

Chapter 25

Assets Management and Risk Control

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ABSTRACT

Risk management and internal control is a subject that has increased its relevance due to the recent financial scandals on companies like Enron and Worldcom, and the increment of fraud cases and financial misstatements around the globe. In line with this, several initiatives have been defined or required in order to control the risk exposure in the company processes, including the development of internal control standards like Sarbanes-Oxley (SOX). One of the factors to be considered when taking optimum decisions is risk. Due to this, in this chapter the key concepts over risk assets management will be exposed, including a practical example under SOX framework as well as a system's approach and value management perspective.

INTRODUCTION

Globalization, uncertainty and the high volume of information which is currently available in the financial world, are factors which affect any decision making process under the current environment; considering enterprises are open systems, the turbulence of the environment generates an impact from risk management perspective (Febles & Oreja, 2008). In this sense, to have into consideration all the variables and elements which can have incidence into the matter of study, is a key aspect for a proper decision making, as there are factors like reputation risk, information availability, process design among others which increase the intrinsic complexity given by the environment (Leisinger, y otros, 2010). In addition to this knowledge, is important to understand this needs to come together with having in place the proper procedures and methodology, otherwise, this will open the door for not taking into account, all the aspects that must have being considered as well as lack of consistency over the applied criteria's; in this sense the need of an integrated approach considering existing variables, open the door to defining new methodologies for an improved management, with a more efficient focus and adapted to reality (Porter & M, 2011)

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As stated above, current turbulence of the environment and the occurrence of several financial scandals (like Enron explained in detail in a further section), have increased the firm's interest on risk management procedures and requirements. As a consequence, academic researches on this topic are growing as well, however these researches are still under an early step of evolution, which give opens the door for new and original developments in this area (Pfister, 2009)

More specifically when considering decision making on asset management, one of the key aspects to have into consideration for being able to take optimum decisions, is an adequate management of the risk considering all the types of risks that can be applicable over asset management under a holistic approach (Ittner & Oyon, 2014)

In order to assure risk assessment is done effectively, the methodology and clear understanding of the nature of each of them complement the knowledge over the assets management process. With this being said, we can consider that the following aspects need to be considered from risk perspective, in order to contribute with an optimum decision making by understanding entity objectives, business processes, organizational resources, structure roles and responsibilities (Arens, Elder, & Beasley, 2014):

- **Process:** A deep knowledge over the applicable processes and procedures is required as mentioned above.
- **Information Availability:** As in any decision making process, the quality and completeness of information will be directly correlated with the level of the decisions taken, from an optimal point of view. External information for stakeholders, provided by the company will be affected as well by the quality of the internal information coming from proper risk management (Feng, Li, & McVay, 2009)
- **Understand the Risks:** Risk mapping and a proper identification of the potential risks, is the first basic step for defining an efficient risk strategy. Due to this, to have the right understanding on risk meaning and proper approach over risk coverage are key aspects to be able to capture the main exposures and be able to define the proper controls. The relationship between risk and processes is fundamental, only one risk may be really relevant affecting all processes and areas (Scandizzo, 2005)
- **Internal Control:** Once risks have been defined, the related measures in order to have them “under control” need to be implemented. In this sense, a proper internal control environment adapted to each of the cases (e.g. company size, legal requirements, etc.) must be defined, taking into consideration the available resources, applicable laws, financial impact of the risks, ability to adapt in case of changes over the process or strategy among other factors that will be detailed in this chapter. Management of internal control, is usually referenced to an “internal control framework”, recent studies evidence companies select and adapt their internal control frameworks according to their needs, by taking into account specific constraints, contingencies and firm's characteristics. (Jokipii, 2010)
- **Change Management:** Processes are constantly subject to changes. In this sense, the ability to capture these changes and adapt to the new situation and potential new risks, is basic in order to generate the adequate information for decision making. Management control systems, can support the firm on adapting to changes (from a paradigm point of view or by generating new scenarios), or become a growing issue for the firm. (Kloot, 1997)

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