

Role of Internal Audit in Supporting Effectiveness of Internal Control Micro Credit

Evi Octavia^a, Ria Yuliani^b

^aFaculty of Economic, Widyatama University, Indonesia
 E-mail : evi.octavia@widyatama.ac.id

^bFaculty of Economic, Widyatama University, Indonesia
 E-mail : ria.yuliani@rocketmail.com

ABSTRACT

This research is motivated by the risk in the provision of micro credit which is bounce payment, namely the circumstances in which a debtor cannot fulfill its obligations in accordance with the debts agreement he made. This risk will be even greater if the bank is not able to increase or improve the quality of loans extended. The purpose of this research is to know how big the role of internal audit in improving internal controls on the provision of micro credit. Research was conducted at PT Bank Mandiri (Persero) Tbk Micro Business District Center, Bandung. This research used analytical descriptive method. Results of testing with Rank Spearman correlation showed a very strong relationship exists between the implementation of internal audit with the effectiveness of internal control provision of micro credit, amounting to 0.873. Testing the hypothesis with the t test obtained by value $t_{count} > t_{table}$ (4.384 > 1.943), it shows that internal audit contributes to the effectiveness of internal control provision of micro credit.

Keywords: Internal Audit, Internal Control Effectiveness of Micro Credit.

1. INTRODUCTION

To provide the credits is common for a banks, BRI Bank until the end of March 2010 has been channeled *Kredit Usaha Rakyat* (KUR) for more than 2.52 million customers with total lending of Rp. 13.73 trillion. KUR BRI's outstanding position in quarter 1 / 2010 of Rp 5, 3 trillion and total customer more than 1.16 million customers. PT Bank Mandiri, which succeeded record for lending amounted to Rp28, 74 trillion up to June 2010. The amount getting increase with the same period in 2009 which stood at Rp 24.34 trillion. At the micro-credit itself increased provision of microcredit from Rp 3.40 trillion in June 2009 to Rp 4.45 trillion in June 2010 or approximately at 30%.

Micro Lending for micro, small and medium enterprise is one of the main activities that support the viability of a bank. However, the provision of micro credit is not free from the risks that could affect the health and sustainability of the bank. One risk in the provision of micro credit is a payment default, which is known and used in the financial world to describe a situation where a debtor cannot fulfill the obligations in accordance with the debts agreement he made. This risk will be even greater if the bank is not able to increase or improve the quality of loans extended. Here are the data NPL (Non-performing loans) net and gross NPLs at PT Bank Mandiri 2006-2010.

Table 1 *Non-Performing Loan* PT Bank Mandiri (Persero) Tbk Periods 2006 - 2010

Periods	NPL <i>netto</i> (%)	NPL <i>gross</i> (%)
2006	5,9	16,3
2007	1,5	7,2
2008	1,31	5,1
2009	1,46	5,85
2010	1	3

Source : <http://www.detikfinance.com>

An internal control is a tool that can support the effectiveness of credit delivery system. With the implementation of adequate internal controls in the areas of credit, meant to demonstrate prudence in the bank. Internal control is a system consisting of policies and procedures adopted to ensure that the specific purpose of a business can be achieved.

To avoid or reduce the errors and abuses and to conduct an evaluation of internal control that we need a division in the company's independent nature is called an internal audit. Cindy Nurfadillah (2009) stated that internal audits are intended to audit and evaluate the adequacy, effectiveness of internal control policies and procedures, in order to assist management in discharging its responsibilities are described through analysis of valuation and recommend the necessary corrective actions in order to take concrete steps in supporting the effectiveness of lending operations.

2. THEORY AND HYPOTHESIS

2.1 Internal audit

In providing reasonable assurance that objectives will be achieved, then the control requires constant monitoring from management. It can be known whether the implementation of the activities carried out in accordance with the set. Therefore, management needs a special section to conduct an assessment of internal control, this section is called the internal audit, which should be done by someone who is free from the influence of the parts are examined. Internal audits conducted by an enterprise is very important and useful, because in carrying out the possibility that employees will not comply with established procedures, so we need people who supervise and evaluate the results of their work.

According to Moeller and Witt quoted by Hiro (2004) regarding the definition of internal audit, namely: "Internal Auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization."

According to Hiro (2006) in order to work effectively, the internal audit function must be managed properly. Standards that apply to the Department of Internal Audit sets out the responsibilities of the Internal Audit Director. Director of Internal Audit is responsible for determining that:

1. Implementation of audit work has reached the general purpose and responsibilities thereof by management and the Board of Directors
2. Resources in the Internal Audit Department has been managed effectively and efficiently
3. Audit work carried out in accordance with the Standards for the Professional Practice of Internal Auditing.

The scope of internal audit includes examining and evaluating an adequate, efficient organization system of internal controls and the quality of the organizations responsible for implementation.

2.2 Internal Control

Management in control of all activities of the company require a control system that can secure the property company, which can give confidence that what is reported is true and subordinates can be trusted, and who can encourage the efficiency of their operations and to constantly monitor that the policy was established run in accordance with what is expected. Good internal control structure and sufficient to prevent any errors and irregularities that would reduce the risk to the lowest level of acceptable risk. Control system that is in the company is not meant to negate all the fraud and error, but to emphasize the occurrence of errors and irregularities within the bounds of decent and can be solved quickly and accurately.

According to The Committee of Sponsoring Organization (CSO), quoted by Boynton, Johnson and Kell (2006:325) definition of Internal Control or internal controls are:

"Internal control is a process effected by an entity's board of directors, management, and other personnel, Designed to Provide reasonable assurance Regarding the achievement of objectives in the Following categories:

1. Reliability of financial reporting.
2. Effectiveness and efficiency of operations.
3. Compliance with applicable laws and Regulations. "

The good internal control is a control that is able to ensure reliable financial reports that can be trusted, efficient and effective operations, and compliance in the Act, regulations and management policies that have been determined. A company that has a good internal control will produce reliable information, so that later will be able to facilitate the management in decision-making process.

2.3 The Element of Credits

Kashmir (2001) mention the loans granted by credit institutions have the element - the element as follows:

1. Trust
2. Period
3. Risk
4. Reply Services
5. Agreements

2.3.1 Completion Bad Credit Technique

Kashmir (2002) identifies the rescue of bad loans carried out by, among others:

- a. Rescheduling
- b. Reconditioning
 1. Capitalization of interest, namely the interest made payable principal
 2. Postponement of payment of interest until a certain time.
 3. Lower interest rates
 4. Interest Exemption
- c. Restructuring
- d. Combination
- e. Foreclosures

2.4 THEORITICAL FRAMEWORK

Based on literature review, both theoretically and empirically, researchers describe the thought patterns of the relationship between: the implementation of Internal Audit, and Internal control loaner:



Figure 1. Internal Audit Implementation and Internal control lending models

2.5 HYPOTHESIS

Implementation of internal audit for the provision of adequate micro-credit contributes to the internal control provision of Microcredit. "

3. RESEARCH METHODS

Research was conducted at PT Bank Mandiri (Persero) tbk Micro Business District Center, Bandung. The research method used in this research is analytical descriptive method. Analysis of the data used is Rank Spearman correlation.

4. ANALYSIS

4.1 Analysis of Rank Spearman correlation coefficient

To determine the strength of the correlation between X and Y variables, then the calculation of Spearman correlation. The correlation coefficient shows a strong lack of relationship between X and Y variables. From the results of calculation by using SPSS 17.0 For Windows obtained the following results :

Table 2.
 Rank Spearman Correlation Coefficient Analysis

			AI	PI
Spearman's rho	X	Correlation Coefficient	1.000	.873**
		Sig. (2-tailed)	.	.005
		N	8	8
	Y	Correlation Coefficient	.873**	1.000
		Sig. (2-tailed)	.005	.
		N	8	8

Source: Calculation

Based on the table 4.1, the coefficient obtained is 0.873. the Strong or weak criteria put forward by Sugiyono (2004:183):



Table 3
 Interval values of Rank Spearman correlation coefficient

Interval coefficient	Correlation coefficient	interpretation
0,00 – 0,199	+ and –	Very low correlation
0,20 – 0,399	+ and –	Low correlation
0,40 – 0,599	+ and –	Strong enough correlation
0,60 – 0,799	+ and –	Strong correlation
0,80 – 1,000	+ and –	Very strong correlation

Source : Sugiono (2004)

Based on the criteria of the Table 4.2 the strong correlation, we can know that the correlation coefficient of 0.873 included in the category of very strong relationship. This means there is a very strong relationship between internal audit with the effectiveness of internal control provision of micro credit.

4.1.1 The coefficient analysis of determination

This analysis is used to calculate the effect of X variable (Role of the implementation on of Internal Audit) to Y variable (Effectiveness of Internal Control Micro Lending), by using the following formula:

$$K_d = r_s^2 \times 100\%$$

$$K_d = 0,873^2 \times 100\%$$

$$K_d = 0,762129 \times 100\%$$

$$K_d = 76,21\%$$

With a determination coefficient of 76.21%, it can be concluded that internal audit contributes to the effectiveness of internal control of credit amounting to 76.21%, its remaining 23.79% influenced by other variables not included in the study.

With a correlation coefficient of 87.3% and determination coefficient of 76.21% showing that the role of internal audit in effectiveness internal control of credit is positive.

4.1.2 Hypotheses Testing

Statistical hypothesis testing of hypotheses in this study can be written as follows:
 Ho: $r_s \leq 0$, the internal audit did not play a role in supporting the effectiveness of internal control provision of micro credit

Ha: $r_s > 0$, the internal audit role in supporting the effectiveness of internal control provision of micro credit

Testing this hypothesis using test statistics known as t-student test. Results calculated by student t-test statistic compared with the value of student t-table with n-2 degrees of freedom and significance level of = 5%
 With hypothesis testing the following criteria:

Ho will be accepted if $t_{\text{count}} < t_{\text{table}}$

Ha will be accepted if $t_{\text{count}} > t_{\text{table}}$

Counting Significant t test is used the following formula:

$$t = \frac{r_s \sqrt{n-2}}{\sqrt{1-r_s^2}}$$

$$t = \frac{0,873\sqrt{8-2}}{\sqrt{1-0,762129}}$$

$$t = 4,384$$

Based on the calculation above, the obtained t count = 4.384 and compared with a way to see the value of the t distribution table that can be seen in the appendix. In the table of values t distribution, we use the formula $df = n-2$ obtained $df = 8$, the significance level α for testing the one hand (one-tailed test) = 0.05, obtained a value of 1.943. Because $t_{\text{count}} > t_{\text{table}}$ (4.384 > 1.943) then Ha is received and Ho is rejected. This means that internal audit contributes to the effectiveness of internal control provision of micro credit.



Based on the results of correlation test, coefficient of determination and t test, the hypothesis that the authors propose that "The implementation of internal audit for the provision of adequate micro-credit contributes to the internal control provision of Microcredit", is acceptable.

4.2 DISCUSSION

4.2.1 Implementation of Internal Audit on Micro

For provision of micro credit can be carried out properly and according to plan, needed a tool that is an internal audit Micro credit diversion to avoid the mistakes that could hurt the company. This is in accordance with the internal control objectives Micro credit Bank Mandiri, which is held by the banking management in accordance with the principles of prudence and Micro Credit reports are reliable. The following will discuss the elements that make up the internal audit Microcredit as has been mentioned in previous chapters that could be assessed whether the policies and procedures established by management has been implemented so that the credit jam a heavy blow to the bank in question can be minimized.

Organizational structure. Bank Mandiri to the idea that the Internal Auditor position has a special status, namely the Regional Internal Control (RIC) which is responsible to the Audit Committee. All members of the internal auditors at Bank Mandiri has no family connections with the leadership of the region.

These internal auditors have a clear duty and authority in conducting the audit. Thus, in performing its duties, the auditor may express their opinions freely without any influence or pressure from other parties that encourages internal auditors to conduct audits objectively and independently. The task of internal auditor on Microcredit in PT. Bank Mandiri (Persero) Tbk Micro Business District Center, Bandung, among others, as follows:

1. conduct an audit of existing activities in the provision of micro credit
2. gives the results of the audit of Micro Credit

Internal auditor's work does not end until the issuance of audit reports, but must continue with the action of monitoring to determine whether appropriate action has been taken and implemented as disclosed in the findings and audit recommendations in the final report of the audit. Internal auditor's report given based on the facts on the ground. Personnel on the internal control is a person who has experience in the field so that it has adequate knowledge in performing the audit.

The internal audit of Microcredit in PT. Bank Mandiri (Persero) Tbk Micro Business District Center Bandung as follows:

1. Compliance
Internal auditors to assess compliance of employees with policies and procedures that have been established, and determine whether the activities carried out do not conflict with existing regulations.
2. Verification
Internal auditors examine the reasonableness of documents, records and reports generated. With the Verification, the report submitted to the leadership of the company can be done correctly and accurately
3. Evaluation
Internal auditors perform ongoing assessment of the implementation of the provision of credit. The auditor also oversees lending procedures have been done correctly. In addition, internal auditors also provide suggestions or recommendations to correct deviations that occur.

4.2.2 The Reports Providing and Follow Up Micro Credit

Internal audits by the Regional Control (RIC) will be manifested in a statement. The form of audit reports can be run as follows:

1. Routine audit reports
Audit is conducted on a daily and / or continuing with a focus on process / output accounting and execution of transactions / activities that are considered important and critical, include:
 - a. Audit of accounting activity
 - b. Routine audit of transactions / activities that are relatively large value
 - c. Audit of service activity



- d. Audit the implementation checklist compliance testing credit activity
- e. Audit the implementation of Anti Money Laundering and Know Your Customer
2. The audit report sudden

Is the suddenly done an audit of certain transactions that have a particularly high inherent risks, including:

 - a. The unit that manages liquid and liquid instrument, such as cash management, ATM, etc.
 - b. Activities are considered vulnerable as the management of securities, savings books management, tax collection UN etc..
 - c. Units are assessed to have weak internal controls.
 - d. Low integrity, credibility and competence of staff.
3. Audit reports are periodically

Audit is conducted on the activity / activities thoroughly and deeply to ensure compliance with systems and procedures that have been specified.
4. Special audit report

Audit is conducted in connection with the diversion provisions which indicate cases of fraud / fraud or a potential bank losses. Systematic of the contents of the report made by the Regional Internal Control (RIC) as follows:

 - a. Objects and timing of audit

Explain that the object to be audited are all existing units in PT. Bank Mandiri (Persero) Tbk Micro Business District Center, Bandung, and where checks will be carried out.
 - b. The audit

Provide an explanation of the audit objectives, the means that will be used and applied procedure audit.
 - c. Target and field audits

Consisting of the accounting field, the field of credit, and public sector.
 - d. Audit results

Describing the problems that concerning the audited object both the findings and the not findings
 - e. Conclusions and recommendations

Furthermore, conclusions drawn, especially in the form of findings that are considered to deviate from the procedures and regulations that have been implemented to improve or repair of the deviations that are found in the audit. Regional Section of Internal Control (RIC) will provide advice on measures that should be done by the company. Audit reports are reported by the internal auditor will be followed immediately by each unit in question.

4.2.3 Environmental Control Micro Lending

Microcredit control environment consists of actions, policies and procedures that can reflect the attitudes and actions of the director of the company's management concerning the use and control of the entity's control environment elements contained in the PT. Bank Mandiri (Persero) Tbk Micro Business District Center Bandung as follows:

1. Integrity and ethical values

To review the activities undertaken by the operating units, Regional Internal Control (RIC) must have a personality which is based on the element of honest, objective, diligent, loyal, thoughtful, and responsible to the profession.
2. Commitment to Competence

Employees who are competent and trustworthy is an important element in any internal control. In terms of recruitment, PT. Bank Mandiri has procedures and policies are quite good. Recruitment process can be done by carrying advertising that uses various media. Next is the selection through a psychological test, interview and medical test.
3. Organizational structure

The process of supervision of Micro Credit activity of PT. Bank Mandiri (Persero) Tbk Micro Business District Center Bandung can be implemented since it is supported by an organizational structure that has described the functions and tasks that clearly
4. Board of Commissioners and the Audit Committee

Board of Commissioners who are in Jakarta Head Office in charge of overseeing and monitoring the course of operations of PT. Bank Mandiri (Persero) Tbk Micro Business District Center, Bandung. The Audit Committee is an audit of the existing executive team at PT. Bank Mandiri, which typically have expertise in accounting.
5. Management philosophy and operating style

The management of PT. Bank Mandiri (Persero) Tbk Micro Business District Center Bandung be democratic. It can be shown by the open attitudes of company leaders to their subordinates. Important points that the authors get at Bank Mandiri (Persero) Tbk Micro Center Business District of Bandung, which is:

 - a. Management decision-making more input from subordinates.
 - b. Management made a plan to anticipate problems due to changes in the future.



6. Practices and employee policies

Officers competent and trustworthy is an important element to support the internal control. For that, PT. Bank Mandiri implements policies in selecting employees as follows:

- a. Hold a hiring selection with the intent to obtain sufficient recruits.
- b. Providing educational opportunities to improve the quality of each bank employee in the form of training or education course conducted by internal party company.
- c. Provide certain benefits or facilities with a view to improving the welfare of employees.
- d. Each held a certain period moving staffs which are intended to eliminate the sense of saturated to work. For employees who will occupy a higher position should follow the education first.
- e. Emphasizing the importance of cooperation between other parts of the work so as to create good working atmosphere.

5. CONCLUSION

Conclusions resulting from this research are as follows:

1. Implementation of internal audit on PT. Bank Mandiri (Persero) Tbk Micro Center Bandung Business District are adequate for the report and follow up of internal audit, internal audit Microcredit has been in accordance with the audit program, audit completion time in accordance with a predetermined schedule. Results follow-up to encourage the improvement of internal audit reports Microcredit.
2. Implementation of internal control over micro-credit granting procedures conducted PT. Bank Mandiri (Persero) Tbk Micro Center Business District because the city has made adequate risk assessment, provision of micro-credit transactions have been recorded properly, in reducing the risks associated with the provision of micro credit is always to be carefully about the costs and benefits.
3. The role of internal audit of internal control over micro-credit granting procedures based on Spearman Rank correlation test is obtained at 0.873, the value is in the interpretation of correlation coefficient show that there is a very strong relationship between two variables and have a direct relationship. While the internal audit role (X variable) in supporting effectiveness of internal control provision of micro credit (Y variable) can be identified by using coefficient determination (Kd) that is equal to 76.21% and its remaining 23.79% is the role of other variables. Thus the hypothesis that the author proposed in chapter 1 "The implementation of internal audit for the provision of adequate micro-credit contributes to the internal control provision of Micro Credit" is acceptable.

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