

INTERNAL CONTROL IN THE IMPLEMENTATION OF BCA BUSINESS PROCESSES TULUNGAGUNG BRANCH

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Abstract

This study aims to identify and analyze the internal control system implementation of the BCA Tulungagung bank business processes. The research design used in this study is a qualitative descriptive method, describing or explaining the internal control Implementation BCA Tulungagung Business Process. The results of the research that the author has done after being analyzed conclude that there is a clear division of tasks or delegation of authority and responsibility. In selecting workers, BCA accepts workers who are by education and those who are not. This affects the ineffectiveness of carrying out the duties of each function. The existence of a detailed inspection system for all evidence, record evidence, and the presence of direct inspections and sudden monitoring (cash opname) by the internal examiner function is known that all business process activities it's been going well.

Keywords: *Internal Control, Business Process*

I. INTRODUCTION

The role of banking in advancing the economy of a country is significant. As a business-oriented financial institution, banking has the main activity, namely collecting funds from the wider community. The funds that have been collected are channeled back to the community through the provision of loans or credit. Almost all sectors related to various financial activities always require services from banks, individuals and institutions, social and corporate.

The Transaction Banking business will be one of the main drivers of BCA's performance in 2021. CASA grew 19.1% to Rp764.6 trillion, contributing to 78.9% of third-party funds. Overall, total third-party funds increased by 16.1%, pushing BCA's total assets up 14.2% to reach Rp1,228.3 trillion. (Bank Central Asia Tbk, 2021)

The pandemic has accelerated the rate of technology adoption and impacted the growth of digital transactions, thus driving a significant shift in consumer behavior. The need for 24/7 services continues to increase with connectivity across multiple platforms and ecosystems for various products and services. The rapid development of financial technology has also contributed to these changes, thus creating challenges for conventional banking services.

Through various strategic partnerships, BCA consistently adapts and innovates in providing optimal solutions for customer transaction needs. The development of transaction banking services continues to be carried out by prioritizing the expansion of connectivity, security, and convenience to provide the best customer experience. The Bank also continues to develop other supporting facilities in terms of products and collaboration with strategic partners.

In terms of fundraising, in 2021, corporate banking managed to increase fund growth by 29.4% from 1,789 customers, of which 778 were corporate loan debtors. BCA will continue building good customer relationships through a "customer-centric approach" to provide comprehensive financial solutions. (Bank Central Asia Tbk, 2021)

BCA realizes that the pandemic has accelerated digital transformation, changing people's behavior. Thus, business people and individuals must adapt to these conditions. In response, BCA has established strong partnerships with various domestic and multinational corporate partners. The Bank also continues to improve payment and collection services for Business to Business (B2B) and Business to Customer (B2C) schemes. This effort is supported by implementing an Application Programming Interface (API) and a host-to-host system that allows companies to connect with BCA banking services through their platform. (Bank Central Asia Tbk, 2021)

In managing an increasingly complex and dynamic banking business, BCA applies an integrated risk management framework, which covers the risks faced by the Bank and its subsidiaries. By implementing the Integrated Risk Management Framework, which consists of strategies, organizational structures, policies, procedures, and risk management infrastructure, BCA ensures that all risks can be identified, measured, monitored, controlled, and reported appropriately.

Banks must comply with the internal control system in their business processes to minimize risks. Implementing an adequate internal control system means showing the

bank's prudence in maintaining the public's trust and in maintaining its business's viability. The bank's internal control system is based on elements of internal control, according to the COSO (Committee of Sponsoring Organizations).

Control internal is a tool for management to ensure that company activities are by existing policies and procedures so that company operations can run smoothly, company assets can be guaranteed security, and fraud and waste can be prevented.

For the control to work correctly, it must include procedures to find or signal that the command can be implemented. This procedure must be carried out by persons free from liability for transactions or company assets.

The Indonesian Institute of Accountants (IAI) (2000) states that Internal Control is a process carried out by the board of commissioners, management, and other personnel of an entity designed to provide reasonable assurance about the delivery of the following three categories: reliability of financial statements, effectiveness, and efficiency of operations, compliance to applicable laws and regulations. (Pranata & Hermanto, 2014)

Understanding of internal control according to the COSO (Committee of Sponsoring Organization) study in SAS No.78 (Alvin A. Arens et al., nd) is as follows; Internal control is a process effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operations; (2) reliability of financial reporting; (3) compliance with applicable laws and regulations. Another definition is that internal control is an organizational plan and business method used to safeguard assets, provide accurate and reliable information, encourage and improve the efficiency of the organization's operations, and encourage conformity and policies that have been implemented. (Parlin, nd)

Internal control in every company has inherent limitations because there is no single system that can prevent waste or fraud ideally. Innate limitations inherent in internal control, according to Mulyadi (Sri Wasiyanti, 2014), among others; 1) Misjudgment, 2) Distraction, 3) Collusion, 4) Management neglect, and 5) Cost versus benefit.

A business entity that collects public funds as savings and then distributes them to the public in the form of credit and or other forms to improve people's living standards is a bank. (President of the Republic of Indonesia, 1998)

An effective Internal Control System (SPI) is an essential component in the Bank's management and forms the basis for sound and safe Bank operations. An effective Internal Control System can assist the Bank's leadership in safeguarding the Bank's assets, ensuring the availability of reliable financial and managerial reporting, increasing the Bank's compliance with applicable laws and regulations, and reducing the risk of losses, irregularities and violations of prudential aspects. (Sri Rahmany, nd)

There are four objectives of the internal control system, namely: (1) Protecting company assets. The company's wealth can be in the form of tangible wealth or intangible wealth, (2) Improving the accuracy of the information generated by the information system run by the company. Information becomes the basis for decision-making. If the information is wrong, the decisions taken by management and others can be bad. The wrong decision will be very detrimental to the company, and (3) Improving the efficiency of the company's performance so that savings can be made in various activities. Efficiency is a comparison between the amount of sacrifice and the results obtained. The smaller the gift, the results remain the same, indicating an efficient company, (4) Increasing compliance with management policies. (Pranata & Hermanto, 2014)

Based on the above description of the importance of the internal control system in banks, this study aims to identify and analyse the internal control system implementation of the BCA Tulungagung bank business processes.

II. RESEARCH METHODS

Types of research

The type of research is descriptive qualitative research by obtaining a description of the data in the field, which is analyzed and then compared with existing theories to produce research conclusions.

In this study, the research was carried out by collecting data on the company's operational activities and documents on the internal control system problems of the BCA Tulungagung branch business processes.

Data Collection Techniques

Data collection techniques used in various ways are as follows: (1) Primary Data, which still requires further processing and is developed with an understanding such as the results of interviews, (2) The main data collection techniques: (a) Observation techniques, which are carried out using direct observation of the object of research, in this case, the BCA Business Process including field operations, (b) Interview Techniques, namely conducting direct questions and answers and discussions with several competent and authorized parties in providing the required data, such as direct interviews with the Branch Head BCA Tulungagung, Customer Service BCA Tulungagung, and several field operational employees, (c) Documentation Engineering, namely recording and copying secondary data to obtain data that supports this research.

Study Unit

In this study, the research instrument is not external or objective but internal or subjective, namely the researcher himself, without using tests, questionnaires, or experiments. The data instruments are needed to explain the unit of analysis, the smallest unit of the research object: Organizational Structure. The author analyzes the activities of the organizational system in the BCA Tulungagung Branch so that it is by the essential elements in the Internal Control System that good and satisfactory from each employee and work unit through detailed and precise work programs and operational activities to be successful in achieving organizational goals and targets,

Data analysis technique

Data analysis was carried out using descriptive methods: collecting, processing, and interpreting the data obtained to provide correct and complete information for solving the problems encountered.

Criteria for Implementation of Internal Control System

1. Control Environment
2. Risk Assessment
3. Act Controlling
4. Information and Communication
5. Monitoring

III. FINDINGS AND DISCUSSION

Overview of Research Objects

In 1980, BCA KCU Kediri established KCP (Sub-Branch Office) to provide convenience in services and transactions to its customers in Tulungagung Regency, which is located on Jl Diponegoro 54, Tamanan Tulungagung. With the development of time in 1991, KCP Tulungagung changed to KCU (Main Branch Office) by overseeing 2 KCP Ngunut and KCP Trenggalek, and 1 KCP Kas Bandung.

Banking Products and Services

Based on the author's study's results, banking products and services carried out by the BCA Tulungagung Branch consist of (1.) Savings Products, (2.) Bank assurance, (3.) Credit cards, (4.) Electronic banking, (5.) Credit consumers, and (6.) banking transaction services.

BCA Risk Management

In managing an increasingly complex and dynamic banking business, BCA applies an integrated risk management framework, which covers the risks faced by the Bank and its subsidiaries. By implementing the Integrated Risk Management Framework, which consists of strategies, organizational structures, policies and procedures, and risk management infrastructure, BCA ensures that all risks can be identified, measured, monitored, controlled, and reported appropriately.

In line with various organizational developments, regulations, and the business environment, BCA's risk management policies are constantly adjusted by referring to applicable regulations and international best practices. At the same time, BCA continues to increase risk awareness through risk management training for all work units.

Throughout 2021, the Bank will focus risk management on several main activities:

1. Proactively restructure credit for debtors affected by COVID-19 by regulatory policies. The restructuring scheme is adjusted to the analysis of the conditions and needs of the debtor. BCA also participates in the National Economic Recovery (PEN) program through the distribution of interest subsidies for MSME debtors who meet the regulatory requirements and credit guarantees for MSMEs and non-MSMEs from guarantors appointed by the government.

2. They implemented PSAK 71 as a replacement for PSAK 55 regarding "Financial Instruments" which became effective on January 1, 2020. The changes were mainly related to the classification and measurement of financial instruments, the use of expected loss in calculating the impairment of financial assets, and improvements to the hedging accounting model. In connection with the COVID-19 pandemic, which impacts economic uncertainty, BCA continues to identify and monitor on an ongoing basis and establish an Allowance for Impairment Losses (CKPN).
3. Develop a digital version of the work guide (PAKAR) for Corporate, Commercial, SME, Consumer, and Credit Card loans and the Interbank Credit Provisions Manual (MKK).
4. Develop an Integrated Risk Management Information System (IRMIS) application to support the preparation of BCA risk profile reports, integrated risks, and integrated capital adequacy reports.
5. Conduct operational risk studies on adjustments to work processes and customer services in pandemic conditions and provide mitigation recommendations that can balance the risk and service side.
6. Conduct market risk studies on LIBOR discontinuities, use alternative reference rates (ARRs) and prepare a system that can accommodate derivative transactions using alternative reference interest rates (ARRs).

In addition, BCA conducts stress tests regularly to measure the impact of changes in macroeconomic factors on the condition of the Bank's capital, liquidity, asset quality, and profit based on the established scenario. Stress test results generally show that BCA has a solid capital and liquidity position in anticipating estimated losses from potential risks faced in various deteriorating scenarios.

To determine the business model and interactions with the overall risk profile, BCA pays attention to the magnitude of the risks and trends described in the Bank's Risk Profile Report and the supporting factors in the Capital Adequacy Analysis.

In 2022, BCA will carry out the following initiatives:

1. Continuing the development of the necessary infrastructure for calculating the RWA for Credit, Operational, and Market Risks using a new standard approach which will be implemented in January 2023 by regulatory provisions.

- Continuing to adjust internal work processes and customer service in response to the COVID-19 pandemic by paying attention to the balance between the convenience and security of customer service, customer and employee safety, and implementing risk management.

Integrated Risk Management

As the central entity of the financial conglomerate, BCA has implemented integrated risk management designed to mitigate the risks faced by BCA and its subsidiaries. BCA has monitored, and managed ten (10) types of risk, consisting of eight (8) risks faced by the Bank: credit, market, liquidity, operational, legal, reputational, strategic, and compliance risks, plus two (2) other risks: intra-group transaction risk and insurance risk.

BCA controls and manages the risk exposure of the financial conglomerate by referring to four (4) main pillars, which are briefly described in the following figure:

Picture. The Main Pillars of Integrated Risk Management

4 Pilar Utama Manajemen Risiko Terintegrasi	
1. Pengawasan aktif Direksi dan Dewan Komisaris dari Entitas Utama terhadap Konglomerasi Keuangan BCA	<ul style="list-style-type: none"> Memastikan penerapan: <ul style="list-style-type: none"> Manajemen Risiko Terintegrasi telah sesuai dengan karakteristik dan kompleksitas usaha Konglomerasi Keuangan BCA; Manajemen Risiko di masing-masing Entitas Anak.
2. Kecukupan Kebijakan, Prosedur, dan Penetapan <i>Limit</i> Manajemen Risiko Terintegrasi	<ul style="list-style-type: none"> Menyusun kebijakan dan prosedur, dan penetapan limit Manajemen Risiko Terintegrasi dengan memperhatikan tingkat risiko yang akan diambil (<i>risk appetite</i>) dan toleransi risiko (<i>risk tolerance</i>).
3. Kecukupan Proses Identifikasi, Pengukuran, Pemantauan, dan Pengendalian Risiko secara Terintegrasi, serta Sistem Informasi Manajemen Risiko Terintegrasi	<ul style="list-style-type: none"> Menerapkan Sistem Informasi Manajemen Risiko Terintegrasi yang menghasilkan laporan atau informasi mengenai: <ul style="list-style-type: none"> Eksposur risiko; Kepatuhan pelaksanaan Manajemen Risiko Terintegrasi terhadap kebijakan dan prosedur yang disusun; Kepatuhan terhadap penetapan <i>limit</i>.
4. Sistem Pengendalian Internal yang Menyeluruh terhadap Penerapan Manajemen Risiko Terintegrasi	<ul style="list-style-type: none"> Menyusun Sistem Pengendalian Internal, untuk memastikan: <ul style="list-style-type: none"> Kepatuhan kebijakan atau ketentuan internal terhadap peraturan dan perundang-undangan yang berlaku; Tersedianya informasi keuangan dan manajemen yang lengkap, akurat, tepat guna, dan tepat waktu; Efektivitas budaya risiko (<i>risk culture</i>) pada organisasi Konglomerasi Keuangan secara menyeluruh.

BCA Internal Control System

BCA implements a supervisory mechanism established by management on an ongoing basis (ongoing basis) which is adjusted to the objectives, size, and complexity of BCA's business activities based on the requirements and procedures determined by the regulator.

Implementing BCA's internal control system refers to the Circular Letter of the Financial Services Authority (SE OJK) No. 35/ SEOJK.03/2017 dated 7 July 2017 concerning Guidelines for Internal Control System Standards for Commercial Banks.

BCA applies a three-line model framework in the internal control and risk management system to support the creation of reliable governance. The application of the three lines model principle at BCA is as follows:

1. Organs of Management

The Board of Commissioners and the committees under its coordination are responsible for ensuring, among other things:

- a. Existing structures and processes are adequate and in place for effective governance implementation.
- b. The goals and activities of the organization are aligned with the main interests of the stakeholders.

2. Management (Board of Directors, First Line, and Second Line)

The responsibilities of the Board of Directors include first and second-line roles. The first line is responsible for customer products and services, including risk management. The second line provides support related to risk management, including being responsible for enterprise risk management, which is covered by the Director of Compliance and Risk Management, the Risk Management Unit (SKMR), and the Compliance Work Unit (SKK).

3. Internal Audit Division, which acts as the third line

The Internal Audit Division provides risk-based, independent, and objective assurance and advice regarding the adequacy and effectiveness of governance, risk management, and internal control processes. The Internal Audit Division (DAI) communicates the audit results to the Board of Directors, the Audit Committee, and the Board of Commissioners.

In carrying out their roles, all lines communicate and collaborate regularly and contribute to creating and maintaining values that align with stakeholders' interests.

BCA Internal Control Structure

1. Control Environment

The control environment creates an atmosphere in an organization and affects the awareness of organizational personnel about control. The control environment is the foundation for all elements of internal control, forming discipline and structure.

Various factors that make up the control environment within an entity include:

- a. Values of integrity and ethics. The effectiveness of internal control comes from within the person who designs and implements it. An adequate internal control design, but not implemented by people who do not uphold integrity and do not have ethics, will result in not realizing the objectives of internal control. In this case, BCA has implemented the values of integrity and good ethics. This can be seen from the employees who carry out their duties according to their respective functions and support each other.
- b. Commitment to competence. To achieve the entity's objectives, personnel at every level of the organization must have the knowledge and skills necessary to carry out their duties effectively. Commitment to competence includes management's consideration of the required knowledge and skills and guidance between intelligence, training, and experience in competency development. In selecting the workforce, BCA accepts workers who are suitable for education and those who are not. This affects the ineffectiveness of carrying out the duties of each function.
- c. Board of commissioners and audit committee. The factors that affect the effectiveness of the board of commissioners or audit committee are:
 - 1) Independence of management.
 - 2) Experience and position of its members.
 - 3) The scope of engagement with an in-depth examination of the company's activities.
 - 4) The difficulty level of the questions asked and followed up with management.
 - 5) Interaction with internal and external auditors.

There BCA has a board of commissioners and an audit committee that carries out its duties, namely overseeing the management of the company. Thus the board of commissioners and the audit committee can prevent too much concentration of control in the hands of management.

- d. Philosophy and operating style of management. Philosophy is a set of fundamental beliefs that become parameters for the company and its employees. Philosophy is what should be done and what should not be done by the company. In this regard, BCA has a philosophy and management style that all employees apply to their respective functions and duties.
- e. Organizational structure. The development of the organizational structure of an entity includes the division of authority and the assignment of responsibilities within an organization to achieve organizational goals. From the organizational structure of the BCA Tulungagung Branch, the division of authority and responsibility has been carried out properly and by applicable regulations.
- f. Division of authority and assignment of responsibilities. With a clear division of authority, the organization can allocate its various resources to achieve organizational goals. At the BCA Tulungagung Branch, the division of authority and responsibility runs as it should. This can be seen in the daily operational activities carried out. With a clear division of authority, the organization can allocate its various resources to achieve organizational goals.
- g. Human resource policies and practices. Because of the importance of companies having qualified and honest employees, to create good control, companies need to have good methods in accepting employees, developing their competencies, assessing achievements, and providing compensation for their accomplishments. Reasonable internal control can produce reliable information if implemented by competent and honest employees. Regarding resource policies and practices, BCA provides educational training that is often attended by employees so that the skills possessed by each employee develop by the demands of increasingly broad job developments.

2. Risk Assessment

Risk assessment for business process purposes is identifying, analyzing, and managing entity risks related to all company operational activities, including financial reporting, by generally accepted accounting principles in Indonesia.

Management risk assessment for financial reporting purposes is the assessment of the risks embodied in confident assertions in the financial statements and the design and implementation of control activities aimed at reducing those risks to a minimum, considering the costs and benefits. Management's risk assessment should include special consideration of risks that may arise from changing circumstances, such as:

- a. A new field of business or transaction that requires unfamiliar accounting procedures.
- b. Changes in accounting standards.
- c. Law and new regulations.
- d. Changes related to system revisions and new technologies used for information processing.
- e. The rapid growth of entities requires changes in the function of processing and reporting information and the personnel involved in these functions.

PBCA has carried out the risk assessment due to increasingly stringent demands for business activities.

3. Act Controlling

Control activity is the policies and procedures created to assure that the instructions made by management are carried out. These policies and procedures ensure that the necessary actions have been taken to reduce risks in achieving the entity's objectives. Control activities have a variety of goals and are defined at various levels and functions of the organization. The implementation of this control activity can be in the form of:

- a. Performance review
- b. Information processing
- c. Physical control
- d. Segregation of duties

SAS previously explained that in implementing control activities, BCA has fully implemented this, as can be seen from the clear separation of responsibilities from each of the related functions.

4. Information and Communication

Central control policies and procedures related to business processes are that information and communication are carried out effectively and efficiently.

Communication includes conveying information to all personnel involved in business processes about how their activities relate to the work of others, both inside and outside the organization. This communication includes a system for reporting irregularities to higher parties within the entity. Policy guidelines, accounting guidelines, and SOPs are also part of internal control's information and communication component.

5. Monitoring

Monitoring is evaluating the quality of internal control performance over time. Monitoring is carried out by personnel who are supposed to carry out the work at the design and operation stages of the control at an appropriate time to determine whether the internal control has required changes due to changes in circumstances. Monitoring activities may include the use of information and communications from outside parties. In terms of monitoring, BCA Tulungagung Branch conducts sudden monitoring of employees in certain sections.

IV. CONCLUSIONS AND SUGGESTIONS

Conclusion

The implementation of the BCA Tulungagung Branch Internal Control System has been adequate:

1. Control Environment

- a. Values of integrity and ethics. In this case, BCA has implemented the values of integrity and good ethics. This can be seen in the employees who carry out their duties according to their respective functions and support each other.

- b. Commitment to competence. In selecting the workforce, BCA accepts workers who are suitable for education and those who are not. This affects the ineffectiveness of carrying out the duties of each function.
- c. Board of commissioners and audit committee. At BCA, there is a board of commissioners and an audit committee that carries out their duties, namely overseeing the management of the company which is carried out by management. Thus the board of commissioners and the audit committee can prevent too much concentration of control in the hands of management.
- d. Philosophy and operating style of management. In this regard, BCA has a philosophy and management style that all employees apply to their respective functions and duties.
- e. Organizational structure. From the organizational structure of the BCA Tulungagung Branch, the division of authority and responsibility has been carried out properly and by applicable regulations.
- f. Division of authority and assignment of responsibilities. At the BCA Tulungagung Branch, the division of authority and responsibility runs as it should. This can be seen in the daily operational activities carried out. With a clear division of authority, the organization can allocate its various resources to achieve organizational goals.
- g. Human resource policies and practices. BCA provides educational training that is often attended by employees so that the skills possessed by each employee develop by the demands of increasingly broad job developments.

2. Risk Assessment

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SAS previously explained that in implementing control activities, BCA has fully implemented this, as can be seen from the clear separation of duties from each of the related functions.

4. Information and Communication

It has implemented policy guidelines, accounting guidelines, and SOPs correctly.

5. Monitoring

BCA Tulungagung Branch conducts sudden monitoring of employees in certain sections.

Suggestion

BCA Tulungagung Branch preferably in recruiting new employees by the Standards with the criteria for competent employees, based on the provisions of the BCA Development Program (BDP), requires every new employee to have at least a Bachelor's Degree (S1) certificate.

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