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**The Internal Auditor Role in Risk Assessment Process in Jordanian
Industrial Listed Companies
(An Internal Auditor – Oriented Study)**

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Abstract:

This study is aimed to find out the role of internal auditor of enhancing the risk assessment process. For this study purposes a questionnaire was designed as an instrument to collect data. The sample of study included 50 internal auditors of industrial companies listed in ASE. The findings of this study showed that there is a statistically significant at 5% in terms of the effectiveness of audit process on the one hand and the role of internal audit of risk assessment on the other hand. As well as the importance of education level and experience to increases the effectiveness of risk assessment process. Further the role of other parties such as managers and external auditor to promote the audit process and then risk assessment process.

Based on the above findings, the recommendations of this study are; companies should increase the skills of internal auditors, promote the collaborative work environment and review the way that company pursues to appoint external auditors.

Keywords:

Internal Auditor, Risk Assessment, ASE, External Auditor.

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Introduction

It is that critical to be started with the definition of the internal Auditing concept. Thus, internal auditing is "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process" (Gleim, 2008).

From the previous definition of internal Auditing, we have noticed that the first element mentioned is to evaluate the risk of management.

One the other hand, management's risk is "a process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objective" (Gleim, 2008). Also, it is a major element of the risk management process to assess the risk.

Risk management is the responsibility of management to be controlled, it should ensure that a sound risk management process is in place and functions as they are planned to be.

The responsibility of internal auditors in this stage is to evaluate, examine, report, and recommend improvements. They also have a consulting role in identifying, evaluating, and implementing risk management methods and controls, taking into consideration that information from a comprehensive risk management process aids in planning audits.

Executive management and the audit committee determines the internal auditor's role in risk management. That role may range from "No role", to auditing the process as part of the audit plan, to active, continuous support and involvement in the process, to managing and coordinating the process.

Problem statement

Although much research has been conducted on this topic, but the objective of this study is:

- Assess the role of internal auditors in the risk assessment processes in Jordan.
- See how the assessment techniques are implemented in Jordanians companies.
- The degree of segregation of duties in conducting the risk assessment process.
- The managers' roles to determine the risk rate in their companies.

Study objective

The main purpose of this study is to measure the role of internal auditors in risk assessment process in Jordanian companies, taking into consideration their main role that was mentioned in the practice advisories, attributes and standards setting by the institution of Internal Auditors (IIA), and to measure the main variances between reality in Jordan, and the broad global standards.

Study important

Organizations face a variety of risks that negatively influence the reliability of financial statements and effectiveness of internal controls. Effective assessment and appropriate reporting on the organization's risk management requires of internal auditors to understand the risk assessment process from the beginning to the end.

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By 2008, so many companies have been collapsed all over the world. This is because, they don't comply with legal requirements that consider an important procedure to evaluate the different types of inherent risks. And as a normal result, to protect the companies from such effects. This study leads to stimulate the professionals of internal auditing in Jordan to comply with the global standards.

Study Methodology

This section describes the method that was used in this research, research Instrument and data collection method.

Study Instrument

For this study purposes, the questionnaire was designed. To avoid language barrier, the questionnaire was in Arabic language.

Data Collection Method

Sampling

The sample of this study was selected from a population of the internal auditors in the industrial sector of the companies listed in Amman stock exchange. We took a sample of 50 auditors from Six companies. The only way to measure the processes of risk assessment was by connecting with the people who are responsible of assessing the process directly.

Collecting Method

As declared previously, we used the Questionnaire as our data collection, and then the Likert Scale was used as following:

Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
1	2	3	4	5

Validity and Reliability of Collection Method

We conducted our collection of data with the highest level of Validity and reliability, therefore, we took into consideration the level of education of the receiver of the questionnaire, which will reflect – Somehow – the level of awareness of the risk assessment process that conducted in their companies. And as a tool, we will contain the questions in the questionnaire that conflict each other to make sure of the degree of reliability of data will be collected of them.

1.1 Hypothesis:

H01: There is a positive relationship between the effectiveness of internal activity in the company and involvement in the process of risk assessment in that company.

H02: There is a significant role of the external auditor and his /her procedures in the risk assessment process.

H03: There is a positive relationship between the education level and professional certificates obtained by the internal auditor, and the awareness of all aspects of the risk assessment process.

Literature Review

In (2003), Allegrini and Onza from University of Pisa, did an empirical survey about internal auditing and risk assessment in the large Italian companies. This paper aimed at achieving and overall view regarding the state of the art of internal auditing in large Italian

companies. Mainly, it focused on risk assessment practices and on the execution of a risk – based on a survey carried out on the "top 100" companies listed at the Italian Stock Exchange. Results of the study showed that variations are significant among three model: First, 25% of the companies carry out mainly traditional compliance activities and they generally follow an audit – cycle approach for the annual audit planning. Second; in 67% of the companies, internal auditors adopt COSO model and perform mainly operational auditing, and risk – based approach is applied predominantly at macro level. Finally; 8% of the companies which represents large companies, auditors are applying a risk – based approach at macro and micro levels.

In (2007), Miglietta, Anaclerio and Bettinelli, did a study that titled as " Internal Audit Risk Assessment and Legal Risk: First Evidence in the Italian Experience". This study contains the analysis of particular risk assessment process, which was the " legal risk" the objective of this article is to analyze how Italian Firms comply with the internal Audit rules regarding the administrative liability of entities and to explain what the effect on the organizational structure was. In particular, the researchers collected data from 21 companies listed on the S &P / MIB index by sending a questionnaire to each Internal Audit Director. Researchers show the features on internal audit system required by the Italian Decree No. 231, and how risk assessment and internal audit could serve as Corporate Governance Instruments. The 231 Italian Decree, like the Sarbanes – Oxley Act enhances and extends companies' accountability, transparency and integrity especially in business conduct. The innovativeness of this work is due to the idea of considering these elements as influential for the risk management optimization. As a consequence, a risk reduction can be achieved by improving the organizational and management models. Thought is commonly accepted that the risk optimization leads to a reduction of the cost of capital for the enterprise; there is a difficulty in estimating how much the value provided could be. Results of the study were that four companies out of five intervened specifically on the aforesaid risk areas by improving the internal process, the delegation schemes, the informative systems, and the whole organization structure. Also, one of the most important results is that all the companies recognized that the implementation of some organizational models aimed to improve the internal control effectiveness could also improve the risk–management process. Not with–standing this, study found that it is difficult for all the enterprises to estimate and evaluate how much this reduction reduces the cost of capital.

In (2006), W. Rebert conducted a study about " The business risk audit: origins, obstacles and opportunities". The main question of the study was "Is the business risk audit a better way to assess risks leading to focused audit testing, or is it simply a tool for generating opportunities to sell non – audit. Then he showed the development of the Risk Management, and mentioned to the year 1992 as the base year to obtain the full understanding and perception of "Risk" concept, this year was witnessing the birth of "COSO" cube, which organized the internal control as a complete framework. He conducted a figure shows that the Business Risk Audits as a higher value added, rather than the traditional audit, which gives us the service of financial statements audit in the minimum values. The Study's result was that the collision of internal and external forces has caused some to question the appropriateness of business risk audits in the future. However, the increased focus on both fraudulent financial reporting and internal control over financial reporting suggests that business risk audit methods may still have a role to

play in the conduct of audits, albeit in a somewhat constrained manner and only if implementation is completed and thus certain obstacles are finally overcome.

In (2006), Christopher p. et. al carried out a study about "The Effect of Fraud Assessment Documentation Structure on Auditors'" Ability to Identify Control Weaknesses: the Moderating Role of Reviewer Experience "this study matches audit working-paper preparers with reviewers to investigate whether reviewer task specific experience moderates the effect of fraud assessment documentation structure on the audit review team's ability to identify the presence of significant control weaknesses. To be specific, this study is concerned with a particular risk assessment, which is the fraud Risk Assessment. Researchers examined a sample of working-papers from international audit firms to ensure that participants would be familiar with fraud assessment documentation structure. The examination suggest That: a) auditors are commonly required to document evidence for components of a larger judgment, b) auditors are often asked to document evidence in support of their judgments, and c) documentation of important inconsistent evidence may be requested (which is noted in OCAOB AS No.3). Hypothesis of the study were, the first one: Component documentation preparers will assess control environment weaknesses more favorably than preparers using supporting and balanced documentation. Second one was: As reviewer assessments of control environment weaknesses will be greater for component documentation audit teams than for the supporting and balanced documentation audit teams. By testing the previous hypotheses, the results were, first, the preparers in the supporting and balanced conditions were not simply more conservative control strength), but that they were better able to selectively direct attention to areas of areas of weakness (i.e.; all three groups were equally effective at recognizing control strengths), but that they were better able to selectively direct attention to areas of weakness (i.e., they were better able to identify and appropriately assess the weaknesses present at the hypothetical client) than those in the component group. Second, as task – specific experience (TSE) increases, component documentation reviewers' assessment quality is less affected by documentation structure. Thus, relative to less experienced component reviewers, it appears that not only were experienced reviewers' control weakness judgments less affected by anchored on) their preparer' more favorable assessments, they were also of higher quality. Suggestion of the study was that future research could investigate the effect of documentation structure and reviewer experience on the auditor's internal controls opinion decision. Such research will further our understanding of the effect of documentation quality and structure on auditor judgment.

In (2007), Danescu and Spaticean, from University of Targu Mures, did a study that titled "Internal Audit for Financial Investment Companies- Assurance for Adequate Supervising of Corporate Governance Principles". The Study has many sections, first; internal audit, relevant source of added value for publicly traded companies. Second; Objectives related to internal audit activities for Financial Investment Companies. Third; the Role of Internal Audit function for supervising Financial Investment Companies operating activities, Fourth, Supervising corporate governance principles through internal audit, and finally; Conclusions, which was, internal audit function established for Financial Investment Companies is a fundamental component of a healthy corporate governance structure, at least from the perspective of helping in maintain stability in raising funds through capital markets mechanisms (IPO's- initial public Offerings) as well as improve the level of transparency and reliability in relationship with investors according to international accepted principles. The authors mentioned that in the risk assessment process, financial

auditors often rely on internal auditors when establishing the control risk level. Therefore, adequate internal audit function, as part of solid corporate governance if a factor of lowering control risk, when assessing audit risks for Financial Investment Companies. The paper intends to approach issues related to internal audit as a relevant source of added value for listed companies and the main objectives related to internal audit engagements for Financial investment Companies. The authors are trying to answer how internal audit contributes in an effective manner in the process of supervising corporate governance principles that Financial Investment Companies as listed companies, must comply with.

Data analysis

This section describes two parts of data analysis in which the first is related to demographic factors. While the second is related to hypothesis test (T-test).

descriptive analysis

demographic factors

Table (1)

Descriptive	NO	Percentage	Descriptive	NO	Percentage
Gender			Age		
Male	30	60%	Less than 25	12	24%
Female	20	40%	From 26 to 35	14	28%
Educational qualification			From 36 to 45	11	22%
High school	10	20%	Older than 45	13	26%
Diploma	13	26%	Experience		
Bachelor	11	22%	Less than 5	13	26%
Master	16	32%	From 6 to 10	14	28%
			From 11 to 15	14	28%
			More than 15	9	18%

Table (1) shows the descriptive analysis of the demographic factors of responders, which include: gender, educational qualification, age and experience. In general, the sample size is 50 questionnaires. The number of males is 30 with a 60%. While the number of females is 20 with a 40%. In terms of educational qualification the most responders have a master degree. And followed by a diploma, bachelor and high school respectively. As well as age from 26 to 35 is the high percentage. Followed by, older than 45, less than 25 and from 36 to 45 with 28%, 26%, 24% and 22%, respectively. The vast majority of responders had more than 6 years of experience. Whereas the rest of them had less than 6 years.

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T-test (Hypothesis test)

This section of analysis part shows the results of T-test to each hypothesis.

The first hypothesis: There is a positive relationship between the effectiveness of internal activity in the company and involvement in the process of risk assessment in that company.

Table (2)

The first Hypothesis				
M	SD	T-Test	F-Value	Sig.
3.52	0.7	53.86	49	0.000 *

*Significant at 5%

It could be seen from the table number (2) that the standard deviation is 0,7 while the mean is 3.52. Note The third column of table (2) shows the result of T-test (T value) which is 53,86. The fourth column is F-value that is 49. The last column shows the statistically significant which is less than 5%. And then, the first hypotheses is accepted.

The second hypothesis: There is a significant role of the external auditor and his /her procedures in the risk assessment process.

Table (3)

The second hypothesis				
M	SD	T-Test	F-Value	Sig.
3.73	0.57	54.659	19	0.000 *

*Significant at 5%

It could be seen from the table number (3) that The standard deviation is 0,7. While the means is 3.73. Note The third column of table (3) shows the result of T-test (T value) which is 54.659. The fourth column is F-value that is 19. The last column shows the statistically significant which is less than 5%. And then, the second hypotheses is accepted.

The third hypothesis: There is a positive relationship between the education level and professional certificates obtained by the internal auditor, and the awareness of all aspects of the risk assessment process.

Table (4)

The third hypothesis				
M	SD	T-Test	F-Value	Sig.
3.52	0.7	54.584	49	0.000 *

*Significant at 5%

It could be seen from the table number (4) that the standard deviation is 0,7. While the mean is 3.52. Note The third column of table (4) shows the result of T-test which is 54.584. The fourth column is F-value that is 49. The last column shows the statistically significant which is less than 5%. And then, the third hypotheses is accepted.

DISCUSSION OF RESULTS AND CONCLUSIONS

Considering the means and standard deviation, the results indicate that the internal activities have an important role to reduce the risks on the one hand and help to enhance the process of risk assessment on the other hand. Implying, the first step of risk assessment are strongly related to collaborative work between managers and other parties inside the firm. This is because the results refer to that the effectiveness of risk assessment is basically associated with organization culture and company strategy. In addition, the procedures of external auditor reinforce the process of risk assessment. Which means, these procedures have a significant role to push the process of risk assessment forward. It becomes clear, the process requirements of risk assessment are not only related to inside parties, but also to outside parties. And so, both of them have a positive contribution to reduce risks. Consequently, the procedures of external auditor are complementary to the procedures of the internal auditor. As a conclusion, cooperative work and organizations culture and how all parties work together are the most effective factors to enhance the process of risk assessment. As well as in relation to demographic factors provide evidence about that the importance of education level and professional certificates, and the awareness of all aspects of the risk assessment process.

Finally, the results of this study support the view that audit is a systematic process that needs all parties in the company to share it together in order to achieve its goals. As well as it increases the awareness of companies to enhance the skills of internal auditors on the one hand, and about the way that company pursue the appointment of the external auditor on the other hand.

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