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**THE ROLE OF OPERATIONAL AUDIT IN INCREASING
EFFECTIVENESS OF LENDING ACTIVITIES
(Case Study: PT. Bank Rakyat Indonesia (Persero) Tbk Padang
Branch**

THESIS



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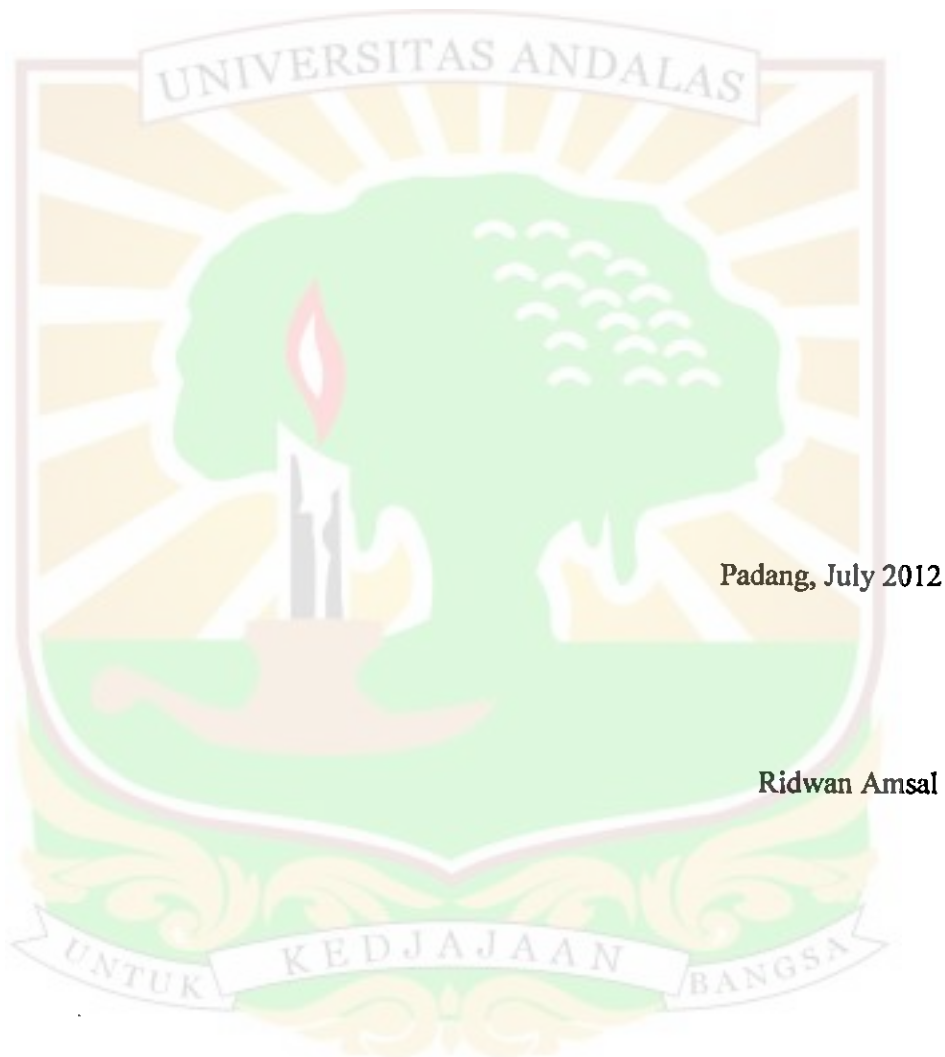
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The writer realizes that this thesis is still far from perfection. So, writer is expecting guidance and suggestion to reach the perfection in this. Then, writer also realizes that the successful cannot be separated from the favors and assistances of exceptional people to whom I am very grateful. On this occurrence, I would like to express my gratitude to those who have support and encourage me on my life especially in academic life

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As a white collar crime!



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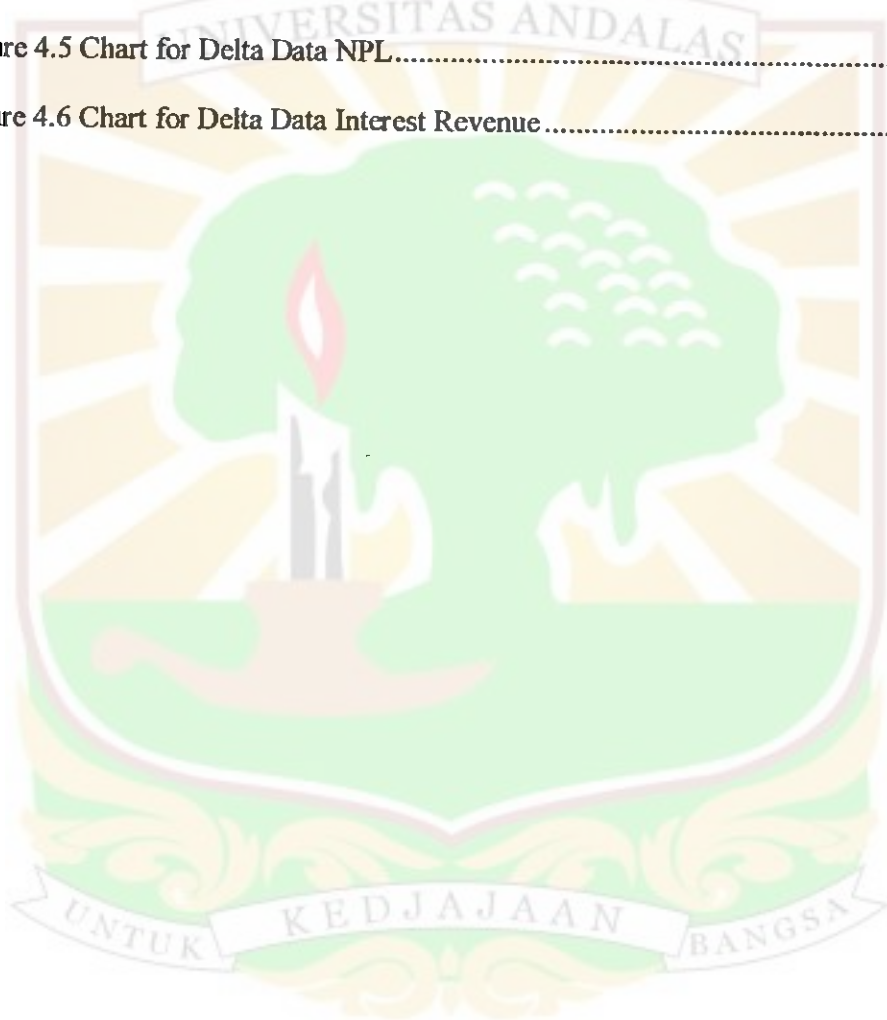
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CHAPTER I

INTRODUCTION

1.1 Background

The objective of national development is to achieve equitable and prosperous society. One of the government's efforts in realizing national development goals is encouraging economic development, where the government provides guidance and direction in economic improvement and creating a healthy climate for the development of business conducted through a series of policies to achieve national economic growth rate as expected.

Indonesian banking industry is running based on economic democracy by using the conservatism principle. Bank has a function as a collector and regulator of public funds and aims to support the implementation of national development in order to enhance equitable economic growth and national stability to improve the prosperity of society (Banking Act 1992 art. 2, 3, and 4). As collector and regulator of funds, bank collects funds from the public and passes it back in the form of loans.

Bank is also a business entity, which would naturally expect profits from its activities. However, in lending activities, aside from meeting company profit motive, banks should also be able to guide debtors so that loans that have disbursed could meet the target. Assuring that lending activities goes as predetermined plan, some efforts are necessary to achieve the goal. One of the managerial tools that used to monitor lending activities is operational audit.

Management needs relevant information related to their operations and its results more than that showed in financial data. This information will be useful in considering the quality of operation and making operational improvements.

Operational audit allows the management to obtain information about the effectiveness and efficiency of organizational units under their control. It can assist management by providing early warning or detection system in revealing deviations from the organization in particular area. Benefits of operational auditing in lending activities for bank is as a managerial tool to monitor and control lending activities conducted in accordance with company regulation

Bank operation cannot be separate completely from the risk of nonperforming loans. Banks should try to reduce the risk of uncollectible loan as low as possible. In short, we can say that to decrease the possibilities of uncollectible will help with maintaining the quality of loan. One of the provisions governing non-performing loans at the bank are the regulations of Bank Indonesia, that is non-performing loans (NPL's) less 5% of the total outstanding loan. This provision implies that the banking business can keep up running business if bank are be able to carry out lending activities with the prudential principle.

The element of risk and uncertainty in returning credit customer has received; it would require a sustained examination of lending activities to minimize risks that may arise. The bank needs to improve the quality of its lending activity to minimize the incidence of non-performing loan so that the level

of collectability of loans can improve. One of the ways is to implement adequate operational audits of the activities of credit that has executed.

Increased business activity cause a variety of needs, including funding requirements for building or expanding businesses. Additional funds can be gathering not entirely from the company, but also come from an outside of the company. That financial institution particularly bank. Thus, the development of the business world should follow by the development banks as institutions supporting and driving the business.

Bank Rakyat Indonesia Padang Branch, which is a banking institution that provides, financing for business activities of its clients, has committed to become the regional leader in Indonesia to develop small medium enterprise (SME) as a force driving the economy of West Sumatra. Bank Rakyat Indonesia also commits to re-build SMEs after the earthquake in West Sumatra, 30 September 2009. The commitment and determination in realizing that goal is by providing loans for the people of West Sumatra to fulfill their needs of funds for business activities.

The ability of the Bank Rakyat Indonesia Padang branch as lending institutions depends on the ability of banks to attract funds from the community and distribute it to people or companies that need financing at a high level of loan collectability. In achieving these goals needs commitment as a driver of economic development of West Sumatra. The lending activity is one of the main activities of the Bank Rakyat Indonesia Padang branch that needs to be evaluating with ongoing basis trough operational audits. The effectiveness of lending activities and achieving lending target with high quality performance loan, Bank Rakyat

Indonesia expected to be able to encourage economic development in West Sumatra.

Based on the background above, the researcher are interested to conduct research with the title: **The Role of Operational Audit in Increasing Effectiveness of Lending Activities. (Case Study: PT. Bank Rakyat Indonesia Tbk Padang Branch)**

1.2 Problem Definition

Emphasizing the scope in this research based on previous background, the writer can formulate problem definition as follows:

1. How is the procedure of lending activities in PT. Bank Rakyat Indonesia Padang Branch?
2. How is the implementation of audit operational towards lending activities in PT. Bank Rakyat Indonesia Padang Branch?
3. How is the role of operational audit in increasing effectiveness of lending activities in PT. Bank Rakyat Indonesia Padang Branch?

1.3 Research Objectives

There are several research objectives when conducting this research, they are:

1. To understand lending activities applied in PT. Bank Rakyat Indonesia Padang Branch.
2. To see how PT. Bank Rakyat Indonesia Padang Branch applied audit operational to improve effectiveness in lending activities.

1.4 Research Benefits

There are several benefit can be gain from this research. They are:

1. For Bank Rakyat Indonesia, it will show to the company effectiveness of lending activities applied in PT. Bank Rakyat Indonesia Padang Branch and how operational audit can improve the effectiveness of lending operation.
2. For writer, to gain knowledge and understanding about banking, auditing and related topics with the research object itself.
3. For further research, as a study literature for those who wants to do similar research or related topics.

1.5 Systematical Writing

The systematical writing of this thesis divided into five sections. Chapter one describes the background of the problem, problem statement, research objectives, research benefits, and structure of systematical writing of this thesis. Chapter two includes the literature reviews of any related theories and opinions of the experts gathered from different sources, such as textbooks, result from previous research, journals, and internet based contend and information.

Chapter three discuss the research methodology used in preparation of this type of research, types and source of data, data collection procedure and method and analysis techniques used to analyze the data and any information needed for the thesis. Chapter four describe the result of research based on the data and information gathered relation with to the question statement and achieving the

objective of the research by evaluating the theories and the implementation of subject in this company. In addition, chapter five describes the conclusion of all the results of research presented by previous chapter and additional feedback in form of suggestion, and discusses the limitation of the research.



CHAPTER II

THEORITICAL FRAMEWORK

Nowadays, auditing has become an important role in business development. Especially the world of banking industries, consider the decision of a bank officer in lending activities. This decision based on such factors as previous financial relationship with the business and the financial condition of the business as reflected by its financial statements. In order to stay operating properly, bank has to develop good control over the assets and activities. Audit roles will helps to assess the effectiveness of the operation and improve performance itself.

2.1 Definition Auditing

Auditing is one of the services that provide by public accountants who are required to check the fairness of the financial statements audited, so that financial reports produced by the audited company maybe more trusted by the users of financial statements. There are some definitions of auditing:

1. The accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria for auditing should be done by competent, independent person. (Elder, Beasley, & Arens, 2010)
2. Auditing is a systematic process to obtain and evaluate evidence objectively `about the statements about the activities and economic events, in order to determine the level of concordance between these statements

with the established criteria and communicating the results to the user concerned. (Mulyadi, 2010)

2.2 Distinction between Auditing and Accounting

The users of financial statement and the members of the public still confuse auditing with accounting. The confusion because most auditing is usually concerned with accounting information and auditors has considerable expertise in accounting matters.

Accounting is the recording, classifying, and summarizing of economic events in a logical manner for providing financial information for decision-making. To provide relevant information, accountants must have an understanding of the principle and rules that provide the basis for preparing the accounting information. When auditing accounting data, auditors focus on determining whether recorded information properly reflects the economic events that occurred during the accounting period. To understand auditing, the auditor must possess expertise in the accumulation and interpretation of audit evidence. This expertise distinguishes auditors from accountants. Determining the proper audit procedures, deciding the number and types of items to test, and evaluating the results are problems unique to the auditor (Arens & Loebbecke, 2000)

2.3 The Needs for Auditing

To illustrate the need for auditing, consider the decision of a bank officer in giving a loan to a business. This decision will base on such factors as previous financial relationship with the business and the financial condition of the business

as reflected by its financial statements. If the bank make loan, it will charge a rate of interest determined primarily by three factors:

1. Risk-free interest rate. This is estimation if bank rate that could earn by investing in Indonesia treasury notes for the same length of the time as the business loan.

2. Customer Business Risk. This risk reflects the possibility that the business will not be able to repay its loan because of economic conditions, such as recession, poor management decision, or unexpected competition in the industry.

3. Information risk. Information risk reflects the possibility that the information upon which the business risk decision made was inaccurate. A likely cause of the information risk is the possibility of inaccurate financial statements.

Auditing has no significant effect in the risk of free interest rate and business risk for the customer, but it can have significant effect on information risk. If the bank officer is satisfied with three is minimal information risk because borrower's financial statements audited, the bank's risk is substantially reduce and the overall interest rate to the borrower can reduced. The reduction of information risk can have a significant effect on the creditor's ability to obtain capital at a reasonable cost.

2.4 Types of Audits

There are three types of audits (Elder et al., 2010) they are:

1. Operational Audit

This type evaluates the efficiency and effectiveness of organization is operating procedures and methods.

2. Compliance Audits

Compliance audit is conduct to determine whether the auditee is following specific procedures, rules, or regulations set by some higher authority.

3. Financial Statement Audits

This type is conduct to determine whether the overall financial statements (the information verified) state in accordance with specified criteria, especially GAAP.

2.5 Differences of Financial Audit and Operational Audit

Before carrying out operational audits, it should be known about the difference between operational audit and regular financial audit. The three major differences the between the operational and financial auditing are the purpose of the audit, the distribution of the report, and inclusion of nonfinancial areas in operational auditing (Elder et al., 2010).

Differences operational audits and financial audits are:

1. Oriented financial audits in the past and more emphasis on whether the historical information is record correctly. While the operational audit-oriented emphasis on efficiency and effectiveness.

2. In terms of distribution of reports, financial audit addressed to the many users of financial statements and distributed in detail. While the operational audit reports are very different from one audit to another audit due to limited distribution and diversity of the nature of audit operations for efficiency and effectiveness.

3) In the field of engagement is a not financial, operational audit covering many aspects of efficiency and effectiveness in a business entity.

Financial audit is limited to matters directly affecting the fairness of presentation of financial statements.

2.6 Operational Audit

2.6.1 Definition Operational Audit

Operational audit is a systematical process of evaluating an organization's effectiveness, efficiency, and economy of operations under management's control and reporting to appropriate persons the results of the evaluation along with recommendations for improvement (Boynton, Johnson, & Kell, 2003).

The essential parts of this definition are as follows:

- *Systematic process.* As in the case of a financial statement audit, an operational audit involves a logical, structured and organized series of steps or procedures. This aspect includes proper planning, as well as obtaining and objectively evaluating evidence pertaining to the activity being audited.

- *Evaluating an organization's operations.* The evaluation of operations should be based on some established or agreed-upon criteria. In operational auditing, the criteria are often expressed in terms of performance standards established by management.
- *Effectiveness, efficiency and economy of operations.* The primary purpose of operational auditing is to help management of audited organization to improve the effectiveness, efficiency and economy of operations. Thus, operational auditing focuses on the future. This is in direct contrast to a financial statement audit, which has a historical focus.
- *Reporting to appropriate persons.* The appropriate recipient of an operational audit report is management or the individual or agency that requested the audit. Except when the audit is requested by a third party, the distribution of the report remains within the entity. In most cases, the board of directors or its audit committee receives copies of operational audit reports.
- *Recommendations for improvement.* Unlike financial statement audits, an operational audit does not end with a report on the findings. It extends to making recommendations for improvement. Developing recommendations is, in fact, one of the most challenging aspects of this type of auditing.

Operational Auditing provides benefits to the organization by improving the efficiency, economy, and effectiveness of its operations (Strawser, Strawser, 2001)”

Operational audit is a systematic review of organization activities....in relation to specified objectives. The purpose of the engagement may be: (a) to asses performance, (b) to identify opportunities for improvement, and (c) to develop recommendation for improvement or further action. (Strawser, Strawser, 2001)

An operational audit is an examination or assessment to provide information for improvement on efficiency, effectiveness, and performance of a business entity. In operational auditing, the reviews are not limited to accounting field only. They can include the evaluation of the organizational structure, computer operations, production methods, marketing, and any other area in which the auditor is qualified. Efficiency and effectiveness of operations are far more difficult to evaluate objectively than compliance or the presentation of financial statements in accordance with General Accepted Accounting Principle (GAAP).

2.6.2 Purposes of audit Operational

According to (Guy, Alderman & Winters, 1999) there are there are three purposes of audit operational.

1. Assess performance

Involve as assessment of a reviewed performance within an organization. To assess performance is to compare organization activities with (1) objectives such as organizational policies, standard and goal established by management or engaging party with (2) other appropriate measurement criteria.

2. Identify opportunities for improvement.

Increase effectiveness, efficiency and economy are broad categories for classifying most improvement. By interviewing individuals, observing operation, reviews past and current report, studying transaction, making comparison with industry standard, exercising professional judgment based on experience.

3. Develop recommendation for improvement or future action.

The mature and extend of recommendation develop during operational audit vary considerably.

An operational audit evaluates the efficiency and effectiveness of any part of an organization's operating procedures and methods. Of these statements, can conclude that operational audit is an evaluation of company operational activities (Elder et al., 2010).

Operational Audit evaluates the efficiency and effectiveness of any party of organizations operating procedures and methods. At completion of an operational audit, management normally expects recommendation for improving operation. In operational auditing, the reviews are not limited to accounting. They can include the evaluation of organizational structure, computer operations, production methods, marketing, and any other area in which the auditor qualified.

The term of operational audit refers to a comprehensive examination of an operating unit or a complete organization to evaluate systems, controls, performance, as measured by management's objectives. Whereas a financial audit focus on measurement of financial position, result of operations and cash flows of

an entity, an operational audit focuses on the efficiency, effectiveness, and economy operations. The operational auditor appraises management operating control and systems over such varied activities as purchasing, data processing, receiving, shipping, office service, advertising and engineering.

(Widjaya, Tunggal, 2000) defines operational audit offer several benefits, that is:

1. Offer relevant information and timing to help decision-making process.
2. Help management evaluate controlling report.
3. Comply with management policy, planning, procedure, and government regulation.
4. Identify potential problem area to decide further actions.
5. Valuation of efficiency of resources
6. Valuation of effectively in achieving the company goals.
7. Provide learning place for personnel in company operation phase.

Form the descriptions above we can conclude that benefits of operational audit orientation is to improve management performance in the future. The result of operational audit will find the main problems in company's operational activities.

2.6.3 Independence and Competence of Operational Auditor

The two of most important qualities for operational auditor are independence and competence (Moeller, 2009). The auditor report is important to

ensure that investigation and recommendation made without bias. The responsibilities of operational auditors can also affect their independence. The auditor should not be responsible for performing operating functions in a company or for correcting deficiencies when ineffective or inefficient found. Auditor's job is to recommend change in operations, but the operating personnel have authorities to accept or reject the recommendations.

Competence is necessary to determine the cause of operational problems and to make appropriate recommendation. Competence is a major problem when operational auditing deals with wide-ranging operating problems. The internal auditor staff doing that type of operational auditing would presumably have to include some personnel with background in marketing and others in production.

2.6.4 General Approach to Operational Audit

In many respects, the auditor's work in performing an operational audit is similar to that of a financial audit, but there are some significance differences (Whittington & Pany, 2001). The step may be set forth as (1) definition of purpose, (2) familiarization, (3) preliminary survey, (4) program development, (5) fieldwork, (6) reporting findings, and (7) follow-Up.

1. Definition of Purpose

The broad statement of purpose of an operational audit usually includes the intention to appraise the performance of a particular organization, functions, or group activities. The auditor must determine specifically

which policies and procedures to apprise and how they related to the specific objective of the organization.

2. Familiarization

Before starting and operational audit, auditor must obtain a comprehensive knowledge of the objectives, organizational structure, and operating characteristics of the unit audited. This familiarization process might begin with a study of organizational charts, statements of the function and responsibilities assigned management policies and directives, and operating policies and procedures.

3. Preliminary Survey

The auditor's preliminary conclusions about the critical aspects of the operations and potential problem areas summarized as the auditor's preliminary survey. This survey serves as a guide for the development of the audit program

4. Program Development

The operational audit program is tailor-made to particular engagement. It contains the entire test and analyses the auditors believe are necessary to evaluate the organization's operation.

5. Fieldwork

The fieldwork phase involves executing the operational audit program. The auditors select the item reviewed to determine the adequacy of the

procedures and how well their followed. Analysis is another important part of fieldwork. Actual performance by organization is compare with various criteria, such as budgets, productivity goal or performance by similar unit. During fieldwork, the auditors will document the planning, evidence gathered, analysis, interpretation, and finding in their working paper.

6. Reporting the Findings

On the completion of the fieldwork, the auditor should summarize their findings related to the basic purposes of the audit. The report will include suggested improvements in the operational policies and procedures of the unit and a list of situation in which compliance with existing policies and procedures is less than adequate.

7. Follow-Up

The final stage in the operational auditor's work in the follow-up action to ensure that any deficiencies disclose in the audit report are satisfactory handed. This follow-up responsibility maybe given to a line organization or staff group, but most frequently held to be responsibility of the audit staff.

2.7 Banking overview and Lending Operation

2.7.1 Bank Definition

Generally, bank known as financial institution that have main activities are receiving fund from society in term of saving account, current account, and deposit. Other than that bank also known as fund distributor, money changer,

transfer, payment point, and etc. according to Indonesian Law about banking 1992, what it mean by bank is institution that collect fund from society in kind if saving and deliver it to society to increase people wealth.

Another Bank definition is an institution that acted as financial intermediaries between parties who have funds and those who need the funds. The basic philosophy of banking activities is the belief of the people. Its show that in bank's main activities whereas bank receives deposits from the public in the form of savings, deposits, etc. and provides credit to those who need funds.

The definition of Bank are financial institutions which main activity is to collect funds from the community and distribute those funds back into the community and provide other banking services (Kasmir, 2010).

According to Indonesian Law No. 2 of 1992 banking as amend by Act No. 10 of 1998 about bank definition is:

"Bank is business entities which collect funds from the public in the form of savings and channel them to the public in the form of loans or other forms in order to improve the standard of living of the people."

From the above description, concluded that the Bank is a business entity engaged in the financial services business to collect funds from the public and distribute it back to the community to improve the lives of many people.

2.7.2 Functions and Duties of Bank

There are three most important functions of the bank (Suyatno, 2001):

1. Function as an intermediary in the credit

- a. Credit is active, where bank acts as lender.
- b. Passive credits, where the bank acts as the receiving party in the form of credit funds entrusted to him in the form of demand deposits, time deposits, and savings.

1. Function as an agency that provides services to domestic trade and foreign
2. Function as the agency has the authority to circulate money, currency or demand deposits.

There are two banks tasks (Frianto, 2005):

1. As credit intermediaries, i.e. banks provide credit to a third party and the debtor from third-party deposits
2. Create credit, which lend funds that not derived from funds belonging to the community.

There are three forms or bank operations performed according Frianto (2005):

1. Actively lending operation that is the task of the bank in order to create or provide credit
2. Lending operations of banks in passively accept deposits or funds entrusted to the third party
3. Venture banks as intermediaries in the provision of credit

2.8 Lending Activities

2.8.1 Definition of Loan (Credit)

Credit comes from the Greek, *credere* (which means "trust" or "mandate") or from the Latin, *creditum* (which means almost the same, "the belief in the truth" or "mandate"). Credit is the delivery of goods, services, or money from one party (the creditor / lender) on the basis of trust to another party (customer or debtor / borrower) with the promise of receiving credit to pay creditors on the date agreed upon both parties (Veithzal, 2007).

According to Law of Republic Indonesia No. 10 1998 about Banking: Credit is the provision of money or bills that can be equated with it, based on the consent and agreement borrowing and lending between banks and other departure that requires the borrower to repay their debts after a certain period with the amount of interest in return or profit-sharing.

2.8.2 Objectives and Functions of Loan

In practice, lending goal is to (1) profiteering (2) helps business customers (3) assist the government (Kasmir, 2010). Thus, the purposes of credit granted by a bank that will assume duties as an agent of development are to:

1. Helping to succeed and realized of government programs in economics and development.
2. Increase the activity of the company in order to perform its functions in order to ensure the fulfillment of the organizations goals.

3. Makes more profits for the company's survival is assured and able to expand its business and increase stockholder wealth.

The function of credit today is basically the fulfillment of services to serve the needs of society (to serve the society) in order to encourage trading, encourage and accelerate production, services and even consumption all of which were ultimately intended to raise the standard of society welfare (Firdaus, Rachmat & Ariyanti, 2004) .

The functions of credit are (Kasmir, 2010):

1. to improve the usability of money
2. to improve money circulation
3. to improve the usability of money
4. to improve the circulation of goods
5. as a tool of economic stabilization
6. to improve income distribution
7. to increase the excitement of business
8. to improve international relations.

2.8.3 Types of Credit (Loan)

The type of loan granted by commercial banks to the community consists of various types of credit include (Kasmir, 2010):

1. Based on the usefulness

- a. Consumptive credit, i.e. credit used for consumption in private
- b. Earning credit, credit is given to improve the business, production, or investment
- c. Trade credit, i.e. loans provided to traders and used to finance its trade activities such as buying merchandise for which expected payment from the sale of such merchandise.

2. Based on the loan period

- a. Short Term Loans, the maximum maturity of loans a year and is typically used for working capital purposes
- b. Medium-term credit, i.e. loans with a maturity period of 1 to 3 years and is typically used to make investments
- c. Long-term credit, i.e. loans with a maturity of more than 3 years

3. Based on warranty

- a. Unsecured credit, credit that is granted without warranty of goods or a particular person.
- b. Secure credit, the credit provided by using a bail. The guarantee can be either tangible or intangible goods or collateral person.

4. Based on the role

- a. Working Capital Loans, i.e. short-term loans granted by a bank to finance working capital needs of enterprises to increase production in their operations.
- b. Investment Credit, namely the medium-term credit or long-term given by a bank to make investment or capital investment, which aims to expand its business or build the project / new plant for the purposes of rehabilitation.

2.8.4 Lending Activity

Lending activity is a process of formation of the bank's assets for public. Lending active manifested by channeling funds from the surplus fund party (Idle Fund / Surplus Unit) to those who need funding / lack of funds. In general lending activities undertaken include bank lending activities, administration, accounting, and reporting activities and supervision of credit (Dendawijaya, 2001).

General systems and lending procedures (Suyatno, 2001) are as follows:

1. Application for Credit

- a. The new petition to get a type of credit facility
- b. Additional application for a loan in progress
- c. Application for extension or renewal of the credit period has ended the period.
- d. Other requests for changes in credit facilities for current operation

2. Investigation and Analysis of Credit

- a. Credit inquiry and analysis include:
 - a) Interview with a credit applicant (debtor).
 - b) The collection of data relating to the proposed customer credit inquiries.
 - c) Examination of the truth and obligation of the things that found customers and other information obtained.
 - d) Preparation of necessary reports on the results of investigations that implemented.
- b. The Loan/credit analyst duties include:
 - a) Preparing for jobs of all aspects of decomposition of both financial and non financial to determine whether nor the possibility can be considered an application for credit
 - b) Analysis required reports, which contain the decomposition and the conclusions and presenting alternatives for consideration for decision-making leadership or customer credit inquiries

There are five criteria to ases prospective customer or loan applicant, also known as the 5C principles (Kasmir, 2010). Those are:

1. **Character**, the goal is to provide assurance to the bank that the nature or character of the people who will grant loan can be trusted. Character is a measure to assess the willingness of customers to pay his loan.
2. **Capacity**, to see the ability of prospective customers in paying credit associates with the ability to manage the business and its ability to gain profit. So in the end will look its ability to repay the outstanding loans

3. Capital, to find sources of financing that business owned by clients, which will be finance by banks.
4. Collateral, a guarantee given in the form of prospective customers both physical and non-physical. The function of a bank guarantee is as protection from the risk of loss.
5. Condition of Economy, in assessing the credit should also be assessed the current economic conditions and for the near future according to their respective sectors.

According to Kasmir (2010) there are several aspects need to analyze precisely and accurately in addition to the principles of credit ratings earlier, those aspect are as follows:

1. Legal Aspect

The analysis of this aspect in principle to assess the needs of the provisions of legality by the company, which includes deed as well as business, permits.

2. Marketing Aspect

Assessment of product marketing aspect is to know about the possibility of bank market share that achieved by these products, especially for products that are new. Therefore, in analyzing these aspects need to be considering absorptive capacity, the purchasing power of consumers as well as the prospect of such products in the future.

3. Financial Aspect

Assessment of the applicant's financial circumstances credit done by analyzing financial statements, financial statement analysis including cash flow, financial ratios and working capital. From these data, we can see the company's performance and subsequent projections made in the company's financial state of the future.

4. Technical Aspect

The purpose of this assessment of the technical aspects, among others, to determine the extent of technical ability and readiness of the company in conducting its operations. Assessment of this aspect includes assessing the means of production, skilled labor, which includes production process and supervision as well as raw materials guarantee a continuous and project site location.

5. Management Aspect

Assessment of aspects of company management intended to determine the activity and the ability of corporate management skills as well. Assessment of this aspect is very complex to obtain information informally through the management of the company concerned

6. Social and economic aspects

This aspect related to the society in which is the project or company operates and located, includes the reaction of local people on projects funded and possible job opportunities.

7. Nature and Environment aspect

This aspect related to the environmental impact, which the project is located.

3) Decision on Application for Credit

In this case is the decision is official action based on the authority entitled to make decisions in the form of rejection, or propose and approve the application for credit facilities to the higher authorities. Every decision must be considering as the assessment of credit inquiries in general conditions that are essentially contained with credit report and credit analysis.

4) Rejection of Credit Application

Rejection of the application may occur if:

- a. Rejection for credit that actually considered by the bank is not technically meet the requirements
- b. The existence of the refusal of the directors of credit inquiries

5) Approval of Application for Credit

The definition of a credit application is bank's decision to approve part or all credit inquiries from prospective borrowers. To protect the interests of the bank in the implementation of the agreement, then it is usually define in advance the terms of credit facilities and procedures that have to take by the customer. The steps to be taken include: 1) Letter of credit confirmation request approval to the applicant, 2) Improvement of collateral, 3) signing a credit agreement, 4)

Information for other sections, 5) Payment of stamp duty loan, 6) Insurance collateral, and 7) credit insurance.

6) Disbursement of Credit Facility

Disbursement of credit facilities are each transaction using a credit that has approved by the bank. In practice, this form of credit disbursement or transfer payments and expense accounts or loans or other facilities. Bank just approved the disbursement of loans by customers, if the conditions that must be fulfilled by customers. Please note that the increased security and signing slips, credit slips (credit agreement) absolutely must precede loan disbursement.

If the prospective borrower has met all the requirements and procedures for credit, the bank will set a time when the credit can be availed. At the time the credit will disbursed in advance, borrowers will sign a letter of credit agreement certificate with attachments-attachments.

Letter of credit agreement made under the hand or made before a notary public, depending on the size of loans or in accordance with the policy of each bank. Attachment of the agreement letter usually consist of engagement certificate guarantees (mortgages, fiduciary), power of attorney.

7) Repayment of Credit Facility

Repayment of loans is the fulfillment of all obligations of the bank's customers resulting abolition of the loan agreement.

Administration and bookkeeping credit is a process of collecting and presenting information on a bank credit. Administration of this credit, the bank may give an

opinion as a tool in supporting the activities of the process of credit individually or as a whole. Using credit documentation system as a tool for administration that can make the reports in the field of credit for both internal interests (the interests of management and board of commissioners) as well as for the extern (Bank Indonesia and the debtor).

Supervision is an activity conducted by bank that has grant loans to their customers. These activities carried out the bank as a form of guidance and oversight of the funds that have lent. Banks should ensure that the business customer have ability to repay bank loans had been disburse, so that guidance and supervision should carried out continuously to avoid the emergence of a credit crunch or the inability of customers to repay the loan and interest to the bank.

2.9 Effectiveness

2.9.1 Definition of Effectiveness

The effectivity and leadership are usually measured with effectiveness concept. Although many people agreed that management role play important part in achieving organizational effectiveness, but hard to refine what constitutes the concept of effectiveness.

Meanwhile, according to (Bayangkara, IBK, 2008), understanding the effectiveness: "The effectiveness can be understood as the level of success of a company to achieve its goals."

(Sawyer, Dittenhofer & Scheiner, 2003) argues that understanding the effectiveness:

"Effectiveness emphasizes the actual results of the impact or the power to produce certain effects. Something can be effective but not efficient and economical".

2.9.2 Effectiveness of Lending Activities

In general, the effectiveness refers to the achievement of objectives. Therefore, the actual effectiveness associated with operating results of an organization. If we want to assess the effectiveness of the lending operation, then we can assess whether the loan has reached a certain goal.

Lending activities is the formation of bank assets is risky because the debtor is outside parties of the bank. In an effort to gain profits from lending activities that run the bank then the bank must ensure that lending activities have been carried out effectively where management has been able to achieve a target credit enhancement level of collectability of credit (loan performance) and a decrease in the number of problem loans (non-performance loan).

Nonperforming loan caused by irregularities of in the implementation of credit and a weak system of administration and supervision credit. Lack of system administration and supervision causes credit will potentially have problems cannot be tracked at an early stage, and then the bank will be too late to prevent from loss (Siamat, 2001).

According to Ismail (2010), several factors caused non-performing loan from the bank's internal, they are:

- a. Analysis conducted by the bank officials are less precise, so it cannot predict what will happen in the period during the loan period.

b. The existence of collusion between the bank officials who handle credit with customers, so the bank decided that should not approve credit.

c. Limited knowledge of bank officials to the type of the debtor, so it cannot perform credit analysis with precise and accurate.

d. Intervention is too much of related parties such as the Commissioner, Director of the Bank so that officers isn't independent in decision.

e. Weaknesses in conducting, coaching and monitoring loan.

From the description above, we can be concluded that the high or low levels of nonperforming loan is strongly influenced by the effectiveness of the bank's lending activities are executed, so the level of problem loans can be used as a tool of analysis in assessing the effectiveness of the activities of credit.

Collectability / credit quality is the classification / grouping of clients or borrowers based on the ability of the customer / borrower to pay principal and interest loans that have receive from the bank. Credit quality according to Bank Indonesia Regulation No.9/6/PBI/2007 About Asset Quality Rating for Commercial Banks:

1. Current, a payment on time, good account of progression and no arrears and in accordance with credit terms.

2. Special Mention, where there are arrears in principal and or interest payments up to 90 days.

3. Substandard, where there are arrears in principal and interest payments over 90 days up to 180 days.

4. Doubtful, where there are arrears in payment of principal and interest exceed 180 days or up to 270 days.

5. Non-perform, where there are arrears in principal and or interest payments exceed 270 days

Non Performing Loans (NPL) is the loan categorized as Substandard, Doubtful, and Loss based on criteria set by Bank Indonesia. The amount of a bank NPL ratio is determine by the collectability of the credit for the NPL ratio is the ratio between performed with the amount of credit granted. The lower the NPL ratio means the better the quality of the NPL. If targeted loan achieve, then the effectiveness of the activities of credit will be achieve, in other words NPL achieved will be low i.e. below the maximum standard, which is 5% (Kasmir, 2010).

A good credit process expected to suppress the NPL as small as possible. NPL level is strongly influenced by the ability of banks in maintaining lending activities administration, reporting, including monitoring measures after the credits disbursed and control measures when there are indications of irregularities or indications of defaulted loans.

2.10 Overview of Previous Research

Review of previous studies is very useful for the researcher to add more information about the problem to be careful writer. This research review provides

a reference for a list of readings, theories, and views in understanding the problems faced.

Research conducted by Prameswari (2008), entitled Audit of operational procedures for granting credit to improve the effectiveness and efficiency of the PT BNI (Persero) 02 Padang region, concluded that organizational structure is good, this is because separation of duties and authority of each respective units. Branch manager always supported by regional manager, which is directly responsible to the head region, and implementation of operational audit for lending activities in accordance with existing procedures. Besides the operational audit can improve the effectiveness and efficiency through the suggestions and recommendations made by auditors with records management should conduct follow-up. The role of the auditor does not stop here but the auditor should follow up to monitor progress in implementing the improvements made.

This proves that the auditor is not only found the problem and provide advice and recommendations but also emphasizes how the provision of credit in accordance with existing procedures so that the implementation of the operational audit is prove to improve the effectiveness and efficiency of procedures for granting credit. The research method with surveys conducted through interviews, field studies through observation, through a literature study to compare theory with reality that has been obtain and analyzed.

Research conducted by Hidzriadi (2008) entitled Manfaat Audit Operasional Dalam Efektifitas Pemberian Kredit (Studi Kasus pada PT Bank Jabar Cabang Utama Bandung). Implementation of operational audit in PT Bank

Jabar Cabang Utama Bandung based on his research and observation achieved. Factors supporting the conclusion Such as internal auditor are independent, because the position in organization structure directly under director. The role of internal auditor is not influence by other parties and does not involve in lending operation.

Competencies of the auditor already fulfilled with the requirement with undergraduate education in accounting major and understading auditing as well. Audit findings discuss with branch manager and will based for following up audit report. Monitoring for audit result and recommendation based on findings from auditor that already following up by management.

Effectiveness of granting loan in PT Bank Jabar Cabang Utama Bandung is also already achieved. This statement supported by Consistency of loan approval based on credit principle that is 5C principle (character, capacity, capital, collateral, and condition of economy).Risk assessment, in 2007 non-performing loan is only 2%. Use as evaluation tools for management to improve their performance in the future.

Another research conduct by Astasari (2011) entitled Peranan Audit Operasional Dalam Meningkatkan Efektifitas Kegiatan Perkreditan (Studi Kasus Pada Bank Nagari Cabang Utama Padang. She concludes that internal audit in Bank Nagari conduct operational audit is lending activities Nagari Main Branch Padang with several phases: Preparation of Audit, Preparation of Audit Program, Audit Fieldwork, Phase Reporting Results of Audit, Follow-up and monitoring.

Operational audits of Bank lending activities Bank Nagari Padang Main Branch has adequate operational audits, which done with a systematic process that refers to the Standard Bank Internal Audit Function (SPFAIB).

The role of operational audit role in increase the effectiveness of the activities of credit in Bank Nagari Padang where there has been an increase in credit quality in 2010. Although the Bank has not been able to reach the NPL under the maximum limit of 5% as the applicable Bank Indonesia but Working Capital Credit performance has increased from 91% to 93%, which means the Working Capital Loan NPLs already lower 2% over the previous year. With operational an audit of lending activities in a sustainable manner based on expected SPFAIB Bank is able to enhance the effectiveness of the activities of credit where the NPL can be reduce under 5%.

The researches described above provide can ideas for the writer to understand the role and function of the operational audit for the company. It also gives more insight to the researcher about the methods and analysis conducted.

The researcher uses the comparison of previous studies are intended to be used as a comparison because of some similarities in the research and study methods used and compares the results of previous research studies have been done. However, the object under study here is different, where the objects used as research by the researcher is the operational audit activities of credit with Bank Rakyat Indonesia Padang Branch, while the object of previous research is operational audits on different companies and banks.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

This research is an analytical descriptive approach, held with collecting data, arrange and analyzing data in order to make conclusion then advice when it needed. Analytical descriptive is take in order to ascertain and to be able to describe the characteristic of the variable of interest in a situation (Sekaran, 2003). The goal of descriptive study is to offer to researcher a profile or to describe relevant aspects of the phenomena of interest from an individual, organization, industry-oriented, or other cases.

3.2 Type and Source of Data

Types of data used for this research is qualitative data. While the necessary data sources from the objects under study are:

1. Primary data is a data obtained directly from the company concerned, where the data collect such as observation, interview, and documentation processed by the researcher. Interview conduct directly to Internal Auditor of Bank Rakyat Indonesia Padang Branch.
2. Secondary data is a data obtained from the theory books and literature and data in the form of documents or reports from related parties and can relied upon to provide new considerations for the company from the findings.

3.3 Data Gathering Method

The method that writer used to gather all data needs in this research study are:

1. Observation, directly visit and observe to the organization in order to see the real situation happen within the organization itself.
2. Interview technique is to conduct question and answer or direct interviews with Internal Auditor of Bank Rakyat Indonesia Padang Branch to gather information needed by the researcher.
3. Engineering literature, the research conducted by collecting data by reading and studying books related to the research.

3.4 Data Analysis Method

This research is design compare reality applied on the field with theory and regulation related with problems, so it can produce conclusion and suggestions. The purpose is to descript and evaluate implementation of concept research object.

Explanation about audit operational that conduct in Bank Rakyat Indonesia comes from the result of elaborating applied theory with implementation in the field. Then, writer trying to analyze according to procedures of audit conducted in Bank Rakyat Indonesia Padang branch that comply with standard set by Bank Indonesia as regulator. The roles of operational audit is to describe the effectiveness in lending activities by analyzing Data of NPL and Data of Interest Revenues from 2007-2010.

CHAPTER IV

DATA ANALYSIS AND DISCUSSION

4.1 Company Profile

4.1.1 History of Bank Rakyat Indonesia

PT Bank Rakyat Indonesia (Persero) Tbk. ("BRI") officially, BRI was established based on Law No. 21 year 1968, but its root history can be traced back since 1895. Previously a wholly owned by the Government of Indonesia, BRI went public in November 2003 and become a public listed company. Now, the Government owns 56, 8% and public own the rest. BRI share is categorize as a blue chip and is included in LQ 45. BRI is famous for its focus on financing the Micro and Small, Medium-sized Enterprises (MSME). Its Micro Business is considering as one of the biggest Micro Lending Providers in the world. Of its total loan portfolio, 80% goes to Micro and SMEs. Serving Micro and SMEs enables BRI to have a well-diversified loan portfolio to minimize business risk. Given the business nature of BRI, it has the largest networks, with more than 6,350 outlets spreading all over Indonesia, from rural to the city makes BRI ready to seize all business opportunities across Indonesia. Moreover, BRI also has an enormous customer base, more than 30 million depositors and borrowers which give a competitive advantage for BRI to develop its business including fee based business.

BRI grew rapidly both in terms of assets, the amount of credit disbursed, third-party funds (DPK), which have been collected, the resulting profits, and asset quality is maintained. Until December 31 2009 BRI has more than 32

million accounts consisting of individual customers, the micro and small, medium and large companies, both private and government institutions. Credit growth reached 27.62% in 2009, while deposits reached 26.12% growth. By the end of 2009, BRI has more than 6,300 units consisting of the Regional Office, Branch Office, Branch Office, Treasury Office, BRI Units or BRI Terrace.

To serve its customers, BRI has a wide range of banking products and services. Kupedes, a loan product for micro borrower, is widely known to micro entrepreneurs. In addition to that BRI also provides working capital loans, fixed asset loans, consumer loans, salary based loans, export/import loans, etc. For deposits, Simpedes is a prominent saving product in rural and small town, whereas BritAma is design for urban people. Besides having an extensive network of BRI BRI also provides priority service to our customers a choice in some branch offices. Meanwhile, to get closer to customers, until December 31, 2009 BRI has ATM 3778, kiosk 60, 20 Cash Deposit Machine (CDM), 6398 Electronic Data Capture (EDC) and integrated into more than 25,000 ATMs Link, Joint ATM, and ATM Prima . In addition to ATM networks, electronic services BRI facility is also equipped with 24-hour phone banking, SMS Banking and Internet Banking. BRI also offers time deposit and demand deposits. Supported by a solid business model and infrastructure, BRI has become the most profitable bank in Indonesia. BRI will continue to expand its business to give a better value for all shareholders and stakeholders.

4.1.2 Vision and Mission

Vision:

Bank Rakyat Indonesia's vision is to become a leading of commercial bank that always put customer satisfaction.

These visions describe as follows:

1. Commercial:

Since inception BRI is a commercial bank, the bank that receives deposits from the public and channel them back into society in the form of loans, earn a profit from the difference in interest rate savings and loan interest rate and fee-based income. Although acting as agent of development, BRI remains asserted its position as a commercial bank is continuously growing.

2. Leading:

BRI is a leading bank, as it is one of the largest banks and micro banking in Indonesia's largest and most profitable in the world. In addition, BRI has a product / service quality, innovation in meeting customer needs, long-term vision, and financial performance on average.

3. Customer Satisfaction:

Customer satisfaction is not a new thing for the BRI as a company providing banking services. A challenge faced by BRI is to give satisfaction to all customers in all segments of its business, according to the theme of corporate campaign Company "State Bank of Able Self-Serving All The Same The good". To achieve

this vision, the BRI is required to have clear criteria and measures in priority to customer satisfaction.

Mission:

To realize this vision, the BRI sets of three missions to perform are:

1. "Doing the best banking activities by prioritizing services to Micro, Small and Medium Enterprises (SMEs) to support the economy."

BRI is committed to maintain their best performance as reflected in the achievement of business outcomes and benefits of the products offered to focus on serving micro, small and medium enterprises. By serving SMEs will ultimately provide the multiplier effect of an increase in the local economy given the SMEs are the backbone of the economy and the largest component of Indonesia. BRI must have the ability to continue to follow the dynamics of the sector in order to remain able to lead in the SME segment.

2. "Providing excellent service to customers through a network of widespread and supported human resources (HR) professionals with the practice of good corporate governance (Corporate Governance)."

BRI continues to strive to increase its market share in the sector of micro, small and medium enterprises, to the BRI should always be able to provide excellent service as part of its commitment to satisfying customer needs. With a widespread network throughout Indonesia, needed a professional human resources management and is manage by implementing good corporate governance practices so that competitive advantage can optimize in the future.

3. "Providing benefits and optimum benefits to various interested parties."

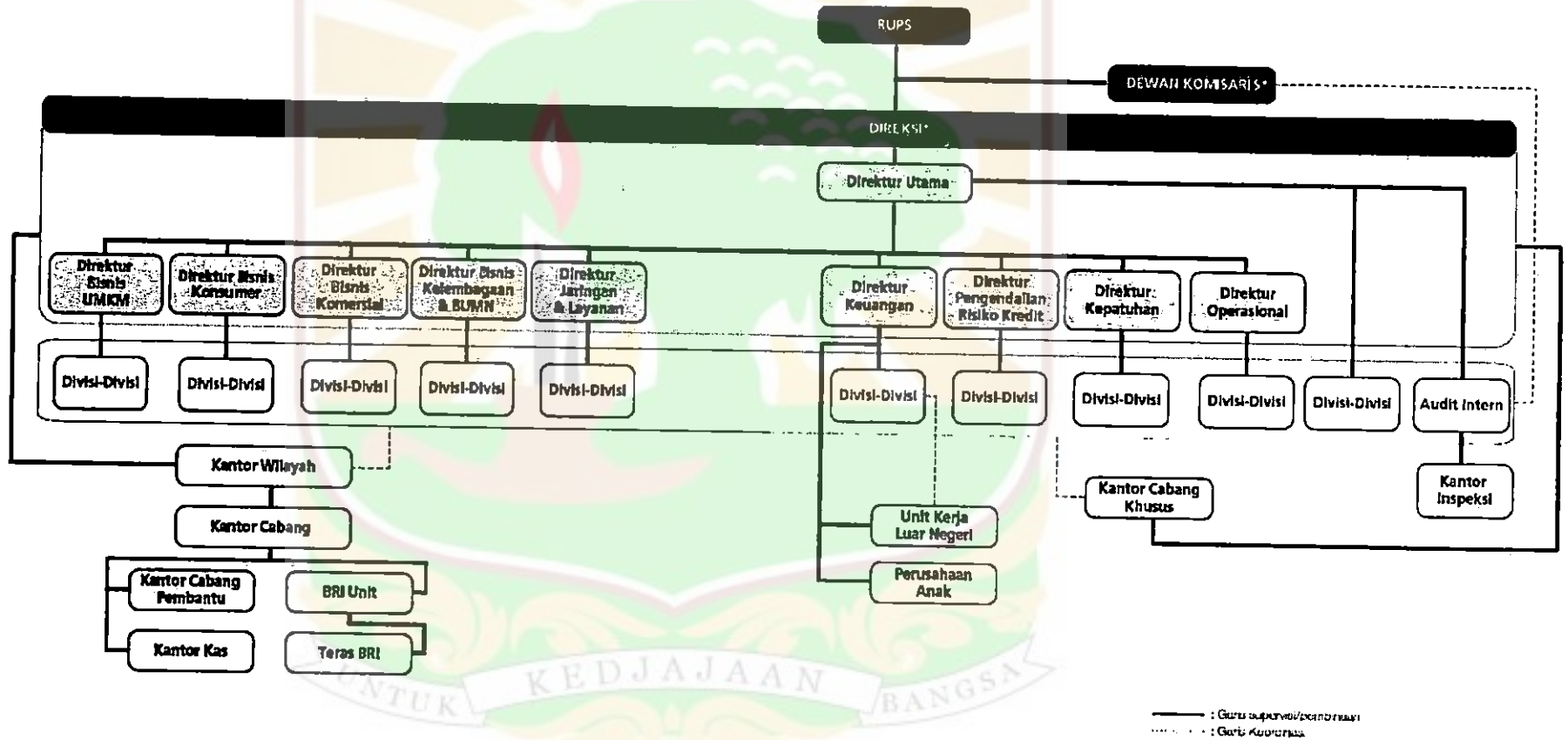
Mission of providing benefits is the cornerstone of any decision-making by taking into account the implications of cost and benefit of all stakeholders. On the other hand, BRI as part of the community not only provide financial benefits but also non-financial benefits to all stakeholders.

BRI is located at BRI I Building, Jln. Jenderal Sudirman Kav. 44-46, Jakarta. As of June 30th, 2011, BRI has 18 regional offices, 14 inspection offices, 419 domestic branches, 1 special branch, 475 sub-branch offices, 3 overseas branches, 836 cash offices, 4,690 BRI units, and 929 terraces. As of June 30, 2011, the Bank has 34,353 employees. BRI has ownership in subsidiaries: PT Bank BRI Syariah and PT Bank Agro Tbk.

Organization structure in Bank Rakyat Indonesia shows chain of coordination from Board of commissioner with internal audit. Internal auditor coordinates with board of commissioner in order to implement good corporate governance and help management to improve performance in the company. Internal audit supervised by Director of company to make sure the independencies of auditor and give recommendation based on report.

Company Organization Structure

Figure 4.1



Source: Annual Report BRI 2010

* Komite Dewan Komisaris: Komite Audit, Komite Remunerasi & Pengawasan, Komite Pengawasan Manajemen, Komite Etik.
 * Komite Direksi: Komite Manajemen Risiko, Komite Kebijakan Permodalan, Komite Kredit, ALCO, Komite Kebijakan SCM

4.1.3 Business Activity of Bank Rakyat Indonesia

Bank Rakyat Indonesia has several business activities that make BRI become one of the biggest bank in Indonesia. Those activities are:

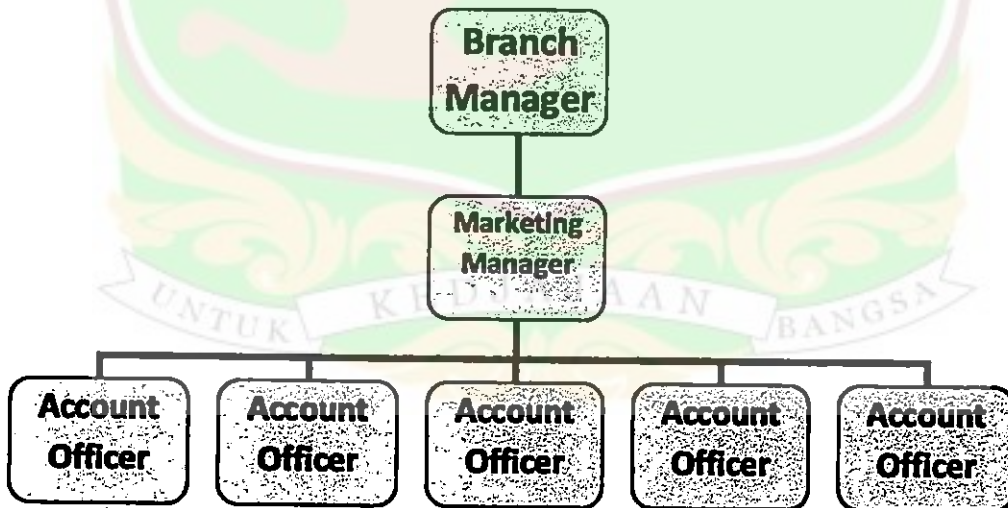
Business Activities	Type of Activities
<p>1. Raise funds, through Product Savings.</p> <p>2. Funding usage, particularly to distribute fund to society.</p>	<ul style="list-style-type: none"> • BritAma • Simpedes • BRI current account • Hajj savings • Junior Britama • Micro Loan (KUR : Kredit usaha rakyat) • Retail Loan e.g. working capital. BRI Guna, loan for investment, express loan, construction loan, loan for franchising business etc. • Consumption loan e.g. loan for housing, vehicle, and credit card. • Programs conduct by BRI such as cooperative (economic enterprise loan, Bio Fuel development, plantation etc. • Corporate Loan e.g. working capital, working capital for exporter, loan for investment, loan for construction etc.
<p>3. Bank Services</p> <p><i>Source: Bank Rakyat Indonesia</i></p>	<ul style="list-style-type: none"> • Cash management system, Salary crediting, treasury services, swap transaction, custodian, BRI pension fund etc.

4.2 Data and Discussion

4.2.1 Organizational Structure for Lending Activities

Organization structures for lending activities in Bank Rakyat Indonesia consist of several positions. On top of the structure is Branch manager, which is responsible for all operation in the branch. Below the branch manager, that is position for Marketing Manager. The marketing manager in charge to make sure all marketing aspect and assessment of the customer appraisal went well. After marketing manager position, there are 15 Account Officer that is had to touch on every debtor and customer who wants to apply for loan. Job description is to assest the 5C (character, capacity, capital, collateral, and condition of economy), preparing paperwork and examine documents and complateness of required customer documents.

Figure 4.2



Source: Bank Rakyat Indonesia Padang Branch

4.2.2 Procedure in Lending Activities

1. Application

A. Petition

Applications for credit handle directly by the applicant (prospective customers) to the bank. At this stage, things that must be consider and implemented by each account officer in the case of receiving a loan application are:

- a. Letter of request must be submitted in writing by such debtor shall state clearly the purpose of the letter, the date of the letter, the prospective borrower and the purpose of data requests.
- b. Letter of application must be signed by the concerned authorities.
- c. Each receipt of the request noted on the registration books and given registration number and bank official's disposition by the authorities to follow the letter of request.

2. Phase Feasibility Analysis Credit

The analysis based on credit priority aspects of assessment as set forth in the Guidelines on Implementation of Credit Loan Approval Process. Things that discussed in terms of per aspects tailored to the object of financing and debtor performance. When analyzing the financial aspects, at least the analyst must examine and explain the capital requirements, provision of funds (self-financing) the debtor, the credit withdrawal plan, repayment schedule, the feasibility calculations and other important

information. Analysis has done systematically arranged in the form of credit appraisal and recommendation to the official of Credit to provide a decision recommendation.

3. Phase Credit Ratings

Based credit analysis has been done with the credit ranking is carried out guided by the Board of Directors Decision on Guidelines for Credit Risk Management. Officer shall consider the result of the credit in making the credit decision on the request of the debtor credit.

4. Phase Credit Decisions

A credit decision by officials is a form of decision-making approval for credit or loan application rejected. Approved credit decision must accompany with credit terms. Denied credit decision communicated to the prospective borrower in writing by providing clear and thoughtful reasons.

5. Phase Credit Agreement

Following the signing of loan agreements entire agreement, made after the debtor signed the Letter of Credit Agreement then submits sufficiently sealed and returned to the bank. In the particular case under consideration such as the nominal bank, loans are relatively large or relatively complex legal issues, the Credit Agreement made by notary's deed. Minimal credit

agreement documents prepared in duplicate with the use of one bank and one double for dual remedy of the debtor.

6. Realization Phase Credit

Withdrawal of credit can be carried out after the debtor signed the Notice of Approval of Credit on the stamp, signed the Loan Agreement and complete the following bank required documents. Imposition of costs incurred on the provision of the Credit Agreement as costs, supervision fees, insurance premiums, administrative costs and other expenses is made when disbursements loan.

7. Bookkeeping Stage

Recording of transactions on the implementation of credit implemented in accordance with the Guidelines for Internal Bank Accounts Passwords. All transactions must be recorded the transactions of loan disbursements, receipts fees, supervision fees, acceptance of credit administration costs, the imposition of other charges, interest income, receipt of fines, and acceptance of principal installments.

8. Credit Documentation

Credit Administration documenting the credit agreement, document engagement, script relating to the realization of credit and other documents

related to the legalization and the realization of credit, supervision of credit and credit reporting.

9. Supervision and Reporting

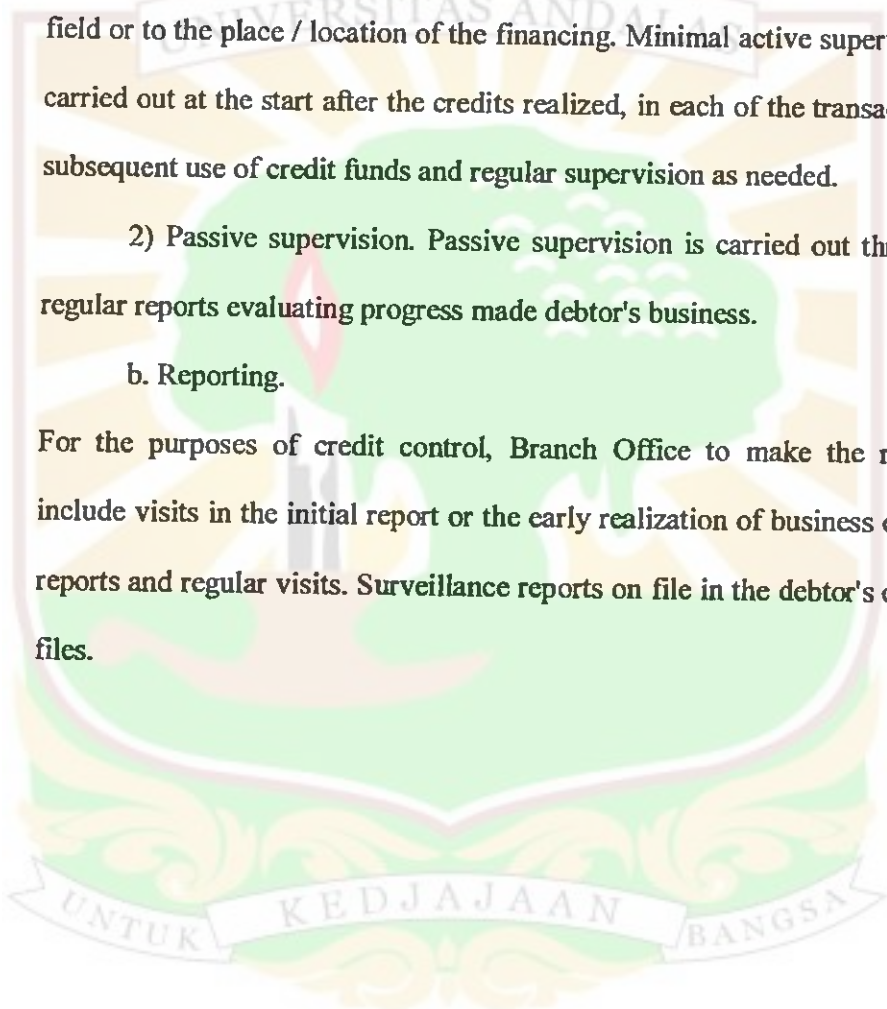
a. Supervision. Supervision held by:

1) Active Supervision. Supervision carried out directly into the field or to the place / location of the financing. Minimal active supervision carried out at the start after the credits realized, in each of the transactions subsequent use of credit funds and regular supervision as needed.

2) Passive supervision. Passive supervision is carried out through regular reports evaluating progress made debtor's business.

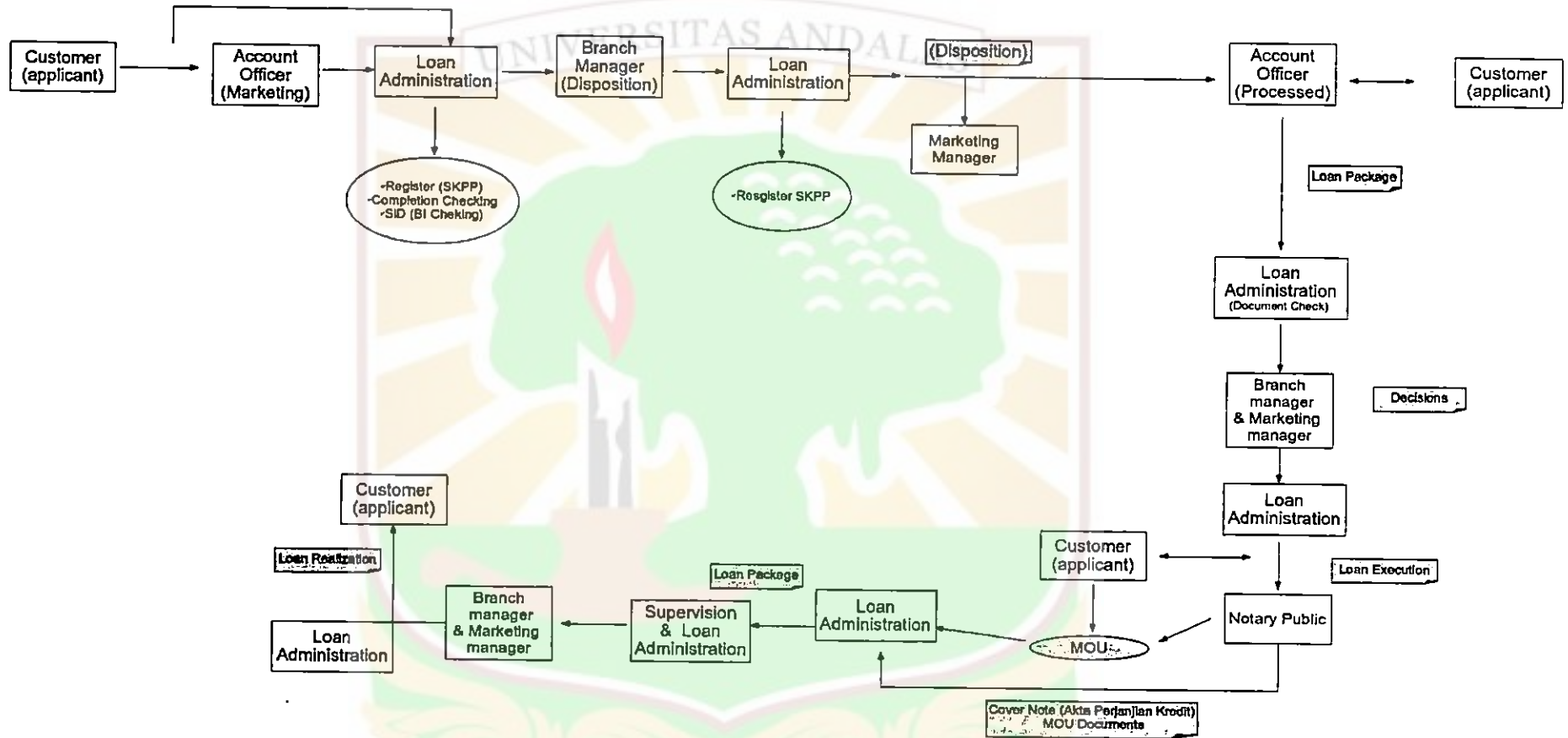
b. Reporting.

For the purposes of credit control, Branch Office to make the report include visits in the initial report or the early realization of business credit reports and regular visits. Surveillance reports on file in the debtor's credit files.



Procedure for Granting Loan

Figure 4.3

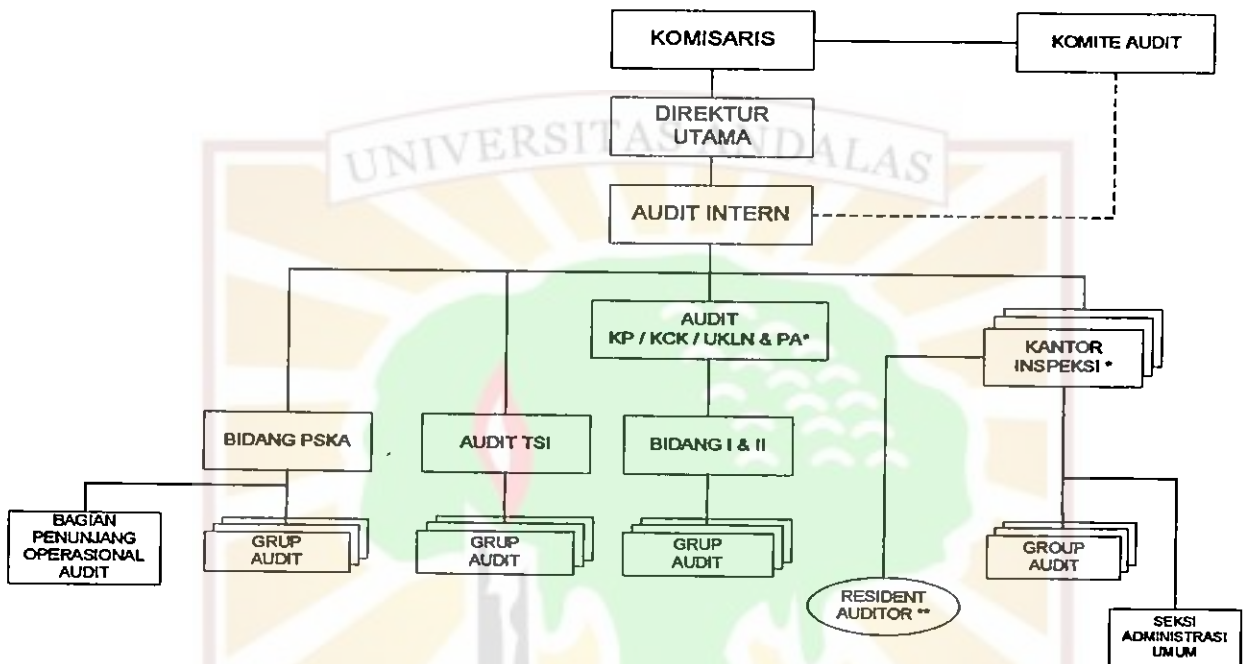


Source: Bank Rakyat Indonesia Padang Branch

4.2.3 Implementation of Operational Audit

Structure Organization for Internal Audit

Figure 4.4



Source: Bank Rakyat Indonesia Padang Branch

4.2.4 Implementation of the Audit Operations in Lending Activities

Internal auditors as the executor of the operational audit on the BRI assist the management in an effort to achieve operational effectiveness, but this activity is intended to detect as early as possible range of possible irregularities or weaknesses that might be found. Several guidelines used by internal auditors in BRI during audit activities are: 1. Bank Indonesia regulation (PBI No. 1/6/PBI/1999) 2. BAPEPAM Regulation No. KEP-496/BL/2008 28 November 2008 article IX.1.7 (Indonesian SEC) 3. SPFAIB (Standar Pelaksanaan Fungsi Audit Intern Bank Umum) 4. Unit Charter of Internal Audit.

Audit internal in BRI examine lending activities in several stages, they are:

1. Audit Preparation
2. Preparation of Audit Program
3. Implementation of Audit Assignments
4. Reporting of Audit Results
5. Audit Follow-Up Results

4.2.4.1 Audit Preparation

An activity undertaken at Auditors Internal audit is the preparation stage involves the determination of the assignment, notice of the preliminary audit and research.

A. Determination of the Assignment

Determination of audit engagement is mean to notice to the auditor as a basis to conduct an audit as stipulated in the Bank's annual audit plan.

Determination of the assignment submitted by the leader of audit team to the chairperson and the audit team in the form of assignments, which include setting the chairperson and members of the audit team, the time required and audit purposes.

. Audit team assigned number in a credit check is a three to five person depend on the size of an audit object. Audit team consists of a leader, one auditor for credit and one auditor for operational audit. The purposes of credit assessment are to make sure that:

1. The organizational structure has been described the specific credit lines of authority and responsibilities for each functions, separation of duties responsibilities for marketing, credit analysis functions, administrative functions and reporting.
2. Personnel deployment made based on considerations of competence (knowledge and skills) in accordance with positions and tasks.
3. Credit management support by adequate systems and controls in accordance with the bank credit policy, guidelines for the lending activities and provisions of other internal and external conditions associated with the loan.

B. Audit Notifications

Implementation of a credit check is equipped with an audit notification letter submitted to the BRI Padang branch before the audit conducted. In the notice, among others stated that:

- a. Reaffirmation of the authority of the Internal Auditor to audit loans Credit as defined in the Internal Audit Charter.
- b. Plan an initial meeting with the head unit auditee, which is intended to explain the purpose of audit and get an explanation from the head unit auditee on the activities and functions of work unit's auditee.
- c. The composition of the chairperson and members of the team.
- d. The required information from auditee.

Furthermore, Head of Unit audited in this case the BRI Padang branch continue to inform to subordinate officials that the branch will be audited by the Internal

Auditor credits and instructions for preparing the data / information and necessary documents.

C. Preliminary Research

The preliminary study intended to recognize and understand each activity or function of the auditee in general so that audit focused on strategic matters, so the auditor can formulate audit objectives more clearly. In this stage the internal auditors need to understand the of aspects of the auditee among other functions, the structure of the credit organization, powers and responsibilities of the parties related to credit, credit policies, credit systems and operational procedures, legal aspects and other provisions.

At this stage, the internal auditor's procedures that examine the credit are:

a. Organizational structure

- 1) Understand the organizational structure, duties and functions of the units of credit.
- 2) Understand the powers and responsibilities of branch manager, marketing manager, administration of loan, supervision and other related parties.
- 3) Understand the workflow of work units associated with credit management.

b. Human Resource Management and Implementation of Lending Activities.

- 1) Understanding human resource management policies and procedures of credit that includes the development, transfer / rotation and termination, standardized assessment work and remuneration.
- 2) Understand the policies and procedures for granting loan and the binding of a working relationship with other parties related to credit management.

The audit team gained an understanding of the organization, HR management and implementation of credits by referring to the Bank policy, and the decree of the board of directors. Also with related notification such as the Decree of director about SOP for the Main Branch of Padang. Decree Board of Directors for lending activities on the Implementation of the Working Capital and Loan Regulations, the decisions of the Board of Directors for Payroll Employees, rank and job title Employee, Employee and Career Study Guidelines for Transfer of Employees. Directors Decisions about the provision, Commitment fee, Supervision and Administration Fee Credit and Cooperation Agreement with government, Insurance Agency, Insurance Companies, Notaries and Consultants.

Preparation of audit undertaken by Internal Auditor of BRI is adequate where the prior conduct credit examination Internal Auditor Credit BRI first accept the assignment of the Chief of the internal audit office to perform activities of credit at BRI Padang branch. This is the required formal legality as a form of assignment as well as the authority given to the internal auditor to conduct credit examination. After receiving the assignment, internal auditors notify the BRI Padang branch in the form of written notification that the examination will be

conduct at the Branch Office. The purpose of this notification is provide opportunities BRI Padang branch to prepare any information or data needed by internal auditors as well as credit and formal legality, which describes the authority of the internal auditor to conduct credit examination so that the BRI Padang branch should not restrict or limit the examination to be conducted auditor.

Internal auditors of credit also has made a preliminary study to understand the regulation of, bank lending policies and guidelines, organizational structure of credit, authority and responsibilities of the parties relating to credit, legal aspects and other provisions. By doing preliminary research, the internal auditors of credit will have an understanding of the audit object.

Internal auditors of credit already have template audit program as well because of credit audit program has been defined the purpose of audit, inspection period, the scope of the audit, data and information, audit methods and audit procedures have also been documented credit. Internal auditors use audit program are intended to audit the performance branch can achieve the goals by using minimal resources, including labor, cost, and time used.

4.2.4.2 Preparation of Audit Program

Audit program used by internal audit in BRI made by head quarter team based on years and years experienced. The purpose of audit program is as a guideline during examining and auditing process in the field in order to reach the objectives.

a) Audit Objectives

Internal Auditor BRI evaluates the design and implementation of the organization and activities of credit, to ensure that:

1. The organizational structure of credit has described the specific lines of authority and responsibility of every function in the field of credit and has applied the principle of separation of duties and responsibilities for marketing and credit analysis functions and administrative functions and reporting.

2. Credit personnel deployment done based on consideration of the competence (knowledge and skills) in accordance with the position and duties.

3. Credit management already supported by an adequate control system in accordance with the bank credit policy, guidelines for the implementation of credit, the provisions of other internal and external conditions associated with credit.

b) Scope of Audit

The scope of credit checks is:

1. Organizations credit: Branch Manager, Marketing manager, Account officers and other related parties in lending operation

2. Human Resource Management Credit: Assignment, education and personnel training credit managers.

3. Credit control and compliance with regulations, systems and procedures in the implementation of credit loans.

c) Data and Information

In carrying out the operational audit, the Internal Auditor uses various types of data to make an analysis and evaluation of credit activity. The data used are:

1. Organizational structure and employee data from the unit involved in lending activities.
2. Credit master data from the Division of Information Technology and Accounting.
3. Other data from the passive examination by an auditor appointed in the description of duties and responsibilities of the auditors on the Work Plan Oversight Division.
4. Audit results from previous years.

d) Audit Methods

1. On the desk and on the field using data and information that can be accessed by the Audit Team. Obtaining data and information in order to examine, internal audit use different data collection techniques such as sampling, interviews, observation, examining and confirmation.
2. Audit samples obtained from the debtors who have the largest amount of loan and the branches were randomly sampled population according to the account of each type of loan, rate loan collectibility and judgment based on potential risks.

e) Audit Procedures

1) Control

1. Understand the organizational structure, duties and functions of the units of credit
2. Understand human resource management policies and procedures of credit
3. Understand policies and procedures for granting credit and binding working relationships with other parties related to credit management.
4. Evaluate the adequacy of the design organization in accordance with applicable.
5. Evaluate whether the policies and procedures for HR management and implementation of loans have been determined in accordance with applicable regulations.
6. Perform testing whether there is a clear separation of duties in the organization.
7. Test whether the implementation of HR management Credit and credit has aligned procedures and policies.

2) Management of Credit

1. Check the completeness of loan application files.
2. Check completeness and credit appraisal.

3. Check the completeness of filling in the form of credit ratings credit identification and assess worksheet recovery rate.
4. Check the completeness of the charging credit recommendations.
5. Thorough authority officials, the terms of credit decisions whether it has appropriate conditions apply, and thorough completeness.
6. Check the completeness of the loan agreement.
7. Check the validity of the collateral and the binding of credit collateral.
8. Check the data debtor in bank accounting system complies with the guidelines reporting code of Bank Indonesia.
9. Check if the credit disbursed suitable with purpose of credit.
10. Check the execution on the spot to the place of business and report.
11. Check for system administration and storage of credit documents.
12. Test calculation and administration of credit payments, the calculation of collectability of loans and PPAP.
13. Check credit report to head office and to the Bank Indonesia.

Internal Auditor credit use audit program because the audit program explain / state the purpose of audit, inspection period, the scope of the audit, data and information, audit methods and audit procedures have documented credit. Internal Auditors audit courses intended to prepare the implementation of audit

tasks can achieve the goals set by the use of resources that includes a minimum effort, cost, and time used.

4.2.4.3 Implementation of Audit Assignment

A. Control Examination

Stages in the examination of this control are:

1. Evaluation of Control

Previously, the audit preparation phase, the internal auditor has conducted preliminary research, whereby internal auditors gain an understanding of organizational and human resource management and credit policies and procedures related to lending activities. Furthermore, at this stage, the Internal Auditor Credit evaluating the adequacy of the design of a credit organization, the adequacy of policies and procedures for HR management and implementation of credit policies and procedures in accordance with applicable regulations.

2. Test of Control

a. Organization

Internal Auditors perform testing to the parties directly related to the credit to assess whether the parties involved in the organization's credit has been carrying out activities in accordance with the role. Control tests carried out on all the parties involved in lending activities such as: Branch Manager, Marketing Manager, and Account Officers and other related parties.

b. Implementation of HRM for loan and credit implementation

The audit team tests whether the HR management of credit and the implementation of credit activities are in accordance with applicable provisions.

3. Detailed test

More detailed examination of the organization of credit, HR Management and Implementation done at this stage. Credit Where Internal Auditors perform testing to analyze the function / role among the parties concerned.

a. Organizational Structure for Lending Operation.

On examination of the organization for credit, there are three questions to be answered Internal Auditor credit at this stage are:

- 1) Is there an overlapping task or role in the organization for credit?
- 2) are there functions / roles that have not been allocated?
- 3) Is there an allocation of functions / roles that overlap?

b. Implementation of Human Resource Management Credit and Credit.

Credit Internal Auditors perform testing to check whether there is non-compliance operation such as:

- 1) Assignment / appointment are not in accordance with the policies and procedures?
- 2) The competencies those are inconsistent with his position competency of task?

The audit team also tested whether the credit management in accordance with Bank Credit Policy Implementation Guidance of Credits and the provisions of internal and external conditions related to the field of credit. At the evaluation stage to control the detailed test phase, the audit team to collect data by interviews and questionnaires submitted to the parties concerned.

Internal Auditor has done an adequate review of the credit control where the prior conduct in-depth examination of the activities of credit, Internal Auditors conduct control over the organization of credit, credit and implementation of HR management credits for evaluating the reliability of control that is built and run by the credit management.

Review of credit control includes evaluation of the adequacy of the design of organizational structure to ensure separation of duties the parties in the organization of credit and ensure adequate distribution of tasks. In addition, the Internal Auditor also evaluates the adequacy of policies and procedures of Credit and HR Management Policies and Procedures Implementation of loan to ensure that credit has credit policies and procedures do not conflict with the Regulation of Bank Indonesia and the bank's internal regulations.

After evaluation of control, the Internal Auditor perform tests of control and detailed tests in which the Internal Auditor tested whether the parties in the organization the credit has been carrying out its role in accordance with the duties and responsibilities. Examination of human resource management of lending operation has been carried out in accordance with the procedures has been determined. Effective control influenced by the characteristics of the organization

personnel. Therefore, HR of lending operation needs to manage well so that will create a human resource that is able to carry out credit operations effectively. Internal auditors of credit in this case an analysis of competencies the parties relating to credit, whether human resources have been placed in accordance with the competencies competency framework position. In this case, the Internal Auditor has assessed the adequacy of lending activities with adequate control.

B. Examination of the credit management

At this stage, the audit teams conduct in-depth examination directly related to the management of credit based on samples that previously defined.

In conducting the inspection for lending activities, the internal auditor took a sample audit of the Bank's largest borrowers in BRI Padang Branch, the samples at random according to the Working Capital Loan account population, samples based on the level of loan collectability and judgments based on potential risks.

Tests carried out at this stage include the following activities:

a. Assessment of credit inquiries

Application for credit is the initial stage of activity of credit where the customer is applying for credit from banks. At this stage, Internal Auditor examination of documents relating to the submission of loan application by the debtor. Internal Auditor credit checks loan application completeness of file, and comprehensiveness of financial reporting documents, customer identity, legality and licensing business.

The criteria were used:

1. Letter of Credit Application

- a) Application for existing / stored in the file.
- b) Application filled in completely and correctly.
- c) The financial statements are / are stored in the file.
- d) The financial report is complete and correct condition.
- e) Application disposition by bank officers.

2. Attachment of loan applications

- a) The identity card customers / deed of company
- b) NPWP (Taxpayer Identification Number)
- c) SITU (Permit Place of Business)
- d) SIUP / SIUJK / TDP (Trading License / Certificate of Registration of Companies)
- e) Supporting documents / other permissions

b. Assessment of credit worthiness

- 1. Internal Auditor for Credit check completeness / rightness of the judgment (credit appraisal) by examining:

- 1) Completion of background on the identity, purpose / objective, the object of financing, the amount, duration, type and source of loan repayment.
- 2) Filling key data with the data the applicant / applicant groups and credit performance data that received by the applicant / applicant group.
- 3) Assessment of the legal aspects of the legality of the applicant, the legality of operations, business ownership and ownership composition.
- 4) Assessment aspects of applicant management reputation / applicant groups, corporate organizations, the relationship between management and third parties as well as bookkeeping system.
- 5) Assessment of the technical aspects of business premises, production facilities, production / sales, raw materials / supplies materials and their sources, and sources of labor, work environment, repair / maintenance / planned addition of production facilities, and a schedule of implementation of the project / business, and others according to the type of business.
- 6) Assessment of the marketing of products, pricing, distribution, promotion and segments, regions, potential, competitors, market share, market clearances, as well as seasonal factors and realization / sales plan.

7) Assessment of the financial aspects of the plan of financing and sources of funding, financing and corporate finance valuation and calculation of credit needs.

8) Assessment of collateral aspects of collateral requirements, adequacy of collateral value, the binding of collateral and collateral insurance.

9) Assessment of socio-economic aspects and environmental impact of the benefits and impacts on social and economic community, an important impact on the environment and activities that complete by the company.

2. Examining the credit ranking (credit rating) in the form of charging credit identification and assessment for worksheet recovery rate.

3. Checking completeness of loan application form and recommendations

Criteria used are:

1. Adequacy assessment of credit worthiness

a) The required data filled completely.

b) Legal aspects are adequately addressed.

c) Aspects of management are adequately addressed.

d) The technical aspects are adequately addressed.

e) The marketing aspects are adequately addressed.

- f) Financial aspects are adequately addressed.
- g) Collateral aspects are adequately addressed.
- h) socio-economic aspects are adequately addressed.
- i) Aspects of the environmental impacts are adequately addressed.
- j) The conclusion is clear and complete.

2. Recommendation

- a) Recommendations are clear and complete.
- b) Recommendation signed by the analyst.

c. Assessment of credit decisions

At this stage, Internal Auditors perform checks on the authorities who decide on lending activities documents pertaining to the provision of credit.

More detailed examination as follows:

1. Researching the authorized person who decides on granting loan and the implementation of the credit committee.
2. Examine the completeness and correctness conditions of credit decisions in accordance with applicable regulations.
3. Examine the completeness of the Credit Approval notification and the suitability of the charging credit terms on the notification with the terms of credit decisions.

d. Assessment of loan disbursements

1. Check the completeness and correctness of making credit agreements, credit agreements.
2. Check the completeness of loading and document disbursement of credit, loan disbursements charging, provisioning expenses and insurance expenses binding collateral.

e. Valuation of collateral and collateral binding

1. Check the type and validity of customer collateral granted.
2. Examine whether the competent authorities have done the binding of the collateral legally and are in accordance with the provisions established banks.
3. Examine whether changes in the structure of mortgage loans tied to changes in credit agreements.
4. Check whether the collateral protection insurance implemented in accordance with the terms of credit decisions and provisions established banks.
5. Check whether the collateral documents, document binding and document collateral insurance policy has been dominated banks and stored in a safe and fireproof room.

f. Assessment of administrative and bookkeeping

1. Checking account opening and filling customer master data file / debtor in bank accounting system in accordance with the guidelines of the Bank Indonesia reporting code.

2. Checking credit collateral filling data into a bank accounting system Assessed in accordance with the documents and the determination of credit collateral as deduction in the formation of Impairment Loss Reserves.

g. Assessment of other activities associated with the process of granting, administration and accounting guidance and supervision of credit and credit and credit reporting.

1. Check whether the loan disbursed in accordance with the type of use.

2. Examine the implementation on the spot to the place of business and report.

3. Check the rightness and delivery of collection letters, billing the visit reports and the results of non-performing loans as well as follow-up evaluation promises creditor.

4. Check the administration of loan documents and document storage system.

5. Checking the credit reporting to head office and to the Bank Indonesia as well as the sanctions-sanctions for errors or delays in delivery of the report.

Implementation of audit has been done adequately where the credit has been the Internal Auditor reviews the credit control and detailed examination of the activities of credit began to phase for credit up to supervise the activities of credit with reference to criteria established by Credit Policy Bank and the Guidelines for Implementation Credit.

Earlier in the stage of the audit assignment, Internal Auditor has done preliminary research in which the Internal Auditor credit has to understand about the activities of auditee that one of them an understanding of the policies and credit procedures. Internal Auditor also has to evaluate the policies and procedures established whether the company has compliance with Bank Indonesia regulation. Compliance with bank's internal regulations and has also done testing on the parties related to lending activities to assess whether the units associated with the event credit has been carrying out activities in accordance with the functions and their respective roles.

After conducting a review of credit control, Internal Auditors perform detailed checks on the activities of credit which starts from the stage for credit up to supervise the activities of credit, so it covers the entire scope of the examination has been lending activities of Credit means the Internal Auditor has conducted detailed examinations on any activities of credit .

Internal Auditor Credit gathering evidence and information sufficient, competent and relevant to conduct interviews, questionnaires and submit to testing based on samples that have been determined by performing a physical examination or inspection of documents sampled. Internal auditors examine and

evaluate all credit information to get the findings documented in the Audit Working Papers. During the inspection process, the internal auditors of credit always use the Audit Working Papers in documenting the findings obtained.

At the end of the examination, all findings are collected and documented in the form of an overview of the audit results. Summary of audit results to explain the circumstances that actually occur, the situation should occur, the cause of the deviation, the impact of the occurrence of irregularities, and recommendations of Internal Auditors.

4.2.4.4 Reporting of Audit Results

Prior to the Audit Report is made, the results or findings of the audit was collected in the form of an overview of the audit results and discussed in advance with the branch manager and related staff in the branch. This activity is called an exit meeting at the meeting where the audit team confirmed that the audit findings have been obtained, listening to the responses / comments auditee regarding audit findings and received a commitment from Branch Manager of BRI Padang on the completion time for follow-up findings.

After the exit meeting, one of the internal auditors appointed to complete draft report for audit report. The chairperson of audit team will review draft in order to obtain the belief that the report is complete and correctly made. The report has contained information about the audit findings are clear about the facts, circumstances and impact and cause of the deviation. The responses / comments auditee on audit findings in the form of justification / approval, or the objection /

rejection and the reasons for and commitment to make improvements to certain time limits and recommendations for improvement of internal auditors.

After reviewing of the draft report, then the internal auditor job is to make the Audit Report, which covers the entire examination, is not only from credit but from also all examinations conducted by all internal auditors in every way. Audit Report approved by the Director and then sent to auditee that examined as follow-up guidance.

4.2.4.5 Oversight and Follow-Up Audit Results

Internal Auditor in performing audit operational of the activities of credit not only conduct inspections and report findings that have been obtained, but also conduct follow-up supervision of the BRI Padang branch on the recommendation that has been given. Internal auditors also examine the follow-up of the auditee to see the extent to which the audit has been solve, whether the improvement has been thoroughly done auditee, still in the process or have not been resolved at all.

Internal auditors monitor, analyze, and report on progress in implementing the follow improvements made auditees that include:

a. Monitoring the implementation of the follow-up

Purpose of Monitoring Follow-up is to check progress and to remind the BRI Padang Branch whether have been able to implement the commitments towards the repair or until the promised deadline to exit meetings have been held previously.

b. Analysis of the adequacy of follow-up

From the results of monitoring the implementation of follow-up, performed the analysis of the adequacy of the realization of the promise of improvements have been implemented by the auditee, whether improvements have been thoroughly done auditee, still in the process or have not been resolved at all. Internal auditors make a percentage of the number of findings that have been entirely repaired (Complete), percentage of repairs that are still in the process (In Process) and the percentage of findings that have not been resolved (Not Finished). Further checks returned for follow-up conducted if there are any difficulties or obstacles that lead to follow-up could not conducted properly.

c. Follow-up reporting

Improvements made by BRI Padang Branch on findings obtained in the examination reported in the Audit Follow-Up Report and submitted Inspection Office. Internal Auditor will analyze the adequacy of the improvements made by auditee and respond to audit report.

4.2.5 Analysis for Effectiveness of Lending Activities

Effectiveness relates to the operation to assess the effectiveness of the lending activities, then we can assess whether the implementation of these credits has reached a certain goal. The effectiveness of the activities of credit will be achieved if there improvement during the operational of a company.

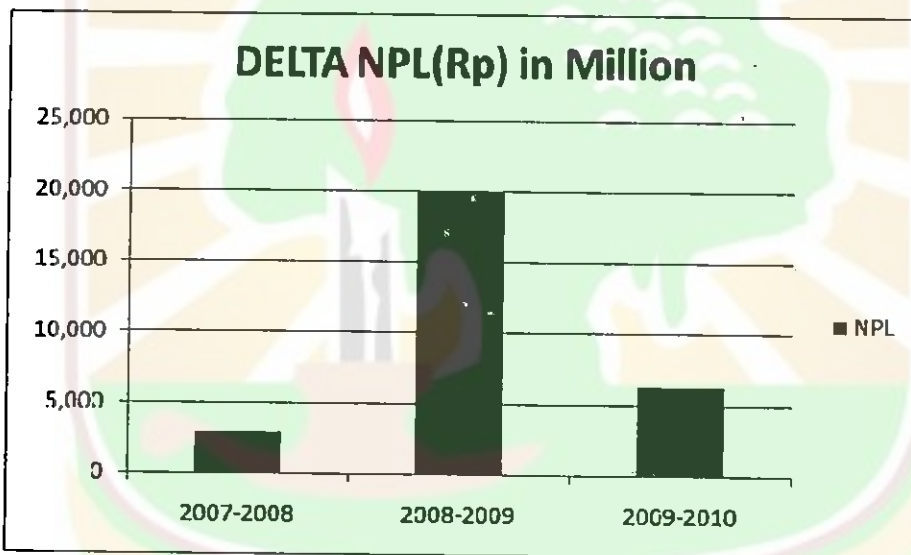
Data given by BRI has processed and it called with Delta Data. What it means by delta data is the result of calculation between year 2007 and 2008 and

so on. The delta data received from BRI Padang branch shows that during 3 years operation from 2007 until 2007 there are significant amount of increasing NPL in 2009. From 2007-2008 there is an increasing amount of NPL around 2.906 million rupiah.

DELTA DATA for NPL (Rp) in Million

2007-2008	2.906	Increase
2008-2009	20.025	Increase (Earthquake)
2009-2010	(6.275)	Decrease (Reconstruction)

Figure 4.5



Source: Bank Rakyat Indonesia Padang Branch

The numbers means there is more NPL during that period compare with period before. At 2008-2009 periods, delta NPL rises up high to 20.025 million rupiah. Unfortunately, the reason is that there is major force of earthquake during that period. Economic conditions in Padang where BRI Padang branch operates is having serious problem. Many debtors went out of business, some of them passed

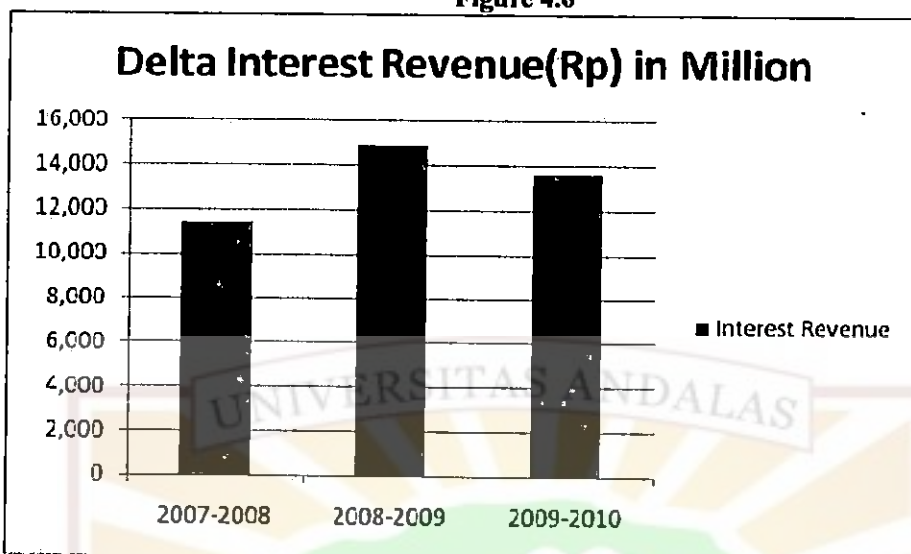
away, and more of their businesses destroyed as well. The impact to debtors business also affects NPL of BRI, because they had no more money to pay installment. BRI comes with solution that would help the debtor's condition, and that is reconstruction of their loan. As is show in delta data during period of 2009-2010, decreasing amount of NPL is cause of reconstruction program from BRI.

DELTA DATA for INTEREST REVENUE (Rp) in Million

2007-2008	11.405	Increase
2008-2009	14.933	Increase
2009-2010	13.683	Decrease

Another data used to see the performance of BRI Padang branch is interest revenue received during lending operations. Data from 2007-2008 indicate increasing of Interest Revenue as 11.405 million rupiah, and then continued with 14.933 million. Increasing of interest revenue during two periods shows that the debtor's ability to pay interest. Moreover, increasing performance of employees that dealing with credit is also increase because more debtor that acquired by those staff.

Figure 4.6



Source: Bank Rakyat Indonesia Padang Branch

Internal Auditors in this case will always increase the effectiveness of lending operation in order to improve loan quality from time to time. Internal auditor examining lending operation based on potential risk from collectability of loan. The conduct of the examination for lending operation on continuity basis by performing a detailed examination of the feasibility analysis of credit, checking for authorization decisions granting of credit. Other activities associated with the provision, administration, reporting and credit control also has proved that the operational audit credit has a role in increasing the effectiveness of non-lending activities in which is decreasing delta of NPL and increasing interest revenue from year to year. The researcher hoped that auditor keep continuing examination of lending activities would enhance the effectiveness that is decreasing NPL under the maximum limit regulated by Bank Indonesia NPL and increasing interest revenue as well.

CHAPTER V

CONCLUSION AND RECOMMENDATION

The preceding chapters have presented the analysis and result. This chapter provides conclusion from the finding and discussion from previous chapter. Some recommendation for the further study is also present in this chapter.

5.1 Conclusion

Procedure in lending activities begins 1. Application from debtor. 2. Phase Feasibility Analysis Credit. The analysis based on credit worthiness aspects of assessment as set forth in the Guidelines on Implementation of Credit Loan Approval Process. 3. Phase Credit Ratings Based, credit analysis has done with the credit ranking is carried out guided by the Board of Directors Decision on Guidelines for Risk Management. Officer shall consider the result of the credit in making the credit decision on the request of the debtor credit. 4. Phase Credit Decisions, Credit decisions by officials is a form of decision-making approval for credit or loan application rejected. 5. Phase Credit Agreement, Following the signing of loan agreements entire agreement, made after the debtor signed the Letter of Credit Agreement then submitted sufficiently sealed and returned to the bank. 6. Realization Phase Credit, Withdrawal of credit can carried out after the debtor signed the Notice of Approval of Credit on the stamp, signed the Loan Agreement and complete the following required documents. 7. Bookkeeping Stage, Recording of transactions on the implementation of credit implemented in accordance with the Guidelines for Internal Bank Accounts 8. Credit

Documentation, Credit Administration documenting the credit agreement, document engagement related to the realization of credit, legalization and credit reporting. 9. Supervision and Reporting, Active Supervision and Passive supervision. Reporting. For the purposes of credit control, Branch Office to make the report include visits in the initial report or the early realization of business credit reports and regular visits. Surveillance reports on file in the debtor's credit files.

This research shows that internal audit in BRI Padang branch already follow guidance and regulation made by Bank Indonesia, Bapepam regulation, SPFAIB, and unit charter of Audit internal. Operational audit start with 1. Audit Preparation 2. Preparation of Audit Program 3. Implementation of Audit Assignments 4. Reporting of Audit Results 5. Audit Follow-Up Results.

The role of audit operational to increase the effectiveness in lending activities is shows when decreasing NPL during 2009-2010 even though it still related with Bank policy to reconstruct debtor's loan after earthquake in Padang. Another indication is the increasing interest revenue from year to year during period of research, which is 2007-2008 and 2008-2009. Decreasing interest revenue in 2009-2010 it might because major force in area that BRI operates, so most of debtor could not pay the loan as well as the interest itself.

5.2 Research Limitation

1. This study does not explain the findings obtained in the examination of lending activities. The results of the audit report is confidential bank documents relating to the customer's name and the parties associated with the credit.
2. Researcher did not analyze the settlement of audit findings, because of the difficulty in obtaining follow-up data for credit report and audit results.
3. Researcher does not received raw data, which is the amount of NPL and Interest Revenue of the company due to confidentially reasons.
4. Limited time given by BRI because the Internal Auditor was on the field and been busy with their work.

5.3 Recommendation

For companies, the researcher suggests that the examination of credit operations more than once a year because lending is a key activity that contains a lot of risk in bank operation.

For Further research, the researcher suggest to get report of working paper, NPL, Interest Revenue, Audit Report document from companies or other related parties in order to examine and conclude for better research result.

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