

IMPLEMENTING THE INTERNAL CONTROL SYSTEM IN THE ISLAMIC MICROFINANCE INSTITUTIONS

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Abstrak. *Implementasi Sistem Pengawasan Internal pada Lembaga-lembaga Keuangan Mikro Syariah.* BMT (*Bayt al-Mâl wa al-Tamwîl*) harus lebih meningkatkan prinsip kehati-hatian dalam menyalurkan kredit untuk menghindari hal-hal yang tidak diinginkan. Oleh karena itu, perlu meningkatkan sistem pengendalian internal (ICS) sehingga risiko masalah pembiayaan dapat dicegah. Studi ini mengacu pada sistem pengendalian internal berdasarkan kerangka COSO. Objek studi ini adalah 13 BMT di Depok. Penelitian ini menunjukkan bahwa sistem pengendalian intern pada 13 BMT di Depok berjalan efektif. Hal ini didukung oleh hasil jawaban kuesioner yang berkaitan dengan efektivitas pengendalian internal sebesar 86%. Ada kelemahan pada kurangnya pemeriksaan spontan pada penggunaan dana oleh nasabah, ketidaklengkapan *flowchart* dan pra-nomor dokumen.

Kata kunci: BMT, keuangan mikro syariah, sistem pengawasan internal, pembiayaan, kredit

Abstract. *Implementing the Internal Control System in the Islamic Microfinance Institutions.* BMT (*Bayt al-Mâl wa al-Tamwîl*) should further improve the prudential principles in giving credit to avoid things that are unintended. Therefore, it needs to improve the internal control system (ICS), so the risk of financing problems can be prevented. This study refers to the internal control system based on the COSO framework. The object of this study is 13 BMTs in Depok. The study found that the internal control system at 13 BMTs in Depok were effective. This is supported by the results of the answers to the questionnaire related to 86% effectiveness of internal controls. However, it is still found weaknesses in the lack of spontaneous checks on the use of funds by customers, incompleteness flowchart and pre-numbered documents.

Keywords: BMT, Islamic microfinance, internal control systems, financing, credit

Introduction

Small medium enterprise (SME) is a backbone of Indonesia. Numbers of SMEs increased by organic growth. Ministry of Cooperation and SME of Indonesia stated that number of SMEs in Indonesia was a largest in ASEAN.¹ At the end 2014, number of SMEs reached 57.9 million. However, they still faced the classic problem such as lack of financing, equity and technology.² Financial institutions are required to solve these problems.

Bayt al-Mâl wa al-Tamwîl (BMT) is a microfinance institution that are suggested to finance the SME.³

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¹ SWA, *Tantangan dan Peluang UKM jelang MEA 2015*. 7 April 2015, 10.36 PM. <http://swa.co.id/business-strategy/tantangan-dan-peluang-ukm-jelang-mea-2015>.

² Munawarah, "Peranan Pengendalian Internal dalam Menunjang Efektivitas Sistem Pemberian Kredit Usaha Kecil dan Menengah", *Jurnal Manajemen dan Kewirausahaan*, Vol.13, No. 1, Maret 2011, p. 76-82.

³ Ulfatu Rosyidah, "Evaluasi Sistem Pengendalian Intern Pembiayaan

Existence of BMT in Indonesia has been an Islamic alternative microfinance for 3 reasons. First, BMT was established by a small community. Second, BMT was proven to against the usurer. Previously, the usurer has been an alternative financing for unbankable SMEs. Third, BMT has been proven to survive in crisis 1998.⁴

However, the financing executed by Islamic cooperative or BMT also likely faced the problems. Mu'allim and Abidin,⁵ there are 2 problems faced by BMTs in Indonesia. First, lack of knowledge of BMT operators. They have little knowledge in managing financing and sharia compliance. Second, lack of internal control mechanism.

Musyarakah di KJKS BMT Tumang Cabang Cepogo", Skripsi, Salatiga: STAIN Salatiga, 2013, p. 3.

⁴ Sartini Wardiwyono, *Internal Control System for Islamic Micro Financing (An Explatory Study of BMT in the City of Yogyakarta Indonesia)*. *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 5, No. 4 2012, 340-352, p. 341.

⁵ Sartini Wardiwyono, *Internal Control System for Islamic Micro Financing*, p. 341.

Wardiyonofound that NPF (Non Performing Finance) of BMT is still high. It could be caused by lack of knowledge and internal control in financing procedure.⁶

Wardiyono studiedimplementing of internal control in BMT at Yogyakarta. The study found that 5 elements of COSO internal control were valid to be used as research indicators in BMT. Notwithstanding, COSO has not involved the sharia principle as an indicator. Next, Bunyamin and Istutikfound that COSO internal control was in accordance with IFI operations.

The study added Islamic value as COSO internal control component. This study is taken in Depok City for its SMEs growth frequently. Cooperative, SME and Market official (DKUP) Depok City recorded 15.067 SMEs spread in each subdistrict in Depok (www.depok.go.id). Behind the growth of SMEs, the equity problem is still faced by them. They needed the financing. BMT was suggested to solve the SMEs financing problem in Depok. But, BMT located in Depok is still rare. It was recorded 42 BMTs (www.kukmp.depok.go.id). Finally, the study only involved 13 BMTs that be the sample by some criteria stated in method of study section.

Internal Control System

IAPI expressed the internal control as:

A process taken by the board of commissioners (BOC), management, and staff that designed to make a sufficiency confidence regards to achieve the three objectives i.e (a) the reliability of financial report; (b) the effectiveness and efficiency; (c) the lawabiding.⁷

COSO's study also expressed the internal control as a process implemented by the board of commissioner, management and staff in making the guarantee that the three objectives are achieved i.e (a) the reliability of financial report; (b) the effectiveness and efficiency; (c) thelawabiding.⁸

Based on the previous, it can be summarized that the internal control is a process to achieve the main objectives and taken by an organization. It was not only a decision guideline and a sheet of form. The internal control was aimed to make a sufficiency confidence from the management and BOC.⁹

⁶ Sartini Wardiyono, *Internal Control System for Islamic Micro Financing*, p. 342.

⁷ IAPI, *Standar Profesional Akuntan Publik*, (Jakarta: Salemba Empat, 2011), p. 319.

⁸ Marshall B Romney dan Paul JohnSteinbart,*Sistim Informasi Akuntansi* Buku 1. Edisi kesembilan. (Jakarta: Salemba Empat, 2006), p.230.

⁹ Mulyadi, *Auditing Pendekatan Terpadu*. (Jakarta : Salemba Empat, 2012), p.180.

The objectives will be achieved are:¹⁰ (i) safeguarding assets; (b) checking the reliability of accounting data; (c) supporting the efficiency; (d) and encouraging the implementation of management policies.

Commite of Sponsoring Organization (COSO) arranged the internal control components to 5 (fives) components as stated below.

First, control environment. The control environment is a basic for other component that consists of an action, policies, and procedures that reflect the attitude of management and BOC regarding the internal control.¹¹ Control environment will creates the culture of organization that influences the control awareness from all level of organization¹² and reflects the owners and managers regarding the importance of the internal control. The control environments are consists of (a) integrity and ethic values; (b) the commitment toward the competency; (c) board of directors and audit committee; (d) management philosophy and action style; (e) the organization structure; (f) separation of duty and responsibility; and (g) Human resources policy.

Second, control activity. The control activity is a policy and procedure which guarantee the management policies are done well and minimize the risk. It can be an approval, responsibility, separation of duties and safeguarding of assets (Habibie, 2013, p.496). The control activities may be categorized into the policies and procedures such as management of information; (b) physical control and (c) separation of duties.

Third, risk assessment. According to Arintasari,¹³ risk assessment is a process to identify and assess the risks in achieving the objectives, where the management makes a policy to determine the risk could be managed for the economic condition, industry, regulation, the fluctuative operation in identifying and facing the risks. The risk occurs and changes for the environment changes like a new employee. The selecting of employee need to be based on the job requirement and good program, will bring for

¹⁰ Mulyadi, *Auditing Pendekatan Terpadu*, p.163.

¹¹ Junita StefaniWuisan,*Analisis Efektifitas Pengendalian Intern Piutang Lease pada PT. Finansia Multifinance Tomohon*. Jurnal EMBA Vol.1 No.4 Desember 2013, p. 1610.

¹² RuzannaAmanina,*Evaluasi Terhadap Sistem Pengendalian Intern pada Proses Pemberian Kredit Mikro (Studi pada PT. Bank Mandiri(PERSERO) tbk Cabang Majapahit Semarang)*.(Semarang: Universitas Diponegoro,2010), p.8.

¹³ WiniArintasari,*Analisis Sistem Pengendalian Intern terhadap Keputusan Persetujuan Pembiayaan pada Koperasi Jasa Keuangan Syari'ah (KJKS) Baitul Maal Wat Tamwil (BMT) Anda Salatiga*.(Salatiga: STAIN Salatiga,2013), p.32.

recruiting the skilled employee.¹⁴ If not, the recruiting unskilled and dishonest employee, will worsen the organization. Other risk which is frequently found in internal control risk is debt financing for the adverse selection. The organization has to reserve the bad debt/loan provision and considers the 5C' customer (*Character, capacity, capital, collateral dan condition*).¹⁵

Fourth, information and communication. Information refers to the information system as a method to identify, arrange, analysis, classify, recognize and report the transactions and to safeguard the asset and related liabilities. Hence, the communication is a process to understand each employee roles and their responsibilities which are related to the internal control in financial reporting. The communication may be expressed by oral or an action taken by management.¹⁶

According to Wardiwyono,¹⁷ an effective accounting information system of an entity is which have the flowchart for capturing the organization performance flow and the accounting system guideline that could be communicated to all staff.

Sixth, monitoring. Monitoring is a process in determining the performance quality of the internal control process during a long time and used for making correction.¹⁸ Monitoring could be implemented by the external auditor in internal control system to guarantee the independent evaluation. Beside it, a routine and sudden checking is needed, where the auditee will operate by guiding the certain rule.¹⁹

Bayt al-Mâl wa al-Tamwîl (BMT)

Literally, *Bayt al-Mâl wa al-Tamwîl* may be translated to Bahasa which is meant a home of fund and financing,²⁰ or it meant a financial institution with a social oriented. BMT is an intermediary institution between the depositors and financier based on the

Islamic economics principles in micro scale.

By regulation, BMT is not a formal financial institution as stated by Act No.7 Year 1992 and Act No.21 Year 2008 regarding Islamic Banking. Based on Act No.17 Year 2012 regarding Cooperations, legal entity of BMT, are: 1) Islamic Financial Services Unit (UJKS) and Multi-services Cooperation (KSU); 2) Islamic Funding-Financing Cooperation; and 3) Islamic Financial Services Cooperation (KJKS). If BMT used one of the three legal entity, BMT has to the Cooperation regulation.

BMT also operates a legal entity as Micro Finance Institution (LKM) with Islamic principles based on Act No.1 Year 2013 regarding Micro-Finance Institution (LKM).

Previous Study

Those studies which capture an internal control system in the financial institution are mostly executed in Indonesia and abroad. These are the study which research the internal control system in Islamic financial institution and conventional.

Table1 Previous studies

No	Researchers	Themes	Results
1	Raga FahmiDarmawan, et.al (2015)	Analysis of Internal Control for Implan Financing at PT. Bank SyariahMandiri (Case study at PT. Bank Syariah Mandiri, Branch Buleleng)	Analysis which was given to each internal control elements at PT. Bank SyariahMandiri, Brach Buleleng was consist of environment control, risk assessment, information and communication, control activities and monitoring have been be likely effective.
2	Bunyamin and Istutik (2014)	Model of Internal Control of Islamic Bank	The study found the model of internal control of the Islamic bank with COSO framework is suitable to Islamic bank characteristics.
3	Siyabolat Trimisiu Tunji (2013)	<i>Effective Internal Controls System As Antidote For Distress In The Banking Industry In Nigeria.</i>	The implementing of internal control system was be effective, except lack of the professional accountant who aware to execute the control system regarding the separation of duties.

¹⁴ UlfatuRosyidah, *Evaluasi Sistem Pengendalian Intern Pembiayaan Musyarakah di KJKS BMT Tumang Cabang Cepogo*. Skripsi, Salatiga: STAIN Salatiga, 2013, p. 25.

¹⁵ SartiniWardiwyono, *Internal Control System for Islamic Micro Financing*, p.345.

¹⁶ N.E.Tarigan, B.W. Saputra, dan TomiGinting, *Peran Internal Auditor Terhadap Efektifitas Pengendalian Internal Process Credit Granting And Collection*. Finance & Accounting Journal, Vol. 2, No. 1, Maret 2013, p.74.

¹⁷ SartiniWardiwyono, *Internal Control System for Islamic Micro Financing*, p.345.

¹⁸ SukrisnoAgoes, *Auditing : Petunjuk Praktis Pemeriksaan Akuntan oleh Akuntan Publik*. (Jakarta: Salemba Empat, 2012), p.102.

¹⁹ SartiniWardiwyono, *Internal Control System for Islamic Micro Financing*, p.342.

²⁰ Makhalullmi SM, *Teori dan Praktek Lembaga Mikro Keuangan Syariah*, (Yogyakarta: UII Press, 2002), p.89.

4	UlfatuRosyidah (2013)	Evaluation of Internal Control system in Musyarakah financing at KJKS BMT TumangCabangCepogo	Parts of internal control element are according to the theory. The lack is a staff who execute double job, no separation of duties; unpre-numbered forms and selecting the employee is little effective.
5	Sartini Wardiwiyo (2012)	Internal Control for Islamic micro financing (an exploratory study of BMT in The City of Yogyakarta Indonesia)	The study showed that BMT in Yogyakarta have implemented the internal control in financing activities. While the authorization procedures and SSB roles are likely effective.
6	HersyApriani (2012)	Analysis of Implementing the Internal Control System in financing at KoperasiJasaKeuanganSyariahBaitulMan'watTamwil Darussalam Madani (Bmt-Dm)	Two of five internal control elements have been be effective are the document is used as needed. The lack is the procedure which is not separated cash register and GL, double job and unsuitable skills.
7	Stephanie Suwandi (2012)	<i>Implementation of internal control in microbanking to reduce operational risks(a case study at bank xyz)</i>	The study summarized that the internal control has been be effective. However, there are any internal control areas have to be increased such as revisiting the preventive control, socialization of SOP and control evaluation periodically.
8	Nadia Maya Sari Dewi and Darsono (2012)	Analysis of Implementing of Internal Control Structure in Financing procedures to increase the prevention of Bad debt collection at BNI Syariah Branch Semarang	The internal control has been be effective. The lack is absence of regular financial reporting from debitur. It may causes the bank will faces the bad debt losses.
9	Munawarah*	The role of Internal Control in Enhancing the Effectiveness of Micro loan credit system for SMEs (Case study at KoperasiPegawai BRI Cabang Kediri)	The internal control which was executed in KoperasiPegawai Bank Rakyat Indonesia (KOPEBRI) has been be effective. It was proven by the questionnaires answers that relates to the effectiveness of the internal control as 93,75%.

* Munawarah, *Peranan Pengendalian Internal dalam Menunjang Efektivitas Sistem Pemberian Kredit Usaha Kecil dan Menengah*. Jurnal Manajemen Dan Kewirausahaan, Vol.13, No. 1, Maret 2011.

10	Dr. Theofanis Karagiorgos, Dr. George Drogalas, and Alexandra Dimou (2010)	<i>Effectiveness of Internal Control System In The Greek Bank Sector</i>	The internal control has been be effective. The lack is separation of duties has not been based on th employee placement. The control activities in job rotation is only as13% to reflects the effectiveness.
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Purpose

Purpose of this study is determine the effectiveness of the internal control system based on the COSO framework in 13 BMT's in Depok City.

Methodology

The study operates the qualitative and quantitative approach with the descriptive analysis. The COSO internal control elements are examined in the study as filled in the questionnaires. The internal control instruments and indicators are shown below.

Table 2 Internal control instruments and indicators

No	COSO Internal control system	Indicators
1	Control enviroment	Organization structure Distribution of responsibility Internal auditor Sharia Supervisory Board (SSB) HR policy and training Rotation Management culture Integrity and ethic Adequate facility
2	Control activities	Financing target plan Pre-numbered form Authorization Separation of duties
3	Risk assessment	5C consideration <i>NPF allowance</i> <i>NPF Write off</i> Employee selection
4	Information and Communication	<i>Flowchart</i> Accounting system Accounting system procedures Communication
5	Monitoring	Routine examining Sudden examining Exsternal Auditor

Sources :Wardiwiyo (2012), BunyamindanIstutik (2014).

Based on DinasKoperasi, UMKM and Pasar Kota Depok, number of BMT in Depok City are 42 BMTs (DinasKoperasi, UMKM danPasar, 2015). The samples were determined by some considerations as shown below.

Table 3 The samples

Considerations	Sum
BMT in Depok City	42
BMT established during 5 years	25
BMT with no activity	(12)
Sum of samples	13

Source : Data processed, 2015

After selecting, 13 BMTs are selected to be the samples and the rests are not applicable to the considerations. The selected samples are shown below.

Table 4 List of BMT as sample

No	Name of BMT	Location/Subdistrict
1	BMT Al Istiqomah	Cimanggis
2	BMT AmaliyahArTaufiq	Cimanggis
3	BMT AnNajmiyah	Cimanggis
4	BMT Bina Usaha Sejahtera	Limo
5	BMT GemaPesona	Tapos
6	BMT QM Sejahtera Mandiri	Sukmajaya
7	KJKS ArRahmah	Beji
8	KJKS BerkahMadani (Gas Alam)	Cimanggis
9	KJKS BerkahMadani (KelapaDua)	Cimanggis
10	KJKS Multimitra	Bojongsari
11	KSU Bina Usaha Sejahtera	Pancoran Mas
12	KSU SyariahHuwaiza	Limo
13	LKMS Sri Limo	Limo

Source : Data processed, 2015

The study uses the primer and secunderdatas. The first was taken from the questionnaires filled by the manager, operational staff, financing staff as the respondents who execute the internal control in BMT.

The data was also collected from DinasKoperasi, Pasar and UKM Depok City; BMT’s official documents and processed data such as organization structure, *flowchart*, pre-numbered form and etc. The previous data are needed to complete the respondents answer in the questionnaires.

To examine and analyze the implementing internal control effectiveness is executed as listed below:

1. Spreading the list of questions (the questionnaire) to all respondents determined. The respondent is who are related to implementing the internal control in BMT, Depok City
2. The questions was divided to 2 sections i.e the first is about the general questions regarding the respondent indentity and the second is about the focused questions regarding the implementing the internal control.

3. Asking and collecting the questionnaires filled by the respondents and interviewing them directly.
4. Classifying the problem. “Yes” and “No” answers from the focused question are summed up.
5. Next, for each “Yes” answer and underlyed by the proven document (if applicable) is scored as 1 and the “No” is 0.
6. Summing up the “Yes” for each component/element.
7. Inserting the “Yes” answer and its numbers of questions to the ideal score formula:

$$\frac{\text{Sum of "Yes"}}{\text{Sum of all respondent answer}} \times 100\%$$

8. Counting the “Yes” percentage answer for each element.

Finally, the percentage score are interpreted for implementing the internal control based on these criteri below.

Table 5 Classification of implementing the internal control

Percentages	Interpretation
0%-25%	Ineffective
26%-50%	Less Effective
51%-75%	Enough Effective
76%-100%	Highly Effective

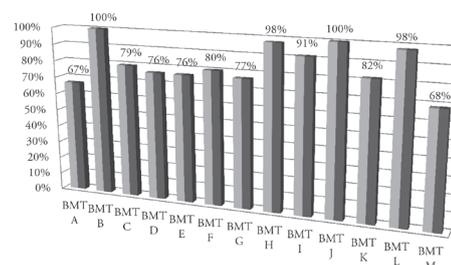
Source: Munawarah (2011)

The table shows if the percentage score is between 0-25%, it means ineffective. If between 26-50%, it means less effective. If between 51-75%, it means enough effective. And if 76%-100%, it means highly effective.

Implementing the Internal Control System in Financing Scheme for 13 BMT’s Depok City

After collecting the questionnaire and interviewing to 13 BMT in Depok City, the data was processed and could be showed the implementing the internal control for 13 BMT in Depok City as seen below.

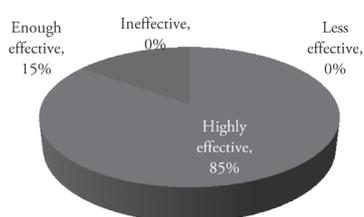
Graph1. Implementing the internal control system for 13 BMT’s Depok City



Source : Data processed (2015)

The BMT names were changed to the alphabet. The finding showed that implementing the internal control system for 13 BMT's Depok City was classified to the graph below.

Graph 2 The classification of BMT, Depok City based in the effectiveness



Source: Data processed (2015)

The findings showed that 13 BMT in Depok City have implemented the COSO internal control system in its financing scheme, notwithstanding the implementation was not fully effective. For detail in each internal control components are shown after.

Analysis of implementing the internal control system in financing scheme for 13 BMT's Depok City

To analyze the the internal control system in financing scheme for 13 BMT's Depok City, the ideal score formula was counted and found from the questionnaire filled as shown below.

Tabel 6. Implementing the internal control system for 13 BMT's Depok City

IC components	Question items	Total	% (Yes)
Control environment (%89,7)	Organization structure	13	100
	Distribution of responsibility	13	100
	Internal auditor	10	77
	Sharia Supervisory Board (SSB)	11	85
	HR policy and training	11	85
	Rotation	11	85
	Management culture	12	92
	Integrity and ethic	13	100
Control activities (%88,5)	Adequate facility	11	85
	Financing target plan	11	85
	Pre-numbered form	9	69
	Authorization	13	100
Risk assessment (%90)	Separation of duties	13	100
	5C consideration	12	92
	<i>NPF allowance</i>	12	92

	<i>NPF Write off</i>	11	85
	Employee selection	12	92
Information and Communication (%84,6)	<i>Flowchart</i>	9	69
	Accounting system	10	77
	Accounting system procedures	12	92
	Communication	13	100
Monitoring (%66,7)	Routine examining	10	77
	Sudden examining	8	62
	Exsternal Auditor	8	62
Total of IC percentages (average)		86	

Source: Data processed (2015)

It could be seen that all of BMT in Depok City in the study have implemented the internal control in financing as average score 86%. It means that the score is between 76-100% that stated as highly effective. The implementing internal control in financing for 13 BMTs in Depok City is highly effective.

For the next, the finding will be detailed to each component as explained below.

Control Environment

Control environment component has been implemented as 89,7%. It means highly effective. Control environment will be detailed to some indicators, below.

First, organization structure. Regarding the organization structure, all of BMT have structured by an organization structure. Homewer, the study found an unwell-regulated structure. As been seen in BMT H that places the SSB are up to board of directors of BMT. Whereas, as been stated in regulation that the SSB is inline to BOD in an Islamic financial institution.²¹ In BMT H, the SSB have the power to be competent than BOD. Whereas, SSB is only a supervisor and has no power in decision making. The confirmation received found that the organization structure in the BMT was not revised and just been saved in PC, no printing document. Later, the number of employee and their functions was not agree with the current condition for the employee addition.

Second, distribution of responsibility. The findings indicate that each BMT have implemented the clear distribution of responsibility from the staff to BOD. Based on the interview to a staff of financing admin that has been held at April, 22nd, 2015, explains the

²¹ Muhammad Syakir Sula, *Asuransi Syariah (Life and General): Konsep dan Operasional*, (Jakarta: Gema Insani Press, 2004), p. 241.

responsibility and duty of each employee. The findings showed that it has been agreed with the theory; the distribution of responsibility has to be implemented in operation.

However, some BMT did not have the complete position. Like BMT G has only 3 people i.e manager, accounting, operation staff. In a certain condition, some position was executed by 1 person. The internal control is less effective for no separation of duties. However, a small size of BMT G and limited resources was a reason to do it.

Third, internal auditor. There are 10 from 13 (77%) BMT in Depok City that has been structured by an internal auditor. Interviewing to *Account Officer* (AO) of BMT H and BMT I, found that the knowledge of BMT managers are likely less for the urgent of internal auditor position. It was caused by the small scale of BMT and limited resources. BMT manager assumed that BMT did not need the internal auditor for co-action of manager. The manager could be represented as an internal auditor. Right, for the microfinance institution (MFI), the IA functions could be acted by manager. Perry expressed that the internal control in a MFI could be implemented in a accounting software system by a person like manager or accounting supervisor when operate the accounting procedure.²²

Fourth, syariah supervisory board. All of 13 BMT places the SSB structure. Based on interviewing to *Account Officer* of BMT H that has been held at May, 21st, 2015, found that SSB in supervising has discussed with the management about the syariah compliance in products and services. However, the discussion was often held via phone or email instead of attending in BMT office. BMT H places 3 peoples as SSB. The SSB did not supervise regularly but they attend to the office subject to the management invitation.

Actually, based in Surat Keputusan DSN No.3 Year 2003, stated that SSB hav to supervise periodically to IFI operations. In the fact, the SSB acts the supervision by invitation or appointment only.

Fifth, human resource policy and training. 11 from 13 (85%) BMT in Depok City have owned the human resources policy and training. Based on interviewing to *Account Officer* of BMT H that has been held at May, 21st, 2015, found that the BMT has the HR policy such as placing the employee based the competences and skills owned and Islamic attitude consideration. The new employee will be trained by BMT for initiating

the jobs and understanding the operational procedures.

Sixth, rotation. Also, 85% BMT has implemented the rotation procedure. Based on interviewing process, a staff of financing admin explained that BMT D has executed the rotation for the employees, such as a accounting staff has been moved to finance staff for preventing the fraud risk. While, the BMT I has not executed the rotation but it can be done by placing the right people in the right job as been explained in the interview process held at April, 28th, 2015. BMT I explained that rotation make an ineffective process for the lack of competences.

Actually, rotation was needed to check the fraud taken by employee. It was a must to be done in BMT.²³ For some reason, a rotation could not be executed for the limited employee. They have double jobs and the specific skills. A rotation may brings BMT for inefficiency. The manager has to be aware for regular checking and monitoring.

Seventh, management culture and style. Based on the filled questionnaires, there are 12 from 13 (92%) BMTs in Depok City which have applied the management culture and style. Based on interview with *account officer* of BMT H, in implementing the management culture, the employees of BMT H have applied it by working in ikhlas and professional. In decision making, the manager also considers the employee opinions. For instance, the disbursement of financing or credit was applied based on the credit amount. If an amount is less than 5 million rupiahs, the disbursement has to be authorized by the manager and staff of financing. And if it was over than 5 million rupiah, the authorization has to be signed by the BOD of BMT.

The management culture and style applied in BMT H was in accordance with the Arens and Loebbecke who have explained that the management culture and style will reminder the employee toward the internal control.²⁴

First, integrity and Ethical value. The study showed 13 BMTs have applied the integrity and ethical value in their operation. As an officer of BMT H said, management of BMT H has applied the Islamic values in operation. Manager supposed the employees to apply the Islamic integrity and ethical value. Employees are suggested to come at 07.30 am and go back at 05.00 pm from the office. All employees recite do'a every morning before their activities, keep the prayer time, say salam to

²² Perry, Larry.L, *Designing internal control systems for smaller entities*. CPA Firm Support Services, LLC, 2014.

²³ Nasir, Jusman, *Internal Control Procedures*, (Depok: Universitas Indonesia, 2008), p. 49.

²⁴ Alvins Arens dan Loebbecke, James K., *Auditing Pendekatan Terpadu*, (Jakarta: Salemba Empat, 1992).

all customers and keep the clean performance. Also, BMT has a reward and punishment mechanism for the employee.

Those integrity and ethical values was accordance with Mulyadi, who explained that manager showed and communicated the integrity and ethical value and designed a system to create employee behavior and attitude.²⁵

Second, adequate facility. Questionnaires show 13 from 13 BMT in Depok City have owned adequate facilities in financing as 85%. Observing to 13 BMT informed that each BMT has 1 PC unit for recording the financing transaction, has the application forms. BMT used an adequate facilities in supporting the financing transaction.

Control Activities

Control activities as an element of IC has been implemented by BMT as 88,5%. The lowest is using the prenumbered forms as 69%. The highest is segregation of duties as 100%. For detail, as listed below. First, plan of financing target. 11 from 13 BMT have applied the plan of financing target as 85%.

Second, using a prenumbered form. Study showed that 9 from 13 BMT have used a prenumbered form as 69%. Absence of procedure caused BMT have not used the prenumbered form as confirmed by an accounting staff of BMT E. Mulyadi stated that using the prenumbered form will make reporting easily.²⁶ For any situation, error and missing of document could be likely handled.

Third, authorization. Study found each BMT has applied an authorization procedure in making decision by the BOD. Authorization level has been designed for BOD and manager. All process have to be authorized by certain level in BMT. But, interviewing to BMT D and H showed that authorization procedures was likely different for the financing. It was accepted if the authorization was taken by BOD or manager. Arens and Loebbecke stated that each transaction has to be authorized by a proper staff for an effective IC. Each staff should not to execute free. It makes the a trouble things.²⁷

Fourth, segregation of duties. Segregation of duties has been applied by all BMT. It makes an effective control in preventing the fraud taken by a staff. For any condition, study also found double jobs.

Number of employee in BMT was also different each other and could be adjusted to BMT needs. Lack of employee numbers and limited resources in a BMT makes dooble jobs in finance activities. For it, monitoring could be executed every day.²⁸

Risk Assessment

An effective IC element applied in BMT is risk assessment as 90%. Higher indicator applied as 92% are 5C considerations, *NPF allowance* and employee selection. While the lowest are *NPF write off* as 85%. These are detailed below. First, 5C considerations. Questionnaires found 12 BMT have applied 5C considerations in financing disbursement as 92%. It means they have considered the applicants/debitur for *character, capacity, capital, collateral* and *condition*. BMT has to review the feasibility of debitur in financing.

Second, *NPF allowance*. Only BMT H has made the allowance for debt financing. Confirming to the account officer, known that BMT H has made NPF allowance from the net profit after tax and zakat. The allowance was taken for 10%.

Third, *NPF Write Off*. Study found 11 BMT have applied *NPF write off*. *NPF Write off* is writing off the bad financing for its default. As BMT H account officer said that writing off will be executed for the financing without the guarantee. At 2014, these are 24 lists of bad financing that has written off by outstanding value Rp. 55.109.498,-. It was indicated 2.46% as reported in the realization report at the end of 2014.

Fourth, employee selection. 12 from 13 BMT has executed the employee selection. As BMT H account officer said that recruitment procedure was initiated by reviewing the applicant CV and interview process. Recruitment was held based on the required and available position. Selection was not considered from the sharia background. It could be recruited from the graduate of senior high school with the specific skills. Next, the new staff will be trained and coached for it.

Information and Communication

84.6% BMT have applied the information and communication for the internal control. Implementing it has been seen as effective. The higher score of this element was a communication element and the lowest was *flowchart* by 69%.

²⁵ Mulyadi, *Auditing Pendekatan Terpadu*, (Jakarta: Salemba Empat, 2002).

²⁶ Mulyadi, *Auditing Pendekatan Terpadu*, p. 191.

²⁷ Alvins Arens dan Loebbecke, James K., *Auditing Pendekatan Terpadu*, (Jakarta: Salemba Empat, 1992).

²⁸ Jiang and Li, *Discussions on the Improvement of the Internal Control in SMEs. International Journal of Business and Management*. Vol. 5, No. 9; September 2010, p. 216.

First, flowchart. Analyzing the flowchart found the weakness of BMT H flowchart. Customer service, financing admin and IT staff are handled by 1 person. It makes the financing procedure ineffective for the double job, and no AO role in it. Actually BMT H has an AO position in organization structure. No checking the application form. No bank account and IBM document as the checklist but both of them were checked in flowchart as a procedure. Other, flowchart has only described the approval not for rejection.

Second, accounting system. 77% BMT have applied an accounting system. Confirming to 5 BMT informed that they operated an accounting software for financial reporting. They are BMT B, BMT D, BMT E, BMT H and BMT I. *Softwares* were operated are different each other. Financial report are printed as a back up of files.

Third, accounting system procedures. It was found that 92% BMT have applied accounting system procedures. BMT H as a respondent explained that they have applied PSAK 27 regarding accounting for cooperation in preparing the financial reporting. BMT has also applied PSAK Syariah for recognizing and presenting the Islamic transaction. While, BMT E confirmed that they did not applied the PSAK Syariah for the lack of information about it. They prepared the reporting based on PSAK 27.

Fourth, communication. All BMT used the communication as an internal control element. For example, BMT H communicated the performance report in the morning moment. Other, they arranged the weekly meeting for all employee.

Monitoring

66.7% BMT have applied the monitoring as an internal control. The highest indicator taken is routine examining and the lowest are sudden examining and existence of external auditor.

First, routine examining. These are 77% BMT have examined routinely toward the uses of fund by debitur. It was done by monitoring the outstanding financing. As BMT D staff said that routine examining was executed at the end of the month by monitoring the installment of outstanding financing.

Second, sudden examining. Only 8 from 13 BMT have applied the sudden examining. It was executed for the debt financing. Wardiwyono, explained that sudden examining should be done to financier and for internal control.²⁹

Third, external auditor. Study found that 62% BMT hired the external auditor for auditing the financial report. For example, the financial report of BMT H was audited annually by the audit firm. The financial report was unaudited by the audit firm because of audit fee and small scale of operation. They have only relied on a accounting software and manager supervision and verification.

Closing Remarks

After analyzing the data, the study could be summarized below. First, 13 BMT in Depok City have applied the internal control. Application of five element of COSO internal control has been applied by varied situation. The lowest element applied is in 67%. Second, in average, application of internal control is in 86% that indicated to an effective internal control applied. []

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²⁹ Wardiwyono, Sartini, *Internal Control System for Islamic Micro*

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