

FINANCIAL RISK ASSESSMENT USING ENTERPRISE RISK MANAGEMENT CONCEPT

Anastasia Filiana Ismawati
Universitas Ciputra Surabaya

Abstract: Risk management by using risk mapping can help X hospital located in Yogyakarta in financial management towards operating as an objective company. Enterprise Risk Management (ERM) helps organizations manage all the risks precisely and in a more integrated way. This research focuses on the risk assessment in X hospital that has not applied ERM, to analyse its financial risks. From this test, X hospital is expected to manage its risks by using the ERM methods more, in order than the sustainability of the business can be maintained over a longer period, and thus, being able to compete with the competitors. Based on the results of risk the assessment, out of the 15 risks identified. There are top three risks that cannot be acceptable. They are: financial management report risk, contribution risk and multiple jobs risk of X hospital. The three risks need to get response and allocations of good funds and attention from the management.

Keywords: enterprise risk management, management control, risk assessment.

INTRODUCTION

Enterprise Risk Management (ERM) can be used to evaluate and to minimize the risk up to the tolerable level by the company. Hospitals as health care providers are quite vulnerable to risk. Risk assessment needs to be implemented from the start to minimize the risk in X hospital. This is necessary because X hospital has a fairly complex business process, evidenced by the existence of several service divisions and accountability for the foundation so that management needs to think about how effective and efficient service, responsibility between divisions and customer satisfaction can be achieved. In

*Corresponding Author.
e-mail: anastasia.filiana@gmail.com

addition, based on data obtained from interviews with managers, there are several problems in the company, including lack of human resources causing duplicate positions, inadequate communication, resulting in misunderstandings in delivering information related to reports from X hospitals to foundations, and not implementing complete accounting records such as not yet applying the ledger in the accounting records which can result in the emergence of risk in X hospital.

Risk management using risk mapping can help X hospital in financial management lead to company goals. ERM makes organizations manage all risks holistically and in a more integrated manner. X hospital is important to comprehend the risk that can possibly appear because by comprehending the risk, X hospital can find out the cause of risk emerging and its impact for the hospital's goals. The focus of this research is to value the risk by ERM concept in X hospital as the service provider in the field of oral health which has not applied ERM to analyse the financial risks. This trial is hoped to give contribution for X hospital in order to manage the risk by employing ERM method so that the business continuance can survive in a longer time period and be able to compete.

METHOD

Research Type

This research employs descriptive case study to uncover facts, situations, phenomenon, variable and conditions also to truly serve exactly the same during the research is on progress. To gain information, this research employs checklist items produced by COSO, which is Enterprise Risk Management Integrated Framework.

Data Source and Type

The primary data will be collected directly from the data source by observing, making questionnaire and interviewing all employees of finance in X hospital and the secondary data will be obtained through verifying related

documents, report books like job description, standard operational procedure, Working Plan and Annual Budget, etc.

Collecting Data Technique

Through the interview to finance staff in X hospital which is related to financial activity, its observation and verifying supporting documents, implementation of valid rule and policy, and all documents related to the system and procedure of implemented financial activity by X hospital, and the use of questionnaire shared to the finance employee in order to know the risk level faced by each of them.

Analysing Data Technique

Miles & Huberman (1994) classified into three activities such as data reduction, data serving and image of conclusion and verification.

Risks Measure Tool

Risk measure is done through risk assessment survey which is a phase of valuing the risk that all data is obtained from interview, observation, and document verification. Then, to do risk assessment analysis map which is a matrix used in risk analysis included in alternative managing risk decision. The matrix of risk level sees two main elements; the possibility of the risk to happen and the probable impact appeared by the risk. All result will be documented in a risk register which will be used in the making of analysis for having the research conclusion.

Analysis Tool

Analysis tool being used is qualitative descriptive for the analysis on the questionnaire shared to the respondents which are the finance staff of X hospital to describe a sign, an event and occurrence happen at this moment with the purpose of giving pictures or description about a data. Besides, a Likert scale is used to measure attitude, opinion and perception of a person or a group of people about social phenomenon.

Data Testing

Validity testing done in a qualitative research is data credibility testing, transferability testing, dependability testing and confirmability testing.

Conclusion Arrangement

The conclusion from this research result will be formed as a recommendation if it's necessary based on the obtained data from interview, observation and documentation.

RESULTS

Risk Identification

Risk identification is gained from the interview result with five persons of finance staff of X hospital who are responsible in listing and reporting, spending and receiving administrative and general part also vice financial director. There are fifteen risks which have been successfully identified with top three risks are at intolerable level.

Table 1 Risk Type and Responsible Party

No.	Risk Name	Responsible Party	
1	Risk of responsibility for each subdivision	1	Recording and Reporting
		2	Expenditures
		3	Entry
		4	General Administration
		5	Finance
2	Multiple occupational risks	1	Recording and Reporting
		2	Expenditures
		2	Entry
		4	General Administration
3	The risk of petty cash is not balanced	1	Expenditures
		2	Finance
4	Risk of determining medical services	1	Expenditures
		2	Entry
		3	Finance

5	The risk of being mistaken	1 Recording and Reporting 2 Expenditures 3 Entry 4 Finance
6	Risk of financial statement misstatement	1 Recording and Reporting 2 Expenditures 3 Entry 4 Finance
7	Risk of supplier billing	Expenditures
8	Risk of calculating medical services	1 Expenditures 2 Entry 3 Finance
9	Risk of cash balance inaccuracies	1 Recording and Reporting 2 Expenditures 3 Entry 4 Finance
10	Risk of late issuance of financial statements	1 Recording and Reporting 2 Expenditures 3 Entry 4 Finance
11	Risk of revenue targets	1 Recording and Reporting 2 Expenditures 3 Entry 4 Finance
12	Risk of controlling financial activities	1 Recording and Reporting 2 Expenditures 3 Entry 4 Finance 5 General Administration
13	Risk of completeness of financial statements	1 Recording and Reporting 2 Expenditures 3 Entry 4 Finance
14	Risk of fraud in financial activities	1 Recording and Reporting 2 Expenditures 3 Entry 4 Finance 5 General Administration
15	Risk of losing resources	1 Recording and Reporting 2 Expenditures 3 Entry 4 Finance 5 General Administration

Risk Analysis

Risk analysis is a process of risk assessment or measurement which has been identified by valuing the impact of the risk to appear from scale one to five and the level of possibility of the risk to appear from scale one to five.

Risk Level

Based on fifteen successfully identified risks, there are three risk names with the highest level which are included in the category of unacceptable or those risks are intolerable for being in such a high risk level. Those three risks are risk of financial report management, risk of contribution towards X hospital, and risk of double job. The management should do the follow-up in order to move those risks to tolerable level by the hospital so that the goal of the hospital can still run.

Risk Level Table

Table 2 Risk Level Table

Ranking	Risk Name	Average		Total
		L	I	
1	Risk of financial report completeness	4.8	3.4	16.32
2	Risk of financial activity control	3.6	3.6	12.96
3	Risk of double job	3.4	3.4	11.56
4	Risk of revenue target	3	2.8	8.4
5	Risk of each sub-division responsibility	2.8	2.4	6.72
6	Risk of balance inaccuracy	2.4	2.4	5.76
7	Risk of supplier claim	2	1.8	3.6
8	Risk of finance report publishing delay	1.8	1.4	2.52
9	Risk of losing resource	1.4	1.4	1.96
10t	Risk of misquote	1.2	1.4	1.68
10tt	Risk of finance report error-serving	1.2	1.4	1.68
11	Risk of fraud in financial activity	1.2	1.2	1.44
12t	Risk of petty cash imbalance	1	1	1
12tt	Risk of deciding medical service	1	1	1
12ttt	Risk of medical service calculation delay	1	1	1

Explanation of Finding - Risk of Financial Report Completeness

Risk of financial report completeness is a first-rank risk which has been successfully identified and is one of the unacceptable risks. The incompleteness

of the report from X hospital can result an unreliable financial report. This risk is caused by lacking of comprehension form all members and the absence of training which is related to the making of the financial report in the hospital. The correct response to overcome this risk is by rejecting the risk. As well stated by Proviti (2006), one way to respond the risk is to reject so that X hospital should ban a high-risk an intolerable activity and stop specific activity, in this case the main financial activity is the improper financial report making to applied rules which supposed to have the complete report like Notisi Audit Operational (Operational Audit Notification) X hospital Year 2014 and Interim I Year 2015 which stated that the financial report of X hospital is not complete. By then, to redefine, to focus on the strategy and rules again also to direct the resource through sustainable training can be done as a response from the risk of financial report completeness.

Explanation of Finding - Risk of Financial Activity Control

How short the duty period is causes various risks, one of them is lacking of understanding the responsibility to perform. For example the duty period of a vice director in one period is one year. A response possible to do to manage this risk is to focus on the strategy and rules again. It is possible to evaluate how the top management worked during the time where they still assumed that one period lasted for two years and nowadays it is only for a year, and not forget to mention that they have their responsibility as a lecturer or a faculty servant. Besides, Hospital by Law which has been arranged since some periods ago can also be a consideration to apply in the operational activity in X hospital.

Explanation of Finding – Risk of Double Job

One of the problems that they still face in managing the operation at X hospital is the limited human resources either in a matter of quantity or quality. It is for every party to be responsible not only to the personal ones but also other party's. X hospital has proposed to add more employee, either official employee or intern (late semester students), but there was no meaningful response from the side of foundation. There has not been any control performed by X hospital related to the risk of double job, because the cost is restricted so that X hospital

could not open the recruitment. The rejection towards the risk of double job is because it is at the highest level in a matter of the risk level so that X hospital should ban any activity which has high and intolerable risk level since double job has potency to take advantage of function and to cause fraud. In running the operational activity, X hospital can add more employee, but if they still become the particular weight for the hospital finance, the interns can hold the role of employee. The validation of the employee's status using the Dean's decision letter is also done to minimize the risk and so that the legal aspect from the employee can be stronger.

Explanation of Finding – Risk of Revenue Target

One of the causes why the gap between the revenue and the quarrel is so small is that X hospital does not get any fund from foundation. The fund managed by X hospital is independent, comes from the patients and then is managed by themself for the operational activity in X hospital. Besides, the cause why the revenue is decreasing is the lack of promotion done by X hospital and the existence of BPJS. The response to the risk of revenue target which can be done by X hospital is by controlling like having regular meeting to discuss about the patient arrival, suggestions, critics and services, etc. Besides that, it is also possible to redesign the business model by increasing the market and to limit the shopping supply.

Explanation of Finding – Risk of Each Sub-Division Responsibility

The risk of each sub-division responsibility happens for not having SOP for each division so the task distribution sometimes becomes overwhelming and there is no basic rule of how the task should be done. X hospital employs Main Job and Function as the operational base. However, it's only for the finance and not being detailed up to the finance sub-division. To respond any risk by decreasing the risk can be done through controlling and responding on how SOP is made for the sake of operational activity, so that the finance staff becomes aware of the responsibility limitation for each division in order to be more optimal. Besides, to decrease the activity which is potential to increase the risk like nowadays still happens since there is no SOP for the operational activity

especially in finance. It is done for making the job of each division becomes much clearer and the possible risk to appear can be minimized and well organized

Explanation of Finding – Risk of Balance Inaccuracy

The lack of cash opname is the main factor for this risk to happen. The lack of cash opname causes the amount of the money is not reliable and it is possible that the risk of imbalance between the amount of the money on hand and the listed one to appear and cash misusing. The control either from all staff and the top management is necessary because there is the rule as the base that it is needed to do cash opname once a month. To increase the capability in managing cash opname needs to be understood so that the cash in X hospital can be accountable for. In the next period, the hope for X hospital is to have the date allocation to do cash opname so that all finance staff can allocate the other tasks and the risk for not having the cash opname which causes the financial condition in X hospital is not reliable can be minimized and organized.

Explanation of Finding – Risk of Supplier Claim

This risk happens because the supplier claims not on the proper time so that it delays the payment. This condition causes the allocation of petty cash for payment becomes indefinite because X hospital still needs to serve the payment even it's not in the claiming dates. Besides, the finance report completeness can be blocked because all suppliers who claim late also gives the proof of payment also late. The response is to manage the risk of supplier claim by reducing activities that can cause risks such as the supplier payment that is not as scheduled and redesign the model business to increase the value like creating the list of supplier in order to allocate the date for claiming and to socialize continuously.

Explanation of Finding – Risk of Finance Report Publishing Delay

The finance report publishing delay is caused by the lack of human resources in X hospital, that the double job is still existed and sometimes the other division is late to give the report to the finance which creates the delay of

finance report. The impact of this risk is the delay of decision taking. The response is to manage the risk of finance report publishing delay by decreasing the risk through the control of schedule of every financial activity and it is also supported by other divisions beside the finance division so that the finance report can finish on time. Beside to overcome the risk, X hospital can also share the risk with other divisions as well as being involved in giving responses towards this risk like other divisions should give the documents related to the expense on time so that the finance report can be published on time.

Explanation of Finding – Risk of Losing Resource

The risk of losing resource is a risk of resource misuse owned by X hospital in operational activity for personal or collective needs. This risk can appear because of the existence of opportunity and how weak the control is. The risk management is necessary to do by choosing the correct risk responses. Reducing the risk by controlling the risks through an internal process which decreases undesirable matters to happen in tolerable level and to increase the capability of all staff. Sustainable control including verification towards the transaction details completed with supporting documents will be very helpful to manage the risk of losing resource. Besides, increasing the capability of the staff to comprehend the correct process and procedure can help to reduce the risk of losing resource because all expenses are correctly authorized.

Explanation of Finding – Risk of Misquote

The indifference of all members and how weak the control is are several factors which cause misquote. This risk can cause the finance report becomes not reliable. A sustainable verification is necessary to do to ensure that the collected data is correct and also to increase the capability of all members in their comprehension of financial aspects so that they can minimize human error. Besides, the risk response by sharing risks through other divisions should be involved in giving responses towards this risk like the Finance Vice Director. The Finance Vice Director is obliged to recheck in order to ensure that the collected data for the financial report is correct and proper to the operational condition happens in that period.

Explanation of Finding – Risk of Finance Report Error-Serving

Miscalculation and misquote ends in finance report error-serving. This can happen because the lack of top management control. The foundation of creating the report related to financial operations does not have any formal decision letter. The creation of finance report is also based on the habit and learning from the beginning. The risk response by reducing the risk appearance through a vivid control is necessary in managing the risk of error-serving for overcoming the fraud appearance in managing the finance report. A sustainable verification is very helpful to manage the risks. Besides, the risk response by sharing risks through other divisions should be involved in giving responses towards this risk like the Finance Vice Director.

Explanation of Finding – Risk of Fraud in Financial Activity

Risk of Fraud in Financial Activity can be meant as a fraud related to a number of resources existed in X hospital for the sake of personal or collective needs. The lack of control still becomes the main factor for an opportunity to do fraud. Moreover, it is by not having an official rule about how the manner of operational activity should be. The proper risk response to manage the risk of fraud in financial activity is to reduce the risk itself. Reducing the risk by controlling the risks through an internal process which decreases undesirable matters to happen in tolerable level and to increase the capability of all staff, the verification of transaction details completed with supporting documents and legal SOP also rules related to operational activity.

Explanation of Finding – Risk of Petty Cash Imbalance

The lack of controls proved by giving petty cash using a notebook which is signed by the person who receives the money without having any receipt saying that the petty cash is now less than before as a reminder that there is cash on progress which has no accountability. The decision of petty cash and the evidence of expense can help the finance of X hospital in order to reduce the risk as a reminder and control towards the expense. The evidence of the expense can be a reminder that there are numbers of cash which outside party are not responsible to, meanwhile the decision of the petty cash value can help the finance staff

to see the development of cash usage and to reduce the existence of misusing the petty cash.

Explanation of Finding – Risk of Deciding Medical Service

The decision of the medical service is still done manually and sometimes if the doctor serves by the time that the bank is closed, the medical service is postponed to count until the next period. The payment is served using duplicated bills which are going to be stored to the finance the next day. This makes some doctors who complain about this kind of system regarding the medical service. The response of reducing the medical service decision can be done by redesign the business model, in this case X hospital can legalize the fix cost. The making of decision letter to decide the cost which the doctors will receive for the service they have given to the patients and the system usage to decide how much the cost to apply. The usage of that system will help X hospital in order to reduce the risk to appear in relation to the risk of deciding medical service. Besides, X hospital can share by cooperating with external party in a matter of creating a better system and to fix the database related to the service given by the doctors and the amount of the money received by the doctors.

Explanation of Finding – Risk of Medical Service Calculation Delay

One of the causes the medical service calculation delay is that the bank does not open for 24 hours and X hospital has no budget allocation to give the program of the salary to the cashier who needs to work extra time at night. The impact of this problem or by the time that the bank is closed is receiving cash from the patients the will be noted manually by the administrative staff, then this person will store by the end of the day or the next day to the finance staff. The response to overcome the medical service calculation delay is by reducing and sharing the risk through redesigning the business model in order to increase the value and to share the risk by cooperating with external party such as the bank to provide EDC machine so that the staff who works in the night does not need to hold the cash. The income of the doctors who work during the night is not directly stored to the bank but the money is being hold by the staff who works in the night.

DISCUSSION

Risk assessment is a part of risk management implementation which can be used to reduce fraud. Risk management gives certainty for the management for security towards the work to do and the security of company finance. COSO (2004) defines that the objectives of Enterprise risk management to support the company reach:

- a. Strategic, related to objectives that support the company's mission.
- b. Operations, related to effective and efficient use of resources.
- c. Reporting, thanks to reliable reporting goals.
- d. Compliance, compliance with applicable laws and regulations

Risk assessment can be used as a tool to reduce the finance risk in X hospital because by using risk assessment helps X hospital in deciding risk level which affects to activity performance priority. Risk assessment which ends to risk group classification can help the management to reach the goal which is to change the perspective from general to be more detailed about how the risk is caused and can affect the growth value from the company. In line with Shelia (2012) stated that ERM according to experts can be concluded that Enterprise Risk Management is a general management application that specifically discusses strategies to overcome activities that cause risk in order to achieve the goals of a company.

X hospital can see that there are fifteen risks with three risks as priority, which are the risk of finance report management, the risk of contribution towards X hospital and the risk of double job. Meanwhile those thirteen risks are the risk of finance report management, the risk of contribution towards X hospital, the risk of double job, the risk of revenue target, the risk towards the responsibility of each division, the risk of the imbalance between the amount of money and the financial notes, the risk of supplier claim, the risk of finance report publishing delay, the risk of misquote/error in collecting data, the risk of finance report error-serving, the risk of deciding medical service, the risk of medical service calculation delay, the risk of petty cash imbalance, the risk of fraud in financial activity and the risk of losing resource.

To decide the priority is necessary in operational activity remembering that there is limitation either from the side of budgeting or the available human resource. To create an organized activity priority can help X hospital in allocating

which risk to be the first one to anticipate by using action plan and to give a response towards the risk management so that the risk can be at the tolerable level by the company. It can be seen through the frequency of a risk to appear (likelihood) and the impact to result from a risk to appear (impact). In line with Paape & Spekle (2012) said that there are several factors that can influence the implementation of ERM, namely the influence of regulators on the rules set, the company's internal influence, ownership, auditor influence, company and industry characteristics. The preparation to overcome this kind of problem is obliged to do such as preparing the available facility and emergency plan which should be effectively done.

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