



Are Risk Management And Internal Control Associated With Public Sector Organizational Performance?

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Abstract

In carrying out its activities, organizations must pay attention to risks that can hinder achieving goals. In addition, control activities are also implemented to ensure that all components of the organization move together to achieve goals. Organizations can use risk management as a tool to manage their risks. Meanwhile, the organization uses internal control to ensure its control activities are conducted well. Therefore, this research is conducted to ascertain the influence of risk management and internal control on organizational performance. The research was conducted at the Inspectorate General of the Ministry of Finance using a quantitative approach and a questionnaire. The number of final questionnaires that can be used in this research is 38. This research concludes that risk management and internal control positively affect organizational performance. This research is expected to be used by the Inspectorate General of the Ministry of Finance to develop policies related to risk management and internal control, particularly for the government in a broader context.

Keywords: Risk management; Internal control; Organizational performance; Public sector

INTRODUCTION

Humans live in a world that is always changing. These changes occur either because nature is always moving without a pattern that humans can know accurately or because they are the result of activities carried out by humans themselves. This situation creates a condition called uncertainty. Uncertainty makes people inevitably speculative and try to find ways to prevent themselves from experiencing or minimizing losses. An unfavorable condition of uncertainty is called risk, which is the possibility of loss (Darmawi, 2016).

Humans face risks individually and when they gather in an organization. Organizations carry out activities to achieve their goals in structured and systematic ways. Therefore, minimizing risk applied to organizations is also structured and systematic. This activity is called risk management, a systematic and structured process supported by a risk awareness culture to manage risk at an acceptable level to provide adequate confidence in achieving targets (Peraturan Menteri Keuangan, 2021). Risk management is indeed a deliberate activity that requires effort to be carried out.

Initially, companies implemented risk management with the intention of transferring the possibility of loss to the insurance company. In its development, risk management has

become part of the management concept, which is applied to minimize losses in many aspects, including government agencies. In Indonesia, risk management has been designated as an element of management that needs to be carried out by Government agencies based on Government Regulation Number 60 of 2008 concerning the Government's Internal Control system. The Ministry of Finance is the first government agency in Indonesia to implement Risk Management (Ari, 2020). Therefore, discussing risk management at the Ministry of Finance would be interesting.

In 2020, the Ministry of Finance conducted a quality assurance assessment by the Inspectorate General on the maturity of risk management implementation. In this assessment, the Ministry of Finance, the first agency to implement Risk Management, received a score of 78.57. If categorized into the Risk Management Maturity Level, this value falls into the 4 out of 5 (Risk Managed) category. This provides several main notes regarding using risk mitigation results, which are considered successful as a control system in the following period; improving risk management processes in identifying, mitigating and monitoring risks; and training employees who manage risk management has not been fully carried out.

In the era of globalization, companies are spreading their wings by expanding to become bigger companies. The larger the company, the more difficult it is to monitor and ensure no loss of company resources. Therefore, specific control or control is needed to carry out this goal (Abbas & Iqbal, 2012). Efforts are needed to build control so that the costs incurred can be as minimal as possible and the benefits optimal. The application of internal control is then not limited to private organizations; public organizations also apply it as part of management.

In Indonesia, every government agency should exercise control over its activities. Implementing these controls aims to create the reliability of information in financial reports, achieve effectiveness and efficiency in achieving goals, comply with applicable regulations, and secure state assets. This control is implemented with a monitoring and coaching system (Peraturan Pemerintah RI, 2008).

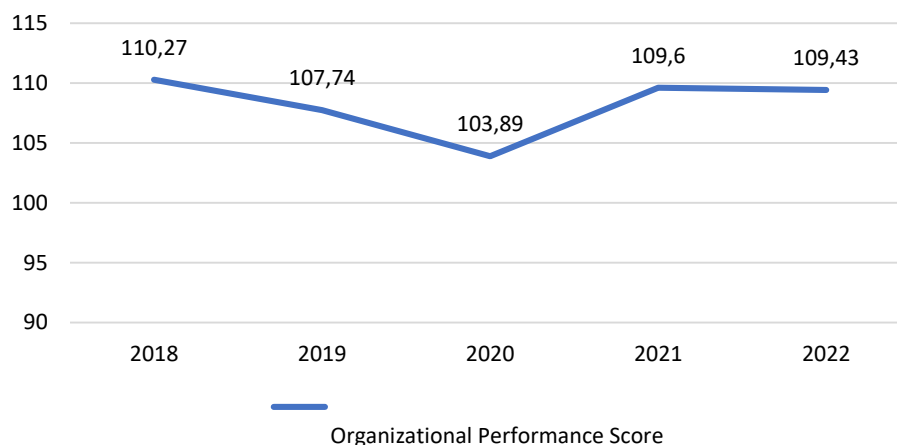
In 2022, the Ministry of Finance conducted an independent assessment by the Financial and Development Supervisory Agency on the maturity of ICS (Internal Control System) implementation. In this assessment, the Ministry of Finance received a score of 4,074. This value falls into the level 4 out of 5 (Managed and Measurable) category if categorized into the ICS Implementation Maturity Value Indexation. This provides several main notes related to asset management and integrity. Asset management, as well as administrative, physical, and legal security, needs attention for improvements. Apart from that, non-compliance with statutory regulations is also still found. In matters related to integrity, there are still cases of corruption that have yet to be criminalized. Therefore, organizations use risk management and internal control to achieve their goals.

Meanwhile, clear and measurable goals significantly affect organizations' performance in the public sector (Ridwan & Mus'id, 2019). Therefore, a system to measure the achievement of these goals is crucial. One of the measurement tools that can be used is a balanced scorecard (BSC). BSC is an integrated and coordinated set of financial and non-financial indicators created with a cause-effect relationship in line with achieving organizational goals (Quesado et al., 2018). BSC translates objectives into targets, representing each by several key performance indicators (KPI).

The BSC was adopted by the Ministry of Finance in 2007. In its development, the BSC was strengthened by enacting the Decree of the Minister of Finance Number 467 of 2014 concerning Performance Management within the Ministry of Finance (Direktorat Jenderal Perbendaharaan, 2020). Technically, implementing BSC produces organizational performance

values at the Ministry of Finance level and the Echelon III level. Organizational performance values and explanations of KPIs are reported through the annual Performance Report, which is available on the Ministry of Finance's official website. Based on this report, the following is the trend in the Organizational Performance Values of the Ministry of Finance over the last five years (Kementerian Keuangan, 2022).

Table 1
Organizational Performance Score



Source: Performance Report of Ministry of Finance 2022

This data shows the organizational performance score (OPS) trend of the Ministry of Finance from 2018 to 2022. The decrease in OPS occurred in 2019, 2020 and 2022. Meanwhile, the increase in OPS occurred in 2021. If this is related to the data in the previous paragraph, in 2020, a TKPRM assessment was carried out, which concluded that there were several records related to risk management at the Ministry of Finance (Kementerian Keuangan, 2020). In 2022, an assessment of ICS implementation was carried out, which produced several notes related to the implementation of the Ministry of Finance's ICS implementation. The TKPRM and ICS assessments cannot be compared in the same year due to the different basic implementation rules and, indeed, different implementation timelines, which are not implemented every year. There are two related issues in 2020 and 2022. In 2020, there was a decline in organizational performance and findings related to implementing Risk Management. Meanwhile, in 2022, there will be a decline in organizational performance and findings related to the implementation of ICS.

Quite a lot of previous research has discussed the influence of risk management on company performance. Cahyaningtyas & Sasanti (2019) examined the influence of risk management on company performance. This research was conducted in Indonesia's banking industry. Risk Management uses NPL, NIM, LDR and BOPO ratio indicators. Meanwhile, the study employed company performance with ROA and Tobin's Q. This research concludes that risk management affects company performance, noting that the NPL Ratio, NIM and BOPO indicators significantly affect ROA. Meanwhile, the LDR and BOPO indicators significantly affect Tobin's Q. In another study, Yanti & Setiyanto (2021) tested the effect of risk management on financial performance. This research was also carried out in the banking industry. This research uses non-performing loans and the ratio of operating expenses to operating income as company risk. Meanwhile, ROA is used to indicate a bank's financial

performance. This research resulted in the conclusion that credit and operational risks have a negative effect on company profitability.

Putri & Endiana (2020) examined the influence of internal control on company performance. This research was conducted at the Cooperative in Payangan District. The research concluded that internal control affects company performance. In another study, (Adhitya, 2020) researched the influence of internal control on managerial performance. The research was conducted at PT. Bridgestone Sumatra Rubber Estate, which resulted in internal control, significantly affects the company's managerial performance.

However, this research examines the influence of risk management and internal control on public organization performance. This research is carried out by the Inspectorate General of the Ministry of Finance, which has a supervisory function. The selection of the Inspectorate General as the object of supervision was carried out because the office is a unit that carries out supervisory functions related to risk management and internal control at the Ministry of Finance, so there is an assumption that knowledge regarding these two things is sufficient so that implementation in the unit itself becomes interesting to discuss.

This research is different from research that has been conducted previously in the aspects of indicators used to represent variables and also the sector of the research object. Regarding the risk management variable, previous research was conducted in the banking industry sector with indicators in the form of risk-related ratios. Meanwhile, this research was conducted at the Inspectorate General of the Ministry of Finance, namely the public or government sector. The indicators used are also different, namely, the risk management rules owned by the Inspector General of the Ministry of Finance in assessing the risk management maturity level, which was selected and used as a questionnaire for this research. In the internal control variable, the previous research object sectors were units oriented towards making a profit, namely cooperatives and companies. Meanwhile, in this research, the research object sector is the public sector, with internal supervision services as the main product.

The results of this research will be useful for the leadership of the Inspectorate General in making policies related to risk management and internal control concerning maximizing organizational performance. In general, implementing these two concepts is mandatory for every government agency in Indonesia, so the adoption of this research's results for policy in other agencies should be relevant. Apart from that, little research reveals the influence of risk management and internal control on organizational performance. Moreover, in this research, the scope used is the public sector, where research on various concepts in the public sector is still said to be limited. Therefore, this research needs to be carried out with the benefits and reasons that have been explained.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Based on Systems Theory (Johnson et al., 1964), a business organization comprises interrelated parts to achieve the organization's and its members' goals. Managers can implement a series of activities as a useful system. This system has subsystems or essential functions that form an information-decision system. In this research context, the locus would be in the public sector rather than the private or corporate sector. The focus in corporate is on the organization and improving its performance, while the public sector focuses on the community, the agency's function, and the agency's performance (Bryson et al., 2015). Thus, knowing how particular factors influence public agency performance is important.

Risk management is a structured and systematic process supported by a risk-conscious culture that manages risk at an acceptable level and provides adequate confidence in achieving targets. Risk Management State Financial Management has the following objectives (Peraturan Menteri Keuangan, 2021): maintain the condition of fiscal projections, the posture of the State Revenue and Expenditure Budget, as well as controlled state assets and liabilities in the short term, medium term and long term, and optimize the achievement of vision, mission, goals and performance improvement. The structure created by a risk management system includes systems and processes established by management to ensure its risk philosophy is incorporated into the organization's daily activities. Thus, every part of the business process would be equipped with risk management (Araújo & Gomes, 2021).

The principles of implementing risk management related to state financial management are based on integrated, structured, comprehensive, adaptive, inclusive, and dynamic principles based on the best available information and paying attention to human resources and culture as well as continuous improvement. The risk management process consists of several stages (Peraturan Menteri Keuangan, 2021): formulation of context, risk identification, risk analysis, risk evaluation, risk mitigation, and monitoring and reviewing.

Linked to systems theory, risk management is a subsystem created by managers. The risk management subsystem is useful because it can provide information about things that threaten the achievement of organizational goals so that decisions can be made to minimize these things. Risk management activities are carried out to reduce risks that hinder the organization so that organizational goals are achieved. The BSC translates these goals into organizational performance.

H1: risk management is positively associated with organizational performance.

The Internal Control System (ICS) is an integral process of activities and actions carried out continuously by the leadership and all employees to provide adequate confidence in achieving organizational goals by carrying out effective and efficient activities, safeguarding state assets, reliability of financial reporting, and compliance with laws and regulations (Peraturan Pemerintah RI, 2008). In other words, the organization carries out internal control to monitor whether operational activities are executed under the regulations and policies set by the company (Budianto et al., 2021).

ICS has several elements (Peraturan Pemerintah RI, 2008). First, control the environment. Government Agency Leaders are required to create and maintain a control environment that creates positive behavior and is conducive to the implementation of the Internal Control System in their work environment through upholding integrity and ethical values, commitment to competence, conducive leadership, formation of an organizational structure that suits needs, appropriate delegation of authority and responsibility, preparation and implementation of sound policies regarding human resource development, realizing the role of effective government internal monitoring apparatus and good working relationship with relevant Government Agencies.

Furthermore, risk assessment is part of internal control for considering operational risks. This research distinguishes between risk management and risk assessment because risk management is managerial, while risk assessment is operational. The indicators used are also different. Related to the risk assessment, control activities consist of a review of the performance of the Government Agency concerned, human resource development, control over information system management, physical control of assets, determination and review of performance indicators and measures, separation of functions, authorization of important

transactions and events, accurate and timely recording of transactions and events, limiting access to resources and recording them, accountability for resources and recording, and good documentation of the Internal Control System and important transactions and events.

The Internal Control System is monitored continuously through separate evaluations and follow-ups on recommendations from audit results and other reviews. Linked to systems theory, internal control is a subsystem created by managers. The internal control subsystem is useful because its objectives are to help organizations through effective and efficient activities, reliability of financial reporting, security of state assets, and compliance with statutory regulations so that organizations can make decisions to strengthen protected areas. Internal control activities are carried out to achieve the five goals conveyed so that the organization's goals are expected to be achieved.

H2: internal control is positively associated with organizational performance

RESEARCH METHOD

Type of Research and Sample

This research is carried out using quantitative methods in the form of primary data analysis. The primary data was generated from a questionnaire. Questionnaires were distributed to respondents from the second week of June to the end of June 2023. Respondents are Inspectorate General employees spread across nine Echelon II units. The questionnaire is distributed via a link or online at the address <https://forms.gle/p3cwftAL8sDTQk1q6>. Respondents were not singled out based on position or age. Risk management and internal control are basic materials expected to be mastered thoroughly by all employees at the Inspectorate General of the Ministry of Finance as the internal supervisory unit. The number of final questionnaires that can be used in this research is 38.

Research Model

The questionnaire contains values ranging from 1 to 6. The dependent variable of this research is Organizational Performance, while independent variables consist of Risk Management Variables and Internal Control.

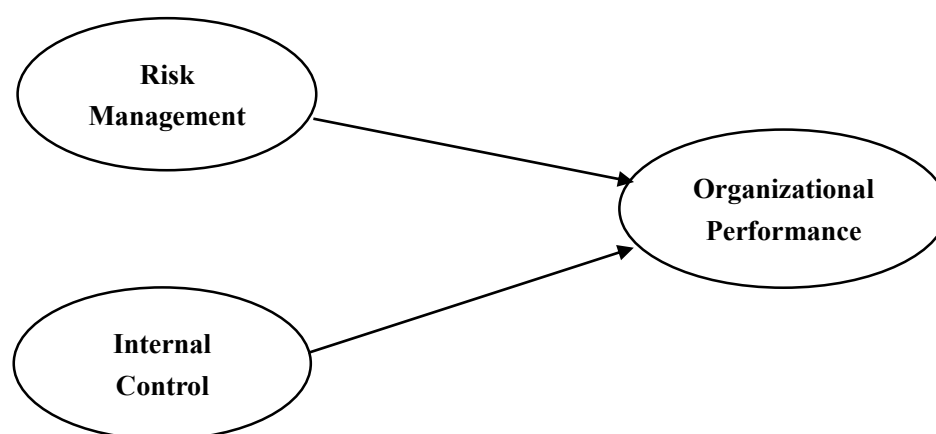


Figure 1. Research Model

Source: processed picture

First, the risk management variable is developed by indicators from the Ministry of Finance's Inspectorate General Regulation Number 3 of 2020 concerning Guidelines for Assessing the Maturity Level of Risk Management Implementation within the Ministry of Finance (Peraturan

Inspektor Jenderal Kementerian Keuangan, 2020). These indicators are grouped into four sections: risk awareness culture, risk management structure, risk management process, and risk management implementation results. Second, the Internal control variable is developed from indicators in the form of internal control elements, namely control environment, risk assessment, control activities, information and communication, and monitoring (Rittenberg, 2013). The elements of internal control are then translated into question items regarding one of the research questionnaires related to internal control from the Ganesha Education University by Ardyani (2019), which is adjusted according to the context of the dependent variable. Third, the organizational performance variable is developed with productivity, service quality, responsiveness, and accountability indicators (Dwiyanto, 2008). Then, questions were obtained from Ednoer et al. (2022) with context adjustments to the dependent variable.

Research Questionnaire

The questionnaire is divided into two main parts, namely general data on respondents related to name, age, gender, education and length of service, and data on respondents' perceptions. The questionnaire for respondent perception data is divided into three parts: the risk management indicators section, the internal control section, and the organizational performance section. Based on the explanation related to the development of indicators from variables, the following is a list of questions that will be included in the research questionnaire to be submitted and filled in by respondents.

Variables	Code	Indicators (Questionnaire Items)
Risk Management	a. Risk Aware Culture	
	RM1	There is real and strong support from my leadership for implementing risk management, including in tiered discussions and monitoring of its implementation.
	RM2	Risk management leaders and managers in my unit have attended risk management training.
	RM3	Risk Management is integral to daily decision-making at all levels and business processes.
	b. Risk Management Structure	
	RM4	My unit allocates budget and facilitates activities to increase understanding and implementation of risk management.
	RM5	The division of tasks and responsibilities in risk management in my unit is clear.
	RM6	My unit has a competent, efficient and independent Risk Management Work Unit.
	c. Risk Management Process	
	RM7	My unit evaluates risks that need to be prioritized for adequate handling.
	RM8	The risk management plan in my unit is adequate.
	RM9	Each risk level is reviewed and handled adequately by the risk owner periodically.
RM10	The implementation of the risk mitigation plan is monitored and reported to the higher unit periodically according to the specified schedule.	
RM11	My unit's Risk Profile has comprehensively identified losses, violations, failures, errors (downside risk) and opportunities that cannot be exploited.	
RM12	Risk management officials have adequately documented the results of the risk management process in the form of a risk register.	

	RM13	The risk management information system for documenting and reporting (recording & reporting) risk management online and in real-time has been developed adequately.
	d. Risk Management Process	
	RM14	Risk information and successful risk mitigation have been used to improve business processes in my unit.
	RM15	Implementing risk management improves the quality of planning and decision-making in my unit.
	RM16	Implementation of risk management supports the improvement of my unit's performance.
Internal Control	a. Control Environment	
	IC1	My organization has written clear ethical and behavioral standards in each division and has implemented them properly in every organizational activity.
	IC2	The organizational structure in my organization clearly explains the division of tasks, authority and responsibilities of each division.
	IC3	There is intensive supervision of employees to reduce dishonest employee actions.
	b. Risk Assessment	
	IC4	Internal supervisors are always involved in every process of achieving performance targets.
	IC5	My organization already has clear work procedures to reduce the potential for embezzlement and errors, such as work procedures forming a system.
	c. Control Activities	
	IC6	My organization has clear and written rules and procedures regarding activities to achieve organizational performance targets.
	IC7	There is a warning system when the organization's performance progress has not met the target.
	IC8	All important documents have been stored safely and have limited access.
	d. Information and Communication	
	IC9	There is an adequate information system related to achieving organizational performance targets.
	IC10	All functions between sections/divisions have good communication and information relations.
IC11	Relations between organizational leaders, internal supervisors, organizational performance managers and employees run well, including openness to ideas, suggestions and criticism.	
e. Monitoring		
IC12	My organization has routinely and suddenly carried out special supervision regarding activities to achieve organizational performance targets.	
IC13	My organization already has an internal auditor/similar function that supervises and checks the activities to achieve the organization's performance targets.	
IC14	Reports regarding the deficiencies occur after monitoring activities to achieve organizational performance targets.	
Organizational Performance	a. Productivity	
	OP1	Public services provided by my work office have been carried out efficiently.
	OP2	Public services provided by my work office have been carried out

		effectively.
	OP3	My office performance targets can usually be achieved within one year.
	OP4	Timely service is provided by the office where I work.
	b. Service Quality	
	OP5	The office where I work carries out regular service quality evaluations.
	OP6	Stakeholders are satisfied with the service performance provided by the agency where I work.
	OP7	The office where I work always follows up on complaints and suggestions regarding services.
	c. Responsiveness	
	OP8	The office where I work can recognize stakeholder needs.
	OP9	The office where I work can set service agendas and priorities.
	OP10	The office where I work can develop public service programs according to the needs and aspirations of stakeholders.
	d. Responsibility	
	OP11	The office where I work carries out work following applicable regulations and policies.
	OP12	The office where I work takes corrective action if performance errors occur.
	e. Accountability	
	OP13	The performance report prepared by my office follows actual work conditions.
	OP14	Performance reports are prepared following applicable standards/predetermined standards.
	OP15	Reporting performance results are published regularly and on time.
	OP16	There are sanctions if the performance reporting does not correspond to actual conditions.

RESULTS AND DISCUSSIONS

The validity test is carried out to conclude that each indicator is suitable for measuring the variable it represents. In this study, the indicator was concluded to be suitable for use when the factor loading value was above 0.6. The following are indicators that are suitable for use in research.

Table 2
Loading Factor Value of Indicators

Item	Organizational Performance	Risk Management	Internal Control
OP1	0.718		
OP2	0.812		
OP4	0.786		
OP5	0.744		
OP6	0.872		
OP7	0.612		
OP8	0.775		
OP9	0.801		
OP10	0.767		
OP11	0.655		
OP12	0.746		
OP13	0.917		

OP14	0.837		
OP15	0.668		
OP16	0.69		
RM3		0.648	
RM7		0.732	
RM8		0.789	
RM9		0.763	
RM10		0.686	
RM12		0.826	
RM14		0.697	
RM15		0.721	
RM16		0.674	
IC3			0.731
IC4			0.732
IC5			0.742
IC6			0.648
IC9			0.69
IC10			0.717
IC11			0.756
IC13			0.662

Source: processed data

The validity test results showed that several indicators on the questionnaire did not meet the value of 0.6. Therefore. These indicators are unsuitable for the next testing stage and must be excluded from the research. There are 14 indicators issued out of 46, namely indicators OP3, RM1, RM2, RM4, RM5, RM6, RM11, RM13, IC1, IC2, IC7, IC8, IC12, IC14.

Reliability testing is conducted to conclude that each indicator variable is reliable for influence tests. In this research, each variable can be declared reliable if the Cronbach's Alpha value exceeds 0.7 and the Average Variance Extracted (AVE) exceeds 0.5. Based on reliability testing on the three variables, the results were that the Organizational Performance, Risk Management and Internal Control variables had a Cronbach's Alpha value greater than 0.7, and the Average Variance Extracted (AVE) was greater than 0.5, so all variables were declared reliable. The values for each variable are presented in Table 3.

Table 3
Cronbach's Alpha and Average Variance Extracted (EVA) value

Variable	Cronbach's Alpha	Average Variance Extracted (AVE)	Result
Organizational Performance	0.948	0.584	<i>Reliable</i>
Risk management	0.888	0.53	<i>Reliable</i>
Internal Control	0.861	0.505	<i>Reliable</i>

Source: processed data

This research had 38 auditors as respondents. The minimum value for indicators that have passed the validity test is 1 for the IC10 indicator on the Internal Control variable. Meanwhile, the maximum value produced is 6 for all feasible indicators for all variables. The average value of this data is in the range 4 and 5. The lowest average value is 4.895 for the IC10 indicator for the Internal Control variable.

Meanwhile, the highest average value is 5.526 for the OP11 and OP15 indicators on the Organizational Performance variable. The highest standard deviation is 1.046 for the IC10

indicator on the Internal Control variable. This shows that the data distribution on the indicator in question has a large magnitude. As mentioned, descriptive statistics for research variables have complete data, as shown in Table 4.

Table 4
Descriptive Statistics of Research Variables

Indicator	N	Min	Max	Mean	Standard Deviation
RM3	38	4	6	5.237	0.666
RM7	38	4	6	5.447	0.677
RM8	38	4	6	5.289	0.645
RM9	38	4	6	5.316	0.653
RM10	38	4	6	5.447	0.636
RM12	38	4	6	5.263	0.636
RM14	38	4	6	5.211	0.569
RM15	38	5	6	5.421	0.494
RM16	38	4	6	5.5	0.55
IC3	38	3	6	5.237	0.741
IC4	38	4	6	5.105	0.718
IC5	38	4	6	5.395	0.63
IC6	38	4	6	5.395	0.63
IC9	38	3	6	5.263	0.75
IC10	38	1	6	4.895	1.046
IC11	38	3	6	5.079	0.807
IC13	38	4	6	5.5	0.639
OP1	38	3	6	5.158	0.744
OP2	38	4	6	5.289	0.685
OP4	38	4	6	5.342	0.66
OP5	38	3	6	5.368	0.775
OP6	38	4	6	5.237	0.666
OP7	38	2	6	5.368	0.901
OP8	38	4	6	5.289	0.603
OP9	38	3	6	5.447	0.677
OP10	38	4	6	5.316	0.567
OP11	38	5	6	5.526	0.499
OP12	38	4	6	5.421	0.544
OP13	38	4	6	5.447	0.594
OP14	38	4	6	5.474	0.549
OP15	38	4	6	5.526	0.595
OP16	38	3	6	5.158	0.874

Source: processed data

Table 5
Hypothesis Test Results

Variable	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	R ²	Adj. R ²
RM -> OP	0.344	0.348	0.145	2.38	0.009	0.731	0.715
IC -> OP	0.563	0.572	0.134	4.187	<0.001		

Source: processed data

The association between risk management and organizational performance

Table 5 shows that risk management is positively associated with organizational performance, so Hypothesis 1 (H1) is accepted. This result aligns with research by Cahyaningtyas & Sasanti (2019) and Yanti & Setiyanto (2021). Even though the research object sectors are different, namely the banking industry and the public sector, risk management still positively affects organizational performance. It is reinforced by using different testing techniques, which produce the same conclusions. The test results on this variable mean that it is in line with systems theory, namely that managers create a useful system with essential functions so that the goals of the organization and its members can be achieved. In the context of risk management in this research, the Inspector General delegates the role of risk manager to Echelon III at the Secretariat General as the risk manager for the Inspector General of the Ministry of Finance by implementing the risk management system that has been established by the risk manager at the Ministry of Finance level. The risk management system has an essential function because negative things that may occur and hinder the achievement of organizational performance indicators (risks) are identified and addressed if the assessment results in a decision that the risk is significant. This risk management series ultimately helps the organization achieve its goals by minimizing disruptions that threaten to achieve them.

At the Inspectorate General of the Ministry of Finance, risk management has become a factor considered in decision-making. The two main ways risk management results are used are in determining areas of supervision and making follow-up plans for achieving key performance indicators. The use of risk management in the process of determining supervision areas is carried out by the Inspector General of the Ministry of Finance, sorting the priority areas of supervision in his audit universe based on the risk profile of his supervision clients so that supervision is prioritized to be carried out in the areas most at risk. Meanwhile, internally within the organization, the Inspectorate General of the Ministry of Finance manages its risks, which are evaluated every three months to determine risk trends and whether or not treatment needs to be carried out to achieve organizational performance indicators.

The risk management process of the Inspector General of the Ministry of Finance is carried out by referring to the Minister of Finance Regulation Number 222 of 2021 concerning the Implementation of Risk Management for State Financial Management. Risks are identified starting from the Echelon I level up to III, and an assessment is carried out to determine whether treatment is necessary. Every quarter, the risk management report is periodically presented by the Secretary of the Inspector General of the Ministry of Finance to the Inspector General of the Ministry of Finance in front of echelon II and III Risk Managers to see risk trends and appropriate and necessary risk management. The handling plan will then be submitted to the relevant unit, and the monitoring and reporting will be coordinated by the Inspector General's Risk Manager, namely the Head of the Compliance, Performance and Legal Section, to be then evaluated and presented again in the next quarterly evaluation as in the evaluation process that has been presented previously.

Risk management at the Inspectorate General of the Ministry of Finance is essential in improving business processes because the risks identified are inherent in each of the organization's main performance indicators. Therefore, mitigation helps the organization achieve its goals, improves processes that are not appropriate, and reduces deficiencies in existing business processes. Risk management plays a role in planning because it is a planning system that seeks to help organizations identify risks at the beginning of the budget year. It

can also be a tool to assist in quarterly evaluations. Ultimately, risk management helps the Inspectorate General of the Ministry of Finance improve the performance of the Inspectorate General of the Ministry of Finance by minimizing risks that hinder the process of achieving goals.

The association between internal control and organizational performance

The hypothesis testing suggests that internal control is positively associated with organizational performance, so Hypothesis 2 (H2) is accepted. This result aligns with previous research conducted by Putri & Endiana (2020) and (Adhitya, 2020). Even though the research object sectors are different, namely cooperatives, companies and the public sector, the research produces the same conclusions. The test results on this variable align with systems theory, namely that managers create a useful system with essential functions to achieve the organization's and its members' goals. In the context of the internal control in this research, the Inspectorate General of the Ministry of Finance has built its internal control system intending to gain benefits in the form of efficiency and effectiveness of performance, reliability of financial information, asset security, and compliance with existing regulations. Internal control at the Inspectorate General of the Ministry of Finance is concretized into activities attached to the implementation of daily business processes, which have an essential function, such as limiting the deviant behavior of its members or encouraging the performance of its members.

In the control environment aspect, the Inspectorate General of the Ministry of Finance has a monitoring system for its employees to minimize dishonest actions in the form of an internal compliance system and a whistleblowing system. The internal compliance system in the compliance, performance and legal section is the second line in a three-line system. This section has the task of monitoring employee compliance with applicable regulations and providing warnings and even sanctions related to violations of the regulations. Meanwhile, all levels of society and parties can use the whistle-blowing system to report suspected irregularities employees commit in their behavior and performance. This improves organizational performance in responsibility; each member carries out work following applicable regulations and immediately follows up on symptoms of irregularities committed by members.

The risk assessment aspect differs from the risk management variable for several reasons. First, risk management is a complex, integral process, unlike risk assessment, which is only a small part of risk management. Second, risk management and internal control are regulated by two basic rules, and the actors who carry them out differ. Risk managers manage risk while parties carry out internal control according to related fields in various business processes. Third, the development of indicators for risk management variables and risk assessment sub-variables for internal control variables is different, and there is no overlap.

The Inspectorate General of the Ministry of Finance built an internal compliance and organizational development unit as part of the internal control aspect of risk assessment. The internal compliance unit monitors the performance of the echelon I organization and its subordinate units. Meanwhile, unit organizational development seeks to build operational standards for each work activity and update the no longer relevant standards. The internal compliance unit improves organizational performance in accountability; namely, performance reports produced following existing conditions. Reporting is carried out routinely and on time, following existing regulations. The organizational development unit improves organizational performance in the productivity aspect; every work activity carried out by the organization is directed to be effective and efficient, following existing standards.

Regarding Control Activities, the Ministry of Finance Inspector General carries out performance management/Performance Management per PMK Number 222 of 2021. At the beginning of the year, a performance contract is prepared from the leadership level to the implementing level for the next year. The achievement of this target will be monitored every quarter at the organizational performance dialogue, a leadership meeting to discuss performance progress. At the end of the year, comprehensive reporting is carried out regarding the organization's overall performance. This performance management process improves the organizational performance of the Inspectorate General of the Ministry of Finance in the aspect of accountability. Performance management produces quarterly and annual performance reports. With the internal compliance unit as performance manager, monitoring is carried out to ensure that reported achievements follow facts and measurement standards and that reporting is carried out promptly.

In the information and communication aspect, the Inspectorate General of the Ministry of Finance has an e-performance application. The e-performance application is a performance management information system at the individual employee level and the inspector general level of the organization. The Ministry of Finance owns this application, so the Inspector General only acts as a user. E-performance helps organizational performance managers carry out performance administration and facilitate the monitoring process for the performance of all employees. One of the relationships between leaders, internal supervisors, performance managers and employees is the talent management process. In this process, prospective officials who will occupy a position are selected based on certain criteria, one of which involves the Internal Compliance unit to obtain the results of profiling the prospective official. The performance manager plays a role in providing trends in the performance of prospective officials. Ultimately, the final determination is made through a meeting involving all parties, including high-level leadership. The performance management information system and relationships between significant parties within the IG organization improve organizational performance through aspects of responsibility and accountability. Accountability increases because the decision-making process is based on legal factors involving several parties. Meanwhile, accountability is related to the output of reliable and timely performance reports. All these leader involvements take a crucial role in achieving goals as a leader's commitment would be the organization's commitment as well, and commitment to the organization has a positive and insignificant effect on the performance of public organizations (Ramdhani, 2018).

In the monitoring aspect, the Inspectorate General of the Ministry of Finance has an internal compliance unit whose function is to monitor organizational performance. The Internal compliance unit carries out the performance manager and risk manager functions to greatly assist in achieving organizational goals. The existence of this internal compliance unit also monitors employee behavioral compliance. Therefore, this internal compliance unit improves organizational performance through service, responsiveness, accountability and accountability. The service aspect is improved through the implementation of monitoring client satisfaction surveys, which are used as performance indicators for both individual employees and the organization so that improvements in service quality can be filtered from the level of satisfaction. The responsiveness aspect is enhanced through open questions in the service satisfaction survey, which has been explained in the previous aspect so that the expectation of interest stakeholders and supervisory clients regarding the needs and priorities of the supervision of the Inspector General of the Ministry of Finance are obtained. The responsibility is increased through compliance with regulations that are always maintained.

The Accountability Aspect is improved through reliable and timely performance reporting.

Organizations can use internal control to control motivation and commitment (Andriono & Nurkholis, 2018). As explained in the previous paragraph, this statement summarizes how every aspect of internal control implicitly pushes employees to do such activities as the organization wishes. In the long term, the repetitive activities make the whole organization committed to organizational goals as internal control directs.

CONCLUSIONS

This research provides several conclusions. First, the risk management variable positively affects the organizational performance variable. This confirms systems theory, which states that managers will create a useful system with essential functions to help achieve organizational goals. In this case, risk management is applied to the Inspectorate General of the Ministry of Finance to minimize organizational risks so that achieving goals is easier. Second, internal control variables positively affect organizational performance management. This confirms systems theory, which states that managers will create a useful system with essential functions to help achieve organizational goals. In this case, the Inspectorate General of the Ministry of Finance implements activities and systems to ensure that every organization member works effectively and efficiently, produces reliable financial information, safeguards its assets, and complies with existing regulations.

This research has several limitations. The indicators in the questionnaire are not yet strong. In the independent variable, the questionnaire used has never been used before. Therefore, many indicators were eliminated because they did not pass the validity test. Further research related to these variables can be carried out by improving the questionnaire in this study or developing better indicators. Second, The number of respondents is small. This research only received 38 auditors as respondents from approximately 700 Inspector General employees of the Ministry of Finance. Even though the regulations fulfill the testing requirements, future research requires more respondents to obtain more representative results.

Based on this research's findings, this research provides input for the Inspector General of the Ministry of Finance, particularly the Government, that Performance Management and Internal Controls are two crucial things. It is expected that the implementation of risk management carried out by the Inspectorate General of the Ministry of Finance will be maintained and improved for organizations that have not implemented risk management. Policies regarding its implementation need to be implemented immediately. The implementation of internal control needs to be evaluated. Internal control and moral hazard are two things that chase each other, so the internal control process is a never-ending cycle.

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