

## The Research of Enterprises' Risk-management Audit

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**Abstract:** The risk management inter-auditing, focusing on the systematic and unsystematic risks, based on the risk management processes, embeds inter-auditing into risk management frameworks helping the corporations to achieve their objects. Thus, the risk-management inter-auditing connects its functions with the objectives of corporations, which also greatly benefits its own developing. In this essay, I introduce the current situation of risk-management audit in Chinese enterprises. Then, analysis the difference between the China and foreign countries and put forward to the development tactics.

**Keywords:** Risk-management audit, Auditing approach, Innovation

### 1 Introduction

Nowadays, under the background of globalization and deepening of the degree of information, the risk enterprises face is increasing. In order to enhance enterprises' ability to deal with risk, we must emphasis risk management. As far as china is concerned, although some large and medium-size enterprises have set up the system of risk management, risk management is still an unresolved subject to many companies. The initial research on risk management audit of enterprises began in june,1999 when IIA defined internal audit which is a kind of independent and objective activity of decision and advice to increase value and improve the business of organization for the fifth time. It evaluates and improves risk management to help organization achieve the goals by using systematic and standard measures.

Deloitte and Touche-Tohmatsu claimed: future changes of outlook of risk control has provided opportunities and challenge which we should respond to, rapidly and effect to help organizations achieve goals. In 2002,it is pointed that in the research of IIA ,*ERM: Trends and Emerging Concluded*: we believe that ERM which will affect execution of internal audit, will be main part of process of management. IIA organized annual meeting, ERM&CSA, which helped internal auditors play positive role in ERM. Internal audit agency has launched two main researches of ERM in 2001 and 2002. The practice of internal audit proves that internal audit plays important, sometimes even leading role in the process of adopting ERM.

Fogarty and Kalbers explored professional range of internal audit of which independence, autonomy and compliance are main characters. Turnbull' method of internal control provided opportunities to internal audit and required internal audit in the position of risk management professors. Important changes are taking place in the nature of internal audit. Risk management is essential part of organizational governance while internal audit is essential part of risk management.

In recent years, annual meetings of IIA , global forum and annual meetings of AIIA always take risk management audit as main topic. Risk management has been the highlight of internal audit which has been the inevitable choice to risk management. In fact, according to findings of global audit information network of IIA in 2003,the point of future audit is risk management system audit accounting for 63.9%.

In 2004, in an article on risk audit, Zeng fanrong and zhenyi pointed that risk management is a management and consulting activity that auditors use their own unique knowledge and skills to identify, evaluate and estimate enterprise risk.

In 2005,in the article, under the influence of new COSO report--construction of context and method of risk management, Gaoyanfang and Weizheyan point that the subject of risk management audit can be national audit agency, social audit organization and also be internal audit agency. In comparison, that internal audit agency implements risk management audit has unique advantage.

So, all scholars believe risk management audit is important part of enterprise risk management. Because risk management audit is still a new thing, different scholars have different points about whether risk management audit is a new audit mode or not, whether risk management audit is recognized business or consulting business and attrition of subject of risk management audit.

## **2 Current Situation of Risk-Management Audit of Chinese Enterprises**

### **2.1 Risk management audit is still in the initial stage**

Risk management of Chinese enterprises lacks of systematic and scientific methodical guides of risk management theory. On one hand, it is reflected in that we do not follow scientific process of risk management to implement management, on the other hand, we do not have concrete and targeted strategy of risk management. In order to meet needs of existence, competence and development of enterprises, institution of western internal audit has been established spontaneously. The theory of internal audit has been turned from financial audit to management audit, and it is risk management audit-led. The object of internal audit is that internal auditors is good at not only finding questions, but also resolving questions. Internal audit of state-owned enterprises which has supplemented national audit for a long time, in the process of planed economy turning to socialist market economy, is established to meet needs of national audit. So, establishment of internal audit system of state-owned enterprises which is not the spontaneous demand of organizations, but is the action of government, has an obvious tendency with external pressure.

### **2.2 The knowledge structure of internal auditors is single**

Internal audit is a kind of integrated activities of combination of troubleshooting and prevention of conspiracy with increasing corporate value, which determined the demand of compound high-qualitys of internal auditors. This requires that internal auditors not only have certain financial accounting ,audit knowledge and knowledge of several subjects including management, law, finance, engine, technology, information and so on, but also know the process of production and business activity. In China, most internal auditors have financial, accounting and audit background, and few people mayor in other professions engage in audit work. This certainly can not adapt to other audit types except financial audit.

### **2.3 Internal audit do not play enough role in risk management**

According to research, 18.29% of internal audit agencies of organizations investigated play no role in risk-management, and few internal audit agencies investigated will take measures to remind management of risk management and establish risk management agencies. When enterprises don't have risk management agencies, 40.42% of internal audit agencies investigated will remind board of directors of risk management and establish risk management agencies. 24.39% of internal audit agencies investigated will manage risk management activity or together. 20.73% of them will train staff of risk management. 38.54% of them set enterprises' preference of risk and tolerance of risk. 8.54% of them supervise risk management activity. Most internal auditors of organizations investigated believe that internal audit should play certain role in risk management, but 4.88% of them believe that internal audit don't play a role in risk management. This above explains that few internal auditors know little of risk-management, lack of awareness of risk management and don't realize the importance of risk-management, which is an important factor that internal audit doesn't play a role in risk management.

## **3 The Reference of Foreign Enterprises' Model and Experience About Risk-Management Auditing**

### **3.1 America**

COSO announced new framework of enterprise risk management, which was confirmed at June 6<sup>th</sup> 2004

and published formally at August 2004. In the new COSO report, internal control, the main task of which was to prevent and control corporate finance and operation risk effectively, became an important component of corporate risk management.

During the course of managing risk, internal auditors should consider all the risks and surroundings which may produce new risks, on the basis of knowing, internal auditors can give some advice on preventing risks. Meanwhile, internal auditors discover persistent risks, advance how to improve risk management and give advice on increasing value by examining and testing finance, operation and compliance controlling procedures.

According to the report of COSO2004, enterprise risk management contains 8 interrelated elements, which come from the operation manners of the management. There are logic relationships among the 8 elements rather than parallel relationship, internal surrounding is the premise of enterprise risk management. it is a course from identifying events, evaluating risk, coping with risk, control behavior, information and communication, supervise seem to be the basis of enterprise risks.

### **3.2 Germany**

Germany constituted the law of corporation control and transparency at 1995, which regulated the content of systems of early identification of risk and corporate risk management audit process, we could reference it experience.

The objective of “Law of corporate control and transparency” in German is to mainly strengthen the governance of listed corporation. Different from the single commission of America, Germany employs double commissions, Co.Ltds in Germany constitute supervision commission and management commission. Supervision commission retains auditors to supervise the management, to make auditors independent to management commission, the auditors of listed corporations in Germany are appointed by supervision commission.

According to the regulation, there are two main objectives in forcing setup systems of early identification of risk: first of all, systems of early identification of risk of listed corporation must be audited by external independent authorities; second, supervision commission can obtain related information to assist in fulfilling its supervision responsibilities, auditors must verify the risk reports, writing down auditing reports or submissions to show the audit conclusions.

The main function of auditors is to guarantee the creditability of corporation risk report and follow the risk identification systems. Although management commission or other decision-makers take into account or understand that its own reflection of the risks is not mandatory, in order to assess the companies’ going-on ability, auditors must consider opposite measures to detect the risks. In addition, the auditors during the consultation or the law may affect the policies to the risk.

### **3.3 Experience reference**

#### **3.3.1 In the organizations, conduct comprehensive enterprise risk management**

ERM framework requires the internal audit to work beyond the internal spacing between various functional departments and achieve a comprehensive and full level of operative to manage risks. in terms of Risk control in the modern enterprise, many medium and large enterprises establish three levels of risk management organization, that is to say, taking risk control committee composed by senior corporate management as the company's highest decision-makers; internal audit and professional risk supervising department under the leadership of the company Risk Control Committee. Internal audit departments assess company’s risk by the conventional audits and special audits risk, designs the company's risk management system and regularly inspects the implementation of the effectiveness of risk control systems, reports and reveals the potential risks, and proposals the suggestions of the prevention of risks and improvement of work.

#### **3.3.2 Complex and high-qualification auditors**

Currently, many excellent companies have a perfect internal audit agency for enterprise risk management, and implementation of risk management audit. The auditors commonly require complex

and high-qualification workers, many of who are workers with traditional accounting background, but the vast majority of them are experts of other fields. Such as Philip Morris, which is to respond to a wide range of the risks the enterprises faced, to optimize the staffs combination of the internal audit department, to absorb market experts, computer specialists, management consultants, engineers, chemical specialists and fraud experts and other professional workers to add into internal audit team, and it is also to supple the shortage of internal audit skills, cooperate with external consultation agencies.

#### 3.3.3 Timely implement self-assessment of risk and control

Risks occur anytime, anywhere, and are constantly changing, attempting to solve the basic problem by auditing once and twice is absurd and unrealistic, and therefore risk management audit must be regular and periodical or irregularly carry out a comprehensive risk assessment, and on this basis, implement special risk audits to the key risk points, especially major out-of-control points found in assessment of internal control system, should give high priority, take effective measures to plug loopholes to reduce or eliminate the risk and the internal out-of-control points.

## 4 Ponder Over the Strategy of Risk-Management Audit(RMA)

### 4.1 Enhance the organization level of internal audit department

RMA is formed in the context of modern enterprise, It reflects the development trend and alter tendency of internal audit. We must concern on the development of internal audit and connect the internal audit with corporate governance. Improved RMA gradually is the main trend of internal audit development. To implement RMA, we must change the organization model of enterprise to ensure the internal audit in a higher organizational status that they can review all aspects of the management without any limits. The internal auditor should be responsible for some management who have the power to ensure the audit field wide enough and they can take actions according the auditors' advices. In order to make sure the audit conclusion objective and fair, the internal audit also need to be independence and authority. IIA issue Internal Audit Code of Professional Conduct in 1973, and it has stressed that the internal audit must independent form the audit activities. To be independence, we not only need to make sure the audit department has higher organization status, but also to ensure the internal auditors independent enough.

### 4.2 Improve the professional competence of the internal auditors

We need compound talents to carry out RMA effectively. That means the auditors need to have accounting and auditing knowledge, and at the same time, they should familiar with the process of their business. The auditors need to grasp a variety of disciplines, such as management, legislation, financial, engineering, information, technology. Of course, quantitative analysis and computer audit are also necessary for the auditors.

### 4.3 Put the risk management into the enterprise management

In our country, the management levels are different, and the internal audit level also not in the same line. Some company focus on the financial audit, and some focus on business audit or management audit. It is a inevitable trend from financial audit to management audit. But which type of audit is more benefit is depends on the enterprise itself. The RMA proposed an advanced concept that we should make the business goals and risks as the criterion. RMA is a comprehensive audit that all kinds of enterprise can use it for internal audit.

### 4.4 Innovation of the techniques and methods

RMA coordinate with all aspects of professional management more and more closely. The audit tools, methods and management are more mixture with the management measures of these departments. The auditors should establish their own methodology and committed to the audit strategy, learn from the relevant international conception. Let's take Wuhan Iron and Steel Group as our example. The internal

auditors of this company set a standard system which include management system, responsibilities regulations system, workflow system and system of operating procedures. For the landscape management, the auditors establish the "Multi-loop method" ; To evaluate business processes ,they set the "Network parity law", "Democratic Supervision Law" and "Peer audit system"; At the same time , hundreds of audit tools and techniques help the group make the success, such as "Two-way commitment system", "audit record Law," "walk through test", "internal control matrix," "multi-dimensional analysis of the table".

## 5 Conclusion

The environment for the enterprise become more and more complicate, the managers try to control risks from all aspects. So, the internal auditors should also carry out risk management to help the managers in adding the company value.

Firstly, the RAM in our country has a good application in improving corporate governance, enhancing the ability of prevent risks and adding the enterprise value. But there are some some defects, such as the irregular external environment, the internal environment is not easy enough, the quality of auditors are generally low, the audit method need to be improved.

Secondly, the aim of RAM is to enhance the sufficiency of the corporate risk management, improve the overall management effectiveness, ensure the realization of the business goal, and then achieve the target of internal audit--adding the corporate value. We should follow the law of internal audit development, promote RAM in practice, elevate the status of internal audit in enterprise, provide more development space for it.

Finally, we can absorb the experience from America or Germany. There are many measures that we can try, such as improve the external environment, strengthen the functions of internal audit, rise the level of self-regulation of the industry, make the evaluation criteria more standard ,remodeling the structure of auditors, innovate the audit method and so on.

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