



THE 16<sup>TH</sup> EDITION OF THE INTERNATIONAL CONFERENCE  
EUROPEAN INTEGRATION  
REALITIES AND PERSPECTIVES

## **The Risks - Management Responsibility and the Role of Internal Audit in Risk Assessment**

**Nicoleta Ardeleanu (Trifu)<sup>1</sup>**

**Abstract:** The entity's management is responsible for the prevention and detection of fraud and errors, by monitoring the internal control system and the financial accounting system. Internal audit reduces the risk of fraud and error, but cannot eliminate it. Thus, the internal auditors will look for sufficient and conclusive audit evidence to highlight that there have been no significant frauds and errors in the financial reporting or, if they occur, their effect will be properly reflected in the financial statements and the entity's management will apply the measures regarding the declaration and correction of the identified errors.

**Keywords:** internal audit; internal audit function; risk; management

**JEL Classification:** M42

### **1. Introduction**

In Romania, the internal audit appeared relatively late and often associated with the internal control, in the public administration, this association was allowed until a certain moment. With the approval of Law no. 672/2002 on public internal audit, public entities proceeded to set up the audit department, and officials with experience in financial-accounting activity opted for the position of internal auditor, and like any new activity, procedures, specific objectives and especially the role the internal auditor were not perceived and implemented correctly by the management of the entities on the one hand, and the internal auditors on the other hand. Later, the legal regulations regarding the organization and functioning of the internal control and internal audit clearly established their delimitation but also their interdependence.

### **2. Research Study**

The scientific approach aims to analyze the relationship of audit with the management of public entities (Ghiță, 2009; Boța, 2009), the role of audit in the control system of the entity (Arens & Loebbecke, 1991; Ghiță, 2008), as well as the interdependence between the audited fields and the level of risks (Dumbravă & Sfetcu, 2014).

The empirical research on the issue of internal audit was supported by my professional activity for over 18 years, as an internal auditor in the local public administration.

---

<sup>1</sup> PhD, "Valahia" Târgoviște University, Romania, Address: 13 Aleea Sinaia Street, Târgoviște 130004, Romania, Corresponding author: nico75ard@yahoo.com.

### **3. Research Methodology**

The main methods used in the research that formed the basis of this study were documentation, observation, deductive and inductive reasoning, analysis, synthesis, statistical methods, and qualitative methods.

The main categories of documentation sources were obtained based on bibliographic documentation.

### **4. Monitoring and Risk Assessment - Strategic Objective of Management**

Within any entity, risk management is an ongoing process that seeks to identify and assess risks, but also the consequences of risks that may affect the implementation of the entity's objectives.

Economic entities proceed to identify risks using integrated risk management procedures and policies, thus recognizing the advantages of the risk management approach.

The advantages of implementing a risk management within the entity are:

- high probability of achieving the general and specific objectives of the entity;
- understanding the key risks and their immediate consequences;
- active management in managing the risks and problems generated by them;
- fewer negative consequences, unpleasant surprises or crisis situations.

For the risk assessment, the entities apply their own methodologies according to the specific objectives, in accordance with the associated risks they face, such as: team-buildings, in which the negative consequences on the specific objectives are presented and analyzed, the criteria are established used to assess the significance of risks. To define these criteria, audit norms and standards recommend considering the following factors:

- the nature and type of the causes and consequences generated, as well as the way to quantify them;
- the probability of occurrence of the risk;
- determining the level of risk;
- risk assessment from the point of view of stakeholders;
- the level at which the risk becomes acceptable or tolerable.

The assessment of the identified risks must be performed both by analyzing the probability and the consequence of its occurrence. A "high / medium / low" classification for each of the two could be sufficient and should be the minimum level of division - this results in a matrix with three rows and three columns. For a more detailed analysis, five levels can be applied to each element (consequence in the first column and impact in the second column):

Table 4.1. Risk Assessment

<i>If the consequence of the risk is:</i>	<i>The probability of occurrence of the risk is:</i>	<i>Then the measure is considered to have an importance:</i>
Suspension / closure of the activity of the entity, or of an important sector of activity, for a long period of time.	Almost certain.	Very high
Preventing the entity from largely achieving its long-term goals.	Probably	High
Preventing entities from achieving certain goals for a short period of time.	Possible	Medium
The production of inconveniences but which do not affect the achievement of important objectives.	Unlikely	Low
The production of minor inconveniences, which do not affect the achievement of objectives.	Low	Very low

(Own projection)

One of the important conditions of management is to ensure that the risk management process is efficient and that the risks are managed at an acceptable level. This assurance comes from various sources, such as: internal control and internal audit.

The internal control represents the totality of the decisions adopted by the entity's management regarding: the functional-organizational structure, the functioning and organization regulations, its own norms and operational procedures, the approval of the general and specific objectives of the entity, in order to fulfill the approved strategies and policies. Economy, effectiveness and efficiency.

In the case of public entities, the functioning of internal control helps the general and structural management to obtain the results projected within the local development programs and public utility services, through an efficient and competent administration of public resources. Internal control must provide assurance that the entity's objectives have been met through the following actions:

- achieving the proposed results with the efficient and weighted use of own resources;
- certification of information on financial statements and reports on the execution of annual investment and repair programs, execution of social programs, budget execution, as well as other approved economic information and performance indicators;
- the reality of the operations performed and their compliance with their own laws, regulations and procedures.

## 5. The Role of Internal Audit in Risk Assessment

The need for internal audit has evolved, and eventually society has accepted the role of this activity, which is why auditors have felt the need to organize and standardize their practical activities (Ghiță, 2009).

According to some experts in the field, the audit is the process by which a competent and independent person collects and evaluates evidence on quantifiable information, on an economic entity in order to determine their correspondence with well-established criteria and to report them (Arens & Loebbecke, 1991).

If at the beginning of this activity, the internal audit aimed at financial-accounting operations, subsequently, the audit objectives were directed to the management and internal control system, identifying the main risks associated with the general and specific objectives of the entity.

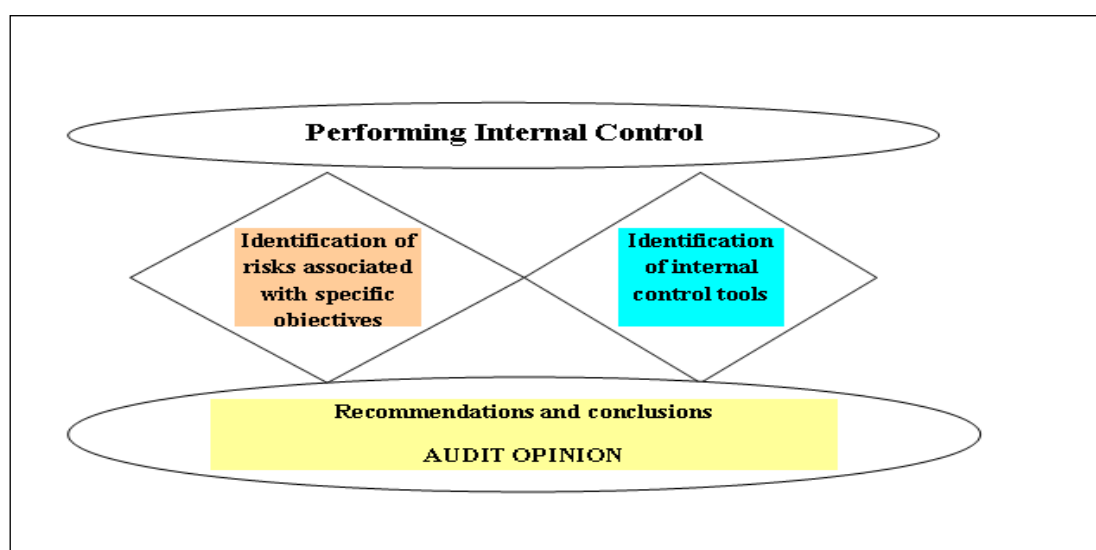
In accordance with the General Norms regarding the exercise of the internal public audit activity approved by Government Decision no. 1086/2013, the objectives of the internal audit aim at improving the risk management, control and governance processes by granting:

- reasonable assurance of the functioning of the risk management, control and governance processes that lead to the fulfillment of the proposed objectives;
- recommendations for improving the activities of the public entity in terms of efficiency and effectiveness.

Internal audit is an independent evaluation function, directly subordinated to the entity's management, which objectively evaluates and reports the degree of compliance of internal control.

In the evaluation of the internal control system, the internal audit aims at the following directions (figure 1):

- the exercise of internal control leads to the identification of the risks associated with the specific objectives of the entity;
- the risks associated with the specific objectives are known, evaluated and ranked;
- internal control instruments are approved - operational procedures and own methodological norms that work in order to limit / reduce / eliminate risks;
- forms of internal control are exercised: self-control, hierarchical control, preventive financial control;
- the recommendations of the internal audit lead to the strengthening of the internal control, the improvement of the administration processes, the fulfillment of the general and specific objectives of the entity;
- establishing the degree of assurance regarding the conformity of the internal control system organized at the level of the entity.



**Figure 5.1. Evaluation of the Internal Control System, According to the Internal Audit**

*(Own projection)*

From the evaluation of the internal control system, I consider that the internal public audit is an important function in the strategic management of the entity, conception supported by other authors (Dumbravă & Sfetcu, 2014), internal audit planning always being conceived by the relationship between objectives and the entity's resources in relation to the areas of audit and significant risks.

The role of the public internal audit is supported by the complexity and the area of competence of the audit, which ensures the users of the audit reports the good use of the material and informational financial resources, in accordance with the management decisions.

Internal audit and risk management are essential components in the operation of the entity's internal management and control system.

From the presented results the following aspects:

There is interdependence between the two activities, the internal audit assesses the degree of compliance of the internal control, and through the recommendations and conclusions formulated, the internal audit provides assurance on the functionality of the internal control.

**INTERNAL CONTROL** - organized on each functional component of the entity (department / office / service / direction), represents a set of measures adopted by the management of the public entity, in order to ensure the proper functioning and fulfillment of general and specific objectives of the public entity.

**INTERNAL AUDIT** - organized within a specialized department, represents a set of specific, independent procedures and activities, provides management with objective assurance and advice, through a systematic and methodical approach, helps the entity to meet its objectives, evaluates and improves effectiveness and efficiency risk management, control and governance processes.

## **6. Conclusions**

Managerial responsibility results from the manager's obligation for the five components of internal/managerial control in the public sector: control area, performance and risk management, information and communication, control activities, audit and evaluation.

The entity's management must focus on the efficiency and effectiveness of the governance, risk management and control processes.

Internal audit is a tool that ensures the improvement of the management system in order to meet the general and specific objectives.

## **Reference**

Arens, A. & Loebbecke J. (1991). *Auditing an integrated approach* 5th edition. Ed. Prentice-Hall.

Boța, Avram, C. (2009). *Auditul intern al societăților comerciale/ Internal audit of companies*. Cluj Napoca: Ed. Risoprint.

Dumbravă, P. & Sfetcu M. (2014). Asigurarea eficienței activității entităților publice pe baza recomandărilor auditorilor publici interni/ Ensuring the efficiency of the activity of public entities based on the recommendations of internal public auditors. *Revista Audit Financiar/Journal of Financial Audit no. 12*. Bucharest.

Ghiță, M. (2009). *Guvernanța corporativă și auditul intern/ Corporate governance and internal audit*. Bucharest: Editura Tehnică-Info.

Hotărârea Guvernului României nr. 1086 din 11 decembrie 2013 pentru aprobarea Normelor generale privind exercitarea activității de audit public intern. *Monitorul Oficial nr. 17 din 10 ianuarie 2014/ Romanian Government Decision no. 1086 of December 11, 2013 for the approval of the General Norms regarding the exercise of the public internal audit activity*. Official Monitor no. 17 of January 10, 2014.