

## **IMPLICATIONS OF RISK ASSESSMENT ON THE PERFORMANCE OF PUBLIC SECTOR ORGANIZATIONS –A STUDY OF THE JAFFNA DISTRICT**

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### **INTRODUCTION**

Internal Control System is a vital role in the every organization to achieve their management objectives. Nowadays public sector organizations have been privatized because of shortcomings of the internal control system is adopted is not satisfactory

Financial performance is the bridge between the company and its external environment. It appeared that not achieving the objective of effective internal control system on financial performance.

Hans Mjoen; and Stephen Tallman (1997) indicated that performance is strongly and positively related to overall control. Those results suggest that specialized control provides both protection and exploitation of key resource inputs and is gained through increased bargaining power. Higher levels of specific control result in a perception of overall control and thereby satisfaction with perceived levels of performance among foreign parent company managers.

Every entity faces a variety of risks from external and internal sources that must be assessed and managed. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with changes.

Management has to clearly establish objectives before identifying risks which may undermine their achievement and take necessary actions to manage these risks. However, it should be emphasized that the company internal control framework should be established in order to have the reasonable assurance to achieve established objectives: as discussed below, risk identification and analysis are the critical component. In evaluating the effectiveness of internal control activities, it is essential to assess them against entity's objectives and related risks.

The risks are divided in three groups Chong (2003). Strategic risks threaten the achievement of business strategies or enhancement of shareholder's value. Business or entity-wide risks are present as a result of the business operation or type of business. Process or activity-level risks are present in actual business processes.

Smaller entities the risk assessment process is likely to be informal and unstructured. COSO (2005) argues that risk assessment in a smaller entity can be particularly effective because the in-depth involvement of the CEO and other key managers often means that risks are assessed by people with both access to the appropriate information and a good understanding of its implications. However, the overall lack of formal procedures for risk assessment may lead to certain ignorance and underestimation of risks, particularly in situations complicated by weak corporate governance.

In 2004, COSO developed an additional framework to address more specifically the risk management issues in an organization, namely Enterprise Risk Management (ERM) Framework. Rittenberg (2005) the ERM framework encompasses all five components of the Internal Control Framework, but adds also the components of objective setting, event identification and risk response. However, the author acknowledges the need for a wider approach to the risk assessment component and holds an opinion that in the future the assessment of internal control system should be even more closely related to risk management.

## **RESEARCH PROBLEM**

Effectiveness of internal control on financial performance should be considered most important in every organization, because the task of internal control is to prevent and detect fraud in the organization. For this purpose organizations give much importance to the internal audit which is generally a feature of large companies. It is a function provided either by employees of the entity or sourced from an external organization to assist management in achieving corporate objectives. The code of corporate governance highlights the need for business to maintain good system of internal control, to manage the risk the organizations faces.

The following research question is formed based on the literature previously discussed, and research gap. Is there any relationship between the risk assessment and performance?

## **OBJECTIVES**

- To find out the relationship between risk assessment and performance.
- To find out the major determinants of risk assessment.
- To suggest the organization to increase the performance of the risk assessment.

## **HYPOTHESES OF THE STUDY**

Alternatively, the study attempts to test the following hypotheses.

$H_1$ : Risk assessment and performance is positively correlated.

$H_2$ : Risk assessment has a significant impact on performance of the public organizations

## **METHODOLOGY**

### **Data collection and sampling design**

The samples for the study were the public and private organizations in Jaffna district, Sri Lanka. Among 35 organizations and selected for 181 respondents covering middle and top level types of employees were considered for the survey as an ultimate sample in the research.

### **Research methods and conceptualization**

The data obtained from Questionnaires distributed among the respondents with the five – point Likert scale ranging .Each ten statements are given to measure the risk assessment ten statements for performance. Based on the above variables was measured with the five point likert scale.

Conceptual model was formulated to reveal the relationship between variables and hypothesis testing

### **Conceptual model**

Risk assessment  $\longrightarrow$  Performance

The model shows the relationship between the risk assessment and performance. Risk assessment is independent variables performance is the dependent variable

For this purpose some of the statistical analysis techniques are used in this research. Mainly in this research Correlation and regression analysis were also used to test the hypothesis. Data analysis is done by the help of software package SPSS version 13.

### **Limitation of the study**

- The study is delineated only to the public sector organizations located in Jaffna district
- The analysis is made only with the data gathered from the perception of the management of the organization.

## RESULTS AND DISCUSSION

### Descriptive statistics

Descriptive statistics were used to identify the importance of the factor such as Risk assessment. In order to rank them, the ranking of the factors were made on the basis of mean and std. deviation. The Table 1 presents these details.

Independent Variable	Mean	Rank (Mean)	Std. Deviation	Rank (Std.Deviation)
Management	3.06	3	1.04	2
Control issue	3.09	2	1.07	4
Develop new activities	2.98	4	1.06	3
Control experts	3.17	1	1.00	1

Table 1 Descriptive statistics for internal Control

Table 1 shows the means and std. deviation of the components of the risk assessment. From the results, the Code of conduct of control experts is a highly rated item with a mean value of 3.17 while develop new activities is the least rated item with a mean value of 2.98. The control experts of risk assessment is a highly rated item with std. deviation value of 1.00 while control issue is the least rated item with std. deviation value of 1.07.

### Descriptive statistics –performance

Descriptive statistics were used to identify the importance of the factors such as profit, efficiency and liquidity in order to rank them. The ranking of the factors were made on the basis of mean and std. deviation. The Table 2 presents these details.

Dependent Variable	Mean	Rank (Mean)	Std. Deviation	Rank (Std. Deviation)
Profit	12.04	2	3.67	3
Efficiency	12.27	1	3.13	1
Liquidity	11.77	3	3.60	2

Table 2: Descriptive statistics for performance

Table 2 shows the means of the dependent variable of financial performance. From the results, the efficiency is highly rated item with a mean value of 12.27 while liquidity is the least rated item with a mean value of 11.77. The efficiency is highly rated item with standard deviation of 3.13 while profit is the least rated item of std. deviation 3.67.

### The relationship between risk assessment and performance

The aim of the present study is to identify the relationship between Risk assessment and performance. For this purpose the correlation analysis were used and the results are presented by the Table 3.

		Performance
Risk assessment	Pearson Correlation	.797(**)
	Sig. (2-tailed)	.000
	N	150

\*\*Correlation is significant at the 0.01 level (2-tailed)

Table 3: Correlation Risk assessment and performance

The Table 3 shows the relationship between risk assessment and performance. Accordingly the correlation value is 0.797 which b is significant at 0.01 levels. It means when the risk assessment increases the performance increases.

#### **Impact risk assessment on performance**

We tried to find out the impact of risk assessment on performance for this purpose multiple regression analysis was used and the results are tabulated by Table 4.

Variables	Un standardized Coefficient - b	Standardized Coefficient - $\beta$	t - value	P -value Significance
Constant	7.177		4.311	.000
R <sub>1</sub>	2.247	.242	4.269	.000
R <sub>2</sub>	1.675	.186	3.040	.003
R <sub>3</sub>	1.859	.204	3.423	.001
R <sub>4</sub>	3.561	.370	6.645	.000
R <sup>2</sup> : .648		Adj R <sup>2</sup> : .640		F: 81.070

C<sub>1</sub> - Management, C<sub>2</sub> - Control issue, C<sub>3</sub> - Develop new activities C<sub>4</sub> - Control experts

Table 4: Predictors of Performance

Table 4 indicates that the R<sup>2</sup> value of 0.648 explain that 64.8% of variation in independent variable is observed. Remaining variance in the dependent variable is related to other variables. Further examination of t values indicates that the all variables are statistically significant. Coefficient of the variables denotes that all the variables are in the expected direction

To test the hypothesis one (H<sub>1</sub>), correlation analysis was used and value of 0.797 (p <0.01) indicate that risk assessment and performance are positively correlated. Hence the hypothesis is accepted.

As per the Table 4, Adj R<sup>2</sup> value of 0.648 revealed that risk assessment has an impact on efficiency, i.e. risk assessment in the samples organizations is contributing to determine the efficiency by 64.8 %. Thus the hypothesis two (H<sub>2</sub>) is accepted.

#### **CONCLUSION**

The study was carried out to find out the perception of internal control and performance of public organizations in Jaffna District. Further this study is mainly tested by using correlation and regression analysis. Through this present study's hypotheses are tested. From obtained from the study, it is apparent that the perceived risk assessment has a significant impact on performance

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