

Analysis of the Implementation of the COSO Internal Control Structure for Provision of Credit at PT. Bank Perkreditan Rakyat

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Abstract: Uncollectible credit risk or bad credit may impede BPR operations. Risk can be avoided or minimized by executing consistent internal control structures. If the internal control structure is sufficient in the provision of credit, the implementation of credit provision can be controlled and able to prevent the occurrence of errors that can inflict jeopardy on the bank. Object of this research is PT. BPR located at Tembung. This study aims to determine whether the internal control of the credit systems in PT. BPR are in accordance with internal control elements based on COSO and provide input or improvement that may be applied related to internal control system. The research method is applied research using comparative method in data analyses. Data collection by interview, observation and documentation. The research outcomes indicate that the implementation of internal control system in PT. BPR is quite good, but there are still certain points which are less suitable with the internal control system based on COSO and BI which need to be improved.

1 INTRODUCTION

The banking sector plays an important role in supporting the running of the economy and national development of a country by contributing to providing loans to sectors that need funds. This can occur because of the function of banks as intermediary institutions where banks collect funds from the community in the form of deposits and channeling to the community in the form of credit and or other forms. People's Credit Banks (BPR), which is one type of banking, have a role in driving the progress of economic equality and micro-economic growth. The role of BPR in supporting Indonesia's current national economic growth through increasing access to credit or financing from banks. The problem that often occurs in giving credit is bad credit. Bad credit brings a threat to the continuity of BPR such as: cash turnover slows down because cash availability decreases, profits decline, liquidity ratio, solvency and profitability are directly or indirectly affected. This shows the influence on the health of BPR, where the most tragic is that customers have no more trust. PT. BPR X Tembung is a bank-shaped business entity people's credit which has the main function to save and channel funds (credit) to the community in the

Tembung area. Based on Law No. 10 of 1998, credit is the provision of money or equivalent claims, based on an agreement or agreement between banks and other parties that requires the borrower to repay the debt after a certain period of time with interest. PT. BPR X Tembung also experienced a classic problem faced by BPRs in general, namely non-performing loans. At PT. BPR X Tembung itself, the level of non-performing loans or bad loans has always increased by almost 2% from 2014 to 2016. Even in 2016 the NPL level shows that the NPL has exceeded the prescribed limit. Bank Indonesia sets a limit for BPR NPLs of 5%(Bank Indonesia, 2013).

To prevent the risks of bad credit that can hinder the operations of the BPR, BPR is very necessary to pay attention to the effectiveness of the internal control structure in the BPR. Risks can be avoided or minimized by implementing the internal control structure consistently. If the internal control structure is sufficient in providing credit, the implementation of credit provision can be controlled and can prevent the occurrence of errors that can harm the bank.

This study aims to determine whether the internal control of the lending system at PT. BPR X Tembung is in accordance with the elements of internal control according to COSO and provides input or

improvements that may be applied related to the internal control system.

2 THEORETICAL FRAMEWORK

The main source of income for rural banks (BPR) is interest income derived from lending. When distributing credit, BPRs face the risk of credit collection where errors in the procedure for lending can cause non-performing loans. The factors that cause non performing loans are as follows (Fransisca Claudya Mewoh, Sumampouw and Tamengkel, 2016):

- a. External factors of the bank
 1. There is doubtful intentions from debtors who are in doubt.
 2. There are difficulties or failures in the liquidity process of the credit agreement that has been agreed between the debtor and the bank.
 3. Conditions of the management and business environment of the debtor.
 4. Disasters (for example: fire, natural disasters) or business failures.
- b. Internal bank factors
 1. Lack of knowledge and skills of credit managers.
 2. There is no credit policy at the bank concerned.
 3. Provision and supervision of credit carried out by banks deviates from established procedures.

One way to reduce the risk of non-performing loans from the internal side is to design and implement internal controls in the process of lending. Bank Indonesia in its Guidelines for Internal Control Standards for Commercial Banks (2003) states that an effective internal control system is an important component in bank management and is the basis for healthy and safe financial operations. Internal control is a supervisory mechanism established by management on an ongoing basis, with a purpose (Bank Indonesia, 2003):

1. Maintain and secure bank assets.
2. Ensure the availability of more accurate reports.
3. Improve compliance with applicable regulations.
4. Reducing financial / loss, the impact of irregularities including fraud / fraud, and violation of aspects of prudence.
5. Increasing organizational effectiveness and increasing cost efficiency.

Elements of the Internal Control System The COSO (Committee of Sponsoring Organizations of the Treatway Commission) introduces five internal control components that are interconnected with each other, namely(Tampubolon, 2005):

1. Control Environment

2. Risk Assessment
3. Control Activities
4. Informasi dan Komunikasi
5. Monitoring

Weak internal control systems in banking institutions can cause (Bank Indonesia, 2003)

- lack of oversight mechanisms, unclear accountability of Bank management and failure in developing a culture of internal control at all levels of the organization;
- Inadequate implementation of the identification and assessment of risks from the Bank's operational activities;
- the absence or failure of a principal control of the Bank's operational activities, such as the separation of functions, authorization, verification and review of the risk exposure and performance of the Bank;
- lack of communication and information between levels in the Bank's organization, especially information at the take-up level
- decision about the decrease in the quality of risk exposure and
- application of corrective actions;
- inadequate or ineffective internal audit program
- and other monitoring activities;
- lack of commitment by the Bank's management to carry out internal control processes and enforce strict sanctions

3 RESEARCH METHOD

This type of research method is applied research that uses comparative methods in analyzing data. The object of research is the internal control system of providing credit to PT. BPR X Tembung. The type of data used in this study is qualitative data. The data sources used in this study are:

- Primary data, obtained directly from the object of research in the form of data relating to the procedure of lending and control.
- Secondary data, obtained from the company in the form of data and documents at PT. BPR X Tembung and from other sources such as books, journals, financial service authority regulations (OJK) and Bank Indonesia.

The data collection techniques used by the authors in this study are:

- Observation, namely making direct observations of activities or procedures for granting credit to PT. X Tembung, with the aim of getting the data needed in this study.

- Documentation, which is collecting data based on documents and other related written reports directly with this study.
- Interviews, namely conducting interviews with employees and Directors at BPR X Tembung.

4 ANALYSIS

Lending by BPR X Tembung in 3 consecutive years has resulted in net profit, non-performing loans and loan to deposit ratio as shown in the following table:

Table 1: Lending by BPR X Tembung

Year	Loan to Deposit Ratio (LDR)	Bad Credit	NPL
2014	83,78 %	Rp 154.148.200	0,8881 %
2015	67,62 %	Rp 73.442.300	2,48 %
2016	66,80 %	Rp 205.297.600	5,66 %

From the table it can be seen that the LDR is very large, the total channeled loans increase, but the net profit decreases, and the condition of the NPL on BPR X Tembung has increased sharply over the past 3 years. This can occur because of the abundant third party funds indicated by the percentage of LDR.

Because third party funds are abundant and there is a huge opportunity to get profits from lending, credit is also being intensified to make a profit. However, credit is experiencing congestion in payments of principal and interest, so that it can affect BPR income. In order to obtain optimal profit with minimal bad credit risk, it can be achieved, it is necessary to have a controlled and optimal credit management through an internal control system in granting credit. If the internal control structure that is owned is consistent and adequate in granting credit, then the implementation of credit provision can be controlled and can prevent the occurrence of errors that can be detrimental. Analysis of the internal control system of PT. BPR X can be described as follows according to COSO:

1. Control Environment

PT. BPR X Tembung has an organizational structure, job description and decree that clearly explains the division of tasks, responsibilities and work relationships. However, there is still an

implementation that is not in accordance with the organizational structure, namely the existence of vacant positions (bill monitoring section).

In terms of integrity and ethical values, PT. BPR X does not yet have a code of ethics guideline that directs the ethical behavior of every employee, especially employees in lending. Ethics and integrity are carried out only based on Bank Indonesia guidelines

In human resource policies, PT. BPR X Tembung has procedures for the acceptance of new employees, training, promotions, compensation. PT. BPR X also has training activities & other motivational activities.

2. Risk assessment

PT. BPR X Tembung has not carried out a comprehensive risk assessment and has no risk universe and risk register. In credit distribution, only 5 C debtors are assessed. Important risk assessment is carried out to design and implement internal controls that are still needed in lending.

3. Control Activities

There are performance reviews conducted by top management namely directors in terms of achieving credit targets every month, against the target bills that must be achieved every month and debtor payment reports from month to month.

PT. BPR X Tembung also has and runs credit policies and procedures contained in the Guidelines for BPR (PKPB), and BPR X Tembung Credit Guidelines (PP).

Segregation of duties in the procedure of lending is carried out by several related functions. In the credit process there are multiple functions, namely survey functions and analysis functions carried out by the same person from AO Lending which can cause fraud where analysis is not carried out based on the actual condition of the debtor. In terms of monitoring bills there is a double duty. The task of monitoring bills is carried out by other parts randomly, no special unit is set to run).

There are certain controls or functions to check the accuracy, completeness and feasibility of authorizing all transactions credit, namely the internal control department.

- Credit distribution is carried out when authorized by the authorities.
- Credit documents are prenumbered.
- Recording in journal is based on evidence of incoming credit that has been authorized by the authorized function and enclosed by a complete document.

In terms of physical control of assets, BPR X performs physical matching between credit documents, collection documents, proof of cash receipts and debtor books. This is done by the Internal Audit Function

4. Information and communication

There is an accounting information system that includes methods and records in order to identify, classify, analyze, classify, record / record and report bank transactions contained in the PKPB & PP BPR X Tembung. PT. BPR X also owns and runs a credit management information system in the form electronic or not electronic or system manuals using forms / books / notes.

5. Monitoring

Monitoring should be carried out continuously through the implementation of internal audits or annual audits conducted by external auditors. Even though it has an SPI function, based on the results of the study, information is obtained that no audit has been carried out in the process of lending, which includes evaluation of risks and internal controls. Monitoring in the BPR is only on checking documents and administration related to the implementation of lending by internal control by 1 person. Credit monitoring is carried out by taking into account the debtor's loan deadline which must be immediately visited or levied. Giving a warning to the debtor if the installments or interest that are due are not paid on time there are 3 times. Giving warnings using the desk call and sms blast that has been automated, and a letter for the third warning.

5 RESULTS

From the results of the analysis it was found that the increase in bad credit at PT. BPR X Tembung can be seen from the increase in the ratio of Non Performing Loans, where the NPL of BPR X increased to 5.66% in 2016. The increase in NPL could be caused by external factors and internal factors. One of the internal factors that influence the increase in problem loans is the weak application of the Internal Control Structure. Based on the results of the analysis, the internal control of PT. BPR X must be addressed immediately to reduce the risk of non-performing loans. Some recommendations from the results of the analysis of the Internal Control Structure of PT. BPR X Tembung is:

1. Improve organizational structure and complete with clear job descriptions and performance

targets in lending. Empty positions must be filled immediately so that responsibility for managing functions can be established.

2. Implement comprehensive risk management and risk assessment in the function of lending. Extensive risk assessment on the function of lending must be followed by self assessment (CSA) so that the risks of lending can be immediately anticipated with adequate internal controls.
3. The segregation of duties in lending is carried out by separating the functions of the survey and analysis so that the giving credit more leverage and prevent fraud.
4. In terms of monitoring bills, it is recommended that a special unit be assigned to carry out the task of monitoring bills so that there is no duplication of tasks that can cause fraud and hinder other work.
5. Add personnel to the Internal Control department and further develop the Internal Control program or establish a special work unit for active monitoring of the overall implementation of lending (Audit Committee). Internal Audit / Audit Committee will usually carry out analysis, assessment and submission of suggestions. Audit helps implement systematic, disciplined evaluations & enhances the effectiveness of risk management, control & regulatory processes, and organizational management. This internal audit is an added value that enhances BPR operations.
6. Monitoring economic developments and competing business debtors when current loans can help BPR anticipate events that will occur on loans. So that the relationship that wants to be built between BPR and debtors that are not just money and bank relations can be realized, thus it can also create loyalty, and the family atmosphere desired by BPR can be achieved.

6 CONCLUSIONS

Based on the discussion and analysis described previously, the authors concluded that:

1. BPR X Tembung has an organizational structure that is not suitable for its implementation, namely the existence of vacant positions (bill monitoring section). PT. BPR X should always make adjustments and improve organizational structures so that channels or information flows are adequate, the objectives and processes implemented are in line.

2. BPR X Tembung does not carry out risk management thoroughly. BPR X Tembung only assesses the risk of the debtor (principle 5C). BPR X should carry out risk management as a whole because it can affect the achievement of goals or objectives.
3. In the credit process there is a multiplication of functions, namely the survey function and analysis function carried out by the same person from AO Lending which can cause fraud. BPR X should separate the multiple functions that are in the lending process, namely credit surveys and analyzes conducted by people who are different from AO lending.
4. In terms of monitoring bills there is a duplicate of tasks (the task of monitoring bills is done by other parts randomly, no special unit is set to run) which can cause fraud and inhibit other work. BPR X should reassign the bill monitoring function unit, so that there is no duplication of duties.
5. BPR X only monitor the completeness of documents and administration related to the implementation of lending by internal control by 1 person only and there is no stipulation or establishment of a special work unit to actively monitor the overall implementation of lending. BPR X should add personnel to the Internal Control section and further develop the internal control program or establish an Audit Unit or Audit Committee to actively monitor the overall implementation of lending (monitoring objectives, achievement strategies, financial reporting, compliance with regulations, internal controls, and recruitment and supervision).

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