
Evaluation of the Internal Control System Implementation in Credit Card Provision at Bank Rakyat Indonesia's Regional Offices

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ABSTRACT: Credit is one of the largest and most important components of wealth compared to other assets. Therefore, to obtain maximum interest (income) from the loan, the bank concerned must pay special attention to the loan. Therefore, a good management system, such as a management system called internal control, is one of the most important factors in business success. Internal control is policies and mechanisms, other than accounting system control, which are created by management with the belief that the company's goals will be achieved, so that good internal control will bring benefits to business activities, and all activities can be controlled well. This study investigates the implementation of internal control systems in credit provision at Bank Rakyat Indonesia Regional Office (BRI RO) Palembang, emphasizing their critical role in maximizing interest income from loans. Using a qualitative descriptive approach, the research assesses the effectiveness of COSO's five control components control environment, risk assessment, control activities, information and communication, and monitoring. Despite challenges, the study finds that internal controls are effective, supported by skilled employee competencies aligned with their responsibilities. The findings underscore the significance of robust internal control practices in enhancing credit management efficiency and mitigating risks. This research provides practical insights for improving internal control mechanisms to optimize credit operations and ensure financial stability at BRI RO Palembang.

Keywords: Internal Control System, Credit Provision



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INTRODUCTION

Economic growth is a key indicator of development, particularly in developing countries like Indonesia, where it aims to achieve public welfare as outlined in the 1945 Constitution's preamble (Guntara, 2016). Sustainable economic growth fosters job creation, national income increase, and poverty reduction (Cohen. BEdwards, 2017; Gubareva, 2021; Lamaj, 2023; Rout et al., 2023). Banks, as strategic financial institutions, play a vital role in this growth by acting as intermediaries

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between surplus and deficit funds, thus supporting all economic sectors (Romanova & Kudinska, 2016). Bank Rakyat Indonesia (BRI), a major bank in Indonesia, significantly contributes to economic growth by collecting and redistributing community funds, particularly through credit services (Novianti, 2016). Despite BRI Palembang's robust internal control system, a high number of loan rejections in 2023 indicates challenges in internal checks, highlighting the need for improved document review processes and training. While previous studies have discussed the general importance of internal control systems in banking (Goldman & Zhelyazkova, 2023; Lysiak et al., 2022; Wang et al., 2020), there is limited research focusing on the specific challenges and effectiveness of these systems in regional offices like BRI Palembang (Chen et al., 2022; Khan et al., 2021; Othman et al., 2017). This study aims to fill this gap by evaluating the implementation of BRI Palembang's internal control system, particularly in credit card provision, to identify specific areas for improvement.

The urgency of this study lies in the need to ensure that the internal control system implemented by Bank Rakyat Indonesia (BRI) at its Palembang Regional Office operates effectively and efficiently. The high rate of credit application rejections in 2023 indicates weaknesses in the internal control system that require in-depth evaluation and prompt action to enhance banking service quality. The COSO (Committee of Sponsoring Organizations) framework is employed for this evaluation due to its comprehensive approach, covering five key components: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

Control Environment examines the foundational control structure that influences managerial and employee behavior (Klančar et al., 2021). A strong control environment includes high ethical standards, employee competence, and management involvement in oversight (Hasbolah, 2021). The study will assess how well BRI Palembang's management exemplifies best practices and fosters a supportive culture for effective internal control. Risk Assessment evaluates the internal and external risks associated with credit provision (Ansah & Sorooshian, 2018). Proper identification and analysis of these risks are crucial for developing effective mitigation strategies (Gao & Lau, 2021). The study will review BRI Palembang's ability to identify risks affecting credit quality and its management strategies. Control Activities reviews policies and procedures to ensure that actions taken align with organizational objectives (Pürbudak & Usta, 2021). Effective control activities involve task segregation, transaction authorization, and routine reconciliations (Aurangzeb & Al-Qadi, 2014). The study will evaluate how BRI Palembang's policies and procedures support robust internal control and minimize errors and fraud. Information and Communication assesses the flow and quality of information essential for decision-making (Villamor & Lapinid, 2022). Accurate and timely information is vital for effective risk management (Çimen & Hangül, 2021). The study will analyze BRI Palembang's communication systems to ensure that relevant information is effectively conveyed for sound decision-making. Monitoring involves the continuous assessment of control processes to ensure their effectiveness and address deficiencies promptly (Fuchs & Fangpong, 2021). Effective monitoring enables early identification of control issues before they escalate (Peters et al., 2022). The study will evaluate how BRI Palembang monitors its internal control system and responds to monitoring findings to make necessary improvements.

By utilizing the COSO framework, this study aims to analyze how well BRI Palembang's internal control system aligns with these components and identify areas for enhancement. The goal is to reduce credit application rejections and improve overall banking efficiency. This comprehensive evaluation is expected to provide actionable recommendations to strengthen BRI Palembang's internal control system, thereby increasing customer trust and operational effectiveness.

METHOD

This study employs a qualitative approach to gather necessary data and insights regarding the implementation of the internal control system in providing credit cards at the Palembang regional office of Bank Rakyat Indonesia (BRI) (Miles & Huberman, 1994). The qualitative approach was chosen to enable a deep exploration of social phenomena and to understand the complex context of internal control system implementation (Creswell & Clark, 2011). The research design utilized is descriptive, aiming to meticulously measure social phenomena concerning the researched object. Observations were conducted to create narratives based on informal conversations, deepened with data collected through interviews with two informants selected purposively due to their extensive experience and deep understanding of the internal control system implementation at Bank Rakyat Indonesia Palembang. These informants were chosen for their relevant knowledge and ability to provide rich insights into the research issue. Data were collected through in-depth interviews and further enriched by document analysis related to the internal control system's implementation. Structured question guides were used in interviews to cover key aspects of this research. To ensure data validity, the study employed data triangulation by comparing findings from informant interviews and document analysis, along with member checking to confirm the interpretation of research findings with informants, thereby ensuring the alignment and accuracy of data interpretation. Data analysis involved using a content analysis approach, coding the data to identify major patterns or themes emerging from the collected information (AM & Purnama, 2024). Such analytical techniques help in gaining a deep understanding of the challenges, best practices, and impacts of the internal control system implementation in the context of credit card provisioning.

RESULT AND DISCUSSION

Evaluate the implementation of the internal control system in providing credit cards at Bank Rakyat Indonesia (BRI) Palembang Regional Office. The implementation of internal control system components by the Committee of Sponsoring Organizations of the Treatway Committee (COSO, 2019) shows that:

Control Environment

The organizational structure of PT Bank Rakyat Indonesia (BRI) Palembang Regional Office is made in such a way that each existing area operates in accordance with the duties, authority and responsibilities of the company, and the existence of an organizational structure makes it easier to decide and manage operations. It is explained that each has different responsibilities. set. Organizational structure is very important for every company. Standard operating procedures (SOPs) are systems for facilitating, organizing, and publishing work. The system includes a series of processes for carrying out work from start to finish, and the Regional Office of PT Bank Rakyat Indonesia (BRI) Palembang has Standard Operating Procedures (SOP) that are running well.

The control environment consists of actions, policies and procedures that reflect the attitudes of management, supervisors and the overall control system within the company. According to Romney and Steinbart's study (Millenia, 2023) the internal environment or corporate culture influences how an organization sets its strategy and goals, structures its business activities, and identifies, assesses, and responds to the influence of risk. The internal environment of PT Bank Rakyat Indonesia (BRI) Palembang Regional Office includes ethics, competence, integrity, concern for organizational health, organizational structure, management policies and philosophy.

Commitment to integrity and ethical values is very important for management to create an organizational structure that prioritizes the company's integrity and ethical values (Moldogaziev & Silvia, 2015). Companies can affirm integrity as a basic management principle by actively proposing and practicing it. Management must develop clear policies that clearly outline honest and dishonest behavior. Dishonest employees must be prosecuted and employees must be made aware that this type of behavior will not be tolerated by the company.

Risk Assessment

Bank Rakyat Indonesia (BRI) RO Palembang explained that by implementing 5Cs, they had carried out an effective assessment to predict things that might not happen. All companies, large and small, face internal and external risks to achieve their corporate goals. Bank Rakyat Indonesia (BRI) RO The number of rejections in the credit distribution process in the city of Palembang can be influenced by internal and external risks.

- a) Internal Risk, Bank Rakyat Indonesia (BRI) RO Occurrence of rejection/rejection of loan application documents in Palembang Rejection due to internal officers not thoroughly reviewing documents sent from branches and sub-offices. The number of cases is increasing. Therefore, it is impossible to predict in advance what will happen, and the application of insider donation procedures is not very effective.
- b) External Risk, Bank Rakyat Indonesia (BRI) RO In the city of Palembang, customer carelessness in filling out loan application forms causes rejection of loan application forms, resulting in prospective customers' loan application forms being rejected and the number of rejections in credit offers increasing every month.

Company management must identify one or more controls that protect the company from all threats. When evaluating the benefits of an internal control system, management must consider its effectiveness and timing. All other factors being equal, preventive controls are better than test controls. However, if preventive controls fail, you must use inspection controls to find the problem and corrective controls to resolve the problem. Therefore, preventive control, inspection control, and corrective control complement each other, and a good internal control system must utilize all three.

Control Activities

Control activities at BRI Palembang involve the segregation of duties, with each employee assigned specific roles and responsibilities. However, lapses in adhering to procedures, such as subjective evaluations and non-strict warnings, increase the risk of rejections (White & Walker, 2018). Control activities should ensure that necessary steps are taken to manage risks and achieve corporate objectives. According to information systems audit theory, effective control activities involve policies and procedures that ensure the implementation of management policies, which is an area needing improvement at BRI Palembang.

Information and Communication

Information and communication processes at BRI Palembang involve interviews and reviews of prospective entrepreneurs' bank statements to assess financial status when analyzing loan applications. Effective information and communication are crucial for accurate credit assessments,

as emphasized by COSO. BRI Palembang must ensure that accurate and timely information flows across all levels of the organization to support decision-making and risk management.

Monitoring

Monitoring at BRI Palembang includes ongoing or periodic assessments of internal control quality to ensure they function as intended. This involves direct supervision by superiors and audits to evaluate performance. COSO highlights the importance of monitoring as a key component of internal control, involving both continuous and separate evaluations to identify and address deficiencies promptly. According to COSO (Committee of Sponsoring Organizations), the Information Systems Audit Book states that one of the components of an internal control system is monitoring. Monitoring is the process of evaluating the performance of a system and the quality of internal control from time to time and is carried out through separate monitoring and evaluation activities. There are two types of monitoring mechanisms, namely direct supervision by each superior based on the position hierarchy, and supervision by the audit function.

Based on the explanation presented by the author above, it can be concluded that all elements of internal credit management have been implemented. Overall, the evaluation of the implementation of the internal credit management system at Bank Rakyat Indonesia (BRI) RO Palembang has been effective, but there are still several factors that need to be paid attention to. Banks are always trying to overcome the increasing number of rejections in the credit granting process and are looking for practical, effective and efficient solutions to reduce rejections and increase approvals. The approach currently being taken by Bank Rakyat Indonesia (BRI) RO Palembang is that after reviewing the documents, they will first check the loan application documents to find out whether the prospective customer's age is in accordance with the provisions and to find out whether the prospective customer's signature is in accordance with their integrity. KTP and other documents. document. If the documents are incomplete, the bank will send the interested party's loan application documents back to the branch or sub-office where the interested party submitted the loan application. By checking manufacturers before submitting loan application documents, the number of approvals and approvals of loan application documents from interested parties will increase.

Internal Control Practices at BRI

To provide a comprehensive evaluation, the research scope can be expanded to compare the implementation of the internal control system in providing credit cards at multiple BRI regional offices across different regions (Othman et al., 2017). This comparative study can involve regions such as Palembang, Jakarta, Surabaya, and Medan, which represent diverse geographical and economic settings. The research can examine the following aspects: differences in internal control practices due to regional economic conditions, customer demographics, and local regulatory environments; how internal controls impact the efficiency and effectiveness of credit card issuance in each region; unique challenges faced by each regional office and best practices that can be shared across the organization; and how regional differences in internal controls affect customer satisfaction and trust in BRI's credit card services

Bank Rakyat Indonesia (BRI) implements internal control practices that align with both local regulations and international standards. BRI's internal control system is designed based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, which is a widely accepted standard globally. This framework emphasizes risk assessment, control

activities, information and communication, monitoring, and the control environment. BRI ensures a clear separation of responsibilities to prevent conflicts of interest and reduce the risk of fraud, similar to international best practices. Regular internal audits are conducted to assess the effectiveness of internal controls, which is a common practice among international financial institutions. However, while BRI adheres to local regulatory requirements set by Bank Indonesia and the Financial Services Authority (OJK), international banks may follow regulations set by their respective central banks and regulatory bodies like the European Central Bank (ECB) or the Federal Reserve in the USA. The extent of technological integration in internal controls may vary. BRI is increasingly adopting advanced technologies like artificial intelligence and machine learning for fraud detection, but the pace and extent may differ compared to some leading international banks. Internal control practices at BRI may also be influenced by local cultural factors, such as the emphasis on relationship banking, which may differ from practices in other countries.

The findings align with COSO's internal control framework, highlighting the importance of a well-structured control environment, effective risk assessment, robust control activities, comprehensive information and communication processes, and diligent monitoring. This study reinforces the relevance of COSO's components in ensuring effective internal control systems in financial institutions. It also contributes to the literature by providing empirical evidence on the implementation of internal controls in a specific regional context, demonstrating how local factors can influence control practices. For practitioners, this study underscores the importance of adhering to established internal control frameworks to enhance operational efficiency and reduce risks. BRI Palembang can improve its internal control system by addressing identified weaknesses, such as enhancing document review processes and ensuring strict adherence to procedures. By adopting best practices from other regions and integrating advanced technologies for risk assessment and monitoring, BRI can improve the effectiveness of its internal controls. Additionally, understanding the impact of regional variations on internal controls can help BRI tailor its strategies to local contexts, ultimately improving customer satisfaction and trust in its credit card services.

CONCLUSION

Based on an evaluation of the implementation of the internal control system for credit at Bank Rakyat Indonesia (BRI) Palembang Regional Office, it is evident that credit is a significant asset requiring meticulous management to ensure maximum income. The study highlights that BRI Palembang's internal control system, structured according to COSO's framework, is generally effective but faces challenges, particularly with the high rate of loan application rejections due to inadequate internal checks. Theoretical implications underscore the relevance of COSO's framework, emphasizing the need for contextual adaptation to local economic, demographic, and regulatory factors. Practically, BRI Palembang should refine document review processes, enhance training for internal officers, and integrate advanced technologies to improve risk assessment and reduce rejections. However, limitations such as the study's focus on a single regional office and reliance on 2023 data suggest that findings may not be universally applicable. Future research should include comparative studies across multiple regions, longitudinal analyses, and quantitative methods to provide a more comprehensive understanding of internal control practices. By addressing these weaknesses and leveraging technological advancements, BRI Palembang can enhance its internal control system, leading to better risk management, increased efficiency, and improved customer satisfaction.

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