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Internal Audit in Enterprise Risk Management

Thi My Linh Dang

University of Labour and Social Affairs, Hanoi, Vietnam

Corresponding Author: **Thi My Linh Dang**

Abstract

Internal audit occupies an important position in the business operations of an enterprise. However, in current reality, most business owners in Vietnam are not properly aware of the role, tasks and functions of internal audit in their business operations. Evaluate and determine effectiveness as

well as consider whether internal control steps are implemented effectively or not, thereby identifying and warning about key risks affecting the enterprise's operations and making recommendations. Recommendations and action plans.

Keywords: Risk Management, Internal Audit, Internal Control

What is enterprise risk management?

With a common understanding, risk is the possibility of damage to a business due to possible situations. However, in reality, business operations often face challenges and opportunities, so risks are viewed more generally, including situations that can bring benefits to the business. Business if there is proper management. This understanding is used by international consulting organizations such as COSO1 ERM-2004... to define risk in providing guidance on building enterprise risk management: Risk is the influence of uncertain factors. Ensure the business's goals, accordingly:

- Only when there are goals are there risks, any change in operational goals or business goals will also change the risks of the business;
- Risk related to uncertainty, which can affect business goals negatively (threat) and positively (opportunity). This is the dual nature of a risk that can increase or decrease business value.

Enterprise risk management is the establishment of a systematic and disciplined process applied to strategic planning and application throughout the enterprise. Because it is impossible to completely eliminate risks, businesses need to apply an enterprise risk management model to promptly detect events, evaluate and manage the worst situations that are likely to occur in order to minimize them. Negative impacts and seizing opportunities.

Aiming for a complete enterprise risk management framework, COSO ERM-2004 has provided a definition of enterprise risk management that is commonly applied in many organizations, industries, and countries around the world. Accordingly, enterprise risk management is designed to identify events that have the potential to affect the enterprise and manage risks within the enterprise's risk tolerance, in order to provide reasonable assurances. To achieve business goals.

The necessity of enterprise risk management

The goal of enterprise risk management is not just to minimize risks, but to manage risks effectively and comprehensively, as a basis for preserving and developing organizational values. In other words, enterprise risk management helps management make accurate and effective decisions; Minimize losses during business operations.

The importance of enterprise risk management is shown in the following contents:

Firstly, strengthen corporate governance by providing information to the Board of Directors/Board of Members on key risks and measures that need to be taken.

Second, support businesses in completing their strategic goals through risk management tools, specifically:

Assess the likelihood and impact of bad situations, develop measures to prevent, respond, or manage the impact of situations on the business in case they occur.

Risk management does not focus on specific risks but on the source of damage to the business. From there, support management in improving business performance.

Enterprises respond effectively to the changing business environment through identifying, prioritizing and planning to respond to risks, helping businesses proactively handle crisis situations.

Third, build trust and meet the increasing expectations of investors and stakeholders. Currently, investors and credit rating organizations can request businesses to disclose their risk management capabilities to have a basis for assessing the level of correlation between profits and possible risks. If businesses manage risk well, they will be able to handle problems more effectively when they appear in business activities;

Fourth, consistent strategy and risk culture. Enterprise risk management helps management focus on setting policies, determining focus, operating mechanisms, improving risk quantification tools, enhancing risk management responsibility and creating conditions for Timely identification of changes in the business's risk portfolio.

Fifth, optimize the resources businesses use to manage and handle key risks: Risk management allows businesses to establish standard processes in identifying, evaluating, analyzing, prioritizing and managing. Main risks.

Sixth, optimize profit and risk correlation. Enterprise risk management is based on the level of risk accepted, monitoring, tracking and managing risks appropriately, helping businesses promptly grasp opportunities (high risk, high profit).

Principle of "3 rounds of protection" in corporate risk management according to international practice

An effective risk management and control model needs to clearly define roles, responsibilities and coordination within the organization related to risk management. Lack of full cooperation between parties can lead to failure to detect and manage risks in a timely manner. The "3 lines of defense" principle provides a simple and effective approach to enhance the communication between risk management and control by clarifying the roles and responsibilities of stakeholders.

The role of responsibility in risk management is expressed through the principle of "3 rounds of protection" for businesses, clearly separating the roles of 3 groups of subjects related to effective risk management. Providing a new perspective on risk management activities, ensuring the continued success of risk management initiatives and suitable for all organizations, helping to increase the effectiveness of the risk management system.

The "3 rings of protection" principle is built to support the Board of Directors/Board of Members and the Board of General Directors/Board of Directors in risk management and control activities. In particular, the Board of Directors/Board of Members and the Board of General Directors/Board of Directors ensure that the "3 rounds of protection" principle is applied appropriately to the business organization.

- Protection circle 1 detects and manages risks: This round includes business functions and support functions (human resources, information technology, financial accounting...). This circle is responsible for maintaining and implementing control processes and risk management processes. Depending on the decentralization and decentralization of power in the enterprise, department heads in protection circle 1 are responsible for building and implementing detailed

processes, controlling and supervising the implementation of the process.

- Protection ring 2 monitors and supervises risks: This round is responsible for general risk management for the entire enterprise and compliance; was established to consolidate, build and monitor ring 1 and ensure ring 1 was properly designed in terms of processes, controls and operations in the right direction. Protection circle 2 can participate in modifying and building the risk management system, internal control and participate in supporting the operations of protection circle 1.
- Protection ring 3 ensures independent inspection and audit for protection rounds 1 and 2: Includes departments that perform internal audit activities, reporting directly to the Board of Directors/Council of Members. About the effectiveness of risk management and control activities.

Internal audit today plays a very important role in corporate governance. Internal auditors can perform audits to evaluate and make recommendations to improve governance processes or provide consulting on governance issues implemented by businesses. Consulting activities are often performed on incomplete management systems or outstanding management issues.

Typically, internal audit activities evaluate and make recommendations to improve management processes in the following areas:

1. Is the process for making strategic and operational decisions formally established and consistently operating?
2. Is the risk management and control monitoring process fully and effectively implemented?
3. Are activities to promote appropriate values and ethics within the enterprise effectively designed and implemented?
4. Are the processes related to reporting responsibilities and performance management within the enterprise's organization appropriately designed and implemented effectively?
5. Is the process of exchanging information about risks and controls with relevant departments in the enterprise complete, accurate and timely?
6. Is the coordination of activities and information exchange between the board of directors/control board, independent auditor, internal audit, and management levels being carried out effectively?

In cases where a business's second line of defense performs a supervisory role and provides assurance about the effectiveness of risk management and internal controls, internal audit will evaluate performance. Of the monitoring function of this second line of defense in implementing the designed monitoring objective.

When evaluating the performance of the second line of defense, internal auditors will identify conflicts, duplications or gaps in work to provide solutions for assigning responsibilities. Reasonable, reduce duplication of work and ensure the independence and objectivity of internal audit activities.

In some businesses, internal audit activities can temporarily take on the role of a second line of defense depending on the characteristics of each business. In this case, internal audit activities can coordinate risk management activities or review compliance at the request of the Board of Directors and business leaders. Specifically: (i) the board of directors

considers it more effective for internal audit to perform compliance monitoring; (ii) internal audit can temporarily take on the monitoring function of the second line of defense due to the absence of key positions at this line; (iii) internal audit participates in supporting risk management in the event of changes in regulations that may affect risk management activities, causing the enterprise to adjust its processes and policies; (iv) internal audit participates in supporting risk management in areas or businesses with major changes in business such as new business locations or new products that may face new regulations about risk.

By temporarily taking on the role of the second line of defense, the chief internal auditor will inform the board of directors and business leaders about the risks and solutions to the risk of reduced independence. And objectivity of internal audit activities.

Assessing internal audit's responsibilities in assuming the role of the second line of defense and associated risks is usually performed at least once a year.

The importance of internal audit in enterprise risk management

Internal audit is one of those tools. Strengthening the role of an organization's helper in achieving its goals by ensuring the effectiveness and efficiency of control processes through the role of internal audit, effectively supporting the management of the organization. Business risks in the current context.

Internal audit is considered the "eyes and ears" of business management through the use of experts who are responsible for inspecting and reviewing all departments and functions in the business and reporting to business leaders. The results of your work. To promote the role of internal audit in risk management, businesses need to appropriately organize and maintain the internal audit function within the business. First of all, in terms of approach orientation, a risk-oriented internal audit approach will be the best solution for businesses in the current context of internal audit based on a risk-based approach being the trend. Position and increasingly demonstrate its progress and effectiveness in the role of accompanying business management.

In addition to the risk approach, internal audit needs to expand its scope and content to operational audit in the direction of conducting joint audits, in which the focus is on auditing performance, efficiency, and effectiveness. Effect. From there, internal audit helps evaluate and determine effectiveness as well as consider whether internal control steps are implemented effectively or not, thereby identifying and warning about key risks affecting the company's business. Business activities and provide recommendations and action plans.

Why is internal audit not popular in Vietnam?

Although it plays an important role, internal audit has not received much attention and attention from Vietnamese businesses, and few businesses apply internal audit. This is not a problem unique to Vietnam but a common problem of many developing countries. The reason is because businesses have not realized the importance and role of internal audit. Besides, newly opened companies or small-scale companies do not really need an internal auditor, so they cannot understand the values and opportunities that an internal auditor has. Can bring. However, business owners

need to understand that they may be exposed to higher risks if they do not have a proper internal auditor.

In the world as well as in Vietnam, there is no law requiring businesses to have an internal audit department, but in fact, most large companies in the world have established this functional department. It is important to help the board of directors understand that they need to have independent "ears" and "eyes" to help them alertly identify what is happening in the company and also let them know that Have the risks been prevented and overcome?

In Vietnam, the role of internal audit is quite blurred, partly because the management system of Vietnamese businesses is not synchronized. The field of internal auditing has not really attracted highly specialized human resources, along with that the human resources have not been properly and in-depth trained, the specific audit content is audit programs. Model audits applicable to this type of internal audit have not been issued, so to audit companies are having to develop their own, so it is difficult to evaluate quality control.

Conclude

Internal audit occupies an important position in the business operations of an enterprise. However, the current reality is that most business owners in Vietnam are not properly aware of the role, tasks and functions of internal audit in their business operations. How does internal audit help businesses operate better? How internal audit helps business owners predict, prevent risks more effectively and control the business apparatus to operate according to a certain standard is still a big question that Vietnamese businesses must figure out. Come up with a response plan.

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