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Evaluation of Internal Control in Minimizing Non-Performing Loans at PT Bank SulutGo, Bahu Sub-Branch Office

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Abstract: Lending is a core banking activity that is inherently exposed to the risk of non-performing loans. The Non-Performing Loan (NPL) ratio at PT Bank SulutGo, Bahu Sub-Branch Office, fluctuated from January to April 2026, reaching 1.87%, 2.69%, 1.82%, and 2.55%, respectively, indicating the need to review internal controls at the unit. This study aims to analyze how internal controls are implemented to minimize non-performing loans at the office. A descriptive qualitative approach was employed. Primary and secondary data were collected through interviews with three informants, observation, and documentation, and were analyzed using the Miles and Huberman model with reference to the five components of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. The findings indicate that internal controls are generally well implemented and reasonably effective. The control environment, risk assessment, and information and communication components function well, supported by segregation of duties, BI Checking, the 5C principles, and the Online Integrated Banking System (OLIBS). Control activities are implemented fairly well, although credit-file storage remains suboptimal. Monitoring is the weakest component because it is largely passive and is initiated only after a borrower's name appears on the arrears list, particularly for consumer loans. External factors are the main causes of non-performing loans, including termination of employment, delayed salary disbursement, insufficient residual income, and borrowers' lack of good faith, while the role of the bank's internal factors is relatively limited. The bank is advised to maintain effective existing controls, improve credit-file management, optimize the use of OLIBS information, and implement risk-based monitoring so that any deterioration in borrowers' repayment capacity can be detected earlier.

Keywords: *Internal Control, Non-Performing Loans, COSO.*

A. INTRODUCTION

Banking plays a central role in the economy by supporting a country's economic growth and stability. As financial intermediaries, banks collect public funds in the form of deposits and redistribute them to the public through lending. Lending is a core banking activity that contributes substantially to revenue, asset growth, and operational continuity. However, it also entails considerable risks, particularly credit risk, which can undermine asset quality, profitability, and the overall soundness of a bank. Banks must therefore maintain effective risk management systems to ensure that lending remains sound, secure, and sustainable.

Advances in information technology and banking digitalization have improved service efficiency for the public. Nevertheless, these developments have not eliminated risks in lending activities. One major concern remains non-performing loans (NPLs), referring to loans for which borrowers have difficulty repaying principal and/or interest in accordance with the credit agreement. Safitri et al. (2024) explain that non-performing loans may arise from internal factors, such as weak credit analysis, inappropriate procedures, and inadequate supervision and monitoring, as well as external factors, such as declining borrower income and deteriorating economic conditions. Thus, non-performing loans are associated not only with borrowers' financial capacity but also with weaknesses in the implementation of banks'

internal controls.

Cases across banking institutions indicate that increases in non-performing loans are associated with suboptimal controls at various stages of the lending process, from prospective-borrower assessment and approval to disbursement and post-disbursement supervision. In some cases, warning signs of declining credit quality have already been recorded in the bank's information system but have not been fully used to inform decisions and preventive measures. This situation underscores that internal-control effectiveness depends not only on the availability of technology but also on employees' consistency in following procedures and carrying out supervision.

Internal control is an important element of credit risk management. Its purpose is to ensure that every stage of lending complies with applicable policies, procedures, and regulations, thereby reducing the likelihood of errors, irregularities, and defaults (Mulyadi, 2023). Its effectiveness is commonly assessed using the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013) framework, which comprises five components: control environment, risk assessment, control activities, information and communication, and monitoring. A single component that does not function optimally may increase the likelihood of irregularities and non-performing loans.

PT Bank SulutGo uses the Online Integrated Banking System (OLIBS), an integrated banking information system that manages various operational activities in real time. In lending, OLIBS provides access to borrower information, loan disbursements, installment payments, and loan collectibility, supporting monitoring and decision-making. However, the availability of this information system does not necessarily ensure effective credit management, as outcomes still depend on appropriate procedures, human-resource quality, and the implementation of internal controls at every stage of lending.

As a regional development bank, PT Bank SulutGo plays a strategic role in supporting the economies of North Sulawesi and Gorontalo through lending. In 2024, the bank's gross NPL ratio was recorded at 2.41%, while total lending amounted to IDR 16.13 trillion (PT Bank Pembangunan Daerah Sulawesi Utara Gorontalo, 2024). The bank's assets, profits, and lending continued to grow in 2025, but its gross NPL ratio rose from approximately 2.60% to 2.74% in the first half of the year and reached approximately 2.97% by year-end (PT Bank Pembangunan Daerah Sulawesi Utara Gorontalo, 2026). This increase indicates that credit risk requires continuous management to maintain asset quality and bank soundness.

Bahu Sub-Branch Office (KCP Bahu) is one of the bank's operating units that provides loans. Preliminary observations identified borrowers who had fallen behind on installments, resulting in their credit quality moving from current status (collectibility 1) to special mention (collectibility 2). Without timely intervention, such loans may deteriorate into substandard, doubtful, or loss categories. This situation highlights the need for continuous credit monitoring and internal controls capable of identifying potential non-performing loans at an early stage. Table 1 presents the development of non-performing loans at KCP Bahu from January to April 2026.

Table 1. Total Non-Performing Loans and Total Loans Disbursed

Month/Year	Total Non-Performing Loans (IDR)	Total Loans Disbursed (IDR)	NPL (%)	Number of Borrowers
January 2026	4,970,941,154	265,137,734,181	1.87	43
February 2026	7,111,933,594	264,472,602,975	2.69	44
March 2026	4,838,687,631	265,551,679,602	1.82	42
April 2026	6,817,283,999	267,171,874,610	2.55	41

Source: PT Bank SulutGo, Bahu Sub-Branch Office (2026)

Table 1 shows that total loans disbursed from January to April 2026 ranged from IDR 264 billion to IDR 267 billion, while the value of non-performing loans fluctuated. Non-performing loans amounted to IDR 4,970,941,154 in January (NPL 1.87%), increased to IDR 7,111,933,594 in February (NPL 2.69%), decreased to IDR 4,838,687,631 in March (NPL 1.82%), and rose again to IDR 6,817,283,999 in April (NPL 2.55%). Throughout this period, the NPL ratio remained below the maximum threshold of 5% set by the Financial Services Authority (OJK). This does not, however, mean that credit risk was fully under control. The value of non-performing loans changed each month even though the number of borrowers in arrears remained relatively stable, at 41–44 borrowers. This pattern suggests that the magnitude of credit risk depends not only on the number of borrowers but also on the value of each borrower's credit facility.

Previous studies have emphasized the importance of internal control in reducing non-performing loans. Syahwa and Nuryanto (2025) concluded that internal controls, layered authorization, and automated borrower reminders support efforts to prevent non-performing loans. Rachmawati and Rachman (2023) found that internal controls over multipurpose loans were effective and could reduce non-performing loans. Udayani et al. (2023) added that consistently implemented controls help reduce non-performing-loan risk through credit verification and supervision. In contrast, Pandelaki et al. (2025) found that the risk-assessment and monitoring components of COSO-based internal control were not yet optimal, allowing non-performing loans to continue increasing. These differing findings indicate the need for evaluations at the operational-unit level, particularly for consumer loans repaid through payroll deductions.

This study aims to analyze the implementation of internal control in minimizing non-performing loans at PT Bank SulutGo, Bahu Sub-Branch Office. The research question is how internal control is implemented to minimize non-performing loans at the sub-branch. Theoretically, this study is expected to contribute to the academic literature on financial accounting, particularly the implementation of internal control at regional development banks. Practically, its findings may help the bank assess the effectiveness of its internal controls and improve its credit-management policies and procedures.

B. LITERATURE REVIEW

1. Financial Accounting

Kieso et al. (2020) define financial accounting as the process of preparing and presenting an entity's financial statements in accordance with applicable accounting standards to meet the information needs of external parties, such as investors, creditors, and the government. Financial accounting involves recording, classifying, and reporting an entity's financial transactions (Putro et al., 2024). In banking, it serves to present the bank's financial position fairly, including the recognition and measurement of productive assets such as loans. Loans are among a bank's principal assets and are also a source of risk. Accordingly, loan quality and potential losses arising from non-performing loans must be disclosed transparently.

2. Internal Control System

COSO (2013) defines internal control as a process designed and implemented to provide reasonable assurance that three categories of objectives will be achieved: effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Elder et al. (2012) also identify these three objectives as the principal aims of an internal-control system. Mulyadi (2023) describes an internal-control system as an integrated set of organizational structures, methods, and measures intended to safeguard

organizational assets, verify the accuracy and reliability of accounting data, improve operational efficiency, and promote compliance with management policies. According to Mulyadi (2023), its effectiveness is supported by four elements: an organizational structure with clear segregation of functional responsibilities; an authorization and recording system; sound practices in carrying out organizational duties and functions; and employees whose competencies are appropriate to their responsibilities.

Romney and Steinbart (2021) describe the five interrelated components of internal control under COSO. The control environment forms the foundation of the system and includes commitment to integrity and ethical values, oversight responsibilities, organizational structure, authority and responsibility, commitment to competence, and accountability. Risk assessment involves identifying, analyzing, and evaluating risks that may hinder the achievement of objectives, including fraud risks and significant changes. Control activities comprise policies and procedures such as performance reviews, transaction-processing controls, physical safeguards for assets and documents, and segregation of duties. Information and communication ensure that relevant information is recorded, processed, and conveyed to those who need it. Monitoring consists of ongoing evaluations to ensure that all components function effectively and that weaknesses are addressed. In credit management, monitoring includes supervising procedures, periodically evaluating credit quality, and tracking borrowers' installment payments.

3. Credit

The term credit originates from the Latin word *credere*, meaning "to believe," and reflects a bank's confidence that a borrower will repay a loan in accordance with the agreement (Kasmir, 2018). Before disbursement, banks assess prospective borrowers using the 5C principles: character, capacity, capital, collateral, and conditions. This analysis helps banks determine whether an application should be approved or rejected and helps prevent loans from becoming problematic.

Kasmir (2018) classifies loans according to their intended use as consumer, productive, and trade loans. Consumer loans finance personal needs and are repaid from regular income, such as salaries or pensions, whereas commercial loans support business development and are repaid from business profits. This distinction determines how loans should be assessed and monitored. Consumer-credit assessment emphasizes the stability of regular income, while commercial-credit assessment focuses on business conditions and performance. Kasmir (2018) also identifies five elements of credit: trust, agreement, term, risk, and remuneration.

4. Non-Performing Loans

Non-performing loans are uncollectible receivables that arise when borrowers are unable to repay loan principal and/or interest, resulting in potential losses for the bank. Causes may include internal factors on the borrower's side (lack of good faith, declining repayment capacity, or use of funds for purposes other than those agreed) and on the bank's side (inadequate creditworthiness analysis, weak procedures and supervision, or deviations from standard operating procedures). External factors may also contribute, including economic instability, changes in regulations and policies, and disruptions to borrowers' employment. For loans repaid through payroll deductions, the continuity of the borrower's employment is a major external factor (Pandelaki et al., 2025).

Collectibility is used to assess loan quality. Financial Services Authority Regulation No. 40/POJK.03/2019 on the Assessment of Commercial Bank Asset Quality (OJK, 2019) divides loan quality into five categories: current (collectibility 1); special mention

(collectibility 2), with arrears of 1–90 days; substandard (collectibility 3), with arrears of 91–120 days; doubtful (collectibility 4), with arrears of 121–180 days; and loss (collectibility 5), with arrears exceeding 180 days. Kasmir (2018) identifies three approaches to resolving non-performing loans: rescheduling, reconditioning, and restructuring. Consumer loans require tailored handling because repayments come from regular income. Tenaya et al. (2024) explain that termination of employment eliminates the borrower's income source, prompting banks to prioritize non-litigation solutions. A credit-insurance claim may be submitted when a borrower loses income through no fault of their own, subject to Financial Services Authority Regulation No. 20 of 2023 (OJK, 2023).

5. Previous Studies

Most previous studies of banks and financial institutions conclude that internal control can effectively reduce non-performing loans, although weaknesses remain in certain components. Nasution and Tarmizi (2023) and Rachmawati and Rachman (2023) found that controls over lending were effective. Nurnajmillah and Nugroho (2025) also considered internal control effective but noted that document filing still needed improvement. Putri and Setiadi (2023) identified shortcomings in segregation of duties and the adequacy of documents and records, while Sugiyanto et al. (2022) found weaknesses in credit information systems and supervision. Mattoasi et al. (2023), in their study of Bank SulutGo's Gorontalo Branch, concluded that preventive and corrective controls were reasonably effective, although the number of problematic borrowers continued to increase. Fauzi et al. (2025), Natasya and Rachmawati (2025), Widiyantara and Trimurti (2024), and Helmi et al. (2024) showed that sound risk management, application of the 5C principles, and implementation of the five COSO components help control credit risk.

Quantitative and mixed-methods studies further support these findings. Wulandari et al. (2024) found that internal control, internal audit, and supervision of collectibility had significant effects in reducing NPLs. Hossain et al. (2025) demonstrated the effectiveness of internal corporate-governance mechanisms, such as audit committees and board monitoring, in controlling NPLs. Kim (2022) found significant effects of the control environment, risk assessment, and control activities on credit risk. Naili and Lahrichi (2022) emphasized that both bank-specific and macroeconomic factors contribute to non-performing loans, while Li and Ding (2024) and Thao (2024) highlighted the need to integrate internal control with risk management and management information systems. Regarding the causes of non-performing loans, Saroinsong et al. (2022), in a study at Bank SulutGo's Main Branch, found external factors to be the most dominant.

The conceptual framework of this study treats the implementation of internal control in the lending process, based on the five COSO components, as the object of evaluation. The evaluation results are used to assess the extent to which these controls help minimize non-performing loans and to identify components that require strengthening.

C. METHOD

This study uses a descriptive qualitative design. Sugiyono (2023) states that descriptive qualitative research aims to describe a phenomenon objectively and in depth based on field data collected through interviews, observation, and documentation. This approach is appropriate because the study focuses on evaluating internal control in efforts to minimize non-performing loans. The research was conducted at PT Bank SulutGo, Bahu Sub-Branch Office, located at Bahu Mall shophouse complex, Block S 14, Jl. Wolter Monginsidi, Bahu, Malalayang District, Manado. Data collection began in February 2026 and continued until completion.

This study uses both qualitative and quantitative data. Qualitative data consist of written material, images, or audio recordings describing the research subject. Quantitative data comprise numerical information supporting the analysis, such as the value of non-performing loans, total loans disbursed, the NPL ratio, and the number of borrowers whose collectibility falls into a non-performing category. Primary data were obtained directly through interviews and observation. Secondary data included the company profile and organizational structure, lending procedures, loan-disbursement reports, non-performing-loan data, NPL ratios, borrower collectibility, and regulations concerning internal control and lending. Both data sources were used for triangulation to support the validity and reliability of the findings (Sugiyono, 2023).

Sugiyono (2023) regards data collection as a strategically important research stage because its primary purpose is to obtain data for analysis. Data were collected through interviews, observation, and documentation. Interviews were conducted on 30 June 2026 with three informants involved in the lending process, as listed in Table 2. Direct observation of operational activities was carried out to verify the collected data. Documentation included notes, files, and supporting documents such as credit-application requirements, descriptions of lending procedures, and non-performing-loan data.

Table 2. List of Informants

No.	Name	Gender	Position
1	Lusiana Kaunang	Female	Operations Assistant Manager
2	Fikri Pangalima	Male	Account Officer (Consumer Credit Analyst)
3	Sjeren Saroinsong	Female	Account Officer (Commercial Credit Analyst)

Source: Processed data (2026)

Data analysis followed the Miles and Huberman model (Miles et al., 2014), conducted continuously from data collection through conclusion drawing. The analysis comprised four stages: (1) collecting data from interviews, observation, and documentation; (2) reducing the data by selecting and summarizing information directly relevant to the research focus to assess the effectiveness of internal-control implementation; (3) presenting the data in narrative and tabular form according to the five COSO components and the stages of the lending process analysis, approval, disbursement, recording, and supervision; and (4) drawing conclusions by comparing the data with the theoretical framework.

D. RESULT AND DISCUSSION

1. Overview of the Research Object

Bank SulutGo, or PT Bank Pembangunan Daerah Sulawesi Utara Gorontalo, was initially established as Bank Pembangunan Daerah Sulawesi Utara Tengah under Deed No. 88 dated 17 March 1961. Its legal status changed from a regional enterprise to a limited liability company in 1999 under Deed No. 7 dated 14 April 1999. The name Bank SulutGo came into use following an Extraordinary General Meeting of Shareholders on 8 May 2015 (Bank SulutGo, n.d.-a). As of June 2023, the bank's network comprised one head office, one regional office, one main branch, 25 branches, 25 sub-branches, and 62 cash-service sub-branches, in addition to 279 ATMs and cash deposit machines (CDMs). The bank's vision is to become an innovative and highly competitive institution that prioritizes customer satisfaction. Its mission includes contributing to regional development, renewing business models, services, and products, developing human capital to support its vision, and consistently applying good corporate governance (Bank SulutGo, n.d.-b). Its corporate culture is built on four core values: integrity, high work standards, mutual cooperation, and customer orientation.

2. Credit Disbursement Process

Consumer loans at KCP Bahu are processed in seven stages. First, prospective borrowers submit an application with supporting documents, including an application form, identity cards of the borrower and spouse, a taxpayer identification card, family card, salary statement and details, the latest three months of salary-account statements, and a recommendation letter from the head of the relevant agency, institution, or office. Second, the account officer (credit analyst) checks the completeness and validity of the documents and reviews the credit history through BI Checking/SLIK OJK. Applicants with a problematic credit history whose applications are nevertheless processed must sign a statement accepting personal responsibility for settling the previous loan. Third, the analyst assesses repayment capacity using the salary statement and details to ensure that the remaining income after installment deductions is sufficient for living expenses. Fourth, the analyst determines the loan amount using the 5C principles and aligns the loan term with the remaining period of employment before retirement. Fifth, the analysis is checked in OLIBS to ensure that the loan amount does not exceed the remaining credit limit, then forwarded to the credit manager and operations manager before approval by the head of KCP. Sixth, the loan is disbursed after all requirements are met; the process can be completed on the same day during business hours. Seventh, installments are automatically deducted from salaries, so active periodic monitoring is not routinely conducted. Payment status is monitored through OLIBS, and when a delay occurs, the bank coordinates with the borrower, requests confirmation, and issues a warning without imposing a penalty.

Commercial loans follow a different process because their repayment sources differ. The commercial-credit analyst stated that the bank immediately rejects applicants whose BI Checking records show collectibility category 2 or worse. Subsequent stages include verifying business documents, visiting the business premises and documenting the visit in a call report, conducting trade checks, and preparing a Credit Analysis Memorandum (MAK). Applications below IDR 25 million are assessed using a scoring system and reviewed by the credit manager, while applications above IDR 25 million are reviewed by the head office. Commercial loans are monitored every three months, with more frequent monitoring if arrears or business problems arise.

3. Implementation of Internal Control Based on the COSO Components

The evaluation of internal control was based on the five COSO components. Evaluation data were obtained from interviews with the operations assistant manager, commercial-credit analyst, and consumer-credit analyst, and were supplemented by observation and documentation. Table 3 summarizes the evaluation results, followed by a discussion of each component.

Table 3. Summary of Internal-Control Evaluation Based on the COSO Components

COSO Component	Key Findings	Assessment	Recommended Improvements
Control environment	Segregation of duties; layered review by the credit manager and operations manager before approval by the head of KCP; integrity-oriented work culture.	Well implemented	Maintain layered reviews and periodically review the performance of assigned duties.
Risk assessment	BI Checking, review of salary statements and details, 5C principles, loan terms aligned with retirement, and remaining	Well implemented at the initial stage	Improve early detection of changes in borrowers' repayment capacity

	credit-limit checks through OLIBS.		after disbursement.
Control activities	Document-completeness checks, layered approvals, recording in OLIBS, and automatic salary deductions; credit-file storage is suboptimal because of limited space.	Fairly well implemented	Improve file classification, storage space, security, and records of file locations.
Information and communication	OLIBS provides real-time information on payment status and arrears; the bank coordinates with borrowers when payments are late.	Well implemented	Ensure timely follow-up on information and strengthen interdepartmental coordination.
Monitoring	Consumer loans are monitored passively through OLIBS and the arrears list; commercial loans are monitored every three months.	Implemented but not optimal; weakest component	Introduce risk-based monitoring, routine payment reviews, and documentation of monitoring results.

Source: Processed research findings (2026)

Control environment. Credit decisions are not made by a single individual. Credit analyses prepared by analysts are reviewed successively by the credit manager and operations manager before being signed by the head of KCP, establishing segregation of duties and a review mechanism. The company's culture, which emphasizes integrity, discipline, cooperation, and customer orientation, also guides employees in fulfilling their responsibilities. This finding is consistent with COSO (2013), which positions the control environment as the foundation of all components, particularly in terms of organizational structure, authority, and responsibility. It also aligns with Mulyadi's (2023) emphasis on a clear organizational structure that separates functional responsibilities. The effectiveness of this component nevertheless depends on each party consistently performing their duties at every stage of lending. Overall, the component is assessed as well implemented.

Risk assessment. Consumer-credit risk is assessed before disbursement by checking document completeness, reviewing credit history through BI Checking, verifying salary statements and details, aligning the loan term with the borrower's retirement date, and checking the remaining credit limit in OLIBS. These measures are preventive because they help the bank assess prospective borrowers' creditworthiness and reduce the likelihood of lending to individuals with inadequate repayment capacity. Stable income and repayment capacity are key considerations for consumer loans. However, regular income does not guarantee timely repayment, since changes in financial circumstances, reductions in residual income, or changes in employment status can affect a borrower's ability to pay. Credit-history checks are also relevant to Natasya and Rachmawati's (2025) finding concerning the risks of lending to borrowers who already have consumer-credit facilities at other banks. Risk assessment is therefore considered effective at the initial stage but must continue after disbursement.

Control activities. Complete documentation is a prerequisite for processing an application. Applications with incomplete documents or calculations that fail to meet requirements are not processed and may be rejected. Control activities are also reflected in layered review and approval, transaction recording in OLIBS, and automatic salary deductions, which reduce the risk of missed payments due to manual processes. However, credit-file management and storage remain suboptimal because limited office space makes it

difficult to organize and retrieve files. Credit files serve as administrative evidence and provide a basis for tracing credit decisions. Accordingly, physical safeguards for documents, as described by COSO (2013), deserve attention equal to that given to review and authorization. Nurnajmillah and Nugroho (2025) and Putri and Setiadi (2023) reported similar weaknesses. Control activities are therefore assessed as fairly effective but not yet fully optimal.

Information and communication. All informants stated that OLIBS generates real-time reports and can detect delayed payments, including the duration of delays in days and months. This information is used in analysis and recording and supports coordination with borrowers and requests for confirmation when payments are late. This is consistent with COSO (2013), which requires quality information to be available and communicated to those who need it. However, information availability alone does not prevent non-performing loans. Information must be acted upon promptly and in accordance with each borrower's level of risk. The bank's ability to identify a decline in repayment capacity at an early stage is limited if information about late payments is only used after a problem has arisen. This component is assessed as well implemented.

Monitoring. Monitoring is the weakest component. Consumer loans are not actively and regularly monitored because installments are automatically deducted from salaries; one informant even stated that monitoring was not conducted for this reason. The bank relies on payment-status information in OLIBS and the arrears list (collect list), then coordinates with borrowers and requests confirmation only after their names appear on the list. In contrast, commercial loans are monitored every three months, with increased monitoring when warning signs emerge. The consumer-loan monitoring approach, which relies on follow-up after a delay has been identified, does not reflect the continuous oversight and early detection emphasized by COSO (2013). This finding is consistent with Pandelaki et al. (2025) and Sugiyanto et al. (2022), who identified weaknesses in monitoring or supervision, and with Wulandari et al. (2024), who found that periodic monitoring helps reduce default risk. The NPL data do not prove that weak monitoring is the sole cause of NPL fluctuations, but they reinforce the importance of consistent monitoring. Improvements may include risk-based monitoring, regular reviews of payment information, documentation of monitoring results, and earlier follow-up with borrowers showing signs of declining repayment capacity.

4. Factors Causing Non-Performing Loans

Non-performing loans at KCP Bahu are primarily driven by external factors related to borrowers' salaries and employment status, while the contribution of the bank's internal factors is relatively small (Table 4). Termination of employment is the most significant cause because it removes the borrower's source of income. The bank responds by confirming the borrower's employment status with the relevant institution. A credit-insurance claim is submitted if the termination was not caused by fraud or corruption, although risk remains if the claim is delayed or rejected. Delayed salary disbursement is considered a low-risk factor because it is temporary; for example, budget adjustments may result in two months of salary being paid together in the following month, and no penalty is imposed. Residual income becomes insufficient when the salary received cannot cover installments because of other obligations or direct deductions by the employer. A borrower's lack of good faith is evident when a borrower who is able to pay deliberately avoids the obligation, for example by evading collection officers, changing telephone numbers, or moving to another address. This factor is difficult to predict based solely on salary administration. Internal bank factors rarely cause non-performing loans because BI Checking, repayment-capacity verification, and document-completeness checks are performed before approval. The dominance of external

factors is consistent with Saroinsong et al. (2022) and Pandelaki et al. (2025).

Table 4. Factors Causing Non-Performing Loans and the Bank's Follow-Up Actions

Factor	Characteristics	Bank's Follow-Up Action
Termination of employment	Removes the borrower's source of income; the most significant cause.	Confirm with the employer; submit a credit-insurance claim if the termination was not due to fraud or corruption.
Delayed salary disbursement	Temporary administrative or budget-related issue; relatively low risk.	Follow up in the subsequent month without imposing a penalty.
Insufficient residual income	Salary is insufficient to cover installments because of other obligations or deductions.	Contact the borrower, review the bank statement, and request confirmation from the employer.
Borrower's lack of good faith	The borrower deliberately evades repayment despite having the ability to pay; difficult to predict from salary records.	Pursue collection and coordinate with the borrower.
Internal bank factors	Rarely occur because documents and repayment capacity are checked before approval.	Reject the application at the outset if documentation or repayment capacity does not meet requirements.

Source: Processed research findings (2026)

5. Measures for Resolving Non-Performing Loans

The bank addresses non-performing loans through communication, confirmation of employment status, and insurance claims in three stages. First, loans are identified through the system-generated arrears list, where a borrower's name serves as an initial indication of a payment problem. Second, the bank responds according to the cause. Borrowers whose payments are delayed because salaries have not been disbursed are followed up in the subsequent month without a penalty, while cases involving termination of employment proceed to credit-insurance claims. Third, an insurance claim is submitted when a borrower loses regular income through no fault of their own. The success of a claim depends on the completeness of documents provided by the borrower and employer and on the policy terms. This approach is consistent with Financial Services Authority Regulation No. 20 of 2023 (OJK, 2023) and Tenaya et al.'s (2024) emphasis on non-litigation resolution. Commercial loans are handled through intensive collection and visits to business premises. If business conditions continue to deteriorate, the bank may apply rescheduling, reconditioning, or restructuring as appropriate to the borrower's circumstances (Kasmir, 2018).

6. Overall Evaluation and Research Implications

Overall, internal control at KCP Bahu supports both lending and credit management. The bank applies preventive controls through pre-disbursement checks and corrective controls through follow-up actions when arrears or payment difficulties occur. This finding is consistent with studies reporting effective internal controls in lending (Nasution & Tarmizi, 2023; Rachmawati & Rachman, 2023; Udayani et al., 2023; Helmi et al., 2024). It also aligns with studies identifying the need to improve documentation, supervision, or monitoring (Nurnajmillah & Nugroho, 2025; Putri & Setiadi, 2023; Pandelaki et al., 2025). Evidence linking strong internal controls with the management of NPLs (Hossain et al., 2025; Kim, 2022; Naili & Lahrichi, 2022) further underscores the need for continuous control beyond the

initial lending stage.

Loan data from January to April 2026 show that the NPL ratio continued to fluctuate: 1.87% in January, 2.69% in February, 1.82% in March, and 2.55% in April. These fluctuations indicate that internal control has not entirely eliminated credit risk. This is expected because internal control is intended to reduce risk and provide reasonable assurance, not to guarantee that non-performing loans will never occur (COSO, 2013). Mattoasi et al. (2023) reported a similar finding: reasonably effective controls coexisted with an increase in problematic borrowers. Internal control at KCP Bahu is therefore considered reasonably effective in supporting efforts to minimize non-performing loans, although some components particularly monitoring, which is not conducted routinely require strengthening.

The findings imply that the bank should maintain controls that are already functioning well, including segregation of duties, layered reviews, initial risk assessment, and the use of OLIBS. The bank should also organize and store credit files more systematically, make better use of OLIBS information, and conduct more active, risk-based monitoring. These improvements would enable earlier detection of declining repayment capacity and allow prevention and intervention to occur more promptly.

E. CONCLUSION

Internal control at PT Bank SulutGo, Bahu Sub-Branch Office, is generally well implemented and reasonably effective in supporting efforts to minimize non-performing loans, although not all COSO components function optimally. The control environment operates effectively through segregation of duties, layered reviews of credit analyses, and a work culture that emphasizes integrity. Risk assessment is conducted through document checks, BI Checking, salary verification, alignment of loan terms with retirement dates, and the use of OLIBS, but it still requires monitoring of changes in borrowers' circumstances. Control activities are fairly effective through document checks, layered approvals, OLIBS recording, and automatic salary deductions, although credit-file management and storage need improvement. Information and communication support control through OLIBS and coordination with borrowers, but must be accompanied by timely follow-up. Monitoring is the most urgent component to strengthen because consumer loans are monitored passively and follow-up begins only after a borrower appears on the arrears list. External factors are the main causes of non-performing loans, including termination of employment, delayed salary disbursement, insufficient residual income, and borrowers' lack of good faith, whereas the contribution of the bank's internal factors is relatively small.

The bank should strengthen credit monitoring, including for loans repaid through payroll deductions, so that monitoring does not begin only after payment delays occur. It should also improve the organization and storage of credit files to facilitate document retrieval and strengthen interdepartmental coordination in communicating information about borrowers' circumstances. This study is limited to one sub-branch office and three informants. Future researchers are encouraged to expand the research setting and examine the effectiveness of post-disbursement credit monitoring in greater depth.

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