THE ROLE OF INTERNAL AUDIT IN EMERGENT RISKS MANAGEMENT

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Abstract: *The actual economic environment is in a continuous movement, being influenced by the phenomenon of globalization, by government policies, by technological evolution, etc. This dynamic also implies new challenges for both the business environment, as well as for accounting specialists and auditors, who are constantly required to identify new solutionss. It is known that any business involves risks. Studies in the field have identified with success certain risks that can be foreseen and through an efficient risk management process, their negative impact on the entity could be limited. However, in the past few years the business environment has experienced another category of risks, such as emergent risks, having as a defining characteristic, the fact that they are unknown, unexpected, and their impact cannot be evaluated according to the classical models. As a result, the role of internal auditors to contribute to the improvement of the governance process, risk management and control of the entity, offers now new perspectives, which take into account the future impact, becomes more important and vital in the organization's activity.*
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1. Introduction

Given that risk is an inherent component of the business process, its analysis and its impact on the entity, is vital to be able to appreciate its size and how it affects the business performance. Under these conditions, the implementation of an efficient risk management system brings significant benefits for the entity, beacause it will increase possibilities to reach its objectives, will improve the decision-making process by integrating the risks, will increase the confidence of the investors, will obtain lower cost of financing through efficient risk management, and also it will have more informed final decisions (Păunescu, 2019). If in the case of non-emerging risks, organizations like The Treadway Commission's Organizing Sponsorship Committee (COSO) or The Risk Management Institute (MRI) have made good practice guides, usefull for the entities in their management process, in the case of emerging risks, things are more complicated, due to the complexity of the threats generated by this category of risks.

2. Research methodology

The research we have developed within this article is a qualitative type. This involved the study of national and international specialized literature, as well as the analysis of studies conducted by international organizations on emerging risks. This paper aims to conceptually delineate the term of "emerging risk", to identify what are the possibilities of the entity to respond to the threats generated by them, but also what is the role of internal audit in managing these risks. Also, the article proposes a model for identifying and managing these emerging risks.

3. Emerging risk

The concept of emerging risk has gained increasing importance in recent years, especially because of its novelty character. Taking a look on the Global Risk Report in 2020, conducted by the World Economic Forum, there could be identified, various risks of major importance. Over 70% of respondents consider that risks such as economic problems, cyber attacks, economic recession, climate change or internal political polarization are just some of the emerging risks that can contribute to major imbalances in the current economic environment (World Economic Forum, 2020).

Regarding the concept of risk, according to the Institute of Internal Auditors, the risk refers to "the possibility of producing an event that has an impact on the achievement of the objectives. Risk is measured in terms of impact and probability. ” (The Institute of Internal Auditors, 2017).

According to The Treadway Commission's Organization Sponsorship Committee (COSO), risk represents the possibility that an event may occur and affects in a negative way the process of achieving the organization's objectives (COSO, 2004).

Regarding the concept of emerging risk, at this moment, there is no agreed definition in the scientific community. The concept consists of two separate terms: "emergent" and "risk". Thus, possible understandings of the concept of emerging risk may refer to:

a) newly created risk;
b) newly identified/noticed risk;
c) increasing risk;
d) risk becoming widely known or established (Flage și Aven, 2015).

According to The Risk Management Institute, emerging risks are those risks that have not yet occurred, but they are in an early stage of becoming known and / or have been born and are expected to have an important significance. Emerging risks do not have a "record book", as in the case of known, non-emergent risks and usually occur in the long term. (Richardson and Gerzon)

4. Emerging risk management

It is known that risks are inherent in a business. An economic decision can lead to positive results, or not, depending on the course of events that cannot be predicted with certainty. The concept that risks must be avoided at any price has been replaced, in the last period, by a modern approach, which requires the most complete identification and obvious management of them, so as to maximize the results of a given risk. Under these conditions, the risk management process aims to reduce the possibility of the occurrence of negative consequences, by reducing either the likelihood of an event occurring, or its impact and take advantages from the opportunities (identified risks) (Paunescu, 2019). For a more effective risk approach, entities can implement a risk management process that identifies, evaluates, manages and controls potential events or situations. Among other things, the goal of efficient risk management is to ensure that each risk is identified, documented, prioritized and mitigated whenever is possible. Because all the entities face risks, whether they are positive (opportunities) or negative (events that affect the normal course of the business), the challenge for the auditors, when we talk about non-emerging risks, is to know when the risk will appear and what is the impact it will have on the entity (Edmead, 2007). But what happens in the case of emerging risks? How can auditors prevent the negative implications they may have on business activity?

5. The role of internal audit in emerging risk management

If in the case of non-emergent risks, up to this moment, standard steps have been developed that can help organizations and internal audit departments in identifying and managing them, if we refer to emerging risks, the specialized literature does not offer a model to follow, in this sense. The complexity of managing emerging risks lies in the fact that their recognition cannot be delimited as a precise process, there are no limits, as in the case of the other risks, they cannot be easily identified or anticipated, the impact that they will have on the entity cannot be approximated in a timely manner (Richardson and

Gerzon). These are risks that we cannot see, because they are outside of our experience or our mind, so we do not know that we should look for them. For example, previous globally emerging risks (both positive and negative) include the development of the Internet in 1982, the importance gained in recent years by using social media, the fall of the Berlin Wall in 1989 and the collapse of communism. The terrorist attack of 9/11 2001 in New York, for example, led to increased aviation security, and, as a result of the 2008 global financial crisis, stricter regulations were implemented (Hillson, 2014). Given the current environment, we can say that global warming or the emergence and spread of the SARS-CoV-2 virus are other current examples of emerging risks.

Under these conditions, the role of the internal auditor within the organization increases significantly. The Internal Auditing Standards specify the attributions of the internal auditors in the risk management issues, as follows:

Standard 1220.A3 provides that: the internal auditor must pay significant attention to the significant risks that could affect the objectives, operations or resources. However, the standard specifies that only insurance procedures, even if performed with professional conscientiousness, do not guarantee the identification of all significant risks.

Standard 2100 emphasizes that the internal audit activity must evaluate and contribute to the improvement of the governance processes, risk management and control of the organization, using a systematic and methodical approach based on risk. If internal audit assessments offer new perspectives and are considering the future impact, then the credibility and the value of the audit will be increased.

Last but not least, the Standard 2120 shows that the internal auditor must evaluate the effectiveness and contribute to the improvement of risk management processes (The Institute of Internal Auditors, 2017).

Thus, we notice that anticipating risks, understanding them and realizing in advance responses that can counteract the negative effects, transforms the internal audit, from a predominantly retrospective function, that reports what did not go well, into a dynamic, proactive function, which due to the skills and aptitudes of its specialists, can develop hypotheses in perspective, regarding the emergence of future risks for the organization. In this way, having the role of adviser, the internal auditor can help management to intervene, before the moment of risk materialization (Deloitte, 2018).

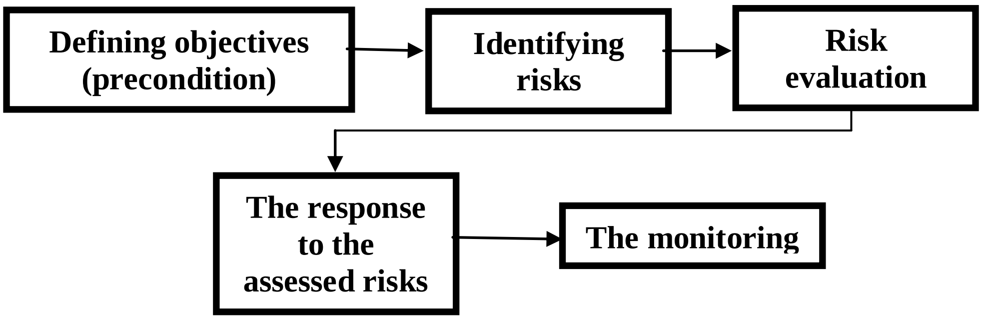
In order to have a complete and useful analysis, it is important to delimit the responsibilities of internal auditors within the entity, regarding risk management. Thus, their main duties are:

- Management advice and providing guidance upon request
- Involvement in actions of awareness of the employees of the entity regarding corporate governance, risk management and how to implement the internal control system
- Assisting the entity's departments in preparing and developing the Risk Register
- Supporting the activities of prioritizing and empowering employees in risk management based on action plans

Orientation on the appearance of the performance elements, respectively reaching a level of prevention of the adverse consequences in the risk management process (Ghiță, 2008).

As a result, the role of internal audit within the organization in case of emerging risks needs to be proactive, since its involvement can ultimately prevent the company from collapse in crisis situations. It is known that the risk management process has several stages (Păunescu, 2019):

Figure no. 1. Stages of the risk management process



We note that the risk management process involves five stages: defining objectives, identifying risks, risk evaluation, formulating responses to assessed risks and monitoring. We believe that this model is also useful in the case of emerging risks, if it is realized within the organization, with certain characteristics. Thus, we propose a model for managing emerging risks, based on the model presented above.

Stage no. 1:

In the case of emerging risks, the internal auditor should have as main objectives to ensure the continuity of the activity of the entity or to significantly reduce the impact that a certain emerging risk could have on its activity. Following these goals, the internal auditor should be alert to all existing global signals and warnings, which in a certain period of time could adversely affect the organization's activity.

Stage no. 2:

Following the analysis of these signals and warnings, the internal auditor must identify the emerging risk that may affect the company's activity in the short, medium or long term.

Stage no. 3:

Given its advisory function within the entity, the internal auditor should inform management of the identified emerging risk, since, at this point, the risk does not affect the company's activity, but precisely because of its emergent character, explained in the previous paragraphs, the risk is not widely known, is not aware, but it has been born and is expected to have a significant impact on the company.

Stage no. 4:

After informing the management, the internal auditor has to carry out a real and complex assessment of the emerging risk and how it may affect the company's activity in the future. This evaluation should include possible scenarios, delimited within the limits of possibilities over time.

Stage no. 5:

Following the evaluation, the internal auditor can propose solutions / answers to the emerging risk assessed. This answer may include the following:

- Identification of alternative possibilities of selling the products, in case the current options used will could no longer be implemented

- Ensuring that the organization has the ability to respond in a timely manner to new drastic legal regulations if required
- Verifying and identifying the value of the cash that the entity has, so that it has the capacity to support for a period of time the remuneration of the employees in case of a decrease of production and sales
- Proposals for reorganizing the way employees work, so that it is not necessary to stop the activity when the emerging risk will directly affect the organization
- Involvement in information activities of employees, shareholders, investors regarding the emerging risk and the possible consequences that can be generated by it

Stage no. 6:

The final stage refers to monitoring, but requires a much broader monitoring process, in which the internal auditor must follow how emerging risk evolves and identify the real chances that it will affect the entity and to what extent. If the internal auditor correctly identified the threat and the respective risk negatively influences the activity of the company, it must monitor the process of formulating the responses to the emerging risk.

6. Conclusions

In conclusion, we observed that in the current economic environment, the risks that can affect the performance of an entity's activity are complex and sometimes difficult to manage. In order to limit the impact of emerging risks on the business, the role of internal audit is becoming more important. In our opinion, the internal auditor is the person who can avoid a disastrous impact on the company, in terms of emerging risks, if he is alert to the existing international signals and warnings. The past few years have shown us that a certain event on another continent does not mean that we are unaware of the impact it can generate. The function of the internal audit to ensure the efficiency of the risk management process also gives the professional in internal audit the responsibility to pay attention to these international warnings. The internal auditor must have the ability to understand them and to try to anticipate the possibilities in which the organization might be affected. Thus, he must notify management and together identify solutions to adapt to new threats, in order to limit the negative consequences that may have on the organization's activity.

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