Internal audit's role as a coordinator of combined assurance implementation

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ABSTRACT: This research focuses on the role of internal audit as a coordinator in the combined assurance approach from the planning, implementation, and reporting points of view. This qualitative research study on SKK Migas Financial Reporting Assurance analyzes data from the literature and interviews to reach conclusions. The results of this study reveal that organizations can perform independent measurements for readiness-combined assurance implementation. Business processes which become the assurance objects must be mapped to the embedded risks. Coordination among assurance providers can be implemented using an assurance map. A combined assurance planning report states the role of each assurance provider and assists the auditee in performing resource planning for facilitating the assurance providers. The value added for the organization which implements combined assurance comes from reducing duplication and focusing internal audit activities on significant areas where assurance has not been performed. A thorough implementation of these activities reduces assurance gap and assurance fatigue.

1 INTRODUCTION

1.1 *Background*

Organizations through their will use their resources to achieve their objectives. By performing activities, companies have to manage related risks to an acceptable level (Kaplan and Mikes, 2012). To ensure that risks are properly managed and the organization can achieve their objectives, the management performs assurance process to monitor the process and implement good governance (Decaux, 2015).

There are many ways to treat risks. One of them is to mitigate the risks by performing controls. Control implementation by the management involves a risk owner, a risk manager, and assurance providers in the three lines of defense (Alijoyo, 2011). To implement the three lines of defense concept, the organization has to create the design, implementation and coordination (Daugherty and Anderson, 2012). The assurance process can occur in every line of defense. Each assurance provider has its own objectives and also reports the result to its stakeholders. This situation can create (1) assurance fatigue, due to the management being too focused on facilitating the assurance process in certain areas and (2) assurance gap, due to unclear and inefficient risk response and assurance (Sarens *et al.*, 2012).

To make the assurance process efficient and help the company achieve its objectives, the assurance process needs to be coordinated. Assurance coordination is the main concept of combined assurance (Decaux and Sarens, 2015). Coordinated assurance will reduce assurance redundancy and provide benefits such as: (1) effective and efficient assurance, (2) reduction of assurance gap and assurance fatigue (Daugherty and Anderson, 2012).

Good assurance quality in financial statements will reduce the likelihood of restatement due to material misstatement (Veronica and Bachtiar, 2005). From that statement, good assurance planning will create good assurance quality. Financial statement is important for management. It can be used as a governance process for the stakeholders. Generally, the assurance of financial statement will involve several assurance providers, either internal or external.

Research done by Decaux and Sarens (2015) reveal that combined assurance is one of many ways to improve an organization's governance process. In addition, Decaux (2015) states that combined assurance is a new phenomenon related to implementation and benefits.

Previous research reveal that: (1) an internal auditor is the most legitimate candidate to lead the combined assurance activities from facilitating, coordinating, and reporting (Decaux, 2015), (2) the implementation and coordination of combined assurance performed by an internal auditor will ensure the continuous improvement of the organization (Huibers, 2015), (3) combined assurance methods will provide benefits for the internal auditor in improving the effectiveness of activities and increase the role of internal audit in the organization's governance process (Decaux and Sarens, 2015). Based on previous research, there are still many unanswered questions about combined assurance, especially from the perspectives of the internal auditors as coordinators.

1.2 *Research questions*

1. Does the organization have the tools and ability to fully implement combined assurance?
2. Is there any sufficiency on the significant risk identification regarding financial statement process?
3. What are the forms of the assurance map that will describe relations between significant risks and the assurance providers involved?
4. What is the form of the combined assurance report plan that will be proposed to the audit committee?
5. What is the coordinator's role in the combined assurance implementation?

1.3 *Research goals*

1. Analyze the organization's ability to fully implement combined assurance.
2. Identify and analyze the significant risks related to financial statement process.
3. Create assurance maps based on the determined significant risks and assurance providers involved.
4. Create a combined assurance plan report.
5. State the roles to be performed by the combined assurance coordinator.

2 LITERATURE REVIEW AND RESEARCH METHODOLOGY

In theory, the Combined Assurance concept aims to help the board ensure that the key stakeholder needs are met in strategic direction and monitoring direction (Decaux, 2015). The monitoring roles of the board consist of assurance and risk management activities. These activities are performed by the risk management department and the internal audit department. The separation can cause redundancy in activities. Decaux (2015) confirms that there should be coordination between the risk management process and the internal audit process. Sarens *et al.*, (2012) describe this concept as Combined Assurance. Assurance providers coordinate on delivering the result to the board and reporting the assurance about the management of risks that impact the company's objectives.

The topic of this paper is the financial reporting assurance process at SKK Migas. SKK Migas is a special task force for upstream oil and gas activities in Indonesia. There are several reasons why the research was performed there.

First, SKK Migas is a public service agency; therefore, it has to prepare a financial statement based on the Indonesian Accounting Standards (IAS). Starting from the 2015 fiscal year, SKK Migas' budget has to be included in the Indonesian State Budget or *Anggaran Pendapatan dan Belanja Negara* (APBN), and so the financial statement needs to be prepared in accordance with the Indonesian Government Accounting Standards or *Standar Akuntansi Pemerintahan* (SAP). The management decided to continue preparing one financial statement based on the IAS in order to maintain the bookkeeping balance, and to prepare another financial statement based on the SAP to comply with the government rules.

Second, because the organization decided to prepare two kinds of financial statements, additional efforts will be required from the internal accounting department. In addition, the internal accounting department as the auditee has to facilitate several assurance providers internally and externally.

Third, from a risk management perspective, the risk register related to financial statement preparation has not been updated for several years, and the business process risks in preparing two kinds of financial statements have not been identified and measured.

The methods used in this research are descriptive qualitative. The purpose of using this approach is to gain understanding on the characteristics of a group and to create the systematic descriptive related to the research aspect. In the end, the method will help to make a simple decision (Sekaran and Bougie, 2013) and gain understanding from the interviewee's interpretation (Cooper and Schindler, 2014).

Our research is performed in four steps. The first step involves literature review from journals, books, and the organization's procedures to ensure that this research will be useful and that it has not been done before (Sekaran and Bougie, 2013).

The second step involves observation of the involved parties regarding the financial reporting assurance from both the auditor's and the auditee's perspective. The purpose is to reach a deep understanding which will lead to better analysis and interpretation.

The third step consists of a combination of a structured and unstructured interview. The purpose is to get a broad background and interviewee analysis.

The fourth and final step will involve analyzing the data gathered to interpret the literature about the impact and implementation within the research object (Shaiki, 2015).

3 RESULTS

3.1 *Measurement of readiness for the combined assurance implementation*

Decaux and Sarens (2015) use six components to measure the readiness of an organization for the combined assurance implementation: (1) establishment of a mature risk management framework, (2) awareness of combined assurance, (3) identification of the champion, (4) development of the assurance strategy, (5) creation of the assurance provider map of the assurance activities, and (6) reporting of the combined assurance findings.

Our finding is that the organization is ready to implement combined assurance but it lacks a formalized audit charter and support from the management.

3.2 *Identification of significant risks*

The identification of significant risks has revealed that risks related to the organization's financial statement are under confidence. The causes are: (1) risks aren't linked to the business processes, (2) risks haven't been updated since the changes of business processes related to the preparation of financial statement related to Indonesian Government Accounting Standards.

3.3 *Design of assurance map*

Currently, SKK Migas does not have an assurance map. Based on the assessment, there are several concerns.

First, based on EY (2013) the organization has a clear understanding of their risk policy and goals. In contrast, risk event, risk cascading and risk mapping with roles and responsibilities of the stakeholders need to be updated.

Second, based on the auditee's workload measurement, the activities for facilitating assurance providers can impact the normal working hours and there is a potential for assurance fatigue due to the pressure to maintain work fulfilment and facilitate multiple assurance providers.

Third, the auditee may be experiencing assurance gap, due to the fact that the assurance activities are still uncoordinated and narrow-sighted.

To prepare an assurance map, the organization has to assess based on PWC (2010) all of the assurance providers involved in the area and then place them into each line of defense.

Based on each identified significant risk, there will be an assignment of expected inherent risk rating and level of assurance extensiveness. The assurance map will be created based on significant risks and consist of the assurance objective which will be performed by each assurance provider throughout the line of defense.

3.4 Combined assurance plan report

The purposes of this report are to document all activities related to combined assurance implementation. This report helps the coordination among assurance providers, and facilitates resource preparation by the auditee. In addition, the report contains the schedule and frequency of the activities that will be performed by the assurance providers. Internal assurance providers cannot communicate directly with external assurance providers. By using this report the external assurance providers will be able to use the work already done by the internal assurance providers and thus reduce the assignment duration. The report can also be used as a communication tool in reporting the assurance activities to the audit committee.

3.5 Internal audit activity as an implementation coordinator of combined assurance

Combined assurance has to be coordinated by an internal auditor. The objective is to perform efficient and non-redundant assurance activities. A combined audit program links all the activities together. The successful implementation of combined assurance can also help reduce assurance fatigue by allowing auditee resources to be used by the assurance providers. To reduce assurance gap, joint usage of assurance report can be an efficient way to reduce the redundancy of assurance activities. Each assurance provider focuses on their strengths. To cover the remaining activities, the internal auditor will take care of the areas that have not been addressed by other assurance providers.

A summary of the combined assurance process from the resource identification, planning, implementation, and reporting point of view is represented in [Table 1](#):

Table 1. A summary of the combined assurance process.

Process	Activities	Objective
1. Identification	1.1 Identification of readiness to implement combined assurance	To measure the readiness of the organization to implement combined assurance
	1.2 Identification of ability to create an assurance map	To gather information about the resource availability in order to create an assurance map
2. Assessment	2.1 Initial identification of assurance fatigue	To measure the level of fatigue of the auditee
	2.2 Initial identification of assurance gap	To measure the magnitude of the current assurance gap of the auditee
	2.3 Assessment of the existing risk register	To measure the relevance of the existing risk register under the current conditions
	2.4 Measurement of the auditee's capacity to assist assurance providers	To form the basis of the resource availability for assisting assurance providers
	2.5 Assessment of all the assurance providers involved	To get the description of the reliability of assurance providers

(Continued)

Table 1. *Continued.*

Process	Activities	Objective
3. Implementation	2.6 Assessment of the control rating	To assess whether the control has effectively managed the risk. The result will be useful as the basis of the assurance objective and rating
	3.1 Updating the risk register	To align the significant risks to the organization's current business processes
	3.2 Mapping the assurance providers to the lines of defense	To map the assurance providers to existing lines of defense; forms the basis of the assurance map
	3.3 Defining assurance objective	To state the objective of the assurance process that will be done by assurance providers, focusing on reducing assurance gap
	3.4 Defining assurance rating	To state the level of assurance that will be performed by the assurance providers. This activity focuses on reducing assurance fatigue.
4. Reporting	4.1 Making a combined assurance report plan	To summarize the entire assessment implementation plans of the combined assurance. This document is used as a communication channel between the assurance providers and the audit committee.

4 CONCLUSION

The organization has the ability to implement combined assurance based on the Institute of Directors Southern Africa (2009). Several things that need to be encouraged within the organization are: (1) There should be a formal appointment from the management, ensuring that the internal audit department will be the coordinator of the implementation, (2) the implementation of combined assurance can also be performed on other areas by other departments. The concept is that some of the departments have to perform assurance for the stakeholders, so they also can coordinate with other assurance providers within the scope.

There should be regular updates for the identification and measurement of current risk register. The point is that the risk embedded to each business process has to be identified properly and accurately. This is an important thing for the assurance providers; since combined assurance planning will use a risk-based approach, failure to identify significant risks will cause the inefficiency of assurance resources.

The usage of assurance map will give clarity about the assurance providers' profile, their assignment to each line of defense, and state the reliability level of the assurance to be performed. The assurance map will also contribute to the preparation process, leading to the efficient usage of the assurance resources. In order to decrease the assurance gap, the assurance map also has to be attached to the coordinated audit or review program; as a result, the assurance will be performed effectively.

Documentation of the combined assurance on the report will give valuable information to both sides. For the assurance providers, documentation ensures that the assurance process covers all significant risks. Coordination prepared by internal assurance providers can help the external assurance providers plan the activities.

The benefits of the combined assurance process are:

1. Assurance planning reduces duplication and clarifies the assurance providers' positions and roles related to significant risks.
2. Assurance planning identifies and measures all risks related to the organization's objectives and communicates them to the risk management department.
3. Internal audit activities will be focused on significant areas where assurance has not been performed.

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