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IMPLEMENTATION OF CORPORATE GOVENANCE IN BPR TO ANTICIPATE FRAUD

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Abstract: Good corporate governance is required for BPR (rural banks) to manage significant risks in order to meet their long-term goal of being a going concern. The present study was a qualitative research with the stakeholders as informants. Data were collected by such observation methods as staged interviews, observation, and participation. Results showed that the BPR have been implementing good corporate governance in terms of transparency, accountability, responsibility, independence, and fairness. Implementation of good corporate governance was indeed beneficial for BPR; however, it was only for administrative fulfillment, even capable of interfering with the main operational duties of the company. To prevent fraud, a teamwork of the internal audit and compliance division remained being required. When the auditors did not undertake an audit and were unable to provide recommendations with an impact on the operating division, fraud might remain occurring. Conversely, when the internal audit had a good capability, but the Compliance Division did not undertake the audit recommendations, fraud could also occur. With this study, we hope that the Government, in this case the Financial Services Authority (OJK), can simplify the reporting required for BPR in relation to corporate governance to make it a going concern since they are different from conventional banks.

Keywords: corporate governance, BPR (rural banks), fraud

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1. Introduction

As an institution in charge of collecting and distributing loans to the public, BPR (rural banks) plays a crucial role in the development of Micro-, Small- and Medium-sized Enterprises (MSMEs). As of the first semester of 2018, BPR and Islamic BPR grew well, of 8.59% relative to that of the previous year. The loans were dominantly extended to MSME entrepreneurs.

Good corporate governance is a system of company internal control aimed at managing significant risks in order to meet the long-term business goals. Implementation of good corporate governance for BPR is set out by the OJK in Regulation No. 4/POJK.03/2015 dated 31 March 2015. The reasons behind the implementation of good corporate governance for BPR are: (1) BPR faces increasingly numerous and complex risks and challenges both internally and externally; (2) small BPR emphasizes implementation of corporate governance function properly; presence of an independent party can improve the balance in the implementation of supervision, leading to an optimal corporate governance implementation; (3) Committee members as independent commissioners and independent parties shall be free from conflict of interest; (4) BPR shareholders may appoint representatives to serve as members of the board of commissioners to supervise BPR (Effendi, 2016).

A study by Kangmartono *et al*. (2018) showed that good corporate governance had an effect on company performance. Additionally, studies by Ali *et al*. (2018), Rosa and Bernini (2018), Felicio *et al*. (2018), John and Ogechukwu (2018), and Paniagua *et al*. (2018) showed that good corporate governance had an effect on company performance. In contrast, studies by Bashir *et al*. (2018), Chou (2018), and Ghofar and Noviandry (2018) showed that good corporate governance had no effect on company performance.

Companies that implement good corporate governance, in theory, are capable of reducing the occurrence of fraud in the company. Halbouni *et al*. (2016) showed that well-implemented good corporate governance is capable of fraud detection. In contrast, a study by Astuti *et al*. (2019) showed that implementing good corporate governance cannot prevent fraud. A study by Anggraeni (2018) of the governance of public service agencies' supply management showed that good corporate governance had not been properly implemented. Sudarmanto (2020) showed the need for risk management to detect and prevent fraud. Risk management in BPR is among the requirements set by the OJK; however, if a BPR remains being classified as KU 1, risk management function can be undertaken by the Executive Officer (EO) of Risk Management and Compliance. It was this fact that motivated the present qualitative study.
The purpose of the present study was to evaluate the implementation of good corporate governance in BPR in Sidoarjo Regency in anticipation of fraud. The present study is urgent since companies that implement good corporate governance would minimize the company's risk of loss, both in terms of bad credits and fraud prevention, which may occur due to the absence of separation of duties and responsibilities in a company.

2. Literature Review

Good corporate Governance

Good corporate governance is an economic rule, standard and organization which regulates the conduct of a company's owners, directors and managers, as well as detailing their duties, authorities and responsibilities to investors (shareholders and creditors) (Hamdani, 2016: 21). FCGI (2011) argues that good corporate governance constitutes a set of regulations that establishes the relationship among shareholders, management, creditors, government, employees and other internal and external stakeholders with respect to their rights and obligations. In other words, it is a system that directs and control the company. Thus, good corporate governance is a structured process undertaken by the company management to manage the company, with the aim of increasing the company's values and business continuity.

Companies that implement good corporate governance can benefit in terms of (1) ease of raising capital; (2) Increase in business performance and improvement in economic performance; (3) encouraging professional, transparent and efficient company management, as well as empowering functions and increasing the independence of the board of commissioners, board of directors and the GMS; (4) encouraging shareholders, members of the board of commissioners and members of the board of directors to make decisions and undertake actions based on high moral values and compliance with prevailing laws and regulations. There are 5 (five) GCG pillars: transparency, accountability, responsibility, independency, and fairness.

BPR (Rural Banks)

BPR are banks that undertake business activities within a certain scope to collect funds and distribute them to other people in need. BPR cannot provide services in terms of payment traffic, such as clearing and buying and selling of foreign currencies.

There are 3 categories of BPR: (1) BPR of book I; (2) BPR of book II; and (3) BPR of book III. The difference among these three categories relates to the amount of capital. BPR of book I has capital below IDR 15,000,000,000 (fifteen billion rupiah), book II IDR 15,000,000,000 (fifteen billion rupiah) to IDR 50,000,000,000 (fifty billion rupiah), and book III more than IDR 50,000,000,000 (fifty billion rupiah).

Fraud

Fraud is an act of deceit committed by people for certain reasons (Kumaat, 2011: 135). Actions that are classified as fraud include deceit, concealment or breach of trust. Tunggal (2012: 169) defines fraud as an act that violates the law and may cause losses to several parties. Fraud may occur due to three factors: pressure, opportunity, and rationalization, frequently referred to as the Fraud Triangle Theory. This theory was formulated by Donald R. Cressey in 1950. Fraud can be detected by the presence of good internal controls, an audit process in accordance with the levels of risk and implementation of good corporate governance.

3. Method

The present study was a qualitative descriptive research aimed at determining the role of good governance in anticipating fraud. It was conducted by in-depth interviews, observation and participation of informants (Bungin, 2011: 111). Interviews were performed using the interview guidelines on BPR governance. Data were analyzed using the descriptive qualitative method. Data were collected, understood and analyzed in order to provide an overview of the implementation of BPR good corporate governance in anticipating fraud. The present study used the performance analysis technique, delving into individual experiences and institutional behavior, using the case-study approach (Bungin, 2011: 132). The object of the present study was the stakeholders of BPR in Sidoarjo.

4. Result and Discussion

Results showed that the BPR have been implement the 5 pillars of GCG: (1) transparency, relating to disclosures of financial information and company operating results, company objectives, material risk factors such as interest rates, good corporate governance structure and policies; (2) accountability, relating to individual, team and corporate accountability; (3) responsibility for compliance with laws and regulations; (4) independency, meaning being independent to perform tasks and make decisions independently without any party interfering with the company's affairs; and (5) fairness, associated with votes approved by shareholders, members of the board of commissioners and board of directors and managers shall disclose any interest of indebtedness to transactions or rights affecting the company (Effendi, 2016: 11-15).

The BPR under study were classified as KU1 with an amount of capital of less than IDR 15 billion. They have been separating duties and responsibilities for both the Board of Directors and the Board of Commissioners. However, they did not have a Remuneration and Nomination Committee, Audit Committee, and Risk Monitoring Committee since they were BPR categorized as KU1. They only had Executive Officers (EO) of Internal Audit and PE of Risk Management and Compliance.

The implementation of good corporate governance is quite beneficial for BPR, but it would be better to be simplified. Thus, BPR do not only focus on fulfilling the administration required by the OJK, but can operate properly in order to maintain business continuity (going concern).

Fraud prevention relies on good teamwork among the PE of Internal Audit, PE of Risk Management and Compliance and operations division of BPR. An inadequate capability of Internal Audit would of course be unable to detect fraud in the BPR. On the other hand, when Internal Audit works properly, but the PE of Risk Management and Compliance does not fulfill the audit recommendations correctly, fraud may remain occurring. This is as suggested by the Fraud Triangle theory that fraud consists of three elements: pressure, opportunity, and rationalization.

5. Conclusions

The BPR have been implementing good corporate governance in accordance with the regulations set by the OJK. The required good corporate governance is more directed to administrative reports, despite the annual audit by the OJK. Fraud prevention relies on good teamwork among the PE of Internal Audit, PE of Risk Management and Compliance and operations division of BPR. An inadequate capability of Internal Audit would of course be unable to detect fraud in the BPR. On the other hand, when Internal Audit works properly, but the PE of Risk Management and Compliance does not fulfill the audit recommendations correctly, fraud may remain occurring.

Policy makers are recommended to simplify the reporting by focusing more on risk management capable of fraud detection. Future studies can investigate BPR of KU 2 and KU 3 since there are differences in risk management required by the OJK.

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