

Role of Internal Auditing in Risk Management

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Abstract: The research problem of this study is the obvious deficient of internal audit work within the organizations. The main function is to check regulations and laws that identify the responsibilities and authorities and the scope of internal audit work as well as the type of management which is tending to focus on the financial and accounting matters only, so that it required to rebuild this internal audit work in line with the current developments in internal audit activities. The main objective of this study to know the roles of Internal Audit and to clarify the relationship between risk management and internal auditing in organizations. The aim of this research is to find an organizing method to rebuild the internal audit strategy and functions base on the standards of internal auditors.

Keywords: - Internal Control, Risk assessment, Audit risk.

1. LITERATURE REVIEW

Sr. No.	Author Names	Time Period Taken	Methodology Used	Topic
1.	Dessalegn Getie Mihret, Ashfaq Ahmad Khan	July, 2013	Primary Data (Questionnaire)	The role of internal auditing in risk management
Findings	This paper is based on a theoretical analysis of the role of internal auditing in the accountability framework of contemporary corporate governance. This paper explains how the accountability relations of advanced capitalism create conditions that produce the demand for internal auditing as a risk management technology deployed to advance the managerial values of efficiency and effectiveness of the firm through assurance and advisory services.			
2.	Dr. Faten Hanna Kerazan	July 1, 2016	T-Test	The Contribution of the Internal Audit Function in Risk Management
Findings	The study recommended of the need to conduct training courses for workers in the internal audit function and issue instructions and necessary legislations to regulate the activity of internal audit in banks, a committee of internal audit must be formed within the Association of Chartered Accountants in Syria, establish an association for internal auditors to qualify them and give them a professional certification to carry out their roles under the new framework for exercising of the profession that guarantees to provide the necessary advice and guidance for them to bring the profession up to the required level.			
3.	Dr. Odoyo Fredrick S. Dr. Omwono Gideon A., Mr.Okinyi Narkiso O.	May 2014	Correlation & Coefficient	An Analysis of the Role of Internal Audit in Implementing Risk Management- a Study of State Corporations in Kenya

Findings	The study concluded that management of State Corporation needs to create an environment that will harness commitment and support to internal audit if it is to effectively perform its responsibility of giving assurance that organizational risks are managed effectively. This will only be possible if individuals within organizations are aware of the role and importance of internal audit function in implementation of enterprise risk management.			
4.	Gerrit Sarens, Ignace De Beelde,	April 2005	Primary Data (Questionnaire)	Internal Auditor's Perception about their Role in Risk Management Comparison between Belgian and US Companies
Findings	This study wants firstly to elaborate in a complementary qualitative way how internal auditors perceive their current role in risk management within the Belgian context where internal auditing is a relatively young profession. Secondly, we want to investigate whether, under the influence of recent changes in corporate governance regulations, a greater financial emphasis in internal auditors' work can be noticed. Internal auditors are playing a pioneering role in the creation of a higher level of risk and control awareness and a more formalized, standardized, transparent and documented risk management system.			
5.	R. M. Mashal	August, 2012	Primary Data (Questionnaire)	Internal Audit Roles in Risk Management from Risk Management Perspective
Findings	Risk management and internal auditing are both tools for an Internal Control System, but both have different objectives and roles. This study also calls risk management researchers to consider conducting empirical studies to control the negative impacts and exploit the added value of internal auditing in risk management in particular and internal control systems in general.			
6.	Silvia Popescu & Abdelnaser Omran	October 2011	Primary Data (Questionnaire)	Managing Risk and Internal Auditing
Findings	The paper will present how the internal audit helps the organization to achieve its objectives by evaluating, through a systematic and methodical approach, its risk management processes, control and governance by formulating proposals for enhancing its effectiveness. In the present study are made on the conceptual concepts of internal control and internal audit highlighting the significance and role of internal audit in providing advice, counselling feedback strands within an organization. Therefore, in the paper, which thus completed the theoretical component applied this policy are outlined objectives, criteria for risk assessment, a model of analysis and evaluation of risk guidelines for establishing criteria for prioritization risk identification procedure and risk analysis, risk methodology for the preparation of internal audit plan.			

2. OVERVIEW

2.1 Internal Audit

Internal audit is a profession common to consulting firms such as Protiviti. Internal auditors assist organizations in implementing and improving compliance, governance and risk management-related processes and controls within an organization. Many companies also have their own internal audit team in house. The internal audit team within a company can range from one to hundreds of auditors, depending on the company size. These organizations may also partner with outside consulting firms on big projects or if they need more expertise.

Internal audit can help on nearly any aspect of a business, from choosing a new technology to integrate into the organization to implementing a new company culture. Auditors go in to analyse and document the current process in place, usually through interviewing key personnel, and come up with recommendations to help the company achieve efficiency and effectiveness.

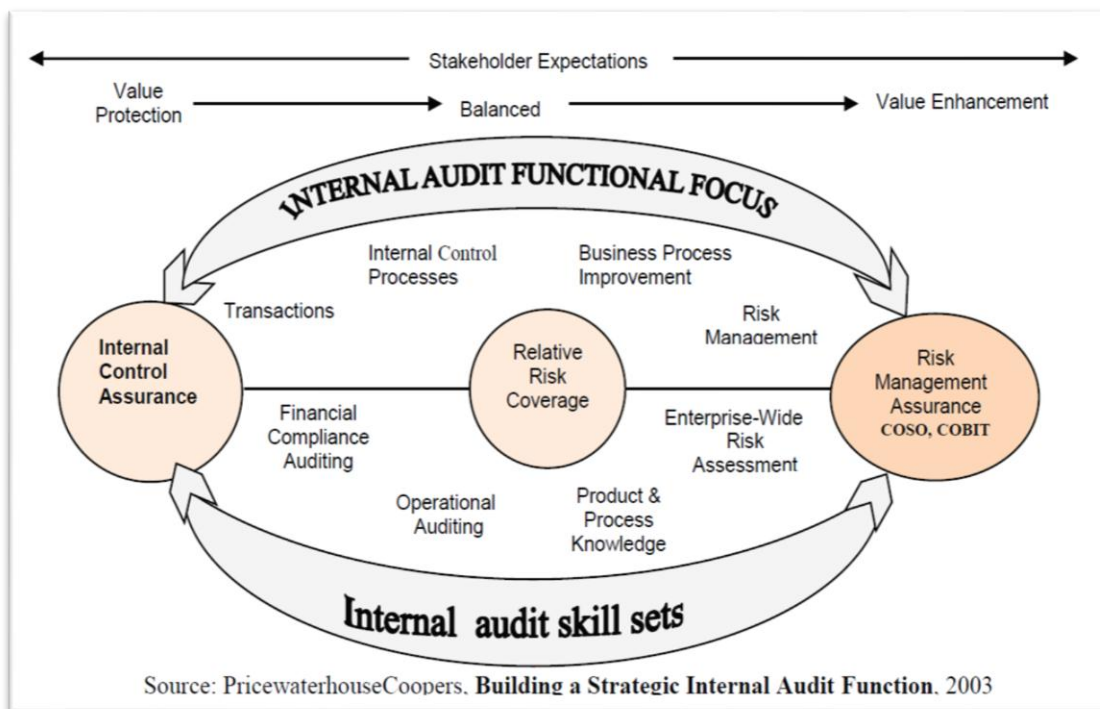
2.2 Risk Management

Risk management must control identified risks to help the company achieve its performance and profitability targets, prevent loss of resources, ensure reliable financial reporting, and ensure compliance with laws and regulations, avoiding damage to its reputation and other consequences.

2.3 Defining the modern internal audit with the objectives

The committee that related to the (IIA) has developed a new definition to the internal audit as “its independent activity and subjective assurance with consultancy nature aims to add value to the organization and improve its processes, the internal audit helps the organization to achieve the objectives by structuring straight and regulate methodology to evaluate and improve the benefits of risk management, also to manage the controlling process” (IIA, 1999a). The modern role of the internal audit is to improve the risk management and auditing the information technology, also organizing the information technology as result to the definition of the modern institute of international auditors (IIA), all those who are concern about the internal audit in all over the world must to commit to restructure and rebuild the internal audit function in perfect way, also must to focus on the supportive procedures with the basic business to help the firms to achieve their objectives.

Types of Internal Audit to achieve a comprehensive strategy



The internal audit function has dual strategy roles are as follows:

- ◆ **The First Role:** Protecting the stockholder value through the assurance activities that related to the structure of the company's risk control.
- ◆ **The Second Role:** Improving and enhancing the stockholder value through the recommendations and improvements and advisory operations.

Due to these developments the objectives of the internal audit have been evolved and now become as the following:

- ♣ Increasing the value of the organization with improving the processes.

- ♣ Evaluating and improving the activity of the risk management within the organization.
- ♣ Improving and evaluating the activity of controlling within the organization.
- ♣ Improving and evaluating the activity of the institutional control in the organization
- ♣ Improving and evaluating the control regulations for the information technology environment.
- ♣ Improving and evaluating the risks management of information technology.
- ♣ Improve and evaluating the IT governance.

3. PROBLEM STATEMENT

To reach to the dependent bases in building the functional strategy of the internal auditing job to be in line with the strategy of the economical unit, also to define the main tends according to the modern standards which issued by the internal auditor’s institute to meet the demands and needs of the higher administration and the auditing committee with the external auditing in term of giving a subjective assurance about the risk management.

4. OBJECTIVES AND HYPOTHESIS

Objective	Null Hypothesis	Alternative Hypothesis
<ul style="list-style-type: none"> ♣ To know the roles of Internal Audit. ♣ To clarify the relationship between risk management and internal auditing in organizations. 	There is no difference between internal audit value addition to the organization and opinion of the internal control of the organization.	There is difference between internal audit value addition to the organization and opinion of the internal control of the organization.

5. DATA ANALYSIS TECHNIQUES

5.1 Research Tools

I have used SPSS for data analysis and google form to fill out the questionnaire for responses and I have applied statistical Mann-Whitney u test for the data analysis.

5.2 Rank Table

Particular	Ranks			
	Value of IA	N	Mean Rank	Sum of Ranks
Role of IA in organisation	YES	27	26.5	715.5
	NO	23	24.32609	559.5
	Total	50		
Organisation Internal Control Framework	YES	27	25.05556	676.5
	NO	23	26.02174	598.5
	Total	50		
Organisation Strategic and Operational Risks	YES	27	29.09259	785.5
	NO	23	21.28261	489.5

	Total	50		
Organisation Mission and Objectives	YES	27	21.33333	576
	NO	23	30.3913	699
	Total	50		
Organisation Risk Environment	YES	27	24.03704	649
	NO	23	27.21739	626
	Total	50		
Relationship with Accounting Chairman	YES	27	26.11111	705
	NO	23	24.78261	570
	Total	50		
Relationship with Line	YES	27	23.03704	622
	NO	23	28.3913	653
	Total	50		
Management	YES	27	30.94444	835.5
	NO	23	19.1087	439.5
	Total	50		
Relationship with C-Level	YES	27	23.59259	637
	NO	23	27.73913	638
	Total	50		
Relationship with Sourced IA	YES	27	30.87037	833.5
	NO	23	19.19565	441.5
	Total	50		

5.3 Mann Whitney U-Test

Interpretation

Test Statistics										
	Role of IA in organization	Organization IC framework	Organization strategic & operational risks	Organization mission & objectives	Organization risk environment	Relationship with AC Accounting Chairman	Relationship with Line	Management	Relationship with C Level	Relationship with Source IA
Mann - Whitney U	283.5	298.5	213.5	198	271	294	244	163.5	259	165.5
Wilcoxon W	559.5	676.5	489.5	576	649	570	622	439.5	637	441.5
Z	-0.553	-0.243	-2.196	-2.528	-0.798	-0.330	-1.364	-3.327	-1.057	-3.326
Asymp. Sig. (2-tailed)	0.581	0.808	0.028	0.011	0.425	0.741	0.173	0.001	0.290	0.001

- ⊙ According to above data it can be seen that the significance value is 0.581 which is greater than 0.05. According to significance value it can be interpret that there is no difference between Internal Audit Value Addition to Organization & Role of Internal Audit in organization.

- ⊙ According to above data it can be seen that the significance value 0.808 which is greater than 0.05. According to significance value it can be interpret that there is no difference between Internal Audit Value Addition to Organization & Organization Internal Control Framework.
- ⊙ According to above data it can be seen that the significance value 0.028 which is less than 0.05. So, according to significance value it can be interpret that there is difference between Internal Audit Value Addition to Organization & Organizations Strategic and Operational Risk.
- ⊙ According to above data it can be seen that the significance value 0.011 which is less than 0.05. So, according to significance value it can be interpret that there is difference between Internal Audit Value Addition to Organization & Organizations Mission and Objective.
- ⊙ According to above data it can be seen that the significance value 0.425 which is greater than 0.05. According to significance value it can be interpret that there is no difference between Internal Audit Value Addition to Organization & Organizations Risk Environment.
- ⊙ According to above data it can be seen that the significance value 0.741 which is greater than 0.05. According to significance value it can be interpret that there is no difference between Internal Audit Value Addition to Organization & Relationship with Accounting Chairman.
- ⊙ According to above data it can be seen that the significance value 0.173 which is greater than 0.05. According to significance value it can be interpret that there is no difference between Internal Audit Value Addition to Organization & Relationship with Line.
- ⊙ According to above data it can be seen that the significance value 0.001 which is less than 0.05. so here according to significance value it can be interpret that there is difference between Internal Audit Value Addition to Organization & Management.
- ⊙ According to above data it can be seen that the significance value 0.290 which is greater than 0.05. According to significance value it can be interpret that there is no difference between Internal Audit Value Addition to Organization & Relationship with Corporate level.
- ⊙ According to above data it can be seen that the significance value 0.001 which is less than 0.05. According to significance value it can be interpret that there is difference between Internal Audit Value Addition to Organization & Relationship with Co-sourced Internal Audit.

6. Findings

Objectives	H0	H1	Test	Significant Level	Decision
<ul style="list-style-type: none"> ♣ To know the roles of Internal Audit. ♣ To clarify the relationship between risk management and internal auditing in organizations. 	There is no difference between internal audit value addition to the organization and opinion of the internal control of the organization.	There is difference between internal audit value addition to the organization and opinion of the internal control of the organization.	Man-Whitney U test	0.05	It suggests that there is a value addition of internal audit which are important for efficient and effective internal control to the organization.

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