The Effect of the Three Lines of Defense Model on the Performance of State-Owned Enterprises Moderated by the Audit Committee

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Abstract

This study's objective is to examine the impact of adopting three lines of defense on the performance of State-Owned Enterprises (BUMN) in Indonesia, as moderated by an audit committee. The method employed is quantitative. In Indonesia, the population consists of State-Owned Enterprises. Practitioners, observers, and academics compose the sample. The utilized data is primary data. An online questionnaire was used to collect data. 128 (one hundred twenty-eight) individuals completed an online questionnaire that was sent via email and Whatsapp. The results indicate that line 1 (risk owner) has a positive effect on firm performance, line 2 (risk manager) has a negative effect on firm performance, and line 3 (Internal Audit Unit) has no effect on firm performance. The Audit Committee does not moderate the influence of line 3 (Internal Audit Unit) on firm performance, while it moderates the influence of line 2 (risk management unit) on firm performance.

Keywords: *Three Lines of Defense Model, State Owned Enterprises, Performance, Audit Committee.*

A. INTRODUCTION

The company's performance is the ultimate and main goal of managing the company. Other objectives such as the number of sales, the amount of fixed assets, and the quality of human resources are intermediate goals. The end goal is the company's performance expressed in various proxies such as net income, return on equity, and return on assets.

The progress of BUMN performance from year to year always changes in various ways. There are SOEs whose performance is progressing rapidly and some whose performance is monotonous, even some SOEs show declining performance. Figure 1 presents a graph of the performance of Bank BRI which always shows increasing performance.

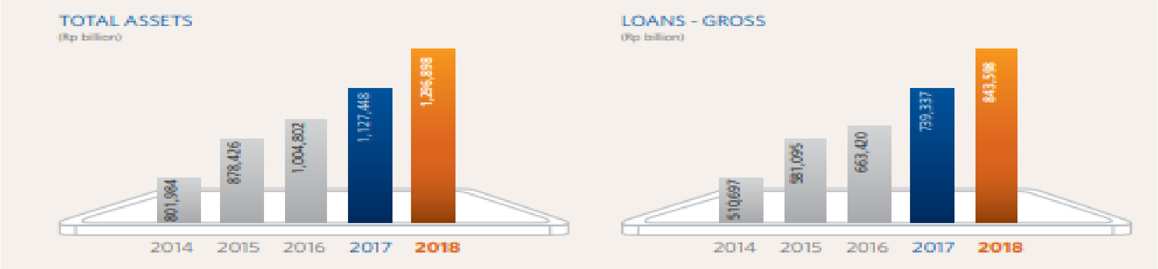

Figure 1. BRI Bank Performance 2014-2018
Source: Bank BRI Ltd Annual Report (2018)

In Figure 1 it can be seen that the performance of Bank BRI in the form of total assets and loans increased sharply from 2014 to 2018, showing a very good performance increase.

BUMN performance is caused by many factors such as corporate culture, number of human resources, quality of human resources, budgeting, corporate governance, risk management, organizational ethics, company liquidity, company solvency, budgeting process, and the amount of operating cash. In this research, what will be studied is the effect of implementing corporate risk management (3 lines of defense) on performance. Risk management was discovered and proposed by COSO for the first time in 2004. Further development was carried out by COSO and by the Institute of Internal Auditors since 2013.

Institute of Internal Auditor (IIA) issued a position paper in 2013 on 3 lines of defense. According to the IIA's view, there are 3 lines that should play an important role in the implementation of risk management in the company, namely the unit that has risk and carries out the unit's activities, the unit that monitors risk and controls it, and the independent unit that assesses the implementation of risk management. With these 3 lines of defense, the risk management work mechanism becomes clearer and will have more impact on firm performance.

The audit committee also plays a role in risk management implementation. The audit committee is an organ of the board of commissioners with the responsibility of assisting the board of commissioners in assessing management's accomplishments in the implementation of risk management and internal control systems and providing management with directives. Internal audit is the primary partner of the audit committee in order to collect data on the periodic performance of management. In addition to the three lines mentioned above, there is also an additional line, namely line 4. The fourth line is external auditors and institutions that make regulation and monitoring. External auditors emphasize compliance with these requirements. Numerous studies on the impact of risk management adoption on corporate performance have been undertaken in the past, with contradictory results.

Muslih & Marbun (2020) in their research shows that the implementation of good risk management in a company will result in good company performance as well. Muslih and Umar (2021) also concludes from the results of his research on risk management of village funds that the application of risk management in managing village funds can improve the performance of managing village funds. According to Muslih (2018), ERM has a major impact on firm performance. Callahan & Soileau (2017) drew the conclusion from their research that there is a correlation between the maturity of the integrated risk management process and the operating performance of a corporation. Florio & Leoni (2017) in their research concludes that companies with more sophisticated risk management systems will be more profitable. Mellisa (2013) in their research concluded that the application of ERM can help companies to assess and manage their risks so that companies can take action to resolve these risks. Ahmad et al. (2014), say that by fighting the risks faced by a company, obstacles in achieving company goals can be mitigated or eliminated. Muslih & Umar (2020) conclude from the results of their research that to implement formally integrated risk management, village fund managers need to consider 3 lines of defense. Based on the findings of their study in Zimbabwe, Kanhai & Ganesh (2014) conclude that the success of risk management implementation in the practice of bank risk management in Zimbabwe is determined by several factors, including the adequacy of the risk management structure, the quality of organizational culture, the intensity of environmental regulations, and the size of the bank. Rodriguez & Edwards (2014) demonstrate that alignment between knowledge management procedures and risk management may improve their control's risk management outcomes.

Numerous prior research have examined the effect of internal audit on corporate performance. According to Theobaldus, Bimantara, and Laksito (2015), the internal audit function has no impact on the functioning of the organization. On the basis of their research, Deyganto and Orkaido (2019) determined that the explanatory factors of objectivity, internal audit standards, competent leadership, and unfettered access to audit evidence were not statistically significant. According to the findings of Mediana et al. (2020), internal audit has no significant positive influence on financial performance. Ali and Omar (2018) conclude from their research that there is a significant relationship between the internal audit department's expertise, its size, management support for internal audit, internal audit independence, and organizational success.

Numerous prior studies have examined the influence of the audit committee on corporate performance. Sujatha, Muninarayanappa, and Sathyanarayana (2017) conclude from their research that audit committee independence and audit committee meetings enhance the performance of several businesses. Similarly, Shatnawi et al. (2022) found from his research that the effectiveness of audit committees has a substantial association with ROA and ROE. However, El-Hawary (2021) finds from his research that the size of the audit committee is solely associated to ROA and that audit committee member expertise is only related to ROE. Other audit committee attributes have no bearing on ROA and ROE. Based on the findings of their study, Sae-Lim & Jernsittiparsert (2019) found that audit committees diminish earnings management efforts in corporations. From their research, Wardati, Shofiyah, & Ariani (2021) also find that the board of directors and audit committee have an impact on the financial success of a corporation. Herranza, Alvaradob, & Iturriaga (2022) discovered a negative correlation between earnings management and committee audit expertise. From their research, Issaa & Siam (2021) suggest that there is a substantial positive association between audit committee features and corporate success.

In addition to the three lines mentioned above, there is also a 4th line as an additional line. The main element of line 4 is the external auditor. There are previous studies regarding the effect of external audit on firm performance. Keith (2018) says that one of the main roles of external auditors is to protect the interests of shareholders. Holm & Laursen (2007) in Chin (2008) state that external auditors are agents for shareholders and to some extent also for other stakeholders. Chin (2008) concludes from his research that an independent external auditor plays a governance role to mitigate agency conflicts in emerging markets. According to Rahman et al. (2019), the external audit quality (BIG4) and the size of the audit committee had a substantial beneficial influence on firm performance, however audit committee meetings had a significant negative effect on company performance. Nonetheless, Mappiasse (2018) indicates that audit opinion has little impact on the financial performance of the Java government. Jannah and Azwardi (2020) also argue, based on their study findings, that audit views have no major impact on the financial performance of local governments in Indonesia. Karno and Alliyah (2021) also determined that BPK's audit opinion had a substantial detrimental impact on the financial performance of local governments.

B. LITERATURE REVIEW

1. Agency Theory

Agency theory is the study of the design of contracts in which agents operate or serve on behalf of the principal. When the desires or objectives of the agent contradict, there will be a conflict. One of the potential conflicts is the existence of management-as-company-agent income smoothing. According to Scott (2019), the conflict generated by income smoothing results from the separation of roles or divergent interests between the principal and agent. Such disagreements might lead to agency expenses. According to Jensen & Meckling (1976), agency expenses are as real as any other expense.

2. Risk Management

Integrated risk management can help a company to understand its goals better and manage risks against those goals appropriately. According to COSO in Moeller (2007), integrated risk management is a process influenced by the entity's board of directors, management, and other personnel, applied in strategic settings and throughout the company, and designed to identify potential events that could affect the entity and manage risks according to its risk appetite in order to provide reasonable assurance regarding the achievement of the entity's objectives.

In the application of risk management, there are several stages that must be carried out, starting from the stage of determining goals and objectives to the stage of monitoring and controlling. According to COSO in Moeller (2007) the stages of integrated risk management are as presented in the COSO risk management framework in Figure 2.

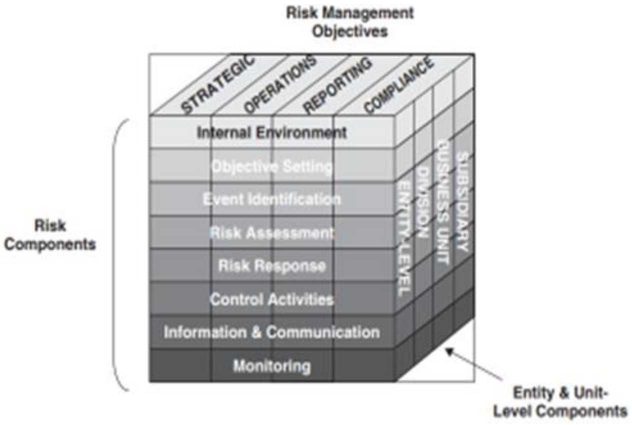
Risk Management Objectives
STRATEGIC
OPERATIONS
REPORTING
COMPLIANCE
Internal Environment
Objective Setting
Event Identification
Risk Assessment
Risk Response
Control Activities
Information & Communication
Monitoring
Risk Components
SUBSIDIARY
BUSINESS UNIT
DIVISION
ENTITY-LEVEL
Entity & Unit-Level Components

Figure 2. Risk Management Framework
Source: Moeller (2007)

3. Three Lines Model of Defense

Today's business world is increasingly uncertain, complex, and a lot of competition. A company can continue to run if it is able to survive and follow the flow. Every company has various stakeholders and can conflict with each other at times. Usually, the stakeholders entrust and delegate to management to supervise, take appropriate action, and also manage risks to help achieve company goals.

The three lines model is an approach that can help companies identify the best structures and processes by focusing on risk management as well as those related to defense in achieving these goals. There are 3 lines of defense in the risk management function within the company, namely risk owner, risk overseer, and independent assurance provider.

According to Institute of Internal Auditor (2013) the 3 lines of defense model can be described as shown in figure 3.

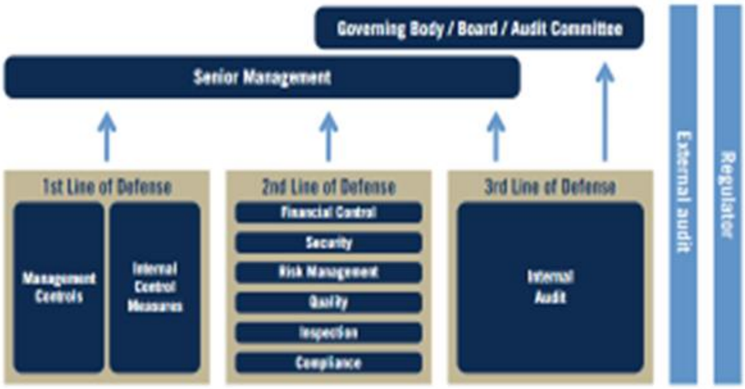
Governing Body / Board / Audit Committee
Senior Management
1st Line of Defense
Management Controls
Internal Control Measures
2nd Line of Defense
Financial Control
Security
Risk Management
Quality
Inspection
Compliance
3rd Line of Defense
Internal Audit
External audit
Regulator

Figure 3. The Three Lines of Defense Model
Source: Institute of Internal Auditor (2013)

The risk owner is the first line of defense, namely the operational manager of a particular function who owns and manages the risk, for example the head of the sales division.Managers of operations must implement corrective measures to remedy process and control weaknesses.The operational manager is also accountable for maintaining effective day-to-day internal control and executing risk procedures, given that the first-line role is directly aligned with the provision of products or services to customers, such as the marketing department, general department, accounting department, human resources department, etc.The stages carried out by operational management are identifying, assessing, controlling and reducing risk, and directing and ensuring the development of each unit in implementing internal management policies and procedures properly and consistently in accordance with the goals and objectives.

Even when there is a first line of defense, there is still a need for a second line, which consists of effective management and monitoring of risk owners to guarantee compliance and to better notice damage, insufficient procedures, and unexpected occurrences. According to Institute of Internal Auditor (2020), risk management is conducted by risk management functions and professionals that give complement, support, monitoring, and criticism to units performing first-line responsibilities. This second line of defense focuses on particular risk management objectives, including as compliance with applicable laws and regulations, ethical conduct, internal controls, and technology and data security. Not only that, risk managers can also have broader responsibilities than risk management, such as enterprise risk management to develop and monitor the overall implementation of risk management. This second line role provides assistance related to risk management. According to Nurdiani (2022) the second line of defense consists of a legal section or function, a compliance section or function, and a risk section or function, which is responsible for assisting the first line by monitoring the implementation of risk management.

The third line of defense is internal auditor unit.According to the defense model 3 lines of internal auditors play a major role because this section is an internal part of the company that provides independent assurance and advice regarding the adequacy and how effective risk management has been in the company.In carrying out their duties, internal auditors are expected to be able to evaluate the overall design and implementation of risk management, and ensure that each line (first line and second line) runs as it should.In carrying out its duties, internal audit reports its responsibilities directly to the company leadership.

According to the Institute of Internal Auditor (2013), there is a fourth line. The fourth line is external auditors and regulatory institutions that make regulation and monitoring such as the ministry of finance and the Financial Services Authority (OJK). COSO in Minto and Andrea (2015) describes the 4th line as shown in Figure 4.

In Figure 4 it can be seen that the 4th line is part of the 3 line defense model. The 4th line provides additional defense for the company. The 4th line consists of regulators such as the Ministry of Finance, the Ministry of State-Owned Enterprises (BUMN), and the Financial Services Authority (OJK) as well as external auditors. The regulator provides its own defense to the company through the regulations and guidelines it makes and the monitoring it does through reports that must be made by the company and submitted to the regulator.External auditors improve compliance with rules and regulations through the audits they perform. SOE's external auditors are the Public Accounting Firm, the Inspector General of the Ministry, and the Supreme Audit Agency. External auditors can provide additional defense through their audit results and the recommendations provided in the audit findings.

Institute of Internal Auditors (2020) introduced the 2020 IIA Three-line Concept, a revision of the three-line defensive model, in 2020. According to Institute of Internal Auditor (2020), the three-line model was formerly known as the three-line defense. There are four types of relationships between the main roles: between management organs and management (first-line and second-line roles), between management (first-line and second-line roles) and internal audit, between internal audit and management organs, and between all roles.

4. Hypothesis Development

The risk owner is the first line of defense.Line 1 is the operational units within the company such as the sales division, marketing division, production division, and finance division.Line 1 is responsible for implementing risk management in their respective units.Line 1 carries out risk identification against the risks of achieving targets in their respective units.Furthermore, line 1 evaluates all the risks it has identified and determines the control measures.Line 1 also monitors all risks and control measures that have been determined.Thus, risk owners implement risk management in their respective units.By managing all risks by the risk owner logically, the implementation of risk management by the risk owner affects the company's performance.

Callahan & Soileau (2017) concluded from their research that the company's operational activities can increase the company's profitability. Florio & Leoni (2017) also conclude that there is a relationship between the implementation of integrated risk management on company performance. According to Muslih and Marbun's (2020) research, a company's performance will be enhanced by the application of effective risk management. Muslih & Umar (2021) argue that the use of risk management to the management of village funds can increase performance. Muslih (2018) also concludes that ERM has a significant effect on company performance. Callahan & Soileau (2017) also conclude that there is a relationship between the maturity of the integrated risk management process and the company's operating performance. Florio & Leoni (2017) in their research concludes that companies with more sophisticated risk management systems will be more profitable. Mellisa (2013) in his research concluded that the application of ERM can help companies to assess and manage their risks and resolve these risks. Ahmad et al. (2014) said that by fighting the risks faced by a company, obstacles in achieving company goals can be managed.

Based on the discussion above, the following hypotheses can be formulated:
H_1: First line has a positive effect on company performance.

This section is a risk management unit that is independent from the company's operational units.This second line of defense has an important task in building a defense system that is on the first line, which means that risk managers are tasked with planning well, ensuring that everything is ready to be implemented, and then supervising the implementation of its implementation with the aim of anticipating risks that may occur and seekingmanagement of these risks.The target of the risk management task is to make all units within the company able to achieve the company's goals well.

Previous research has shown the influence of risk management on firm performance.Muslih (2018) concludes based on the results of his research that the risk management committee has an important role in improving company performance.Similar research was also conducted by Mellisa(2013) concluded from the results of her research that the application of ERM can help companies to assess and manage their risks so that business entities can take action.Not only that, similar research conducted by Jia & Bradbury (2020) also concluded that the risk management committee has an important role in improving company performance.

Based on the discussion above, the hypothesis can be formulated as follows: H_2: Risk management has a positive effect on firm performance.

The internal auditor is an independent work unit from all company units. Internal auditors have the task of conducting evaluations to provide assurance that the implementation of the two lines of defense is well and effectively carried out and is in accordance with the achievement of the desired performance targets.The audit must be carried out in accordance with auditing standards that apply nationally and internationally.

There are historical studies on the effect of internal audit on a company's performance. Arief and Sunaryo (2020) conclude, based on their research, that Internal Audit has a positive effect on corporate performance. Ali and Omar (2018) conclude from their research that there is a significant relationship between the internal audit department's expertise, its size, management support for internal audit, internal audit independence, and organizational success. Chaiwong (2012) concludes, based on his research, that independence, objectivity, and human interactions have a significant effect on operational outcomes in the financial industry. Following the above discussion, the hypothesis might be stated as follows: H_3: The third line has a positive effect on firm performance.

The audit committee is responsible for assisting the board of directors in reviewing the company's performance and offering guidance to the company's management. The achievements monitored by the audit committee include the achievements of all units in the organization. These organizational units have unit goals and objectives that must be achieved, and manage the risks of their respective unit goals. In relation to the implementation of its function as an organ of the company's board of commissioners, the audit committee monitors the achievements of organizational units and their risk management and provides direction to units regarding the operation of their units and risk management. Therefore, the audit committee should have an impact on the performance of the organization. In the first hypothesis, it was discovered that the risk owner or first line has an impact on the performance of the organization. Thus, the audit committee should reduce the primary effect on the performance of the organization. Nevertheless, based on the findings of data processing, the audit committee did not moderate the impact of line 1 on firm performance with a probability greater than 0.05 (p=0.09).

According to the description of the preceding theory, the second line focuses on specific risk management objectives, such as compliance with applicable laws, regulations, ethical behavior, internal control, and technology and information security, as well as on broader risk management responsibilities, such as enterprise risk management.

Therefore, the line 2 position provides aid with risk management. The audit committee also monitors the risk management performed by the department of management or the company's risk monitoring unit. The audit committee will oversee the attainment of risk management by the company's risk department or chief risk officer, and will give the required guidance to enhance the chief risk officer's performance. Consequently, the audit committee enhances the impact of the second line on business performance.

The third line is internal audit. The internal audit unit evaluates the design and implementation of the company's overall risk management, and ensures that each line (first line and second line) is running as expected.In carrying out its duties, internal audit reports its responsibilities to the company leadership.Internal audit is the main partner of the audit committee in obtaining data on the firm's performance achievements.

There have been studies on the effect of the audit committee on the performance of the company. Corporate governance has an impact on company performance, according to Muslih's (2019) research on SOEs in the non-public financial sector. Corporate governance includes the audit committee. Based on the findings of his study on State-Owned Enterprises (BUMN) listed on the Indonesia Stock Exchange, Muslih (2019) asserts that the number of audit committee employees has a positive impact on business performance. Based on their study findings, Muslih, Rahadi, and Marbun (2019) also conclude that local government governance has a positive effect on local government performance. Ardena and Basuki (2013) derived the conclusion from their research that the number of audit committee meetings and the high proportion of audit committee members with financial knowledge can prevent a firm from financial difficulties. Othman et al. (2014) found from their research that tenure and a large number of audit committee directorships are connected with voluntary ethical disclosure. Madi, Ishak, and Manaf (2014) found, based on their study, that the independence of the Audit Committee, the size of the Audit Committee, and the number of Audit Committee seats had a significant influence on the company's voluntary disclosure. Tusek (2015) said that the internal audit function's participation in the audit committee's activities increases the efficiency of internal audit operations. According to the findings of Ghafran and O'Sullivan (2017), the competence of the Audit Committee impacts audit quality. Al Qatamin (2018) found from his research that Audit Committee size has a favorable and substantial influence on performance.

Based on the discussion above, the hypothesis is set as follows:
H_4: The audit committee strengthens the first-line influence on firm performance.
H_5: The audit committee strengthens the second-line influence on firm performance.
H_6: The audit committee strengthens third-line influence on firm performance.

In addition to the three lines mentioned above, there is a fourth line of defense. According to Institute of Internal Auditor (2013), the fourth line is external auditors and authoritative institutions that make regulation and monitoring such as the ministry of finance and the Financial Services Authority (OJK). Ministries and other authorities make regulations, guidelines, and monitoring. The company must comply with the rules and regulations related to its business. External auditors emphasize compliance with the provisions that have been made by the authorities. Some of these provisions relate to corporate risk management, especially for state-owned enterprises and companies listed on the Indonesia Stock Exchange. Thus, external control, especially external auditors, has a positive effect on firm performance.

There have been past investigations of the impact of external auditors on firm performance. One of the primary responsibilities of external auditors, according to Keith (2018), is to protect the interests of shareholders. External auditors generally perform financial audits. This role is possible because the external auditor's reporting is free from the influence or pressure of the company being audited. Holm & Laursen (2007) in Chin (2008) state that external auditors are agents for shareholders and to some extent also for other stakeholders. Based on the findings of his research, Chin (2008) finds that an independent external auditor plays a role in governance to mitigate agency conflicts. Rahman et.al (2019) concluded from the results of his research that the external audit quality (BIG4) and the size of the audit committee had a significant positive effect on company performance.

Based on the discussion above, the hypothesis is set as follows: H_7: External Control has a positive effect on firm performance.

One of the primary responsibilities of external auditors, according to Keith (2018), is to protect the interests of shareholders.

C. METHOD

By using the basic theory from the Institute of Internal Auditor (2013) which was updated by the Institute of Internal Auditor (2020), this research design uses 4 (four) independent variables, namely the risk owner (PR), risk manager (MR), internal audit (IA), and external control (EC). The moderating variable is the audit committee (KA). The dependent variable is the company’s performance. The research model is: KP=a+b1PR+b2MR+b3IA+b4KAPR+b5KAMR+b6KAIA+b7EC+µ

The model consists of firm performance (KP), risk owner (PR, Line 1), risk management unit (MR, Line 2), Internal Audit (IA, Line 3), Moderation of Audit Committee to the Effect of Line 1 fo Firm Performance (KAPR), Moderation of Audit

Committee to the Effect of Line 2 fo Firm Performance (KAMR), Moderation of Audit Committee to the Effect of Line 3 fo Firm Performance (KAIA), and external control (EC, Line 4), and error.

In Indonesia, the population consists of state-owned enterprises. This study employs a quantitative approach. The utilized data is primary data. Variable measurements were taken using a Likert scale ranging from 1 to 4. Utilizing a Google Forms online survey, data collection was conducted. Practitioners, observers, scholars, and auditors comprise the sample. 128 (one hundred twenty-eight) individuals completed an online questionnaire that was sent via email and Whatsapp. The data was processed using eviews 9.

D. RESULTS AND DISCUSSION

Primary data acquired from 128 (one hundred and twenty-eight) respondents are utilized. Cronbach Alpha 0.90 and Pearson Correlation Significant were used to examine the questionnaire's validity and dependability. The data collected and used as research material has passed the classical assumption test. Hypothesis testing using software eviews 9 shows the results as shown in Figure 8.

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Dependent Variable: KIN
Method: Least Squares
Date: 12/07/20   Time: 13:10
Sample: 1 128
Included observations: 128
=========================================================================
        Variable        Coefficient    Std. Error    t-Statistic    Prob.
=========================================================================
           C             2.111422      0.453494      4.655901      0.0000
           PR            0.425576      0.205725      2.068661      0.0407
           MR           -0.580362      0.247176     -2.347968      0.0205
           IA           -0.046142      0.154071     -0.299487      0.7651
          KAIA           0.009373      0.025258      0.371080      0.7112
          KAMR           0.078634      0.039032      2.014596      0.0462
          KAPR          -0.053346      0.031798     -1.677661      0.0960
           EC            0.085417      0.107943      0.791316      0.4303
=========================================================================
R-squared               0.301780    Mean dependent var        2.851563
Adjusted R-squared      0.261050    S.D. dependent var        0.548295
S.E. of regression      0.471326    Akaike info criterion     1.393930
Sum squared resid       26.65784    Schwarz criterion         1.572182
Log likelihood         -81.21153    Hannan-Quinn criter.      1.466355
F-statistic             7.409354    Durbin-Watson stat        2.078221
Prob(F-statistic)       0.000000
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Figure 8. Regression Test Results

Source: Processed Data

Figure 8 demonstrates that the modified R-squared value is 26%. It indicates that the study model is appropriate. F test of 0.00 (0.05) indicates that the influence of all independent and moderating factors on the dependent variable is statistically significant, and that the study findings are applicable for decision-making.

Risk owners have a positive influence on business performance with a t-test probability of 0.04 (0.05), risk managers have a negative effect with a t-test probability of 0.02 (0.05), and the unit Internal Audit has no effect on company performance with a probability of 0.76 (> 0.05). With a probability of 0.04, the audit committee muted the impact of risk managers or risk officers on corporate performance, but did not moderate internal audit and risk owners (with a prob of 0.7 and 0.09). With a probability of 0.43, external control has no influence on the company's performance.

1. The Effect of Line 1 on Firm Performance

The risk owner is an operational unit that directly faces risks to its operational unit.The goal of every operations manager is to maximize the performance of his unit.However, every risk will hinder the achievement of operational unit objectives.And the risk is always changing at any time.Therefore, the operational unit manager will always try to anticipate the risks that will occur and take steps to handle them as quickly as possible, so that the achievement of the unit's performance is not hampered.Therefore, the risk owner should have an effect on the company's performance.And this hypothesis is proven with prob 0.04.

The results of this study are in line with the research results of Carolyn and Jared (2017), Florio and Leoni (2017), Muslih & Marbun (2020), Muslih (2021), Muslih (2018), Callahan & Soileau (2017), Florio & Leoni (2017), Mellisa (2013), and Ahmad et al. (2014).

2. The Effect of Line 2 on Firm Performance

The risk manager is a unit formed by the company to monitor and control risk management by the operational unit. However, the existence of this unit is still a relatively new thing. The expertise possessed by the risk management unit on average is inadequate due to the lack of socialization and training to increase expertise in the field of risk management. Thus, the required expertise is still inadequate for the risk management unit to be able to monitor and control risks from the operational unit properly. In fact, not all companies in Indonesia have a risk management unit. Even some subsidiaries of State-Owned Enterprises still do not have a risk management unit. Therefore, the existence of a risk management unit has not had a positive effect on the company's performance.

The results of the study actually show that line 2 actually affects the company's performance. The results of this study are in line with the results of research by Kanhai & Ganesh (2014).

3. The Effect of Line 3 on Firm Performance

The influence of line 3 on the performance of SOEs is not significant. This is because most of the internal audits of SOEs still focus on the main function of internal audit as auditors and consultants. State-Owned Enterprises still have many managerial and financial problems that require a lot of attention and assistance from their internal audit solutions. BUMN managerial problems still require great attention in order to be able to achieve the main goals of BUMN. To help solve problems that hinder the achievement of BUMN goals, the number of HR in the BUMN internal audit unit is still lacking. There is also a lack of HR in the internal audit unit that has internal auditor certification. As a result, the company's risk management goals and objectives are still not implemented properly by the internal audit unit. Internal audit resources are still focused on overseeing the other main targets of SOEs. Risk management training for the staff of the BUMN internal audit unit is also still inadequate.

The results of this study are in line with the results of research by Laksito (2015), Deyganto and Orkaido (2019), and Mediana et al. (2020).

4. Moderation of the Audit Committee on the Effect of Line 1, Line 2, and Line 3 on Firm Performance

The Audit Committee is a subcommittee of the Board of Commissioners whose responsibility is to help the Board of Commissioners in analyzing the performance accomplishments of management and in directing the company's management. The Audit Committee seeks management achievement data through the Internal Audit Unit or directly to the relevant unit, including the risk owner and risk management unit, as part of its daily responsibilities. In practice, the Audit Committee often provides direct briefing to management through internal audit or through other units regarding certain issues from managerial units such as the risk owner unit (line 1), risk management unit (line 2), and also internal audit (line 3). So, the direction by the audit committee is carried out formally and informally. Thus, the Audit Committee should have a positive influence on the company's performance and moderate the influence of line 1, line 2, and line 3 on the company's performance. However, it turned out that the audit committee only moderated the influence of line 2 on firm performance with a prob of 0.04.

The moderation of the audit committee on line 2 is in line with the research results of Sujatha, Muninarayanappa, and Sathyanarayana (2017), Shatnawi et.al. (2022), ElHawary (2021), Sae-Lim and Jermsittiparsert (2019), Wardati, Shofiyah, and Ariani (2021), and Issaa and Siam (2021).

Moderation of audit committees on line 1 and line 3 is in line with the results of research by Herranza, Alvaradob & Iturriaga (2022), Issaa & Siam (2021), Zhou, Owusu-Ansah, & Maggina (2018), Adiati & Adiwibowo (2017), and Bandal & Sharma (2016).

5. The Effect of External Controls on Firm Performance

External control has no significant positive effect on firm performance with prob 0.43 (> 0.05). External controls consist of regulators such as ministries and stock exchanges and external auditors. Regulators make rules and guidelines for companies to run and adhere to. The regulator monitors the implementation of the regulations it makes through reports that must be made by the company and reports on the results of the company's external audit by public accountants, ministry inspectorates, tax auditors, or the Supreme Audit Agency.

The external auditor is external assurance, providing additional assurance to meet the expectations of legislative and regulatory requirements in order to protect the interests of stakeholders and fulfill requests from management and management organs to complete internal assurance sources. Regulations made by the authorities and checked for implementation by external auditors can improve the quality of the company's risk management and encourage company performance. However, it turns out that the influence of external control has a positive effect on the company but is not significant. This condition means that without external control, the company's risk management has been able to significantly boost the company's performance so that the influence of external control becomes minor.

The results of this study are in line with the research results of Rahman et. al (2019), Mappiasse (2018), Jannah & Azwardi (2020), and Karno & Alliyah (2021).

E. CONCLUSION

The results indicate that the risk owner unit (line 1) has a significant positive effect on company performance, risk management (line 2) has a negative effect on company performance, the Internal Audit Unit has no effect on company performance, the Audit Committee does not moderate the influence of the Internal Audit Unit (line 3) on company performance, the Audit Committee moderates the influence of risk management (line 2) on company performance, and the Audit Committ moderates the influence of the risk owner unit (line 1) on company performance. It suggests that just one of the three lines of defense has a beneficial influence on the company's performance, with the risk owner unit and the audit committee mitigating the impact of the risk management unit (line 2) on the company's performance. The implication of this study's findings is that SOEs must increase the quality of their risk management implementation in order for all lines of defense to synergize and have a substantial impact on SOE performance.

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