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Investigation the Impact of Risk Management and Audit Committee on Industrial Companies

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A B S T R A C T

This study examines the impact of risk management and audit committee on industrial companies. Internal audit is the task of evaluating the work that takes place within the entity under review and by its staff in order to provide service to that entity and it is one of the main pillars of the control environment. Assessing the adequacy and effectiveness of accounting and internal control systems is one of the main tasks of the internal audit unit. Internal audit is an independent and consulting activity with specific objectives that has been designed to create value and improve performance. Internal audit helps the company achieve its goals with a structured approach as a result, the effectiveness of risk management evaluates and improves controls and governance activities. The first goal of the organization's internal control system is providing the reasonable confidence in management. Financial information is accurate and reliable, the organization is in compliance with policies, plans, procedures, rules, regulations and contracts, assets are protected against damage and theft, resources have been used effectively and cost-effectively and the goals set for operations and programs are achievable.

Keywords: Financial Information, Industrial Companies, Risk Management, Audit Committee, Operations and Program.

INTRODUCTION

Internal audit focuses on evaluating the internal control system or framework. Their other task is to check the accuracy and reliability of financial and operational information and the tools used to identify, measure, classify and report this information. Internal auditors should test information systems and determine if their financial and operational records include accurate and reliable information and whether track and reporting controls are adequate and effective(Samimi, Zarinabadi, & Setoudeh, 2012; Zheng, 2012). Mahmoodabadi and Zamani (2016), stated that one of the effective aspects of companies' performance is their risk level. The results showed that the level of risk of companies has a positive and significant relationship with their financial performance. Pompian (2011), showed in their findings that organizational risk management practices would be influenced by behavioral biases and greater confidence in managers. The review of the established systems, in order to ensure compliance with the policies, plans, procedures, rules and regulations indicates the third pillar of the audit activities which have been

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described by the standards. Executive management is responsible for establishing systems to ensure compliance with these requirements and the role of internal auditors is determining whether systems designed by management are effective or the audited activities compliant with the requirements. Internal audit plays a key role in risk management(Domnikov, Chebotareva, & Khodorovsky, 2013; Müllner, 2017). The organization's management is responsible for determining internal and external risks but internal auditors assist management in determining potential risks, assessing risks and determining the organization's risky points. They also provide an independent statement on the impact of risk response criteria, key controls and whether organizational risks have been reduced to an acceptable level. Also, the importance of internal audit can be discussed in the context of recent events in the country. Recent financial abuses and embezzlements in companies have highlighted the urgent need for an internal control and internal audit system, especially risk-based internal auditing(Alipour, Feili, & Sabet, 2019).

Figure 1. Risk Management in Industrial Companies

THE ROLE OF INTERNAL AUDIT IN RISK MANAGEMENT IN THE FIELD OF ORGANIZATION

Internal auditing is an independent impartial reassurance process and a form of consulting activity(García-Gusano, Espegren, Lind, & Kirkengen, 2016; Yuryevich, Yakovlevich, & Mikhaylovich, 2014). Its pivotal role in relation to risk management in the field of organization is to provide unbiased confidence to the board regarding the effectiveness of risk management. In fact, studies have shown that both the board and internal auditors believe that internal audit creates value in two important ways for the organization: one is the unequivocal reassurance that basic business risks are being managed another is to ensure that risk management and internal control frameworks work effectively. The key factors to consider when determining the role of internal auditing are: Is the activity a threat to the independence of internal audit performance and its impartiality and does it help to improve risk management, leadership and control processes in the organization or not? Internal auditing may provide consulting services that improve a company's leadership, risk management and control processes. The scope of internal audit consulting services in the organization's risk management will depend on other internal and external resources available to the board during the maturity of the organization's risk and it will probably change over time. Internal auditing expertise in risk assessment and understanding the links between risks, governance and facilitation means that it has a good competence to act as a supporter and even project manager of risk management in the organization, especially in the early stages of its introduction. As the organization's risk maturity increases and more concepts of risk management become entrenched in the organization the role of internal audit in supporting risk management in the organization's field may decrease(Mohammadnazar & Samimi, 2019).

INVESTIGATING THE IMPACT OF COMPANY RISK MANAGEMENT AND AUDIT COMMITTEE

Internal auditing, both in the role of the reassurance services provider and in the form of consulting services contributes to risk management in a variety of ways. In the year 2002, the British and Irish Internal Auditors Association issued a statement on the role of internal auditing in risk management to provide guidance for its members on authorized roles and the guarantees required to maintain the independence and impartiality of internal auditing. Individuals take risk management activities to identify, evaluate, manage and control a variety of events or situations. Such activities may range from individual or precisely defined risk projects, such as market risk to cover threats and opportunities that an organization will face(Slaughter, Zonneveld, & Shattuck, 2017) . The principles set out in this statement can be used as a guide for internal auditing for all risk management situations. The audit committee is a subcommittee of the board of directors and is one of the governing bodies that acts as an advisor or expedient. In today's business world, in order to achieve organizational goals and to ensure the optimal guidance of all resources, the existence of a unit called internal audit is necessary. Internal auditors need the support and interaction of the organization's managers, including the audit committee to perform their duties properly. Internal audit and audit committee are among the pillars of the corporate governance system which activities are important in order to properly implement corporate governance procedures. Establishing a relationship between the internal audit unit and the audit committee also has a profound effect on corporate governance. Without a proper interaction with the internal audit unit, the audit committee will not be able to perform its various roles and responsibilities(Dinha, Powella, & Vob, 2016; Trujillo-Ponce, Samaniego-Medina, & Cardone-Riportella, 2014).

Figure 2. Impact of Risk Management and Audit Committee on Industrial Companies

INVESTIGATING THE ROLE OF CORPORATE GOVERNANCE IN RISK MANAGEMENT

In recent years, there has been a strong focus on risk management processes in the public sector. Some examples of this can be seen in the public sector institutions of Northern Ireland in relation to the risk management processes that have been implemented. Undoubtedly, there are several ways in which the board can achieve its goals given their role and responsibility in risk management. On the other hand, the existence of risk and risk in the executive management processes of an organization is inevitable. Therefore, in order to avoid and solve the problems caused by the existing risks, this process is always on the agenda of the board of directors not only as a subject but also as an executive process. In relation to the risk-taking public sector, this concept is considered as the identification of total amount of risks that it is possible for the organization to update or impose according to the agreement of the board of directors and in accordance with this definition, the centrality and principle considered in this area is paying attention to the role and duty of the board of directors. In this definition, the board of director’s role has been strengthened again. Therefore, there is a need to form a center called "Risk Management System" in order to control and manage this issue in any organization which is created in order to help risk management in offering the organization's risk-taking and this structure is intended to provide a reasonable level of assurance in the organization's achievement of its goals. Arrogance is considered a very valuable issue for the board of directors. This process will bring dedicated and specific results to the board at the end of each session. However, it is important to note that this framework must always be kept up to date and constantly monitored (Domnikov, Chebotareva, Khomenko, & Khodorovsky, 2015, 2017; Karami, Samimi, & Ja'fari, 2020).

ANALYSIS

Risk study and risk management have gone beyond health and insurance safety and credit management and short-term measures to finance or accounting, especially the focus on disclosure in financial statements. In addition, disclosure of the risk and direction in which it is directed is not always a picture of the control framework of management and organizations(Benaroch, Lichtenstein, & Robinson, 2006; Powell & Klein, 1996). A study by Soin and Collier (2013) and Collier, Collier, Berry, Berry, and Burke (2006), identified marginalization of management accounting in risk management due to a limited understanding of accountants' skills over a broader understanding of the organization. While risk-based auditing pays attention to numbers, it also pays attention to understanding business activities. Because the numbers are taken from these activities which include mastering the core personnel and figuring out how they think and what information they use in their decisions. If the audit is performed correctly based on the risk it allows everyone to move forward to the end of the work process and feel good about what has been done. Auditors feel that they have provided real value services to the customer, customers also feel that they have received valuable information that they can use to empower their companies.

CONCLUSION

In the early stages of existence (fifth decade of the twentieth century), internal auditors were increasingly seen as financial and accounting reviewers. Gradually, internal auditors focused on observance auditing, and then evaluated the effectiveness of the internal control system and reviewed operational processes and finally, today, the scope of internal auditing includes not only observance auditing, evaluating internal controls, reviewing fraud and reviewing operational processes but also consulting with senior management and participating in risk management. Although auditing varies from company to company, several basic steps are used in the risk management audit process. The audit begins with a discussion of the audit area and ultimately determines which risk group is most at risk, according to the risk management team. After these initial discussions, auditors present a plan to select a sample and test risk management practices to assess the effectiveness of the company's risk management program against each risk. Most companies use an informal process to review a risk management program.

Conflicts of Interest

No conflict of interest was declared by the author.

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