

**THE INFLUENCE OF RISK MANAGEMENT AND INTERNAL AUDIT APPLICATION ON  
THE RISK OF NON-LOOKING LOANS AT BANCO NACIONAL DE COMERCIO DE  
TIMOR LESTE**

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**ABSTRACT**

The purpose of this study is to provide empirical evidence of the partial effect of the implementation of risk management and internal audit variables on the risk of bad credit at BNCTL. The population in this study were all 123 BNCTL Credit Analysis Managers and Staff. The samples used in this study were 123 BNCTL Credit Analysis Managers and Staff, using a census sampling technique, collecting data using questionnaires distributed as many as 123 and questionnaires that could be used as many as 70 and statistical analysis tool using multiple linear regression analysis. The results of the first test study show that the Application of Risk Management has a Significant Effect on the Risk of Bad Credit in Managers and Staff of BNCTL Credit Analysis. This means that the better the implementation of risk management, the BNCTL will be more efficient and effective in reducing the risk of bad credit customers. Thus, the implementation of banking risk management plays an important role in the effectiveness or minimization of bad credit risk. It is hoped that the risk management implemented by the BNCTL will assist in reducing the risk of bad loans. This is shown by the obtained t-count value of 5,817 greater than the t-table of 1,995, with a significant level of 0,000 less than the error tolerance of 0.05. While testing the second hypothesis, Internal Audit also has a significant effect on Bad Credit Risk. This shows that the better BNCTL implements internal audit, the more efficient and effective the risk of bad loans can be and can be controlled properly. This is indicated by the t-count value obtained of 2,268 which is greater than the t-table of 1,995, with a significant level of 0.027 which is smaller than the 0.05 significance level. The results also show that the coefficient of determination or contribution (R square) of the Variable of Application of Risk Management and the Variable of Internal Audit to the Risk of Bad Credit is 0.394 or 39.4%, meaning that the Risk of Bad Credit can be explained by the Variable of Application of Risk Management and Internal Audit of 39.4% and the remaining namely  $(100\% - 39.4\%) = 60.6\%$  Bad Credit Risk, influenced by other variables not examined in this study.

**Keywords:** Application of Risk Management, Internal Audit, Bad Credit Risk  
**JEL Classification:** L30, L25, Y80

## INTRODUCTION

The development of the economy in Timor-Leste is growing, causing many banks to emerge that offer various service facilities such as accepting deposits, accepting payments for electricity, telephone, water, taxes, tuition fees, and other payments. In banking, there are various forms of bank business and this includes the business of providing credit. Credit activity is a process of forming bank assets so that credit is a bank asset that has risks (risk assets) because these assets are controlled by outsiders, namely debtors. Banks must try to manage these assets so that the quality of these risk assets becomes healthy in a productive sense so that they can provide a large income contribution for the bank.

Credit is the main business of banking (financial depening), where the average amount of bank assets in many developed and developing economic countries is tied up in the form of credit. , accept payments for electricity, telephone, water, taxes, tuition fees, and other payments. In banking, there are various forms of bank business and this includes the business of providing credit. Credit activity is a process of forming bank assets so that credit is a bank asset that has risks (risk assets) because these assets are controlled by outsiders, namely debtors. Banks must try to manage these assets so that the quality of these risk assets becomes healthy in a productive sense so that they can provide a large income contribution for the bank. Credit is the main business of banking (financial depening), where the average amount of bank assets in many developed and developing economic countries is tied up in the form of credit).

Based on field observations, data was obtained regarding the development of BNCTL customers in terms of the Overall Loans Disbursed for the 2017 - 2021 Period, as follows;

**Table 1. Total Credit Distributed by BNCTL Bank Dili, Timor-Leste  
Year of 2017-2021**

<b>B N C T L BANK</b>					
2017	2018	2019	2020	2021	<b>TOTAL</b>
4,036	5,974	7,529	13,434	18,375	<b>49,348</b>
4,648	6,577	8,449	14,918	20,163	<b>54,755</b>
5,250	6,762	9,533	16,415	20,976	<b>58,936</b>
5,339	7,125	11,742	17,057	21,257	<b>62,520</b>
<b>19,273</b>	<b>26,438</b>	<b>37,253</b>	<b>61,824</b>	<b>80,771</b>	<b>225,559</b>

From the table above it turns out that BNCTL Dili in its efforts to extend credit for five years (2017-2021) has experienced an increase in credit services, seen by the increasing number of loans disbursed each year. This illustrates that in the future BNCTL will have quite a large opportunity in extending credit from the funds it has collected. Until the end of 2021, BNCTL

has managed to distribute loans to customers of \$. 80,771 million, or around 35.81%, this number is projected to continue to increase, factors that increase this assumption by implementing good risk management and high internal audit. Judging from the total credit disbursed by the BNTL Bank in Dili, Timor-Leste in 2017–2020 there was an increase. Even so, if the implementation of risk management and internal audit does not go as expected, there will be a risk of bad credit.

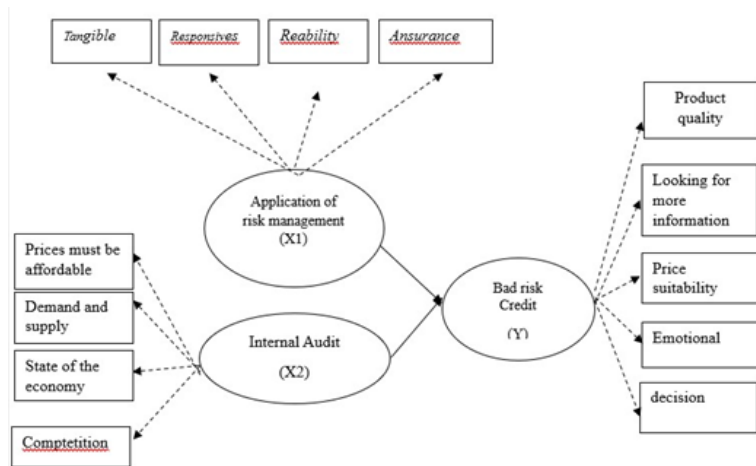
With the increase in lending, one of the problems that is often faced by banks in terms of lending, generally the loans that are given end up being non-performing loans or bad loans or a term in banking called Non-Performing Loans (NPL). The high NPLs in Timor-Leste are inseparable from the lack of compliance by banks in Timor-Leste with the principles of prudence in lending. The danger that arises from non-performing loans is that the credit cannot be paid back, either in part or in whole.

The level of competition between banks and high credit risk causes bank management to implement an adequate internal control where the control aims to protect company property by minimizing the possibility of fraud, waste, credit jams, and increasing efficiency and effectiveness of performance (Firdaus, 2006 :2) followed by Setia (2015:46).

Financial liquidity, solvency and bank profitability are greatly influenced by the bank's success in managing the loans it disburses. Non-performing or non-performing loans have an unfavorable impact on the state, society and banks of Timor-Leste.

Several parties issued a definition of risk management. According to Bank Indonesia, risk management is a series of procedures and methodologies used to identify, measure, monitor and control risks arising from bank business activities ([www.bi.go.id](http://www.bi.go.id)). Horngern, Walter, and Linda (2006: 372) define internal control as an organizational plan and all related actions implemented by an entity to maintain assets, encourage employees to follow company policies, increase operating efficiency and ensure the reliability of accounting records. Wayan Sudirman (2012: 191) Credit risk occurs due to failure of customers to fulfill their obligations.

The conceptual framework is built based on the framework of the thinking process, which is used to make it easier to understand the path or process of a research and as the formulation of hypotheses. In order to understand the flow of this research, a conceptual framework can be made which is presented as follows:



## METHOD

The population in this study is all managers and credit analysis staff at BNCTL, totaling 123. Meanwhile, the determination of the sample from this study, as shown in the following table:

Sample Classification	Total
Head office Credit Manager	1
Head Office Credit Deputy	1
Head Office Credit Staff	13
Branch Manager	14
Branch Deputy Manager	13
Credit staff at Branch	28
Total Sample	70

The Likert scale questionnaire is graded, namely a scale of 5 (five), from statements that strongly agree to strongly disagree, as follows;

Scale	Strongly agree	Agree	Neutral	Not agree	Strongly Disagree
Score Value	5	4	3	2	1

In this case the data analysis technique used is to use multiple linear regression formula. According to Igbal Hasan (1999,: 249), the multiple linear formula is an analysis to find the relationship between the dependent variable Y and the independent variables X1, X2. The multiple linear relationship of the three variables when expressed in the form of a mathematical equation is, as follows:

$$Y = a + b_1 \cdot X_1 + b_2 \cdot X_2 + e$$

### Explanation

Y = Bad Credit Risk (Dependent Variable)

a = Constant

b<sub>1</sub>= Regression Coefficient associated with X<sub>1</sub>

b<sub>2</sub>= Regression coefficient associated with X<sub>2</sub>

X<sub>1</sub> = Risk Management Application (Independent Variable)

X<sub>2</sub> = Internal Audit (Independent Variable)

e = error

## RESULTS AND DISCUSSION

The duration of distributing this research questionnaire was in June 2023, namely the first week and the second week (for two weeks). The results of collecting questionnaires or questionnaires that can be processed or used are as follows:

**Table 1 Questionnaire Return Rate**

Decsription	Total Questioner
Questionnaire distributed	123
Unreturned questionnaires	50
Returned questionnaire	73
Questionnaires that cannot be processed	3
Questionnaires that can be processed'	70
Questionnaires that can be processed ( <i>response rate</i> )	59.35%
Questionnaire return rate that can be processed ( <i>usable response rate</i> )	56.91%

Source: Primary data processed, 2023

The results showed that the results of the individual parameter significance test (t test) regression equation with the obtained t-count value of 5.817 was greater than the t-table of 1.995, with a significant level of 0.000 smaller than the error tolerance of 0.05. it can be seen that the Application of Risk Management has a Significant Effect on the Risk of Bad Credit at the National Banco Comercio Timor-Leste (BNCTL). This means that the better the implementation of risk management, the BNCTL will be more efficient and effective in reducing the risk of bad credit customers. Thus, the implementation of banking risk management plays an important role in the effectiveness or minimization of bad credit risk. It is hoped that the risk management implemented by the BNCTL will assist in reducing the risk of bad loans

**Table 2 Demography Respondent**

Descriptions	Total Respondent (70)	Percentage 100%
1. Sex		
a. Male	68	97.14
b. Female	2	2.86
2. Education		

a. High School	29	41.42
b. Diploma	1	1.42
c. Undergraduate	40	57.14
d. Master Degree	0	0
3. Age		
a. 21-30 Years	7	10
b. 31- 40 Years	57	81.43
c. 41-50 Years	5	7.14
d. > 50 Years	1	1.42
4. Length of work		
a. 1-5 Years	16	22.86
b. 6-10 Years	51	72.86
c. > 10 Years	3	4.29

Source: Primary data processed, 2023

The results of the second individual parameter significance test (t test), showed that the t-count value obtained was 2,268 greater than the t-table of 1,995, with a significant level of 0.027 less than a significance level of 0.05, at a 95% confidence level and a 5% error level. it can be seen that Internal Audit has a significant effect on the Risk of Bad Credit at the National Banco Comercio Timor-Leste (BNCTL). This shows that the better BNCTL implements internal audit, the more efficient and effective the risk of bad loans can be and can be controlled properly.

## CONCLUSION

The conclusion in this study is that the results of the first hypothesis show a significant effect of the implementation of risk management on bad credit risk. This means that the better the implementation of risk management, the BNCTL will be more efficient and effective in reducing the risk of bad credit customers. Thus, the implementation of banking risk management plays an important role in the effectiveness or minimization of bad credit risk. It is hoped that the risk management implemented by the BNCTL will assist in reducing the risk of bad loans. The results of the second hypothesis show the significant influence of Internal Audit on Bad Credit Risk. This shows that the better BNCTL implements internal audit, the more efficient and effective the risk of bad loans can be and can be controlled properly. The results of this study mean that the application of risk management and internal audit partially can be used as a predictive tool to measure the risk of bad credit. The application of good banking risk management will also increase the effectiveness of bank performance and minimize risks that may arise. In addition, the bank may be able to increase the role of internal audit because at this time there are still many internal audits at banks that carry out repressive efforts compared to preventive efforts. Suggestions for future research are expected, it is necessary to carry out interview techniques in order to obtain complete information. It is better if future research is expected to increase the duration of distributing the questionnaires and be carried out on all managers and bank credit analysis staff in Timor-Leste, so that the research findings are expected to be generalized.

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