

# *Internal Control Analysis of Enterprise Risk Management*

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**Abstract:** As a very important part of modern enterprise management, enterprise risk management can improve the overall efficiency and competitiveness of enterprises by managing risks. However, with the accelerated development of globalization, digitalization and networking, the risks faced by enterprises are diversified and complex, so enterprise risk management needs to be constantly innovated and improved on the basis of tradition. As a part of enterprise risk management, internal control has its own uniqueness, and the two are interrelated. This paper analyzes the relationship between enterprise risk management and internal control and corporate governance through theoretical analysis, and selects BP Oil Company's oil spill incident and Tokyo Disney exchange rate fluctuation risk as a case to further analyze the relationship between risk management and internal control. By analyzing the problems existing in the actual management of enterprises, we can find ways to improve their operational efficiency and reduce their operational risks.

**Keywords:** enterprise risk management, internal control, case analysis

## **1. Introduction**

Enterprise risk management and internal control are key elements of the company's effective operation and development and are becoming more and more important in the current global business environment. Risk management protects enterprises from uncertainties and accidents by predicting and dealing with potential enterprise operational risks. In addition, internal control refers to a series of policies and procedures established within the organization to ensure the reliability and compliance of enterprise operations. The results of the internal control analysis of enterprise risk management are of great significance for decision makers and management teams to formulate strategies, improve operations, and promote business growth. It helps enterprises build the ability to adapt to changing environments and enhances the confidence of investors and stakeholders in enterprises. Therefore, enterprise risk management and internal control analysis are key tools in enterprise operations that can help enterprises identify and manage potential risks. At the same time, it can help enterprises improve the efficiency and reliability of business operations and protect the long-term sustainable development.

Therefore, this paper analyzes enterprise risk management and internal control through theoretical analysis and case analysis, aiming to find the best way of corporate governance according to the problems existing in the actual management of the enterprise, so as to avoid losses.

## **2. Theoretical discussion**

### **2.1. Risk management**

Risk management refers to a series of comprehensive management activities in which enterprises identify, evaluate, control, and monitor possible uncertainties. Through comprehensive risk analysis, enterprises can detect possible hazards and take effective measures to control the reputational or property losses caused by risks to them, which is usually the first step in risk control. Identifying potential risks needs to be carried out step by step through risk analysis, environmental scanning, an early warning system, and other methods. After identifying the potential risks of the enterprise in a series of ways, it is necessary to evaluate the risks to help the enterprise determine the probability and impact of each risk. According to the results of the assessment, enterprises can formulate corresponding risk control strategies, such as avoiding risks, reducing risks, transferring risks, or accepting risks. The risk control of an enterprise can control and reduce the probability of risk by taking targeted and effective measures, so as to reduce the probability of its actual occurrence and the adverse impact on the enterprise. Therefore, risk assessment is very important for corporate governance. Some risks will not affect enterprises in a short period of time, but in the changing market environment and social environment, nature is likely to change, resulting in unpredictable losses. Therefore, risk monitoring can help enterprises find and solve potential problems in a timely manner from a long-term perspective, which is also one of the bases for enterprises to adjust risk management measures in a timely manner.

### **2.2. Internal control**

Internal control and risk management are inextricably linked, and their essence involves risk prevention. Both internal and external enterprises need to be effectively managed to help enterprises achieve sustainable development.

Internal control refers to the policies and procedures formulated and implemented to reasonably ensure the effective conduct of the unit's business activities, protect the safety and integrity of assets, prevent, detect, and correct errors and fraud, and ensure the authenticity, legality, and completeness of accounting information.

### **2.3. The relationship between internal control and risk management**

Internal control and risk management have a very high degree of similarity, but there are also obvious differences, which are mainly reflected in their structure, objectives, and implementation methods.

Firstly, internal control includes five key factors: management situation, risk, management action, information transmission, and supervision mechanisms. Risk management includes risk identification, risk assessment, risk control, and risk monitoring. However, these structures have a high degree of overlap and common characteristics.

Secondly, internal management tends to promote the continuous growth of the company by ensuring the legal compliance of enterprise operation and management, asset safety, the authenticity and integrity of financial reports, and related information. The goal of risk management is mainly to obtain maximum security at the lowest cost, or to control risks to the lowest level at the lowest cost, so as to maintain the viability and sustainable development of the enterprise.

Third, internal management is to eliminate internal risks at the internal management and implementation levels of the company to ensure the sustainability of management and implementation results. Risk management is a management method in which enterprises choose the most effective way to deal with risks proactively, purposefully, and systematically through the

recognition, measurement, and analysis of risks, and strive to obtain the maximum security guarantee at the lowest cost.

## **2.4. Impact on enterprise operations**

### **2.4.1. Risk identification and risk reduction**

Risk management helps enterprises identify and evaluate potential risk factors, including market risk, operational risk, legal risk, etc. Through the implementation of internal control measures, enterprises can take appropriate preventive measures to reduce these risks and protect the interests.

### **2.4.2. Strategic decision support**

Risk management and internal control provide information and analysis to help enterprises make strategic decisions. By identifying and evaluating various risks, enterprises can better understand the internal and external environment, and formulate and adjust their strategic direction.

### **2.4.3. Resource optimization**

Internal control helps enterprises manage resources reasonably and ensure the efficient use of resources. By establishing appropriate approval procedures, budget management and cost control mechanisms, enterprises can avoid waste and inefficient use of resources and improve productivity and profitability.

### **2.4.4. Maintain reputation and credibility**

The implementation of risk management and internal control helps to maintain the reputation and credibility of the enterprise. Through compliance management, auditing and reporting mechanisms, enterprises can ensure that their operations comply with laws, regulations and ethical standards, and win the trust and support of employees, investors and other stakeholders.

### **2.4.5. Improve competitiveness**

Effective risk management and internal control enhance the competitiveness of enterprises. By ensuring the operational stability, reliability and transparency of enterprises, enterprises can attract more investment, customers and partners to obtain a better market position.

## **3. Case analysis**

### **3.1. BP Oil Company Oil Leakage**

#### **3.1.1. Basic situation of the case**

BP is one of the largest oil and petrochemical groups in the world. Its main businesses are oil and gas exploration and development, oil refining, natural gas sales and power generation, oil retail and transportation, and the production and sale of petrochemical products. BP's deep-water horizon oil spill occurred in the Gulf of Mexico near Louisiana in the United States on April 20, 2010. The hole and explosion-proof railing failed to withstand the pressure due to a pressure control error, which eventually led to the damage and collapse of a wellhead on the oil platform. It is estimated that the total amount of oil that eventually leaked is about 4.9 million barrels (about 780,000 cubic meters). At the same time, the incident also resulted in the deaths of 11 platform workers and 17 injuries. Therefore, the oil spill has become one of the worst oil spills in the history of the environment. In

order to control the oil spill, the U.S. government has sent a large number of military and emergency staff, and mobilized a large amount of capital and technical resources to better control the spill, clean up the spill, and repair the environment. At the same time, BP has developed temporary repair methods. Finally, the total related expenses of BP Oil Company reached \$53.8 billion, more than the total profit since 2012. In order to recover the losses caused by this incident, BP has been surviving through contraction, selling about 1/3 of the company's assets in total, and reducing oil production from 4 million barrels per day in 2010 to about 3 million barrels per day at present.

### **3.1.2. BP's measures**

In order to ensure the long-term development of the company, BP has established an independent and authoritative internal audit institution. This institution is independent of other departments of the company and has the power to carry out audit decisions and conclusions independently. Internal audit is not only for the review of the financial statements of the enterprise, but also directly penetrates into the internal control system of the enterprise to understand the financial situation, operation, and control activities of the enterprise. On the basis of the second, at the same time, strengthen the training of auditors in professional ethics and professional skills, so as to establish an effective communication and supervision mechanism between different positions. In order to better achieve the purpose of supervision, BP also introduced an independent third-party organization to comprehensively supervise and evaluate the internal control design and implementation of the enterprise. In addition, BP strengthens the transparency of internal control information, so that enterprises can better accept government and social supervision, and strive for better social benefits for enterprises. Through the strengthening and effective supervision of the internal control of the enterprise, BP can find and solve existing problems and risks in a more timely manner, so as to improve the efficiency and competitiveness of the enterprise.

## **3.2. Tokyo Disney - Exchange Rate Volatility Risk**

### **3.2.1. Details of the case**

Tokyo Disney opened on April 15, 1983, but due to the unstable exchange rate fluctuation of the yen against the US dollar at that time, enterprises faced the impact of exchange rate risks on their operations.

The previous budget was denominated in old yen, but in fact, the purchase of equipment and materials was made in new yen. The exchange rate of the new yen against the US dollar is 248:1 compared with the old yen's 229.7:1, which is almost 8% lower, which makes the cost of the park rise rapidly. During the construction of the park, some undetermined budgets and expenditures also accelerated the consumption of enterprises' cash reserves.

In addition, Tokyo Disney's operating income is settled in yen, while its parent company, Disney, is located in the United States and uses the US dollar as the settlement currency. Based on the fluctuation of the exchange rate between the US dollar and the Japanese yen, for Disney companies, the daily losses caused by the exchange rate are also increasing with the increase in Tokyo Disney's revenue.

### **3.2.2. Enterprise Measures**

Firstly, Tokyo Disney has established an internal control review system, and the internal leadership team conducts a comprehensive inspection of 25 sub-companies every year. The audit department will also conduct independent audits to ensure that it complies with the relevant regulations. In

addition, the subsidiary will also conduct self-inspection according to the test results of the department's process and the comprehensive evaluation of the audit department, and conduct spot checks and evaluations at the headquarters.

Secondly, Tokyo Disney has reduced some budgeted expenses and controlled costs through long-term loans and reasonable fund allocation. Some equipment and materials purchased overseas are transferred to domestic purchases in Japan to mitigate the impact of currency exchange rate fluctuations.

Third, Goldman Sachs helped establish an exchange rate swap contract between Disney and a French company based on Disney's exchange rate risk. The contract stipulates that the yen earned by Disney through Tokyo Disney's operating income will be used to help French companies repay their debts in Japan. Therefore, Disney will obtain stable cash flow in the United States as the settlement currency.

#### 4. Discussion

The results of the analysis in the above cases show that there is a close relationship between risk management and internal control. The two promote and support each other. A strong risk management framework and effective internal control mechanisms are key elements to ensuring the success and stable development of enterprises. Risk management helps identify, assess, and respond to risks, as well as develop corresponding control strategies. Internal control is responsible for ensuring the effective implementation and supervision of these strategies. Whether it is responding to unexpected events or managing market fluctuations, a strong internal control mechanism is the key to ensuring the stable operation of enterprises.

Therefore, enterprises should regard risk management and internal control as integrated strategies that support and coordinate with each other. Effective internal control can help enterprises identify and respond to risks, thus minimizing losses and uncertainties. In this process, continuous monitoring and evaluation are essential to ensuring that risk management and internal control systems are consistent with the changing needs of the enterprise.

#### 5. Conclusion

This article analyzes the impact and help of risk management and internal control in enterprise operations. By strengthening internal control and risk management capabilities, enterprises can greatly improve the company's risk resistance.

There are also some shortcomings in this article. First of all, the article does not elaborate on risk management and internal control, but only analyzes them from a macro perspective. The specific processes and steps between the two are not discussed. Secondly, compared with the role of risk management and internal control analysis in corporate governance, the number of cases selected in this article is relatively small.

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