



The Communication Skill on the Performance of Internal Auditors in Thailand Public Limited Company

Sutana Narkchai^{1*}, Faudziah Hanim Binti Fadzil²

¹Othman Yeop Abdullah Graduate School of Business, University Utara Malaysia, Sintok, Malaysia, ²Othman Yeop Abdullah Graduate School of Business, University Utara Malaysia, Sintok, Malaysia. *Email: sutana_sprite@hotmail.com

ABSTRACT

The issue of performance of internal auditors is important since Thailand was also affected by the accounting scandals. The expanded scope in the definition of internal auditing and new regulatory requirements such as the Sarbanes-Oxley Act 2002 has increased the demands on the internal auditing. This study was conducted to examine the factors that influence the communication skills on the performance of internal auditors in Thailand public limited companies. To achieve this objective, the hypothesis was formulated based on previous studies and the agency theory. Survey questionnaires were sent to the Chief Audit Executives to determine their effectiveness on their performance based on the professional standards issued by the International Professional Practices Framework (2017) indicators. A total of 520 questionnaires were distributed, but only 146 were usable. Multiple regression was used to test the relationship between the variables. The existence of communication skills and performance of internal auditors is needed to strengthen the internal audit effectiveness between internal auditors and auditees. This study serves as an important catalyst for further research and discussion in this area. More importantly, there is lack of research in Thailand concerning the relationship between internal audit functions with the performance of internal auditors.

Keywords: Performance of Internal Auditors, Communication Skill, International Professional Practices Framework, Thailand Public Limited Company, Institute of Internal Audit

JEL Classifications: L1, M42

1. INTRODUCTION

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

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

The sources to consider when recognising significant performance effectiveness measurements of the internal audit activities include International Professional Practices Framework (IPPF), the internal

audit mission and charter, The Institute of Internal Audit (IIA), audit plans and strategies, the internal audit charter and mission, and applicable regulations and laws (IIA, 2010). The main part of the IPPF is a mandatory and a strongly recommended guidance. An indication of the internal audit department's effectiveness is therefore compliance with IPPF.

In terms of the objectives of performance of internal auditors, authors are usually consent that the performance ought to examine the auditee's records (Léris 2012). The performance of internal auditors expresses their opinions on how they think the management of the public or private sector entity has utilised resources to attain to the goals of the entity. Likewise, the performance of internal auditor forms a view on the adequacy of the internal control procedures used to attain to the goals of the entity in terms of effectiveness.

The Common Body of Knowledge (CBOK) (2010) studies were parts of a continuing world-wide research. In order for auditors

to perform their profession with care and additional values to organizations, and how internal auditing is practiced world-wide, the research identifies the significance of what internal auditors certainly need to know. As a result of this, the internal auditors need to constantly develop new skills and acquire whole new audit tools and innovations (CBOOK, 2010).

The IIA's 2010 Global Internal audit survey findings help internal auditors in the public sector to assess their capability performance levels compared to other public sector internal audit activities. Areas of strength and those in need of improvement can then be identified and used in strategic planning for the internal audit activity.

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

The communication skills are important for internal auditors to possess because they are essential to their ability to affect positive change in the organization. As the latest Global Internal Audit CBOOK (2015) study, administered through The IIA Research Foundation (IARF), explains "personal skills such as communication, persuasion and collaboration, and critical thinking are important for ensuring that the information, observations and recommendations identified based on technical expertise have the appropriate impact on the enterprise" (Half, 2016).

Prior research were directed into the above mentioned viewpoints of communication utilised by internal auditors. Moreover, the findings are summarised in the following discussion: Internal auditor competence is an important key to the effectiveness of the internal audit activities (Alzeban and Gwilliam, 2014). The International Standards for the Professional Practice of Internal Auditing (ISPPA) highlights the importance of internal audit team who possesses the knowledge, skills, and other competencies necessary to perform their responsibilities (ISPPA, Standard 1210). Indeed, internal auditors must collectively have the necessary education, professional qualifications, experience and training to be able to add value and improve the organization's operations (Mihret and Woldeyohannis 2008; Ali and Owais 2013). Additionally, internal auditors require good interpersonal skills in communication, persuasion, collaboration, and critical thinking to effectively fulfill their duties (Smith, 2005; Fanning and Piercey, 2014).

Communication structures a significant part of the internal auditors' competency prerequisites. Internal auditing activities

are almost certainly to be led by groups of internal auditors. Each auditor will make a particular input to the team's competencies.

Hence, internal auditors are required to communicate in effective manner in order to successfully complete their responsibilities. However, there exist certain constraints. These existing constraints are caused by different home languages and cultural backgrounds, conflicting approaches to resolution of conflict situations among others (Smith, 2005; Fanning and Piercey, 2014).

1.1. Problem Statement

For the past 10 years, studies have revealed that the auditing profession has had to manage lot of challenges such as new standards on the performance of internal auditors (Mactosh et al., 2010; Smith, 2005). McCafferty (2016) stated that internal auditors have several big challenges facing their internal audit departments and the internal audit profession as a whole. The difficulty in filling internal audit positions with talented candidates, for example, has led to increases in pay for many internal auditors. The need to do better job leveraging skills has the potential to free internal audit up to do more valuable and higher-level jobs, raising internal audit's profile in the organisation. He also further stated that the critical skills and attributes needed in the internal audit department include among others analytical the abilities, business knowledge, ability to communicate well, integrity, courage and conflict management skills.

Internal auditors from different countries may be different in their characteristics for the standards and their compliance because they may have different educational and professional backgrounds. Therefore, the internal auditors also need to effectively consider and manage these constraints. Moreover, effective communication is crucial at every level of an organization. Thus, the ability to communicate effectively does not come easily to many people and it is a skill that requires practice (Agargal and Garg, 2012).

According to IFRS (2017), Thailand has adopted all IFRS Standards with a 1-year delay from the equipment IFRS Standard's effective date with the exception of the Standards relating to financial instruments. The main reasons that adoption of IFRS Standards is delayed by one year in Thailand are the need to translate the standards into the Thai Language since the official language in Thailand is Thai. Thus, accounting standards that are to be enforced as laws are required to be in Thai language by the Accounting Professions Act of B.E.2004, Therefore, the IFRS Standards in English cannot be directly endorsed in Thailand (IFRS, 2017).

In Thailand, the problem of different languages is the main problem. Hence, the translation of the IFRS standards into national languages for Thailand is a necessary step before IFRS standards can be considered to be the national standards for accounting. Instead, other Asian countries like Singapore, Malaysia, and the Philippines can apply the English version of IFRS standards without the need to translate, as they already use English as their second language or use English as an official language. Other than the language problem, the other weaknesses of Asian countries' accounting and auditing professions are still considered as young

and immature. This is due to the growth of the professions in accounting and auditing in Asian countries which is considered very slow as opposed to western countries (Leung and Cooper, 2009).

1.2. Objectives of the Study

These studies examine the relationship between the communication skills on the performance of internal auditors in Thailand public limited companies.

1.3. Significance of the Study

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

This study distributes empirical evidence as to the scope of the performance of internal auditors' adherence to IPPF (2017) of the IIA became effective. The IPPF is both the improvement of the Professional Practice Framework (PPF) and the fundamental of the profession of internal auditing. It is the outcome of careful study, deliberation, and consultation about the basic principles of internal auditing.

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

2. LITERATURE REVIEW

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

2.1. Communication Skills and Performance of Internal Auditors

Internal auditors require some of competencies such as communication skills (CBOK, 2010). In order to be successful in their work, internal auditors are required to write, speak and

listen effectively (Lewis and Graham, 2003). Lewis and Graham (2003) regarded listening skills as the most important of the above three listed skills. Internal auditors should apply listening skills in everything they do throughout the process of internal auditing.

Internal auditors are required by IPPF (2017) Practice Advisory 1210 Proficiency: Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. Additionally, internal auditors are required to possess oral and written communication skills to communicate clearly and effectively.

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

The Practice Advisory 2420: Quality of communications of the ISPPA (standards) (2017) also recommends that "communications be concise, accurate, clear, objective, constructive, complete and timely" (IPPF, 2017).

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

From the discussion above, hypothesis is as follows:

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

3. METHODOLOGY

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

4. FINDINGS

The hypothesis states that there is a positive relationship between the communication skills and the performance of internal auditors. To examine the hypothesized statement, multiple regressions was performed.

Table 1: Regression coefficient

Model	Coefficients ^a				t	Significance
	Unstandardised coefficients		Standardised coefficients			
	B	Standard error	Beta			
Constant	3.126	1.391			2.247	0.026
Communication	0.167	0.077	0.177		2.158	0.033*

^aDependent variable: Performance of internal auditors. *At 0.05 significant level

As portrayed in Table 1, the results indicated that the coefficient of communication skills is 0.177, which is also significant at 0.05 probability level (beta = 0.177, significance F = 0.33 that is $P < 0.05$). An increase in the independent variable that is the communication skills is expected a change of 0.177 in the dependent variable, which is the performance of internal auditors. The direction of this relationship is positive. An examination of the t-values ($t = 2.158$, $P < 0.05$) shows that the communication skills are stronger which contributes to the improvement of the performance of internal auditors. This also suggests that the communication skills is significant to the performance of internal auditors. Thus, the hypothesis is accepted.

5. DISCUSSION

The results of multiple regression shows that communication skills factor is statistically significant. A significant positive relationship is found in the relationship between communication skills and the performance of internal auditors. Hence, internal auditors are required to communicate effectively to carry on their internal audit responsibilities effectively. Communication abilities are significant in determining the performance of internal auditors.

This result is also confirmed by Sarens (2012) which indicates that such interpersonal communication abilities is significant in determining the performance of internal auditors. Auditors need outstanding communication skills to do well in their profession. Previous research were done into the above referred communication aspects used by internal auditors, and the summarised findings are stated in the following discussion that an internal auditor is supposed to apply the care and skill expected of a rationally careful and competent internal auditor (IIARF, 2012).

This study is consistent with the previous research by Agargal and Garg (2012) and Golen (2008). They confirm the importance of and the need for effective communication skills in all organisation functions. Studies done by Smith (2005), suggested some ways to improve these communication skills. This is also consistent with the previous research by Bailey (2011).

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

6. CONCLUSION

Performance of internal auditors can be encountered with significant diversity and ambiguity in their work. This study indicates the effectiveness of communication skills on the performance of internal auditor's measurement viewed by the internal audit activity. The effectiveness of internal auditor's performance is based on professional standards issued by the IPPF (2017). Thus, performance standard is a standard that describes the nature and internal audit activities and a measure of the quality of audit work. The result of this study points out that the communication skills is an important determinant of performance of internal auditors.

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