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A Correlation Between the Function of Controlling and the Process of Risk Management in the Company

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Abstract

It is highly important to identify the right place for implementing the key role of coordinating the overall process of risk management in an organization. In addition to the right place it is important to determine the right time for it. The entire course of risk management activities must be integrated with the process of management of goals of the organization. If we take into account that for the synchronization of the management organization of company goals, the most responsible factor, somehow, is the controlling function due to its very nature of activity, then a logical conclusion is being imposed that this function is also the most suitable one for identifying the place of coordination of the risk management process. And not only as an organizational unit and according to the nature of its tasks, but also of the time synchronization through activities of planning and reporting, in view of the impact analysis, estimated and actual, transferred and avoided business risks.

Keywords: Goals, controlling, planning, reporting, risk, risk management (ERM)

1. INTRODUCTION

Because of its importance the topic of business risk has long been a widely discussed topic, both by the professional and scientific public. Over time, in business practice and in scientific literature a special area, called Enterprise Risk Management (ERM), i.e. business risk management has distinguished itself. Risk is often defined in technical terms, as a variation of the actual values from average or expected values, which occur either by fortune or misfortune of origin, but in any case not under the influence of pre-planned factors. "Although in a technical sense there is a difference between risk and uncertainty, both phenomena cause variations.

That is why risk must be included in the planning process, given that decisions on future business operations and investments are characterized by uncertainty. The basis of these uncertainties, i.e. risks, is the fact that in the course of planning the future cannot be fully perceived, and therefore it is not possible to perceive everything that will occur in the future." [1] If we are aware that the level of uncertainty directly depends on the scope and extent of available information, then, the possibility increases that we will be selecting all available information highly systematically and thus reduce the uncertainty itself.

On the other hand, management accounting, or controlling, is the process of using accounting information for decision making purposes. It combines some parts of financial accounting and cost accounting, and represents the data which are important for business decision making. The terms are sometimes used interchangeably, i.e. the term management accounting is used to denote cost accounting.

At first, we think about the needs of planning and operational reporting. It takes a lot of detailed information for objective planning and control of future activities. Especially important is providing of operational, timely information for the purpose of direct control, about all details of the technological process, norms and standards, about improving work organization and business in general. Modern approach to management accounting, i.e. controlling, conceptualizes a broader insight into the elements impacting the achievement of strategic goals of the company. Contemporary strategic approach also presupposes decision making on the basis of information about the competitive position of the company in the market.

When analysing, we need to include a certain number of assumptions about the expected developments in the region and on that basis to adopt a business strategy that will enable the achievement of company objectives.

The main intention of this paper is to try to shed light on the common elements of these two functions, the functions of controlling and modern risk management, as well as to suggest the ways to coordinate them.

2. CONTROLLING

Besides accounting, as one of the key functions in the process of collecting and presenting of financial data in the company, there is an additional function having a highly important role for the company managers when they are making decisions. That is management accounting, or according to the contemporary terminology ‘controlling’. Unlike the function of accounting, which is established according to the law, the establishment of the function of controlling is not legally binding. Accounting financial statements are less frequently prepared, i.e. at least once a year, and the information presented in them is synthetic and comprehensive. They meet common needs of external users, such as investors, creditors, suppliers, customers, government, employees and others.

Due to their being less frequent, and since they are stringently prescribed and brief in form, they do not satisfy all needs of the company management for information. "Standardized financial statements do not provide all the information that internal users, primarily the board and management, find necessary for making business decisions. In that case, the information from these financial statements is complemented by additional management and financial information the form and contents of which are created depending on the requirements of each information user.

Company management is responsible for the preparation and presentation of financial statements, while being interested in the information contained in the financial statements. Management (various managers, board members, members of auditing or supervisory committees) require additional information that will help them in day- to- day management of resources, in order to direct, oversee and control them.

A lot of detailed information is needed in order to enable objective planning and control of future activities. Particularly important is the operational and timely provision of information about all details that need to be directly controlled and adjusted in the technological process, norms and standards, and especially while improving the organization of work and business. According to their form and substance, accounting documents do not comprise a part of this operational providing of information; however they are important factors of cost-effectiveness and profitability of the business operation and conditions for introducing of and implementing the management accounting." [2]

The distinction between the concepts of cost accounting and management accounting is extremely vague. In management accounting the emphasis is primarily placed on securing the managers with appropriate information for decision making. "Often management accounting also implies the contemporary (in our country often not present controlling function).

The two are close in terms of data they are using or generating. However, controlling is an advisory function and represents consciousness of the managers. It warns of bad trends before they actually occur. In a certain sense, controlling is the management accounting projected into the future and therefore a very useful system of tools for the directors and management.

The term ‘*controlling*’ is most commonly used in the literature in German-- speaking areas, but its essence is primarily reflected in the fact that "*decision-making is actual planning for the future, and planning for the future is decision-making*’’ [2].

Their implementation in practice provides us with the feedback and allows us to check which decision is more feasible and which should be prioritized, in the context of special attention to. ,, *… development of small and medium size companies which should be stimulated since newly established companies are the main sources of employment and industrial growth in the country*’’[3] Financial accounting and management accounting are highly correlated, in certain areas they are similar, but at the same time they are also different.

This approach can be considered as the traditional approach to management accounting.

The traditional approach is reflected in the use of traditional balance method, including the analysis of some financial indicators of business performance. Primarily, the classical balance schemes are used, such as Income Statement and Balance Sheet. In addition, some companies are using financial indicators such as EBIT - EBITDA; OCF (Operating Cash Flow), Cost-effectiveness; Profitability; Solvency and Liquidity; and indicators of Activity (productivity). The traditional approach to management accounting usually involves preparation of plans and periodic reports on the implementation of plans by a classical balance sheet approach, with a more or less elaborated detailed breakdown of certain balance sheet positions and the presentation of individual performance indicators. Disadvantages of this approach in practice are reflected in the relatively low frequency of periodic reporting, which usually ranges from quarterly, semi-annual to annual reporting. In addition, certain disadvantages of more detailed analysis of the reasons for deviations from pre-set objectives are evident, as well as of the proposed solutions for their realization. Such an approach to planning and monitoring of the achievement of results cannot fully meet the needs of modern management. The consideration has to include a certain number of assumptions about expected trends in the environment and on this basis a business strategy should be adopted that will enable the realization of the objectives of the company.

The balanced scorecard of performance measurement or balanced performance scorecard was developed by Robert Kaplan and David Norton as a new model of management accounting, and presents a set of measures that provides management with a quick and comprehensive overview of the entire organization. The balanced scorecard does not emphasize only the importance of achieving financial objectives, but also of non-financial ones as a precondition for their achievement. This approach decreases the level of emphasis that managers place on short-term financial performance, such as interim financial result and emphasizes the importance of non-financial indicators such as product quality and customer satisfaction, that are to be viewed in the long term.

Financial benefits from these long-term changes do not appear immediately as an increase in interim financial results, however the improvement of non-financial measures is reflected in the creation of future added economic value. The introduction of this model of planning and reporting, known as the Balanced Scorecard, for the first time it has been suggested that non-financial indicators reveal key changes being implemented in the company.

The main purpose of the BSC is providing of a comprehensive framework for translating of strategic goals of the company into a single group of performance measures. In order to avoid accumulating of information, the number of measures listed in each rectangle should be limited to three to five. It is advisable to define the main goals for each perspective, and then to translate them into measures of specific performance. There is no universal content of the scorecard; each company must choose their key performance measures, depending on the chosen strategy and timing.

The most common barriers to successful implementation of the strategy based on the BSC model, according to the authors [4] themselves are:

1. Vision and strategy are not efficient (enforceable) - in the case when senior executives with their teams are unable to clearly define their own vision and strategy among themselves.
2. Strategy is not linked with the goals of individual units, team and individuals - when long-term goals of the entity have not been delegated to lower organizational units, teams and individuals.
3. Strategy is not linked to the allocation of resources - when there is a mismatch between long-term strategic planning and annual planning, that is, when the processes of funding and capital allocation are not linked to strategic priorities.
4. A tactical, and not a strategic feedback - when in the course of reporting financially compared are planned and actual values, and there is no information on the implementation and success of the strategy.

Based on the above it can be concluded that controlling - management accounting, are dynamic categories. The development of the company is accompanied by the change in strategic directions of development, which leads to changes in performance measures over time. The dynamic economic conditions, typical of modern times, necessarily impose the modern approach to strategic management accounting.

There is no universal management and accounting system, applicable to all companies, but it has to be developed, in accordance with main principles, separately for each individual company in accordance with its structure and the strategy. Strategic management accounting is essentially an upgraded version of the traditional management accounting, with the purpose to expand the content of information according to the scope, type, quality and time. It has primarily a strategic proactive approach to events in the future.

3. THE CONCEPT OF RISK

Growing competition, finding internal reserves, the need to reduce costs and above all a strong need for effective and efficient management are essential components of today's economy. The survival of the company depends primarily on its ability to timely perceive, understand and respond to the threats and opportunities, on the way of its survival and development, all in order to achieve their goals. When we talk about the risks in the business we perceive them primarily as obstacles or opportunities to attain these objectives.

"*The risk is a fact which the whole of society or individual cannot avoid and therefore they must seek a way to live with it. Moreover, through development and social progress new risks arise for which it is necessary to find new ways of defence (the most recent case is, for example, a "computer virus").... Risk management in particular has been developed over the last ten years, although it existed even before. Risk management is a central part of the strategic management of each company, but also an integral part of life of any individual*." [5]

This at the time presents to us the concept of choice when it comes to risk. This does not simply mean to be subject to risks as an integral part of life, but to be responsible for someone's destiny, because there is a lot we can control if we have the time and desire to do that. "*It was not until 1814 that Pierre-Simon Laplace published his" philosophy essay on probabilities*" in which he, by developing one lecture (held at the" Ecole Normale " in 1795), gave the classical definition of probability. According to this definition, the probability of an event is the ratio of the number of cases favourable to it, to the number of all cases of an event that are equally possible. The measure of this probability is expressed by a fraction whose numerator is the number of favourable cases and the denominator the number of all possible cases, [6] The probability indicates the degree of certainty that an event will occur with more or less certainty. The level of risk depends primarily on the degree of uncertainty, i.e. On the scope and reality of the available information.

By quoting John Maynard Keynes, Miloš Ilić says "*The science has not found its peace. It is strange that out of the altered image a new deity emerges, instead of Destiny which used to rule within the science: it is now the Case ... (many years ago) ... Laplace, agreeing basically with Poincare and many other scientists, realizes that the unique structure of the case lies in the fact that the case is a consequence (or expression) of our ignorance*." [6]

By understanding risks primarily as concerns when choosing one of the possible decisions or inability to predict the certainty of events in the future, as when we talk about the past. If our information, knowledge and experience gained in the past help us to predict the future, but never with complete certainty, then we have to acknowledge the principle of probability.

"*Now we have reached the position that the risk presents a series of challenges that need to be met. So the key feature of this challenge is that it occurs when a significant decision must be made. The risk does not have a real form, unless we connect it with our own management, and that is what we are trying to achieve. The risks to achieve goals affect us by distracting our attention from the successes and stop us in reaching the intended results or goals.*" [7]

The necessary condition for a possible risk assessment is a clear definition of objectives, i.e. the company needs to have a clear idea which way to go and where it wants to arrive, therefore, a valid plan. All these goals must be consistent with the budget and the business strategy of the company.

In this way the impacts are becoming consequences that risks have on the objectives. Good risk management systems have business objectives in mind when considering the risk. Poor systems conceal targets outside the model, or as something that is considered peripheral to the task of assessing the risk impact. In reality it is not that easy. The very act of setting goals is based on real and perceived risks and that is the uncertainty of the future. In order to recognize this, we can slightly adjust the risk model, in order to make their risk component interactive, by making the very goals that are set in relation to the uncertainty an inherent part of the organizational climate.

Another concept that needs to be considered is that the risk, in the context of achieving the objectives, has a positive and a negative side. We call them threats and opportunities, and that means that it can be connected to the forces that have negative impacts on the objectives and consequently pose a threat. "*On the other hand, a positive risk presents opportunities that are achievable, but may be missed or ignored and that means that we do not exceed expectations. That is why risk management is not only a construction of a bunker around the team to protect it from the outside world. This is more of a coming out of the common framework and knowing when and where to take risks*." [7]

There are general risks and specific risks in business in general, then within the framework of activity, external and internal, but all risks are mainly manifested in different ways in different companies, therefore, they are subject to individual specific assessments, of a repsonsible manager, and they are conducted through interviews. There are no universal risk maps, but each company prepares them for itself. Since risk maps also contain specific measures and the existence of control activities created by the company in response to the threats in the business, they usually represent a business secret of the company. In order to create a risk map, it is necessary to first establish criteria for the evaluation of the risks identified, namely: the probability of occurrence of events as well as material significance or financial impact.

4. RISK MANAGEMENT

Employees and managers in their everyday formal as well as informal communication while carrying out their tasks are actually implementing the risk management process. "*According to the Glossary of terms, risk management is the process of identifying, evaluating, deciding on type of management, and establishment of control over potential events or circumstances that may jeopardize the achievement of the objectives of the organization, in order to obtain reasonable assurance that the objectives will be achieved. In the broadest sense, every manager is also a risk manager, whether he knew it or not. Managers manage risks daily in order to perform their tasks and achieve their goals. It is quite natural that the risk management will be a lot more successful if this process has been designed in an orderly and consistent manner. In this regard, organizations adopt and develop some of the many models of company risk management*." [8] In other words, it is necessary to regulate i.e. formalize the risk management process, but also to essentially implement it on the basis of agreed rules. Then we can talk about a systematic approach to risk management.

That is, if there are no formalized rules there will be no organized risk management process, then the management is reduced to a case-by-case basis, or to a need-by-need. It is necessary to understand the risk and appreciate the importance of risk management for the organization. Good corporate governance rules require that management establishes a risk management system and to inform the shareholders about that system.

Based on that, the corporate risk management (Enterprise Risk Management) is nowadays defined as a process managed by the board of directors, management and other employees. The process is designed to identify potential events that may affect the company and manage risks so as to remain within the "risk appetite", as well as to provide reasonable assurance regarding the achievement of company goals. It encompasses the methods and processes that the company uses to manage the risks and seize the opportunities related to the achievement of organizational goals.

It represents a framework for risk management in the company and represents an approach to company management based on assessing and managing the risk. Today's level of development of COSO [9] model or COSO "cubes" vividly illustrates the risk management as a central part of the overall model and risk management. The most widely used model of establishing a system of internal controls and risk management both in the world and in our country is the COSO model. The central part of the COSO model is the process of risk management. Since recently the Risk management is also prescribed by ISO standards, namely ISO 31000: 2009 standard, but it has not found its wide application in Serbia yet. In its essence, ISO 30001 is based on the COSO risk management model, as one of the basic models of modern ERM (Enterprise Risk Management) models.

Early chapters of ISO 31000 contain common elements that appear in almost all standards of management: introduction, scope, terms and definitions. The special quality of this standard is presented in the third chapter, in which the principles of risk management are listed:

• Risk management should create new and protect the existing value,

• Risk management should be an integral part of organizational processes,

• Risk management should be a part of the decision-making process,

• Risk management should explicitly show the uncertainty,

• Risk management should be a systematic, structured and timely process,

• Risk management should be based on the best available information,

• Risk management system must be adequate to the organization,

• Risk management should take into account the human and cultural factor,

• Risk management should be a transparent and comprehensive process,

• Risk management should be dynamic, iterative and sensitive to changes and

• Risk management system should be capable of continuous improvement and enhancement.

Position of the board is described in the regulations on strategic risk management, which is published by the Ministry of Finance of Great Britain, and it reads: "Incorporation of risk management is also critical to its own success. It should become an essential part of the way the organization operates, to be part of the core management performance, not something separate from everyday activities."

Risk management is a dynamic process of taking all necessary steps in order to detect risks that affect our goals. Organizational resources and processes must be established to enable potential handling of risks wherever they are identified. We must also say that risk management largely depends on the establishment of the risk owner or the person who is most responsible for taking action for a given risk or a type of risk, or the risk affecting a particular process or project. [7]

In practice, the application of risk management models can sometimes cause large problems and concerns. Many problems are created because we impose a logical formula of organization of people, structures and systems that can be complicated, unpredictable, vaguely defined and observed, emotional and in a state of constant change. Many risk management systems fail because the process has been implemented only by following the prescribed phases of risk management, without observing the real-life of an organization. Managers just tick the box that indicates that they have passed through all the stages, and eventually the board receives the reports which confirm that risk management has been conducted in all parts of the organization. Risk models must be further developed in order to accept all the complexity of the management process, in order to properly establish a strong and integrated risk management system.

Setting goals, budgets, plans and other expectations defines the criteria of control. Control exists to maintain business operation at the level of expectations. Its role is to manage the risk and to mitigate not eliminate it. So, the system of risk management aims primarily to reduce the probability of risk events, primarily by the implementation of an adequate internal controls system.

5. DEVELOPMENT OF RISK MANAGEMENT PROCESS

The risk management process as well as its development, varies from country to country and from organization to organization. These differences are caused primarily by the level of development of management culture (knowledge and skills), the size and needs of the organization itself. "The techniques used by various organizations in their practices of risk management can vary significantly. Depending on the size and complexity of the business activities of the organization, risk management processes can be:

- Formal or informal.
- Qualitative or quantitative
- Built-into parts of the organization or centralized at the top.

The organization devises processes which are based on its culture, management style, and business objectives. Smaller organizations may use an informal method of risk management. ,,*The internal auditor assesses whether the risk management system is in place and whether the chosen methodology is sufficiently comprehensive and appropriate for the nature of the activities and achieving the goals of the organization.*" [8]

Thus, for example, due to the nature of work, risk management process is the most developed in financial institutions or banks and insurance companies. Financial organizations have a long tradition in the risk management process by the very nature of their work, which in a way is almost solely about addressing risks, both risks of others and their own. In addition to the level of development of the risk management itself, in the banking sector they are also the subject of accounting treatment.

Specific standards and accounting risk principles have also been developed. Bank accounting practice recognizes the risks in the accounting period in which they are incurred. "*Contemporary banks are exposed to operational risks. These are: credit risk, interest rate risk, foreign exchange risk, liquidity risk, solvency risk, market risk, economic risk, political risk, the risk of crime and others. According to the general belief the key risks in the banking business are the credit risk and interest rate risk, given the nature of the banking business.*" [10]

Insurance companies are by nature of their work dealing with insuring others against their risks, while being exposed to certain risks themselves, the same as other organizations. "*Adequate risk management is a key factor of liquidity of insurance companies, especially in the conditions of accentuated globalization and internationalization of business.*" [11]

According to International Accounting Standards (IAS) 37- Provisions, contingent liabilities and contingent assets, there is a possibility of posting some uncertain events or risks in companies. Generally speaking, all provisions are contingent because they are uncertain according to the time of maturity or amount.

However, within this standard the term "contingent" is used for liabilities and assets that are not recognized because their existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not entirely within the control of the entity. In addition, the term "contingent liability" is used for liabilities that do not meet the recognition criteria.

Depending on the level of development of the risk management process in an organization we can divide them into several phases (Figure 1).

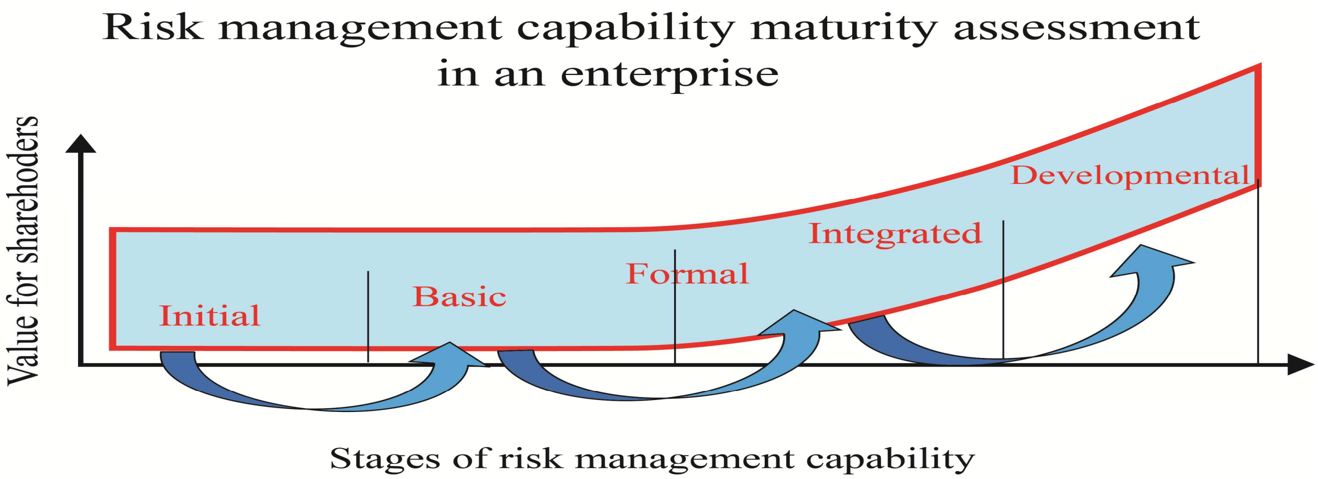

Figure 1. R*isk management capability maturity assessment*

Phases of risk management capability maturity are determined depending on the answers provided to the following questions:

1. How much is the organization capable of managing its risk profiles?
2. How capable should it be?
3. How can an organization reach the desired status?
4. When can an organization reach the desired status?
5. How can we take advantage of the current practice of risk management?

Classification of maturity of risk management processes in one of organizations is more specifically defined on the basis of main characteristics of the risk management process itself, which is described in the following table. [12] Despite all the current knowledge on risk management, the recent financial crisis of 2007/2008 proves that even in a highly regulated business environment there is no effective risk management practice, which can have a major impact on the organization.

Table 1. Risk management process maturity

Representative properties which define each level of maturity				
INITIAL	**BASIC**	**FORMAL**	**INTEGRATED**	**DEVELOPMENTAL**
• Ad hoc"/chaotic • Depends primarily on individual skills and communicati on capabilities	• Independent activities or risk management • Limited focus on risk connections • Limited alignment of risk and strategy • Different views on supervision and reporting functions	• Common framework for management, decision, policy • Routine risk assessment • Communication of main strategic risks with the Board • Executive/Supervis ory Board • Exchange of knowledge via risk functions • Activities to raise the level of consciousness • Formal risk consulting • Committed team	• Coordinated activities of risk management through various individual areas • Risk appetites are clearly defined • Supervision, measurement and reporting on risks across enterprise • Introduced risk management strategy • Risk management training	• Reporting on risks is integrated into the strategic planning, capital allocation, product development, etc. • Indicators of early risk warning are used • Connection to performance measures and incentives • Risk modelling in accordance with introduced system of balanced scorecards

This topic is quite an elaborately discussed by an OECD study [13] from 2009. A problem occurred in the risk management process, which was particularly pronounced in financial organizations. This model was specifically objected because of high technical complexity, as well as due to insubstantiality of theoretical assumptions of the complete model. However, this problem has its second aspect, which is reflected primarily in the problem of corporate governance, and it is not strictly of a technical nature. It was noted that often the risk was not managed at the corporate level, but at lower levels (level of product or business units). Therefore the risk management process was not in conformity with the strategy of the company at the top. Risk managers were often isolated from the highest management level. Risk managers were not considered as significant for the implementation of the strategy, and the most important thing is that boards of directors frequently at their meetings neglected the risks that companies were exposed to.

According to the mentioned OECD study, a widely accepted and useful international standard of risk management is lacking. Some national standards have still not been mutually aligned. During the preparation of their national standards, the countries predominantly look up to standards for risk management recommended by COSO and Turnbull. COSO and Turnbull, are generally acceptable for internal control of financial reporting, but they still do not have enough clear guidelines for the implementation of the model in complex conditions of business operation (numerous operational risks). According to Anderson (2009), these models do not provide sufficiently clear approach to solving problems in real-world conditions, and disadvantages are primarily reflected in the insufficient connection between risk and strategy, then definitions of certain risks are often brief and insufficiently, interest in the safety of the accuracy of the process of risk management is not sufficiently developed, etc.

According to new standing points of the Institute of Internal Auditors (IIA) from 2013, overall monitoring of the risk management process in an organization is defined by the model of Three Lines of Defence,[14] the citation of which we shall partly present below. This model has been designed on the basis of modern views on the process of risk management, of a wide range of teams composed of: internal auditors, specialists in risk management, compliance specialists, internal control specialists, quality control specialist, fraud investigators and other professionals, risk and control specialists.

The coordination of their activities has been performed in order to consider the problem from several perspectives. The fact that various responsibilities related to risk and control are divided and assigned to different departments and sectors in an organization, requires that these responsibilities are carried out carefully and in a coordinated manner, ensuring that the process of risk management and control function in the desired manner.

It is not sufficient merely to establish the different functions that will address risk management and control - the challenge is to assign specific roles and effectively coordinate them in a way to also avoid the "holes" in the controls, but also their unnecessary duplication/overlap. The responsibilities must be clearly defined, so that each function that has jurisdiction over these issues understands the boundaries of their own accountability and is aware of how its position fits into the overall organizational structure in terms of risk and control.

This model provides a new perspective of the business, by supporting a continuous successfulness of the initiative for risk management, and is suitable for every organization regardless of its size and complexity of the business. Even in organizations where there is no formally established risk management framework, introduction of the Three Lines of Defence can clarify the risks and controls and help improve the effectiveness of risk management.

In the Three Lines of Defence model, internal controls established by the first-line management are considered the first line of defence in risk management, various functions established for the purpose of risk management and compliance oversight function are considered the second line of defence, while independent assurance is considered the third line. Each of these three lines has a special role within the most general framework of corporate governance. The Three Lines of Defence model is displayed in Figure 2.

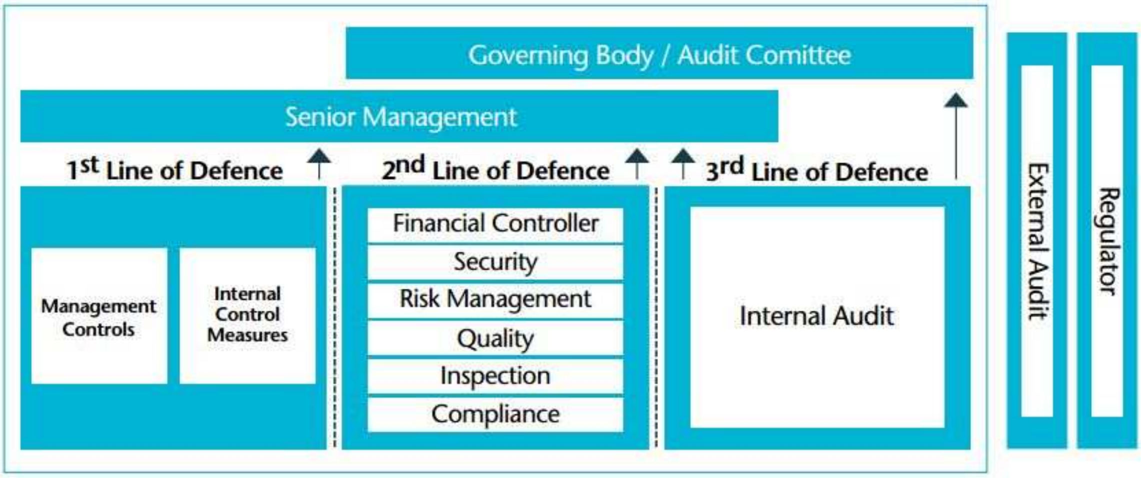

Figure 2. Three Lines of Defence Model

Model of Three Lines of Defence distinguishes three groups (or lines) involved in the effective management of risk:

- "Owners of risk" who carry out operational risk management;
- Risk oversight functions;
- Functions that provide independent assurance.

In theory, maybe a single line of defence would be sufficient to ensure effective risk management. In reality, however, a single line in the function of defence is usually not an adequate solution. The management establishes different functions of risk management and compliance, in order to oversee the functioning of controls from the first line of defence. These specific functions differ depending on the specifics of the very organizations and activities to which these organizations belong to, but typical functions of the "second line" usually include:

- Function of risk management (Risk Management Committee), which facilitates and oversees the implementation and effectiveness of risk management practice implemented by operational management, and which helps, "owners" of risk to define targeted exposure and to adequately provide information about the risk to different levels and instances of the organization.
- Compliance function which oversees the specific risks of non-compliance with the law and applicable regulations. In this capacity, each compliance function addressing a specific compliance issue shall report directly to the senior management or the board as provided for by certain activities. In smaller or less complex organizations, for the purpose of overseeing of all compliance issues such as safety and health, supply chain, environmental protection or monitoring of the quality management a single, unified organizational unit is established.
- Controlling, as a function overseeing financial risks and financial reporting issues.

Management establishes these functions in order to provide assurances that the first line of defence is adequately designed, implemented and functioning as expected. Each of these functions has a certain degree of independence in relation to the first line of defence, but each in its nature is a function that belongs to management. As a function of management, each of the above functions has an opportunity to directly influence the development of the system of internal controls and risk management. Therefore, the second line of defence in the function of achieving the vital goals of the organization, although it does not provide to the board absolutely independent assessments on the issues of risk management and internal controls.

The third line of defence is the Internal audit. Internal audit provides to the board and senior management significant assurance based on a high level of independence and objectivity that this function has in the organization. Such a high degree of independence is not possible in the functions of the second line of defence. Internal audit provides assurance of effectiveness of management, risk management and internal controls, including the manner in which the first and second lines of defence realize the goals of risk management and internal controls.

External auditors, regulators and other external bodies outside the framework of the organizational structure can have a significant role in the overall organizational management process and internal controls. This is especially true in highly regulated activities such as financial services or insurance. All three lines of defence should be in a form to be represented in any organization, regardless of its size and complexity. The risk management process is most powerful when there are three independent and clearly delineated lines of defence established. However, in certain situations and stages of development, particularly in smaller organizations, certain lines can be combined. For example, it is very common that an internal audit may be entrusted with the role of establishing and / or managing risk management processes or conducting activities related to compliance. In this case, it is essential that internal audit clearly presents to the management possible consequences / impacts of such a situation. If dual jurisdiction has been temporarily assigned to a single person or a single organizational unit, it is appropriate to consider the prospect of separation of responsibilities of these functions in the future, in order to establish three separate lines of defence.

6. INSTEAD OF CONCLUSION – Coordination of risk management processes

Considering what has been previously said and the understanding of risk management the question of allocating the role of the coordinator of the entire process of risk management has been raised. Defining the Second Line of Defence from the previously mentioned model of Three Lines of Defence presupposes a certain kind of a key role in the risk management process. Although it only briefly mentions the role of the controlling function for overseeing of financial risks and financial reporting issues, we believe that it does not sufficiently emphasize it. Starting from a contemporary and comprehensive role of controlling, we certainly cannot reduce it only to financial risks and the risks of financial reporting. The role of management of objectives inevitably imposes also the role of management of all internal and external business risks. Therefore, it is highly important to identify the right place for implementing the key role of coordinating the overall process of risk management in an organization. In addition to the place, it is important to determine the right time for it. When we talk about the time we primarily mean the period of activity in which it is most needed to perform an analysis of all risk factors, as well as to define the nature and type of activities for their mitigation. That moment is certainly the very moment of creating a plan/program of business operation for the forthcoming period. In addition, in the process of monitoring the implementation of the program of business operation, i.e. periodic reporting, it is necessary to answer the questions regarding the causes of deviations. The causes are certainly both realized and unrealized threats, as well as opportunities. In addition, it is very important to formalize some of the models of risk management. "Organizations that have formalized some of the famous models of risk management processes also have better performances in the overall process of managing objectives and risks. In addition to the significant differences in the existence of formalization of risk management in relation to the system of management of objectives and risks, significant differences in the quality of individual elements of the risk management process have also been identified, such as:

1. Organization better recognizes global risks from the environment that are caused by market conditions and changes in economic trends.
2. Organization is in a position to better identify any potential risks from the environment which affect the processes of investment, procurement, sales and staffing policy.
3. Organization has more adequate procedures that can ensure a rapid response to irregularities in the operations (such as fraud, evasion, etc.).
4. Organization has a risk management strategy that is aligned with its specific properties and which is monitored at all stages of implementation.
5. There is an adequate communication channel for information about the risks of implementing the strategy of the organization between management and employees who are directly related to these risks.
6. Organization has primarily recognized the need to identify targets at different levels in accordance with the risk management process.
7. For property risks organizations better use insurance as a method of risk management." [15]

The fact has been also confirmed that for a high quality process of management of objectives and risks particularly important is the organization of the risk management process itself, which must permeate the entire structure of the organization, and must be a starting point and the point of origin for all activities in the company, and for all employees in the organization, with a leading role of the management and oversight function of internal audit. So, at this point, the question of coordination of financial management and control system is being raised. In the Anglo-Saxon legal system, this role is dedicated to the Chief Financial Officer (CFO). However, we are of the opinion that this function is more suitable only for the case of managing solely the risks of financial reporting and financial risks. In case of needs for management and operational risks management, a coordination of all business functions is required, each within its responsibility. From our perspective, the question of responsibility for the entire process is not to be raised since it is always with the Chief Executive Officer (CEO). So, only the issue of coordination of the entire risk management process remains open, which we would allocate to the head of the controlling department, because of its function and importance in the company. We suggest that the entire risk management process is organized through coordination of the manager of the controlling department.

The function of controlling is the main coordinator in the process of planning and reporting in a company. Therefore, we believe that the very process of risk management needs to be linked primarily to the planning process, and then with the reporting. Thus the risks would be timely registered. Controlling is the coordinator of all functions in risk management of the company, through the development of plans and reports on plan implementation, by which the risks would be timely registered and there would be an adequate opportunity for their monitoring. For, as we have previously noted, many risk management systems fail because the process is reduced only to the monitoring of the prescribed phases of risk management, without observing the actual life of organization. Managers just tick the box that indicates that they have passed through all the stages, and eventually the board receives the reports which confirm that risk management has been conducted in all parts of the organization. Risk models must be further developed in order to accept all the complexity of the management process, in order to properly establish a strong and integrated risk management system.

Such an approach certainly could provide for further development of the risk management model, which in its integrated stage would include, in particular:

- Coordinated risk management activities through a variety of individual areas
- Oversight, measuring and reporting on risks across the enterprise

And in particular in its developed stage when it also implies:

- Risk management is embedded in strategic planning, allocation of capital, product development, etc.
- Indicators of early risk warning are used
- they have been associated with performance measures and incentives
- Risk modelling is consistent with the system introduced for balanced scorecard indicators.

The mentioned properties of developmental stage of the process of managing of business risks inevitably include some of the modern controlling methods, such as connection to performance measures and the system of balanced scorecard indicators. Simultaneously it would be easier to avoid some of the obstacles to successful implementation of BSC strategy, such as:

- When senior executives with their teams, are unable to clearly define their own vision and strategy among themselves.
- When the long-term goals of the entire organization have not been delegated to the lower organizational units, teams and individuals.
- When there is a mismatch between long-term strategic planning and annual planning. Tactical rather than strategic feedback.
- When in the course of reporting the planned and actual values are financially compared, information on the implementation and success of the strategy is lacking.

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Povezanost funkcije kontrolinga sa procesom upravljanja rizicima u preduzeću

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Rezime

Veoma je važno odrediti pravo mesto u organizaciji za sprovođenje ključne uloge koordinacije celokupnog procesa upravljanja rizicima. Pored mesta važno je odrediti i pravo vreme za to. Celokupan tok aktivnosti procesa upravljanja rizicima mora se uklopiti sa procesom upravljanja ciljevima organizacije. Ako znamo da je za sinhronizaciju upravljanja ciljevima organizacije, na neki način, po svojoj prirodi aktivnosti najodgovornija funkcija kontrolinga tada se nameće logičan zaključak da je ona upravo najpogodija i za lociranje koordinacije procesa upravljanja rizicima. I to ne samo kao organizacionog dela organizacije i prirode njegovih zadataka nego i vremenskog podudaranja kroz aktivnosti planiranja i izveštavanja, u svetlu analize uticaja, procenjenih i ostvarenih, prenetih i izbegnutih rizika poslovanja.

Ključne reči: *Ciljevi, kontroling, planiranje, izveštavanje, rizik, upravljanje rizicima (ERM),*