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The role of internal auditing in risk management

Dessaegn Getie Mihret

Lecturer in Accounting, UNE Business School,
University of New England, Armidale, NSW 2351, Australia
Ph: (+61 2) 67733057
dmihret@une.edu.au / desgetie@yahoo.com

Ashfaq Ahmad Khan

Lecturer in Accounting, UNE Business School,
University of New England, Armidale, NSW 2351, Australia
Ph: (+61 2) 67732711
akhan27@une.edu.au

ABSTRACT

This paper is based on a theoretical analysis of the role of internal auditing in the accountability framework of contemporary corporate governance. We conceptualize the risk management rationale of internal auditing by drawing on the concept of accountability. We locate the emergence of internal auditing within the metamorphosis of capitalism. It is argued that this development produced the institutionalization of structural control of the firm to address the control problem in the inherently conflicting relationships that characterize accountability relations of capitalist enterprises. The exercise of control in this context entails ensuring accountability of employees, management and the board of directors to shareholders to increase profit. The extant literature does not provide an integrated conceptual framework that explains the role of internal auditing with a holistic view of this accountability landscape. This paper explains how the accountability relations of advanced capitalism create conditions that produce the demand for internal auditing as a risk management technology deployed to advance the managerial values of efficiency and effectiveness of the firm through assurance and advisory services.

Keywords: Accountability, Corporate governance; Internal auditing; Risk management