

TYPES OF RISKS AND RISK ASSESSMENT IN PUBLIC INSTITUTIONS

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Abstract: *Public institutions in their activity identify a large multitude of risks. These are both internal and external risks.*

The management of the entity must identify all these risks, and also take measures to diminish and eliminate them in the order of their appearance as well as the imminence from the point of view of their occurrence.

Risk is defined as the problem or action that negatively affects the general and specific established objectives of an institution.

Keywords: *internal public audit, objectives, auditors, risks, management*

Internal auditors must, during the performance of audit missions, identify, counteract, and be concerned with the existence of these risks¹.

Types of risks²:

Risks classified according to the probability of their occurrence:

- Potential risks: these risks can be corrected or prevented in a proper control environment;
- Possible risks: for these risks not all the correct measures have been taken by the entity's management in order to eliminate them;

Risks by their nature:

- Strategic risks: these are risks related to taking incorrect or wrong decisions from an organizational or resource, equipment, etc. point of view;
- Informational risks: these are risks caused by the implementation and adoption of information systems and by an outdated reporting framework;
- Financial risks: these are risks arising from the loss of financial sources or from a very large accumulation of liabilities;
- Other risks: included here are legislative risks, commercial risks, reputational risks, environmental risks, etc.

1 ORDIN SECRETARIATUL GENERAL AL GUVERNULUI nr. 600 din 07 mai 2018 pentru aprobarea Codului controlului intern managerial al entităților publice**), publicat în MO nr. 387 din 07 mai 2018 cu modificările și completările ulterioare

2 Legea nr. 672/2002 privind auditul public intern, cu modificările și completările ulterioare

Depending on the activities carried out by some public institutions, the risks can be³:

- General risks, that is, risks that occur due to the economic situation or the organizational situation, etc.;
- Risks related to the activity, to the profile of an institution, as well as to its specificity;
- Operational risks as well as design risks regarding the respective institution;
- Risks arising as a result of the failure to update and implement procedures regarding internal managerial control.

As regards the way of carrying out internal audit activities, according to the legal provisions in the matter, the risks are classified into:

- Organizational risks which may be caused by the absence or lack of clear and precise tasks regarding each member within the institution;
- Operational risks, these risks may be caused by the absence or lack of all records in the financial-accounting records, by the lack of control of all high-risk activities, as well as by inadequate archiving;
- Financial risks, these risks occur through the execution and validation of payments that are not secured.

Risks are part of the operational process and must analyze and examine both the risks that may come from within the institution and the risks from outside it, since these can have negative effects on the activity of the entity.

Examples of internal factors: the nature of the entity's activity, major changes that have occurred in an entity, qualification and training of the staff, efficiency and performance of the employees, poor management, etc.

Examples of external factors: the country's economic situation, changes that have occurred in the legal and technological field.

The management of the entity must identify the risks and perform the analysis on them, and the specialized personnel within the internal audit department have the obligation to analyze, redo, examine the way of analyzing risks and at the same time to identify, detect a system of internal managerial control.

It is always a challenge the way all risks are evaluated both for the auditors and for the specialized staff within the internal managerial control service, in these conditions offering the entity's management real audit opinions as well as the provision of performant services.

Internal auditors must constantly analyze how all risks are evaluated, both for the auditors and for the specialized personnel within the internal managerial control service. Under these conditions, they offer the entity's management real audit opinions as well as the delivery of high-performance services.

3 H.G. nr.1086/2013 pentru aprobarea Normelor generale privind exercitarea activității de audit public intern

Public entities have the obligation to implement and establish an internal control system that must be efficient, namely⁴:

- ensuring the control environment, which must consist only of people who have a high level of professional competence;
- evaluating all risks as well as maintaining a permanent flow of information regarding their evolution;
- the necessity of internal managerial controls that must eliminate or reduce to a minimum all these risks.

Based on risk evaluation, internal auditors elaborate the audit plan as well as the audit program. The measurement of all existing risks in an entity takes place through several methods:

The method of probabilities, through:

- measuring all major risks compared to the existence of the other risks;
- direct evaluation and annual assessment of all losses;
- the findings identified, as well as extrapolations identified;

The method of risk factors, this method involves a classification of all risks into different categories;

The matrix method regarding the evaluation:

- from the perspective of the financial impact;
- from the perspective of the probability of their occurrence;
- the level of evaluation regarding the internal managerial control system;

The risk classification method:

- the method of classification regarding the absolute;
- the method of classification regarding the relative;
- the matrix classification method;

The internal managerial control system.

For the drafting of the **internal audit program**, the evaluation process and the process of identifying all risks present major importance in the carrying out of all internal audit missions.

For its efficient and correct realization, it is necessary to involve experienced auditors who know better the audited institution and the methodology of risk evaluation.

Public entities have the obligation to implement and establish an internal control system that must be efficient, namely:

- Ensuring the control environment made up only of people who have a high professional competence;
- Evaluation of all risks as well as a permanent information regarding their evolution;
- The necessity of the existence of internal managerial controls that must eliminate or reduce to the maximum all these risks.

4 H.G. nr.1086/2013 pentru aprobarea Normelor generale privind exercitarea activității de audit public intern

Based on the risk assessment, internal auditors draw up the audit plan as well as the audit program. The measurement of all existing risks in an entity takes place through several methods:

The probability method, through:

- Measuring all major risks compared to the existence of other risks;
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- Identified findings, as well as identified extrapolations;

The risk factors method, this method involves a classification of all risks into different categories;

The matrix method regarding the assessment:

- From the financial impact point of view;
- From the point of view of the probability of their occurrence;
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The risk classification method:

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The internal managerial control system.

For the preparation of the Internal Audit Program⁵, the evaluation process and the risk identification process present a major importance in carrying out all internal audit missions.

For the efficient and correct achievement of this, it is necessary the involvement of experienced auditors, who know better the audited institution and the risk evaluation methodology.

The conclusions reached by internal auditors following the recommendations established by drawing up the required and verified working documents will subsequently materialize in the Internal Audit Report.

Any error or mistake that has a negative effect on the entity in fulfilling the objectives represents a risk.

The methodology that ensures risk control⁶ within any entity represents risk management.

Identified shortcomings, exceptional and unforeseen events that may appear in the development of the entity's activity, as well as any deficiencies regarding its activity, can be defined as risk factors.

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⁵ H.G. nr.1086/2013 pentru aprobarea Normelor generale privind exercitarea activității de audit public intern

⁶ ORDIN SECRETARIATUL GENERAL AL GUVERNULUI nr. 600 din 07 mai 2018 pentru aprobarea Codului controlului intern managerial al entităților publice**), publicat în MO nr. 387 din 07 mai 2018 cu modificările și completările ulterioare

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Identified shortcomings, exceptional and unforeseen events that may appear in the development of the entity's activity, as well as any deficiencies regarding its activity, can be defined as risk factors.

For the purpose of achieving professional control, it is necessary to ensure the responsibility of each employee but also of the management, with internal auditors having the role of assisting.

Each executor must identify the risks that may arise in their activity, because it is not possible to have permanent control over each employee.

Through the involvement of the executing personnel, a more efficient activity of risk identification as well as of their management will be achieved.

Risk management imposes the following priorities:

- the policies must be clearly established, to allow the identification of all risks, of major risks, of risk bearers, the examination and analysis of a period, the evaluation of other possible risks;
- the elaboration of procedures and methods that are capable of managing and controlling existing as well as future risks;
- the implementation of auditing and risk reporting systems;

Currently, risk assessment, in addition to the internal control method used, also emphasizes the self-control of all employees involved, the carrying out of key controls as well as the adaptation of existing controls according to the evolution of risks.

The following presents some risks identified as a result of auditing the documents made available to the internal audit team.

Also, the auditors found that in the case of the direct conclusion and awarding of a contract for execution works, the audited entity, as the contracting authority, did not proceed as specified in the legislation in the matter to consult at least 3 economic operators for the acquisition whose estimated value was more than 300,000 lei without VAT.

By proceeding in this way, the audited entity violated the principle of transparency.

In the case provided in art. 7 para. (7) letter b) of Law no. 98/2016 regarding public procurement, the legislator provided the obligation to consult at least three economic operators, this consultation being possible either through the electronic catalog provided by SEAP or through any other means identified by the audited entity.

Rules for avoiding conflict of interest

In order to prevent, identify, and remedy all situations regarding conflict of interest, and to avoid distortion of competition and to ensure equal treatment in a real way for economic operators, both the members of the evaluation committee and the bidder complete the declaration regarding non-inclusion in the situations provided by the public procurement law.

The full name of all persons who hold decision-making positions within the audited entity is clearly specified in the procurement documents.

Positive aspects:

To prevent, identify, and remedy conflict of interest situations, with the purpose of avoiding distortion of competition and ensuring equal treatment for all economic operators, both the members of the evaluation committee and the bidder

complete the declaration regarding non-inclusion in the situations provided by art. 60 of Law no. 98/2016 regarding procurements, which were found in the procurement files from the verified sample.

The documents of the acquisition specify the names of the persons with decision-making functions within the audited entity, according to art. 63 of Law no. 98/2016 regarding public procurements.

Presentation of aspects that require certain improvements:

No such aspects have been identified or found.

Compliance with the rules applicable to communications

I mention the fact that all communications, requests, information, notifications must be transmitted in writing, or using all electronic means regarding communication.

Positive aspects:

Communications, responses, addresses, requests, information, as well as notifications were transmitted in writing, thus respecting the legal provisions in the matter.

Presentation of aspects that require certain improvements:

No such aspects have been identified or found.

Drafting and preparing the strategy regarding public procurements, preparing the public procurement plan

At the level of the audited entity, the Strategy regarding public procurements was developed, which includes all planned public procurement processes that are to be launched in the year 2025.

The strategy regarding public procurements is endorsed and approved by the entity's management.

The annual public procurement program:

- is provided as an annex to the annual procurement strategy;
- is based on all necessity reports prepared and transmitted by all departments within the entity;
- according to article 12 paragraph 5 of HGR no. 395/2016, includes information regarding:
 - definition of the object of the public procurement contract or of the framework agreement, as the case may be;
 - identification of the vocabulary code (CPV) common to all public procurements;
 - the estimated value of the respective public procurement contract or, as the case may be, of the framework agreement to be concluded/finalized, expressed in lei without VAT, established based on the estimates of the specialized departments;
 - the source of funding;
 - the procedure established for carrying out the procurement process;
 - the estimated date for initiating the procedure;
 - the estimated date for awarding the contract;

- the method for carrying out the awarding procedure, here referring to whether it is conducted online or offline.

The Public Procurement Program for the year 2024, version 6, includes:

- 46 positions related to supply contracts;
- 428 positions related to service contracts;
- 15 positions related to works contracts.

In the Annual Sectoral Procurement Program, direct procurements are listed separately in the Annual Table of Direct Procurements, as a component part of the Annual Public Procurement Strategy.

Direct procurements are centralized by the Public Procurement Service, based on reports received from specialized departments.

The Annual Table of Direct Procurements for the year 2024, version IV, includes:

- supply contracts – 233 positions;
- service contracts – 212 positions;
- works contracts – 33 positions.

Positive aspects:

According to the legal provisions in the matter, the audited entity has drawn up the Strategy regarding public procurements. This includes all public procurement processes that were planned to be carried out and conducted during the year 2025.

The Public Procurement Program, which is drawn up annually and is an annex to the Procurement Strategy, is prepared based on all necessity reports elaborated and transmitted by all departments within the entity.

According to the Order of the National Agency for Public Procurement no. 281/2016 regarding the establishment of the standard forms of the Annual Public Procurement Program and the Annual Sectoral Procurement Program, direct procurements are shown separately in the Annual Table of Direct Procurements, as a component part of the Annual Public Procurement Strategy.

Direct procurements are centralized by the Public Procurement Service based on reports received from the specialized departments.

Aspects requiring improvement: None were found.

CONCLUSIONS

The audited entity has the obligation to organize and record all budgetary commitments and all legal commitments.

The internal public audit report was prepared based on the following documents: the centralized list of auditable items, the document titled Audit Program, as well as the document titled On-site Intervention Program.

At the same time, the audit team identified findings and deviations from legal provisions during the execution phase of the audit when it collected and processed all the necessary data and information.

The economic-financial department of the entity, as a structure specialized in the measurement, evaluation, understanding, management and control of assets, liabilities and equity, as well as of the results obtained from its own activity, ensured the chronological and systematic recording of treasury flows throughout the audited period.

The economic-financial department ensured a clear record of the availability of funds in treasury and commercial bank accounts, providing the credit coordinator with accurate information regarding the execution of the revenue and expenditure budget.

Any economic-financial operation carried out through accounts opened at the treasury and commercial banks was conducted based on supporting documents.

References

- H.G. nr.1086/2013 pentru aprobarea Normelor generale privind exercitarea activității de audit public intern
 Legea nr. 672/2002 privind auditul public intern, cu modificările și completările ulterioare
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