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Review paper

POTENTIALS OF INTERNAL AUDITING IN ENTERPRISE RISK MANAGEMENT

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Abstract. *Internal auditing becomes a significant mechanism of enterprise risk management in contemporary business terms. The potentials of internal auditing in risk management are determined by the scope of internal auditing and are linked to the providing of the assurance of efficacy and effectiveness of enterprise risk management process, as well as to the providing of advice concerning the management of major risks an enterprise encounters. Internal auditors should evaluate the efficiency of enterprise risk management, form opinions and make suggestions for the process improvement. Thereat, it is very important for them to preserve their impartiality in relation to the enterprise management which is responsible for the enterprise's risk management process.*

Key Words: *risk, enterprise risk management, internal audit.*

INTRODUCTION

In order to achieve one of their main objectives, which is reflected in the creation of value for shareholders, enterprises perform their economic activities in constant interaction with the environment. Given the complexity of the environment, as well as the interactions meditated, enterprises are constantly exposed to uncertainties, i.e. the risk. If we consider the risk as an opportunity to acquire even greater value for the enterprise and its shareholders, or as a threat that may lead to the reduction of the value, then the risk may possess both positive and negative aspects. Hence, the designing of the system and risk management mechanism represent necessary preconditions for successful enterprise risk management and for the achievement of its objectives.

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Internal auditing is one of the mechanisms of enterprise risk management to which a considerable attention has been given in the past 10 years. Although the internal auditing has always been focused on the risk, its great potential for minimizing negative consequences of uncalled occurrences has been realized with the development of the risk management concept, on the one hand, as well as the utilization of opportunities and chances that may lead to the increased added value. In particular, it leads to the development of internal auditing from a "policeman enterprise" or "watchdog" to a function within the enterprise which actively participates in the creation of the added value. In that sense, the new paradigm of internal auditing based upon the risk represents a significant support to the enterprise risk management process.

Bearing in mind that the enterprise risk management is one of the basic conditions not only of its existence, but of further growth and development as well, the aim of this paper is to perceive the potentials of modern internal auditing practice in enterprise risk management for obtaining the added value.

1. Significance of Risk Management Concept

Although it has been an integral part of business operations since its inception, it is not possible to find a unified definition of risk in the competent economic literature nowadays. Namely, various economic disciplines provide different interpretations of this phenomenon by commonly perceiving it as an occurrence or situation that will negatively affect the ability of an enterprise to achieve its business objectives and implement its strategies in a successful manner. Such risks generally occur when the provided opportunities have not been taken, when mistakes related to design, implementation of strategies and decision-making have been made, and when unknown hazards have materialized. In that sense, the entire concept of risk may be perceived as follows: [3, p.9]

Risk = Probability that a problem occurs
Problem = An event or incident that would be harmful to objectives
Incident or Events = Risk times the opportunities for occurrence, mitigated by the environment and control activities
Consequences = Harm or loss caused by an incident. The reverse of an objective
Exposures = Incident times the magnitude of the consequences.

However, although the risk is commonly regarded in the previously described manner, the notion possesses a broader meaning. Namely, it is well known that in China the risk is represented with two symbols – first which conveys the meaning "hazard" and another that means "opportunity", which indicates that the risk may have positive outcomes in addition to negative ones. Thus, the risk is any occurrence which represents the opportunity to benefit or a threat to the achievement of success for the enterprise, or a "combination of probabilities of occurrences and their consequences" which may be either positive or negative, as defined by the risk management standard. [1, p.2] Moreover, different categories of risk (financial, strategic, operational etc.) are caused by internal or external factors, and in many cases are the results of combined simultaneous action of many such factors.

In the past, enterprises used to avoid the risk perceiving it as a phenomenon whose effect cannot be predicted with the suitable probability. Without prior consideration of the level of risk exposure, its nature, its carrier and intensity of its effects, enterprises used to undertake measures with the sole aim of protection against loss and damage. However, risk aversion was decreasing the chances of its utilization for the purpose of preservation and creation of value at the same time. Perceiving the risk solely as a "threat" which cannot be overcome ensured the survival of an enterprise, but not its further progress. For these reasons, the avoidance of risk in late 40's and early 50's of the last century has been replaced by the concept of risk management which indicated that the risk was "rather a choice than a predetermined outcome"[14, p. 54]. In particular, the basic premise of the concept is that enterprises need to confront and respond to the risk because it is a phenomenon impossible to predict, determine its intensity, control it and, ultimately, use it with the aim of improving the business operations. Thereat, first step of risk management is its assessment by identifying, measuring and setting priorities, and then making decisions how to manage the observed consequences [16, p. 65].

Concept of risk management has, undoubtedly, provided additional security regarding the accomplishment of enterprise's objectives. However, this approach known as a "silo" includes separate risk management of individual functions in the enterprise, which disregards the fact that they are mutually interdependent. It is a fact that the total risk to which an enterprise is exposed cannot be equal to the sum of individual risks. Moreover, numerous reasons have pointed out the drawbacks of the existing concept in modern business terms. Some of them are the following: [13, p. 3-6]

- occurrence of much more complex risks and their mutual interdependence as a consequence of the rapid progress of technology, globalization process, the accelerated pace of business, etc.;
- pressure of professional and regulatory bodies, institutional investors, crediting agencies, capital market participants and others to establish greater accountability for enterprise-wide risk management as a result of numerous financial manipulations;
- development of modern portfolio theory has provided the framework for the management of overall risk for a group of financial instruments and for perception of their respective contributions to the total risk;
- progress of technology and experience have enabled quantification of individual risks, even those rare and unpredictable which were difficult or even impossible to quantify before;
- enterprises have become more willing to share their experiences related to the risk management with other enterprises, especially with those which were not their immediate competitors;

The drawbacks of the existing or so-called traditional approach to risk management were overcome in the mid 90's of the last century by the development of a new concept known as **Enterprise Risk Management (ERM)**.[1] It has to do with the improvement of

[1]Standard of risk management is the result of team work of organizations for risk management in the UK, such as the following: The Institute of Risk Management (IRM), The Association of Insurance and Risk Managers (AIRMIC) and The National Forum for Risk Management in Public Sector (ALARM).

the traditional concept, i.e. with „discipline by which an organization in any industry assesses, controls, exploits, finances, and monitors risks from all sources for the purpose of increasing the organization's short and long-term value to its stakeholders"[13, p.8]. Institute of Internal Auditors considers the enterprise risk management as „structured, consistent and continuous process across the whole organization for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of its objectives" [18, p.3].

The previous definitions clearly indicate that it is a process which is embedded in the corporate culture, in the sense that each employee must possess the same information and perception of the risk to which the enterprise is exposed, as well as they must be aware which level of risk should be accepted when making decisions. As such, it does not include the silo management approach by experts, which is focused on the well-known risks of individual departments. The core of the concept of ERM is to determine the acceptable level of risk and its utilization with the aim of increasing the value, which is why it is considered as an integral part of a business strategy. In that sense, the concept of ERM rightly represents "a new paradigm of risk management" [17, p. 581], which is additionally indicated by Table 1.

Table 1. Risk Management vs Enterprise Risk Management

Traditional Risk Management	Enterprise Risk Management
Risk as individual hazards	Risk viewed in context of business strategy
Risk identification & assessment	Risk portfolio development
Focus on discrete risks	Focus on critical risks
Risk mitigation	Risk optimization
Risk limits	Risk strategy
Risks with no owners	Defined risk responsibilities
Haphazard risk quantification	Monitoring & measurement of risks
"Risk is not my responsibility"	"Risk is everyone's responsibility"

Source: [12, p. 5]

Comparative overview of the characteristics of the two aforementioned models inevitably suggests that the ERM concept provides significantly higher level of risk transparency, by providing greater support to the accomplishment of enterprise's objectives, which is at the same time considered as an adequate base for the processes of planning and decision-making.

2. Affirmation of Internal Auditing in Enterprise Risk Management

Internal auditing developed a long time ago, while scholars claim that its appearance in the sense of time is not far from the appearance of accounting, when its role was limited to reducing the disposition of property and various errors in bookkeeping, as well as to controling employees who were motivated to commit a fraud, etc. [2, p.352]. Later, with the development of enterprises, by separating management functions from ownership

[2]In addition to the aforementioned name, via relevant literature one can come across the following: Integrated Risk management, Holistic Risk management, etc.

functions, appeared a need to develop a separate internal auditing function in an enterprise whose scope of actions and authorities, responsibilities and positions of internal auditors were developing continuously. Development and establishment of modern internal auditing intersects with the founding of the Institute of Internal Auditors[2], through whose efforts the internal auditing function becomes the most competent function which can provide support to key areas of management. In particular, nowadays we perceive internal auditing as „an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. "[7]. The fact is that such an established internal auditing represents a function that significantly contributes to the increase of the value for an enterprise, as well as via providing assurance of the efficacy of enterprise risk management process.

However, the development of ERM concept and cases such as Enron, WorlCom et al., for which the internal auditing was not the immediate "culprit", especially emphasized its significance within the enterprise risk management process. Namely, the Sarbanes-Oxley Act created new demands for internal auditing which were related to providing assistance for enterprises regarding incorporating legal regulations in their operations and their integration with the key concept of ERM. One of the basic requirements is that an enterprise cannot transfer internal auditing function to the jurisdiction of the external auditors on the pretext of getting a better service, better assessment of the internal control efficiency and lower costs, which was very popular during 80's, and especially during 90's. Independently organized internal auditing function in an enterprise is expected to closely cooperate with the Audit Committee, the management and external auditors, i.e. to provide explanations related to internal control, perform more detailed risk assessment of auditing, take responsibility for compliance with the law and perform auditing of internal control whose adequacy will be only confirmed by external auditors. In this manner, internal revision is specially focused on the risk, i.e. on the creation of additional value by providing information necessary to identify, understand and assess potential risks. It is given the key role in the assessment of adequacy, i.e. effectiveness of enterprise risk management process, and upon that basis, it actively participates in forming opinions and making suggestions for its improvement.

The role of internal auditing in the enterprise risk management process can be best represented by the implementation of the model shown in Figure 1.

The figure depicts that the model includes seven approaches:

1. Standard approach which involves monitoring the manner in which risk management systems are established and implemented, determining whether it is reliable and clear and whether it matches the needs of an enterprise. On this basis, internal auditing is able to provide impartial report on the status of risk management process to the Board.
2. The second approach is similar to the first, except that it occasionally includes advice and recommendations. In this regard, it is possible to organize meetings with the Board where internal auditors discuss risk management and make suggestion for it improvement.

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[2] Institute of Internal Audits was founded on December 9, 1941 in the Unated States. It aroused great interest for internal auditing and it initialized a unique development and organization of internal auditing.

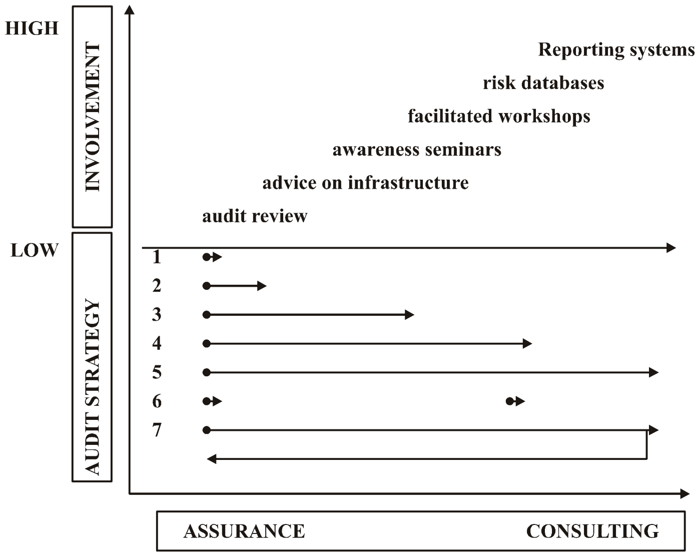

Fig. 1. Internal auditing approach in ERM, Source: [14, p. 79]

3. The third approach goes a step further because internal auditors take part in the raising of awareness on the importance of risk management. In this sense, they organize various seminars and events for the promotion of corporate management, risk management and the control.
4. On the fourth level, internal auditing facilitates workshops related to the control of self-assessment and conveys the messages of the assessed risk across all levels of organizational structure. In doing so, auditors focus on the skills that provide smooth operation of the process, coordinate workgroups, project teams and process groups, assist them in creating adequate documentation which defines the priority risks and action plans.
5. The fifth approach includes the significant involvement of internal auditors in collecting information related to all risk-based activities in an enterprise, and in creating the database. Based upon this activity, they develop the reporting system which provides summary reports or reports related to certain levels within an enterprise.
6. On the sixth level, two separate processes performed by internal auditors are established. The first is focused on the fundamental role of internal auditing related to the provision of assurance and inspection, while the second refers to the advisory role which facilitates the activities for controlling risk self-assessment.
7. The final approach completes the role of internal auditors in establishing and developing a systematic process of enterprise-wide risk management, which makes the basis for its creation. Afterwards, internal auditing is slowly detaching from the advisory role and returns to service-providing role. Thus, the management of the enterprise becomes fully responsible for the functioning of the risk management process.

The finest way to ratify the importance of internal auditing in enterprise risk management is to inspect to what needs of various stakeholders internal auditing should respond (Table 2).

Table 2. Is Internal Audit Addressing Stakeholders' Needs?

Board/Audit Committee	How are we managing business risks? How are we assured they are being managed appropriately? Are we dedicating enough resources to manage our risks?
CEO/COO	What unforeseen events might disrupt our strategy and prevent achievement of our goals?
CFO	What risks could materially impact our financial results?
General Counsel	What could we do to further minimize our legal and regulatory liabilities and ensure compliance with laws and regulations?
General Managers	How much risk am I allowed to take? What is our corporate risk appetite? What are my risk management responsibilities?
Risk Managers	How efficient is our current risk financing strategy? Does the current risk management strategy adequately capture the key risks?
Regulators	How comprehensively is the company addressing the interests of stakeholders?
Rating Agencies	How well does senior management understand risk? How great is management's risk awareness? What is their ability to manage risks as they emerge?

Source: [11, p. 4]

It can be seen from the Table above that, by performing its activities related to providing assurance and advisory service, internal auditing completes the quality of management process, and by doing so, enhances the ability to achieve enterprise's objectives, by which it simultaneously reduces the risk exposure.

3. Institute of Internal Auditor's Contribution to the Development of Internal Audit's Role in ERM

It was noted in the previous section of the paper that the Institute of Internal Auditors, as an international institution with 170,000 members at present from 165 countries worldwide [7], has made a strong contribution not only to the organization of the internal auditing function, but also to its continuous development. It has been providing guidelines for all important issues for the development and operations of internal auditing since its foundation, which was adopted by numerous countries.

In that regard, the Institute has made efforts to develop the internal auditing function that is based on the risk. Specifically, although internal auditing has always been interested in risk, new business trends urged the internal auditing to strongly focus on the risk.

3.1. Standardization of the role of internal auditing in enterprise risk management

Implementation of internal auditing, in general, and therefore within the enterprise risk management process, is not performed at random, but it is necessary to align the quality and quantity of internal auditing by the introduction of adequate standards. Professional Practices Framework, released in 1999 by the Institute of Internal auditors, encompasses the following: Standards[3] and Code of Ethics, Practical advice and supporting material related to the development of practice, provides a structural adjustment plan of attainment and guidelines, provides a consistent development, interpretation and implementation of concepts, methods and techniques useful for the alignment of the profession. Since their creation until nowadays, Standards and Code of Ethics have certainly been subjected to revision.

Standards which define the role of internal auditors in the process of risk management are the following:

2000 – Managing the Internal Audit Activity, particularly, section 2010 – Planning and

2100 – Nature of Work, section 2120 – Risk Management

In addition, standards include subsections: A – defines areas in which internal auditors perform regular activities, and C- defines frequent advisory activities of internal auditors.

The essential elements of the standards which define the role of internal auditors in the process of risk management are given in Listing 1.

Listing 1. Standards of internal auditing

2010 – Planning: The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.

2010.A1 – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

2010.C1 – The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.

2120 – Risk Management: The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

2120.A1 – The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

2120.A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

2120.C1 – During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

2120.C2 – Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization's risk management processes.

2120.C3 – When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

Source: [10, p. 9, 11-12].

Apart from Standards, Practical advices, as an integral part of the Professional Practices Framework, make a significant contribution to the development of internal

[3]The framework presents three sets of standards: **Attribute standards** – they refer to the characteristics of the organization and carriers who perform the internal auditing; **Performance standards** – they describe the nature of internal auditing activities and provide a quality criterion upon which the accomplished quality of those activities can be compared and evaluated, and **Implementation standards** – applicable for specific kinds of engagement (fraud detection, consulting services....)

auditing in this field. Practical advice 2100 – 3, The Internal Auditor's role in the risk management process, is especially significant: the management is responsible for the risk management, and the role of internal auditors in the process is to provide assistance to the management and to the Audit Committee by assessing, evaluating, reporting and recommending the improvements for the effectiveness and efficiency of the process. In doing so, The management and the Audit Committee define the role of an internal auditor, taking into consideration numerous factors: organizational culture of an enterprise, the competence of internal auditors, conditions prevailing in the area of a specific country, as well as its customs, etc.

Certainly, the significant role of internal auditors is also reflected in the assessment of the methodology selected for the implementation of the risk management process by the management. In that regard, internal auditors should identify whether the key groups and individuals involved find the methodology comprehensive, i.e. whether the selected methodology complies with the five crucial objectives:

- risks arising from the enterprise's business strategy are identified and the priority is set,
- the management and the board of directors have determined the level of the acceptable risk, including the risks related to the achievement of strategic plans of the enterprise,
- activities oriented towards the reduction of risk have been designed and implemented to reduce or manage the risk in another manner at a level determined as acceptable,
- monitoring activities represent periodic reassessment of risk and of the effectiveness of mechanisms for its control, and
- the board and the management receive periodic reports on the results of the risk management process, pursuant to which it is necessary to provide periodic communication on risk, risk strategies and enterprise stakeholders control [15, p. 199].

The conduct of internal auditing in the previously described manner indicates its key role in enterprise risk management process - to provide impartial assurance on effectiveness and efficiency of the risk management process itself. In particular, the goal of internal auditing is to assure the management of the following: [8, p. 29]

- That the risk management process established by the management operates in compliance with its intentions, and
- That the management responds to the significant risks adequately and efficiently in terms of reducing the risk to an acceptable level.

The conduct of auditing in compliance with the presented standards involves a systematic and disciplined approach to risk assessment, which enables an effective risk management, as well as the reduction of risk to minimum.

3.2. Institute of Internal Auditors' report on the role of internal auditing in ERM

In addition to standardization, in its report entitled *The Role of Internal Auditing in Enterprise-wide Risk Management* published in 2004, the Institute of Internal Auditors has particularly emphasized the role of internal auditing in risk management. It is pointed out in the introduction of the report that the management of an enterprise is responsible for establishing the system of risk management. In addition, the top management may delegate management operations to teams that are supposed to coordinate and complete the entire system. At the same time, the basic role of internal auditing in enterprise risk management process is to impartially assure the top management in the effectiveness and the efficiency of the very risk management process, in order to ensure the adequate management of the key, i.e. the most significant risks encountered by an enterprise.

The report provides an overview of key activities of risk management process, as well as the potential involvement of internal auditing in problem solving. Namely, internal auditing is not supposed to undertake certain activities, while, on the other hand, there are activities in which internal auditing plays a major role, as well as activities that it should implement by applying safeguards, so-called legitimate activities (Figure 2).

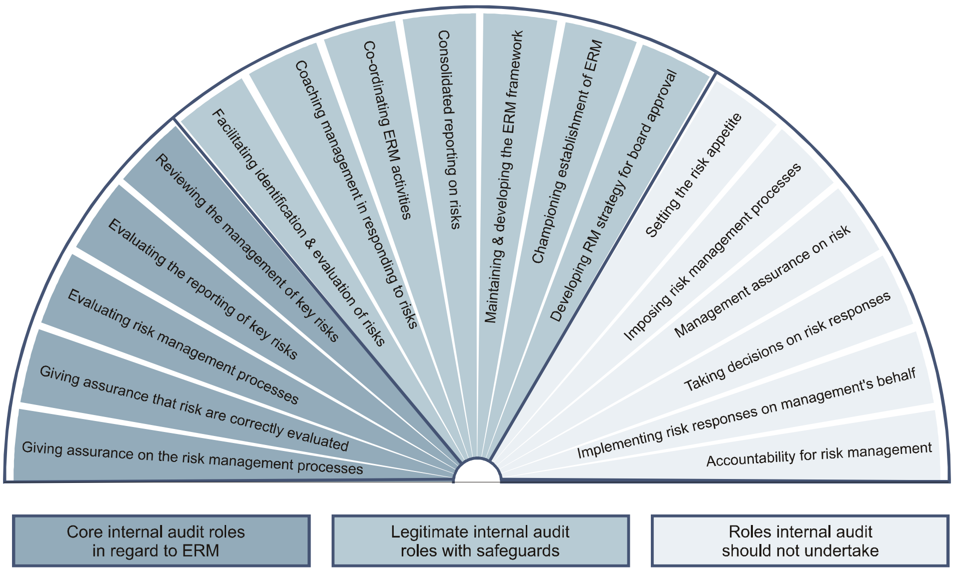

Fig. 2. Internal audit role in ERM, Source: [18,p. 4]

The Figure shows that the **core activities** of internal auditing are related to providing the service of impartial assurance. The activities are a part of the broader objective which is related to providing assurance of the efficiency of the entire risk management system.

Legitimate activities refer to advisory services of internal auditing that should influence the improvement of risk management process, enterprise management and controlling processes. Thus, for example, internal auditing may perform benchmarking, on the basis of which it inclines towards the introduction of the "best practice" in the enterprise risk management system. Moreover, its contribution to raising awareness of risk and control through transfer of information within the enterprise is significant as well. [16, p. 73]. Internal revision creates reports where it expresses its assurance of the efficiency of risk management by forming the base of data related to the risk. In that sense, databases and internal audit reports are considered to be an important communication tool. Certainly, there are numerous activities performed by internal auditing with the aim of improving risk management process, except that the scope of these activities is directly dependant on the external and internal sources that an enterprise has at its disposal, as well as it is dependent on the development stage of the risk management process. For that reason, their alteration is possible over time. Furthermore, along with the performance of these activities, it is necessary to implement certain protective measures/safeguards, too, primarily those that ensure independence of internal auditing. The measures include the following: [18, p.5]

- existing awareness that the management of an enterprise is responsible for the entire risk management process,
- level of responsibility of internal auditing is supposed to be documented in the regulations book on internal auditing, approved by the Audit Committee,
- internal auditing is not entitled to manage any risk on behalf of the management,
- internal auditing is supposed to provide advice and assistance to the management in the process of decision-making, not making decisions independently
- internal auditing cannot provide impartial assurance on any segment of risk management framework under its jurisdiction, such an assurance should be provided by other competent individuals from or outside the enterprise,
- any activity outside the service of assurance should be evaluated as a segment of advisory service, taking into account implementation standards related to such activities.

What can also be seen from the previous figure is that **internal auditing should not undertake certain activities within enterprise risk management process**. In fact, the management is responsible for such activities, and their undertaking would jeopardize independence and impartiality of an internal auditor. Therefore, the internal auditing is expected to provide a significant support to enterprise risk management process by providing only advisory and assurance services, and not to, for example, perform activities of internal control, make decisions on behalf of the management, evaluate the efficiency of internal controlling on behalf of the management, which is imposed by the provisions from the Sarbanes – Oxley Act, etc.

4. Research of Practical Potentials of Internal Auditing in Enterprise Risk Management

We can conclude from the previous expose that the Institute of Internal Auditors has made great efforts to substitute control-based approach of internal auditing with risk-based approach. The alteration of approach, certainly, had significant implications on the entire internal auditing process as well, especially on the stages of planning and results reporting. Therefore, internal auditing planning must be based upon the risk, in order to align the internal auditing plan with the objectives of an enterprise. To ensure the inclusion of risk in the internal auditing plan at the level of individual departments in an enterprise, it is essential for internal auditors to understand the mode of risk management, that plans be based on the results of risk management, to be adjusted with the alterations in enterprise's strategies, i.e. to adapt to alterations of risk-exposure which result from it. In addition, the final result of the entire internal auditing process is the report which also represents a means of communication between internal auditors and users of such reports, usually the management, the board and the Audit Committee. It is important to emphasize in the report the importance of the role of risk management processes and controlling in achieving objectives of the enterprise, and to report the work performed by internal auditing. These reports and aforementioned databases enable better cooperation between internal auditing and the management, even during the auditing process. [5, p. 51]

Theoretical recognition of the importance of internal auditing in enterprise risk management is not disputable. However, it is very important to define and recognize its potentials in practice by the management, as well as its overall involvement in the process. In this regard, the Institute of Internal Auditors Research Foundation conducted a research in August 2009 [9] involving 132 enterprises, whose aim was to examine the expectations of the Audit Committee and the management in terms of involvement and support of internal auditing in enterprise risk management, and to examine the current level of internal auditing involvement in the entire process.

The management and Audit Committee research results of their perception of the role of internal auditing research results are given in Table 3.

Table 3. Expectations of the Audit Committee and the management from internal auditing

Has the audit committee asked internal auditing…	Yes	No
to provide an opinion on any individual programs or areas related to risk management?	41%	59%
to provide an opinion on the organization's overall risk management processes?	23%	77%
to perform specific audits of any components of risk management?	28%	72%
for recommendations or advice on enhancing the organization's risk management processes?	45%	55%

Source: [9, p.7]

The data in Table 3. indicate that the Audit Committee does not have high expectations regarding the support of internal auditing in enterprise risk management process. However, on the other hand, 75% of respondents find that the Audit Committee should get a feedback from internal auditing on the effectiveness of risk management system, and only 20% of them find no need for that, while 5% remain neutral. The conclusion drawn from these results is that the Audit Committee does not recognize the ability of internal auditing to improve the risk management process by providing assurance and advisory service. Moreover, it is possible that the Audit Committee finds that internal auditors are not competent, skillful and experienced enough to assess risk management activities.

What is interesting is that the study lacks data on the expectations of the management form internal auditing function, probably because the management is not "in the mood" to give internal auditing an important role, which can be the result of the following: fear of eventual findings of internal auditing, suspicion in the skills and competence of internal auditors, or the lack of awareness about the potential of consulting and assurance services that internal auditing can provide.

In addition, the research aimed at identifying the level of current involvement of internal auditing within specific segments of risk management, as well as future trends. Research results are given in Table 4.

Table 4. Involvement of internal auditing in ERM

Role description	Current Role	Future Role	No Role
Informally provides consulting and advice on risk management practices	77%	14%	9%
Is the catalyst in forming risk management	48%	14%	38%
Has active participation in implementing risk management	45%	20%	35%
Participates as part of a formal risk management program	43%	30%	27%
Provides independent assurance on risk management	40%	35%	25%
Assists and advises a new, separate risk management function	28%	21%	51%

Source: [9, p.9]

77% of respondents find internal auditing significant in providing informal advice on the risk management practice, which supports the idea that internal auditors can get better understanding of the entire risk management process. Nevertheless, internal auditing participates at a lower level in the design of risk management process (48%). However, the situation is encouraging in relation to the role it used to have 5 or 10 years ago, taking into account the future trend (14%).

Responses related to the 3rd and the 4th segment indicate that internal auditing will continue to develop its active role in implementing risk management process. However, what is especially worrying is the low level of involvement of internal auditing in providing guarantees and recommendations for the improvement of risk management process. In particular, 25% of respondents find that internal auditing is not able to provide advice for the improvement of risk management process, while 51% do not see the purpose of its assisting the new functions of the process.

Nevertheless, despite modest participation of internal auditors in certain segments of risk management, it is expected from the auditing practice to take certain steps to ensure its further affirmation in this field. Above all, the Head of auditors is expected to be proactive in developing adequate skills of internal auditors and to play an aggressive role in convincing The Audit Committee and the management of the importance of internal auditors' role in the risk management. Only thus will internal auditing be able to employ its potentials in assisting enterprise risk management process.

CONCLUSION

Enterprises became aware long ago that the effective risk management is the condition for the creation of the added value. The risk management system has been altering and improving over time under the influence of numerous factors, so the traditional concept of risk management evolved into the concept of "enterprise risk management" in the 1990's. It happened due to the fact that the traditional approach, which included isolated risk management of individual departments in an enterprise, limited the perception of the overall risk an enterprise encountered. Opposite to it, the concept of enterprise risk management possesses a broader perspective, for it integrates and coordinates activities for managing the overall risk an enterprise is exposed to at all organizational levels.

A new approach of internal auditing, where it is focused on the risk more than ever, develops simultaneously with the development of the new concept of enterprise risk management. The Institute of Internal Auditors, by adoption of standards, recommendations, reports, etc, gives a significant contribution to the establishment of internal auditing based upon the risk, as well as provides guidelines for its further development. In modern business terms, internal auditing is given a dual role in the risk management process: firstly, it acts as a provider of justified assurance in the effectiveness of enterprise risk management process, risks and internal controlling, etc., and, secondly, acts as an advisor in terms of consulting the management with the aim of improving key areas of business.

Internal auditing, as a means of risk management, should assist enterprises in implementing legal provisions in the business operations and their integration within the concept of enterprise risk management. Furthermore, it should closely cooperate with the management of an enterprise, the Audit Committee and external auditors in terms of providing explanations related to internal control and risk assessment, it should take responsibility for compliance with legal regulations, assess the effectiveness of enterprise risk management and form opinions and suggestions for the improvement of the process. Thus, internal auditing actively participates in the accomplishment of the determined objectives, while simultaneously reduces the exposure of an enterprise to negative risks. The main role of internal auditing in risk management is to provide the assurance of efficiency and effectiveness of the enterprise risk management process and to provide advice for managing the major risks which an enterprise encounters.

Internal auditing is expected to actively participate in the process of risk management in future, and to develop adequate skills to perform such activities. By performing continuous assessment and providing advice and suggestions, internal auditing is supposed to contribute to the improvement of risk management process which is the responsibility of the management of an enterprise. What is important to underline is that the internal auditing must preserve its independence from the management of an enterprise by performing its activities within risk management process. More precisely, it is expected to contribute to the effectiveness of the risk management process by providing, exclusively, advisory and assurance services.

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POTENCIJALI INTERNE REVIZIJE U UPRAVLJANJU RIZIKOM PREDUZEĆA

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U savremenim uslovima poslovanja interna revizija postaje značajni mehanizam upravljanja rizikom preduzeća. Potencijali interne revizije u upravljanju rizikom su određeni delokrugom rada interne revizije i vezani su za pružanje uveravanja o efikasnosti i delotvornosti procesa upravljanja rizicima preduzeća i davanje saveta po pitanju upravljanja najznačajnijim rizicima sa kojima se preduzeće suočava. Interni revizori treba da procene efikasnost procesa upravljanja rizikom preduzeća, formiraju mišljenje i daju predloge za poboljšanje tog procesa. Pri tome je veoma bitno da sačuvaju svoju nezavisnost u odnosu na menadžment preduzeća koji je odgovoran za proces upravljanja rizikom preduzeća.

Ključne reči: *rizik, upravljanje rizikom preduzeća, interna revizija*