

# Evaluation of Risk Management Implementation and Inspectorate General's Role in Risk Management (Case Study in The Ministry of X)

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## Abstract

With the enactment of RPJMN 2020-2024, implementing risk management is a must for all government institutes. Risk management must be applied in managing institute performance, in order to support the achievement of the objectives set out in the RPJMN. Ministry of X as a state institution is inseparable from risk. It has been in the media spotlight several times in a number of cases, ranging from issues of corruption, immigration issues, drug trafficking until riots in prison. The paper aims to evaluate the application of risk management in X Ministry and the role of the Inspectorate General as an internal audit in risk management. This research is a qualitative research with a descriptive analysis approach. The method used in conducting research is through observation and interviews. The evaluation was carried out using ISO 31000: 2009 and the standards issued by IIA. The results of the study are evaluations and suggestions for improving the effectiveness of risk management and the role of internal audit to provide added value, improve performance and achieve organizational goals. The implementation of risk management in X Ministry is still in the development stage and is at the level of risk aware, it has not been implemented in all work units. Risk management structure has not been established, it requires leadership commitment and a culture of risk awareness. There are weaknesses in risk management tools and Ministerial X Regulations, this research provides recommendations for improvement. The Inspectorate General has not yet carried out its core role as a third line of defence in providing assurance for the implementation of risk management, because it still focuses on risk management assistance activities and its consultancy role.

**Keywords:** Risk Management, Internal Audit, ISO 31000:2009

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## 1. INTRODUCTION

Throughout 2019, there have been a number of cases that hit government agencies, both ministries and institutions, related to the inability to manage the risks they face resulting in violations and ignoring business factors, such as what happened to Jiwasraya and Asabri. Failure to manage risk makes the institution fail to achieve its goals. Learning from the case of default on maturing policies that happened to Jiwasraya, the Chairman of BPK asked every ministry and institution to strengthen risk management (okezone.com).

Risk management is a process of identifying, assessing, managing, and controlling potential events to provide adequate confidence about the achievement of organizational goals (AAIPI, 2013). The application of risk management is expected to anticipate a rapidly changing environment, develop corporate governance, optimize strategic management, secure organizational resources and assets, and reduce reactive decision making from top management (BPKP, 2014). One of the big challenges faced by every organization is ensuring whether the implementation of risk management is running efficiently and effectively, where risk management policies and processes have been designed to mitigate risks for the benefit of the organization. When risk management has been carried out, internal audit must provide assurance as part of its role to protect and enhance organizational value (IIA, 2019).

Some of the cases above, raise questions about the existence of internal audit, considering that the agency has implemented risk management. In implementing risk management, the three line of defence model is important. The existence of a monitoring system with three lines of defence involves the management function and the internal audit function in developing risk management. The role of internal auditors as the third line of defence is important, in order to assess the effectiveness of risk management implemented by the first line, and to ensure that the first and second line are running as expected. The current development of internal audit is to become a trusted advisor (Chambers, 2017), requiring internal auditors to provide added value to the organization. Internal auditors, both in their roles as underwriting and consulting services, can contribute to

corporate risk management in many ways. Starting from providing assurance for the risk management process, ensuring that risks have been properly evaluated, evaluating key risk reporting, facilitating risk identification and evaluation activities, training management in responding to risks and others.

The role of internal audit in government institutions is carried out by the government internal supervisory apparatus (APIP) consisting of BPKP, Inspectorate General, Provincial Inspectorate, District / City Inspectorate. Government Regulation Number 60 of 2008 concerning Government Internal Control System (SPIP) states that an effective APIP has the role of providing early warning and increasing the effectiveness of risk management in carrying out the duties and functions of government agencies; provide adequate confidence in the obedience, efficiency, efficiency and effectiveness of achieving the objectives of implementing the duties and functions of government agencies; as well as maintaining and improving the quality of governance in the implementation of duties and functions of government agencies. This is in line with IIA Standard 2120 which stipulates that the internal audit activity must evaluate the effectiveness and contribute to the improvement of the risk management process.

In the 2020-2024 National Medium-Term Development Plan (RPJMN), there are six components of mainstreaming which are useful for achieving development targets designed by the government, one of which is good governance. In this component, the application of risk management in managing agency performance is one of the indicators. Previously, the government had also regulated risk management in Government Regulation Number 60 of 2008 concerning Government Internal Control Systems (SPIP), which included risk assessment activities in the form of risk identification and analysis. In addition, in the 2015-2019 RPJMN, targets for risk management are set by requiring government institutions to reach the maturity level of the SPIP and the capability of the APIP level 3. Thus, currently implementing risk management is a must for all government agencies.

Ministry X is one of the ministries in charge of providing services in the legal sector. This ministry consists of eleven main units and has regional offices as vertical ministry agencies scattered in each province. The Inspectorate General, as APIP within the Ministry of X, in 2019 has obtained APIP level 3 capability through quality assurance on the results of the APIP capability level self-assessment carried out by BPKP, with a note that the risk-based Annual Supervision Work Program (PKPT) planning document must be fulfilled. This is because one of the key process areas at level 3, namely the element of professional practice, requires a risk-based audit planning. BPKP recommends the Inspectorate General to build risk management within the Ministry of X. In order to produce a risk register that can be used to compile risk-based PKPT. Ministry X itself already has regulations related to risk management, namely Ministerial X Regulation Number 5 of 2018 concerning the Implementation of Risk Management in the Environment of Ministry X, however during 2018 to 2019 risk management has not been running optimally. Though risk management is a management tool to achieve organizational goals.

A study on the application of risk management in state institutions engaged in the eradication of corruption, shows that ineffective application of risk management has an impact on decreasing organizational performance and can even lead to the dissolution of institutions as happened in several previous anti-corruption institutions (Sari, 2020). This is evidenced by the WDP opinion by the BPK in 2018 after years of the PQR Institute getting the WTP opinion. The ineffectiveness of risk management is seen from problems that have surfaced but were not previously identified as risks, as a result the institution is not prepared to face the risks that have turned into these problems. This institution faces various risks that have an impact on the corruption eradication agenda and have the potential to weaken and even dissolve the institution, for example, there is no solid basis for determining suspects and it is carried out by means of violence. The institution's contribution to the CPI score is also not on target, Sari (2020) is concerned that one of the causes is the implementation of risk management that has not been integrated.

Other studies have shown various positive impacts that can be obtained from the application of risk management. Research conducted by Shin and Park (2017) describes the success of internal audit at the group level of a company in Korea in increasing company value through the application of enterprise risk management which is integrated with management control. Risk management is used as a tool for monitoring subsidiaries, as well as evaluating the current risk of management activities, which in turn increases the company's value. The existence of risk management will make it easier for Ministry X to monitor all central and regional units scattered throughout Indonesia. Research by Zwikael and Ahn (2010) found that risk management practices moderate the effect of project risk on project success in several project scenarios. Even moderate risk management efforts can improve project performance. Although the level of risk reduces project performance, effective risk management planning was found to moderate this relationship. So sometime high-risk project can be completed better than low-risk projects. This finding is also supported by research conducted by Oehmen et al. (2014) on 291 new product developments, which shows that risk management practices indirectly contribute to the success of projects and products. As well as directly contributing to better decision making, program stability and problem solving.

From some of the above studies, we can see the importance of the effectiveness of risk management implementation and the role of internal audit. The strengthening of both is in line with the government's goal of minimizing waste, fraud, abuse and mismanagement. When risk control is more effective, the better the prevention, detection and mitigation of the incidents of waste, fraud, abuse and mismanagement by the government (Braig et al., 2011). When both are ineffective, what the organization reaps is a decrease in performance, organizational weakness and failure to achieve organizational goals, even the worst leads to organization dissolution. The public sector faces a lot of uncertainty, because the budget needed to finance various public services and development programs is very large, and continues to increase from year to year, so it must be admitted that the risk of failure in the public sector is so high (Keban, 2017). Risk management is very important for more effective organizational performance, where this practice will help the organization achieve its objectives, and the role of internal audit is needed to ensure risk management practices are effective and reliable.

Ministry X is one of the ministries in charge of providing services in the legal sector. This ministry consists of eleven main units and has regional offices as vertical ministry agencies scattered in each province. Ministry X itself already has regulations related to risk management, namely Ministerial Regulation Number 5 Number Y Year 2018, but during 2018 to 2019 risk management has not been running optimally. In the last two years, assistance was only provided in 2018 in several regional offices and main units. However, there are several obstacles in its implementation, because the work unit is still unfamiliar and does not understand the existing tools and does not have a risk awareness culture. The preparation of a new risk register is limited to complementing supporting data for the development of an integrity zone towards a corruption-free area and a clean bureaucratic area serving, even though risk management is a management tool to achieve organizational goals.

On the other hand, during the last five years several technical implementing units under the auspices of the Ministry of X have attracted public attention several times through media coverage due to several cases such as drug trafficking, hand-arrest operations (OTT) to riots. From 2016 to 2019, several times employees and officials in the Ministry of X were targeted by hand-arrest operations, both by the KPK and Tim Sapu Bersih Pungutan Liar. Most recently, in 2019 one of the officials was arrested by the KPK for a foreign residence permit bribery case (Detik.com). In addition, there are several disturbances of security and order in the correctional work unit that still recur every year, such as drug smuggling, escapes, fights / torture, riots and other violations of order (LKIP, 2018). A number of these problems must be the concern of Ministry X, considering that this can have an impact on the achievement of Ministry X's goals in providing legal certainty to the public.

Findings and media coverage on several issues that have been recurring in recent years, including riots, corruption cases and drugs, can interfere with the legitimacy and public trust in Ministry X. This should encourage Ministry X to better manage its business processes by paying attention to these issues through efforts to improve and address existing problems and risks. This encourages researchers to evaluate the implementation of risk management in Ministry X, considering that this ministry also has a relatively large diversity of business processes, the distribution and number of work units in the regions, and limited resources for management and supervision. So that this ministry has quite a challenge in implementing risk management, so in order to avoid decreasing performance, weakening the organization and failing to achieve organizational goals and even dissolving the organization as described above, the application of risk management needs to be evaluated and its effectiveness increased. This study also evaluates the role of the Inspectorate General in risk management according to IIA guidelines.

## **2. LITERATURE REVIEW**

### **2.1 Definition of Risk Management**

Risk management is a process of identifying, assessing, managing, and controlling potential events or situations to provide adequate assurance about the achievement of organizational goals (AAIPI, 2013).

In government institutions, risk management is alluded to in Government Regulation Number 60 of 2008 in particular Article 13 to Article 17. Implicitly this regulation requires the leadership of government agencies to formulate a risk management approach and risk control activities needed to minimize risks and must concentrate on setting agency objectives, identification and analysis of risks and risk management when changes occur.

### **2.2 Risk Management Framework ISO 31000:2009**

ISO 31000:2009 Risk Management - Principles and Guidelines is a standard that aims to provide generic principles and guidelines for the application of risk management. This standard provides an approach related to the relationship between principles, frameworks and processes in carrying out risk management to ensure effective implementation. The relationship or relation of these three things is illustrated in the following picture:

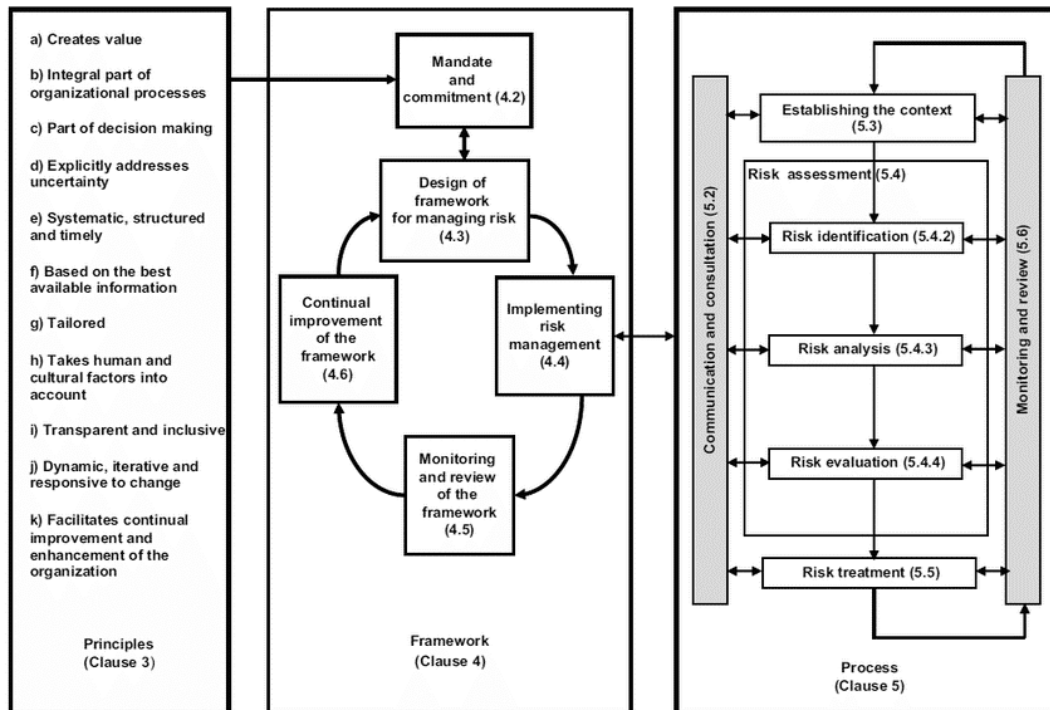


Figure 1. Relation between Principles, Framework and Process of Risk Management.

### 2.3 The Three Line of Defence

In building risk management capabilities, organizations have begun to adopt a model known as the "three lines of defence" or three layers of defence. Clear responsibilities must be defined so that each function group understands the boundaries of their responsibilities and how their position fits into the overall risk and control structure of the organization (IIA, 2013). In a position paper entitled "The Three Lines of Defence in Effective Risk Management and Control", IIA (2013) classifies three groups involved in the risk management process as follows:

- The first line of defense includes the operational manager or business function that carries out daily operational activities, who is the owner of the activity as well as the risk manager. This line is responsible for implementing corrective actions against processes and controls that are lacking.
- The second line of defense includes functions that oversee risk, such as the risk management function or the compliance function. This line is responsible for developing and monitoring the implementation of organizational risk management, as well as supervising how business functions are carried out within the corridors of risk management policies and in accordance with established SOPs.
- The third line of defense is the internal audit function, which provides confidence in the effectiveness of governance, risk management and control. This line is responsible for reviewing and evaluating the overall design and implementation of risk management. As well as ensuring that the first and second tier of defense runs as expected.

Based on this model, the main role of APIP as the third line of defence related to risk management is to assess the effectiveness of risk management implemented by the first line.

In the position paper entitled The Role of Internal Auditing in Enterprise Risk Management (IIA, 2009), the internal audit activity is described in the form of a fan consisting of 18 elements and 3 areas, namely activities that are roles and responsibilities in supporting the risk management process, which can become part of the auditor's role and which should not be the responsibility of the auditor. The series of internal audit roles can be seen in Figure 2.

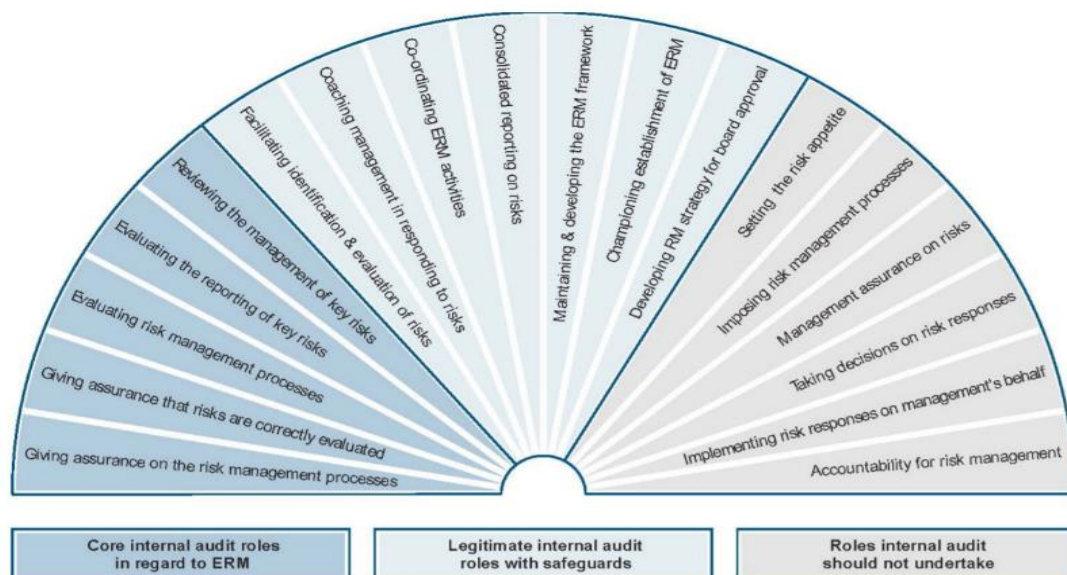


Figure 2. The Role of Internal Audit.

In order to maintain the effectiveness of internal audit activities, the responsibility given to internal auditors regarding risk management activities must be designed so that they do not interfere with their independence. This is because internal audit has an important role in supervising, monitoring and assessing the effectiveness of the organization's risk management and internal control activities. Assigning responsibility to internal auditors to determine risk appetite, shape risk management processes and others could create a clash of interest that could potentially interfere with their assessment of risk management effectiveness (crmsindonesia.org).

### 3. METHODOLOGY

This study uses a qualitative research method with a case study approach in order to understand and answer the phenomenon in detail. A case study was conducted on the implementation of risk management in Ministry X and the role of the Inspectorate General in risk management, by considering the implementation of risk management by other organizations that have been effective. In this study, data collection techniques were carried out through observation, non-formal oral interviews and documentation. The analysis was performed using descriptive analysis and content analysis. The research was conducted to provide input on the implementation of risk management in Ministry X, as well as to increase the role of the Inspectorate General as an internal audit in risk management by referring to the IIA position paper.

### 4. RESULT AND ANALYSIS

#### 4.1 Evaluation of Risk Management Implementation

The risk management process at Ministry X consists of several stages starting with goal setting. This is followed by activities for risk identification, risk analysis, risk evaluation, risk management, and monitoring and review. The application of risk management is directed at managing risks that can hinder, delay and reduce the achievement of organizational goals. In general, the implementation of risk management within the Ministry of X has started and has been built, but the implementation is not sufficient.

Ministerial Regulation Number 5 of 2018 concerning Implementation of Risk Management in Ministry X Environment, which was established in February 2018, is the legal basis for implementing risk management in Ministry X in 2018. The Inspectorate General realizes that there are still many weaknesses in the Ministerial Regulation. The regulation does not yet regulate the justification mechanism and other technical guidelines related to the stages in the implementation of risk management at Ministry X, so there are many complaints from work units and the counterpart team to be able to produce good risk management documents, from risk identification to risk monitoring and review. The formulation of this Regulation is still merely providing the basic legal needs for the implementation of risk management, not seeing risk management as a tool to improve organizational performance. So that it needs to be further evaluated and revised in order to improve the implementation of risk management in the future.

The legal basis refers to the COSO II ERM and ISO 31000: 2009 adopted by the Badan Standardisasi Nasional for SNI ISO 31000: 2011. The existing regulations mandate all work units to implement risk management based on the Ministerial Regulation Number 5. However, in practice, not all work units have implemented risk management in accordance with the applicable legal basis, only Echelon I Units and several Regional Offices have started implementing risk management based on existing regulations. Weaknesses in

Ministerial Regulation Number 5 make it difficult for work units to implement risk management in their units. This is because there are no guidelines or guidelines for implementation and dissemination of these regulations. In addition, assistance for the preparation of new risk management is carried out at Echelon I and several Regional Offices. Due to limited personnel and budget, the Inspectorate General can only reach Echelon I Units and several Regional Offices, which are documented, although the implementation is not yet optimal. So that many units do not understand the contents of Ministerial Regulation Number 5 and the tools provided in carrying out the risk management process. In addition, there is still a wrong perception from the work unit regarding risk management, there is a concern that if the risk is disclosed and risk management applies, the existing risk list will be used by the Inspectorate General as APIP to conduct an audit.

The implementation of risk management in most work units is only limited to formality to fulfill data to support PMPRB and WBK activities, namely in the form of risk identification and risk analysis documents. Prior to the issuance of the Ministerial Regulation Number 5, the work unit at the Ministry of X had already implemented some stages of risk management, namely risk identification and analysis, both of which were part of the SPIP. So, it is expected that the work units that have built risk management through SPIP will find it easier to implement new policies regarding risk management stipulated in Ministerial Regulation Number 5. However, the fact is that some work units still use risk tables sourced from SPIP.

In the Goal Setting Form, there is no column to describe the parties most concerned with the risk management implementation process, as well as the duties and functions of UPR (Risk Owner Unit). Meanwhile, in the attachment to Ministerial Regulation Number 5, UPR is recommended to consider these things at the goal setting stage. If referring to the Ministry of Finance as best practice, the form at this stage should provide a section to describe the duties and functions as the scope of risk management implementation, list of stakeholders, related regulations, risk management structure, risk criteria, analysis matrix and risk level to risk appetite. Ministerial Regulation Number 5 has not regulated risk appetite, so in practice UPR has not used risk appetite in preparing its risk management. Even if the inherent risk and residual risk are defined, a risk appetite is needed for both to be useful. Based on the information obtained, the risk appetite has not been determined because not all work units have compiled a risk register, implemented risk management and the various characteristics of each work unit in Ministry X ranging from immigration, prisons, general law administration and others, so it is difficult to determine the risk appetite can be implemented in a balanced manner in all units of Ministry X. With different characteristics, the risks faced will also vary greatly according to the duties and functions of each work unit, so that the determination of risk appetite that applies to all work units is considered not commensurate.

At the risk identification stage, a Risk Register Form is generated. The existing forms tend to direct the UPR to identify risks for problems that have already occurred. Looking at the risk management document, UPR only focuses on common problems that occur, even though there are potential new risks that can become problems in the future, which should be able to be identified and handled before they become problems. Referring to best practices, it would be better if risk identification also used a top down and bottom up approach. So that the risk profile of UPR includes input risk and derivatives from lower levels and upper levels. Ministerial Regulation Number 5 has determined the risk category, but the existing form does not provide a column for this. Even though its use will make it easier for risk owners to identify and map risks later, to be more specific. In the Ministerial Regulation Number 5, the criteria for probability use the frequency of occurrence per unit time approach, but the minimum number of events for each likelihood criterion has not yet been explained, making it difficult for UPR to determine the possible scale of a risk. Meanwhile, the impact criteria use an object approach that is affected by the risk. Compared to existing best practice, the impact criteria are classified into several impact areas according to the type of risk event that may occur. It would be better if you use a quantitative and specific approach for each level of UPR in the organization. This will make it easier for UPR to produce a more precise level of risk.

In the risk analysis process, Ministerial Regulation Number 5 has explained that the output of the risk analysis is a Risk Map which is a visual representation of each residual risk based on the risk level value in the Risk Level Matrix. However, in the risk management formulation the Risk Map display is still in the form of a table in the form of a description of the remaining risk, likelihood value, impact, risk level and risk profile. The risk profile contains a color description sourced from the Risk Level Matrix. On the other hand, the work unit's risk list is still in the form of risks originating from performance indicators, it is better if risks are not only based on the negation of the performance indicators, but those that are actually faced, which are explored from the risks that exist according to their external or stakeholder

Risk evaluation aims to determine the priority of the risks that have been analyzed. Ministerial Regulation Number 5 has not explained the priority treatment of risks that have the same level of risk, what is considered the risk takes precedence over other risks. For example, when there is the same level of risk, the risk priority is determined based on the highest impact value.

The risk management action plan is not an internal control that has been implemented, but rather a new step to deal with risks. However, in the Risk Management Action Plan Form in several work units, still use

existing internal controls sourced from the Risk List Form as their action plan. If this is the case, the level of risk will be persistent and will not decrease because there are no new controls for risk. In addition, there is no integration between performance appraisal and risk management results so that action plans are neglected.

Monitoring and review has not started, because risk management is still under development. Since it was implemented in 2018, there has not been a report on the implementation of risk management at the Ministry of X. Only the Inspectorate General has prepared a risk management report in 2019. It would be better if in the future UPR reports on its risk management implementation regularly, namely quarterly.

The concept of three lines of defense is important in risk management. In its organizational structure, the Ministry of X does not yet have a second line of defense or known as the Internal Compliance Unit. However, in its risk management structure, Ministry X through Ministerial Regulation Number 5 of 2018 has been mandated to form a Risk Management Task Force which is still ad hoc, which functions as the second line of defense in implementing risk management. However, this function is not running optimally, there has been no implementation of the task of the Task Force that has been seen in the field to strengthen and build risk management within the Ministry of X. The ministry's organizational structure is suspected to be one of the causes. As a result, the implementation of risk management in Ministry X has become less disciplined, because there is no monitoring function yet. When referring to the Ministry of Finance, there is an Echelon IV unit specifically tasked with handling risk management, but if in the near future it is not possible for Ministry X to form a new function in its organizational structure, this task could be attached to the Personnel Division.

To find out how risk management is implemented in Ministry X, ISO 31000: 2009 is used to ascertain whether the Ministry of X has implemented risk management in accordance with the adopted standards as follows:

**Tabel 1. Implementation of Risk Management on Ministry of X 2018-2019 in accordance with ISO 31000: 2009 Standards.**

| <b>Component ISO 31000:2009</b>                                       | <b>Implementation of Risk Management on X Ministry</b>  |
|---|---|
| <i>Principle</i>  |   |
| Creates value   | Not yet. The budget spent for assistance, technical guidance, education and training has not shown optimal output. There are still several work units that do not understand or misunderstand the use of risk management tools. The Risk Management Structure established through Ministerial Regulation Number 5 has not carried out its role, this shows that the Leaders and Structural Officers of Ministry X do not believe in this principle. |
| An integral part of organizational processes                          | Not yet. Work units still consider risk management as an additional task that adds administrative burden on the organization.   |
| Part of decision making   | Not yet. Risk management is still at the development stage, policy making still does not involve risk management in it.   |
| Explicitly addresses uncertainty                                      | Already. In 2018, risk management began, by documenting risk management and identifying potential risks. Furthermore, Ministry X needs to control and handle risks to overcome uncertainty.   |
| Systematic, structured and timely                                     | Not yet. The implementation of risk management has not been implemented in all units, and has not been carried out consistently and on schedule, it is still a formality to fulfill data to support other activities.   |
| Based on the best available information                               | Already. Using information obtained from historical data, experience, observations, forecasts and expert considerations.  |
| Tailored  | Already. At the beginning of the implementation, the Inspectorate General had collaborated with USAID to conduct a comparative study to the BPKP in drafting rules related to risk management to suit organizational needs. However, it is still necessary to revise Ministerial Regulation Number 5 so that it can be implemented more optimally.  |
| Takes human and cultural factors into account                         | Already. By conducting own office training and training of trainers. Tools have considered the sources of risk that come from external and internal parties that can affect the achievement of organizational goals. However, risks from external parties are still categorized as uncontrollable risks.  |
| Transparent and inclusive   | Not yet. Risk management needs to involve all levels in Ministry X in a timely and timely manner. It requires the involvement of stakeholders, especially decision makers. Management and structural commitment to participate consistently is needed, in order to encourage the effectiveness of risk management implementation.   |
| Dynamic, iterative and responsive to change                           | Not yet. Risk monitoring and handling have not been carried out, because implementation is still a formality.   |
| Facilitates continual improvement and enhancement of the organization | Already. The work unit can request assistance by the Inspectorate General in terms of preparing risk management. Ministry X has invested resources through training, and has started to remind risk management in every working visit it takes.   |
| <i>Framework</i>  |   |
| Mandate & Commitment  | Not yet. Commitment is not good enough, the risk management structure has not been implemented optimally. Leaders need to sign the Risk Management Charter. There is no more detailed guide for each level of UPR regarding the implementation of risk management.  |

| <b>Component ISO 31000:2009</b>        | <b>Implementation of Risk Management on X Ministry</b>  |
|--|---|
| Design & Framework for managing risk   | Not yet. Do not have formal guidelines in preparing a more specific framework for each level in Ministry X, only a Ministerial Regulation is available on the implementation of risk management. In order to prepare a risk control self-assessment guide.  |
| Implementing risk management           | Already. However, the implementation is not optimal, and not all units have implemented it. It takes an active leadership role and easy guidance to help the implementation of risk management run optimally.   |
| Monitoring & reviu of the framework    | Not yet. Due to the current focus is still on the introduction and assistance of risk management.   |
| Continual improvement of the framework | Not yet. However, there is already discourse to make improvements to Ministerial Regulations related to risk management implementation, in order to improve organizational performance.   |
| <i>Process</i>                         |   |
| Communication                          | Already. Things have been done, such as: <ul style="list-style-type: none"> <li>• Risk management training for several employees in charge of planning and supervision (Inspectorate General).</li> <li>• Conducting a risk management workshop but only for employees within the Inspectorate General.</li> <li>• Assistance in the preparation of risk management by the Inspectorate General.</li> </ul> |
| Context                                | Already. Through the explanation in Ministerial Regulation X Number 5 of 2018 concerning Application of Risk Management. External and internal factors need to be understood before identifying risks.  |
| Risk Identification                    | Already. Risk identification has considered the sources of risk, causes and impacts. In Ministerial Regulation Number 5, it is explained that in identifying risks, you can use qualitative, quantitative qualitative methods, forecasts, ratings, leadership discussions, audit findings, and evaluation results.  |
| Risk Analysis                          | Already. Risk analysis uses semi-quantitative formal techniques that refer to the scale of risk, in determining the consequences and likelihood of each risk, to produce a risk profile.  |
| Risk Evaluation                        | Already. Risk evaluation is carried out by determining risk tolerance and risk indicators, in order to determine treatment and treatment priorities by ranking each risk.   |
| Risk Treatment                         | Already. Risk management is the responsibility of the risk owner unit. However, in practice, the implementation of risk mitigation is not optimal, UPR still has difficulty in determining the handling indicators, namely output and targets.  |
| Monitoring & Reviu                     | Already. Based on Ministerial Regulation Number 5, monitoring should be carried out periodically at least every 6 (six) months. However, from 2018 to 2019 there has not been any monitoring by the MR Task Force.  |

Based on the evaluation results in the table above, Ministry X has implemented risk management using ISO 31000: 2009, but there are some element that have not been implemented effectively, starting from the absence of confidence that risk management adds value, risk management has not been integrated with the process, has not been taken into consideration in decision making, has not been structured, systematic and timely, there is no assurance that relevant and adequate information is available for the risk management process, not all parties are involved in risk management, and risk management activities are still not responsive to change.

#### **4.2 Evaluation of the Role of the Inspectorate General in Risk Management**

To find out whether the role of the Inspectorate General, as an internal audit within Ministry X, on risk management is in accordance with the role of internal audit according to The Global IIA Position Paper (2009), an evaluation was carried out using the following checklist table:

**Table 2. Evaluation of the Role of Internal Audit 2018 - 2019 in accordance with IIA Standards.**

| <b>Internal Audit Roles</b>                             | <b>Y/N</b> | <b>Evidence</b>   |
|---|------------|---|
| <i>Core roles</i>                                       |            |   |
| Giving assurance on the risk management processes       | N          |   |
| Giving assurance that the risks are correctly evaluated | N          |   |
| Evaluating risk management processes                    | N          |   |
| Evaluating the reporting of key risks                   | N          |   |
| Reviewing the management of key risks                   | N          |   |
| <i>Legitimate internal audit roles with safeguards</i>  |            |   |
| Facilitating identification & evaluation of risks       | Y          | In the early year of risk management implementation, that is 2018, Ministry X provided assistance in compiling a risk list. However, the Inspectorate General has not conducted workshops and Focus Group Discussion to identify risks for all risk owners. |
| Coaching management in responding to risks              | Y          | Melakukan pendampingan pengelolaan risiko pada beberapa satuan kerja  |
| Coordinating ERM activities                             | Y          | The Inspectorate Region IV as the risk management coordinator, at   |



| <b>Internal Audit Roles</b>                       | <b>Y/N</b> | <b>Evidence</b>   |
|---|------------|---|
| Consolidated reporting on risks                   | N          | the beginning of the application of risk management, has compiled a risk management form and coordinates the distribution and filling of forms to each Echelon I Unit, and collects these forms from each unit. Only collecting Risk Management Forms from each work unit, not yet consolidating reporting. |
| Maintaining & developing the ERM framework        | Y          | By compiling a Ministerial Regulation related to the implementation of risk management in Ministry X which is adjusted to the risk management level of Ministry X which is still in the early stages of implementing risk management  |
| Championing establishment of ERM                  | N          |   |
| Developing ERM strategy for board approval        | Y          | Formulation of Ministerial Regulation Number 5 Number 5 of 2018 as a legal basis for implementing risk management. As well as providing a risk management preparation form.   |
| <i>Roles that auditor should not undertake</i>    |            |   |
| Setting the risk appetite                         | N          |   |
| Imposing risk management processes                | N          |   |
| Management assurance on risks                     | N          |   |
| Taking decisions on risk responses                | N          |   |
| Implementing risk response on management's behalf | N          |   |
| Accountability for risk management                | N          |   |

Based on the table above, it can be concluded that during 2018 to 2019 the Inspectorate General has not performed its core role in risk management as the third line of defense. The inspectorate has not confirmed whether the risk management process carried out by the organization is in accordance with the objectives. The role of evaluation is planned to be carried out in the fourth quarter of 2020 in accordance with the Inspectorate General's performance target. In the early years of risk management implementation, the Inspectorate General could act as risk management coordinator by becoming risk management manager.

## 5. CONCLUSION

The implementation of risk management at Ministry X is still not effective. The risk maturity level is still at level 2 (risk aware), where not all work units have implemented risk management. Its implementation is still just a formality to fulfill data to support other activities, it has not become an integral part of activities in the organization. Decision making is not based on risk assessment results. In addition, risk awareness has not yet been built in all risk owner units to every individual. This can be seen from the repeated findings of BPK and issues in the community for which a solution has not been found for several years. The following are some of the weaknesses that can be concluded from the results of the evaluation of risk management implementation and the role of the Inspectorate General of the Ministry of X as follows:

- The implementation of risk mitigation has not been optimal, so it is difficult to determine the indicators for handling (outputs and targets).
- There is no clear guidance on how to determine risk tolerance, risk indicators and safe limits, so in practice it uses more individual considerations.
- There is a different calculation formulation between the risk management tools from the Inspectorate General with the explanation in Ministerial Regulation Number 5, especially in the section on risk management and monitoring.
- The number of competent personnel in risk management is still limited.
- The lack of socialization, the lack of assistance in risk management,
- the basic risk culture that has not been developed
- and the weaknesses in Ministerial Regulation Number 5 have resulted in the implementation of risk management in Ministry X not being optimal.

The suggestions that can be given in order to improve the risk management process within Ministry X and increase the effectiveness of the Inspectorate General's role are as follows:

- First, The Ministry of X needs to build and maintain leadership commitment and build a culture of risk awareness at all levels, so that all individuals have an awareness of the importance of linking risk management in the implementation of their daily tasks, especially in achieving organizational goals. And then, the Inspectorate General needs to socialize the applicable Ministerial Regulation Number 5, then conduct a workshop. In order to achieve a common perception in each unit of risk owner Maximizing the five elements in the risk management process can be carried out through the provision of risk management training to all units on a regular basis, in order to produce competent human resources in the field of risk management, so as to help the effectiveness of risk management implementation in the unit.
- In the future, the Ministry of X is expected will provide general risk management guidelines containing guidelines for the implementation of risk management for each risk owner unit, such as those in PMK No. 191 / PMK.09 / 2008 concerning Implementation.

- In addition, education and training on risk management are important to support the development of effective risk management.
- Improve internal audit competence in risk management and other areas of supervision so that it can become a trusted advisor and strategic partner of the work unit at Ministry X.
- In the future, risk management can be linked to KPIs or performance allowances, to encourage the implementation of risk management.
- Top management needs to ensure that the organizational culture supports risk management, for example by implementing a reward system as a form of appreciation for the achievements of staff and units related to risk management.
- Considering that Ministry X does not have an Internal Compliance Committee or an Internal Compliance Unit, the Inspectorate General can form an Ad Hoc Working Team for Risk Management development but still refers to the IIA. Regarding the construction of an Ad Hoc Work Team at the Inspectorate General, it is necessary to make improvements to the quality of its human capital. But in the future, Ministry X is expected to form an Internal Compliance Unit position in the organizational structure, so that it can oversee the development of risk management within the Ministry X.

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