

Internal Control System in Lembaga Perkreditan Desa (LPD)

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ABSTRACT

The aim of this research was to know the implementation of the internal-controlling system on giving the credit in Village Micro-finance Institution (*Lembaga Perkreditan Desa—LPD*) Desa Adat Anturan. Qualitative and descriptive approaches were used in this research. The primary and secondary data were used as the resources for the research. The methods of the data collection were observation, interview, and documentation. The subject of this research was the leader of LPD Desa Adat Anturan, the leader of the credit department, Kelian adat and clients. The internal controlling system was the object of this research. The data analysis of this research was interactive analysis (interactive model of analysis). The result of this research showed the procedure of giving credit appropriates with the regulation, nevertheless the controlling system using *awig-awig* could not be implemented yet, due to no special *awig-awig* regulated the procedure of giving loans to the problem of credit in the LPD.

Keywords: *Credit, Internal controlling system, LPD*

1. INTRODUCTION

The success of a country can be seen from the economic sector, the economic sector is a field that can help success in other fields [1]. Developing the business of small and medium is one of the ways the government can boost the economy. In developing this business, of course, capital is needed. However, the limitations of capital resulted in delays in the development of businesses, especially businesses small and medium-sized. The issue needs a solution from the government, so that economic activities can continue to take place, e.g. the way of giving aid funds. However, the provision of aid funds by the government cannot always be doable, considering the number of applicants. One of the alternatives is the establishment of an alternative source of funding that helps businessmen who experience difficulties in funding.

Businessmen in Bali, just like other areas, experience obstacles in the aspect of capital to develop their business and to meet their daily needs. In order to overcome the problems, in the 1980s Prof. Ida Bagus

Matra bring the idea to establish Village Micro-finance Institution (*Lembaga Perkreditan Desa—LPD*), to provide financial funding for villagers. LPD is used as a tool by the Pekraman to accommodate the wealth of the village well was in the form of cash, letters of value or goods worth more. According to the Provincial Regulation Bali No. 3 of 2007 on LPD is a body of business finance that is owned by the village which operates in the village are and utilized by the manners of the village local. It is hoped that the LPD which is intended for and stands in the middle of a traditional village will be able to develop under the national legislation and *awig-awig* of the Pakraman village.

The LPD in Desa Adat Anturan is an LPD located in Buleleng District, Buleleng Regency. Same as LPD generally LPD Desa Adat Anturan provide services such as savings, deposits and loans (credits) Provision of credit that must be done by careful with the procedures of credit that right so that funds are channelled precisely targeted and can be returned in accordance with the agreement that is determined considering funding it is owned community village that withdrawal can be done

at any time. In addition to the funds distributed to the public is also a source of wealth of the LPD acquired from interest loans were granted. As one of the sources of funds that exist in the village, LPD Desa Adat Anturan have to serve their communities in terms of funding, for example, there are people who trouble in the capital to develop its business, the funding for the ceremonial religion and others, so that the risk of large that must be faced by LPD. This is the difficulty of returning funds that had loaned it.

LPD Desa Adat Anturan is one of the LPD with categories healthy in the district Buleleng but the category of healthy is still located in the value of the bottom. Interval values for LPD to the category of healthy i.e. ranging between grades 81 up to 100. For LPD Desa Adat Anturan gets value 81, respect is due to the amount of the credit problem in LPD are still quite high. Although LPD village of Anturan has gained rank 10 for category LPD health in Bali in the year 2017, the LPD is also experiencing credit problems every year. Carrying on in September 2019 NPL (non-performing loan) from LPD Desa Adat Anturan have reached 12% and the amount of credit jams were recorded until the month of September 2019 reached 200 million. Problems have occurred one of the causes is the LPD to easily give credit to the public because of the relationship the LPD with the borrowers so that credit can be easily distributed, and also the position of LPD as an institution that is obligated to help the community villages are experiencing problems of funding, so that would not want LPD must give credit though society that does not meet the requirements for obtaining credit. The problem is if not immediately addressed will lead to bankruptcy of the LPD itself and arise many problems to the source of funds and the savings. Implementation of the system of control internal via *awig-awig* village can be the solution of the problems in LPD. Based on previous research, the use of *awig-awig* has been proven to decrease the amount of the credit problems.

2. LITERATURE REVIEW

Establishment of the Lembaga Perkreditan Desa (LPD) aims to help developing economy of the village through savings and channelling capital, provides opportunities, and helps expedite the circulation of money. According to Article 7 paragraph 1 Regulation Province Bali Number 3 Year 2007, as for the scope of business of LPD that accept deposits from the member of the village, to channel loans to the manners of the village, received a loan from the institution 's financial else, and keep the excess liquidity in the bank designated.

Provision of loan/credit, as one main business activity of LPD, needs various calculations such as sharing principles and requirements. In reality, it is still difficult to apply. Trust is needed before granting credit

to assure that the credit will be returned. Assessment of prospective borrowers is a way to gain trust from prospective borrowers. Various ways can be done by finance institutions to make assessment, for example with the procedures ratings are correct [2].

Non-performing loans are a problem that often occurs in every financial institution [3]. Almost all financial institutions must experience this problem. If the customer is already not able to restore its obligations either in part or whole in accordance with the agreement that is done by the institution 's financial and there he said to the credit of the problem [4]. Credit problems can lead to a loss on the institution's financial because the funds disbursed are not able to go back and also institutions financial the failure to obtain the interest which is one of the revenues for the bank. Internal factors and external factors are the causes of non-performing loans. Inaccurate credit analysis, collusion that occurs with financial institution officials, lack of knowledge, weak guidance and monitoring, are internal factors that cause credit problems. External factors usually come from borrowers who do not return credit, use of loans that are not suitable for purposes and natural disasters.

Based on SE No.5 / 22 / DPNP dated September 29, 2003 concerning Guidelines for the Internal Control System for Commercial Banks, non-performing loans are also caused by a poor internal control system which can be the main cause of the bankruptcy of a financial institution. To avoid problems and to repay the credit, an internal control system is needed which is useful for safeguarding the assets of the organization, increasing accuracy, efficiency and being able to carry out management policies. An effective internal control system (SPI) can be a tool for management to carry out its operational activities, this is a form of supervision carried out by bank management to be able to protect bank assets/assets, comply with regulations made by bank management, avoid irregularities and to increase effectiveness and efficiency

Internal control includes organizational structure, methods used in securing organizational wealth, increasing accuracy, implementing efficiency and encouraging compliance with the provisions that have been made [5]. Internal control is the path taken by an organization to achieve its goals. If this internal control is implemented properly it can bring benefits to an organization. Internal control is the responsibility of management, apart from being responsible for planning internal control, management is also responsible for monitoring internal control that is being implemented.

The Village Credit Institution which stands in the middle of a traditional village, in practice must be based on and must follow the customary village regulations (*awig-awig*). These *awig-awig* are usually created directly by the customary village which will later be

used as a guide to carry out everything in the customary village and there are customary sanctions for anyone who breaks them [6]. Not apart from these awig-awig, the LPD in providing credit to the public is also based on these awig-awig so that the credit does not cause problems and this awig-awig also functions in the LPD's internal control system which can function to maintain the wealth of the LPD. This awig-awig can function well to reduce bad credit, this is evident from research conducted by [7], as well as research by [8]. Awig-awig has also proven effective in increasing public awareness to pay its obligations so that bad credit can be reduced according to research conducted by [9].

The LPD in Anturan Traditional Village is an LPD located in Buleleng District, Buleleng Regency. Just like the LPD in general, the Anturan Adat Village LPD provides services in the form of savings, deposits and loans (credit). The provision of credit must be carried out carefully with proper credit procedures so that the funds distributed are right on target and can return according to the agreed agreement considering the funds it belongs to the village community, which can be withdrawn at any time. In addition, the funds distributed to the community are also a source of wealth from the LPD, which is obtained from the interest on the loan. As one of the sources of funds in the village, the LPD of the Anturan Adat Village must serve its community in terms of funding, for example, there are people who have difficulty in capital to develop their business, funding for religious ceremonies and others, so the big risks that must be faced by this LPD are the difficulty of returning the loaned funds.

This research uses the theory of cashmere regarding the procedure of giving credit and the theory of [5] about the internal control system. Both theories are used to analyze the internal control system in providing credit in the LPD at Desa Adat Anturan, the internal control system in providing credit in the LPD is also analyzed using the applicable awig-awig. The purpose of this study was to determine the application of the internal control system in providing credit in the LPD of the Desa Adat Anturan.

3. METHOD

The approach that is used is the qualitative and the type of research is descriptive. This research is located in the LPD of the Desa Adat Anturan, Buleleng District, and Buleleng Regency. The subject of the study is that pamucuk (leader) of LPD Desa Adat Anturan, officer's part of credit, *prajuru* village, and customers who never did deal of credit in LPD Desa Adat Anturan. The internal control system in providing credit in the LPD at Desa Adat Anturan is the object of this research. Primary data and secondary data are the data sources of this study. Data was collected through observation, interviews and documentation [10]. Interactive analysis

(interactive model of analysis) is used in analyzing the data.

4. RESULTS AND DISCUSSION

4.1. Results

4.1.1. Procedure for Providing Credit in the LPD of Desa Adat Anturan

The first stage is applying for credit. People who want to borrow credit will apply for credit by coming directly to the LPD office or through collectors who usually go around looking for customers. From the results of the researcher interview with 3 sources, namely Mr. I Komang Arta Wirawan, S.E. (head of the Anturan Traditional Village LPD), Drs. Ketut Mangku Ginaning (Kelian Adat Desa Anturan) and I Gede Budi Asrama Putra (Head of Credit Section), the first credit procedure is applying for credit. There are two types of credit provided to the public, namely daily loans and monthly loans. Daily credit, where the maximum limit for a borrower is 2 million rupiah and monthly credit is over 2 million rupiah. Daily credit customers usually apply for credit through collectors while those who borrow more than 2 million will come directly to the LPD office to apply for credit by bringing files such as KTP, KK, certificate of guarantee and other necessary documents. If the customer borrows more than 50 million which will be used for business, it is mandatory to attach financial statements and checking accounts held at the bank.

The second stage is credit analysis, the loan officer will go into the field to make observations on prospective borrowers, the observation is carried out secretly without notifying the prospective borrower first. At this stage, the loan officer will observe the prospective customer in terms of character, ability to pay, resources that will be used to pay off his credit, economic condition, and collateral. This is based on the results of an interview with Mr. I Komang Arta Wirawan, S.E. (head of the Anturan Traditional Village LPD), Drs. Ketut Mangku Ginaning (Kelian Adat Desa Anturan) I Gede Budi Asrama Putra (Head of Credit Division) and Made Sukerasma (Customer).

From the results of the interview are, note that the credit daily had a procedure that is different from the credit monthly. Daily credit does not need to be analyzed too deeply because the loan amount is not too large and only needs to provide a guarantee in the form of a BPKB. In the stage of analysis is also, clerk of credit must be careful to do observation to customers, especially more customers who 've been doing credit but problematic things that most need attention, if it had been borrowed and the return run smoothly only the customers that are come first.

The third stage, namely the credit decision, will decide whether the customer is eligible for credit or not. This decision is based on the results of an analysis carried out in the field by the loan officer with the approval of the LPD head.

The fourth stage is the credit agreement, if at the credit decision stage the borrower is declared worthy of credit, the credit agreement stage will be carried out. At this stage the borrower will sign the documents related to credit and guarantee bonds at the notary for borrowing funds of more than 20 million, especially for customers who come from outside the village.

The fifth stage, credit administration. After the credit agreement is implemented, the loan files will be checked by the loan officer, if the files are not complete, they must be completed immediately by the borrower and if they are complete, the files will be collected into one folder and then stored.

The sixth stage is credit realization, the final stage of credit extension is credit realization. If the required documents are complete and signed and the guarantee has been received by the LPD, the credit can be realized to the customer. Credit disbursement is done through the cashier.

Credit monitoring stage. Loans that have been realized to customers must be monitored by loan officers to prevent non-performing loans.

In the handling of non-performing loans, non-performing loans must be handled immediately so as not to cause problems that can harm the LPD. The actions taken by the Anturan Traditional Village LPD to handle non-performing loans are first of all by giving a warning letter to the customer, if up to three times the warning letter fails to make the customer pay off the credit, the collateral will be confiscated by the LPD to pay off the credit.

4.1.2 Internal Control System in Providing Credit in the LPD of the Desa Adat Anturan

The internal control system in providing credit in the LPD at the Anturan Traditional Village seeks to maintain the LPD's wealth even though the funds are channeled to the community in the form of credit. The LPD continues to strive so that the funds channeled can return and the LPD gets interest to increase profitability.

4.1.3. Structural Organization of the Splitting Corporate Responsibility Functional in Resolute

The Anturan Traditional Village LPD carries out its operational activities according to the division of tasks based on its organizational structure. So that in carrying out duties, each employee has received a clear job description in accordance with their field.

Information obtained from the head of the LPD and credit officers shows that the division of tasks in the LPD is clear and in accordance with the applicable regulations. For the credit department, there is a special officer in charge of credit analysis, credit monitoring and also as a debt collector officer. The tasks obtained in each field are divided among its members, for example, to analyze credit, this task is assigned to the credit analysis officer, to monitor credit is the duty of the credit monitor and to collect credit is the duty of the debt collector. This task is carried out by each officer but remains the responsibility of each sector.

4.1.4. System Privileges and Procedures Recording which provide protection which Enough Against Wealth

A system of authority and recording procedures that provide adequate protection for assets is implemented by the LPD at Anturan Traditional Village through transactions carried out must be approved and authorized by their superiors.

From the results of the researcher interview with the head of the LPD and the head of the credit department, the information obtained was that every transaction carried out in the LPD at the Anturan Traditional Village must be known by its superiors, namely the head of the department and the head of the LPD. The correctness of the transaction will be checked by the supervisor so that any possible errors can be identified as early as possible and each transaction must have at least three signatures, namely the signature of the officer handling the transaction, the signature of the department head and the signature of the head of the LPD.

4.1.5. Practice the Healthy in Implementing Duties and Functions Each Unit Organization

Healthy practices in carrying out the duties and functions of each organizational unit in the LPD at the Anturan Traditional Village are carried out by using different forms for each sector and for each transaction and being held accountable by the officer who handles the transaction and the related fields.

A part from that, a sudden inspection was also carried out by his superior, namely the head of the LPD. Although working in the LPD is based on a sense of belonging and sincerity, the head of the LPD is still checking the performance of employees so that employees who are not performing well will be given a warning letter. If the warning letter does not succeed in improving the employee's performance, the next step is to make a statement letter by the employee concerned so that later if the statement letter is violated, the employee will be terminated.

Each transaction in the LPD is carried out by the officer concerned and is held accountable by the members of his field so that any possible errors can be identified as early as possible in accordance with the results of interviews with the head of the LPD in the Anturan Adat Village and the head of the credit department.

In this LPD there is no rotation of positions because as long as the employee is comfortable in his position, the employee will remain in the same position. Rotation of positions will be carried out for employees who feel they are not suitable for their position, so that they can carry out their duties properly. As said by Mr. I Komang Arta Wirawan S.E, the head of the Anturan Traditional Village LPD and I Gede Budi Asrama Putra, the head of the credit department.

Employees at the LPD Anturan Traditional Village get paid leave 12 times a year or once a month. However, if the employee does not have an interest, such as for a religious ceremony or is sick, then the leave is not taken and if there is an urgent need then the leave is taken. As long as the employee is on leave, he will be replaced by another employee who understands the job so that the job is not delayed.

Physical wealth matching with records is also carried out regularly every month through financial reports made from each sector. After one year, the LPD will carry out an accountability report in front of the community through village officials.

The physical assets and records were checked first by each division, then assisted by administrative staff so that if something went wrong it could be corrected as quickly as possible. And for each year, LPD officers, village officials and the community will jointly match the LPD assets.

4.1.6. Employees whose quality is in accordance with their responsibilities.

The recruitment process for employees at the LPD at Anturan Adat Village is carried out through the Buleleng Regency government with a minimum education requirement of high school or equivalent, while for certain positions the minimum education requirement is undergraduate and is a native of Anturan Village.

Prior to becoming permanent employees, employees at the Anturan Traditional Village LPD will first carry out a trial period for approximately three months. During the trial period, the employee will learn to do his job through his supervisor because there is no special training for the employee before becoming a permanent employee. During the trial period, the employee concerned will prove that he is fit to be a permanent employee. To develop the quality of

employees in these LPDs, there is usually training from the district government, and usually each root employee takes turns to attend the training.

4.1.7. Awig-awig in the Internal Control System of the Desa Adat Anturan LPD

Utilization awig-awig for system control intern in the granting of credit in the LPD Desa Adat Anturan not yet fully be implemented considering awig awig are not created specifically to regulate governance governance LPD. Awig awig is very effective for preventing credit problems, such as that can be observed from the results of interviews with Mr. I Komang Arta Wirawan, SE and Mr. I Gede Budi Dormitory Son that the public will be more vigilant before exposed to sanctions customs such as to give rise to a sense of shame in the community village and did not get permission to do the ceremonies of religion , but the obstacles are not there awig awig particular who set about giving credit , if that use is awig awig Desa Adat Anturan was deemed less suitable considering the borrower's credit does not just come from the community village of Anturan .

4.2. Discussion

4.2.1. Procedure for Providing Credit in the LPD of Desa Adat Anturan

The procedures for granting credit in the LPD of the Anturan Adat Village include credit application, credit analysis, credit decisions, credit agreements, credit administration, and credit monitoring and credit realization. Giving credit in LPD Desa Adat Anturan has been implemented in accordance with the management of credit that is applicable in the LPDs are and the management of credit that applies already in accordance with the theory of procedure granting credit on Kashmir [2]. In granting credit in LPD Desa Adat Anturan had no officers specifically which handles things such, where the granting of credit involves the head of the LPD, the head portion of credit, the clerk analysis of credit, the clerk monitors credit, debt collector and the cashier where they already have the duty and authority. From observation and research are conducted researchers note that the procedure granting credit in LPD Desa Adat Anturan already running in accordance with the rules of credit that is applied in the LPD that.

4.2.2. Internal Control System in Providing Credit in the LPD of the Desa Adat Anturan

System control intern at LPD Desa Adat Anturan do aim to keep the wealth of LPD, although the case giving credit to the public, a wealth of LPD must remain awake and even had to get a benefit from the provision of credit are so riches LPD can be increased. System

controls internal use in LPD Desa Adat Anturan namely structural organization that separates responsibilities responsible functional as firmly, the system of authority and procedure of recording that provides protection that is sufficient to riches, the practice of which is healthy in carrying out duties and functions of each unit of the organization, employees that quality is appropriate with responsibility answer and use *awig awig*.

System control internal to the structure of the organization that separates responsibilities responsible functional as expressly been carried out with both these proved to have been the division of tasks that correspond with the structure of the organization LPD Desa Adat Anturan so that each function already has responsibility the answer each and for part of the credit already exist officer specifically who deals with these credits. The system of authority and procedure of recording that provides protection that is sufficient to riches also been implemented with good, where every transaction that occurs must be authorized by his boss or the head of the field respectively. For every form of transactions minimum should be 3 marks the hand, i.e. of officers who handle transactions such, the head section and the head of the LPD. Practices are healthy in carrying out duties and functions of each unit of the organization has been carried out with good, evidenced by the use of the form that is different for each transaction, the examination of sudden, a task that is not absolutely carried by one person and also granting leave to employees. Employees in LPD Desa Adat Anturan quality in accordance with the responsibilities he answered because before becoming the employee should be no requirements are met, and there is training to improve the ability of employees. The use *awig-awig* in the system controlling the internal LPD Desa Adat Anturan not dapatt implemented as effectively as yet no *awig-awig* particular the set of procedures granting credit. From the research that has been carried out, it is known that the internal control system in providing credit in LPD Desa Adat Anturan 've done pretty well and in accordance with the theory that applies, namely the theory of system control intern from ref [5], only just to use *awig-awig* in systems control internal cannot be run yet.

5. CONCLUSIONS

5.1. Conclusions

The conclusions that can be given from the research and discussion that have been carried out are the first, the procedure for granting credit in the LPD of the Desa Adat Anturan Desa Adat has been running well in accordance with the applicable credit management in the LPD starting from credit application, credit analysis, credit decision, credit agreement, disbursement of credit, monitoring of credit and handling of problem

loans. Second, the internal control system in the LPD at Desa Adat Anturan has been implemented in accordance with the prevailing principles in the LPD. And third, the use of *awig-awig* in the internal control system in the LPD at Desa Adat Anturan cannot be implemented effectively, because there is no special *awig-awig* used to regulate the LPD's operations.

5.2. Suggestions

The suggestion given by the author to the LPD of the Desa Anturan is based on the conclusions previously described, the first is that the procedure for providing good credit must be maintained but must also be improved so that credit can be done more selectively so as not to cause problem loans. Second, the internal control system must also be improved so that non-performing loans can be reduced. And third, the making of *awig-awig* for the operation of the LPD at the Desa Adat Anturan must be completed immediately, considering that the *awig-awig* is effectively used in the internal control system because it can prevent non-performing loans.

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