

Risk Management, Working Capital Management and Financial Performance

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ABSTRAK: Research Purposes: Aim of this study was to know the impact of Risk Management and Working Capital Management to The Financial Performance of Companies Listed In Indonesia Stock Exchange (IDX). Variables: This study employed Risk management proxied by Internal Audit. The proxies of working capital management, we used Current Ratio (CR) and Working Capital Turnover (WCTO). The Financial Performance we used Return On Assets (ROA) ratio as a proxy. Research Method: We used multiple linear regression analysis to analyzed whether the Risk management and the working capital management had impact on The Financial Performance. We also performed classical assumption tests including; normality test, multicollinearity, autocorrelation and heteroskedasticity. Results: The results of this study indicate that simultaneously Internal Audit, CR and WCTO have a significant effect on financial performance. However, the partial effect had various results. The Internal audit and CR have no significant effect on financial performance whereas WCTO has a significant negative effect on financial performance.

KATA KUNCI: *internal audit; current ratio; working capital turnover and return on assets*

RESEARCH BACKGROUND

Financial performance is the achievement of work that has been achieved by a company during a certain period and embodied in the company's financial statements (Anggitasari and Mutmainah, 2012). In line with the financial performance, one of the indicators used to measure financial performance is profitability ratios, because the ratio shows the combination of effects of liquidity, asset management and debt on the results of operations (Brigham and Houston, 2009: 107). Furthermore, to determine profitability ratios using approaches related to sales (profitability sales) and approaches related to investment (profitability investment), this study associated with the investment measured by using the ratio of ROA (Return On Asset).

In addition, risk management arose due to the risks posed by the uncertainty of strategic plans and management decisions over future events that are unknown and have negative consequences (Irwin, 2007). According to Walker et al (2003), they stated that internal audit can help the organization to identify and evaluate risks within the company. The audits are also needed to help overcome the existing risks, in which an auditor is able to oversee the activities of the entity in the procedure which is its separated, the auditor will collect evidence of activity undertaken by the company by testing the evidence and then communicate its strengths and weaknesses to the management of the company.

Moreover, working capital management is an activity that covers all the functions of management of current assets and short-term liabilities. So the purpose of working capital management is to manage current assets and current liabilities in order to obtain a reasonable net working capital and ensure the level of profitability of the company (Sawir, 2005: 133). From the financial regulation of current assets and current liabilities directly related to the volume of sales, especially current assets contained in the working capital management. Therefore to measure the working capital management using the ratio of activity that is current ratio or current ratio.

Efficient working capital is usually seen from the turnover of working capital, receivable turnover and inventory turnover. For working capital turnover starts from when cash is invested in the component of working capital until the time back into cash. The faster and shorter the working capital turnover the higher the efficiency level of the company that will affect the effectiveness of capital use in increasing the profitability of the company (singh et al: 2012). If a company lacks funds and working capital is gained a little will hamper the company's activities. Therefore, to know how much working capital needed to finance the company's operations, then first know what factors that affect the size of working capital, the factor is to increase business activities, so the need for funds to finance the operation of a company will be increased. Thus the rapid turnover of the working capital required by the company will be smaller, so to measure the second working capital management by using the liquidity ratio of working capital turnover.

LITERATURE REVIEW

2.1. Risk management

Based on Minister of Finance's regulation no. 191 / PMK.04 / 2010 stated that the risk management is a systematic approach to determine the best course of action under conditions of uncertainty. Therefore, the risk management is a risk. The risk appeared due to the uncertainty factors including the probability biased ability to forecast conditions that are likely to occur in the future.

2.2. Internal audit

According to Agoes (2004), the Internal Audit is an examination conducted by the internal audit of the company, both to the financial statements and accounting records of the company, whose compliance with management policies that have been determined and the provisions of the applicable professional ties. Merawati and Hatta (2014) in addition, stated that the Internal auditor examination is usually more detailed than the general survey conducted by the Public Accounting Firm. The internal auditor does not give an opinion on the fairness about the financial statements, because the parties inside the company are not independent. The internal audit report contains examination findings on found irregularities and fraud, internal weaknesses and suggestions for improvement.

2.3. Working capital

Working capital is a company that always needs capital to finance its day-to-day operations, such as paying workers wages, salaries of employees and so forth. The funds coming from the sale of the product will be issued and then to finance the next operation. So the funds will continue to rotate each period as long as the company is running. (Munawir, 2004).

2.4. Liquidity Ratio

According to Dr. Cashmere (2014), the liquidity ratio is called the working capital ratio. Liquidity ratio is the ratio to measure how liquid a company. Meanwhile, Irham Fahmi (2014) stated that the liquidity ratio is the ability of a company to meet short-term obligations in a timely manner. Furthermore, Irham Fahmi said that the current ratio is a measure that is used on short-term liability of a company's ability to meet the needs of the debt that is soon due when billed in its entirety. In the current ratio of current assets and current debt describes the obligation to be paid and assumed the obligation to be actually paid on the spot. So it will show to what extent the short-term liabilities are covered by assets that are expected to be converted into cash in the near future (Brigham and Houston, 2010).

2.5. Activity Ratio

Cashmere (2007) argued that the activity ratio to assess the ability of the company in carrying out daily activities or the ability of the company in the sale, collection of receivables and utilization of assets owned, including Working Capital Turnover. He also stated that the working capital turnover is to measure the effectiveness of working capital within an enterprise over a period of time.

2.6. Financial performance

Financial performance is an analysis conducted to see how far a company has implemented by using the rules of financial implementation properly and correctly. According to Munawir (2002) this performance is the ability of a company in processing its capital effectively and efficiently in order to get maximum results. Therefore, the financial performance within a company is the result of the kinds decisions are made continuously in order to achieve certain goals.

2.7. Profitability Ratio

Profitability ratio is used to measure the effectiveness of management as a whole is aimed at the size of the profits in sales and investment, if the better profitability ratio will illustrate the high level of profit obtained by a company. Such as; the Return On Assets (ROA). ROA which is the assessment of the profitability of total assets, by comparing the profit after tax with the average total assets. This ratio is used to find out how effectiveness in managing the assets of the company either from the capital itself or from loan capital, and investors will see how effective in managing assets and generate profits in one company, Horne and Wachowicz (2005).

2.8. Relationship Between Variables

2.8.1. Relationship of Internal Audit to Financial Performance for risk management using internal audit, internal audit is an independent appraisal function within an organization to evaluate and test the organization's activities undertaken by an enterprise and can also serve as a continuous monitoring. Therefore if the internal audit is implemented then the implementation of business activities will get discipline, if implemented this discipline will affect the financial performance of the company.

2.8.2. Current Ratio Relationship to Financial Performance.

If the Current Ratio is higher in a company means less risk of failure faced by the company in fulfilling its short term obligations. (Ang, 1997). However, if the current ratio value of the company is high then it will reduce uncertainty for investors, but indicate the existence of unemployed funds, which will reduce the level of profitability in a company, resulting in smaller ROA. So it is suspected the higher the CR the lower the value of ROA. (Ang, 1997).

2.8.3. Working Capital Relations Turn Over to Financial Performance.

This ratio shows the relationship between working capital and sales that can be obtained by the company for each working capital rupiah. Theoretically according to (Harahap, 2000) if the velocity of working capital increased then profitability measured ROA will also increase. This shows that when working capital quickly spins, then sales will increase and the company's revenue will increase as well, and the profit or net profit compared to total assets also increased.

RESEARCH METHODS

3.1. Types of research

The type of research used in this study is quantitative research using two or more variables that aim to determine the analysis of risk management to the potential of financial performance as well as knowing the working capital management of the potential financial performance in manufacturing companies listed on the Indonesia Stock Exchange.

3.2. Operational Definition and Variable Measurement

3.2.1. Bound Variety

The dependent variable in this research is financial performance (Y). In this financial performance variable is measured by using Return On Assets (ROA) which is the assessment of profitability of total assets, by comparing the profit after tax with the average total assets, according to Horne and Wachowicz (2005).

3.2.2. Internal Audit (IA) is the existence of an internal audit function within a company.

The role of internal audit is the widening of a control to manage and manage the company According to Walker et al (2001). Walker stated in internal audit can help the organization to identify and evaluate risks. To know the internal audit of a company, the study is using binary variable measurements (dummy) is a nominal type with only two criteria, such as 1 = yes and 0 = no. In an independent variable, especially internal audit (IA), one (1) means the company discloses the existence of an internal audit in its annual report and is otherwise assigned a zero (0) value.

3.2.3. Current Ratio. the current ratio is a measure used on short-term liability of a company's ability to meet the needs of the debt that is due at the time of collection.

3.2.4. Working Capital Turnover. According to Dr. Cashmere (2014) Working Capital Turn Over is to measure the effectiveness of working capital within an enterprise over a period of time. For industry standard turnover of working capital is six times.

3.3. Research sites

In this study which is used as the location where the research by the author is at the gallery of Indonesia Stock Exchange coincide at the University of Muhammadiyah Sidoarjo, campus 1 building E floor 3 jl. Mojopahit 666 B Sidoarjo.

3.4. Population and Sample

The population is a complete group of elements in which we are interested to study or be used as the object of research, while the sample is the subset of the population, according to kuncoro (2009: 118). The population in this study are manufacturing companies, especially Food and Beverage sector listed on the Indonesia Stock Exchange in 2013 - 2015 number of 14 companies.

In the sample selection of this study, using nonprobability sampling method exactly the method of Total Sampling. Method Total Sampling is a sampling technique by taking all members of the population as respondents or samples, according to Sugiyono (2013).

The criteria that must be met in order to be sampled in the study, including:

- a. The manufacturing company of food and beverage sub-sector listed in Indonesia Stock Exchange period 2013-2015.
 - b. Publish financial reports in full from 2013 to 2015.
- Based on the certain criteria, the number of samples obtained by 14 Food and Beverage manufacturing companies

3.5. Types and Data Sources

In this research type of data used is secondary data. Secondary data used in this research is sourced from financial report and annual report of manufacturing company especially food and beverage sector year 2013-2015 which published in the Indonesian stock exchange (IDX)

RESULT

4.1. Descriptive statistics

Descriptive analysis is a statistic used to analyze data by describing the data that has been collected as it is without intending to make conclusions that apply to the public or generalization.

Descriptive Statistics

N		Minimum	Maximum	Mean	Std. Deviation
Statistic		Statistic	Statistic	Statistic	Statistic
X1	42	0	1	.98	.154
X2	42	.51	6.42	1.9919	1.14977
X3	42	-16.47	34.46	7.6359	9.75623
Y	42	-6.87	65.72	10.2502	12.24283

Valid N (list wise)	42
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4.2. Multiple Linear Regression Analysis Test

This analysis is used to know how big influence of independent variable with dependent variable, hence result of multiple linear regression equation can be seen with tool of SPSS 16 as follows:

$$Y = a + bX_1 + bX_2 + bX_3 + e$$

$$ROA = 10,717 + 5,283IA - 0,364CR - 0,642WCTO + e$$

a. Coefficient Determination Analysis R²

Table analysis of the coefficient of determination R² is used to determine how much the ability of the model in explaining between independent variables simultaneously to the dependent variable

Model Summary^b

Model	R	R Square	Adjusted R Square
1	.510 ^a	.260	.201

Based on the results of the above analysis shows that the value of R Square generated by 0.260, this means that 26% dependent variable is ROA in the company Food and Beverage can be influenced by independent variables ie IA, CR and WCTO simultaneously. While the remaining 74% is explained by other factors outside the independent variable.

b. Partial coefficient test (t test)

Test t is the test of each - each independent variable influential signi cant on the dependent variable. Where the Internal Audit (X1), Current Ratio (X3) and Working Capital Turnover (X3) variables partially affect the Return On Assets (Y) variable.

Coefficients^a

Model	Standardized Coefficients	T	Sig.
Beta			
1	(Constant)	.938	.354
	IA	.475	.638
	CR	-.232	.817
	WCTO	-3.487	.001

a. Dependent Variable: ROA

c. Test coefficient simultaneously (Test F)

This test is conducted to determine the coefficient of regression together (Test F) whether there is influence between Internal Audit, Current Ratio, and Working Capital Turnover variable together (simultaneously) to variable Return On Assets.

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1595.724	3	531.908	4.443	.009 ^a
	Residual	4549.635	38	119.727		
	Total	6145.359	41			

a. Predictors: (Constant), WCTO, IA, CR

b. Dependent Variable: ROA

From the calculation of regression analysis obtained Fcount value of 4.443 with a significant level of 0.009. Thus it is proven that F test 4.443 > Ftable value of 2.88 and reinforced with significant value 0.009 < 0.05 so that H0 is the area of rejection and Ha accepted which means the variables IA, CR, WCTO simultaneously (simultaneously) have a significant effect on performance finance (ROA).

DISCUSSION

5.1. Effect of Internal Audit on Financial Performance

Based on the results above, the results showed that Internal Audit has no significant effect on financial performance. It is in line with the results from Merawati and Hatta (2014), which is showed that increased internal auditing supervision can not guarantee that the company's financial performance will perform better. so that internal audit shows have limitations in conducting oversight of financial performance.

So this company should pay attention to the number of personnel who carry out such supervisory duties. According to the regulation, the existence of internal audit is based on the company's obligation to comply with applicable governmental requirements. Then internal audit within the company will cause a cost burden for the company. So stated Internal Audit has no significant effect on financial performance (ROA).

5.2. Influence of Current Ratio to Financial Performance

The results research shows that the Current Ratio has no significant effect on financial performance. The results of this study are in line with Widiyanti and Bakar (2014) research which states that if the low current ratio usually suffers from liquidation problems in the opposite side if high current ratio is not always profitable because it is likely to generate unemployment funds which can ultimately reduce the company's profitability (Sawir, 2009).

Also, the results of this study are consistent with the research of Fitri, Supriyanto and Abrar (2016) stating that, in fact the unemployed funds can be used to invest profitable projects for the company. If firms set large amounts of working capital, the likelihood of liquidity levels will be maintained but the opportunity for profit will decrease, which in turn affects profitability (ROA). Conversely, if the company wants to increase the profit, it will affect to the better the position of the company. In this research there is no influence between liquidity and profitability. Therefore, we found that the Current Ratio has no significant effect on financial performance (ROA).

5.3. The Effect of Working Capital Turnover on Financial Performance

Based on the result of research indicate that Working Capital Turnover influence to financial performance. Based on the results of the hypothesis statistically, WCTO variable has a negative effect on Financial Performance (ROA). The results of this study are in line with research Fitri, Supriyanto and Abrar (2016). Which is shows the relationship between working capital with sales earned by the company for each rupiah working capital, so that the working capital turnover will affect the level of profitability. If the profitability associated with working capital can indicate the possibility of low sales volume compared to the cost used. So to avoid it is expected the proper management of working capital of the company.

Companies that are said to have a high level of profitability means high efficiency of the use of working capital used by the company, so the lower the working capital turnover will be higher the level of profitability. Therefore its stated Working Capital Turnover negatively affected to the financial performance (ROA).

CONCLUSION

Based on the results of partial research (t test) for Internal Audit (X1) has no effect on financial performance, Current Ratio (X2) has no effect on financial performance and Working Capital Turnover (X3) has an effect on financial performance in Food and Beverage 2013 - 2015.

Based on the results of the research simultaneously (F test) Internal Audit (X1), Current Ratio (X2) and Working Capital Turnover (X3) have an effect on financial performance at Food and Beverage manufacturing company listed in the Indonesian Stock Exchange (IDX) in 2013 - 2015.

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