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THE IMPLEMENTATION OF RISK MANAGEMENT, INTERNAL CONTROL SYSTEMS, AND AUDITS' ROLE'S EFFECTS ON CREDIT POLICY

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ABSTRACT

Background: The current government expects progress in economic equality and national development. In national development will certainly require very large funds, therefore the role of the bank is absolute.

Aim: This research aims to analyze the influence of risk management, the effectiveness of internal control systems, and the role of internal audits on credit policy.

Method: This study uses survey methods from the results of previous research. The testing method is done using multiple linear regression causal analysis.

Findings: The results of this study show that the role of risk management, internal control systems and internal audits has an influence on credit policy.

KEYWORDS

Risk management, internal control systems, internal audits, credit policy

INTRODUCTION

The current government expects progress in economic equality and national development. In national development will certainly require very large funds, therefore the role of the bank is absolute.

Bank is an institution that provides funds for the development of Indonesia, which is collecting funds from the community in the form of savings and channeling it to the community to improve the standard of living of many people. As a development promoter, the Bank is an institution that supports the implementation of state development whose main activities are collecting and channeling funds. This fund distribution activity is called the distribution of funds, and one of them can be realized in the form of loans or better known as credit.

Giving credit is the assistance provided by the bank to customers, one of which is an entrepreneur and is needed for business matters, one of which is the establishment of new projects, construction for factories, purchase of office machine equipment, repairs, and business expansion. There are certain risks in providing credit to customers, and banks will not give it away. If the bank's management believes that the customer can repay the principal and interest on the loan within the agreed time, the bank will provide credit to avoid the bank's failure to recover the credit. That is one of the factors that cause bad credit problems later in life.

The onset of problematic credit is mainly due to inaccurate credit analysis by bank management factors. In addition, weak credit supervision, inaccurate analysis of financial statements, and weak bank human resources capabilities. So is inaccurate analysis of financial statements, and weak human resource capabilities. With the existence of a bad krediit, the bank's business activities will be hampered, because the main profit of the bank comes from the difference in the interest on bank customers' deposits with interest on loans or credit.

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In addition, the psychological impact that will occur is a decrease in public trust in the bank. The high level of competition between banks and credit risk leads to the application of adequate internal controls by bank management.

This study is more focused on analyzing the results of studies that have been done by researchers before. One of the reasons for the selection of such analysis is the high number of problematic credit from various banks. And the main cause of problematic credit is delinquent customers. Customers must bear a fairly heavy obligation to the bank. Considering every loan from the bank contains interest. If it has not been repaid, the amount of customer debt will increase over time. At the same time, the impact on banks is much more serious, because in addition to obtaining credit from customers such as the public, bad credit can also cause banks to experience a lack of funding, which affects their business activities. Another reason is that due to late payments or installment payments used for other needs up front, banks will impose fines for not paying on time. And the obligations that must be paid in the next month eventually increase, making it difficult to pay.

The results of a previous study conducted by Widiantari (Widiantari et al., 2014) with the title "Effect of Credit Assessment on Credit Awarding Decisions on PT. BPR" resulted in research that credit scoring is very influential and significant to credit award decisions. In addition, according to Sari (2012) in a study entitled "Implementation of Risk Management in Banking in Indonesia" resulted in that risk management has a good effect related to the implementation of Indonesia's banking pillars. Previous research conducted by Nur Afni Yunita (Yunita, 2018) under the title "Influence of The Application of Banking Risk Management and Internal Audit of Credit Policy (Empirical Study on Three Commercial Banks in Lhokseumawe)" concluded that all independent variables positively affect dependent variables.

From previous research, researchers are interested in analyzing the results of research from several previous researchers with the title "Influence of Risk Management, Effectiveness of Internal Control and Role of Internal Audit on Credit Policy".

Risk Management

Risk Management is a variety of coordinated and proactive administrative exercises or cycles that lead to possible failure in one or part of an exchange or instrument (Tampubolon & Sikumbank, 2004).

In this study, the authors strongly accounted for financial risk management, especially on credit risk. What is meant by risk management is actually the implementation of executive capacity in tackling risk, especially the dangers seen by banks (Djojosoedarso, 2003).

Credit risk is the danger of misfortune associated with the possibility of disappointment of a partner to fulfill a commitment. In the end, there is no down payment that has been given to the person in debt. As shown by Uyemura and van Deventer (1993) in Raharjo (2005) as a whole there are six classifications of risks seen by investors, including credit risk, loan cost risk, unknown trading risk, liquidity risk, operational risk, and capital adequacy risk.

Directorate of Banking Research and Regulation revealed that the way of implementation of risk management consists of identification bahaya, pengukuran bahaya, and pemantauan risiko kredit d In the nature of the demand to carry out the dangers of the executives, the bank must have a framework that must constantly evolve as per the needs of the bank.

This is in accordance with the affirmation of the Director of Banking Research and Regulation that the risk of the executive data framework is important for the administrative data framework that must be claimed by each bank.

Effectiveness

According to Sawyer (2006), e fectivity emphasizes the actual outcome of an impact or power to produce a particular impact.

Internal control

Internal control is an internal control system that combines organizational structure, strategy and facilitated measures to maintain hierarchical abundance, check the accuracy and bookkeeping of information, improve capabilities and support consistency with the board's approach (Mulyadi, 2008).

Internal control is part of risk management and is essential in every institution. Internal control must be carried out reliably to ensure the progress and trust of stakeholders. Tunggal (2014) states that an internal control system is a cycle carried out by a group of leaders, board of commissioners, and other staff of an entity intended to provide reasonable confirmation of the achievement of the three classes of accompanyingobjectives: 1) Financial reporting; 2) Efectivity and efficiency of operation; and 3) Compliancewithapplicable laws and regulations.

As Arens and Loebbecke (2006) pointed out, internal control is an internal control system consisting of several settings and determination methods intended to provide a reasonable confirmation to the board that significant goals and targets for the organization must be met.

Audit Internal

Audit internal according to Tugiman (2006) the work of a company staff to test and assess the company's activities that have been completed. According to Sukrisno (Sukrisno, 2013) internal audit is an assessment conducted by the company's staff of the company's financial statements and the provisions in the company's rules, bookkeeping and consistency with management strategies.

In completing his or her obligations, the auditor must equip himself with bookkeeping information, more focused on financial statement information whose connections combine with the last position and the situation of the review time frame. In addition, the auditor can enter the field of examination action by referring to financial statements. The flow stage is to look at reports, benefit sheets, helper sheets, auditee register sheets, vouchers, and various reports. Before this stage is complete, it is important to prepare the planned program. The information and data taken in setting up a review program may be based on the continued effects of previous reviews. An audit program must be created before the audit group carries out its duties, but it can be changed on site taking into account current conditions.

If it has completed its activities, the internal audit of the bank must include a review that is compiled and made into a report. The report must carry out guidelines in reporting, must contain culmination materials, and use a very decent planning measure. Nevertheless, a few problems are seen in the planning of the results report that has been audited.

Since then, the bank's internal audit work unit has had to screen and dissect and write about the progress of the implementation of the next upgrade that has been implemented for the

auditeer. With the goal of taking risks that will later arise during time spent in the advancement of bad things, companies can improve and assess the methods used for credit, by exercising internal controls.

Credit

Credits in Latin credere method (Accept). The bank (Tenant) confesses to the recipient of the credit (The person in debt) that the credit provided will be returned as agreed. For the debt holder, the credit obtained is a mandate, so he must pay his obligations in accordance with the time of the agreement. According to Cashmere (2015), the credit component includes trust, understanding, term, hazard, or compensation.

Framework of Thought

The framework of the conceptual thought and methodology as well as the strategy carried out by banks in the utilization of risk management as a way to supervise credit and operational hazards in the field of credit has taken into account the basis of the principles set by Bank Indonesia which are certainly adapted to the extent of the bank's business. Evaluation of internal audit tasks in banking business risk investigation shows that internal auditors have a responsibility to provide adequate confirmation in order to find and control risks in bank activities. That way the author can describe the system of thought as follows:

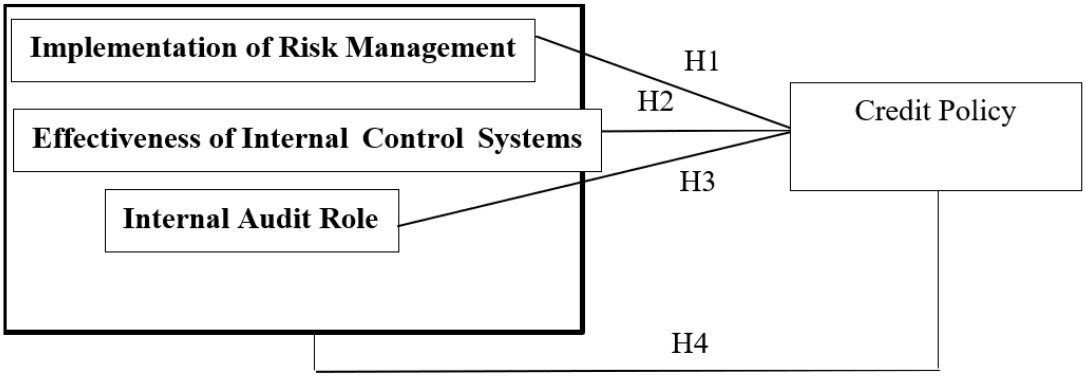


Fig. 1 Framework of Thought

Research Hypothesis

From the explanation above, the researchers raised hypotheses in the study are:

1) H_1: Allegedly the application of risk management has an effect on credit policy.
2) H_2: Allegedly the internal control system affects the policy of lending.
3) H_3: The implementation of internal audits affects the policy of lending.
4) H_4: Allegedly simultaneous implementation of risk management, effectiveness of internal control system and audit role affect credit policy

METHOD

Population and Sample

According to Ikhsan et al (2014) population is a region of speculation consisting of a collection of individuals, events or things that have certain qualities. Society is also a whole type of component that matches what scientists expect in making some conclusions.

Data Collection Techniques

To help with this research and get the necessary data, the type of data used is primary data. Primary data is collected through overview techniques using surveys and analysis created by the authors. This analysis is obtained from some of the results of previous research as a reference. An evaluation or quantity of analysis results that brought this research in accordance with what is described in the Likert scale.

Data Analysis Methods

Data checking strategies used in the study include:

1) Descriptive statistics: Descriptive statistics provide an overview of information. For this situation, an interesting measurement makes it clear about the variables used. This outline is clarified by tables measured on a ordinal scale.
2) Data Quality Test: In data quality testing, using validity tests and reliability tests. The test guarantees the accuracy of the measurement instrument, which is to measure what will be estimated. A reliability test is a calculating tool for quantifying a questionnaire that is a marker of a variable or build. Reliability tests are used to test the consistency of data for a period of time, specifically to determine the extent to which estimates used are reliable or reliable.
3) Classical Assumption Test: In the Classical Assumption Test Research uses three test tools, namely the information regularity test, multicollinearity test, and heteroskedasticity test.
4) Multiple Linear Regression Test: This model intends to predict the magnitude of bound variables by utilizing known dependent variable data (Santoso, 2000). In this study for independent variables are risk management and internal control systems and internal audits, while the dependent variables are the habit of granting credit policies.

   To test the hypotheses, the formula used is:

   $$Y = \alpha + \beta 1\ X_1 + \beta 2\ X_2 + \beta n\ X_3 + \varepsilon$$

   Where:

   Y: Credit policy — α: Constant

   $\beta 1$ and $\beta 2$: Regression coefficient — X_1: Banking risk management

   X_2: Internal control system — X_3: Audit internal

   ε: Error

5) Hypothesis Testing: This hypothesis testing is done through regression that utilizes the SPSS program by looking at the significant level (Sig t) of each variable with a degree sig = 0.05. In Ghozali's view (2011), the T statistical test is essentially used to show how far independent variables exclusively clarify the diversity of dependent variables.
6) Coefficient of Determination: Coefficient of Determination (R_2) to measure how far the model's capacity is in clarifying the diversity of dependent variables. The coefficient values of Determination are somewhere in the range of 0 and 1. A small R_2 value means that the capacity of an independent variable clarifies the variation of a very limited dependent variable. Values are close to one which means that the variable provides almost all of the expected data to anticipate variations in dependent variables.

RESULTS AND DISCUSSION

Effect of the application of risk management to credit policy

From the calculations that have been done, it can be seen that the thitung for the Application of Risk Management (X_1) is 2,770, while the value of ttabel = 0.05 means $t_{calculate} > t_{table.}$ In this way, it tends to reason that$_{H1}$ is recognized and tends to be outlined that incomplete implementation of risk management significantly affects credit policy. In its activities the application of risk management is used in the policy of lending. Where bank workers try to explain to customers before making a decision in taking credit, which has to do with the intended credit policy.

Effect of The Effectiveness of The Internal Control System on credit policy

The internal control system has a value of $0.848 < t_{table}$ (1.98498), the internal control system recognizes the policy of granting credit with a significant value of 0.399 > 0.05, so Ho_2 is accepted and rejects$_{H2,}$in this case it is interpreted that SPI does not have a major impact on the influence of the lending policy. This does not affect the possibility of a system that facilitates the delivery and activities to customers carried out by bank workers. The effectiveness that should be done by bank workers is also done because they prefer something that makes it easier for delivery that is not impossible.

The effect of the role of internal audits on credit policy

The implementation of the Internal Audit on The Policy of Giving Credit has a calculation of the Implementation of internal audit (X_3) of 2,697, while the value of t_{table} at = 0.05 which means $t_{calculates} > t_{table.}$ Judging from the degree of importance obtained the value of 0.011, this value is lower than 0.05. Thus that H_2 is recognized and tends to be interpreted that some internal audit implementation has a significant effect on the Lending Policy. With the role of internal audit of bank workers in question feel supervised in work, then in the implementation and delivery of credit policy is delivered as well as possible without the existence of things that refer to fraud.

Effect of the implementation of risk management, effectiveness of internal control and the role of internal audits on credit policy

It can be said that there is a relationship between the three variables to the policy of giving credit caused by the connection to each other. But from the variables the effectiveness of internal control is not entirely related like the other two variables, because one control may have another version that is easier.

CONCLUSION

Based on tests and research results that have been conducted on the Effect of Implementing Risk Management, The Effectiveness of Management Control Systems and the Role of Internal Audits on Credit Policy, researchers came to several conclusions, namely:

1) The application of risk management affects the policy of lending
2) The effectiveness of the internal control system has no effect on lending policies in three commercial banks.
3) The role of internal audits affects credit policy

4) Simultaneous test results that Risk Management, Internal Control Systems, and The Role of Internal Audits affect credit policy.

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