

**INTERNAL CONTROL SYSTEMS IMPLEMENTATION
ANALYSIS IN CREDIT PROVISION
(STUDY CASE BPR A)**

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ABSTRACT

Credit risk is one of the risks which need to be mitigated by Rural Banks (BPR) due to the debtor's inability to pay off his obligations. Credit management can also affect the liquidity condition of the BPR. During the pandemic, various sectors in society were disrupted, so to protect banking activities, the Deposit Insurance Corporation (Lembaga Penjamin Simpanan/LPS) and Financial Services Authority (Otoritas Jasa Keuangan/OJK) they have issued various policies. However, these policies have another impact, namely an increase in the risk of bad loans. The increased risk of bad debts can affect the income received from the BPR. One way to mitigate credit risk is to perform a credit analysis. The purpose of this study was to examine the implementation of the internal control system in Lending at BPR through the COSO Framework. The method used is a case study with a single case embedded. This study demonstrates that the internal control system implemented in BPR lending activities has been applied in accordance with applicable regulations.

Keywords : Internal Control System; Credit Risk, Risk Management; Credit Provision; BPR

ABSTRAK

Risiko kredit merupakan salah satu risiko yang perlu di mitigasi oleh Bank Perkreditan Rakyat (BPR) yang terjadi akibat ketidakmampuan debitur untuk melunasi kewajibannya. Pengelolaan kredit juga dapat berpengaruh pada kondisi likuiditas BPR. Di masa pandemi, berbagai sektor di masyarakat menjadi terganggu, sehingga untuk melindungi kegiatan perbankan, Lembaga Penjamin Simpanan (LPS) dan Otoritas Jasa Keuangan (OJK) mengeluarkan berbagai kebijakan. Akan tetapi, kebijakan-kebijakan tersebut memberikan dampak lain yaitu adanya peningkatan kredit macet. Peningkatan kredit macet dapat mempengaruhi penerimaan pendapatan dari BPR. Salah satu cara untuk memitigasi risiko kredit adalah dengan melakukan analisis kredit. Penelitian ini bertujuan untuk melihat penerapan sistem pengendalian internal pada Pemberian Kredit di BPR A melalui COSO Framework. Dalam studi ini menggunakan metode studi kasus dengan pendekatan single case embedded. Hasil dari penelitian menunjukkan penerapan sistem pengendalian internal pada kegiatan pemberian kredit di BPR A telah diaplikasikan sesuai dengan regulasi yang ada.

Kata Kunci : Sistem Pengendalian Internal; Risiko Kredit; Manajemen Risiko; Pemberian Kredit; BPR

INTRODUCTION

Credit risk is one of the risks that need to be mitigated by Rural Banks (BPR). Financial Services Authority Regulation Number 13/POJK.03/2015 concerning Application of Risk Management for Rural Banks Article 3), BPR needs to manage 6 risks for risk management activities, including credit risk, liquidity risk, operational risk, compliance risk, strategic risk and reputation risk. Credit risk is the main risk that needs to be mitigated by BPR because in the Circular Letter of the Financial Services Authority Number 1/SEOJK.03/2019 concerning the Implementation of Risk Management, credit risk is a risk that occurs due to the failure of the debtor to fulfill his obligations to the BPR. This can be a major cause of BPR failure. One of the parameters for assessing the health of banks is Non Performing Loans (NPL), because an NPL that exceeds the existing regulations can be the cause of the failure of banks in carrying out their business. This can be caused by liquidity problems, namely the inability to pay from debtors, profitability in the form of uncollectible debts, and solvency problems, namely reduced capital (Dwihandayani, 2017).

Credit management has an effect on BPR liquidity conditions as measured by the Loan to Deposits Ratio (LDR), which is a ratio that takes into account the total amount of credit extended by banks compared to the total receipts of funds received by banks from various sources. Credit risk occurs due to low credit quality so that the funds disbursed cannot be returned in accordance with the initial agreement, as a result, BPR experiences difficulties when clients withdraw funds. The Financial Services Authority Circular Letter Number 1/SEOJK.03/2019, BPR needs to assess the implementation of risk management for the risks inherent in banking activities. Inherent risk is categorized into 5 levels. The following is the determination of the liquidity risk parameter ratings as shown in **table 1**.

BPR will be given a rating of 1 (very low) if it has an LDR 90%, which means that the BPR has a healthy LDR, so that the BPR's internal control is said to be good. Rating 2 (low) is given if the BPR has an LDR of 90% with a Net NPL of 5%, which means that credit risk is in a reasonable condition and can still be controlled. BPR will be given a rating of 3 (medium) if it has an LDR 90% with an NPL of around 5% - 6%, which means that credit risk is moderate and can be mitigated by the BPR. A rating of 4 (high) is given if it has an LDR 90% with an NPL of around 6% - 7%, so it can be

interpreted that the BPR has a high credit risk. Meanwhile, a BPR will be given a rating of 5 (very high) if it has an LDR of 90% with an NPL of around 7%, which means that the BPR has a high credit risk.

The risk of bad credit is increasing due to the pandemic which has disrupted various sectors in society, including the economic sector, namely the banking sector. The Deposit Insurance Corporation (Lembaga Penjamin Simpanan/LPS) and the Financial Services Authority (Otoritas Jasa Keuangan/OJK) have established several policies to protect the banking sector in Indonesia. Regulation of the Financial Services Authority of the Republic of Indonesia Number 11/POJK.03/2020 on March 16, 2020. The regulation deals with easing credit restructuring and regulation of the Financial Services Authority of the Republic of Indonesia Number 34/POJK.03/2020 on June 2, 2020 regarding relaxation for BPR and BPRS due to the Covid-19 pandemic. LPS also issued a regulation which provides for a reduction in the guaranteed interest rate for deposits denominated in Rupiah. However, these regulations have another impact, namely an increase in the risk of bad loans. Bad credit is caused by a negotiation process that is influenced by prospective debtors, where prospective debtors provide positive or good information about their business so that sometimes credit is greater than the need (Dwihandayani, 2017). One of the ways to mitigate bad loans is to conduct a Credit Analysis of Credit Provisions.

Credit analysis is one of the internal control functions regulated in SA 315. Internal control are the processes designed, maintained and implemented by those responsible for management, governance and other. The objective is to provide a reasonable assurance for the entity in achieving the objectives of operating efficiency and effectiveness, compliance with regulations and law and the reliability of the financial statements of SA 315 (2013). The concept of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework will become very much identical to that of SA 315 as stated in (Sovaniski, 2021). The COSO Framework is used to analyze the company's internal control which consists of 5 components including, Control Environment, Control Activities, Risk Assessment, Information and Communication, and Monitoring (Agoes, 2018). This is also supported by Sarbanes-Oxley Section 404.

Control Environment is the base of all internal control indicator within the COSO framework (Agoes, 2018). The Control Environment includes the structure, standards and processes that form the basis of internal control in an entity. Several sub-components in the control environment are commitment to competence and organizational structure. Ramadiyansari & Sasongko (2020), found a relationship between commitment to competence and a strong internal control environment. Commitment to competence shows the knowledge and expertise of employees in carrying out the duties of management. Dangi et al., (2020), did not find a relationship between commitment to competence and the strengthening of the internal control environment. The organizational structure is a level line that provides an overview of the line of position and coordination, where each component has its duties and functions. A strong organizational structure will be a good foundation for the organization's internal control (Mahsina, et al., 2016); (Shabri, et al., 2016); (Asiligwa & Rennox, 2017); (Fajar & Rusmana, 2018); (Dangi, et al., 2020); (Eskin, 2020), stated that the existence of a strong control environment needs to be balanced with good risk assessment activities to mitigate the existing risks.

Risk assessment is an activity that aims to assess the existence of possible events that can threaten the achievement of the target and objectives of the company (Agoes, 2018). The indicators used in risk assessment activities are identification and selection of risk priorities (Dangi, et al., 2020). Risk assessment is also regulated in the International Organization for Standardization (ISO) 31000, a risk assessment process consisting of risk identification, risk analysis, and risk evaluation activities. After the risk assessment activity is necessary to mitigate the risk. These actions are regulated in the company's control activity procedures (Agoes, 2018).

Control activities are procedures and policies as a reference to ensure that the actions taken are able to overcome risks in achieving the entity's goals (Agoes, 2018). The same thing is found in the study of (Shabri et al., 2016); (Asiligwa & Rennox, 2017); (Abidin & Andri, 2019), found that the existence of control activities in the form of authorization, segregation of duties, verification, and access control in banking can increase control activities. In carrying out control activities, effective information and communication are needed. Management obtains, processes, and produces relevant and quality information. The available information will be used as a

basis for making decisions (Osama Mohamed M. Tekala, Gugus Iriantoand, 2016); (Asiligwa & Rennox, 2017); (Fajar & Rusmana, 2018); (Dangi et al., 2020); (Eskin, 2020). The monitoring process is needed to evaluate the quality of internal control performance (Agoes, 2018). Research conducted by Oppong, et al., (2016) reviewed 118 Community Social Institutions (NGOs) in Accra, indicating that monitoring both internally and externally (through external audits) can improve existing internal controls (Oppong, et al., 2016).

This research focuses on Rural Banks (BPR). The BPR was chosen on the grounds that it is one of the largest BPR in Magetan Regency and has 4 cash offices spread throughout Magetan. BPR A was recorded to have an NPL in February 2021 of 6.97%. In March 2021, BPR A experienced an increase in total credit realization, But the NPL of BPR A also increased by 7.09%. In November 2021, BPR A experienced a decrease in NPL to 4.56%. Based on the NPL calculation formula, it can be concluded that if the realization of new loans increases, the NPL should decrease. However, in the case of BPR A, the realization of new loans was followed by an increase in NPL, this was due to an increase in credit realization followed by an increase in the number of clients experiencing bad loans.

The problem formulation in this study is how is the internal control system in providing credit at BPR A in Magetan?. This study aims to determine the activities of providing credit and internal control systems in providing credit at BPR A in Magetan.

LITERATURE REVIEW

Signaling Theory

Signaling theory assumes that parties who do not have the required information are willing to incur costs for certain parties to disclose their company information through signals (Moratis, 2016). Signaling theory will reduce the asymmetry of information received by outsiders (Kiessling, et al., 2017). With the lack of information provided to outsiders about the company, this results in a low assessment of the company's image (Dewi & Ekadjaja, 2020). Brigham & Houston (2014), state that signaling theory is a way for shareholders to see the value of the company in the future. Signaling theory emphasizes the information disclosed by the company to make investment decisions for investors (Intan, 2020). Signaling theory will be demonstrated in lending activities, where this theory plays a role in identifying the condition of the

debtor. Creditor conducts interviews and surveys to facilitate lending, so that lending activities will be right on target.

Definition of Credit

Credit is an activity to channel funds that have been collected from the community (Putra & Saraswati, 2021). Credit comes from the Latin "credere" which means to believe (Sirait & Wahyuni, 2020). So that it can be interpreted that credit is a symbol of the creditor's trust in the debtor in relation to the credit being disbursed which will be returned according to the agreed agreement. Credit facilities are determined from banking requirements, and will then be stated in an agreement or commonly referred to as a credit agreement (Kosasih, 2021). According to Andrianto (2019), Credit is an activity of delivering money, goods or services from the creditor to the credit recipient (debtor) accompanied by a collective agreement so that the credit is completed in accordance with the existing period and accompanied by compensation for the additional principal. Rewards are commonly referred to as credit interest which is influenced by the amount of interest on deposits. If the deposit interest in banking is high, the loan interest is also high (Frida, 2020). Law of the Republic of Indonesia Number 10 of 1998, credit is the procurement of money on the basis of a loan agreement between a bank and the borrower which requires to pay off the debt within a certain period of time accompanied by the provision of interest. From several meanings it can be concluded Credit is a form of loan agreement between the bank and the debtor on the basis of trust in the debtor, the debtor's obligation is to pay off the loan along with the agreed interest.

Principle of Credit Provision

Kasmir (2013), shows that there are several criteria in granting credit using the 5C principle, including; Character is the belief that the prospective debtor has high integrity and honesty. Prospective debtors have good faith in fulfilling the obligations of creditors; Capacity is considering the capability of the debtor to pay off the obligations of its business activities; Capital is considering the effectiveness of the use of capital seen through financial statements; Collateral is prospective debtors providing guarantees to creditors, both physical guarantees and non-physical guarantees; Condition is considering the current and future political and economic situation based

on the appropriate sector, as well as relating to the business prospects of the sector run by the prospective debtor.

Credit Risk

Credit risk is a condition of the inability of a company, institution, institution or individual to carry out their obligations in a timely manner, both at maturity and after maturity (Hayati, 2017). Substandard, doubtful and bad loans are non-performing loans that can pose credit risk (Mosey, et al., 2018). The internal determinant of bank performance is credit risk. The high vulnerability of banks to credit risk can be interpreted as the higher the tendency for banks to experience a financial crisis (Chatarine, et al., 2016). Banks are required to carry out the analysis on the ability of the debtor to repay his obligations (Ningsih & Manda, 2021). One way for banks to avoid credit risk is to apply risk management.

The core of the implementation of risk management is the adequacy of procedures and methods related to risk management which aims to keep bank activities under control according to acceptable limits so as to benefit the bank (Mulyati, 2018). Nuryana (2017), policies related to the application of credit risk management are divided into three categories, including; 1) Policies with the aim of reducing or limiting credit risk; 2) Policies for classifying assets by evaluating the collectibility of the credit instrument portfolio on a regular basis; 3) Policy with the aim of reducing losses due to provisions.

Good Corporate Governance

Stefany & Wijaya (2018), believes that the implementation of Good Corporate Governance in the banking sector is very necessary, because banking is a trust-based industry. By implementing GCG, banks have applied the principle of greater transparency to the public. The definition of Good Corporate Governance according to the Forum for Corporate Governance in Indonesia or FCGI is "A provision that binds the relationship between creditors, management, employees, shareholders or stakeholders, as well as the government concerned regarding the fulfillment of rights and responsibilities, or ownership of an order that can control and direct the company" (Harjanti, 2019). GCG is a principle that can direct and control entities in order to achieve order between authority and power in providing accountability to shareholders and stakeholders (Hariyati & Fazli, 2020). Good Corporate Governance protects various

interests and increases compliance with applicable laws and regulations and existing ethical values (Mutmainah, 2016).

The implementation of Good Corporate Governance aims to provide developments to the company's performance as measured by growth, financing structure, and treatment of shareholders (Hapsari, 2018). Based on the GCG Implementation Guidelines (KNKG) there are principles of Good Corporate Governance implementation, among others, Transparency, Responsibility, Accountability, Independence as well as fairness and equality.

Internal Control

Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework is a system created by management, directors and other personnel that is structured to provide reasonable trust in achieving company goals. In the category of types of internal control include, reliable financial reporting activities, operational efficiency and compliance with laws and regulations. In this case, management has responsibility for the implementation of internal control. Meanwhile, the internal auditor is tasked with conducting audits to evaluate whether the designed policies and processes have been operated effectively, and provide recommendations for improvement (Agoes, 2018). COSO Framework can provide a reliable internal control system that can benefit the organization (Dangi, et al., 2020). COSO Framework is used to analyze internal control which consists of 5 components , among others:

- a. Control Environment. The control environment is the basis of all components of internal control. Control environment indicators can be integrity and ethics. The existence of these factors in an integrated and coherent manner will produce an appropriate and integrated control environment (Alslihat, 2018).
- b. Risk Assessment. Risk assessment is an iterative and dynamic process that requires management to determine objectives related to operations, compliance and reporting with sufficient clarity (Akinleye & Kolawole, 2020).
- c. Control Activities. Control activities are all policies and procedures that can provide assurance that management policies have been implemented (Agoes, 2018).
- d. Information and Communication. Information systems are related to financial reporting activities, consisting of accounting systems and business processes of related entities. In the delivery of information, it is necessary to have effective

communication. Effective communication internally can help employees to understand business processes, roles and responsibilities of each entity and the objectives of internal control (Tuanakotta, 2015).

e. Monitoring. Monitoring is an activity that aims to assess the quality of internal control over time (Agoes, 2018).

The concept of Internal control is also contained in the Sarbanes Oxley Act, providing a strong foundation for companies where management is obliged or responsible for creating or establishing an independent internal control unit (Tanubrata, 2020). Internal Control under the Sarbanes – Oxley Act 404, includes the procedures and policies established by financial institutions to reduce risk to achieve operations, reporting and compliance objectives. The existence of internal control aims to safeguard company assets, maintain data integrity/financial transactions, ensure compliance, support daily operational activities, and assist the company in achieving its goals (William, 2020). In the Sarbanes – Oxley Act 404, requires companies to evaluate the effectiveness of internal control structures and procedures in the company's financial reporting activities. The role of the internal auditor is to provide an opinion regarding the assessment that has been carried out by the company's management (Sari, 2021).

Financial Services Authority Circular Letter Number 7/SEOJK.03/2016 concerning Standards for the Implementation of the Internal Audit Function of Rural Banks, in the form of procedures, policies, methods and rules that are organized as a whole within the BPR work unit. The purpose of the internal control system is to optimize the use of resources, secure assets, create confidence in the accuracy and reliability of accounting data and encourage compliance with existing management policies. The scope of internal control at BPR is in the form of all aspects that are able to ensure the security of funds deposited by the public and other third parties (SEOJK.03, 2016).

RESEARCH METHODOLOGY

Research Methods and Approaches. Methods

The study uses interpretive qualitative methods that aim to understand social life and emphasize meaning and understanding where the inclusion of knowledge possessed by the subject under study will be critically studied (Manzilati, 2017). The case study method is oriented to the unique properties of the unit being studied that relate to the

problems that focus on the research (Fitrah & Luthfiyah, 2018). Mamik (2015), more deeply, reveals that the case study method is a type of research in which researchers conduct in-depth exploration of programs, events, processes, activities against one or more people. A case study with a single case embedded was used in this study because the research was carried out in a particular case, time, and area (Satyawan, et al., 2021).

Types and Sources of data

This study uses qualitative data, which states the object in a sentence, processing it using a critical, synthetic/analytic, and thorough thinking process (logic).

Sources of data used are primary data and secondary data. Primary data is used because of the proximity of the data to the truth and controlling for errors (Cooper & Schindler, 2017). Primary data acquisition in this study was carried out during observation, participant observation, and interviews. Secondary Data is data obtained and stored by other people from past data (Wibisono, 2013). The secondary data used in this study relates to providing credit. Secondary data sources include; (1) banking regulations; (2) Financial Services Authority Circular Letter; (3) Organizational Structure of BPR A Magetan; (4) Relevant results of previous studies and studies.

Method of collecting data

The data collection process uses four of the six data sources formulated by (Yin, 2018), including documentation, interviews, direct observation, and participant observation. Collecting data with documentation is a data collection technique sourced from meeting notes, financial reports, and company regulations. This study also uses direct observations related to space, place, actors, activities, time, events, goals, and feelings (Mamik, 2015). In addition, the researcher also uses participant observation, namely an observation mode where the researcher is not only a passive observer (Yin, 2018). So that researcher are involved in direct lending activities that are used as a source of research data. In addition to observation, this study also uses interview techniques. An interview is a conversation between two or more people in which questions are asked by someone who acts as an interviewer to extract information about the research focus.

Data collection activities began with issuing a permit on 12 February 2021 at the BPR A office in Magetan. From March 1, 2021 to April 30, participatory observation activities were carried out. The issuance of a permit for further data collection activities

will be carried out on November 8, 2021 at the BPR A office in Magetan on December 2 and 3, 2021, an interview and observation process will be carried out. Interviews were conducted directly (face to face) and the questions were semi-structured.

Research Subject Taking Techniques

The technique of taking research subjects focuses on parties who have experience, knowledge, and information related to lending at BPR A in Magetan. Based on this, the following criteria are determined; 1) Parties directly related to the process of ratifying credit-granting documents at BPR A in Magetan; 2) Parties directly related to credit activities, surveys, and distribution of credit information at BPR A in Magetan. From these criteria, the list of names of informants is shown in **table 2**.

Validity Test Technique Data

The author uses a combination of source triangulation techniques and method triangulation. Source triangulation is a technique of obtaining data from several different sources using the same method (Hardani, et al., 2020). While method triangulation compares information or data with different techniques or methods (Mamik, 2015).

Data analysis method

The data obtained will be processed and explained using descriptive analysis. Wijoyo (2020), descriptive analysis is an analysis of the realities in the field, then connected with existing theories, so that conclusions can be drawn that are solutions to the problems faced. The researcher will analyze the suitability between the indicators and the implementation of the internal control system at BPR A Magetan based on the COSO component.

RESULT AND DISCUSSION

Rural Banks (BPR) are one of the types of banking in Indonesia as stipulated in the Law of the Republic of Indonesia Number 10 of 1998 concerning Amendments to Law Number 7 of 1992 concerning Banking, which carry out business activities both conventionally and with the principles of sharia, But BPR is prohibited from providing services in payment traffic. BPR products are listed in the Regulation of the Financial Services Authority of the Republic of Indonesia Number 25/POJK.03/2021 Regarding the Operation of Rural Bank Products and Sharia Rural Banks Article 2) Paragraph (2)

where the products, services, and services of BPR are in the form of raising funds; distribution of funds; placement of funds; and/or other basic activities.

In the distribution of funds, BPR provides lending services. BPR lending services have risks, which mean that there is a potential loss due to certain events. Credit risk is the risk due to the failure of the debtor to fulfill its obligations to the bank (POJK Number 13/POJK.03/2015). In addition, lending activities can also affect the condition of BPR liquidity. There are various risks that need to be faced by Rural Banks, in the Financial Services Authority Regulation Number 13/POJK.03/2015 Regarding the Implementation of Risk Management for Rural Banks Article 2) paragraph (1), Banks are required to implement Risk Management effectively.

Risk management activities contained in the Financial Services Authority Regulation Number 13/POJK.03/2015 Article 11) include the process of identifying, measuring, controlling risk and monitoring. Several processes have similarities with risk assessment according to ISO 31000 which includes Risk Identification, Risk Analysis, and Risk Evaluation. Risk management activities are similar to risk assessment activities under the COSO framework. Agoes (2018), risk assessment is the identification of entities and analysis of relevant risks to achieve their objectives, and determining ways to manage these risks. Lending activities at BPR A use risk management.

In lending activities, there is a risk assessment activity in which the BPR conducts an assessment of the character, capital, capacity, collateral and business prospects of the debtor (5C). 5C was formulated by Kasmir (2013), in the form of characters related to the belief that prospective debtors have a level of honesty and integrity and have good faith to fulfill their obligations; Ability or Capacity is related to the consideration of the debtor's ability to pay off his obligations; Capital or Capital is related to the consideration of the effectiveness of the use of capital as seen from the financial statements of the prospective debtor; Collateral or collateral in the form of providing guarantees by prospective debtors, both physical and non-physical; and Business Prospects of the debtor or Condition in the form of consideration of current and future political economic conditions in accordance with the sector run by the debtor.

Risk assessment and analysis of the credit of prospective debtors are included in internal control. COSO Framework is a process created by management, directors and

other personnel, designed to provide sufficient credibility to achieve company goals. Internal control activities are influenced by internal and external factors. Internal factors in the form of vision and mission, organizational structure, as well as governance and information. The vision is related to the goals to be achieved and the mission is related to the steps or ways to make it happen. The organizational structure is related to the stratified line that describes the components in the composition of the company. Governance is related to the implementation of management through responsible development and in line with the principles of accountability, transparency, independence, responsibility, fairness and equality. While external factors are related to socio-cultural, economic, political, and regulatory. The discussion will be limited according to governance and regulations in relation to internal control for lending activities at BPR A Magetan.

The pandemic caused the Financial Services Authority (Otoritas Jasa Keuangan/OJK) and the Deposit Insurance Corporation (Lembaga Penjamin Simpanan/LPS) to issue regulations to protect the banking sector in Indonesia. Regulation of the Financial Services Authority of the Republic of Indonesia Number 11 /POJK.03/2020 on March 16, 2020 regarding relaxation of credit restructuring. Regulation of the Financial Services Authority of the Republic of Indonesia Number 34 /POJK.03/2020 on June 2, 2020 regarding relaxation for BPR and BPRS due to the Covid-19 pandemic. LPS also issued a regulation which provides for a reduction in the guaranteed interest rate for deposits denominated in Rupiah. However, these regulations have another impact, namely an increase in the risk of bad loans. The risk of bad credit can be mitigated by risk assessment and internal control. BPR regulations governing internal control are contained in the Financial Services Authority Circular Letter Number 7/SEOJK.03/2016 concerning Standards for the Implementation of the Internal Audit Function of Rural Banks, including organizations, policies, procedures and methods that are thoroughly organized within the BPR work unit. Within the scope of BPR's internal control, it also includes aspects that are able to ensure the safety of funds deposited by the public and third parties (SE OJK Number 7 SEOJK.03/2016). In the COSO Framework, indicators of internal control are in the form of Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

Control Environment. The control environment is a feature of an organization that affects the control awareness of its people (Agoes, 2018). The control environment is related to corporate governance which includes integrity and ethical values, organizational structure, board of directors and audit committee participation as well as human resources policies and practices.

The organizational structure is a level line of components in an organization, where each human resource has its own position and function. The authority structure in BPR is regulated in the Financial Services Authority Circular Letter Number 5 /SEOJK.03/2016 concerning the Implementation of Governance for Rural Banks, which consists of the Board of Directors, the Board of Commissioners, and the Audit Committee as well as the Risk Monitoring Committee. And with the implementation of anti-money laundering and prevention of terrorism financing programs, BPR need to have an Anti-Money Laundering and Prevention of Terrorism Financing (APU PPT) Committee in accordance with Financial Services Authority Regulation Number 12/POJK.01/2017, concerning the Implementation of Anti-Money Laundering and Anti-Money Laundering Programs. Prevention of the Financing of Terrorism in the Financial Services Sector. The same is stated in the organizational structure of BPR A Magetan which is shown in **Figure 1**.

Figure 1. shows the conformity between the legislation and the organizational structure of BPR A Magetan. BPR A Magetan has an initial capital of Rp. 21,800,000 so that in accordance with the Financial Services Authority Regulation Number 4/POJK.03/2015 concerning Implementation of Governance for Rural Banks Article Paragraph 2), the Board of Directors consists of at least 2 (two) people. for BPR with a core capital of less than IDR 50,000,000,000. In the Financial Services Authority Regulation Number 4/POJK.03/2015 Article 13 Paragraph 1) letter (b), for an BPR with a core capital of less than 50 billion rupiah, the board of directors is required to establish an internal audit; risk management; and the compliance committee. In addition, the composition of the board of commissioners is in accordance with POJK Number 4/POJK.03/2015 Article 24 paragraph 2), the board of commissioners consists of at least 2 members for BPRs with a core capital of less than 50 billion rupiah. Meanwhile, the existence of the APU&PPT Committee is in accordance with Financial Services Authority Regulation Number 12/POJK.01/2017 concerning the Implementation of

Anti-Money Laundering and Prevention of Terrorism Financing Programs in the Financial Services Sector. Apart from the organizational structure, the participation of the board of commissioners or audit committee is also required.

Participation of the board of commissioners or audit committee. The board of commissioners has a role in effective governance, which is responsible for ensuring that management has implemented internal control and financial reporting processes. The participation of the board of commissioners or audit committee in governance aims to remind management and all entities in implementing internal control. Miss Rita said the same thing.

"For the briefing is very useful. Where we are required to come early. Usually the director or branch head, audit committee or commissioner also provides direction and reminders regarding company regulations. For the afternoon evaluation, an evaluation is usually held regarding credit collection, whether there is a problem, whether there is a disbursement or not on that day, whether there are obstacles in the field, whether there is a new credit application (Miss Rita)".

Miss Rita's statement describes the participation by the Board of Commissioners or the Audit Committee in upholding integrity and ethical values. Because in financial services it is related to the distribution and storage of funds from the public so that integrity, ethical values, and a code of ethics are needed in its implementation. The participation of the Board of Commissioners in implementing Good Corporate Governance is in accordance with the rules of POJK Number 4/POJK.03/2015 Article 29, which regulates the duties, authorities and responsibilities of the Board of Commissioners.

The activities of granting authority and responsibility in providing credit are regulated in Circular Letter No.14/26/DKBU/2012 concerning Guidelines for Credit Policies and Procedures for BPRs. The activities of granting authority and responsibility in the process of granting credit at BPR A Magetan are contained in **Figure 2**.

The granting of credit by BPR A Magetan is in accordance with the BPR credit policy guidelines contained in Circular Letter No.14/26/DKBU/2012. Regarding Guidelines for Credit Policies and Procedures for BPRs, the main points of BPR credit policies include; 1) Basic policies in credit, which at least include; a) Prudential principle in credit; b) Credit Organization and Management; c) Credit Approval Policy;

d) Documentation and Credit Administration; e) Credit Supervision, and; f) Handling Non-Performing Loans and 2) There is transparency in providing complete and clear information to prospective creditors. This is contained in Miss Sindi's statement.

"The application for credit can be done by bringing the requirements of 2 copies of husband and wife's ID cards, 2 photocopies of Family Cards, and 2 photocopies of guarantees. The guarantees received by BPR A consist of 2 types, namely BPKB and land certificates. For BPKB guarantees, 2 copies of the latest STNK and a photocopy of the BPKB are required. As for the guarantee using a land certificate, you can attach 2 copies of the latest proof of payment of land and building taxes and a photocopy of the land certificate. Prospective debtors also need to fill out a credit application form containing customer personal data, the purpose of using the credit, the nominal credit application, the credit period and credit guarantee as well as the signatures of the husband and wife. The next process, BPR employees will prepare documents and fill out the iDeb (Debtor Information) application form to determine credit quality and submit it to the credit admin. Credit admin staff are tasked with processing iDeb applications through the OJK website and assessing credit guarantee objects. After the iDeb is obtained, the iDeb and credit application documents are given to the Account Officer (Miss Sindi)."

Miss Sindi's statement has described the credit application process at BPR A Magetan having taken into account the following principles; a) credit application is made in writing either for new credit; b) the credit application must contain complete information and meet the requirements in accordance with the applicable provisions, including credit history; c) data, information, and documents must be verified to ensure the truth and validity of SE No.14/26/DKBU/2012.

The process of granting credit is carried out by Credit Analysis and written credit approval recommendations. Prior to the conduct of credit analysis in Circular No. 14/26/DKBU/2012 Regarding Guidelines for Credit Policies and Procedures for BPRs, there is a process for verifying related data and information in a credit application. This is contained in Miss Rita's statement as the Account Officer.

"After getting the file from the credit admin, the Account Officer will carry out the validation process. The validation process uses observation techniques, environmental surveys, interviews, and assurance checks. For BPKB guarantees, a vehicle condition

and ownership check is held. If the guarantee is in the form of a land certificate, the condition of the land and buildings is checked and information is checked at the local village office. The purpose of this activity is to determine the business conditions of the prospective creditor, the character of the prospective creditor, the purpose of taking credit, the status of collateral ownership, cash flow of the prospective creditor. Then AO concludes the information by compiling a Credit Analysis based on the 5C (Character, Capital, Capacity, Collateral, Condition) and is also equipped with supporting documentation. AO also fills out a Credit Evaluation form based on available information. The existing files are compiled into one and submitted for authorization by the director and the head of the branch (Miss Rita).”

Miss Rita's statement describes the process of credit application and credit analysis in accordance with Circular No. No.14/26/DKBU/2012. Regarding Guidelines for Credit Policies and Procedures for BPRs, every credit application that has met the requirements must be analyzed in writing, with the following principles: ; credit analysis must be complete, accurate and objective; credit analysis at least includes an assessment of the debtor's character, ability, capital, collateral, and Business prospects or 5C. After the Credit Analysis activities, a written recommendation for credit approval is also prepared based on the results of the credit analysis. After the Credit Analysis and Recommendation activities, the next step relates to granting credit approval. Mr Hadi said the same thing.

“After AO did the preparation of the files. The file is submitted for authorization by the director or branch head. The granting of credit approval is based on the analysis and recommendation of the credit approval. If approved, the file is returned to the Credit Admin for further processing. (Mr. Hadi).”

From Mr. Hadi's statement, it can be concluded that the granting of credit approval is carried out in accordance with Circular Letter No. No.14/26/DKBU/2012, that the granting of credit approval must be based on the analysis and recommendation of credit approval. The next activity is in the form of a credit agreement by the Credit Admin and Credit Disbursement Approval. The same thing was expressed by Miss Raya.

“The credit admin will make additional files such as credit realization slips, installment schedules, credit approval letters, notary statements, credit agreements, power of attorney, and guarantee receipts. All documents are made in duplicate 2. The credit

admin also coordinates with Accounting because the accounting field is in charge of authorizing the name of the debtor, credit nominal and loan term through the BPR A website. If the files have been completed, they will be authorized by the director or branch head. After obtaining authorization, the creditor will be given information and asked to bring a guarantee and the fund disbursement process will continue (Miss Raya).”

From Miss Raya's statement, it can be concluded that the activities of the credit agreement and approval of credit disbursement are in accordance with Circular No.14/26/DKBU/2012, where the credit agreement contains the amount, time period, interest rate, payment method, purpose of use and is made in duplicate 2. While the approval of credit disbursement is in accordance with the principle of credit disbursement, it is only approved if all the stipulated conditions have been met and prior to credit disbursement, it is necessary to ensure that all juridical aspects have been completed and are adequate to provide protection for both the BPR and debtors.

In providing credit activities, it is necessary to have employees who are competent and with integrity. To obtain and retain competent employees, human resource policies and practices are needed, either in the form of training, intensive provision to employee recruitment. The same thing is contained in the statement of Mr. Hadi.

“For the employee recruitment process, the required position is published first along with the requirements. Then we carry out a screening process with psychological tests. If the candidate is declared successful, an interview will be conducted. From the two results, a conclusion will be drawn whether the prospective employee passes or not (Mr. Hadi)”.

Mr. Hadi's statement can be concluded that BPR has implemented the principle of transparency. Where BPR provides relevant information in an easily accessible and understandable manner. Meanwhile, related to human resource policies related to the provision of incentives and training, it is contained in the statements of Miss Rita and Miss Raya.

“For training there are certain parts. However, its implementation is not carried out routinely. For the provision of incentives, the account officer itself is based on credit

achievement. So if we disburse large credit funds, the incentives will also be even greater (Miss Rita)”.

"I've only been working here for about a year. There is no training for the credit department (Miss Raya).”

From these various statements, it can be concluded that the human resource policies related to the provision of incentives have been implemented properly and appropriately. However, the provision of training is still not optimal so that sometimes problems arise in Microsoft office skills.

Risk Assessment. Risk Assessment according to ISO 31000, consists of Risk Identification , namely the process of finding, recognizing, and describing risks; Risk Analysis is a process to analyze risk by understanding the nature of the risk and determining the level of risk; Risk Evaluation is concerned with making decisions based on the results of risk analysis. The risk assessment process is listed in **table 3**. The risk matrix is listed in **table 4**.

Control Activity. Control Activities are procedures and policies to help ensure that the direction from management has been carried out (Agoes, 2018). Control activities can be carried out in various actions including authorization, segregation of duties, review of performance, physical control. Authorization is the granting of authority related to transactions and obligations on behalf of the company (Hayes, et al., 2005). The same thing is contained in the statements of Miss Rita as the Account Officer and Miss Raya as the Credit Admin as follows.

“The existing files are compiled into one and submitted for authorization by the director and the head of the branch (Miss Rita).”

“... The credit admin also coordinates with Accounting because the accounting field is in charge of authorizing the name of the debtor, credit nominal and loan term through the BPR website (Miss Raya).”

Based on this statement, it can be concluded that there has been authorization in lending activities at BPR A. In both statements it can also be concluded that there has been a separation of duties between authorization of credit application files and authorization through the BPR A website. In addition, there is also a separation of duties between admins. credit and account officers. In addition to authorization and segregation of duties, control activities can be carried out by means of physical control.

Physical control activities are procedures performed to ensure the physical security of assets (Hayes, et al., 2005). This is contained in the statement of Miss Raya as the Credit Admin as follows.

“Security deposits can only be done by the Credit Admin. For the key, also bring the Credit Admin. The entry and exit of the guarantee is recorded in the guarantee book documentation (Miss Raya).”

In this statement, it can be concluded that the BPR has carried out credit administration activities in accordance with SE No.14/26/DKBU/2012.

Information and Communication. Information systems are related to financial reporting activities, consisting of accounting systems and business processes of related entities. In the delivery of information, effective communication is needed. Effective communication internally can help employees to understand business processes, roles and responsibilities of each entity as well as the objectives of internal control (Tuanakotta, 2015). The activity of providing information from BPR to outside parties in providing credit is contained in the statement of Mr. Hadi.

“Account Officer is also in charge of marketing, namely providing information to outside parties, both prospective new creditors, regarding credit information available at BPR, its systematics and requirements. For creditors, AO has the duty to provide information on the deadline for credit payments and to follow up every month (Mr. Hadi)”.

It can be concluded that BPR A has implemented BPR credit policy guidelines related to the concept of transparency. BPR are required to provide complete and clear information regarding loans offered to creditors (SE No.14/26/DKBU/2012).

Credit distribution activities at BPR A Magetan are accompanied by a letter of credit application, credit decision letter, credit agreement document, proof of credit disbursement, all of which are accompanied by stamp duty and signed by both parties, the creditor and the bank. The credit agreement document is made by a notary so that the document has strong recognition before the law. The existence of credit approval documents in the form of credit agreements, credit documentation, and credit administration is in accordance with Circular Letter No.14/26/DKBU/2012 concerning Guidelines for Credit Policies and Procedures for BPR.

Through participant-observation activities, in communication pattern activities there are still frequent miscommunications between AO and credit administration related to filling out credit application forms, credit analysis and credit evaluation. There is miscommunication between the cashier and the credit administration regarding credit disbursement with ROYA guarantee.

Monitoring. Monitoring activities are evaluation activities that are carried out regularly to realize optimal implementation of internal control. Monitoring activities are related to the periodic assessment of the quality of internal control by management. Monitoring activities are contained in the statements of Miss Rita as Account Officer and Mr. Pasha as Director of BPR as follows.

"For the briefing is very useful. Where we are required to come early. Usually the director or branch head, audit committee or commissioner also provides direction and reminders regarding company regulations. For the afternoon evaluation, an evaluation is usually held regarding credit collection, whether there is a problem, whether there is a disbursement or not on that day, whether there are obstacles in the field, whether there is a new credit application (Miss Rita)".

"This BPR is under the auspices of the OJK. So every day the activities of the BPR are also supervised directly by the OJK. In addition, there is also an assessment carried out by an external audit (Mr. Pasha)".

Based on this statement, it can be concluded that monitoring activities have been carried out regularly, which is carried out every morning and evaluated in the afternoon by branch leaders, directors, and the Internal Control System (SPI). Apart from that, monitoring is also carried out by a Public Accountant. The use of Public Accountants to conduct audits is in accordance with Financial Services Authority Regulation Number 13/POJK.03/2017 concerning the Use of Public Accountants and Public Accounting Firms in Financial Services Activities, Article 2 paragraph (1), Parties Conducting Financial Services Activities are required to use the AP and the KAP; a) registered with OJK; and b) have competence following the complexity of the business of the Party carrying out financial service activities.

CONCLUSION

The Internal Control System at BPR A in Magetan has been carried out by applicable regulations. Credit disbursement activities consist of Credit Application,

Credit Analysis, Credit Approval Recommendations, Credit Agreements, Credit Disbursement Approval, to credit documentation and administration. This is in accordance with Circular No.14/26/DKBU/2012 concerning Guidelines for Credit Policies and Procedures for BPRs. The Internal Control System at BPR A in Magetan is in accordance with internal control according to the COSO Framework, which consists of a control environment consisting of an organizational structure, the participation of the board of commissioners and audit committee, the provision of clear authority and responsibility in accordance with the Financial Services Authority Regulation Number 4/POJK.03/2015 concerning Implementation of Governance for Rural Banks. Risk assessment activities are in accordance with ISO 31000 which consists of Risk Identification, Risk Analysis, and Risk Evaluation. Control activities have been implemented with authorization activities, segregation of duties, performance reviews, and physical training. As well as the existence of Information and Communication as well as Monitoring activities. The recommendation for further research is to use the Multiple Case Embedded, namely by using data from several BPRs so that the discussion can be more in-depth, complete and detailed.

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FIGURE AND TABLES

Table 1. BPR liquidity risk parameter

Rating	Description
1 (Very Low)	LDR 90%
2 (Low)	LDR exceeds 90% and credit has poor quality and is not significant which is indicated by BPR having Net NPL 5%
3 (Medium)	LDR exceeds 90% and credit has poor quality and is less significant which is indicated by BPR having Net NPL ranging from 5%-6%
4 (High)	LDR exceeds 90% and credit has poor quality and is quite significant, as indicated by BPR having a Net NPL ranging from 6%-7%
5 (Very High)	LDR exceeds 90% and credit has poor quality and is very significant as indicated by BPR having a Net NPL exceeding 7%

Source: Financial Services Authority Circular Letter Number 1 /SEOJK.03/2019

Table 2. List of Names of Informants (Pseudonyms)

No	Name	Position
1	Pasha	Director
2	Hadi	Branch
3	Raya	Credit Admin
4	Rita	Account Officer (AO)
5	Sindi	Cashier Cash Office

Source : Data Prosesec By The Author

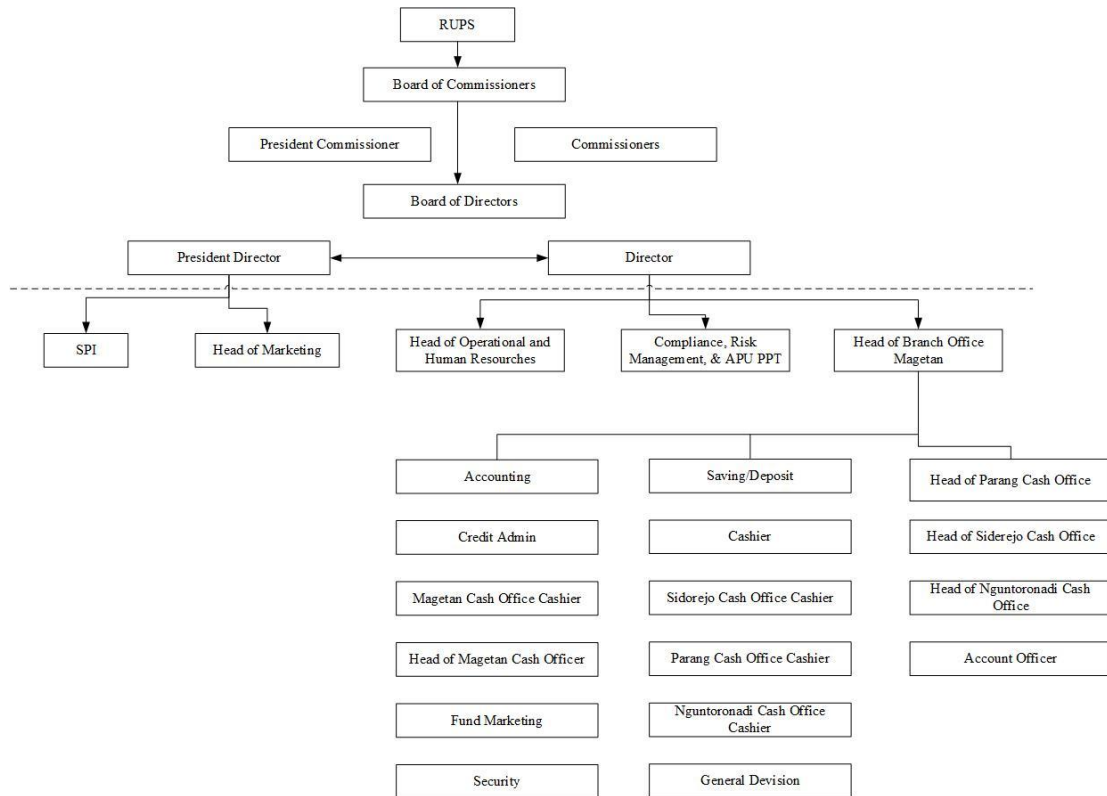


Figure 1. Organizational Structure of BPR A Magetan
 Source: BPR A Magetan

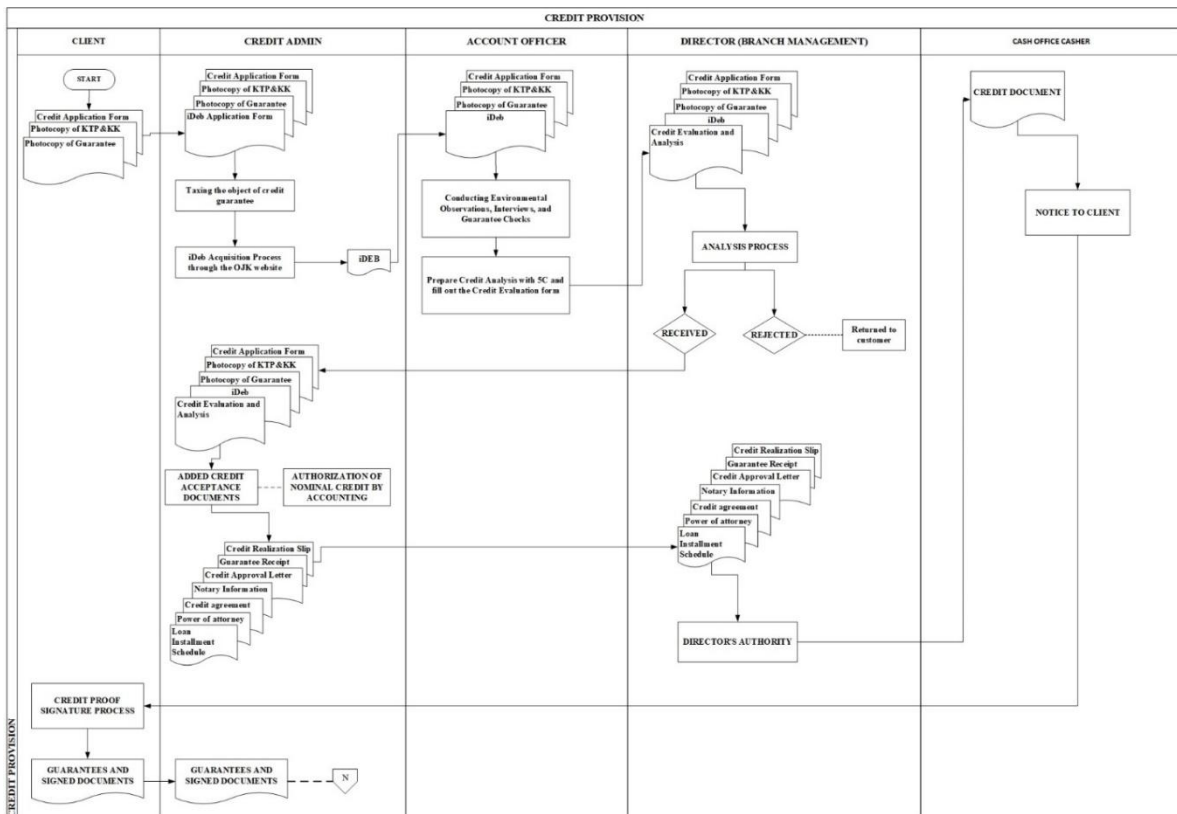


Figure 2. The process of granting credit at BPR A Magetan
 Source: Data processed by the Author

Table 3. Risk Assessment Process

Risk Identification	Risk Analysis	Risk Evaluation
Prospective debtors provide false information	<p>Steps taken to reduce risk: Credit applications are submitted using several requirements. "The application for credit can be done by bringing the requirements of 2 copies of husband and wife's ID cards, 2 photocopies of Family Cards, and 2 photocopies of guarantees (Miss Sindi)". Miss Sindi's statement has described the credit application process at BPR A Magetan following the principle of credit application according to Circular No. 14/26/DKBU/2012 concerning Guidelines for Credit Policies and Procedures for BPRs.</p>	<p>If it is proven that the prospective debtor has provided false information, the credit application will be rejected.</p>
Provision of information on prospective debtors that do not match the actual situation.	<p>Steps taken to reduce risk: "Account Officer will carry out the validation process. The validation process uses observation techniques, environmental surveys, interviews, (Miss Rita)." Miss Rita's statement has described of environmental survey activities are carried out by conducting interviews with neighbors around potential debtors to help validate statements from prospective debtors regarding guarantees and business conditions of prospective debtors.</p>	<p>The provision of information not following the actual situation illustrates that the debtor does not have good faith.</p>
<ul style="list-style-type: none"> Collateral is a disputed or stolen asset Condition of collateral is not feasible 	<p>Steps taken to reduce risk: "...2 photocopies of guarantees. The guarantees received by BPR A consist of 2 types, namely BPKB and land certificates. For BPKB guarantees, 2 copies of the latest STNK and a photocopy of the BPKB are required. As for the guarantee using a land certificate, you can attach 2 copies of the latest proof of payment of land and building taxes and a photocopy of the land certificate (Miss Sindi)." "...and assurance checks. For BPKB guarantees, a vehicle condition and ownership check is held. If the guarantee is in the form of a land certificate, the condition of the land and buildings is checked and information is checked at the local village office. (Miss Rita)." From the two statements, it can be concluded that checking the guarantee's status is carried out in 2 processes in the application process and credit verification. These activities follow the prudential principle in credit according to Circular No. 14/26/DKBU/2012.</p>	<p>"The guarantee received is a guarantee that is clear and proper (Mr. Hadi)". Mr Hadi's statement following Circular Letter No.14/26/DKBU/2012 Regarding Guidelines for Credit Policies and Procedures for BPR, collateral that can be used as credit guarantees is collateral that has and is evident in its existence, collateral in dispute cannot be used as credit collateral.</p>
Prospective debtors are included in debtors with collectability rating 3 (substandard), rating 4 (doubtful), rating 5 (bad).	<p>Steps taken to reduce risk: "...BPR employees will prepare documents and fill out the iDeb (Debtor Information) application form to determine credit quality and submit it to the credit admin. Credit admin staff are tasked with processing iDeb applications through the OJK website... (Miss Sindi)". Miss Sindi's statement, it can be concluded that BPR accesses the OJK website to find debtor</p>	<p>"If the prospective debtor is ranked 1 and 2, the guarantee is appropriate and appropriate and the documents are complete and have good faith, the credit will be accepted. If the prospective debtor is ranked 3 but the guarantee is appropriate and appropriate</p>

	information. Debtor Information according to Financial Services Authority Regulation Number 18/POJK.03/2017 concerning Reporting and Requesting Debtor Information Through the Financial Information Service System is information regarding debtors, facilities for providing funds received by debtors, and other information.	and the documents are complete and have good faith, then the credit will be given according to the considerations of the director and branch manager. If it is ranked 5, the credit will be rejected (Mr. Hadi)".
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Source: Data processed by the Author

Table 4. Risk Assessment Matrix

Risk	Risk Status
Prospective debtors provide false information	Medium
Provision of Information Prospective debtors that do not match the actual situation.	High Risk
Collateral is a disputed or stolen asset	Extreme
Condition of collateral is not feasible	High Risk
Prospective debtors are included in debtors with collectability rating 3 (substandard), rating 4 (doubtful), rating 5 (bad).	High Risk

Description :

The most important risk and must be handled on a high priority basis because it has a very large impact Extreme

Risk requires a risk management strategy that needs immediate resolution because it can have an impact High Risk

Risk requires several reasonable steps, the resolution is not rushed. Medium

Risk can be ignored because it does not cause significant problems Low

Source: Data processed by the Author