

# CHAPTER 1

## INTRODUCTION

### 1.1 BACKGROUND

Globalization era will sharpen rivalries that need more critical thinking on optimal utilization of various sources of funds and the use of existing resources. The increasing of complexity, the size of organization and the expansion in business operations is affecting the need for the complex control system, both control of financial and business operational that make the role of audit became important thing, especially the internal audit who has involved day to day operational of organization.

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).

Based on the definition of internal auditing issued by IIA'S Board of Directors, 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. According to the IIA, risk is defined as a possibility that an event will occur, which will impact an organization's achievement of the objectives ( the professional practices framework 2004)

In general bank have three main activities, they collect the fund from the peoples, channels the fund to the peoples in form loan or credit for variety purposes, and give other bank

services. These three activities can be done if bank and its customer have trust each other's. The customers want to save their money in bank, because they believe the bank will not misuses and their money will be managed well and they can withdraw the money any time they want. In other hand, bank wants to channel the fund to debtor or the peoples because trusts exist. The Bank believe that debtor will not misuses and manage the loan fund well, debtor have ability to pay and return their credit or loan and other liabilities at due date.

The loan or credit was given by bank to its customer usually has short term or long term, the credit used to run their business or other needs. In giving the credit bank must concern so many aspects of the customer, such as business prospect, debtor performance, and ability to pay.

To ensure this activities running well, the bank need good internal audit division to minimize any risk, and increase and improve the system in management. In former, internal auditor was the enemy to management because they act as "watch dog" for every single policy that had been made by management. However, internal auditor in the present has become a partner and they work not only to examine the mistakes but also give another contribution. So that the process will run well from planning, implementing, and evaluating and bank can achieve their goals.

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.

Based on the background of the above problems, the authors are interested in doing research with the title: "**The Role of Internal Auditor in Minimizing Risk Factor in Banking Industry**"

## **1.2 PROBLEM DEFINITION**

Based on background above, existence internal audit function in a company is required to control the business activity so that the trust from community can be maintained. In order to implement the basic internal control components and to produce reliable information for company's stakeholders takes effectiveness role of internal auditors.

Based on the background above, the writer proposed the questions as follows :

1. How is internal audit function and practice in Bank Nagari?
2. How is the role of internal auditor in minimizing risk factor in Bank Nagari?

## **1.3 RESEARCH OBJECTIVE**

The objective of this research are :

1. To describe the function of internal audit in Bank Nagari?
2. To describe and analyze the role of internal auditor in minimizing risk factor in Bank Nagari?

## **1.4 RESEARCH BENEFIT**

The benefit that expected in this research are:

1. For writer, to get better understanding about the role of internal auditor in minimizing risk factor in Bank Nagari
2. For company, expected this research can be used as an input in improving the internal audit function in minimizing risk factor in Bank Nagari

3. For accounting knowledge and next research, expected that this research can give input for accounting knowledge and inspiration for further research that more deeply in the future.

## **1.5 WRITING SYSTEMATICAL**

The systematical of the research, is divided into five sections, which consist of: Chapter 1

### **INTRODUCTION**

This section describes the background of the problem, problem definition, research objective, research benefit, scope of research, and writing systematic.

### **Chapter 2 THEORITICAL FRAMEWORK**

This chapter includes the literature surveys of any related theories and opinions of the experts gathered from different sources, such as text books, the results from previous research, journals, and internet based content and information.

### **Chapter 3 RESEARCH METHOD**

Second chapter discusses the various kinds of research data, and describes the methods and techniques used to analyze the data and any information needed for the thesis.

### **Chapter 4 RESULT AND ANALYSIS**

This chapter will describe the result of the research based on the data and information gathered related to the questions on problem definition.

### **Chapter 5 CONCLUSION**

This chapter will conclude all the result of research presented by the previous chapter, feedback in from of suggestions, and also discuss the limitation of research.