INTERNAL AUDIT-TOOL USED BY CORPORATE GOVERNANCE IN RISK MANAGEMENT PROCESS ASSESSMENT

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Abstract

Corporate governance, a function of recent date, emerged and was developed in response to a series of economic and financial scandals, including bankruptcies of multinational companies, in recent decades, which led to the loss of investor confidence in the ability of big corporations to administer them.

Risk management is the responsibility of the management of the Organization, and the central objective of this process is the management of risks, so that the resources to be used with efficiency and effectiveness, in order to maximizes profit for shareholders and minimize potential threats, provided that the protection of the interests of employees and customers.

Risk management is a major responsibility of the organization that management must be ensured, in order to achieve its objectives, the implementation and proper functioning of the risk management processes. Internal audit is required to ensure proper operation, sufficient and effective risk-management processes.

Keywords*: Internal audit, risk management*

Jel Classification**: M00; M41; M42**

1. *Corporate Management*

Corporate governance involves a set of rules respectively: control systems, verification, assessment s.a., applied by the entity's management in order to achieve an efficient and effective management, to ensure that the objectives set ". In this sense, corporate governance encompasses the methods and instruments for the management and direction of the organization, including those on risk management and internal control, and internal relations established between the leadership and the entire staff and external set relationships between the leadership and organization towards third parties.

Corporate governance must create systems of organization and adequate and proper management of the organization's mission, to establish processes, tools and systems for internal and external relations to ensure achievement of the objectives set. Also for a good governance and decentralization in the decision-making and staffed and competent to implement the decisions adopted and to carry out activities which are in responsibility in terms of efficiency and effectiveness.

Corporate management system of an organization is the key element that ensures the development and implementing personnel and third persons forming a reliable image of the organization and its opportunities to fulfill your goals.

In order to achieve the objectives of the corporate governance rules and comply with the principles of good governance, such as: (a) transparency and efficiency in domestic and foreign relations; (b) compliance in accordance with the rules and the segregation of duties; (c) respect for the rights and interests of the State as a result of the functioning of the Organization; (d) the communication of the information and of the results obtained; (e) providing the financial resources necessary for carrying out the activities and (f) establishing responsibilities in making and implementing decisions and internal control system.

The persons in charge of corporate affairs creates a risk management system, in order to identify threats that may affect the achievement of their objectives and are likely to remain within limits accepted and tolerated, a system of internal control to identify shortcomings, to detect or prevent fraud and enforce the necessary corrective measures. It also organizes a function for internal audit to ensure the effectiveness of the risk management and internal control functionality.

Corporate Affairs develops the organization's development policy, support strategic planning, developing a philosophy and a management style based on the principles of ethics and respect for the values, attitudes and competences and implement effective control devices to ensure the achievement of the objectives. This builds an organizational structure corresponding to all store’s, with clear roles and responsibilities for each employee, within the scope of competences set.

Corporate governance systems actually have two main objectives, namely to ensure the integrity of heritage and use with efficiency and effectiveness of resources and orientation towards maximizing the value created for shareholders.

2. The risk - element of corporate governance benchmark

Risk management is the process by which risks are identified, assessed and controlled, and the extent to which the organization understand and seek to control any factor that would prevent the achievement of the objectives. Risk control is a guarantee that the activities are carried out at least as scheduled and does not appear to affect the efficiency of the dysfunction and effectiveness.

The necessity of implementing risk management is determined by the fact that uncertainty is a reality, and the reaction to the uncertainty a permanent concern.

Risk management is a process designed and established by the organization's leadership and implemented by all staff, which consists of: defining the strategy of risk identification and risk assessment, risk control, monitoring and review of risks. The process should be one coherent and converging enabling the definition and implementation of a risk management strategy, to be integrated into the objectives, the activities and operations carried out within the organization.

Risk management process involves the development of key activities in a logical sequence as follows:

a. *Risk identification*. All imaginable risks must be identified and recorded. Although there is a model of documentation in order to identify risks, this work represents the first step in the establishment of a risk profile for the analysis thereof within organizations. In relation to the situation in which the Organization, identification of risks is in one of the following situations:

- initial risk identification feature new or organizations that have not previously identified risks.
- permanent identification of the risks that organizations feature strengthened risk management, being necessary to the knowledge of the risks that were not previously manifested and change their circumstances.

For all the risks identified, must determine the persons responsible who will manage and monitor, on an ongoing basis the risk concerned.

The task of identifying risks through risk self assessment by individuals involved in the achievement of the objectives/activities in question, hierarchical levels by diagnosing the risk faced on a daily basis or through risk identification performed by a specially created within the organization or a team accountable to evaluate all operations and activities in relation to objectives and appropriate risks to attach them.

Risk identification is a problem in coordinating corporate governance, which must make for reorganizing the entire system of internal control and to accountable personnel in your organization.

b. *Risk assessment*. Most of the risks are suitable for a numeric diagnostic, especially financial risks or financial connotations, but there are risks whose rating has a much more subjective perspective, for example the risk of image, reputation risk, risk of brand, etc. In these circumstances, the risk assessment will be accomplished by assessing both the probability of materialization of the risk, as well as the impact of the risk in the event of materialization of the risk classification and on three levels: big, medium and small, as follows:

THE PROBABILITY				
	High	**4**	**7**	**9**
	Moderate	**2**	**5**	**8**
	Reduced	**1**	**3**	**6**
	0	**Noticeable**	**Significantly**	**Critic**
	THE IMPACT OF			

The analysis shows that the probability of it describes vertical array and can be:

• High-likely to happen;

• Moderate-is likely to spend less often and is more difficult to predict;

• Reduced-very unlikely to take place.

Analysis of the impact of the organization described on horizontal array and can be:

• Critical-effect can be risked over operations, i.e. high financial losses, interruption of activities, etc.

• Significant-significant effect on operations, which can materialize through significant financial losses, significant disruption of activities, etc.

• Visible-the consequences are minor and any losses or financial implications will be relatively low.

Once evaluated, the risks will lead to the establishment of priorities within the organization, as major risks to be considered permanently concerned by the level of the highest leadership in your organization.

The purpose of the risk assessment is to establish a hierarchy of risks within the organization, to establish the most appropriate ways of treating risks. The risk assessment process should cover the risks in your organization and to discover the uncontrolled risks requiring treatment in order to limit them.

c. *Management of risks*. Once the risks have been assessed and have defined the limits of tolerance is necessary to transform uncertainties into an advantage for the organization, limiting the level of threats. Management of risks involves the following activities: tolerance, processing, transfer, termination.

Tolerating risk involves accepting risks without being required to take any action. In the case of risks, even if they are hardly tolerated, not always we have the opportunity to act due to the cost of the remedial measures that may be disproportionate.

Risk treatment lies in the fact that certain risks which are not controlled by your organization, and is more than acceptable limits, in the event of materialization, may have major consequences, which the leadership must have the implementation of controls to maintain exposures within acceptable limits. Devices/internal control instruments can be classified as: objectives, means, information system, organization, procedures and supervision.

Transfer of risk lies in the fact that there are risks that cannot be controlled and the best solution is to transfer them. This option is beneficial especially if economic or financial risks. Risk transfer can either be done by reducing the exposure to the risk, either because another organization is more capable or specialized in managing such risks.

The cessation of activities, assume certain risks can be eliminated or kept within reasonable limits only by reducing their activities or through disbanding.

d. *Monitoring and review of risks*. Risk monitoring, risk acceptance is provided to maintain its permanent supervision, the available resources at a time when being used with large exposure to the risks. The monitoring process should provide assurance that there are adequate controls and procedures are understood and followed.

Risk review processes are in place to consider whether: the risks persist; new risks have appeared; the impact and likelihood of risks has changed; internal control instruments placed in the opera are effective; certain risks must be redesigned to upper management levels etc.

3. Internal audit-element of the corporate governance

In order to ensure the attainment of the objectives, corporate governance has and implements measures to evaluate and monitor risk management systems, internal control and prevention and fraud detection.

One of the tools that provide assurance about the degree of compliance of the activities carried out by the internal audit entity.

The function of internal audit of corporate governance is organized in order to evaluate the risk management processes, internal controls and management to provide assurance about the functionality and their effectiveness. In this sense, internal audit evaluates the relevance and effectiveness of the internal control devices, transactions and information systems, the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, the protection of property and the way in which laws, regulations and contracts are respected and applied.

Internal audit is an independent and objective function within the organization, held in addition to manager with professionalism in order to help and assist in the decisional processes and to contribute to the achievement and improvement activities.

Viewed from this perspective, internal audit is a tool established by the management of the Organization to provide an assurance on the effectiveness of risk management, internal control and functionality of conductresses processes. In these circumstances, internal audit is an integral part of corporate governance commitments, assists and advises the management entity to promote standards and good practice, as well as in order to define and implement policies, mechanisms and procedures, specific to the various sectors of activity.

Internal audit communication with persons in charge of governance within the public entity's dual role, on the one hand allows the auditor's knowledge of the organization, its environment and existing relationships, and on the other parties are aware of the role of internal audit governance and their responsibilities. In this context the communication with internal audit corporate governance are based on the following:

-in the planning process, the internal auditor shall notify the management entity's significant risks that we had identified as missing or insufficient internal controls implemented, as well as the justification for a move to internal audit missions through internal audit plans;

-in the preparation of the audit mission, the auditor sets mission objectives, assess the risks and prepare internal audit mission programs and communicate the entity's leadership to express a point of view, for the purposes of completing or their development;

-in the process of intervention on the spot, the auditor performs the tests planned, formulate audit findings and gathers evidence and audit evidence. Findings are communicated to the audited entity's management, expressing a point of view concerning the acceptance or not of them.

-in the process of reporting results, internal auditors shall inform the entity management on the results of the internal audit mission and the measures proposed to improve the activities of the entity. Management of the audited entity shall prepare a Plan of action and communicates regularly with the internal auditors on how to implement the recommendations and the results obtained.

In the process of communication, internal auditors shall communicate the results of the internal audit activity and how the function has contributed to improving the entity's activities and their value added.

Based on studies performed, specialists in the field have pointed out that, in practice, there are many organizations issues between internal audit and corporate governance, generated by the fact that the internal audit has not sufficiently aware of the role and purpose of the tool in your organization and have developed good communication of the results of the audit mission of any their, but only on weekends through the audit report.

One of the main causes that lead to maintaining a limited communication between internal audit and corporate governance is lack of audit committees within economic organizations, the purpose of which is to facilitate the dialogue between internal audit and corporate governance.

4. Risk management-the objective of the internal audit

In terms of coverage, the internal audit shall be exercised over all activities of the organization, the main objective being to evaluate the risk management systems, control, and governance, particularly in relation to the establishment and use of funds and management of assets and to provide reasonable assurance that it works as it was intended and enable your organization to reach its goals and targets proposed.

In practice, any economic organization seeks to implement three desiderata contained in the definition of internal auditing, namely, corporate governance, risk management and internal control system.

Corporate governance must adopt a strategy, goals and indicators on which to base their manufacturing, obtaining the outcome of planned. In order to ensure that the objectives must be identified and managed the risks and created a system of internal control/management to ensure achievement of the objectives.

Corporate governance also implements systems for risk analysis, verification, assessment and control, in order to achieve an effective management, while internal audit provides assistance, assessing risks and control strategies and suggest proposals, recommendations and solutions to mitigate the risk of fraud and to improve the control strategy.

According to international standards of internal auditing "*internal auditor should be alert regarding the significant risks that might affect objectives, operations and resources. However, only the insurance* *procedures, even if undertaken with care and professionalism, does not guarantee that all significant risks will be identified*. "The standards also state that the internal audit activity is responsible for the evaluation of risk management and, hence, should contribute to the improvement of the process and in the monitoring of the effectiveness of the system.

The conditions and requirements for the implementation of the process of risk management and the system of internal control, internal audit, which is a component of corporate governance it is intended to help the leadership of the organization in achieving the objectives and in supporting corporate governance processes.

Experience has shown that a public entity where internal audit is well organized and involved in the processes of corporate governance, the security objectives is much higher. At the same time, vulnerabilities in the functioning of corporate governance are identified, and the leadership may provide, at opportune moments, necessary measures to eliminate them.

Optimizing risk assessment process involves internal audit focus on identification and assessment of risks and the risks associated with the entity's objectives. This involves changing the traditional process of risk assessment at the level of operation and focus on identifying significant risks at the level of the lens.

The risk assessment process must be approached by internal auditors so as not to impair their independence and objectivity and to ensure that decision makers understand risk and have a sound management thereof. Standards for risk management consider that risk management must become an integral part of the organization and functioning of the entity.

However, in order to ensure a good risk management is important to have the assurance that every employee understands its role properly, the strategy of the organization in the field of risk and how specific individual responsibilities fall under the general needs and the needs of the organization.

3. Conclusions

Corporate governance is currently still a problem at the level of economic organizations in our country. Although, their level is laid down and defined objectives, system management is not yet one, "goals", but one classic which pursues activities, irrespective of the resources used.

Under present conditions, characterized by limiting resources for economic organizations are forced to adopt the principles and elements of corporate governance into practice, so as to make use of the resources in terms of efficiency and effectiveness, and by achieving the profit levels set by the shareholders.

The need for risk management is determined by the fact that there is risk everywhere, in every action that we want to achieve. It can not be removed any action to eliminate the risk can lead to the emergence of new, uncontrolled risks that may affect a much larger organization. In these circumstances, the risk is necessary to be minimized, a process that can be achieved through the establishment and implementation of appropriate internal controls.

The involvement of the persons responsible for corporate leadership in the development of a risk management philosophy within the organization and in the negative effects of risk-awareness at all levels of the organization is essential otherwise increases the likelihood that certain risks are not identified and managed in a timely manner. The consequence is poor performance, and the possibility of distortion results reflected the organization's financial statements or affecting the economic integrity through error or fraud.

Risk management is the responsibility of the management of public entity of which ensures the implementation and operation of risk management processes. Internal audit is to examine and evaluate the risk management processes implemented by management and monitor whether they are sufficient and effective and ensure achievement of objectives.

To this end, internal audit according to the level of risk, assessing the organization's activities and whether they comply with the requirements in force, operating in accordance with good practice and ensures that the objectives set in terms of efficiency and effectiveness. Internal audit also performs examinations and evaluations on all components of a business and management information and provides independent advice in relation to how risks are managed.

According to the principles of corporate governance, public entities managers are concerned about the efficiency and competitiveness, while internal audit function by its very nature is a tool for optimizing the performance of the activities of the organization, by contributing to the identification and assessment of risks, which may cause malfunctions or errors in event of materialization.

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