

IMPACT OF INTERNAL AUDIT ACTIVITY ON RISK MANAGEMENT WITHIN CONSTRUCTION ORGANIZATION

Răzvan Florin GASPARETTI¹, Carmen Marilena GASPARETTI²

1 Department, Faculty of Public Administration, "Athenaeum" University from Bucharest, Giuseppe Garibaldi Street, no. 2A, sector 2, Bucharest, Romania, E-mail: grazvan_98@yahoo.com

2 Department, Faculty, University, Address, Country, e-mail 3Naval Architecture Department, Faculty of Naval Architecture Faculty, "Dunărea de Jos" University of Galati, Domneasca Street, 47, RO-800008, Galati, Romania, E-mail: carmen.gasparotti@ugal.ro

* Correspondence: carmen.gasparotti@ugal.ro

Abstract: In a competitive market, it is increasingly important to implement, in each company, all the prerogatives of risk management and control and internal control systems. In this context, the internal audit (IA) function appears as a lever that through its assurance and consulting missions can help companies increase their value based on a risk management approach. Starting from the objective of this paper to identify the relationship that exists between IA and risk management, from the perspective of its improvement, an empirical analysis has been carried out for 18 private companies in the field of construction in Romania. The results have shown that risk management consulting activities are increasingly in demand and that factors such as internal auditor training and experience are very important in creating value for companies. The research has shown that internal auditors and managers in these construction companies believe that the two ways by which IA creates added value are by ensuring that major risks are properly managed and by ensuring that risk management and internal controls are working effectively.

Keywords: internal audit, risk management, audit missions, risk register, insurance, and consulting services.

1 INTRODUCTION

For the performance of the IA activity, there is, at a global level, a reference framework, which is permanently adapted according to the legislative particularities of each country and the context, taking into account the specific rules of each field of activity and the particularities of the organizational culture of each audited

organization. Even if between organizations there are differences in managerial culture, and development, as well as from the point of view of the degree of implementation of IA, the improvement of this activity is necessary, as it has a direct effect on the organization (Voinea, 2016; Chersan and Fădur, 2016).

The IA function has a crucial role within organizations to help them achieve their goals,

becoming at the same time a management tool for effective controls (Behrend and Eulerich, 2019). According to the International Professional Practices Framework for Internal Auditing (IPPF), the role of IA is to contribute to improving the effectiveness of an organization's risk management, internal control, and governance processes (The Institute of Internal Auditors, IIA, 2017). Also, IA is defined according to The Institute of Internal Auditors, IIA, (2017) as an activity designed to add value and improve an organization's operations through a systematic and disciplined approach through which to evaluate and improve "the effectiveness of risk management, control, and governance processes". Thus, it becomes imperative to maximize the added value provided by IA, in the context of maintaining its effectiveness, which makes it necessary, in this era of digitization, to identify innovative practices that support the function of IA in the process of its transformation.

An effective internal audit function provides a number of benefits to organizations, such as (Lenz and Hahn, 2015):

- a means of monitoring and improving the internal control environment for the organization;
- valuable information on the risks faced by organizations;
- focusing on the most important risks, according to the instructions of the board of directors;
- a system that allows identifying and remedying deficiencies in a timely manner;
- independent reports for the board of directors;
- improves internal controls;
- recommendations regarding increasing the efficiency and effectiveness of operational procedures.

An effective IA activity is important for an organization's senior management and the audit committee.

An organization's senior management relies on IA activities to improve controls and reduce risk, but also to improve operations. On the other hand, the audit committee relies on IA activities to perform robust internal controls and a higher quality of financial reporting, but also to maintain regulatory compliance (Eulerich et al., 2019).

Any activity carried out in an organization is subject to risks that can occur with a certain probability as a result of some general or specific factors. Organizations today face a multitude of risks that must be managed as accurately as possible.

Risk is a decisive element for the decision-making behavior of managers and it has different meanings that we encounter depending on certain concrete situations.

Risk, as defined by Dascălu and Nicolae, (2006) is a potential event that may or may not occur, at a given moment, due to unexpected phenomena. Another meaning accepted for risk is that of the threat that certain events will affect the ability of organizations to fulfill their objectives (Rusovici and Popescu, 2007).

Risk-based auditing considered a modern approach, helps organizations to recognize risks, allowing efficient use of resources and focus on important issues (Arena and Azzone, 2009; Lenz and Hahn, 2015; Azzali and Mazza, 2018). This approach allows internal auditors to provide assurance on the effectiveness of risk management and internal controls (Lois et al., 2021).

To mitigate risks, organizations perform internal controls, making risk management critical to IA effectiveness (Turetken et al., 2019). Within these internal controls, the internal auditor can assist the manager of the organization, helping him to understand the weak points, and contributing to the improvement of communication between the internal auditors and the audited organization. When IA contributes to improving the effectiveness of risk management, the value

created increases (D'Onza et al., 2015). After the risks facing the organization have been assessed and an audit plan has been built to address them, internal auditors involved in risk management can update the plan based on the updated risks (Sarens and De Beelde, 2006).

If the risk refers to areas such as economic, political, social, financial, etc. activity, then it is present in IA activity and constitutes a fundamental problem. The way in which the risks will be addressed in the IA activity involves their identification and the establishment of the probability of occurrence, the assessment of the risks (quantification of the effects on the organization), and the establishment of recommendations to reduce their effects or even to prevent them.

Implementing risk management will certainly contribute to increased performance. This presupposes the existence of internal audit departments necessary for planning and conducting audits. Through the activities carried out, IA covers both the evaluation of the internal control system and the risk analysis. An important step in the audit process is, therefore, the identification, assessment, and management of risks to eliminate unwanted effects, focusing on the implementation of risk management strategies in order to increase the organization's performance.

Risk management at the level of the organization has a role in identifying and evaluating threats that affect the achievement of objectives and in making decisions regarding their reporting, this being a structured, consistent, and continuous process. The general responsibility for identifying and managing risks is up to the management of the organization. Risk management and IA are tools for an Internal Control System, which have different objectives and roles.

The study aims to examine the role of the IA function in risk management and the challenges that influence this function, in several private construction companies. The research topic

starts from its actuality, in a context dominated by permanent developments in the industry, and changes at the level of operational processes, but also from the lack of analysis regarding private companies in the field of construction in Romania, which would provide an image of IA practiced in such companies. The novelty of the theme consists in the documentation made in the specialized literature, as well as the collection of data from these companies, taking into account the characteristics of IA and risk management, with the aim of analyzing the impact of IA activity on risk management, by performing an empirical analysis.

This analysis is important because it provides an overview through the empirical analysis of a data set on a sample of private construction companies, which captures the economic reality in this field.

The objective of this work is to identify the relationship that exists between IA and the risk management process, from the perspective of improving this process, in the analyzed construction companies.

The paper is divided into the following sections, as follows: literature review in section 2; research methodology in section 3; case study in section 4, and conclusions and proposals.

2 LITERATURE REVIEW

An IA function that is properly organized can have an important role within organizations, by evaluating the internal control system, the effectiveness of this control, governance, and risk management processes (Ismajli et al., 2017). Due to the fact that processes and operations are more and more complex today, and risks are more diversified, organizations pay more attention to their management. Developing an effective risk management program is timely but at the same time expensive.

The IA function requires managerial support, organizational independence, sufficient funds, unlimited access to information, qualified

personnel, and the implementation of professional auditing standards (Alqudah et al., 2019).

According to The Institute of general auditors, (2009), IA is an objective assurance and consulting activity, its primary role regarding risk management at the organization level, being to provide management objective assurances regarding the effectiveness of risk management. In other words, the organization's management and internal auditors believe that there are two essential ways in which IA can provide value, namely: objectively ensuring that significant risks are properly managed and ensuring that both risk management and internal control are working effectively. Currently, the function of IA is gaining importance, becoming a priority as a consultant to the management of the organization. This means that the professional profile of the internal auditor changes, being put in a position to face several challenges such as information technology, risk management, databases, etc., which requires a series of specific skills, but also a series of necessary relationships that are established between different entities and internal auditors (Chersan, 2016).

As Roussy et al., (2020) have stated, the competencies of internal auditors include significant operational experience, specific to each organization, adaptability, strength of character, judgment, IT skills, and listening skills, which contribute greatly to increasing the effectiveness of the IA activity. In addition, Arena and Azzone, (2009) and Endaya and Hanefah, (2013) believe that in order to fulfill their individual responsibilities, internal auditors must also possess specific knowledge and skills that enable them to complete audits, offering advice on improving internal control system, at the same time identifying appropriate solutions based on experience and resolving conflicts and complex situations encountered. Also, Ratliff and Reding, (2002) have stated that the auditors of the 21st century must have adequate training

to be able to audit operations, information systems, fraud, performance, financial situation, and environmental reporting.

An important trend in IA practice concerns the effectiveness of this activity. Thus, in order to increase the effectiveness of IA, it is necessary to establish relations, of double reporting, with the audit committee and the senior management of the organization (The Institute of Internal Auditors IIA, 2019). The first line of reporting is to the audit committee and helps to streamline the IA activity, allowing the internal auditor access to sensitive matters, while ensuring, at the same time, the prevention of the interference of the organization's management in the control of this activity and the highest level of governance within the IA activity. The second line of reporting is to senior management (mainly to the CEO). Also, for the effectiveness of IA activity, there must be transparent and trusting relationships between the audit executive director, the audit committee, and the general manager (Roussy et al., 2020). So, a positive relationship with the audit committee and adequate support from senior management leads to the effectiveness of the audit function. Even if the audit committee and the IA function are separate control bodies, the objectives pursued are similar, both being interested in monitoring and evaluating the organization's internal control system (Arena and Azzone, 2009).

The audit committee views the IA activity as a source of information, which facilitates the fulfillment of its duties, and at the same time relies on the work carried out by the IA function. This shows that it is important for the audit committee to make this function that they oversee effective (Brender et al., 2015; D'Onza et al., 2015). This oversight helps identify problems in IA activity, thereby providing opportunities for improvement and strengthening the IA's ability to overcome undue pressure from senior management (D'Onza et al., 2015). It can be stated that the relationship established between

the IA and the audit committee is essential for the effectiveness of the IA. Therefore, the level of trust and formality, but also the frequency of meetings between internal auditors and audit committee members affect the effectiveness of IA activity (Roussy et al. 2020). When there is a positive relationship between the IA function and the audit committee, it facilitates the role of internal auditors and provides support for the audit to fulfill its responsibilities. Also, as Lenz and Hahn, (2015) have stated, an intense working relationship between the IA and the audit committee contributes to strengthening the objectivity and independence of the IA activity. Moreover, D'Onza et al., (2015) found that through relatively frequent interactions between the audit executive, in his capacity as a representative of the IA function, and the audit committee, they allow the IA activity to obtain support, thus becoming more effective in improving internal control processes, risk management, and governance in the organization. The involvement of the audit committee in IA activities, as Arena and Azzone, (2009) have concluded demonstrates that the organization is involved in increasing the credibility of IA, encouraging the implementation of IA recommendations.

On the other hand, Sarens and De Beelde, (2006), believe that the relationship between senior management and the IA function influences the effectiveness of IA activity. While senior management aims for the IA function to contribute to the improvement of internal control and risk management, assuming more responsibility in this regard, the IA function wants more support from management in fulfilling its responsibilities. Also, the support provided by senior management is important by involving them in the development of the IA plan, which allows the independence of the IA to be maintained (Alzeban and Gwilliam, 2014). For the effective fulfillment of the responsibilities of the IA function, senior management must provide sufficient resources, appropriate tools

necessary to complete audit missions, qualified and experienced personnel, the provision of training and development programs, as well as the commitment to implement the recommendations made by IA (Alqudah et al., 2019; Ta and Doan, 2022). The lack of management support negatively influences the cooperation between the audited organization and the IA.

Starting from the fact that IA is an independent and objective activity, carried out with the aim of making the organization's operations more efficient in order to achieve its own objectives, it requires the implementation of a systematic approach that contributes to improving the effectiveness of risk management (Crisan et al., 2018). Thus, IA has the role of providing the management of the organization with objective assurances regarding the effectiveness of risk management through internal control mechanisms and consulting services (Abdelrahim and Husam-Aldin N. Al-Malkawi, 2022). Internal auditors provide this assurance in three areas: the design of risk management processes and how well they are working, the management of "key" risks, including the effectiveness of the controls performed, the reliable and appropriate assessment of risks, risk reporting and control status (The Institute of Internal Auditors IIA, 2017).

In order for the IA activity to achieve its objectives within the organization, there must be a control system with clear procedures, guidelines, and codes of conduct (Ducu and Mihăilescu, 2011).

Alqudah et al, (2019) have stated that IA can provide consulting services and the extent of internal auditor consultation in risk management depends on the internal and external resources available and the risk maturity of the organization (the extent to which a sound risk management approach was adopted and applied by management). Also, Ta and Doan, (2022) consider that the expertise that

the internal auditor has in considering risks and in understanding the links that exist between risks and governance is very important. As risk management becomes more integrated into the organization's operations, IA's role in promoting risk management can be reduced, and if the organization employs risk management specialists, IA can focus on its assurance role, adding value and improving the organization's operations (Roussy et al. 2020). Among the consulting roles that the IA activity can perform, as outlined by The Institute of general auditors, (2009), can be mentioned: making available to the management of the organization by the internal auditor the tools and techniques used for risk analysis and controls, providing advice, promoting a common language, identifying the best ways to mitigate risks, facilitating workshops, training the organization on risk, coordinating, monitoring and reporting risks. Thus, the internal auditor can offer consultancy services within the framework of risk management, if he has no role in the effective management of risks, this being the responsibility of the management. Therefore, the role of IA in risk management, as outlined by The Institute of Internal Auditors IIA, (2017), is carried out through audit missions, and has in mind:

- the identification and assessment of risks (of the impact and the probability of the occurrence of the risk);
- ensuring that these risks are assessed as accurately as possible;
- an improved understanding and management of key risks and their implications;
- selection and implementation of the responses strategies to risks;
- monitoring and coordination of risk management processes and results;
- evaluation of the risk management process;
- improving the organization's decisions regarding risk responses;
- increasing the performance of the organization.

IA activity must contribute to enhancing and protecting the organizational value and improving risk management and internal control processes, using a systematic and disciplined approach (The Institute of Internal Auditors, IIA, 2019; Feghali and Hallak, 2019).

Starting from the definition of IA's field of activity, it is possible to analyze how internal auditors add value to the risk management environment. In practice, the added value brought by IA, in terms of risk management, can be achieved through various actions, as emphasized by Beumer, (2011):

- revision of the internal control systems and the risk management process in the organization;
- identification of risks and evaluation of internal controls with a role in mitigating these risks;
- educating the organization vis-à-vis the way it develops and uses its risk management process and the promotion of best practices, through the role that IA has as a change agent.

The focus on risk is found in all aspects of the audit activity, and strategic and general assessments of risk management, as well as detailed assessments of aspects of the risk management framework, are valid audit tasks (Stojanović and Andrić, 2016). In this way, internal auditors support all relevant business activities and enable organizations to fulfill their mission. Lois et al., (2021) state that IA activity has gone through several stages of development to respond to the growing interest in risk management. These stages of development are control-based auditing, process-based auditing, risk-based auditing, and risk management-based auditing.

In contrast to the risk-based audit, in the new approach, risk management-based, the focus is on key objectives, the organization's management appetite for risk, key performance indicators, and the organization's risk management capacity. In this new approach, IA considers the optimization of key risks so that

business objectives are achieved, instead of focusing on mitigating risks to an acceptable level, thus becoming a key link in the successful risk management process (Stojanović and Andrić, 2016). The steps that are included in the IA approach based on risk management, as presented by Stojanović and Andrić, (2016), are: 1. creating an audit charter 2. creating a risk-based audit plan 3. developing preliminary surveys in the audit areas that have been prioritized by the risk-based audit plans 4. reviewing the risk registers (if any) in the areas analyzed 5. reporting of risk management and control processes.

In order to add more value, in the context of improving the risk management process, auditors can change their role. Thus, auditors may have no role or may audit the risk management process as part of the IA plan, may support and actively involve in the risk management process (through monitoring and reporting activities), or may manage and coordinate this risk management process (Toolkit for performance management, risk management, and internal audit, 2021).

Regarding the maturity of risk management, in an organization, there are several possibilities to evaluate the maturity phase in which it is. Thus, Pickett, (2013) has stated that risk management develops in four stages until it reaches its full maturity. These stages are:

1. *Risk awareness* is the stage promoted to ensure that all employees in the company proactively identify key risks and have a vision of the consequences of those risks for which they are responsible, informing management at all levels about priority risks;

2. *Design*. This stage consists of the investigation by the internal auditors of the best risk management practices in different organizations so that the risk management process that will be adopted by the organization is created in a way that suits the organizational culture, the style of management, and the organization's objectives. If the organizations

are small, an informal risk committee can be established, which based on the organization's risk profile will initiate risk reduction actions.

3. *Integration*. This stage assumes that the risk management process is systematically applied, establishing clear responsibilities and effective decisions.

4. *Review*. This stage together with management monitoring and certification can only be established when there is a risk management system at the organizational level. The review is the stage in which internal auditors reduce the scope of their consulting services and can begin to assume their basic role, i.e. that of assurance.

Regardless of the level of maturity of risk management in the organization, a robust risk management program must allow a continuous review and modernization, which involves several steps (Crişan şi et al., 2018):

- evaluation and improvement of existing risk management techniques;
- developing additional processes to obtain an integrated risk management process;
- implementation of specific techniques for evaluating risk response strategies;
- the development of a manual that includes the procedures for identification, analysis, treatment, and monitoring of risks;
- risk analysis from a quantitative point of view, with the help of techniques based on statistics and simulation, which allow modeling the impact that the risk has on previous or subsequent activities;
- the training of risk managers regarding effective analysis tools, and methods of monitoring the impact that the application of different risk response strategies has;
- establishing risk management plans and related costs;
- ensuring permanent communication between those responsible for the risk management process and the management of the organization.

3 RESEARCH METHODOLOGY

The approach of this research consisted of the analysis of specialized literature (Rusovici and Popescu, 2007; Ducu and Mihăilescu, 2011; Broadleaf, 2014; D'Onza et al., 2015; Ismajli et al., 2017; Bednarek, 2018; Zerban, 2018; Feghali and Hallah, 2019; Lois et al., 2021; Onay, 2021) in order to create a theoretical foundation, followed by a quantitative analysis of IA implications on risk management. Starting from this objective, the research direction refers to the approach of the audit concept, the relations between it and risk management, and the impact on the performance of the analyzed companies. In this sense, the research methodology within the work consists of creating a structured questionnaire, which has been sent online to 25 private construction companies from Galați, in March 2023, being addressed to the internal auditors and audit executive directors of these companies. The questionnaire has been completed by 40 respondents from 18 of these companies, in each company, the IA activity is carried out by 1 to 3 auditors.

The questionnaire used in this study includes the following questions:

1. Please specify the name of the company where you work.
2. At what level do you appreciate the operation of IA in the company?
3. What is the number of internal auditors in the company?
4. In your opinion, do you consider that the number of internal auditors is sufficient for carrying out audit missions?
5. At the company level, is there a methodological guide for carrying out audit missions?
6. At the company level, is internal audit a strategic or compliance function?
7. At the company level, what do you consider to be the main priorities regarding the internal audit plan?

8. What do you consider to be, at the company level, the characteristics of a well-planned internal audit?

Also, please indicate to what extent you agree, on a scale from 1 to 5, where 5-to a very large extent, 4-to a large extent, 3-to some extent, 2 -to a small extent, 1-to a very small extent, with the following statements:

1. Appreciate the perception of the company's management in terms of how to approach risks.
2. At the company level, the identification of risks associated with auditable activities is regulated.
3. At the company level, audit missions are carried out based on a preliminary risk analysis for each auditable activity.
4. Assess auditees' perception of risk assessment recommendations.
5. Appreciate how attending risk management training would help the internal auditors.

The information obtained based on the questionnaire provided a real picture of the role that IA has in risk management. This real value comes from the analysis of the data and the perspective that the companies being analyzed have on how that data would affect the IA function.

The work is quantitative in nature, but in order to form a base of information necessary for the analysis, the interview has been used as a qualitative data collection technique, but also to obtain a practical perspective on the topics addressed in the questionnaire. The manner in which the interview was conducted was completely unstructured (informal) to allow internal auditors and audit executives to express their views freely. The collection of information based on interviews was carried out between March 2023 and April 2023.

The interview questions were:

1. Is a risk management procedure developed at the company level?

2. Is systematic risk monitoring and assessment carried out at the company level?

3. Is there a guide at the company level for tracking the results obtained as a result of the application of risk management recommendations?

4. Is a risk register completed at the company level, according to the system procedure regarding risk management?

5. At the company level, are employees encouraged to report any deviation/deficiency or significant weaknesses?

6. If deviations/deficiencies are discovered, are corrections or improvements made?

7. Do the consequences of these deviations/deficiencies demonstrate that there is a pervasive condition that results in an unacceptable level of risk?

8. Following the audit missions carried out, do you consider that added value is brought to the company?

9. What do you see as the main challenges facing the company from the perspective of the internal audit department?

Also during the interview, the teams of auditors from the 18 companies participating in the study gave different importance to the internal audit mandate:

(a) support regarding business continuity efforts;

(b) counseling services for fraud detection;

(c) assurance on the internal controls carried out by the organization;

(d) advising the company's management to improve internal controls;

(e) oversight of existing controls, policies, and recommendations that have been implemented;

(f) assurance regarding risk management.

Since the role of IA in the private construction sector in Galati has not been analyzed empirically, this study wants to highlight the importance of IA activity in improving risk management, in several

companies analyzed in this field. The final results assumed the issuing of pertinent conclusions, which were based on the results obtained from the empirical testing.

4 CASE STUDY

In the first stage, the distribution of the construction companies according to the object of the activity was analyzed. Based on the collected data, it appears that 50% of the companies that have responded to the questionnaire have as their field of activity construction works of residential and non-residential buildings, 27.78% deal with road and highway construction works, and 22.22% deal with other works special constructions (foundation constructions, waterproofing and waterproofing works, underground works, brick and stone masonry, etc.) (Figure 1).

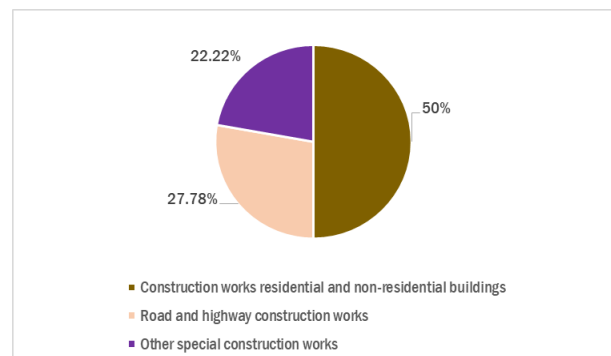


Figure 1. Distribution of the construction companies by the object of the activity

The respondents from 12 companies out of the 18 that have participated in the study have stated that the IA structure consists of a separate department made up of permanent employees. This lack of personnel in the field of IA is mainly due to the lack of knowledge of the importance of IA.

The number of respondents from internal auditors from each company is shown in Figure 2.

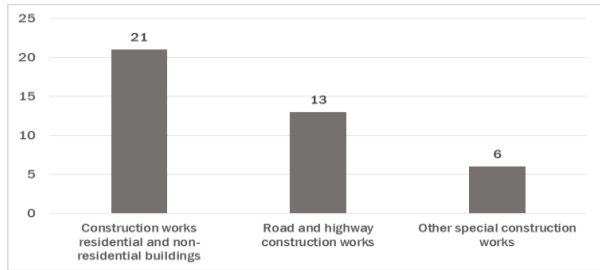


Figure 2. Number of respondents from each company

The response to the questionnaire addressed to the companies is reproduced below.

To the question "At what level do you appreciate the operation of IA in the company?" the respondents have answered according to the data presented in Table 1.

Table 1. "At what level do you appreciate the operation of IA in the company?"

Very good	Good	Satisfactory	Unsatisfactory
21	13	6	-

Based on the answers in Table 1, it can be seen that 52.5% of the respondents consider that at the company level, the operation of IA is very good, 32.5% consider a good operation of IA, and 15% consider a satisfactory operation of IA.

To the question "In your opinion, do you consider that the number of internal auditors is sufficient for carrying out the audit missions?" the respondents have answered according to the data presented in Table 2.

Table 2. "In your opinion, do you consider that the number of internal auditors is sufficient for carrying out the audit missions?"

	Yes	No
Number of respondents (40)	17	23

Based on the answers in Table 2, it can be seen that 42.5% of the respondents believe that

the number of internal auditors is sufficient, while 57.5% believe that the number of internal auditors is insufficient.

To the question "At the company level, is there a methodological guide for carrying out audit missions?" the respondents have answered according to the data presented in Table 3.

Table 3. "At the company level, is there a methodological guide for carrying out audit missions?"

	Yes	No
Number of respondents (40)	32	8

Based on the answers in Table 3, it can be seen that 32 respondents from 12 companies out of all 18 analyzed have a methodological guide for carrying out audit missions.

To the question "At the company level, does internal audit have a strategic or compliance role?" the respondents have answered according to Figure 3.

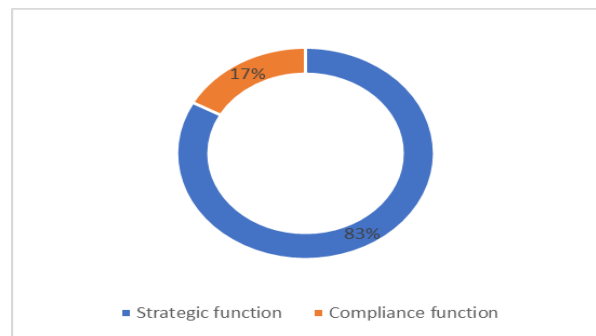


Figure 3. Internal audit - strategic or compliance function

Based on the answers given by the respondents, it turns out that 83% of them consider IA as a strategic function, while 17% believe that IA is not ready to move beyond the level of the compliance function.

To the question "At the company level, what do you consider to be the main priorities

regarding the internal audit plan?" the answer provided by the respondents is shown in Figure 4.



Figure 4. Main priorities regarding the internal audit plan

Regarding the IA plan, the respondents believe that the main priorities are: operational efficiency and effectiveness (45%), alignment with the company's objectives (20%), as well as ensuring compliance with the regulations in force (15%).

To the question "What do you consider to be, at the company level, the characteristics of a well-planned internal audit?", the answers are shown in Figure 5.

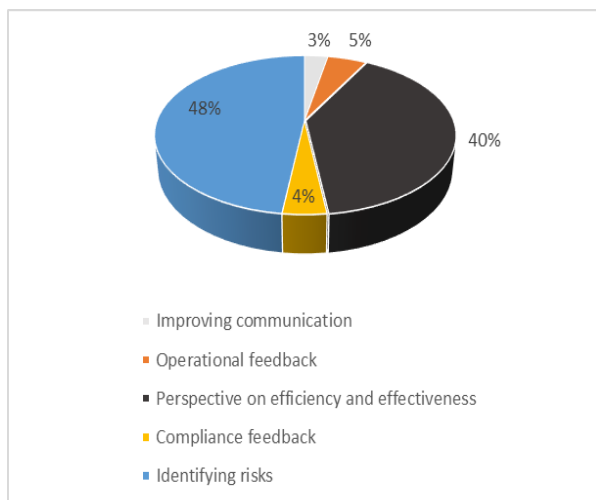


Figure 5. Characteristics of a well-planned internal audit

Figure 5 shows that 48% of respondents believe that identifying the risks faced by companies is a priority, followed by the ability to provide a complete picture of the efficiency and effectiveness of the financial and operational processes, as well as internal controls.

Regarding the seniority of the internal auditors from the 18 companies that have responded to the questionnaire, it has found that 60% of the respondents have a seniority (experience) in the field of IA of over 5 years, 27.5% a seniority between one and five years and only 12.5% are less than one year old (Figure 6).

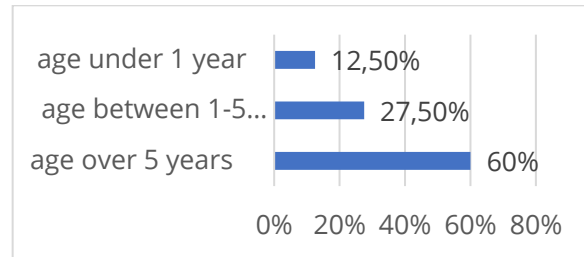


Figure 6. Seniority in the field of internal audit of the study participants

Regarding the responses of the respondents to the questionnaire, using a scale from 1 to 5, where: 5 represents a very large extent, 4 represents a large extent, 3 represents to some extent, 2 represents a small extent, and 1 represents a very small extent, they are reproduced in Table 4.

Table 4. The extent to which the respondents agree with certain statements (%)

	5	4	3	2	1
Appreciate the perception of the company's management in terms of how to approach risks	50	20	15	10	5

	5	4	3	2	1
At the company level, the identification of risks associated with auditable activities is regulated	62.5	17.5	12.5	7.5	-
At the company level, audit missions are carried out based on preliminary risk analysis for each auditable activity	67.5	25	7.5	-	-
Appreciate the perception of those audited regarding recommendations related to risk assessment	57.5	30	10	2.5	-
Appreciate how attending risk management training would help you	70	25	5	-	-

The collection of information based on interviews led to the following results, presented in Table 5.

Table 5. Interview respondents' opinions

	YES	NO	Parțial
Is a risk management procedure developed at the company level?	83.33 %	16.67 %	0
Is systematic risk monitoring and assessment carried out at the company level?	77.77 %	0	22.23 %
Is there a company-wide guideline for tracking the results obtained as a result of the application of risk	66.67 %	33.33 %	0

	YES	NO	Parțial
management recommendations?			
Is a risk register completed at the company level, according to the system procedure regarding risk management?	88.88 %	11.12 %	0
At the company level, are employees encouraged to report any deviation/deficiency or significant weaknesses?	65%	25%	10%
If deviations or deficiencies are discovered, are corrections or improvements made?	87.5%	0	12.5%
Do the consequences of these deviations/deficiencies demonstrate that there is a pervasive condition that results in an unacceptable level of risk?	85%	15%	0
Following the audit missions carried out, do you consider that added value is brought to the company?	87.5%	0	12.5%

Based on the respondents' opinions given in the interview (Table 5), it follows:

-15 companies (83.33%), out of the 18 participating in the study, have a risk management procedure;

-14 companies (77.77%), out of the 18 participating in the study, perform systematic risk monitoring and assessment, while 4 of these companies (22.23%) perform partial systematic risk monitoring and assessment;

-12 companies (66.67%), out of the 18 participating in the study, have a guide for tracking the results obtained as a result of the application of risk management recommendations;

-16 companies (88.88%), out of the 18 participating in the study, complete a risk register, according to the system procedure regarding risk management;

-employees are encouraged to report any deviation/deficiency or significant weaknesses, according to the chart in Figure 7.

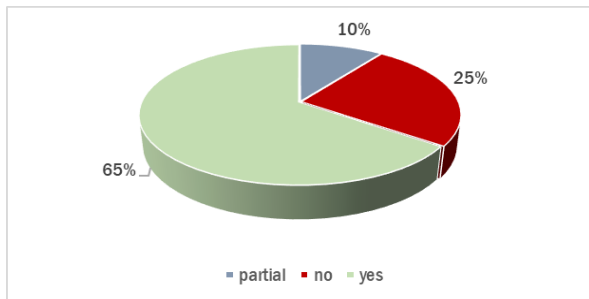


Figure 7. Employees are encouraged to report any deviation/deficiency

-if deviations/deficiencies are discovered, 87.5% of respondents state that corrections or improvements are made, while 12.5% of respondents state that these corrections are partially made;

-85% of respondents state that the consequences of discovered deviations/deficiencies demonstrate that there is a pervasive condition that results in an unacceptable level of risk;

-after the audit missions that have been carried out, 87.5% of the respondents believe that added value is brought to the company.

To the question "What do you consider to be the main challenges facing the company from the perspective of the internal audit department?" the respondents have answered according to the data presented in Figure 8.

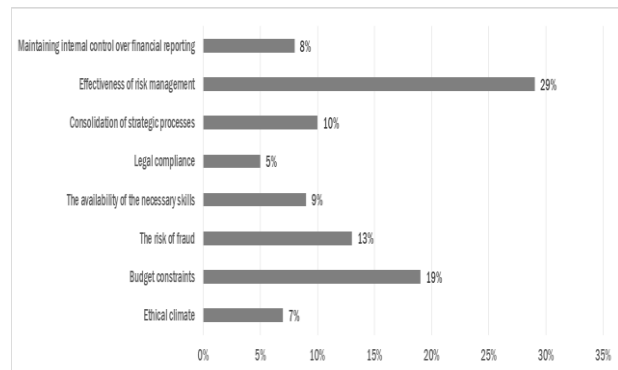


Figure 8. The main challenges facing the company from the perspective of the internal audit department

As shown in Figure 8, 29% of study participants indicate the effectiveness of risk management as the main challenge facing construction companies.

Regarding the importance given by the teams of auditors within the analyzed companies to the internal audit mandate, this is shown in Figure 9.

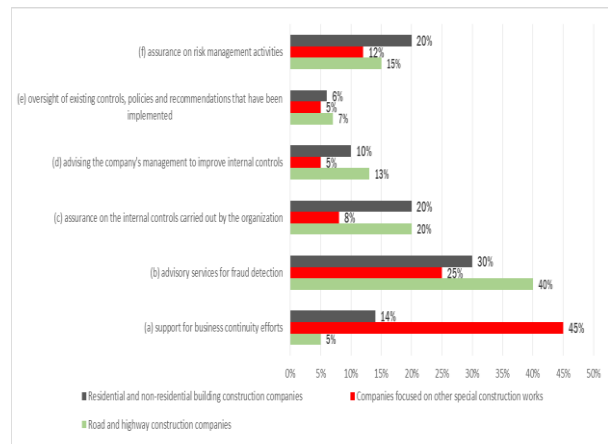


Figure 9. The internal audit mandate for the construction companies reviewed

As can be seen from Figure 9, the IA teams within the companies participating in the study place greater importance on (b) providing advisory services for fraud detection, (c)

ensuring the company's internal controls, and (f) ensuring risk management.

Thus, the main mandate of the companies regarding internal audit:

- for road and highway construction companies it is:

- (b) to provide advisory services for fraud detection;

- (c) assurance on the internal controls carried out by the company;

- (f) risk management assurance;

- (d) advising the company's management to improve internal controls.

- for companies focused on other special construction works it is:

- (a) support regarding business continuity efforts;

- (b) advisory services for fraud detection;

- (f) risk management assurance;

- (c) assurance of the company's internal controls.

- for residential and non-residential building construction companies is:

- (b) advisory services for fraud detection;

- (c) assurance of the company's internal controls;

- (f) risk management assurance;

- (a) support for business continuity efforts.

Following the answers received to the questionnaire and the interview, it has emerged that the role of internal audit in risk management is very important and also that internal auditors understand this risk management concept very well. However, in order to have a fully functional audit department within the analyzed companies, a number of the activities need to be improved. Moreover, to this is added the fact that some of the internal auditors are less experienced, access to a series of basic information is quite limited, and the funds allocated for the development of an audit department are insufficient in some companies, which affects IA performance in risk management.

Considering how IA adds value to the risk management process within these construction companies, it can be concluded that its role varies depending on the maturity of the risk management process. Therefore, IA first determines the level of the maturity of existing risk management in each company and forecasts its development trend, after which it begins to provide its consulting services. IA thus provides adequate support for establishing risk management structures and approaches.

In the case of the 18 companies participating in the study, 3 of them have reached a high level of risk management maturity (multidisciplinary teams offer advice on aspects related to risk management), a situation in which the companies are able to manage their risks, AI focusing more on providing objective assurance that major risks are being properly managed. However, even in the mature stages of risk management, IA can bring added value, offering certain consulting services, such as: facilitating processes, training, and counseling, being more oriented towards formal monitoring and objective assurance. In this case, the internal audit activity focuses on auditing the risk management infrastructure (documentation, methods used, necessary resources, and reporting method); auditing the entire management system; individual audits, especially for specific risks.

In the other 15 companies, where the management process is in an incipient stage of maturity, the IA role is divided into three basic elements: facilitation of the risk management process (internal auditors offer their support in starting the risk management process, helping employees to become familiar with basic approaches and techniques and to understand the risks affecting the achievement of the objectives); coordination and leadership (internal auditors promote the benefits of the risk management process, present to the management and employees the necessary actions to implement the risk management

process and encourage and support them to undertake these actions); support, design, and implementation (internal audit is proactive in helping companies' management establish specific processes that support good risk management). At this stage, IA undertakes the following activities, without assuming responsibilities for the risk management process: facilitates the identification and assessment of risks, coordinates risk management activities, reports risks, develops the risk management framework, and develops the risk management strategy approved by the board of administration. Internal auditors do not assume roles in determining risk appetite, imposing risk management processes, making decisions about risk responses, and implementing those responses on behalf of management.

5 CONCLUSIONS AND PROPOSALS

5.1 Conclusions

Due to changes in technology, the complexity of the activities and systems, and organizational needs, IA has moved from the traditional one, based on compliance, to the value-added audit, based on its contribution to reducing risk exposure, achieving objectives, and improving operational, through insurance and consulting services, becoming one of the strategic pillars within the companies.

Risk management consulting services lead to the strengthening of internal controls and a more effective risk approach.

The roles of the IA function in the risk area include:

- providing independent assurance regarding the risk management process;
- providing an independent assurance regarding the correctness of the risk assessment;
- evaluation of the risk management method;

- evaluation of the way of reporting key risks;

- review of key risk management.

The audit function helps companies identify those areas of risk that require additional management focus through proactive behavior to eliminate problems before they occur. This new approach, based on risk management, provides an early warning and a method for expanding the scope of management, whereby controls to mitigate risks are analyzed at a high level and then the identified risks are addressed through an AI process.

At the company's level, risk management is a continuous and structured process that allows the identification, evaluation, management, and control of the events and decision-making regarding the opportunities and threats that affect the achievement of the objectives.

As it follows from the specialized literature studied, IA has the role of evaluating and improving the risk management process, its assurance services are focused on evaluation, and consulting services are oriented towards improving this risk management process. In both its roles of providing assurance and consulting, IA contributes to risk management. IA's role, therefore, moves between the two types of services, from assuring the company's board, audit committee, and senior management about the state of risk management, to consulting with management to help the company to improve the risk management process. These roles assumed by IA, in each case, depend on the maturity of the risk management process.

For companies participating in the study, which have reached a high level of risk management maturity, they can manage their risks, in which case IA focuses on providing objective assurance that key risks are being managed appropriately, while still providing consulting services on process facilitation, training, and advice. IA is in this case focused on auditing the documentation, the methods used,

the necessary resources, the way of reporting, and the management system, as well as on individual audits, especially for specific risks.

In the situation of companies in an incipient stage of risk management maturity, IA has the role of:

- to provide support in starting the risk management process;
- to help employees understand the risks that affect the achievement of the objectives;
- to promote the benefits of the risk management process, by presenting the necessary actions for the implementation of the risk management process;
- to facilitate the identification and assessment of the risks;
- to coordinate the risk management activities;
- to report the risks;
- to develop the risk management framework and strategy.

This study demonstrates that, in order to establish the impact that IA activity has on risk management and to exploit the added value brought by this activity in risk management, it is necessary to carry out empirical studies within companies. The component elements of the questionnaires can be different, depending on the company, but also on how the managers and those interviewed believe that IA can bring added value.

In the evaluation of the risk management process within the companies, an essential role belongs to the risk register. In most of the analyzed companies, the risk register is created by the manager and the management team in order to understand the risk profile of the company. This risk register includes the description of the risk and the type of risk (financial, operational, etc.), the impact of the risk (the consequences if it occurs), the probability of the occurrence of the risk, the level of risk (determined by multiplying the probability and the consequence), the description of the control measures (if any) that have been

established to mitigate the risk, the identification of the people responsible for managing the risk and the actions planned in response to the risk. In companies where there is no risk register, internal auditors have the task of providing advice to the company's management, carrying out a total assessment of the risks and controls for the analyzed areas.

An approach of the IA based on the risk management process allows to assess risks (operational, technological, strategic, financial, fraud) and provide timely signals to management to help in achieving the objectives and bring added value to the company. When construction companies, facing an unstable market, find time to locate and manage risks appropriately, their performance increases.

In order for internal auditors to develop their knowledge, skills, and competencies, the companies must ensure their access to permanent professional training programs that are adapted to the objectives, strategy, and risks faced by each company. The curriculum area for vocational training programs should include aspects related to internal control, IT, risk, professional ethics, fraud investigation, data analysis, construction practice expertise, technical skills, soft skills, courses in areas such as communication, critical thinking, technology, and innovation.

IA adds value by:

- focuses on risks and issues important to the company, based on the instructions of the board of administration;
- provides information on a wide range of risks;
- provides a rapid warning system to identify and remedy deficiencies in a timely manner;
- works with senior management to review systems and operations, to identify how risks are managed, how processes are implemented, and whether established procedures are followed;

- includes in its scope all processes with an impact on the efficient operation of the company;
- works in all areas within the company, reviewing tangible (supply chain, IT systems) and intangible aspects (organizational culture and ethics);
- reports, through the audit committee, providing an independent point of view on internal controls and their effectiveness;
- provides indications on the integrity of the systems and processes in the company, their ability to support the established objectives, helping to identify areas for improvement;
- takes into account aspects such as the reputation of the organization, the impact on the environment, and the way employees are treated.

IA and risk management are closely related due to the fact that representative actors within companies (internal auditors, directors, executive managers, shareholders) are responsible for different dimensions of risk management.

At the operational level, IA is of major importance through the risk management process and control systems. Also, IA and risk management contribute to increasing the performance of the companies by contributing to the achievement of the objectives, limiting risks, and creating added value.

By streamlining the audit activity, there is a greater probability of identifying and reporting deviations/deficiencies or significant weaknesses and correcting them, which contributes to improving risk management and therefore increasing performance.

At the same time, a collaboration between IA and risk management leads to the efficiency of resource allocation, and the improvement of communication, but also to a clearer picture of the risks faced by companies.

Through both roles it has, consulting and insurance, IA contributes in various ways to risk management, starting from identification and

assessment of the risks, risk management or defining the types of the risks to making decisions regarding responses and how to report events/ situations that represent opportunities/threats and that affect the achievement of the company's objectives. Also, IA practitioners can apply their expertise in all areas of activity within companies.

The IA teams within the analyzed companies believe that in the future they will also be involved in advising management to detect fraud, providing assurances regarding internal control and risk management, as well as support regarding business continuity.

The main limitation of the conducted research is represented by the lack of access to the necessary data to have a representative sample of these construction companies from the southeastern area of the country. Also, another limitation regarding the analysis carried out refers to the fact that we did not take into account the internal decisions regarding the internal audit within the companies, which would support the economic and empirical explanations and results. Another limitation refers to the lack of syntheses regarding the evolution of theoretical and empirical approaches regarding the analysis of the internal audit-corporate governance-risk management relationship.

Future research directions refer to:

- Expanding the sample in order to include all construction companies from the southeastern area of our country in order to have a more complete picture of the corporate governance system and internal audit;
- Analysis of the implications of the internal audit-governance-risk relationship on the performance of private companies in the construction sector in the southeastern part of Romania;
- Investigating the results and prospects for improving the corporate governance system and the internal audit within these construction companies.

5.2 Proposals

Every employee within companies must be aware of the usefulness and necessity of the risk management process and their implications on the achievement of the objectives.

To ensure effective risk management and to avoid an exaggerated number of uncontrolled risks, it is recommended to manage key risks that affect the achievement of the objectives.

It is recommended to ensure the necessary informational framework so that all employed personnel are informed about the risk management process, calling for the creation of a section on the companies' website, in order to communicate the experiences lived and the lessons learned, in order to be able to benefit in the future from them.

Adequate protection of the information related to this risk management process is recommended so that unauthorized persons from outside the company do not have access.

It is recommended to share good practices in the field, in order to consolidate and develop this risk management process.

It is necessary to identify and manage all risks, at any level, that may have unwanted consequences on the objectives.

In the risk management process, the management staff, as well as the execution staff, must be involved, in:

- to understand how and to what extent the identified risks affect the company;
- to allocate the necessary resources for risk management;
- to analyze the effects of the risks, establishing responsibilities;
- to obtain information about the sources of the risk;
- to disseminate information on the methods of risk reduction/control to all departments.

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