

## CHAPTER 10

### THE ASSESSMENT OF RISKS AND CONTROL ACTIVITIES DEPEND ON ENTERPRISE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM IN A MANUFACTURING COMPANY

İrem KEFE<sup>1</sup>

#### **Introduction**

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In an enterprise with risk consciousness, the risks can be determined prospectively and the responsibility and risk information of the risks are shared within the enterprise. (Braumann, 2018). Internal control is a basic piece of enterprise risk management (ERM). The ERM framework envelops internal control, shaping a progressively strong conceptualization and instrument for the management (COSO, 2004). ERM provides standard guidelines for the assessment of risk. (Braumann, 2018).

The purpose of this study is examination of a relationship between risk awareness and ERM implementation in a textile manufacturing company. For this aim, risk factors associated with the company have been evaluated conform with the ERM principles and have developed control activities to manage them establishing internal control system. This study is expected to expand knowledge about the ERM and internal control system literature. Furthermore, it would be guide for managers and employees in small and medium enterprises operating textile industry.

This chapter is formed as follows: Firstly, internal control system is explained. Secondly, ERM framework is defined. Then, research methodology is given. Following that, the implementation of ERM and internal control system in a manufacturing company is represented. Lastly, the conclusion section is given.

#### **Internal Control System**

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COSO (The Committee of Sponsoring Organizations of the Treadway Commission) is a US based corporate research organization. The internal controls as a technique followed by the management of an organization to ensure guidance for the accomplishment of objectives of the organization has been characterized by the COSO (Braun, 2015).

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<sup>1</sup> Assistant Professor Dr., Osmaniye Korkut Ata University, iremkefe@osmaniye.edu.tr

Firstly, it has been determined that no risk assessment and control activities were carried out before the this study. The fact that the enterprise was a small business prevented the separation of duties. In addition, according to Table 6, the increase in bank borrowing and the decrease in rate of inventory in the current assets and capacity usage are risky situations. In a broader sense, the risk factors are:

1. Decrease in the capacity utilization rate calculated by taking into account the losses and gains in production,
2. Increase in the amount of bank borrowing consisting of investment and working capital borrowing,
3. Increase in overdue bank payments, which are assessed by the ratio of short-term liabilities to long-term liabilities.

The managerial implications of this study, risk awareness was created from the top management to the all employees in the enterprise. The departments responsible for the control and management of risk factors are defined. Several control activities and risk levels have been developed to reduce risk.

This study was carried out in a textile company to ensure that managers and employees are aware of the risk factors. In this aspect, it is thought that it contributes to the literature on the identification and control of risk factors in small and medium sized enterprises and textile companies with the implementation.

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