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GOOD INTERNAL CONTROL SYSTEMS AND GOOD GOVERNANCE AFFECTING THE PERFORMANCES OF SAVINGS COOPERATIVES IN NORTHEASTERN THAILAND

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Abstract

In northeastern Thailand, this study investigated the relationship between good governance and savings cooperative performances and examined how internal control systems affected performances. Seventy-nine northeastern savings cooperatives were used as samples in this research. The respondents consisted of managers, accounting supervisors, and internal audit officers. The questionnaires were used for collecting data. The data were analyzed using percentage, mean, standard deviation, simple correlation, and multiple linear regression.

According to the analysis of good internal control systems and good governance on the performances of savings cooperatives in northeastern Thailand, it was found that good internal control systems on the aspects of the control environment, the risk assessment, the information and communication, and the monitoring and evaluation had a positive correlation with the performances at a statistically significant level of 0.05. In addition, regarding good governance's principles, the principle of efficiency, the principle of responsiveness, the principle of delegation, the principle of participation, and the principle of equality had a positive correlation with the performances of savings cooperatives in northeastern Thailand at a statistically significant level of 0.05.

Keywords: Good Internal Control Systems, Good Governance, Performances, Savings Cooperatives

Introduction

The purpose of a savings cooperatives is to benefit members' economic well-being and society by employing the principles of self-sufficiency and mutual assistance. The cooperative became a legal entity after being registered under the Cooperatives Act of 2542 (Tassanawat, 2001: 2). Cooperatives are also considered as economic and social institutions that play a crucial role in the development of Thailand's grassroots economy which all governments have paid attention to solving problems, developing sustainability, improving people's lives through the cooperative systems. They have focused on developing strong cooperative systems to become a reliant institution for members. However, the cooperatives will be able to manage their business to survive in continuously fluctuating Thailand's economic situation. It is essential to build financial strength and create long-term stability and sustainability for cooperatives (Matichon Weekend, 2022: online).

Good internal control systems refer to a significant mechanism and an important tool for managing savings cooperatives to become an acceptable level. This will enable the operations and management of savings cooperatives to achieve their goals in laws, regulations, accounting systems, orders, and response letters to various discussions. Most of these documents focus on financial and accounting controls which complied with the regulations or rules set by the savings cooperatives. Good internal control systems should be control systems covering all aspects of work and reflecting an overall image of the savings cooperatives' efficiency and effectiveness. Savings cooperatives must consist of five good internal control systems: 1) control environment, 2) risk assessment, 3) control activities, 4) information and communication, and 5) monitoring and evaluation.

Good governance refers to systems and processes involved in ensuring overall direction, governance, and organizational accountability (Cornforth, 2001). It is defined as a means of implementing the happiness and fundamental freedom rights of individuals, including the achievement of final desires. Control is a key to determining growth, development, and poverty reduction (Dayanandan, 2013: 10-26). In addition, good governance is also seen as a tool for the effectiveness of social institutions. The outcome should be good governance if an institution is appropriate and effective (Duncan, 2003). Good governance principles: righteousness, participation professionalism accountability, transparency, honesty, and fairness involve an investor-owned organization and are applicable in cooperatives as well. This is because the cooperatives have a separate legal existence and are governed by a board elected by the members participating in the general meeting. The participation of cooperatives in economic activity is affected by their management capacity, experience, and access to credit because of lack of good governance practices. As mentioned in Dayanandan's research (2013: 10-26), the examination of meditation practices impacted cooperatives' operations in the Halaba Special District of southern Ethiopia. The study concluded that the four predictor variables consisted of participation accountability, transparency, and the rule of law which were important to the impact of effective cooperatives that required attention from relevant stakeholders to maintain good governance and a significant foundation for achieving a sustainable development strategy. This decentralization is considered an effective mechanism that supports good governance alongside

accountability, predictability, and transparency (Al-Sharafi, et al. 2019: 77-89) and the rule of law (Bakkar & Ogcem, 2020: 173-205). The management of savings cooperatives for good governance consists of nine principles: 1) principle of effectiveness, 2) principle of efficiency, 3) principle of responsiveness, 4) principle of accountability, 5) principle of transparency, 6) principle of participation, 7) principle of delegation, 8) principle of rule of law, and 9) principle of equality. These principles lead to the performance of savings cooperatives to be strong and sustainable in the financial aspect, membership aspect, internal processes aspect, and learning and development aspect.

Hence, this study investigated how good internal control systems and good governance related to the performance of savings cooperatives. The results from this research can be used as information to strengthen and develop the concept of internal control and good governance and as a guideline for developing and improving to efficiently increase the performances of savings cooperatives located in northeastern Thailand.

Research Objectives

1. To investigate the relationship between good internal control systems and the performances of savings cooperatives in the northeastern region of Thailand.
2. To examine the relationship between good governance and the performance of savings cooperatives in northeastern Thailand.

Conceptual Framework

According to the investigation of documents, concepts, and theories about good internal control systems and good governance on the performances of savings cooperatives in northeastern Thailand, the conceptual framework was defined as follows:

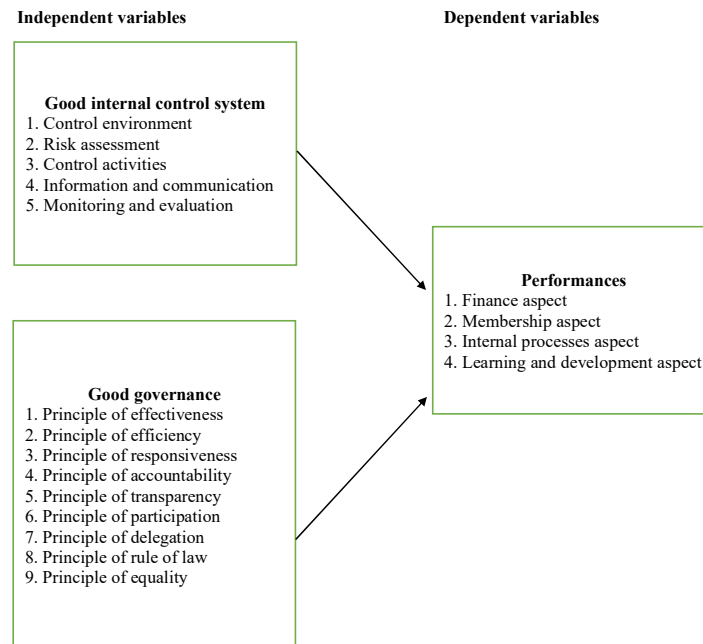


Figure 1: Conceptual Framework

Research Methodology

1. Population and samples

1.1 The population used in this research was 192 savings cooperatives in northeastern Thailand (Department of Cooperative Promotion Office of Capital Management, 2022: online)

1.2 The samples were defined based on the method of Taro Yamane's formula (Yamane, 1973) at a confidence interval of 95% and error analysis of 0.05. They consisted of managers, accounting supervisors, and internal audit officers working in 79 savings cooperatives in northeastern Thailand.

2. Research variables

2.1 The independent variables were good internal control systems: 1) control environment, 2) risk assessment, 3) control activities, 4) information and communication, and 5) monitoring and evaluation, including good governance principles: 1) principle of effectiveness, 2) principle of efficiency, 3) principle of responsiveness, 4) principle of accountability, 5) principle of transparency, 6) principle of participation, 7) principle of delegation, 8) principle of rule of law, and 9) principle of equality.

2.2 The dependent variables were the performances of the savings cooperatives in northeastern Thailand: 1) finance aspect, 2) membership aspect, 3) internal processes aspect, and 4) learning and development aspect.

3. Research Instruments

The questionnaires used for collecting data were created as the following steps:

3.1 Investigated the relevant details by collecting information on concepts, theories, principles, and methods of good internal control systems, good governance, and performances of savings cooperatives in northeastern Thailand.

3.2 Created a set of general information questionnaires asking about personal details and characteristics of savings cooperatives in northeastern Thailand.

3.3 Created a set of questionnaires asking about good internal control systems, good governance, and performances of the savings cooperatives in northeastern Thailand.

3.4 Submitted the questionnaires to five experts to examine the content validity using the Index of Item-Objective Congruence (IOC) to find the correlation between the question and the content and the verification value was between 0.6 and 1.

3.5 Tested the questionnaires to determine their reliability. Then, the pilot study was conducted with samples of informants who held similar characteristics to the informants that would be used in the research. The pilot study was conducted with one savings cooperative in Ubon Ratchathani Province which was not randomly drawn into the research sample. The reliability of the questionnaires was examined by considering Cronbach's alpha coefficient (Cronbach, 1970) with an overall value of 0.89. The coefficient of each part was: 1) good internal control system at 0.89, 2) good governance at 0.88, and 3) operational performances at 0.89.

4. Data collection

The researchers sent 237 copies of letters along with copies of questionnaires via post service to 79 savings cooperatives in northeastern Thailand asking for collecting data. The 236 copies of questionnaires were responded back.

5. Data analysis

The researchers examined those responded data and analyzed them based on the objectives of the research by using a software package. The statistics used to analyze data consisted of percentage, mean, standard deviation, simple correlation, and multiple linear regression.

Results

The investigation of good internal control systems and good governance on the performances of savings cooperatives in northeastern Thailand was found that:

Table 1. General information of respondents

General information of respondents	Number of respondents	Percent
Gender		
Male	96	43.80
Female	140	56.30
Total	236	100.00
Age		
Not exceeding 30 years old	20	8.47
31-45 years old	40	16.95
46 - 61 years old	120	50.85
Over 61 years old	56	23.73
Total	236	100.00
Level of Education		
Undergraduate	10	4.24
Bachelor's degree	129	54.66
Master's degree	23	9.75
Doctoral degree	74	31.36
Total	236	100.00
Position in the cooperatives		
Manager	78	33.05
Accounting Supervisor	77	32.63
Internal Audit Officer	80	33.90
Total	236	100.00

1. The analysis of respondents' general information

1.1 The analysis of the personal information of the respondents revealed that most of them were female accounted for 56.30 percent, 46-60 years of age accounted for 50.85 percent, bachelor’s degree accounted for 54.66 percent, and the internal audit officers accounted for 33.90 percent, as shown in Table 1.

1.2 The analysis of the characteristics of savings cooperatives in northeast Thailand presented that most of the respondents had accumulated capital between 1,000 and 5,000 million baht or accounted for 33.47 percent and 29.66 of them were teachers, as shown in Table 2.

Table 2. Information about respondents’ savings cooperatives

General information of respondents	Number of respondents	Percent
Accumulated capital		
Less than 1,000 million baht	77	32.63
From 1,000 – 5,000 million baht	79	33.47
From 5,001 – 10,000 million baht	55	23.31
More than 10,000 million baht	25	10.59
Total	236	100.00
Professional group		
Teacher	70	29.66
Soldier	33	13.98
Policeman	28	11.86
Public health	23	9.75
Government officer	12	5.08
State enterprise	22	9.32
Corporation	48	20.34
Total	236	100.00

2. The analysis of respondents’ opinions regarding good internal control systems and good governance on the performances of savings cooperatives in northeastern Thailand

Table 3. Mean and standard deviation of the overall good internal control systems of savings cooperatives in northeastern Thailand

Item	Good internal control system	Level		Interpretation
		\bar{X}	S.D.	
1	Control environment	4.00	0.32	High
2	Risk assessment	4.02	0.41	High
3	Control activities	4.02	0.26	High
4	Information and communication	4.07	0.34	High

5	Monitoring and evaluation	4.04	0.32	High
	Overall	4.03	0.33	High

According to Table 3 the overall good internal control systems of savings cooperatives in northeastern Thailand, the overall performances were at a high level ($\bar{X} = 4.03$, S.D. = 0.33). When considering each aspect, it was found that the best internal control system was information and communication ($\bar{X} = 4.07$, S.D. = 0.34), followed by the monitoring and evaluation ($\bar{X} = 4.02$, S.D. = 0.26), and the least was the control environment ($\bar{X} = 4.00$, S.D. = 0.32).

Table 4. Mean and standard deviation of the overall good governance of savings cooperatives in northeastern Thailand

Item	Good internal control system	Level		Interpretation
		\bar{X}	S.D.	
1	Principle of effectiveness	3.99	0.30	High
2	Principle of efficiency	4.01	0.43	High
3	Principle of responsiveness	4.04	0.28	High
4	Principle of accountability	4.01	0.27	High
5	Principle of transparency	4.06	0.32	High
6	Principle of participation	4.05	0.31	High
7	Principle of delegation	4.04	0.33	High
8	Principle of rule of law	4.02	0.28	High
9	Principle of equality	4.06	0.29	High
	Overall	4.03	0.31	High

According to Table 4 the overall good governance of savings cooperatives in northeastern Thailand, the overall performances were at a high level ($\bar{X} = 4.03$, S.D. = 0.31). When considering each aspect, it was found that the highest governance was the principle of delegation ($\bar{X} = 4.06$, S.D. = 0.32) and the principle of equality ($\bar{X} = 4.06$, S.D. = 0.29), followed by the principle of transparency ($\bar{X} = 4.04$, S.D. = 0.33), and the least was the principle of effectiveness ($\bar{X} = 3.99$, S.D. = 0.30).

Table 5. Standard deviation of the overall performances of savings cooperatives in northeastern Thailand

Item	Performances	\bar{X}	S.D.	Interpretation
1	Finance aspect	4.04	0.46	High
2	Membership aspect	4.03	0.36	High
3	Internal processes aspect	4.11	0.39	High
4	Learning and development aspect	4.17	0.43	High

Overall	4.09	0.41	High
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According to Table 5 the overall performances of savings cooperatives in northeastern Thailand, the overall performances were at a high level (\bar{X} = 4.09, S.D. = 0.41). When considering each aspect, it was found that the highest performance was the learning and development aspect (\bar{X} = 4.17, S.D. = 0.43), followed by the internal process aspect (\bar{X} = 4.11, S.D. = 0.39), and the least was the membership aspect (\bar{X} = 4.03, S.D. = 0.36).

3. Analysis of hypothesis testing

The analysis of 18 independent variables and dependent variables could be explained that there was no correlation between these variables due to a less than 0.90 correlation value ($r < 0.90$) (Hinkle, et al. 1998). The researchers examined the correlation between these variables using Pearson’s product-moment correlation coefficient and none of the paired variables was found to have a value greater than 0.90. It could be indicated that none of them were correlated at a high level and might cause multicollinearity. Therefore, the results of the hypothesis testing of both research hypotheses were summarized as follows.

3.1 Hypothesis no. 1 : the good internal control systems were related to the performances of savings cooperatives in northeastern Thailand.

Table 6. Correlation analysis between good internal control systems and the performances of savings cooperatives in northeastern Thailand

Variable	Standardized Coefficients Beta	t-value	Sig.
Control environment	-0.022	-0.332	0.741
Risk assessment	0.175	2.688	0.008*
Control activities	0.153	2.301	0.022*
Information and communication	-0.131	-2.055	0.041*
Monitoring and evaluation	-0.027	-0.409	0.683
Remarks: n = 235 R² = 0.072 F = 3.576 Sig. 0.000			

* It was statistically significant at the level of 0.05.

According to Table 6, the analysis of the decision coefficient (R²) was at 0.0072. It could be explained that all independent variables could predict good internal control systems on the financial aspect of savings cooperatives at 72 percent. It indicated that there was statistically significant at the level of 0.05 supporting the characteristics of five aspects of good internal control systems: control environment, risk assessment, control activities, information and communication, and monitoring and evaluation.

The results of the hypothesis testing revealed that the risk assessment was at 0.175, while the control activities were at 0.153. They were positively related to the performances of savings cooperatives in northeastern Thailand. Moreover, the control activities were at -0.022, followed by the

information and communication at -0.131, and the monitoring and evaluation at -0.027. They were negatively related to the performances of savings cooperatives in northeastern Thailand.

3.2 Hypothesis no. 2: good governance was related to the performances of savings cooperatives in northeastern Thailand.

Table 7. Correlation analysis between good governance principles and the performances of savings cooperatives in northeastern Thailand

Variable	Standardized Coefficients Beta	t-value	Sig.
Principle of effectiveness	0.328	3.623	0.000*
Principle of efficiency	0.227	3.523	0.001*
Principle of responsiveness	0.327	3.723	0.000*
Principle of accountability	-0.183	-2.620	0.009*
Principle of transparency	-0.242	-2.900	0.004*
Principle of participation	-0.173	-2.791	0.006*
Principle of delegation	0.162	2.658	0.008*
Principle of rule of law	0.109	1.451	0.148
Principle of equality	0.301	3.870	0.000*
Remarks: n = 235 R ² = 0.155 F = 5.978 Sig. 0.000			

* It was statistically significant at the level of 0.05.

According to Table 7, the analysis of the decision coefficient (R²) was at 0.155. It could be explained that all independent variables could predict good governance on the performance of savings cooperatives in northeastern Thailand at 15.5. It indicated that there was statistically significant at the level of 0.05 supporting the characteristics of the nine principles of good governance: principle of effectiveness, principle of efficiency, principle of responsiveness, principle of accountability, principle of transparency, principle of participation, principle of delegation, principle of rule of law, and principle of equality.

The results of the hypothesis testing revealed that the principle of effectiveness was at 0.328, while the principle of efficiency was at 0.027, the principle of responsiveness at 0.327, the principle of participation at 0.162, the principle of rule of law at 0.109, and the principle of equality at 0.301. They were positively related to the performances of savings cooperatives in northeastern Thailand. Moreover, the principle of accountability was at -0.183, followed by the principle of delegation at -0.242, and the principle of transparency at -0.173. They were negatively related to the performances of savings cooperatives in northeastern Thailand.

Discussion

The research on good internal control systems and good governance affecting the performance of savings cooperatives in northeastern Thailand aimed at the following objectives.

1. The first objective was to investigate the relationship between good internal control systems and the performances of savings cooperatives in the northeastern region of Thailand. According to

hypothesis testing no 1, it was found that the good internal control systems on the risk assessment and the control activities were positively related to the performances of savings cooperatives in northeastern Thailand, while the control activities, the information and communication, and the monitoring and evaluation presented negative relation. When considering each aspect, the financial aspect, membership aspect, and internal processes, and learning and development aspect. It can be seen that the good internal control systems on risk assessment and control activities were all positively influential on the performances of savings cooperatives in the northeastern region because there are various risks to encounter in the management of savings cooperatives which may inevitably arise from internal and external factors. Therefore, it is necessary for cooperative committees and executives to specify control measures by providing a risk assessment, analyzing, and identifying factors or opportunities which are able to cause risks. This is to acknowledge these risks in the performance processes and be able to manage these risks to ensure that damage from errors/defects or fraud will not occur. In addition, according to the analysis of the good internal control systems of savings cooperatives in the northeastern region, the overall result of risk assessment was at a high level. This complied with the study of Shabri, et al. (2016: 240-245) who claimed that the risk assessment was the process of identifying and analyzing internal and external risks that might affect management, financial reporting, and legal compliance (Takahiro & Jia, 2012: 66-75). In cooperative organizations, a risk assessment was used to identify and analyze the risks involved in the achievement of objectives and determine remedial measures (Mendoza, 2012). According to the Cooperative Best Practices Guide, Mauritius (2011), risk assessments should be conducted regularly by the committees to identify the risks in the area. The list of duties of officials and workers in the society should be included as a risk identification based on the local ethical risks. After that, clearly identified risks should be provided as a document in order to plan for risk management actions and control activities that could be occurred throughout the organization, levels, and functions. Control activities were the policies and processes used by organizations to ensure that management orders are executed and necessary actions were taken to mitigate risks in achieving objectives (Ratcliffe & Landes, 2009). Mendoza (2012) stated in his research that the activity control group of the internal control system in cooperatives could be divided into nine activities: authorization, apportion of duties, data processing, physical control, documentation adequation, auditing, reconciliation, performance review, and efficiency and supervision. Therefore, the objectives can be achieved through better control activities, which are essential as all actions should be.

2. The second objective was to examine the relationship between good governance and the performance of savings cooperatives in northeastern Thailand.

According to hypothesis testing no 2, it revealed that the principle of effectiveness, the principle of efficiency, the principle of responsiveness, the principle of participation, the principle of rule of law, and the principle of equality were positively related to the performances of savings cooperatives in northeastern Thailand. When considering the level of each principle, the principle of effectiveness, the principle of efficiency, the principle of responsiveness, the principle of participation, the principle of rule of law, and the principle of equality were at a high level. It is consistent with the study of Puri and Walsh (2018: 208-224) about the significant impact of governance on cooperative performances in

Nepal. There was a positive and significant correlation between good governance and cooperative performance. However, there was also a negative correlation between these as well. Righteousness, participation professionalism, responsibility, and transparency were the pillar of good governance that could be implemented in the cooperatives of Nepal. Based on the results of the study, some recommendations were suggested as follows. Firstly, the results of the study showed positive and significant effects of good governance on the performance of cooperatives in Nepal. Therefore, the cooperatives were willing to increase the efficiency values to improve good governance principles. Secondly, the study found that the negative impact of righteousness affected the cooperatives performances. Therefore, the cooperatives were willing to increase efficiency and reduce their righteousness. Thirdly, the study found a positive impact of professionalism on the performance of cooperatives in Nepal. Therefore, cooperatives were willing to increase capital, and professionalism. Finally, the results of the study revealed the positive impact of accountability on the performance of cooperatives in Nepal. Therefore, cooperatives were willing to increase their efficiency and accountability. Kyazze, et al. (2017: 1-14) examined the relationship between cooperative governance and non-financial performance of cooperative societies in Uganda. The results revealed a significant and positive relationship between monitoring rights and social performance. There was also a significant and positive relationship between innovation and social performance. However, the overall relationship between cooperative governance and cooperative non-financial performance was statistically significant in a positive way. According to the idea of the Department of Cooperative Promotion Capital Management Office (2022: Online), good governance could only be achieved and carried out effectively by cooperation between each part of the cooperatives. Likewise, government agencies provided support and supervision, such as the Cooperative Promotion Department and the Department of Cooperative Auditing. However, the important point was that good governance could lead to stable development depending on the creation of good governance. The committee must understand the concept and the importance of good governance in the following issues: 1) reviewing how current good governance is efficient, effective, and transparent, and 2) determining the form and process of implementing the principles of good governance and then issue them as requirements for further implementation in creating good governance in the cooperatives which will be possible by the cooperation of all sections.

Recommendation

1. Recommendations for implementation

1.1 The results of the research support the concept of good internal control systems and good governance of savings cooperatives in northeastern Thailand. It is an important mechanism for controlling the value of cooperatives and leading to sustainable development. It is able to apply management to become transparent and verifiable.

1.2 The results of the research can be used as a guideline for developing better good internal control systems and good governance to enhance the performance which results in the performances of savings cooperatives in all four aspects: finance aspect, membership aspect, internal processes aspect, and learning and development aspect. These can be reliable to all members and

stakeholders in savings cooperatives.

2. Recommendations for further research

2.1 The investigation of the effects of good internal control systems and good governance on the performance of other types of cooperatives should be conducted to be a guideline for management and internal control and increase efficiency.

2.2 The investigation on impacts or other factors affecting the operations of savings cooperatives in northeastern Thailand should be conducted, such as the accounting system, corporation auditing, financial auditing, including internal and external factors, etc.

2.3 Risk management of savings cooperatives in northeastern Thailand should be examined to prevent weaknesses in internal control and to upgrade the performances to be more efficient.

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