

INTERNAL CONTROL AND RISK MANAGEMENT ANALYSIS IN PROPERTY BROKERAGE COMPANIES (A CASE STUDY OF PT XYZ)

Jessica Handoko¹; Indah Melati²

University of Indonesia, Jakarta^{1,2}

Email : Jessica.handoko11@ui.ac.id¹; Indah.melati31@ui.ac.id²

ABSTRACT

This study aims to analyze and provide recommendations for increasing the effectiveness of internal control and risk management at PT XYZ. PT XYZ is a medium-sized company engaged in property brokerage. This case study describes the implementation of internal control and risk management at PT XYZ with an analysis based on COSO internal control and COSO ERM. This research uses a qualitative descriptive method with interviews and direct observation as a data collection technique. With this research, it is expected to provide suggestions for improvements related to internal control and risk management.

Keywords : internal control; COSO; risk management

ABSTRAK

Penelitian ini bertujuan untuk menganalisis dan memberikan rekomendasi peningkatan efektivitas pengendalian internal dan manajemen risiko di PT XYZ. PT XYZ merupakan perusahaan menengah yang bergerak di bidang broker properti. Studi kasus ini memaparkan implementasi pengendalian internal dan manajemen risiko di PT XYZ dengan analisis pengendalian internal berbasis COSO dan COSO ERM. Penelitian ini menggunakan metode deskriptif kualitatif dengan wawancara dan observasi langsung sebagai teknik pengumpulan data. Dengan adanya penelitian ini diharapkan dapat memberikan saran perbaikan terkait pengendalian internal dan manajemen risiko.

Kata kunci : pengendalian intern; COSO; manajemen risiko

INTRODUCTION

Based on an analysis by Setyaningsih (2021) of the Indonesian Ministry of Finance, it was anticipated that Covid-19 would cause an economic decline in Indonesia in 2019. This decline affected several industries in Indonesia, including the property industry, and this sector was one of the country's largest contributors to economic development and job creation. As a result of the public's reluctance to spend amid the Covid-19 pandemic, the demand for property, such as houses, apartments, and offices, has decreased.

According to the proprietor of PT XYZ (2022) in the interview, unanticipated events such as Covid-19 caused marketing agents to move slowly since they could not leave their homes, and their motivation was diminished. Numerous property sellers and

prospective purchasers were hampered by sluggish performance in work-from-home adjustments during the purchasing and selling process. Property agents accustomed to working in the field to locate information know the limitations of information about marketed properties. In addition, a sense of mistrust existed between sellers and prospective purchasers due to the fluctuations in business caused by the pandemic. These issues affected property marketing agents, leading to declining sales performance.

According to an interview with the proprietor of PT XYZ (2022), unanticipated events such as Covid-19 affected property marketing agents, resulting in a decline in sales performance. The sluggish movement of agents evidences this due to limited mobilisation and decreased motivation of marketing agents. Slow performance in work-from-home adjustments hinders the transactions of many vendors and prospective property purchasers. Property marketing agents accustomed to using mobility to access information know the limitations of information about marketed properties. In addition, a sense of mistrust exists between sellers and prospective purchasers due to the fluctuations in business caused by the pandemic. Property brokers are tasked with resolving these issues as the intermediary between sellers and potential buyers so that property transactions can proceed efficiently. Due to Covid-19, numerous property agents have switched careers and committed fraud at work.

This case study aimed to comprehend the risk likely to occur in commission-based organisations. In addition, this study described the management of potential risk based on COSO.

This research analysed PT XYZ ' s internal control and risk management implementation using the COSO IC-IF Internal Control and ERM framework. Moreover, the improvement recommendations derived from the results of this case study's analysis could assist PT XYZ in enhancing the efficacy of its internal control and risk management activities.

The study ' s object was a family enterprise in which two or more family members control the business operations. Unlike its competitors, who generated revenue from franchises, PT XYZ focused solely on commissions from property sales transactions.

This research was beneficial for resolving PT XYZ's issues; the author analysed the company's potential risks. In addition, management could obtain recommendations

regarding internal control and risk management to maximise the effectiveness and efficiency of PT XYZ from this research. Furthermore, company management could identify the most significant issues and evaluate the effectiveness of internal control and risk management implemented to date.

LITERATURE REVIEW AND STUDY FOCUS

Romney and Steinbart (2015) define internal control as a process implemented by management, the board of directors, and those under their direction to reasonably ensure that the implemented controls' objectives can be attained. According to Lam (2017), risk is a variable that can result in deviations from expected outcomes. This can have an impact on the achievement of the organisation's objectives and its overall performance.

Internal control in the organisation is related to risk management. After the publication of the COSO Internal Control framework, Leitch (2008) contends that risk management is now a part of internal control. The risk assessment within the internal control framework component indicates this.

Control environment, risk assessment, control activities, information and communication, and monitoring are all components of COSO Internal Control (2013).

The COSO-ERM (2012)-based risk management process includes identifying risks, developing research criteria, assessing risks, evaluating interactions between risks, ranking risks, and responding to risks.

Prima (2018) stated in her paper, *Analysis of Internal Control and Risk Management and the Role of Internal Audit in the Risk Management Process of PT Reasuransi ABC*, which discussed internal control and risk management. PT Reasuransi ABC's risk management assessment is based on ISO 31000: 2009, COSO-ERM Integrated Framework, and international standards of professional practice for internal auditing (IPPF) or IIA. This evaluation assessment indicated that the company's risk management policy was already publicised. With the existence of a risk management department, implementing risk management remains a formality. Existing risk management has not provided all employees of PT ABC Reinsurance with a comprehensive awareness.

Mujannah (2013) also evaluated the implementation of the internal control system and risk management. The focus of the research was on the acquisition of products and services. Based on the author's analysis, the implementation of ERM at PT XYZ still

necessitates risk owners' thorough comprehension and attention. Risk proprietors have not actively and effectively followed up, monitored, and reported on organisational risk mitigation. Thus, risk management has not been optimally implemented.

RESEARCH METHOD

Method is a method of work that can be used to obtain something. While the research method can be interpreted as a work procedure in the research process, both in searching for data or disclosing existing phenomena (Zulkarnaen, W., et al., 2020:229). This research employed an experimental writing strategy and a case study method to resolve the previously stated research questions. The case study was conducted to investigate the issues at PT XYZ's flawed system, and the research focused on a single case study.

In addition, this study utilised a qualitative approach and a research object. This approach was employed to delve deeper into the source of the problems at PT XYZ.

The data was collected through interviews and primary data provided by PT XYZ. Face-to-face and one-on-one interviews were conducted with PT XYZ's management and staff.

RESEARCH RESULTS AND DISCUSSION

Comparing PT XYZ's implementation of internal control with COSO IC using a qualitative descriptive approach. Analysis of PT XYZ's application of internal control was classified into five components:

1. Control Environment

In order to demonstrate its commitment to ethical values and integrity, PT XYZ evaluated its employees and imposed repercussions when deviations were discovered. During new employee orientation, PT XYZ offered only one training session on company values.

PT XYZ had no board of directors; thus, company administration was limited to supervision. The company did not have an internal control division; however, there was still a separation of duties.

PT XYZ considered employees' work experience when determining the organisational structure, and employees report directly to management. Additionally, PT XYZ had determined the duties and responsibilities of each employee based on their position. Although policies guide the company's business operations, numerous

written regulations remain. PT XYZ used marketing agents' monthly commission reports to evaluate employee performance. In addition, marketing agents participated in a monthly evaluation. The majority of marketing agents rarely attended these monthly meetings. PT XYZ rewarded marketing agents who achieved the company's employee retention targets. Because marketing agents were only paid on commission, the company had difficulty encouraging employee participation in monthly meetings. PT XYZ providee targets and recognition for those who attained these targets. Moreover, employees who had not satisfied the company's targets were also evaluated.

2. Risk assessment

PT XYZ received an award from a well-known bank for its accomplishments, which were based on the company's vision to become the finest property brokerage office and its mission to improve the professionalism and cooperation of PT XYZ agents. However, PT XYZ still lacked a sufficient risk assessment. PT XYZ had identified risks; however, implementation had not been structured. The risk management was not documented or communicated to all levels of the organisation.

3. Control activities

PT XYZ already had a reference for revising regulations and systems, namely employee performance reports. In addition, there was a separation of duties application. However, PT XYZ had not yet determined which business processes necessitate control activities. With control activities, PT XYZ could determine which procedures were pertinent to the business process and ensure their execution.

The recording system only utilised Microsoft Excel; third-party services were still used to store property listing data. PT XYZ constantly adapted the company's procedures to the most recent circumstances; therefore, PT XYZ should document the rules in writing; so thus, all levels can comprehend them.

4. Communication and Information

PT XYZ did not have a whistle-blowing system; thus, the data collection process and quality must be enhanced. By improving the quality of data acquisition, the resulting information could aid management in decision-making.

5. Monitoring

PT XYZ lacked an internal audit and third-party auditors, such as KAP, to oversee internal control and financial statements. In addition, the absence of daily reports on

the situation and condition of property sale and purchase transactions made it difficult for the management to monitor all marketing agents.

PT XYZ's current risk management process lacks a proper structure and is not compliant with COSO ERM. Using COSO ERM as a guide, the implementation of risk management is analysed as follows:

1. Risk identification

PT XYZ had identified risks; however, the application has not yet been structured. Management only identified risks, which were neither documented nor communicated to all company levels.

2. Creating assessment criteria

There was no appraisal of risk assessment criteria at PT XYZ. PT XYZ should therefore establish risk assessment criteria by contemplating the following:

- The impact that risk can occur
- The scale of the possibility that a risk will occur
- The Scale of a risk's vulnerability

3. Assessing risk

There was no risk assessment at PT XYZ encountered. In order to assess risks, PT XYZ must conduct surveys, examine existing data, or conduct benchmark analyses to evaluate risk scenarios.

4. Assessing the risk interaction

PT XYZ did not assess the interaction between the two risks. PT XYZ should utilise the interactive map to determine the relationship between risk.

5. Prioritising risk

PT XYZ did not prioritise risks. After identifying and assessing each risk, PT XYZ could determine which risk must be addressed first. Using the Risk Matrix, risks were prioritised based on the magnitude of their future impact and the probability they would occur.

6. Responding to risk

PT XYZ had a response to the threats it encountered; however, it was not yet organised. PT XYZ could determine the appropriate risk response using the risk assessment procedure.

CONCLUSION

PT XYZ was a medium-sized commission-based company with significant human resource issues. Using COSO, it was determined that PT XYZ's primary problem was numerous unwritten norms; thus, numerous employees were unaware of them. In addition, the commission-based compensation of employees made it difficult for PT XYZ to manage its marketing agents.

PT XYZ's management had difficulty determining which risk should be prioritised initially, and risk management implementation was still restricted to the company owner and was not conveyed to all levels. Using COSO ERM, PT XYZ could identify and quantify its risk, allowing the company to determine which issues must be resolved or represent new opportunities.

Based on the identified issues, PT XYZ demonstrated deficiencies in implementing internal control and risk management. Therefore, PT XYZ is suggested to implement a risk management process, create written regulations, and implement a whistleblower system.

REFERENCES

- Romney, M., & Steinbart, P. J. (2015). *Accounting Information Systems*. England: Pearson Educational Limited.
- Alvin, A. A., Elder, R. J., & Beasley. (2015). *Auditing dan Jasa Assurance Pendekatan Terintegrasi*. Jakarta: Erlangga.
- Committee of Sponsoring Organizations of the Tread. (2012). *Internal Control — Integrated Framework*.
- Committee of Sponsoring Organizations of the Tread. (2012). *Risk Assessment in Practice*.
- Committee of Sponsoring Organizations of the Tread. (2019). *COSO Internal Control - Integrated Framework*.
- Hanggraeni, D. (2016). *Manajemen Risiko Perusahaan Terintegrasi Berbasis ISO 31000: Teori dan Hasil Penelitian*. Jakarta: Lembaga Penerbit FEUI.
- Dhaniswara, H. (2016). *Hukum Properti*. Jakarta: Pusat Pengembangan Hukum dan Bisnis Indonesia.
- Prima, L. (2018). *Analisis Pengendalian Internal dan Manajemen Risiko, serta Peran Internal Audit dalam Proses Manajemen Risiko PT Reasuransi ABC*. Jakarta.
- Zulkarnaen, W., Fitriani, I., & Yuningsih, N. (2020). Development of Supply Chain Management in the Management of Election Logistics Distribution that is More Appropriate in Type, Quantity and Timely Based on Human Resources Competency Development at KPU West Java. *MEA Scientific Journal (Management, Economics, & Accounting)*, 4(2), 222-243. <https://doi.org/10.31955/mea.vol4.iss2.pp222-243>.