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Analysis Of The Implementation Of The Internal Control System For Credit Disbursement At Ksp Kopdit Abdi Manggarai Timur

Ignasius Irwandi Aman[1*], Lustry Rahayu[2], Junita Cestilia Nenabu[3]
[1,2,3]Business Administration, Universitas Nusa Cendana
*Email Correspondence: ignasiusaman42@gmail.com

***Abstract-** This study aims to examine and analyze how the internal control system is applied to credit disbursement at KSP KOPDIT Abdi Manggarai Timur, the obstacles or challenges faced by the cooperative, and how internal control strategies can ensure that credit disbursement is carried out effectively. The approach used in this study is a qualitative approach with data collection techniques through observation, interviews, and documentation. The results of the study indicate that the implementation of the internal control system for credit disbursement at KSP KOPDIT Abdi has been implemented quite effectively based on the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which encompasses the control environment, risk assessment, control activities, information and communication, and monitoring.*

***Keywords:** Internal Control, Credit Granting.*

I. INTRODUCTION

In this digital age with increasingly complex economic demands, financial institutions whether conventional financial institutions or non-bank financial institutions such as credit unions play a vital role in supporting the economy of the community or their members by providing financial services, particularly in the areas of savings and loans and credit granting [1]. Credit Unions focus on collecting deposits from their members and then providing loans or credit to members in need of funds.

The term “credit” originates from the Greek word “credere,” meaning “trust.” The meaning of the word “credit” indicates that the foundation of credit granting is based on trust. The activity of granting loans or credit naturally carries a very high level of risk and cannot be avoided by financial institutions, one of which is the credit union itself [2].

Although they play a very important role in improving the economic well-being of their members, in practice, many cooperatives cannot avoid the risk of default (non-performing loans) by their members, which subsequently impacts the overall health of the cooperative. This risk of default is triggered by weak internal oversight, insufficiently careful creditworthiness assessments, and a lack of discipline in the implementation of credit procedures. A non-performing loan is a situation where a borrower is no longer able to pay part or all of their obligations to the company as agreed [3]. To minimize the risk of problematic or non-performing loans, credit unions need to have an effective internal control system to ensure that loan disbursement proceeds in accordance with established procedures.

Table 1. Amount of Overdue Payments and Percentage of Overdue Payments

Year	Overdue	% of Overdue
2022	942,139,916	6
2023	960,230,931	5
2024	870,420,550	4
Total	**2,772,791,397**	**15**

Source: *2022–2024 Annual Report of KSP Kopdit Abdi Manggarai Timur*

Internal control, according to the Committee of Sponsoring Organizations of the [4], is a process overseen by management and other personnel and designed to provide key information regarding control objectives in the following categories: reporting, and compliance with applicable laws and

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regulations. According to COSO, controls consist of five components: control environment, risk assessment, control activities, information and communication, and monitoring [5].

KSP Kopdit Abdi in East Manggarai plays a vital role in providing financial services to its members. To support lending activities, an effective internal control system is required to ensure that credit disbursement is targeted, transparent, and in accordance with the principle of prudence. However, in practice, the implementation of internal controls has not been optimal, as evidenced by delays in loan repayments and the potential for non-performing loans.

II. LITERATURE REVIEW

2.1 Agency Theory

In this study, agency theory [6] is used as the grand theory explaining the relationship between principal and agent. In the context of credit unions, members act as principals (capital owners), while the board of directors acts as agents managing business activities, including the granting of loans [7]. This relationship has the potential to create conflicts of interest, thus requiring an internal control system to prevent abuse of authority and ensure that credit management proceeds in accordance with members' interests.

2.2 Credit

Generally, credit is defined as trust (credere), namely the provision of a loan from a creditor to a debtor based on a specific agreement, with the obligation to repay the principal and interest by a predetermined time. According to [8], the objectives and benefits of credit are as follows. The purpose of credit is to seek profit, to assist customers' businesses, and to assist the government in promoting economic growth and development across various sectors. The functions of credit are to increase the efficiency of money, to increase the circulation and flow of money, to increase the utility of goods, to increase the circulation of goods, as a tool for economic stability, to boost business activity, and to improve international relations [9].

According to [10] in his book "Credit Management," the elements of credit consist of Time, Trust, Delivery, a specific period between the granting and repayment of the credit, and Agreement or Contract. Generally, types of credit can be viewed from various perspectives, including [11]. Viewed from the purpose of use, credit consists of Investment Credit and Working Capital Credit. Based on the purpose of the loan, credit consists of Consumer Credit, Productive loans, and Trade loans.

Classified by term, credit consists of Short-term credit, Medium-Term Loans, and Long-term loans. By business sector, credit consists of Agricultural loans, Livestock loans, Industrial loans, Education loans, Professional loans, and Housing loans. By Type of Collateral, credit consists of Secured Loans and Unsecured Loans [12].

The principles of credit granting, according to [11], are classified based on the 5C and 7P analyses. The principles of credit granting using the 5C analysis can be explained as follows: Character, Capacity, Capital, Condition of the economy, and Collateral. Credit assessment using the 7P credit analysis is as follows: Personality, Party, Purpose, Prospect, Payment, Profitability, and Protection.

Credit granting and assessment procedures in the banking sector generally do not differ significantly from one bank to another. The procedures include Submission of documents, Review of Loan Documents, Interview I, On the spot, Interview II, Credit decision, Signing of the loan agreement/other agreements, Loan Disbursement, and Fund disbursement/withdrawal [13].

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) [5] issued a definition of internal control. An Internal Control System is a process or method designed and implemented within an entity to achieve its desired objectives. Based on the above definition, it can be concluded that an Internal Control System is a method or system that exists and is implemented within an entity or institution to provide assurance regarding the achievement of organizational objectives, such as effectiveness and efficiency, reliability of reporting, safeguarding of assets, and compliance with

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laws or regulations. Objectives of internal control:

1. Effectiveness and efficiency of operations
2. Reliability of Financial Reporting
3. Compliance with applicable laws and regulations

The COSO (Committee of Sponsoring Organizations) internal control model comprises the control environment, risk assessment, control activities, information and communication, and monitoring.

1. Control Environment

It is the responsibility of top management to clearly state the values of integrity and that unethical conduct will not be tolerated. The Control Environment serves as the foundation for all other internal control components, providing discipline and structure.

The Control Environment encompasses Integrity and Ethical Values , Commitment to Competence, Participation of the Board of Commissioners and Audit Committee, Organizational Structure , Delegation of Authority and Responsibility, and Human Resources Policies and Practices.

2. Risk Assessment

A hallmark of good internal control is that it enables management to assess risks, and these risks must be measurable because management has established standards for the adequacy of internal controls.

3. Control Procedures

Control activities are policies and procedures that help ensure that management directives are implemented. These policies and procedures consist of Performance Reviews, Information Processing, Physical Controls, and Segregation of Duties

4. Information and Communication Information

Systems relevant to financial reporting objectives, which include accounting systems, consist of methods and records established to record, process, summarize, and report the entity's transactions (both events and conditions) and to maintain accountability for the related assets, cash, and equity.

5. Monitoring

Monitoring is the process of determining the quality of internal control performance over time. This monitoring includes determining the design and operation of controls in a timely manner and taking corrective action.

Adequate internal controls do not always fully guarantee that the company's objectives will be achieved because internal controls have limitations that weaken them. According to [7], the limitations of internal controls are as follows:

1. Errors in judgment
2. Interference
3. Collusion
4. Negligence by management
5. Cost versus benefit

According to [14], to establish an effective internal control system within a company, there are four key elements that must be met, namely:

1. An organizational structure that clearly separates functional responsibilities.
2. A system of authority and procedures, as well as proper record, that provides adequate protection for assets liabilities, revenue, and expenses.
3. Sound practices in carrying out the duties and functions of each organizational unit [8].

The Internal Control System for Credit Granting is a process designed to provide reasonable assurance that credit granting objectives are achieved, including minimizing the risk of non-performing loans and irregularities, through the application of an adequate organizational structure, methods, and measures integrated into the credit granting process from analysis to monitoring.

According to [15], credit control refers to efforts to ensure that the credit extended remains current, productive, and non-delinquent. "Current" and "productive" mean that the credit is repaid along with its interest in accordance with the agreement approved by both parties [9].

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III. RESEARCH METHODS

The research approach used in this study is a qualitative approach. Qualitative research is an approach used to understand social and cultural phenomena through the collection of in-depth, contextual, and non-numerical data [16].

The research was conducted at KSP Kopdit Abdi Manggarai Timur, located in Peot, Borong Subdistrict, East Manggarai Regency, East Nusa Tenggara. The research focus in qualitative research is used to sharpen the research [17]. In qualitative research, the research focus serves as the foundation or basis for formulating the research problem. Therefore, the focus of this study is on the components of internal control, which consist of Control Environment, Risk Assessment, Control Activities, Information and Communication, Monitoring.

The method used by the researcher to identify informants was purposive sampling. The criteria for informants in this study are individuals who have responsibilities and are directly involved in credit disbursement, understand the cooperative's internal control procedures and policies, and possess decision-making authority in the credit approval and monitoring processes, including the Manager, Head of the Credit Department, Credit Staff, and Treasurer or Cashier. The data in this study is descriptive in nature, meaning it describes factual information obtained in the field. The data sources used are primary and secondary data.

The data collection techniques used by the researcher include observation, interviews, and documentation. The data analysis techniques in this study aim to deeply understand the meaning of phenomena, patterns, and relationships derived from interviews, observations, and documents. The analysis is conducted through the stages of data collection, data reduction, data presentation, and drawing conclusions.

IV. RESULTS AND DISCUSSION

Results

The results of the interviews regarding the 5 COSO Control Components yielded the following findings:

1. The control environment at KSP Kopdit Abdi Manggarai Timur has been implemented through leadership by example that upholds integrity, discipline, and responsibility. The organizational structure is clearly defined with a clear division of duties particularly in the credit sector, thereby supporting the effectiveness of internal controls. Staff placement has been aligned with competencies, although challenges remain in the form of limited human resources and insufficient formal training.
2. Risk assessment the primary risks faced are non-performing loans and administrative errors. Risk assessment is conducted qualitatively through creditworthiness analysis based on repayment capacity, loan history, and collateral. Mitigation efforts include credit screening, use of collateral, loan restructuring, and a family-oriented approach toward members.
3. Control activities are carried out through the implementation of credit procedures and segregation of duties among departments. However, there is flexibility in policy under certain conditions while still adhering to the principle of prudence. Deviations are addressed through internal reporting and evaluation to improve procedures.
4. Information and communication internal and external information is utilized as the basis for credit decision-making. Record-keeping is conducted administratively and routinely, though it is not yet supported by an integrated digital information system. Communication with members is still conducted directly, although transparency regarding credit has been implemented.
5. Monitoring is conducted continuously by management and supervisors, including direct monitoring of members following loan disbursement. Monitoring results are used as the basis for evaluating and improving the internal control system to enhance the effectiveness of credit management.

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Discussion

The implementation of the internal control system for credit granting at the " " Credit Union (KSP) and the "Abdi Manggarai Timur" Credit Cooperative (Kopdit) has been based on the five components of COSO. The control environment is reflected in leadership with integrity and a clear organizational structure. Risk assessment is conducted throughcreditworthiness analysis and the use of collateral, although it remains qualitative in nature [18]. Control activities are implemented through segregation of duties and credit procedures. Information and communication sufficiently support decision-making, but are still hindered by a system that has not yet been computerized. Meanwhile, monitoring is conducted continuously and utilized for evaluation.

Key constraints include limited human resources and a lack of training, the absence of standardized risk measurement tools, policy flexibility that could potentially undermine consistency, a manual information system, and monitoring that is not yet formally and systematically documented [18].

To improve the effectiveness of credit disbursement, the cooperative implements several strategies, namely enhancing human resource competencies through training and clear task allocation, applying credit analysis based on the 5C principles and field surveys, strengthening control activities through SOPs, separating functions and implementing multi-tiered approvals, and gradually developing information systems [19]. In addition, monitoring is conducted continuously through field monitoring to ensure that credit is used as intended and that members' ability to repay remains intact.

V. CONCLUSION AND SUGGESTIONS

The implementation of an internal control system for credit disbursement at KSP KOPDIT Abdi Manggarai Timur has been effectively applied and aligns with the five COSO control components, although various challenges remain in the implementation process of these components. Nevertheless, the cooperative continues to implement efforts and strategies to address these challenges to ensure that credit disbursement can be carried out effectively.

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