

Risk Management, Internal Control, And Internal Audit On The Reduce Liquidity Risk, Performance, And The Value Of Listed Companies In The Stock Exchange Of Thailand

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ABSTRACT

The purposes of this research to study risk management (RIM), internal control (ICON), and internal audits (INA) to reduce liquidity risk (FRR), performance (BUR) and the value (BUV) of listed companies in the Stock Exchange of Thailand and to present guidelines to using the risk assessment form of the listed companies in the Stock Exchange of Thailand. Quantitative data was collected using questionnaires and record forms as tools. The sample was 425 listed companies in the Stock Exchange of Thailand. The data analysis was performed using the structural equation model analysis. In addition, the qualitative data was collected by in-depth interview according to the semi-structured interview form and then it was analyzed by content analysis. The results showed that 1) RIM and ICON had a positive direct effect on INA, 2) RIM, ICON and INA had a positive direct effect FRR, 3) FRR had a positive direct effect on BUR, 4) BUR had a positive direct effect on BUV, 5) RIM and ICON had a positive indirect effect on FRR through the mediation effect of INA, 6) RIM, ICON and INA had a positive indirect effect on BUR through mediation effect of FRR, and 7) FRR had a positive indirect effect on BUV through BUR at a statistically significant level of 0.05. and the guidelines to using the risk assessment form are the development of a computerized operating system with Microsoft Excel, by Excel Form, assessment method that could show the severity (Risk Matric) of the impact of the event or the risk that happened immediately. It reduced the operational process; the assessment file could be sent via E-mail or QR Code, which was more convenient and easier to operate.

Keywords: Risk management/ internal control/ internal audit/ financial liquidity risk reduction/ performance/ business value

Introduction

The rapidly changing global situation and society that are increasingly connected without borders are more intense economic competition. The reform of the country for technological development and innovation is the main factor driving development in all areas to increase the more intense competitiveness of Thailand. A

good internal management system is a strategy for the country's economic and social development. Emphasis is placed on enhancing the good governance of the private sector to be transparent. There is a working system that can be checked to maintain equal interests of all groups of shareholders (The Stock Exchange of Thailand, 2017). Companies that are in the

process of rehabilitation or have to go out of business were caused by the failure of RIM, ICON and INA. The aforementioned failure affects BUR as measured by financial ratios that reflect the results of its financial reports (Phornsang Rungcharoenkitkul, 2005, pp. 196-198). RIM, ICON and INAI also play an important role in auditing the operations of the Executive Committee for the best interests of the stakeholders (Chantana Sakakorn, Niphan Sawchokchai, and Silpaporn Srijanphet, 2007, pp. 75-79). Effective risk management will help prevent and minimize losses, add value to the organization in a sustainable way for the stakeholders, and help balance costs and results. The company can operate in various fields (Sahacham, 2007). Risk management must cover all operational activities and control must be in accordance with the plan set forth in terms of strategy, finance, operations and marketing (Abdel-Aziz & Abdelmoniem, 2015, pp. 1-14). For situation assessment to keep up with the changes, cause or risk analysis, governance as well as RIM, ICON and INA affect BUR and help create BUV for the company (Munteanu & Zaharia, 2014, pp. 2230-2242; Lai, 2017, pp. 681-741). Liquidity risk performance and added value from financial reporting base on gross profit, net profit, earnings per share, return on total assets, return on equity (Ndiaye, 2019, pp.133-143), FRR in terms of investments and income (Corbett, 2018, pp. 207-217), and the impact of financial risks (Sisay, 2017, p. 87). Effective ICON and INA can reduce liquidity risks (Noor & Abdalla, 2014, pp. 97-101), leading to business success, creating added value and sustainable business existence. RIM, ICON and INA are still the cornerstones of corporate governance. This builds confidence in the administration to be transparent, including reliable financial reporting (Khan & Ibrahim, 2017, pp. 1-32; Wilson, 2016 pp. 145-154).

Research Objectives

1. To analyze the direct and indirect effects of RIM, ICON and INA to reduce FRR, BUR and BUV of listed companies in the Stock Exchange of Thailand

2. To present guidelines to using the risk assessment form of listed companies in the Stock Exchange of Thailand

Related Concepts and Literatures

Corporate governance is the nature and method of using state power to manage the economic and social resources of a country, especially businesses that have a huge impact on investors. Listed companies in the stock exchange become the main factor. Consideration of internal and external investments will help demonstrate the efficiency of the organization's operations. The Stock Exchange of Thailand explained that corporate governance is a system that provides the processes and structures of corporate leadership and control to accountable for their duties with transparency and competitiveness. The aim is to maintain capital and add long-term value to shareholders under a good ethical framework, by taking into account other stakeholders and society as a whole (Office of the Securities and Exchange Commission, 2018). Corporate governance is related to internal and external management. Mechanisms of corporate governance can help reduce the cost of capital expenditures from owners, resulting in higher corporate value (Jensen, 2000, pp. 297-317). Corporate governance is related to the approach in creating investor's confidence in the return on their investment (Shleifer & Vishny, 1997, pp.737-782). Internal control and internal audits are mechanisms for controlling the operational processes that the management committee and personnel of the organization make for the organization to follow in order to achieve the desired business objectives. The executives can set up an internal audit system based on the internal control plan derived from the assessment of risks that may occur in various events or potential negative that impacts on non-compliance with the intended objectives to prevent or reduce the risks that may occur to an acceptable level. If the company has good management and transparency, it will make the business grow and develop strongly and sustainably (Srijanphet, 2013).

RIM is the analysis of risk factors by controlling activities, operating processes and reducing the cause of each opportunity that may

cause damage to the company so that the level and size of the damage that will occur in the future is at an acceptable level for the company and can be assessed, controlled and inspected systematically. RIM takes into account the achievement of the company's goals as important, including the support and participation in RIM from everyone in the company, both the executives and all employees. The principles of risk management according to COSO-ERM 2017 consists of 5 core principles with 20 components: core principle 1 - corporate governance and culture, core principle 2 - strategy and objective Setting, core principle 3 - performance, core principle 4 - review and revision and core principle 5 - information communication and reporting. Risk factors will cause the company to not achieve its intended objectives. External risk factors are economy, politics, etc., while internal risk factors are rules and regulations within the organization, etc. Therefore, to generate systematic RIM process, the organization needs to participate in the thinking, analyzing and anticipating potential risks, including specifying guidelines for managing risks to an appropriate level by considering the frequency or likelihood that an event or risk will occur and the impact or severity of the damage that will occur as a result. Risk is divided into 5 levels: very high, high, medium, low and very low. It was defined response measures from 4 levels of scores: low, medium, high, and extreme, in order to let the executives, use it as a guideline in formulating a control plan, risk prevention or reduction to an acceptable level, enabling the organization to achieve its objectives according to the strategic plan, vision and mission framework. RIM can be classified according to the roles, duties and suitability of each area according to the nature of operations and discretion of the management of each organization (Armeanu et al, 2017, pp.173-187; Bogodistov & Wohlgemuth, 2017, pp.234. - 251) by considering those risks that may affect the organizational performance. The key risk characteristics comprise (1) strategic risk, (2) financial risk, (3) operational risk and (4) marketing risk.

ICON is a control practice that the company has set as a policy and practice to reduce or to control potential risks and be able to evaluate them to ensure their effectiveness in

various fields. The ICON system has some elements in common, but the similarities and differences depend on the definitions used. Emergency management controls are designed to help administrators control management structures, accounting systems, and other controls (Chenhall, 2003, pp.127-168). Strategy and innovation of successful and competitive company development and should be aimed at achieving the company's current and strategic objectives for its business activities (Akhmetshin, 2017, pp. 684-692; Kerdpitak et al., 2022). There are five important factors, with twenty elements, that are used as indicators of the effectiveness of internal risk management of each company: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring and evaluation. Each business has different risk factors and levels of risk control.

INA is tools or executive assistants that help in monitoring, evaluating, and recommending INA standards. The efficient INA and the ethics of internal auditors can prevent potential losses to the organization. The resulting loss may affect the financial performance of the company (Subhi & Stannisc, 2016, pp. 352-356). INA provides the executives with information and assures the organization in assessing the effectiveness and efficiency of an appropriate ICON system, both in finance and administration. INA promotes operations to achieve the objectives and goals of the organization by offering reports on the value-added activities of the organization. INA is a consultant to the management to improve work efficiency and to ensure that resources are used economically and cost-effectively. From the objectives and goals of each audit system or each activity, the researchers identified four key components of INA: (1) financial, accounting audit, (2) operational audit, (3) compliance audit, and (4) information system audit.

FRR is the consideration on the sufficiency of company cash and cash flow for operating in the future by comparing the company's financial expenses with the operating income in order to analyze the need for additional funding sources in the future for the expansion of operations. The company's ability to take on additional liabilities or the need to increase

capital will result in a decrease in the existing shareholders' equity. Effective risk management to control liquidity risk needs management system to control credit risk, foreign exchange risk, market risk and interest rate risk (Noor & Abdalla, 2014, pp.97-100) by analyzing financial ratios from the statement of financial position with organizations in the same business group (Srisawat & Aunyawong, 2021). Accounting measurements are generally considered to be effective indicators of management's ability to mitigate liquidity risks that can indicate a company's debt serviceability or liquidity. In this research, three components were selected to measure: (1) current ratio, (2) debt to equity ratio, and (3) total debt to total assets ratio.

BUR represents company's success by measuring profitability (Hirsch, 1991). It is an important process for measuring the efficiency and effectiveness of a company, portraying management ability and return on equity (Cheng et al, 2008, pp.127-168). The most widely used measure of BUR is financial ratio analysis. It signifies the profitability of an entity to assess the company's capital and funding management according to the goals and objectives (Yulihapsari, Rahmatika & Waskito, 2017, pp. 102-114; Stefenoni (2018, pp. 1-20). Profitability in general is of the utmost importance to all shareholders of a company. It can be measured, assessed and compared using actual financial data from operations such as revenue, costs, assets, liabilities and equity (Brown, 2018; Kerdpitak, 2002). In addition, BUR can be measured by: (1) return on equity, (2) return on assets, (3) gross profit margin, and (4) net profit margin (Munyuny, 2013; Choi et al., 2013, pp. 447- 467).

BUV is a measure of the net present value of an organization's future cash flows and is an indicator of the survival of the business (Nualkaw et al., 2021). The company's enterprise valuation consists of Tobin's Q, which is the ratio

of total assets minus the market value of ordinary shareholders' equity plus the carrying amount of capital to value according to asset account. If Tobin's Q ratio is more than one, it is a sign of company's high investment incentives and worthwhile growth opportunity. If the Tobin's Q ratio is less than one, investment should be stopped. Moreover, Economic Value Added (EVA) is a measurement of an economic BUR, by which EVA can explain a security's return, better than the earnings per share ratio (Hutchison & Gul, 2004, 595-641; Selvam (2016, pp. 90-100).

From concepts and reviews of research related to RIM, ICON and INA to acquire FRR, BUR and BUV of companies listed on the Stock Exchange of Thailand, it was found that the efficiency of RIM, ICON and INA leads to FRR, for example, credit risk affects a company's liquidity (Spuchlakova, 2015). FRR directly affects BUR (Brow & Moles, 2016) and also helps to build confidence in the future operations (Corbelt, 2018). Financial risk management is correlated with the profitability of the company (Daniel, 2017). It concludes that efficient RIM, ICON and INA lead to effective FRR, measured by Current ratio (CA/CL), Debt to Total Asset ratio (TL/TA), and Debt to Equity ratio (D/E). It affects BUR, measured by Return on Total Assets (ROA), Return on Equity (ROE) (Pintuma and Aunyawong, 2021), Gross Profit Margin (GPM), Net Profit Margin (NPM), and Economic Value Added (EVA) (Gill & John, 2012; Choi et al, 2013, Alghifari, Triharjono & Juhaeni, 2013). The results show that when companies can effectively manage their FRR, they have good liquidity. When liquidity is good, the business can continue to run. Liquidity is also a measure of BUR and drives the company's higher BUV (Haniffa & Hudaib, 2006). As a result, from literature review above, hypotheses in the research, as shown in Figure 1, are as follows.

audit department, the director of internal control department, the director of finance department, and related expert of companies listed on the Stock Exchange of Thailand. Purposive sampling was used to select five key informants with at least 2 years of working experience in their industries from seven industries.

Content analysis was used to describe the content of a text or document using a systematic quantitative method and emphasizing the objectivity based on the narrative theory framework. It will focus on the content as it appears, not on interpretation or finding hidden meanings. It aims to confirm the suitability of the SEM set by the researchers and to collect opinions for presenting guidelines for using the risk assessment form of companies listed on the Stock Exchange of Thailand

Figure 2 Structural Equation model (After Modification)

2. Hypothesis testing results using the analysis of direct effects (DE), indirect effects (IE), and Total Effects (TE) of RIM, INA and ICON on FRR, BUR and BUY of listed companies in the Stock Exchange of Thailand were as follow:

The effects of RIM, ICON and INA on FRR, BUR and BUY of listed companies in the Stock Exchange of Thailand as follows.

For INA, the study found that RIM and ICON could explain the change of INA factor by 93.0%. INA was positively affected at a significant level of 0.05 by RIM and ICON. The effects were 0.61 and 0.40, respectively.

$$\text{INA Model} = 0.61(\text{RIM}) + 0.40(\text{ICON})$$

For FRR, the study found that RIM, ICON and INA could account for the change in FRR factor by 84.0%. FRR was positively affected at a significant level of 0.05 by RIM, ICON and INA, with effect sizes of 0.47, 0.15 and 0.33, respectively, and positively and indirectly affected by RIM and ICON through the mediation effect of INA at a significant level of 0.05, with effect sizes of 0.20 and 0.13, in turn.

Results and Discussion

Results

1. The results of the fit index analysis found that the model (after modification) of RIM, INA and ICON on FRR, BUR and BUY of companies listed on the Stock Exchange of Thailand had all six fit indices passed the acceptance criteria with CFI = 1.000, GFI = 0.960, AGFI = 0.920, RMSEA = 0.045 and SRMR = 0.014 $\chi^2/df = 1.978$. As a result, it concluded that SEM was fit to empirical data by considering from six statistical indicators passed criteria to check the model fit, as shown in Figure 2.

$$\text{FRR Model} = 0.47(\text{RIM}) + 0.15(\text{ICON}) + 0.33(\text{INA})$$

For BUR, the study found that RIM, ICON, INA, FRR could explain the change in BUR factor by 78.0%. BUR was positively affected at a significant level of 0.05 by FRR, with an effect size of 0.66, and positively and indirectly affected by RIM, ICON and INA through the mediation effect of FRR at a significant level of 0.05, with effect sizes of 0.44, 0.18 and 0.22, respectively.

$$\text{BUR Model} = 0.66(\text{FRR})$$

For BUY, the study found that RIM, ICON, INA, FRR and BUR could explain the change in BUY factor by 22.0%. BUY was positively affected at a significant level of 0.05 by BUR, with an effect size of 0.59, and positively and indirectly affected by RIM, ICON, INA and FRR through the mediation effect of BUR a significant level of 0.05, with effect sizes of 0.26, 0.11, 0.13 and 0.39, respectively.

$$\text{BUY Model} = 0.59(\text{BUR})$$

3. The results of in-depth interviews with key informants arisen from purposive sampling.

The analysis results of information from key informants found that:

Issue 1 Opinion on RIM. It was found that all informants agreed on risk factor management that covered all activities and processes in order to reduce the potential for future damage to the company that would affect the achievement of the objectives. RIM was the process of reducing the level of damage that may occur throughout the organization in the future to an acceptable, assessable, controllable, and systematic level, taking into account the achievement of goals and increasing the company's business value. All key informants agreed on the nature of RIM which consisted of four areas: (1) strategic risk, (2) financial risk, (3) operational risk, and (4) market risk. There were additional recommendations on new risk factors in the current changing environment, the risk management team, thus, needed to always adjust the risk management policy in time.

Issue 2: Opinion on ICON. It was found that all the respondents agreed with the ICON according to the international standards of COSO 2013 as a guideline for determining, evaluating and improving the company's ICON system consisting of 5 components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring activities.

Issue 3: Opinion on INA. It was found that all informants agreed on a systematic approach to INA covering all activities of the company. INA was the company's guarantee in assessing the effectiveness and efficiency of an appropriate ICON system, both in finance and administration. INA ensures the most economical and cost-effective use of resources. There were four types of objectives and goals of auditing each work system or activity: (1) financial auditing, (2) operational auditing, (3) compliance auditing, and (4) information system auditing.

Key informants also had additional recommendations on the types of INA in terms of operational audits and management audits. The aforementioned recommendations, however, there was still the issue of determining the audit plan from the position at the executive level, so the suggestions need to be considered before

implementation. It also found that the INA of the company must take into account the controls in each work process or unit of the company. The criteria may not apply all five elements in its entirety, but the auditor or management must assess the activities for sufficient and acceptable ICON.

Issue 4: Effects of RIM, ICON and INA on FRR, BUR and BUV of the company. It was found that most key informants recommended that effective and efficient RIM, ICON and INA led to FRR. ICON was the starting point of any company's processes. When ICON established from the beginning, data import and processing, resulted efficient and effective performance. Therefore, the business management in financial or other aspects provided the company with the opportunity to perform well or to cover risks that may affect its operations. Then, the financial statements and management of the company would be reliable and acceptable. This would affect the users of the financial statements. Both liquidity and investment of the business would be reflected in the financial statements. Good BUR would affect BUV. When a company had effective RIM, the outcome was clear. Strategic, financial, operational and marketing risk controls to an acceptable level could reduce unprofitable financial losses or reduce costs, such as credit, sales, and accounts receivable. Well-managed investments would definitely enhance liquidity of the business. When the business had good liquidity, BUR was also improved, resulting in a higher rate of return, added value for the company, and sustainable BUV, respectively.

Issue 5: Opinion on FRR and guidelines for implementing assessment form. It was found that the risk assessment form should cover all activities of the operating process and ICON relating to potential financial damage that directly affects the liquidity of the company, such as revenue cycle, debtor management, expense cycle, payable management, budgeting, investment, including provisioning for incident. These are within the scope of risk management characteristics comprising 5 areas: (1) strategic risk, (2) financial risk, (3) operational risk, and (4) market risk. The ICON according to global

standard of COSO 2013 is a framework for defining, assessing and improving the company's ICON system which consists of 5 components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring activities. The results of the guidelines to using the risk assessment form are the development of a computerized operating system with Microsoft Excel, by Excel Form, assessment method that could show the severity (Risk Matric) of the impact of the event or the risk that happened immediately. It reduced the operational process; the assessment file could be sent via E-mail or QR Code, which was more convenient and easier to operate. And the completed risk assessment form will portray the risks in a high, medium, and low level. If the assessment result is high, they can be used to formulate guidelines to manage that risk in a timely manner. The assessment results can also be used to analyze BUR to reflect the efficiency of BUR and the creation of BUY further.

Issue 6: Additional suggestions. It was found that personnel should be developed to be ready for every change under the current situation. INA, besides, was an added value job, so INA can add value to the business.

Discussion

1. To analyze the direct and indirect effects of RIM, ICON, and INA on FRR, BUR, and BUY of listed companies in the Stock Exchange of Thailand.

RIM and ICON have a positive direct effect on INA and FRR. INA and FRR have a positive effect on BUR and BUY of the companies that organize risk-management. Efficient and effective ICON and INA will lead to FRR. ICON is the starting point of any company's processes when it comes to ICON from the good beginning. The results obtained from operations are also more efficient and effective. Management and control or prevention of factors that may have a negative impact on achieving the company's objectives to an acceptable level gives the company a better opportunity for action. This allow the company to close the risk that will affect its operations by managing, preventing or

controlling risk factors to reduce the company's liquidity risk to be more reliable and liquid as well as have an opportunity to expand investment and set aside reserves according to objectives. This is consistent with research by Armeanu et al (2017), portraying that effective risk supervision of the corporate governance committee supports efficient risk management. This ensures flexibility in responding to unexpected threats and taking advantage of the opportunities. RIM provides a competitive advantage through its ability to evade, inhibit, protect, respond and adapt to any interference. In addition to a speedy recovery, committees should be equipped and flexible enough to deal with critical situations as an important part of system governance. Akhmetshin (2017) found that ICON was a factor in integration of strategic and innovative dimensions of developing a successful company and increasing its competitiveness. The ICON system should be aimed at the achievement of the company's current and strategic objectives for all its business activities. Analyzing financial statements can reflect the good BUR and BUY. When companies have effective RIM, the results shown will be clearer. Strategic, Financial, operational and marketing risk controls to an acceptable level can reduce unprofitable financial losses or reduce costs, such as credit, sales, debtor, investment. When the business has good liquidity, BUR will also improve. The rate of return will be higher and the business can create added value for the company more sustainable as well (Phrapratanporn et al., 2022). This is in line with research by Munyuny (2013) identifying those measures of operational efficiency reflect performance, sales growth, and market share. The most commonly used measure of operational efficiency is gross profit margin, net profit margin, and operating profit margin.

2. To present guidelines to using the risk assessment form are the of listed companies on the Stock Exchange of Thailand

The FRR assessment of FRR of companies found that FRR Assessment form should cover all activities of the operating process and ICON relating to potential financial damage that directly affects the liquidity of the company, such as revenue cycle, debtor management, expense

cycle, payable management, budgeting, investment, including provisioning for incident. And the guidelines to using the risk assessment form are the development of a computerized operating system with Microsoft Excel, by Excel Form, assessment method that could show the severity (Risk Matric) of the impact of the event or the risk that happened immediately. It reduced the operational process; the assessment file could be sent via E-mail or QR Code, which was more convenient and easier to operate. These are within the scope of risk management characteristics comprising 5 areas: (1) strategic risk, (2) financial risk, (3) operational risk, and (4) market risk. The ICON according to global standard of COSO 2013 is a framework for defining, assessing and improving the company's ICON system which consists of 5 components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring activities. The results of the completed risk assessment form will portray the risks in a high, medium and low level. If the assessment result is high, they can be used to formulate guidelines to manage that risk in a timely manner. The assessment results can also be used to analyze BUR to reflect the efficiency of BUR and the creation of BUV.

Conclusion

The results have shown that risk management, internal control, internal audits, and reduce liquidity risk have a positive direct influence on performance and the value. Risk management and internal control have an indirect influence on reduce liquidity risk through the mediation effect of internal audits. Risk management, internal control and internal audits have a positive indirect influence on performance and the value through the mediation effect of reduce liquidity risk. As for the results of qualitative research, quantitative research results can be confirmed. The results have been developed as a guideline for using the risk assessment form of listed companies on the Stock Exchange of Thailand. The findings from the assessment will focus on risk management, internal control and internal audits that affect financial liquidity risk reduction that will enhance the company's fluidity to benefit operations and create business value from further business opportunities.

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