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Article

Assessing the Impact of Risk Reporting on Enhancing the Performance Evaluation of Economic Units

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Abstract: The purpose of this study is to quantify how risk reporting enhances the process of economic units' performance assessment. The descriptive analytical approach was chosen in order to solve the research problem and accomplish its goals. Employees of auditing offices, internal control departments, risk management departments, and accountants were among the sample members who received a total of 60 questionnaires. The study hypotheses were examined using the basic linear regression model. The research came to the conclusion that in order for economic units to remain independent, they need to set up a risk management department that answers directly to the board of directors or upper management. Before beginning the performance review of economic units, it also underlined how crucial it is that auditors comprehend the ideas of the applicable accounting system, the kinds and sources of hazards, and how to minimize them.

Keywords: Risk Management, Risk Reporting, Performance Evaluation, Economic Units

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1. Introduction

Operational uncertainty that impacts an economic unit's capacity to accomplish its goals is measured by the notion of risk. Both good and negative effects are possible. It is referred to as a threat if it is negative and an opportunity if it is favorable.

Depending on how they relate to the unit, risks are separated into two categories:

a. Internal environment risks: These include financial, production, and individual hazards, and they directly affect the economic unit and its performance.
b. External environment risks: These include supplier and intermediate risks, competitive risks, and customer risks. They are the most intimately linked to and interact with the economic unit.

Prior Research

Clarifying the evolution of the IAASB's 2003 Statement of Responsibility for Audit Risk was the goal of the research. According to the study's findings, the audit risk model was kept as the main interpretive model for auditing in the audit risk standards [1].

The purpose of the research was to investigate the viability of using business risk-based auditing in developing nations, particularly in Jordan, as well as the consequences of doing so for audit companies. According to the study's findings, some managers are worried about lax monitoring since it gives them more authority and influence [2].

Understanding how audit committees contribute to the effectiveness of internal auditing for risk management in Jordanian power firms was another goal of the research. The research came to the conclusion that the limited number of people with professional auditing qualifications in these firms is a barrier to improving the effectiveness of internal risk management performance [3].

In order to help design the audit process and create a strong methodology that decides how to handle these risks, the research attempts to investigate and identify audit risks as well as the elements that influence them. The study came to the conclusion that in order to ascertain the kind, time, and scope of the crucial actions necessary to minimize audit risks, the auditor must research the expected levels of inherent and control risks [4].

Section One: Risks, their definition, and types

The idea of risk:

Risk and uncertainty have long been a topic of discussion among decision theorists, economists, statisticians, and insurance theorists, but no universally accepted definition has been found. However, the definition that works for a statistician or economist who uses it as an analytical tool for a certain category could imply completely different things to each of them [5].

The meaning of risk is:

"The discrepancy between actual returns and expected returns, the dispersion between actual results and expected results, or the possibility of actual results differing from expected results" is one of the several definitions of risk [6].

"The possibility of a deviation occurring in the future, such that the desired outcomes differ from those expected, or the uncertainty of the future financial outcome of a decision made by an economic individual in the present based on the results of a study of past behavior" is the definition of risk from a financial perspective [7].

"A potential future event that does not depend on the will of either party to the contract" is how risk is defined from an insurance standpoint. [8]. Risk as it relates to regulation: "From a regulatory perspective, risk is defined as: the effects arising from expected or unexpected events that affect the profitability and capital of an economic unit" [9].

Various Risk Classifications

Due to a variety of elements that serve as the foundation for the different risk categories, which are shown by the following, economic units are continuously exposed to risks that result in losses or the inability to meet predetermined objectives and plans: [7] First: Hazards related to the internal environment of the unit: These are exemplified by a collection of risks and variables that are directly related to and impact the economic unit and its performance, such as financial risks, production risks, individual risks, and organizational risks.

The advent of risk management sparked interest in hazards. As a result, the present study tackles the research problem: economic units' performance assessment procedures are left unfinished when hazards are ignored and not reported. This is the main emphasis of INTOSAI 3999-3000 standards.

2. Materials and Methods

Research Problem:

The auditing profession has several difficulties, chief among them being audit risks, which make it difficult to carry out this work effectively and professionally. In order to improve its function and satisfy the demands of decision-makers, it is essential that these risks be identified and evaluated. Thus, the study focuses on the issue of how audit risk reporting might enhance the process of logically assessing economic units' performance, which benefits decision-makers and readers of financial reports.

Research Hypothesis

The research is based on a basic hypothesis: (Risk reporting leads to the proper completion of the performance evaluation process for economic units).

Research Objectives:

a. To draw attention to risk reporting, its type, and its nature.

b. Directing attention to the procedures and methods used in the performance evaluation process of economic units.
c. Linking risk reporting processes with economic unit performance evaluation procedures to better achieve their objectives.

Importance of the Research:

Change and volatility are hallmarks of the business environment in general and the Iraqi environment in particular, which makes the study significant. In order to rationalize and direct the performance assessment of economic units and accomplish their intended goals, people who work in accounting information systems must disclose risks.

The risks arising from the factors that are most directly tied to and interact with the economic unit are referred to as business environment risk. The second category of risks is associated with the specific external environment. These consist of hazards to consumers, suppliers, and intermediaries, as well as risks related to competition.

3. Results and Discussion

The environmental forces and elements that the economic unit functions within and that have an impact on it either directly or indirectly make up the third category of hazards associated with the general external environment [8], [9]. These risks may be described as follows: technology risks, social risks, economic hazards, political and legislative risks, and unforeseeable risks.

The Financial Risk Management Concept:

The skill of risk management is the foundation of most economic unit activities. Because risk management and earnings are directly correlated, profits decline in the absence of dangers. In order to prevent operational risks and try to intelligently control them to optimize return on investment—which is ultimately the actual measure of the economic unit's and its management's success—risk management is thus crucial in the economic unit [10].

What is meant by risk management?

It is an integrated organization that seeks to address risks as cheaply and effectively as possible. This is accomplished by recognizing, evaluating, and quantifying the risk, figuring out how to address it, and then choosing the best approach to do so" [11].

According to this definition, risk management is an integrated organization that encompasses all of the economic unit's operations, personnel, and resources. Since these risks cover every facet of the unit, any issue that arises in any one of them will have an effect on the economic unit and its overall operations.

The fundamentals of risk management

The idea of risk management is founded on a collection of scientific techniques that must be considered when deciding how to handle different risks in order to reduce uncertainty and avoid or minimize any material losses. The foundation of this idea is lowering the expenses related to such risk, such as the following [12]:

Costs of Risk Control (Loss Control)

The cost of missed opportunities

Costs in terms of morality or psychology

Significant Losses Related to or Associated with the Risk

Actual Losses Occurring Due to the Risk

Controlling Risk Goals:

The following are the goals of financial risk management:

protecting the assets of the unit in order to safeguard the monetary interests of creditors, depositors, and investors.

recognizing ventures or operations pertaining to investments (credit facilities or securities) and making sure that their risks are strictly monitored and managed.

maintaining investments and improving their long-term capacity to turn a return in spite of any unanticipated losses.

creating regular reports on the level of investment risk and addressing issues when they come up.

identifying the best course of action or suitable substitute for every risk category at every level.

making an effort to minimize losses by means of prompt monitoring, insurance, or disposal by shifting them to other parties.

Preparing studies before to, during, or after losses allows for the reduction, control, or use of techniques that restrict their incidence or future recurrence.

ensuring company continuity via planning and risk management, as the two processes are intertwined and the majority of the planning process's inputs originate from the risk management process.

According to the researcher, every risk management goal entails investigating, analyzing, and studying different kinds of hazards, determining their effects and the strategies that help control them, and then trying to come up with fresh and efficient ways to lessen and deal with them. Techniques for Financial Risk Management

Depending on the risks involved, there are a variety of approaches and strategies for controlling financial risks. These techniques consist of [13]:

Method of Risk Avoidance: A person or organization refrains from engaging in any activity or making any investments that might expose them to this risk.

Risk Reduction: This approach is founded on the idea that the risk should be prevented as much as possible or that the losses that would arise from its occurrence should be minimized.

Risk Transfer (Risk Transfer): This approach is predicated on tackling the risk by giving it to a third party in return for a certain amount of money, with the original risk owner still keeping ownership of the risk [14].

According to the researcher, this approach is predicated on the idea that the likelihood of a risk materializing and the anticipated losses that would result from it are inversely related.

Risk distribution or sharing: When a risk arises, it is divided and dispersed among many parties (financial risks - stock portfolio).

The capacity of people or economic entities to withstand the effects of risk when the anticipated losses are small and they have the financial means to cover them is known as risk tolerance [15].

Phases of the Process of Risk Management

The following stages are used to carry out the risk management process:

establishing goals and evaluating the requirements of the economic unit from a risk management program by creating a detailed strategy that helps to avoid major losses or individual risks [16]:

Classifying hazards into three categories—severe, medium, and minor—is known as risk assessment.

recognizing options and picking the optimal one to deal with each kind of risk.

Execution and Assessment of Decisions: Programs for risk management should include evaluation since they don't function in isolation. It also helps identify mistakes and fix choices before they become more costly [17].

Components and Elements of Effective Risk Management

There are several key elements that must be present for effective risk management after its introduction within the economic unit, including:

a. Establishing comprehensive and clear policies, strategies, and procedures.
b. Providing a database for management and constantly updating it, including all the information it needs.
c. Submitting periodic reports to senior management in a timely manner.

d. Clearly defining powers and responsibilities, avoiding overlap in duties.
e. Adopting a sound accounting system, including the use of risk reporting within this system.
f. The existence of an effective internal control system, which is an effective tool for risk management and contributes to verifying the level of performance and implementing radical, urgent, and effective legal and administrative reforms.

The Relationship between Risk Management and Finance Management.

There are numerous links between these two departments through:

a. The Finance Department provides detailed risk management data on the unit's various activities.
b. The financial department calculates insurance premiums and monitors their regular payment.
c. The financial department provides the risk management with estimated budgets for expected future risks.
d. The financial department provides the risk management with sufficient information about the production process, from the provision of raw materials to the completion of the product.
e. The financial department provides the risk management with accurate information about the value of capital assets and their insurance costs.

Performance Evaluation

Performance evaluation includes practical concepts, foremost among which is the need to compare activity costs with their achieved returns. The evaluation process has significant positive effects that contribute to the smooth running of the administrative process in economic units. It also contributes to strengthening policies, objectives, plans, and programs by ensuring that the established plans translate into objectives and are implemented at the lowest cost, and that available or alternative opportunities are utilized efficiently. This includes monitoring implementation, ensuring progress toward achieving the objective, and working to correct the path.

Definition of Performance Evaluation

Performance evaluation has been defined in a number of ways, such as: "It is a crucial procedure that is carried out by departments in different kinds of units, making sure that it involves all organizational levels within the establishment, beginning with senior management and concluding with employees in all departments." The correct and methodical execution of performance assessment, which involves enlisting the help of all stakeholders, is essential to its effectiveness in accomplishing its goal. One of the most crucial instruments for assisting a unit in adapting to its environment is the performance assessment process, which results in modifications to work procedures and content as well as to staff abilities and traits. Establishing trust between the unit and its personnel is another benefit of putting this method into practice.

Performance Evaluation Components

The system of performance assessment consists of a number of components that support and facilitate its interpretation. These components appear in accordance with a number of processes that follow the execution of performance assessment, specifically [18]:

Clearly state the purpose or aim that management hopes to accomplish via performance review, which involves gathering the necessary data to accomplish a number of goals, including:

Giving workers feedback on how well they are doing at work can encourage them to do the duties they are given more effectively.

figuring out the amount of money that workers are paid for doing the tasks that are given to them.

examining and assessing tasks to see if they need to be transferred to them in the future or firing a worker who didn't meet performance standards.

recognizing the employee's performance gaps and assisting them in improving their abilities via suitable training initiatives.

Since they will administer the review via a member of the workplace, such as the manager, staff, or coworkers, the person in charge of the performance evaluation process should be chosen with competence. As a result, workers assess one another or depend on a committee for performance reviews. [19]

identifying the best time to carry out the performance review procedure, or selecting the time to carry out the process. Economic units often concentrate on putting it into practice toward the end of the year, but because of the short time needed to complete this procedure, there are some challenges to its seamless execution.

Criteria for Performance Evaluation

Economic units use a set of criteria to execute performance assessment by deciding which evaluation technique is best for them and what data is needed to meet the most crucial performance evaluation criteria [20].

Individual Standards: This collection focuses on how workers may grow personally as a result of the many circumstances they encounter, as well as how they might attain self-realization and giving; One of the most important elements of good job performance is personal standards. However, they encounter several challenges while evaluating their criteria for the reasons listed below:

giving a subjective and unjust assessment since personality is described by ambiguous phrases.

The precise standards by which personality is assessed are not agreed upon.

When performance is evaluated primarily on personality rather than practical factors, the employee's personal side is communicated.

The ultimate performance-related conclusion is represented by a collection of outcome criteria. They are often the main goal of assessment because they are simple to quantify and have short numbers, such production units or revenue value. The following are some of the aspects that form the basis of the result assessment criteria: Quantitative factors: Comparing the amount of work that was actually done with the amount that was anticipated.

Cost factors: Calculating and contrasting the expenses incurred in reaching the desired outcomes with the anticipated expenses.

Factors affecting quality: evaluating the finished work against the anticipated tasks.

Time factors: These include figuring out how long it will take to do the duties that have been given to you or the timetable for doing so.

Criteria for behavior: These assessment criteria, which aim to set precise norms for workplace conduct, are just as significant as the others. It is difficult to create such objective criteria, yet it is simple to evaluate them. Behavioral criterion examples include:

Communication: Examining and quantifying the degree to which a worker has certain communication abilities that enable them to clearly convey their thoughts and improve the efficacy of their interactions with others.

Planning: Confirming that a worker is capable of creating work schedules.

Organizing: Examining a worker's capacity to do the tasks given to them each day in light of the resources at their disposal.

Setting priorities: Showing that a worker is capable of setting priorities for the tasks that are given to them.

Techniques for Evaluating Performance

One of the techniques used for this aim is performance assessment in economic units, and the most crucial of them are

Comparison Method: This approach compares each person's performance and ranks them according to the outcomes in decreasing order. The ranking method and the forced distribution are two instances of comparison techniques.

The technique of assessing employee performance with no particular criterion or comparable comparison is known as the "absolute method." Instead, a strict application of the performance assessment method is used. The essay technique, which is applied using both the limited formula and the unconstrained formula, is an illustration of this.

Metrics for Evaluation: This assessment approach is different from earlier approaches in that it does not make absolute comparisons or evaluations of personnel. Instead, it depends on the use of certain performance assessment criteria. By using indicators that show employee variability, the assessment officer makes sure that every employee have these characteristics. Checklists, vital information, and visual assessments are a few examples of these measures.

The approach based on results: This approach employs a number of techniques that make work outcomes the main assessment criteria. It is different from earlier approaches that emphasize judging people according to their traits or conduct. When comparing certain performance goals with the outcomes that arise from performance, the results-based approach is used. The management by goals approach is an illustration of this methodology.

A Practical Perspective

One statistical technique for examining a functional relationship between two variables is simple linear regression. In this relationship, one variable is referred to as the dependent variable, and the other is known as the independent variable, which affects the change in the dependent variable. The purpose of this study is to determine how much risk communication and reporting (the independent variable) affect the assessment of economic units' performance (the dependent variable). Following the definition of the research topic, hypotheses that declare:

Hypothesis 1:

H_0: There is no statistically significant relationship at a significance level of 0.05 between risk reporting and performance evaluation of economic units.

H1: There is a statistically significant relationship at a significance level of 0.05 between risk reporting and performance evaluation of economic units.

Hypothesis 2:

H_0: At a significance level of 0.05, there is no statistically significant correlation between risk reporting and economic unit performance rating.

H1: Risk reporting and economic unit performance assessment have a statistically significant association at a significance level of 0.05.

Following the formulation of pertinent hypotheses and the definition of the study topic, the researcher used the SPSSv22 software to examine and evaluate the findings.

Table 1 below illustrates how the influence of the independent variable (risk reporting) on the dependent variable (economic unit performance rating) was examined. The basic linear regression model was determined using the least squares approach.

Table 1. Identifying the model for basic linear regression.

Entering/Removing Variables a, b

Variables Entered/Removed[a,b]

Model	Variables Entered	Variables Removed	Method
1	Risk reportingc	.	Enter

a. Dependent Variable: Performance Evaluation of Economic Units,

b. Linear Regression through the Origin,

c. All requested variables entered.

After measuring the impact of the independent variable and testing the best model for the data, it was found that the value of (0.796 = R^2), which represents the coefficient of determination of the best model (squared value of the correlation coefficient), means that the independent variables explain (79%) of the impact on the dependent variable,

meaning that (79% of risk reporting affects the performance evaluation of economic units), while the remainder is attributed to unknown random errors, amounting to (21%). The value of the correlation coefficient reached (0.881) at a significance level of (0.000), as shown in Table 2.

Table 2. Performance Evaluation of Economic Units

Model Summary c, d

Model Summary[c,d]

Model	R	R Square[b]	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	0.881[a]	0.796	.455	20668085766	0.476	21.538	1	26	.000

a. Predictors: Risk Reporting.

b. For regression through the origin (the no-intercept model), R Square measures the proportion of the variability in the dependent variable about the origin explained by regression. This can be compared to R Square for models which include an intercept.

c. Dependent Variable: Performance Evaluation of Economic Units

d. Linear Regression through the Origin.

Table 3 below studies the suitability of the regression line to the data and the null hypothesis (study of the first hypothesis), which states (there is no statistically significant relationship at a significance level of (0.05) between risk reporting and the performance evaluation of economic units). The statistical value reached (F=21.538) at a significance level of (0.000), which is less than the significance level of (0.05), indicating significant differences and that the model accurately represents the studied phenomenon and that the regression line fits the given data, meaning that the null hypothesis was rejected and the alternative hypothesis was accepted. As for the sum of the regression squares, it reached (10054282633.986) at a degree of freedom of (1), and the sum of the error squares reached (11106952451.989) at a degree of freedom of (26). As for the total sum of squares (21161235085.975) at a degree of freedom of (27), while the mean squared regression and mean squared residuals reached (10054282633.986) (427190479.583) respectively, as shown in Table 3 below.

Table 3. Fitting the regression line to the data and the null hypothesis

ANOVA a,b

ANOVA[a,b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10054282633.989	1	10054282643.989	21.546	.000[c]
	Residual	11106952451.989	26	427190478.583		
	Total	21161235085.975[d]	27			

a. Dependent Variable: *Economic Unit Performance Assessment*

b. Linear Regression through the Origin

c. Predictors: *Risk Reporting*

d. Since the constant for regression through the origin is 0, the total sum of squares is not adjusted for it.

At a significance level of 0.000, the influence of risk reporting on economic units' performance appraisal attained a value of t=4.852, which is below the 0.05 threshold for statistical significance. As shown in Table 4 below, the marginal slope value reached (B=14.410), indicating that the value of the economic units' performance assessment changes by (14.410) for each unit.

Table 4: Risk Reporting Coefficients' Impact Values (a,b)

Coefficients[a,b]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Risk Risk reporting reporting	14.410	2.970	.689	4.852	.000

a. Dependent Variable: Performance Evaluation of Economic Units
b. Linear Regression through the Origin

As for measuring the proportion of the impact of the independent variable (risk reporting) on the dependent variable (evaluation of the performance of economic units), as shown in Table 5 below, which shows that the least squares method is used to determine the simple linear regression model.

Table 5. The least squares method is used to determine the simple linear regression model.

Variables Entered/Removed a,b

Variables Entered/Removed[a,b]

Model	Variables Entered	Variables Removed	Method
1	Risk reporting[c]	.	Enter

a. Dependent Variable: Performance Evaluation of Economic Units
b. Linear Regression through the Origin
c. Every variable that was required was entered

The coefficient of determination of the best model (squared value of the correlation coefficient), represented by the value of R^2 = 0.874, was determined after assessing the impact of the independent variable and testing the best model for the data. This indicates that the independent variables account for 87% of the impact on the dependent variable, meaning that 87% of risk reporting influences the evaluation of economic units' performance. The remaining 13% is attributable to unidentified random mistakes. As seen in Table 6 below, the correlation coefficient value reached (0.91) at a significance level of (0.000).

Table 6. Testing the Best Model for the Data

Model Summary c, d

Model Summary[c,d]

Model	R	R Square[b]	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.908[a]	.874	.400	31669.47103	.423	19.051	1	26	.000

a. Predictors: Reporting Risks

b. R Square quantifies the percentage of the dependent variable's variability about the origin that can be accounted for by regression in the case of regression through the origin (the no-intercept model). R Square is comparable to this for models with an intercept.

c. Dependent Variable: Performance Evaluation of Economic Units

d. Linear Regression via Origin, Economic Unit Performance Assessment

The regression line's fit to the data and the null hypothesis (the second hypothesis) is examined in Table 7 below. examination of the null hypothesis, which asserts that risk reporting and economic unit performance assessment do not have a statistically significant association at a significance level of 0.05. There are no significant differences, and the model correctly depicts the phenomena being studied, according to the value of its statistic attained (F=19.051) at a significance level of (0.000), which is lower than the significance level of (0.05). Since the regression line matches the available data, the alternative hypothesis was accepted and the null hypothesis was rejected. At a degree of freedom of (1), the total of the regression squares came to 19086414177.962, and at a degree of freedom of (26), the sum of the error squares came to (26076840172.668). According to Table 7 below, the mean squared regression and mean squared residuals achieved (19086414177.962) (1002955395.112) and 45163254350.630, respectively, for the total sum of squares at a degree of freedom of (27).

Table 7. The extent of the regression line's suitability for the data and the null hypothesis

ANOVAa,b

ANOVA[a,b]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	19086414077.961	1	19086414177.962	19.031	.000[c]
Residual	26076840272.669	26	1002955395.112		
Total	45163254350.630[d]	27			

a. Dependent Variable: Risk Reporting

b. Linear Regression via Origin, Economic Unit Performance Assessment

c. Predictors

d. Since the constant for regression through the origin is 0, this total sum of squares is not adjusted for it

At a significance level of 0.000, the influence of risk reporting on economic units' performance appraisal attained a value of t=4.363, which is below the 0.05 threshold for statistical significance. As seen in Table 8 below, the marginal slope value reached (B=19.854), indicating that the economic units' performance assessment value varies by (19.854) per unit.

Table 8. Economic Units' Performance Evaluation Coefficients a, b

Coefficients[a,b]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Risk reporting	19.854	4.552	.651	4.362	.000

a. Dependent Variable: Performance Evaluation of Economic Units

b. Linear Regression through the Origin

The current study used a simple linear regression analysis method to test the study's hypotheses. The study revealed the rejection of the null hypothesis for both test hypotheses (the first and second hypotheses) and the acceptance of the alternative hypothesis, which states that there is statistical significance at a significance level of (0.05), indicating the impact of risk reporting on the performance evaluation of economic units.

4. Conclusion

First: Conclusions

a. Reporting various types of risks has a significant impact on the performance evaluation process of economic units and, consequently, is reflected in the financial reports presented.
b. Reporting various risks contributes to hedging against expected losses resulting from these risks, reducing uncertainty surrounding them, and providing more reliable information in the performance evaluation process of economic units.
c. Auditors lack a sufficient understanding of the applicable accounting system or internal control procedures regarding risks, their causes, and their impact on the performance evaluation of economic units.
d. The lack of activation of the risk management unit in most public and private sector institutions, with the exception of the banking sector, which has made significant progress in this area.

Second: Recommendations

a. Conduct development courses and workshops for employees to present and explain the types of risks and their impact on the performance evaluation of economic units within the economic unit.
b. The auditor must have a sufficient understanding of the applicable accounting system and internal controls, as well as an understanding of the types of risks, their causes, and how to mitigate them, before beginning to evaluate the performance of economic units.
c. Economic units must establish a risk management unit, reporting to senior management or the board of directors, to ensure independence.

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