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Corporate governance in the Islamic banking industry

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A B S T R A C T

Currently Islamic banks are considered as an alternative way for people to save funds safely, calmly and peacefully. Because Islamic banks themselves offer different offers from conventional banks, where Islamic banks carry out their operations in accordance with the provisions of Islamic law. So that customers from Islamic banks feel confident in using services or products from Islamic banks. Thus, Islamic banks need to maintain their operational systems in order to avoid things that are prohibited by Islamic law. In addition to the operational system, Islamic banks also need to emphasize Good Corporate Governance (GCG). Bank Internal Audit is important in improving the implementation of Good Corporate Governance (GCG), where Good Corporate Governance (GCG) is a demand from society and also a reflection of the performance of an organization. The Bank's internal auditors (Internal Control) have a significant and positive effect on the implementation of good governance in Islamic Banking. This explains that the more effective the implementation of internal audit and the stronger the internal control that is built, the higher the implementation of good governance in Islamic Banking will be. Thus, in Islamic banking, Bank Internal Audit is needed to create effective Good Corporate Governance (GCG) principles and objectives.

Introduction

In recent years, many sharia-based financial institutions have sprung up in Indonesia such as Sharia Pawnshops, Sharia Shares, Zakat Infaq Shadaqah Charity Institutions (LAZIS) and the one that has caught the most attention is Islamic Banks. Currently Islamic banks are considered as an alternative way for people to save funds safely, calmly and peacefully. Islamic banks themselves offer different offers from conventional banks, where Islamic banks carry out their operations in accordance with the provisions of Islamic law. So that customers from Islamic banks feel confident in using services or products from Islamic banks. Thus, Islamic banks need to maintain their operational systems in order to avoid things that are prohibited by Islamic law.

In addition to the operational system, Islamic banks also need to emphasize their existence*Good Corporate Governance* (GCG). GCG is a term that is familiar in the world of economics. GCG is a system related to the management and control of an organization. GCG is one of the keys to the success of a company to grow and provide benefits in the long term. In addition, GCG is also needed to increase public trust in government performance.

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GCG is a positive thing because the function of GCG itself is as a control system in a company, besides that GCG also manages good corporate governance and GCG can also minimize agency conflicts in a company (Ferdiya Devika et al., 2020). The application of GCG in the world of Islamic banking is needed to increase public trust. In addition, there is also a need for supervision and control carried out by the authorities on GCG practices in the Islamic banking world (Akbar, 2013).

GCG has three aspects that can be applied, namely those related to supervision, control and inspection. Examination is an activity carried out by a party that is independent and has professional competition in checking the results of the performance of an organization in accordance with predetermined standards. Self-examination is commonly known as an audit. While inspections that are within an organization itself and carried out by an audit committee originating from the organization itself are called bank internal audits.

The Audit Committee is a group that is specifically appointed and has understanding related to the field of accounting and other matters related to the internal control system of a company (Lestari et al., 2020). Bank internal audits need to be carried out in order to carry out inspections and create good organizational governance. Bank internal audit is required to provide information related to the adequacy and effectiveness of the existing internal control system in banks. The task of the bank's internal auditors is not only in the field of financial audits, but also to audit the compliance and operations of an organization. Thus the bank's internal auditor has responsibility for organizational policies so that they run effectively.

Discussion

Bank Internal Audit is an examination carried out by company audits on all forms of company accounting records, financial reports to compliance with top management policies (Eko Sudarmanto et., Al: 2022). Meanwhile according*The Institute of Internal Auditors* (IIA) bank internal audit is an assurance and consulting carried out independently and objectively designed to provide added value and improve organizational activities. Internal audit helps an organization achieve its goals through a systematic and regular approach to evaluate and improve the effectiveness of risk management.

The bank's internal audit acts as a party that reviews and assesses the feasibility of management control systems, internal controls and other operational controls as well as developing effective controls with efficient costs; ensuring adherence to policies, plans and procedures established by management, ensuring that organizational assets are properly accounted for and protected, such as avoiding the possibility of theft, fraud and misuse; ensure that the data management developed by the organization is valid and reliable; provide an assessment of the quality of the performance of each element in the organization in carrying out its duties and functions; and provide operational

improvement suggestions to improve efficiency and effectiveness within the organization.

In the bank's internal audit, it has also been determined regarding the scope of the bank's internal audit itself, including the reliability and support of information, carried out in accordance with policies, plans, procedures, laws, regulations and contracts, asset security, economical and efficient use of resources, and achievement of targets and objectives of the operational program that has been set. This scope should cover the adequacy and effectiveness of the organization's performance system in carrying out the assigned responsibilities.

The concept of Good Corporate Governance (GCG)

According to the World Bank*Good Corporate Governance* (GCG) is defined as a collection of laws, regulations and rules that must be complied with that encourage the performance of company resources so that they can move efficiently to produce sustainable long-term economic value for shareholders and the surrounding community as a whole. GCG is a good organizational governance mechanism in managing organizational resources efficiently, effectively, economically and productively with the principles of openness, accountability, accountability, independence and fairness in order to achieve organizational goals.

Draft *Good Corporate Governance* (GCG) namely managing and controlling an organization/company in order to increase added value (value added) for all *stakeholder*. There are two things that are highly emphasized in the concept of GCG, namely emphasizing the rights of shareholders to obtain correct and timely information and the obligation for companies to make accurate, timely and transparent disclosures of all company performance information, ownership and*stakeholder* (Eko Sudarmanto et.,al, 2021:5). Thus, managers in a company can use GCG as a guide in managing the Islamic banking industry (Fatoni et al., n.d.)

The principles contained in GCG itself are inseparable units and must be carried out as a whole. Thus the goal of achieving the company will be easily implemented. Based on the Financial Services Authority Regulation (POJK).55/PJOK.03/2016 which is contained in article 2, namely the GCG Principles include: (1) Transparency (*Transparency)*. (2) Accountability*(Accountability)*. (3) Accountability*(Responbility)*. (4) Independence*(Independency)*. (5) Equality and Fairness*(Fairness)*.

Islamic Banking Concept

According to law number 21 of 2008 article 1, a bank is a business entity that collects funds from the public in the form of savings and distributes funds to the public in the form of credit or other means in order to improve the standard of living of the common people. Meanwhile, Islamic banks are banks that apply sharia principles in them, so that Islamic banks do not do things that are prohibited in Islamic law, such as usury, gharar, maysir.

Islamic banks have the concept of carrying out banking activities by taking into account the provisions in accordance with Islamic law. Islamic banks will obtain a profit

margin opinion on financing using a sale and purchase agreement, profit sharing income on financing provided using a cooperation agreement. Eventhough it is not merely financial factors affecting profitability in Islamic bank (Pratama & Segaf, 2022). Then Islamic banks will also provide bonuses for funds obtained from the public. As well as Islamic banks will get*fee* the amount of which depends on the type of service product provided by Islamic banks (Drs. Ismail, 2011:35)

Relationship of Bank Internal Audit, Good Corporate Governance and Sharia Banking

*Good Corporate Governance (*GCG) is part of the definition of a bank's internal audit and is included in the standards and Practice Advisory of the International Profession Practices Framework (IPPF) (IBI, 2014: 271).In accordance with Attribute Standard 1220, the activity and role of the Internal Audit Work Unit (SKAI) in governance is to conduct inspections and provide recommendations for improving governance to achieve goals. Hery (2017: 293)says that a bank's internal audit is part of an internal organization/company which must play an important role in realizing the creation of GCG. An organization/company specifically relies on the internal audit function to help ensure that the risk management process, overall control scope and performance effectiveness of business processes are consistent with management's expectations.

Every Islamic banking has a different internal audit role. The role of bank internal audit in Islamic banks is expected to be able to carry out its role in accordance with the provisions that have been set. According to Wardoyo and Lena in their research, the role of internal audit has a significant influence on GCG applied to Islamic banking.

So the bank's internal audit, GCG, and Islamic banking have a positive relationship where Islamic banking requires a bank's internal audit in order to achieve the goals of GCG effectively and efficiently.

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

Internal Audit is an activity that is required by every company. Each Islamic bank, of course, has different internal audit needs according to the policies of each Islamic bank. Thus the role of Bank Internal Audit in realizing GCG in sharia banking is as follows:

1. The bank's internal audit oversees the running of the business so that it remains within the corridor of effective and efficient internal control, strong risk management and good corporate governance.
2. Internal Audit makes analysis and provides recommendations through the provision of assurance and consulting services
3. Independent and objective assurance and consulting activities to provide added value and improvement to the activities of the organization/company
4. Independently, each bank's internal audit has no relationship with the staff being audited and carries out its duties objectively
5. The Bank's Internal Auditor conducts direct and indirect inspections on a regular basis in each work unit, and provides recommendations in the event of deviations from applicable regulations and or weaknesses that have potential risks

6. The Bank's Internal Auditor submits audit results to the Main Director, Audit Committee, Compliance Director and related work units, as well as periodically (every semester) and submits the main audit results to Bank Indonesia
7. The Bank's Internal Auditor monitors the follow-up of audit findings in accordance with the direction of the Board of Directors and/or the Audit Committee
8. Bank Internal Auditors have professional and experienced staff in the fields of Sharia Banking, Technology, Human Resources, Treasury, and Accounting, in line with business and organizational developments
9. The Bank's Internal Auditor improves the quality of the Internal Audit apparatus in a sustainable manner through certified and non-certified training
10. The Bank's Internal Auditor reports to DPS regarding violations of sharia principles.

Conclusions And Recommendations

Based on the discussion above, it can be concluded that Bank Internal Audit is important in improving the implementation of Good Corporate Governance (GCG), where Good Corporate Governance (GCG) is a demand from society and also a reflection of an organization's performance. The Bank's internal auditors (Internal Control) have a significant and positive effect on the implementation of good governance in Islamic Banking. This explains that the more effective the implementation of internal audit and the stronger the internal control that is built, the higher the implementation of good governance in Islamic Banking will be. Thus, in Islamic banking, Bank Internal Audit is needed to create the principles and objectives of effective Good Corporate Governance (GCG).

In order to increase the role of Bank Internal Audit in the Implementation of Good Corporate Governance in the Islamic Banking Industry, the authors provide advice, it would be nice if awareness in implementing GCG was not only the responsibility of the internal auditors, but also the awareness of each employee. That way the quality of GCG implementation is getting better. And the results can improve the bank's good image for investors, creditors, the government, and of course the wider community as users of banking services. It is hoped that the next writer will be able to examine other factors that influence the implementation of GCG in the banking world, apart from the role of internal audit, of course.

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