

INTERNAL AUDIT – AN INSTRUMENT FOR RISK MANAGEMENT IN THE SUPPLY AND MANAGEMENT OF MATERIAL RESOURCES

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ABSTRACT

Internal audit is one of the tools available to the management in identifying and analyzing foreseeable risks, as well as taking the necessary measures as it provides the management structure with the necessary information to make the right decisions appropriate to the situation. Internal audit also has the role of supporting the company by identifying and evaluating significant risk exposures and improving risk control and management systems. In the context of the trend of repositioning of the supply and management of material resources within the companies, recorded in the specialized literature, it is desirable that by applying the risk identification methods, a value gain is obtained by integrating the existing risk into the activity of the company, resulting in an increase in efficiency and competitiveness.

KEYWORDS: *internal audit, risk management, material resources, risk.*

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1. INTRODUCTION

The risk in the activity of companies is a concept whose importance is predominantly based upon the consequences: uncertainty that affects the outcome, the possibility of a loss or even the combination between the probability of an event and its consequences or the insecurity created. Keeping risks at an acceptable level to explore opportunities to improve performance and increase the competitiveness of the company is the primary objective of risk management that can be achieved by applying analysis methods to identify risks and analyze them for the purpose of applying measures to diminish the impact but also knowledge on the causes of risk, as well as tracking the evolution / monitoring and dissemination / communication of the conclusions to the factors that can benefit from the acquired knowledge.

2. USING INTERNAL AUDIT IN THE RISK MANAGEMENT

2.1 Conceptual approach regarding risk

By definition, risk is an uncertain event which, if it takes place, affects positively or negatively the objectives of an activity or group of activities" definition, a positive sense is also assigned, thus considering the exclusively negative use as incorrect.

The 2200 International Standard of Internal Audit Missions (Mission Planning) defines risk as „the probability of an event that may have an impact on the objectives achievement”. Risks can be more or less known, have a greater or lower impact, can be harder or easier to avert, either way the direct

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and obvious conclusion is that the risk must be known. In order to determine the probability of such risks happening and their impact, the risks must be identified and evaluated. This process should be a continuous one as risks are permanently changing, both under the influence of the entity's measures as well as an effect of other internal or external factors.

It is obvious that risks are inevitable and they differ from one activity or project to another. Not acknowledging them endangers the entity's internal processes, leading to hidden costs, poor quality or defective products, production delays (caused by suppliers or events occurring in the supply process), all of these leading to the increase of costs. Thus, for identifying, analyzing and consequence control some algorithmic steps must be followed.

Risk diversity (production, technical, material resources management, price, currency, legal, operational, competitive, commercial, political, climatic) is one of the arguments requiring a coherent management and prevent risk that policymakers cannot ignore.

2.2 Risk management

The risk management sums up a series of activities, techniques and processes based on which decisions are made in the risk management and risk management implications. Even if by risk we also understand positive impact events, most managers seek to avoid them (as high uncertainty shares) and resort to measures of mitigation, assessable elements, ignoring the fact that risk can be transformed into an opportunity. However, decisions should be based and consistent with company strategies.

For an effective risk analysis, Andron D.R. (2011) proposes the following steps: assessing the work and the risks involved (internal or external); developing an action plan in case of emergency, which can be implemented immediately in case of incident; developing plans and evaluation criteria for situations that may develop; developing a strategy for the recovery / return to normal activity; training and testing teams with responsibilities as well as continuously updating the plans.

In developing and implementing a strategy, the risk management objective is not to eliminate the risk entirely, but to identify and prevent it, because the risk is essential for the company's activity and can also be a means of competitive advantage. When it cannot be identified as an opportunity, several processes with a negative impact occur, through which the negative impact risks are assessed and accepted for the purpose of knowledge and for the preparation of a response reaction.

The ISO 31000 standard identifies a series of risk management principles. Thus, the risk management: works with measurable values, is part of the organization's internal and decision-making process and explains the uncertainty (Spătariu et al., 2011). Also, risk management is based on highly accurate information, is influenced by the human factor, it must be transparent and comprehensive, dynamic and adaptable and should allow the development of the organization.

The main objective of risk management is to maintaining risks at an acceptable level, enabling exploring opportunities in order to improve performance and increase competitiveness.

In risk management, the processes that policymakers are resorting to are: risk identification and the analysis thereof for detailed risk knowledge and implications, planning and development of the actions to be taken in order to reduce the impact, knowledge of risk causes, and also following of the development/monitoring and dissemination/disclosure towards factors that can benefit from the acquired knowledge. The policymaker's attitude manifests as preventive action, the obvious superiority of prophylaxis versus repair and proactive management is considered to be superior reagent management.

2.3 Internal audit – management tool

One of the tools within reach of management in the identification and analysis of the foreseeable risks and adopting the necessary measures is the internal audit, which can ensure the information necessary to make the right decisions in appropriate situations.

According to the International Standards, "internal audit is the independent and objective activity that gives an entity an insurance regarding the control over the operations, guidance for

improvement of its operations and contributes to adding a value. It also assists the entity to achieve its goals, evaluating in a systematic and methodical approach, the risk management processes, the control processes and governance of the organization and by making propositions in order to consolidate their efficiency”.

The audit department of the company, operates with techniques based on risk analysis and is seen as a counseling structure, aspect taking action in all sectors of business (planning, purchasing, production, supply, marketing, financial, sales), providing the necessary expertise and offering a different approach on the issue. The vital role of providing advice and checking the departments functioning ensures a better perspective on which solutions can be implemented.

Risk analysis and its impact as well as the materialization of the results through reports, briefings, registries, is a continuous type of activity, given the specific nature of risk, change, modification, new ones, requiring continuous adaptability of the company.

2.4. Supply and management of material resources

The identified risks must be associated with the activities in order to conduct an effective analysis for identifying the impact diminishing measures and also for monitoring the obtained results and adapting to the new requirements.

Depending on the field of activity and size, the provision of material resources is more important for some companies than for others, but considering that about 70% of their revenues are used to supply material resources, the need to identify the best suppliers and the most cost-effective sources of supply has, over time, led to the transformation of the supply process into a strategic business process. The process of material asset management and management involves a large number of activities, using different terms in the literature, such as: purchase or supply; logistics or material flow management (Calotă and Iana, 2009; Tomoială, 2013).

The increased importance of the supply of material resources also consists in the high share of the costs of the material resources in the total costs of the enterprises (over 50%) any reduction of it leading to the decrease of the total costs, and implicitly to the increase of the profit. Thus, it is appreciated that in the economy of the developed countries, costs can be reduced on the basis of the supply activity by 5-10%. The decisive importance of this activity can be even more emphasized if it is taken into account that in the long run the only potential source of profitability growth is cost reduction.

2.5 Methods of risk analysis in the supply and management of material resources.

Baglin et al. (2007) argue that for an organization, the supply function "is responsible for searching and acquiring the products and services demanded by internal customers at the best cost, quality, service and innovation, keeping under control short and medium term risks.

Risk analysis through auditing of the supply chain of a company appears to be a necessity amid the continuous increase in the complexity of the material asset management and asset management process, especially since this area of activity is recognized as a profit center for the company (Cârstea, 2000).

In this case, internal audit no longer focuses on the accounting activity, but aims at auditing risks by sector of activities, including in the provision and management of material resources. Thus, it identifies and reports the problems or the possibility of occurrence of risks in order to eliminate the vulnerabilities across the chain: planning, acquisition, storage, supply as well as financial and IT, related to the supply chain, and also identifies the necessary means for dissemination in order to prevent similar situations.

The risk in the system of providing and managing the material resources, the possible event that may intervene to jeopardize the customer satisfaction, may occur in one of the five processes (Michelberger and Labodi, 2009) determined:

1. planning – analysys to determine the quantity, quality and timing of delivery,
2. Supply – raw materials, components,
3. production,
4. delivery – storage, distribution,
5. return of defective, over-produced or maintenance requirements products.

In “Redefining the Auditing Function with a Large Industrial Company” (Fike, 2005) proposes a 12-month cycle process to define an improvement needs *map*, recommended for auditing a supply department, as follows:

Table 1. Necessity for improvement

	Months
Understanding risks and causes using the “Dynamics System” tool – a simulation model with a focus on scenarios and how changes affect the results, developed by Jay Forrester (MIT)	1 – 3
Identify critical failure scenarios and create improvement plans: Failure Mode Event and Critical Analysis, a tool developed by NASA	4 – 6
Business Continuity Plan, a tool for developing business continuity plans once the analyzes have been completed and the impact has been realized	7 – 9
Stress tests, simulations and tests of continuity plans without any interruption	10 -12

Source: authors

Thus, through tools developed in different economic or industrial plans, a *universal instrument* used in auditing systems for effective risk management is created.

Edward Erikson (CISCO Systems) in the "Supply Chain Risk Management" video conference identifies seven steps that are taken in the Supply Chain - Supply Chain Progression:

- Step 1 Risk identification and hierarchy,
- Stage 2 Establishment / development of continuity plans,
- Stage 3 Risk mitigation by installing optimized measures (install spinklers)
- Stage 4 Risk mitigation through solutions (insurance, risk transfer to supplier, etc.)
- Stage 5 Avoiding Risk - Changing Partner,
- Stage 6 Quantification of risk according to matrix probability x impact
- Step 7 Taking calculated risks.

3. CONCLUSIONS

The risk management is a permanent process of dealing with the uncertainty of reducing dependence on these uncertain factors and transformation, as far as possible, in a commercial advantage through: identifying the source of uncertainty, probability of impact measurement, evaluation of alternatives.

The manager must ask himself: „what is my greatest fear?” and then „am I ready to solve the situation?”. It is said not to put brakes on racing cars to go slower, put them to go faster. That is why it is desirable to obtain an increase in value by integrating existing risk in the business, resulting in an increase of efficiency and competitiveness.

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