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Implementation of Regulatory and Supervisory Policy Authority in the Establishment of Internal SOP Against Credit Fraud in Indonesian Banking

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ABTRACT
Banking is one of the drivers and centers of a country's economy. Based on the authority they have, it is not surprising that the risk held by banks is very high. Therefore, banking is one of the business sectors that have very strict supervision. This paper discusses how the implementation of regulatory policy authorities applicable in Indonesia related to the establishment of internal banking Standard Operating Procedures (SOPs) in minimizing the potential for credit fraud and how internal and external supervisory authorities can become benchmarks in supporting the creation of anti-fraud policies, especially in credit fraud. There are two main factors that can create a potential credit fraud chain that leads to financial statement fraud: first, delays in updating regulatory policies; and second, ineffective and insensitive internal and external banking supervision. In addition, there needs to be a certain regulatory policy that deals with credit fraud, whether issued by the government, Bank Indonesia, OJK or internal Banking SOP itself.

Keyword: Policy, Control, Fraud, Credit

1. INTRODUCTION

Banking is one of the drivers and centers of a country's economy. Apart from being trusted to collect funds from the public, banks are also given the authority to manage and channel these funds for profit. The funds are managed through credit / financing distribution, placement of funds in other banks, trade finance, money transfer services, and fast and real time withdrawals. The rapid development of financial technology cannot match the large role of banking in moving the wheels of a country's economy.

The risks held by banks are also very high when viewed from the authority they have. According to Meliana& Hartono (2019), banking fraud is based on motives and opportunities which are then considered by the perpetrator as rationalization for his actions. The biggest motive used by the perpetrators of fraud is the financial factor. Therefore, banking is one of the business sectors that have very tight supervision. This can be seen from the number of reports that must be completed by banks every month, quarter and year. In Indonesia, the report is addressed to Bank Indonesia, the Deposit Insurance Corporation (LPS), and the Financial Services Authority (OJK) which have a banking supervisory function.

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In practice, it is evident that this strict supervision can still be used by certain people to commit fraud. Based on ACFE Global (2016), the banking sector has the highest fraud rate, or 16.8% with 368 cases. ACFE Asia Pacific (2018) explains that the banking sector occupies the second level of fraud after the manufacturing sector, or 11% with 25 cases. ACFE Global (2020) issued results that again placed the banking sector in the highest rank, 22.09% with 364 cases, only 4 cases decreased from 2016.

According to Bansai (2019), credit fraud occurs due to inadequate management supervision, unpreparedness of banking employees in overcoming credit application modes, collusion between employees, credit borrowers that only serve as third parties in the use of real credit funds, technology resources information that cannot provide an early signal of red flags indicating fraud, as well as a lack of coordination between domestic and foreign banks. This is inseparable from the vulnerability of the regulatory system from regulators and the regulator's delay in anticipating loopholes in existing reports. According to KPMG (2015), the development of regulations, such as the Companies Act Section 177, can narrow the gap for credit fraud because companies that have total loans above a certain limit are required to have reports that are integrated with regulators in the fraud reporting mechanism.

The scope of regulations applicable in Indonesia in minimizing the creation of anti-fraud strategy, especially credit fraud, is based on several aspects, including; Aspects of internal banking Standard Operating Procedures (SOPs) for lending in an effort to support the creation of an anti-fraud program. Aspects of implementing an anti-fraud program through internal supervision and external supervision.

The scope of problem identification in this study is the Banking group which is the object of research in several regions and only sees conventional credit fraud (not Islamic credit) and the existence of Article 40 paragraph (1) of Law Number 10 of 1998 concerning Banking. The researchers did not see directly the credit agreement indicated fraud and did not see the report on the implementation of the anti-fraud strategy for Commercial Banks in accordance with Bank Indonesia Regulation No. 11/25 / PBI / 2009 which was updated by the Financial Services Authority Regulation No. 39 / POJK.03 / 2019. In addition, the banking groupings used do not comply with the Financial Services Authority Regulation Number 12 / POJK.03 / 2020.

2. LITERATURE REVIEW AND HYPOTHESIS

Credit Fraud

ACFE (2019), explains that fraud is an act or effort to make a profit for oneself in a dishonest way, taking advantage of the loopholes in the applicable regulations so that it can create losses for others. Meanwhile, according to Singh et al. (2016), credit fraud is a set of processes followed by various types of criminal acts which are high-risk areas in financial institutions.

Financial Services Authority Regulation No. 39 / POJK.03 / 2019 defines fraud as an act of omission or deliberate deviation to deceive, cheat, or manipulate the Bank, customer, or other party, which occurs within the Bank, and / or uses the Bank's facilities resulting in the Bank, customer, or other party suffer losses and / or the fraudsters get financial benefits, either directly or indirectly. This deviant action occurs starting from applying for credit to repayment of credit by the debtor, including when it requires restructuring.

Credit

Credit is the provision of money or an equivalent claim, based on a loan agreement between a bank and another party, which requires the borrower to pay off his/her debt after a certain period of time including the interest (Law Number 10 of 1998). Credit is a belief in the ability of the debtor (credit recipient) to pay a certain amount of loan money plus interest in the future (Thomas in Ismail, 2010).

According to Kasmir (2014), credit comes from the Latin language "credere" which means trust. Credit in general is the trust between the two parties, the bank (creditor) and the customer (debtor), with the assumption that the bank gives trust to the customer according to an agreement that has been made by fulfilling the loan repayment. In other words, the customer gets the trust of the bank to obtain funds and use the loan funds accordingly in accordance with the agreement and in good intention to return the amount agreed by both parties.

Abuse of Authority

Article 3 of the 2019 Corruption Crime Law explains that abuse of authority is usually carried out using written rules as the basis of authority. However, even though the act is in accordance with statutory regulations, the act is categorized as fraud because it has improper intentions and has the potential to harm the state. The principle of abuse of authority requires that each Institution and / or individual not use other authority, not fulfill the purpose of granting authority, not exceed authority (Detournement de pouvoir) and not confuse and / or not abuse this authority (Abuse de droit) (Law No. 30 of 2014).

According to Vredenburgh&Brender (1998), individuals or groups who have the motivation to abuse authority aim to satisfy needs in achieving goals by exerting pressure on people or groups under them to follow their wishes by providing rewards in the form of positions or financial forms.

Keltner et al. (2003), provide an understanding that power is the relative capacity of individuals or groups to be able to modify other countries' policies to regulate resources or to regulate a punishment. Power holders tend to look for risks more and pay more attention to the rewards they will get (Anderson &Galinsky, 2006).

Wang & Sun (2016), in their research found that individual power is positively correlated with the results of corruption that is carried out individually, but group power has a stronger positive correlation with the results of corruption carried out in groups. This is in line with the results of research conducted by Kipnis (1972) that corrupt power holders will act

Policy

Carl J Federick in Leo Agustino (2012) defines policy as a series of actions proposed by individuals, groups and even governments followed by obstacles and opportunities where the policy is proposed in order to overcome obstacles in achieving the desired goals. The scope of the definition of policy deals with resolving several goals and objectives so that it may not always look easy, but the idea of publishing a policy that is followed by behavior and intent is an inseparable part of the definition of a policy.

Meanwhile, Heglo in Abidin (2012) defines policy as a course of action intended to accomplish some end. Jones in Abidin (2012) states that the contents of a policy include:

a. Goal, which is interpreted as the desired ends to be achieved, and is not a goal that is just desired;
b. Plan, which is interpreted as a means to achieve it;
c. Program, which is interpreted as a certain way that has received approval and ratification to achieve the desired objectives;
d. Decision, which is interpreted as a specific action taken to define objectives, create and adapt plans, and implement and evaluate procedures;
e. Impact, which is interpreted as the implication arising from a program in society.

Supervision

Supervision is the process of determining performance indicators and taking actions that can support the achievement of expected results based on scheduled performance (Erni, 2005). Supervision means that managers try to ensure that the organization is moving in the direction or path of goals. However, if a certain part of the organization is going in the wrong direction, managers will try to find the cause and then direct it back to the right path of goals (Subardi, 1992).

In the perspective of state administrative law, supervision is defined as a process of action that compares with the activities that are carried out, implemented, or organized as desired, planned or ordered. The results of this supervision must be able to provide clues as to whether there is a match or even a mismatch and find the cause of the mismatch that arises.

Basically there are several types of supervision that can be carried out, such as:

a. Internal and external supervision
    a. Internal supervision is supervision carried out by a person or institution within the organizational unit concerned. This form of supervision can be carried out through direct supervision by superiors (built in control) or regular supervision.
    b. External supervision is an examination carried out by a supervisory unit outside the supervised organizational unit.
b. Preventive and repressive supervision
    a. Preventive supervision is an action to prevent improper behavior. So, activities are monitored before and during the activity. It will be more useful and meaningful if the supervision is carried out directly by superiors so that irregularities will be detected early.
    b. Repressive supervision is supervision carried out on activities after the activity has been done, which is usually carried out at the end of the fiscal year. Furthermore, inspection and supervision will be conducted to determine whether there is irregularity or not.

3. METHODS

Research Method and Design

This research uses a qualitative approach. The approach used is based on a historical approach and an ethnographic approach that sees a condition directly from the field. Historical approach and Ethnographic approach are used to obtain a overview of the phenomenon of credit fraud practices in banking financial institutions.

Qualitative approach is used to explore and study social phenomena that occur to uncover an in-depth purpose of activities, situations or events about several dimensions of social life (Granger and Newbold 1974). Ethnography is a tool used to conduct research on social sciences through observation, interviews, and documentary data (Reeves et.all. 2013) and to study and produce a comprehensive report of various phenomena in discovering new knowledge (Denzin and Lincoln, 2011).

Hystorical approach is a critical investigation of past events, developments, and experiences through careful consideration of sources of past testimony (Toland & Yoong, 2011). If the source of the testimony can still remember his past memories specifically, each past phenomenon will be obtained to consider and anticipate new phenomena that will emerge (Spilackova, 2012).

Types and Sources of Data

The types of data used in this study are primary data and secondary data as supporting data. The data are obtained from a sample of banks in Indonesia, divided into groups as follows (Figure 1).

The selection of banking sample grouping in this study did not follow the Financial Services Authority Regulation Number 12/POJK.03/2020 concerning Commercial Bank Consolidation. The main reason for not paying attention to the basis for grouping in accordance with POJK is because this research was conducted before the requirements for fulfilling core capital which were set to take effect from 31 December 2020.

The classification of banking books is in accordance with the Financial Services Authority Regulation Number

6/POJK.03/2016 Jo Bank Indonesia Regulation Number 14/26/PBI/2012. Banks with book classification 4 are Banks with core capital more than IDR 30 Trillion. Banks with book classification 3 are Banks with a core capital from more than IDR 5 Trillion to less than IDR 30 Trillion. Banks with book classification 2 are Banks with a core capital frommore than IDR 1 Trillion to less than IDR 5 Trillion. Meanwhile, Banks with book classification 1 are banks with a core capital of less than IDR 1 trillion.

Banks with the qualification of BPR with Business Activities (BPRKU), in accordance with the Financial Services Authority Regulation Number 12/POJK.03/2016 Jo Bank Indonesia Regulation Number 8/26/PBI/200, have a core capital of less than IDR 15 billion (BPRKU 1), a core capital from IDR 15 billion to less than IDR 50 billion (BPRKU 2), and a core capital of at least IDR 50 billion (BPRKU 3).

The banks used as samples in this study consist of 33 Head Offices and 89 Branch Offices for Commercial Banks Book 1 - Book 4, and as many as 15 Head Offices and 53 Branch Offices for Bank Perkreditan Rakyat (BPR).

Data Collection Techniques and Analysis Tools

Data used in this study are obtained through questionnaires, in-depth interviews (face to face and via WebEx, Zoom, Skype, and telephone) with several respondents who meet the criteria and are willing to provide information, literature reviews based on legal regulations. applies, and online data search techniques.

The first step is to submit a letter to the banking head office that the research will be held at the head office and branches that have been determined by the researcher. If the banking head office does not grant permission to conduct research at the branch office, there will be no research conducted at the branch office in that area. The obstacle that arises is that some banks do not reply to the research letter and there are several banks at the head office or at branch offices that do not wish to be the object of research without providing clear reasons that can be understood by the researchers.

Figure1. **Banking Sample Grouping in Indonesia**

Source: Researchers' Descriptive Analysis, processed (2019)

The database obtained in the field is then analyzed to find the relationship of fraud that occurs due to loopholes in the applicable regulations using the Nvivo v12 application and is assisted by the Microsoft Professional Plus 2019 pivot table.

4. RESULT AND DISCUSSION

Demography, according to Kotler (2016: 96) in ACFE Chapter Indonesia (2017), is the study of human population that includes size, location, gender, age, ethnicity, occupation, density, and other characteristics.

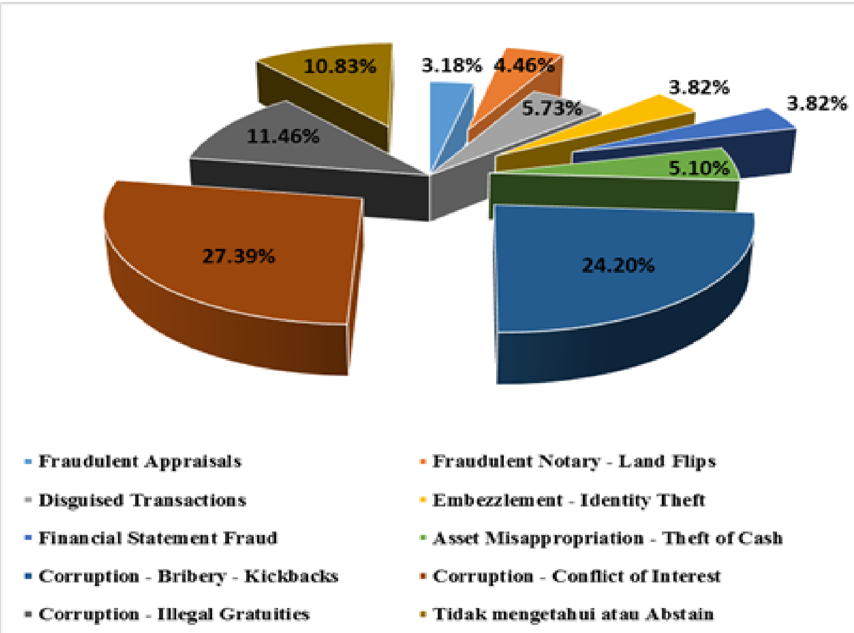
This demographic analysis aims to provide an overview of the data that has been collected by researchers in the form of primary or secondary data. The demographic distribution of respondents can be seen in appendix 1.

Based on the results of filling out questionnaires and interviews, there are several things that the researchers deem inappropriate with the information obtained from the Internal Audit Division and the Reporting Division with the Business Division and the Restructuring Division. This difference in information is also strengthened based on information obtained from former employees and employees who committed credit fraud. The status of bank employees who are indicated to have committed credit fraud is usually positioned as a functional expert who is in 1 HRD Division structure. A functional expert can be called a position which is structurally non-job.

In connection with the differences in the information above, the researchers draw conclusion based on audit findings that are considered minor so they are not required to be submitted to researchers during questionnaires and interviews. In addition, there is also the expectation of getting annual incentives and bonuses based on the results of financial reports that achieve profits that match or exceed the annual targets.

Therefore, it is necessary to identify the distribution of respondents based on knowledge of the fraud that occurred and is related to credit in the bank where they work, as shown in Figure 2.

Figure 2. **Identification of the Distribution of Respondents Based on Knowledge of Fraud**



Source: Researchers' Descriptive Analysis, processed (2019)

In this demographic analysis, respondents are asked to fill out a questionnaire based on their knowledge of fraud occurred in the banks where they work. 38 respondents or 24.20% are fraud on Corruption - Bribery - Kickbacks, 43 respondents or 27.39% are fraud on Corruption - Conflict of Interest, 18 respondents or 11.46% are fraud on Corruption-IllegalGratuities,6respondents or 3.82% are fraud on Embezzlement - Identity Theft, 8 respondents or 5.10% are fraud on Asset Misappropriation - Theft of Cash, 5 respondents or 3.18% are fraud on fraudulent appraisals, and 7 respondents or 4.46% are fraud on Fraudulent Notary - Land Flips, 9 respondents or 5.73% are fraud on Disguised Transactions, and 6 respondents or 3.82% are fraud on Financial Statement Fraud.

Based on the results of filling out the questionnaire and in-depth interviews, the following data were obtained:

a. Fraud on fraudulent appraisals includes cooperation between debtors and individual KJPP bank partners in assessing collateral. There may be cooperation from between bank's internal parties and KJPP elements who are then openly notified to the debtor that the final result of the collateral appraisal can be arranged in such a way as to approach credit applications. In such condition, the value of the appraisal result is not in accordance with the actual condition of the market value, building structure, land and building position or other components.

b. Fraud on Fraudulent Notary - Land Flips occurs because of the cooperation between notary persons, bank employees and debtors. This condition is found in several banks book 1 and book 2 as well as BPR. This condition occurs when the credit agreement uses collateral that is not in the name of the credit applicant, but the name of a relative who is still within 1 (one) family scope. The statements obtained from respondents who are employees indicated to have committed credit fraud, with a position as a non-structural functional expert, former Bank employees who have been imprisoned, and head office credit administration staff are as follows:

"With the very irrational target portion that has been given, we are taking actions that challenge ethics but are not listed in the Internal SOP, namely collaborating with a Notary who has a poor trach record in one of the government-owned banks, Book 4 and Book 3. Therefore , we seem to get a waiver in terms of conducting a Credit Agreement, especially the use of collateral, one of which is signing a letter of approval on the stamp for the use of collateral in 1 (one) family relative without bringing it directly in front of a notary. This condition also occurs when there is a credit application from a cooperative to apply for credit on behalf of its employees. Where the signature of the employee's name listed on the credit deed is actually a fake without the employee's knowledge".

We found this condition in Bogor, RantauPrapat, Medan and Kasikan. Collaboration with notaries who are no longer used in Bank Buku 4 and Book 3 because of their poor track record is one popular option in carrying out this fraudulent practice. In the course of time, the cases in Medan, RantauPrapat and Kasikan have produced legal decisions, but for the cases in Bogor are still in the registration process at the Bandung District Court and are a little hampered by the Covid-19 pandemic

c. Disguised Transactions. There are still several frauds related to Fraudulent Notary - Land Flips. One example is the embezzlement of credit disbursement as previously described in point number 2. The statement from the respondent who was a former employee and head of the division is as follows:

"The disbursement of credit to the ABC cooperative and one of the palm oil companies on the island of Sumatra

began with a decision to cooperate with notary persons who were of poor quality. The difference is that the head of the cooperative is an acquaintance of the management who was still in office and apparently has a background in being included in the National Black List of Bank Indonesia, while the head of the oil palm plasma company is not blacklisted. However, the similarity is that the two prospective debtors were initially entrusted by upper management who had been ordered to conduct an assessment and immediately disbursed financing. When the debtor defaults on a report that requires publication, we are pressured to pay a fine or penalty for the default and become a deduction for the performance appraisal. Payment of fines or sanctions is stated in our internal bank SOP. Therefore the respondent and other employees (4 people) who participated in the signing of the disbursement of financing took the decision to make a loan to the employee cooperative with the agreement that the cooperative interest is charged to 4 (four) employees who make the loan proportionally, 70% is paid by the bank and 30% borne by employees as a penalty for not being able to maintain credit quality".

This fraud was stated by the respondent who had done it 3 (three) times and the ABC cooperative had done it 14 (fourteen) times. The installments that the respondent had paid were made in cash as if they were entrusted to the Account Officer. According to the respondent, the installments that had been paid were in the range of IDR 75,000,000 IDR 378,000,000, IDR 683,000,000, and IDR 714,000,000.

d. Fraud on embezzlement - identity theft is usually carried out jointly by internal bank employees. Previous customer data is usually used for fictitious credit disbursements. The customer is usually credit customer who has been paid off or priority savings customer. The stolen identity came from the Debtor Information System (SID), or which is now transferred to the Financial Information Service System (SLIK), and from the bank's internal database. The application for credit is usually a credit without collateral with many credit disbursement accounts. The background of this fraud is due to credit targets and lifestyle demands. The disbursement is then deposited at another bank, whose interest portion is close to that of the loan interest. The difference from the interest is considered to be paid in installments according to schedule.

e. Financial Statement Fraud related to Disguised Transactions, where the credit installments stated in the cash flow do not reflect the actual conditions that occur in the field. The statements obtained from respondents who are in the Financial Reporting Division are as follows:

"Payment of financing installments made by customers, or manipulated by payments made in advance by bank employees, is outside the function of our division. We only carry out the function of checking abnormal accounts and checking whether there are correct installment payments in the financing account which will later be reflected in the cash flow statement. However, the condition for checking collectability on online collateral-free loan applications is also outside the function of our division. We only receive internal reports on collectability positions from divisions that are directly related to financing. So we are also not responsible if the online credit that is connected to the main banking group occurs where the debtor's funds are not automatically deducted by the system in the savings that are in the main position, but a bookkeeping journal is formed as if there was an installment payment. In other conditions, if the debtor is to be written off, the bank's internal SOP has not been updated, that the Financial Accounting Standards state that it is advisable to reserve all of them first to see

the losses that will be received by the bank, but regulatory regulations only require a minimum Capital Adequacy Ratio (CAR) due to the many write-off practices. So sometimes it occurs in reports that are not externally audited, where the write-offs are carried out without making a complete backup for the remaining debtor's loan."

The researchers see that there are 2 (two) fraud motives related to credit collectability: fraud in the calculation of Allowance for Impairment Losses (CKPN) and fraud in the calculation of Allowance for Earning Asset Losses (PPAP) in taxable profit and loss.

f. Fraud on Asset Misappropriation - Theft of Cash occurs when collateral auction proceeds. The statements from respondent as a department head who was indicated to have committed fraud in one of the banks is as follows:

"The internal bank's SOP does not explain that the collateral auction results are required to be received by the bank via a transfer mechanism to the bank account directly. At that time, when the collateral was successfully auctioned, I filled in the data at the KPKNL to get the money from the auction in cash or transferred to my personal account. I did it initially to create an image to the other departments and management that I was a good department head for treating my subordinates to Japan. The background to this action was because I was upset with management. My salary at that time was somewhat lower than that of other banks and it was an inexhaustible burden to keep on restructuring loans. In addition, there was a sense of resentment from ourselves because sometimes the restructuring actually did not benefit the bank in terms of income, but only had an impact on financial reports that did not need to create reserves as large as the collectability of defaults. This condition was exacerbated because in 2 (two) consecutive years our bank had not held an outing program or a family gathering as a refreshing tool in the middle of completing a pile of work. However, due to the management's knowledge of the action, with a letter from KPKNL stating that the collateral funds had been paid through a team appointed by the Bank's internal, I was immediately dismissed and transferred to a position of functional expert and my subordinates who were traveling were forced to replace all holiday accommodations. We were shocked and forced to participate in compensating the loss amounting to the nominal value of our holiday accommodation instead of having to deal with the police".

g. Corruption - Bribery - Kickbacks in the banking occur in the disbursement of property loans, where the disbursement of credit is above the property sale and purchase agreement between the seller and the buyer. This is supported by the collaboration with KJPP officials to conduct appraisals with results above the actual market price. This can happen because of the cleverness of the seller who informs the buyer that later the buyer will get a kickback from the credit contract price.

From the banking side, if there is no default, it will not cause financial losses. However, what needs to be considered is the allocation of the credit disbursement. Disbursements for property loans (KPR) are only intended for property, but with the kickback due to excess credit disbursements, it allows the funds received by the buyer to be used for their business investments.

h. Corruption-Conflict of Interest relating to Disguised Transactions. The influence of decisions from upper level management in making credit decisions cannot be denied. Judging from the tiered limit of credit approval authority in the banking sector, if there is a default due to the participation of upper level management, the management may be subject to compliance in accordance with applicable law. The following is the statement from respondents:

"Application for credit, which is usually called the booking office, is full of requirements from the interests of the upper management of the bank. In fact, there are many requests to immediately make loan disbursements even though the credit application documents are incomplete. However, they were forced to be approved and the incomplete documents would be submitted a few days later and the results of the feasibility study were declared to be not feasible. If the branch head or employees refuse to sign the eligibility of the Credit Disbursement Agreement, they must be ready to be transferred based on a letter from the Head Office HR Division. We are in an awkward position because, according to the SOP for Credit Disbursement, the credit disbursement limit is tiered and must be agreed upon in a meeting up to the director level. However, the SOP for Credit Disbursement is not written that if one day there is a default from the credit disbursement and there is an indication of fraud, the obligation must be borne jointly by those who sign the Credit Disbursement Agreement document and the derivative of the results of the feasibility study and the results of the credit meeting".

i. Corruption - illegal gratuities related to the occurrence of Corruption - Conflict of Interest, especially booking office credit. Credit that is a booking office is the authority granted by the Head Office to the branch office to conduct credit disbursement or credit monitoring. The branch office can only surrender and cannot refuse this condition, because it can boost the branch office's revenue target and disbursement of credit. The following is the statement from branch office employee:

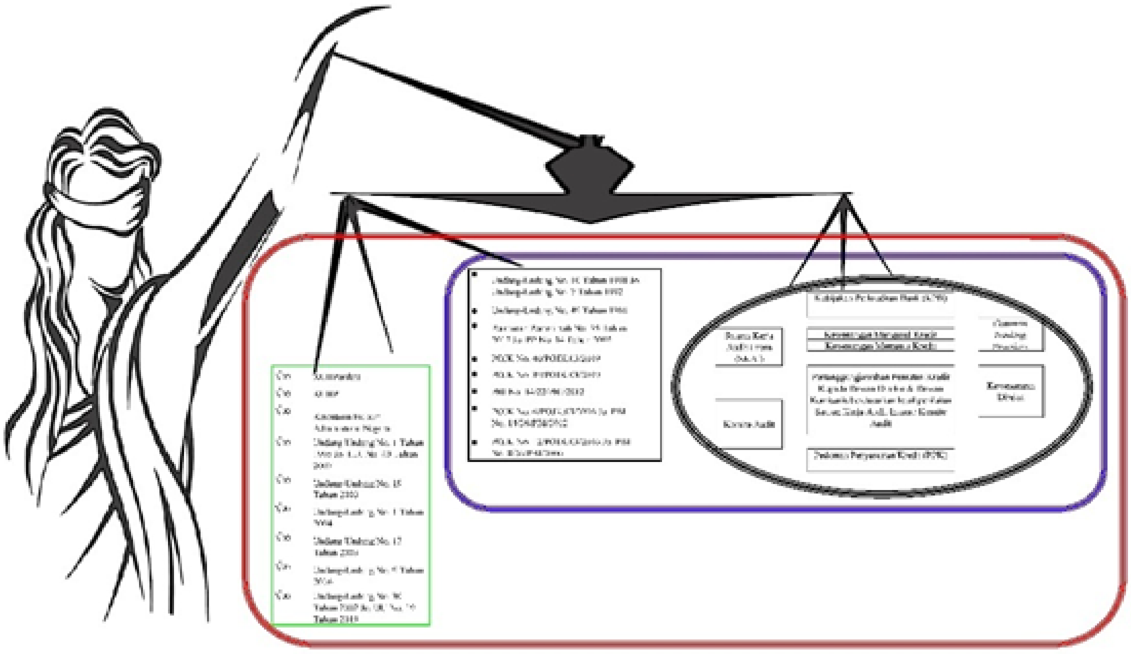
"Usually, the monitoring site visit for booking office credits given to branch offices is the responsibility of the head office employees and management. However, this practice is usually accompanied by tips given by the debtor to the authorized person during the site visit. These tips vary. If the debtor is from palm oil plasma, there is something we always take home like cooking oil from the debtor. We also have ever received treats from debtors or through upper management to shop for local souvenirs. We were happy at that time, everyone would love to be given gifts for free. We do not deny that this booking office credit is often a boomerang to wait for time to strike back and become a non-performing loan".

After knowing that fraud often occurs, it is necessary to look at the link between Standard Operating Procedures (SOP) and regulatory policies that are still in effect today. This can be seen in Figure 3.

The main concern is Standard Operating Procedures (SOPs) in internal banking. The SOPs analyzed by researchers are SOPs for Credit Disbursement, SOPs for Credit Restructuring, SOPs for Credit Write-Off, and SOPs for the Procurement of Cooperation between Third Parties in the Credit Agreement. Distribution of SOPs based on banking classifications in terms of the involvement of internal auditors' supervision can be seen in Appendix 2. The involvement of internal auditors is used as the main measure in assessing SOPs, because internal audit is more likely to detect early and find fraud than other functions in an organization (Coram & Ferguson, 2014).

There are 3 (three) major differences contained in the current banking Standard Operating Procedures. For banks with Book 4, the internal auditor is not involved only in the SOP for credit disbursement. For banks with Book 3, the internal auditor is not involved in the SOP for credit disbursement and the procurement of cooperation between third parties in the credit agreement. However, for banks with Book 2, Book 1, and BPR the involvement of the internal auditor is only in the SOPs for Credit Write-Off.

Figure 3. **Aspects of Legal Regulations in Indonesia**



Source: Modifications from E.C.W. Neloe (2004), modified (2020)

The lack of direct involvement of internal auditors in the business operation process may open up thoughts of committing fraud, starting from the intentions of internal banking employees. This condition is reflected in the occurrence of fraudulent acts such as disguised transactions, embezzlement - identity theft, and fraud on assets misappropriation - theft of cash as previously explained.

Of the many regulations that apply to credit, researchers do not find any special regulations in the payment of credit installments. This is reflected in the existence of fraudulent disguised transactions which have manipulated debtor's credit installment payments by means of first bailing out. Therefore, researchers see the need for a special regulatory policy related to the credit installment payment mechanism. If necessary, the nominal limit for installment payments with the lower limit of funds transfer and clearing can be equated, as stipulated in Bank Indonesia Regulation Number 21/8/PBI/2019. On another occasion, researchers found that SOPs related to loan installment payments at banks were not based on changes in conditions.

Although there is a discourse on the existence of a draft law on the use of currency supported by PPATK and Bank Indonesia, researchers consider that regulatory policies from Bank Indonesia and or the Financial Services Authority need to be issued first to prevent fraudulent practices in accepting credit installment payments.

On the other hand, researchers also do not see any regulations governing the obligation to make comprehensive backups for credit write-off practices. Write-off can only be seen from the minimum Capital Adequacy Ratio (CAR) required by the regulator. Another mechanism that the researchers see is the absence of specific regulatory policies related to the banking restructuring plan. With this special regulation, it is hoped that there will be a more active role in the involvement of internal auditors and external examiners, particularly OJK supervisors, to better understand the banking business flow.

This regulatory policy can be in the form of requiring the names of debtors to be included in the Annual Work Budget Plan (RKAT) of banks or monthly reports for the next 1 month regarding plans for debtors to write off and restructure and debtors to be treated as booking office credits. These actions can only be taken after the results of the examination by the internal auditor. And if the results of the internal auditor's examination provide an indication of fraud in the credit disbursement process until the debtor fails to pay or the booking office credit process is carried out, it must be reported in the anti-fraud strategy implementation report according to POJK Number 39/POJK.03/2019.

As described above, fraud is caused by delays in the renewal of new regulatory policies in anticipation of various types of fraud models that will occur, such as in the dalays in updating of SOPs related to write-offs in banking. Therefore, supervision from internal and external banking has become less effective and less sensitive in finding early indications of fraud, as summarized in the respondents' statements as follows:

> *"Internal auditors very rarely find installment payments that are borne by employees in advance in the Audit Result Report (LHP). This may have occurred due to management pressure on the internal auditors when discussing the Audit Result Report and the need for promises of incentives and bonuses if the year on year (YoY) profit exceeds the target. On the other hand, the examination by the Public Accountant (KAP) and the Financial Services Authority (OJK) has been completed and the financial report has been published, so that the employee's payment for the installment is not found".*

The success of a policy can be determined by the content of the policy itself, which must have clear procedures and mechanisms for policy implementers. Implementers of this policy are banking actors and supervisors. With a clear policy, it can support the supervisory function to be more effective in carrying out its duties. Therefore, it is hoped that a good policy will also be supported by maximum supervision so as to minimize the chance of creating fraud, especially in the banking credit sector.

5. CONCLUSION

Based on observations, there are two main factors that can create opportunities for the occurrence of credit fraud chains that lead to financial statement fraud: delays in updating regulatory policies and ineffectiveness and insensitivity of internal and external bank supervision. One example of the ineffectiveness and insensitivity of supervision is when there is a credit installment payment from a debtor that is paid in advance by a bank employee.

Due to the absence of support between the prevailing policies and the ineffectiveness and sensitivity of supervisors, there is an intention beyond the usual common sense to manipulate installment payments so that the appearance of the banking financial statements looks good.

Therefore, researchers provide suggestions in tackling fraud starting from the applicable regulatory policies as follows. For the Government, Bank Indonesia, and the Financial Services Authority. a) It is necessary to immediately issue Law concerning the use of currency as a meansof payment; b) If it takes a long time to be able to issue this Law, it is necessary to immediately issue regulations governing the following; a) Specific regulations concerning the mechanism for payment of credit installments; b) Regulation on credit write-off plan reports that must be examined first by the internal auditor; c) Regulation on credit restructuring plan reports that must be examined first by the internal auditor; d) Regulation regarding booking office credit plan reports that must be examined first by the internal auditor; For internal Banking Standard Operating Procedures (SOPs). a) Making renewal of Standard Operating Procedures (SOP) for Credit Restructuring, Credit Write-Off, Procurement of Cooperation between

Third Parties in Credit Agreements which always include internal auditors in providing their opinions.

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