

Business Risk Management Planning for Junior Auditor Positions in Public Accounting Firms

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Abstract

The role and position of public accountants such as auditors are criticized for doubting their professionalism and independence. This condition results in the potential become high risks in KAP, the risks also affect the author who serves as a Junior Auditor at Public Accounting Firm. In this case, the author plans business risk management in the work of the Junior Auditor position to minimize the risk of material errors in doing his work.

The research method uses the results of interviews and brainstorming, the results of which are used as events that become the object of research on potential risks that are likely to arise if these risks occur. The results of the event will form a risk register which will be an input in making Qualitative Risk Identification. The results of the study are 5 types of risk events and triggers that occur in Public Accountant, namely; complex transactions (high risk), uncooperative clients (medium risk), high audit schedule (medium risk), final approval audit report (medium risk), and business audit risk (medium risk).

Keywords:

Risk Management, Junior Auditor, Public Accounting Firm, Business Risk Management Planning

Introduction

Risk management is also characterized by uncertainty, and public accounting firms (KAP) are no exception since they must manage business risks. One of KAP's responsibilities in operating its business is to offer independent audit services of financial statements to businesses who require them. This is crucial for businesses that must have their financial accounts independently audited (such as those listed on the Indonesia Stock Exchange, or IDX) (Zulfa & Damayanti, 2018).

Due to concerns regarding their professionalism and degree of independence, public accountants' positions and roles, such as auditors', are frequently challenged (Sensi, 2006). This is due to the demise of businesses like Enron, which filed for bankruptcy as a result of KAP issuing opinions that were modified to not accurately reflect the Enron company's actual situation (Sensi, 2006). As in the case in Indonesia, Garuda was criticized because the public accounting firm that issued its audit report issued an opinion that was not in accordance with Garuda's high liability position and manipulated income (Christian & Junnestine, 2021).

In this condition, the potential risks faced by KAP become higher, the potential risks also affect the author who serves as a Junior Auditor at a Public Accounting Firm (Edi, E., & Tania, M. 2018). The author holds the position of Junior Auditor for approximately 6 months, with less experience and limited knowledge resulting in higher risks in work, because clients tend to be more confident in the audit results from the position of Senior Auditor or Manager Auditor (Santi Yopie, & Robin 2023). In this case, the author plans business risk management in the work of the Junior Auditor position to minimize the risk of material errors in doing his work.

Literature Review

1. Risk Management

Risk is uncertainty or the possibility of loss in a circumstance (Siswanti *et al.*, 2020). Risk is the effect of an uncertain objective, every type of organization facing challenging political, economic, and cultural challenges that make the organization's operating environment uncertain (Rahman *et al.*, 2021). Even the simplest business decisions involve some risk. Since every project involves some measure of risk, it is the project success criteria that often serve as determining factors of which risks are worth taking and which risks are not. Consider, for example, the decision to drive or fly on a business trip. If cost is the criterion of success, then risk determination is simple: compare the cost of flying and driving (compounded by potential inflation factors) (Pritchard, 2014).

2. Risk Identification

Risk identification is the first stage of risk management. It develops the basis for the next steps: risk management analysis and control. Correct risk identification ensures the effectiveness of risk management. If the risk manager does not succeed in identifying all possible losses or gains that challenge the organization, then these unidentified risks will become unmanageable (Lubka, 2015).

According to Redwood, in the Certificate in Risk Management module, there are 7 (seven) ways to identify risk, namely; brainstorming, Delphi technique, interviewing, root cause identification, SWOT analysis, assumption analysis, diagramming techniques.

- a. Brainstorming: brainstorming is a group creativity technique in which an attempt is made to find a conclusion to a particular problem by collecting a list of ideas spontaneously contributed by its members. The term was popularized by Alex Faickney Osborn in the 1953 book *Applied Imagination*.
- b. Delphi technique: a systematic forecasting method that involves structured interaction among a group of experts about a subject. The Delphi technique usually includes at least two rounds of experts answering questions and providing justification for their answers, providing an opportunity between rounds for change and revision.
- c. Interview: An interview is a conversation where questions are asked and answers are given. In common parlance, the word "interview" refers to a one-on-one conversation with one person acting in the role of the interviewer and the other in the role of the interviewee. The interviewer asks questions, the interviewee responds, with participants taking turns speaking. Interviews usually involve the transfer of information from the interviewee to the interviewer, which is usually the main purpose of the interview, although the transfer of information can occur in both directions simultaneously. One can compare interviews involving two-way communication to a one-way flow of information, such as speeches or orations.
- d. Root cause identification (RCA): a systematic process for identifying the "root cause" of a problem or event and approaches to responding to it. RCA is based on the basic idea that effective management requires more than just "putting out fires" for growing problems, but finding ways to prevent them.
- e. SWOT analysis: SWOT analysis (or SWOT matrix) is an acronym for strengths, weaknesses, opportunities, and threats and is a structured planning method that evaluates all four elements of a project or business venture. SWOT analysis can be performed for a product, place, industry, or person. It involves determining the objectives of a business venture or project and identifying favorable and unfavorable internal and external factors to achieve that goal.
- f. Assumption analysis: Assumption analysis explores the validity of assumptions identified and documented during the project planning process. They are used to identify further risks by primarily testing against two factors: the validity or strength of the assumption and the consequences on the project if the assumption turns out to be false. All assumptions found to be false should be categorized as risk and follow a risk management process

g. Diagramming techniques: Diagramming techniques are tools used for graphical analysis during various stages of the project life cycle. The choice of diagramming technique to use depends on the particular situation or need. Some of the more common diagramming techniques are arrow chart method and priority diagram method (used in schedule network analysis), flow chart and fishbone diagram (used in decision analysis) and more.

3. Risk Register

A risk register is a document detailing all risks identified within an organisation at either corporate or programme level. For each risk, the risk register includes at least a description, causes, likelihood or probability of occurrence, effects on objectives, proposed responses, costs to reduce, remaining exposure, owners, and current status (Har *et al.*, 2017).

Risk registers also allow organisations at the company and programme level to identify types of risk, assess the consequences (effects) and probabilities (probability) of risk, and provide guidance on preparing risk statements. Organizations can modify tools for their specific needs. Further, the risk register tool allows organizations to generate heat maps showing the results of risk response (treatment) strategies to support decision making (Har *et al.*, 2017).

Risk registers can help organizations to find threats and risks based on experience that has been passed, by predicting whether these risks will repeat themselves in future projects (Rahman *et al.*, 2021).

According to Redwood, in the Certificate in Risk Management module, the list of risks includes the date, type of risk, description, probability, impact, counter measures, owner, and status.

4. Risk Event and Risk Trigger

According to Redwood in the Certificate in Risk Management, risk management, and risk trigger module are:

- a. Event risk is the risk of negative impact on a company's financial position as a result of unforeseen events such as natural disasters, industrial accidents or hostile takeovers
- b. An event can be a single occurrence, multiple occurrences, or even a non-occurrence (when something doesn't happen that should happen). It can also be a change of circumstances. Events are sometimes referred to as incidents or accidents.
- c. Events always have a cause and usually have consequences. Events without consequences are sometimes referred to as near-misses, near-hits, or close-calls.
- d. Consequences are the result of an event and have an effect on goals. A single event can produce various consequences that can have both positive and negative effects on goals. Early consequences can also increase through knock-on effects.
- e. Trigger is a symptom or warning sign that indicates that a risk event has occurred or is about to occur.

5. Risk Breakdown Structure (RBS)

There are several advantages of integrated RBS. First, the level of risk of a particular company is easy to identify. Second, the most dangerous types of job titles can be identified. Third, decision makers can use this system for risk management (Jeong & Jeong, 2021).

RBS helps project teams consider various sources of individual project risks that may arise. This can be useful when identifying risks or when categorizing identified risks. The organization may have a generic RBS that will be used for all projects, or there may be multiple RBS frameworks for different types of projects, or the project may develop a customized RBS. If RBS is not used, an organization can use a custom risk categorization framework, which can take the form of a simple category list or structure based on project objectives (PMBOK Guide Sixth Edition, 2017).

6. Risk Analysis

- a. Qualitative Risk Analysis

According to PMBOK Guide Sixth Edition (2017), Perform Qualitative Risk Analysis is the process of prioritizing individual project risks for further analysis or action by assessing the probability of occurrence and their impact as well as other characteristics. A key benefit of this process is that it focuses efforts on high-priority risks. Qualitative risk analysis prioritizes project risks identified using a predetermined scale. Risk will be assessed based on the probability or likelihood of occurrence and its impact on project objectives if they occur, figures 1 and 2 are examples of scales used for qualitative risk analysis methods (Vargas, 2013).

Level		Score	For Threats
High	Very High	5	Red
	High	4	
Medium	Medium	3	Yellow
	Low	2	
Low	Very Low	1	Green

Figure 1. Skala Qualitative Risk Analysis

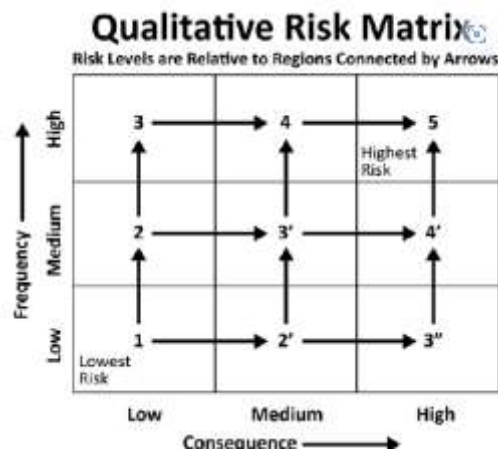


Figure 2. Matrix Qualitative Risk Analysis

b. Quantitative Risk Analysis

According to PMBOK Guide Sixth Edition (2017), Perform Quantitative Risk Analysis is the process of numerically analyzing the combined effect of identified individual project risks and other sources of uncertainty on overall project objectives. A key benefit of this process is that it measures the overall risk exposure of the project, and it can also provide additional quantitative risk information to support risk response planning. This process is not required for every project, but where it is used, it is performed across project diagrams for processes.

Research Methods

Research methodology using a descriptive contextual approach in the field of work of Junior Auditors. The descriptive contextual approach is an approach that is used to be real in the writer's current work environment (Siti-Nabiha, A.K. and Jurnal, T. 2020). The data needed for the interview is a question to colleagues in KAP who are Junior Auditors and Senior Auditors. Next, the results of interviews with each of these personnel, the author and the author's colleagues brainstormed, to discuss problems or obstacles that are often experienced by the author and

colleagues. The purpose of brainstorming is to conclude the solution of the problem, in order to minimize the risk of these obstacles.

The results of the interview and brainstorming are used as events that become the object of research on potential risks that are likely to have an impact that will occur if these risks occur. The results of the event will form a risk register that will be an input in making Qualitative Risk Identification.

Results and Discussion

1. Risk Matrix

Table 1. Risk Probability

Risk Probability					
	Very Low	Low	Medium	High	Very High
	1	2	3	4	5
Probability of occurrence of risk	1%-20%	21%-30%	31%-60%	61%-80%	81%-100%

Source: Data, 2023

Table 2. Risk Impact

Impact Risiko					
Aspect	Very Low	Low	Middle	High	Very High
	1	2	3	4	5
The scope of transactions are complex	Very few transactions (less than 3%)	Few transactions (3-7%)	Medium transactions (8-16%)	Multiple transactions (17-25%)	Very many transactions (more than 25%)
Client acceptance of adjustment is low	Client very cooperative (Less than 3%)	Client cooperative (3-7%)	Client are moderately cooperative (8-16%)	Client are not very cooperative (17-25%)	Uncooperative client (more than 25%)
Audit schedule does not operate accordingly	Very few audit schedules (less than 3%)	Low audit schedule (3-7%)	Medium audit schedule (8-16%)	Audit schedule is numerous (17-25%)	The audit schedule is huge (more than 25%)

Impact Risiko					
Aspect	Very Low	Low	Middle	High	Very High
	1	2	3	4	5
Final Approval Report	Final approval report very fast (less than 3%)	Final approval report fast (3-7%)	The final approval report is pretty fast (8-16%)	Long approval final audit report (17-25%)	Very long approval final audit report (more than 25%)
Business Audit Risk	Very small business risk (less than 3%)	Small business risks (3-7%)	Moderate business risk (8-16%)	Big business risks (17-25%)	The business risk is huge (more than 25%)

Source: Data, 2023

Table 1 shows the level of risk probability. Category 1 (one) is very low, the probability of risk occurs is 1% to 20%. Category 2 (two) is low, the probability of risk occurs is 21% to 30%. Category 3 (three) medium,

the probability of risk occurs is 31% to 60%. Category 4 (four) is high, the probability of risk occurs is 61% to 80%. Category 5 (five) is very high, the probability of risk occurs is 81% to 100%.

Table 2 shows the impact of complex transactions, uncooperative clients, hectic audit schedules, final approval audit reports, and business audit risks. These aspects are determined to be category 1 (very low), category 2 (low), category 3 (medium), category 4 (high), and category 5 (very high).

2. Risk Register

Table 3. Risk Register Public Accounting Firm

No	Risk Type	Description	Probability	Impact	Counter Measures	Owner	Status
1	High	The scope of transactions are complex	Medium	Overtime	Extended audit duration	Auditor	High
2	High	Client uncooperative	Low	Audit delay	Further explanation	Auditor	Medium
3	Medium	Audit schedule does not operate accordingly	Medium	Overtime	Planning better schedule	Auditor	Medium
4	Medium	Final Approval Report	Low	Audit delay	Extended audit duration	Auditor	High
5	High	Business Risk Auditor	Low	Litigation	Provide appropriate audit result	Partner	Medium

Source: Data, 2023

Table 3 shows that the first risk register is a complex transaction, with a high risk type, a medium probability. The impact imposed is that if the transaction is complex, it will take a lot of time, the risk solution is an extended audit duration. The second is an uncooperative client, with a high risk type but a low probability. The impact imposed is that the results of the audit report are not appropriate and unreliable because the client does not receive adjustments in the client's financial statements, the solution to these risks is, further explanation accompanied by supporting evidence so that the client accepts the adjustment.

Third is a busy audit schedule with moderate risk types and has a moderate probability as well. The impact imposed is tight time, the solution is to plan a good schedule so that the audit schedule runs smoothly. The fourth is the final approval report with a medium risk type with a medium probability as well. The impact imposed is tight time, the solution is extended audit duration. Fifth is the auditor's business risk with a high risk type with a low probability. This auditor's business risk is a risk where users of audit reports feel disadvantaged because the credibility of the audit report issued is not in accordance with the circumstances of the company being audited, so the risk is high because it can be sued. But in KAP it never happens, so the probability is low. The solution is to provide audit report results that are in accordance with the actual state of the company.

3. Risk Event and Trigger

Table 4 describes the risk events and triggers of the risk register in table 3. First, the scope of client transactions is very complex due to the client's large business (example Tbk), so the impact of auditors must be overtime. Second, the client does not accept the transaction adjustment because the client does not understand or disagree with the adjustment, so the impact of the audit report issued will experience obstacles due to the discussion of the adjustment. Third, the audit schedule did not operate smoothly, resulting in overtime impact. Fourth, the approval of the Partner's long opinion due to the slow audit process due to the

audit schedule is not smooth, resulting in audit delays. Fifth, there are claims in court by parties who feel aggrieved so that they cause lawsuits or the image of KAP to be bad.

Table 4. Risk Event and Trigger Public Accounting Firm

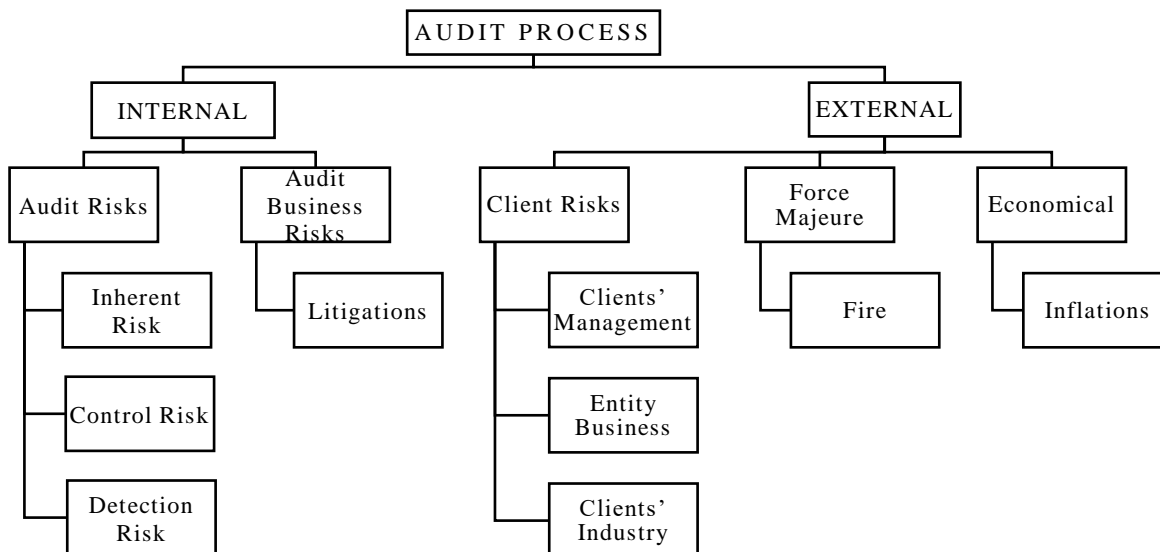
No	Risk Event	Prob (%)	Trigger	Impact	Possible Responses	
					Strategy	Response Plan
1	The scope of transactions are complex	65	Large client's business	Overtime	Mitigate	Working efficiently and effectively
2	Client acceptance of adjustment is low	55	Client don't approve adjustment	Audit delay	Acceptance Risk	Disclosure the passed adjustment in worksheet and reporting if material
3	Audit schedule does not operate accordingly	25	Poor audit schedule	Overtime	Avoid	Provide a good audit schedule
4	Long approval from partner opinion's	20	Poor audit schedule	Audit delay	Mitigate	Provide a final audit reports efficiently and effectively
5	There are claims in court by parties who feel aggrieved because of the use of auditor services	1	Unsuitable opinion	Litigation or bad image	Avoid	Provide appropriate audit's opinion

Source: Data, 2023

4. Risk Response

The response of each risk is the first mitigate, the plan is to work more effectively and efficiently. The second is acceptance risk, the plan is disclosure of adjustments authorized in worksheets and reporting if material. Third is avoid, the plan is to draw up a good audit schedule. The fourth is mitigate, the plan is to

provide the final audit report



efficiently and effectively. Fifth is avoid, the plan is to provide the final audit report efficiently and effectively with the state of the company being audited.

5. Risk Breakdown Structure (RBS)

Figure 3. Risk Breakdown Structure

6. Risk Analysis

Table 5. Risk Matrix

		<i>Impact</i>				
		Business risk auditor	Final approval report	Busy audit schedule	Uncooperative clients	Complex transactions
Likelihood	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5

Source: Data, 2023

Table 6. Result of Risk Matrix

ID Risiko	Risiko	Probability (1-5)	Impact (1-5)	P X I	Status
R.I.1	Complex transactions	5	4	20	Treatment
R.I.2	The client is not uncooperative	4	3	12	Accepted
R.I.3	Busy audit schedule	4	3	12	Accepted
R.I.4	Final Approval Report	3	2	6	Accepted (under certain conditions)
R.I.5	Business risk auditor	1	5	5	Accepted

		<i>Impact</i>				
		Business risk auditor	Final approval report	Busy audit schedule	The client is not uncooperative	Complex transactions
Likelihood	5	R.I.5				
	4			R.I.3		R.I.1
	3		R.I.4		R.I.2	
	2					

	1					
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Source: Data, 2023

Table 5 shows a matrix of such risk calculations. Table 6 shows the results of the risk register with its matrix calculation. The result is a complex transaction with a matrix calculation result of number 20 meaning that it is in the red category so that it is included in the high risk category, while the client is uncooperative with a matrix calculation of number 12, a solid audit schedule with a matrix calculation of number 12, final approval audit report with a matrix calculation of number 6, and risiko business audit with a matrix calculation of number 5, Which means that the risk is in the yellow category so that it is included in the medium risk category.

7. Risk Treatment

Treatment Plan

At this stage, a treatment plan is carried out consisting of a mitigation plan, emergency contingency plan, and process continuity & recovery plan.

Table 7. Treatment Plan

(Kode – Level) Risk	:	(RI.I – High) Complex Corporate Transactions
Mitigation Plan	:	Work more effectively and efficiently
Contingency Plan (emergency)	:	Ask for help processing data to seniors
Contingency Plan (process continuity & recovery)	:	Analyze faster against complex corporate transactions

Source: Data, 2023

Conclusions

Risk events experienced by the position of author and co-author that occur in KAP are complex transactions (high risk), uncooperative clients (medium risk), solid audit schedules (medium risk), final approval audit report (medium risk), and business audit risk (medium risk). Each of these risk triggers is a large client business, the client does not receive transaction adjustments, heavy audit schedules, opinions do not match the actual situation. The response given is to work effectively and efficiently, disclose the adjustments authorized in the worksheet and report if material, prepare a good audit schedule, provide the final audit report efficiently and effectively, and provide appropriate audit opinions.

Suggestions and recommendations, complex transactions are handled responsively, such as faster and more precise transaction analysis. Uncooperative clients, provide sufficient evidence so that clients cannot object to adjustments in the financial statements. A busy audit schedule and a long final approval report are recommended to manage a better schedule. Audit business risks cannot be avoided, so in conducting the audit process must be more thorough and thorough, and the lastly, risk management is very useful for improving performance, innovation, and achieving company goals. The framework of risk management is leadership and commitment. In the research of Yuwono et al. (2023), authentic leadership will affect transparent organizational communication and employee trust, which is useful for organizational goals.

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