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Challenges in fortifying the Sustainability of Internal Audit and Risk Management through Ingenious Collaborative Alliance: The Case of Professional Bodies and in Organizations

Azharudin Ali, Wan Norhayati Wan Ahmad

Tunku Puteri Intan Safinaz School of Accountancy, Universiti Utara Malaysia

Abstract

This study aims to explore from an ingenuity perspective, the extent and challenges of a collaborative effort (rather than compete) experienced by internal audit function (IAF) and risk management function (RMF) in the organization and their professional bodies, in order to sustain and survive in a dynamic and changing business environment. Adopting a qualitative method that using thematic and descriptive analysis, the study presented the findings of the collaborative effort between IAF and RMF, involving two companies listed on the London Stock Exchange (LSE). For the professional bodies, it incorporates interviews with senior executives from the Chartered Institute of Internal Auditors (the CIIA) United Kingdom and Ireland, and the Institute of Risk Management (the IRM) United Kingdom. The key results of the study reveal that through collaboration, both functions and their professional bodies can mitigate the competition between them. Even though there are some flaws, this ingenious collaboration can assist them to leverage one another's resources and competence, more effective and efficient decision-making, improve an organization's overall RM capability and value, and strengthen their respective separate roles at the societal and organizational level.

Keywords: Internal audit, ingenuity, risk management, sustainability and collaboration

1. INTRODUCTION

Continual accounting scandals, series of the global banking and financial crises, and damaging failure of gigantic corporations were viewed as the reflection of ineffective governance, risk management, and control (GRC) processes. This has resulted in a very challenging business environment, a crisis of trust to the corporate leadership of modern eras and also numerous significant changes to the business legislation and governance mechanism. According to Stanton (2012) and Parsons et al. (2011), inadequate GRC processes in dealing with uncertainty and changing risks contribute to weak and ineffective corporate governance system. The need to effectively manage risks across the entire organization-wide has become acknowledged as an important part of good corporate governance practice. Consequently, there are calls from regulators as well as various stakeholders (investors, politicians, business organizations, mass media, broader public) that more attention should be given to ensure sound governance system and effective risk management (RM) practice and oversight are in place (the Institute of Internal Auditors (IIA) and the Risk & Insurance Management Society (RIMS), 2012). This has put organizations and its management team under growing pressure to explain about their RM practice, structure,

*Corresponding author.
E-mail: azharudin@uum.edu.my

framework, and policy, including how they identify, assess, prioritize, communicate and manage all the significant business risks confronted them (IIA-UK, 2015).

Effective RM has been recognized as a central role in maintaining a sound governance and control processes (IIA-UK, 2015). Even though the role of identifying and managing risks is the management responsibility, yet internal audit function (IAF) and risk management function (RMF) have been recognized and perceived as essential providers of assurance and consultation services to RM process in the organizations, which those significant risks have been well managed. Indeed, the fundamental lack of integrity and poor RM in our "Free Enterprise" system manifest a weak governance, which indicated that the boards and management have failed to manage risks successfully and failed to discharge their professional and statutory responsibilities. It has also raised questions as to the ability of the IAF and RMF to assist the boards and management to manage well the risks confronting their organizations. Accordingly, regulators throughout the globe, specifically through the updated of corporate governance codes and the introduction of various new acts (such as the Dodd-Frank Act, the Sarbanes-Oxley Act) have emphasized the increasing importance of having effective IAF and RMF (Woods, 2011). The effectiveness of both functions is crucial in integrating and supporting the boards, management, and others within the organization to ensure effective GRC processes. This is essential in driving the success of organization's enterprise-wide risk management system for achieving organization's business goals, sustainability, development, and expansion. So that, organizations can plan the best and appropriate strategies in order to accomplish their organization's objectives, which the significant risks and controls are identified, addressed and managed (KPMG, 2011).

As a cornerstone of internal governance mechanism, having a mature and effective IAF and RMF is essential to help strengthen organization's governance practice. In this respect, Gramling et al. (2004) viewed that more than ever, organizations are required to establish a sound and effective GRC processes in order to protect shareholders' rights and maintain stakeholders' trust and confidence. According to Zabihollah (1995), governance issues have stimulated organizations to place more emphasis on enterprise risk and internal governance function such as RMF and IAF. This had led to growing demand for improved internal audit (IA) and RM practice, not just from business entities but also from government and regulatory bodies. In this context, the focus needs to be placed on how organizations address the challenges of delivering effective corporate governance to drive and create value, improve profit and lead growth within the boundaries of acceptable organization's risk appetites. In such circumstances, both IAF and RMF should focus on providing assurance, insight and advice services by evaluating and improving the effectiveness of organization's GRC processes.

Since the last two decade, besides IAF plays a crucial role in helping audit committees, executives management, and external auditors to evaluate and improve organizations' RM operations and performance (Reding et al., 2009; Gramling et al., 2004); RMF also emerge as a key role player in providing RM related services to the organization's management. Having professional and competence internal auditors and risk officers will be vital to the long-term sustenance of the Free Enterprise system, as the reforming and restructuring of GRC processes and systems. Today, more than ever, directors, managers, internal auditors and risk officers face the challenge of identifying, managing and responding to risks that threaten their organization sustainability. In turn, to streamline with the new environment, systems, and processes that brought by the new regulations and fast technology, the IA and RM profession and function should review their status, role, competence, methodology, and position within the organizations. Thus, the IA and RM practitioners and professional bodies must change their role to meet the needs and demands of the current business environment. In order to sustain in the challenging and difficult time, both professions are competing with each other (including competing with other internal assurance providers) for attracting top management attention and trust. They are competing to survive and to maintain their position as a recognized profession, highly professional, and expertise to attract their customers' attention and eventually to be chosen as an RM service provider to help improve organization's governance process. Therefore, the ingenuity of IA and RM is crucial for both professions to succeed in the competition with another profession as well as rivalry between them in getting board, management and other key stakeholders attention and recognition to secure trust and become as a leading profession in protecting and create value to their customers. To survive in the global and competitive environment, there is no other choice for the internal auditors and risk officers than to seek for new opportunities; fully utilize experience and technology; and also be creative and innovative to find out-of-box and practical solutions to solve problems, overcome challenges and deliver value.

2. RESEARCH METHOD

This study adopted a case study approach to collect and analyse a qualitative data by inductively investigate the use of ingenuity practice by the IA and RM professions and IAF and RMF of the two companies studied. The case studies enabled multiple sources of data to be used for data collection including interviews, observations, archival

documents, reports and writing artefacts of the IA and RM discipline and practice. Further, the interview transcripts and documentary data collected through the case study was analysed by searching for themes and patterns across the data set. These allowed comprehensive findings to support the phenomena studied. Ingenuity is conceptualized as the ability to create innovative solutions within the structural constraints using limited resources and imaginative problem-solving. It provides the theoretical concept used in discussing and illustrating the strategies adopted by both professional bodies (such as the IIA and the IRM) at the societal level and two public listed companies of London Stock Exchange (BC Company and UKC Company) at the organizational level. We conclude with a discussion of research results highlighting the experience and challenges faced by the IA and RM professions and IAF and RMF in exercising the collaboration efforts. This collaboration is viewed as an important step to safeguard the IA and RM important position in the governance process (specifically to improve the quality, effectiveness and efficiency of RM processes in the organization) as described in “The Three Lines of Defence” model. Through this collaboration, both functions may retain and strengthen their respective separate roles within society and at the level of individual organizations, as the collaboration mitigates the “role” competition between them. This study explores how the ingenious strategies performed at the societal and organizational level mitigate the constraints faced by the IA and RM and assist in maturing RM practice, and hence its effectiveness. In order to survive and maintain relevance in the changing business environment, the study uncovers how ingenuity initiatives created by the IIA, the IRM and other parties at the societal level form the basis for changes to the IAF and RMF at the organizational level.

3. RESEARCH FINDINGS AND DISCUSSIONS

In effort to form and implement a sound, effective and mature RM practice, organizations need sufficient resources as well as professional and talented people with adequate and sufficient capabilities. Although the IAF and internal auditors have many years of tacit and explicit knowledge of risk (and control) and risks data in performing their work assignments, their involvement in RM only becomes prominent after the issuance of the RM standard (2002) by the IRM, The Association of Insurance and Risk Managers (AIRMIC) and The National Forum for Risk Management in the Public Sector (ALARM); The COSO Enterprise Risk Management-Integrated Framework (ERM) (2004); and Australia/New Zealand (AS/NZS) 4360, RM standard (2004). This is in line with the revised definition of IA released by the IIA in 1999, which covered both assurance and consulting services across the three interconnected areas of GRC (Sarens and De Beelde, 2006; the IIA, 1999).

The new definitions and International Professional Practice Frameworks (IPPF) of IA offered a formal role and opened a vast opportunity for IA to be involved in the RM process. According to the CIIA UK and Ireland, the core role of IA about ERM/RM is to provide objective assurance to the board on the effectiveness of organizations’ RM activities. The IA role in RM is essential to help the management of organizations (first line) and the RMF (second line), by providing independent and objective assurance whether crucial business risks are being managed appropriately and that the system of internal control is operating effectively (IIA UK and Ireland, 2004). On the other hand, according to the CIIA UK and Ireland (2004), several consulting roles that the IA function might also undertake are:

- a) being a champion for introducing ERM into the organization, leveraging its expertise in GRC and its overall knowledge of the organization;
- b) providing advice, facilitating workshops, coaching the organization on risk and control and promoting the development of a common language, framework and understanding;
- c) acting as the central point for managing, coordinating, monitoring and reporting on risks; and
- d) supporting managers as they work to identify the best way to mitigate a risk.

According to the Performance Standards 2120 Risk Management (IIA, 2012, p. 11), “IA activity must evaluate the effectiveness and contribute to the improvement of RM processes” in the organization. However, this depends on the capability and effectiveness of the IAF. In this context, the effectiveness of the RM process can be assessed by IA through checking whether organizational objectives support and align with the organization’s mission; significant risks are identified, measured and managed; appropriate risk responses are designated that align risks with the organization’s risk appetite; and relevant risk information is captured and communicated in a timely manner across the organization to enable staff, management and the board to carry out their responsibilities (IIA, 2012).

At the same time, uncertain business conditions and RM standards have stimulated the rise of an RM profession out of finance and insurance and into the broader corporate area. For example, since the release of RM standard (AIRMIC/ALARM and IRM, 2002) and COSO (COSO, 2004), there has been a global move towards what is termed an enterprise-wide approach to RM. The rise of the RM profession (through the rise of many RM professional bodies and risk professionals) has become a potential rival to the IA profession in providing RM

services to organizations. As a result, the IA profession is seen to be competing with RM profession and other professional at the societal level; and similarly, the IAF (or internal auditors) is competing with the RMF (and other specialists such as compliance officers, internal control specialists, quality inspectors, fraud investigators, and other risk and control professionals) to assist their organizations to manage risk at the organizational level (the IIA, 2013). Such rivalry could be interpreted as aiming to get boards of directors, management and other key stakeholders' attention and recognition as the leading RM service provider.

In addition to the battle for recognition and attention, these two professions are trapped in a clash of functions, roles and job specifications, especially on the clients' side. To effectively and efficiently discharge the RM role and to minimize redundancy and confusion, one of the solutions reached has been excellent and mutual collaboration between the two professions. This collaboration is an example of an ingenious solution for both professions to solve the constraints arising from the rivalry and a grey area of functionality. Also, the collaboration also provides: new opportunities; utilization of experience, resources and technology; and the motivation towards ingenious solutions in solving problems, overcome challenges and deliver value. Simply put, ingenuity through collaboration not only reduces the rivalry between the two but is also important for the survival and progress of the IA and RM professions in navigating the global and competitive business environment.

3.1 Alliance as an Ingenious Solution at the Societal Level

The IIA must overcome constraints related to status, clarity of role, authority, and rivalry or turf war with related RM professions (or RM professional bodies) to avoid potential confusion among stakeholders on the provision of risk services. How do stakeholders or organizations decide which professionals or functions are likely to most effectively discharge their role in RM as required by the regulatory requirement? One of the solutions is to forge mutual collaboration between the two professions. In this context, the CIIA Technical Coordinator highlighted that:

“To further supplement our resources we occasionally work with other professional bodies such as the Risk & Insurance Management Society, the Institute of Risk Management and Institute of Business Ethics to jointly produce materials on governance, risk management and control. This adds additional authority and relevance to the resources we deliver. We may also create working groups and committees where we invite experts to work with members to conduct surveys and produce case studies on a volunteer basis or where specific research is funded by a sponsor” (Technical Coordinator of the CIIA UK and Ireland – interview).

This collaboration is an example of an ingenious solution for both professions to solve the constraints arising from the rivalry and “grey area” of functionality. In addition, the collaboration also provides: new opportunities; utilization of experience, resources and technology; and the motivation towards creativity and innovation to find out-of-the-ordinary and practical solutions to solve problems, overcome challenges and deliver value. Simply put, ingenuity through collaboration not only reduces the rivalry between the two functions and professions but is also important for the survival, effectiveness and progress of the IA and RM professions in navigating the global and competitive business environment.

At the societal level, active promotion and calls for forging a collaborative alliance between the IA and RM disciplines have been championed by the IIA and the Risk Management Society (RIMS). According to these two bodies, the collaboration will make both professions more efficient than working separately. By having a common understanding of each other's roles and responsibilities, the partnership can lead to stronger risk practices to fulfil customers' and stakeholders' expectations. In the IIA and RIMS' joint report, it is stated that:

“The two functions make a powerful team when they collaborate and leverage one another's resources, skill sets and experiences to build risk capabilities within their organizations. The adage, ‘the sum is greater than the parts,’ certainly, applies. Moreover, it is clear that leading organizations have discovered efficiencies, better decision-making and improved results by forming strong alliances between the RMF and IAF” (the IIA and RIMS, p. 3, 2012).

Failure to work in each other's mutual interest could undermine the combined capabilities and lead to organizational silos, which could be disadvantageous to company performance. The main constraint resulting from the uncoordinated structure of the IAF and RMF is the confusion caused to clients and stakeholders in understanding the distinction between roles. Then, in their opinion, it seems that either one or the other is not necessary. To deal with this, the IIA issued a position paper in 2013 entitled, “The Three Lines of Defence” (see Chapter 2, page 46) that provides guidance and clearly specifies the roles and functions of the players by distinguishing three groups (or lines) involved in effective RM (IIA, 2013). The position paper emphasizes that

the RM process and practice in the organization will get stronger when there are three separate and identified lines of defence. This includes the functions that own and manage risks (first line – the operational management), functions that oversee risks (second line – RMF), and functions that provide independent assurance (third line – IAF). This IIA position paper stated that: “all three lines should exist in some form at every organization, regardless of size or complexity” (IIA, 2013).

Neither function is the owner of the RM process, where the operational management has ownership, responsibility and accountability for entirely assessing, controlling and managing risks. As the second line, the RMF acts as a specialist of risk and control functions that monitor and facilitate effective RM by the first line and makes sure that communication and risk information moves up and down the organization. Whereas, the IA function is the third line of defence that provides independent and objective assurance to the board on the effectiveness of the RM process and activities of the first two lines and supports the audit committee and board in challenging the management executives on risk matter (IIA, 2013).

In an effort to guide the IAF and internal auditors to protect their independence and objectivity, as well as to understand the “dos and don’ts”, the IIA produced an IIA position paper entitled “The Role of IA in ERM” (2003 and 2009). This is an innovative solution created by the IIA to indicate which roles and activities an effective professional IAF and internal auditors should and, equally importantly, should not undertake. In deciding which roles and activities to undertake, the key aspects that the IAF and internal auditors should take into account are whether the activity raises any threats to the IAF’s independence and objectivity, and whether the role or activity is likely to improve the organization’s GRC processes (IIA, 2009). This is crucial for the IAF and internal auditors in order to enhance their value to the organization by improving cooperation and efficiency among the lines of defence.

Considering the different origins and historical roles of both functions about RM, it is not surprising that there are some confusions and overlapping of roles in both functions in discharging their RM responsibility. Realizing that they are two principal actors (IA and RM) involved in “The Three Lines of Defence” model ineffective RM, the collaboration between the IIA and RIMS is one of the ingenious strategies that originated at the societal level by the professional bodies to solve the problem and optimize the potential of both functions. Therefore, a well-coordinated and sound collaboration between the two functions is the key element of a sound governance structure that appears to be crucial in avoiding confusion about the role, responsibility, independence and objectivity of the IA and RM discipline. According to the Technical Manager of the CIIA, UK and Ireland:

“If the organization has both functions, there might be a chance of confusion. ... When the IAF (the third line of defence) and RMF (second line of defence) are helping to implement RM in the organization, at the same time they both assure whether the process is working effectively or not.” (The Technical Manager of the CIIA, UK and Ireland – interview)

A clear distinction of the roles of the IAF and RMF ensures that there are no duplications or gaps in coverage. This ensures the maximum use of a common framework (a collaboration framework instead of many frameworks) and cooperation in the planning and execution of their roles in RM. In addition, the clarity of roles to be undertaken by different lines also ensures that all significant risks are identified and managed appropriately, thus reducing the ineffective use and waste of resources. This is in line with the recommendation made by the Technical Manager of the CIIA, UK and Ireland, where he states that when there are conflicts and confusions between the two, the IA function and practitioners must refer to the IIA standards and guidelines and, in particular, the position paper on the IA role in RM to understand the “dos and don’ts” of the IA role in RM. In addition, the IAF must state its role in the IA charter, as well as disclose its role pertaining RM to the audit committee and management.

A holistic approach and a sound collaborative alliance between IA and RM can potentially create synergies that can reduce: the prospect of duplicated efforts, rivalry for attracting top management recognition, costs, usage of different risk tools and language, assurance gaps and significant operating losses (FERMA/ ECIIA, 2014). Commenting on the collaboration between IA and RM, the Technical Manager of the CIIA of UK and Ireland stated that:

“The collaboration between IAF and RMF can raise the profile of RM in the organization and how well it works. However, managers should own and control risks. The IA should not provide RM services. The IA must work together and work closely with RM to ensure that RM is working properly. It depends on risk maturity and the effectiveness of an RBIA approach adopted by the IAF in order to provide value-added activity. IAF is all about assuring management and the board that RM and control are working well and are effective. The roles and responsibilities of the IA and RM are best served by being independent and objective from the

operations they assess and assurance they provide. Key to the success of both functions is to arrive at independence, good governance, proper lines of reporting and authority, suitable organizational placement and appropriate organizational access.” (The Technical Manager of the CIIA, UK and Ireland – interview)

On the other hand, a member of the RM profession stated:

“It is vital that the assurance functions be well coordinated. Regular meetings between CRO¹, CCO² and CAE³ are valuable – the same goal of activity for these assurance functions. At the end of the day, any organization is dependent on a well-managed 1st line” (Hans Erik F. Anderson, Board member of Gjensidige Group – Source: Federation of European Risk Management Associations (FERMA) / European Confederation of Institutes of Internal Auditing (ECIIA), 2014, Guidance for Boards and Audit & Risk Committees).

Based on the above two quotations, the extent and success of the coordination effort between IA and RM largely depend on the maturity of the RM practice in an organization and the independence and objectivity of both functions from the operation they review. The example of coordination efforts includes holding regular meetings between the heads of the three lines (CRO, CCO and CAE), having periodic meetings of the members of the IA, RM and executive management to share information, align top risks and discuss collaborative strategy, and inventing an integrated perspective of risk across the entire organization. In addition, appropriate consideration must be given as to how an organization forms and maintains their IAF and RMF (i.e. combined, split or outsourced) to determine the mode and extent of the collaboration.

However, relying on the “Three Lines of Defence” model alone cannot promise the success of the collaboration, as there are other contributing factors, such as organizational culture, other supporting functions, and top management commitment. The implementation of the three lines of defence model is still at the early stage, and many organizations are struggling to understand and to improve the implementation of the model. Thus, the effectiveness of the three lines of defence model is debatable if it cannot generate a comprehensive mapping of risks. There is no “absolute right” answer to this model issue. The IAF and internal auditors must understand the guidance on the IA role in RM and the other lines of defence. It is important to re-evaluate the maturity of their organization’s RM practice and framework, processes within their organization and the extent to which they deem they can add value to the RM process. The role and degree of the collaboration between the IAF and RMF within an organization may differ from one organization to another and, possibly, will vary over time.

3.2 Alliance as an Ingenious Solution at the Organizational Level

“In theory, IA and RM have the same objective, but in practice, they are competing for the attention of senior managers and time at board level, particularly if there is a joint Audit & Risk Committee”. (Technical Manager of the CIIA UK and Ireland – interview).

Having IAF and RMF separately without a clear distinction in their roles can cause the overlapping of tasks, redundancy, gaps, and ultimately competition between the two. Rather than being rivals, these two functions perform their tasks more effectively by coordinating and complementing each other.

“In more mature businesses, both RM and IA have a voice on the board, and their input is seen as complementary. In less mature organisations, IA is seen as more important because it is a corporate governance requirement, and RM is seen as an optional extra” (The London RM Interest Group Member, the IRM – interview).

Although there are some organizations that are already coordinating their IA and RM to help the management team to make the organization’s RM process effective, many are just starting to do so. To demonstrate how the collaborative ingenuity initiated at the societal level has been passed down and implemented at the organizational level, I shall now look at evidence from the two company case studies, BC and UKC. In the case of BC, the Director of IAF and ERM said:

“I see the two functions as complementary, and in my experience, our board gives appropriate time and attention to both functions. We are in the fortunate position where the contribution of both IAF and RMF are respected and valued by our board and the senior executive management team” (The Director of IAF and ERM, BC – interview).

¹ CRO – Chief Risk Officer

² CCO – Chief Compliance Officer

³ CAE – Chief Audit Executive

This finding is consistent with the view of the IRM member of the London RM Interest Group above, where RM and IA are viewed as complementary to each other. The quotation of the Director of IAF and ERM also indicates that BC's top management is very supportive of the collaboration process as they believe that there are potential benefits to it. A crucial factor in forging success and enhancing collaboration is that all parties involved in RM activities admit that they are stronger working together rather than competing with each other.

A similar view was shared by the Risk Development Leader of RM function of BC, where he commented on this issue as follow:

“The IA and RM are complementary disciplines, and in BC we work very closely. Both are highly respected functions, and as such do not have to compete for agenda time. The ultimate success of the RM is its ability to allow for better decisions to be made. In BC we see an increase in this, and as risk maturity increases so does the application of RM when making decisions.” (Risk Development Leader of RMF, BC – interview).

According to RIMS and IIA (2012), when RM and IA perceive themselves as complementary to each other, they will work more effectively to add more value to the organization's operations, and ultimately contribute to the achievement of organizational objectives. Their finding highlights the four important impacts of collaboration, which are to:

- Link the audit plan and the enterprise risk assessment, and share other work products. - This assures that critical risks are being identified effectively.
- Share available resources wherever and whenever possible. - This allows for efficient use of scarce resources, such as financial, staff and time.
- Cross-leverage each function's respective competencies and responsibilities. - This provides communication depth and consistency, especially at the board and management levels.
- Assess and monitor strategic risks. - This allows for more in-depth understanding and focused action on the most significant risks.

Consistent with their findings, this study also found similar effects of collaboration in the studied organizations, especially regarding resource sharing and the cross-leverage of competencies, roles and responsibilities. This is evidenced by the interview responses of BC and UKC staff (see Table 9.3, R6, R10 and R11). In addition, collaboration is also perceived to improve communication (R2) between the two functions and improve the RM system of the organization (R3). Perception R2 is in line with the IIA recently released position paper stating that “The Three Lines of Defence” model provides a simple and effective way to enhance communications on RM and control by clarifying roles and duties (the IIA, 2013).

The following quote by the Head of IAF of UKC supports the idea that the IA and RM are not competing functions:

“IA does not compete with the RM as each has its role. RM is part of the business operation, not just a reporting mechanism; hence we expect the RM to operate at various levels and throughout business decision-making. For example, when we decide on any capital expenditure the risks and rewards are both identified and assessed before we decide whether it is worthwhile to invest. This demonstrates how the RM works in the business” (The Head of IA function, UKC – interview).

In addition, the Chief Risk Adviser of the RMF at BC sees more potential for synergy rather than conflict as the IA and RM collaborate, where the IAF and RMF capabilities and RM talent are strengthening and improving among their members. The following is a list of a few examples of how both IAF and RMF in BC and UKC constantly collaborate, interact and communicate.

i) In the BC company

- The IAF uses the Group Risk function as a feed into their IA plan;
- The IAF reports on its assessments of how well controls operate against their key group risks;
- The Group Risk function and IAF have collaborated on work around integrating assurance provision around risks in the business;
- The Director of the IAF sits on BC's Group Risk Panel; and
- The Board of Audit and Risk Committee have oversight of both activities.

ii) In the UKC company

- The RM team and IAF are organizing regular meetings to discuss the key risks faced by their organization and the mitigation activities to manage those risks.

- The IA team reviews the key risk reports prepared by the RM team and any queries or suggestions from the IA team will then be sent to the RM team for consideration.
- The IA team assesses the RM process, RMF and reports at least on an annual basis on the adequacy of the RM process to the Audit Committee. The report of this assessment is also discussed with the RM team.
- The IAF is involved in the briefing and induction course when new members are introduced to the RM team to ensure that they fully understand their roles.

A key unanswered question, however, is whether or not a collaboration between RM and IA creates success and benefits an organization as a whole, especially in relation to the RM process? The answer depends on many factors, particularly, the level of management support, organizational culture, ethical values, willingness to cooperate and mitigate differences, as well as the type and degree of cooperation the functions have in actual practice. How the calls for collaboration are welcomed and appreciated by both functions and whether the collaboration can provide value as expected are refreshing and exciting areas to be studied. Table 1.1 illustrates some responses of respondents from both the IAF and RMF of BC and UKC regarding the existence of the collaborative effort in their organization.

Table 1.1. How RM and IA Collaborate

Respondent	Existence of the Collaborative Effort
R1	The cooperation exists at a senior level, but at an audit level, joint working varies
R2	Working with the same director means we cooperate. We have a high-level leadership team, which the heads of IAF and RMF attend
R3	Both functions are fully coordinated, with IA feeding directly into RM reporting, and RM is working with IA and the organization to address weaknesses identified
R4	Currently working well to embed RM in the organization, but need to retain the distinction to allow the IA to audit and report on the RM objectively. In addition, we have also provided in-house training together, such as joint RM workshops/control risk self-assessment sessions for business units
R8	There is some degree of collaboration, but the collaboration is limited, and it is more on procedural than valuable as a combined service
R10	RM and IA are very collaborative and work as a team in providing and improving risk management services to the organization
R11, R12 & R13	Three respondents agreed that their RM and IA cooperate well between one another to enhance RM effectiveness throughout the organization. However, there is no information on the nature, extent and type of collaboration they are involved in

Based on the 13 respondents (ten respondents from BC, of which five are IA staff [R1-R5], two RM staff [R9-R10] and three operational staff [R6-R8]; and another three from UKC, of which two are IA staff [R11-12] and one RM staff [R13]) who participated in the study, 62% of them agree that the RMF and IAF are positively cooperating with each other; and acknowledge that it happens in their organization. In their opinion, the collaboration has somewhat resulted in benefits to their organization. However, there is still much room for improvement in both functions. On the other hand, around 38% of the respondents were not clear that collaborative effort was taking place in the organization. Nevertheless, they believe that cooperation will still bring benefits to the organization.

From the respondents' feedback in Table 1.1, it can be seen that, in the eyes of some of the respondents (a minority), the cooperation between and integration of these two functions may exist but is unknown to the front line of the internal community. This collaboration is only known about by those who are involved in the process, but unclear to everyone else. This is particularly the case in BC which has large IA and RM functions, where, though the collaboration among top staff in both functions is perceived to be smooth and in excellent state, among the junior staff, there are signs of a little bit of confusion and ambiguity about the collaborative effort. In order to counter this constraint, a clear structure is necessary, and the collaboration information should be disseminated across the organization. Based on R1's statement in Table 1.1, I would suggest that regular coordination meetings should not always be restricted to the head and team leaders only, but sometimes should be held with all members. In addition, the good collaborative ties between the IAF and RMF in BC may be the result of the mature risk process that they have in place, as well the fact that both functions are headed by the same director. In the case of UKC, the good collaborative effort is quite understandable, owing to the small size of the IAF and RMF (only five people). To ensure the success of the collaborative effort of the IAF and RMF, it would be best if all necessary guides, recommendations and prerequisites for its successful implementation that are addressed in the IIA guideline and position paper about the role of each line of defence and the cooperation between the IA and RM discipline are complied with and fulfilled. However, every organization is unique, even in the same line of business activity. Guidance and best practice can serve merely as a benchmark to make a potential change and determine where we are compared to current practice. If something appears to be a better practice model than the current practising model, indubitably it is worth investigating, learning about and experimenting with, in order to

see if both functions are able to perform better. Respondents were asked for their views concerning the two functions working together, and their opinions are as follows, in Table 1.2.

Table 1.2. Respondents' Views on the Collaborative Effort

Respondents	Views Showing Strong Collaboration and Benefits from the Effort
R2	It has its pros and cons. Firstly, it does help with communication and, if issues arise, it is down to the director to deal with, which keeps it in-house. The problem I see is, we could potentially end up as an audit division, giving recommendations to the director of the IAF if we see problems with the ERM/RM processes
R3	It is vital for both functions to work together to improve the RM system in the organization
R4	Currently, the cooperation between RM and IA are working well to embed RM in the organization, but we need to retain the distinction to allow us to audit and report on the RMF objectively
R5	It would be positive for RM and IA to work together rigorously to help the board and management to effectively manage all significant risks faced by the organization
R6	It makes sense that they coordinate with one another to maximize use of resources and effectively provide RM services to the organization
R10	The two functions seem to be working well together with a clear division of roles
R11	The cooperation is vital as RMF and IAF are complements of each other
R12	It makes sense to improve understanding and avoid misunderstanding
R13	It is crucial, as this can be beneficial to the organization
Respondents	Views Showing Weak Collaboration
R1	I think it is important for both functions to work together, but at the moment, I am not clear how well embedded this joint working is
R7	They do not currently work closely together, but they are trying, as the RMF is new
R8	The collaboration is limited, and it is more on procedural than valuable as a combined service
R9	As long as people take care to manage any potential conflicts of interest, then fine

The findings show that the collaboration is clear to some people but vague to some others. However, the responses received show that the majority support collaboration between IA and RM and see that there is more value to working together than working alone and isolated. Some of the benefits of collaboration highlighted by respondents include improvement in communication, improvement in risk management practice, and the better allocation and use of resources. On the other hand, there is much room for improvement, primarily by making a clear distinction between the roles played by each line of defence, avoiding conflicts of interest (not impairing independence) and working by focusing on mutual interests rather than differences. Instead of competing to serve the organization, the forging of a collaborative effort between the IA and RM disciplines is an ingenious strategy. Professional bodies (at the societal level) and both RMF and IAF (at the organizational level) should strengthen the collaboration and explore ways to maximize the potential of both functions in increasing capabilities and effectively to resource their activities and services to the organization.

4. CONCLUSION

In the twenty-first-century business environment, the IA profession has broadened its roles to enhance its value to the organizations they serve, in order to maintain relevance and to survive as an independent assurance and consulting service provider. One of the main focus areas for IA to add value and drive improvements in the organizational operational is through greater involvement in RM. The core role of IA in RM/ERM is to provide independent and objective assurance (besides providing consulting services) to the board on the effectiveness of RM and to help management to ensure that the significant business risks are being managed appropriately. Therefore, the effectiveness of the IA role in RM is crucial for organizations striving to increase the RM maturity practice, improve the effectiveness of the RM process, and focus on a more holistic approach to RM. For making these initiatives successful, one of the innovative solutions created at the societal level is the forging of a collaborative alliance between the IA and RM disciplines. This collaboration effort is an ingenuity solution that aims to solve process constraints, such as unclear role divisions and rivalry issues between the IA and RM professions at the societal level, and between both IAF and RMF at the organizational level. At the societal level, for instance, the IIA and RIMS issued a joint report promoting a collaborative alliance between both disciplines to solve the rivalry problem. The report illustrates innovative examples of alliance activities as examples of best practice and includes case studies exemplifying both the successes and challenging stories of collaborative efforts. In addition, the IIA's "The Three Lines of Defence" model position paper (IIA, 2013) serves to illustrate innovation in confirming the complementary roles played by both internal audit and risk management functions in relation to the management of risks. These ideas are complemented by the IIA's guidelines about the "do's and don'ts" of the interaction between IA and RM in the "The Role of IA in ERM" position paper (IIA, 2003).

Pertaining to the collaborative alliance at the organizational level, the study reveals that the IAF and RMF of the two case study companies are adopting a collaborative alliance solution as an ingenious strategy to resolve both the resource constraints and confusion about their respective roles. The collaborative effort is seen by them as a way of improving the effectiveness and efficiency of both functions and is in line with the moves taken by the

professional bodies of IA and RM at the societal level. In general, the majority of the top management and staff of the IAF and RMF in both companies appear to understand and support the efforts to collaborate as a way of achieving mutual benefits and maximizing the company's potential performance.

There are, however, some weaknesses identified during the implementation of the collaboration effort. In the BC case, for example, lower level staff in the IAF and RMF did not seem to have a clear picture of how well the collaboration was working, as collaborative efforts seemed to be more focused on procedural matters rather than emphasizing the potential value of a combined service. Therefore, there is still much room for improvement as illustrated by the views expressed by R7, R8 and R9 in Table 1.1 and by acknowledging that the collaboration effort is still new, and might take time to mature into best practice.

The maturity level of RM practice, IA profile and the uniqueness of each line of defence (including the culture and uniqueness of each organization and industry) that is involved in RM activities are among the important factors that need appropriate consideration and to be taken into account before developing the collaborative strategy for an organization (IIA & RIMS, 2012). Both IAF and RMF need to be creative, innovative and using theoretical problem-solving approaches to create the collaborative alliance to help them strengthen their role in RM. This eventually will help the boards and management to improve risk culture in their organization and ensure that risks are being managed effectively. To achieve this, it is important for both IAF and RMF to have an effective strategy, a deep understanding of the risks and business environment, the ability to innovate and adapt, and the ability to collaborate and align strategy across the entire organisation.

In conclusion, collaboration is an ingenious way that could help improve the management of risks and present a case for IA as a value-added activity. The case for collaboration is supported at the societal level by the IIA in "The Role of IA in ERM" and "The Three Lines of Defence" model; and the RIMS and the IIA in their combined report on "RM and IA: Forging a Collaborative Alliance". At the corporate and empirical level, collaboration is confirmed and supported by the respondents of the case study companies. Additionally, the adoption of RBIA implies further collaboration and efforts to ensure the service provided is adding value. It is also clear that a key reason why both functions make efforts to collaborate and reduce rivalry is that a clear distinction of roles will help them to secure and strengthen their position at both organizational and societal levels. According to volume nine of Protiviti's "Internal Auditing Around the World" report (Protiviti, 2013), fostering collaborative cultures assists an organization in striving for more effective use of resources, fuels innovation, helps the organization to better understand its risks, and encourages staff to play their part in managing and mitigating significant risks. Put simply, by collaborating, the IAF and RMF are seeking to not only promote the interests of their organizations at a societal level but also their status at the organizational level.

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