



Romanian Court of Accounts

RISK MANAGEMENT

24 April 2012 – Warsaw, Poland

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RISK MANAGEMENT IN PUBLIC SECTOR LEGISLATION

- ▶ INTOSAI GOV 9100 – *Guidelines for Internal Control Standards in Public Sector* and INTOSAI GOV 9130 – *Further Information on Entity Risk Management* are already implemented in the Romanian primary and secondary legislation (laws and regulations)

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Internal Control Code including management/internal control standards for public entities - Order of the MPF no. 946/2005

- ▶ Issued on 4 July 2005 given the commitments of Romania under Chapter 28 "Financial Control" of negotiations with the European Union
- ▶ Contains provisions on financial control of government programs
- ▶ Defining a minimum set of management rules which all the entities shall follow
- ▶ 25 internal control standards based on COSO elements – developed by the CHUs according to the EC model within the Twinning Project
- ▶ The Romanian legislation took over the five COSO elements of internal control and 25 management/ internal control standards applicable to public entities were drafted based on them, as follows:

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Control environment

Standard 1 – ETHICS, INTEGRITY

Standard 2 – DUTIES, FUNCTIONS, TASKS

Standard 3 – COMPETENCE, PERFORMANCE

Standard 4 – SENSITIVE FUNCTIONS

Standard 5 - DELEGATION

Standard 6 – ORGANISATION STRUCTURE

Performance and risk management (COSO and INTOSAI GOV – Risk assessment)

Standard 7 - OBJECTIVES

Standard 8 - PLANNING

Standard 9 - COORDINATION

Standard 10 – PERFORMANCE MONITORING

Standard 11 – RISK MANAGEMENT

Standard 15 – HYPOTHESES, RE-ASSESSMENT

Information and communication

Standard 12 - INFORMATION

Standard 13 - COMMUNICATION

Standard 14 - CORRESPONDENCE

Standard 16 – IRREGULARITIES NOTIFICATION

Control activities

Standard 17 - PROCEDURES

Standard 18 – SEGREGATION OF DUTIES

Standard 19 - SUPERVISION

Standard 20 – DEVIATIONS MANAGEMENT

Standard 21 – WORK CONTINUATION

Standard 22 – CONTROL STRATEGIES

Standard 23 – ACCESS TO RESOURCES

Auditing and assessment (COSO and INTOSAI GOV - Monitoring)

Standard 24 – CONTROL EXAMINATION AND ASSESSMENT

Standard 25 – INTERNAL AUDIT

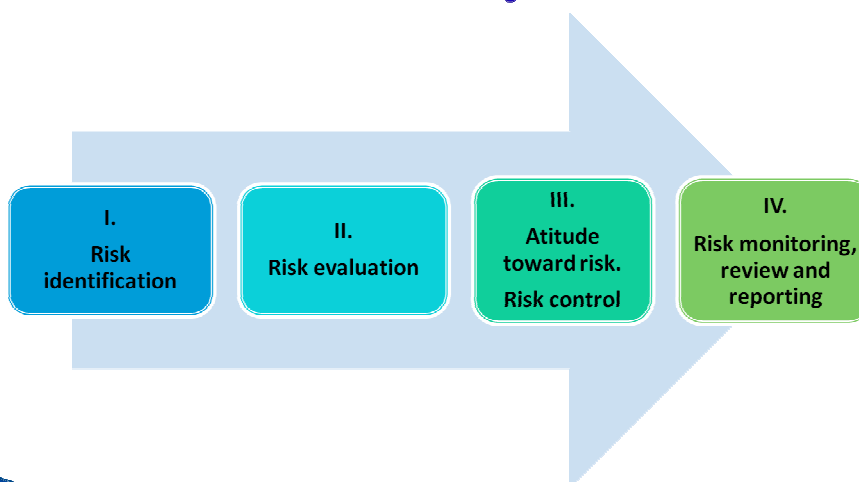
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MANAGEMENT/INTERNAL CONTROL STANDARDS

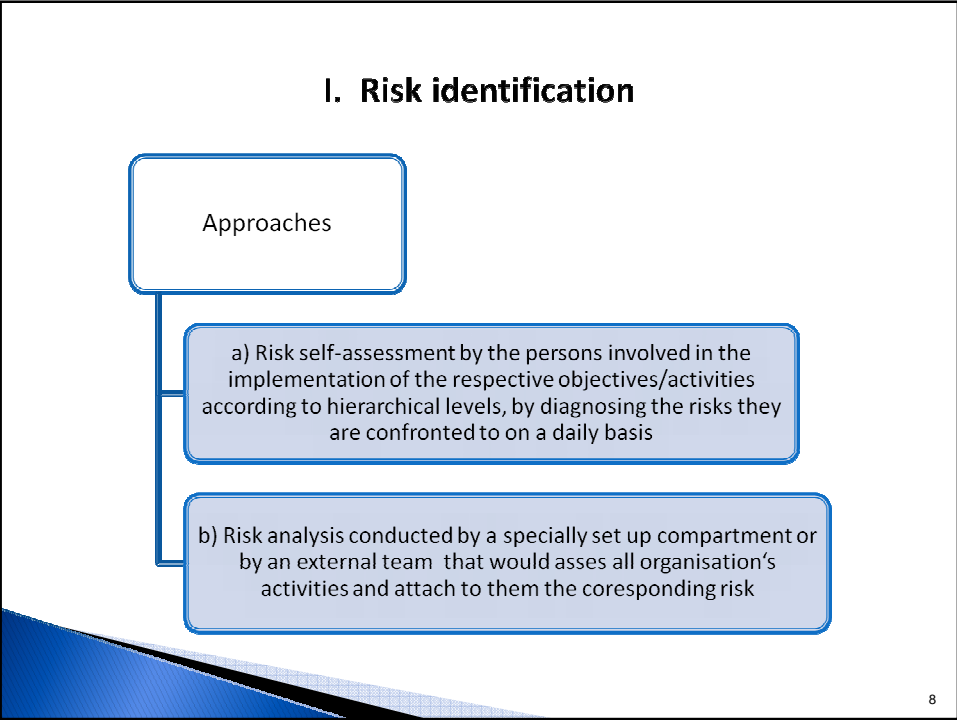
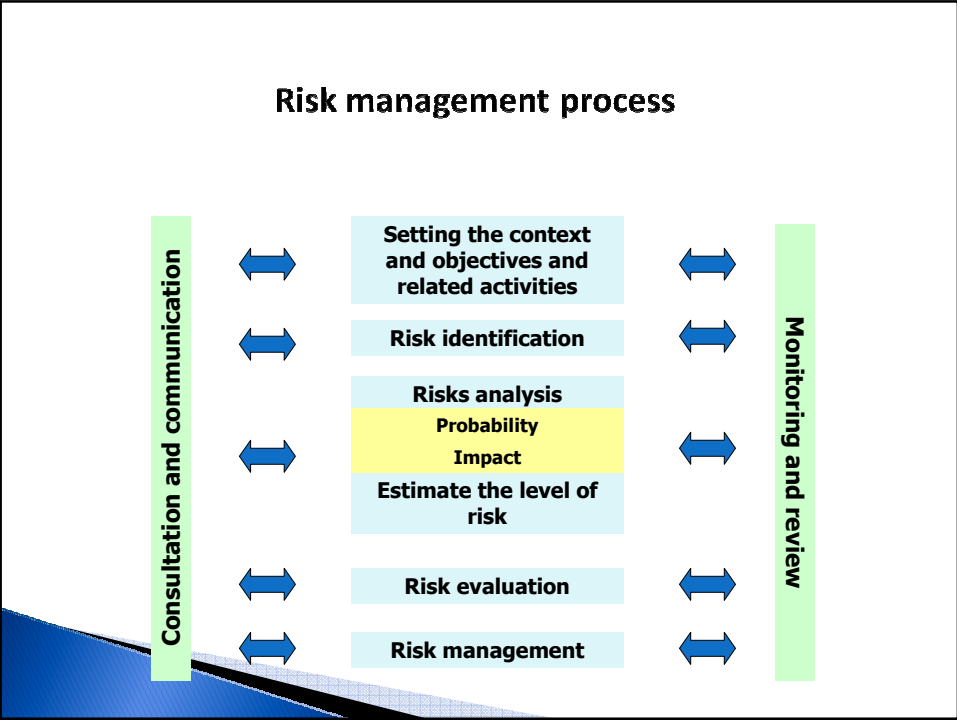
- ▶ This legislative document is very significant for the Romanian public entities' managerial culture, since based on those standards it was possible to adhere to best practices and to the European values system in point of public internal financial control
- ▶ There are no further explanations, except for a few standards (e.g. risk management)
- ▶ Risk management is designed as part of good public governance

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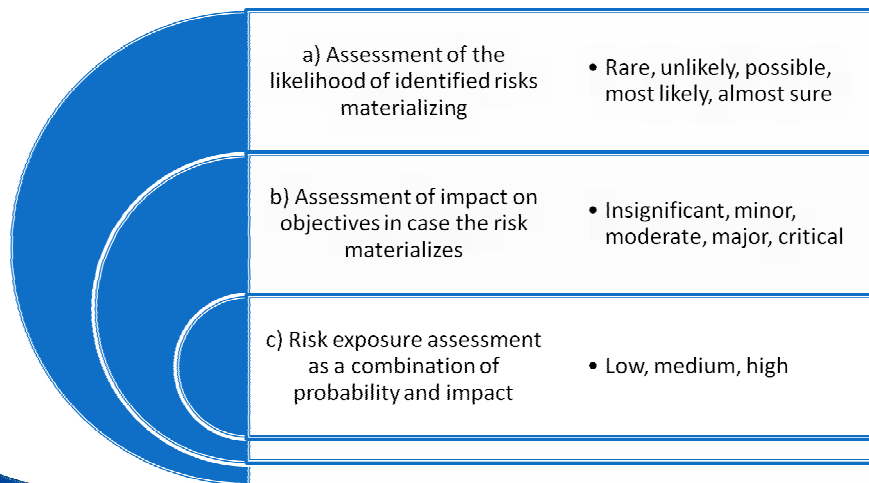
Methodology for the implementation of the internal control standard "Risk management", drafted by the Ministry of Public Finances - Model of risk management



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II. Risk evaluation - stages



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III. Attitude toward risk. Risk control

Risk tolerance	Risk may be accepted without the need to take steps
Risk treatment	Most risks are controlled so as to be treated
Risk transfer	Involves transferring risk to another structure which can manage it effectively
Ceasing activities of	Certain risks may be ruled out or maintained within reasonable limits only by reducing activities or giving them up
Opportunities	This option needs to be considered whenever a risk is tolerated, treated or transferred

IV. Risk monitoring, review and reporting



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Risks record book

- ▶ The public entity systematically analyzes risks and develops appropriate plans.
- ▶ The **risks record book** is attached to the risk management process conducted by the entity in order to establish an action plan to monitor them.
- ▶ Consequently, the public entity must have in place the *“Procedure on the establishment and updating the Risks record book”*.

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Categories of risks

- ▶ Inherent risks
- ▶ Residual risks
- ▶ Control risks
- ▶ Operational risks
- ▶ Financial risks
- ▶ Other risks (IT, data security, entity reputation etc.)

Responsibilities of public managers in risk management

- ▶ Implement risk management decision to the entity
- ▶ Establish risk appetite (the level of acceptable risk for the entity)
- ▶ Approve actions/control measures required to mitigate risks
- ▶ Approve the action plans to mitigate risks

The main weaknesses and possible errors in implementation

- Managers snowed under with risks
- Identification of small risks and overlooking significant ones, which could negatively impact on the entity objectives and mission
- Risk management process is not used in decision making by senior management of the entity, it is a formal one because it is a requirement of the regulatory framework
- Identified risks are not managed
- Emphasis on the quantitative issue (many risks), not on the qualitative one (their management)
- Poor wording of risks (denial of objective, "childish" risks)
- Complication of the risk management process

CONCLUSIONS

- ▶ Difficult to implement the standards (risk management, especially in small public entities - commune mayoralties, territorial units of certain ministries)
- ▶ All the aspects of internal control required a long time for a complete implementation in public entities
- ▶ The attention to risk management and to internal control in the public sector increased compared to two years ago
- ▶ According to the Law, the RCoA have the competence **to assess the financial control activity** and the **internal audit activity** of the audited legal entities
- ▶ The analysis of the data and documents showed that the internal control system was implemented to a **higher degree** at the level of the entities within the central public administration and at **an inadequate** level within the local public administration



Thank You For Your Attention !

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