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The Influence Of Corporate Governance Structure On Enterprise Risk Management Disclosure

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ABSTRACT

This study aims to examine the effect of internal audit and risk management committee on Enterprise Risk Management Disclosure in financial sector companies listed on the Indonesian Stock Exchange for periode 2020 – 2022. The sample selection technique used was purposive sampling and obtained 96 financial sector companies so that total sample used was 288 samples. The data analysis method used is multiple regression analysis using SPSS 25 analysis software. Based on the result of the study, internal audit and risk management committee simultaneously and partially have significant effect on Enterprise Risk Management Disclosure.

Keywords : Enterprise Risk Management; Internal Audit; Risk Management Committee

I. INTRODUCTION

Companies face great challenges in today's dynamic and unpredictable business environment, which is characterized by volatility, uncertainty, complexity and ambiguity. To be able to deal with these risks effectively, a shift from traditional risk management to Enterprise Risk Management (ERM) is essential (Pangestuti et al., 2023). Enterprise Risk Management is a new risk management methode. ERM offers a system, comprehensive and strategic methode to identify, assess, prioritize and manage risk and maximize oppurtunities across the enterprise (Hamzah et al., 2022). Improved reporting, structure and analysis of ERM risks will help higher authorities make better risk mitigation decisions. This strategy improves risk focus and perspective, resource efficiency and regulatory compliance.

Enterprise Risk Management is based on ISO 31000. ISO 31000 is a risk implementation guideline with three structures: principle, framework and process. The ISO 31000 standard has undergone several changes until recently there was a revision of ISO 31000 l: 2009 Risk Management - Principles and Guidelines to ISO 31000: 2018 Risk Management - Guidelines. The changes are seen in the principles, framework, management process and the diagram connecting the three (A. I. Damayanti & Venusita, 2022).

Based on research conducted by IRMAPA (Indonesian Risk Management Professional Association) in 2022 with 245 respondents from various industries, it was found that only 38% of companies were adequate in terms of the risk control policies and procedures implemented and the majority rated them as sufficient, insufficient and very insufficient. Global research was also conducted in the previous year, where according to a survey conducted by the Global State of Enterprise Risk Oversight in 2021, it stated that only 40% of companies have demonstrated the ERM process and the remaining 60% still have not done it.

Achieving ERM effectiveness is not a simple process and requires collaboration from all internal parties within the company (Javaid & Aslam, 2021). Internal audit plays an important role in this process. As defined by the institute of Internal Auditors (IIA) in 1999, internal audit has the responsibility to evaluate and improve the effectiveness of Enterprise Risk Management (McShane, 2018). The Institute of Internal Auditors further emphasize that internal audit can play a dual role in ERM, namely as assurance and consulting, which are considered equally important for companies (Jaber et al., 2024).

In the study The Impact of Internal Audit on Enterprise Risk Management Effectiveness in Jordania Public-listed Companies by

Jaber et al (2024) conclude that internal audit is quite involved in the role of ERM with a participation rate of 60,72%. It is known that internal audit is effective in increasing the presence of ERM by providing assurance and consulting service.

Achieving ERM effectiveness doesn't only require the role of internal audit but also the collaboration of other internal parties, one of which is the Risk Management Committee. RMC is a committee formed by the board of commissioners. The purpose of forming this committee is to assist in the process of supervising and monitoring the implementation of risk management in the company (Sari et al., 2019). RMC is a special committee and its focused on risk management issues and is considered effective in assisting the responsibility of the board of commissioners in overseeing risk management (Rahmah & Almilia, 2018). The board of commissioners will form an RMC to ensure the implementation of risk management goes well (Larasati et al., 2019). RMC in the company has a function to monitor, manage and formulate strategies for indication of future risks that occur (Budiantoro et al., 2022).

Research conducted by Nurbaiti & Muliana (2023) with the title "Risk Management Disclosure : Managerial Ownership, Risk Management Committee and Capital Structure". The study found that the Risk Management Committee is considered to be able to increase Risk Management Disclosure. the existence of RMC can make information related to company risk conveyed completely because its duties are focused on company risk. The success of RMC in improving risk management provides evidence that they have successfully and effectively implemented the three lines of defense approach (Nurbaiti & Muliana, 2023).

There are two theories that underlie this research. Agency theory refres to the agency relationship contract between the principal and the agent, in which case the agent acts on behalf of the principal when making decisions (N. D. Damayanti & Kusumaningtias, 2020). Managers as managers of the company know more internal information and prospects for the company in the future than owners (shareholders) (Handayani, 2013). Problems often arise in the relationship between agents and principals dueto differences in the interest of the two parties or often called information asymmetry. The emergence of information asymmetry is the impact of agency conflict. The information provide by the agent may differ from the actual situation in the company. To overcome this problem, companies disclose and report information as a from of implementing the principles of corporate govarnance, namely transparency and accuntability. An important element in strengthening corporate govarnance is the practise information disclosure in risk management. Disclosing the company's risk management can help reduce information asymmetry between agents and pricipals (Saskara & Budiasih, 2018).

Signaling theory emphasize the importance of communicating infirmation to stakeholders, especially investors, when the companies make investment-related decisions. High-performing companies are expected to present information transparently (Purwaningsih, 2017). All information communicated by a company is a signal for the company to its investors, who then carry put the consideration process and interpret the existing kniwledge as good or bad news (Hapsari & Ghozali, 2022). In the context of this signal theory, risk management disclosure can provide a strong signal to investors. This step is chosen to reduce risk in its business activities.

II. RESEARCH METHOD

The type of research used in this study is quantitative research that examines the effect of corporate governance structure on enterprise risk management disclosure. Quantitative research is a philosophical research method of positvism with the aim of studying a specific population or sample. Quantitative data is used in this study. The source of data collection is based on secondary data through annual reports downloaded on the IDX website or the company's official website

Population is a generalization area of objects and subjects tha have certain properties or characteristic and can be studied and conclusions drawn. The population used in this study are all financial sector companies listed on the IDX in the period 2020 to 2022.

The sample is part of the population and its characteristics (Sugiyono, 2013:81). The purposive sampling method was used in this study, where this method is a sampling technique that determines the nature of the sample consciously and not ramdonly. The criteria are :

1. Annual report of financial sector companies listed on the IDX in the period 2020 – 2022.
2. There is complete data related to internal audit, RMC and ERM disclosure.

Secondary data is used in this study, where secondary data is data not directly obtained from the source. The method applied is documentation. The data in the study are data contained in the annual report and can be downloaded through the IDX website.

This study uses linier regression analysis techniques using SPSS 25 (Statisical Package for the Social Sciences) analysis software. The data analysis technique of descriptive analysis, classical assumption test and multiple linier regression analysis.

III. RESULTS AND DISCUSSION

This study uses the normality test of the kolmogorov-smirniv one sample test. The result ogf the normality test can be seen in table 1 below.

Table 1. Normality Test

			Unstandardized Residual
Tes statistic			,081
Asymp. Sig. (2-tailed)			$0{,}000^{c}$
Monte Carlo Sig. (2-tailed)	Sig		$,052^{d}$
	99% Confidence Interval	Lower Bound	,046
		Upper Bound	,58

Table 1 shows the monte carlo significance of 0,052 where this significance is greater than the standard significance of 0,05and it can be conclude that the data in the study has been normally distributed.

The multicollinearity test in this study aims to see if there is a correlation between the independent variables in the regression model.

Tabel 2. Multicollinearity Test

Model	Tolerance	VIF
INT_AUDIT	,968	1,033
RMC	,968	1,033

Referring to table 2 the multicollinearity test result show that each variable has a VIF value < 10 and tolerance value > 0,10. So in this case it can be cocluded that the existing regression model is free from indication of multicollinearity.

The heteroscedasticity test is used to see if there is an inequality of variance in the regression model against the residuals of other observation.

Table 3. Heteroscedasticity Test

Table 3 is the output of the

	Correlation Coefficient	Sig (2-tailed)	N
Unstandardized Residual	1,000		269
INT_AUDIT	-,047	,441	269
RMC	,004	,946	269

Heteroscedasticity test result with the spearman rho test. from the table it can be seen that all independent variables have significance interval > 0,05. This proves that the regression model has no indication of heteroscedasticity.

The autocorrelation test in the study was carried out to see if there was any indication of autocorrelation in the regression model. The durbin-watson test is the autocorrelation test method in this study.

Table 4. Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,389[a]	,151	,145	,03753	1,993

Based on table 4, it is known that the durbin-watson value is 1,993. This value will later be compared with the 5% significance durbin-watson table, with the formula (k;N). K is the number of independent variables and N is the amount of data. So that according to the decision-making criteria that du < d < 4 – dl is 1,80792 < 1,993 < 2,19280. From this equation it is concluded that the data in the regression model is free from autocorrelation problems.

F statistical Testing is carried out to see the effect of all independent variables or it can be said by testing simultaneously. This test uses a significance of 5% or 0,05.

Table 5. F Statistical Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,100	2	,050	40,498	,000[b]
	Residual	,330	266	,001		
	Total	,430	268			

Table 5 shows that the output of the F test result has a significance value of 0,000 where this sinificance is less than 0,05 si it can be concluded that simultaneously all independent variables affect the dependent variable.

The R square test is carried out to see the extent to which the model is able to apply the regression model and explain the effect of the independent variable on the dependent variable.

Table 6. R Square Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,483[a]	,233	,228	,03522

Table 6 provides an output adjusted r square value of 0,228. It can be said that 22,8% of ERM disclosure variables can be explained by internal audit and RMC. While the remaining 77,2% can be explained through other factors that are unknown and not in the research regression model.

Hypothesis testing to see the effect of independent variables on the dependent variable partially or individually done with the T Statistical Test method.

Table 7. T Test

	Model	t	Sig.
1	(constant)	40,908	0,000
	INT_AUDIT	4,160	0,000
	RMC	7,112	0,000

Table 7 shows that the significance value of internal audit and RMC is 0,000 where this value is smaller than 0,05. Besides the coefficient value of the two variables is positive. So it can be concluded that the internal audit and RMC partially have a significant and positive effect on ERM disclosure.

Based on the test result, it is found that internal audit has a significant and positive effect on Enterprise Risk Management Disclosure. This shows that ERM disclosure will increase with the existence of internal audit. Internal audit in sample companies can carr out its two main activities, namely in providing assurance (guarantee) and consuling (consultation). In addition, internal audit has carried out its core duties related to risk management in providing assurance that the risk management process can be effective and can be ensure the achievement of organizational goals (Rismayanti et al., 2022). The results of this study support the result of research conducted by Jaber et al. (2024) and Arafah et al. (2023).

Risk Management Committee has a significant and positive effect on ERM disclosure. Thi shows that the existence of an RMC that is separate from other committee can increase ERM disclosure.

The existence of RMC in sample companies is proven to have carried out its responsibilities in risk control tasks (Rahmah & Almilia, 2018) and has been responsible to the board of commissioners in helping manage risk (Jannah et al., 2020). The RMC has also carried out its function to monitor, manage and determine strategies for possible future risks that will occur (Budiantoro et al., 2022). This proves that the establishment of a separate RMC with other committees can increase ERM disclosure because the RMC focuses on company risk (Nurbaiti & Muliana, 2023). This study support the result of research conducted by Nurbaiti & Muliana (2023); Lokaputra et al. (2022) and Sitompul (2022).

IV. CONCLUSION

This study examines the effect of internal audit anfd RMC on ERM disclosure for financial sector companies listed on the Indonesia Stock Exchange during the periode 2020 – 2022. There are 288 company sample data in this study. Research provides result that internal audit and RMC have a significant and positive effect on ERM disclosure.

This research in the future es expected to provide advice for companies in improving enterprise risk management disclosure and can be a reference for future research. As for further research, it is hoped that it can develop research objects so that they are not only limited to one company sector. Furthermore, research variables can also be developed with risk monitoring committte, company characteristic and others.

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