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THE ROLE OF INTERNAL AUDIT IN RISK MANAGEMENT TO THE MICRO-MULTIPURPOSE CREDIT PROCESS

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ABSTRACT:

The purpose of this research is to assess the influence of the role of internal audit in risk management on the crediting process. The data collection method used in this research is secondary data and primary data. The method of determining samples is done by Convenience Sampling technique (selection of samples based on convenience) with data collection techniques using questionnaire method. The analysis tools used are regression analysis using methods of validity and reliability, normality, classical assumptions, Heteroskedastisity Test, Multicolinearity Test, and partial t test and F test. The Internal Audit and Risk Management contributed to the Credit Process.

INTRODUCTION

Future banking industry development policies are directed to achieve a sound, strong, and efficient banking system in order to create financial system stability that in turn will help sustainably boost the national economy. The rapid pace of business development in various fields and the increasing economic growth of a country, then accompanied by the growth of economic activities of the community that increases the need for capital in various business sectors. The Bank as a financial institution is expected to raise funds from people who have excess funds to be used as a source of capital in development and economic financing. One of the bank's main activities is to provide credit. With this lending activity, banks have a role as intermediation between people who need funds and people who are over-funding. In the

balance sheet, credit belongs to the property group that dominates the asset side. In terms of income earned, credit activities are the most dominant income. Credit can be a source of income for banks if the credit provided can be returned in accordance with the maturity and interest. However, credit can be a disadvantage if the bank has difficulty in arrears of credit or commonly referred to as non-performing loans or short loans, meaning that the money borrowed is jammed in its return so that the liquidity of the bank can be threatened because there are many non-performing loans. To prevent the occurrence of non-performing loans, it is necessary to secure or foster and supervise every credit given. The problems faced by banks in lending can come from the internal parties of the bank caused by misappropriation committed by the bank employees concerned, the analysis is less thorough so as to provide incorrect data processing of the credit provided. Therefore, it is necessary to be supported by internal controls in providing adequate credit so that non-performing loans can be avoided and able to encourage operational activities. As reported by detik.com, Head of Investor Relation ASII Tira Ardianti as a shareholder of Bank Permata revealed "In an effort to lower the credit level, it seeks management to manage risks to be better".

The implementation of risk management and internal audit will greatly help the company in minimizing various risks of losses that may arise, especially credit risk. Credit risk can arise in various types of banks, one of which is in state-owned banks or more commonly referred to as SOE banking. State-Owned Enterprises (SOEs) is one form of business entities in the world economy. Business entities engaged with the form of SOEs are usually the bodies that control the potential sectors that are processed to meet the lives of the people, in accordance with Article 33, especially paragraphs 2 and 3 of the Constitution of 1945 that the branches of production are important for the state that controls the lives of many people controlled by the state that then the earth, water, air, and natural wealth contained therein are controlled by the state and used for the greater prosperity of the people. The author is interested in doing this research because credit lending contains a certain risk where there is a possibility of unchargable credit. To avoid or minimize these risks, credit applications must be assessed by banks as well as by selecting data of potential customers who are eligible and minimizing the possibility of bad loans. The high credit risk causes the bank management to implement an adequate internal control. The existence of adequate internal control is expected to ensure that the credit process will be able to avoid errors - errors and misappropriation - misappropriation that will occur. This research aims to be as follows to assess the influence of the role of internal audit in risk management on the crediting process.

Theoretical Description

Internal Audit

The definition of Internal Audit according to Hiro Tugiman (2014:11) is: "Internal Auditing is an independent assessment function within an organization to test and evaluate the activities of the organization carried out."

According to Sukrisno Agoes (2012:204) the definition of internal audit is an examination conducted by the internal audit of the company, of the company's financial statements and accounting records as well as compliance with predetermined top management policies and compliance with government regulations and the provisions of applicable professional ties. Government regulations such as regulations in the fields of taxation, capital markets, the environment, banking, industry, investment, and others. Meanwhile, Sawyer translated by Ali Akbar (2009:9) explains that: "Internal audit is a consultation activity and objective belief that is independently managed within the organization and is directed by a philosophy of adding value to improve the company's operations."

Based on the description above, it can be said that internal audit is an independently managed inspection process within the organization of the company's accounting reports and records to test and evaluate the activities of the organization carried out. Internal audits are directed to assist all members of the leadership, in order to carry out their obligations in achieving the objectives of the organization.

Functions and Scope of Internal Audit

According to Mulyadi (2010:211) the internal audit function can be explained as follows:

- a. The function of internal audit is to investigate and assess internal control and efficiency of the implementation of functions as organizational tasks. Thus the function of internal audit is a form of control whose function is to measure and assess the effectiveness of other elements of internal control.
- b. The internal audit function is a free assessment activity, contained in the organization, and carried out by examining accounting, finance, and other activities, to provide services for management in carrying out their responsibilities. By presenting important analysis, assessment of recommendations, and comments on management activities, internal auditors provide these services. Internal auditors relate to all stages of the company's activities, so it is not limited to the upper unit of accounting records.

According to Mulyadi (2010:212), The scope of internal examination assesses the effectiveness of the internal control system owned by the organization, as well as the quality of the implementation of the responsibilities provided, internal examinations must:

Review the reliability and integrity of financial and operating information and the means used to identify, measure, clarify and report such information.

Review various established systems to ensure compliance with various policies, plans, procedures, laws and regulations that may have important consequences for organizational activities, and must determine whether the organization has achieved compliance with such matters.

Review various ways used to protect the property and when deemed necessary, verify the existence of these assets.

Assess the economy and efficiency of the use of various resources.
Review various operations or programs to assess whether the results will be consistent with the goals and facilities that have been set and whether the activities or programs are carried out as planned.

Internal Audit Duties and Responsibilities

Internal Audit duties and responsibilities are:

- a. Plan and carry out internal audit activities with an emphasis on high-risk areas/activities and evaluate existing procedures/control systems to gain confidence that the Bank's objectives and objectives can be achieved optimally and sustainably.
- b. Implement measures in order to dig information (investigation), report, and submit recommendations / conclusions on fraud to management.
- c. Develop and run programs to evaluate and improve the quality of Internal Audit
- d. Provide recommendations on audit results and monitor follow-up results of internal audit activities and investigative activities.
- e. Cooperate with the Audit Committee in carrying out the supervisory function.
- f. Coordinate its activities with external audit activities and other assurance provider units/functions, in order to achieve comprehensive and optimal audit results. Coordination can be done among others through periodic meetings to discuss matters that are considered important for both parties.

Risk Management

According to Irham Fahmi (2010: 2) Risk Management is "a field of science that discusses how an organization applies measures in mapping various problems by placing various management approaches comprehensively and systematically."

According to Bank Indonesia Regulation Number 11/25/PBI/2010 concerning Amendment to PBI Number 5/8/PBI/2003 concerning The Implementation of Risk Management, Risk is the potential loss due to a particular event and Risk Management is a series of methodologies and procedures used to identify, measure, monitor and control risks arising from all bank business activities.

Risk Management Benefits

According to Irham Fahmi (2010:3) with the implementation of risk management in a company, there are several benefits that will be obtained, namely:

- a. The company has a strong measure as a foothold in making every decision, so that managers become more prudent and always put measures in various decisions.
- b. Able to provide direction for a company in looking at the influence that may arise both in the short and long term.
- c. Encourage managers in making decisions to always avoid the influence of losses, especially financially.
- d. Allowing the company to obtain a minimum risk of loss.

- e. With the concept of risk management (risk management concept) designed in detail, it means that the company has built the direction and mechanism in a sustainable (sustainable).

Banking Credit

The definition of credit under banking law No. 10 of 1998 concerning banking is the provision of money or bills that can be equated with it, based on the approval or agreement of borrowing between banks and other parties that require the borrower to pay off his debt after a certain period of time with interest.

Research Hypothesis

H1: There is an influence on the role of internal audits on lending policies.

H2: There is an influence on the role of risk management in lending policy.

H3: There is a simultaneous influence of the role of internal audit and risk management on credit lending policy.

RESEARCH METHODS

The data collection method used in this research is secondary data and primary data in the form of:

a. Primary Data

To support this research and obtain the required data, the type of data used is the primary data. Primary data collected through survey method using questionnaires created by the author. This questionnaire is obtained from several reference books, which will then be modified in the form of questions. The weight of the assessment or the number of questionnaire results in this study corresponds to those described in the Likert scale. The Likert scale uses five assessment figures namely Strongly Agree, Agree, Uncertain, Disagree, and Strongly Disagree. This questionnaire is then sent to respondents at Bank Mandiri Bandung Branch Office Taman Kopo Indah. The delivery of the questionnaire is carried out directly, namely by giving directly to the concerned.

b. Secondary Data

Secondary data is a source of research data obtained by researchers indirectly through intermediary media. The author uses literature research which collects, reads and understands books, literature, articles, journals, and data from the Internet.

This research took the object on internal auditors, branch managers, micro banking managers who are in banking companies at Bank Mandiri Bandung Branch Office Taman Kopo Indah. The method of determining samples is done by Convenience Sampling technique (sample selection based on convenience) by choosing a credit department manager based on the data obtained. According to Hamid (2015:24), convenient sampling is a general term that includes a wide variation in the selection procedures of respondents. Convenient sampling means sample units that are easy to pull, unsettling, easy to measure and cooperative.

RESULTS AND DISCUSSION

Internal Audit Discussion on The Credit Granting Process

One of the requirements for internal audits to be carried out effectively and adequately is by the qualification of internal audits. In this internal audit qualification there are 2 attitudes that must be owned by an auditor, namely competent and independent attitude. Competent here means that an auditor must have adequate knowledge and technical ability in carrying out audits and also have firmness of attitude, thoroughness and responsibility for the audit results. Meanwhile, with an independent attitude, it is expected that an auditor can provide optimal audit results. Being independent means that an auditor must be independent and separate from the various activities he or she examines.

The results of T (Partial) Test analysis based on the output of SPSS 23 software used in processing data, the results are shown in the following table:

Table 5.1. T Test Analysis Result Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	16.906	5.315		3.181	.004
Audit Internal	-.672	.349	-.775	-1.924	.065
Risk Management	.984	.302	1.314	3.263	.003

a. Dependent Variable: The Process of Granting Credit

Source: Output SPSS 23

Based on Table 5.15 t test is conducted to test H1 hypothesis which states that there is an influence of internal audit role (X1) on credit lending policy (Y). The test obtained a T significant value of 0.065 so that the significant $T > \text{significant } \alpha$ is $0.065 > 0.05$. This indicates that the H1 hypothesis is rejected, meaning that the internal independent audit variable has no significant effect on the dependent variables of the lending policy. The results of this study supported Clarisa and Siti's research (2018) which stated that the implementation of internal audit has no influence and negative relationship to the policy of lending and the results of this study are consistent with Habiburrochman (2007:20) who stated that the role of internal auditors depends on the independence attitude owned by auditors so that internal audits do not have a partial significant effect. The results of this study are contrary to Nur Afni Yunita's research (2018) which stated that the implementation of internal audits has a significant effect on credit lending policies.

Discussion on Implementation of Risk Management to the Credit Granting Process

According to Bank Indonesia Regulation Number 11/25/PBI/2010 concerning Amendment to PBI Number 5/8/PBI/2003 concerning The Implementation of

Risk Management, Risk is the potential loss due to a particular event and Risk Management is a series of methodologies and procedures used to identify, measure, monitor and control risks arising from all bank business activities.

The implementation of risk management can also be used to assess the inherent risks of the bank's relatively complex business activities as well as create a robust risk management infrastructure in order to improve the bank's competitiveness. In addition to the advantages for banks, the implementation of risk management is also beneficial / beneficial for the bank supervisory authority which with the application of risk management in banks will facilitate the assessment of possible losses faced by banks that can affect bank capital and as one of the basis of assessment in setting the strategy and focus of bank supervision.

Based on Table 5.15, t test conducted to test H2 hypothesis which states that there is an influence of risk management role (X2) on credit administration policy (Y). The test obtained a significant value of T 0.003 so that significant $T < \text{significant } \alpha$ which is $0.003 < 0.05$. This indicates that the H2 hypothesis is accepted, meaning that there is a significant effect of partial risk management independent variables on credit policy dependent variables.

The results of this study support Clarisa and Siti's research (2018) which states that the application of risk management has a positive influence and relationship to credit policy. The results of this study are consistent with the statement of Guidelines for The Implementation of Risk Management for Commercial Banks (2003:20) stipulated by Bank Indonesia and Ginting (2005:3). This research also supports Nur Afni Yunita's research (2018) which states that the Implementation of Banking Risk Management has a significant effect on the Lending Policy.

Discussion of Internal Audit in Risk Management to The Credit Process

Internal audits must have an independent position on the parts they examine, especially in credit sales checks, and play an active role in the company, especially in addressing credit sales risks by conducting detailed inspections and monitoring processes

The results of F (Simultaneous) Test analysis based on the output of SPSS 23 software used in processing data, the results are shown in the following table:

Table 5.1. F Test Analysis Result
ANOVA^a

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	138.690	2	69.345	10.111	.001 ^b
	Residual	185.177	27	6.858		
	Total	323.867	29			

a. Dependent Variable: The Process of Granting Credit

b. Predictors: (Constant), Audit Internal and Risk Management

Based on Table 5.1, F test was conducted to test H3 hypothesis stating that there is simultaneous influence of internal audit role (X1) and risk management (X2) on credit lending policy (Y). The test obtained a significant value of F 0.001 so that it was significant $F < \text{significant } \alpha$ which is $0.001 < 0.05$. This indicates that the H3 hypothesis is accepted, meaning that there is a simultaneous influence of internal audit variables and risk management variables on credit policy variables.

The results of coefficient of simultaneous determination (R²) Test analysis based on the output of SPSS 23 software used in processing data, the results are shown in the following table:

Table 5.2. The Results of Coefficient Determination
Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.654 ^a	.428	.386	2.61885

a. Predictors: (Constant), Audit Internal dan and Risk Management

b. Dependent Variable: The Process of Granting Credit

Source: Output SPSS 23

Based on Table 5.2, the coefficient of simultaneous determination (R²) obtained is 0.428. This indicates that the Internal Audit and Risk Management contributed to the Credit Process by 42.8% while the remaining 57.2% contributed from other variables that were not studied

The results of this study support Clarisa and Siti's research (2018) which states that risk management variables (X1) and internal audit variables (X2) have a simultaneous influence on credit distribution policy variables (Y). This is in accordance with the statement in Sarbanes Oxley Act section 302 Corporate Responsibility for Financial Report that internal audit has a large role to facilitate the business risk control process. Therefore, the implementation of risk management and internal audits together will have a good impact on the company.

CONCLUSION

Based on the analysis that has been done, can be drawn conclusions, as follows:

Internal Control contained in Bank Mandiri Bandung Branch Office Taman Kopo Indah partially has no significant effect on the lending policy it is because there are other factors that affect other than factors from internal audit.

Risk Management in Bank Mandiri Bandung Branch Office Taman Kopo Indah has a positive and significant effect on the lending policy which means that the better the risk management performed, the better the credit policy.

The simultaneous influence contained in Bank Mandiri Bandung Branch Office Taman Kopo Indah has a significant effect which means that internal audit has a role to facilitate the risk control process so that the implementation

of internal audit and risk management together will have a good impact on the company.

SUGGESTIONS

Advice to the bank is expected to consistently apply risk management, especially in the credit section properly and appropriately because the results of this study show that risk management has a significant effect on the policy of lending.

Suggestions for further researchers can choose variables other than internal audit and risk management and multiply samples and population.

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