The Role of The Internal Audit Management of Enterprise Risk Management

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ABSTRACT

Purpose: The aim of the study to present the role of internal audit in the company.

Design/methodology/approach: Research conducted qualitative nature and focus on how the role of internal audit of the management of risk in the organization.

Findings: There is a relationship that is so tightly between the internal audit and corporate management, internal audit which can increase the value and achieve its goals.


Practical implications: The role of internal audit in the company is very important to control not only the financial sector but also other sectors that have been determined by the management Internal audit should also adjust its function, not only on financial issues, but other problems, associated with risk and improved control strategies.

Originality/value: Internal audit was originally only focused on accounting examination, this time the tests associated with risk.

Paper type: Conceptual paper

Keywords: Audit, Internal Audit, Risk, Risk Management

I. INTRODUCTION

The role of internal auditor in the risk management of the company with another company is different. This arises because of the complexity of the different risks. Role of Internal Audit in a company to the management of risks will change over time follow-ment developm complexity of risk management implemented in the company (Lestari,
In a crunch-tiknya role of internal audit in risk management include (1) focus the work of internal audit on key risks and important, as diidentifikasioleh management, (2) audit process Risk Management throughout the organization, (3) provide assurance to the management of risk, (5) provide support and active involvement in the process of risk management, (6) facilitate the identification / risk assessment and line management education in risk management and internal control, (7) to coordinate risk reporting to the Board of Commissioners and Board of Directors, the Audit Committee and others. The audit by internal auditors on banking activities not only include internal control weaknesses, but also shortcomings of risk management systems. The internal auditor is a tool of Directors to ensure that all elements of the company have the same understanding about the risks (Karmudiandri, 2014).

Assessment of risk management in order to achieve success and achieve business objectives and financial performance of an organization remains a major concern against which to make a decision (LASTIANTI, 2015). And it is a space for the internal audit to conduct an investigation. Internal audit itself is a profession that is evolving from time to time with the evolving standards. Along with business development organizations, internal audit which was originally only focused on financial issues, internal audit at the present time also supports the management of the organization to achieve its objectives by utilizing existing resources efficiently and increase in business as well as the risk management process. In accordance with the assumption that the internal audit is not an enemy to the organization(Syaifudin, 2017).

Through a variety of literature review, this paper will be presented theoretical approach regarding the internal audit contribution to efficient risk management. The purpose of this paper is to highlight the role of internal audit in helping management to manage risk.

II. METHODS

To investigate and provide a deeper understanding of how the role of internal audit of the management of risk in the workplace. The method used was to analyze and review the literature and standards both nationally and internationally issued to regulate the internal audit activity. Research conducted qualitative nature and focus on how the role of internal audit of the management of risk in the organization.

The paper is structured as follows. In the first part outlines the theoretical background needed on the concept of internal audit. Then will describe the concept of risk and risk management. In the next section will discuss the relationship between the internal audit and risk management in the organization. The last part is the conclusion of an outline of the research, as well as revealing the limitations of this study and suggestions for future research.
III. DISCUSSION

A. The concept of Internal Audit

in the company or organization, internal audit is within the department, together with other departments. With the development work in the field, the function of internal audit department develop not only related to financial issues, but covers all types of audits, such as operational audits, compliance audits, risk assessment, and so on.

It is important to give a sense of internal audit in order to make a major contribution to the business environment in which internal audit is located. An indication of the importance of the internal audit is the number of internal audit definition given by various researchers.

Audit comes from the Latin "aud tus" means listening (Hebeish, 2016), which emphasizes that the main function of the auditor is to do more listening dibadingkan speak. As a consequence, the auditor should have the skills or expertise to listen to good.

Auditing is a systematic process to acquire, evaluate the information and discernment objectively to ascertain the level of their compliance with the criteria set, and communicate the results to interested users. (American Accounting Association).

Based on the Institute of Internal Auditing (IIA, 1991; Taylor and Glezen, 1991; Konrath, 1996 cited by Karagiorgos, George, and Michail, 2007), internal auditing is "an independent appraisal function, established within an organization to examine and Evaluate its activities as a service to the organization." In June 1999, The USA Institute of internal auditing (IIA), was officially given a new definition of the internal audit function as follows: "internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization Accomplish its objectives by bringing a systematic, disciplined approach to Evaluate and improve the effectiveness of risk management, control, and governance processes." (Underlined by the author). The Charter Institute of Internal Auditors in the United Kingdom (UK) describes the role of internal auditors as follows: "Therole of internal audit is to provide independent assurance that an organization's risk management, governance and internal control processes are operating Effectively."

Internal audit role is to reviewing, especially to improve the activity and service entities, which leads to the strict policies and procedures made by each entity and is not limited to the financial aspect (Jinga C., 2009, page 54 quoted by Daniela and Tamas, 2013). Boulescu, M (2003) explains the definition of internal auditing as:

- an ongoing review of the economic activity of the entity;
- an independent appraisal activity, for the management of the entity, by checking the financial, accounting, and other operations, as the overall service to the entity;
- a job assessment, compliance records, records of assets, capital and the result is
- an attestation or certification of financial documents and accounting.
Based on the understanding and role of internal auditor given by various researchers, it can be concluded that the internal audit is an ongoing process, which is designed to add value to an organization, through a systematic approach to evaluate and develop the effectiveness of risk management, control and governance organization.

The main characteristics of internal audit is the independence and objectivity of the auditor who has an important impact on the effectiveness of internal control. Require management to disclose significant internal control deficiencies. At another level, the internal auditor is required to give an opinion that is objective, relevant, and trustworthy on management’s assessment. Internal audit can be considered the standard for measuring the effectiveness of the management and board of directors in corporate governance (Caratas, 2014).

![Figure 1](image_url)


Working together with the board of directors, audit committee and the risk committee, internal audit seemed like the only function in the organization who has a deep understanding of risk. Internal audit function needs differ from one company to another company, depending on the scale, diversity and complexity of the activities of the company and of the workforce, and the consideration of cost / benefit.

Internal audit is something simple, rapidly changing profession with high standards. Internal audits requires a deep understanding of the culture, policies, and procedures of the organization. They pay attention to efficiency and effectiveness and make recommendations for improvements to the organization when it was discovered discrepancies. Internal auditors assess risks to ensure that the control system is already strong organization. They evaluate the process and determine what works and what does not. The main task of the internal auditor function is to assist management and directors to achieve the goals and objectives of the organization.
B. Development of Audit Internal

Internal audit as a profession, has been recognized since many years and always follow the changing needs of the entity. If at first the internal audit focused on the problems of accounting, internal audit is now oriented towards the detection of the main risks of the entity and the evaluation of the activity of the entity (Munteanu, 2013). Risk-oriented approach has been a constant thing done by internal audit (Stanciu, 2016).

Based on the results of the audit of internal development, it can be concluded that the internal audit, from time to time, showing a trend of change as shown in Table 1.

Table 1- Brief Historical Development of Internal Auditing

<table>
<thead>
<tr>
<th>No.</th>
<th>Task Description</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Checking the accounting records</td>
<td>1950</td>
</tr>
<tr>
<td>2</td>
<td>Evaluation of conformity</td>
<td>1960</td>
</tr>
<tr>
<td>3</td>
<td>Examination of procedures</td>
<td>1970</td>
</tr>
<tr>
<td>4</td>
<td>Evaluation of controls</td>
<td>1980</td>
</tr>
<tr>
<td>5</td>
<td>Report on the internal control system</td>
<td>1990</td>
</tr>
<tr>
<td>6</td>
<td>Evaluation of the risk management system</td>
<td>2000</td>
</tr>
<tr>
<td>7</td>
<td>Improvement of the risk management system</td>
<td>2001</td>
</tr>
<tr>
<td>8</td>
<td>Reporting the activity performed</td>
<td>2002</td>
</tr>
<tr>
<td>9</td>
<td>Adding a value plus</td>
<td>2003</td>
</tr>
<tr>
<td>10</td>
<td>Consolidation of the internal audit</td>
<td>2004/2009</td>
</tr>
<tr>
<td>11</td>
<td>Capacity of managing financial risk</td>
<td>2010/2013</td>
</tr>
</tbody>
</table>

Source: Munteanu, 2013.

At first, the internal audit task only audit the accounting records, but there is a change from year to year, which is not only accounting issues are the focus of internal audit, evaluation of conformity, inspection procedures, control evaluation, a report on the system internal control, evaluation of the risk management system, improvement of risk management systems, reporting activities carried out, providing added value to the company, the internal audit consolidation and management of financial risk.

Recent international studies emphasize internal auditors need to turn their attention to the risks resulting from rapid technological developments (Stanciu, 2016). The basis of the system of internal audit is in respect of the risk assessment. Internal auditors should be able to manage any changes at all levels, especially those with risk berhubungan (Caratas and Spatariu, 2014).

C. Concept of Risk

The word 'risk' is derived from the Italian, meaning 'brave'. In the sense of risk means an option. Risks arise from uncertainty and control based on the reduction of these uncertainties which are both possible and necessary. Risk can affect the organization both in the short, medium and long term. Such risks associated with operations, tactics and strategies. The strategy sets long-term goals of the organization, and strategic planning for an organization to be aged 3 years, 5 years, or more. Tactics determine how the organization intends to achieve the change. Therefore, tactical risk normally associated with the project, mergers, acquisitions, and product development.
Many definitions of risk given by various researchers. Pickett HM Treasury in 2010, defines risk as the uncertainty of the results in the timeframe arise from a combination of impact and probability of occurrence of potential. The Institute of Internal Audit defines risk as the uncertainty arising which has an impact on the achievement of objectives. Risk is measured in terms of consequences and likelihood.

In the ISO Guide 73 risk is the effect of uncertainty on objectives. The effects can be positive, negative, or deviation from the expected, and the risk is often described in terms of events, environmental changes or consequences. Australian Government states that the risk can be seen as a combination of the possibility that something could happen and the extent of damage or loss that may occur when this happens. Adverse events in the organization due to the development of various risk events both from within and from outside the organization (Figure 1.2).

Figure 2- Sources and Drivers Risk in Organizations

mitigation and risk reduction usually focus on the source of risk, because the source of the risk comes from within the organization, then it can be controlled. While good risk management focus on the source and the driving / driving risk (Gorrod, 2004).

To be more detail to understand the risks that arise and the actual loss in the organization, the organization can use the hierarchy of risk. The hierarchical structure is very dependent on the needs of the organization, by breaking up each line of business organization, eg line marketing, production line, operational lines, where each line has the opportunity to pose a risk. The risk can be avoided or reduced if the root causes of these risks can be identified and
managed before disastrous consequences occur (Smith., Merna., Jobling, 2006). To achieve these objectives, we need a systematic approach that is risk management.

D. Risk management

Risk management is described as a process to identify and assess risks, and apply methods to reduce to acceptable limits (Tohidi, 2011). The main activities with respect to the risk is to manage it. In the ISO 31000 risk management process described in figure 3.

1. Establishing context: identify areas of risk that should be considered related to market, product/service, process manufacturing/supply and the area of the external such as suppliers, banks, and so on;

2. Risk assessment: risk assessment consists of (a) Identification Process: The process of identification is done by searching for the cause of the risk, identify, and describe the risks; (b) Analysis Process: The analysis process is a process to understand the nature of risk and to determine the level of risk. Two methods were used to analyze the risk that a risk analysis of qualitative and quantitative risk analysis. Qualitative risk analysis focus on the probability of occurrence of the risk and the consequences if the risk occurs. The most common method in
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In relation to risk management, internal audit duty to contribute to the improvement of the risk management process through a systematic approach, regular, sustainable, risk-based compliance with international standards of internal auditing practices. Internal auditors should also be able to evaluate the effectiveness and efficiency of risk management and encourage sustainable development. Limitations of this study is that the study was only based on a literature review. The results of this study are expected to provide insight for the next study that put more emphasis on experimental research to get more accurate and relevant.

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