

Risk Based Internal Auditing and Implementation on Organization

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Abstract

In recent years, risk-based internal audit has become increasingly important because it is considered an effective method to be applied in a business environment where risks are always changing. The purpose of this study is that the authors want to describe the process and stages of risk-based internal audit and the implementation of risk-based internal audit in organizations. Therefore, the method used by the authors to collect data is a qualitative method. Qualitative method is research that focuses on the use of descriptive data from the results of secondary data observations. Secondary data is information that already exists from before and is a collection of data by researchers to complete data needs for research. In this study, risk-based internal audit is a way of thinking from internal audit, which in this study tries to explain the most important stages of the study process.

Keywords Risk Based Audit, Risk Based, Internal Auditing

INTRODUCTION

Organizational perspective on risk in today's dynamic competitive environment has changed with the development of globalization. However, the global economic crisis requires that risks are managed by organizations. This has led to the development of disclosing audits of risky activities carried out by organizations, in other words, the risk-based approach to internal auditing. The risk-based internal audit approach is set apart from other internal audit approaches by its features such as focusing on high-risk exposed areas rather than financial areas and creating a lot of value for risk-based internal auditing by selecting high-risk areas determined by risk assessment as the focus point and providing savings audit time and costs (Benli & Duygu Celayir, 2014).

And the internal audit function is also growing dramatically at this time, where at first, internal audit was only known as an approach where the system was in development and shifted to a process-based audit approach. At that time, internal audit was better known for its role as management's eyes and ears, because management needed assurance that all policies set by the organization would not be wrongly implemented by employees. Internal audit orientation is mostly carried out under the inspection of managing compliance related to existing regulations. As soon as a business begins to be aware of all the risks that exist, the application of a Risk Based Internal Audit is increasingly needed by a business to assess the risks that arise (Nurfiani, 2017).

The audit-based risk approach began to develop rapidly in the 2000s. This approach received wide public attention and is also considered to be the most effective approach, because it proves that audit-based risk is the most suitable to be applied in a business environment that is constantly changing over time. Indonesia has ratified the provisions for the implementation of International Standards on Auditing (ISA) which began in early 2013 (Nurfiani, 2017). Where initially the internal audit looked more at examining the level of compliance carried out by executors against existing compliance. Internal audit has two



pressing sides in two different conditions. The first condition is a complex business activity that requires fast and sustainable growth. And the second condition where there is continuous pressure for businesses to manage existing costs and ensure that existing resources can be used as efficiently as possible (Karmudiandri, 2014).

Today, internal auditors not only oversee control activities, but also contribute to the development of the risk management process by defining the risk universe and continuously monitoring the process for the status of business risks. RBIA's orientation towards future risks is a key difference between the new audit model and the traditional, backward-looking audit model, which only presents past risks to entity management. RBIA increases economic activity with maximum efficiency (Benli & Duygu Celayir, 2014). So the purpose of this research is to describe the process steps of Risk Based Internal Audit and implementation on organization.

IMPLEMENTATION METHOD

Risk Based Internal Auditing

In recent years, barriers to the free movement of capital have gradually diminished, due to increasing global developments and financial mobility resulting from the interaction and convergence of markets. And the presence of multinational companies along with the emergence of gripping technological developments, this has caused increasingly fierce competition in the market. A business to achieve a sustainable competitive advantage, companies began to focus on dependence to eliminate the negative effects of risks that occur in the environment as time changes (Benli & Duygu Celayir, 2014).

Ayagre, (2014) defines risk-based internal audit as a type of audit approach based on the determination and evaluation of the characteristics of the company's risks and through strategic analysis for risk assessment and designing an audit process that is in line with a collection of risks or risk maps (Nurfiani, 2017).

All these developments and especially the aftermath of the world's most important corporate scandals have required companies to establish risk management within the organization and make the role of internal audit in this process more prominent. Risk-based internal audit is a methodology that provides a guarantee that the risks being managed are in accordance with the risk appetite that exists in the organization. The first time that risk-based internal audit was implemented was in the banking sector and over time risk-based internal audit began to be applied to other sectors. The development of internal risk auditing can dramatically change the characteristics of business risks and bring rapid changes to the risk profile in companies (Benli & Duygu Celayir, 2014).

Internal Audit

Internal audit has an important aspect of the company. Where The Institute of Internal Auditors, (2000) states that internal audit is an independent assurance and consulting activity, and the purpose is made to add value and improve organizational operations. This internal audit helps the organization to achieve its objectives by bringing an orderly and

disciplined approach by assessing and improving the effectiveness of risk management, control, and governance processes (Nurfiani, 2017).

Implementation of internal audit independently and objectively, in the sense that it cannot be influenced by any party and cannot be involved in the implementation of the activities being examined. So that the results obtained will be very reliable for the reader. (Nurfiani, 2017).

Various internal audit techniques test the accuracy and reliability of accounting books and the accuracy of financial reports, the adequacy and timeliness of control reports and the level of compliance with legal and regulatory requirements. Internal audit provides a comprehensive and practical model for implementing a risk-based internal audit methodology. This model is designed based on theoretical principles and the author's professional experience (Andreas et al., 2020).

Risk Based Audit

Risk based audit is an approach that makes the internal auditor's benchmark to meet an expectation above the two existing conditions. Where risk-based audit focuses more on internal auditors to prioritize audits in a systematic and coordinated form. When in fact internal audit is more focused on action in the riskiest areas in the organization. Usually this arises from the internal auditor's consideration of risk assessment (Karmudiandri, 2014). Tunggal, (2009) also mentions that the notion of risk-based audit as an audit that focuses and prioritizes business and process risks, as well as risk control that may occur (Nurfiani, 2017).

Method

The research method used by the author is to use qualitative methods. where the qualitative method is research that focuses on the use of descriptive data from the results of observing secondary data in the form of written language. Secondary data is information that already exists from before and is a collection of data by researchers to complete data needs for research. Searching for information that supports this research is through journals, reports, books and trusted and official sites, where this information is used as secondary data in research. The techniques used in collecting data from qualitative research are observation and document analysis (Fadli, 2021). In this study, the risk-based internal audit process is determined as the object of research, where the information can be in the form of statistics and other information related to risk-based internal audit. The specific stages in qualitative research are first identifying the problem, after that doing it, searching the literature, determining research objectives, collecting data, analyzing and interpreting data and reporting (Fadli, 2021).

RESULTS AND DISCUSSION

Implementation of Risk Based Internal Auditing in Organization.

Risk-based internal audit is a comprehensive approach that can be considered by organizations in internal auditing. Every organization is different, with different attitudes to



risk, different structures and different processes. Experienced internal auditors need to adapt these notions to their organizational structures and processes to implement risk-based internal auditing. If the risk management framework is not strong or does not exist, the organization is not ready to audit internal risks. More importantly, this means that the organization's internal control system is bad. Internal auditors in such organizations must offer good risk management practices to improve internal system controls (Benli & Duygu Celayir, 2014).

Risk Based Internal Auditing Process.

Before carrying out risk based internal auditing in an organization, internal auditors need to make preparations such as analyzing business objectives and existing risk management processes in detail and properly. Risk assessment is made in detail by internal audit by preparing plans and steps in each process. The following are the steps for the risk based internal auditing process.

First Step - Understanding the Business Environment

The first step, the auditor must identify the organization well to assess the risk effectively and efficiently to develop a risk model. In this situation requires an understanding of the business, its objectives and business processes (Benli & Duygu Celayir, 2014). Risk does not occur individually but is the result of conditions that impede the achievement of goals. Therefore, internal auditors must identify the business well and continuously collect information about operations and processes (Benli & Duygu Celayir, 2014).

Second step - Risk Assessment

Risk-based internal audit is an activity that offers suggestions for the most suitable solutions for management in assessing and determining existing risks. Even though organizations face the same risks, the risks that arise in companies can be different, because the risks that are affected by each company have different risk dimensions. Therefore, the application of audit activities must be in accordance with the risks that exist in the company. In a risk-based internal audit, the business situation must be determined by looking at the most risky areas to transfer the most suitable resources to those areas and the risk assessment must be in accordance with the existing risk status (Griffiths, 2006). The auditor should also focus on management structure, business objectives, organizational changes and areas determined as high risk by the audit committee and management's concern with risk and results when assessing risk. Risk assessment should be considered at all levels of the business organizational structure, as well as the activities of the subsidiaries operating in the organization (Benli & Duygu Celayir, 2014).

Third step - Determination of Organizational Risk Maturity Level

Risk maturity is the ability and level of adaptation and implementation of healthy and strong risk management by organizations at every level of business for determining, identifying and reporting attitudes towards opportunities and threats that affect

organizational goals and objectives (Benli & Duygu Celayir, 2014). Businesses must have a high level of maturity for implementing a risk-based internal audit approach. In businesses with low-risk maturity, currently the internal auditor acts as an advisor to increase/decrease the level of a risk. Internal auditors must decide about business risk maturity by examining all kinds of documents that can provide information about business objectives, risk assessment results, risk appetite levels, databases containing risk records, activities used to determine important risks by management and business risk management. (Benli & Duygu Celayir, 2014; Griffiths, 2006).

At this stage, internal auditors should be able to promote risk management and use their own risk assessment. From a risk conscious business perspective, there is an unstructured approach to risk management. In this regard, internal auditors should promote enterprise risk management. However, when viewed at another level, internal auditors do not carry out their own risk assessment but use management's risk assessment. In short, it is important to realize that all businesses do not start from the same level of maturity in building a risk-based internal audit. Therefore, the first step reveals the situation of enterprise risk management maturity. The approaches considered by internal audit vary according to these business situations (Benli & Duygu Celayir, 2014).

Fourth step - Preparation of a Risk-Based Internal Audit Plan

After the auditor has measured and evaluated the level of risk in the areas that may be faced by the organization, the auditor will develop plans and strategies to prepare the audit program. The purpose of a risk based internal auditing plan is to allocate audit resources to suit the level of risk in certain areas. In other words, the risk-based internal auditing plan focuses more on audit resources in areas where the combination of impact and possibility of risk is the highest (Benli & Duygu Celayir, 2014). In internal auditing, an audit strategy is a planning activity made by the auditor, before being used in the field. This strategy will be applied by the auditor for its activities. The audit strategy influences top management's view of the internal audit unit, the framework of internal audit responsibilities in terms of risk management, and internal audit consulting and security services (Benli & Duygu Celayir, 2014).

Fifth step - Preparation of Risk-Based Mission Plans

A key element of an efficient risk-based mission plan is defining the mission objectives in monetary and time terms about the activity. The best way to achieve this for the auditor is to record the objectives defined by brainstorming in the planning step. The objectives defined by this auditor should be shared with the area/activity manager. The auditor must gather basic information about the activities to be examined to determine their likely impact on the mission. If necessary and seen appropriate, a questionnaire study should be conducted to identify activities, risks and controls, to define areas and subjects important for the mission and to solicit comments and suggestions from those under supervision. The auditor starts implementing his mission plan by gathering results from the basic information he collects and evaluates about risks. The person to be assigned should be determined considering the



quality of the mission, complexity, time limit and available resources. Once the necessary resources are available, the mission program must be implemented (Benli & Duygu Celayir, 2014).

Sixth step - Preparation of Risk Based Internal Audit Report

The internal audit activity is completed when the internal audit makes a report and submits it to the relevant parties. The audit report is prepared in the last step of the audit study and in the report contains the results achieved during the audit process (Benli & Duygu Celayir, 2014).

CONCLUSION

The rapid development of technology and globalization today will greatly affect the organization's perspective on the risks that will arise in the company's economic activities. So that the application of risk based internal audit is increasingly needed by companies with the aim of being able to detect existing risks and be able to encourage control processes within the company to become more organized to maximize the company's economic activities. Risk based internal audit is an audit approach based on risk evaluation and assessment according to the principles of each company.

Internal audit will focus on the riskiest things and risk control that might occur. So that the internal auditor will use various techniques to test the accuracy and reliability of bookkeeping, one of which is a risk based internal audit. However, for the implementation of risk based internal audit, the company must have a strong risk management foundation. As for the several stages in carrying out a risk based internal audit, the first must begin with an introduction to the company's organization in detail such as the business being carried out, objectives and business processes carried out. The second stage is risk assessment, the auditor must be able to detect existing risks by explaining the causes and effects of existing risks. Then in the next stage, internal auditors must promote risk management and use their own risk assessment. Entering the fourth stage, the auditor must develop plans and strategies to prepare for the audit process. The next stage is the preparation of a risk-based mission plan, in this stage the auditor must collect basic information about the activities to be examined to determine the impact that may occur on the mission. The final stage is the preparation of a risk-based audit report which will then be provided to interested parties on the audit results that have been carried out by the auditor.

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