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EVALUATION OF INTERNAL AUDIT IN MINIMIZING NON-PERFORMING FINANCING TO SUPPORT GOOD CORPORATE GOVERNANCE IN ISLAMIC BANKS

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Abstract

This study aims to evaluate the role of internal audit in minimizing non-performing financing and its contribution to supporting the implementation of Good Corporate Governance (GCG) in Islamic banks. Non-Performing Financing (NPF) is one of the major risks that may affect the financial stability of Islamic banking institutions. Internal audit plays an important role in ensuring the effectiveness of the internal control system, maintaining compliance with Islamic principles, and managing financing risks. This research employs a descriptive qualitative method through a literature review of various scientific journal sources. The findings indicate that effective internal audit practices can enhance transparency and accountability, while also reducing the level of non-performing financing, thereby supporting a more optimal implementation of Good Corporate Governance in Islamic banks.

Keywords: Internal Audit, Non-Performing Financing (NPF), Good Corporate Governance (GCG), Islamic Banking

A. INTRODUCTION

The development of the Islamic banking industry in Indonesia has shown significant growth along with the increasing public trust in a financial system based on Islamic principles. Islamic banks not only function as financial intermediary institutions but are also required to conduct operational activities in accordance with sharia principles and implement

Good Corporate Governance (GCG) to maintain business sustainability and public trust (Deni et al., 2024).

However, one of the major challenges still faced by Islamic banking institutions is the high level of non-performing financing or Non-Performing Financing (NPF). Problematic financing may arise due to weak financing analysis, suboptimal customer monitoring, as well as external factors such as unstable economic conditions. A high NPF ratio can negatively affect the liquidity, profitability, and financial stability of Islamic banks (Arifin et al., 2023; Nasution, 2021).

In an effort to control these risks, internal audit plays a very important role within the Islamic banking system. Internal audit functions as an independent supervisory mechanism aimed at evaluating the effectiveness of the internal control system, ensuring compliance with regulations and sharia principles, and identifying potential risks at an early stage. Through effective internal audit practices, banks can implement corrective actions before risks develop into more serious problems (Arifin et al., 2023; Fatimah & Ainulyaqin, 2022).

In addition, internal audit is closely related to the implementation of Good Corporate Governance (GCG) in Islamic banks. GCG is a corporate governance system based on the principles of transparency, accountability, responsibility, independence, and fairness. The proper implementation of GCG can enhance stakeholder trust and create a healthy, stable, and sustainable banking system (Iskandar et al., 2025).

Previous studies have also shown that the effectiveness of internal audit significantly influences the reduction of non-performing financing risks and strengthens the implementation of GCG in Islamic banking. Well-functioning internal audit practices can improve the quality of risk control and strengthen the overall corporate governance system (Hakim, 2021; Baqir & Sulhani, 2023).

B. METHOD

This study uses a descriptive qualitative approach to gain an in-depth understanding of the concept of evaluating internal audit in minimizing non-performing financing to support Good Corporate Governance in Islamic banks. This approach was chosen because it is capable of describing phenomena naturally without manipulating existing data. The main focus of the study is directed toward understanding the concepts, principles, and audit practices within Islamic financial institutions. Data were obtained through a literature review from various sources such as journals, books, and regulations related to Islamic banking. The analysis was conducted by interpreting and connecting various pieces of information relevant to the research topic. Through this method, the author seeks to provide a comprehensive and systematic description of the role of audit in Islamic banking.

The analysis process in this study was carried out qualitatively by emphasizing the interpretation of the collected data. Each piece of information obtained was examined in depth to identify patterns, relationships, and meanings contained within it. This study does not employ statistical calculations but rather systematic logical reasoning. A descriptive approach was used so that the discussion results could be explained in detail and easily understood. In addition, the author compared various existing theories to obtain a more comprehensive understanding. Therefore, this method is expected to produce an objective, structured, and research-oriented analysis (Khairiyah, 2025).

C. RESULTS AND DISCUSSION

Based on the findings from various national and international scientific literature, it can be concluded that internal audit plays a highly strategic role in controlling non-performing financing (Non-Performing Financing/NPF) in Islamic banks. Internal audit not only functions as an inspection tool but also serves as a comprehensive evaluation instrument for the effectiveness of internal control systems and compliance with sharia principles (Arifin et al., 2023; Deni et al., 2024).

The findings indicate that Islamic banks with strong internal audit systems tend to have lower levels of NPF compared to banks with weak internal supervision. This is due to stricter supervisory mechanisms at every stage of financing, starting from feasibility analysis, fund disbursement, to post-financing monitoring (Arifin et al., 2023).

In addition, non-performing financing is also influenced by internal factors such as the quality of financing analysis, the competence of financing officers, and the effectiveness of monitoring systems. External factors such as economic conditions, inflation, and customers' repayment ability also contribute to the increase in NPF levels (Rahman et al., 2021).

Furthermore, the study results show that internal audit has a significant influence on the implementation of Good Corporate Governance (GCG), particularly in aspects of transparency, accountability, independence, and regulatory compliance (Aten et al., 2024).

1. Internal Audit as an Instrument for Controlling Non-Performing Financing

Internal audit is an important part of the risk control system in Islamic banks, functioning to ensure that all operational activities are carried out according to established standards. In the context of financing, internal audit plays a role in evaluating the financing process comprehensively, from feasibility analysis to repayment (Amelia et al., 2024).

According to Fatimah & Ainulyaqin (2022), effective internal audit can improve compliance with sharia principles and reduce errors in the financing approval process. This is very important because mistakes in the initial financing analysis are one of the main causes of NPF.

In addition, the implementation of the 5C principles (Character, Capacity, Capital, Collateral, and Condition) is one of the primary focuses of internal audit in assessing customer eligibility. If these principles are applied consistently, the risk of non-performing financing can be significantly minimized (Fajriyati & Santoso, 2026).

2. Internal Audit in Islamic Banking Risk Management

Internal audit not only serves as a supervisory function but also as part of the risk management system in Islamic banks. In this regard, internal audit helps identify, analyze, and evaluate various risks that may arise in financing activities ("Sharia Compliance, Internal Audit & Risk Management Function in IB," 2025).

Deni et al. (2023) stated that effective internal audit can improve banks' ability to manage risks in a more systematic and structured manner. Consequently, banks are able to make more accurate decisions in financing distribution.

Moreover, internal audit also provides recommendations for improving weaknesses in the internal control system identified during the audit process. These recommendations are essential for continuously enhancing the quality of risk management (Lessambo, 2014).

3. The Relationship Between Internal Audit and Good Corporate Governance (GCG)

Good Corporate Governance (GCG) is a corporate governance system based on the principles of transparency, accountability, responsibility, independence, and fairness (Wiraguna & Hidayah, 2024).

Internal audit is one of the key elements in ensuring the proper implementation of GCG. Without effective internal audit, the implementation of GCG cannot run optimally (Luvita et al., 2025).

Research shows that Islamic banks with strong internal audit systems have higher levels of transparency, thereby increasing public trust in these financial institutions (Aten et al., 2024).

In addition, internal audit also plays a role in preventing fraud, financial statement manipulation, and operational irregularities that may harm the bank (Baqir & Sulhani, 2023).

4. The Impact of Internal Audit on Reducing NPF

The study results indicate that there is a close relationship between the effectiveness of internal audit and the reduction of non-performing financing levels. The better the implementation of internal audit, the smaller the possibility of NPF occurrence (Noviani & Trisnaningsih, 2024).

This is influenced by several main factors, namely:

- Improved quality of financing analysis
- Stricter supervision of customers
- Periodic evaluation of financing portfolios
- Early detection of potential defaults
- Implementation of stricter internal control systems

According to Rahman et al. (2021), internal factors such as CAR, ROA, and FDR also have a significant influence on the NPF level in Islamic banks.

5. Implications for the Stability of Islamic Banks

The implications of effective internal audit are not limited to reducing NPF but also provide broader impacts on the stability of Islamic banking (Olaitan, 2025).

Effective internal audit can:

- Increase customer and investor trust
- Strengthen the reputation of Islamic banks in society
- Improve bank operational efficiency
- Maintain long-term financial stability
- Support the sustainability of the Islamic banking industry

Thus, internal audit not only functions as a control mechanism but also as a strategic component in the development of Islamic banks (Was'an, 2024).

6. Strengthening GCG Through Internal Audit

Internal audit also plays a role in strengthening the implementation of Good Corporate Governance in Islamic banks. Proper GCG implementation will create a banking system that is more transparent, accountable, and professional.

Research shows that GCG implementation supported by internal audit can improve the overall performance of Islamic banks (Deni et al., 2024; Iskandar et al., 2025).
Furthermore, internal audit ensures that all management policies comply with OJK regulations and sharia principles, thereby minimizing the risk of violations.

D. CONCLUSION

Based on the results of the study and discussion regarding the evaluation of internal audit in minimizing non-performing financing to support Good Corporate Governance (GCG) in Islamic banks, it can be concluded that internal audit has a very important and strategic role in maintaining the operational health of Islamic banking institutions.

First, internal audit has proven to play a role in minimizing non-performing financing (Non-Performing Financing/NPF) through strict supervision of the financing process, starting from customer feasibility analysis, fund disbursement, to post-financing monitoring. The more effective the implementation of internal audit, the lower the level of financing risk faced by Islamic banks.

Second, internal audit also functions as an internal control mechanism capable of improving the quality of risk management in Islamic banks. This is demonstrated by the ability of internal audit to detect potential problematic financing at an early stage and provide recommendations for improving existing control systems.

Third, internal audit has a close relationship with the implementation of Good Corporate Governance (GCG). Proper implementation of internal audit can enhance transparency, accountability, responsibility, independence, and fairness in the management of Islamic banks, thereby strengthening stakeholders' trust in these financial institutions.

Fourth, overall, internal audit not only functions as a supervisory tool but also as an important component in supporting the sustainability and financial stability of Islamic banks. Therefore, internal audit makes a significant contribution to creating a healthy, transparent Islamic banking system that is in accordance with sharia principles.

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