

## Design and Application of Risk Management in Public Accounting Firm (KAP)

**Veronica<sup>1</sup>, Wisnu Yuwono<sup>2</sup>**

2244007.veronica@uib.edu

Master of Management, Universitas Internasional Batam, Batam, Indonesia

### Abstract

This study aims to design and implement risk management in Public Accounting Firms (KAP). This research combines field research and literature research. This research uses a qualitative approach and utilizes descriptive data from interviews and brainstorming to obtain field data. Literature research uses literature studies and previous research. The process of designing and implementing risk management starts from risk identification, risk analysis, risk evaluation, and risk treatment. The results of risk identification show that KAP has several risks that can result in complaints from clients, audit delays, wrong opinions, and financial losses. Risk analysis shows that 3 events are at the medium priority level and 2 events are at the low priority level. A risk evaluation was conducted and showed that 5 risk events actually at medium priority. Finally, risk response analysis shows that risks can be mitigated by mitigation and avoidance. Researchers recommend KAP and similar companies to consistently apply risk management in the audit process so that companies can reduce the adverse effects of risks or take advantage of risks in a direction that benefits the company.

### Keywords:

Risk, Management, Public Accountant, Audit, Analysis

### Introduction

Public accounting firms (KAP) are one of the entities that are not free from risk. Public accountants (auditors) have the duty and responsibility to ensure that the financial statements presented by the company (client) are free from material misstatements and misappropriations that can be fatal. If the public accountant is wrong in giving an appropriate opinion because the financial statements contain material misstatements, the public accountant can be sued in court. Court demands can cause public accountants to receive sanctions from the authorities and social penalties in the form of accusations that can degrade the reputation of public accountants (Ludovicus Sensi, 2006). This threatens the continuity of KAP's business. Therefore, risk management is important to be carried out in KAP to minimize or avoid events that can cause material misstatements in the client's audited financial statements.

Based on ISO 31000 (2018), risk management should be an integral part of the management and decision-making process within an entity. Risk management is important so that entities can avoid or reduce the adverse effects of risk. ISO 31000 (2018) consists of principles, frame work and process. Leadership and commitment is the framework of risk management that regulates structured systems. Authentic leadership will influence transparent communication in the organization (Yuwono et al., 2023). The impact of this leadership will greatly affect the integration in the design, implementation, evaluation, and improvement of organizational performance.

The application of risk management in the audit process can also provide added value to the KAP business, which is a service company. Punctuality is one of the added values in the service business. The implementation of risk management can improve the efficiency of the audit process, thereby reducing the risk of delays. Good service can increase the reputation and value of the company (Cristiano, A., & Yopie, S. 2021; Karina, 2021). A good

company reputation and value can maintain the continuity of the KAP business and reduce the risk of the KAP business.

Based on the description described above, researchers are interested in designing and implementing risk management in the KAP audit process. In addition, research on the process of designing and implementing risk management in public accounting firms has not been widely conducted (Edi, E., & Wati, E. 2022; ). Thus, this research needs to be carried out to contribute to the world of research on how to design and apply risk management in KAP.

## Literature Review

Risk is an uncertain situation and there are consequences that can occur due to ongoing processes and future events (Ramadhan et al., 2020). Risk management is an application to identify, measure, and handle the cause and effect of uncertainty (Silvia et al., 2022). According to Santoso et al. (2021), the process of implementing risk management can generally go through four stages, namely risk identification, risk assessment, risk response plan, risk evaluation and control.

### Risk Identification (Risk Register)

Risk register is a risk planning and management document to meet regulatory compliance (Nurlaela Wati & Mukti Soma, 2021). The risk register can include additional information such as the responsible party, risk event, risk trigger, risk assessment, and others. Risk register is one of the stages of risk identification.

### Risk Breakdown Structure (RBS)

According to Kusuma & Muttaqin (2021), Risk Breakdown Structure (RBS) is a hierarchically identified picture of risks arranged based on risk categories and subcategories of potential risks. The risk category starts from level 0 as a risky program. Risk programs are then further divided into specific sub-risks.

### Risk Analysis

Risk analysis is an activity to determine the level of frequency/possibility of risk occurrence and the level of impact on the goals to be achieved. Risk priority can be determined after determining the level of probability and impact. According to Pramesti et al. (2022), risk prioritization can use probability and impact multiplication.

### Risk Evaluation

The risk evaluation stage is carried out to determine risk management by comparing the level of risk found during the analysis process with predetermined risk standards (Grialdo Willy Lantang et al., 2019).

### Risk Treatment (Risk Response)

According to Rahman et al. (2021), risk response design is the process of selecting existing strategies to deal with overall risks and deal with risks individually. Positive and negative risks have different response strategies. There are five negative risk response strategies, namely escalate, avoid, transfer, mitigate, and accept.

Escalate is chosen to be a risk response if the team agrees that the threat occurs beyond the authority of the team manager. Avoid is done if the team wants to avoid risks that have a large impact and probability (Sipayung & Ardiani, 2022). Transfer is the transfer of risk to a third party to manage and assume risk. Mitigation is a measure to reduce the impact and probability of risk. Accept risk if the known risk has a low-risk priority.

A positive risk response strategy consists of escalate, exploit, share, enhance, and accept (Milyardi, 2020). Escalate to a positive response if the team agrees that the opportunity is beyond the authority of the team manager. Exploit is carried out if the risk that has a positive impact has a high-risk priority. Sharing the impact of positive risks is carried out to third parties to benefit from risks (Jurnali, T., & Supomo, B. 2002). Enhance is the act of increasing the probability of positive risk occurring. Accept is done without proactive action from the team because positive risks have a low-risk priority.

## Research Methods

Researchers use a qualitative approach in the data collection process. The object in this study is members of the audit team. The author utilizes descriptive data collected through interviews and brainstorming results with audit

team members on March 2, 2023 and leader. Researchers combine field research with literature research to produce this research. The literature study uses previous research and pre-existing theories.

This study aims to design and implement risk management in the audit process. The process of designing and implementing risk management starts from risk identification, risk analysis, evaluation, and risk treatment of identified risks (Putri et al., 2023). Risk identification is done by finding, recognizing, and describing risks. Then, the risk is analyzed based on the severity of the consequences and the likelihood that the risk will occur. The implementation of risk management is controlled during the audit process and evaluated after the audit process is completed. Finally, risks that have been identified and assessed are responded to overcome risks.

## Results and Discussion

### Risk Identification

At the risk identification stage, the team discusses the consequences to be avoided in the audit process. These consequences include complaints from clients, audit delays, incorrect audit opinions, and financial losses. Then, the team agreed on a probability measurement measured by how much risk is likely to occur in 1 year as the initial stage of implementing risk management in the team audit process. Team members have the following identities.

**Table 1. Team Members Identity**

Position	Work Experience	Education Level
Manajer	10 years	S3
Senior	5 years	S2
Junior	2 years	S1

Based on the results of interviews and brainstorming with team members, we got 5 (five) risk events:

**Table 2. Risk Register**

ID	Risk Event	Responsibility
A	Auditors lose client data or audit evidence	Member
B	Auditors are late in completing audited financial statements	Member
C	The client is late in providing data	Member
D	The Client did not provide or incorrectly provided data	Member
E	The auditor incorrectly determines the risk of the new client	Member

The grouping of risks in the hierarchical composition of the audit process is divided into 2, namely internal factors and external factors. Internal audit factors include the audit team. Elements that concern the team consist of performance, time management, productivity, and auditor competence. These four elements are important so that the audit process runs smoothly.

External audit factors include economic, legal, client, and force majeure factors. Economic factors consist of currency fluctuations, inflation, and regulation. Factors of legal uncertainty are government regulations and tax laws. The factors mentioned can affect the audited financial statements. Client factors such as uncooperative client behavior, poor client internal controls and other factors such as weather can hinder the smooth performance of the audit.

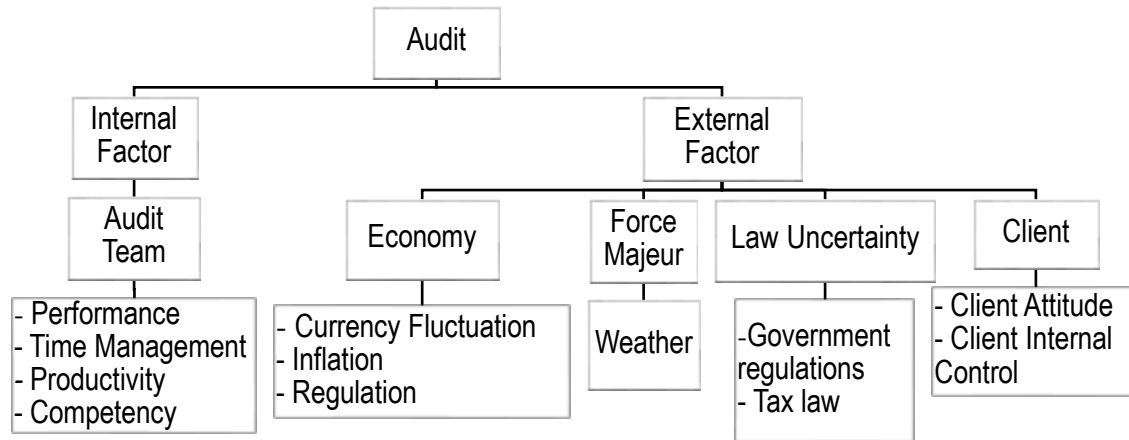


Figure 1. Risk Breakdown Structure

### Risk Analysis

In the risk analysis stage, the team first identifies the levels of consequences and probabilities in three levels, namely low, medium, and high. The three levels are assigned grades one to three. Low levels are rated 1, medium 2, and high 3. The description of the degree of consequence and the degree of probability can be seen in table 3 and table 4.

Table 3. Risk Impact Identification

Value	Degree of Consequence	Description
1	Low	a) Complaints from 1 client b) 1-day audit delay c) Does not influence audit opinion. d) Financial loss < IDR 1,000,000
2	Medium	a) Complaints from 2 clients b) Audit delay 2-3 days c) There is a possibility of influencing the audit opinion. d) Financial loss IDR 1,000,000 to IDR 3,000,000
3	High	a) Complaints from 3 or more clients b) Audit delay of 4 days or more c) Influencing audit opinion d) Financial loss > IDR 3,000,000

Table 4. Identifikasi Probabilitas Risiko

Value	Probability Level	Description
1	Low	Occurrence 1 time
2	Medium	Occurrence 2 times
3	High	Occurrence 3 or more times

Next, the team assessed the level of consequence and probability of the identified risk event.

**Table 5. Risk Analysis**

ID	Risk Event	Consequences	Probability	Risk Priority
A	Auditors lose client data or audit evidence	M (2)	L (1)	L (2)
B	Auditors are late in completing audited financial statements	M (2)	M (2)	M (4)
C	The client is late in providing data	L (1)	M (2)	L (2)
D	The Client did not provide or incorrectly provided data	H (3)	L (1)	M (3)
E	The auditor incorrectly determines the risk of the new client	H (3)	L (1)	M (3)

Risk event A has an intermediate level of consequence because loss of audit data or evidence may affect audit opinion (depending on missing data). This event can also result in losses of around 1-3 million due to the cost of repairing the system or purchasing a new device (hard drive). Audit delays can occur because without client data, auditors cannot perform audit procedures, and raise complaints from clients because clients have to resend data. The possibility of this risk is at a low level or 1 time a year.

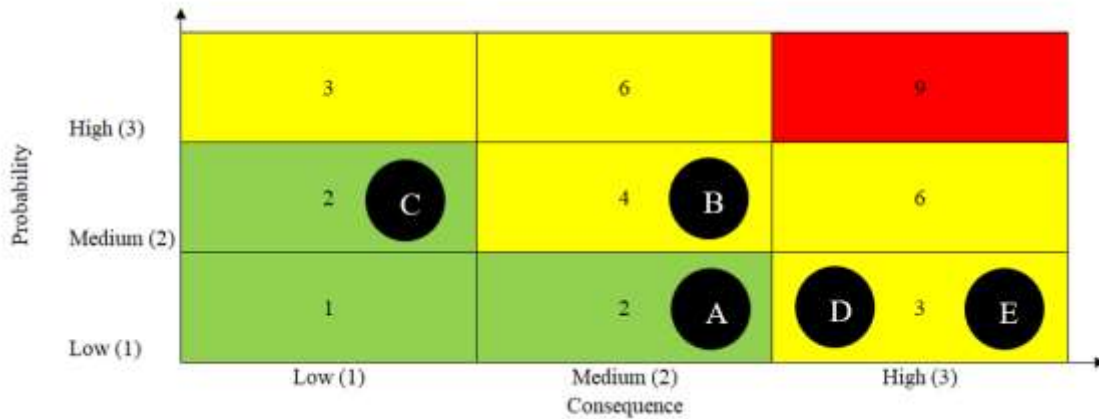
Risk event B is at a moderate consequence level because delays in completing ordinary audit financial statements take 2-3 days. This delay is due to the inefficient review and revision process. This delay can also make clients and interested parties complain. The possibility of financial losses can also occur if financial statements are needed for tax needs, bank loans, etc. The probability of this risk event is at an intermediate level.

The client's delay in providing data affects audit performance because the delay causes the auditor to take less time to perform procedures on client data. Limited time requires auditors to work overtime. Overtime costs are estimated to be below 1 million so that the level of risk event C consequences is at a low level. In addition, the client's delay in providing data does not affect the audit opinion. The probability of occurrence of event C is at an intermediate level.

Risk event D has a high level of consequence because if the client is unable to provide the required data, then the required audit evidence is insufficient. Insufficient audit evidence can affect audit opinions, for example reasonable with exceptions, disclaimer opinions, even the worst is unfair opinions. Unfavorable opinions on the client's financial statements can cause the client not to want to continue the audit with KAP. This could result in an estimated financial loss of over \$3 million. The probability of this occurrence is still at a low level.

Risk event E is at the highest level of consequence because errors in determining client risk can affect the audit procedures to be performed. Improper audit procedures may prevent auditors from detecting material misstatements in clients' financial statements. This can cause the auditor to misprovide an audit opinion. Errors in providing audit opinions can result in auditors being sued in court. The lawsuit resulted in losses above 3 million. The possibility of this incident is still at a low level.

Figure 2 displays a combined matrix of consequence levels and probability levels. The intersection between the level of consequence and the level of probability indicates the priority of risk. Risk priority is the multiplication between the value of the level of consequence and the level of probability. Values 1 through 2 belong to the low category and are colored green. Grades 3-6 belong to the intermediate category and are colored yellow. The value 9 belongs to the high category and is colored red. Based on the analysis that has been done, the order of risk priority is B-D-E-A-C.



**Figure 2. Risk Analysis**

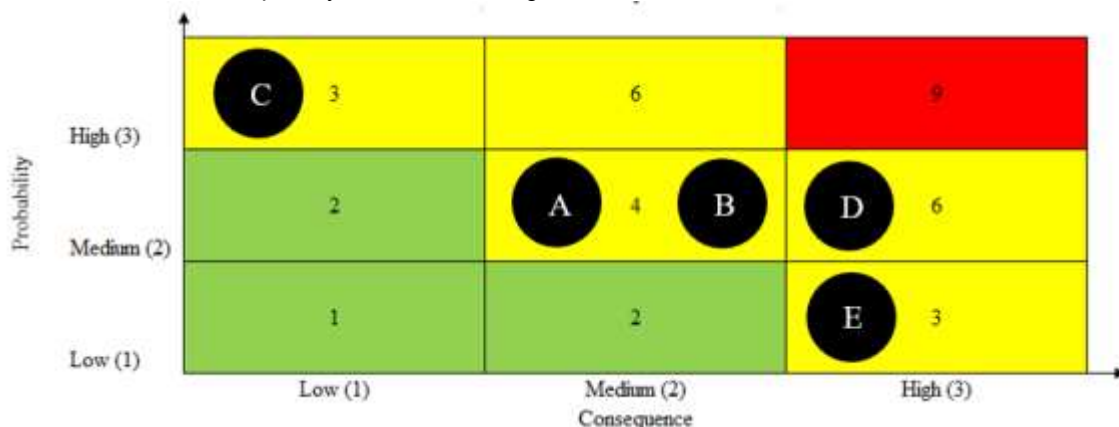
**Risk Evaluation**

In the risk evaluation stage, the team re-analyzes the risks that have been identified and compares the level of risk that has been determined at the risk analysis stage with the level of risk found during the audit process. Here are the results of the risk evaluation:

**Table 6. Risk Evaluation**

ID	Risk Event	Consequences	Probability	Risk Priority
A	Auditors lose client data or audit evidence	M (2)	M (2)	M (4)
B	Auditors are late in completing audited financial statements	M (2)	M (2)	M (4)
C	The client is late in providing data	L (1)	H (3)	M (3)
D	The Client did not provide or incorrectly provided data	H (3)	M (2)	M (6)
E	The auditor incorrectly determines the risk of the new client	H (3)	L (1)	M (3)

Based on observations, interviews, and discussions with team members after the audit process is complete, we agree that the value of consequences is still relevant for current conditions or has not changed. However, the team found that the frequency of occurrence of A-C-D risk was higher than had been established. Therefore, the team increases the level of risk priority so that the risk gets more attention.



**Figure 3. Risk Evaluation**

**Risk Treatment**

At the risk treatment stage, the team provides suggestions and proposals in treating the risks that have been identified in the hope of minimizing these risks so that activities can run optimally.

**Table 7. Risk Treatment**

ID	Risk Event	Risk Trigger	Risk Response	Contingency Plan
A	Auditors lose client data or audit evidence	System error, device lost	Avoid	Storing data in the cloud, other audit personnel also store audit data.
B	Auditors are late in completing audited financial statements	Long review and revision process	Mitigate	Follow up the financial statements that are being reviewed to the reviewer
C	The client is late in providing data	Clients are late in completing financial statements data.	Mitigate	Reminding clients to complete financial statements and audit data in advance, asking clients to submit financial data that is ready in advance
D	The Client did not provide or incorrectly provided data	Poor client internal control, human error (miscommunication, client forgetting to provide data)	Mitigate and avoid	Mitigation: reminding and communicating required data, Avoid: deny engagement with clients that have poor internal controls
E	The auditor incorrectly determines the risk of the new client	Lack of information about the client, the auditor's lack of experience with the client's business	Mitigate and avoid	Mitigation: improve the audit plan and implement the new plan, Avoid: handing over clients to audit personnel who are experts and experienced in the client's business field

**Conclusions**

The results of risk identification show that KAP has several risks that can result in complaints from clients, audit delays, wrong opinions, and financial losses. Risk analysis showed that 3 events were at the medium priority level and 2 events were at the low priority level. There is still no risk that is at the highest risk priority, which is at number nine. However, at the time of risk evaluation, it turned out that these 5 events should have been of medium priority. Risk management analysis shows that these risks can be addressed with avoidance and mitigation strategies by team members.

The design and application of risk management in the audit process has a positive impact on KAP. The evaluation phase shows audit performance to be more effective and efficient because audit personnel are increasingly aware of the risks that will occur and have taken action well in advance. The implementation of risk management also provides added value to the company in terms of service. Risk management helps auditors avoid business risks and misstatement risks.

Based on the conclusions above, the author advises KAP and similar companies to continue to implement risk management and integrate risk management in their business so that the positive impact can continue to be felt. Periodic evaluation and control also need to be carried out. Researchers recommend KAP to utilize and develop cloud system security to avoid the risk of data loss.

**References**

Cristiano, A., & Yopie, S. (2021). The Importance of Gender and Family Manager Education Background To CEO Founder's Moderated Company Values. *Jurnal Ekonomi Pembangunan*, 19(02), 107-121.  
 Edi, E., & Wati, E. (2022). Measuring intangible asset: firm reputation. *Business: Theory and practice*, 23(2), 396-

407.

- Grialdo Willy Lantang, Ariya Dwika Cahyono, & Melkior Nikolar Ngalumsine Sitokdana. (2019). Analisis Risiko Teknologi Informasi Pada Aplikasi SAP Di PT Serasi Autoraya Menggunakan ISO 31000. *Sebatik*, 23(1).
- ISO 31000. (2018). *Risk Management Guidelines: ISO 31000:2018*.
- Jurnali, T., & Supomo, B. (2002). Pengaruh Faktor Kesesuaian Tugas-Teknologi dan Pemanfaatan TI terhadap Kinerja Akuntan Publik. *The Indonesian Journal of Accounting Research*, 5(2).
- Karina, R. (2021). Corporate governance and earnings management: Does gender matter?. *Jurnal Akuntansi dan Auditing Indonesia*, 125-135.
- Kusuma, Y. A., & Muttaqin, A. Z. (2021). *Penerapan Quality Control dan Risk Management dalam Menjaga Mutu Produk*.
- Ludovicus Sensi. (2006). *Evaluasi Manajemen Risiko Kantor Akuntan Publik (KAP) Dalam Keputusan Penerimaan Klien Berdasarkan Pertimbangan Dari Risiko Klien, Risiko Audit Dan Risiko Bisnis KAP*.
- Milyardi, R. (2020). Perbandingan Karakteristik Manajemen Risiko Konstruksi Pada Kontraktor BUMN Dan Swasta. In *Jurnal Teknik Sipil* (Vol. 16).
- Nurlaela Wati, L., & Mukti Soma, A. (2021). Desain Enterprise Risk Management Pada Perguruan Tinggi Di STIE Muhammadiyah Jakarta. In *JURNAL AKUNTANSI* (Vol. 10, Issue 2). <http://ejournal.stiemj.ac.id/index.php/akuntansi>
- Pramesti, A., Legowo, P. S., & Tambunan, M. E. (2022). *Analisis Risiko Dispute Klaim Covid Terhadap Operasional Cashflow Di RS. JT*.
- Putri, T. F., Safitri, D., Tazkia, P., Amada, S. N., Amanda, X., & Shintia, Y. (2023). Pengaruh Penerapan Manajemen Risiko Bisnis Dalam Small Business Development. *Jurnal Pengabdian Kepada Masyarakat*, 2(1), 2023.
- Rahman, G. N., Tripiawan, W., & Pratami, D. (2021). *Perancangan Risk Register Dan Risk Response Terhadap Proyek Pengembangan Aplikasi Dana Pensiun Dengan Menggunakan Probability Impact Matric Pada PT.XYZ*.
- Ramadhan, D. L., Febriansyah, R., & Dewi, R. S. (2020). Analisis Manajemen Risiko Menggunakan ISO 31000 pada Smart Canteen SMA XYZ. *JURIKOM (Jurnal Riset Komputer)*, 7(1), 91. <https://doi.org/10.30865/jurikom.v7i1.1791>
- Santoso, R., Penerapan, M. M. 2021 ", Risiko, M., Madu, U., Kecamatan, D., Kabupaten, B., Di, K., Pandemi, T., Jurnal, C. ", Aplikasi, N., Bisnis, M., Santoso, R., Mujayana, M., & Artikel, I. (2021). Penerapan Manajemen Risiko UMKM Madu di Kecamatan Badas Kabupaten Kediri di Tengah Pandemi COVID19. *Jurnal Nusantara Aplikasi Manajemen Bisnis*, 6(1). <https://doi.org/10.29407/nusamba.v6i1.15643>
- Silvia, S., Balili, C., & Yuamita, F. (2022). Analisis Pengendalian Risiko Kecelakaan Kerja Bagian Mekanik Pada Proyek Pltu Ampana (2x3 Mw) Menggunakan Metode Job Safety Analysis (JSA). *Jurnal Teknologi Dan Manajemen Industri Terapan (JTMIT)*, 1, 61–69.
- Sipayung, B., & Ardiani, A. (2022). Manajemen risiko dalam pertimbangan pengajuan pinjaman dana pemulihan ekonomi nasional (PEN) daerah. In *Online KINERJA: Jurnal Ekonomi dan Manajemen* (Vol. 19, Issue 4).
- Yuwono, W., Danito, D., & Nainggolan, F. (2023). The effect of authentic leadership and transparent organizational communication on employee welfare with mediation variables of employee trust in medium companies. *Revista de Metodos Cuantitativos Para La Economia y La Empresa*, 35(35), 250–267. <https://doi.org/10.46661/revmetodoscuanteconempresa.6439>