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The Role of Internal Audit in the Implementation of Good Governance in Islamic Banking

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Abstract:*Banking is a financial institution in which there are various kinds of services. The most influential thing in the service sector is trust. Apart from that, the good operation of a bank is also an added value for customers. This research uses qualitative research.*
Keywords: *Audit, Good Corporate Governance, Islamic Bank*

1. Preliminary

The existence of a bank in a modern economy is a difficult requirement avoided, the two have an inseparable relationship Banks provide capital or loans to businesses, the borrower receives additional capital from the bank to increase business. Therefore, without capital assistance, the business will run slowly in gaining progress and of course this is not expected. At this time, the bank not only meet the needs of business people, both ordinary and middle class businessesabove, but also banks have touched the lower layers of society, using banks to fulfill their needs in perfecting their consumptive desires productive, property, education, investment insurance for Hajj savings, retirement savings and others and the upper class of society as a medium to facilitate business activities and other needs.

Banks as trust institutions are not only needed or beneficial for individuals and society, but also play a role in the economic growth and development of a country. In addition, banks can also assist transaction, production, and consumption activities through their function as institutions that carry out financing traffic.

Internal audit helps companies to achieve their goals through evaluation, risk management, control and good governance processes. The role of internal audit is highly expected in developing and maintaining the effectiveness of the company's internal control, risk management and the realization of Good Corporate Governance to create a healthy and competitive company. This is where the role of internal audit becomes important to apply the principles of Good Corporate Governance in a company. Good Corporate Governance (GCG) or also known as good corporate governance emerged as a system that is expected to be able to answer the challenges faced by companies in this era of globalization. Theoretically, the practice of Good Corporate Governance (GCG) can increase the value of the company by improving financial performance, reducing risks that may occur, and increasing investor confidence.

2. Sharia Banking

sharia comes from Arabic language, from the arabic syara'a, which means the way, way, and Sharia rules are used in a broad and narrow sense. In a broad sense, the Shari'a is all the teachings and norms brought by the Prophet Muhammad, which regulates human life both in terms of beliefs and aspects of practical behavior. In opening, sharia is the teachings of the Islamic religion itself, which is divided into two aspects, namely the teachings on belief (aqidah) and teachings on behavior (amaliah). In this case, sharia in a broad sense is identical to syarak (asy-syar') and ad-din (Islamic religion). In a narrow sense, sharia refers to the practical aspects (amaliah) of sharia in a broad sense, namely aspects in the form of a collection of collections or norms that regulate concrete human behavior. Sharia in this narrow sense is what is commonly identified and translated as Islamic law.

So "Islamic bank" is a bank that conducts banking business activities based on "sharia principles". gharar, haram, and unjust. The meaning of these principles is as explained in Article 2 of the law, namely:

1. Riba, which is an illegal increase in income (batil), among others, in the exchange of similar goods with unequal quality, quantity, and time of delivery (fadhl), or in borrowing and borrowing transactions that require the customer receiving the facility to return the funds received in excess of loan principal due to the passage of time (nasi'ah);
2. Maisir, namely transactions that are dependent on an uncertain situation and are chancy;
3. Gharar, namely transactions whose object is unclear, not owned, whose whereabouts are unknown, or cannot be submitted at the time the transaction is made unless otherwise stipulated in sharia;
4. Haram, namely transactions whose object is prohibited in sharia; or
5. Zalim, namely transactions that cause injustice to other parties.

3. Internal Audit

According to The Institute of Internal Auditors (IIA) as cited by Patricia Saptapradipta, it is an independent, objective assurance and consulting activity designed to provide added value and improve the organization's operations. Internal audit helps organizations achieve their goals by adopting a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes

According to the Decree of the Chairman of the Capital Market and Financial Institutions Supervisory Agency Number: Kep-496/BL/2008, internal audit is an activity of providing assurance and consulting activities that are independent and objective, which aims to increase value and improve company operations, through a systematic approach, by how to evaluate and improve the effectiveness of risk management, control, and corporate governance processes. Meikhati and Rahayu (2015) suggest that internal audit has a role and

simultaneous influence on the effectiveness of an internal control. Internal audit has a role to assist the company in carrying out audits and evaluations for the benefit of management, solving problems that exist in the entity and supporting management's efforts to build a culture and environment that is ethical, honest, and has integrity.

Auditing provides added value to the company's financial statements, because the public accountant as an expert and independent party at the end of the examination will provide an opinion regarding the fairness of the financial position, results of operations, changes in equity, and cash flow statements.

Terminologically, the term audit comes from the Latin "Audire" which means "to hear", in ancient times when a business organization owner felt that something was wrong/abuse, then he heard the testimony of a certain person. At that time, if the owner of a business entity suspected fraud, they would appoint a certain person to check the company's accounts. The appointed auditor "hears" then "hears" the statement of his opinion regarding the truth of the company's account records by interested parties.

Audit is the process of collecting and evaluating evidence carried out by an independent and competent party, to determine whether the information presented is in accordance with the established criteria. According to an accounting historian, it is said that, the origins of auditing began earlier than the origins of accounting. When the progress of civilization leads to the need for a person who is to some extent trusted to manage other people's property, it is deemed appropriate to check the loyalty of that person, so that everything will become clear.

4. The Role of Internal Auditors

According to Effendi (2016) there are 5 roles of internal auditors in helping companies create the realization of GCG, namely: (1) internal audit has a role to encourage companies to create transparent financial reporting and integrity; (2) assisting companies in increasing accountability; (3) providing encouragement through community development and corporate social responsibility (CSR) which is a form of corporate responsibility; (4)

increasing the company's independence towards the company's stakeholders; and (5) encourage fairness to ensure that there are no laws antitrust policies that are neglected or violated and ensure that the company runs a healthy business in the business activities of procuring goods and services.

Research by Asstuty (2007) provides information that internal auditors with their role as watchdogs are responsible for carrying out supervision, inspection, observation, company compliance assessments, check and recheck, identify problems and provide solutions, and the role of watchdogs has a tendency to focus on the risk of possible occurrences. irregularities in the company's operational activities. The second role is as a consultant, the internal auditor is said to have a role to provide consultation, evaluation and assessment of the accuracy of information, governance, internal control, and risk management in the company more flexibly. This is because the internal auditors provide consultation to the company by positioning themselves as partners, not as employees in the company. Internal auditors with their role as consultants aim to support increasing added value and company performance in general. The last role that has become a new role for internal auditors is the role of a catalyst (catalyst) or also commonly referred to as an agent of change. Internal auditors as (catalyst) or also commonly referred to as agents of change. Internal auditors as catalysts have a role to provide motivation to move and direct all parts of the organization to provide long-term influence or even a significant change for the organization in the future (Soekardi, 2007). Moreover, Syahril (2013) also states that this paradigm shift in the role of internal auditors does not indicate the role of the watchdog will be forgotten, instead the role of the internal auditors will be wider and further improve the quality of governance and the quality of information produced by the company with quality assurance from the role as a catalyst.

5. Good governance

Good governance is defined by the World Bank as an implementation of solid and responsible development management in line with the principles of democracy and an efficient market, avoiding the possibility of misallocation and investment, and preventing corruption both politically and administratively, implementing budgetary discipline and creating legal and a political framework for the growth of business activities.

Government Regulation (PP) Number 101 of 2000 explains the meaning of good governance, namely: governance that develops and applies the principles of professionalism, accountability, transparency, excellent service, democracy, efficiency, effectiveness, rule of law and can be accepted by the whole community.

5. Good governance

Good Corporate Governance is as follows: "Good Corporate Governance (GCG) is basically a system (input, process, output) and a set of regulations that regulate the relationship between various interested parties (stakeholders) especially in the narrow sense of the relationship between shareholders, the board of commissioners, and the board of directors in order to achieve the company's goals. The principles of Good Corporate Governance, namely:

a. Transparency
   Transparency is openness in presenting material and relevant information and openness in carrying out the decision-making process. In realizing transparency, companies must provide sufficient, accurate and timely information to parties with an interest in the company. In addition, investors must be able to easily access important company information when needed.
b. Accountability
   Accountability, namely the clarity of the functions and implementation of the responsibilities of the company's organs so that their management runs effectively. If this principle is applied effectively, the company will avoid agency problems (Forms of Role Interest).
c. Responsibility
   Responsibility is conformity or compliance in company management to sound corporate principles and applicable laws and regulations. Applicable regulations include those relating to taxes, industrial relations, environmental protection, occupational health/safety, salary standards and fair competition.
d. d. Independence
   Independence is a condition where the company is managed professionally without conflict of interest and influence or pressure from any party that is not in accordance with the applicable laws and regulations. and sound corporate principles Independence is very important in the decision-making process. The loss of independence in the process will eliminate objectivity in the decision-making.
e. Fairness (Equality and Fairness)
   Fairness (Equality and Fairness) in fulfilling the rights of stakeholders that arise based on agreements and applicable laws and regulations. Fairness is expected to make all company assets managed properly and carefully, so that there is an honest and fair protection of the interests of shareholders. Fairness be the soul to monitor and ensure fair treatment among the various interests in the company.

   Corporate governance (CG) is a relatively new issue in the world of business management. In general, CG is related to the relationship systems and mechanisms that regulate and create appropriate incentives between parties who have an interest in a company so that the company in question can achieve its business goals optimally.

Good Corporate Governance or good corporate governance is a technical definition in economic practice that has become the language of government. Other terms in this sense that are commonly used are good public governance, good government governance, good nation governance, or good civil governance. This vocabulary was introduced to the Indonesian public when large companies in Indonesia collapsed in 1997, which was caused by the company's management not complying with the principles.

6. Good Corporate Governance.

In the context of Islamic Banks, Corporate Governance must include:

a. A collection of organizational readiness where there is alignment of management actions of Islamic banks, as far as possible, which is in line with the wishes of stakeholders.

b. Provision of appropriate incentives for organs of governance such as the Board of Directors, Sharia Board and Management to achieve goals that are in line with the wishes of stakeholders and facilitate effective monitoring, which will encourage Islamic Banks to use their resources more effectively.

c. Compliance with sharia rules and principles.

7. Good Corporate Governance in Indonesia bangking

To maintain the momentum of the economic recovery process, the policy response in the banking sector was focused on accelerating the recovery of the banking intermediation function. Steps to accelerate the recovery of banking functions were taken by easing several banking regulations so that the banking industry could quickly be encouraged to expand credit. Despite the easing steps in the banking sector, the policies adopted by Bank Indonesia continue to prioritize efforts to create bank management discipline through the fulfillment of prudential banking principles and the application of Good Corporate Governance in order to continue to encourage efforts to create a safe, healthy, and strong banking industry.

8. The Relationship between Internal Audit and the Implementation of Good Governance in the Bank Sharia

More specifically, the organization's internal audit function is to help ensure that the risk management process, the overall scope of control and the performance effectiveness of the business processes are consistent with management's expectations.

The current internal audit function is not only required to find problems but at the same time be part of the solution and provide improvement proposal. Internal audit is involved and plays an active role in monitoring unit activities business and provide a consultative role in the implementation of operational processes company.

Then, the role of internal audit is not only limited to "detector" but it can be more, namely as a deterrent which is expected to be able to support and encourage the process of realizing good governance.

6. Conclusion

Based on the above discussion, it can be concluded that Good Corporate Governance is a good organizational governance mechanism in managing organizational resources efficiently, effectively, economically, or productively with the principles of openness, accountability, responsibility, independence, and fairness in the context of achieve organizational goals. There are several principles of Good Corporate Governance, namely:

a. Principle of Transparency
b. Responsibility Principle
c. Independence Principle
d. Principle of Accountability
e. Fairness Principl

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