

ANALYSIS APPLICATION OF THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE AND INTERNAL CONTROL SYSTEMS IN PREVENTING POTENTIAL FRAUD AT PT BANK PEMBANGUNAN DAERAH NTT

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Abstracts - Prevention of potential fraud is one of the factors that is very important for the health level of a company. Management must be able to create corporate governance that is able to translate the company's vision and mission in line with existing regulations. The purpose of this study is to determine the extent to which the implementation of the principles of Good Corporate Governance and the Internal Control System at PT Bank Pembangunan Daerah NTT is in accordance with Bank Indonesia (BI) Regulations and Circulars of the Otoritas Jasa Keuangan (OJK) and how it affects the prevention of potential fraud. The research method used is qualitative method. Respondents in this study consisted of 2 Bank NTT officials who were considered capable of providing high-quality information on how the implementation of the principles of Good Corporate Governance and Internal Control System in preventing potential fraud in the Bank NTT environment. The interview method and document analysis were carried out to obtain actual facts at Bank NTT. The results of the analysis lead to the conclusion that Bank NTT has fully implemented the Principles of Good Corporate Governance and Internal Control System in accordance with Bank Indonesia Regulation No.8/4/PBI/2006 and Otoritas Jasa Keuangan Circular Letter No.35/SEOJK.03/2017. On the other hand, the application of GCG and SPI principles has a positive effect on efforts to prevent potential fraud at Bank NTT. By placing Risk Control from the head office to the branch offices, it helps management in conducting fraud prevention.

Keywords: Good Corporate Governance, Internal Control System, Prevention of Potential Fraud, Regional Development Bank.

I. INTRODUCTION

Corporate Governance is a company's internal control system that has the main objective of managing significant risks in order to fulfill its business objectives through securing company assets and increasing shareholder investment value in the long term (Arief Effendi & Krista, 2016). Corporate governance has become one of the issues that is currently gaining popularity in Indonesia. Corporate Governance has been used by many companies to serve as a reference in conducting internal controls for their operational activities. The level of intense competition in the current global era is one of the reasons for the need to implement Good Corporate Governance in order to encourage all business people in an effort to manage the company professionally. (Tuanakotta, 2013) states that internal controls are designed, implemented and maintained by TCWG (Those Charge With Governance), management and employees to mitigate identified business risks and fraud that threaten the fulfillment of entity objectives such as reliable financial reporting. Therefore, controls are intended to provide a response (resposne) to counteract (mitigate) a threat (the possibility

of risk occurrence), so that management implements controls so that threats related to the management of the entity's assets can be mitigated early on. It can be concluded that Good Corporate Governance and the Internal Control System are an inseparable unit in order to achieve the expected performance objectives and produce reliable financial reports.

Banks are financial institutions whose business is highly dependent on funds entrusted by service users or customers. The economic stability of a country is also influenced by the health of the country's banking system. Without a banking organization that is able to collect, manage and distribute capital from the public, the economic sectors of a country do not develop. That is why, the management of banking companies must be well developed. The thing that is used to assess the bank's operating system is to assess its corporate governance. In the banking sector, the establishment of good corporate governance is one of the means to build public, customer, and international trust, which is an absolute requirement for a banking organization to develop. The main product of banks is fund management services for the community, which of course without the full trust of the community, banks cannot operate in accordance with their objectives. It can be concluded that the implementation of good corporate governance in both banking and non-banking companies can improve supervision of management which is useful for effective decision making, preventing opportunistic actions that are not aligned with the interests of the company, and reducing information asymmetry between executives and other interested parties.

Bank Indonesia (BI) has issued Bank Indonesia Regulation (PBI) No. 8/4/PBI/2006 concerning GCG Implementation for Commercial Banks on January 30, 2006. And the Financial Services Authority (OJK) issued Circular Letter (SE) No. 35/SEOJK.03/2017 concerning Bank Internal Control System. Both regulations were made with the aim of strengthening the internal performance of national banking in the face of increasingly complex and dynamic bank risks, seeking to protect the rights of interested parties and also to increase compliance with generally

applicable regulations, such as laws and ethical values (Arief Effendi & Krista, 2016: 8). The implementation of the principles of Corporate Governance and an ideal Internal Control System can provide benefits for banking companies, for example in increasing business productivity and efficiency, increasing the company's operational capabilities, and the company can be accountable for its performance to the public. In addition, the implementation of governance can minimize fraudulent practices committed by certain individuals and conflicts of interest, which are currently a sensitive issue in society. Another benefit is to create more democratic, accountable and transparent organizational management. (Tjahjono Subagio, Josua Tarigan, 2013) defines fraud in general as any illegal act or deliberate improper activity with the aim of deceiving other parties where the victim will suffer losses and the fraudster will benefit.

According to the results of a survey conducted by the Association of Certified Fraud Examiners (ACFE) Indonesia in 2016, it shows that the losers related to fraud are the financial and banking industries, which occupy the second position of organizations that are disadvantaged due to fraud committed. This fraudulent practice is carried out by individuals or groups within the organization or outside the organization, in order to gain direct or indirect benefits. The perpetrators of fraud are usually unscrupulous employees or people who are directly related to an organization or company where fraud is committed.

In this study, the authors raised a research object at Bank NTT. Bank NTT is a regional bank owned by the East Nusa Tenggara provincial government which began carrying out its activities as a bank on July 17, 1962 based on the Decree of the Minister of Finance and Central Bank No: BUM 9-13 / II dated February 5, 1962 concerning Granting a Business License to PT. Bank Pembangunan Daerah of East Nusa Tenggara, with a place of business in Kupang, the capital of East Nusa Tenggara Province. As one of the conventional banks, of course, Bank NTT must implement good corporate governance and an internal control system as a reference in running the organization in order to minimize and even

prevent the possibility of fraud in the Bank NTT environment. Because of this, researchers want to find out more about the extent to which the implementation of Good Corporate Governance and the Internal Control System at Bank NTT is in accordance with Bank Indonesia Regulation No. 8/4/PBI/2006 concerning the Implementation of Good Corporate Governance for Commercial Banks and OJK Circular Letter No. 35/SEOJK.03/2017 concerning Bank Internal Control Systems in preventing (mitigating) potential fraud in the Bank NTT environment.

II. METHODS

In this study, the research method used is qualitative, because the data collected and the analysis are more qualitative in nature. This qualitative research uses a type of case study, which is an empirical inquiry that examines phenomena in the context of real life, when; the boundaries between phenomena and context are not clearly visible and where multiple sources of evidence are utilized (Yin, 2009). Researchers explore cases in certain activities and times by collecting detailed and in-depth information sourced from interview scripts, field notes, photos, other official documents such as the Annual Report, GCG Report and Sustainability Report at PT Bank Pembangunan Daerah NTT.

In this study, the unit of analysis is a person who has competence in internal control at the branch office, especially managing, mitigating risks, and supervising operational activities. The main unit of analysis in this research is the Branch Manager, Branch Unit Leader of Bank NTT. Meanwhile, the embedded unit of analysis is employees, and the public (customers) who use Bank NTT services.

The research was conducted at PT Bank NTT, which is located at Jl. Gajah Mada No. 1, Bajawa - Ngada Regency. The activities to be studied in this research are processes related to the application of Good Corporate Governance principles, Internal Control Systems and fraud prevention. In this study, researchers have also

determined the source of informants. The determination of informants in this study was carried out with several criteria that had been determined based on the research objectives. Therefore, based on these criteria, the research actors include:

Source of Research Informants

Name	Informant's Position/Status
Femi Valentine Doko	Risk Control
Emanuel Sina Rato Meka	Bajawa Deputy Branch Manager
Dominita Tabita Meno	Agent <i>Be Ju Bisa Laku Pandai</i> (0120026LP)

The data used in this study are primary and secondary data. Primary data is data obtained directly based on our own efforts for research purposes (Sekaran, U., & Bougie, n.d.). Secondary data is data that refers to information collected from existing sources. Primary data is obtained through direct interviews with the company while secondary data is obtained through the company's Annual Report, GCG Report and Sustainability Report. To produce the expected data in this study, researchers used the following data collection techniques: Field study is data collection carried out directly on the object of research, which consists of: Interviews, Documentation, Literature Study, and Internet Searching.

III. RESULTS AND DISCUSSION

Conformity of the Implementation of Good Corporate Governance Principles at Bank NTT with PBI Number 8/4/PBI/2006

So far, Bank NTT has implemented the principles of Good Corporate Governance in accordance with Bank Indonesia regulation No.8/4/PBI/2006. Judging from the results of the interview, it shows that Bank NTT is fully committed to implementing GCG principles in accordance with existing regulations. In addition, when viewed from the results of

document analysis, no discrepancies or deviations in the application of GCG principles were found at Bank NTT. The implementation of the principles of good corporate governance (transparency, accountability, responsibility, independence, and equality) has also been evenly distributed in each aspect, which is carried out as a form of compliance with existing regulations, or it can be said to be a real implementation of the principle of responsibility.

On the governance structure side, Bank NTT already has an adequate structure and infrastructure. Included in the structure are the Board of Directors, Board of Commissioners, Committees, and Work Units at the bank. Meanwhile, infrastructure includes bank policies and procedures, management information systems and the main tasks and functions of each organizational structure. Judging from the results of the above analysis, Bank NTT has implemented a good governance structure so as to produce outcomes in accordance with stakeholder expectations.

Impact of the Implementation of Good Corporate Governance Principles on Potential Fraud Prevention

From the fulfillment of GCG principles and the suitability of the application of Bank Indonesia Regulations and other regulations carried out by Bank NTT, it has actually supported an adequate and maximum fraud prevention system. Moreover, information from informants clearly states that the application of GCG principles is considered capable of having a positive impact on preventing potential fraud in the Bank NTT environment. The application of GCG principles helps management in carrying out operational activities to keep running in accordance with existing regulations. This is in line with research conducted by (Jannah, 2016) which states that the application of the principles of Good Corporate Governance has a positive effect on preventing fraud at Rural Banks in Surabaya. The results of research conducted by (Soleman, 2013) on 72 SKPDs of the North Maluku Regional Government show that the application of GCG has a positive effect. This shows that fraud prevention can be done by

eliminating the factors that encourage fraud by applying the principles of Good Corporate Governance.

In addition, the management of Bank NTT in carrying out their respective duties and functions is in accordance with the predetermined tupoksi and always adheres to the applicable rules and regulations. The implementation of a good corporate culture within Bank NTT can minimize the potential for fraud. Bank NTT management also always applies an attitude of transparency. This is done with the aim that customers and stakeholders can also supervise, so that stakeholders do not feel suspicious and with this supervision, management can work well and the opportunity for fraud is getting smaller. The implementation of GCG principles has encouraged the creation of honest management and opened space for participation for customers and stakeholders to conduct supervision to ensure that each function and task has been carried out properly so as to reduce fraud.

Conformity of the Implementation of the Internal Control System at Bank NTT with SE OJK Number 35 / SEOJK.03 / 2017

So far, Bank NTT has implemented an Internal Control System in accordance with SE OJK Number 35/SEOJK.03/2017. This can be seen from the management of Bank NTT which already has clear procedures, duties, authorities, and codes of ethics, In the information collected from various internal informants of Bank NTT, it is explained that each task has been regulated. In addition, management always applies the precautionary principle in determining and dealing with the level of risk received. Risk assessment is a method used to determine the impact of each activity and risk that arises on the achievement of the Bank's objectives, which is carried out by the Risk Management Division, in this case carried out by a Risk Control placed in each branch of Bank NTT in order to mitigate risks or early prevention of fraud.

Impact of Internal Control System Implementation on Potential Fraud Prevention

Based on the results of the analysis and interviews regarding the implementation of the Internal Control System at Bank NTT, it is well implemented and has a positive impact on preventing potential fraud. This is in line with research conducted by (Festi et al., 2014) which states that internal control by internal audit has a significant effect on fraud prevention. Where the better the role of internal control, the higher the prevention of fraud.

Bank NTT implements supervision by management, risk assessment, control activities, accounting systems, information and communication, as well as monitoring activities and corrective actions that are already well underway with the existence of Risk Control personnel placed in each branch of Bank NTT to mitigate each line of work. Bank NTT always prioritizes independence in terms of preventing conflicts of interest by limiting family relationships between employees and stakeholders. Judging from the risk of fraud that is mostly committed by tellers, Bank NTT establishes a regular work rotation system for tellers in order to minimize fraud. Supporting the above findings (Soleman, 2013) states that internal control has a positive effect on fraud prevention which is carried out by reducing pressure, opportunity and improving individual morale at every level of the organization.

IV. CONCLUSION

Regarding the implementation of Good Corporate Governance by Bank NTT

The implementation of GCG principles by Bank NTT has been in accordance with Bank Indonesia regulation No.8/4/PBI/2006 so as to have a positive impact on the prevention of potential fraud within Bank NTT. The application of GCG principles has encouraged the creation of bank management that is honest, transparent, accountable, fair and obedient to applicable rules and laws. From the results of document analysis sourced from the Annual Financial Report, GCG Report and

Sustainable Report of Bank NTT for 2020-2021 and the results of interviews, researchers found that so far, the implementation of GCG principles is in accordance with existing regulations, seen from the completeness of existing indicators and has a positive effect on preventing potential fraud.

Related Internal Control System by Bank NTT

The internal control system that has been implemented by Bank NTT is in accordance with OJK Circular Letter No.35/SEOJK.03/2017, which is seen from supervision and risk mitigation, control activities and separation of functions, accounting, information and communication systems, as well as activities and actions to correct deviations that have been carried out thoroughly. The implementation of this Internal Control System has had a positive impact on preventing potential fraud in Bank NTT. Bank NTT has encouraged the implementation of efficiency and effectiveness, reporting reliability, and compliance with applicable regulations.

Related to Fraud Prevention Potential

The fraud prevention factors carried out by Bank NTT have been implemented in accordance with OJK regulations. The implementation of internal audit, internal control, risk management and good corporate governance are technical aspects of fraud prevention that must be thoroughly and consistently evaluated so that fraud can be properly mitigated. In this study, the main factor in fraud prevention is creating and maintaining a culture of honesty and high ethics and routinely measuring fraud risk carried out by Risk Control (RC) at each branch of Bank NTT in order to eliminate opportunities for fraud.

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