# Moderating Effect Credit Risk Management on the Impact of Audit Committee and Credit Committee Performance on Non-Performing Loans of BPR in Semarang

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***Abstract.****This study aims to analyze the role of Credit Risk Management as a mediating variable between the influence of the credit committee and credit auditor onNon Performing Loan (NPL) of BPR in Semarang City.The type of research thatusedThis research is a type of researchexplanatory research that aims to determine the relationship between variables, namely Non Performing Loan; Credit Committee; Audit Committee; and Credit Risk Management. The sampling technique in this study is a census, namely the entire population is a sample. The sample in this study was 83 BPRs in Semarang City. The data obtained in this study were analyzed using Partial Least Square (PLS). The results of the study showed thatcredit committee and Audit Committeehas a significant negative effect on Non Performing Loan (NPL), which means thatcredit committee and Audit Committee able to reduceNon Performing Loan (NPL) significantly.Then, Credit Risk Management moderates the influence of the credit committee and the Audit Committeeto Non Performing Loan (NPL) which means that the implementation of effective Credit Risk Management will increase the influence of the credit committee and Audit Committee in reducing Non Performing Loans.So thatBPR must implement credit risk management effectively to strengthen the influence of the credit committee and audit committee.in pressingbad credit.*

***Keywords:*** *Audit Committee; Credit Committee; Credit Risk Management; Non Performing Loans.*

## 1. Introduction

The growth of Islamic banking with the establishment of various Islamic banks recently has been very encouraging, marked by the establishment of many Islamic banks and Islamic-based cooperatives in various regions of Indonesia. The Sharia financial institution has the task of managing public funds by collecting and redistributing the collected funds to be

offered to the public with a number of credit loans accompanied by conditions that can guarantee that there will be no bad debts that can harm the bank as the creditor.[1]
Non Performing Loan reflects the credit risk ratio. The smaller the Non Performing Loan, the smaller the credit risk borne by the financial institution. In making credit, financial institutions must analyze the debtor's ability to repay their obligations.[2]After the credit is given, financial institutions are required to monitor the use of credit and the ability and compliance of debtors in fulfilling their obligations. Loans are part of the assets of commercial institutions because they are intended to earn interest over time. However, this is not always the case. Some loans do not perform as expected and are called non-performing loans/NPLs.[3]NPL negatively affects economic growth, accumulation of NPL makes it difficult for Banks to fund new and economical businesses, Commercial Banks are required to set aside funds to cover possible losses estimated from bad loans. Another consequence of increasing NPL is the cost implications of outsourcing units assigned to track problem loans will increase bank operating costs. Indicators of bank failure in managing business include liquidity problems (inability to pay third parties), profitability (uncollectible debts), and solvency (reduced capital).[4]

Management of non-performing loans is often associated with high operational costs that lead to reduced capital growth in affected banks. Non-Performing Loans (NPLs) reduce bank liquidity, distort credit expansion, and slow down real sector growth with direct consequences for bank performance..Non Performing Loans have a negative and statistically significant impact on bank performance. The indication of non-performing loan collectibility is reflected in the level of reported loan loss provisions, this is the impact of the economic downturn that has an impact on bank income and capital.Consiglio & Zeniosstates that the measurement at the loan provision level is a credit risk that reflects the economic conditions of a country which will have an impact on Non-Performing Loans.[5]

Thus this study proposes*Credit Risk Management*(CRM) as a mediating variable between the influence of the credit committee and credit auditor on*Non Performing Loan*(NPL). The implementation of credit risk management is very crucial in suppressing the increase in Non

[1]Nathan, S., Ibrahim, M., & Tom, M. (2020). Determinants Of Non- Performing Loans In Uganda's Commercial Banking Sector. *African Journal Of Economic Review*, *VIII*(I), p.26–47.
[2]Abdelmoula, A. K. (2015). Bank Credit Risk Analysis with K-Nearest-Neighbor Classifier: Case of Tunisian Banks. *Contabilitate Şi Informatică de Gestiune*, *14*(1), p.79–106.
[3]Kitonyi, J. M., Sang, W., & Muriithi, D. (2019). Non-Performing Loans and Financial Performance Of Microfinance Institutions In Kenya. *The Strategic Journal of Business & Change Management*, *6*(3), p.840–848.
[4]Dwihandayani, D. (2017). Analisis Kinerja Non Performing Loan (Npl) Perbankan di Indonesia dan Faktor-Faktor Yang Mempengaruhi Npl. *Jurnal Ilmiah Ekonomi Bisnis*, *22*(3), 228985.
[5]Mohd Isa, M. Y., Voon Choong, Y., Yong Gun Fie, D., & Abdul Rashid, M. Z. P. (2018). Determinants of loan loss provisions of commercial banks in Malaysia. *Journal of Financial Reporting and Accounting*, *16*(1), p.24–48. https://doi.org/10.1108/JFRA-03-2015-0044.

Performance Loans, by managing and identifying these risks so that they do not impact bank profitability.[6]

In the financial industry, the role of risk management is to gather information about risk exposures and then manage those risks. Most of the literature on risk management focuses on these two processes where companies decide whether to hedge known risks.Credit risk management is an inseparable part of bank risk management and is also an important part of the stability and flexibility of the banking system.(Kithinji, 2010). So the emphasis on the importance of auditing the financial statements of prospective / bank clients in the banking system will ensure quality credit risk management and reduce the risk of bad debt.[7]

## 2. Research Methods

The type of research thatusedThis research is a type of research*explanatory research*which is associative, namely aimed at finding out the relationship between two or more variables. This study aims to explain hypothesis testing with the intention of justifying or strengthening the hypothesis with the hope that it can ultimately strengthen the theory used as a basis. In this case, it is to test the influence*Non Performing Loans; Credit Committee; Audit Committee;*And*Credit Risk Management.*[8]

## 3. Results and Discussion

### 3.1. Respondents Based on BPR Age, Number of Customers, and NPL Range

**Table 4.1Based on BPR Age**

| No | Age of BPR | Amount | Presentation |
|---|---|---|---|
| 1. | <10 Years | 28 | 33.7% |
| 2. | 11 - 20 Years | 17 | 20.5% |
| 3. | 21 - 30 Years | 29 | 34.9% |
| 4. | 31 - 40 Years | 6 | 7.2% |
| 5. | > 40 Years | 3 | 3.6% |
| | Amount | 83 | 100% |

*Source: Processed primary data, 2023*

[6]Barth, J. R., Dopico, L. G., Nolle, D. E., & Wilcox, J. A. (2002). Bank Safety and Soundness and the Structure of Bank Supervision: A Cross-Country Analysis. *International Review of Finance*, *3*(3–4), p.163–188. https://doi.org/10.1111/j.1369-412x.2002.00037.

[7]Kamel Al Zobi, taz, Fawzi Shubita, M., Alomari, M., Soliman Almatarneh, Z., & Habis Alrawashdeh, N. (2019). The Impact of Board and Audit Committee Characteristics on the Credit Risk in Jordanian Commercial Banks. *International Journal of Business Management and Economic Research(IJBMER)*, *10*(5), p.1669–1678. www.ijbmer.com.

[8]Sugiyono. (2012). *"Memahami Penelitian Eksplanatory Research".* (Bandung: CV Alfabeta).

From Table 3.1 shows that BPR aged < 10 years is 28 respondents (33.7%); BPR aged 11 - 20 years is 17 respondents (20.5%); BPR aged 21 - 30 years is 29 respondents (34.9%); BPR aged 31 - 40 years is 6 respondents (7.2%) and BPR aged > 40 years is 3 respondents (3.6%).
BPR with the age of 21 - 30 years dominates the respondents. This condition brings its own advantages in BPR (People's Credit Bank) in Semarang City where the age of 21 - 30 years is BPR that already has a mature system, high company value and has a growing number of customers.[9]

**Table 3.2Based on Number of Customers**

| No | Number of Customers | Amount | Presentation |
|---|---|---|---|
| 1. | < 100 Customers | 5 | 6.0% |
| 2. | 101 to 300 Customers | 12 | 14.5% |
| 3. | 301 to 500 Customers | 37 | 44.6% |
| 4. | > 500 Customers | 29 | 34.9% |
| | Amount | 83 | 100% |

*Source: Processed primary data, 2023*

Based on table 3.2, it can be shown that BPR with the number of customers 301 to 500 customers is 44.6%. Furthermore, BPR with the number of customers > 500 customers is 34.9%. BPR with the number of customers 101 to 300 customers is 14.5%. BPR with the number of customers < 100 customers is the second largest at 6%.
Of the 83 respondents, BPR dominated with 301 to 500 customers, which is 37%. This condition is very profitable where the number of BPRs is almost 500 customers indicating that BPRs have been able to collect large funds and can be more beneficial to the community's economy with more credit distribution.[10]

**Table 3.3Based on NPL Range**

| No | NPL Range | Amount | Presentation |
|---|---|---|---|
| 1. | < 1% | 35 | 42.2% |
| 2. | 1 to 3% | 28 | 33.7% |
| 3. | 2 to 3% | 14 | 16.9% |
| 4. | 3 to 4% | 6 | 7.2% |
| 5. | 4 to 3.2.1 % | 0 | 0.0% |
| 6. | Approaching 5% | 0 | 0.0% |
| | Amount | 83 | 100% |

*Source: Processed primary data, 2023*

[9]Adeola, O., & Ikpesu, F. (2017). Macroeconomic Determinants Of Non-Performing Loans In Nigeria: An Empirical Analysis. *The Journal Of Developing Areas*, *51*(2), 31–43. Https://Doi.Org/10.1353/Jda.2017.0029
[10]Ajao, M. G., & Oseyomon, E. P. (2019). Credit Management And Performance Of Deposit Money Banks In Nigeria. *Journal Of Economics And International Relations*, *11*(10), 157–177. Https://Doi.Org/10.26565/2310-9513-2019-10-08.

Based on Table 3.3, it can be shown that BPR with NPL range <1% is 42.2%. BPR with NPL range 1 to 3% is 33.7%. BPR with NPL range 2 to 3% is 16.9%. BPR with NPL range 3 to 4% is 7.2%. While BPR with NPL range <1% is 42.2%. And there are no BPR with NPL range 4 to 3.2.1% and 5%. BPR with NPL range <1% is in first place, which is 35 respondents. So this condition shows that BPR performance is in the healthy/good category.[11]

**3.2. Credit Committee, Audit Committee, Credit Risk Management and Non-Performing Loans.**

3.2.1. Credit Committee

The credit committee is a credit decision-making process consisting of credit proposers and credit decision makers.[12]A credit committee is considered legitimate if the credit proposer and decision maker consist of business leaders and risk managers who are in one forum.[13]The Credit Committee or loan committee is an operational committee that assists the Board of Directors in evaluating and/or deciding on credit applications for the amount and type of credit determined by the Board of Directors.[14]The function of the credit committee is to determine the limits for granting credit to debtors.[15]

The credit committee's duties in conducting research and analysis on debtors include several criteria below, namely: Must meet the 5 C criteria, namely character, capacity, capital, collateral and condition of economy.[16]

1. *Character*, is a positive moral character or personal nature of the customer and has a good sense of responsibility in human personal life, life as a member of society or in carrying out its business activities. The credit committee assesses the relationship that has been established between the bank and (potential) debtors or information obtained from other parties who know the morals, personality and behavior of prospective debtors in their daily lives. The assessment provisions for this Character apply to prospective individual debtors as well as to Business Entities.
2. Evaluation*capacity*(ability) concerns the expertise of (potential) borrowers in managing their business and their managerial abilities, so that the bank is sure that the credit it

[11]Ayu Putu Dian Permatasari, D., & Gede Rudy, D. (2020). Peranan Legal Officer Dalam Mencegah Kredit Bermasalah Pada Perbankan. *Jurnal Kertha Negara*, *8*(9), p.25–34.

[12]Paravisini, D., Schoar, A., Fischer, G., Garicano, L., Li, D., Malmendier, U., Prat, A., Thakor, A., & Reenen, J. Van. (2013). *The Incentive Effect Of Scores: Randomized Evidence From Credit Committees*. Http://Www.Nber.Org/Papers/W19303.

[13]Kamel Al Zobi, Taz, Fawzi Shubita, M., Alomari, M., Soliman Almatarneh, Z., & Habis Alrawashdeh, N. (2019). The Impact Of Board And Audit Committee Characteristics On The Credit Risk In Jordanian Commercial Banks. *International Journal Of Business Management And Economic Research(IJBMER)*, *10*(5), 1669–1678. Www.Ijbmer.Com.

[14]Karaye, A. I., Ahmad-Zaluki, N. A., & Badru, B. O. (2022). The Effect Of Credit Committee Characteristics On Bank Asset Quality In Nigeria. *Financial Markets, Institutions And Risks*, *6*(2), 60–74. Https://Doi.Org/10.21272/Fmir.6(2).60-74.2022.

[15]Basel. (1999). Principles For The Management Of Credit Risk. *Consultive Paper Issued By Basel Committee On Banking Supervision, Basel.*

[16]Hapsila, A., & Astarina, I. (2020). The Effect Of Character, Capacity, Capital, Collateral And Condition Of Economy On Giving Credit. *Jurnal Manajemen Dan Bisnis*, *9*(1), 41–50. Https://Doi.Org/10.34006/Jmbi.V9i1.188.

provides will not experience congestion. This Capacity Assessment applies to prospective individual debtors as well as to Business Entities.

3. *Capital*/ capital owned by the credit applicant, is not only based on the size of the capital, but also on how the capital is distributed by the entrepreneur, so that all existing sources can run effectively.
4. *Collateral*are collateral items submitted by the debtor as collateral for the credit received. The purpose is as a safeguard for the bank against credit if the customer's business financed with the credit fails or other reasons where the debtor does not pay off his credit from his business.
5. *Condition*is a situation and condition (such as political, economic, social, cultural and other conditions) that influence the state of the economy at a certain time or period of time which may potentially influence the smooth running of the business of the company that obtains credit.
6. The credit committee's assessment of creditworthiness is also carried out using the 5 P method, including:*Party*(the parties)*,* *Purpose*(objective),*Payment, Profitability*And*Protection*. To prevent the emergence of problematic credit, the credit committee in conducting an in-depth analysis of prospective debtors includes several criteria such as assessment using the principle of the 5 C's of Credit + 1 C, including:*Character*/ character,*Capacity*/ ability,*Capital*/ capital,*Collateral*/ collateral,*Condition Of Economy*/ economic conditions, and*Cash Flow*/ cash flow.[17]

So it can be concluded that the Credit Committee or*credit committee*namely the operational committee tasked with evaluating and/or deciding on credit applications for the amount and type of credit determined by the Board of Directors. The indicators used are Customer classification, tprospective debtor's goalsand pdebtor profitability.[18]

In order to reveal the respondents' responses regarding the Credit Committee variable at BPR (People's Credit Bank) in Semarang City, this study used 3 (three) statements taken from the indicators, namely: Customer classification, Prospective debtor objectives and Debtor profitability.

**Table 3.2.1Variable Indicator Answer Results*Credit Committee***

| No | Indicator | Average | Criteria |
|---|---|---|---|
| 1. | Customer classification | 3.45 | Currently |
| 2. | The objectives of the prospective debtor | 3.95 | Tall |
| 3. | Debtor profitability | 3.96 | Tall |
| **Average value of Credit Committee variable** | | **3.79** | **Tall** |

*Source: Processed primary data, 2023*

[17]Budiarto, A. (2021). The Impact Of Non-Performing Loans Towards Financial Performance Of BPR In Central Java, The Role Of Empathy Credit Risk. *Proceedings Of The 4th International Conference On Sustainable Innovation 2020-Accounting And Management (Icosiams 2020)*, *176*(Icosiams 2020), 251–258. Https://Doi.Org/10.2991/Aer.K.210121.035.

[18]Hadi, A., Bari, A., Tameh, M. J., & Mushajel, P. (2020). *The Role Of Strategic Analysis In Determining Credit*. *4*(12).

Based on Table 3.2.1, the responses regarding the Credit Committee variable indicator from the calculation of the questionnaire answer results for the Credit Committee variable indicator showed a figure of 3.79, which shows that the majority of respondents considered that the Credit Committee at BPR (People's Credit Bank) in Semarang City was in the High or Good category.

The highest indicator of the Credit Committee variable is the debtor profitability indicator with a value of 3.96. This shows that abilitydebtors in obtaining profits will greatly affectthe debtor's ability to pay credit. Debtors who have high profitability will have high bankability.

While the lowest indicator is the indicatorCustomer classificationwith a score of 3.45.This shows thatThe provision of credit facilities or financing facilities from banks is carried out by classifying certain types of customers according to BPR criteria after going through the application, approval and agreement process with the banking party.[19]

3.2.2. Audit Committee

The audit committee is one of the principal operating committees of a company's board of directors charged with overseeing financial reporting and disclosure..The audit committee consists of members of the company's board of directors and oversees its financial statements and reporting.. By regulation, the audit committee must include outside board members as well as those with experience in finance or accounting to produce honest and accurate reports.[20]

Committee members must sign off on the company's books and be held accountable for any reporting errors.[21]The audit committee works closely with the auditors to ensure that the company's books are correct and that there are no conflicts of interest between the auditors or outside consulting firms hired by the company.[22]The role of the audit committee includes oversight of financial reporting, monitoring of accounting policies, oversight of external auditors, regulatory compliance and discussion of risk management policies with management.

The internal audit function provides important assurance to the bank's board of directors and senior management (and bank supervisors) regarding the quality of the bank's internal

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[19]Alqatamin, R. M. (2018). Audit Committee Effectiveness And Company Performance: Evidence From Jordan. *Accounting And Finance Research*, *7*(2), 48. Https://Doi.Org/10.5430/Afr.V7n2p48.

[20]Nguyen, Q. K. (2021). Oversight Of Bank Risk-Taking By Audit Committees And Sharia Committees: Conventional Vs Islamic Banks. *Heliyon*, *7*(8). Https://Doi.Org/10.1016/J.Heliyon.2021.E07798.

[21]Al-Ahdal, W. M., & Hashim, P. A. (2022). Impact Of Audit Committee Characteristics And External Audit Quality On Firm Performance: Evidence From India. *Corporate Governance (Bingley)*, *22*(2), 424–445. Https://Doi.Org/10.1108/CG-09-2020-0420.

[22]Pérez-Cornejo, C., De Quevedo-Puente, E., & Delgado-García, J. B. (2019). How To Manage Corporate Reputation? The Effect Of Enterprise Risk Management Systems And Audit Committees On Corporate Reputation. *European Management Journal*, *37*(4), 505–515. Https://Doi.Org/10.1016/J.Emj.2019.01.005.

control system.[23]Thus, this function helps reduce the risk of losses and damage to the bank's reputation..The Bank's audit committee's responsibility is to review and approve an annual internal audit budget sufficient to carry out an effective audit program, to review performance against the budget, and to determine whether significant deviations from existing System and Reserve Bank guidelines are warranted. The primary function of the company's audit committee is to provide oversight of the company's financial reporting process, audit process, internal control system and compliance with laws and regulations.[24]

So it is concluded that*audit committee* is a committeewho is responsible for overseeing the financial reporting process, selection of independent auditors, and acceptance of both internal and external audit results. Indicators of*audit committee*that is*presence, expertise, independence, size*And*activity*.[25]

In order to reveal the respondents' responses regarding the Audit Committee variable at BPR (People's Credit Bank) in Semarang City, this study used 5 (five) statements taken from the indicators, namely: Presence, Expertise, Independence, Size and Activity.

**Table 3.2.2Variable Indicator Answer Results*Audit Committee***

| No | Indicator | Average | Criteria |
|---|---|---|---|
| 1. | *Presence* | 4.16 | Tall |
| 2. | *Expertise* | 3.99 | Tall |
| 3. | *Independence* | 4.06 | Tall |
| 4. | *Size* | 4.24 | Tall |
| 5. | *Activities* | 4.20 | Tall |
| **The average value of the Audit Committee variable** | | **4.13** | **Tall** |

*Source: Processed primary data, 2023*

Based on Table 3.2.2, the responses regarding the Audit Committee indicator from the calculation of the questionnaire answer results for the Audit Committee variable indicator show a figure of 4.13, which shows that the majority of respondents consider that the Audit Committee at BPR (People's Credit Bank) in Semarang City is in the High or Good category.

The highest indicator of the Audit Committee variable is the Size indicator of 4.24. This shows that the higher the customer's wealth as seen from the total assets they own, the easier it will be to obtain...credit facilities or financing facilities from BPR.

[23]Achraf Haddad, Anis El Ammari, & Abdelfattah Bouri. (2021). Impact Of Audit Committee Quality On The Financial Performance Of Conventional And Islamic Banks Enhanced Reader. *Journal Of Risk And Financial Management*, *14*(176), 1–24.

[24]Batu Tunay, K., Yüceyılmaz, P. F., & Çilesiz, A. (2020). In Emerging Economies, The Effect Of Excessive Credit Growth And Non - Performing Loans On Banking Crisis. *Contaduria Y Administracion*, *65*(1), 1–21. Https://Doi.Org/10.22201/FCA.24488410E.2020.2215.

[25]Zgarni, A., Fedhila, P., & Gaied, M. El. (2018). International Journal Of Economics And Financial Issues Audit Committee And Discretionary Loan Loss Provisions In Tunisian Commercial Banks. *International Journal Of Economics And Financial Issues*, *8*(2), 85–93. Http:Www.Econjournals.Com.

While the lowest indicator is the Expertise indicator which has a value of 3.99. In this case, it states that the customer's expertise in running their business will be a special note from BPR in providingcredit facilities or financing facilities because with good ability in running the business it will reduce the risk of experiencing business fraud which will cause bad debt.[26]

3.2.3. Credit Risk Management

The implementation of risk management in addition to being a necessity for the banking world in improving bank business performance, is also a requirement according to Bank Indonesia's provisions in Bank Indonesia Circular Letter Number 5/2/DPNP/2003. According to Bank Indonesia Regulation Number 11/25/PBI/2010 concerning Amendments to PBI Number 5/8/PBI/2003 concerning the Implementation of Risk Management, Risk is the potential loss due to the occurrence of a certain event and Risk Management is a series of methodologies and procedures used to identify, measure, monitor and control risks arising from all bank business activities.[27]

There are 6 types of risks that must be managed or considered by Rural Credit Banks, namely: credit risk, operational risk, compliance risk, liquidity risk, reputation risk, and strategic risk (POJK NO 13/POJK.03/2015). Risk management in banks can be carried out with several risk management processes, namely with the process of identification, measurement, monitoring, risk control and risk management information systems.

In financial institutions, corporate risk management is usually considered as a combination of credit risk, liquidity risk, market risk, and operational risk. Credit risk arises from uncertainty in the ability of the counterparty to fulfill its obligations. Then, according to Bank Indonesia (2003) credit risk is the risk that arises due to the failure of the debtor and/or other parties to fulfill their obligations to the Bank.[28]

Credit risk is the possibility of a lender losing money due to the possibility that the borrower will not repay the loan.[29]Consumer credit risk can be measured by the five Cs:*credit history, capacity to repay, capital, the loan's conditions, and associated collateral*(credit history, ability to repay, capital, loan conditions, and related collateral). Consumers who have higher credit risk usually pay higher interest rates on loans.[30]

Credit risk refers to the possibility of loss due to a borrower's failure to make payments on any type of debt..Credit risk is the potential loss resulting from a borrower's failure to repay a loan or meet contractual obligations. Traditionally, credit risk refers to the risk that a lender

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[26]Zaman, M. N. (2020). Non-Performing Loans Portfolio In The Banking Sector Of Bangladesh And Recovery Status: A Study On Rangpur Region. *European Journal Of Business And Management*, *20*(1). Https://Doi.Org/10.7176/Ejbm/12-7-09.

[27]Basel. (1999). Principles For The Management Of Credit Risk. *Consultive Paper Issued By Basel Committee On Banking Supervision, Basel.*

[28]Virginia, M. (2017). *The Relationship Between Credit Risk Management*.

[29]Anderson, R. (2016). *Credit Risk Assessment: Enterprise-Credit Frameworks*. *July*.

[30]Kisala, P. M. (2014). *The Effect Of Credit Risk Management Practices On Loan*.

may not receive the principal and interest owed, resulting in disrupted cash flow and increased collection costs.[31]

So it is concluded that*Credit Risk Management*is the practice of mitigating credit losses by understanding the adequacy of a bank's capital and loan loss reserves at a given time.*Credit Risk Management*indicated by i*identification, measurement, control, monitoring*And*assessment*t.[32]

In order to reveal respondents' responses regarding the Credit Risk Management variable at BPR (People's Credit Bank) in Semarang City, this study used 5 (five) statements taken from the indicators, namely: Identification, Measurement, Control, Monitoring and Assessment.

**Table 3.2.3Variable Indicator Answer Results*Credit Risk Management***

| No | Indicator | Average | Criteria |
|---|---|---|---|
| 1. | *Identification* | 3.95 | Currently |
| 2. | *Measurement* | 4.04 | Tall |
| 3. | *Control* | 4.18 | Tall |
| 4. | *Monitoring* | 4.22 | Tall |
| 5. | *Assessment* | 4.33 | Tall |
| **Average value of variables *Credit Risk Management*** | | **4.14** | **Tall** |

*Source: Processed primary data, 2023*

Based on Table 3.2.3, the responses on the Credit Risk Management indicator from the calculation of the questionnaire answer results for the Credit Risk Management variable indicator showed a figure of 4.14, which shows that most respondents considered that Credit Risk Management at BPR (People's Credit Bank) in Semarang City was in the High or Good category. The highest indicator of the Credit Risk Management variable was the Assessment indicator with a value of 4.33. This shows that BPR carries out the process of identifying potential hazards and analyzing the risks that can occur in each providingcredit facilities or financing facilities to customers. While the lowest indicator is the Identification indicator with a value of 3.95. In this case, respondents stated that BPR always carries out a checklist of potential risks and evaluates the possibility of these risks occurring in every decision-making process for providing loans.credit facilities or financing facilities to customers.[33]

### 3.2.4. Non Performing Loan

*Non Performing Loans*is the percentage of total non-performing loans (criteria for substandard, doubtful, bad) of the total loans provided by the bank.*Non Performing*

[31]Gulati, R., Goswami, A., & Kumar, S. (2019). What Drives Credit Risk In The Indian Banking Industry? An Empirical Investigation. *Economic Systems*, *43*(1), 42–62. Https://Doi.Org/10.1016/J.Ecosys.2018.08.004.

[32]Hermes, N., & Lensink, R. (2004). Foreign Bank Presence, Domestic Bank Performance And Financial Development. *Journal Of Emerging Market Finance*, *3*(2), 207–229. Https://Doi.Org/10.1177/097265270400300206.

[33]Ben Saada, M. (2018). The Impact Of Control Quality On The Non-Performing Loans Of Tunisian Listed Banks. *Managerial Auditing Journal*, *33*(1), 2–15. Https://Doi.Org/10.1108/MAJ-01-2017-1506.

*Loans*(NPL) is a loan where the borrower is in default and has not made scheduled principal or interest payments for a specified period of time. In banking, a commercial loan is considered non-performing if the borrower is 90 days past due.[34]

A loan becomes non-performing when the bank deems that the borrower is unlikely to repay, or when the borrower is 90 days late in making a payment.*Performing Loans*(NPL) reduces the bank's income and causes losses, which burdens its health.So it can be concluded that credit is problematic or*Non Performing Loans* is a credit that is late in being paid off or has the potential to not be paid off (bad credit) by the debtor.[35]

Indicators of a bank's failure to manage its credit include problems with liquidity (inability to pay third parties), profitability (debts that cannot be collected), and solvency (reduced capital).[36]Non Performing Loans are when the loan condition is that the debtor fails to make scheduled payments for a certain period of time.(Budiarto, 2021). In addition, Bank Indonesia also explains that the definition of NPL is credit with substandard or bad quality. This indicator can be in the form of a basic financial ratio that can provide information for assessing capital, credit risk, market risk, liquidity to profitability.[37]

In order to reveal the respondents' responses regarding the Non Performing Loan variable at BPR (People's Credit Bank) in Semarang City, this study used 5 (five) statements taken from the indicators, namely:

**Table 3.2.4Non Performing Loan Variable Indicator Answer Results**

| No | Indicator | Average | Criteria |
|---|---|---|---|
| 1. | The outstanding due date is quite large | 4.02 | Tall |
| 2. | Sources of bad debt | 3.71 | Tall |
| 3. | Customer inaccuracy | 3.73 | Tall |
| **Average value of variables *Non Performing Loan*** | | 3.82 | Tall |

*Source: Processed primary data, 2023*

Based on Table 3.2.4, the responses to the Non Performing Loan variable indicator from the calculation of the questionnaire results for the Non Performing Loan variable indicator showed a figure of 3.82, which shows that most respondents considered that Non Performing Loans at BPR (People's Credit Banks) in Semarang City were in the High or Good category. The highest indicator of the Non Performing Loan variable is the indicator of Due Date not yet paid

[34]Gabriel, O., Victor, I. E., & Innocent, I. O. (2019). Effect Of Non-Performing Loans On The Financial Performance Of Commercial Banks In Nigeria. *American International Journal Of Business And Management Studies*, *1*(2), 1–9. Https://Doi.Org/10.46545/Aijbms.V1i2.82.

[35]Morina, F., & Sadri, A. (2019). The Ratio Of Non-Performing Loans And Their Impact On The Profitability Of Commercial Banks In Transition Countries. In E. In C. I. Hashi (Ed.), *3rd International Scientific Conference On Business And Economics* (Issue June).

[36]Kartika, I., Sulistyowati, S., Septiawan, B., & Indriastuti, M. (2022). Corporate Governance And Non-Performing Loans: The Mediating Role Of Financial Performance. *Cogent Business & Management*, *9*(1). Https://Doi.Org/10.1080/23311975.2022.2126123.

[37]Bouvard, M., & Lee, S. (2020). Risk Management Failures. " *The Review Of Financial Studies*, *33*(6), 2468-2505. Https://Doi.Org/10.1093/Rfs/Hhz115.

off which is quite large with a value of 4.02. This shows that bad debts at BPR are mostly due to the inability of creditors to pay credit according to the specified time limit. While the lowest indicator is the Source of Bad Credit indicator with a score of 3.71. In this case, it shows that debtors are no longer able to continue paying or paying off debts which is one of the sources of bad debts at BPR.[38]

**3.3. The Influence of Credit Committee on Non Performing Loans**

Based on the results of the PLS test in table 3.15 above regarding the first hypothesis, namely the influence*Credit Committee* to*Non Performing Loan*significant negative effect. This result is in accordance with research showing that the assessment of the capacity of prospective borrowers is a factor that affects loan performance.[39]Supported by sThe study found that credit committee independence and credit committee size have a significant negative relationship with problem loans.

*Credit Committee*built with indicators of Customer Classification, Debtor Prospective Objectives and Debtor Profitability. While Non Performing Loans are built with indicators of Large Unpaid Due Dates, Sources of Bad Credit and Customer Inaccuracy. The highest indicator of the Credit Committee variable is the Profitability indicator which shows that abilitydebtors in obtaining profits will greatly affectdebtor's ability to pay credit. These results indicate that BPR must retain debtors who have high profitability to avoid bad debts. While the lowest indicator is the indicatorCustomer classification Whichshows that BPR must further emphasize the classification of debtors in providing credit facilities or financing facilities to reduce NPL. So it can be concluded that the better the performance of the Credit Committee will reduce the possibility of problematic credit / Non Performing Loans in BPR de Kota Semarang.[40]

3.3.1. The Influence of the Audit Committee on Non Performing Loans

Based on the results of the PLS test in table 3.15 above regarding the second hypothesis, namely the influence*Audit Committee* to*Non Performing Loan*has a significant negative effect. This study supports the results of the study Ojeka et alwhich proves that the characteristics of the audit committee have a negative influence on problem loans. Then, Kumar Sen et al proves that the independence of the audit committee, director ownership, and external audit

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[38]Boussemart, J. P., Leleu, P., Shen, Z., Vardanyan, M., & Zhu, N. (2019). Decomposing Banking Performance Into Economic And Credit Risk Efficiencies. *European Journal Of Operational Research*, *277*(2), 719–726. Https://Doi.Org/10.1016/J.Ejor.2019.03.006.

[39]Kiplimo, K. S., & Kalio, A. M. (2014). *The Effect Of Credit Risk Management Practices On Loan Performance In Microfinance Institutions In Nairobi, Kenya*. *3*(10), 2260–2267.

[40]Boahene, S., Dasah, J., & Agyei, S. (2012). Credit Risk And Profitability Of Selected Banks In Ghana. *Research Journal Of Finance And Accounting*, *3*(7), 6–15. Http://Iiste.Org/Journals/Index.Php/RJFA/Article/View/2628.

quality in controlling NPL. The audit committee has a negative relationship with*non-performing loan*.[41]

*Audit Committee*built with indicators of Presence, Expertise, Independence, Size and Activity. While Non Performing Loan is built with indicators of Large Unpaid Due Date, Source of Bad Credit and Customer Inaccuracy. The highest indicator of the Audit Committee variable is the Size indicator which shows that BPR must make the size of the creditor's business/income as one of the considerations in making decisions on granting loans.credit facilities or financing facilities from BPR. The higher the customer's wealth as seen from the total assets they own, the lower the risk of bad debt.While the lowest indicator*Audit Committee* is an indicator*Expertise*which shows that BPR must place more emphasis on the debtor's ability to manage the business/assets they own. KThe ability of debtors to run their business well will reduce the risk of experiencing business fraud which will cause bad debts. So it can be concluded thatthe better the quality of performance*audit committee* will further decrease*non-performing loans.*[42]

3.3.2. The Effect of Moderation of Credit Risk Management between Credit Committee on Non Performing Loans

Based on the results of the PLS test in table 3.15 above regarding the third hypothesis, namely the influence*Credit Committee*to*Non Performing Loan*moderated by Credit Risk Management does not have a significant positive effect. This study is supported by the results of research that the process of monitoring and mitigating credit risk has a positive relationship with financial performance.The efficiency of credit risk management is related to minimizing problem loans.*Credit Committee*built with indicators of Customer Classification, Debtor Prospective Objectives and Debtor Profitability. While Non Performing Loans are built with indicators of Large Unpaid Due Dates, Sources of Bad Credit and Customer Inaccuracy.WhereasCredit Risk Management variables in BPR are built from Identification, Measurement, Control, Monitoring and Assessment indicators.

BPR Risk Management is carried out to ensure that credit risk, operational risk, compliance risk, liquidity risk, reputation risk, and strategic risk faced by the BPR business can be managed properly. The implementation of risk management is one of the efforts to strengthen institutions and improve the reputation of the Rural Bank industry. In implementing risk management, BPR is required to establish clear authority and responsibility at each level of office related to risk management. As a distributor of financing facilities or credit facilities, the Credit Committee has the authority to provide approval or reject approvals that have been made.[43]

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[41]Khatun, A., & Ghosh, R. (2019). Corporate Governance Practices And Non-Performing Loans Of Banking Sector Of Bangladesh: A Panel Data Analysis. *International Journal Of Accounting And Financial Reporting*, *9*(2), 12. Https://Doi.Org/10.5296/Ijafr.V9i2.14503.

[42]Raksong, S., Yu, B., & Raksong, Y. (2019). Analysis Of The Determinants Of Non-Performing Loans In Thailand: Empirical Study Of The Smes Non-Performing Loans. *Journal Of Applied Economic Science*, *14*(3(65)), p.880–889.

[43]Adeola, O., & Ikpesu, F. (2017). Macroeconomic Determinants Of Non-Performing Loans In Nigeria: An Empirical Analysis. *The Journal Of Developing Areas*, *51*(2), 31–43. Https://Doi.Org/10.1353/Jda.2017.0029.

BPR is required to implement a comprehensive internal control system effectively for the implementation of business and operational activities at all levels of the BPR organization that is able to detect weaknesses and deviations that occur, in a timely manner. The Credit Committee is tasked with assisting the Board of Directors to evaluate or decide on financing expenditures, extensions and changes to financing within the applicable limits. As a distributor of financing facilities or credit facilities, the Credit Committee has the authority to provide approval or reject approvals that have been made. The Credit Committee must have a firm and precise attitude to conduct analysis, make assessments and also provide recommendations for financing applications submitted with the aim of optimizing and minimizing the risk in providing financing so that problematic financing does not occur. So in this study it can be concluded that the influence of the credit committee in reducing Non Performing Loans is getting higher by implementing Credit Risk Management properly.[44]

3.3.3. InfluenceModeration of Credit Risk Management between Audit Committee on Non Performing Loans.

Based on the results of the PLS test in table 3.15 above regarding the fourth hypothesis, namely the influence*Audit Committee*to*Non Performing Loan*moderated by Credit Risk Management does not have a significant positive effect. This study is supported by several previous researchers who showed that the process of monitoring and mitigating credit risk has a positive relationship with financial performance.. Research shows that the efficiency of credit risk management is related to minimizing problem loans..

*Audit Committee*built with indicators of Presence, Expertise, Independence, Size and Activity. While Non Performing Loan is built with indicators of Large Unpaid Due Date, Source of Bad Credit and Customer Inaccuracy.WhereasCredit Risk Management variables in BPR are built from Identification, Measurement, Control, Monitoring and Assessment indicators. The Audit Committee is responsible for approving and periodically reviewing the company's credit risk strategy and policies. While the board of directors is responsible for implementing strategies and developing policies and procedures by supporting healthy credit standards, monitoring and controlling credit risk, identifying and handling problem loans.

The Audit Committee is responsible for ensuring the implementation of effective risk management in the company. The Audit Committee has an important role in managing fraud risk, financial risk, and compliance risk in the company. The knowledge and understanding of risk management possessed by the Risk Monitoring Committee will be greatly needed by the Board of Commissioners in carrying out its duties and responsibilities related to the implementation and monitoring of credit performance. The Audit Committee must be able to identify, assess, and evaluate potential risks that may arise and become a disruption to the company, both due to internal and external factors. So it can be concluded that the influence

[44]Khairi, A., Bahri, B., & Artha, B. (2021). A Literature Review Of Non-Performing Loan. *Journal Of Business And Management Review*, *2*(5), 366–373. Https://Doi.Org/10.47153/Jbmr25.1402021.

of the Audit Committee in reducing Non Performing Loans will be higher, if BPR implements Credit Risk Management properly.[45]

## 4. Conclusion

Influencecredit committee toNon Performing Loan (NPL). In this study,*Credit Committee*has a significant negative effect on non-performing loans/*Non Performing Loans*at BPR in Semarang City. Influence*Audit Committee*to Non Performing Loans (NPL).In this study,*Audit Committee*has a significant negative effect on non-performing loans/*Non Performing Loans*at BPR de Kota Semarang. Impact of moderation*Credit Risk Management* under the influence*credit committee* to *Non Performing Loan*(NPL). Implementation*Credit Risk Management* which will effectively increase influence*credit committee*in lowering*Non Performing Loan*.Impact of moderation*Credit Risk Management* under the influence*Audit committee* to *Non Performing Loan*(NPL). Implementation*Credit Risk Management* which will effectively increase influence*credit committee*in lowering*Non Performing Loan*. This study proves that Credit Risk Management (CRM) is a mediating variable between the influence of credit committee and credit auditor on Non Performing Loan (NPL).Better performance*Credit Committee*And*audit committee* will reduce the possibility of problematic credit/*Non Performing Loans*at BPR in Semarang City.Then, the influence*credit committee*And*audit committee*in lowering*Non Performing Loan*will be higher by implementing*Credit Risk Management* well. So it is concluded that the implementation*Credit Risk Management* good will strengthen the influence*credit Committee*And*audit committee* in reducing problem loans/*Non Performing Loans*at BPR in Semarang City.

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[45]Akter, A., Kamal Hossain, M., Jahangir Alam, M., & Shajul Islam, M. (2021). Do The Attributes Of Audit Committee Explain Non-Performing Loans? Evidence From An Emerging Economy. *Asia-Pacific Management Accounting Journal*, *16*(3), p.327–357.

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