The Effectiveness of Internal Auditing in Thai Local Governments

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Statement of Originality

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. I give consent to the final version of my thesis being made available worldwide when deposited in the University's Digital Repository, subject to the provisions of the Copyright Act 1968.

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December 2013

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Abstract

This study investigated why internal auditing mechanisms fail to detect and prevent common risks especially fraud and corruption risks in Thai local governments. The crucial causes of ineffectiveness of those systems were ascertained through 415 questionnaires and semi-structured interviews with 36 Thai local government internal auditors. Statistical techniques were used for analysing the questionnaires while content analysis and a phenomenological research approach based on Bandura's theory of moral disengagement were used for analysing the interview transcripts. The results revealed that corruption methods used in Thai local governments generated factors which, in turn, generated ineffectiveness in internal auditing mechanisms in detecting and deterring risks. The corruption methods contributed to a lack of independence of the internal auditing systems; a lack of officials' cooperation with internal auditing teams; a lack of efficiency of internal auditing processes; a lack of support from administrators; a lack of interest of officials to internal control system; and a lack of promotion prospects. A lack of competency of internal auditing teams also contributed to the inefficiency of the internal auditing systems. The Office of the Auditor General of Thailand (OAG) is implicit in the ineffectiveness because of its failure to use audit reports of local government to assess risks within local governments. Other related factors are concerned with the auditors' personal behaviours designed to ensure their wellbeing and survival needs. The failure of Thai federal authorities to enforce their laws and regulations and to detect and deter corruption in their own ranks must be addressed before local government internal auditing processes can be effective.

Keywords: *Internal auditing; Audit risk; Corruption; Local governments; Thailand.*

Chapter 1
Introduction

1.1 Introduction

There is evidence that corruption occurs in Thai local government (see the Office of Nation Anti Corruption Commission [ONACC] and for example, ONACC, 2007; Phongpaichit, 2007; Rachinda, 2006) and that the local government internal control systems (including internal auditing systems) fail to deter and detect the corruption risk (ONACC, 2011; OAG, 2010; 2008; Puang-Ngam, 2008; Phongpaichit, 2007). Why internal auditing mechanisms fail to detect corruption in Thai local government is the focus of this study. Corruption should not be a major problem if the local government governance mechanisms work reliably, particularly the internal control systems (ICSs) that include internal auditing systems (Asare et al., 2012; Abdullah & Al-Araj, 2011; Amudo & Inanga, 2008). If the ICSs are not strong, corruption can occur (Atuguba et al., 2012; Linthicum, Reitenga & Sanchez, 2010; OAG, 2010; Puang-Ngam, 2008). To find out why the ICSs are not strong, this thesis needs to ascertain the weaknesses. Identifying those weakness should lead to the development of suggestions for improving the ICSs especially the internal auditing systems so that these systems will be more effective.

Corruption is an incorrigible problem affecting human wellbeing while corruption is a multifaceted concept (OECD, 2007; NESAC, 2004; Quah, 2003; Myint, 2000; Gray & Kaufmann, 1998). Corruption is generally defined simply as "the abuse or misuse of positions or resources of public officials for private gains" (Sandholtz & Koetzle, 2000, p.31). Corruption is particularly a common problem in developing countries such as Thailand (Quah, 2007; Chatterjee, 2003; Mauro, 1998), especially their public sectors (Rahahleh, 2011; Stapenhurst, Johnston & Pellizo, 2006).

National governments generally look for preventive methods to eliminate or reduce the incidence of corruption, creating mechanisms of control (including auditing) to deter it although these mechanisms are seemingly ignored by parties involved in corrupt activities (Doogar, Sivadasan & Solomon, 2010; Calota & Iana, 2009; Hui &

Fatt, 2007; Kaufmann, 2005; Asare & Wright, 2004; Hendrick, 2004). One question frequently asked by scholars is whether organizational control and auditing mechanisms have been effective in detecting and deterring corruption (Gramling, O'Donnell & Vendervelde, 2010; Haque, 2007; Senior, 2004; Neild, 2002; Doig, 1999).

For Srijunpetch (2005, p.48), "the internal auditing mechanism has always been an important administrative instrument to achieve organizational objectives and goals and to prevent losses of organizational resources". The importance of internal auditing has been stressed in the literature (Ernst & Young, 2012; Cohen, Krishnamoorthy & Wright, 2010; Linthicum, Reitenga & Sanchez, 2010; Bryant, Murthy & Wheeler, 2009; Fujimoto, 2009; Bierstaker & Thibodeau, 2006; Johnson, 2006; Purktheds, 2005; Cullinan, 2004). In this context, the formal definition of internal auditing is:

> Internal auditing is an independent, objective assurance and consulting activity designed to improve an organization's operations by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (Pickett, 2004, p.3).

An internal auditing mechanism is needed to ascertain causes of ineffectiveness to deter situations such as risk, fraud and corruption, to continually improve and to create confidence in this mechanism (COSO, 2011; Ricard, 2009; Earley, Hoffman & Joe, 2008; Brazel & Agoglia, 2007; Chabrak & Daidj, 2007; Doyle, Ge & Mcvay, 2007; Gillan & Martin, 2007; Blokdijk et al., 2006; Ettredge, Li & Sun, 2006; Fukukawa, Mock & Wright, 2006; Srijunpetch, 2005; Glover et al., 2003). The ineffectiveness of internal auditing in detecting corruption in Thai local governments has been noted by Thai political scholars (Krueathep, 2009; Puang-Ngam, 2008; Phongpaichit, 2007; Seree-Rungsonke, 2006; Lim-Manee, 2005; Preecha, 2001) and is further examined by this study. This will be the first study of Thai local government internal auditing mechanisms' inability to detect risks especially that of corruption.

This chapter proceeds by explaining the background to the study, followed by the purpose of study, the research questions, significance of study, and a précis of local government in Thailand.

1.2 Background

From 1998 to 2013, Thailand was assessed by those preparing *the corruption perceptions index* [CPI] (Transparency International the Global Coalition Against Corruption [TIGCAC], 2012; 2013), a benchmark to measure the severity of corruption, as being very corrupt (see Table 1). In the context of this index, the score of 90 to 100 is for countries relatively free from corruption. At the other end of the scale, scores closer to zero are for highly corrupt countries (OECD, 2011; TIGCAC, 2012; 2012). In 2012, Thailand received a score of 37. To put this score in perspective, Denmark, Finland and New Zealand received a score of 90, Sweden received a score of 88, Singapore received a score of 87, Australia received a score of 85, Taiwan received a score of 61, Malaysia received a score of 49 and India received a score of 36 (TIGCAC, 2012). In 2013, TIGCAC changed the presentation of corruption results to three scales: increased; no change; and decreased. For Thailand (see Table 1), the result was "increased". Despite efforts by the Thai government and its agencies to reduce corruption, the index has shown no improvement (see Table 1). This thesis, by examining the internal auditing systems of Thai local government hopes to identify factors that impede the efforts of the Thai government to reduce corruption in the local government sector.

Table 1.1

Corruption Perceptions Index of Thailand since 1998 to 2013

Year	Score Result	Ranking**	Year	Score Result	Ranking
1998	30	61 from 85	2006	36	63 from 163
1999	32	68 from 99	2007	33	84 from 180
2000	32	60 from 90	2008	35	80 from 180
2001	32	61 from 91	2009	34	84 from 180
2002	32	64 from 102	2010	35	78 from 178
2003	33	70 from 133	2011	34	80 from 183
2004	36	64 from 146	2012	37	88 from 176
2005	38	59 from 159	2013*	Increased*	Increased*

Source: Adopted from Transparency International Reports (TIGCAC, 2013; 2012; 2012).
* = Global Corruption Barometer 2013 (TIGCAC, 2013, p.7).
** Number of countries ranked differed annually from 85 countries to 183 countries.

To combat corruption, Thailand has several independent organizations to fight corruption. They are:

(1) Office of National Anti-Corruption (NACC),

(2) Office of Public Sector Anti-Corruption Commission (PACC),

(3) Anti-Money Laundering Office (AMLO),

(4) Office of The Auditor General of Thailand (OAG) and

(5) The Comptroller General's Department in Ministry of Finance (CGD).

Unfortunately, they have not prevented corruption (AMLO, 2010; OCSC-NIDA, 2010; Yot-Somsak, 2006; Neam-Narung, 2005; Amara, 1992; Caiden, 1991). In 2008 the OAG found that local government internal auditing mechanisms were not detecting corruption.

In 2010, the OAG alleged that the failure of internal auditing mechanisms to detect corruption were due to the complexity in the forms of corruption, assisted by imperfect laws and regulations (OAG, 2010; OCSC-NIDA, 2010; UNDP, 2010; OPACC, 2009; ONACC, 2006; Neam-Narung, 2005; Moran, 2001). The ONACC (2011) stated that important causes of corruption were:

(1) Using flaws in laws and regulations to advantage,

(2) Misuse of authority for individual and factional gains,

(3) Lack of ethics among officers with lower public officers used as an instrument of higher public administrators,

(4) Dark political power arising and

(5) A lack of effective internal auditing mechanisms due to insufficient auditing personnel, lack of competent auditors and ineffective auditing processes (ONACC, 2011; Bailey, 2010; ONACC, 2009; Krueathep, 2009; Phongpaichit, 2007; Puang-Ngam, 2006; Rachinda, 2006; Lim-Manee, 2005; Srijunpetch, 2005).

The Office of the National Anti-Corruption Commission (ONACC) argues that much of the national budget is lost by local government agencies through corruption (CGD, 2010; OAG, 2010; NACC-TCSAS, 2009; ONACC, 2009; OPACC, 2009; Puang-Ngam, 2008; Phongpaichit, 2007; ONACC, 2006; Seree-Rungsonke, 2006). The Thai local government national budget is depleted by billions of baht every year by complex corrupt activities (Krueathep, 2010; OCSC-NIDA, 2010; OPACC, 2009;

Jariyavech-Watana, 2004). In 2007, the ONACC, for example, collected data from 2000 to 2005 concerned with claims that public officers had acted corruptly. The results showed that the Ministry of Interior received 9,317 (62.66%) complaints about corrupt public officers from a total of 14,869 claims. The ONACC also collected data from 2000 to 2007 about 5,508 claims of local public officers' corrupt behaviour with those relating to municipal officers totalling 1,988 (36.093%); (ONACC, 2007). Similarly, in 2007 the OAG found that 3,292 local governments had procurement budgets (463.97 millions of baht) that were subject to corruption. A year later it found that 4,666 local governments (of a total of 7,854 local governments) had corrupted procurement budgets (1,763.16 millions of baht) (OAG, 2008). In 2009 almost 90 per cent of local government procurement budgets were corrupted (CGD, 2010; OAG, 2010; ONACC, 2009).

In summary, losses of many millions of baht were a result of ineffective local government internal auditing mechanisms (OCSC-NIDA, 2010; Krueathep, 2009; Puang-Ngam, 2008; Meechai, 2007; Phongpaichit, 2007; Seree-Rungsonke, 2006; Lim-Manee, 2005; Gramling & Myers, 2003). The aim of this study is to examine the internal auditing mechanisms of Thai local government to ascertain the validity of those allegations. While the focus will be on the internal auditing mechanisms, Thai local government internal auditors' attitudes towards corruption will also be evaluated with a view to ascertaining whether those attitudes prevent the internal auditing mechanisms achieving their goals.

1.3 The Purpose of Study

This study has the following objectives:

1. To identify corruption methods used in Thai local governments, so that the second objective can be achieved;
2. to investigate why Thai internal auditing mechanisms fail to detect these methods of corruption in local governments in Thailand;
3. to ascertain the attitudes towards the detection of corruption of Thai local government internal auditors;

4. to identify factors underlying any discovered ineffectiveness of Thai local government internal auditing systems in detecting Thai local government corruption; and
5. to develop policy recommendations where necessary to eliminate or reduce corruption in Thai local governments.

1.4 The Research Questions

Because this study is ascertaining possible answers explaining why Thai local government internal auditing mechanisms fail to detect corruption, the objectives outlined above lead to the following research questions:

1. What corruption methods are used in Thai local governments?
2. Why do Thai internal auditing mechanisms fail to detect corruption methods used in Thai local governments?
3. What attitudes contribute to the ineffectiveness of internal auditing systems?

1.5 Significance of Study

This is the first study that examines the inability of Thai local government internal auditing mechanisms to detect corruption. Despite Thailand having established several independent organizations to combat corruption such as the Office of National Anti-Corruption, these organisations have not been able to suppress corruption. Insufficient staff numbers and inappropriate mechanisms for suppressing corruption are suggested reasons for the inability of these organisations to combat corruption (AMLO, 2010; OCSC-NIDA, 2010; Yot-Somsak, 2006; Neam-Narung, 2005; Amara, 1992; Caiden, 1991). Therefore, this study posits that the role of independent internal auditing in organisations such as local government needs to be strengthened to be more effective in detecting and deterring common risks especially those relating to fraud and corruption.

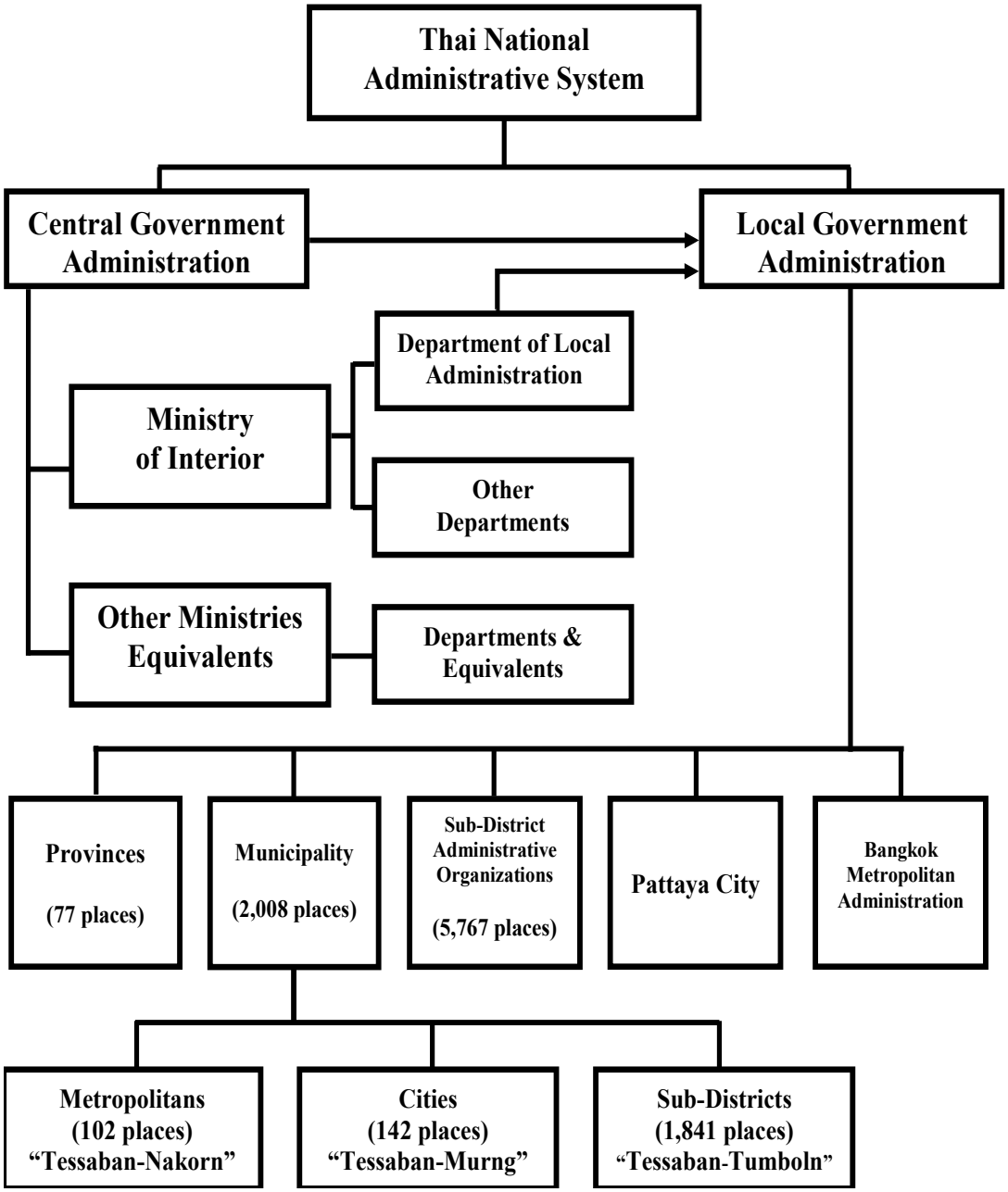
1.6 Local Governments in Thailand

The Thai national administrative system is divided into federal and local governments. Local governments are controlled by the Department of Local Administration of Ministry of Interior. Local governments have freedom of

administration, but get their policies from the federal government (Bureau of the Budget, 2011; LMDPD, 2011; COKOT' 50A, 2007; COKOT' 50B, 2007; LADC, 2003; LAOKOT' 42, 1999; COKOT' 40A, 1997; COKOT' 40B, 1997).

Figure 1.1

Thai National Administrative System



Source: Adapted from LMDPD, 2011; COKOT'50B, 2007; COKOT'40B, 1997

Currently Thailand has five forms of local governments (see Figure 1.1): provinces, municipalities, sub-district administrative organisations, Bangkok Metropolitan Administration and Pattaya City (LMDPD, 2011; COKOT' 50B, 2007; COKOT' 40B, 1997). Provinces are administrated by official administrators (known as "Phuwa-rachakarn-Chang-wad") elected by federal government (COKOT' 50A, 2007; COKOT' 40A, 1997). They are required to regulate and enforce laws and regulations (COKOT' 50B, 2007; COKOT' 40B, 1997). They have power to approve budgets for all activities in their local government areas (Jariyavech-Wattana, 2004). Municipalities are divided into three types: metropolitans; cities; and sub-districts. These three depend on the number of people living in each communal area. Those with more than 50,000 citizens are a metropolitan municipality (Tessaban-Nakorn); those with more than 10,000 citizens are a city municipality (Tessaban-Murng); and those with more than 5,000 citizens are a subdistrict municipality (Tessaban-Tumboln). Municipalities are administered by mayors elected by residents and related parties. The sub-district administrative organisations are similar to municipalities (COKOT' 50A & B, 2007; COKOT' 40A & B, 1997). Bangkok Metropolitan Administration and Pattaya City are special administrative areas administered through special acts of Parliament (Bureau of the Budget, 2011).

The 1997 Thai constitutional law reform aimed at raising equality and fairness in Thai society (COKOT' 50A, 2007; COKOT' 40A, 1997) by directing power distribution towards the local government sector to enable it to be self-governing with the ability to manage their budgets and activities. Conditions required that local governments must deliver an annual performance report to federal government and to be audited by external auditing teams from the Office of The Auditor General of Thailand (OAG) and The Comptroller General's Department in Ministry of Finance (CGD) (COKOT' 50B, 2007; COKOT' 40B, 1997).

Revenues of local governments come from taxation, fines and licence fees, leased assets, public utilities and commerce, investments and other miscellaneous revenues as well as allocations from the federal government. Expenditure relates to the various activities of local development, official administration and provision of public services to local government residents (CGD, 2010).

This thesis will focus on the internal auditing systems in these local governments as well as the attitudes of the local government internal auditors to ascertain the factors why Thai local government internal auditing mechanisms fail to detect risks in Thai local governments.

1.7 Outline of Study

This study consists of five chapters. This chapter gave an overview of the problem and the background to this study. Chapter Two is a literature review focusing on an overview of systemic and attitudinal aspects of internal auditing systems and their relation to the detection of risks. The review will contribute to the development of the conceptual framework. The method to be used in the study is explained in Chapter Three. The method is derived from the conceptual framework developed in Chapter Two and the underlying literature review, and will include the research hypotheses, populations and sampling frame and methods of data analysis. The results will be presented in Chapter Four. The last chapter will discuss the conclusions and implications flowing from those conclusions.

Chapter 2

Literature Review

2.1 Introduction

During the last 15 years, researchers in various academic disciplines have been looking for solutions to the problem of corruption by advocating theoretical models and experimental investigations (Gundlach & Paldam, 2009; Goel & Nelson, 2007; Spekle, Elten & Kruis, 2007; Serra, 2006; Fisman & Gatti, 2002). With divergent environments and cultures, each country has its own separate (and in some instances unique) corruption activities; hence understandably the solutions to corruption sometimes also differ (Goel & Nelson, 2010; Bhattarai, 2009; Sandholtz & Koetzle, 2000; Lipset & Lenz, 1999; La Porta et al., 1998; Ades & Rafael, 1997).

To understand corruption this chapter examines the literature on corruption, the systemic and attitudinal aspects associated with corruption, the theoretical framework and conceptual framework of study.

2.2 Corruption

Although a definition commonly accepted in Thailand will be used, elsewhere the term "corruption" has different meanings. Dictionary definitions define corruption by focusing on dishonest, bad and illegal behaviours, including a change to immoral behaviour known as "illegal and unethical behaviours or actions" by people in positions of power (authority) such as governmental officers, police officers and others (Merriam-Websters, 2011; Cambridge Dictionary, 2008a; Cambridge Dictionary, 2008b; Hornby, 2000). This focuses on government officials is reflected in other definitions. Klitguard and Maclean-Abaroa (2000, p.1) defined corruption as "the misuse of office for personal gain", while Sandholtz and Koetzle (2000, p.31) similarly defined corruption as "the abuse or misuse of positions or resources of public officials for private gains". These definitions are similar to those of other researchers (Leone, 2007; Rios-Figueroa, 2006; Uhlenbruck et al., 2006; Rodriguez, Uhlenbruck & Eden, 2005; Wescott, 2003; Rose-Ackerman, 1999; Robinson, 1998; The World Bank, 1997). Irrespective of the

different wording, a common theme is that corruption entails "the abuse or misuse of positions or resources of public officials and political persons for private gains" (Rajivan et al., 2009, p.3; Lee & Kenny Oh, 2007, p.99; Manandhar, 2006; Billon, 2005; Bhattarai, 2003; Billon, 2003; Rao, 2001; Bayley, 1966).

Other definitions focus on the effects of corruption on society, leading to unfairness, and inequality (Johnston, 2000; Johnston, 1986). Robbins (2000) and Carvajal (1999) similarly explained the notion of corruption in terms of misuse of public position, duties and public resources for personal interests and for followers but went further to state that corruption might be both monetary and non-monetary, direct and indirect, financial, illegal and immoral (Gould & Amaro-Reyes, 1987). Paldam (2002) argued that corruption arises from putting financial gain first which leads to the misuse of position by public officers (Swamy et al., 2001; Peters & Welch, 1978). Yet others have concentrated on the techniques of corruption, including individual utilization, trickery or disloyalty (Harris, 2005), kickbacks in governmental procurement and approval by those in authority to allow the use of public assets for private benefits (Albrecht, Albrecht & Albrecht, 2006; Singleton et al., 2006; Svensson, 2005; Jain, 2001; Moran, 2001; Williams, 1999). Importantly, Hallak and Poisson, (2002) and Quah, (1982) noted that corruption could be discovered at national and local levels.

Corruption according to The Royal Institute of Thailand (1999, pp.72-96), a public sector entity that prescribes formal vocabulary definitional standards, is the use of official and political positions or authorities to take public benefits, both monetary and non-monetary, for private and/or partisan gain. The Institute points out that this definition could be used in relation to private organisations as well. Thai scholars explained that corruption might be both legally and illegally practiced, but relates mainly to the bad behaviour of public persons (Wiruchanipawan, 2006; Rachinda, 2005; Buosonte, 2003; Chookiate, 2001; Phongpaichit & Piriyarangson, 1994).

In summary, the concept of corruption involves a violation of laws and regulations by public officials and politicians or private organizations, so to use their positions and authorities to manage or divert public resources or benefits for their

individual gain. Vigorous pecuniary and other benefits from corruption have been able to overwhelm all levels of public officials and politicians (Goel & Neson, 2010; Bhattarai, 2009; Rajivan et al., 2009).

Organisational and cultural behaviours can influence and overwhelm the behaviour of organisational members (Stewart, Sprinthall & Shafer, 2001) so that public officers might absorb both ethical and unethical behaviours (Sims & Keon, 1999), an insight further explained by Maesschalck (2004). Ethical behaviour is a notion drawn from moral development theory to enable analysis of ethical situations (Maesschalck, 2004; Stewart, Sprinthall & Shafer, 2001; Kohlberg, 1984). Ethical behaviour should be concerned with self and organisational interests, team interest, personal morality and organisational rules (Victor & Cullen, 1988). Unethical behaviour is difficult to analyse because ethical behaviour sometimes morphs into unethical behaviour (Maesschalck, 2004). Victor and Cullen (1988) explained that analysis of unethical behaviour should be able to separate the behaviour into three areas: *individual, local and cosmopolitan,* using three criteria: *egoism, benevolence and principles* to measure the unethical behaviours. When both areas and unethical standards are integrated, unethical behaviour can be mapped (see Figure 2.1).

Figure 2.1

Unethical Behaviour Mapping

AREA / UNETHICAL STANDARD	INDIVIDUAL	LOCAL	COSMOPOLITAN
EGOISM	Selfishness	Organisational conspiracy	Efficiency conspiracy
BENEVOLENCE	Nepotism	Team conspiracy	Preferential Treatment of Stakeholders
PRINCIPLE	Anarchy	Rules conspiracy	Law and Principle conspiracy

Source: Adapted from Maesschalck, 2004; Victor & Cullen, 1988

Singleton et al. (2006) argued that corruption is fraud and abuse so that corruption for individual and factional gains can be executed several ways (Albrecht, Albrecht & Albrecht, 2006; Unerman & O'Dwyer, 2004), driven by the incentive of

socially competitive survival generating dishonest behaviour (Singleton et al., 2006; Buosonte, 2003). This is a starting point to explain motivation for private gain. Cressey's fraud triangle (see Figure 2.2) explains that the psychological incentive for fraud will contain three elements:

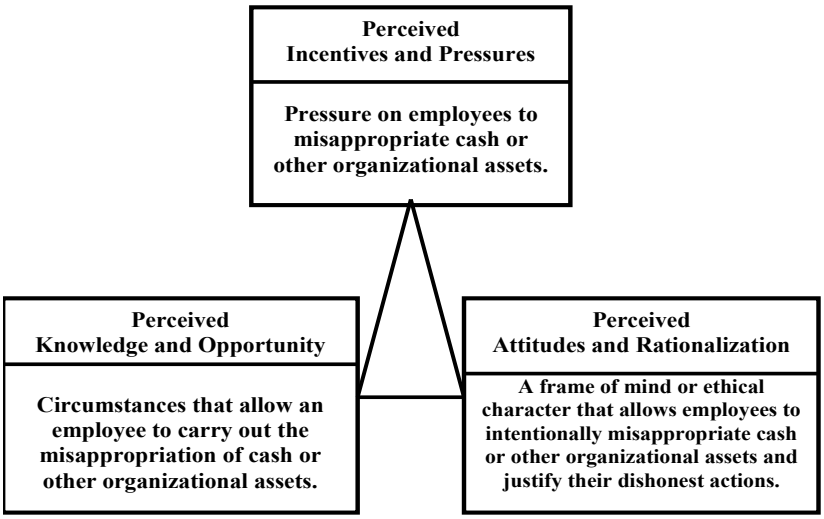
(1) perceived incentives and pressures,

(2) perceived knowledge and opportunity, and

(3) perceived attitudes and rationalization (Cressey, 2011; Dellaportas, 2007; Albrecht, Albrecht & Albrecht, 2006; Singleton et al., 2006).

Figure 2.2

Cressey's Fraud Triangle



Source: Adopted from Albrecht, Albrecht & Albrecht, 2006, p. 31; Singleton et al., 2006, p. 9

Pressures are mostly linked to the financial needs of individuals, with specific pressures generated by gambling, drug habits and greed (Cressey, 2011; Buosonte 2003; AICPC, 2003). These pressures can be classified four ways: (1) financial pressure; (2) vice pressure; (3) work-related pressure and (4) other pressures. Such pressures vary from individual to individual (Buosonte, 2003). *Financial pressures* have several causes such as greed, living beyond one's means, high personal debt, poor credit, personal financial losses and unexpected financial needs (Albrecht, Albrecht & Albrecht, 2006). *Vice pressure* is said to be the worst type of pressure because it leads to a path of ruin as it comprises gambling habits, drug and alcohol habits, and expensive extramarital relationships (Albrecht, Albrecht & Albrecht, 2006). A gambling habit

appears to be the main source of pressure (Sakurai & Smith, 2003). *Work-related pressure* depends on organizational behavior and the system of fairness, equality and ethics within an enterprise (Albrecht, Albrecht & Albrecht, 2006; Buosonte, 2003). This pressure can lead to corrupt behavior of employees and officers if they feel they have been treated unfairly when compared with their fellow workers (Bartlettt, Tonkin & Williams, 2004; Duffield & Grabosky, 2001). *Other pressures* are those that depend on an individual's ego power and control, including their self-esteem and/or self-worth (Duffield & Grabosky, 2001).

Knowledge and opportunity combined with financial needs can motivate an individual to commit fraud (Cressey, 2011; Dellaportas, 2007; Albrecht, Albrecht & Albrecht, 2006). There are four primary factors that might permit fraud within organizations (Cressey, 2011):

(1) the use of dirty tricks to avoid control systems (Johnstone, Li & Rupley, 2011; Hoitash, Hoitash & Bedard, 2008),

(2) a lack of understanding of fraud techniques by those in authority,

(3) a failure to punish fraud perpetrators, and

(4) poor internal control and auditing systems (Takahiro & Jia, 2012; Albrecht, Albrecht & Albrecht, 2006).

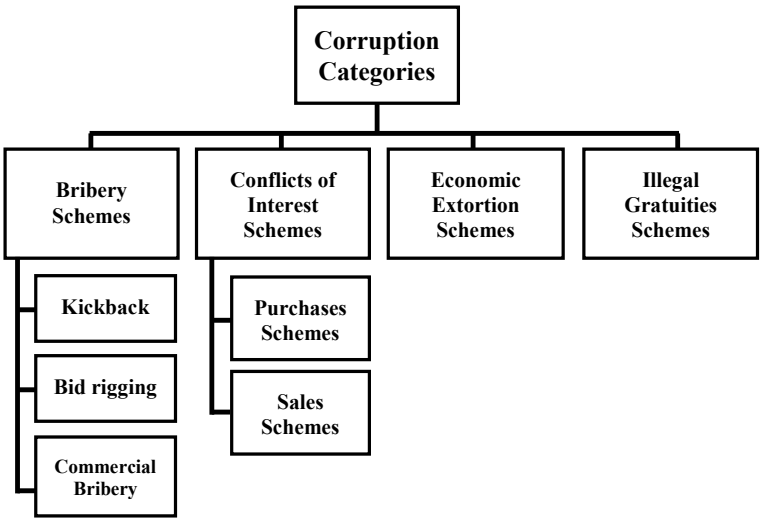
While the above factors or pressures might permit unethical behaviours, those tempted to commit such wrongs look for reasons that justify their actions. Rationalization will be a pattern of lying as they attempt to make their image pure (Dellaportas, 2007; Singleton et al., 2006; Buosonte, 2003). Rationalization is in the forefront of looking for reasons to practice unethical and/or fraudulent behaviours. Rationalization has two purposes: (1) an explanation of individual reasons for their unethical behaviour and (2) a creation of excuses for when perpetrators are arrested or alleged to have committed offences (Dellaportas, 2007; Albrecht, Albrecht & Albrecht, 2006; Bierstaker, Brody & Pacini, 2006).

The many types of corruption can be summarised (see Figure 2.3) into four classes (Rajivan et al., 2009; Albrecht et al., 2006; Singleton et al., 2006). *Bribery* has been used to influence commercial decisions and to corrupt public officials. It involves

payments between related parties as well as bid rigging, kickbacks and commercial bribery. *Conflicts of interest* refer to relationships between persons well known to each for private gains. This category includes the use of authority for permitting large value transactions, either purchases or sales schemes, giving third parties private gains, and *economic extortion schemes* - where a bribe is offered to promoters. Although a gift will be given after the business is already finished, the *illegal gratuities* category is difficult to explain – for such the gifts will not necessarily be thought of as corruption (Peng, 2009; Rajivan et al., 2009; Lee & Kenny Oh, 2007; Albrecht et al., 2006; Singleton et al., 2006; Rodrguez, Uhlenbruck & Eden, 2005; Doh et al., 2003; Wescott, 2003; Fisman & Gatti, 2002). Whether these corruption methods are used in Thailand specifically in Thai local governments will be investigated by this thesis (as specified by objective 1) to achieve the research question is "what corruption methods are used in Thai local governments?"

Figure 2.3

Corruption Categories



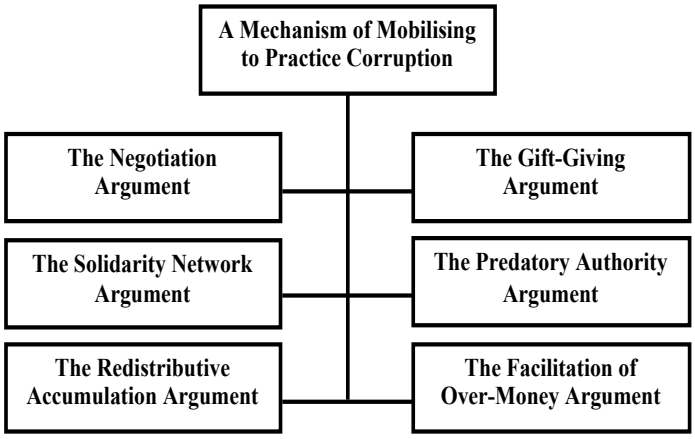
Source: Adopted from Singleton et al., 2006 and Albrecht, Albrecht and Albrecht, 2006

Corruption can be ingrained in an organisation's culture or in the culture of a society (Sardan, 1999). There are six arguments that a particular culture is significantly ingrained with corruption (see Figure 2.4). The *negotiation* argument is a method of getting benefits under some negotiated conditions known as a "bargain", a euphemism for bribery. The *gift-giving* argument is between givers and receivers where the givers

want the assistance of the receivers. The *solidarity network* argument refers to illicit exchangeable interests on public services by public officers and politicians. The *predatory authority* argument refers to the situation where authority is used to deliver private gains to others. The *redistributive accumulation* argument is practised by highly ranked administrative officers who misuse authority in relation to public projects to deliver private gains to their families and other related parties. Whereas the *facilitation of over money* argument refers to excessive spending leading to looking for money to pay their debts by illegal means (Albrecht et al., 2006; Wescott, 2003; Klitgaard & MacLean-Abaroa, 2000; Sardan, 1999; Unger, 1998; Johnston, 1986).

Figure 2.4

Mechanisms of Mobilising Corruption



Source: Adapted from Sardan, 1999

In Thailand Quah (1982) found that the two important methods employed are the 'negotiation method' which is employed by citizens who want minor public officers to speedily deal with their requests, needs or demands, and the 'predatory authority method' used by middle and higher public officers to extort people to pay bribes for changing their decision making and contravening formal government policy, laws and regulations (Rachinda, 2006). Phongpaichit (2007) found that the 'solidarity network and the redistributive accumulation methods' have been used in bidding for public procurement projects with all levels of public officers obtaining the procurement kickback when the project is finished. According to Rachinda (2006), the 'gift-giving method' is employed by private sector participants to make complex public processes easier. NESAC (2004) found six forms of corruption in Thailand; graft and gift-giving,

lobbying, extortion, policy corruption, misuse of authority for changing civil servants and corruption in terms of public officers' working time. Whether or not the participants in these forms regard them as corruption is unknown. This should be remedied by this thesis in the achievement of objective 3—to ascertain attitudes.

2.3 Systemic Aspects

Internal control systems (ICSs) in both the public and private sectors are employed as instruments to prevent and detect a risk in operational processes of organizations (COSO, 2011; Linthicum, Reitenga & Sanchez, 2010; Fujumoto, 2009; OECD, 2007; Allegrini & D'Onza, 2003; Changchit, Holsapple & Viator, 2001). ICSs must be inspected through internal auditing mechanisms to certify that the ICSs work reliably and steadily (Takahiro & Jia, 2012; Hui & Fatt, 2007; Salawu & Agbeja, 2007; Spekle, Elten & Kruis, 2007; Goodwin, 2003; Read & Rama, 2003). Internal control and auditing systems may be well designed but poorly implemented (Sawalqa & Qtish, 2012; Vandervelde et al., 2012; Bailey, 2010; Ho & Hutchinson, 2010). As well, internal auditors may lack competencies to investigate fraud. A lack of understanding of complex methods of fraud has been identified as a key factor in the poor implementation of internal auditing systems (Cressey, 2011; Khoury, 2011; Unegbu & Kida, 2011; Schelker & Eichenberger, 2010; Simmons, 2010).

2.3.1 General Internal Auditing Mechanisms

Internal auditing mechanisms are administrative instruments confirming the reliability of the internal control systems to achieve an organization's goals by evaluating and improving internal control mechanisms systematically (Asare, et al, 2012; Khoury, 2011; Carcello, Hermanson & Raghunandan, 2005; Tackett, Wolf & Claypool, 2004). An internal auditing mechanism is used to detect risks in an organisation, especially the risk of fraud (Ho & Hutchinson, 2010; Coze, 2005; Allegrini & D'Onza, 2003; Hackbarth, Grover & Yi, 2003; Changchit, Holsapple & Viator, 2001). Khoury (2011) found that causes of ineffective public internal auditing mechanisms came from

(1) a lack of competence of the individuals who comprise the internal auditing team. Other authors such as Sawalqa and Qtish (2012); Amudo and Inanga (2008); Pickett (2004) agree with Khoury (2011);

(2) a lack of support from administrators which was also confirmed by Mihaela and Lulian (2012);

(3) a lack of practical independence, which was also given importance by researchers such as Atuguba et al. (2012); Pickett (2004); and

(4) a lack of clarity of the objectives and scope of internal auditing processes to detect and deter corruption. The importance of having clear objectives and scope is also supported by, for example, Sawalqa and Qtish (2012); Takahiro and Jia (2012); Elliott, Dawson and Edwards (2007); Tackett, Wolf and Claypool (2004); Chaney and Philipich (2002).

Competency comprises four main elements: knowledge and sensibility, skills, experience, and proficiency and expertise (Kongrungchok, 2009; 2007; Alles, Brennan & Kogan, 2006; Johnson, 2006; Pickett, 2004; Thong, Chee-Sing & Raman, 1996). A lack of independence for the internal auditing team will impact individual competence which, in turn, will influence the success (or failure) of internal auditing mechanisms in order to fully evaluate the risk and defects of control systems (Atuguba et al., 2012; Wang & Chen, 2005; Ahlawat & Lawe, 2004; Rittenberg & Covaleski, 2003; Chaney & Philipich, 2002; Thong, Hong & Tam, 2002). Within developing countries, a lack of 'independence' of public internal auditors in developing countries means that they are unable to detect corruption practiced by federal and local public officers (Amudo & Inanga, 2008). Recently, this finding was confirmed by Takahiro and Jia (2012) when they compared internal control systems between China and Japan.

Other factors that lead to ineffective internal auditing include 'thin' or insufficient internal auditing teams (Schelker & Eichenberger, 2010; Persson & Tabellini, 2004), an aspect hightlighted by Vandervelde et al.'s (2012) assessment of internal control over financial reporting in U.S.A. by internal auditing teams. As stressed by Takahiro and Jia (2012), insufficient financial support from administrators for the internal auditing department can also lead to ineffective internal auditing (Vandervelde et al., 2012; Goodwin, 2003; Jensen, 1993).

2.3.2 Internal Control and Auditing Objectives in Local Governments of Thailand

An annual performance report of the Office of The Auditor General of Thailand (OAG, 2010) confirmed that public performance systems were "droopy", inefficient with weak points which generate or allow fraud and corruption. Federal and local internal control systems were ignored by all levels of public officers and that internal control and auditing guidelines were ineffective in preventing fraud and corruption (OAG, 2010; OAG, 2008; SAC, 2001). See Appendix 1.

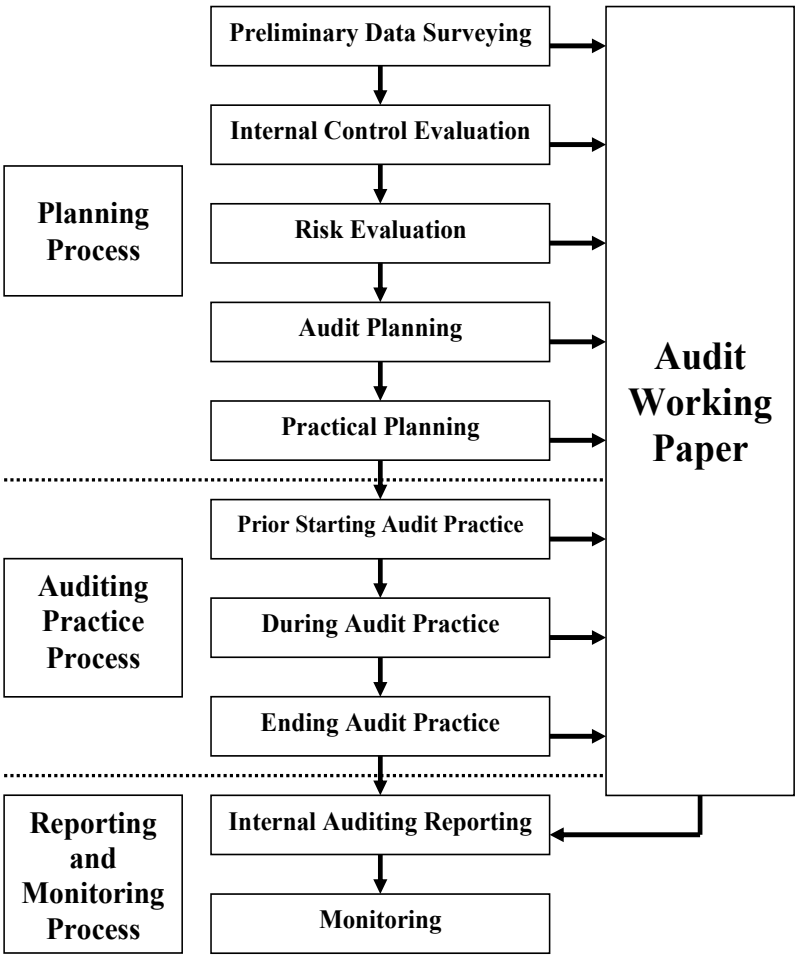
The development of internal control and auditing systems in Thailand has followed the international standard of internal control and auditing systems especially *The Framework of Committee of Sponsoring Organizations of the Treadway Commission (COSO)* (COSO, 2011; SAC, 2007; SAC, 2003a; SAC, 2003b). The Thai internal control systems were developed by the State Audit Commission (SAC) in 2001 to constrain federal and local governments to achieving the determined organizational goals. These mechanisms were improved again in 2003 and 2007 with the major objectives for internal control systems to practice as the laws, regulations and administration commands, to promote efficient, effective and economical performance, to prevent losses of resources from risk, fraud and corruption and to provide and maintain timely financial information and reliable management (SAC, 2007; SAC, 2003a; SAC, 2001).

Other authorities are also involved in trying to improve internal auditing. In 2002 the Ministry of Interior issued internal auditing regulations which set the scope of local internal audits and the task of auditors (Ministry of Interior, 2002). The Department of Internal Auditing (DIA) aims at ensuring that the internal control systems of public offices work effectively by suggesting to public offices how to improve their processes (SAC, 2003a). In 2007 the Comptroller General's Department (CGD) in the Ministry of Finance and the Ministry of Interior improved and formalised the guidelines for local government internal auditing practices (IAPs) (CGD, 2007; MI, 2002) (see Figure 2.5).

The specific scope of Thai public internal auditing systems was defined by the SAC in 2003. As mentioned earlier, this scope focused on reviewing and evaluating the

governance mechanisms of the audited public offices to ensure the economical, efficient and effective use of public resources. In doing so, the auditing system should, among other things, prevent risk, fraud and corruption (Srijunpetch, 2005; CGD, 2003; SAC, 2003b). Thai internal auditing mechanisms are expected to be based on integrity, unbiasedness, fairness and equality (SAC, 2007; Wong-Prathan, 2005; Pattara-Montree, 2001).

Figure 2.5
Internal Auditing System of Thai Local Governments



Source: Adapted from CGD, 2007; MI, 2002

Public internal auditing systems designed to detect risks will be investigated by this thesis to ascertain why Thai internal auditing mechanisms fail to detect the methods of corruption in local governments in Thailand (as specified by objective 2).

2.4 Attitudinal Aspects

Concerned with internal auditing mechanisms failing to detect fraud and corruption, Unegbu and Kida (2011) stated that most public internal auditors, although they work hard to detect risk, fraud and corruption, feel a lack of growth prospects when they compare themselves with their professional colleagues (Baltaci & Yimaz, 2006; Vandervelde et al., 2012). To compensate for the lack of growth prospects internal auditors look to local government officers for favours in return for overlooking certain auditing processes. Khoury (2011) and others such as Akintoye, Akingunala and Oseni (2011) found that attitudinal causes of ineffective public internal auditing came from internal auditors lacking motivation because of their belief that they do not receive a sufficient salary. Weak ethical practices lead to ineffective practices in detecting corruption (Takahiro & Jia, 2012; Pickett, 2004; Tackett, Wolf & Claypool, 2004; Chaney & Philipich, 2002) while a lack of understanding of internal auditing objectives is a contributing factor. This particular finding was confirmed by numerous researchers in various setting such as Asare et al. (2012) and Vandervelde et al. (2012) in U.S.A.; Mihaela and Lulian (2012) in Romania, in Egypt by Hegazy and Nahass (2011), in Greece by Karagiorgos, Drgalas and Giovanis(2011) and in Nigeria by Ibrahim (2008),

Similarly, Fisman and Gatti (2002) stressed that with decentralisation of government in developing countries, various methods used in fraud and corruption have been problematic for internal control and auditing systems (Dhamankar & Khandewale, 2003). Thus, Atuguba et al. (2012), agreeing with Cressey (2011), emphasized that lack of understanding of corruption methods by internal auditors results in failure to detect such methods. This issue was supported by various other authors such as Peng (2009); Rajivan et al. (2009); Lee & Kenny Oh (2007); Maesschalck (2004); Victor & Cullen (1988). Likewise, Badara (2012) and Flesher and Zanzig (2000) underlined that officials' lack of cooperation with internal auditors is an attitudinal factor contributing to their not achieving the objectives of internal auditing. This observation is supported by, for example, Asare et al. (2012); Romaniuk (2011); Simmons (2010); and Warner (1999).

Most people attempt to build a personal code of ethics to rationalize their acts of fraud and corruption (COSO, 2011), including patterns of lying, destroying records,

employing religions to keep their secrets, stealing in terms of borrowing and repaying in the next period and the like (Bierstaker, Brody & Pacini, 2006; Buosonte, 2003). Dellaportas (2007) agreed with Cressey (2011) insofar as complex forms of corruption lead to avoidance and ultimately destruction of the governance mechanisms for private and factional gains (Mihaela & Lulian, 2012; Duffield & Grabosky, 2001).

Thus, there is a strong perception that attitudinal and systemic aspects influence the effectiveness of internal auditing mechanisms in detecting corruption. This has influenced the objectives 2, 3 and 4.

2.5 Theoretical Framework of Study

Eight theories dealing with the duties and accountability of public sectors or governments have been identified. The theories are those of *justice, social contract, morality, ethics, utilitarianism, public choice, rational choice* and *public administration*. But they do not explain why people engage in corruption. As Maesschalck (2004) said, unethical behaviour is difficult to analyse because the ethical behaviour sometimes becomes unethical behaviour. Albert Bandura's theory of moral disengagement offers reasons why ethical behaviour can become unethical behaviours (Bandura, 2002).

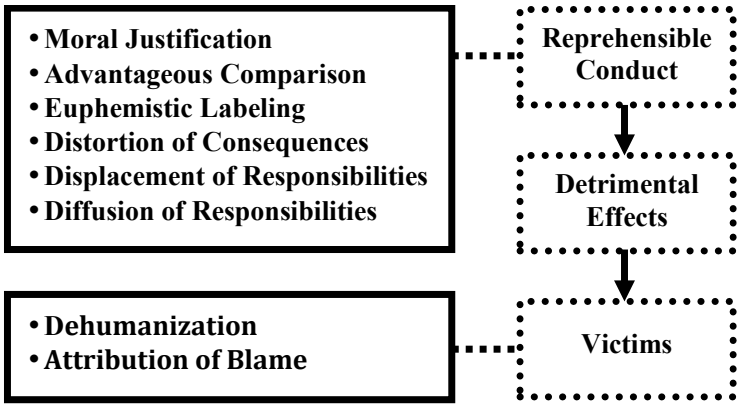
2.5.1 Theory of Moral Disengagement

Bandura's theory of moral disengagement (2001; 2002) was developed to explain particularly inhumane conduct (for example, in military settings) where individuals were able to engage in such conduct without apparent distress. His theory suggests that disengagement operates through eight cognitive mechanisms (Moore, 2008) which facilitate the cognitive restructuring of acts to appear less harmful than they actually are, to minimise the role of the individual in the acts, and in re-framing the effects of those acts by those engaged in those acts. In the context of organisations, individuals' moral disengagement mechanisms can allow people to engage in corrupt behaviour without engaging self-sanctions that drive moral or ethical behaviour. Therefore, moral disengagement mechanisms can change individuals' habits from ethical to unethical (Bandura et al., 2001).

Moore (2008) believes that individuals' moral disengagement mechanisms can explain corruption in organisations because moral disengagement is context dependent. For example, the belief that "everyone bribes in this culture" removes the conflict between doing the right thing and accepting a bribe. Because individuals make decisions more expediently when they reason in less complex ways (Tetlock, 1986 cited in Moore, 2008) moral disengagement expedites unethical decision-making by simplifying moral reasoning by individuals. In other words, moral disengagement dampens an individual's awareness of the ethical elements of the decisions they are making. The stages of moral disengagement (see Figure 2.6) are started when individuals employ eight different cognitive mechanisms. The six cognitive mechanisms of *moral justification, advantageous comparison, euphemistic labeling, distortion of consequences, displacement* and *diffusion of responsibilities* generate reprehensible conduct that leads to detrimental effects, which are distributed to victims by the use of mechanisms of *dehumanization* and *attribution of blame* (Bandura, 2002).

Figure 2.6

The Stages of Moral Disengagement



Source: Adopted from Bandura, 2002

The eight different cognitive mechanisms of moral disengagement theory are:

(1) *moral justification:* undesirable conduct is made personally and socially acceptable by portraying it as serving socially worthy or moral purposes (Bandura 2002, p.102). For example, giving partial information that protects an organisation's image.

(2) *euphemistic labelling* (lying language)*:* distorts an action from being injurious to benign by renaming subjects/words. Actions take on a different appearance depending

on what they are called. For example, within an organisation, those who collude with unethical actions are often termed "team players" (Moore, 2008, p.130).

(3) *advantageous comparison:* individuals' actions are compared with more harmful activities to make the action in question seem innocuous. According to Bandura (2002, p.106), cognitive restructuring of harmful conduct through the previous three mechanisms (moral justification, euphemistic language and advantageous comparison) is the most effective set of psychological mechanisms for disengaging moral control.

(4) *displacement of responsibility:* refers to the situation where individuals participate in wrongful actions because they repudiate personal responsibility by attributing responsibility to an authority figure. Individuals view their actions as stemming from the dictates of authority so that they are not personally responsible for them, especially those individuals who have a strong sense of duty to their superiors.

(5) *diffusion of responsibility:* a mechanism that morally disengages by subdividing tasks in an organisation so that the subdivided task will seem harmless. This is one way of distributing the mistakes of oneself across the members in their groups.

(6) *distortion of consequences:* it is easier to do wrong where the effects of the wrong doing are remote. This mechanism is used in activities labelled "victimless". Distortion of consequences also occurs where blame is attributed to the victim.

(7) *dehumanization:* a cognitive mechanism that is an important component in the perpetration of inhumanities. Self-censure for conduct can be disengaged by not viewing persons as having human qualities such as feelings or hopes.

(8) *attribution of blame* is a special mechanism that minimises the true consequences of outcomes of actions by pushing responsibility toward another individuals (well known as "blamed victims") (Moore, 2008; Tenbrunsel & Messick, 2004; Bandura, 2002; Johns, 1999).

Bandura (2002) explained that moral disengagement mechanisms interplay among individuals and society, hence this theory can explain unethical behaviours, particularly individuals' propensity to engage in corrupt actions because corruption becomes embedded within an individuals' normative behaviours. Individuals can absorb moral disengagement from corrupt organisational behaviours and culture (Moore, 2008; O'Fallon & Butterfield, 2005).

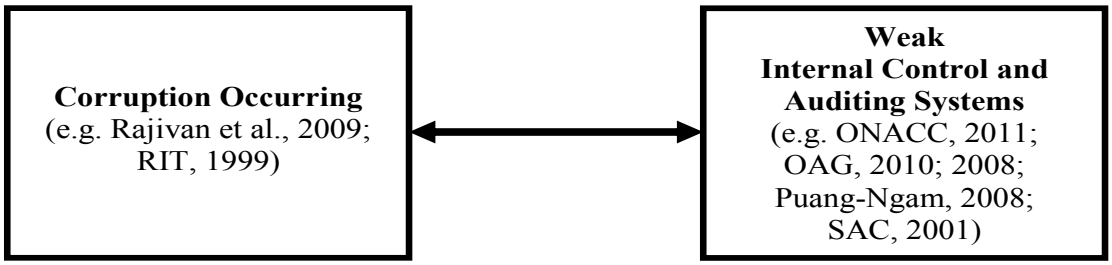
A well designed internal auditing system can fail to detect or deter corruption because it is poorly implemented. Poor implementation might be explained by the moral disengagement of those responsible for its implementation. This thesis will investigate the attitudes of the internal auditors to ascertain whether this explanation of moral disengagement explain the failure to detect corruption.

In summary the factors examining the ineffectiveness of the Thai local government internal auditing mechanisms to detect corruption are to be separated into two aspects, systemic and attitudinal.

2.6 Conceptual Framework of Study

This study will ascertain the important causes of the ineffectiveness of internal control systems, specifically internal auditing, in detecting fraud and corruption risks, which have been betiding Thai local government (ONACC, 2007; Phongpaichit, 2007; Rachinda, 2006). Why internal auditing mechanisms fail to detect these risks in Thai local government is the focus of this study. If local government governance mechanisms work reliably, particularly the internal control systems (ICSs) that include internal auditing systems, corruption should be deterred and/or detected (ONACC, 2011; Linthicum, Reitenga & Sanchez, 2010; OAG, 2010; 2008; Puang-Ngam, 2008; Phongpaichit, 2007) (see Figure 2.7). To find out why the ICSs are not detecting corruption, this thesis needs to ascertain the weaknesses and thereby develop suggestions for improving the ICSs especially the internal auditing systems so that these systems will be more effective. This will be the first study of the inability of Thai local government internal auditing mechanisms to detect corruption.

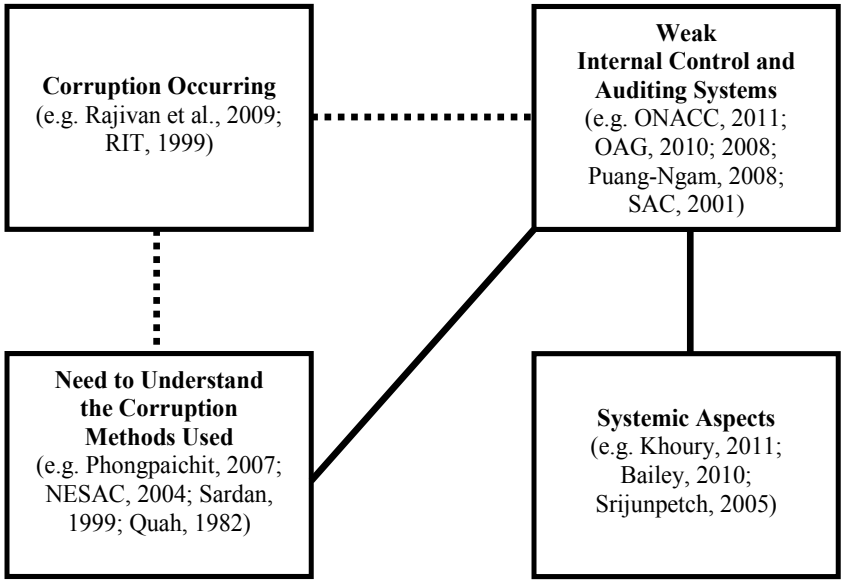
Figure 2.7
The Relationship between Corruption Occurring and Weak Internal Control and Auditing Systems



Evidence suggests that Thai local government ICSs are failing to deter and detect corruption. This study will examine and assess the ICSs particularly the internal auditing systems used in Thai local government to ascertain their ability to detect corruption by focusing on the systemic aspects. The examination will be guided by the related literature (Khoury, 2011; Schelker & Eichenberger, 2010; Bailey, 2010; Ho & Hutchinson, 2010; Scheltegger & Feld, 2009).

Auditing requires a detailed knowledge of the systems in place in the institution being audited as well as the objectives and operational activities or processes of the institute or organisation. To identify systemic problems in the systems, it is necessary to understand what corruption methods are used. This examination will be informed by the corruption methods found by NESAC (2004). Extortion, policy corruption, misuse of authority and public officers' working time are some of the corruption methods used, methods which should have been detected by the internal control systems (the systemic aspect). Other methods such as graft and gift-giving, lobbying and extortion cannot be controlled by the ICSs but can destroy the effectiveness of the ICSs (ONACC, 2011; CGD, 2010; OAG, 2010; Krueathep, 2010; Puang-Ngam, 2008; Phongpaichit, 2007; Rachinda, 2006; Seree-Rungsonks, 2006) (see Figure 2.8).

Figure 2.8
The Relationship between Corruption Methods Used and Examined Systemic Aspect of Weak Internal Control Systems



Well designed but poorly implemented internal auditing systems appear to be the problem. Various factors have been identified in the literature pointing to poor implementation. The examination of the *systemic aspects* will utilise the factors identified in the literature.

The factors (identified earlier from the literature) to be examined in this study will consist of

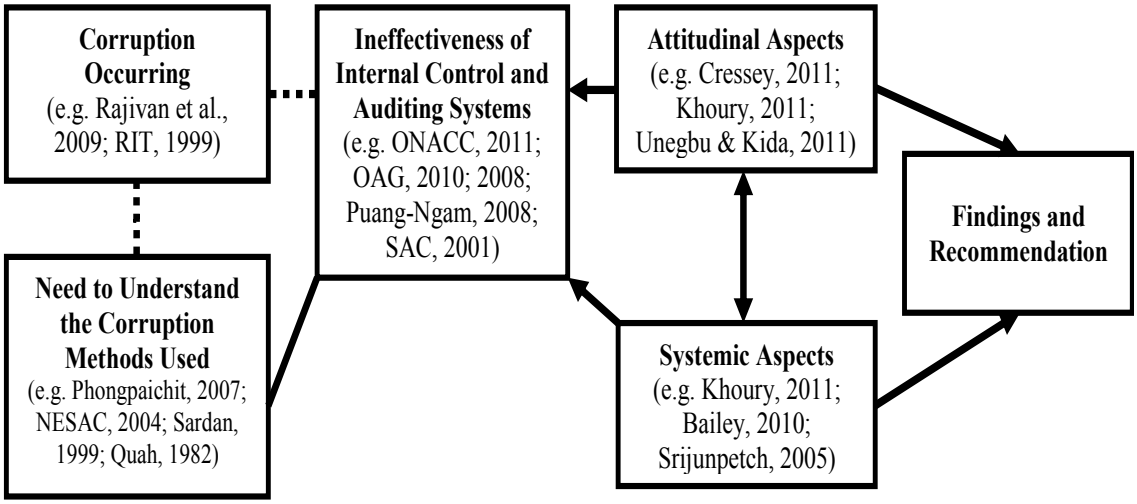
1. *Competencies* which will be examined through qualifications (knowledge, skills and experience) of Thai local government internal auditors.
2. *Support of administrators* will be tested through checking progressive career structure of auditing staff, their working environment, allocations of financial resources to internal auditing teams and the frequency with which internal auditors' recommendations are implemented.
3. *Practical independence* will be examined by considering the chain of command, independence from committees in the organisation, the numbers of internal auditors checking for fraud and frequency of menace from individuals or entities.
4. *Overlooking defects* in internal control systems by internal auditors will be assessed through the frequency of improvements in audit plans and experience of internal auditors in evaluating audited entity.
5. *Numbers on the internal auditing team* will be tested through their ability to complete the auditing tasks.
6. *Clarity of the internal auditing objectives and scope* will be examined against objectives by
   - *i.* reviewing and evaluating the related governance mechanisms of the audited entity;
   - *ii.* reviewing and monitoring operational plans and performance results; and
   - *iii.* reviewing special cases where risk may affect the governance mechanisms of the audited entity.

Some corruption methods such as authority being misused, public officers' working time being falsely claimed are concerned with individual's attitudes (Asare et al., 2012; Takahiro & Jia, 2012; Vandervelde et al., 2012). Therefore, an

examination of the *attitudinal aspects* will be undertaken (see Figure 2.9). This examination will reflect factors specified earlier in the literature, they will consist of

1. lack of growth prospects and working motivation;
2. weak ethical practices;
3. lack of understanding of internal auditing objectives;
4. lack of understanding of complex methods of corruption (this factor is significance of this study); and
5. official's lack of cooperation with internal auditors.

Figure 2.9
Conceptual Framework



The examination of attitudinal aspects will be through semi-structured interviews with a sample of Thai local government internal auditors. The interviews will be supplemented by a questionnaire survey of a broader sample of local government internal auditors. The research instruments (interview questions and the questionnaire) will be developed and tested for reliability and accuracy of questions and attitudinal scales will be applied within the questionnaire using the rules of Rensis Likert (Likert, 1932). The instruments will be part of an application for ethics approval by the appropriate authority of the University. Collected data will be analysed both statistically and thematically.

In summary, this study will identify the factors inhibiting internal auditing mechanisms in the detection of corruption and will develop policy recommendations where necessary to eliminate or reduce corruption in Thai local governments. The determination of the conceptual framework for this research and the appropriate methods to identify the factors will be outlined in the next chapter, Chapter 3.

Chapter 3
Method

3.1 Introduction

This chapter will explain the methods that will be used for seeking answers generated by the objectives and research questions of this study. Research questions will be revisited to devise the appropriate approaches to each research question. The research design will be developed from the literature review and the conceptual framework for this study and other relevant sources. The resulting research instruments will be tested for validity and reliability before collecting the data. In relation to the data, the population consists of all internal auditors in Thai local government. The sampling frame will be carefully calculated to represent this population. The chapter proceeds firstly by re-visiting the research questions, then the research design with the appropriate instruments followed by the sampling frame, data collection, and data analysis.

3.2 Research Questions

Research questions can be likened to a magnetic compass in that they lead to answers guided by the pre-determined objectives. This study seeks to find why Thai local government internal auditing mechanisms fail to detect corruption through three research questions:

1. What corruption methods are used in Thai local governments?
2. Why do Thai internal auditing mechanisms fail to detect corruption methods used in Thai local governments?
3. What attitudes contribute to the ineffectiveness of internal auditing systems?

These research questions will be explained further.

3.2.1 What Corruption Methods Are Used in Thai Local Governments?

This research question was needed to search out what corruption methods are used in Thai local governments because these might be a significant cause of the ineffectiveness of internal auditing systems to deter and detect risks (Cressey, 2011;

Rajivan et al., 2009; Victor & Cullen, 1988). The literature revealed six forms of corruption in Thailand: graft and gift-giving, lobbying, extortion, policy corruption, misuse of authority and corruption in public officers' working time. The two important methods employed to achieve the aims of corruption have been identified (Rachinda, 2006) as the 'negotiation method' which is used by citizens who want public officers to speedily deal with their requests, needs or demands (gift-giving), and the 'predatory authority method' which is used by middle and higher public officers to extort people to pay bribes (extortion) in relation to their decision making thus contravening formal government policy, laws and regulations. In bidding for public procurement projects, kickbacks are built into the project (Phongpaichit, 2007).

Whether or not the participants in these corruption forms regard them as corruption is unknown (NESAC, 2004). This should be remedied by the achievement of the objective (see Chapter 1) to ascertain the attitudes towards the detection of corruption of Thai local government internal auditors.

3.2.2 Why Do Thai Internal Auditing Mechanisms Fail to Detect Corruption Methods Used in Thai Local Governments?

This is the major research question of this study. This important question should achieve the objectives (see Chapter 1) of discovering why Thai internal auditing mechanisms fail to detect the methods of corruption outlined above by identifying factors underlying the ineffectiveness of Thai local government internal auditing systems. The attitudes of Thai local government internal auditors appear to be the key to opening the door on ineffectiveness because there are guidelines for Thai government internal control and auditing systems. These guidelines are well designed (SAC, 2007; 2003a; 2003b; CGD, 2007; 2003; MI, 2002) for the three processes: audit planning, audit operational processes and audit reporting and monitoring processes. Even though these processes are well designed to deter and detect risks, risks relating to fraud and corruption have remained in all areas in Thai local governments (Krueathep, 2009; Phongpaichit, 2007; Lim-Manee, 2005). This conclusion is confirmed by statistics issued by the Office of The National Anti-Corruption (ONACC) and Office of Public Sector Anti-Corruption Commission (OPACC). To answer this research question, auditor attitudes will be investigated.

3.2.3 What Attitudes Contribute to the Ineffectiveness of Internal Auditing Systems?

This research question aims to seek the attitudes of Thai local government internal auditors which will achieve the third objective outlined in Chapter 1. Nothing is known about the attitudes of Thai local government auditors towards the detection of risks.

3.3 Research Design

Using the literature on risks, corruption and internal auditing, a conceptual framework was developed for this study (see Figure 2.9). That framework is used to design the research to ascertain why Thai local government internal control systems have been ineffective in preventing, deterring and detecting risks. The conceptual framework reflected evidence that the relationship between ineffectiveness of internal control and auditing systems and the need to understand risks required research into both systemic aspects and attitudinal aspects. Therefore, the aim of this study is to ascertain these factors which impede the effectiveness of Thai local government internal auditing systems. The attitudes of Thai local government internal auditors are crucial to both identifying the impediments to the effectiveness of the internal auditing systems as well as to possible policy recommendations.

An instrument will be developed to collect the data. This instrument will comprise two parts, both questionnaire and interview questions sourced from relevant published questionnaires. The interviews will follow after a questionnaire survey of a broad sample of local government internal auditors has been delivered. The questionnaire will incorporate variables identified in the literature. The questions will be adjusted to accord with the environment of this study (see Appendix 3). The questionnaire will be translated from English into Thai and verified by at least two Thai editors (see Appendix 7). Attitudinal scales will be applied within the questionnaire as per the rules of Likert (1932). Interview questions will complement the questionnaire. In-depth semi-structured interviews will be employed to gather additional information from a sample of Thai local government internal auditors. The questionnaire and associated interview questions will undergo a peer review process of the Faculty of Business and Law before being submitted for approval by the University's ethics

committee (see Appendix 2). The approved questionnaire will be pre-tested for its reliability and validity.

The questionnaire and interview questions are adaptations of questions used in previous studies already reviewed the literature (see Chapter 2). The questions are adjusted to accord with the prospective Thai respondents and their local government and environment. The questionnaire is to be found in Appendix 3 where, accompanying the questionnaire sent to respondents is a copy identifying from where each question was sourced and adapted. The developed questionnaire will be examined for reliability and validity before undertaking data collection. In ascertaining what factors influenced the (in)effectiveness of internal control and auditing systems in deterring and detecting risks in Thai local governments, the questionnaire is divided into four sections:

(1) Section one is concerned with the general information about internal control and auditing in Thai local governments by associated respondents. This section (see Appendix 3) is developed from relevant pre-tested questions from questionnaires published by Spekle, Elten and Kruis (2007); Allegrini and D'Onza (2003); Goodwin (2003); Read and Rama (2003); and Changchit, Holsapple and Viator (2001). The questions should elicit information regarding the understanding of internal auditors of their Thai local government internal control and auditing systems. An example of a question from this section of the questionnaire is:

> 03. How would you rate the effectiveness of your local government's internal control systems?
> ท่านจัดลำดับความมีประสิทธิผลของระบบการควบคุมภายในขององค์กรปกครองส่วนท้องถิ่นของท่านอย่างไร?
>
> ❑ Very effective (มีประสิทธิผลมาก)
> ❑ Effective (มีประสิทธิผล)
> ❑ Moderate effective (มีประสิทธิผลปานกลาง)
> ❑ A little effective (มีประสิทธิผลเล็กน้อย)
> ❑ Ineffective (ไม่มีประสิทธิผล)
> ❑ Very ineffective (ไม่มีประสิทธิผลมาก)
>
> (Source: Adapted from Goodwin, 2003; Read & Rama, 2003)

(2) Section two is concerned with systemic and attitudinal aspects of Thai local government internal auditors which are postulated to be related to the ineffectiveness of internal control and auditing systems in deterring and detecting risks. There are a number of studies which explicitly demonstrate that systemic

factors impact the effectiveness of internal auditing mechanisms in preventing and detecting risks. Their findings which will be employed in this study are:

i) *Competency of internal auditing teams* is an important variable that is derived from testing skills, knowledge and experience of internal auditing teams in deterring and detecting risks. The questionnaire will apply the questions from Khoury (2011); Bailey (2010); Ho and Hutchinson (2010); Schelker and Eichenberger (2010); Kongrungchok (2009); Spekle, Elten and Kruis (2007); Alles, Brennan and Kogan (2006); Coze (2005); and Pickett (2004). An example of the kind of questions asked in this section of the questionnaire is:

12. In detecting audit risk what aspects would you like to improve your knowledge of ……? (More than one answer may be ticked)
ในการค้นพบความเสี่ยงเชิงการตรวจสอบ ท่านต้องการปรับปรุงความรู้.....ด้านใด? (เลือกได้มากกว่า 1 คำตอบ)

- ❑ IT Audit (การตรวจสอบด้านเทคโนโลยีสารสนเทศ)
- ❑ Special audit (การตรวจสอบพิเศษ)
- ❑ Risk assessment (การประเมินความเสี่ยง)
- ❑ Operational audit (การตรวจสอบการดำเนินงาน)
- ❑ Compliance audit (การตรวจสอบการปฏิบัติตามหลักเกณฑ์)
- ❑ Fraud investigation (การสืบสวนการทุจริต)
- ❑ Forensic accounting (การบัญชีนิติเวช)
- ❑ Financial audit for reporting (การตรวจสอบทางการเงินเพื่อรายงาน)

(Source: Adapted from Spekle, Elten & Kruis, 2007; Coze, 2005)

ii) *Support from administrators* is a variable examining both financial and non-financial support from Thai local government administrators, support which will influence the attitudes of Thai local government internal auditors. The questions are sourced from Khoury (2011); Allegrini and D'Onza (2003); Goodwin (2003); Chaney and Philipich (2002); and Jensen (1993). The questions in this section are in tabular format; a pertinent section of the table is:

Systemic Aspects (ประเด็นด้านระบบ)	**SD←→SA**				
15. Internal auditing department obtains an adequate operational budget. หน่วยงานตรวจสอบภายในได้รับงบประมาณการดำเนินงานที่เพียงพอ (Source: Adapted from Goodwin, 2003; Jensen, 1993)	1	2	3	4	5
16. Internal auditing department obtains an adequate procurement budget. หน่วยงานตรวจสอบภายในได้รับงบประมาณการจัดซื้อจัดจ้างที่เพียงพอ (Source: Adapted from Goodwin, 2003; Jensen, 1993)	1	2	3	4	5

iii) *Practical independence of internal auditing teams* is a crucial variable which will affect the effectiveness of internal auditing systems as shown by Unegbu

and Kida (2011); Wang and Chen (2005); Ahlawat and Lawe (2004); and Sweeney and Roberts (1997). This variable applies the published questions from Unegbu and Kida (2011); Schelker and Eichenberger (2010); Wang and Chen (2005); Ahlawat and Lawe (2004); Pickett (2004); Riltenberg and Covaleski (2003); Thong, Hong and Tam (2002); and Uecker, Brief and Kinney (1981). For example:

Systemic Aspects (ประเด็นด้านระบบ)	**SD←→SA**				
19. Internal auditing department is independently structured from other local government departments. หน่วยงานตรวจสอบภายในมีโครงสร้างอย่างเป็นอิสระจากหน่วยงานอื่นขององค์กรปกครองส่วนท้องถิ่น (Source: Adapted from Schelker & Eichenberger, 2010; Pickett, 2004)	1	2	3	4	5
20. You are free to audit all aspects of local government. ท่านมีอิสระเพื่อตรวจสอบทุกด้านขององค์กรปกครองส่วนท้องถิ่น (Source: Adapted from Uecker, Brief & Kinney, 1981)	1	2	3	4	5

iv) *Objectives of internal auditing systems* identify all of the processes necessary to undertake auditing so this variable is used for measuring the effectiveness of internal auditing systems according to the results of Khoury (2011); Srijunpetch (2005); Tackett, Wolf and Claypool (2004); CGD (2003); SAC (2003a); SAC (2003b); and Chaney and Philipich (2002). To test this variable, questions from Khoury (2011); Elliott, Dawson and Edwards (2007); Spekle, Elten and Kruis (2007); and Allegrini and D'Onza (2003) are used. An example of the questions focusing on the effectiveness of internal auditing is:

31. Please rank the importance of each of the risk factors below to risk based audit planning by using a ranking from 1(most importance) to 5 (least importance).
โปรดจัดลำดับความสำคัญของแต่ละปัจจัยความเสี่ยงข้างล่างนี้ถึงการวางแผนการตรวจสอบเชิงความเสี่ยงโดยใช้ลำดับจาก 1 (ความสำคัญมากที่สุด) ถึง 5 (ความสำคัญน้อยที่สุด)

…..Degree of automation
(ระดับของความคล่องตัวหรือภาวะอัตโนมัติในการปฏิบัติงาน)

…..Complexity of operations (ความซับซ้อนของการดำเนินงาน)

…..Adequacy of internal controls (มีการควบคุมภายในอย่างเพียงพอ)

…..Professional competence of the human resources
(ความสามารถเชิงวิชาชีพของทรัพยากรมนุษย์)

…..Relationship with entity within your local government
(ความสัมพันธ์กับหน่วยงานภายในองค์กรปกครองส่วนของท้องถิ่นของท่าน)

(Source: Adapted from Allegrini & D'Onza, 2003)

v) *Internal control system*s are an important variable. These systems must be implemented in all parts of an organization as explained by Unegbu and Kida (2011); and Jensen (1993). This variable is used for examining whether this

applies in Thai local governments by adjusting the questions from Unegbu and Kida (2011); Salawu and Agbeja (2007); and Allegrini and D'Onza (2003). For example:

Systemic Aspects (ประเด็นด้านระบบ)	**SD←→SA**				
33. Internal control systems provide an effective basis for reviews. ระบบการควบคุมภายในจัดเตรียมหลักพื้นฐานที่มีประสิทธิผลสำหรับการสอบทาน (Source: Adapted from Salawu & Agbeja, 2007; Allegrini & D'Onza, 2003)	1	2	3	4	5
34. Administrators are strongly interested in the internal control systems. ผู้บริหารสนใจในระบบการควบคุมภายในอย่างแข็งขัน (Source: Adapted from Salawu & Agbeja, 2007; Allegrini & D'Onza, 2003)	1	2	3	4	5

Data collection for the attitudinal aspects is divided into two parts. The first part employs the questionnaire to gather data regarding professional practice, understanding of internal auditing objectives, and officials' cooperation with internal auditors. The second part uses interview questions to collect data on the following:

i) Professional practice; internal auditors and associated parties must comply with all processes of internal control and auditing systems if they want those systems work effectively as demonstrated by Pickett (2004); Tackett, Wolf and Claypool (2004); and Chaney and Philipich (2002). In this study this variable examines the effectiveness of Thai local government internal auditing mechanisms by applying the relevant questions used by the aforementioned authors. For example:

Attitudinal Aspects (ประเด็นด้านทัศนคติ)	**SD←→SA**				
40. You can freely disclose to administrators the results of auditing. ท่านสามารถเปิดเผยผลการตรวจสอบของผู้บริหารได้อย่างอิสระ (Source: Adapted from Pickett, 2004; Tackett, Wolf & Claypool, 2004)	1	2	3	4	5
41. You can freely apply internal auditing standards to complex risk. ท่านสามารถประยุกต์มาตรฐานการตรวจสอบภายในไปยังความเสี่ยงที่ซับซ้อนได้อย่างอิสระ (Source: Adapted from Pickett, 2004; Tackett, Wolf & Claypool, 2004)	1	2	3	4	5

ii) An understanding of internal auditing objectives is also related to effectiveness of internal auditing systems due to the need to plan comprehensively and whether that plan will be impeded by those lacking the experience, knowledge and skills of internal auditing (Elliott, Dawson & Edwards, 2007; Spekle, Elten & Kruis, 2007; Tackett, Wolf & Claypool, 2004; Chaney & Philipich, 2002; Dittenhofer, 2001; Dittenhofer, 1995). Therefore, this variable is used in this

study by adapting the questions of Elliott, Dawson and Edwards (2007); and Dittenhofer (2001). For example:

Attitudinal Aspects (ประเด็นด้านทัศนคติ)	**SD←→SA**				
43. Operational plans and performance results will only be monitored when administrators request this. แผนการดำเนินงานและผลการปฏิบัติงานจะได้รับการตรวจติดตามเมื่อผู้บริหารร้องขอเท่านั้น (Source: Adapted from Elliott, Dawson & Edwards, 2007; Dittenhofer, 2001)	1	2	3	4	5
44. Risk and/or fraud situations will only be reviewed when administrators request this. สถานการณ์ความเสี่ยงและ/หรือการทุจริตจะได้รับการสอบทานเมื่อผู้บริหารร้องขอเท่านั้น (Source: Adapted from Elliott, Dawson & Edwards, 2007; Dittenhofer, 2001)	1	2	3	4	5

iii) *Official's cooperation with internal auditors*: this variable is concerned with assessing internal control systems of audited departments to ascertain whether officials work with internal auditing teams. Their cooperation is needed to achieve the objectives and goals of that assessment. However, as reported by Khoury (2011); Unegbu and Kida (2011); Simmons (2010); Flesher and Zanzig (2000); and Warner (1999) officials and administrators can impede the assessment for private gains. This variable is examined to assess the effectiveness of Thai local government internal auditing systems by utilising the questions of Khoury (2011); Simmons (2010); Flesher and Zanzig (2000); and Warner (1999). The questions in this section are in tabular format; a pertinent section of the table is:

Attitudinal Aspects (ประเด็นด้านทัศนคติ)	**SD←→SA**				
45. Your local government provides documents for internal auditing team. องค์กรปกครองส่วนท้องถิ่นของท่านจัดเตรียมเอกสารสำหรับทีมตรวจสอบภายใน (Source: Adapted from Simmons, 2010)	1	2	3	4	5
46. Your local government cooperates with internal auditing team in assessing internal control systems องค์กรปกครองส่วนท้องถิ่นของท่านให้ความร่วมมือกับทีมตรวจสอบภายในในการประเมินระบบการควบคุมภายใน (Source: Adapted from Flesher & Zanzig, 2000)	1	2	3	4	5

iv) *Growth prospects and working motivation* combine as a sensitive and crucial variable. Khoury (2011) and Unegbu and Kida (2011) similarly stated that a progressive career path provides reward and reputation. Internal auditors need such a path as well as sufficient salary to prevent overlooking defects and/or wrongdoings. This sensitive variable cannot be used in close-ended questions in a questionnaire; it needs suitable open-ended questions by interviewing as

argued by Khoury (2011); Unegbu and Kida (2011); Peng (2009); and Rajivan et al. (2009).

v) *An understanding of complex methods of corruption* is a significant variable for this study because it is a primary obstacle why internal auditing systems fail to deter and/or detect risk. The close-ended questions in the questionnaire are used for collecting data about this factor. This variable is also used in open-ended questions in the interviews (Cressey, 2011; Rajivan et al., 2009; Lee & Kenny Oh, 2007; Albrecht, Albrecht &Albrecht, 2006; Singleton et al., 2006; Maesschalck, 2004; NESAC, 2004; Sardan, 1999; Victor & Cullen, 1988). An example of the questions relating to the corruption methods used is:

> 49. What corruption categories can you perceive in your auditing?
> (Being able to answer more than one)
> ประเภทคอรัปชั่นอะไรที่ท่านสามารถรับรู้ได้ในการตรวจสอบของท่าน? (สามารถตอบได้มากกว่า 1 คำตอบ)
> - ❑ Bribery (การให้สินบน)
> - ❑ Conflict of Interest (ผลประโยชน์ขัดแย้ง)
> - ❑ Economic Extortion (การบีบบังคับทางเศรษฐกิจ)
> - ❑ Illegal Gratuities (การให้ของขวัญที่ผิดกฎหมาย)
>
> (Source: Adapted from Albrecht, Albrecht & Albrecht, 2006; Singleton et al., 2006)

(3) Section three consists of short open-ended questions designed to illicit comments of their experiences by the respondents. As well, this section asks if the participants are willing to be interviewed by the researcher, and if so, to arrange convenient time for the interview. The invitation to comment is below:

> ❖ **Do you have any comments about the internal control and auditing systems in your local government that you would like to share?**
> **If yes, please write them down in the determined space.**
> ท่านมีข้อคิดเห็นเกี่ยวกับระบบการควบคุมและการตรวจสอบภายในในองค์กรปกครองส่วนท้องถิ่นของท่านที่ท่านต้องการมีส่วนร่วม?
> ถ้าท่านต้องการมีส่วนร่วม โปรดเขียนข้อมูลลงในพื้นที่ที่ได้กำหนดไว้ให้
>
> .....
> .....

(4) Section four contains the interview questions which are designed to complement the questionnaire and the development of themes identified in the literature. This section seeks sensitive answers that cannot be gained by use of close-ended questions. The interview questions are developed from questions used by Cressey (2011); Khoury (2011); Unegbu and Kida (2011); Simmons (2010); Peng (2009); Rajivan et al. (2009); and Tackett, Wolf and Claypool (2004). These questions should enable the Thai local government internal auditors who volunteer to be

interviewed to reflect on both the good and poor aspects of their workings so that recommendations can be developed to improve the effectiveness of Thai local government internal auditing systems. The opening question to be used in the interviews is:

IQ1: What are the common risks found by your internal auditing team?
ความเสี่ยงทั่วไปที่ถูกค้นพบโดยทีมการตรวจสอบภายในของท่านคืออะไร?

The list of questions to be asked of all interviewees is found in Appendix 3. The student research undertook training in interviewing techniques so as to able to elicit as much relevant information from the interviewees as possible.

3.4 Research Instrument

The research instrument needs to be tested in terms of validity and reliability to ensure that it can accurately achieve the objectives of this study (Leech, 2011; Urdan, 2010; Vanichbuncha, 2009). The questionnaire is developed by utilising appropriate published questions and will be verified by supervisor, approved by the peer review committees of Faculty of Business and Law, and human research ethics committee of the University of Newcastle.

Vanichbuncha (2009) stated that the reliability of a research instrument needs to be verified before actual data collection by testing the developed questionnaire more than once with the same sampling frame used in the study but the participants can be the same or different persons from the same sampling frame. The result will have to obtain answers that are not different in each testing. Another reason for testing reliability is to consider relationships between questions for each variable which should also accord among questions. The technique to be used is the coefficient of Cronbach's Alpha which is the accepted lowest value of actual reliability in surveying. It will be employed to measure internal consistency of questions in each issue of study (Leech, 2011; Urdan, 2010; Vanichbuncha, 2006). The sample size of pre-test should be at least about 25 respondents as explained by Leech (2011); and Vanichbuncha (2009).

As part of the pre-test, the approved questionnaire was sent to 50 participants with 40 answered questionnaire returned (80% of delivered questionnaire and 10.499%

of sampling size). The result of the reliability test of the research instrument is satisfactory. The result of testing the reliability of research instrument by classifying studied variables found that the coefficient value of Cronbach's Alpha in each issue of variable gets near to one (see Appendix 4) which means the research instrument used for collecting the data in this study is reliable (Leech, 2011; Urdan, 2010; Vanichbuncha, 2009; 2006). Some variables were not tested by this technique because the data will come from interviews.

When the actual data for this study has been collected from the respondents then the data will be tested again to ensure the reliability of research instrument before using the statistical methods expounded by Leech (2011); Urdan (2010); and Vanichbuncha, (2009; 2006).

3.5 Population and Sampling Frame

Thai local government internal auditors will be randomly sampled to ascertain their attitudes. The sample will be taken from a population of 7,854 possible respondents (LMDPD, 2011; LADC, 2003). The sample size will be 381 respondents at confidence level of 95 per cent or sampling error of 5 per cent using Taro Yamane principle and techniques (Yamane, 1967; Yamane, 1962). The Formula of Taro Yamane techniques for calculating the sampling size will be

$$n = \frac{N}{1+N(e)^2}$$

N = Size of the entire populations of study
n = Size of the entire sampling frame of study
e = Sampling error value

This means for this research, the sampling size should be

$$n = \frac{7,854}{1 + 7,854\ (0.05)^2} = 380.615459$$

$$\sim 381 \text{ samples}$$

The number of questionnaires (381 copies) was calculated according to the proportions set out in the table below (see Table 3.1) and will be mailed to sampled internal auditors with the help of an informal association of Thai local government internal auditors. The in-depth interviews constitute a type of non-probability sampling that cannot determine

the sampling frame as that frame will be composed of participants willing to be interviewed. It is hoped that at least 25 local government internal auditors will volunteer and that they will represent at least one respondent per subset type of local governments.

The five categories of local governments (LMDPD, 2011; LADC, 2003) are similar to the stratified sampling technique, which is a type of probability sampling. According to already classified populations, this study uses the same technique to obtain a random sample in each Thai local government type but excepting the entities of Bangkok Metropolitan Administration and Pattaya City. Those entities are unique entities with only one entity in each category so that they will be not be selected to be part of the sampling frame of this study.

Table 3.1

Populations and Sampling Frame

Types of Local Government	Numbers of Each Type (Entities)	Proportion of Each Type (%)	Numbers of Sample Size as Each Type (Entities)
Provinces	77	0.98	4
Municipalities	2,008	25.57	97
Sub-District Administrative Organisations	5,767	73.43	278
Bangkok Metropolitan Administration	1	0.01	1
Pattaya City	1	0.01	1
Total	**7,854**	**100.00**	**381**

3.6 Data Collection

Data collection will be managed to avoid potential problems and risks identified by the research team. The questionnaire will be distributed by the Local Government Internal Auditors Association (LGIAA). Interviews arising from recipients volunteering to be interviewed will take place in the MSc Building, 1st Floor # No. 2 at Suratthani Rajabhat University. If interviewees are unable to attend an interview at the designated place, the interviewee will be contacted by telephone to arrange an interview in an agreed safe environment. If information is uncovered that should be reported, the

Local Government Internal Auditors Association will be consulted for advice on dealing with the matter.

Participant privacy and freedom of consent will be ensured in the selection, contact and recruitment processes. They are outlined below.

(1) Selection:

i) Survey: The Local Government Internal Auditor Association will distribute the anonymous survey questionnaire to members randomly selected by the Association from a list of all members held by the Association.

ii) Interviews: Internal Auditors will self select by requesting to be interviewed in response to an invitation at the end of the survey. If they are interested, they will email the student researcher to arrange an appointment.

(2) Initial Contact:

i) Survey: Potential respondents will be mailed a copy of the Participant Information Statement with the survey by the Local Government Internal Auditors Association.

ii) Interview: Via telephone/email initiated by the recipient of the questionnaire.

(3) Recruitment:

i) Survey: Recruitment will be deemed to have occurred once survey is completed and returned in a self-addressed envelope (enclosed with the questionnaire) to the student researcher's address at Suratthani Rajabhat University.

ii) Interview: Recruitment will be deemed to have occurred once when participants email/phone the researcher indicating their willingness to participate, and then sign the consent form prior to being interviewed.

In-depth interviews will be undertaken with the first 25 local government internal auditors to indicate their willingness to be interviewed. An interview schedule will be produced with interviews conducted in an office kindly supplied by Suratthani Rajabhat University or by telephone where distance and dangerous areas prevent a volunteer interviewee from attending the University office. Each interview will last for one hour and with the permission of the participant will be recorded with a digital audio recorder.

As part of the invitation to participate in the interviews, the Participant Information Statement (PIS) will be provided to the interviewees prior to the interview. Each interviewee will be provided with a transcript of their interview to allow them to check for accuracy and to enable them to request that any information be removed. Interviews will be conducted in the Thai language. Two independent qualified translators will be used to translate the interview data into English.

Data management and storage will cover the storage of participant consent documents, completed questionnaires and recorded interviews/transcripts both in Thailand during fieldwork and in Australia. These arrangements are outlined below.

i) *For Survey:* Data from the hard copy questionnaires will be entered onto spreadsheets kept electronically on a password-protected personal computer accessible only by the researcher. This will be done in Thailand as the completed surveys arrive. The hard copies will be shredded once entered and checked. Prior to shredding they will be kept in a locked cabinet in the office of the student researcher at Suratthani Rajabhat University until such time as they have been entered onto the spreadsheets. As an anonymous survey, there is no identifying data. Soft copy data will be kept for a minimum of five years and then destroyed;

ii) *For Interviews:* Recordings will be kept in a digital form on a password protected computer until transcripts have been verified at which time the recording will be deleted. Any identifying data on transcripts will be removed prior to verification and then checked by participants. All transcripts will be held electronically on a password-protected personal computer and then destroyed after five years. Consent forms will be scanned and stored electronically in separate files on a password protected personal computer and then any hard copies will be shredded.

All soft copies of data will be held on the student researcher's password protected laptop and on the student researcher's return to Australia, copied to the supervisors' password protected computers in Australia.

3.7 Methods of Data Analysis

Data analysis will be divided into two parts (quantitative and qualitative) due to this study using mixed methods for ascertaining the crucial factors (Grafton & Lillis, 2011; Johnson, Onwuegbuzie & Turner, 2007) as to why Thai local government internal auditing mechanisms fail to deter and detect the risks of fraud and corruption in Thai local governments.

3.7.1 Quantitative Data Analysis

The questionnaire instrument will be tested for reliability and validity. Analysis of the quantitative data will use SPSS program for Windows to process the statistical techniques that can achieve the objectives of this study. Raw data will be gathered from the completed questionnaires. All questionnaires will be firstly inspected for completion. Next questionnaires will be transformed with code numbers to record them within SPSS program by the student researcher and suitably edited giving the code by another researcher or supervisors. After that the audited code data will be processed as statistical techniques used for achieving the objectives of this study.

The attitudinal scale of this study is the summated rating scales of five levels to measure respondents' agreements and attitudes as per the rules of a Likert scale (Likert, 1932). The attitudinal scales are rating scales with five levels between strongly disagree (1) and strongly agree (5) indicating the strength of respondents' agreements and attitudes (Likert, 1932). Those scales will be converted to an ordinal scale. Each factor has more than one question, with each question having an equal value so that all questions for each factor will be combined to calculate attitudinal mean values. The results of attitudinal mean values will be interpreted through a *"measurable benchmark of attitudinal scales"* determined by calculating "mid-range". The formula for mid-range is:

$$\text{Mid-Range} = \frac{\text{(Upper – Lower attitudinal level used of study)}}{\text{Upper attitudinal levels used of study}}$$

So that

$$\text{Mid-Range} = \frac{(5 - 1)}{5} = 0.80$$

The mid-range will be added into the first attitudinal level and then into the mid-range in the next level respectively (Best, 1977) so that the intervals of the attitudinal scales are:

1.00 – 1.80	is	**Strongly disagree** with an issue of effectiveness of internal auditing in Thai local governments
1.81 – 2.60	is	**Disagree** with an issue of effectiveness of internal auditing in Thai local governments
2.61 – 3.40	is	**Unsure** with an issue of effectiveness of internal auditing in Thai local governments
3.41 – 4.20	is	**Agree** with an issue of effectiveness of internal auditing in Thai local governments
4.21 – 5.00	is	**Strongly agree** with an issue of effectiveness of internal auditing in Thai local governments

This measurable benchmark of attitudinal scales will be employed to explain all factors except the three factors of competency of the internal auditing team, officials' cooperation and promotion prospects. These three factors will use new intervals of measurable benchmark of attitudinal scales to reflect that the participants are being asked to disagree rather than agree with a statement.

1.00 – 1.80	is	**Strongly disagree** with an issue of weakness of internal control and auditing systems in Thai local governments.
1.81 – 2.60	is	**Disagree** with an issue of weakness of internal control and auditing systems in Thai local governments.
2.61 – 3.40	is	**Unsure** with an issue of weakness of internal control and auditing systems in Thai local governments.
3.41 – 4.20	is	**Agree** with an issue of weakness of internal control and auditing systems in Thai local governments.
4.21 – 5.00	is	**Strongly agree** with an issue of weakness of internal control and auditing systems in Thai local governments.

Descriptive statistics will be reported in graphics and tables by showing statistical values in terms of frequency, percentage, mean and standard deviation. The attitudinal mean values will be interpreted through comparison with measurable benchmarks of attitudinal scales when expounding factors impacting (in)effectiveness of internal auditing in Thai local governments. Inferential statistics will be used to test hypotheses and to analyse the factors. Pearson's Correlation Coefficient technique will be used for testing the hypotheses and considering relationships between factors. Factor analysis will be used to classify relevant variable groups (solving the multicollinearity problem) and reducing the number of independent variables (Hair et al., 2006). All results will be reported in either figures and/or tables.

Due to the questionnaire instrument being employed to collect data from a sampling frame representative of the population, according to statistical principles, the results need to be tested for a relationship and/or difference between independent and dependent variables to ensure that the questions on the questionnaire will together be relevant (Leech, 2011; Vanichbuncha, 2009; 2006). Therefore, there is a need to set up research hypotheses to examine relationships between independent and dependent variables. At the same time, explanations can be drawn that systems and attitudinal factors materially influence the ineffectiveness and/or weakness of internal control and auditing systems in detecting and deterring risks in Thai local governments. Therefore, *the null hypothesis statements* should be:

- **H_1:** There is a relationship between systemic attitudes and the effectiveness of internal auditing mechanisms in detecting corruption;

- **H_2:** There is a relationship between independence of the internal auditing system and effectiveness of internal auditing mechanisms in detecting corruption;

- **H_3:** There is a relationship between independence of the internal auditing system and systemic attitudes.

3.7.2 Qualitative Data Analysis

The qualitative data analysis will use content analysis in terms of a thematic approach as explained by Wahyuni (2012); Walsh and Bull (2010); Kvale and Brinkmann (2009); Junninen (2008); Minichiello, Aroni and Hays (2008); Roulston, deMarrais and Lewis (2003); and Burnard (1991). The context of thematic analysis and development will start with pre-determined interview questions linked to factors identified in the literature. Transcriptions of data (recorded and/or notes) will be analysed to revise thematic interview questions. These revised thematic interview questions will be used to interview further informants, so researchers will take those steps until obtaining a saturation of sustainably thematic interview questions (Kvale & Brinkmann, 2009; Minichiello, Aroni & Hays, 2008). N*VIVO software will be used to manage and analyse qualitative data in terms of finding out obvious themes of this study before coding by linking to factors identified in the literature and relevant issues revealed by the collected data.

Coding of themes will be the responsibility of the student researcher. To validate the coding, a second coder will be used. Discrepancies in the coding will be moderated by discussions between the coders and the co-investigators (supervisors). The coded data will be examined by following the pre-determined hypotheses and objectives of this study using the approach used for analysing the quantitative data analysis. Findings will be reported in statistical tables and some possible examples of discovered themes.

The content analysis of the interview data will be expounded through the phenomenological research approach, a method using interpretative approaches to understand the content in its context (Berg, 2007; Cohen, Kahn & Steeves, 2000; Patton, 1990).

The methods will be used to ascertain the factors why Thai internal control and auditing systems fail to prevent and detect risks especially relating to fraud and corruption risks in Thai local governments. The findings will be presented in the next chapter.

Chapter 4
Findings

4.1 Introduction

In seeking to ascertain what factors impact on the effectiveness of Thai local government internal auditing mechanisms, Bandura's theory of moral disengagement (Bandura, 2002) is used. Normally, internal auditors are regarded as "good persons" yet prior evidence suggests that they are failing in their duty to detect risks within Thai local governments. This suggests that the "good guys'" behaviour has been thwarted in some way. To establish this and whether other factors impact on the effectiveness, an anonymous survey was utilised, supplemented by semi-structured interviews with Thai local government internal auditors who volunteered to be interviewed. The themes and questions on the questionnaire have come from the literature and have been categorised into two aspects: systemic and attitudinal aspects. Both aspects were used for testing the (in)effectiveness of Thai local government internal control and auditing mechanisms in detecting corruption risk. Although the Taro Yamane formula determined a sample size of 318, pre-tested questionnaires were distributed to 500 randomly selected internal auditors; 415 responses (83%) were received. In response to the invitation to be interviewed, 36 internal auditors volunteered (9% of questionnaire respondents) a much better response rate than expected.

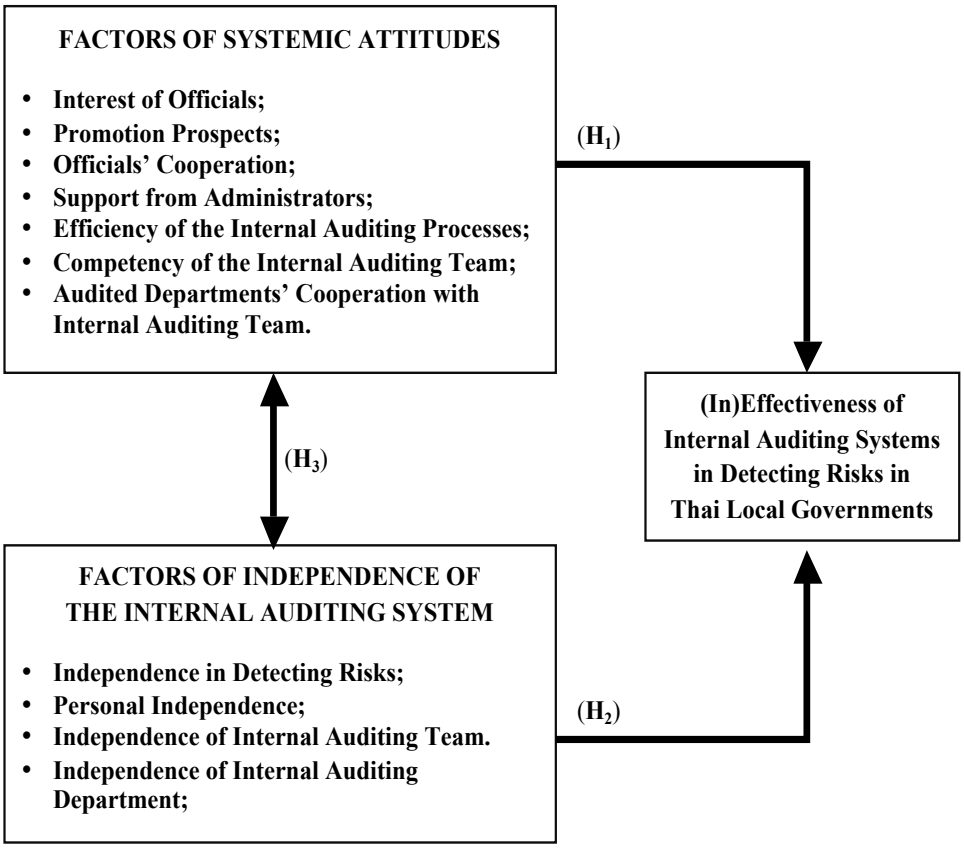
The results will be analysed in two parts: those relating to the quantitative data and those relating to the qualitative data. The quantitative data will be further broken down into two parts: the first is an analysis of overall (in)effectiveness of internal control and auditing mechanisms using descriptive statistics; the second part is an analysis of systemic and attitudinal factors impacting the effectiveness of Thai local government internal auditing mechanisms in detecting risks using factor analysis and Pearson's correlation coefficient.

4.2 Overall Effectiveness of Thai Local Government Internal Control and Auditing Systems

The data from the 415 returned questionnaires was examined to ensure the reliability of the research instrument before applying the statistical methods for further analysis. The result was that the instrument was reliable as the coefficient value of Cronbach's Alpha was near to one (see Appendix 4). Using factor analysis 11 sub-factors were identified; they are efficiency of internal auditing processes, independence of internal auditing team, support from administrators, audited departments' cooperation with internal auditing teams, competence of internal auditing teams, officials' cooperation, independence in detecting risks, interest of officials, independence of internal auditing department, promotion prospects and personal independence. These factors have been re-categorised into two main categories: systemic attitudes and independence of the internal auditing system (see Figure 4.1).

Figure 4.1

Research Hypotheses for Examining Relationships between Variables



Even though the Thai government has always promoted good governance in all government organisations especially in Thai local governments by using internal control and auditing mechanisms to deter and detect risks (OAG, 2010; OAG, 2008; SAC, 2001), the results demonstrate that local governments have neglected formal training of internal auditors in risk assessment processes. Overwhelmingly, respondents (410 or 98.80%) to the mailed survey indicated that they have not received formal training in those processes. This lack of training is impacted by the finding that Thai local government administrators have poor knowledge of the internal auditing system (313 respondents or 75.40%) or no knowledge (58 respondents or 14.00%) (see Appendix 5).

The effect of the poor promotion of formalized risk assessment processes has impacted the effectiveness of Thai local government internal control systems so that they are ineffective or even very ineffective as attested to by 242 respondents (58.30%) and 148 respondents (35.70%) respectively (see Appendix 5). The poor promotion of processes is a likely outcome of the insufficient internal auditing knowledge of local government officials and administrators (see Appendix 5). Together, this situation has resulted in an ineffective Thai local government internal control systems (see Appendix 5).

To achieve the objectives and goals of internal auditing including the protection from and detection of all risks (Spekle, Elten & Kruis, 2007; Allegrini & D'Onza, 2003; Read & Rama, 2003), internal auditors must normally work at all activities encompassed by internal auditing. In contrast, the results of this study for working time spent (see Appendix 5) shows that Thai local government internal auditors spend their time mostly on operational audits, followed by compliance audits, risk assessment and financial audit for reporting, although these lower ranked activities should be performed before conducting other internal auditing activities (CGD, 2007; Srijunpetch, 2005). The other activities, special audit, IT audit and fraud investigation, were ranked last (see Appendix 5).

The last three internal auditing activities unanimously ranked last (special audit, IT audit and fraud investigation) were so ranked due to their complexity, a result of local government internal auditors' poor knowledge of these procedures, their lack of

experience, skill, practical independence and insufficient internal auditing staff. The results (409 respondents or 98.60%) show that the internal auditors have not been given enough funding in budgets for auditing operations and training despite administrators being charged with creating effective internal control and auditing mechanisms. The lack of development of internal auditors' competence and of the auditing systems has created a situation in which internal auditors avoid auditing some areas of risk especially that relating to fraud and corruption (see Appendix 5).

Effective internal auditing processes require risk assessment of the internal control systems of the organisation being audited prior to working on the next steps of internal auditing (Asare et al., 2012; Khoury, 2011). Alarmingly, most (see Appendix 5) internal auditors ranked the adequacy of internal controls lowly reflecting the time spent on risk assessment. Both complexity of operations of local government and professional competence were viewed as of low importance (see Appendix 5) but the respondents' relationships with their local government employer has been given the most importance. This situation is alarming because an internal auditor's relationship with his/her employer can lead to the internal auditing mechanisms being ineffective in deterring and detecting risks (especially those relating to fraud and corruption) (Ernst & Young, 2012; Hegazy & Nahass, 2011; Rajivan et al., 2009). The situation is worsened by the auditors' lack of practical independence so that there is a danger that the internal auditors may look to private gains and corrupt behaviour knowing that their employer does not adequately follow internal control processes (Vandervelde et al., 2012; Cressey, 2011; Lee & Kenny Oh, 2007).

The practical independence of the internal auditors has also been hindered by the lack of a formally organised auditing department in many local governments as reported by 328 of the 415 respondents (see Appendix 5). The remaining respondents reported that their local governments had informally organised departments in which the auditing department was within other departments of the audited departments. To ensure effective auditing, internal auditors should have independent workplaces supported by administrators so that the auditors are assured of their independence (Atuguba et al., 2012; Unegbu & Kida, 2011; Wang & Chen, 2005).

The effectiveness of an internal audit is also impacted by the frequency of internal audit planning. Internal audit planning should be improved by following up any risk situations that might be identified. The plan should be updated with new internal auditing techniques. The results of this study reveal that the internal auditing plan has been updated only once a year as reported by 99% of respondents. This lack of updating can generate ineffectiveness in the ability of the internal auditing mechanisms to deter and detect risks (Mihaela & Lulian, 2012; Sawalqa & Qtish, 2012). However, in one local government, the respondent reported that their auditing plan has been improved at least every three months.

To sum up, many factors impact negatively on Thai local government internal control and auditing mechanisms so that they are potentially ineffective. These factors include administrators having poor knowledge of internal control and auditing that leads to poor promotion of internal control and auditing in their organizations which is reflected in the lack of formal internal auditing departments. Furthermore, local government officials have little internal control and auditing knowledge with no formal training of risk assessment processes. At the same time, local government internal auditors have insufficient time to perform all internal auditing activities. Due to their insufficient knowledge, experience and lack of practical independence, most Thai local government internal auditors overlooked risk assessment when planning internal auditing activities so that the ineffectiveness of internal auditing in deterring and detecting risks in Thai local governments has been compromised (Asare et al., 2012; Atuguba et al., 2012; Khoury, 2011; Srijunpetch, 2005).

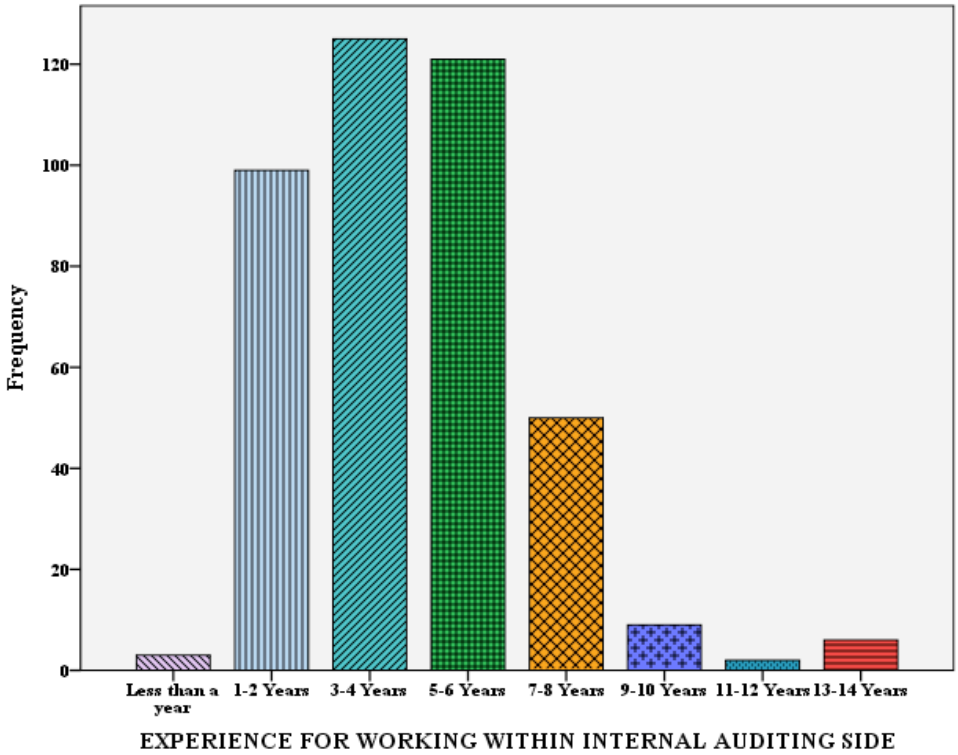
4.3 Competence of Thai Local Government Internal Auditors

Individual competence encompasses knowledge, experiences and skills (Kongrungchok, 2009; Pickett, 2004). The survey data reveals that Thai local government internal auditors possess knowledge in that most (95%) graduated with a Bachelor degree (see Appendix 5) in which the focus was on auditing. With regard to experience (see Figure 4.2), most (59.30%) respondents had three to six years experience in auditing. Twenty three percent had only one to two years experience while a similar percentage had seven to eight years while only 12 percent had greater experience. Despite their experience in internal audit work, they (99.80% of

respondents) expressed a desire for additional training as they regard their training as insufficient. They would like to update their knowledge and experiences in familiar internal auditing activities.

Figure 4.2

Thai Local Government Internal Auditors' Experiences with Internal Audit Working



Their desire to improve their knowledge was through training courses in risk assessment (300 respondents or 72.29%), operational audit (298 respondents or 71.81%) and compliance audit (296 respondents or 71.33%). Less desire for improving their knowledge of financial auditing for reporting (219 respondents) and fraud investigation (218 respondents) was recorded. Least interest was for improving their knowledge of forensic accounting, IT audit and special audit (see Appendix 5). Similarly, most interest in improving their experiences (including skills) was in the areas of operational audit (325 respondents), compliance audit (322 respondents) and risk assessment (278 respondents). Moderate interest was recorded in improving their experiences in financial auditing for reporting (238 respondents) and fraud investigation (213 respondents). Least interest was shown in improving their experiences in the areas

of IT audit, special audit and forensic accounting. If Thai local government internal auditors are to become effective in deterring and detecting risks particularly fraud and corruption risks their knowledge and experiences need to focus on the areas of fraud investigation, special audit and forensic accounting, areas in which they expressed the least interest.

Thai local government internal auditors have the basic qualification for their position as determined by Thai federal and local governments – a Bachelor degree in accounting encompassing internal auditing knowledge. However, they indicated that they would like more training to update their knowledge and experiences but unfortunately, they are mostly interested in raising their knowledge and experiences in areas that are not likely to improve their ability to detect risks especially those relating to fraud and corruption (Ho & Hutchinson, 2010; Spekle, Elten & Kruis, 2007).

4.4 Corruption Methods Used in Thai Local Governments

Different environments and cultures can generate separate and divergent corruption activities so that the solutions to corruption will need to differ (Rajivan et al., 2009). The corruption activities in Thailand include negotiation and predatory authority mechanisms (Quah, 1982); solidarity networks and redistributive accumulation mechanisms (Phongpaichit, 2007); gift-giving (Rachinda, 2006). Six forms of corruption are lobbying, extortion, gift-giving, policy corruption, misuse of authority for changing civil servants and corruption in terms of public officers' working time (NESAC, 2004).

When asked to identify the types of corruption activities mostly used in Thai local governments, 91% of the respondents reported bribery, other corruption activities used were identified as conflict of interest (350 respondents or 84.34%) and illegal gratuities (323 respondents or 77.83%) (see Appendix 5). Mechanisms of mobilising corruption that have been employed comprise redistributive accumulation, gift-giving, negotiation and solidarity networks (see Appendix 5). Similarly, corrupt behaviours that have been used for wrongdoing comprise team conspiracy (409 respondents or 98.55%) and nepotism (390 respondents or 93.98%) (see Appendix 5).

In 2004, research conducted by the National Economic and Social Advisory Council (NESAC) of Thailand identified various forms of corruption used in Thailand. This study found that certain corruption forms identified by NESAC have been used in Thai local governments. They include lobbying (415 respondents or 100%), graft and gift-giving (401 respondents or 96.63%), corruption in terms of public officers' working time (365 respondents or 87.95%) and corrupt policy (295 respondents or 71.08%) (see Appendix 5).

In summary, corruption occurs in Thai local governments. Because of the nature of corruption, it results in misdirecting public benefits both monetary and non-monetary to factional and individual gains. That the internal auditors know of the corruption methods being used reflects the lack of independence identified by the auditors and also suggests that training needs to focus on how to identify the signs that corruption is taking place and how to design systems to minimise the chances of corruption occurring.

4.5 Factor Analysis Of (In)Effectiveness Of Internal Auditing System In Thai Local Governments

Factor analysis was used to group similar sub-factors which resulted in 11main factors. They are:

- efficiency of internal auditing processes;
- independence of internal auditing team;
- support from administrators;
- audited departments' cooperation with internal auditing team;
- competence of the internal auditing team;
- officials' cooperation;
- independence in detecting risks;
- interest of officials;
- independence of internal auditing department;
- promotion prospects; and
- personal independence.

These sub-factors are sequenced from most to least important (see Table 4.1).

Table 4.1

Factor Analysis Grouping Factors of (In)Effectiveness of Internal Auditing System

Factor Analysis: Rotated Component Matrix**	The Questions Used	Pearson Correlation of Factors***	Eigenvalue	% of Variance
Efficiency of Internal Auditing Processes	Scope of audit programs focuses on risk	0.865		
	Audit objectives focus on risk	0.863		
	Successful risk assessment depends on clear objectives	0.827		
	Successful risk assessment depends on clear processes	0.825		
	Internal auditing team can evaluate the internal control systems to detect risk	0.764		
	You can monitor the results of your recommendations	0.533		
	Internal control systems provide an effective basis for reviews	0.496	4.661	11.369%
Independence of Internal Auditing Team	Operational plans and performance results will only be evaluated when administrators request this	0.983		
	Operational plans and performance results will only be monitored when administrators request this	0.983		
	Risk and/or fraud situations will only be reviewed when administrators request this	0.983		
	You need to consider related laws and regulations before auditing	-0.816	3.715	9.062%
Support from Administrators	Internal auditing department obtains an adequate operational budget	0.888		
	Internal auditing department obtains an adequate procurement budget	0.877		
	There is an adequate annual training budget for developing competency of internal auditing staff	0.758		
	Administrators control your auditing judgements	-0.639	3.712	9.054%
Audited Departments' Cooperation with Internal Auditing Team	Your local government provides documents for internal auditing team	0.901		
	Your local government cooperates with internal auditing team in assessing internal control systems	0.881		
	Your local government gives in-depth interviews to internal auditing team	0.821		
	Internal auditing activities contribute to the achievement of improvements in the internal control systems	0.544		
	Your internal auditing team has appropriate reporting lines within local government	0.534	3.497	8.528%
Competency of the internal Auditing Team	Clear objectives of internal auditing systems	0.905		
	Understanding of internal auditing objectives	0.861		
	Professional practice of internal auditing team	0.803		
	Competency of internal auditing team	0.793		
	Understanding of complex methods of corruption	0.717	3.452	8.421%
Officials' Cooperation	Obtaining support from administrators	0.913		
	Effectiveness of internal control systems	0.903		
	Official's cooperation with internal auditors	0.890	3.032	7.396%
Independence in Detecting Risk	Your internal auditing team has sufficient resources to deliver a risk strategy	0.860		
	Your internal auditing team can access all aspects of local government	0.774		
	Your internal auditing team is able to work without impediment	0.723		
	You can freely report the results of auditing to detect risk	0.522	2.928	7.142%
Interest of Officials	Administrators are strongly interested in the internal control systems	0.895		
	Associated officers are strongly interested in the internal control systems	0.889	2.445	5.962%
Independence of Internal Auditing Department	You are free to audit all aspects of local government	0.840		
	Internal auditing department is independently structured from other local government departments	0.742		
	Internal auditors' recommendations are implemented by administrators	0.665	2.316	5.649%
Promotion Prospects	Practical independence of internal auditing team	0.860		
	Growth prospects and motivation	0.762	1.720	4.194%
Personal Independence	You can freely disclose to administrators the results of auditing	0.564		
	You can freely apply internal auditing standards to complex risk	0.496	1.574	3.840%
				80.618%

**Extraction Method: Principal Component Analysis; Rotation Method: Varimax with Kaiser Normalization

In the context of Table 4.1, the 11 grouped key factors can be used for expounding the (in)effectiveness of internal auditing mechanisms in Thai local governments. With 80.618 per cent of the variance and eigenvalues of more than one, all factors have a relationship with each other. The remaining percentage (19.382%) might come from other factors underlying the problems of these internal auditing systems.

Each factor can be employed to explain the (in)effectiveness of Thai local government internal auditing systems as a proportion identified by calculating the statistical value of eigenvalue and variance percentage consisting of efficiency of internal auditing processes (11.369%), independence of internal auditing team (9.062%), support from administrators (9.054%), audited departments' cooperation with internal auditing team (8.528%), competency of the internal auditing team (8.421%), officials' cooperation (7.396%), independence in detecting risks (7.142%), interest of officials (5.962%), independence of internal auditing department (5.649%), promotion prospects (4.194%) and personal independence (3.840%) respectively. When all factors concerned with independence are combined the percentage of variance is equal to 25.693 per cent. This percentage indicates that independence in all aspects should be urgently considered to improve the effectiveness of Thai local government internal auditing mechanisms (Vandervelde et al., 2012; Unegbu & Kida, 2011; Thong, Hong & Tam, 2002).

4.6 Preliminary Analysis of Factors Impacting (In)Effectiveness of Internal Auditing in Thai Local Governments

The initial data analysis using descriptive statistics in terms of mean and standard deviation values to report the results of (in)effectiveness of internal auditing mechanisms by comparing calculated mean with mean of measurable benchmark of attitudinal scale (see Chapter 3: 3.7.1) will be elucidated by each factor. The efficiency of internal auditing processes can be explained by seven sub-factors as the respondents agreed that overall the efficiencies of internal auditing processes should have been effective in deterring and detecting risks in Thai local governments (3.70). However, there are two sub-factors that Thai local government internal auditors are not sure about their effectiveness; internal auditing teams can freely monitor the results of their recommendations (1.96), and can evaluate the internal control systems to detect risk

(2.68) (see Table 4.2). Administrators and their departments which have been audited in Thai local governments have largely ignored the recommendations of the internal auditing team to improve their internal control systems so effectiveness of Thai local government internal control and auditing systems is compromised (Asare et al., 2012).

Table 4.2

Preliminary Data Analysis in Each Aspect of Efficiency of Internal Auditing Processes

The Aspect of Efficiency of Internal Auditing Processes	Mean	Standard Deviation	Comparison with Measurable Benchmark Of Attitudinal Scale
Scope of audit programs focuses on risk	4.26	0.704	Strongly Agree
Audit objectives focus on risk	4.26	0.704	Strongly Agree
Successful risk assessment depends on clear objectives	4.46	0.541	Strongly Agree
Successful risk assessment depends on clear processes	4.46	0.540	Strongly Agree
Internal auditing team can evaluate the internal control systems to detect risk	2.68	1.415	Unsure
You can monitor the results of your recommendations	1.96	1.031	Disagree
Internal control systems provide an effective basis for reviews	3.84	0.718	Agree
Overall	**3.70**	**0.608**	**Agree**

The aspect of support from administrators can be considered by four sub-factors as the respondents strongly disagreed that support from administrators has been effective (1.13) (see Table 4.3). Administrators have supplied insufficient budgets for operation, procurement and training for developing the competency of internal auditing staff. Additionally, administrators control internal auditors' judgements by commanding editing of the internal auditing reports to reflect their opinions, thus impacting the effectiveness of the internal auditing systems (Mihaela & Lulian, 2012; Khoury, 2011; Unegbu & Kida, 2011).

Table 4.3

Preliminary Data Analysis in Each Aspect of Support from Administrators

The Aspect of Support from Administrators	Mean	Standard Deviation	Comparison with Measurable Benchmark Of Attitudinal Scale
Internal auditing department obtains an adequate operational budget	1.18	0.498	Strongly Disagree
Internal auditing department obtains an adequate procurement budget	1.16	0.494	Strongly Disagree
There is an adequate annual training budget for developing competency of internal auditing staff	1.18	0.527	Strongly Disagree
Administrators do not control your auditing judgements	1.01	0.432	Strongly Disagree
Overall	**1.13**	**0.302**	**Strongly Disagree**

The aspect of departmental cooperation when audited by an internal auditing team is delineated by five sub-factors as the respondents disagreed that departments to be audited have always cooperated with the internal auditing team (2.46) (see Table 4.4) in providing everything needed by that team. This lack of cooperation means that internal auditors must find the evidence that they need. Internal auditing teams have requested in-depth interviews so that the internal auditing team might gain needed evidence to contribute the achievement of improvements in the internal control systems. The departments are not cooperative although appropriate reporting lines within Thai local governments suggest that they should so (Simmons, 2010).

Table 4.4

Preliminary Data Analysis in Each Aspect of

Audited departments' Cooperation with Internal Auditing Team

The Aspect of Audited Departments' Cooperation with Internal Auditing Team	Mean	Standard Deviation	Comparison with Measurable Benchmark Of Attitudinal Scale
Your local government provides documents for internal auditing team	2.00	0.995	Disagree
Your local government cooperates with internal auditing team in assessing internal control systems	1.83	0.786	Disagree
Your local government gives in-depth interviews to internal auditing team	1.73	0.804	Strongly Disagree
Internal auditing activities contribute to the achievement of improvements in the internal control systems	2.38	0.786	Unsure
Your internal auditing team has appropriate reporting lines within local government	4.35	0.707	Strongly Agree
Overall	**2.46**	**0.666**	**Disagree**

The aspect of interest of officials is expounded by two sub-factors as the respondents strongly disagreed that internal control systems in Thai local governments have been attended by officials both administrators and audited departments (1.19) (see Table 4.5). This situation can eventually lead to ineffectiveness of Thai local government internal control and auditing systems (Unegbu & Kida, 2011).

Table 4.5

Preliminary Data Analysis in Each Aspect of Interest of Officials

The Aspect of Interest of Officials	Mean	Standard Deviation	Comparison with Measurable Benchmark Of Attitudinal Scale
Administrators are strongly interested in the internal control systems	1.20	0.475	Strongly Disagree
Associated officers are strongly interested in the internal control systems	1.18	0.438	Strongly Disagree
Overall	**1.19**	**0.443**	**Strongly Disagree**

In relation to the competency of the internal auditing team, officials' cooperation and promotion prospects, the respondents were asked whether they agreed (disagreed) that there were issues of weakness in the internal control and auditing systems. Therefore, the first aspect, competency of the internal auditing team, is described by five sub-factors as the respondents indicated that the weakness of internal control and auditing mechanisms has been impacted by the internal auditing team's insufficient competency (3.62) (see Table 4.6). Internal auditing teams agreed that a weakness was their lack understanding of complex corruption methods (4.08) including a lack of competency of the internal auditing team (3.93), a lack of professionalism on the part of the internal auditing team (3.57) and a lack of understanding in determining clear objective of internal auditing systems (3.26) for improving effectiveness of internal auditing mechanisms in detecting and deterring the risks of fraud and corruption (see Table 4.6) (Khoury, 2011; Kongrungchok, 2009; Bailey, 2010; Pickett, 2004).

Table 4.6

Preliminary Data Analysis in Each Aspect of Competency of the Internal Auditing Team

The Aspect of Competency of the Internal Auditing Team	Mean	Standard Deviation	Comparison with Measurable Benchmark Of Attitudinal Scale
Clear objectives of internal auditing systems	3.26	0.702	Agree
Understanding of internal auditing objectives	3.26	0.584	Agree
Professional practice of internal auditing team	3.57	0.735	Agree
Competency of internal auditing team	3.93	0.724	Agree
Understanding of complex methods of corruption	4.08	0.852	Agree
Overall	**3.62**	**0.597**	**Agree**

The second aspect of officials' cooperation is explained by three sub-factors. An important weakness of the internal control and auditing systems has come from a lack of support from administrators (4.71), the lack of cooperation of officials with internal auditors (4.66) and the resulting ineffectiveness of internal control systems (4.62) sequentially (see Table 4.7). The lack of cooperation of all levels of officials to the internal control system, therefore, has significantly impacted the effectiveness of internal control and auditing mechanisms (Asare et al., 2012; Flesher & Zanzig, 2000; Warner, 1999).

Table 4.7

Preliminary Data Analysis in Each Aspect of Officials' Cooperation

The Aspect of Officials' Cooperation	Mean	Standard Deviation	Comparison with Measurable Benchmark Of Attitudinal Scale
Obtaining support from administrators	4.71	0.670	Strongly Agree
Effectiveness of internal control systems	4.62	0.694	Strongly Agree
Official's cooperation with internal auditors	4.66	0.662	Strongly Agree
Overall	**4.66**	**0.625**	**Strongly Agree**

The third last aspect of promotion prospects is expounded by two sub-factors. Much of the significant weaknesses in the internal auditing system arises from a lack of growth prospects and working motivation (4.93) combined with a lack of practical independence for the internal auditing team (4.68) (see Table 4.8). There is a problem here. If an internal auditing team receives more independence, administrators will be deterred from fraud and corruption wrongdoings so that they will not promote members of the internal auditing team. On the contrary, if an internal auditing team accepts the reduction of their independence and allow the wrongdoing of administrators, they will receive the promotions they request. This situation is similar to the bribery of internal auditing team by administrators. Internal auditors may accept the bribe of promotion because of their low salary and, therefore, their survival (Takahiro & Jia, 2012; Khoury, 2011; Unegbu & Kida, 2011; Wang & Chen, 2005).

Table 4.8

Preliminary Data Analysis in Each Aspect of Promotion Prospects

The Aspect of Promotion Prospects	Mean	Standard Deviation	Comparison with Measurable Benchmark Of Attitudinal Scale
Practical independence of internal auditing team	4.68	0.619	Strongly Agree
Growth prospects and motivation	4.93	0.247	Strongly Agree
Overall	**4.81**	**0.389**	**Strongly Agree**

The aspect of independence of internal auditing teams is delineated by four sub-factors. Respondents strongly disagreed that their internal auditing teams will only work when administrators request them (1.03) (see Table 4.9). Because internal auditing teams work as planned by their annual plans, the teams can independently perform all determined internal auditing activities themselves although administrators

will sometimes impede the performance of an internal auditing team (Atuguba et al., 2012; Hegazy & Nahass, 2011; Ahlawat & Lawe, 2004; Chaney & Philipich, 2002).

Table 4.9

Preliminary Data Analysis in Each Aspect of Independence of Internal Auditing Team

The Aspect of Indepedence of Internal Auditing Team	Mean	Standard Deviation	Comparison with Measurable Benchmark Of Attitudinal Scale
Operational plans and performance results will only be evaluated when administrators request this	1.03	0.317	Strongly Disagree
Operational plans and performance results will only be monitored when administrators request this	1.03	0.317	Strongly Disagree
Risk and/or fraud situations will only be reviewed when administrators request this	1.03	0.317	Strongly Disagree
You do not need to consider related laws and regulations before auditing	1.02	0.176	Strongly Disagree
Overall	**1.03**	**0.208**	**Strongly Disagree**

The aspect of independence in detecting risks is expounded by four sub-factors. Respondents strongly disagreed that internal auditing teams have independence in detecting risks (1.52) (see Table 4.10). Internal auditing teams are unable to access documents and records and work without being impeded by administrators and audited departments. Internal auditing teams have not received sufficient resources to deliver a risk based strategy so that they have not been able to independently report the detection of risks. This situation is compromised by administrators editing internal auditors' reports to reflect their opinion, an opinion that does not mirror the internal auditors' opinion (Unegbu & Kida, 2011; Schelker & Eichenberger, 2010; Thong, Hong & Tam, 2002).

Table 4.10

Preliminary Data Analysis in Each Aspect of Independence in Detecting Risks

The Aspect of Independence in Detecting Risks	Mean	Standard Deviation	Comparison with Measurable Benchmark Of Attitudinal Scale
Your internal auditing team has sufficient resources to deliver a risk strategy	1.42	0.527	Strongly Disagree
Your internal auditing team can access all aspects of local government	1.60	0.586	Strongly Disagree
Your internal auditing team is able to work without impediment	1.47	0.580	Strongly Disagree
You can freely report the results of auditing to detect risk	1.60	0.816	Strongly Disagree
Overall	**1.52**	**0.493**	**Strongly Disagree**

Independence of the internal auditing department is described by three sub-factors. Internal auditing departments have not been formally structured and have not been positioned under highest administrator of Thai local governments. Internal auditors do not have a workplace in which to work independently (1.43) (see Table 4.11). Some internal auditing departments are combined with other departments although needing independence from the other departments as shown on their organisation charts. Therefore, Thai local government internal auditing departments (including internal auditing teams) have lacked the independence to deliver effective internal auditing mechanisms (Vandervelde et al., 2012; Schelker & Eichenberger, 2010; Amudo & Inanga, 2008).

Table 4.11

Preliminary Data Analysis in Each Aspect of Independence of Internal Auditing Department

The Aspect of Independence of Internal Auditing Department	Mean	Standard Deviation	Comparison with Measurable Benchmark Of Attitudinal Scale
You are free to audit all aspects of local government	1.50	0.573	Strongly Disagree
Internal auditing department is independently structured from other local government departments	1.39	0.668	Strongly Disagree
Internal auditors' recommendations are implemented by administrators	1.40	0.641	Strongly Disagree
Overall	**1.43**	**0.556**	**Strongly Disagree**

The final aspect of personal independence is explained by two sub-factors (see Table 4.12). Despite the fact that guidelines for internal control and auditing systems have been issued by the federal government's Office of The Auditor General of Thailand (OAG) and The Comptroller General's Department (CGD) in Ministry of Finance, these guidelines are thwarted by internal auditing teams not having the independence to determine annual internal auditing plans. These plans must be approved by the highest administrator before implementation if these plans include fraud and corruption risks; the highest administrator will command the internal auditing team to change the focus to general risks to avoid the detection of their fraud and corruption wrongdoings which are hidden in several forms by all levels of administrators and their factions (Takahiro & Jia, 2012; Unegbu & Kida, 2011; Ahlawat & Lawe, 2004).

Table 4.12

Preliminary Data Analysis in Each Aspect of Personal Independence

The Aspect of Personal Independence	Mean	Standard Deviation	Comparison with Measurable Benchmark Of Attitudinal Scale
You can freely disclose to administrators the results of auditing	1.22	0.430	Strongly Disagree
You can freely apply internal auditing standards to complex risk	1.32	0.542	Strongly Disagree
Overall	**1.27**	**0.454**	**Strongly Disagree**

4.7 Factors Impacting Effectiveness of Internal Auditing

Correlation Coefficient statistics were employed to explain the relationships between factors and to test the determined hypotheses. Factors concerned with systemic attitudes of Thai local government internal auditors are likely to impact the effectiveness of internal auditing mechanisms in detecting risks (see Table 4.13 and 4.14). The results (in terms of the correlation coefficient) will be able to identify the factors that have influenced the effectiveness of internal auditing mechanisms in detecting risks in Thai local governments.

Table 4.13

Correlation Coefficients

FACTORS STUDIED	Systemic Attitudes	Indepedence of the Internal Auditing System	(In)Effectiveness of the Internal Auditing System
Mean	**3.2210**	**1.5608**	**2.6173**
Standard Deviation	**0.2341**	**0.2695**	**0.2070**
Systemic Attitudes	**1**		
Independence of the Internal Auditing System	**0.378****	**1**	
(In)Effectiveness of the Internal Auditing System	**0.899****	**0.746****	**1**

**** = Correlation is significant at the 0.01 level (2 tailed)**

The first hypothesis (**H_1**) was

There is a relationship between systemic attitudes and the effectiveness of internal auditing mechanisms in detecting corruption.

As a result of testing, the first hypothesis has a significant relationship between the independent and dependent factors (0.899**) at the significance level 0.01 (2 tailed)

(see Table 4.13) so that the test did not support the null hypothesis and so supported the alternative hypothesis that if systemic attitudes have been effective, the internal auditing mechanisms in detecting risks have also been effective. On the other hand, if the systemic attitudes have been ineffective, the internal auditing mechanisms in detecting risks have also been ineffective. Likewise, the sub-factors of systemic attitudes (see Table 4.14) are the significant variables that have influenced the (in)effectiveness of internal auditing mechanisms comprising audited departments' cooperation with internal auditing team (0.619**), interest of officials (0.579**), efficiency of internal auditing processes (0.468**), support from administrators (0.424**), competency of the internal auditing team (0.309**), promotion prospects (0.294**) and officials' cooperation (0.148**). Therefore, all sub-factors of systemic attitudes have impacted the (in)effectiveness of Thai local government internal auditing systems in the same direction. Importantly, the lack of cooperation between audited departments and internal auditing teams has been important implying that all local government officials should improve the internal control system so as to enable it to be more effective (Asare et al., 2012; Schelker & Eichenberger, 2010; Simmons, 2010; Amudo & Inanga, 2008).

The second hypothesis (**H_2**) was

> ***There is a relationship between independence of the internal auditing system and effectiveness of internal auditing mechanisms in detecting corruption.***

As a result of testing this hypothesis has a significant relationship of 0.746 at the significance level of 0.01 (2 tailed) (see Table 4.13). Testing did not support H_0 and so supported hypothesis H_2 meaning that if the internal auditing system is independent, the internal auditing mechanisms in detecting risks are more likely to be effective. On the contrary, if the independence of the internal auditing system has been impeded by Thai local government administrators and audited departments, the internal auditing mechanisms in detecting risks will have lacked effectiveness. Similarly, the sub-factors of independence of the internal auditing system (see Table 4.14) are the significant independent variables that have impacted the (in)effectiveness of internal auditing mechanisms in deterring and detecting risks. The sub-factors are independence in detecting risks (0.637**), personal independence (0.526**), independence of internal auditing department (0.431**) and independence of internal auditing team (0.168**).

As the relationships are statistically significant, it can be concluded that the sub-factors of independence of the internal auditing system have influenced the (in)effectiveness of Thai local government internal auditing mechanisms in the same direction. These factors, the independence of the internal auditing team, individual internal auditors and the internal auditing department in Thai local governments, indicate that internal auditing should be given independence to deter and detect risks (Atuguba et al., 2012; Vandervelde et al., 2012; Unegbu & Kida, 2011; Chaney & Philipich, 2002).

The third hypothesis (**H_3**) was

> ***There is a relationship between independence of the internal auditing system and systemic attitudes.***

As a result of testing, this hypothesis has a significant relationship between independent and dependent factors (0.378**) at the significance level 0.01 (2 tailed) (see Table 4.13). The result did not support the null hypothesis and so supported the alternative hypothesis meaning that if a Thai local government internal auditing system can obtain independence in internal audit working in all activities, this situation will be able to generate the appropriate systemic attitudes which in turn will be able to generate efficiency of internal auditing processes (Ernst & Young, 2012; Sawalqa & Qtish, 2012; Khoury, 2011; Srijunpetch, 2005). This independence will be able to generate effective Thai local government internal auditing mechanisms. On the contrary, if they cannot gain independence in internal audit working in all activities, this situation will not be able to generate the satisfaction in systemic attitudes that will ultimately lead to the ineffectiveness of Thai local government internal auditing mechanisms in deterring and detecting risks (Takahiro & Jia, 2012; Thong, Hong & Tam, 2002).

4.7.1 Relationships of Antecedents

With explanations of relationships between independent factors, the effect of improving one independent factor that will affect other independent factors at the significance level 0.01 and 0.05 (see Table 4.14) should be considered. The factor of efficiency of internal auditing processes has a significant relationship with audited departments' cooperation with internal auditing team (0.364**), independence in detecting risks (0.332**) and interest of officials (0.166**) at the significance level

0.01. These relationships mean that internal auditing processes will be effective when an internal auditing team has obtained both independence and the cooperation of audited departments to detect and deter risks. Internal control systems should not be neglected by administrators and audited departments. Neglect can generate both weakness and effectiveness of Thai local government internal control and auditing mechanisms in detecting risks (Asare et al., 2012; Atuguba et al., 2012; Takahiro & Jia, 2012; Vandervelde et al., 2012; COSO, 2011).

Table 4.14

Correlation of Factors Impacting

Effectiveness of Internal Auditing Systems in Thai Local Governments

FACTORS STUDIED		FV01	FV02	FV03	FV04	FV05	FV06	FV07	FV08	FV09	FV10	FV11	FV12
FV01:	Efficiency of Internal Auditing Processes	1											
FV02:	Indepedence of Internal Auditing Team	-0.048	1										
FV03:	Support from Administrators	-0.-16	0.118*	1									
FV04:	Audited Departments' Cooperation with Internal Auditing Team	0.364**	-0.098*	0.089	1								
FV05:	Competency of the Internal Auditing Team	0.017	-0.036	0.126**	0.039	1							
FV06:	Officials' Cooperation	-0.052	-0.038	-0.194**	-0.042	-0.223**	1						
FV07:	Independence in Detecting Risks	0.332**	-0.040	0.313**	0.398**	0.029	-0.061	1					
FV08:	Interest of Officials	0.166**	0.041	0.200**	0.307**	0.064	-0.042	0.304**	1				
FV09:	Independence of Internal Auditing Department	0.000	0.072	0.539**	0.014	0.079	-0.109*	0.189**	0.244**	1			
FV10:	Promotion Prospects	0.033	-0.031	-0.052	0.021	0.090	0.308**	-0.027	0.134**	0.019	1		
FV11:	Personal Independence	0.007	-0.008	0.250**	0.372**	0.125*	-0.084	0.433**	0.336**	0.113*	-0.076	1	
FV12:	(In)Effectiveness of Internal Auditing System	0.468**	0.168**	0.424**	0.619**	0.309**	0.148**	0.637**	0.579**	0.431**	0.294**	0.526**	1

** = Correlation is significant at the 0.01 level (2 tailed)

* = Correlation is significant at the 0.05 level (2 tailed)

The factor of independence of internal auditing team has a significant relationship with support from administrators (0.118*) and departmental cooperation with internal auditing team (-0.098*) at the significance level 0.05. This result suggests that internal auditing teams should be independence from administrators and departments, and also that those administrators and departments should cooperate with the internal auditors. Unfortunately, departments scheduled for auditing have not given their cooperation so that the internal auditing teams are unable to access all areas to audit as determined by their annual internal auditing plans. This situation can impact

the effectiveness of Thai local government internal auditing mechanisms in detecting risks (Takahiro & Jia, 2012; Vandervelde et al., 2012; Khoury, 2011; Jensen, 1993).

The factor of support from administrators has a significant relationship with competency of the internal auditing team (0.126**), officials' cooperation (-0.194**), independence in detecting risks (0.313**), interest of officials (0.200**), independence of internal auditing department (0.539**) and personal independence (0.250**) at the significance level 0.01 including independence of internal auditing team (0.118*) at the significance level 0.05. These relationships mean that support from administrators will influence independence in an internal auditing team to perform both auditing and applying internal auditing standards to detect and deter the complex risks especially fraud and corruption risks. Independence also means the internal auditing department should not be combined with other departments. Likewise, to obtain competency of an internal auditing team, the team should be supported by administrators so that they can improve their knowledge and experience. Importantly, administrators need to support all departments so that they understand and accept the importance of internal control and auditing systems (Vandervelde et al., 2012; COSO, 2011; Unegbu & Kida, 2011; Bailey, 2010; Kongrungchok, 2009; 2007).

The factor of departmental cooperation with internal auditing team has significant relationships with efficiency of internal auditing processes (0.364**), independence in detecting risks (0.398**), interest of officials (0.307**), and personal independence (0.372**) at the significance level 0.01 including independence of internal auditing team (-0.098*) at the significance level 0.05. These relationships mean that the cooperation of departments will greatly influence the efficiency and effectiveness of internal auditing processes to apply internal auditing standards to detect the complex risks (Atuguba et al., 2012; COSO, 2011; Simmons, 2010; Flesher & Zanzig, 2000).

The factor, competency of the internal auditing team, has significant relationships with support from administrators (0.126**) and officials' cooperation (-0.223**) at the significance level 0.01 and personal independence (0.125*) at the significance level 0.05. These relationships mean that an internal auditing team's

competency will depend on support from administrators but this finding is impacted by the negative relationship between competency of the internal auditing team and officials' cooperation. This suggests that if an internal auditing team is competent, administrators and departments may not give the team as much cooperation as they would like in order to thwart the auditors' detection of risks and possible wrongdoings by those being audited. Therefore, competency of an internal auditing team can also lead to ineffectiveness of Thai local government internal auditing mechanisms in detecting and deterring complex risks such as fraud and corruption risks (Takahiro & Jia, 2012; COSO, 2011; Khoury, 2011; Chaney & Philipich, 2002).

The factor, officials' cooperation, has significant relationships with support from administrators (-0.194**), competency of the internal auditing team (-0.223**) and promotion prospects (0.308**) at the significance level 0.01 as well as independence of internal auditing department (-0.109*) at significance level 0.05. This finding means that officials' cooperation with Thai local government internal auditing systems have been negative (Asare et al., 2012; Vandervelde et al., 2012; Ho & Hutchinson, 2010; Coze, 2005).

Not surprisingly the factor, independence in detecting risks, has significant relationships with efficiency of internal auditing processes (0.332**), support from administrators (0.313**), audited departments' cooperation with internal auditing team (0.398**), interest of officials (0.304**), independence of internal auditing department (0.189**), and personal independence (0.433**) at the significance level 0.01. This finding means that an internal auditing team will be able to detect and deter complex risks when the internal auditing teams have effective internal auditing processes, support from administrators (especially in relation to independence) and personal independence. Personal independence can extrapolated as an appropriate workplace and an adequate budget for the internal audit. If this situation is possible, effectiveness of Thai local government internal auditing mechanisms in detecting and deterring risks will be improved (Atuguba et al., 2012; Takahiro & Jia, 2012; COSO, 2011; Schelker & Eichenberger, 2010).

The factor of interest of officials has significant relationships with efficiency of internal auditing processes (0.166**), support from administrators (0.200**), audited departments' cooperation with internal auditing team (0.307**), independence in detecting risks (0.304**), independence of internal auditing department (0.244**), promotion prospects (0.134**) and personal independence (0.336**) at the significance level 0.01. These relationships mean that officials' interest in internal control systems will yield the best results from an internal auditing team because officials, both administrators and their departments, should understand the importance of internal control and auditing systems and benefits to be derived from them. Such a situation will allow an internal auditing team to work on internal auditing activities as determined by annual plans so that Thai local government internal auditing mechanisms will be effective (Asare et al., 2012; Khoury, 2011; Chaney & Philipich, 2002).

Again unsurprisingly, the factor, independence of internal auditing department has significant relationships with support from administrators (0.539**), independence in detecting risks (0.189**) and interest of officials (0.244**) at the significance level 0.01 as well as personal independence (0.113*) and officials' cooperation (-0.109*) at the significance level 0.05. Independence of an internal auditing department arises from appropriate workplaces (not amalgamated with other departments) and freedom to collect evidence in accordance with internal auditing standards. Support from administrators is crucial to the independence of internal auditing department especially in improvement of internal control systems (Takahiro & Jia, 2012; Vandervelde et al., 2012; Khoury, 2011; Unegbu & Kida, 2011).

A much narrower focus is that of the promotion prospects of internal auditors. This factor has significant relationships with officials' cooperation (0.308**) and interest of officials (0.134**) at the significance level 0.01. These relationships mean that cooperation and interest of officials both administrators and their departments will influence their understanding of the audit workings of internal auditing teams (Vandervelde et al., 2012; Khoury, 2011; Unegbu & Kida, 2011).

The factor, personal independence, has significant relationships with support from administrators (0.250**), departmental cooperation with internal auditing team

(0.372**), independence in detecting risks (0.433**) and interest of officials (0.336**) at the significance level 0.01 and competency of the internal auditing team (0.125*) and independence of internal auditing department (0.113*) at the significance level 0.05. These relationships mean that the independence and competency of an internal auditing department (including the internal auditing team) to audit and detect both general and complex risks by using internal control and auditing standards should be supported by administrators and departments to develop and improve internal control and auditing systems. Likewise, Thai local government internal control and auditing systems should be improved to detect and deter the general and complex risks specifically fraud and corruption risks if it is possible as aforementioned (Asare et al., 2012; Takahiro & Jia, 2012; Khoury, 2011; Unegbu & Kida, 2011; Schelker & Eichenberger, 2010).

In summary, corruption has been identified (Puang-Ngam, 2008; ONACC, 2007; Phongpaichit, 2007; Rachinda, 2006) in Thai local governments. Corruption has been hidden in patterns of the misuse of officials' authority using networks and nepotism (NESAC, 2004). Corruption gains were redistributed to factions and individuals (ONACC, 2011; CGD, 2010; Krueathep, 2010; OAG, 2010; OCSC-NIDA, 2010; Seree-Rungsonke, 2006). Corruption can be attributed to the internal control system of Thai local governments not working particularly well, especially the internal auditing mechanisms. This situation has resulted from several factors consisting of insufficient knowledge of administrators and departments of the importance of internal control and auditing, no formal training of risk assessment processes for administrators and departments, no promotion of the need for internal control and auditing systems in their organisations, insufficient internal auditing staff, and the lack of development of internal auditors' knowledge and experiences (including skills) and lack of practical independence. Similarly, the Thai local government internal auditors' competence does not include confidence in internal audit working which is compounded by a lack of training for updating their knowledge and experiences. Importantly, although Thai local government internal auditors still think that Thai local government internal auditing processes can be efficient and effective, they lack the independence to achieve those goals. The lack of cooperation from administrators and departments has not helped (Asare et al., 2012; Atuguba et al., 2012; Takahiro & Jia, 2012; Vandervelde et al., 2012; COSO, 2011; Khoury, 2011; Unegbu & Kida, 2011).

The questionnaire was complemented by semi-structured interviews with volunteers who answered the invitation to meet with the researcher. The findings from those interviews are elaborated in the following section.

4.8 Qualitative Data

This study used in-depth interviews to collect the qualitative data. This data comes from two sources: the first source is open-ended questions in the questionnaire; the second source is interviewing data from semi-structured interviews. As Minichiello, Aroni and Hays (2008) stated, semi-structured interviews are composed of three sub-methods which are in-depth interviews, survey interviews (open-ended questions in a questionnaire) and group or face-to-face interviews. Minichiello et al. (2008) also suggest that the open-ended questions of a questionnaire can be pilot questions which can be developed into themes of primary questions of in-depth interviews (Guest, Namey & Mitchell, 2013; Bryman, 2012). Green and Thorogood (2004, p.87) stated that interviewing is:

> A conversation that is directed more or less towards the researcher's needs for data and can be seen as a specific kind of interaction, in which the researcher and the interviewee produce language data about beliefs, behaviour, ways of classifying the world, or about how knowledge is categorised (Green & Thorogood, 2004, p.87).

This definition conforms with those of Gorden (1998, p.2) and others (Guest, Namey & Mitchell, 2013; Bryman, 2012; Green & Thorogood, 2009; Minichiello, Aroni & Hays, 2008).

Therefore, the data received from open-ended questions in the questionnaire has supplemented the interview data in this study. The interviews were conducted in the Thai language so that the collected data needed translation into English. This was done by Thai editors who were accepted on their appropriate qualifications (see Appendix 7). Thus, the qualitative data was collected from the open-ended questions in the 415 returned questionnaires and the face-to-face interviews with 36 volunteers. The pre-planned questions were used in the interviews. These were supplemented by further questions initiated by answers to those questions to a point of saturation. Interview data was analysed using N*VIVO to manage and create the final themes of the interviews.

Each theme was analysed by content analysis to synthesise the details and was further expounded using a phenomenological research approach.

The final themes were processed to group similar factors which resulted in five primary themes. They are sufficiency of internal auditing team's training; risks in relation to internal control and auditing systems; overall effectiveness of internal auditing mechanisms in detecting and deterring risks; the causes of ineffectiveness in details; and recommendations. Each theme will be discussed in the order listed.

4.8.1 Sufficiency of Internal Auditing Team's Training

To the survey question, "Do you think your training was enough?", 414 respondents gave answers in the negative. For the following question, "What training would you like?", most gave answers relating to their poor auditing training while some were explicit: knowledge and skills.

> *I want to get other new regulations as issued by central government including interpreting on those regulations as well.*
>
> *I would like to train regarding regulations regarding to payment and procurement procedures as specified by central government.*

Many respondents stated their need for training. Training should not only focus on regulations but also communication skills:

> *We have regularly lacked communication skills' art.*
>
> *I was not sure when I was presenting the results of my auditing to make administrators and audited departments to accept those results.*

In the face-to-face interviews, many said that experiences have been important in improving their communication skills but they should have been prepared before having those experiences. They stated senior internal auditors have been important trainers despite the lack of a training budget. Other respondents requested workshops dealing with general audit techniques:

> *We would like to have the workshops for the practical audit techniques.*
>
> *The audit techniques and methods because we never practice and train before coming to work at this position.*

Internal auditors are appointed after graduating with a Bachelor degree in accounting which does not provide experience in actual audit working. Therefore, their competency on entering the profession would not provide them with the skills to effectively detect risks. In relation to the need for training about specific audit techniques, respondents said that:

> *We want to train about audit techniques regarding to find fraud and corruption in local government.*
>
> *Strategy for auditing and evaluating the internal control systems especially advance strategies and techniques for auditing risks and fraud we have never experienced.*
>
> *Workshops for the scope of internal auditing in parts of fraud and corruption, it is difficult for us.*

The need for training in relation to risks associated with fraud and corruption requires training in IT auditing, investigative auditing particularly that relating to fraud and corruption. Respondents said that it has been difficult to audit fraud and corruption risks because the methods and mechanisms of fraud and corruption have become more complex so that training is necessary. Other respondents required more general training as they were appointed with poor internal auditing knowledge:

> *I have looked for additional training relating to internal auditing knowledge at educational institutes that were permitted by local government department for training local government internal auditors.*

Training can be obtained from educational institutes as permitted by Department of Local Administration in Ministry of Interior.

> *I am not training because I can be studying to understand by myself.*

However, some respondents are not seeking training because they said that they have learnt the processes through experience with audit working. These respondents are older.

4.8.2 Risks in Relation to Internal Control and Auditing Systems

In the context of risks that have been occurring in Thai local governments which have impacted the effectiveness of Thai local government internal control and auditing systems, the interviewees gave examples of the *causes of risk*:

(IV_001) We have found that causes of risk could be (1) local government have ignored to apply internal control system in their organisations especially all levels of administrators and (2) internal control system has been violated and has not been implemented.

The main causes of the risks occurring in Thai local governments have come from a failure of administrators and other officials to implement the internal control system in their local governments. Despite the fact that some of them have already implemented an internal control system, this system has not been sufficient to protect against risks. Those systems may not comply with that legislated by the Thai federal government. According to the interviewees, the common risks occurring are:

(IV_002) We have found that the common risks could be classified into two types namely the unintended risk as it happened without intending during the working situation. It might be happened because staff did not obviously understand rules and regulations including insufficient experiences as well as the intended risk that occurred with purposive corruption. It could be possibly because of influences and mal power of the local political representatives and civil staff. They used the gap of law to avoid illegal mistake.

(IV_015) As risks found by us are (1) risks from errors of officers' working unintentionally and (2) risks from fraud and corruption wrongdoing intentionally by political servants and official servants. Due to causes of ignorance and no acceptance the internal control system is rejected by political servants and official servants.

(IV_035) As we detect a lot common risks, it could be grouped into three risk types: (1) risks from errors of officers' working unintentionally, (2) risks from violation of internal control system intentionally and (3) risks from fraud and corruption wrongdoings intentionally.

Thus the common risks can be categorized into three main types. Most commonly risks were *unintentional*, *intentional* violation of an internal control system and from *intentional fraud and corruption*. Interviewees gave examples of each category.

(IV_001) Our experiences that have worked on auditing so the risk that has come from errors of working would be occurred from misinterpreting rules and regulations to apply for working; preparing the incomplete documents; jumping the procedures and not following up designed systems; approving transactions over their power assigned; not auditing the data before computing; officers are not qualified in position that causes mistake of working; transactions were approved over the determined plans and conditions; no practice suitably as the

time determined on bidding contracts lead to government loss; and incorrect budgeting categories are managed by the misuse of administrators' power.

(IV_032) I found that the risk from errors of officers' working could be from preparing the incomplete documents; not practicing the determined procedures of systems; avoiding the control point to work urgently; incorrect budgeting; entering the data and accessing information without permission; the mistake of interpreting on rules and regulations to apply for officers' working not undertaking as regulations determined; and over approved budgeting the determined plans and conditions.

Unintentional risks, according to the interviewees, can be summarized into six main activities. Three main errors are misinterpreting rules and regulations, not checking before signing a document, and approving transactions and budgeting above agreed plans and conditions. These errors have occurred due to officials using their discretion to work on the operational systems of their local governments without checking laws and regulations. The other three unintentional errors of officials' working are human errors that arise from a lack of competency in the current working position, negligence in auditing payment documents and data before inputting into a computer, and failure to comply with the timelines specified in contracts thus generating losses for governments. These errors arise from officials' qualifications and competency because some interviewees said that most officials are administrators' nepotisms and factions who have had inappropriate education and experience for working in their current position. Their appointments arise from help from administrators and associated officers.

For *the intentional risks* the volunteer interviewees spoke about:

(IV_007) With the risk from violation of internal control system intentionally, we found that this risk will happen from entering the data and accessing information by not permitting early; not practicing the determined procedures of systems; not auditing the data before inputting in computer.

(IV_014) As the risk from violation of internal control system intentionally are observed by us it might occur from entering the data and accessing information without permission, avoiding translation as regulations have accurate alternative choices for getting benefits; and not practicing the determined procedures of systems.

(IV_027) We have discovered that the risk that has been occurring from violation of internal control system intentionally consisting of entering the data and accessing information by not permitting early; there has been bringing office supply and equipment from vendors using before undertaking procurement formally and not practicing the determined procedures of systems.

Interviewees explained that the risky activity that comes from intentional violation of internal control system consists of three main risky activities. The first is to enter data or access information without permission. The second is that officials do not follow the operational procedures of local governments and the third is buying office supplies and equipment from familiar vendors without undertaking formal procurement processes. Poor implementation of internal control systems has allowed administrators and officers to avoid the internal control system in their organization and the internal auditing team.

The last category was concerned with *the intentional risk from fraud and corruption wrongdoing.* The examples given by the interviewees:

(IV_001) We have thought that the risk from fraud and corruption wrongdoing intentionally would be occurred from the misuse of politicians and administrators' violent influence; conspirators have seamlessly acted fraud and corruption; some offenders have openly acted fraud and corruption and not feared laws and regulations; the complexity of forms, methods and behaviours of fraud and corruption have been different in each local government and educational level of officers has impacted the violence level of fraud and corruption wrongdoing.

(IV_005) I have thought the intended corruption by the local politicians and black influence in the organization can be hardly found and audited. Hence, it's rather difficult to inspect and search for the corruption evidences because of the powerful local administrators.

(IV_008) Our opinion regarding to the risk from fraud and corruption wrongdoing intentionally would be occurred from administrators and officers have often brought official assets for the use of personal benefits such as using official car for personal jobs and fill in fuel oil by paying in the name of official; purchasing any things on behalf of official for using in their family; the misuse of politicians and administrators' violent influence for private gain from local government budgeting; political administrators and all levels of officers offend through the name of other officers especially nepotism and secondary (minor) wife who work at there; purchasing all the things by kick back the benefits in the form of percentage.

(IV_026) Risks from fraud and corruption wrongdoing intentionally could be from the misuse of administrators' power to conspire the fraud wrongdoing both changing regulations and avoiding laws, procurement by special method, transforming from an expenditure budget to other budgeting categories to remove the benefits to their money bag by ordering their officers to join wrongdoing - if their officers could not follow up their command, their officers would be dismissed; office supply and equipment used by individual; using the avoidable method to take money from travelling fees for official by excepting payment evidence; fraud wrongdoing for private gains would be controlled by administrators' nepotisms to find gaps to take out official budgeting; setting up the company to bid for the official projects under the misuse of their power as called about conflict of interests; political administrators and all levels of officers offend through the name of other officers especially nepotism and second wife who work there. Furthermore, close friend of administrator would contact and send information to committees, who should audit projects and assets, to avoid inspection of those committees.

Interviewees said that the mechanisms of wrongdoing could be summarized by about 12 main methods. Fraud and corruption risks can be summarized as those relating to behaviour and to methods. In the context of behaviour, offenders have mostly used politicians' and administrators' influence and power to seamlessly conduct fraud and corruption wrongdoings. These offenders do not fear laws and regulations. The level of fraud and corruption wrongdoing will depend on the educational level of offenders and offenders' goals. The interviewees strongly confirmed that the misuse of politicians' and administrators' powers have been employed to change regulations to avoid laws. Likewise, nepotism of political administrators and officials of those local governments (especially in the department of finance) have been used as instruments for fraud and corruption. Examples of such wrongdoings are taking money for travelling without payment evidence; taking private gains from official procurement projects, setting up dummy companies to bid for official projects so that administrators use their power to award those projects to the dummy companies, special methods (including negotiated price) for bidding for official procurement projects, and transforming an expenditure budget to other budget categories to access the benefits. Other methods comprise using official cars for personal jobs and accessing fuel oil by paying in the name of an official, purchasing things on behalf of an official for use in their family, avoiding inspection of committees by bribery of those committees, administrators purchasing assets and

materials using a negotiation price method in order to receive kick-back benefits in the form of a percentage.

Fraud and corruption risks were mentioned by most interviewees. This suggests that Thai local government internal auditors know that fraud and corruption are present in their local governments mainly through the actions of administrators and other officials. Common risks arise from poor implementation or lack of an internal control system; this situation can be easily solved if the internal control system of local governments worked reliably. Such a system would deter and detect administrators and officers' wrongdoings by assessing local government compliance with associated laws and regulations. Knowledge of the forms and methods of risks should provide the groundwork for improving Thai local government internal control systems as well as adjusting the strategic processes and audit techniques of that internal auditing system.

Five interviewees raised interesting issues regarding the Office of The Auditor General of Thailand (OAG), the body which is charged with overseeing the probity of auditing in local governments. The interviewees claimed that the OAG itself is guilty of fraud and corruption in that its officers received bribery payments from local governments to hide wrongdoings in local government. This is reflected in the interviewees' words below:

> *(IV_008) Another risk is Office of The Auditor General of Thailand (OAG) has sometimes claimed the benefits from local government where would not like the OAG to detect fraud and corruption but if local government did not give as they claim, local government will be alleged in terms of fraud and corruption wrongdoing by the OAG, this situation has made us to get bad feeling.*
>
> *(IV_010) We have often been requested from Office of The Auditor General of Thailand (OAG) to provide travelling places and the best resort for taking care of them to exchange with their avoidance to detect fraud and corruption in our local government. Perhaps We have felt that it has been excessive.*
>
> *(IV_013) Office of The Auditor General of Thailand (OAG) often wants us to bring them to travel around our local government before they would perform their audit workings. Then they would tell something in meaning that all expenditures have not been paid back from them as we have already paid it. It has been likely that our payment is to give their reward with coming to audit us and everything will be Okay although they have not performed to audit anything yet.*

(IV_016) the dangerous risk is Office of The Auditor General of Thailand (OAG) would always request the benefits from local government in forms of taking care of them whether the place for sleeping overnight or bringing them to eat the fantastic and expensive food in our local government. In order to exchange with their compromised audit workings to detect risks in our local government, we have got bad feeling.

(IV_022) When we have well known that Office of The Auditor General of Thailand (OAG) has been coming to evaluate and audit our local government, this situation has been difficult to avoid with their requests in terms of the preparation of the best convenience but they would not pay their money because this has been an exchange. In order to avoid their detection of risks although we have not had risks in our local government, the OAG could also allege us if they have not been satisfactory with our take care, this situation has made us become mad.

4.8.3 Overall Effectiveness of Internal Auditing Mechanisms in Detecting and Deterring Risks

Interviewees said that for a long time they puzzled over how to solve the problem of ineffectiveness of internal control system. In order to generate some interest in the problem, they have been willing to give all information they have. The examples given by the interviewees:

(IV_004) Even internal auditing mechanism is ineffective and inefficient; we still use it in our organization. We can't follow every auditing step. It is well used with the general mistakes and errors, not with the intended ones or corruption. Auditors' competences and experiences are also the major factors in efficient auditing. Furthermore, an absence of internal auditing department is the vital factor to search their benefits in term of corruption. Internal auditors have been limited the scope of auditing without independence to undertake fraud and corruption auditing due to domination of political administrators.

(IV_015) We have used internal control and auditing guidance of the Comptroller General's Department, Office of The Auditor General of Thailand and Department of Local Administration, but not full version because we have needed to apply for each environment and barrier of auditing. Although internal auditing process has been ineffective because there are several barriers such as lack of deep independence and competency especially deep auditing ability in an area of fraud and corruption risks. Office of The Auditor General of Thailand has never used internal auditing reports to be an instrument in assessing the overall environment and internal control systems of local government before testing of details. Ineffectiveness of internal auditing mechanism occurred when administrators and officers every time have deterred and limited the scope of audit working in detecting risky activities especially

hidden fraud and corruption risks. Administrators command internal auditors to edit internal auditing report to follow their ideas although it will distort from the real story. Internal auditors might sometimes be pulled to become their faction on wrongdoing by black power to command; so internal auditors have eventually become their instrument to help fraud and corruption wrongdoing. The structure of internal auditing department is not independent to undertake fraud and corruption auditing due to domination of political administrators.

The main cause of the ineffectiveness of internal auditing mechanisms in detecting and deterring risks has been the scope of the auditing procedures - guidance could only be used for auditing unintentional risks but not intentional violation of internal control systems. Political administrators and officers have used their powers to deflect internal audit workings because of their fraud and corruption wrongdoings. They have not accepted the results of internal auditing reports and therefore, not implemented improved internal control and auditing systems. Furthermore, this illustrates the internal auditing teams' lack of independence to determine the scope of auditing as well as having their internal auditing reports distorted by administrators. These situations are possible through administrators managing the growth prospects, working motivation, salaries, promotions and special remunerations. Similarly, through administrators' black power, internal auditing teams have been co-opted to their factions to help their wrongdoings.

Competency (including experiences and skills) of internal auditing teams has always been a cause of ineffectiveness of internal auditing. This problem has been exacerbated by insufficient numbers of internal auditing staff to investigate risks. Importantly, the OAG has never used the results of internal auditing to assess the overall environment and internal control systems of Thai local government before testing the reports received from the local governments. This negligence of the OAG and associated regulatory entities can destroy the morale of the internal auditing teams.

4.8.4 Causes of Ineffectiveness in Details

In-depth interview data identified that the causes of the ineffectiveness of internal control and auditing systems in deterring and detecting common risks arise from several factors, factors that have been identified in the previous literature (see Chapter 2). The factors consist of a lack of understanding of objectives of internal

auditing in detecting illegal activities; a lack of support from administrators (including growth prospects and working motivation); unethical personal influences; the challenge of implementing internal control systems in Thai local governments; a lack of participation of officials in internal control systems; the lack of independence; ignorance of testing the internal control system; extortion by administrators in changing the audit reports; a lack of development of an internal auditing program; a lack of cooperation of audited departments with internal auditing teams; and a lack of competency of internal auditing teams.

A lack of understanding of the objectives of internal auditing in detecting illegal activities was described by the interviewees:

> *(IV_006) Internal auditors would easily understand the objective of internal auditing in relating to illegal activities in terms of fraud, including we have often lacked competency and independence in auditing. There has been black power and misuse of power to coerce internal auditors to join with them about fraud and corruption wrongdoing including they have lacked morality and spiritual. We could not audit because this objective is very risky on audit working and internal auditing processes have been unsuitable to audit fraud and corruption wrongdoing.*
>
> *(IV_022) Internal auditors would understand the objective of internal auditing in relating to illegal activities in terms of fraud, including we have often lacked competency and independence in auditing including we did not have experiences directly. Internal auditing procedure has been difficult to achieve the objective of fraud auditing because we are limited by the scope of both auditing competence and independence because of the misuse of political administrators and officers' power and black influence, so investigation and forensic processes are also needed to use auditing in this objective. Political administrators and officers have always lacked morality and ethics, they could also act wrongdoing by not fearing legal punishment. Lastly the internal auditing processes hardly get achievement.*

Interviewees said that internal auditing objectives will generally be placed to assess the risks of an internal control system but could not be used to assess illegal risks because of the complexity of illegal risks. The internal auditing processes have been designed to audit unintentional risks. Therefore, a lack of understanding of internal auditing objectives will come from the internal auditing teams' lack of competency arising from a lack of experience with illegal risks. Furthermore, a scope of independence in audit working of internal auditing teams has been limited because of coercion to participate in

administrators' wrongdoings as well as administrators having deterred the audit working of internal auditing teams. This situation has been the main barrier leading to difficulties in achieving the internal control and auditing objectives.

The interviewees spoke of a lack of support from administrators impacting the effectiveness of auditing systems:

> *(IV_009) We have not got the support from all levels of administrators when we would like to increase a number of internal auditing staff to help us for audit workings. So Training, operating and procurement budgets have not been approved to develop internal auditing tasks, for example, we have requested to buy a van-bus but administrators have not approved to buy it; we have requested office for audit working but we have not allocated it for us, and have brought our department to place within other departments, so we have not had an independence for working truly. Furthermore, the federal government regulators ignore and never care, these situations causes of internal auditors' inability.*

> *(IV_019) We have never got the supports from administrators when we have requested to increase internal auditing staff as well as budgets have been reduced to limit a scope of audit working and independence. If we accept their wrongdoing, we could request whatever we want and they will not deter us and get independence with auditing. Then we have not had the formal office of internal auditing department and never got permission to train new knowledge in developing internal auditing procedure.*

The ways that administrators have deterred audit working of internal auditing teams are insufficient budgets for developing and improving internal auditing tasks especially the training budget for developing competencies in deterring and detecting illegal risks. Sufficient numbers of internal auditing staff have not been approved by administrators. Internal auditing departments have been combined with other departments thus reducing auditing independence.

Similarly, a lack of growth prospects and working motivation of internal auditing team has been concerned with lack of support from administrators whether in monetary or non-monetary forms. The examples given by interviewees:

> *(IV_001) We have got salary and welfare unsuitably when compare with risk received from working. Administrators have deterred internal auditing team who could detect fraud and corruption wrongdoing. Internal auditors have been slowly promoted in term of salary and position by administrators because they have not wanted internal*

auditors to rapidly grow up and used this to control internal auditing opinion when detect fraud and corruption in terms of changing and editing of internal auditing reports.

(IV_026) Internal audit working line has been abandoned by The department of local administration and others. This department and other regulators have ignored to promote regarding to higher position of, importance of manpower, increasing salary, special remuneration and compensation money of working in areas of risk of local government internal auditors. Therefore, we have not got any working motivations and growth prospects on internal audit working line. We have never got motivation on working but getting the words has often discouraged us. Administrators would have slowly promoted of Internal auditors' salary and higher position because they have used it to control internal auditing opinion.

Ineffectiveness of internal auditing in detecting common risks has resulted from a lack of promotion by administrators due to internal auditing teams detecting and deterring administrators' wrongdoings. Internal auditing teams' salaries and higher positions are controlled by administrators. Internal auditing teams have been coerced to change their opinion in exchange for promotion prospects. In contrast, motivation of internal auditing teams has been dispirited by bad words from administrators when their hidden wrongdoings have been detected. The lack of growth prospects and working motivation of internal auditing teams has been important in decisions to change their job to other areas within local government to obtain higher positions and salaries. Regulatory agencies have neglected the promotion rules of local government internal auditors in relation to increased staff, promotions and salaries, and special remuneration and compensation for working in areas of common risks.

Interviewees spoke of the unethical personal influences that they had to contend with:

(IV_015) Internal control system is the best good governance, but here has just only been written on the paper—no implementation due to back influence of political administrators has led to fraud and corruption wrongdoing who are not afraid of laws to punish them.

(IV_021) We have surely believed that internal control system is the best of good governance instrument that has not been accepted to implement it and has been no importance by administrators and other officials' opinion, but just only use to receive the bonus despite the fact that this local government would not implement that system. Then some municipalities would not receive to transfer internal auditors although

> *they have a job vacancy, they determine this position to show off in terms of good governance with only showing the internal auditing department on their organization chart and they have temporarily established a person who did not have internal auditing competence to maintain this function.*

Internal control and auditing are important instruments to prevent and detect risks. The achievement or failure of implementation depends on an acceptance at all levels of officials. However, there have been many causes of unsuccessful implementation. Political administrators and other officials have been a primary cause in that they have not implemented internal control and auditing systems in their local governments. Interviewees said that administrators have been afraid to take on increased duties and obligations so that internal control systems have been only implemented on paper without actual performance with the internal auditing department being shown on the local government organisation chart (without having an actual independent department) in order to receive bonuses from federal government. Although there have been vacancies for internal auditors, those local governments have not recruited for those job vacancies but have temporarily established someone without competency to maintain internal auditing processes.

The challenge of implementing internal control systems in Thai local governments have been specifically mentioned by interviewees:

> *(IV_008) Each answer could be concluded that local governments do not use internal control system practically. That's why internal auditing system fails. We are not allowed to evaluate them. It will be just only used for the presentation to the higher hierarchy. Internal control system has not been implemented in this local government because administrators and other officials have not understood a benefit of internal control system which has not had importance to their organization in their opinions and they said that a design of internal control system is the duty of internal auditing teams but not really yet, this is failure of internal auditing tasks so internal auditing teams could not assess their internal control system so that the current risk occurring in Thai local governments will be equal to 100 per cent. Effective audit report has been limited and not reflected the problem of actual risks occurring. Internal control system isn't currently accepted to use controls their operational systems.*

Administrators have many reasons to impede the implementation of an internal control system. Interviewees reported that administrators and other officials do not have the knowledge to understand the importance of an internal control system and how it will benefit them. Furthermore, they have been able to work without such systems and so do not see why they should implement those systems. This situation has led to generation of common risks widely distributed in Thai local governments without legal culpability. At the same time, internal auditing teams have not been allowed to assess the internal control system. Although internal auditing teams will be able to detect and report common risks, the auditing report has been ineffective in reflecting the problem of common risks due to internal auditing teams being limited in the scope of their opinions by administrators.

A lack of participation of officials in the internal control systems was indicated by many questionnaire respondents:

> *Determining internal control system should be participated by all officials especially administrators and should be trained practically.*
>
> *Administrators and other Officials should involve with determining internal control system, but they have not made it, and they have attempted to push away it becoming a duty of internal auditors.*

Respondents requested that administrators and other officials need to participate in designing their internal control systems in order to make them accepting of them so that possible implementation is more likely. Because administrators and other officials stated that they do not have knowledge and understanding of internal control and auditing systems, they should receive practical training involving both knowledge and workshops of those systems. Internal auditing teams can be their mentors until they are able to practice in their organisation.

A lack of independence is a major problem, an important problem with audit working because if an internal auditing department lacks independence, common risks will be difficult to detect. This lack of independence is reflected in respondents' statements:

> *The structure of internal auditing department lacks independency that affects internal auditing workings and reports, so it should be separated from other departments within local governments and should be*

depended on anti-fraud and corruption independent agencies where could put internal auditors in embedding in each local government.

Internal auditing department of local governments should be abolished if it could not work freely. Then internal auditing teams could not follow the auditing standards because of overwhelming of administrators' influence, this situation has made us to be not able to detect illegal risks in terms of fraud and corruption. Some local governments have not had the internal auditing department.

Several causes impact on independence of an internal auditing department. First, internal auditing departments have been combined with departments which are the target of auditing despite the internal auditing department being independently shown on organisational charts. Some local governments lack an internal auditing department. Furthermore, the independence of internal audit workings and reports also has been controlled by political administrators. As a result of the lack of independence, respondents said that if the federal government wants to maintain the system of good governance, the internal auditing department must be separated from other local government departments as recommended by anti-fraud and corruption agencies.

(IV_001) Some local governments have sometimes got nepotism to work in internal auditing department to control it easily. Furthermore, we have not had independence for audit workings as well as we have been deterred working although we could access the data regarding to risks and fraud situations as discovered by us. By the way, the annual auditing plans will be edited when have a partial plan involve to fraud and corruption risks because administrators and other officials have acted it and we could not audit professionally because we would be always deterred auditing.

(IV_012) Internal auditors lack independence because we have been under an influence of administrators so lack of freedom in auditing has affected an auditing report that cannot directly report because internal auditors have been controlled their real discretion and recommendation, so objectives and goals of auditing in detecting fraud and corruption will not be able to be achieved by us and we have sometimes become administrators' instrument to act fraud and corruption. Then federal government has also ignored with those wrongdoing a long time. By the way, we have lacked of self-confident on their audit working, please give independence for our working with reducing budgeting loss.

(IV_017) We have not received the independence on audit working because we have been deterred working from administrators and other officials and we have been limited the scope of auditing due to they have attempted to hide their fraud and corruption wrongdoings and if we did not care them, this would affect our growth prospects in duty and

position. For example, we were commanded to edit our internal auditing report that concerns with their fraud and corruption by political administrators. At the same time, Office of The Auditor General of Thailand (OAG) has been extorted by political administrators with putting their gun on the table where the OAG has been working to audit them.

In relation to the lack of professional independence, the interviewees highlight nepotisms of political administrators embedded in internal auditing departments. This situation makes achieving auditing objectives to detect common risks difficult; internal auditing teams are under political administrators' influence. This situation has also impacted the effectiveness of internal auditing systems to control nepotism and limits annual auditing plans especially those auditing plans concerned with detecting illegal risks. Another problem is the lack of self-confidence in their audit working to detect and deter common risks. The situation has been confounded by the federal government neglecting to improve internal control and auditing systems and overlooking illegal wrongdoing in local governments. Finally, when the lack of independence of internal auditing teams is combined with their lack of growth prospects and survival, this combination has resulted in internal auditing teams overlooking/ignoring administrators' wrongdoings.

The lack of knowledge of officials about internal auditing systems extends to ignorance of testing the internal control system as information given by questionnaire respondents:

Auditing without evaluating and testing internal control system early, as the results were not able to know complex risk and fraud.

Some internal auditors exempted the test of internal control system for the risk assessment before examining details.

Test of control has not been used before doing the test of detail due to there is exemption and violation of auditing procedure.

The first step in the processes of internal auditing has been a risk assessment of the internal control systems of departments before determining the scope of auditing operations. However this stage has been overlooked, the importance of which has led to ineffectiveness of internal auditing mechanisms in detecting and deterring common risks.

Respondents said administrators change the audit reports:

> *Administrators have coerced internal auditing teams to change the auditing reports from wrong to correct especially the detection of illegal risks, and they command internal auditing teams to find regulations' gaps to act their wrongdoing.*
>
> *The feeling of internal auditing teams could become the tool assisting administrative group in corruption wrongdoing. Though the corrupted evidences were found, nothing could harm the administrators.*

The results of audit working by internal auditing teams must be reported to administrators. When internal auditing reports have specified the details of detected illegal risks, internal auditing teams have been commanded by administrators to change their reports. Sometimes, internal auditing teams have been commanded to look for gaps in the laws and regulations to serve administrators' wrongdoings. Respondents also commented on acceptance of the auditing reports:

> *Auditing reports have been written by following internal auditing profession standards of international standards and The Comptroller General's Department to ensure on the quality of auditing reports as generally accepted, Thai local government administrators and other officials have not thought in the same way. Then they have thought that those reports have not been important to spend their time to read it because they have been able to work without receiving internal auditing teams' recommendation and those reports have not had the benefits for them. This is the great loss of budgeting with having internal auditing department and internal auditing teams in local governments.*

Internal auditing teams' auditing reports have been refused by administrators because these officials do not see that those reports have benefits for them. Respondents gave crucial reasons:

> *Administrators and other officials have never realized the importance of internal control system especially internal auditing mechanisms in their local governments. Our suggestions have been continually ignored to use for improving their operations as auditing reports also ignored by them. It has looked like our reports and recommendations are invaluable.*
>
> *Administrators and other officials have not attended to learnt regarding to internal control and auditing to provide their understanding on internal auditing team's roles and responsibilities because they always thought about we find faults by themselves.*
>
> *Internal auditing profession should be protected and given importance. Internal auditing team should get independence of working, but not yet.*

Rejection of internal auditing teams' working is due to several causes. The first is that administrators do not have knowledge and understanding of internal control and auditing systems. This situation has impacted the understanding of the roles and responsibilities of internal auditing teams as well as the scope of internal audit working. The second is that administrators apparently have never realized the importance of internal control and auditing systems. Finally, internal auditing teams have not been given independence in terms of audit workings.

This means that there is a lack of development of internal auditing programs as respondents said:

> *Internal auditing application program should be continually developed for effective audit working in Thai local government internal auditing system due to different and complex environments of audited departments.*

The complexity of internal audit working depends on appropriate internal auditing programs which need to be continually improved and revised by internal auditing teams. The lack of development of programs has impacted the effectiveness of internal auditing mechanisms in detecting and deterring common risks.

In summary, Thai local governments are characterised by a lack of cooperation with internal auditing teams, which was confirmed by the interviewees:

> *(IV_024) Administrators and audited departments might think that they were kept an eye on their wrongdoing so they did not get any cooperation. Even when we need any documents we ourselves must do. They did not give any helps; this is one limitation of internal audit workings because they do not want us to audit successfully and audited departments have had administrators to be back up of them. Although our recommendations would help them to improve their operational procedures, they have never brought our recommendations to improve their procedures yet. However, some officials have cooperated with us but they would be looked down from other officials and they have sometimes got the impolite words with having a question about "why did you have to help internal auditing teams to look for those evidences", so those officials have ignored with giving their cooperation.*
>
> *(IV_036) Administrators and audited departments haven't cooperated with our audit working due to lacking of communication skills of internal auditing teams. Our auditing problem is increasingly due to their impediments for the limitation of audit working scope with our detection in their fraud wrongdoing. How does internal auditing task*

have benefits to them? Administrators and audited departments have claimed us to give knowledge and training of internal control and auditing systems for them.

The situation has been made worse by internal auditing teams lacking the communication skills to persuade administrators to assess their internal control systems. The lack of competency of internal auditing teams has been an important factor. Interviewees stated:

> *(IV_005) Almost new local government internal auditors have got problems in terms of insufficient competency and lack of confidence with auditing particularly auditing knowledge and experiences of assessing fraud and corruption environments. Hence, Internal auditors should be also trained in those knowledge and skills of auditing in those environments especially associated regulations and laws.*
>
> *(IV_012) We have lacked skills and experiences of actual audit working because of new internal auditors particularly interpretation of laws and regulations because it is rather too difficult to understand as well as we have had less experience of audit working. We should be strictly trained especially risk environments of audited departments and complex laws and regulations because each area of local government is different environments particularly complex fraud and corruption wrongdoings. Audited departments' risky environments, complex laws and regulations, and a lack of independence and cooperation have mainly impacted audit working of internal auditing teams.*
>
> *(IV_019) According to the qualification of the internal auditors, B.B.A in accounting is a must. Some of them get experiences but some not. It is well accepted that internal auditing experiences at local government is hardly found. We have no skills and experiences of actual audit workings. It's difficult to interpret associated laws and regulations. Administrators command us to work although it is not our duty and responsibility. Our competency could not sometimes assess deeply complex risks due to a lack of experiences. Risky environment of audited departments, complex related laws and regulations and a lack of independence and cooperation are main factors affecting audit working.*

Insufficient competency of internal auditing teams has come from many causes. The first is a lack of ability to interpret associated laws and regulations. The second is a lack of understanding of the complexity of internal auditing mechanisms in detecting and deterring illegal risks. The third is a lack of practical competency and experience (including skills) of internal auditing teams. This impacts the self-confidence of an internal auditing team which is made worse by a lack of continuing training. The final cause is a lack of independence for internal auditing teams. These factors have led to

reduced competency in detecting and deterring common risks and also has led to ineffectiveness of internal auditing mechanisms in detecting and deterring those common risks.

To combat the lack of competency, an increase of knowledge and experience is needed which requires the cooperation of educational institutes. Interviewees commented on the development of curriculum in educational institutes:

> *Educational institutes should add the advance internal auditing subject in the accounting curriculum specifically practical subject in terms of a case study because new internal auditors just graduate they have never been practical in real situations.*

Improvement in the competency of new internal auditors has been suggested by interviewees. As a start, they suggest that educational institutes should revise their curriculum regarding internal auditing including case studies and internships.

In summary, the interviewees were transmitting their lived experiences of working as internal auditors in Thai local governments. Their attitudes were ones of dedication to a system of corporate governance which they were unable to protect by detecting and deterring common risks. They believe that "internal control systems are the best governance mechanisms and the most important instrument of organisational management". Unfortunately, there are barriers to achieving "the best governance mechanisms". Their words demonstrate that they have always worked hard and requested fairness despite the neglect of regulatory agencies. The lack of support from administrators and regulatory agencies disappoints them, while they lament their inability to resist the coercion to participate in wrongdoings. Coercion changes the interviewees from "good guys" to "bad guys" as explicitly expounded by Bandura's theory of moral disengagement.

4.8.5 Recommendations

Many interviewees suggested recommendations to improve the effectiveness of internal auditing mechanisms:

- *The Department of Local Administration (DLA) needs to consider and review positions of internal auditors so that they are worthwhile and important in Thai local governments. (IV_021)*

- *Internal control and auditing systems should be completely redesigned. (IV_025)*

- *If federal government and associated regulatory agencies want to maintain internal control and auditing systems, they must undertake to increase internal auditors' salaries and special remunerations in order to strengthen the audit working of internal auditing teams and thus reduce the power of political administrators. (IV_026)*

- *Local government internal auditing departments should receive equal independence to federal government internal auditing department... Associated independent regulatory agencies need to consider that issue urgently. ... Importantly, internal auditing department should be controlled by independent regulatory agencies to increase independence of audit working of internal auditing teams. (IV_031)*

- *Internal auditors need to survive but in doing so they have broken internal auditing ethical standards. ... This problem needs to be solved urgently. (IV_033)*

These recommendations should be considered to improve the effectiveness of internal auditing mechanisms.

4.9 Summary

Corruption has been identified (Puang-Ngam, 2008; ONACC, 2007; Phongpaichit, 2007; Rachinda, 2006) in Thai local governments, hidden in patterns of the misuse of officials' authority using networks and nepotism (NESAC, 2004), with gains distributed to factions and individuals (ONACC, 2011; CGD, 2010; Krueathep, 2010; OAG, 2010; OCSC-NIDA, 2010; Seree-Rungsonke, 2006). These findings were confirmed by the responses to both the questionnaire and in the interviews. Corruption arises because of the poor functioning of the internal control systems of Thai local governments. This situation is the result of several factors: insufficient knowledge of the importance of internal control and auditing by officials and administrators; their lack of formal training in risk assessment processes; lack of promotion prospects for the internal auditing staff combined with insufficient internal auditing staff; and the lack of internal auditors' knowledge, experiences (and skills) and practical independence. Importantly, although Thai local government internal auditors still think that Thai local government internal auditing processes can be efficient and effective, they lack the independence to achieve those goals. Internal auditing teams have to overlook the

wrongdoing of officials due to their survival needs. This exemplifies what Albert Bandura explained in his theory of moral disengagement; the good persons (internal auditors) turn a blind eye to wrongdoings. This links the findings to Bandura's theory of moral disengagement which will be elaborated in the next chapter.

Chapter 5

Summary

5.1 Introduction

Many millions of baht were lost as a result of the ineffectiveness of Thai local government internal control and internal auditing systems in deterring and detecting risky activities (ONACC, 2011; OAG, 2010; OCSC-NIDA, 2010; Krueathep, 2009; Puang-Ngam, 2008; Meechai, 2007; Phongpaichit, 2007; Seree-Rungsonke, 2006; Lim-Manee, 2005; Preecha, 2001). Why Thai local government internal auditing mechanisms fail to detect these risks, especially those relating to fraud and corruption, was the starting point of this thesis which sought to ascertain why Thai local government internal control systems (ICSs) and internal auditing mechanisms were ineffective in detecting and deterring common risks. The underlying theme of the thesis is that the major cause of the ineffectiveness has come from the "good guys" (internal auditors) whose moral engagement has not been strong enough to resist the factors that contribute to the ineffectiveness of the control systems (Bandura, 2002). Therefore, the objectives of this study were to identify the corruption methods used in Thai local governments in order to investigate the causes why Thai internal auditing mechanisms are so ineffective in detecting and deterring those methods; to ascertain the attitudes of Thai local government internal auditors towards the detection of corruption; to identify factors underlying the ineffectiveness of Thai local government internal auditing systems; and to develop possible policy recommendations to improve the efficiency and effectiveness of internal control systems in Thai local governments.

5.2 Moral disengagement

Thai local governments are characterized by risky activities, both legal and illegal. While some of these activities arise unintentionally, many are intentional arising from violations of internal control systems as well as from fraud and corruption. Why do apparently ethical people engage in corrupt behavior? Bandura (2002) explained that moral disengagement mechanisms interplay among individuals in organisations because moral disengagement is context dependent. Moore (2008), for example, states

that the belief that "everyone bribes in this culture" removes the conflict between doing the right thing and accepting a bribe. Within the bureaucratic structure of Thai local government individuals make decisions more expediently because the rules within the bureaucracy result in their reasoning in less complex ways (Tetlock, 1986 cited in Moore, 2008). Moral disengagement expedites unethical decision making by simplifying moral reasoning by individuals. In other words, moral disengagement dampens an individual's awareness of the ethical elements of the decisions they are making. Moral disengagement appears to have arisen in Thai local governments because of the actions of political administrators who have abjured their responsibility for the implementation and support for internal control systems and associated internal auditing. Internal auditing teams have not been supported in attempts to improve their competency and to develop more efficient internal auditing processes by those administrators. This is a crucial changing point in the moral disengagement process when internal auditing teams accept reduced independence which allows the illegal wrongdoing of those administrators. The pressure on their promotion and growth prospects contributes to the disengagement (Badara, 2012; Akintoye, Akingunola & Oseni, 2011; Ibrahim, 2008; Baltaci & Yimaz, 2006; Dhamankar & Khandewale, 2003).

The evidence for this conclusion has been drawn from an anonymous survey and semi-structured interviews with Thai local government internal auditors. Interviews were voluntary: 36 respondents among the 415 (83%) who answered the questionnaire volunteered. This chapter will summarise the findings, linking them to the theory, giving rise to policy recommendations. The chapter will also address the contribution of the study, its limitations and recommendations for the future study.

5.3 The Findings

The findings will be presented as answers to the research questions used in the thesis. To explore those questions, the data came from both questionnaires and interviews with Thai local government internal auditors. The questionnaire data was analysed using descriptive statistics with factor analysis for grouping the issues. N*VIVO was used to manage the interview data, while content analysis was used for analysing that data to categorise the themes of this study. A phenomenological research approach was used to explain the interview data.

5.3.1 What Corruption Methods are used in Thai Local Governments?

The participants summarised the methods used as intentional fraud and corruption wrongdoings, unintentional errors of officials and intentional violations of internal control systems. These methods are possible because internal control systems have been poorly implemented and neglected by administrators and other officials in order to violate those systems thus allowing their wrongdoings. Complex corruption methods were used. They included bribery, conflicts of interest, illegal gratuities, redistributive accumulation, gift-giving, negotiation, solidarity networks, team conspiracy, nepotism, lobbying, graft and gift-giving, and corrupt policy.

5.3.2 Why do Thai Internal Auditing Mechanisms fail to detect Corruption Methods used in Thai Local Governments?

This was the key research question for this study. The results of this study suggest the main cause is the lack of independence for internal auditors leading to the ineffectiveness of Thai local government internal control and auditing systems in detecting wrongdoings. While internal control and auditing systems should be instruments of good governance, in Thai local governments those systems have been poorly promoted by administrators who have little knowledge of internal control systems. Poor promotion meant that training budgets were neglected so that there is lack of practical independence, insufficient internal auditing staff and those employed as internal auditors lack competency in terms of knowledge, experience and skills. The paucity of budgets impacted the auditing of high risky activities such as fraud investigation as well as assessments of the internal control systems of departments to be audited. These problems are compounded by the poor remuneration and prospects of the internal auditing teams so that individuals are tempted to benefit from opportunities to overlook wrongdoings (Atuguba et al., 2012; Badara, 2012; Vandervelde et al., 2012; COSO, 2011; Khoury, 2011; Unegbu & Kida, 2011; Ibrahim, 2008).

Two crucial factors, systemic attitudes and lack of independence of the internal auditing system, have the most influence on the (in)effectiveness of the internal auditing system. Overall the analysis discovered that there are seven important factors negatively influencing the effectiveness of the internal auditing systems in detecting risks: the lack of independence of the internal auditing systems, the lack of officials' cooperation with

internal auditing teams, inefficient internal auditing processes, the lack of support from administrators, incompetent internal auditing teams, the lack of interest of officials in internal control systems and poor promotion prospects for internal auditors (Mihaela & Lulian, 2012; Sawalqa & Qtish, 2012; Bailey, 2010; Ibrahim, 2008; Baltaci & Yimaz, 2006; Dhamankar & Khandewale, 2003).

In summary, the main element impacting the effectiveness of the internal auditing systems is the lack of independence for internal auditors compounded by the lack of administrative and departmental cooperation. As a consequence, internal auditing teams find it difficult to determine internal auditing plans (including their scope, objectives and processes) which in turn hamper the discovery of audit evidence. This situation leads to ineffective risk assessments by internal auditing teams.

5.3.3 What Attitudes contribute to the ineffectiveness of Internal Auditing Systems?

Attitudes were ascertained through the emotions of interviewees (internal auditors) as to why Thai local government internal auditing systems have been ineffective. Attitudes derive from a "top-down" situation. Administrators' attempt to look for the flaws in laws and regulations so that their authority can be misused for taking benefits from Thai local government budgets for factional and private gains without fear of detection and punishment. The lack of fear is generated both by their obstruction of the internal control and auditing systems as well as by bullying of those who conduct their wrongdoings. By not implementing internal control systems, by not supporting the development of competency within the internal auditing teams, by not cooperating with internal auditing teams, and by not providing career pathways for internal auditing teams the administrators destroy the confidence of internal auditing teams which leads to the ineffectiveness of Thai local government internal auditing systems.

Coercion by the administrators means that internal auditors cannot report the administrators' and their factions' wrongdoings. The interviewees were emotional about their lack of independence and individual competency which leads to a lack of self-confidence with their audit working. Therefore, the auditing teams' nervousness,

trepidation and apprehensiveness accompanied by a lack of their power to resist the administrators' influence suggests moral disengagement. One interviewee hurtfully said "We needed to accept their wrongdoings … for our survival needs".

Thirty-six interviewed internal auditors were open and frank about their experiences. Their attitudes were positive in relation to what can be done with internal control and auditing systems to produce good governance. They repeatedly said that "Internal control systems are best governance". To this end, the interviewees stated many requests all beginning with words like "We/I would like to …; We/I want to …; I have looked for …" reflecting a positive attitude to what could be done if they had the necessary independence. In relation to the ineffectiveness of the internal auditing systems, they expressed the regret that "We have been coerced". They are much dispirited with their audit working to prevent and detect legal and illegal risks especially fraud and corruption risks. Thus, the "good guys" have done bad things, illuminating the words of Bandura's moral disengagement theory.

The combination of a lack of independence of the internal auditing teams and individual auditor's lack of self-confidence is the crucial problem hampering internal auditing teams' effectiveness in detecting fraud and corruption wrongdoings. Lack of self-confidence is a result of their lack of competence which, in turn, arises from inexperience in auditing illegal risks, poor understanding of risky environments, poor knowledge of risk assessment, poor skills of practical auditing plans and reports and lack of training in interpreting laws and regulations.

All levels of officials in Thai local governments do not accept the responsibility to implement internal control systems because this would increase their obligations and responsibility. However, internal control systems were shown to be part of the good governance in local governments' organisation charts in order to receive a yearly bonus from the federal government, an example of the misuse of administrators' authority to take benefits from local government budgeting for factional and private gains.

In summary, both the quantitative and the qualitative results are complementary. Complex corruption methods used in Thai local governments have generated factors which have, in turn, generated ineffectiveness in internal auditing mechanisms in detecting and deterring risks. The complex corruption methods have resulted in a lack of independence of the internal auditing systems; a lack of officials' cooperation with internal auditing teams; a lack of efficiency of internal auditing processes; a lack of support from administrators; a lack of competency of internal auditing teams; a lack of interest of officials to internal control system; and a lack of promotion prospects. However, the Office of the Auditor General of Thailand (OAG) is implicit in the ineffectiveness because of its failure to use audit reports of local government to assess the risks within local governments. Related factors are concerned with personal behaviour, particularly the change from "good guy" to "bad guy" to take benefits to ensure their wellbeing and survival needs.

5.4 Possible Policy Recommendations

The main causes of the internal auditing problems arise from three factors: inefficient and thus ineffective internal control and auditing systems, compounded by the lack of competency of those implementing the internal control and auditing systems, and weak enforcement of federal laws and regulations relating to internal control and auditing systems. Therefore, policy recommendations will be concerned with those main causes to improve internal control and auditing systems in Thai local governments especially in relation to deterring and detecting common risks.

The first recommendation is that "*The 2013 Updated COSO's Internal Control-Integrated Framework"* be implemented as soon as possible. This framework arose out of the Committee of Sponsoring Organizations of the Treadway Commission for revising and updating the internal control systems to achieve effectiveness, efficiency and economy of operations; compliance with applicable laws and regulations; reliability of reporting; and prevention of losses from legal and illegal risks. This detailed framework has been expanded to ease understanding of, and how to implement, assessments of the effectiveness of systems of internal control by giving illustrative tools. One particular principle shows how to assesses fraud risk including the

safeguarding of assets, identification of corruption activities (see Chapter 2), and opportunities, attitudes and rationalisations that signify risk (see Chapter 2). This framework should be combined with other laws and regulations associated with internal control and auditing systems to improve the guidance for preventing and detecting risks.

Secondly, internal auditing teams' accountability in terms of roles, duties, responsibilities and remuneration should be reviewed by federal government and associated regulatory agencies to increase their independence. This recommendation aims to identify explicit responsibilities between internal auditing teams and political administrators. One of those responsibilities is to deliver an audit report without interference by administrators. A suggestion is that internal auditing reports should be delivered in ways that equipoise administrators' ability to edit those reports by copies being sent simultaneously to administrators, to councils or commissions, and associated regulatory agencies.

The third recommendation addresses the competency issue of internal auditors. The federal government and associated regulatory agencies should support training budgets to improve internal auditing teams' ability through professional qualifications. Such training to improve competency should be explicitly written into the internal auditor's role and responsibilities. Continuing professional development should be an accepted feature of Thai local governments. This development could be facilitated by the help of educational institutes, use of case studies, and practical training.

The fourth recommendation is that the federal government and associated regulatory agencies should approve a minimum number of internal auditing staff in each local government to reduce the excessive workloads of internal auditing teams.

The fifth recommendation is that Thai local government administrators should understand the importance of internal control and auditing systems. This understanding could be derived from workshops conducted by internal auditing teams. This would allow internal auditing teams an opportunity to expound the importance of their independence.

The final recommendation is to determine sufficient checks and balances that ensure that powerful groups would not be able to control a local government's policies and actions.

These recommendations could be implemented in Thailand. However, there is the problem of human inclination for wrongdoing (Bandura, 2002) which can lead to breakdowns in internal control systems and circumvention of controls. The inclination of internal auditors needs to be strong to counteract conspiracies and other methods to take for private gains.

5.5 Original Contribution of Study

This is the first study examining the efficiency and effectiveness of Thai local government internal auditing mechanisms, especially in relation to corruption. Despite Thailand having independent organizations to combat corruption such as the Office of National Anti-Corruption, they have not been able to suppress the crisis of corruption due to insufficient staff numbers and inappropriate mechanisms for doing so (AMLO, 2010; OCSC-NIDA, 2010; Yot-Somsak, 2006; Neam-Narung, 2005; Amara, 1992; Caiden, 1991). Therefore, this study strongly identifies that the role and responsibility of independent internal auditing in that process needs to be strengthened to be more effective in detecting and deterring common risks especially fraud and corruption. Results of this study can be modelled to reduce corruption risk both for Thailand and for other countries by suggesting policy regarding possible improvements to the internal auditing mechanisms and educational and training implications for local government internal auditors.

5.6 Limitation of Study

The usual limitations associated with questionnaires and interviews apply. Distances and a limited budget for data collection limited the number of interviews that could be conducted. Limited security in certain parts of Thailand also determined the number of interviews. These limitations did not affect the questionnaire survey. An unexpectedly high response rate meant that the problem of non-response bias was unlikely. Translation was a problem due to the non-equivalence of some Thai words

with English. Therefore, some Thai sentences were translated by a summary of the meaning into English sentences. The problem was minimised by the use of translators with much experience in translating from Thai to English and From English to Thai (see Appendix 7).

5.7 Recommendations for Future Study

While the current study revealed the problems that result in ineffective internal auditing in Thai local governments, future research could extend the examination of the effectiveness of internal control and auditing systems to different areas in Thailand such as other government bodies and agencies, educational institutes and private organisations. This research might uncover whether the factors that influence ineffectiveness of internal control and auditing systems are similar to, or different from, the factors operating in those institutions. The situation in Thai local governments is mirrored in other developing countries. This study can be modelled to ascertain whether the internal control and auditing systems for other countries are failing to detect or reduce risks within government bodies and agencies.

Future research could examine the development of internal auditing systems with a particular focus on fraud auditing processes and whether such developments are applicable to Thai local government environments. This research might directly benefit Thai local governments in endeavours to deter fraud and corruption.

There has been a change from the 1992 COSO's Internal Control–Integrated Framework to the 2013 Updated COSO's Internal Control–Integrated Framework in Thailand and other countries. It would be interesting to examine the transitional stages of the change to find the impact of achievement and failure of the transition. The transition raises questions such as to why the framework was updated, how the transition was implemented in countries using it, and what benefits were derived from such transition.

To sum up, possible future research into improvement and development of internal control and auditing systems should reveal factors and methods that could increase the effectiveness in preventing, deterring and detecting common risks especially illegal risks.

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