ACCRUAL : Accounting Reseach Journal
Accrual@unnur.ac.id
Volume II | Nomor 1 | Sep 2023

THE ROLE OF INTERNAL AUDIT IN RISK MANAGEMENT OF CORPORATE ORGANIZATIONS

Author:
[1]Endang Susilawati
Department of Accounting
Universitas Nurtanio Bandung
endalist@yahoo.com

[2]Vini Rizqi
Department of Accounting
Universitas Nurtanio Bandung
Viniriski73@gmail.com

[3]Vina Permata Sari
Department of Accounting
Universitas Nurtanio Bandung
Vpermas1@gmail.com

Article History:
Received: December 08th, 2023
Revised : December 31st, 2023
Accepted: January 15th, 2024

How to cite this article:
The Role of Internal Audit in Risk Management of Corporate Organizations

Journal Homepage:
https://jurnal.unnur.ac.id/index.php/accrual
Email:
accrual@unnur.ac.id

Abstract. The role of audit in a company is very important because audit is a control of all activities in the organization, so the function of internal audit is to control all activities in the organization so that work implementation is more effective and efficient according to predetermined standards, therefore the role of internal audit The company's risk will be small because company risk management can help the company's risk of events that will be faced in the future. This research uses a qualitative approach which aims to understand the phenomena that occur in research subjects to assess research questions and to provide data. based on the researchers' ideas. focuses on previous research findings regarding the role of internal auditors in implementing good risk management for good corporate governance. Based on the description, analysis, data interpretation and statistical data processing that have been described in the previous chapters, it can be concluded that the level of effectiveness of the role of the internal audit function is important in operational risk management. Based on the calculation results of the average level of effectiveness located in quadrant II in the Cartesian Diagram, it shows that the role of the internal audit function in operational risk management has been effective. The role of internal auditors in risk management is closely related to the risk management system development stage. Top management must be aware of their specific functions and responsibilities in risk management. Top management must provide appropriate signals to lower levels of management (top-down approach) to convince them of their operational responsibilities regarding for example the development and implementation of internal controls.

Keywords: Internal Audit, Risk Management

INTRODUCTION

All organizations are in the business of placing capital at risk in the pursuit of uncertain ventures, including financial institutions, government agencies, corporations, and non-profit organizations. They all have goals and they allocate resources to pursue them because all organizations face uncertainty in achieving their goals (Setapa et al. 2015). Additionally, the increase in size and complexity of organizations has made ERM a major issue in governing organizations which in turn has revitalized the role of internal audit. Organizational culture and internal audit structure vary from organization to organization.

Therefore, the internal audit function's ability to be a trusted advisor may be compromised. A company's commitment to risk management is also likely related to the nature and level of business risks it faces (Goodwin-Stewart & Kent 2006). While companies in all industries face a variety of business risks, some industries are considered inherently riskier than others. Ultimately, the internal audit profession developed in the business world in the nineteenth century (Mustafa & Nimer 2018). Since then, this profession has become the interest of many researchers. The audit profession receives many benefits, including; verifying transactions, accuracy, reducing human errors, improving business processes and most importantly implementing full synchronization of risk information across organizational units as a whole which contributes to achieving administrative responsibility. In this world, perhaps internal auditors know or understand best what is a company's internal control system. This may be an indisputably important jurisdiction in which internal audit can advance within an organization (Spira & Page, 2003).

Internal audit as an element of internal control of a company's operational activities is an important tool for further normalization of the function of the internal audit organizational structure itself in order to increase efficiency and effectiveness to achieve transparency goals (Momot et al. 2021). To the extent that the internal audit function performs consulting engagements, they have a positive impact on functions focused on control validation. The internal audit function's ability to build relationships increases when internal auditors assume an advisory role on risk management techniques and are subsequently accepted by management to be involved in key strategic initiatives (Anderson et al. 2017).

The new risk management framework has raised many questions about its concept, components and relationship to internal control and its relationship to institutional control (Tamimi 2021). Current thinking is that risk management is essentially a control issue and describes internal audit as a risk management technology used to make economic activities manageable by providing assurance on organizational systems, processes and activities (Mihret & Grant 2017). Therefore, companies need a strong control system consisting of internal control, risk management and successful audits to establish better corporate governance and maintain shareholder trust. Risk management can be defined as a scientific approach to dealing with pure risk by anticipating potential accidental losses, designing, and implementing procedures that will reduce the financial impact of losses to a minimum. Carrying out internal audits is one of the internal control mechanisms that is responsible for ensuring that the organization has full internal control, compliance with relevant regulations, and provides added value to the organization. (Isaac et al. 2019). However, there is some misalignment between internal auditors' aspirations to contribute to good corporate governance and the work programs they currently carry out. The multiple and complex tasks that include compliance and consulting work performed by internal auditors can also result in confusion about their roles (Leung et al. 2011). The role of internal audit in risk management is complicated by the possibility that companies may establish alternative mechanisms that complement or replace internal audit (Goodwin-Stewart & Kent, 2006). For example, there may be a designated risk manager who is responsible for overseeing and coordinating the risk management process. The manager may work closely with internal audit, demonstrating a positive relationship. Alternatively, managers may have their own staff work on risk management, eliminating or minimizing the need for internal audits.

LITERATURE REVIEW

The existence of an internal audit function provides advisory services that can be developed based on the effectiveness of risk management, control and corporate governance (Ekawati et al. 2020). Internal audit's participation in ERM can add value to the organization, but it also risks compromising independence and objectivity. Recognizing this possibility, the IIA issued regulations relating to the core roles of internal audit as it relates to ERM, the roles that internal audit can legally perform by providing safeguards, and the roles that internal audit may not perform. Internal audit participation in ERM includes determining risk appetite and adopting policies related to setting risk procedures within the company (de Zwaan et al. 2011).

The Institute of Internal Auditors (IIA 1999, 2004)) defines internal audit as: "An independent and objective consulting and assurance activity designed to add value and improve an organization's operations. It helps an organization achieve its goals by bringing a systematic and disciplined approach to evaluating and improve the effectiveness of risk management, controls and governance processes." This definition suggests that the role of internal audit has dramatically shifted from compliance assurance and asset safeguarding to value-added assurance and consulting services through its role in monitoring, assessing, and improving risk management, control, and governance processes that are critical to preserving and upholding stakeholder values (Bou-Raad, 2000). The inclusion of assurance and consulting in the meaning of internal audit means internal audit becomes a proactive, client-focused service that deals with important control, risk management and governance issues (Hass et al. 2006). Internal auditors are required to provide assistance to management and the audit committee in fulfilling their risk management and oversight responsibilities by examining, evaluating, reporting and making recommendations to improve the feasibility of the risk management process (Indarti 2020).

Internal auditors are in a position of trust and must be seen to maintain integrity and independence in their performance. At the same time, internal auditors must also maintain good relations with management (Leung et al. 2011). Ethical integrity is one of the important skills that internal auditors need. Internal auditors are certainly encouraged in the professional literature to embrace opportunities to contribute to the achievement of corporate objectives through risk management (Sarens & De Beelde 2006). Internal auditors are responsible for providing a comprehensive assessment of the company's operational activities so that they can minimize the occurrence of fraud which can be detrimental to the company (Ratri & Bernawati 2020). The role played by internal audit in the organization's overall risk management strategy or the internal audit function's annual plan should be based on the organization's strategic risks (P. Coetzee & Lubbe 2014). Internal auditors with their numerical and procedural skills and their interest in controlling financial risks, are being drawn into the process of implementing RM procedures (Crawford & Stein 2004). This use of internal audit resources may impact the nature of the RM process if it is led by accounting-trained personnel rather than professional risk managers. To be effective, the internal audit function must be given appropriate status within the organization to enable an internal auditor to carry out the function of organizational independence and act objectively (El-Sayed Ebaid, 2011). Internal auditors must have knowledge, experience and other skills in carrying out their professional duties.

RESEARCH METHODS

This research uses a qualitative approach which aims to understand the phenomena that occur in research subjects to assess research questions and to provide data based on the researcher's ideas. focuses on previous research findings regarding the role of internal auditors in implementing good risk management for good corporate governance This research is a literature study that discusses previous research articles regarding the application of the internal audit function to company risk management. This research uses a qualitative approach which aims to understand the phenomena that occur in research subjects to assess research questions and to provide data based on the researcher's ideas. This article focuses on previous research findings regarding the role of internal auditors in implementing good risk management for good corporate governance.

DISCUSSION

Based on data collected in research through 40 questionnaires distributed to Internal Auditors. 28 questionnaires were returned (70%), while 12 were not returned (30%). of the number of female respondents, namely 22 people (57.9%) were male respondents while there were 16 female respondents (42.1%). The age of most respondents was between 20-30 years as many as 20 people (52.63%), then those aged 31 - Bachelor Degree (S1) graduates were 27 people or 71.05% and the remaining 40 years were 17 people (44.74%) and those aged over 40 years were 1 person (2.63%). Based on the educational level of the respondents, the majority were 27 graduates of Strata One (S1) or 71.05% and the remaining 11 people (28.95%) were

Strata Two graduates. All the variables used in this research had a Cronbach's Alpha of more than 0 .6 (Nunnally in Ghozali, 2001), which means that all of these variables are reliable. It is known that 8 respondents said it was very effective, 24 respondents said it was effective, 5 respondents said it was quite effective, 1 respondent said it was less effective and no respondents said it was not effective. This means that the output data from PFAI can be used by internal auditors to determine the level of implementation in accordance with policy. It can be seen that 6 respondents said it was very effective, 23 respondents said it was effective, 8 respondents said it was quite effective, 1 respondent said it was less effective and no respondents said it was not. effective. This means that the data output from PFAI can be used by internal auditors to assess work, operations or programs and the results that have been achieved. 9 respondents said it was very effective, 20 respondents said it was effective, 8 respondents said it was quite effective, 1 respondent said it was less effective and no respondents said it was not effective. This means that the data output from PFAI can be used by internal auditors to verify the accuracy, reliability of various management data and evaluate whether the data is relevant. 14 respondents said it was effective, 7 respondents said it was quite effective, 1 respondent said it was less effective and no respondents said it was not effective. This means that the data output from PFAI can be used by internal auditors to verify documents, accounting records and financial reports with the aim of determining whether the reports reflect actual information. 22 respondents said they were effective, 8 respondents said they were quite effective, 5 respondents stated that it was less effective and no respondents stated that it was ineffective. 13 respondents said it was effective, 12 respondents said it was quite effective, 1 respondent said it was less effective and no respondents said it was not effective. This means that the data output from PFAI can be used by internal auditors to evaluate how internal auditors can improve inefficient work. Based on these calculations, it can be concluded that the OMR output data is very important for internal audit. The effectiveness level of 79.11% shows that effective risk management, risk identification and mapping and implementation of risk management tasks can reduce the level of risk that occurs in risk management operations

CONCLUSION

Based on the description, analysis, data interpretation and statistical data processing that have been described in the previous chapters, it can be concluded that the level of effectiveness of the role of the internal audit function is important in operational risk management. Based on the calculation results of the average level of effectiveness located in quadrant II in the Cartesian Diagram, it shows that the role of the internal audit function in operational risk management has been effective In this qualitative study, it becomes clear that an evolution towards a higher level of risk-based auditing is necessary if internal auditors are to play a significant role in risk management. The internal audit function is an important function that has been proven to provide added value. The aim is to improve the effectiveness of risk management, control and governance. All previous research illustrates that reviewing and assessing the effectiveness and efficiency of internal control systems to provide independent opinions remains the primary assurance task of internal auditors. In addition, internal auditors are often involved in developing and facilitating self-assessments as well as developing and improving internal controls. By disseminating “best practices,” internal auditors have an important benchmarking role for risk assessment and internal control practices. The input (centralized risk database) as well as the output (annual and quarterly reports on risks and internal controls) from the internal auditor role can fulfill an important communication role in a risk management system. In addition, the output of certain consulting activities (e.g. internal control manuals, risk and control questionnaires, and training) also contributes to efficient risk and internal control communication. Working closely with the board of directors, audit committee and risk committee, internal audit seems to be the only function in the organization that has a deep understanding of risk. The need for an internal audit function varies from one company to another, depending on the scale, diversity and complexity of the company's activities and workforce, as well as cost or benefit considerations.

REFERENCES

Abidin, N. H. Z. 2016. Asian Review of Accounting Article Information : Factors Influencing The Implementation of Risk-Based Auditing. *Asian Review of Accounting*, 25(3), 361–375.

Anderson, U. L., Head, M. J., Ramamoorti, S., Riddle, C., Salamasick, M., & Sobel, P. J. 2017. *Internal Auditing Assurance & Advisory Services In Internal Audit Foundation*.

Badara, M. S., & Siti, Z. S. 2012. Improving the Existing Functions ff Internal Audit at Organizational Level. *International Journal of Arts and Commerce*, 1(6), 38–46.

Bananuka, J., Korutaro, N. S., Irene, N., & KaawaaseTwaha. 2018. Internal Audit Function, Audit Committees' Effectiveness and Accountability in the Ugandan Statutory Corporations Abstract. *Journal of Finance Reporting and Accounting*, 33(1), 90–114.

Beasley, M. S., Clune, R., & Hermanson, D. 2006. The Impact of Enterprise Risk Management on the Internal Audit Function. *Journal of Forensic Accounting*, 8113(February 2006), 1–20. http://erm.ncsu.edu/az/erm/i/chan/library/ERMJFAPaper21306.pdf

Bou-Raad, G. 2000. Internal Auditors and a Value-Added Approach: the New Business Regime. *Managerial Auditing Journal*, 15(4), 182–187. https://doi.org/10.1108/02686900010322461

Coetzee, P., & Lubbe, D. 2014. Improving the Efficiency and Effectiveness Of Risk-Based

Internal Audit Engagements. *International Journal of Auditing*, 18(2), 115–125. https://doi.org/10.1111/ijau.12016

Coetzee, P. P. 2016. Contribution of Internal Auditing to Risk Management: Perceptions of Public Sector Seniors Management. *International Journal of Public Sector Management*, 29(4), 1.

Crawford, M., & Stein, W. 2004. Risk Management in UK Local Authorities. *International Journal of Public Sector Management*, 17(6), 498–512.

Čular, M., Slapničar, S., & Vuko, T. 2020. The Effect of Internal Auditors' Engagement in Risk Management Consulting on External Auditors' Reliance Decision. *European Accounting Review*, 29(5), 999–1020. https://doi.org/10.1080/09638180.2020.1723667.

De Zwaan, L., Stewart, J., & Subramaniam, N. 2011. Internal Audit Involvement in Enterprise Risk Management. *Managerial Auditing Journal*, 26(7), 586–604. https://doi.org/10.1108/02686901111151323.

Ekawati, D. R., Nugroho, T. R., & Rubiyanto, R. 2020. Independent Commissioners, Audit Committee, Internal Audit and Risk Management Committee on Earnings Management. 15(3), 351–362.

Abdullatif, M., & Kawuq, S. 2015. The Role of Internal Auditing in Risk Management: Evidence from Banks in Jordan. *Journal of Economic and Administrative Sciences*, 31(1), 30–50. https://doi.org/10.1108/jeas-08-2013-0025.