

RISK MANAGEMENT IMPLEMENTATION MODEL IN MODERATING RISK RELATIONSHIP BASED ON INTERNAL AUDIT

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Abstract

This study aims to examine and analyze the influence of the Internal Audit Position on the Success of Risk Based Internal Audit, the influence of Top Management Commitment on the Success of Risk Based Internal Audit, the effect of Training on the Success of Risk Based Internal Audit, the Effect of Policy Framework on the Success of Risk Based Internal Audit, the Influence of the Communication Process. on the success of Risk Based Internal Audit, the Role of Risk Management Implementation in moderating the relationship between the Influence of Internal Audit Position, Top Management Commitment, Training, Policy Framework, and Communication on the Success of Risk Based Internal Audit. This research makes all inspectors who have a Functional Auditor Position Certificate at the district / city inspectorates in Aceh province as a population and sample. The results of this study indicate that the variables of internal audit position, top management commitment and application of risk management have no effect on the success of risk based internal audit. Meanwhile, training and policy framework variables have a positive and significant effect on the success of risk based internal audit. Communication variables were found to have no effect on the success of risk based internal audit. The moderating role of the risk management application variable is able to moderate the top management commitment, training and policy framework variables on the success of risk based internal audit. Meanwhile, the application of risk management does not moderate the influence variables of the internal audit position and communication variables on the success of risk based internal audit

Keywords: Risk Management, Commitment, Policy Framework and Risk Based Internal Audit

I INTRODUCTION

The application of accounting standards in government institutions in several regions has met these standards so as to gain the WTP opinion. These standards require BPK-RI to plan and carry out audits. In order for BPK-RI to obtain adequate assurance, the financial statements are free from material misstatement. An examination includes assessing on a test basis, evidence supporting the amounts, and disclosures in the financial statements.

In accordance with Law No. 1 of 2004 concerning the State Treasury, Article 58 states "In order to improve performance, transparency and accountability in the management of State finances, one of the units that conducts audits / checks and is responsible for government internal supervision and implementation of local government is the Government Internal Supervisory Apparatus (APIP)." And in accordance with Article 24 paragraph 1 PP No. 79 of 2005 concerning Guidelines for the Guidance and Supervision of Regional Government Administration clearly states that the function and authority of APIP is to supervise government affairs in the regions. So the findings and opinions of the BPK indicate that the

function of the District / City Inspectorate APIP is still not effective in carrying out its supervisory function.

Several studies have found that the use of risk management is positively and significantly related to banking financial performance [(Olayinka, Emoarehi, Jonah, & Ame, 2017); (Chipa & Wamiori, 2017); (Attar, 2014); Hestiecia, (2013)]. Good risk management is the identification and treatment of risks that lead to standardization of risk treatment in an organization (Nichita & Vulpoi, 2016), as well as recommending that entities share entity risks with other entities (Chipa & Wamiori, 2017). The important relevance of risk management to financial statements is disclosed by Gao & Hsu (2016) which states that there is a positive relationship between adoption of Enterprise Risk Management and accounting quality". In other words, it can be concluded that ERM correlates with an increase in the quality of financial reports.

From the explanation above, it can be seen the importance of implementing risk management in order to achieve a predetermined goal of the organization. And to implement risk management can be carried out properly is determined by several supporting factors

1.1. Formulation of the problem

Referring to the explanation above, the problem formulation in this study is as follows:

1. How does the position of Internal Audit affect the success of Risk Based Internal Audit?
2. How is the influence of Top Management Commitment on the Success of Risk Based Internal Audit?
3. How does training affect the success of Risk Based Internal Audit?
4. How Does the Policy Framework Influence the Success of Risk Base Internal Audit?
5. How is the Effect of the Communication Process on the Success of Risk Based Internal Audit?
6. How does the implementation of risk management affect the success of a risk based internal audit?
7. What is the Role of Risk Management Implementation in moderating the relationship between the Influence of Internal Audit Position, Top Management Commitment, Training, Policy Framework, and Communication on the Success of Risk Based Internal Audit?

1.2. Research purposes

In detail, the objectives of this study are as follows:

1. To identify and analyze the influence of Internal Audit Position on the Success of Risk Based Internal Audit
2. To identify and analyze the effect of Top Management Commitment on the Success of Risk Based Internal Audit
3. To identify and analyze the effect of training on the success of Risk Based Internal Audit

4. To identify and analyze the Effect of Policy Frameworks on the Success of Risk Based Internal Audit
5. To identify and analyze the Influence of the Communication Process on the Success of Risk Based Internal Audit
6. To identify and analyze the effect of Risk Management Implementation on the Success of Risk Based Internal Audit
7. To identify and analyze the Role of Risk Management Implementation in moderating the relationship between the Influence of Internal Audit Position, Top Management Commitment, Training, Policy Framework, and Communication on the Success of Risk Based Internal Audit

2 Literature review

2.1 Risk Based Internal Audit

Risk Based Approach Internal Audit (risk-based audit) is a method used by the auditor to determine the audit procedures to be performed; namely based on risk; or an indication that there is a greater likelihood that the transaction or level of transactions, accounts or balances, and / or disclosures is misstated, so that the auditor can achieve the audit objectives.

The Chartered Institute of Internal Auditors (2014) states that risk-based internal audit (RBIA) is a methodology that links internal audit to the overall risk management framework of an organization. RBIA enables internal audit to provide assurance to the board that risk management processes are managing risk effectively, given risk appetite.

By following an internal audit, RBIA should be able to conclude that:

1. Management has identified, assessed and responded to risks above and below appetite for risk
2. The response to risk is effective but not excessive in managing the risk inherent in that risk appetite
3. If the residual risk is not in line with the appetite for risk, action is taken to remedy it
4. Risk management processes, including the effectiveness of response and action completion, are being monitored by management to ensure they continue to operate effectively
5. Risks, responses and actions are properly classified and reported.
6. According to the Chartered Institute of Internal Auditors (2014) RBIA has three stages as follows:

2.2 Internal Audit Position

Initially, the internal auditor in the local government was called BAWASDA and now it is called the Inspectorate. Currently this function has shifted its role to assess and provide advice on risk management, control and governance processes. This change of name and function is often misunderstood and causes confusion in the roles and functions of the internal auditor.

Internal audit is an independent, objective, and consultative activity. Its core role is to provide objective assurance to the board about the effectiveness of risk management. Indeed, research

has shown that boards of directors and internal auditors agree that the two most important ways that internal audit provides value to an organization is in providing objective assurance that key business risks are managed appropriately and providing assurance that risk management and internal control frameworks operate effectively. .

Figure 2.1 presents a series of enterprise-wide risk management (ERM) activities and shows which roles an effective professional internal audit activity should play and, just as importantly, should not.

Internal audit activities that comply with the International Standards for the Professional Practice of Internal Auditing can and must perform at least some of these activities. Internal audit can provide consulting services that improve organizational governance, risk management, and control processes. Likewise, if an organization employs specialist services or a risk management function, internal audit is more likely to value it by concentrating on its underwriting role, rather than by engaging in more consulting activities.

2.3 Top Management Commitment

Top management commitment is one of the most influencing factors in implementing or implementing Risk Based Internal Auditing (RBIA) because of the support from strong leaders and having a better governance structure. The agreement and active involvement of the head of internal audit, senior management, audit staff, accounting staff and senior operational management can drive independent evaluation of the effectiveness of risk management, control and governance (Van Gansberghe, 2005).

Top management plays an important role in implementing RBIA, because such decisions involve commitment of resources and organizational change. Top management commitment is needed to identify whether the organization is showing genuine interest in implementing RBIA. Wijethilake et al. (2017) emphasized that although organizations maintain the old audit approach as a guideline in conducting audits, top management commitment is the main indicator that determines the successful implementation of Risk Based Internal Auditing (RBIA).

A study conducted by Oruma et. al (2014) revealed that top management commitment is an important factor in implementing TQM in the construction industry in Nakuru Regency. This means that with the increased commitment of top management in terms of providing leadership, providing essential resources and being involved in TQM implementation, TQM implementation is likely to be more successful. Top management's commitment includes activities such as communicating the value of company quality, strengthening meeting quality messages with the workforce and customers who provide formal and informal recognition, receiving training. Other important responsibilities of top management are to build a performance-rewarded environment where management is able to motivate employees, establish relationships where the company treats employees fairly and well, and a principle-emphasizing phase, where managers make better use of their employees' creativity and imagination, prevails. In the application of RBIA.

2.4. Training

Some companies give their employees the opportunity to enroll in training programs set up by other companies. Thus, previous studies have shown that if implemented properly, internal programs are more effective than external ones. The difference comes from the fact that internal programs are designed in such a way that they respond to predetermined training needs (Jehanzeb & Beshir, 2013). External programs are designed for diverse populations of different organizations, and as such, they are relatively ineffective (Khan et al., 2011). Aguinis & Kraiger (2019) found that external programs are not always ineffective.

In order for internal audit to be efficient, it requires continuous training from internal auditors. Auditors are difficult to detect fraud and one of the reasons why internal auditors find it difficult to track and detect fraud is because they do not have sufficient experience in identifying falsified financial data (Hammersley et al., 2011). Training involves stimulating fraud cases that make internal auditors gain significant experience (Bierstaker et al., 2012), improve performance and improve their ability to detect evidence suggesting fraud. In their research on current control practices by copying with employee fraud and organizational risk, Zanzig & Flesher (2011) compared US and Canadian firms' fraud detection conditions with desired conditions with respect to risk management training, understanding fraud management procedures, recognition of key fraud indicators. and incentives to report fraud. They concluded that employee training to manage fraud is a training that needs to be improved. Finally, Bierstaker et al. (2012) examined the impact of auditor training on detecting fraud

2.5 Application of Risk Management

Ivanyos (2016) states that according to the ISO 31000 standard, risk is interpreted as an effect of uncertainty that can be a positive and / or negative deviation from what is expected. This definition is much broader than the traditional (control-based) approach that applies the product of the probability and effect of negative events. Consequently, risk management should not concentrate on reducing the probability and / or more or less of the predictable effects of "inherent" (or appear to be inherent) risk factors; instead, it must consider the significance of the effect of "persistent" (factual but difficult to measure) uncertainty on the objective, based on the best available information.

Risk management protects and adds value to the organization and its stakeholders through supporting organizational goals by:

1. Provide a framework for the organization that allows future activities to take place in a consistent and controlled manner
2. Improve decision making, planning and prioritization with a comprehensive and structured understanding of business activities, volatility, and project opportunities / threats
3. Contribute to the more efficient use / allocation of capital and resources in the organization
4. Reducing volatility in non-essential areas of the business
5. Protect and enhance company assets and image
6. Develop and support the people and organization's knowledge base

7. Optimizing operational efficiency

Fraser et al (2010), Moller (2010) and others suggest that there are separate roles for internal auditors and the risk management function. In addition, they limit the role of internal audit by providing top management with independent assurance regarding the effectiveness of risk management, by ensuring the effectiveness of controls, risk management processes, managing key risks, and reliability, in addition to the appropriateness of assessing and reporting risks and controls. The following is a research framework prepared based on various research references

3. RESEARCH METHODOLOGY

3.1 Research Design

The research design is a plan of scientific study or research in order to answer research questions or identify problems (Sekaran, 2010). This research is a causality research. Causality research is a study that examines the influence of Internal Audit Position, Top Management Commitment, Training, Policy Framework and Communication Processes on Risk Based Internal Audit by using the Application of Risk Management as an intervening. Location this research was conducted at the Inspectorate of Local Government from August 2020 to December 2020.

3.2 Data analysis technique

Sekaran (2010) states that to overcome this, two types of testing are needed, namely a test of validity and a test of reliability which is used to test the seriousness of the respondent's answer.

In this study, the analytical method used to test the research hypothesis is SEM analysis of Partial Least Squares (PLS) with Warp PLS which is an indeterminacy factor in a powerful analysis method because it does not assume that the data must be measured with a certain scale, the number of samples is small or large. Warp Partial Least Squares (PLS) can also be used to confirm theory (Mahfud & Ratmono, 2013).

The path diagram is a visualization of the research conceptual framework so that it is easier to understand and learn. The formation of a path diagram must pay attention to the construct of exogenous or endogenous variables with the manifest variables of each of these latent variables.

The Moderated Structural Equation Modeling equation can be seen in the following equation:
Direct Equation (Testing H1-H6):

$$KRBIA = \beta_1KIA + \beta_2KMP + \beta_3P + \beta_4KK + \beta_5K + \beta_6PMR + e$$

Moderation Equation (Testing H7-H11):

$$KRBIA = \beta_1KIA + \beta_2KMP + \beta_3P + \beta_4KK + \beta_5K + \beta_6PMR + \beta_7PMR * KIA + \beta_8PMR * KMP + \beta_9PMR * P + \beta_{10}PMR * KK + \beta_{11}PMR * K + e$$

Information:

β_1 - β_{11} : Regression Coefficient

KRBIA: Success Risk

KIA: Position of Internal Audit

KMP: Top Management Commitment

P: Training
 KK: Policy Framework
 K: Communication
 PMR: Implementation of Risk Management
 E: Error Term

4. Discussion

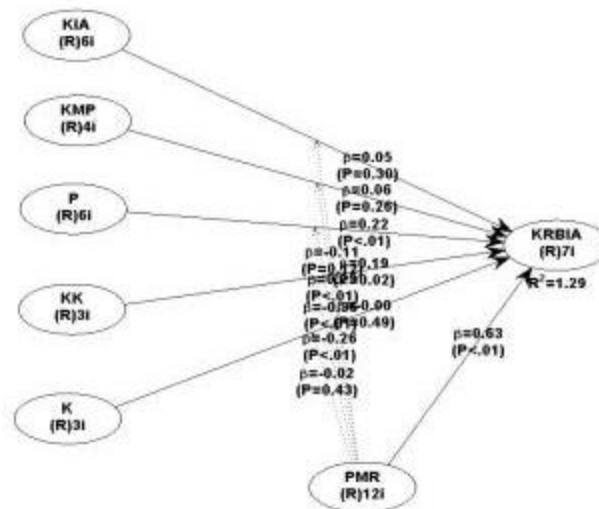


Figure 4.1 Full Models for Moderation Model

Based on Equation 4.1, it appears that KIA has a coefficient value of 0.115. This value indicates that when the position of internal audit increases by 1%, the success of risk based internal audit increases by 11.5%. However, this value is not classified as statistically significant ($p\text{-value} > 0.10$). In other words, the research data does not support the hypothesis, so H1 is rejected, which means that the position of internal audit has no significant effect on the success of risk based internal audit.

Furthermore, KMP has a positive coefficient of 0.007. This value indicates that when top management commitment increases by 1%, the success of risk based internal audit will increase by 0.7%. However, the coefficient value is not statistically significant ($p\text{-value} > 0.10$). In other words, top management commitment does not have a significant effect on the success of risk based internal audit, so that H2 in this study is rejected.

The training variable (P) has a coefficient value of 0.163. This shows that when training increases by 1%, the success of risk based internal audit will increase by 16.3%. The coefficient value is also classified as statistically significant at the 5% level ($p\text{-value} < 0.05$). Therefore, this research data supports H3, so H3 is accepted, meaning that training has a positive and significant effect on the success of risk based internal audit.

Furthermore, KK has a coefficient value of 0.191. This value indicates that if the policy framework increases by 1%, the success of risk based internal audit will increase by 19.1%.

This value is also classified as statistically significant at the 5% level (p -value <0.05). Therefore, H4 in this study is accepted, which means that the policy framework has a positive and significant effect on the success of risk based internal audit.

The communication (K) has a negative coefficient of -0.028 . This value indicates that if communication increases by 1%, the success of risk based internal audit will decrease by 2.8%. However, this value is not classified as statistically significant (p -value > 0.10). In other words, H5 in this study is rejected, meaning that communication does not have a significant effect on the success of risk based internal audit.

Furthermore, PMR has a coefficient value of 0.725 . This value indicates that when the application of risk management increases by 1%, the success of risk based internal audit will increase by 72.5%. This value is also classified as statistically significant at the 1% level (p -value <0.01). In other words, H6 in this study is accepted, meaning that the implementation of risk management has a positive and significant effect on the success of risk based internal audit.

Furthermore, to see the role of PMR as a moderation in the determinants of the success of risk based internal audit, it can be seen in Equation 4.2 on the parameters for variables that interact with PMR. In Equation 4.2, the PMR * KIA coefficient value is -0.108 . This value means that when the PMR increases by 1%, the KIA effect on KRBIA will be 10.8%. However, this value is not classified as statistically significant (p -value $.0.10$), so that H7 in this study is rejected, meaning that the effect of risk management is not able to moderate the effect of internal audit position on the success of risk based internal audit. Based on the criteria for moderating variables according to Sharma et al., (1981), the application of risk management in this relationship path is categorized as a variable predictor, meaning that it has a significant direct effect but does not have a significant effect as a moderator.

The value of the PMR * KMP coefficient is 0.226 . This value indicates that when the application of risk management increases by 1%, the effect of top management commitment on the success of risk based internal audit will increase by 22.6%. This value is also classified as significant at the 1% level (p -value <0.01), so that H8 in this study is accepted, meaning that the application of risk management is able to strengthen the influence of top management commitment to risk based internal audit. Reflecting on the moderating variable criteria proposed by Sharma et al. (1981), then the application of risk management in this relationship flow is included in the Quacy Moderator criterion, because it has a significant effect either as a predictor or moderator. Equation 4.2 also shows that KMP directly has a positive effect on KRBIA. This shows that commitment

Top management will have a positive influence on the success of risk based internal audit for all values of risk management implementation.

Furthermore, the value of the PMR * P coefficient is -0.356 . This value indicates that when the application of risk management increases by 1%, the effect of training on the success of risk based internal audit will weaken by 35.6%. This value is also classified as statistically significant at the 1% level, so that H9 is accepted, which means that the application of risk management is able to weaken the effect of training on the success of risk based internal

audit. Training will have a negative effect on the success of risk based internal audit when the level of risk management application is above 0.615 (61.5%) and will have a positive effect when the level of risk management application is below 0.615 (61.5%). The value of 0.615 (61.5%) is obtained from the fragment of the $KRBIA = \dots (0.219 - 0.356PMR) * P$ with the condition $(0.219 - 0.356PMR) = 0$, then the calculation result is $PMR = -0.219 / -0.356 = 0.615$ (61.5%).

Furthermore, the value of the $PMR * KK$ coefficient is -0.261. This value indicates that when the application of risk management increases by 1%, the effect of the policy framework on the success of risk based internal audit will weaken by 26.1%. In addition, this value is also classified as statistically significant at the 1% level (p -value < 0.01). In other words, the application of risk management weakens the influence of the policy framework on the success of risk based internal audit, so that H_{10} is accepted. In the flow of this relationship, the variable of risk management implementation is included in the Quacy Moderator criterion, which has a significant influence both predictors and moderators (Sharma et al., 1981). The policy framework will have a negative effect when the value of risk management is above 0.743 (74.3%) and will have a positive effect when the value of risk management implementation is below 0.743 (74.3%). The value of 0.743 (74.3%) is obtained from a piece of the equation $KRBIA = \dots (0.194KK - 0.261PMR) * KK$ with the provisions of $0.194KK - 0.261PMR = 0$, resulting in a calculation of $PMR = -0.194 / -0.261 = 0.743$ (74.3%).

Furthermore, the value of the $PMR * K$ coefficient is -0.016. This value indicates that when the application of risk management increases by 1%, the effect of communication on the successful application of risk based internal audit will weaken by 1.6%. However, the coefficient value is not statistically significant (p -value > 0.10), so it can be concluded that the application of risk management is not able to moderate the effect of communication on the success of risk based internal audit, so H_{11} is rejected. In the flow of this relationship, the application of risk management is included in the predictor variable criteria, which only has a significant effect at the time as a predictor, but is not able to have a significant effect as a moderator variable.

5. CONCLUSIONS AND SUGGESTIONS

5.1 Conclusion

Based on the results of the SEM-PLS analysis with WarpPLS that has been carried out, the conclusions of this study are as follows:

1. The position of the internal audit does not have a significant effect on the success of the Risk Based Internal Audit.
2. Top Management Commitment has no significant effect on the success of Risk Based Internal Audit.
3. Training has a positive and significant effect on the success of Risk Based Internal Audit.
4. The policy framework has a positive and significant effect on the success of Risk Based Internal Audit.
5. Communication has no significant effect on the success of Risk Based Internal Audit.

6. The implementation of risk management has a positive and significant effect on the success of Risk Based Internal Audit.
7. The application of risk management is unable to moderate the effect of internal audit position on the success of Risk Based Internal Audit.
8. The application of risk management moderates the effect of top management commitment on the success of Risk Based Internal Audit.
9. The application of risk management moderates the effect of training on the success of Risk Based Internal Audit.
10. The application of risk management moderates the effect of the policy framework on the success of Risk Based Internal Audit.
11. The application of risk management is unable to moderate the effect of communication on the success of Risk Based Internal Audit.

5.2 Suggestions

The suggestions that researchers can give to stakeholders are as follows:

1. The lowest average score for the internal audit position indicator is indicator 4, so it is advisable for stakeholders at the District / City Inspectorate in Aceh Province to have a freer and more professional mental attitude in carrying out the examination.
2. The lowest average score for the indicator for top management commitment is indicator 4, so it is advisable for regional heads in Aceh to conduct more frequent evaluation activities on the policies they have established.
3. The lowest average score for the training indicator is indicator 3, so it is recommended that stakeholders at the District / City Inspectorate in Aceh Province provide training materials related to risk management.
4. The lowest average score for the policy framework indicator is indicator 3, so it is advisable for stakeholders at the Inspectorate at the District / City in Aceh Province to continue implementing the supporting factors that can realize the implementation of risk management.
5. The lowest average score for the communication indicator is at indicator 3, so it is recommended that stakeholders at the District / City Inspectorate in Aceh Province continue to evaluate the communication system between the parties involved in the inspection.
6. The lowest average value for the risk management implementation indicator is at the 6th indicator, so it is recommended that stakeholders at the District / City Inspectorate in Aceh Province continue to monitor the work unit (ODP) in the risk management implementation process.
7. The lowest average score for the success indicator of Based Risk Internal Audit is indicator 6, so it is recommended that stakeholders at the District / City Inspectorate in Aceh Province analyze and predict any risks that occur from activities.
8. The variable that most influences the success of Based Risk Internal Audit is the application of risk management, so it is recommended that stakeholders at the District / City Inspectorate in Aceh Province continue to apply risk management in conducting audits, because it has a good impact on the success of Internal Based Risk. Audit.

9. It is recommended that the next researchers analyze other factors that influence the success of the Based Risk Internal Audit, with different objects, locations and analysis techniques for the sake of developments in the field of Public Accounting.

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