

Research on the Relationship between Internal Control and Risk Management

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Abstract: The relationship between risk management and internal control gives rise to different viewpoints of different scholars. Risk management is the inheritance and development of internal control. Both of them emphasize the participation of all staff, the use of relevant technical means, the initiative to deal with risks, and provide reasonable guarantee for the goal. However, risk management includes the management of strategic objectives, which can directly generate benefits and emphasize the natural hedging of risks. The decision of risk management is the basis to determine the focus of internal control, and a strong internal control is the basis to achieve effective risk management, internal control is driven by the enterprise's understanding and management of risk. This article has made the correlation elaboration to the risk management and the internal control relations.

1. Introduction

This paper is divided into six parts: the origin and development of internal control and risk management; Changes in the new risk management framework; The connection and difference between internal control and risk management; The coordination between internal control and risk management includes three views of internal control and risk management in academia: internal control includes risk management, risk management includes internal control, and risk management and internal control are coordinated and unified. The last part thanks for the connection between internal control and risk management.

2. The Origin and Development of Internal Control

The CPA Committee defined internal control for the first time in a monograph published in 1949. The "sponsor Committee" (COSO Committee) of the Tread Way Committee issued the "Internal Control-overall Framework". 2014 "Enterprise risk Management-Integration Framework" came into being. The British Internal Audit Committee defines the concept of internal control as the planning, organizing, and directing actions taken by management to ensure that the following objectives are achieved.

Table 1 definition of the concept of internal control of the British Internal Audit Committee

Definition of the concept of Internal Control of the British Internal Audit Committee	
1	Make it
2	Economic and efficient use of supplies
3	Preventing the loss of assets
4	Reliability and Integrity of Information
5	Be consistent with policies, plans, procedures, laws and regulations

Source: Baidu Encyclopedia

On April 26, 2010, China promulgated the "guidelines for Enterprise Internal Control", which integrates the basic norms of Enterprise Internal Control and the Integrated Framework for Enterprise risk Management issued by COSO. The internal control norm system of Chinese enterprises has been constructed together.

3. The Origin and Development of risk Management

The 2004 version of the ERM framework is based on the COSO cube to upgrade and expand, also in the form of cubes, including strategy, business, reporting, compliance and internal environment, goal setting, event identification, risk assessment, risk response, 8 elements of control activities, information and communication, and monitoring.

The 2004 edition of Enterprise risk Management-the overall Framework-has been widely recognized over the past decade. COSO officially launched a revision of version 2004 of ERM in 2014.

4. Changes in the new risk management framework

If the 2004 version of "Enterprise risk Management-overall Framework" helps enterprises to form a unified understanding of the definition of risk, and provide a consistent way to identify the overall risk of the enterprise; On this basis, the new framework of ERM in version 2017 redefines risk and risk management, emphasizes the risk in the process of formulating strategy and improving performance, and indicates that the theoretical system of risk management has entered a new stage of development. The new version of the ERM framework adopts the "element principle" structure, and there is a great subversion in the representation of the framework elements. It abandons the form of the previous cube, and the new structure is divided into one axis and three segments, respectively, as mission, vision and core values. Improved strategic and business objectives and performance; Five links constitute five major unit risks.

5. The relationship and difference between Internal Control and risk Management

5.1 The similarities between Internal Control and risk Management

(1) Same requirements for participants

Both require "corporate boards, management, and others to work together", both clarifying the participants and emphasizing full participation. The roles and responsibilities of the participating parties are basically the same: the board of directors is responsible for setting strategic objectives for risk management, the ownership of the risk is vested in the senior management, the residual risk is vested in the executive management, the identification, assessment, mitigation and supervision of the risk are returned to the operational level.

(2) All provide a reasonable guarantee for the enterprise to achieve its goals.

The reference to "reasonable assurance" is based on the consideration of fiduciary responsibilities and obligations, and it also provides a basis for defences of immoral conduct or mismanagement and for re-supervision of internal controls and risk management.

(3) All emphasize taking the initiative to deal with the risks.

Both are the behaviors of enterprises to mobilize and utilize their own resources to actively respond to risks, and both define the responsibilities, methods, methods and key points of concern of risk management and control, all of which are in advance of possible losses or opportunities faced by enterprises. Carry out management control in the event, or remedy, amend, improve after the event, and take the initiative to establish a risk warning mechanism, etc.; Both are continuous, dynamic and continuous management processes, rather than simple static system files, technical models, inspection and evaluation, etc., and both are routine operating systems integrated into the daily management process of an enterprise .

(4) Requires the use of a variety of technologies and methods.

The subjects of management, economics, auditing, accounting, statistics and so on are all marginal disciplines, which need to be used for reference in practical work, and the technical methods of inheriting multi-disciplines should be developed.

5.2 The difference between the concept of Internal Control and risk Management

(1) Different target systems.

There are four kinds of objectives of the risk management framework, among which the objectives of management and compliance are basically coincident with those of the internal control framework. The risk management framework adds strategic objectives.

(2) Components are different.

"Goal setting, event identification and risk response" are added to the risk management framework, and the element of "control environment" is changed to "internal environment". "goal setting, event identification and risk response" not only enriches and improves the content of risk management, but also embodies the concept of risk combination. The elements of "internal environment" include not only the elements of "control environment", but also the philosophy of risk management, risk preference and so on. Among the elements of the same name, the risk management framework complements and enhances the relevant content, as reflected in the fact that the "risk assessment" element contains all but all of the elements of the internal control framework. The internal risk and residual risk are considered, and the risk, risk preference and risk hedging are measured by expectation value, worst case value or probability distribution. In the "Information and Communication" element, the information section emphasizes the importance of obtaining and analyzing and processing past, present and potential future event data, and points out the depth of the information to satisfy the identification of the enterprise. Need to assess and respond to risks and maintain them within the scope of risk tolerance; The communication section emphasizes and affirms that there should be an alternative channel of communication in addition to regular reporting.

(3) There are different ways of generating benefits.

From the objective system and definition of the internal control framework, it is not difficult to see that the internal control is the protection mechanism for the interests of shareholders and stakeholders under the condition of separation of management right and ownership, that is to say, internal control is the prevention and control of pure risk. Instead of directly producing benefits, it is most likely to avoid the loss of shareholders and stakeholders to protect their interests and avoid threats. Risk management should not only protect the security of assets and avoid all threats, but also actively utilize and create all possible opportunities to create value for shareholders and stakeholders.

(4) Different concepts of risk management.

Internal control is the management of a single risk, or according to the division of business units to manage the risk. On the other hand, risk management uses the theory of asset portfolio in modern financial theory to introduce the whole risk management, risk preference, risk capacity, risk countermeasure, risk combination view, risk hedging, risk tolerance, and so on. Risk management objectives and strategy setting and other concepts and methods.

Risk management requires an overall grasp of the risks dispersed in the internal business units from the overall level of the enterprise, the co-ordination of the interaction between risk events, and comprehensive consideration of risk countermeasures. And to prevent two tendencies: one is that the risk of each business unit is within its own risk tolerance, but the overall risk level is higher than the risk tolerance of the enterprise; Second, the risk of individual business units exceeds its risk tolerance, but the overall risk level does not exceed the scope of the enterprise. Risk management requires a comprehensive consideration of the interaction between risk events and risk countermeasures according to the idea of risk portfolio and overall management, and the overall formulation of a risk management scheme, which is beyond the scope of internal control.

(5) Coverage is different.

The scope of risk management is beyond the scope of internal control. Risk management includes activities such as risk management objectives, enterprise strategy and business objectives setting, selection of risk assessment methods, hiring of managers, related budget and administrative management, and reporting procedures. The business scope of internal control is part of the business activities in the middle and back of the risk management business chain. It is not responsible for the

specific formulation of the business objectives of the enterprise, but evaluates and evaluates the establishment process of the objectives.

6. Coordination of Internal Control and risk Management

6.1 Internal controls include risk management

Xiao Guanghong pointed out that the Canadian coco model defines the relationship between internal control and risk management in the study of the basic theoretical issues of Internal Control in Enterprises. The Control Guide clearly regards risk management as the constituent element of control. Control includes the identification and reduction of the following two risks: one is the inability to maintain the ability of the enterprise to identify and exploit opportunities; Second, it is unable to maintain the flexibility of the enterprise (adaptive ability).

6.2 Risk management includes internal control

In the Analysis of the relationship between Internal Control, Corporate Governance and risk Management, Li Ke points out that risk management consists of eight elements: internal environment, goal setting, event identification, risk assessment, risk countermeasures, control activities, information and communication. Supervision. Internal control consists of five elements: control environment, risk assessment, control activities, information and communication, and supervision. Clearly internal controls are included in risk management.

6.3 On the essential Coordination between Internal Control and risk Management

Li Weian, Dai Wentao in corporate governance, internal control, The relational framework of risk management-based on the strategic management perspective > considers that the risk control approach and means used in internal control contain a risk control purpose (the control mode and means without a control purpose are useless), And the purpose of risk control also contains the way and means of risk control (the purpose of control without control mode and means can not be realized), so there is no essential difference between internal control and enterprise risk management. Only two different semantic expressions of risk control.

7. The connection between Internal Control and risk Management

7.1 Balance the relationship between risk and control

The internal control under the framework of risk management is to analyze, evaluate and manage the risk at the strategic level of the enterprise, and to promote the supervision and control of the enterprise from the detail control to the strategic level and the corporate governance level.

7.2 The balance between forward and backward movements

The internal control in the framework of risk management includes forecasting and evaluating all kinds of existing and potential risks in advance, and determining the corresponding internal control countermeasures from the perspective of the overall strategy of the enterprise to manage the risks and achieve the effect of control. It also includes the following action after the problem or event occurs, and active repairment and remedial action.

7.3 Integration of governance, risk, and control

The internal control in the framework of risk management tries to seek an effective entry point so that internal control is embedded inside the organization as an important component of the strategic management of the organization, so as to improve the recognition of the importance of the internal control of the organization. And make internal control can make more contribution to the realization of the strategic goals of the organization. According to the overall control thinking of risk management, the connotation and extension of internal control are extended, and governance, risk and control as a whole are taken as a whole to guarantee the realization of organizational objectives.

7.4 Convergence of "top-down" control foundation and "bottom-up" risk-based execution model

Internal controls in the framework of risk management reflect both the top-down implementation of internal controls and the emphasis on bottom-up participation in design, feedback and enforcement mechanisms, That is, the combination of top-down control basis and bottom-to-top risk-based execution model. The internal control (risk management) under the framework of risk management includes not only supervisory control below management, but also governance control above management.

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