JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

The Role Of Internal Audit In Risk Management

Rohan John, Pgdm Global Student

St. Xavier's College, Bangalore

Abstract:

Risk management as a part of the internal force mechanism of any institution is a key reason for the existence of that institution. This is because any institution without a risk management structure in place may as well not be in existence since they may suffer the earnings and the capital simultaneously. Every single institution needs to put in place risk management in order to attain the final objectives of the institution. This paper sought to check the significance of risk management, particularly the strength of internal controls as a risk management device in boosting bank performance. There should be coordination between the board to achieve the greatest results at the banking and economic levels.

It was suggested that risk management ethics of the bank must be updated frequently to avoid them getting irrelevant with time. Also, the bank should make the effort to resource all departments with the right figure of skillful and qualified team for them to be able to carry out their duty in an aspect that avoids the occurrence of unnecessary risk.

1. Introduction:

Risk management is necessary for any occupation that wishes to make significant strides into the future. This is because the future, in as much as investigation can give an idea of what it would look like, is still unknown. Anything un-known appears with many confusion as well, and confusion are what make opportunity a challenge. The element of confusion can either come from the retail, the consumer or from operations.

According to Carey, risk management is more essential in the fiscal region than in other parts of an economy. All though they play fiscal intermediation function, banks facilitate capital development and boost economic growth. Though, the capability of banks to engender industrial growth and facilitate advancement depends on the strength, soundness and stability of the risk management structure. This sets banking as a job of risk.

1.1 What is Risk Control Rule?

For the purposes of this conversation, risk control is the integrated process of policies, action and systems an organization needs to handle prudently all the risks resulting from its fiscal proceedings, and to make sure that they are inside the bank's risk appetite. It also bound risk management, internal audit, internal control, joint governance and information communication among other areas.

1.2 Key Banking Risks

The major banking risks are as follows:

- **Market risk** is the change in net asset value due to adjustment in basic economic factors such as interest rates, exchange rates, equity and commodity amount.
- **Credit risk** is the change in net asset value due to adjustment in perceived ability of counter parties to meet their contractual commitment.
- **Operational risk** impact from amount incurred through mistakes made in carrying out action such as settlement failures, failures to meet regulatory requirements, and undue collections.
- **Performance risk** encompasses losses resulting from the breakdown to accurately monitor staffs or to use appropriate manner.

Literature Review:

The risk management process is a steady activity. The procedure requires these basic steps: understanding the assignment of the institution, performance of risk analysis to identify the risks related with the aim, classifying and prioritizing the risks, design processes, training and inspect for top level risks, monitoring inner control success and making development as required and repetition of the steps.

Understanding the aim of an institution is the initial step to effective risk management. It is essential that an institution clearly articulates its mission. In this process, risks related with the aim can be easily recognized. The following step is to start listing the risks. These risks could be classified into human error, scam, process weakness or dispute. Once the risks are recorded, the association must then continue to prioritize these risks. It is rare that an association would be able to address all the risks recorded; therefore it would be essential that an association identifies high priority risks and focuses on them.

It is crucial and challenging to envisage, anticipate and stop every single risk related with a business activity. An institution can therefore be fruitful in managing its risks by breaking it down into stages that are convenient. Companies must analyze and mitigate high preference risks first and then continue to analyze, prioritize and address the rest of the risks according to the needs of the institution.

The risk management team, risk officer or internal control board could rank the risks as high-level risks, medium-level risk, low-level risk etc. The concept is to first attend to all risks with the greatest possibility of occurrence and greatest loss. However, the statistics of risks addressed at a time depends on the capacity and ability of the entity. The next process is to figure out the way of mitigating these risks. Corrections are then made as and when essential.

Research Methodology:

There are several research methodology available to meet the research objectives of this paper and none is inherently superior or inferior to the other. Thus, there is no explicit law for one to follow in choosing one system over another and the choice may differ according to several factors such as the nature and any other constraints affecting the collection of facts and figures.

For the motive of the study, both primary and secondary figures were used. Questionnaires were used to gather responses from respondents.

The researcher employed questionnaire to collect the basic information. A questionnaire was developed to look for the respondent's understanding of risk management and internal control procedures.

The questionnaire had two sections:

Section A identifies the respondents, their current position and their age;

Section B concentrates on risk management practices of the organization and whether the organization's policy on risk management is applicable to its operations.

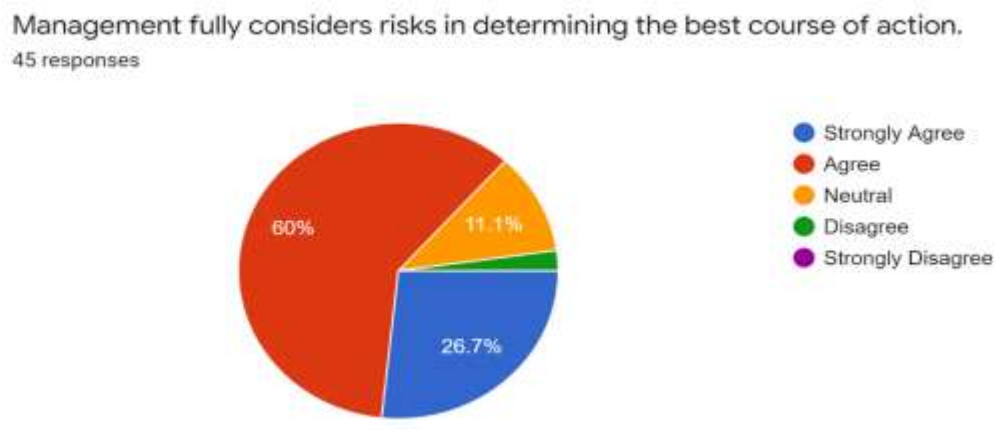
The data was input into the software and it was also used to generate the pie chart which aided in the interpretation of the outcome obtained.

Research Findings:

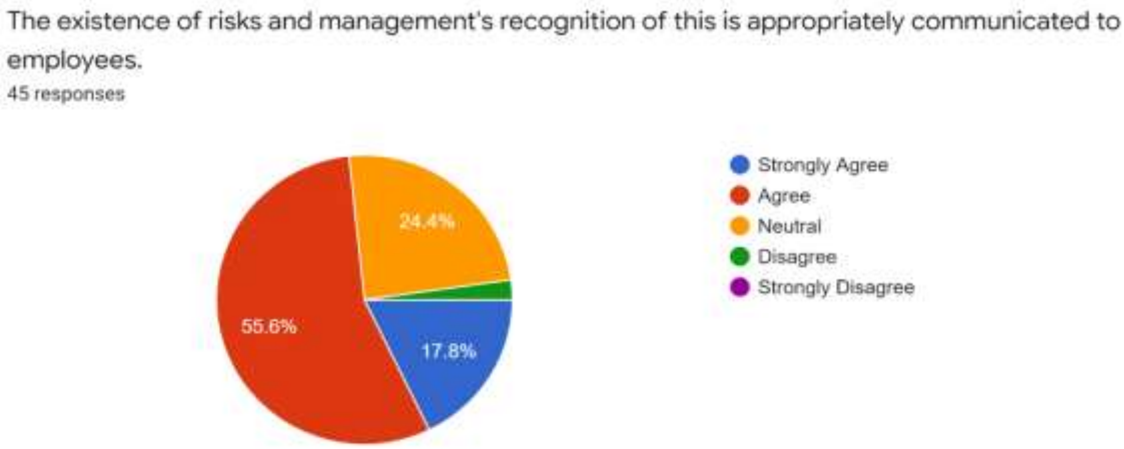
This part of the research work presents study and discussion of the data collected from the data collection process. Fifty (50) questionnaires were administered to some employees; however 45 responded questionnaires were obtained representing a 90% response.

In the set of questions that sought to explore the organizational culture of the organization in relation to risk management, the institution is realized to focus and offer a lot of commitment to the evolution, documentation and intelligence of risk management related ethics to guide the way things are run in an organization. This is a good vitality.

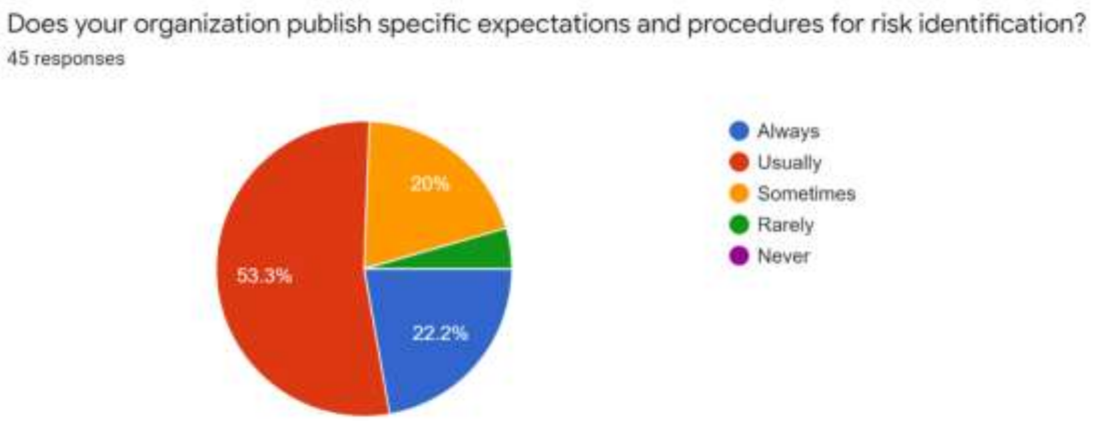
DEMOGRAPHIC INFORMATION OF THE RESPONDENTS:-



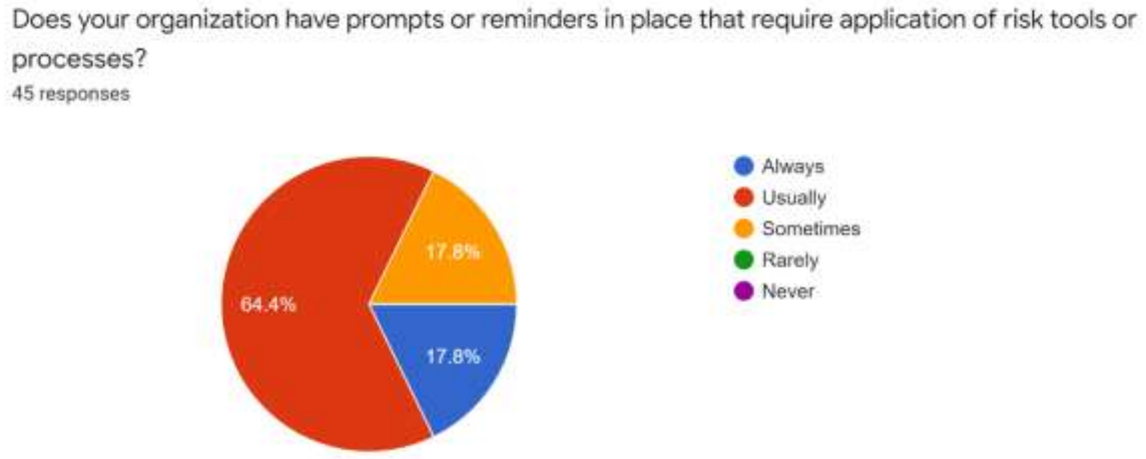
Interpretation: Out of 45 responses, 60% of the respondents agree that management fully considers risks in determining the best course of action whereas 2% of them disagree with the above statement.



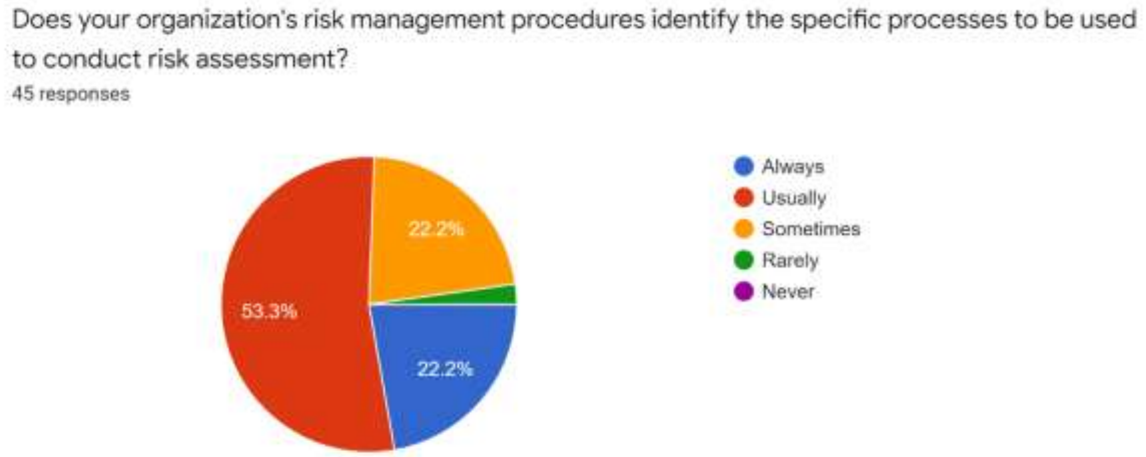
Interpretation:55.6% of the respondents agree that there is proper communication to the employees in their organization whereas 24.4% of them are neutral.



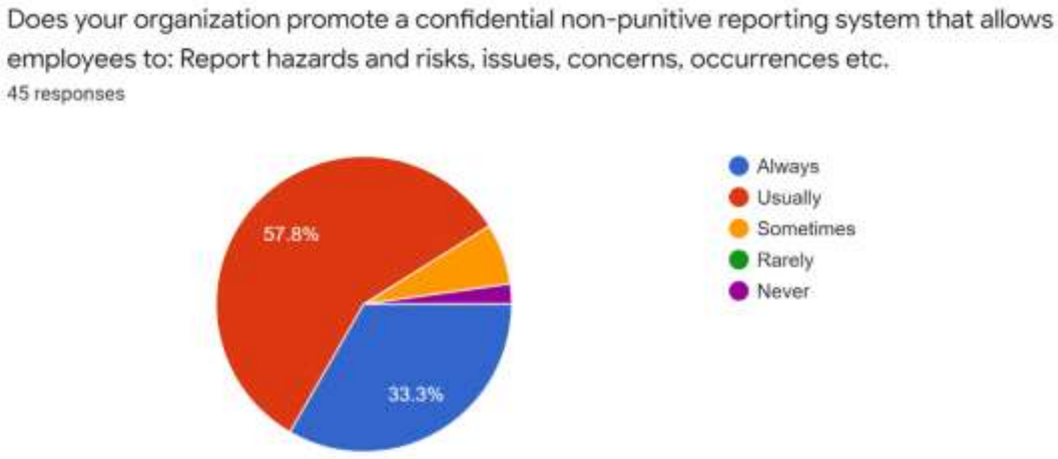
Interpretation: Here out of 45 respondents 53.3% of them feel that their organization publishes specific expectations for risk identification whereas 20% of them feel that sometimes their organization publishes specific expectation for risk identification.



Interpretation: 64.4% respondents feels that their organization usually have prompts or reminders in place that requires application of risk tools whereas 17.8% feels that sometimes their organization have reminders in place.



Interpretation: Here, 53.3% respondents feels that their organization's risk management procedure identify the specific process to be used in risk assessment whereas 2.3% respondents feel that their organization rarely identify the specific process to be used in risk assessment.



Interpretation: Out of 45 respondents, 57.8% of them feels that their organization usually promote a confidential non-punitive reporting system that allows employees to report hazard and risks, issues,concern etc while 2.2% of them feels that their organization never promotes confidential reporting system.

Conclusion:

The absence of a risk management approach is a huge risk element for any banking organization in the provision of its services. Certain common and frequently uncommon cause of risk must be identified earlier and documented by the bank. These must be taught to members to counsel them in the execution of their service. Risk management ethic must add member code of ethics and behavourial plan.

References:

1) Allayannis, G. and Weston J. P. 2001. “The Use of Foreign Currency Derivatives and Firm Market Value.” Review of Financial Studies
2) Ashby, S. and Diacon, S., (1996). 'The value of corporate risk management: empirical evidence'. Risk Decision and Policy
3) Basel Committee on Banking Supervision - Principles for the Management of Credit Risk-Consultative paper issued the on Issued for comment by 30 November 1999 Basel.
4) Bierstaker, J. and Wright, A., (2004). 'Does the adoption of a business risk audit approach change internal control documentation and testing practices.
5) Caldwell, F., (2008). 'Risk intelligence: applying KM to information risk management'.
6) Carey, A. (2001), “Effective risk management in financial institutions: the Turnbull approach”.
7) Collier, P. M., Berry, A. J. and Burkey, G. T. (2007), Risk and Management Accounting: BestPractice Guidelines for Enterprise-wide Internal Control Procedures, CIMA Publishing, London.
8) CIMA Official Terminology (2005), Chartered Institute of Management Accountants.
9) Demarzo, P. and Duffie, D., 1992. Corporate incentives for hedging and hedge accounting.
10) Saunders, M., et al. (2003). (3rd ed.) Research Methods for Business Students.