

# Improving Cooperative Auditing Standard through Internal Auditors' Mechanism

## Executive Summary

**Project Title :** Improving Cooperative Auditing Standard through Internal Auditors' Mechanism

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**Research Organisation :** researching and Developing Section,  
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Cooperative and Agricultural Ministry

### The Research Issue

As cooperatives are the essential economic platform of the people, so in 2013, cooperative in Thailand had been encouraged to total amounts of 8,101 cooperatives. The cooperatives' members were 10.72 millions, based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. Lack of adequate internal control system and risk management system, these can lead the business sectors fail in operation as well as in cooperative organisation. So, the development of effective risk management and support fraud prevention together with cooperative auditing standard through Internal auditor are essential missions in order to install academic platform and to rise up the quality level of internal auditors to be more standardized, ensuring to create sustainable and effective administration.

According to undertake study, the researcher investigated the circumstance of Internal auditors' performance in order to create the best practice and to develop the effective mission so as to push up the standard of cooperative auditing through Internal auditor which can rise up the quality level of their own. All of the mentioned factors, will support the responsibility and accountability of internal auditors to be accepted by cooperatives members. As the result, cooperatives can ensure democratic control by their members and can reach their goals and objectives as well as to maintain cooperative autonomy principle.

### The Research Objectives

The objectives of the study consisted of:-

- 1) to explore the best practice guidance for the cooperative internal auditor
- 2) to investigate factors that influenced the auditors' capabilities
- 3) to generate the cooperative auditing standard through internal auditor mechanism
- 4) to present guidelines for the quality Improvement of good mechanism for

cooperative internal control

### **The Research Methodology**

In this research, mixed methods emphasized in the study, included quantitative and qualitative study were used to compile as consequently :-

- 1) The qualitative data, the researcher collected from documentary data altogether with in-depth qualitative research interviewed. In order to support valid information, gathering data method of the research was kept up from 105 cooperative personnel such as the Cooperative League of Thailand, Agricultural Cooperative Federation, Saving Cooperative Federation, experts from Cooperative Auditing Department, experts from Cooperative Promotion Department, Internal Auditors, Cooperative Administrators. After that, the researcher brought all of the above information and data to analyze and synthesize for creating questionnaire form which can support the researcher to integrate the situation of internal audit activities through auditors' mechanism. By that process, it will pave the way to the best practice platform for internal auditors.
- 2) The quantitative data collected by sampling method, the researcher collected samples from 381 cooperatives with in 1,143 internal auditors and administrators. After that, the researcher brought all of the above information and data to analyze and synthesize in order to realize internal audit mechanism circumstance and find out the concerned factors which influenced the internal auditors' capabilities.
- 3) The qualitative data by the Delphi Technique was applied for 20 experts in cooperative internal audit field which consisted of six internal auditors, three government officers and eleven cooperatives' administrators. From that process, the researcher analyzed and synthesized the information to establish cooperative auditing standards through internal auditor mechanism and also presented the guidelines to rise up internal auditors' quality level.

### **The results from research study**

1) Cooperative auditing situation through the internal auditor indicated in 3 general dimensions as categories : 1) The knowledge of cooperative internal auditors were classified at moderate level. 2) The internal auditors capabilities were classified at quite high level. 3) The supporting of the cooperative organizations prepared for the internal auditors were classified at quite high level, as well. There were 3 major and 7 minor

components of the best practice guidance for the cooperative internal auditors including 35 items and 60 indicators as follow :-

- Firstly, the major No.1 was the knowledge of cooperative internal auditors which consisted of 4 dimensions, 19 items and 35 indicators. They were :-

dimensions	Items	Indicators
1. Cognition	1. Cooperative accounting	1. Having knowledge to be able to gather accounting data
		2. Having knowledge to be able to advise concerning transaction classifying
		3. Having knowledge to be able to advise concerning accounting record
		4. Having knowledge to be able to advise concerning accounting summary
		5. Having knowledge to be able to analyze accounting statements
	2.Cooperative finance	6. Having knowledge to be able to advise concerning risk managements
		7. Having knowledge to be able to advise concerning asset quality, analysis and budgeting management
		8. Having knowledge to be able to advise concerning business and financial structure analysis
		9. Having knowledge to be able to advise concerning cost-benefit analysis
		10. Having knowledge to be able to advise concerning liquidity ratio analysis
	3. Cooperative Management	11. Having knowledge to be able to advise concerning administration planning
		12. Having knowledge to be able to advise operational risk such as computer system for example on-line & real time system, check and balance system etc.
		13. Having knowledge to be able to advise concerning cooperative financial process
	4. Cooperative Regulations	14. Having knowledge to be able to advise concerning cooperative autonomy performance

Dimensions	Items	Indicators
		15. Having knowledge to be able to express Cooperatives ACT
	5. Operational Technique	16. Having knowledge to be able to advise concerning government compliance 17. Having knowledge to be able to advise concerning cooperative's compliance with application in laws and regulations 18. Having knowledge to be able to plan and set internal audit program 19. Having knowledge to be able to use financial surveillance tools such as risk warning, operational efficiency analysis, value-added analysis , internal control and also having knowledge to be able to monitor the computer process
2. Handling (Internal auditors' performance)	1. Internal Control 2. Risk Assessment 3. Internal Audit Program 4. Strategy 5. Reporting and Recommendation	1. Should assess the quality of internal control and cooperate with the internal controller 2. Should assess risk management such as being unaware or benighted events 3. Should assess operational risk such as documentary system, financial statement, empowerment based on internal audit program 4. Should prepare annual internal audit plan appropriately , based on control risk assessment 5. Should review and examine the scope of organization policy, to improve organization's operations such as advising the strategic management and action plan 6. Should summarize and make appropriate recommendations into the memorandum reports with clearly and specifically describe and communicate to the periodically meeting

Dimensions	Items	Indicators
		of the board committee for the resolution of matter posing residual risk , moreover, identifying key issue that require follow-up during the next on-site visitation is necessary
	6. Attending the meeting	7. Should attend to the annual meeting and provide the periodical reports relate to the annual audit plan which point out significant risk exposures, control issues, good governance issues or other matters needed by the board of cooperative committee
3. Access	1. Advisory	1. Having coaching ability to provide on-the-job training for cooperative staffs appropriately and clearly
	2. Assistance	2. Having coaching ability appropriately and clearly for recording transaction entry
		3. Having coaching ability appropriately and clearly for analyzing financial tools such as CAMELS, CFSAWS, SEVA, DEACE, BSC, TQM and PEARLS
	3. Audit	4. Having ability for operational audit as the role of the internal auditors completely
4. Report	1. Concise	1. Must provide the memorandum reports describe concisely
	2. Concrete	2. Must provide the memorandum reports describe concretely and reasonably
	3. Complete	3. Must provide the memorandum reports based on internal audit program completely
	4. Clean & clear	4. Must provide the memorandum reports specifically and clearly
	5. Creative	5. Must provide the memorandum reports with creative recommends and benefits to cooperatives development and innovation

- Secondly, the major No.2 was the internal auditor capability which consisted of 1 dimension included 5 items and 5 indicators. They were :-

Dimensions	Items	Indicators
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5. <b>Potentiality</b> (Internal Auditors' capabilities)	1. Boundary	1. Should perform according to the boundary of the audit program which committed to the cooperative organization.
Dimensions	Items	Indicators
	2. Harmonization	2. Should perform based on suggestions, requirements, resolutions, regulations, laws and Cooperatives ACT
	3. Corporation	3. Should have relation aspect with cooperative staff
	4. Meeting	4. Should meet the board of cooperative committee by monitoring and reporting periodically
	5. Improvement	5. monitoring and auditing report of the internal auditor should benefit to the cooperative management in order to improve the efficiency and effectiveness as well as risk management, controlling and good governance process

- Finally, the major No.3 was the supporting of the cooperative organization. Cooperatives should support the internal auditors in 2 dimensions, 11 items and 20 indicators. They were :-

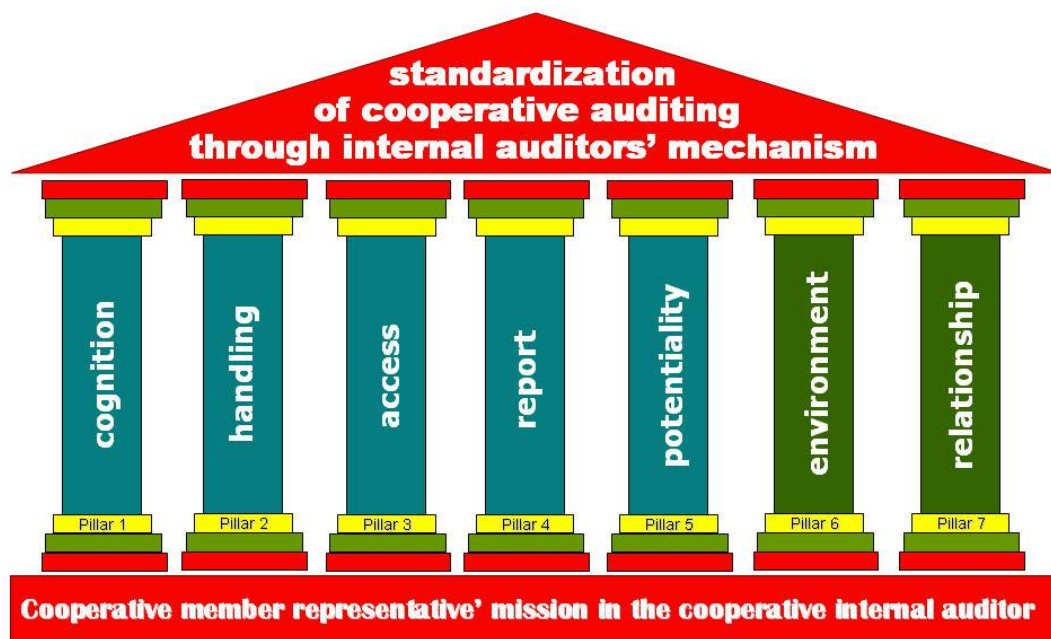
Dimensions	Items	Indicators
6. Relationship (factors of Cooperative circumstance which benefit for internal audit)	1. Man	1. Cooperatives were required sufficient manpower related to their business.
		2. Cooperatives were required to have appropriate qualified personnel.
	2. Method	3. Cooperatives were required to provide the complete manual for the organization performance.
		4. Cooperatives were required to provide the documentary system.
		5. Cooperatives were required to set out the strategic plan and action plan clearly and specifically.
	3. Material	6. Cooperatives were required to consider about financial surveillance tools such as CAMELS, CFSAWS, SEVA, DEACE, BSC, TQM

		and PEARLS. 7. Cooperatives were required to access the performance with the appropriate tools continuously.
Dimensions	Items	Indicators
	4.Management  5. Message  6. Money	8. Cooperatives were required to set out the organizational plan. 9. Cooperatives were required to monitor the plan continuously. 10. Cooperatives were required to provide appropriate resources. 11. Cooperatives were required to promote inter-relationship among cooperative staffs. 12. Cooperatives were required to provide periodic reports. 13. Cooperatives were required to provide clearly and timely data and appropriate documentary system. 14. Cooperatives were required to prepare best practice budgeting plan with cost effective. 15. Cooperatives were required to provide appropriate budgeting plan
7. corporation (the cooperatives' cooperation)	1.Boundary 2. Participation 3. Convenience 4. Improvement 5. Team work	1. The Internal Audit boundary should be clarified among the administrative personnels included cooperative staffs and auditors. 2. Cooperatives should support facts and real time sufficient information concerned to the internal auditors. 3. Cooperatives should facilitate the appropriate resources assist to the internal audit activities such as operational tools, a mandate, compensation and other fringebenefits. 4. Cooperatives should be relied in the auditor's recommendations for continuous improvement. 5. Cooperatives' staff should maintain appropriate skill in order to support audit activities such as team work and communication.

II) According to internal auditors and administrators’ point of views, the factors which influenced the internal auditor capabilities were reports and the internal auditors’ performance. On the other hand, the internal auditors’ point of view insisted that the environmental circumstance will directly concern to the capabilities of the internal auditor while the cooperative management indicated that the capabilities of the internal auditor will depend on the organizational cooperation.

III) By the expert’s opinions, cooperative auditing standard through internal auditor with corresponding to develop possibilities practices which consisted of 7 pillars in 3 dimension standards : 1) four pillars of internal auditors’ knowledge, 2) one pillar of internal auditors’ capabilities, 3) two pillars applied to the audited cooperatives. They were:-

## 7 pillars of cooperative internal auditing standard



dimensions /pillars	description
(1) The standardization of the Knowledge of Cooperative Internal Auditors	
Pillar 1 Cognition	<p><b>Cognition</b> means functions of knowledge according to the objectives of establishing internal auditors which covered in 5 aspects: 1) cooperative’s accounting 2) cooperative’s finance 3) cooperative’s management 4) cooperative’s compliance 5) cooperative’s tools and techniques.</p>



<b>Pillar 2</b> Handling	<b>Handling</b> means internal auditing activities which covered in 6 aspects : 1) internal control 2) risk assessment 3) auditing boundary and planning 4) strategy 5)report summarizing and monitoring 6) attending the meeting.
<b>dimensions /pillars</b>	<b>description</b>
<b>Pillar 3</b> Access	<b>Access</b> means access to understand the internal audit activities suitable for the capabilities which covered in 3 aspects : 1) accuracy and clear suggestion 2) advise the beneficial accounting and financial methods 3) audit with carefully in standard principle.
<b>Pillar 4</b> Report	<b>Report</b> means communicating the memorandum report to the periodic meeting which covered in 5 aspects : 1) concise 2) concrete 3) complete 4) clean and clear 5) creative.
(2)The standardization of The internal auditors capabilities	
<b>Pillar 5</b> Potentiality	<b>Potentiality</b> means the successfulness of internal activities which covered in 5 aspects : 1) boundary 2) harmonization 3) corporation 4) meeting 5) monitoring and improvement.
(3)The standardization of the supporting of the cooperative organization	
<b>Pillar 6</b> Environment	<b>Environment</b> means factors assist to the internal audit which covered in 6 aspects : 1) man 2) method 3) material 4) management 5) message 6) money.
<b>Pillar 7</b> Relationship	<b>Relationship</b> means the cooperative's support to the internal audit activities which covered in 5 aspects : 1) boundary 2) participation 3) convenience 4) improvement 5) team work

IV) However, the 52.14 % of the cooperative internal auditors had low capabilities; at moderate level. Therefore, the quality Improvements were necessary for the cooperative internal auditors. There are 6 guidelines for quality improvement : 1) enhancing the package of knowledge 2) fulfilling their working abilities 3) promoting skills to reach the main part of the auditing performance 4) creating capabilities in report

writing with concisely, reasonably, completely, clearly, and creatively 5) preparing the suitable factors appropriately in the field of personnel, manual, organization chart, job description, technology mechanism, management, information, finance and budgeting in order to facilitate the activities of internal auditors 6) realizing active participation in cooperative auditing mission. They are:-

- 1) **Enhancing the package of knowledge** for internal auditors which necessary for audit activities such as cooperative accounting, cooperative finance, cooperative administration, cooperative laws & regulations and all techniques which concerned in cooperative operation
- 2) **Fulfilling the internal auditor working abilities** in part of internal control, risk assessment, boundary, planning, strategy, summarizing and monitoring
- 3) **Promoting skills to reach the main part of the auditing performance** in order to advise, assist and audit; supporting and coaching in accounting process, financial analysis with financial tools for example CAMELS, CFSAWS, SEVA, DEACE, BSC, TQM and PEARLS
- 4) **Creating the internal auditors' capabilities** in reasonable report with concisely, completely, clarify, and creatively in which benefit to the cooperative development
- 5) **Preparing the suitable factors appropriately** in the field of personnel, manual, organization chart, job description, technology mechanism, management, information, finance and budgeting in order to facilitate the activities of internal auditors
- 6) **Preparing cooperatives corporation** in the boundary of the internal audit with supporting the real time information, in the same time, providing facilities in audit activities and concentrate in the internal auditors' comments which benefit to the cooperative corporation, supporting cooperative efficient team work in order to create suitability and readiness in audit activities



### The Studying Recommendation

Refer to the study and investigation, the researcher has 4 recommendations as follow:-

#### 1) Developing the Quality of the Internal Auditor

In order to improve the quality of the internal auditors' qualification, it should set up training programs continuously and also set up the basic standard in training which co-operated with the duration. The training program should regard to kinds, sizes and cooperative business's structure, the above mentioned factors would support the internal audit activities to be standardized and accessed to the audit performance, especially, effected to the memorandum reports to create the organizational development and innovation. Therefore, the relevant organizations should develop the concerned factors to access the knowledge and academic background to internal auditor by improving curriculum and text, trainers' skill, knowledge management and training groups. To meet all of the requirements, relevant policy-making-organizations should strongly support in the field of policy, resources, budgeting, and concerned activities. Besides, the package of knowledge in internal audit and relevant techniques, it should consider about the attitude and paradigm of the internal auditors in audit activities, either.

#### 2) Setting Cooperative Auditing Standards through internal audit mechanism

This mission concerns with the policy-making-organizations including government sectors and cooperative organizations, especially, the Cooperative Auditing Department should set up means and strategy which found from the

research to rise up the internal audit activities as the best practice mechanism for sustainable cooperative development.

**3) Studying and researching for setting the qualification of internal auditor**

Concerned organizations should study and research, in order to rise the standard indicators of internal audit qualification through internal auditors' mechanism, suitably for kinds, sizes and cooperative's structure. These mentioned process would push up internal auditing standard to be physically.

**4) Setting selection process of the internal auditors**

Concerned organizations should study and research for the selection process of qualified internal auditors. The mentioned mission, selection process altogether with setting the qualification of the internal auditors, would create appropriate internal auditors to support the cooperatives to reinvent new kind of services for cooperatives' members.