

## Analysis of The Internal Control System for Providing Credit in KPRI Handayani Takalar District

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**Abstract:** This research aims to find out and analyze whether the internal control system in providing credit at the Handayani Republic of Indonesia Employees Cooperative (KPRI) Takalar Regency is in accordance with the components in the COSO theory. The variable in this research is the internal control system for providing credit. The population in this research are all documents related to the internal control system at KPRI Handayani and the samples in this research are documents related to the internal control system for the 2022 financial year. Data collection techniques in this research are by observation, interviews, and documentation. This research uses qualitative data analysis techniques with a descriptive approach. The results of this research indicate that internal control in granting credit to KPRI Handayani is not fully implemented in the internal control components according to COSO as stated by Sujarweny (2015). Inappropriate components include: control environment, risk assessment, and control activities, information and communication, and monitoring. In the internal control environment, integrity and ethical values are not made in writing and are only given verbally. Apart from that, there is a commitment to competence which only acts based on trust. In the risk assessment there are no documents used to analyze risk and Standard Operating Procedures (SOP) regarding credit provision have not been created. Then in control activities there are no documents related to the authority for each transaction. Regarding information and communication where you don't use the application to view transaction history but it is still manual. As well as monitoring that is not carried out by regular audits.

**Keywords:** internal control, system, providing, credit

### 1. Introduction

Providing credit is the most basic cooperative business which provides an assessment of customers who will apply for credit, so that the customer is able to return what has been received. This element of risk and uncertainty causes the need for credit protection. The goal is to eliminate risks or minimize risks that could arise. Therefore, cooperatives need to improve the quality of protection for each credit to reduce the possibility of bad credit.

To strengthen the economic position of underprivileged populations, both in rural and urban areas, credit is often used as a tool to help them. Providing credit to disadvantaged groups is considered to increase income and

opportunities to work. One of the institutions whose task is to collect funds and distribute credit to the community is a cooperative (Amar, 2016).

Several factors influence the success of a cooperative, namely management, capital, service, member participation, and government guidance. The success or failure of a cooperative can be seen from the increase in the size of a business's assets, services, income, residual business results (SHU), savings borrowing, wealth, or own capital. If seen in general, the performance variable of cooperatives can be measured by looking at the development or growth of cooperatives in Indonesia, as business entities consisting of institutions, namely the number of cooperatives for each province, the number of cooperatives according to their type, as well as active or inactive cooperatives. (Madya, 2019).

The development of cooperatives in Indonesia began decades ago. A cooperative has the principles of mutual cooperation and kinship. In the development of cooperatives in Indonesia, it is increasing day by day. Where in 2013 there were 194,000 cooperatives in Indonesia, this number does not stop there and continues to increase to this day. However, with the increasing growth of cooperatives in Indonesia, this is not matched by the contribution of cooperatives to Gross Domestic Product (GDP) in Indonesia.

To achieve the goal of internal control to provide confidence to consumers, it still cannot be implemented optimally. One function in cooperatives that really requires internal control is providing credit. Providing credit or loans can give rise to receivables that have not been collected and therefore pose a threat. Threats that can cause losses include bad credit and fraud (Khotimah, 2016).

The importance of an internal control system can guarantee the appropriate quality of cooperative activities carried out. With the existence of a control system in an entity, it is hoped that all activities can be in line with what has been determined. So, internal control is really needed in order to support a tool for controlling credit activities that will affect an organizational entity. Internal control is not only from the security side, but so that all businesses in the credit sector can run effectively and efficiently (Remak, 2021).

Good internal control is needed as activity increases in cooperatives. One method that can be used to assess the effectiveness of internal control is by using five components developed by the Committee of Sponsoring Organizations of the Treadway Commission or COSO for short. The five components referred to include the control environment, risk assessment, control activities, information and communication and monitoring. Strengthening the company's internal control and encouraging better organizational risk management is one of the efforts made so that all business risks in Indonesia can be overcome. Cooperatives that have high credit distribution activities require very high levels of internal control so that all objectives that have been set from the start are carried out effectively (Wasito, Khotimah, Septarina., 2017).

The Handayani Republic of Indonesia Employee Cooperative (KPRI) is a cooperative established with the aim of providing microfinance services for

underprivileged communities in the Palleko area, Takalar Regency. The Handayani Republic of Indonesia Employee Cooperative (KPRI) in the process of being established cannot be separated from the participation and participation of the community in Takalar Regency, who care about the surrounding community where since the economic crisis hit Indonesia, especially the community in the Palleko area are farmers whose lives are increasingly squeezed. So people's basic needs are increasing, while people's income levels are not increasing.

Many cooperative members take advantage of the credit services provided by cooperatives, especially the Handayani Republic of Indonesia Employees Cooperative (KPRI) Takalar Regency which offers credit in the form of cash credit and goods credit. Therefore, it is necessary to have a work system to provide credit to members, namely an internal control system. This is because it is closely related to cooperative activities which distribute credit to their members.

As installments on credit that have been disbursed or received by the borrower progress, this is where things called non-current installments or bad credit often appear. This is often because the borrower promises to pay after the certification paycheck comes out.

Based on the background that has been presented, considering the importance of the internal control system in providing credit to cooperatives, researchers are interested in conducting research on "**Analysis of the Internal Control System for Providing Credit at KPRI Handayani, Takalar Regency**".

## **Literature Review**

### **Internal Control System**

The internal control system includes organizational structure, methods and measures, which are coordinated to safeguard organizational assets, check the accuracy and reliability of accounting data, encourage efficiency and encourage compliance with management policies (Mulyadi, 2017). Internal control is a set of policies and procedures to protect company assets or property from all forms of misuse, guarantee the availability of accurate company accounting information, and ensure that all legal or statutory decisions (regulations) as well as management policies have been complied with or carried out properly by all company employees (Hery, 2016).

### **Credit**

Financing or credit is the provision of money or bills that can be equated with it, based on an agreement or agreement between the bank and another party which requires the party being financed to return the money or bills after a certain period of time with compensation or profit sharing ((Kasmir, 2017).

### **Cooperative**

Cooperatives are a form of economic organization that is currently receiving government attention. Cooperatives are also a form of organization that has a

legal entity. Cooperatives must be built to create businesses and services to create a family principle (Sasmitha, 2018). A cooperative is a legal entity consisting of an association of people, which is voluntary with economic goals that have been agreed upon by members and is an organization that is led democratically, and is based on Pancasila and the 1945 Constitution based on the principle of kinship (Satriadi, 2020).

## **RESEARCH METHODS**

### **Research variable**

Research variables are attributes or properties or values of people, objects, or activities that have certain variations determined by the researcher to be studied and conclusions drawn (Saebani, 2018). In this research, only one variable (single variable) is used, namely the internal control system for providing credit.

### **Design Study**

This research is qualitative research. Qualitative research is data presented descriptively or in the form of descriptions carried out at KPRI Handayani, Takalar Regency. Data obtained from observations, interviews and documentation compiled by researchers are not expressed in numerical form. The approach taken in this research is a qualitative descriptive approach, so that conclusions can be drawn from the results obtained from the analysis.

### **Population and Sample**

The population in this research are all documents related to the internal control system for granting credit at the Indonesian Employees' Cooperative (KPRI) Handayani, Takalar Regency. The documents in question are the organizational structure, a brief history of the founding of the cooperative, proof of a loan application letter, Standard Operating Procedures (SOP) for granting credit implemented at the Handayani Republic of Indonesia Employees Cooperative (KPRI), Takalar Regency.

Meanwhile, the samples in this research are documents relating to the internal control system for granting credit at the Republic of Indonesia Employees Cooperative (KP-RI) Handayani, Takalar Regency for the 2022 financial year.

### **Data collection techniques**

In the research that will be carried out, there are several methods that can be used to collect data. The method used below is intended to make it easier to conduct research on data collection including is interview, observation and documentation.

## RESULTS AND DISCUSSION

### Data Analysis

The implementation of the internal control system in providing credit to the Handayani Republic of Indonesia Employees Cooperative (KPRI) Takalar Regency includes the control environment, risk assessment, control activities, information and communication, monitoring.

#### 1. Control Environment

The control environment is the facilities and infrastructure that exist within an organization or company to implement a good internal control structure. The control environment includes integrity and ethical values, commitment to competence, philosophy and style of managing operations, organizational structure, and human resource policies. In general, the control environment at KPRI Handayani in relation to lending is described as follows:

##### a. Integrity and ethical values

Referring to research results regarding whether the integrity and ethical values implemented by KPRI Handayani are effective. The following are the results of the interview conducted with the chairman of the cooperative:

*"KPRI Handayani has implemented integrity and good ethical values with employees in carrying out their duties in accordance with their respective functions. However, the cooperative has not yet set standards of behavior for management and employees in writing and has only conveyed them verbally".*

##### b. Commitment to competence

Referring to research results regarding whether the commitment to competency implemented by KPRI Handayani is working effectively. The following are the results of the interview conducted with the chairman of the cooperative:

*"For employee recruitment at KPRI Handayani, it is only a change from old employees to new employees who are selected from registered members and carried out at the Annual Member Meeting (RAT)"*

##### c. Philosophy and style of managing operations

Referring to the results of research that has been conducted regarding the philosophy and style of managing operations, whether they have been implemented. The following are the results of the interview conducted by the chairman of the cooperative:

*"In managing the cooperative, we are focused and always convey information to employees, both vision and mission and other information. Apart from that, we are also open to each other to share ideas or suggestions."*

##### d. Organizational Structure

Referring to the research results whether the organizational structure has been running in accordance with its respective main tasks and functions.

The following are the results of an interview with the chairman of the cooperative:

*"KPRI Handayani has established an organizational structure that includes the division of authority and responsibility for each of them"*

Based on the results of the interview above, it can be said that the organizational structure at KPRI Handayani has been implemented which can be seen in the organizational structure that has been formed with a clear division of responsibilities.

e. Human resources policy

Referring to the results of research conducted regarding human resource policies, whether they have been carried out. The following are the results of an interview with the chairman of the cooperative:

*"In order to improve employee capabilities, we usually take part in training related to cooperatives"*

## **2. Risk Assessment**

Referring to the results of research that has been carried out regarding risk assessment, whether it has been implemented. The following are the results of interviews conducted by savings and loan unit managers:

*"To analyze the risk in providing credit, we do not use any documents, but we only look at the character of the person himself and we also work with the BPD to find out whether the person is registered as a credit recipient or not. If yes, we will reduce the amount that will be given".*

## **3. Control Activities**

Referring to the results of research conducted regarding control activities, whether they are effective. The following are the results of the interview conducted with the chairman of the cooperative:

*"This cooperative has used computers to manage information including accounting information, to protect important files we have used storage cabinets"*

## **4. Information and communication**

Referring to the results of research conducted regarding information and communication, whether it is effective. The following are the results of the interview with the chairman of the cooperative:

*"In the financial recording and reporting process, Excel is used, but to view the flow or evidence of transaction history, we still use manual"*

## **5. Monitoring**

Referring to the results of research that has been carried out regarding monitoring, whether it is effective. The following are the results of interviews conducted by the supervisory body:

*"KPRI Handayani has carried out periodic monitoring and supervision which is reported every time the Annual Member Meeting is held"*

## Discussion of Research Results

In this research the author uses components of the internal control system for granting credit by Sujarweni (2015) stating that in the internal control system for granting credit there are 5 components, namely:

- **Control Environment**

KPRI Handayani's control environment involves integrity and ethical values, commitment to competence, management philosophy and style of managing operations, organizational structure, human resource policies and procedures. The sub components of the control environment are as follows:

- a. Integrity and ethical values

Specific rules regarding enforcing employee discipline, starting from what employees are obliged to do, what they are prohibited from doing and a series of sanctions if employees violate the rules. In this way, management can work intensively to reduce dishonest employees.

KPRI Handayani has not fully implemented this sub-component as evidenced by the absence of written documents regarding behavioral standards for employees and the absence of written warning letters for members who are late in paying installments. Where the chairman of the cooperative only conveys verbally regarding integrity and ethical values. For example: how to behave, how to dress, working hours, honesty and manners. Apart from that, the deputy secretary only verbally reprimands members who are in arrears in making payments. In its implementation, the cooperative has implemented integrity and ethical values, but this has not been stated in the standards of behavior for cooperatives and the warning letter has not been stated in a written document.

- b. Commitment to competence

Competency is a knowledge or skill that is required in a company, where the recruitment carried out has terms and conditions in accordance with the position offered, taking into account educational background.

KPRI Handayani has not implemented this sub-component as evidenced by the fact that employee recruitment was carried out only through the Annual Member Meeting (RAT) where the selection of employees was only based on trust. The background of prospective employees is not really taken into consideration so the quality of employees is very poor. KPRI Handayani should not only prioritize trust, but as much as possible consider educational background that is appropriate to the responsibility. Apart from that, KPRI Handayani also recruits employees according to needs and most recently replaced employees from the old savings and loans unit to employees from the new savings and loans unit in 2015. This can be seen in attachment 10.

c. Philosophy and style of managing operations

Have a management philosophy and style of managing operations that shows creative actions, including in serving members.

KPRI Handayani has implemented this sub-component as proven by seeing cooperative leaders who have set a good example to their employees by communicating a clear vision and mission to achieve these goals. In this case, employees are required to be honest and responsible in all their work, maintain good relations between leaders and employees, including being open to ideas, suggestions and criticism, as well as providing improved welfare services for members, being friendly, polite and having good behavior. to provide satisfactory service to members. This document can be seen in attachment 11.

d. Organizational Structure

The organizational structure is created to provide a framework for planning, implementing, controlling and monitoring activities which includes the division of authority and responsibility to achieve goals within the company.

KPRI Handayani has implemented these sub-components as evidenced by the existence of a clear organizational structure that explains the division of duties, authority and responsibilities for all administrators, supervisors, member meetings, managers and employees. Documents can be seen in attachment 13.

e. Human resources policy

Having quality human resources can help an organization achieve its goals. Therefore, it is important for every company to provide education and training to employees to complete their abilities in carrying out their duties.

KPRI Handayani has implemented this sub-component as evidenced by a letter of assignment to attend education and training for employees. In particular, education and training for the savings and loans unit was last carried out in 2016, resulting in a lack of skills in managing savings and loans at KPRI Handayani, Takalar Regency. Documents can be seen in attachment 15.

- **Risk Assessment**

Risk assessment is the identification of risks that are relevant to achieving the entity's objectives, which forms a basis for how risks should be managed. Credit risk is the risk of non-payment of credit that has been given to customers. In this case, before a company or organization decides to approve a customer's credit request, it is necessary to evaluate the customer's credit risk. When assessing credit risk, you must consider various things that determine the size of the credit using the 5C principle.

KPRI Handayani does not implement these components as evidenced by the absence of documents used to analyze the risk of providing credit so that there is a high possibility of bad credit occurring in cooperatives. Apart from that, KPRI Handayani has not yet created a Standard Operating Procedure (SOP) regarding the provision of credit.

- **Control Activities**

Control activities are policies and procedures that help ensure that management directives are carried out. These activities help ensure that the actions necessary to address risks are achieved by the entity. Control activities include separation of duties, adequate authority for every transaction that occurs, safeguarding company assets and records, and independent checking of employee work.

KPRI Handayani KPRI Handayani has not fully implemented these components which can be seen from the storage cabinets used to protect important files that cannot protect against undesirable events such as fire and theft. The documents in question are documents relating to savings and loans such as debt and receivable agreements. Apart from that, separation of duties has been implemented, where we can see the organizational structure which has clearly separated duties and responsibilities for each position. Adequate authority for each transaction has not been fully proven by the absence of documents related to the authority. Asset security documents and cooperative records can be seen in attachment 12 and attachment 13.

- **Information and communication**

Information and communication is a system created to identify, analyze, record and report transactions of an entity. Good information and communication will impact and influence an organization, especially internal parties.

KPRI Handayani has not fully implemented these components as evidenced by the fact that there is no application used to serve members online and all proof of transactions to view a person's loan flow or history is still manual. However, for financial recording and reporting we already use a computer, whereas for making financial reports we use the Excel application. These documents can be seen in attachment 16 and attachment 17.

- **Monitoring**

Monitoring is a supervisory action carried out by management leaders and other employees who are appointed and responsible for carrying out their duties as assessors of the quality and effectiveness of the internal control system.

KPRI Handayani has not been running well which can be proven by the fact that management has not carried out regular audits. Where monitoring

is carried out only in its entirety and is reported at the time the Annual Member Meeting (RAT) is held. Documents can be seen in attachment 18.

The internal control system for granting credit at KPRI Handayani, Takalar Regency is not fully in accordance with the theory put forward by Sujarweni (2015). The sub-components of the control environment are integrity and ethical values which do not have written documents related to ethical values and documents related to written warnings for customers, commitment to competence which carries out recruitment only based on trust and does not consider educational background and the last employee replacement was in 2015 specifically in the savings and loan unit section. In the risk assessment component that does not yet have documents related to risk analysis in providing credit. Then for control activities that have not used authority documents related to their activities. As well as information and communication components that do not yet use an application or system to view transaction history but still use manual.

The way that KPRI Handayani can do in the future to minimize the high level of bad credit is to start implementing an internal control system. Apart from that, further improving the analysis of credit provision, including to see the ability of members to pay credit, namely by requesting documents in the form of salary slips, photocopies of accounts for the last three months, and creating 5C analysis documents.

The results of this research are in line with research conducted by Sari and Ismawati (2019) which states that the internal control system for providing credit in the Aisyiyah Ngadiluwih women's cooperative is still not fully in accordance with COSO theory. This can be seen from four activities that have not been carried out, namely the implementation of credit has not yet been implemented. separate from credit discussion, credit implementation is not yet separate from credit investigation and analysis, the administration section is not yet separate from the cashier and coordinator, the credit section and cashier do not have different password authorization for each employee to access.

## **Conclusion**

Based on the results of research conducted by researchers, it can be concluded that KPRI Handayani Takalar Regency does not fully implement an internal control system for providing credit. This can be seen in the control environment component, where in the control environment there are several sub-components that are not fully appropriate, namely, the Integrity and ethical values sub-components that are not fully in accordance with theory as evidenced by the absence of written documents regarding behavioral standards and the absence of letters of warning. written for customers who are late in paying. The sub-component is commitment to competency, which carries out recruitment based on trust and the last time it replaced new employees with old employees, namely in 2015. The sub-component of human resource policy still lacks education and training for the savings and loan unit, which creates a lack

of skills in terms of savings and Loan. Second, the risk assessment component has not been implemented, where there are no documents used to analyze credit and there is no system of operational procedures (SOP) regarding granting credit, so that credit defaults often occur because of this. Third, the control activity component does not yet contain documents related to transaction authority, apart from that the storage cabinet used still does not protect files from undesirable events. Fourth, the information and communication component, where there is no application that can be used to view proof of transactions and the flow of customer loan history. Fifth, the secure monitoring component has not been audited regularly by management.

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