professionalism, is expected a change of 0.555 on the dependent variable, which is the performance of internal auditors since the Beta sign is positive. Nevertheless, an examination of the t-values ( $t = 6.578$ ,  $p < 0.05$ ) shows that the audit professionalism strong contributes to the improvement of the performance of internal auditors. This suggests that audit professionalism is significant to the performance of internal auditors. Thus, the null hypothesis 1d is accepted.

H1e: There is a positive relationship between the communication skills and the performance of internal auditors.

Table 4.6a, displayed that the coefficient of communication skills is .177, which is also significant at 0.05 probability level (Beta = .177, Sig. F = .033 that is  $p < 0.05$ ). An increase in the independent variable that is the communication skills is expected a change of 0.177 in the dependent variable, which is the performance of internal auditors. The direction of this relationship is positive. An examination of the t-values ( $t = 2.158$ ,  $p < 0.05$ ) shows that the communication skills are stronger contributes to the improvement of the performance of internal auditors. This also suggests that the communication skills is significant to the performance of internal auditors. Thus, the null hypothesis 1e is accepted.

#### **4.6.2 Hypothesis 2:**

H2a: There is a positive relationship between the board of director (size) and the performance of internal auditors.

Table 4.6a, displayed that the coefficient of board of director is -.148, which is also significant at 0.05 probability level (Beta = -.148, Sig. F = .160 that is  $p > 0.05$ ). An increase in the board of director, is expected a change of -.148 on the dependent variable, which is the performance of internal auditors since the Beta sign is negative. An examination of the t-values ( $t = -1.413$ ,  $p > 0.05$ ) indicates that board of director do not contribute to the improvement of the performance of internal auditors.



This suggests that board of director is not significant to the performance of internal auditors. Hence, the null hypothesis 2a is rejected.

H2b: There is a positive relationship between the audit committee (size) and the performance of internal auditors.

Table 4.6a, displayed that the coefficient of audit committee is .212, which is also significant at 0.05 probability level (Beta = .212, Sig. F = .044that is  $p < 0.05$ ). An increase in the audit committee, is expected a change of 0.212 on the dependent variable, which is the performance of internal auditors since the Beta sign is positive. An examination of the t-values ( $t = 2.037$ ,  $p < 0.05$ ) shows that audit committee is stronger contributes to the improvement of the performance of internal auditors. This suggests that audit committee is significant to the performance of internal auditors. Therefore, the null hypothesis 2b is accepted.

#### **4.7 Summary of Hypotheses Testing Results**

Table 4.6 below presents the summary of the findings from hypothesis testing which are discussed in depth in Chapter Five:

Table 4.7  
*Summary of Multiple Regression Analysis for the Relationship of the six factors in Predicting the Performance of Internal Auditors.*

Hypothesis	Results
<u>Internal Auditor’s Characteristics</u>	
H1b: There is a significant relationship between regulation compliance awareness and the performance of internal auditors.	<b>Not Supported</b>
H1c: There is a positive relationship between adoption of internal auditing standards of internal auditors and the performance of internal auditors.	<b>Not Supported</b>
H1d: There is a positive relationship between audit professionalism and the performance of internal auditors.	<b>Supported</b>
H1e: There is a positive relationship between communication skills and the performance of internal auditors.	<b>Supported</b>
H2a: There is a positive relationship between the board of director and the performance of internal auditors.	<b>Not Supported</b>
H2b: There is a positive relationship between the audit committee and the performance of internal auditors.	<b>Supported</b>

#### 4.8 Chapter Summary

In this chapter, the findings obtained from a variety of analyses were presented. The results were based on the statistical analyses and several methods of analyses were used to test these alternative hypotheses. The analysis to test the hypotheses includes descriptive analysis and inferential analysis.

The descriptive statistics (mean) shows that the respondents rank the extent of the internal auditors' characteristics factors from the higher to the lower means is regulation compliance awareness, adoption of internal auditing standards, audit professionalism, communication skills, board of director, and audit committee.

This study revealed the demographic factors may have an impact on the internal auditors' characteristics. There are three demographic factors; there are gender, age and job position. The results show that three factors are statistically no significant; that is age, gender and job position of internal auditors' characteristics are not significant related to performance of internal auditors.

The results of multiple regression shows that three out of six factors are statistically significant. There are the audit professionalism, communication skills, and audit committee. The analysis shows that the internal auditors' characteristics positively influence the performance of internal auditors. Other factors such as the regulation compliance awareness, adoption of internal auditing standards and board of director influence on performance of internal auditors are not statistically significant.

## **CHAPTER FIVE**

### **DISCUSSION AND CONCLUSION**

#### **5.0 Introduction**

This chapter provides discussions of the results of hypotheses tests illustrated in Chapter 4, recapitulation of major findings, implication and discussions of the study. The study limitation and suggestions for future research are also considered.

#### **5.1 Recapitulation of Major Findings**

The major significant findings from the seven broad hypotheses tested are presented below:

The summary of major findings introduces seven hypotheses postulated in this study.

##### **Hypotheses 1:**

Gender of internal auditors' characteristics is not significant to the performance of internal auditors.

The age of internal auditors' characteristics is not significant to the performance of internal auditors.

Job position of internal auditors' characteristics is not significant to performance of internal auditors.

##### **Hypotheses 2:**

Regulation compliance awareness is negatively related and not significant to the performance of internal auditors.

**Hypotheses 3:**

Adoption of internal auditing standards of internal auditors is positively related and not significant to the performance of internal auditors.

**Hypotheses 4:**

Audit professionalism is positively related and significant to the performance of internal auditors.

**Hypotheses 5:**

Communication skills are positively related and significant to the performance of internal auditors.

**Hypotheses 6:**

Board of director (size) is positively related and not significant to the performance of internal auditors.

**Hypotheses 7:**

Audit committee (size) is positively related and significant to the performance of internal auditors.

## **5.2 Discussions**

Section 5.1 above illustrates a summary of results of the study. In this study, the hypotheses investigated found some evidence with respect to the objective of this study and confirmed the results of some prior studies.

The purposes of this study was to examine the extent of the relationship between the internal auditors' characteristics on the internal auditors' performance in Thailand Public Limited Companies and the influence of corporate governance on the internal auditing in Thailand Public Limited Companies. The data analysed were gathered through the questionnaires on receipt of internal auditors' characteristics on the performance of internal auditors sent to all Chief Audit Executives of the Thailand Public Limited Companies for the year of 2013.

Having obtained the internal auditors' characteristics and corporate governance on the performance of internal auditors' items, a primary survey was undertaken to examine the relationship of internal auditors' characteristics factors and performance of internal auditors and the impact of corporate governance on the internal auditors' performance.

The following section intentionally present the results in Chapter 4 in line with the theoretical perspectives and empirical works presented in Chapter 2.

### **5.2.1 The Internal Auditors' Characteristics and Corporate Governance Factors on Performance of Internal Auditors**

Descriptive analysis was conducted on the influence of the internal auditors' characteristics i.e. demographic profile, regulation compliance awareness, adoption of internal auditing standards, audit professionalism, communication skills, and corporate governance i.e. board of director and audit committee on the performance of internal auditors. This analysis shows that permutation of demographic profile, regulation compliance awareness, adoption of internal auditing standards, audit professionalism, communication skills, board of director, and audit committee are important towards the performance of internal auditors.

This study suggests that the significance of what internal auditor actually require to know in order to complete their jobs with maintenance and add value to their organisations, and how internal auditors have expertise and skills to meet their responsibilities. Internal audit activities executed in various cultural and legal environments and compliance with the International Standards for the Professional Practice of Internal Auditing are needed. In case internal auditors are forbidden by regulations or laws from fulfilling with certain parts of the IIA standards, they should comply with other parts of the standards and make proper disclosures.

### **5.2.2 Internal Auditors' Characteristics Factors and Performance of Internal Auditors**

The first purpose of this study is to investigate the relationship between internal auditors' characteristics factors and internal auditors' performance in Thailand Public Limited Companies. Internal auditors' characteristics factors in this study consist of demographic profile, regulation compliance awareness, adoption of internal auditing standards, audit professionalism, and communication skills.

This study is consistent with the previous research by Cohen and Sayag (2010) who explore the relationship of professional and characteristics with the performance of internal auditors. Rubsys and Boguslauskas (2007) found that the process in measuring the internal auditing performance is significant from the view of internal auditors and its stakeholders, and that it can communicate the audit function value to management regardless of how properly utilised performance measures. Rubsys (2007) stated that measuring the performance of internal auditor is a quite complex and difficult task for practical implementation. Prior literature has attempted to highlight the mechanisms of assessing internal audit performance and the research on identifying factors affecting internal auditors' performance.

#### **5.2.2.1 Demographic Profile and Performance of Internal Auditors**

One of the main findings in this research is the scope of demographic factors on the performance of internal auditors. It indicated in this study that demographic factors influence the performance of internal auditors. Most of the internal auditors were female with master degree 55.5% (81). The average age of individual internal



auditors were 41 to 45 years old. 76% (111) of the individual internal auditors were CAEs. However, 35.6% (52) of their audit work are less than 5 years old. Demographic variables are used to show that age, gender and job position have important effects on performance of internal auditors. The demographic characteristics are some of the most commonly used variables in relation to organisational commitment and work performance.

With regards to gender, no significant relationships were found in examining towards internal auditors' performance. This finding supported in this study. Previous study acknowledged that gender does not have an influence on the performance of internal auditors. These findings are consistent with the previous studies by Gammie and Gammie (2009), Coram, Ng and Woodliff (2003), Foster et al. (2003) found that males and females are equally adept at complex task, and Radtke (2000). Concerning gender, there are no simple conclusions about the differences between males and females and their work performance levels. In general, both males and females were equally satisfied with their jobs.

The study also investigated the influence of age on the performance of internal auditors. The finding showed that performance of internal auditors is not significantly associated with age. These findings correspond with previous study by Brennan and Kelly (2007). Previous study acknowledged that age does not affect work performance.

Job position also indicates that it does not have any significant influence on the performance of internal auditors. The finding showed that the internal auditors have equal tasks in making decisions and in the management of operation. These findings also correspond with the previous study by (Moyes and Baker, 2009),

#### **5.2.1.2 Regulation Compliance Awareness and Performance of Internal Auditors**

Regulations are the principal driver for forming data compliance and audit requirement (IIA, 2007). A compliance audit purpose is to determine if the auditee is complying with certain rules, procedures and regulations specified by certain higher authority. The result of this study shows that regulation compliance awareness is negatively related and not significant to the performance of internal auditors. The negative relationship could be that internal auditors in Thailand public limited companies practice low compliance and lack of awareness of regulations.

However, this study is consistent with the previous research by DeFond (2010), Humpherey and Loft (2009), Filkins (2008), Caplan, Janvrin and Kurtenbach (2007), Gray (2004), and Parker (2002).

Hence, this study suggests that regulation compliance awareness is too simplistic (Parker 2002; Mento 1986) and the compliance is basically about regulators comparing to the way the behavior acts in the right manner, or measures up to the published rules or standards requirements. Therefore, the Thailand internal auditors should viewed it as a performance improvement tool where the organisation should

to be advantages and understand how it compares to specified measures in order to increase the standard of its management (Filkins, 2008).

The agency theory contributes to explaining why organisation perform internal audits for various reasons, including compliance with public listing rules and obtaining certifications as part of their business strategies. The reference to sustained and focused control by an agency suggests that regulation is not achieved simply by passing a law, but requires detailed knowledge and intimate involvement with the regulated activity (Majone, 2006).

#### **5.2.1.3 Adoption of Internal Auditing Standards and Performance of Internal Auditors**

The internal auditing standards adoption will add in the regulation of internal auditors' professional practice (IIA, 2007). Major studies are positively correlated to the performance of internal auditors, but they are not significantly related. However, the evidences of these studies are not supported by the positive relationship between the adoption of internal auditing standards and the internal auditors' performance. The research identified the reasons that internal auditors in Thailand public limited companies practice low compliance, lack of awareness of standards and code of ethics, and non-adoption of IPPF (2009).

This study is consistent with another research by Burnaby (2009), Mohammad (2009), Hass, Abdolmohammadi and Burnaby (2006), Barth, Landsman and Lang (2005). This study suggests it is possible that there are differences in practice

regarding to the implementation of Internal Auditing Standards and the compliance with parts of standards for instance Quality Assurance Standards. Moreover, the internal auditors require improvement in compliance with standards and adoption of IPPF (2009).

The agency theory contributes to explaining why internal audit exists, what nature it possesses and the approach which is adopted and predicting how internal auditors will be impacted by an organisation. The agency theory also supposes that there is a positive correlation between compliance with IPPF and the performance of internal auditors, which could serve to evaluate internal audit effectiveness.

#### **5.2.1.4 Audit Professionalism and Performance of Internal Auditors**

This empirical evidence found in this study supports the hypothesis that audit professionalism has a positive relationship with the internal auditors' performance. More professionalism auditors tend to do their finest audit practices, activities and responsibilities to improve audit effectiveness, and obtain audit performance, so as to be successful in their audit professional.

Internal auditors with more professionalism definitely present their skills, knowledge, and experience through reporting valuable audit activities and practices for achieving stakeholders' acceptance, creditability and reliability. Then, audit professionalism potentially encourages auditors to advance better audit outcomes via effectiveness in their audit practices (Phapruke and Phaithun, 2011). It requires the

due care, sustainability and subsistence of professional self-regulations and self-forces. It has a positive relationship with audit effectiveness.

This study is consistent with the previous research by Phapruke and Phaithun (2011), IIA (2010), Moeller (2009), Askary and Saeed (2006), Nanni (1984) suggested that auditor experience positively effected on internal accounting control evaluations. Therefore, audit professionalism has a significant positive influence on performance of internal auditors.

Professional serving as agent perspective is that between the internal audit function and internal auditors. Internal auditors must perform audit processes at the professional level requiring skills, knowledge, experience and other competencies necessary to perform their performance effectiveness. Thus, the proposes that agency theory not only helps to explain and predict the existence of internal audit but that it also helps to explain the role and responsibilities assigned to internal auditors by the organisation. The result of this study is able to explain and support the agency theory.

#### **5.2.1.5 Communication Skills and Performance of Internal Auditors**

A significant positive relationship is found in the relationship between communication skills and the performance of internal auditors. Internal auditors are required to communicate effectively to carry on their internal audit responsibilities effectively. Communication abilities are significant in determining the performance of internal auditors.

This result is also confirmed by Sarens (2009) which indicates that such as interpersonal communication abilities is significant in determining the performance of internal auditors. Auditors need outstanding communication skills to do well in their profession. Previous research was done into the above referred communication aspects used by internal auditors, and the summarised findings are stated in the following discussion that an internal auditor is supposed to apply the care and skill expected of a rationally careful and competent internal auditor (IIA, 2004).

This study is consistent with the previous research by Golen (2008), and Quinn and Hargie (2004). They confirm the importance of and the need for effective communication skills in all organisation functions. Studies done by Smith (2005), Lewis and Graham (2003) suggested some ways to improve these communication skills. This is also consistent with the previous research by Bailey and James (2011), Carstens (2005), Du Preez (2005), Fadzil, Hasnah and Muhamad (2005), Smith (2005), North and Worth (2004), Lewis and Graham (2003), Piehl (2003), Sawyer (2003), Marks (2001), Masters (2001), Plumy and Dudley (2001), Loss (2000), and Orsini (2000).

The existence of effective communication between internal auditors themselves, internal auditors and auditees, communication skills and performance of internal auditors is needed to strengthen the internal audit effectiveness. As being pointed out earlier, agency theory can explain and cover the importance of having an effective communication between organisation members and internal auditors as agents.

However, the importance of effective communication in this study is able to explain under the agency theory.

### **5.2.3 Corporate Governance Factors and Performance of Internal Auditors**

The study has a second objective which is to study the influence of corporate governance factors and internal auditors' performance in Thailand Public Limited Companies. In this study, a corporate governance factors consists of board of director and audit committee. Corporate governance in this study accesses the objectives of assuring accountability and improving performance of the internal auditor.

In the end, the board of directors is responsible for the entity's achievement of objectives, which the internal auditor's contribution is to distribute information to the board of directors (Colbert, 2002). Thus, internal audit's role is crucial to help the board of directors in its governance self-assessment.

The association among the internal auditor and the audit committee is important. They reciprocally strengthen each other's function (Goodwin and Yeo, 2001). Audit committees are required to adopt more responsibility regarding corporate governance by supervising financial reporting and internal control matters (Myers and Ziegenfuss, 2006).

### **5.2.3.1 Board of Director and Performance of Internal Auditors**

#### **5.2.3.1.1 Board Size**

Board size means the number of directors in the board. This factor is significant for finding the effectiveness of the board. Board size is considered an essential characteristic that affects the effectiveness of the board in monitoring management. The study found that there is no significant difference in the level of corporate governance practices regarding the board of directors and performance of internal auditors. The result suggested that board size is negatively and not significantly correlated with the performance of internal auditors. This is because Thailand's board of directors has a poor monitoring role. Hence, any negative impact from large board size tends to show the error of the board's advisory rather than monitoring role. The study shows the strongest negative relationship found in large companies, which are likely to have larger boards (larger than six or seven people).

This study is consistent with the previous research by Wintoki (2007), Limpaphayom and Connelly (2006), Beiner, Drobetz, Schmid, and Zimmermann (2004), Bhagat and Black (2002), Loderer and Peyer (2002), and Wu (2000). Another previous research finding, Yokishawa and Phan (2004) discovered that a negative relationship exists between board size and firm performance. Likewise, Shakir (2008) found a negative relationship between board size and firm performance. Jensen (1976) state that a firm should have a relatively small board of directors to be effective in its monitoring. While, Chan and Li (2008), Mustafa (2006), Ahmadu (2005) and De Andres (2005) found that larger boards are associated with poorer performance.



There are also other studies that suggest board size found no solid proof on the correlation between performance and board size (Bhagat and Black, 2002). Coles, Daniel and Naveen (2008) suggest that the effect of board size on performance will contrast for diverse types of firms. Specifically, large board size may be an optimal value maximising result for firms that are old, large with high debt.

Even though the theoretical recommendation for the best number of members that shall serve on a board does not exist, the number of members should permit all members' active participation and keep the size manageable.

Agency theory, associates a deal whereby one or more persons (principal) hires another person (agent) to carry out some service on their behalf, which includes deputation some decision-making authority to the agent (Jensen and Meckling, 1976). Moreover, it has also been debated that components of the corporate governance such as board size has an impact on the performance of the internal auditors.

#### **5.2.1.7 Audit Committee and Performance of Internal Auditors**

Internal audit function offers an important level of confidence to the audit committee. The correlation among the audit committee and the performance of internal auditors is important, with a mutual strengthening of each other's role (Goodwin and Yeo, 2001). An internal auditors can offer the desirable information for audit committees to meet their governance mandate (Bishop et al., 2000). These results point out that assessing audit committee increases the performance of the internal auditors

effectiveness. Davies (2009) also found that audit committees have a significant role to play in measuring the performance of the internal auditors.

#### **5.2.1.7.1 Audit Committee Size**

Audit committee size is a necessary factor of audit committee effectiveness, and it is calculated by the number of audit committee members. It also has a positive impact on performance of internal auditors. The study found that the positive correlation among audit committee size and the performance of internal auditors is supported by existing evidence. This study is consistent with the previous research by Lin, Xiao and Tang (2008), Pucheta-Martinez and Fuentes (2007), Vafeas (2007), Farber (2005), Mangena and Pike (2005), Bedard (2004), Xie (2003), DeZoort et al. (2002).

In addition, the audit committees are increasingly relying on the IAF to better discharge their responsibilities for overseeing the organisation and ensuring quality corporate governance. This increased reliance and interaction among the audit committee and the IAF hence reduces the information asymmetry issue between the audit committee and executive managers (Sarens, De Beelde and Everaert 2009). The theory is used to describe audit committee as a monitoring tool and to decrease the agency costs through gaining competitive benefit in skills and knowledge towards the quality of financial reporting. Thus, the result of this research is able to explain and support the agency theory.

### **5.3 Implications of the Study**

The study reveals some crucial findings and conclusion pertaining to the characteristics of the internal auditors and corporate governance on the internal auditors' performance in Thailand public limited company. Moreover, the agency theory could serve as an approach to build a theoretical framework of performance of internal auditors. In addition to that, this study argues that the internal audit effectiveness is impacted directly by internal auditors' characteristics and internal audit department performance.

#### **5.3.1 Theoretical Implications**

Theoretical implication in this study has supported the agency theory and internal audit postulate. The present study had contributed to the agency theory in a way that the agency theory was able to provide a more meaningful research with regards to the characteristic of the internal auditors and the corporate governance practices by the principal-agent relationship. As illustrated earlier, agency theory is significant in comprehending how the audit has been improved by the role and responsibilities assigned to internal auditors. Furthermore, an internal auditor as agent also monitors a variety of the internal audit users, which also includes the board and audit committee. Hence, the CAEs are likely to be powerful over the internal audit. Furthermore, the internal audit function works are achieved under supervision of the CAEs who is the main responsible individual for putting the internal audit plan, reporting internal audit findings and following-up internal audit recommendations.

### **5.3.2 Practical Implications**

A significant finding of the study concerns to the extent of the internal auditors' characteristics and corporate governance on the performance of internal auditors in Thailand public limited companies. The first practical implications refer to the performance of internal auditors. Worldwide standard-setting bodies use significant resources in improving professional standards for the audit services performance. Internal auditors have complied with the International Standards for the Professional Practice of Internal Auditing or the IPPF (2009) of the Institute of Internal Auditors (IIA) base on this study. The results show that the six (6) components of the auditors' characteristics and corporate governance are as per the IPPF (2009).

The IPPF (2009) basically described the fundamental of the profession of internal auditing and the advancement of the Professional Practices Framework (PPF). It is the basic principles of internal auditing. Hence, internal auditors require an adequate IPPF at all time. The implication of the study was that the internal auditing function should include seven (7) factors in constructing the IPPF including demographic profile, regulation compliance awareness, adoption of internal auditing standards, audit professionalism, communication skills, board of director and audit committee. These factors showed that CAEs gave much importance on the mentioned factors. Thus, compliance to the IPPF is very vital to internal auditors in the scope of the internal auditing practices.

The other useful implication is that SOX (2002) significantly provided more authority of audit committees in supervising their companies' financial reporting

processes. With audit committees assuming such an important role, it is vital to determine the degree to which audit committees have complied by accepting these new requirements. Thus, audit committees can have a very important role for mitigating agency problem.

#### **5.4 Limitations of the Study**

This study offers obvious evidence that the internal auditors' performance adheres to the IPPF (2009) of the Institute of Internal Auditors (IIA) for Thailand public limited companies. Hence, the limitations of the present study provide further research opportunities. The survey of CAEs in Thailand public limited companies is used as basis of this study, and the findings would benefit for internal audit department. Yet, this study has its limitations. Of 146 public limited companies incorporated in this study. For the year 2013, this figure only represents 30.74% of public limited companies. Therefore, the results could not be generalised to the CAEs population all together. In addition, the scope of the performance of internal auditors is only limited to the IPPF (2009).

Internal auditors usually perform their works in a team during its regular operations. However, this study has a limitation since only Chief Audit Executives were surveyed and did not consider the dynamics of group interaction. Nevertheless, the study of CAEs is the logical first step since they characterise the internal audit department.

This study assumed that the internal auditors' characteristics and corporate governance in relation to the performance of internal auditors provide measurement of how effectively public service outcome are being achieved and a basis for good performance audit practices.

### **5.5 Recommendation for Future Research**

There are number of limitations that could be addressed in the future research. Based on the study is a finding, the researcher recommends the following:

The study recommends future research to consider different factor models that will possibly impact the quality of internal audit (audit experience and accounting qualification) and improve corporate governance. According to this recommendation, the present study focuses on investigating the association between internal audit function and internal auditors' performance both accounting and auditing dimension while adopting some new variables such as qualification of the CAEs, experience of internal audit and internal audit qualification. More importantly, there is a lack of research in Thailand concerning the direct correlation between internal audits functions with performance of internal auditors.

Future research could improve and extend the study's findings. This study was an initial attempt to explore the extent of the internal auditors' performance. Since these results are available, extensions of this line of research are suggested.

Future research should be conducted by looking at other factors in extent to the performance of internal auditors or on the effectiveness of the internal audit

department. In addition, research can also be conducted from the perspective of the Thailand's internal auditor's awareness of corporation management with concern to the concept of internal auditor's performance for the professional practice of internal auditing. More research should be performed to consider the future of Thailand's internal auditing standards for professional practice which should be reliable with Thailand culture and the international standards.

Future research should also consider the existing legislations to cover the internal audit practice more specifically and more comprehensively. Research can also be conducted from the perspective of the audit committees to ensure effective accountability and transparency practice. This will raise the consciousness of the broad base of the profession to future development to professional issues. This last alternative may have the best chance to successfully institutionalise future research into the profession.

## **5.6 Conclusion**

Based on the finding derived from this study, the followings can be concluded:

- 1) Performance of internal auditors can be encountered with significant diversity and ambiguity in their work. This study indicates the effectiveness of the performance of internal auditor's measurement viewed by the internal audit activity. The effectiveness of internal auditor's performance is based on professional standards issued by the IPPF (2009). Thus, performance standard is a standard that describes the nature and internal audit activities. It is a measure of the quality of audit work.

- 2) The results of this study point out that the characteristics of internal auditor are important determinants of performance of internal auditors. This study consists of demographic profile, regulation compliance awareness, adoption of internal auditing standards, audit professionalism, communication skills and corporate governance i.e. board of director and audit committee on the performance of internal auditors.

Insignificant relationship was found in demographic factors and performance of internal auditors. The available literature recommends that demographic characteristics may bring about a different behavior. It indicated that demographic factors do not affect work performance of internal auditors. Particularly, in terms of internal auditors' characteristics, it was discovered that audit professionalism and communication skills are significant in determining the performance of internal auditors. Internal auditors possessing more professionalism tend to do best audit practices, activities and responsibilities to improve their audit effectiveness. Internal auditors need outstanding communication skills to do well in their profession.

- 3) A corporate governance factors in this study consists of board of director and audit committee. In this study, corporate governance relates to the ability to access the objectives of assuring accountability and improving performance of the internal auditor. There is insignificant negative relationship between the corporate governance attributes of the board and internal auditors' performance. Corporate governance can be assessed by the performance of



internal auditors. However, the extant literature suggests that the effectiveness of internal auditor's performance has no significant association between board size and performance of internal auditors. Therefore, Thailand public limited companies need to improve its corporate governance which should be given to the board size by having the optimal number of directors on their board. Moreover, Thailand public limited companies need to ensure that the board of director and internal auditors comply with the laws, the regulations of the SET and the relevant laws to the Company's businesses.

- 4) Internal audit function shows a significant level of effect on the audit committee. The audit committee can reinforce the internal audit function, and internal auditors can be a vital resource to the audit committee as it tries to complete its responsibilities. This study found that audit committee size have a positive effect on audit committee. The study also found evidences that support the positive relationship between audit committee size and performance of internal auditors, Furthermore, audit committee need to accept better responsibility with regard to corporate governance by overseeing financial reporting and internal control matters.

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