

 <p>ISSN NO. 2320-5407</p>	<p>Journal Homepage: - www.journalijar.com</p> <p>INTERNATIONAL JOURNAL OF ADVANCED RESEARCH (IJAR)</p> <p>Article DOI: 10.21474/IJAR01/7401 DOI URL: http://dx.doi.org/10.21474/IJAR01/7401</p>	 <p>INTERNATIONAL JOURNAL OF ADVANCED RESEARCH (IJAR) ISSN 2320-5407</p> <p>Journal Homepage: http://www.journalijar.com Journal DOI: 10.21474/IJAR01</p>
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RESEARCH ARTICLE

DEVELOPING STRATEGY FOR IMPROVING AUDIT COORDINATION OF DELIVERY OF CREDIT FOR BUSINESS PROGRAM IN INDONESIA.

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Manuscript Info

Manuscript History

Received: 12 May 2018
Final Accepted: 14 June 2018
Published: July 2018

Keywords:-

Audit Cooperation; ANP; Coordinated Audit; Credit for Business Program; NPL.

Abstract

Indonesian government issues a policy to ease access to financing for micro, small and medium enterprises by providing guarantee facilities for Credit for Business Program (KUR) delivered by the executing banks. The government has also implemented some relaxation policies such as decreasing interest rate, increasing credit plafond, and providing interest subsidy. There are four indicators of successful KUR program i.e. (1) the amount of KUR distributed, (2) Non Performing Loan (NPL), (3) the number of debtors receiving KUR, and (4) the number of successful graduated debtors. Using Analytical Network Process (ANP). this study figures out an integrated audit model for delivery and guarantee of credit for business program. A network consists of six clusters and 21 nodes is used to describe how its clusters and nodes are influencing each other. Pair comparison questionnaires were distributed to expert respondents. Processing of input scores from 9 experts results that 5 priority elements by sequence are (1) Graduated Debtor, (2) NPL, (3) Number of Distribution and Guarantee of KUR, (4) Number of Debtor Receiving KUR, and (5) Stakeholders' Commitment of Shared Goals. The priority of audit cooperation for integrated supervision in sequence are (1) Coordinated Audit, (2) Joint Audit, and (3) Parallel Audit. Implementation of the prioritized strategy is very situational that is depended on which target be prioritized and the actor who will run the audit strategy.

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Introduction:-

Background:-

As an effort to accelerate the development of real sector and empowerment of micro, small and medium enterprises to boost national economic growth, the Indonesian government issued Presidential Instruction No. 6/2007 on the Policy of Accelerating the Development of Real Sector and Empowerment of Micro, Small and Medium Enterprises. Later, A Memorandum of Understanding was signed by related governmental institutions, guarantor companies, and executing banks to coordinate the KUR financing process. The memorandum stated that the Policy Committee supervises the implementation of KUR which requires selective verification by Financial and Development Supervisory Agency (BPKP). However, due to the absence of required supervisory procedure, KUR

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supervision is separately conducted by each internal audit on the guarantee companies, executing banks, and related governmental institutions.

Micro, Small and Medium Enterprises (UMKM) have a great potential contribution to the nation's economy. As stated by the United Nations-Economic and Social Commission for Asia and the Pacific (UN-ESCAP 2017) and Asian Development Bank (ADB 2015), 96% of existing companies in Asia-Pacific are Small and Medium Enterprises (UKM) absorbing 62% of the workforce and contributing to 42% of the gross domestic product (GDP). Similarly, Indonesia has a great potency of UMKM whose growth rate is counted at 2.4% per year in late 2013. In terms of GDP, UMKM contributes Rp5.715 trillion or 60.3% of GDP, with a growth rate of 17.4% (ADB 2015).

As a concern of the importance of the UMKM, Indonesian government has provided an easy access to financing through Credit for Business Program (KUR). In term of the amount of credit distributed, the implementation of KUR program has achieved the expected target. However, KUR also has several problems, such as the high rate non-performance loans in some executing banks. Referring to Regulation of the Coordinating Ministry of Economic Affairs No. 8/2015, the Policy Committee receives mandate to formulate the policies, to evaluate, and to provide problem solution of the KUR guarantee process. The policy committee is lead by Coordinating Minister of Economic Affairs. The regulation, especially article 28, states that the indicators of success rate of KUR implementation are (1) the number of KUR plots distributed, (2) Non Performing Loan (NPL), (3) the number of debtors receiving KUR, and (4) the number of successful graduated debtors.

The distribution of KUR from 2007 to 2014 totalling to Rp.178,846.95 billion consists of the credits distributed by eight Commercial Banks amounted to Rp.162,624.00 billion or 90.93% and by 26 Regional Development Banks amounted to Rp.16,222.95 billion or 9.07%. Those funds were distributed to 12,475,927 debtors, channelled by Commercial Banks to 12,273,603 debtors or 98.38% and by the Regional Development Bank to 202,324 debtors or 1.62%. Over KUR disbursed, there are Non-Performing Loans (NPL) which tends to increase from year to year. In general, NPL of KUR distributed per 31 December 2014 are as presented in Table 1.

Table 1:-Non Performing Loan end of year 2014

No	Non-Performing Loans	Commercial Banks	Regional Banks	All Banks	
				Banks	%
1	$NPL \leq 1.0\%$	-	2	2	18 (52.94%)
2	$1.0\% < NPL \leq 2.0\%$	1	2	3	
3	$2.0\% < NPL \leq 3.0\%$	2	1	3	
4	$3.0\% < NPL \leq 5.0\%$	3	7	10	
5	$NPL \geq 5.0\%$	2	14	16	16 (47.06%)
	Total	8	26	34	

As of December 31, 2014, 16 out of 34 executing banks (47.06%) have NPL exceed the 5% standard of Bank Indonesia threshold. On the other hand, if we use 3% multi-finance international standard (Koranky), the number of executing banks whose NPL level is above the threshold is 26 banks (76.47%). One alternative problem solution in improving the performance of KUR program is to strengthen integrated audit for internal audits.

Problem Formulation:-

As stated earlier, some problems occur in the achievement of the KUR policy objectives. OECD states that the some UMKMs met the bigger constraint in accessing the funds compared to the large business entities. Furthermore, OECD (2013) emphasizes that constraints are caused by the limitations of available collateral, limited credit history, and lack of expertise at the UMKM to prepare a qualified financial statement. Freedman (2004) mentioned that the entrepreneurs' incapacity in UMKM is taken as the problem of obtaining credit financing. In addition, information asymmetry also discourages the lenders to provide the funds to UMKM borrowers due to high risk of loss.

On the other hand, the Non-Performing Loans (NPLs), the low lending to agriculture and fisheries (upstream sector), and poor governmental capacity and other shortages in KUR program indicate that there are still areas of improvement to optimize. One of considered solutions to make such improvements is to empower the role of Internal Auditors in KUR Program supervision. Carpenter (2012) mentioned that an efficient control is necessary to ensure that organizational performance does not deviate from the standard. Enhancing the effectiveness of internal

audit oversight will certainly have a positive impact on the quality of distribution and guarantee of KUR program either through assurance or consulting activities. Both activities will encourage the achievement of organizational goals by providing value added by catalysing the effectiveness of internal control and risk management (IIA, 2013). Since KUR program is a cross sectoral program which is involving many government institutions, guarantee companies and lender banks, the supervision processes will also come from such those organizations. Audit process which involves two or more internal audits can be classified into three forms, i.e. (a) joint audit, (b) coordinated audits and (c) parallel audits (INTOSAI 2007).

Implementing one or a combination of those three form of cooperative audit will ensure proper coverage and minimize duplication of efforts (IIA 2013), sharing and learning, capacity building, networking and identification of best practices (INTOSAI 2007). Due to the lack of integrated audit procedure for KUR, each internal audit in the related government institution, guarantee companies, and executing banks perform their audit activities using audit approach and audit report from individual internal audit perspective.

Research Objectives:-

Regarding the fact that the KUR process is scattered in several institutions i.e. executing banks, guarantee companies, and related governmental institutions, this research therefore aims to develop a strategy to build an integrated audit model on the distribution and guarantee of KUR program using Analytic Network Process (ANP). This study will also (1) analyse the critical success factors for integrating the internal audit, (2) determine the priority of clusters and nodes in the integrated audit, as well as ((3) identify the most suitable form of cooperation audit.

Literature Review:-

Credit for Business Program:-

As stipulated in the Memorandum of Understanding and Standard Operating Procedures (SOP) on KUR Implementation, Credit for Business Program (KUR) is credit/financing or investment to UMKM whose business is productive and feasible yet not categorized as bankable business. Credit guarantee will help UMKM to get financing, while otherwise they will not receive credit due to lack of collateral, limited *credit history*, and lack of expertise for issuing financial report (OECD 2013). A sound credit guarantee will function as a financial additionality (Freedman, 2004) for the financing process and provide an alignment for the economic incentives of the guarantor and the bank, so that they simultaneously achieve their welfare.

Three different parties who actively involved in KUR implementation are governmental institutions, guarantee companies, and the banks. First Party is the governmental institutions as the technical executors of financing policy and guarantee of KUR Program. Those institutions are Ministry of Finance, Ministry of Agriculture, Ministry of Forestry, Ministry of Marine Affairs and Fisheries, Ministry of Industry, Ministry of Cooperatives and Small and Medium Enterprises. Second Party is the companies which provide the guarantee to help UMKM to obtain credit from banks. Those companies are Indonesia Credit Insurance (Persero) or PT. Askrindo, Credit Guarantee of Indonesia (Perum Jamkrindo), and other guarantee companies. Third Party is the banking companies which distribute the credit to UMKM. The listed executing banks are PT. Bank BRI (Persero) Tbk (Bank BRI) and PT Bank BRI Mikro, PT. Bank Mandiri (Persero) Tbk (Bank Mandiri), PT. BNI (Persero) Tbk (Bank BNI), PT. BTN (Persero) Tbk (Bank BTN), PT. Bank Bukopin Tbk (Bank Bukopin), PT. Bank Syariah Mandiri, and other 26 Regional Development Bank (BPD).

There are two types of KUR distribution which are Micro KUR and Retail KUR. Meanwhile, the KUR classification based on the objectives is divided into working capital credit and investment credit. KUR funds can be distributed directly from the executing Bank to the KUR Debtor account or via the linkage agency (linkage channelling and linkage executing). Furthermore, the guarantor Companies will receive guarantee fee (Imbal Jasa Penjaminan or IJP) amounted to 3.25% out of the total guarantee credit given. The amount increased from the previous rate of 1.50%. The form of guarantee provided is conditional automatic cover.

Audit of Credit Delivery and Credit Guarantee:-

The Institute of Internal Auditors (2001) defined the Internal Audit as an independent, objective assurance and consultancy activity which is designed to add value and improve the effectiveness of an organization operation. Internal audit helps the organization to achieve its objectives by using a systematic approach to evaluate and improve the quality of risk management, control and governance processes.

Regarding the fact that KUR process involves several entities, the supervision process requires an effective integration among all internal auditors embroiled. The coordination not only in the work related area but also personnel related area (Malone & Crowston in Gittel 2011). Mintzberg (1980) mentions that there are five types of coordination which are direct supervision, standardization of work processes, standardization of outputs, standardization of skills, and mutual adjustment. Malone (1988) defines coordination as the additional information processing performed when multiple, connected actors pursue goals that a single actor pursuing the same goals would not perform. This definition implies that there are components of coordination, i.e. Two or more actors, performing tasks, and achieving goals.

In term of audit, INTOSAI (2007) mentions that there are three forms of audit cooperation, i.e. joint audit, coordinated audit, and parallel audit. Joint audit, is an audit conducted by one audit team composed of auditors from two or more internal audits, and this team will issue a single joint audit report. Parallel audit, is an an audit conducted less simultaneously by two or more internal audits, and each separate audit team reporting only to its management. An important aspect of this audit cooperation is information exchange among participating internal audit. While coordinated audit is a form of audit cooperation which lies between joint and parallel audits. In this form of audit, participating internal audit coordinate their audit approaches, but may prepare either a joint audit or separate reports.

Strategy Development Tools:-

Interpretive Structural Modelling (ISM):-

This study will use interpretive structural modelling (ISM) and analytical network process (ANP). Interpretive Structural Modelling (ISM) provides a focused and robust framework for complex problems. Program divided into elements and each element is further divided into subelements. Saxena *et al.* (1992) states that a program can be divided into nine elements: (1) societal sectors affected, (2) the needs of the program, (3) major constraints, (4) alterable which could be improved, (5) the objectives of the program, (6) the objective measures (7) the activities needed, (8) the activity measures, and (9) the agencies involved. ISM also provides benefits to decision makers by providing a realistic picture of the current situation with the required variables. ISM is a process that helps people to understand what they understand and identify what they do not know (Attri 2013). As an interactive learning process, ISM is useful to identify relationship between certain items and explaining a problem or issue. In a complex problem, many factors could be associated to the problem. However, direct or indirect linkages between these factors will further explain the problem compared to the connection of each factor. ISM begins from identifying the problem-related variables and then generating the technique of problem-solving in a group.

Analytical Network Process (ANP):-

The ANP hierarchy in the ANP simply consists of three components i.e. Goals, Criteria Components, and Alternative Components. Saaty (2017) stated that ANP is a mathematical theory that allows people to use different types of dependencies and feedback systematically. An element within a cluster which influences other elements in another cluster is an outer dependence. While an element which influences other elements within the same cluster is called an inner dependence. The feedback structure does not have a hierarchy or linear structure but a network relation.

Saaty TL and Vargas (2006) mentioned several types of components in a network as demonstrated in the Figure 1. A

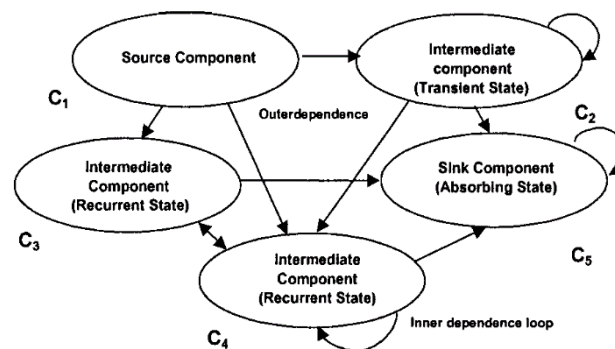


Figure 1 Components in the Network

component is called the source component if all the arrows go out of the component and there is no arrow head to it (Cluster C1). Whereas, a component is called a component sink, if all the arrows head to it and there is no arrow from it to other components (Cluster C5).

Method:-

Framework and Step of Study:-

the Framework and the step of this study is like the Figure 2.

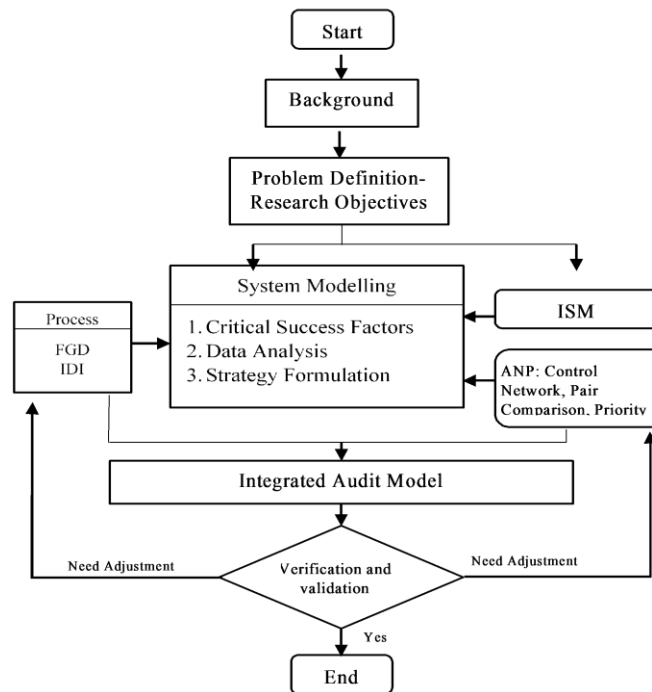


Figure 2:-Framework and Step of Study

Critical Success Factors:-

In the previous study using ISM resulted sub elements which fall under Sector IV and Sector III. Sub element which in the Sector IV is a sub element that has strong driver and weak dependent. This element is called as an independent variable. While sub element which is in Sector III is a sub element with strong driver and strongly dependent variable. This variable is called as a linkage variable. INTOSAI (2017) describes three forms of audit cooperation, coordinated audit, joint audit and parallel audit. While the the audit institutions or the actors that will conduct the audit can be classified into (1) internal audits in government institutions, internal audits in guarantee companies, banks and financial authority, and (3) external auditor and (4) policy committee.

Based on those facts, through a focus group discussion, a control network as Figure 3. In this network, six clusters and 21 nodes and how they influence each other are represented by the pointing arrows. Then a set of questionnaires was written to reflect the pairwise comparisons among each elements in the same component (inner feedback) and pairwise comparisons among each element in a component with other elements in other components. Once they had been tested and considered as valid, then questionnaire was delivered to the experts from the related governmental institutions, guarantor companies and executing bank.

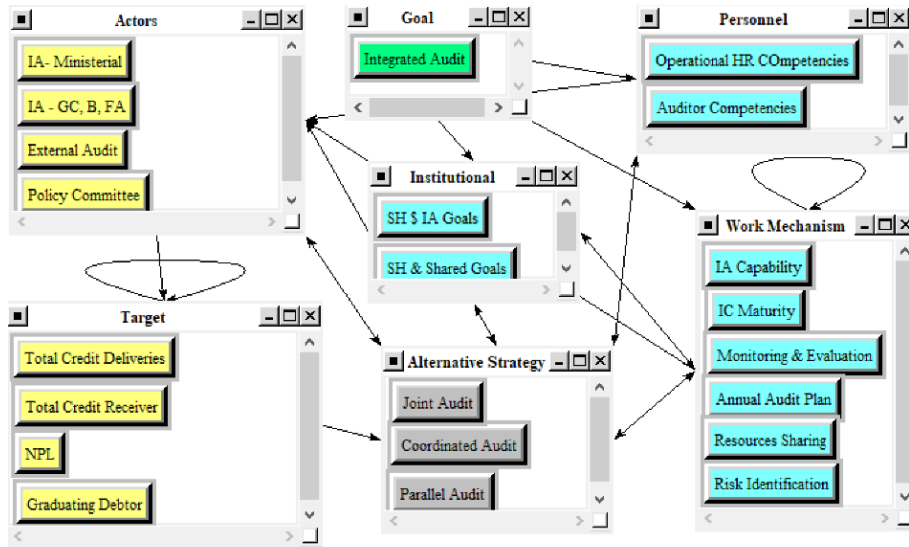


Figure 3:-Control Network

Data Collection Procedure:-

Pair comparison questionnaires were distributed to expert respondents from related government institutions, guarantee companies and executing banks. Out of the 15 targeted respondents, nine respondents had filled out and returned the questionnaires. The returned questionnaires came from two chief of internal audit at the executing banks, three audit managers of the ministries, a director at a guarantee company, chief of internal audit at a guarantee company, an investigative practitioner, and an educative practitioners.

Subsequently, the received questionnaires was checked for the completeness and consistency using algorithm formula. Saaty uses CR (Consistency Ratio) to test consistency, using the ratio $CR = CI / RI$. The Consistency index (CI) were calculated using CI formula.

$$\text{Consistency index} = CI = (\lambda_{\max} - n) / (n - 1)$$

Meanwhile, the random Index is obtained from the average random number as follow:

Order	1	2	3	4	5	6	7	8	9	10
R.I.	0	0	0.52	0.89	1.11	1.25	1.35	1.40	1.45	1.49

Using a scale from 0 to 1, inconsistencies of <10% are considered as acceptable. Any filled questionnaire which does not meet such consistency criteria was sent back to the expert respondent for an adjustment. After the data from all expert respondents meeting the consistency test, an agregation score is calculated and a consistency for the agregate number is conducted. Processing the data using ANP v. 2.0.8 when the agregation data passes the consistency criteria. The outputs of the ANP a unweighted supermatrix, weighted supermatrix, and limiting supermatrix.

Data Analysis:-

Table 3:-Results of Integrated Audit Priorities

Clusters and Nodes		Thorough Priorities		Cluster Priorities	
		Weight	Rank	Cluster	Weight
I	Institutionalization			0.12382	1.00000
1	Stakeholders Commitment on IA Objectives	0.04611	8		0.37238
2	Stakeholders Commitment on Shared Goals	0.07771	5		0.62762
II	Work Mechanism			0.11264	1.00000

1	Risk Identification	0.02271	15			0.20161
2	APIP Capability	0.02721	13			0.24155
3	Internal Control Maturity	0.02903	12			0.25775
4	Monitoring & Evaluation	0.01085	19			0.09632
5	Annual Audit Planning	0.01339	18			0.11884
6	Resources Sharing	0.00945	21			0.08393
III	PERSONNEL				0.02405	1.00000
1	Auditor Competency	0.01446	17			0.60133
2	KUR Executor Competency	0.00959	20			0.39867
IV	ACTORS				0.11610	1.00000
1	Internal Audit K/L	0.03549	11			0.30569
2	Internal Audit PP, BP, OJK	0.04009	10			0.34533
3	External Audit	0.01539	16			0.13252
4	Policy Committee	0.02513	14			0.21646
V	TARGETS				0.45350	1.00001
1	Graduated Debtors	0.13057	1			0.28792
2	Number of Debtors Receiving KUR	0.08129	4			0.17925
3	Amount of Delivery and Guarantee of KUR	0.11129	3			0.24540
4	NPL	0.13035	2			0.28743
VI	ALTERNATIVE STRATEGIES				0.16990	1.00000
1	Coordinated Audit	0.07065	6			0.41581
2	Joint Audit	0.05834	7			0.34340
3	Parallel Audit	0.04091	9			0.24079
	Total	1.00000			1.00000	

Based on the Limiting Matrix as presented in Table 3, the result of the analytical process can be summarized as follows.

1. The order of priority of the elements (nodes) is (1) Target of Graduated Debtor (0.13057), (2) NPL (0.13035), (3) Amount of Delivery and Guarantee of KUR (0.11129), (4) Number of Debtors Receiving KUR (0.081290) and, (5) Stakeholder Commitment on Shared Goals (0.07771).
2. The Target component has the most significant influence on Goal of Integrated Audit Development with a priority value of 0.45350. The next prioritized components consecutively are the Alternative Strategy Component (0.16990), the Institutional Component (0.12382), the Actor Components (0.11610), Work Mechanism Component (0.11264) and Personnel Component (0.02405).
3. The priority order of the Integrated Audit Strategy is Coordinated Audit, followed by Joint Audit and Parallel Audit.

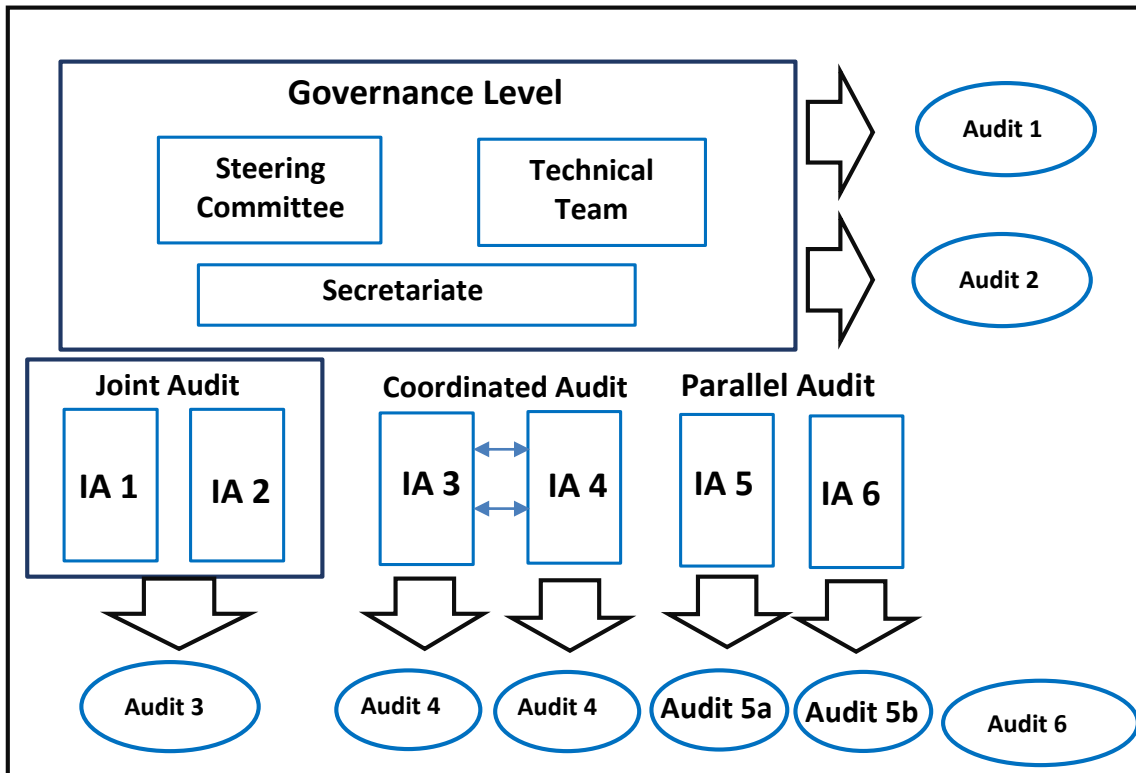
Strategy Formulation:-

Figure 4:-Integrated Audit Strategy
Source: UN RIAS and INTOSAI, modified

Using a joint audit framework used by UN RIAS (2014) and cooperation audit form of INTOSAI (2007), an integrated audit model might be implemented by policy committee of Credit for Business Program as follows:

1. The Governance Level of Credit for Business Program consists of the Policy Committee and the Coordinating Forum for Supervision.
2. The Policy Committee consists of 13 government institutions. This committee is responsible for defining the financing policy for SME, monitoring and evaluation for financing processes, and following up for any financing problem. The Policy Committee may evaluate the credit delivery and credit guarantee activities through BPKP, a government internal audit agency which reports directly to the President of Republic of Indonesia. Ministry of Finance, as a member of Policy Committee and as a budgeting authority may conduct a verification for any guarantee fee billed by the guarantee companies. The Minister of Finance may delegate this function to another government institution.
3. The Coordinating Forum for Supervision consists of 10 internal audits of government institutions, which is lead by The Deputy of BPKP Head in Government Accountant.
4. Secretariate, is responsible as an administrative function of Policy Committee and Coordinating Forum for Supervision.
5. The Policy Committee may conduct special verification on a delivery or guarantee issue related to KUR through BPKP. The evaluation report will be send to Policy Committee. This type of activities is categorized as Type 1 Audit. The Budgeting Authority may conduct verification of any guarantee fee billed by the guarantee company before processing such payment. The Budgeting Authority may conduct the verification itself, using the internal audit in its organization, or through BPKP. When conducting the verification, BPKP may cooperate with the other internal audit, depends on the scope of the audit. This audit activities may be categorized as Type 2 audit.
6. A joint audit is conducted by an audit team member comes from two or more internal audit, lead by one of the internal audit. Upon finishing the audit, the joint audit team will issue a single joint report. This report is commonly signed by the participating internal audit. This audit activities is categorized as Type 3 audit.
7. Coordinated Audit is conducted by two or more internal audits, which every internal audit has a separate audit team. The participating internal audits will coordinate in term of many aspects, e.g. the audit scope, audit

approach, audit resources, or audit reporting. At the end of audit, the participating internal audit may agree to issue a joint audit report as an addition to the individual report. This type audit is categorized as Type 4 audit.

8. Parallel audit is conducting by each internal audit and each internal audit will issue a separate audit. In this type of audit, every internal audit is not necessarily to have the same audit scope or use the same audit approach or to have the same audit report format. However, the internal audit agree to share information of the issued report. This type of audit is categorized as Type 5 audit.
9. The Type 6 audit is used for any audit or evaluation which using audit information available in each internal audit. This activities will be used when the policy committee or the audit coordinating forum has to issue a global report of KUR performance.

Type of audit 1 – 6 should be agreed upon by all participating internal audits. A clear understanding of audit scope, timeframe and responsibility of every internal audit will be the key factor for the cooperation audit (INTOSAI 2007).

Policy Implications:-

The results of this study surely provide benefit to entities which aim to learn about integrated audit. However, the implementation in each entity may vary and find obstacle due to the occurrence of resources limitation. The possible existing limitation could be the inadequacy of regulations and procedures, incompetent human resources, typical work mechanism, and unavailability of funds. As such, the particular conditions in each institution should be taken into account in utilizing the strategy.

Priorities of KUR distribution reflected in achievement of four indicators of KUR success can be used as a basis to choose the type of audit cooperation. The management need to precisely arrange the details of the work mechanisms for each alternative of audit cooperation so that the organization's objectives could be achieved. Moreover, the role and the responsibility of every party in the entity could be clearly perceived.

Conclusion And Recommendation:-

Conclusion:-

Regarding the research objectives, this research is designed to build a model of integrated audit on KUR program. The priority order of the Integrated Audit Strategy is Coordinated Audit form, followed by Joint Audit and Parallel Audit. The ANP results show possible sequences of priority elements and alternative audit strategy to present. The order of priority of the elements (nodes) is (1) Target of Graduated Debtor (0.13057), (2) NPL (0.13035), (3) Amount of Delivery and Guarantee of KUR (0.11129), (4) Number of Debtors Receiving KUR (0.081290), (5) Stakeholder Commitment on Shared Goals (0.07771).

- The Target component which has the most significant influence on Goal is Integrated Supervision Development with a priority value of 0.45250. The next priorities consecutively are the Alternative Strategy Components (0.16990), the Institutional Components (0.12382), the Actors Components (0.11610), Work Mechanism Components (0.11264) and Personnel Component (0.02405).

Recommendation:-

Establishing sustainable and effective implementation of integrated audit in KUR, some further researches are still required. The future researches may focus on the effectiveness of interest subsidy policy and effectiveness of Credit Information System (SIKP) implementation. Implementing SIKP will beneficially reduce the NPL and improve the governance quality of KUR.

The designed model provides some options of audit cooperation strategies. However, these strategies need to be supported by sustainable improvement of internal audit capacity and the coordination between internal audit and management. Besides, the management should be encouraged to improve the maturity of internal control and the risk management quality.

In addition, the cooperative audit strategies such as coordinated audit, joint audit and parallel audit are very situational. No one size fits for all. It is necessary to establish a formal form of certain audit cooperation based on the priority conditions and the targets in each entity. The policy committee should continuously communicate and prepare the requirement of the audit strategy implementation, for instance preparing the required audit competence.

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