

# Role of Internal Audit in Risk Management at PT Reinsurance ABC

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**Abstract:** This study aims to analyze role of internal audit in internal control and risk management of PT Reinsurance ABC, as well as provide suggestions for improvement the role of internal audit in risk management. This study used descriptive qualitative method. The method explains role of internal audit in internal control and risk management is assessed based on ISO 31000:2009, COSO-ERM Integrated Framework and International Standards of Internal Audit Professional Practice (IPPF) by Institute of Internal Auditors (IIA). The results of the analysis show that the internal audit has carried out their role in helping management achieve company's goals, vision and mission with their activities that conduct an assessment or assurance and do consulting on internal control and risk management of the company. However, the technical assessment or assurance and internal audit's consultation of PT Reinsurance ABC currently still needs to be improved starting from audit planning to follow-up the audit results. The role of internal audit in internal control also needs to be improved, especially in the operational activities of PT Reinsurance ABC. Internal audit also carries out their role in corporate risk management, they assess and provide evaluations and recommendations on risk management processes, but their role needs to be improved in communication, consultation and coordination regarding the process and implementation of risk management at PT Reinsurance ABC. Thus, internal audit will be expected to act as the third line of defense. PT Reinsurance ABC will only examine significant risks and use the risk management process as the basis for conducting audit in Risk Based Internal Audit (RBIA).

## 1 INTRODUCTION

Internal audit is an appraisal independent function that is intended to carry out checks and evaluations on organizational activities. According to Moeller (2007), auditing is used to term total service levels from detailed checks to higher level assessments. Internal auditing defines the work carried out in a company by its own employees not by external auditors, public accountants, or other parties such as the government or regulators who indirectly become part of certain companies. The internal audit plays an important role which includes independence, appraisal functions, the formation of a modern internal audit organization, the implementation of the functions of inspection and evaluation, coordination with other functions in service companies, and benefits for the entire organization to be carefully considered an internal auditor (Moeller, 2007).

In order for the internal audit function to provide added value for the company, this function must truly understand the company's needs and risks comprehensively. In addition, in order to obtain maximum results, the internal auditor must be someone who is competent and independent. In carrying out its duties maximally, the internal audit can no longer only hold to the old paradigm of watchdog, but to ensure that all company operations are carried out to the best standards, by providing objective and independent assurance functions, as well as providing advice based on best practice. By using a systematic approach and various scientific disciplines, internal audit helps companies achieve their goals by evaluating and increasing the effectiveness of risk management, internal controls, and governance processes.

The scope of audit activities is increasingly widespread, at present not only financial audits and compliance audits but the focus of attention is aimed

at all aspects that affect company performance and management control and pay attention to business risk aspects and risk management. Audit orientation shift towards risk-based internal audit (RBIA) will continue in line with the company's needs in the future.

The reinsurance business is a unique business because this business earns its income from reinsurance premiums paid by insurance companies that want to share the risk with reinsurance companies. The premiums obtained by the company must be processed properly so that they can fulfill their obligations and obtain optimal profits. The reinsurance industry is an industry that is different from other industries in general, so that more understanding is needed of this industry. In line with the development of the economy and the increasingly unique characteristics of the insurance business, the accounting base is also expected to be in line with the insurance company's risk management concept. The application of good internal control and risk management is inseparable from the internal auditor's role of the company itself. The implementation of an effective and maximum audit function can provide benefits and provide added value for the company (Sawyer, 2006). In addition, regulation and supervision in the insurance business is absolutely necessary because the insurance business is a fiduciary business. In the insurance business, the funds entrusted by the public to the insurance business are risk financing transferred from individuals to the business world. Therefore, the regulation and supervision of the company's operations must also be well maintained because it covers the interests of the community (Sensi, 2006). To deal with these conditions, the OJK (Financial Services Authority) as the supervisory board and regulator of the financial industry strongly supports risk management activities to provide assurance and trust to the public. The application of good internal control and risk management will benefit reinsurance companies in developing their business in Indonesia.

Based on the description, the author is interested in writing the final work on PT. Reinsurance ABC, which is one of the reinsurance companies in Jakarta. In carrying out its functions, PT. Reinsurance ABC has internal audit activities that have not been well structured and have not been effective in controlling business risks. There is still a lot of overlap between the implementation of tasks between the internal audit and the risk management section. Therefore, the researcher conducted an analysis of the internal role of the internal auditor in

carrying out internal control and risk management of PT. Reinsurance ABC..

## 2 THEORETICAL FRAMEWORK

Planning, testing information in audit activities, reporting, and follow-up audit results are technical implementation of the main internal audit. Based on the IPPF 2200 regarding planning assignments, internal auditors must be able to make and develop document planning for assignments that include the objectives of planning audits to be carried out to provide assurance efficiently. Then, internal audit must be able to collect and evaluate various competent information that is useful in audit activities which is used as audit findings and internal audit can provide recommendations on the audit findings. Based on the IPPF 2400 by IIA about performance standard, internal audit must be able to communicate the results of the assignment in the form of an audit report. As well as, the audit findings contained in the audit report must be followed up. So, management can give corrective action.

COSO (Committee of Sponsoring Organization) creates an Internal Control - Integrated Framework that contains the formulation of an internal control system. The five components of internal control are control environment, risk assessment, control activities, information and communication, and monitoring activities (COSO, 2009).

The risk management process according to ISO 31000: 2009 consists of five activities, namely:

1. Communication and consultation  
Communication and consultation with stakeholders must always be considered and take place in all stages of the risk management process.
2. Establish context  
In context setting, the company describes the company's objectives, defines internal and external parameters that must be considered when managing risk, and sets the scope and risk criteria for the remaining processes.
3. Risk assessment  
Risk assessment consists of risk identification, risk analysis, and risk evaluation.
4. Risk treatment  
This process looks for methods to manage risk that are effective in accordance with the capabilities of the company.
5. Monitoring and review  
This monitoring and review process can be carried out with regular monitoring by risk

owners, supervisors and third parties through verification of internal and external audits.

There are eight components of risk management according to COSO, namely:

1. Internal Environment  
This assesses the company in managing risk, determining the risks faced, and the company's philosophy related to business ethics, value, and integrity.
2. Objective Setting  
Setting goals is done to achieve company goals. Ensure things that can threaten the achievement of the goals of the company and evaluate or assess alternative options tailored to the company's risk appetite so as not to interfere with the objectives to be achieved.
3. Inventory Identification  
The company needs to identify events that contain risks or contain opportunities and those identifications must be managed or achieved.
4. Risk Assessment  
Identified events need to be analyzed to determine the impact that will be generated and this becomes the basis for managing these risks.
5. Risk Response  
After conducting risk assessments, the company must determine the response that will be made to deal with these risks. Determine the risk to assess the suitability of the company. Risk treatment is carried out by accepting risks, avoiding risks, transferring risk, or minimizing the impact. Risk response is related to determining risk appetite and risk tolerance.
6. Control Activities  
Making procedures or policies in response to risk. Response is done by accepting risks, avoiding risks, transferring risk, or minimizing the impact. Then, determine the procedure that must be taken and the person responsible for the risk. A good and structured procedure will make it easier for the company to achieve its objectives.
7. Information and Communication  
Related information is collected and communicated within the organization. So that every part of the organization or company can play a good role in accordance with their respective responsibilities.
8. Monitoring  
Monitoring is carried out on an ongoing basis and make adjustments if needed to deal with changes in the company's environment.

Based on IIA, internal audit has the role of being able to manage and assess the audit function so that the company's internal control can run effectively and efficiently, the management and assessment will be stated in audit recommendations or suggestions.

Starting from audit planning, testing information, and reporting, as well as follow-up audit results.

Based on IPPF by IIA 2120, internal audit has a role to evaluate effectiveness and make improvements to the risk management process. The assessment of the effectiveness of the risk management process will take the form of an opinion based on an internal audit evaluation which explains the following:

1. The purpose of the organization has been supportive and related to the mission of the organization
2. Significant risks have been identified and assessed
3. The appropriate risk response has been chosen and in accordance with the organization's risk appetite
4. Relevant information about risk has been obtained and communicated in a timely manner to all organizational units, allowing staff, councils and management to carry out their duties and responsibilities.

According to Setiawati (2015), the internal audit functions as an advisor or advisor in the risk management process in the company. IIA (Institute of Internal Auditors) regulates the role that cannot be performed by internal auditors on organizational risk management, namely determining risk appetite, imposing risk management processes, managing risk insurance, making decisions in response to risks, applying risk responses on behalf of management, and being responsible for the risk management process.

According to IIA (Institute of Internal Auditors), risk-based internal audit connects internal audit with overall risk management. Risk-based internal auditing is a methodology used by internal auditors to provide confidence that risk is managed to the extent of risk that can be accepted by the company (risk appetite).

Three Lines of Defense is a method used to improve effective communication and coordination in risk management, and to divide defense lines into three parts. The first line of defense is the entire department, the second line of defense, namely the risk management department, and third, the internal audit department (Institute of Internal Auditors, 2009).

### 3 RESEARCH METHOD

In this study, researchers chose to use qualitative descriptive research. The qualitative process is carried out in the process of finding, collecting, and describing the processing data obtained. This type of

research is to explain data, information, and facts obtained from the unit of analysis then analyze and measure internal controls and risk management process based on COSO-ERM Integrated Framework and ISO 31000:2009 to know the company's control and risk management in general. Then analyze role of internal audit in internal control and risk management PT. Reinsurance ABC which is assessed based on International Standards of Internal Audit Professional Practice (IPPF) by Institute of Internal Auditors (IIA). The author uses a lot of data from company's audit work program, internal audit reports, and literature studies by collecting books, scientific journals, articles, rules, professional standards related to internal audit and risk management.

The unit of analysis in this study is PT. Reinsurance ABC as a single unit analysis. PT. Reinsurance ABC located in Jakarta The scope of this analysis is the role of internal audit in carrying out internal control and management of the PT. Reinsurance ABC. This study provides recommendations and improvements to the role of internal audit in internal control and management of PT. Reinsurance ABC. Data collection is done by Observation and interview. It conducts direct observation of activities related to internal audit activities, internal control, and also internal audit's role in risk management of PT. Reinsurance ABC. The interview activity was carried out with parties who had a direct connection with the research conducted. They are internal audit 's department and risk management's department.

#### 4 ANALYSIS

Authority, responsibility and objectives of the internal audit function of PT. Reinsurance ABC has been formally defined in the IA charter or internal audit charter, but the charter of PT. Reinsurance ABC distributes the audit charter for its own internal audit and there has been no significant change to the previous internal audit charter. So that there is a need for periodic updates and distributed to all management organizations tailored to the objectives of the company. However, the tone of the top currently supports the internal audit function and role. Internal audit helps management achieve its goals, vision, and mission with its activities. Internal audit conducting an assessment or assurance and consulting on internal control and risk management

of the company. Technical assessment or assurance and internal audit consultation of PT. Reinsurance ABC currently, there are still some shortcomings, the audit plan of PT. Reinsurance ABC is less systematic and the realization of audit planning that has been made is not all running. That is because the internal audit's staff is very little, while PT. Reinsurance ABC always plans to audit all company's departments. Head of internal audit of PT. Reinsurance ABC is a person who is quite experienced in his field, but due to the heavy load of work to audit all departments so that he is not effective in doing his work. Risk assessment is not compiled based on the priority values of each component or department, but based on previous audit findings and audit findings are often repeated, so that they cannot provide appropriate recommendations and have a significant impact.

Therefore, it is necessary to add competent internal auditors and PT. Reinsurance ABC needs to implement risk management in every audit plan carried out by the company, so that internal audit's work becomes more effective. The audit by a company's internal audit also needs to be based on a good and systematic risk-based audit (RBIA), which uses the entire risk management process, so that the audit process is more structured. The next stage, transaction testing has been carried out by referring to the audit program, but lack of communication and the absence of documentation of the results of clarification with the auditee. Internal Audit PT. ABC Reinsurance is now able to communicate the results of audit assignments in the form of audit reports. However, at this time the auditee has not clarified the issues for any of the things reported in the conflict regarding matters not approved by the auditee. So, the recommendations for improvement often only go in one direction and there is no good discussion, so that the internal audit of company must increase its consultative role. After reporting, the internal auditor will follow up on the audit results. Follow-up of audit results has been quite well done, but there are still corrective actions that should have been carried out and have not been carried out until the next audit report period.

Based on IIA' performance standard 2130, activities carried out by internal audit or can also be called the role of internal audit in internal control, which must be able to evaluate the adequacy and effectiveness:

- a. Information on Company Financial Statements  
Internal audit has conducted an audit or assessment of the accounting system and reviews of financial statements contained in the



company. Internal audit has also made a report on the audit. For example: internal audit checks the recording and disclosure of investments in the company's financial statements and there are a number of things that are of concern to be improved. The internal audit also check the taxation, treasury, and check of the company's finances.

- b. Company Operations  
Internal audit has been able to evaluate the adequacy of the company's operational activities and provide recommendations for improvements that should be made. Internal audit reviews the SOP (Standard Operational Procedure) by studying the applicable SOP in the company and studying the company's organizational structure first and mapping the SOP which are the responsibility of each group or department head.
- c. Security of Company Assets  
Internal audit has evaluated the company's assets and carried out physical checks on the company's assets. Internal audit also conducts stock opname and checking inventory's items with company's notes.
- d. Obedience in laws, regulations, and applicable regulations  
Internal audit has evaluated the compliance of laws, regulations, and provisions applicable to companies by looking for copies of the government regulatory, POJK, PSAK, and SEOJK to be examined, then comparing the regulations with the actual conditions of PT. Reinsurance ABC. The conclusions and suggestions indicate that the internal audit has carried out the 2130 IIA's performance standard.

Internal audit in corporate risk management has roles:

1. Provide communication about risks in audit activities or activities  
Audit findings generated in audit activities by internal audits have been submitted to the directors. Internal audit has also provided recommendations for improvements that should be made to audit findings that have potential risks in the future. For example, at present there is a delay in the issuance of notes due to difficulties in obtaining accurate data from ceding companies that cause delays in receipt of premiums or sessions. The internal audit provides recommendations to reduce the number of pending borders and speed up the time of issuing notes by improving the engineering procedures of the engineering department.

2. Internal audit involvement in determining the company's risk profile that is in line with company appetite (risk appetite)

At this time the internal audit is involved in identifying risks for determining the risk profile when making a risk register. But at this time, the risk register has not been done well because there are no facilities in making the risk register. Internal audit join with risk management should be able to provide a place for discussion or workshop to control self-assessment of each department and make a risk register that gets guidelines from risk management so that it is more structured. Determination of risk appetite is sometimes determined by internal audits and shows the error of the role of internal audit in the risk management process.

3. In the 2120 performance standard. A1 Internal audit must be able to evaluate risk exposures related to operations and information systems and internal audits have conducted risk evaluations of the activities carried out, namely financial risk, information technology risk, risk of assets and liabilities, risks operational, capital risk, and management risk. However, currently the internal audit has not evaluated the key risk reporting process and has not yet conducted a key risk management review. When conducting risk identification, internal audits often determine risk assurance and make decisions in response to existing risks.

4. In the 2120 performance standard. C1 internal audit during consulting assignments should pay attention to risks related to the purpose of the assignment and be careful of other significant risks. At present, the risk management process has not been thoroughly carried out, but internal audits have carried out consultation and insurance activities according to IIA guidelines. Internal audit activities always refer to the annual supervision program that is in the company.

Internal control has been assessed by internal audits, but the assessment of the effectiveness of the company's operations has not been carried out by the company, while there are still some shortcomings in operational procedures for receiving session activities for example. PT. Reinsurance ABC needs to increase information technology systems that affect the overall operations of the company. At present, internal control of PT. Reinsurance ABC is not effective yet. The role of internal audit in risk management of PT. Reinsurance ABC already exists. The company's internal audit analyzes or evaluates the risk management process based on ISO 31000: 2009 and COSO framework. Internal audit

also performs its role in assessing risk but needs to be improved communication and coordination regarding risk management with all departments and internal audits in determining and identifying key risks, then key risk evaluations have not been formally disclosed in the form of documentation, so there is a need to evaluate key risks reviewed also by management and final documentation regarding the key risks. Internal audit can actually provide facilities in risk identification, risk management along with internal audit should provide a discussion or workshop space for the self-assessment of each department and make a risk register that gets guidelines from risk management and facilitate key risk searches but that has not been done and internal audit should provide teaching about risk response and not assign to one side.

The risk management process based on ISO 31000: 2009 has seven components, staff at PT.Reinsurance ABC has each role of company's risk management processes can be done such as:

1. Communication and consultation: Director, Internal Audit and Risk Management
2. Determine the context: Risk Management
3. Risk Identification: All Departments
4. Risk Analysis: Internal Audit and Risk Management
5. Risk Evaluation: Internal Audit and Risk Management
6. Risk Treatment: Risk Management, Internal Audit and All Departments
7. Supervision and Review: Internal Audit

While based on the COSO-ERM framework, there are eight components of assessment and carried out by each actor or executor so that the responsibilities given are clear and structured. PT. Reinsurance ABC can map the executor or actor of each risk management process in COSO-ERM as follows:

1. Internal Environment: Director (management)
2. Objective Setting: Director (management)
3. Event Identification: All Departments
4. Risk Assessment: Risk Management and Internal Audit
5. Risk Response: Risk Management and Internal Audit
6. Control Activities: Risk Management and All Departments
7. Information and Communication: Director, Internal Audit and Risk Management
8. Monitoring: Internal Audit

## 5 RESULTS

Good or effective internal audit can be reflected in its role in conducting audit activities or activities, starting from making charter or IA charter, audit planning to reporting of audit results. There are still some shortcomings in the internal audit activities of PT. Reinsurance ABC.

The role of internal audit of PT. Reinsurance ABC in internal control is seen based on international standards of internal audit professional practice (IPPF) by IIA. It can be concluded that internal audit plays a role in assessing and improving the internal control of PT. ABC reinsurance to achieve company goals, as well as providing consultations and weakness recommendations from internal controls. But until now, internal audits have not provided a general written assessment of the effectiveness or failure of the company's internal controls.

The company's internal audit analyzes or evaluates the risk management process based on ISO 31000: 2009 and COSO-ERM Integrated Framework and the role of internal audit in risk management is assessed in the international standards of internal audit professional practices (IPPF) by IIA. From the author's assessment and research, the company's risk management policies exist and are socialized within the company. But until now the application of risk management is still limited to formality with the existence of a risk management department. Then, when there is an error in the role of internal audits in determining risk response, internal audit should assess the overall risk management process and provide an assessment to be disclosed in the internal audit report periodically. Internal audit may not set risk response for inherent risk in PT. ABC Reinsurance. The role of internal audit in risk management of PT. Reinsurance already exists. Internal audit also performs its role in assessing risk but communication and coordination needs to be improved regarding the process and implementation of risk management with all departments and internal audits in determining and identifying key risks.

## 6 CONCLUSIONS

PT. Internal Audit ABC's reinsurance is less effective can be reflected in its role in conducting audit activities or activities. Audit planning is less

systematic, recommendations are inappropriate because of less systematic risk assessment, lack of communication and the absence of documentation of the results of clarification with the auditees. The internal audit role of PT. Reinsurance ABC in internal control is still less effective, internal audit has not provided a general written assessment of the effectiveness internal control's company.

The company's internal audit has been able to conduct an analysis or assessment of the company's risk management process based on ISO 31000: 2009 and COSO-ERM Integrated Farmework.

The role of internal audit in risk management of PT. Reinsurance ABC is assessed based on international standards of internal audit professional practice (IPPF) by IIA. From the author's assessment and research, the company's risk management policies exist and are socialized within the company. But until now the implementation of risk management is still limited to formality with the existence of a risk management department. Then, at this time there is a mistake in the role of internal audit in determining the risk response, so that the implementation of company audits needs to be based on risk-based audits (RBIA), which uses the entire risk management process, so that the audit process is more structured and systematic. It is expected that good risk management will form three lines of defense for the company. Internal audit acts as a third line of defense. Internal audit will only checks significant risks.

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