Effects of Internal Control System on Performance of Local Governments in Sisaket Province

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Abstract—This study aimed to study the effects of internal control on performance of local governments in Sisaket Province. The independent variables used in this study were 5 factors of the internal control system: control environment, risk assessment, control activities, information and communications and monitoring. The dependent variables were the performances of the local governments in Sisaket Province, which consisted of operational efficiency and effectiveness, financial report reliability and compliance with applicable laws and regulations. The researcher used questionnaires as a tool to collect data from samples of 40 local governments in Sisaket Province by submitting 2 sets of questionnaires each. The 80 sets were replied, which represented 100%. The descriptive statistics and multiple regression were used in data analysis. The study found that all factors affected performances of local governments in Sisaket Province as follows: monitoring, control activities, information and communications, control environment and risk assessment, respectively, with the statistical significance at the level of p <0.01.

Keywords—internal control, internal control and internal audit, accounting, performances, local governments

I. INTRODUCTION

As per the Constitution of the Kingdom of Thailand B.E. 2550 (2007), the local government is freely authorized to assign government policy, personnel management, finance administration and its own specific authority. Currently, the change of technology is causing government agencies to reform their system to become better and more efficient. In addition, the good governance is able to implement control methods in performance in order to reduce risks and errors by applying the internal control system as a tool to control and supervise various performances efficiently, reduce risk and errors in order to achieve its objectives. The internal control system helps to protect and maintain the assets of the organization in order to use the resources wisely and efficiently. Furthermore, the performances are appropriately correct and accurate with the procedures [1].

Regarding the importance of the mentioned internal control system, the government agencies have established guidelines by applying the internal control system from the internal control system of The Committee of Sponsoring Organizations of the Treadway Commission or COSO, an internal control system of different factors in administration which is accepted worldwide [2]. The State Audit Office of the Kingdom of Thailand [3] has assigned an internal control standards by issuing regulations of the State Audit Commission on the setting of internal control standards B.E. 2544 (2001) which is defined the definition of internal control as the operational process that is provided by the supervisors, executives and personnel in the audit unit. It is set to reasonably assure that the performance will achieve the objectives of internal control effectively and efficiently with property protection, error prevention, wastage reduction and corrupt reduction. Moreover, it increases reliability of financial reports in order to comply with laws, regulations and cabinet resolutions which is the responsibility of the supervisor to implement the standards as a guideline in setting up an internal control system.

Since the internal control is a system that encourages the agency to perform with the assigned policies, practices and orders [4]. The Department of Local Administration has adopted the guidelines of the regulations as mentioned above to use as a criteria of government performance in good governance in the mission of people’s happiness. As a result, the local governments can use resources efficiently and worthily which affects the financial reports to be accurate [5]. However, the investigation revealed that the arrangement of internal control system in most local governments were still inaccurate and incomplete. Due to a lack of knowledge and understanding among administrators and staffs to implement the internal control standards including a lack of clarification in the practice guidelines [6].

Therefore, according to laying down of the internal control system in government agencies which is believed that it can be guidelines for organizations to reduce the risk of corruption, to use resources efficiently and effectively as well as to have accurate complete and reliable financial reports in order to achieve the objectives. The researcher was interested in studying the effects of the internal control system in order to know whether the internal control system affected the performance of the local governments in Sisaket Province or not. The purpose was to apply the results as guidelines for
improving the internal control system of the local governments to perform effectively and efficiently.

II. OBJECTIVES

To study the effects of internal control on performance of local governments in Sisaket Province.

III. RESEARCH EXTENTS

A. Materials and Methods

The researcher studied the effects of internal control on the performance of local governments in Sisaket Province under the scope of internal control system based on the internal control standards set by the State Audit Office of the Kingdom of Thailand.

The conceptual framework for this research based on the 5 factors of the internal control system. The results of performance achieved the internal control system guideline set by the State Audit Office of the Kingdom of Thailand as the conceptual framework in Figure 1.

| Independent | Dependent |
|-------------|-----------|
| Internal Control System | Performance |
| 1. Control environment | 1. Operational efficiency and effectiveness |
| 2. Risk assessment | 2. Financial report reliability |
| 3. Control activities | 3. Compliance with applicable laws and regulations |
| 4. Information and communications | |
| 5. Monitoring | |

Fig. 1. Conceptual framework.

The hypotheses for the study of effects of the internal control system on the performance of the local governments in Sisaket Province were assigned as follows:

1) Hypothesis 1: Internal control system affected the performance of the local governments in Sisaket Province.

2) Hypothesis 2: Internal control system affected the efficiency and effectiveness of the performance of the local governments in Sisaket Province.

3) Hypothesis 3: Internal control system affected the reliability of the local governments’ financial reports in Sisaket Province.

4) Hypothesis 4: Internal control system affected the compliance with applicable laws and regulations of the local governments in Sisaket Province.

B. Population and Samples

The researcher assigned the population and samples for the study of effects of the internal control system on the performance of local governments in Sisaket Province based on the population of local governments in Sisaket Province consisting of 40 local governments in 4 districts: Rasi Salai District, Khun Han District, Si Rattana District and Wang Hin District.

The samples were divided by sampling method as follows: 1) purposive sampling was used with the population from the local governments in Sisaket Province classified by the form of local governments based on the State Administration Regulation Act B.E. 2534 (1991) as Tambon Administrative Organizations and 2) simple random sampling was used by drawing lots to get 80 samples.

C. Instrumentation

The instruments used in this research were closed ended questions divided into 3 parts:

1) Part 1: General information of the respondents consisted of gender, age, level of education, work experience, size of agency, and position in local governments in multiple choice form.

2) Part 2: Opinions on the results of internal control were in the form of Likert rating scale divided into 5 levels: strongly agree, agree, moderately agree, slightly agree and least agree.

3) Part 3: Opinions on performance were in the form of Likert rating scale divided into 5 levels: strongly agree, agree, moderately agree, slightly agree and least agree.

Part 2 and part 3 were sorted by the opinions of the samples into 5 levels as follows:

- 5 indicates “Strongly agree”
- 4 indicates “Agree”
- 3 indicates “Moderately agree”
- 2 indicates “Slightly agree”
- 1 indicates “Least agree”

Afterwards, the opinions on the effects of internal control system on performance of local governments in Sisaket Province were interpreted based on the following criteria [7]:

- Average of 4.51 - 5.00 indicates “Strongly agree”
- Average 3.51 - 4.50 indicates “Agree”
- Average 2.51 - 3.50 indicates “Moderately agree”
- Average 1.51 - 2.50 indicates “Slightly agree”
- Average 1.00–1.50 indicates “Least agree”

D. Data Collection

The survey research of the effects of the internal control system on performance of the local governments in Sisaket Province collected data from local governments in Sisaket Province. The researcher assigned the chief executives and the accounting/financing officers to be the respondents by answering questions which researcher submitted at the Tambon Administrative Organizations in 4 districts with 2 sets each.
The 80 complete questionnaires were replied and then were analyzed statistically by descriptive statistics and inference statistics.

E. Data Analysis

- The researcher statistically analyzed data using a software package by examining the completeness and accuracy of the returned questionnaires from the samples. Then, the data were recorded and inputted in the form of code, examined and processed as per research objectives.

- The researcher assigned the chief executives and the accounting/financing officers to be the respondents.

F. Statistics

- The descriptive statistics used in describing general characteristic of the samples were percentage, mean and standard deviation. The analysis results were presented in table format followed by description.

- The reference statistic used to test the hypotheses was construction analysis as follows:

  - Hypothesis 1: Internal control system affected the performance of the local governments in Sisaket Province.

  - Hypothesis 2: Internal control system affected the efficiency and effectiveness of the performance of the local governments in Sisaket Province.

  - Hypothesis 3: Internal control system affected the reliability of the local governments’ financial reports in Sisaket Province.

  - Hypothesis 4: Internal control system affected the compliance with applicable laws and regulations of the local governments in Sisaket Province.

IV. RESULTS

The analysis of general data of the respondents revealed that the majority of the samples were males (67.0 percent) and female (33.0 percent). Most of the samples aged 45 years or more (56.0 percent) followed by 35-44 years (37.7 percent). Most of them held bachelor’s degree or equality (37.3 percent) followed by graduate degree (33.7 percent). Moreover, most of them had work experience in the local governments more than 6 years (31.0 percent). The respondents were chief executives and the accounting/financing officers with the same amount (50.0 percent).

The overall analysis of level of opinion on the internal control system consisted of 5 aspects as shown in Table 1.

| Internal Control System                  | X    | S.D  | Level of opinion |
|------------------------------------------|------|------|------------------|
| 1. Control environment aspect            | 3.64 | 0.59 | Agree            |
| 2. Risk assessment aspect                | 3.38 | 0.66 | Moderately agree |
| 3. Control activities aspect             | 3.66 | 0.65 | Agree            |
| 4. Information and communications aspect | 3.60 | 0.64 | Agree            |
| 5. Monitoring aspect                     | 3.55 | 0.60 | Agree            |
| Overall                                  | 3.51 | 0.51 | Agree            |

From Table 1, it was found that the overall analysis of level of opinion on the internal control system was at “Agree” level (X = 3.56, S.D = 0.51). When considering each aspect, the results of 4 aspects were at “Agree” level: control activities aspect (X = 3.64, S.D = 0.59), control environments aspect (X = 3.66, S.D = 0.65), risk assessment aspect (X = 3.60, S.D = 0.64) and the risk assessment aspect (X = 3.55, S.D = 0.60), while the risk assessment aspect was at “Moderately agree” level (X = 3.38, S.D = 0.66).

The overall analysis of level of opinion on the performance consisted of 3 aspects as shown in Table 2.

| Performance                          | X    | S.D  | Level of opinion |
|--------------------------------------|------|------|------------------|
| 1. Operational efficiency and effectiveness | 3.57 | 0.60 | Agree            |
| 2. Financial report reliability       | 3.98 | 0.65 | Agree            |
| 3. Compliance with applicable laws and regulations | 3.86 | 0.58 | Agree            |
| Overall                               | 3.80 | 0.53 | Agree            |

From Table 2, it was found that the overall analysis of level of opinion on performance was at “Agree” level (X = 3.80, S.D = 0.53). When considering each aspect, the results were all at “Agree” level as followed: financial report reliability aspect (X = 3.98, S.D = 0.65), compliance with laws and regulations (X = 3.86, S.D = 0.58) and operational efficiency and effectiveness (X = 3.57, S.D = 0.60).

The results of hypotheses testing analysis using multiple regression analysis with prior testing on the preliminary agreement in the supportive linear regression analysis, it showed that:

- The error resulted from predicting were normally distributed considering from the arrangement near the straight line.

- The error resulted from predicting was equal to zero on average.

- The error resulted from predicting was constantly varied.
There was no independent variable in self-correlation (no multicollinearity) considered from the Variance Inflation Factor (VIF) ranging at 1.866-2.275 which was less than 10 without multicollinearity. However, the researcher tested the relationship between the variables of the internal control system and the performance of the local governments in Sisaket Province by testing the correlation coefficient. It was found that the correlation coefficient of the internal control system variable and the performance was between 0.302-0.774 with the statistical significance at the level of 0.01 as shown in Table 3.

From Table 3, it was found that the coefficient of multiple regression was 0.824, which was able to predict the overall performance at 68% with the predictive error of 0.300. When considering the coefficient of multiple regression of the internal control system affecting the overall performance of the local governments Sisaket Province, it was found that the factors of the internal control system of all aspects affected the performance of the organizations as follows: monitoring aspect ($\beta = 0.503$), control activities aspect ($\beta = 0.203$), information and communications aspect ($\beta = 0.190$), control environment aspect ($\beta = 0.152$) and risk assessment ($\beta = 0.127$). Therefore, the researcher accepted the hypothesis 1, internal control system affects the performance of the local governments in Sisaket Province, while hypothesis 2-4 were partially accepted.

V. SUMMARY AND DISCUSSION

From the study of the effects of the internal control system on the performance of the local governments in Sisaket Province, the overall results revealed that the factors of control environment aspect, risk assessment aspect, control activities aspect, information and communications aspect and monitoring aspect affected the performance of the local governments in Sisaket Province as discussed individually in Table 4.
VI. CONCLUSION

The study found that all factors affected performances of local governments in Sisaket Province as follows: monitoring, control activities, information and communications, control environment and risk assessment, respectively, with the statistical significance at the level of p <0.01.

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