PROCESSES USED IN RISK MANAGEMENT

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Abstract:

In today's world, entities must pay a particular attention to the risks they have to face, risks that affect the developed activities. This requires the development of some processes of risk management, internal control and corporate governance, whose main purpose is to reduce them to a significant level.

Keywords: *risks, risk management, internal control, corporate governance.*

JEL Classification: G32, G34

1. Introduction

Since ancient times, the risk has been identified with the danger incurred by any person when engaging in an activity. Risks represented a concern for humanity because of their ubiquity in all fields and their quantification due to the produced damage.

Considering the types of activities, the approach of risk is achieved in a different way. All economic activities are carried out in conditions of risk - more or less serious, more or less known, easier or more difficult to avoid.

In this respect, it is necessary to identify and assess risks that may arise in order to reduce them as much as possible, accepting only those risks that affect only a small extent in an activity.

Withholding adequate attention to risk, incorrect assessment of the lack of practices aimed at minimizing them as much as possible, will directly affect the final objective proposed by the entity.

Therefore, we are aware that most decisions are made under risk, consequently, detailing the risk mitigation processes that entities must face is an important topic further debated.

2. Risk management

Risk management at the entity level (ERM - Enterprise Risk Management) is considered a continuous process that enables managing the threats that affect the goals (F.C. Dima, 2013, pp. 105).

It represents a process aimed at the systematic application of management policies, procedures, and practices, techniques for identifying, analyzing, evaluating, treating, monitoring and communicating risk.

According to the methodology of implementation of internal control standard "risk management", it is a process conducted by the management of an entity, and consists of the following steps:

- defining the strategy to be applied in the field of risks;
- identification of risks;
- risk assessment;
- control of risks;
- monitoring, review and reporting of risks.

a) Defining the strategy to be applied to risks

Entities, from the desire to limit the risks they face, develop a range of policies in this field, and then, based on the applied policies to identify the risk management strategy.

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Risk policy is a document that provides information related to an entity's insight into risk management. Based on this, the entity's risk strategy will be detailed and will develop an appropriate course on risk reduction.

b) Identifying the risks

This activity is aimed at detecting and recording all risks depending on the activities of the entity, once you have identified the persons designated to manage and continuously monitor those risks.

Risk identification can be made:

- either by self risk method involves preparing questionnaires or creation of workshops on different types of activities or persons from specialized compartments;

- by risk analysis implemented by a particular compartment of a particular entity or by an external team.

c) Assessment of risks

It consists of identifying and analyzing the internal and external factors that positively or negatively influence the entity's objectives.

This activity is essential for the entity's management as it should be carried steadily. At the moment of the risk assessment we should consider the following issues: the possibility to materialize risk and its impact; and classification of risks: high, medium or small risks.

Among the specific techniques of measuring risks, we should remember (M. Ghiţă, S. Briciu, 2009, pp. 259):

- the probability technique that involves the following steps: measuring risk in relation to all major risks; assessment of probable losses based on statistical tools and a historical approach; direct evaluation of annual losses; findings and extrapolations with corrections if necessary;

- the technique of risk factors that is identified in advance, based on a categorization of risks;

- the technical assessment matrices, based on the risk assessment criteria and influences on;

- the financial impact, the probability of occurrence, the internal control;

- the technique of relative classification using a scale of values determined in advance;

- the technique of matrix classification based on various possible combinations.

Risk assessment should be an ongoing process because they are in constant change according to:

- the extreme changes in environment;

- the pursuit of new goals;

- the appearance of new people in the establishment.

d) Risk control

It implies the initiation of controls and other activities in response to the identified risks. Among the specific measures of risk control we include:

- risk tolerance

Risks can be accepted if they are insignificant or if you cannot work due to the cost measures.

- treating risks

In practice the following categories are used as control tools: tools of preventive control - used when the desired result is the limitation or the non-materialization of the negative effects due to the occurrence of risks; corrective control tools - used as a means of recouping losses following the occurrence of damage from a risk; direct control tools - are designed to targeting threats to another direction tolerable; detective control tools - aim to identify undesirable results due to the onset of a risk.

- transferring risks

It consists of directing certain risks to another entity specialized in the management of those risks or reducing the exposure to risk. In these circumstances it is considered to be necessary to analyze both the internal environment and the external environment and developing the risk management strategy.

- closure of the activities

There are times when keeping risks within reasonable limits or elimination can only be achieved by ceasing certain activities or reduce them.

- opportunities generated as a result of the risk control

Risk control is to maintain the risk tolerability and activities in optimal conditions to obtain a value.

e) Analysis and reporting of risks

It aims at: hazard identification of the audited entity; prevent, eliminate or minimize them; evaluation of internal control activity of the audited entity; and management reporting.

The main tools and techniques used in the analysis and reporting risk are:

- self-assessment of risks;
- communication related to the risk administration in charge of all activities carried risks in the field of risk;
- constituting teams specialized in servicing and insurance on the risk management process;
- formation of risk committees.

3. Internal control

It is an activity designed, implemented and maintained by management and staff of the entity in order to provide reasonable assurance regarding:

- increasing efficiency and effectiveness of the operations;
- achieving goals;
- credibility of the financial statements;
- providing an accurate image.

To achieve a more detailed exposure of the internal control process, it is necessary to present the elements of internal control, namely:

- the existence of the control environment;
- the risk assessment process;
- the effective conduct of the internal control activity;
- a system of information and communication;
- the existence of an appropriate process of supervision and monitoring.

The control environment includes all actions, policies and procedures developed by the responsible entity (directors, supervisory board, members of the directorate) on the need to conduct internal control and awareness of the importance of the entity's objectives. The responsibility for risk assessment lies with both those charged with governance (directors, directorate members) and executive management in the field of business (accounting, marketing, etc).

In order to develop an adequate assessment, it is necessary to start with the analysis of the organization and performance of internal control, strategies, procedures and accounting policies and then to continue with the assessment of other risks arising from a number of internal or external to the entity comes into contact. As today more attention is paid to risks, their assessment is the responsibility of both internal and external auditors during the audit missions.

To ensure a reasonable level of internal control, the following types of verifications are performed:

- preventive controls;
- detection controls;
- directive controls;
- administrative controls;
- accounting controls.

The internal control activities generally regard the entity's policies and procedures with reference to:

a) the separation of responsibilities in order to prevent fraud and errors.

This separation is intended to ensure separation of the asset management responsibilities on accounting; separation of the approval process (approval) of an operation from the asset management associated to them; separation of the entity's operational activities (exploitation) from their accounting tasks; separation of the main functions related to the information technology from the functions of the departments which are the key users of these technologies (in correlation with the size of the entity);

b) the approval of the entity's operations and activities.

At the level of each entity it is required to have clear rules on general and specific approvals for its operations;

c) the preparation and use of accounting documents comply with legal requirements.

d) the protection of storage assets through entities, managing and securing appropriate and adequate physical controls.

e) the verification made by people who apply the verification procedures that ensure the independence of those responsible from outside the entities.

The information and communication system refers to: receiving, recording, processing and analysis of all information regarding the entity. These systems contribute to the achievement of various reports containing operational, financial and compliance.

The implementation of policies and procedures for the proper functioning of the entity is based on relevant, pertinent and credible information.

The process of supervision and monitorization requires permanent assessment and regular monitoring by the representatives, the correct application of the internal control mechanisms in order to determine their consistency and to intervene with necessary changes, wherever necessary. This process requires that:

- every responsible person must organize himself to run the business more efficiently;
- to establish and be assigned specific and correct tasks to the entity's staff;
- to develop and implement various methods and working procedures;
- to devise a coherent information system on the coordinated activities;
- to realize the supervision of the staff activity within the scope of responsibility of each responsible person.

Every responsible person shall be obliged to constitute a system of internal control. Redirecting this task to another person leads to a failure of the entity's control measures. But managers can turn to specialists to advise and support them in the design, development and improvement of the internal control mechanism specific to the coordinated field.

4. Corporate governance

″The concept of corporate governance has a very broad meaning, including elements such as: management regarding the accuracy of the information that financial situations comprise; managing very tight deadlines for sending the financial reports; communication and complete transparency with respect to financial results; transparency of the internal audit, of processes and of external audit ″ (C. I Voiculescu, 2012, pp. 278).

"Governance is a combination of processes and structures implemented by the board of directors to inform, lead, direct and monitor activities of the organization in order to achieve the objectives set" (IIA - The Institute of Internal Auditors).

The Institute of Internal Auditors considers that the main pillars underpinning corporate governance are: the audit committee of the board, executive management, internal auditors and external auditors. The effectiveness of corporate governance consists in the interaction of the four pillars.

Due to the unethical behavior of top managers, their inability to lead an entity, the incompetence of the board of directors to direct the entity to a suitable way, the lack of mechanisms to highlight the significant issues facing the entity, rather performance low, are just a few factors that led to the appearance of improper and fraudulent statements in the entity.

In these circumstances there were some reports that have shown the causes deficiencies faced by entities and the major cause that contributed to their bankruptcy was a weak internal control system.

As a result of these reports there were developed a series of principles and codes that were the basis for the implementation of corporate governance in the entities.

Corporate governance principles formulated by the OECD - Organization for Economic Co-operation and Development refer to six aspects (V. Avram, 2003, pp. 57), namely:

- ensuring the foundation of the overall framework of corporate governance by promoting the principles of transparency and efficiency of markets, harmonized legal regulations and principles by the clear separation of responsibilities between supervisors, authorities of normalization and implementation;
- guaranteeing the shareholders' rights and the key functions of ownership;
- ensuring fair and correct treatment for all shareholders (including foreign and/or minority), reiterating the need to ensure compensation to all those whose rights have been violated;
- recognition of the shareholders' legal rights, i.e. cooperation between shareholders and companies in the field of generating added value and jobs;
- provide an accurate picture of performance, capital, financial position and governance entity through a fair and transparent reporting system;
- clearly define the responsibilities of the board to ensure effective strategic coordination entities and effective oversight of executive management.

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Therefore, the objective of the financial statements is to provide information about the financial position, financial performance and changes in the financial position and financial performance of the entity, information that is useful to all users (F.C. Dima, 2009, pp.57).

Moreover, presenting a faithful image is generated as a result of the correctness of the carried activities, of a performance management and minimization of risks due to the implementation of corporate governance.

5. Conclusions:

Romanian accounting, should be examined closely with national historical context, on the one hand, and with developments in international accounting in Europe, on the other hand (M. Ioneci, N. Marcu, 2007, pp.159). Learn from others experience is desirable, in the current period , full of unforeseeable events.

The existence of a wide range of risks with actual or potential impact on the business entities represent a certainty, as well as their influence on the company results (most often negative).

In this context, the increase of the economic performance and the efficient conduct of activities are strictly related to implementing a risk management system, allowing defining the principal risks of the entity, identifying and assessing the risks it faces, and develop the effective strategies of managing them. Only in this way risks can be accepted, avoided or transferred (partially or totally).

Therefore, it requires a proactive approach to risk, which is based on identifying ways to prevent and mitigate the negative effects. Respecting the corporate governance, implementing the risk management processes and the internal control are some aspects that contribute to building a reputation for integrity and operation of the entity. Managing risks as a result of the activities of the entity leads to:

- reducing threats;
- streamlining the activities;
- reaching the goals;
- increasing the entity's performance.

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