FACULTY OF ECONOMIC

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THESIS

THE EVALUATION OF RISK-BASED INTERNAL AUDIT IMPLEMENTATION PROCESS IN BANK, CASE STUDY: PT. BANK NAGARI

Submitted in partial fulfillment or the requirement for

Undergraduate degree in economics

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2010

ABSTRACT

The aim of this research is to evaluate the implementation of risk-based internal audit approach in PT. Bank Nagari. The development of risk management issue in last decade has cause the development in internal audit approach; it is call risk-based internal audit approach. There are four principles that this research analyze. There are risk assessment, the process of audit planning, audit process and giving recommendation, and standardization of internal audit staffs in PT. Bank Nagari. All of those principles have implement accordance with the theory of risk-based internal audit approach. But, not all of internal auditor in PT. Bank Nagari has train about risk-based internal audit approach. Thus, PT. Bank Nagari need to train its internal audit staffs related to this approach. Therefore all of the staffs will have similar knowledge and understanding regarding risk-based internal audit approach

Keyword: RBIA, Internal Auditing, Risk Management, Risk based Audit

CHAPTER I

INTRODUCTION

1.1 Backgrounds

Internal audit is an activity involved in an organization that provides input on how best to achieve organizational goals. Internal audit include the utilization of a systematic methodology for analyzing business processes or organizational problems and provide an alternative solutions to these problems. Internal audit activities includes ensuring the operational run effectively and efficiently, prevent and investigate fraud, security of assets, and compliance with laws, regulations, policies, and procedures applicable in the organization (Wulandari: No Year).

The main purpose of internal auditing is to assist management in achieving organizational goals. But, there are risks that might impede management to achieve organization goals. Risk is a situation that may occur and may hinder the achievement of organization objectives.

Based on the bank's characteristics and functions, banking industry is identical to the risk. Therefore, the availability of a system and procedures to control and manage risk is a fundamental requirement for each bank, thus banks avoid losses both material and non-loss material such as deteriorating the image or reputation of a bank in the public.

Risk management, as a new discipline, got serious attention from the banking industry for the last decade. Concepts and regulations relating to the new risk management were first introduced in 1988 by the Bank for International Settlements (BIS). In the implementation of risk management, BIS set the capital adequacy requirement (CAR) at 1998 which later expanded to take account of aspects of market risk. Bank of Indonesia applies this provision in stages starting in 1993 (Surbakti, citied in Habiburrochman: 2004).

According to Bank of Indonesia Regulation No. 11 / 25 / PBI/2009 article 1, Risk Management is a series of methodologies and procedures used to identify, measure, monitor, and control risks arising from the Bank's business activities. For banking, the application of risk management can increase shareholder value, provides an overview to the bank manager about the possibility of bank losses in the future, improve methods and processes of systematic decision-making based on the availability of information, used as the basis for more accurate measurement of the performance of the Bank, used to assess the risks inherent in the instrument or business activity the Bank is relatively complex and create an infrastructure robust risk management in order to improve the competitiveness of the Bank. For bank supervisory authority, the application of risk management will facilitate the assessment of the likely losses faced by the Bank that could affect the Bank's capital and as one basis of assessment in setting the strategy and focus of Bank supervision (SE No.5/21/DPNP).

Related to explanation above, Bank of Indonesia has developed a monitoring system based on risk that calls Risk Based Supervision, which is oriented supervisory approach to the front or forward looking. By using this

CHAPTER V

CONCLUSION AND RECOMMENDATION

5.1 Conclusions

Risk-based internal auditing provides an independent and objective opinion to an organization's management whether the organization's risks are being managed to acceptable level. Thus, risk-based internal audit can help an organization to improve the effectiveness of risk management, control and governance process. In this research, the author describes the implementation of risk-based internal audit in banking industry, especially in PT. Bank Nagari.

This research shows that in general PT. Bank Nagari has implement risk-based internal audit effectively. The author describes it in four aspects; there are risk assessment processes, risk and audit universe and audit planning process, audit and feedback process, and standardization of internal audit staffs.

Risk assessment process conducted by Division of Risk Management every three months. The result of risk assessment-risk profile- will distribute to Division of Supervision. Risk profile used by Division of Supervision as a basis in preparing audit planning. After conducting audit, internal auditor will give feedback to auditee which call recommendation. Recommendation might about the way to mitigate the risks.

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