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## INTERNAL AUDIT FUNCTIONS AFFECTING AUDIT QUALITY: CERTIFIED PUBLIC ACCOUNTANTS IN THAILAND CASE STUDY

*This research aims to study audit quality of certified public accountants in Thailand, along with internal audit function characteristics that affect audit quality. The population for this research is the group of certified public accountants in Thailand who are members of the Federation of Accounting Professionals under the royal patronage of His Majesty the King. The total sample size is 325. The results show that internal audit functions characteristics have influence on audit quality of certified public accountants in Thailand, and these are, namely, performance auditing, financial auditing and IT auditing. The analysis demonstrates that audit performance variables could predict audit quality by 31.9%.*

*Keyword: audit quality; internal audit; certified public accountants; Thailand.*

Пратіп Вайєтонграпатана

## ФУНКЦІЇ ВНУТРІШНЬОГО АУДИТУ, ЩО ВИЗНАЧАЮТЬ ЙОГО ЯКІСТЬ: ЗА ДАНИМИ СЕРТИФІКОВАНИХ БУХГАЛТЕРІВ-АУДИТОРІВ ТАЙЛАНДУ

*У статті досліджено питання якості аудиту, що проводиться сертифікованими бухгалтерами-аудиторами в Тайланді, а також функції аудиту, що визначають його якість. Вибірка дослідження – 325 сертифікованих бухгалтерів-аудиторів, які є членами Федерації професійних бухгалтерів під патронатом Короля Тайланду. Результати аналізу даних опитування дозволили виділити функції внутрішнього аудиту, що впливають на його якість: аудит ефективності діяльності; фінансовий аудит та ІТ-аудит. Дані функції визначають якість аудиту сумарно на 31,9%.*

*Ключові слова: якість аудиту; внутрішній аудит; сертифіковані бухгалтери-аудитори; Тайланд.*

*Рис. 1. Табл. 1. Літ. 17.*

Пратіп Вайєтонграпатана

## ФУНКЦИИ ВНУТРЕННЕГО АУДИТА, ВЛИЯЮЩИЕ НА ЕГО КАЧЕСТВО: ПО ДАННЫМ СЕРТИФИЦИРОВАННЫХ БУХГАЛТЕРОВ-АУДИТОРОВ ТАИЛАНДА

*В статье исследованы вопросы качества аудита, проводимого сертифицированными бухгалтерами-аудиторами в Таиланде, а также функции аудита, определяющие его качество. Выборка исследования – 325 сертифицированных бухгалтеров-аудиторов, которые являются членами Федерации профессиональных бухгалтеров под патронатом Короля Таиланде. Результаты анализа данных опроса позволили выделить функции внутреннего аудита, влияющие на его качество: аудит эффективности деятельности, финансовый аудит и ИТ-аудит. Данные функции определяют качество аудита суммарно на 31,9%.*

*Ключевые слова: качество аудита; внутренний аудит; сертифицированные бухгалтера-аудиторы; Таиланд.*

**Introduction.** In business today the Federation of accounting professionals set laws and orders to analyze financial statements every fiscal year; so that financial statements are reliable and useful to their users. Professional audit is critical and essential for business. S.M. Wallman (1996: 76), R.S. Saul (1996: 131–137), W.P. Schuetze (1994: 69–75), A. Levitt (1998: 14–19), L.E. Turner and J.H. Godwin

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(1999: 281–297) at stated that auditing quality issue is vital. While auditors freedom in decision-making and audit quality are increasing, the alarming rate of mistakes affect financial reporting, specifically, its accuracy, objectiveness, clearness, conciseness, completion and timeliness (DeAngelo, 1981a, 1981b: 183–199). Another important factors affecting audit quality is internal audit functions which include financial auditing, compliance auditing, performance auditing, IT auditing, management auditing and special auditing (Pickett, 2004: 1187–1194). We are interested to study how these internal audit functions affect the audit quality of CPA in Thailand.

**Research objective:**

1. To study the audit quality of certified public accountants in Thailand.
2. To study the internal audit function characteristics that affect the audit quality of certified public accountants in Thailand.

**Research hypothesis.** Internal audit functions affect the audit quality of certified public accountants in Thailand.

**Literature review.** Literature review to this research should concern both internal audit functions and audit quality concept as such.

**1. Internal audit functions.** International Institute of Internal Auditors (Grainking et al., 2004: 194) defined internal audit functions as internal assessment of job tasks within internal operations in order to provide services to management as part of management control that serves to measure and evaluate effectiveness of organization. Sarbanes-Oxley Act 2002 in the USA; Combined Code 2000, 2009 in the UK; CLERP 9 2004 in Australia; Unified Good Governance Code 2006 in Spain; and Corporate Governance Code 2009 in Germany (ICGN, 2009; IFAC, 2006; OECD, 2004: 108–128) state that internal audit functions originally designed to protect from leaks, to support and assist in financial monitoring. Audit compliance monitoring, operations monitoring, technology monitoring of administration is supposed to produce information useful for further administration decision. Internal audit functions can also help finding and solving anomalies in statements. All these functions have approved by the Association of Professional Accountants of the United States for corporate governance, mergers as well for auditing of auditors A.A. Gramling et al. (2004: 194) including for auditing committee inside companies.

**2. Internal audit functional characteristics and audit quality.** Prawitt et al. (2009: 1255–1280) stated that there is a link between internal audit functions and audit quality dimensions, which together significantly affect operations that characterize internal audit. Special issue audit for is corruption that affect the quality of auditing in terms of accuracy, clarity and completeness of financial reporting.

**3. Audit quality concept.** L.E. DeAngelo (1981: 183–199) defined audit quality is the quality of financial reporting audited by an auditor. Financial report should have such features as objectivity, accuracy, completeness, clarity, conciseness and timeliness. Auditor must be independent of other thoughts, people and subjectivism. Evaluating assessment without any interference into the quality of audit can help reducing the losses that may occur to the company or its reputation and also in building trust with customers. F. Norris (2000: 149–173) mentions that quality of auditing of the leading auditors (Big 6) would be more effective if collaboration between a company and an auditor comply with accounting standards so as to get the most efficient financial reporting. Such studies as (Ippolito, 1990: 41–60; Gallouj, 1997:

41–60) noted that audit quality includes accuracy, fairness, clarity and compactness, creativity and integrity as well as timeliness, it also requires independent auditor's decisions as well as commitment and dedication to the profession.

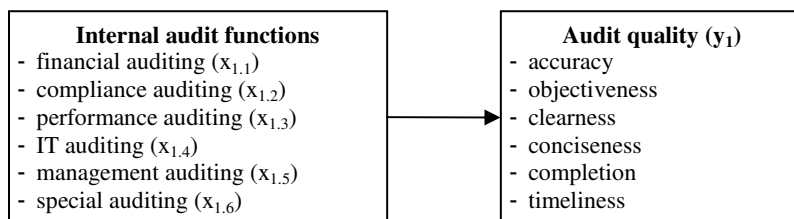


Figure 1. **Conceptual framework**, author's

**Research methodology.** This research is a quantitative research for which data were collected using questionnaires for the group of certified public accountants in Thailand who are members of the Federation of Accounting Professionals under the royal patronage of His Majesty the King of the 325 samples were chosen by the rule of thumb of (Schumacker and Lomax, 1996; Hair et al., 1998: 387–441) to methods obtain information for a wide range of conclusions that can be applied across all areas in Thailand. We define the sampling random technique here as multi-stage-sampling (Barber et al., 1997) including cluster random sampling (Gall et al., 1996: 227), proportional allocation sampling and purposive sampling. The statistics used for data analysis are descriptive (percentage, mean, standardization and inferential statistics) multiple regression analysis is applied.

**Results.** The results show that the internal audit functions have influence on audit quality of certified public accountants in Thailand through such internal audit functions as performance auditing, financial auditing and IT auditing, the multiple regression analysis of internal audit functions clearly demonstrates.

Table 1. **Stepwise multiple regression analysis of internal audit functions**, author's

Internal audit functions	B	Std. Error	t	Sig.	Tolerance	VIF
(Constant)	1.093	.247	4.628	.000		
Performance auditing (x <sub>1.3</sub> )	.309	.060	5.118	.000**	.755	1.324
Financial auditing (x <sub>1.1</sub> )	.305	.043	7.089	.000**	.808	1.238
IT auditing (x <sub>1.4</sub> )	.200	.048	4.153	.000**	.716	1.396

Adjusted R<sup>2</sup> = .319

The analysis revealed that the variables which are positively correlated with audit quality (y<sub>1</sub>) are statistically significant at 0.01 and 0.05, and these would be namely performance auditing (x<sub>1.3</sub>), financial auditing (x<sub>1.1</sub>) and the IT auditing (x<sub>1.4</sub>), with the correlation coefficients of 0.309, 0.305 and 0.200. Overall these three variables could predict audit quality (y<sub>1</sub>) by 31.9%.

**Conclusion.** The research proves that performance auditing (x<sub>1.3</sub>), financial auditing (x<sub>1.1</sub>) and IT auditing (x<sub>1.4</sub>) influence audit quality (y<sub>1</sub>) by 31.9%. Financial monitoring helps organizations verify accuracy and reliability of data, while performance auditing and IT auditing increase the overall efficiency of audit.

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